Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

Capital Structure, Return on Equity, Earnings Per Share on Firm Value Through Stock Return

Andi Jenni Indriakati[1*] and Masyadi[2]
[1,2]*Universitas Lamappapoleonro, Soppeng Regency, South Sulawesi, 90811, Indonesia*

Email Address:
andi.jenniindriakati@stie.ypls.ac.id, masyadi@unipol.ac.id
[*]*Corresponding Author*

Submitted *03-03-2026* ***Reviewed*** *16-03-2026* ***Revised*** *16-03-2026* ***Accepted*** *25-03-2026* ***Published*** *26-03-2026*

Abstract: This study aims to analyze the influence of Debt to Equity Ratio, Return on Equity, and Earnings per Share on company value, and to evaluate the role of Stock Return as a moderating variable for companies in the health sub-sector on the Indonesia Stock Exchange. This study uses a quantitative approach with a sample of 13 companies selected through purposive sampling. Data were obtained from annual financial statements and analyzed using panel data regression and hypothesis testing. The results indicate that, in part, DER does not significantly influence firm value, whereas ROE and EPS have positive and significant effects. Stock Return does not moderate the relationship between DER and firm value, but it successfully strengthens the influence of ROE and EPS on firm value. Investors should pay attention to profitability indicators when making investment decisions and encourage companies to improve their financial performance to strengthen market value.
Keywords: Capital Structure; Return on Equity; Earnings Per Share; Stock Return; Company Value.

Abstrak: Penelitian ini bertujuan untuk menganalisis pengaruh Debt to Equity Ratio, Return on Equity, dan Earnings per Share terhadap nilai perusahaan, serta mengevaluasi peran Stock Return sebagai variabel moderasi pada perusahaan subsektor kesehatan di Bursa Efek Indonesia. Penelitian ini menggunakan pendekatan kuantitatif dengan sampel 13 perusahaan yang dipilih melalui metode purposive sampling. Data diperoleh dari laporan keuangan tahunan, kemudian dianalisis dengan regresi data panel dan diuji hipotesis. Hasil penelitian menunjukkan bahwa secara parsial DER tidak berpengaruh signifikan terhadap nilai perusahaan, sedangkan ROE dan EPS berpengaruh positif dan signifikan. Stock Return tidak memoderasi hubungan antara DER dan nilai perusahaan, namun berhasil memperkuat pengaruh ROE dan EPS terhadap nilai perusahaan. Investor sebaiknya memerhatikan indikator profitabilitas dalam pengambilan keputusan investasi, serta mendorong perusahaan untuk meningkatkan kinerja keuangan guna memperkuat nilai pasar.
Kata Kunci: Struktur Modal; Return On Equity; Earning Per Share; Stock Return; Nilai Perusahaan.

INTRODUCTION

Financial management is an essential function in company management, encompassing activities to obtain, manage, and use funds efficiently to achieve organizational goals. This function applies not only to individuals and companies but also to the government, which aims to maximize financial value and minimize risks arising from investment and financing decisions. In a corporate context, financial management has significant implications for achieving corporate value, which is the present value of future cash flows, influenced by risk factors (Risman, 2021). An increase in company value reflects the welfare of owners and higher investment attractiveness, which in turn impacts market interest in the company's shares. This is increasingly relevant for healthcare companies that play an active role in meeting public demand for medical services,

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

including pharmaceuticals, as an essential sub-sector responsible for the production and distribution of medicines. With rising demand for healthcare services, companies in this sector tend to increase in value. Investors often pay attention to company value indicators when making investment decisions, as high values signal promising prospects, reflected in rising stock prices and potential benefits to shareholders.

Previous studies have highlighted the influence of financial variables on company value, focusing on capital structure, Return on Equity (ROE), and Earnings per Share (EPS). Capital structure is a crucial component of a company's financing strategy. Sartono & Ratnawati (2020) state that capital structure refers to the combination of debt and equity that a company uses to finance its activities. The trade-off theory explains that increasing debt usage up to a certain point can increase a company's value. However, if it exceeds the optimal point, the company's value will decrease due to increased financial risk. Pham's (2020) research found that capital structure and company size have a positive and significant influence on company value. However, these findings differ from those of Meliani & Ariyanto (2021), who showed that capital structure has no significant effect on company value. Furthermore, ROE is a profitability indicator that measures a company's effectiveness in managing its capital to generate profits. (Dhea & Ali (2024) found that ROE has a positive and significant effect on company value. Conversely, EPS, an indicator of per-share financial performance, does not always have a significant impact on a company's overall financial performance. Herdajanti (2022) found that EPS has no significant influence on company value. This suggests that an increase in EPS does not necessarily reflect an increase in overall company value, requiring further examination of its influence on investor perception through Stock Returns as a mediating variable.

Previous studies have examined the influence of capital structure, ROE, and EPS on company value, but there are still inconsistencies in empirical findings, leaving room for further exploration. A study conducted by Pham (2020) found that capital structure has a positive and significant influence on company value. Conversely, research by Meliani & Ariyanto (2021) found no significant effect of capital structure, reflecting differences in company conditions, industry sectors, and analytical methodologies. A similar situation occurs with the EPS variable: Herdajanti (2022) found that EPS does not significantly affect company value, contrary to the general perception that it is an important indicator in investors' assessment of potential earnings. Another significant gap lies in the limited theoretical and empirical approaches that incorporate mediating variables, particularly Stock Return, in explaining the relationships among capital structure, ROE, EPS, and firm value. Stock returns reflect market perceptions of a company's financial information and can serve as a transmission mechanism for the influence of financial variables on firm value. To date, few studies have comprehensively examined this relationship by incorporating Stock Return as a mediator, particularly in pharmaceutical sub-sector companies within the healthcare industry. This highlights a research gap that needs to be addressed to enhance our comprehensive understanding of corporate value dynamics.

This study is unique because it attempts to integrate Stock Return as a mediating variable in the relationship between capital structure, Return on Equity (ROE), Earnings per Share (EPS), and company value. This approach has rarely been applied in previous studies, especially in the pharmaceutical sector. While most previous studies have examined only the direct relationships among these variables, this study highlights that market reactions, as reflected in Stock Returns, serve as an important channel mediating

the influence of financial factors on firm value. Thus, this study not only contributes to enriching the empirical literature, which has shown inconsistent results, but also expands the theoretical framework by incorporating market elements into the analysis of internal financial relationships and market performance. Based on the identified gaps, this study aims to analyze the influence of capital structure, ROE, and EPS on firm value with Stock Return as a mediating variable, to provide a more comprehensive and strategic understanding of financial decision-making and investment in pharmaceutical sub-sector companies in the healthcare sector.

Based on the inconsistency of empirical findings and the limitations of theoretical approaches as explained earlier, this study is unique in that it attempts to develop an analytical framework that integrates stock return as a mediating variable in the relationship between capital structure, return on equity (ROE), earnings per share (EPS), and company value, particularly in the pharmaceutical sub-sector of the healthcare industry. Unlike previous studies, which generally focus on the direct influence of internal financial variables on company value, this study places market reaction as a transmission mechanism that explains how financial information is translated into an increase in company value. This is done so that the results of this study not only provide a more comprehensive explanation of differences in prior empirical findings, but also expand the Trade-Off Theory and corporate value literature by incorporating the dimension of market behavior.

While the overarching topic of financial determinants and firm value is extensively researched, this study introduces a distinct novelty by conceptualizing Stock Return strictly as a pure moderating variable rather than a conventional direct predictor or mediator. Existing literature frequently relies on repetitive linear models that assume internal financial ratios independently drive market valuation. In contrast, this research develops an interactive analytical framework demonstrating that fundamental financial performance does not operate in a vacuum; its impact on firm value is highly contingent upon prevailing market sentiment. By employing a robust panel data interaction model within the Indonesian pharmaceutical sub-sector during the specific post-pandemic recovery phase, this study provides new empirical evidence that stock returns act as a market catalyst (Chiang, 2023). This approach mathematically proves that market reactions significantly amplify the effect of profitability on corporate valuation, thereby expanding traditional financial theories and offering a dynamic perspective that prior generalized studies often overlook.

THEORETICAL REVIEW

Trade-off theory. Trade-off theory explains that companies attempt to balance the benefits and costs of using debt to achieve an optimal capital structure (Myers, 1984). This theory posits that firms weigh the tax advantages of debt—particularly the tax deductibility of interest payments—against the potential costs associated with financial distress, including bankruptcy risk and agency costs. According to Irfani (2020), in pursuing an optimal structure, companies do not merely focus on maximizing tax savings; they must also account for the broader implications of financial leverage, including heightened risk exposure and reduced operational flexibility. The theory underscores a deliberate strategy in which firms incrementally adjust their capital structure until the marginal benefit of

additional debt equals its marginal cost. In reality, firms often deviate from purely tax-driven behavior to preserve financial stability, maintain favorable credit ratings, and avoid constraints that could limit their future financing capacity. Moreover, the optimal debt ratio is not universal; it varies depending on industry characteristics, firm size, earnings volatility, and asset tangibility. Togatorop & Susan (2022) reinforce this notion by emphasizing that the relationship between the weighted average cost of capital and investment decisions reflects a strategic balance between debt and equity financing. This balance is not merely technical but is integral to long-term value creation. Firms with higher levels of tangible assets and more stable cash flows are typically better positioned to utilize debt effectively. In contrast, companies with intangible assets or unpredictable earnings may adopt more conservative financing strategies.

The Trade-Off Theory also explains why companies with specific characteristics, such as high tangible assets and stable cash flows, tend to be more willing to use debt in their capital structure compared to companies with intangible assets or fluctuating revenues. The theoretical foundation suggests that firms with tangible assets have greater collateral value, which reduces lenders' risk and encourages debt financing. In contrast, firms dominated by intangible assets or high revenue volatility face higher borrowing costs due to limited pledgeable resources and uncertain cash flows, which disincentivize high leverage. The theory is particularly useful in explaining sectoral differences in capital structure preferences and highlights that no one-size-fits-all approach exists. Additionally, the theory's practical implications extend beyond financial ratios, illuminating how governance quality, risk tolerance, and managerial prudence intersect with financial decision-making. The effectiveness of Trade-Off Theory in enhancing firm value heavily depends on the quality of corporate governance, where strong management can optimize the capital structure while controlling the risks associated with debt usage. Poor governance, on the other hand, may result in excessive risk-taking or underutilization of debt due to managerial entrenchment or risk aversion. Empirical evidence further complicates the narrative. For instance, Homapour et al. (2022) reveal that not all companies adhere to the ideal pattern described by Trade-Off Theory. Their findings highlight that external constraints—such as limited access to capital markets, fluctuations in interest rates, regulatory policies, and macroeconomic volatility—can significantly influence capital structure decisions, often overriding theoretical preferences. Similarly, Hernández-Madrigal et al. (2020) stress that agency costs play a crucial role in capital structure dynamics, reinforcing the need for a balanced use of debt to align stakeholder interests.

Capital structure. Capital structure is a fundamental component of corporate financial management, as it directly influences a firm's ability to finance its operations and pursue long-term strategic objectives (Rahman, 2024). It encompasses the specific mix of debt and equity a company utilizes to fund its assets and investments. The optimal composition of capital structure is pivotal in minimizing the overall cost of capital while maximizing firm value. According to Khan et al. (2024), achieving an optimal capital structure requires a delicate balance: leveraging debt to benefit from tax shields without introducing excessive financial distress that could jeopardize the firm's sustainability. This balance is not determined solely by internal corporate factors such as profitability, cash flow stability, or firm size, but also by external influences, including interest rate fluctuations, investor sentiment, and broader economic policies governing the region

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

where the firm operates. Panda & Nanda (2020) further elaborate that capital structure choices vary significantly across industries. For example, firms operating in capital-intensive sectors—such as utilities, real estate, or manufacturing—tend to favor debt-heavy financing models because of the need for substantial upfront investment and the collateral nature of their assets. In contrast, firms with intangible or volatile income streams may prefer equity-based financing, reflecting risk aversion and investor expectations.

The literature has increasingly acknowledged that a dynamic interaction between firm-level characteristics and macroeconomic variables shapes capital structure decisions. Botta & Colombo (2022) highlight the non-linear nature of capital structure dynamics, emphasizing that firms do not adjust their debt and equity ratios proportionally in response to changes in financial performance. Instead, such decisions are moderated by factors like market volatility, perceived agency costs, and strategic timing considerations. This challenges traditional linear models of capital structure and underscores the importance of recognizing financial decision-making as a complex, adaptive process. Kebede (2024) provides further depth by showing that the determinants of capital structure operate on multiple levels. At the micro-level, attributes such as asset tangibility, profitability, and liquidity play a role. Meanwhile, at the macro-level, institutional environments—such as legal protections for creditors, financial market development, and government regulatory frameworks—significantly influence firms' financing behavior. This comprehensive view reinforces the notion that effective capital structure management requires both internal financial discipline and external strategic awareness. Complementing these perspectives, Yuwono et al. (2022), using a meta-analytic approach, found that the strength and direction of relationships among capital structure determinants vary across methods.

Return on Equity (ROE). Return on Equity (ROE) is widely recognized as a fundamental metric in evaluating a firm's ability to generate profits from the capital invested by its shareholders. It serves not only as an indicator of profitability but also as a measure of managerial efficiency in utilizing equity capital to drive value creation (Ajeng et al., 2023). According to Ismail & Obiedallah (2022), ROE offers critical insight into a company's capacity to sustain long-term earnings, making it a central focus in the financial analysis employed by both institutional and individual investors. By translating profit generation into a percentage return on shareholder equity, ROE allows stakeholders to gauge the relative efficiency of a company's financial strategies compared to competitors. Furthermore, ROE is not merely a backward-looking metric but often serves as a forward-looking benchmark, reflecting expectations of future growth and operational excellence. Sulastri et al. (2024) underline the strategic importance of ROE by demonstrating its use as a performance-based metric in executive compensation contracts, such as stock options. This usage emphasizes its dual relevance: it is not only vital for investor confidence and market perception but also embedded within the internal mechanisms of corporate governance. Hence, ROE functions as both a diagnostic and motivational tool within contemporary corporate financial management.

In addition to its role in measuring profitability, ROE is increasingly viewed as an indicator of financial sustainability and growth potential. A strong ROE suggests that a firm can generate ample earnings without excessive dependence on external financing, thus enhancing its attractiveness to investors. Kasasbeh (2021), in his study of companies listed on the Saudi Arabian market, found that financing-related ratios—especially ROE—

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

significantly affect corporate accounting performance. This finding reinforces the argument that ROE is a cornerstone metric in both assessing firm health and guiding strategic investment decisions. Dai & Piccotti (2020) further extend this perspective by emphasizing that ROE plays a decisive role in determining investors' required rate of return, particularly in settings where capital structures are dynamic. As capital structures shift in response to market forces or strategic decisions, changes in ROE signal evolving risk-return profiles to investors and directly influence the cost of equity and the overall cost of capital. Moreover, Hamada's (1972) seminal work provides theoretical grounding for understanding how changes in leverage affect the systematic risk associated with a firm's equity. These shifts in risk, in turn, influence fluctuations in ROE, showing that this metric is highly sensitive to both internal financing decisions and broader market conditions.

Earnings Per Share (EPS). Earnings Per Share (EPS) is widely recognized as a critical indicator of a firm's financial health and profitability, and institutional and individual investors, as well as market analysts, frequently scrutinize it. EPS reflects the amount of net income earned per outstanding share of common stock, thereby serving as a direct measure of the value a company returns to its shareholders. According to Mashruwala & Mashruwala (2025), EPS is not merely a reporting metric, but a powerful signal of corporate profitability that can strongly influence investment behavior. Investors tend to place significant weight on EPS when making buy, hold, or sell decisions, particularly because it distills complex financial information into a single, comparative figure. Sloan & Wang (2025) further argue that companies with predictable EPS growth are often favored in value-based investment strategies, as consistent performance suggests a well-managed and stable enterprise. These firms are typically seen as lower-risk investments, making EPS growth a crucial element in portfolio management. Furthermore, EPS plays a pivotal role in forming future performance expectations, especially when aligned with broader financial trends and management forecasts. This enhances its utility as both a backward-looking indicator of historical profitability and a forward-looking guide to potential earnings power.

In addition to its central role in financial analysis, EPS is also shaped by internal governance structures and external market pressures. Bishwas & Hossain (2025) highlight that ownership concentration within a company can significantly influence how profits are managed and reported, ultimately affecting the quality and credibility of EPS figures disclosed to the public. In firms where ownership is concentrated among a few stakeholders, strategic control over financial disclosures—especially earnings—becomes more feasible, potentially affecting investor perceptions. Verma et al. (2025) extend this discussion by revealing that earnings management practices are often employed to optimize or manipulate EPS, particularly in industries with intense competition or during periods of performance scrutiny. This practice raises concerns about the reliability of EPS as a standalone metric, as a high reported figure may not necessarily reflect healthy operational performance but rather aggressive accounting strategies. For this reason, discerning investors are increasingly urged to examine not only the nominal EPS but also the underlying drivers of earnings quality. Supporting this perspective, Pietraszewski et al. (2023), in their study of firms listed on the London Stock Exchange, found consistent disparities between forecast and actual EPS growth.

UNTAR Universitas Tarumanagara
Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

Stock Return. Stock returns are a central indicator for evaluating investment outcomes in the capital market, as they reflect the profitability of holding a company's stock over a specific period. Budiharto (2021) underscores the sensitivity of stock returns to day-to-day price movements, particularly in volatile market environments, such as those experienced during the COVID-19 pandemic. His research highlights how integrating data science-based predictive models can enhance the ability to forecast stock price dynamics under uncertain conditions. This underscores the inherently unstable nature of stock returns and their responsiveness to sudden market shifts. At the macro level, Narayan et al. (2022) present empirical evidence that diversifying investment portfolios—especially by including emerging instruments such as green bonds—can reduce portfolio risk and maintain stock returns during global financial disruptions. This illustrates that while firm-level factors influence stock returns, they are equally dependent on external conditions such as global economic shifts, financial innovation, and investor sentiment. Mawaddah et al. (2024) further contribute to this understanding by emphasizing the significant impact of macroeconomic variables—namely inflation, interest rates, and exchange rates—on stock returns for companies listed on the Indonesia Stock Exchange.

Beyond macroeconomic variables, technological advancements play an increasingly important role in modeling, forecasting, and optimizing stock returns. Manurung et al. (2020) demonstrated the utility of artificial neural networks (ANNs) in identifying high-performing stocks for portfolio inclusion. Their findings suggest that machine learning-based tools offer greater accuracy in predicting stock performance than traditional financial analysis methods. These technologies enable more precise interpretation of historical price patterns and allow for real-time adjustment to market signals, enhancing decision-making under dynamic conditions. This technological dimension highlights the evolving landscape of investment management, where algorithmic models and artificial intelligence are becoming indispensable tools for investors seeking to optimize stock return outcomes. Simultaneously, Ananta & Mawardi (2020) explored the influence of fundamental financial ratios—such as Return on Assets (ROA), Debt-to-Equity Ratio (DER), Dividend Payout Ratio, and Dividend Yield—on stock return performance. Their research underscores the critical role of internal financial health in shaping investor expectations and driving market valuations. Together, these perspectives point to the multifaceted nature of stock return determinants, which include both quantitative financial indicators and qualitative external variables.

Company value. Company value is an important measure that reflects the market's perception of a company's long-term performance and prospects. Khan et al. (2021) assert that exchange rate fluctuations are among the external factors that significantly influence changes in company value, especially for entities operating in global markets and engaged in international transactions. Exchange rate fluctuations can lead to income volatility and increased costs, thereby creating uncertainty about a company's ability to generate stable profits. In addition, Alvino et al. (2021) emphasize that intellectual capital, including technological innovation, human resource quality, and external relationship management, is a strategic factor in enhancing company value. In this context, intangible asset management has proven to strengthen a company's competitiveness and send positive signals to investors regarding the sustainability of future operations. Optimal utilization of intellectual capital is also closely related to a company's ability to adapt to global market changes. Therefore, in comprehensively assessing company value, it is necessary to

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

consider not only financial performance based on income statements but also how companies manage their intangible assets to create competitive advantages and sustainable growth.

In a study by Konuk et al. (2025), it was found that brand value plays a crucial role in enhancing company value, particularly in developing countries where consumer perceptions of brand quality and reputation significantly impact investment decisions. A strong brand can increase customer loyalty, expand market share, and command premium pricing, all of which ultimately reflect in the company's market value. In terms of financial strategy, Khan et al. (2021) argue that implementing a balanced capital structure policy between debt and equity is key to maximizing company value. An optimal capital structure enables companies to manage financial risks effectively while maintaining operational flexibility to fund business expansion. Sarker & Hossain (2023) demonstrate that implementing sound corporate governance principles, such as accountability, transparency, and independent oversight, helps build investor trust and strengthen company value. Good corporate governance not only mitigates agency risks but also enhances the efficiency of resource management within the company.

METHODS

This study uses a quantitative approach with an associative research design to examine the influence of financial variables on company value and to analyze the moderating role of Stock Return. The objects of this study are pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023. This study uses secondary data from companies' annual financial reports, published on the official website at www.idx.co.id.

The data collection technique used is a documentation study, which involves accessing annual reports and relevant financial statements to obtain data related to the variables Debt to Equity Ratio (DER), Return on Equity (ROE), Earnings per Share (EPS), Price to Book Value (PBV), and Stock Return. The sample determination technique used purposive sampling, with the following selection criteria: (1) pharmaceutical sub-sector companies that have been consistently listed on the IDX during the observation period; (2) companies that published complete financial reports during the 2021 to 2023 period; and (3) companies with complete data for all variables under study.

The collected data were analyzed using a panel data regression model. Panel data methodology maximizes the available degrees of freedom by combining cross-sectional and time-series dimensions. To determine the most appropriate estimation technique, three preliminary tests were conducted: the Chow test, the Hausman test, and the Lagrange Multiplier test. Based on the statistical outcomes of these tests, the Random Effects Model was selected as the most suitable approach. As emphasized by Balázsi et al. (2024), a primary advantage of the random effects approach over fixed effects is that the number of parameters to be estimated does not increase with the sample size. This characteristic preserves critical degrees of freedom and prevents model overparameterization in datasets with a limited number of cross-sectional units.

The empirical estimation involves a basic model to test the direct effects and an interaction model to test the moderating effect. The specifications are formulated as follows:

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

Basic Model:

$$PBV_{it} = \alpha + \beta_1 DER_{it} + \beta_2 ROE_{it} + \beta_3 EPS_{it} + \varepsilon_{it} \quad \text{..... (1)}$$

Interaction Model (Moderation):

$$PBV_{it} = \alpha + \beta_1 DER_{it} + \beta_2 ROE_{it} + \beta_3 EPS_{it} + \beta_4 (DER \times SR)_{it} + \beta_5 (ROE \times SR)_{it} + \beta_6 (EPS \times SR)_{it} + \varepsilon_{it} \text{ ... ... (2)}$$

Description : PBV: Price to Book Value (firm value); DER: Debt-to-Equity Ratio; ROE: Return on Equity; EPS: Earnings per Share; SR: Stock Return (moderating variable); α: Constant; β_1–β_6: Koefisien regresi; ε: Error term; i: Company to-i; t: Year to-t.

To ensure the structural stability and reliability of the estimated parameters, this study performs a two-fold robustness check. First, the model's sensitivity is tested by introducing additional control variables to mitigate potential omitted variable bias (Liu et al., 2025). The results are considered robust if the primary predictors maintain statistical significance at a p-value of less than 0.05 and show directional consistency across different specifications (Gujarati, 2021). Second, a diagnostic test for endogeneity is conducted to address potential reverse causality. The null hypothesis of exogeneity is evaluated based on the significance level; a result where the p-value is greater than 0.05 indicates that the variables are not correlated with the error term. Meeting these criteria confirms that the reported relationships are econometrically sound, efficient, and free from significant endogeneity concerns (Gujarati, 2021; Rutz et al., 2025).

RESULTS

The analysis commences with a descriptive statistical overview providing a profile of the 39 observations derived from 13 sample companies over the 2021 to 2023 period. As summarized in **Table 1**, the Debt to Equity Ratio (DER) exhibits dynamic financing policies with a mean of 0.587 and a standard deviation of 0.570. Regarding financial performance, Return on Equity (ROE) and Earnings per Share (EPS) recorded mean values of 0.226 and 0.343, respectively. These figures indicate a robust capacity to generate shareholder returns, although the data dispersion suggests non-uniform performance across the sample.

Furthermore, firm value, which is proxied by Price to Book Value (PBV), averaged 1.390 with a substantial standard deviation of 1.168. This reflects divergent market perceptions of each firm's prospects. Stock Return (SR) demonstrated relative stability, maintaining a mean of 0.630 throughout the observation period.

Table 1. Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
DER	39	0.030	2.430	0.587	0.570
ROE	39	0.030	1.290	0.226	0.239
EPS	39	0.030	1.930	0.343	0.350
PBV	39	0.350	6.790	1.390	1.168
SR	39	0.430	0.840	0.630	0.117

Source: Processed data, 2025

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

Prior to hypothesis testing, the optimal estimation model was determined through the Chow, Hausman, and Lagrange Multiplier (LM) tests. As detailed in **Table 2**, these procedures were essential to ensure the consistency and efficiency of the panel data parameters. The Chow Test yielded a probability of 0.000, suggesting that the Fixed Effects model is superior to the Common Effects model.

However, the subsequent Hausman Test resulted in a p-value of 0.248. Since this value exceeds the 0.050 threshold, the null hypothesis is not rejected, confirming that the Random Effects estimator is more efficient than the Fixed Effects alternative. This decision was further validated by the LM test, which yielded a probability of 0.000, thereby solidifying the selection of the Random Effects Model as the most appropriate framework for this study.

Table 2. Panel regression model selection test

Test Type	Model Tested	Statistics	Probability	Conclusion
Chow test	Common Effect vs Fixed Effect	Cross-section F = 16.283	0.000	Fixed Effect
Hausman test	Fixed Effect vs Random Effect	Chi-Sq. = 2.782	0.248	Random Effect
Lagrange multiplier test (LM)	Common Effect vs Random Effect	Breusch-Pagan = 144.354	0.000	Random Effect

Source: Data processed, 2026

Hierarchical testing followed the model selection, as detailed in **Table 3**. In the initial stage (**Model 1**), fundamental financial performance, represented by ROE and EPS, was found to exert a positive and significant influence on firm value. Conversely, capital structure (DER) yielded no meaningful impact (p is 0.443). This suggests that investors prioritize earnings quality over leverage ratios when determining market valuations in this specific sample.

The second and third stages of the regression analysis yield compelling findings regarding the role of Stock Return (SR), which is identified as a "*Pure Moderator*." Although SR does not independently influence PBV (p is 0.120), its interaction with fundamental financial performance variables is statistically pivotal. The absence of a direct effect, coupled with a significant interaction effect, demonstrates that stock returns do not intrinsically dictate firm value. Rather, they serve as an instrument that validates and reinforces market perceptions of a firm's reported internal performance.

Table 3. Main regression results

Variable	Model 1 (Basic)	Model 2 (Moderated)	Model 3 (Robustness)
Constant	0.348	0.415	-0.120
	(0.160)	(0.280)	(0.785)
DER	0.182	0.155	0.142
	(0.443)	(0.520)	(0.550)
ROE	2.748***	1.850**	1.780**
	(0.000)	(0.025)	(0.031)
EPS	0.911**	0.710**	0.695**
	(0.043)	(0.048)	(0.049)
SR	-	0.450	0.410

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

		(0.120)	(0.145)
DER X SR	-	0.167	0.145
		(0.862)	(0.880)
ROE X SR	-	2.826**	2.610**
		(0.013)	(0.018)
EPS X SR	-	1.950***	1.850***
		(0.002)	(0.003)
SIZE (control)	-	-	0.108**
			(0.041)
R-Squared	0.432	0.585	0.612
Adjusted R^2	0.397	0.491	0.508

Note: Main values represent unstandardized coefficients (B). Values in parentheses are p-values. *** less than 0.010, ** less than 0.050.
Source: Data processed, 2026

Specifically, the interactions between financial performance and market indicators, measured via ROE X SR (p is 0.013) and EPS X SR (p is 0.001), exhibit high significance levels below the 5 per cent threshold. This confirms that positive stock returns act as a market sentiment catalyst, effectively amplifying the impact of profitability on firm value escalation. In an optimistic market environment, any increase in equity returns and earnings per share is met with a more aggressive investor response. Consequently, the fundamental drive toward PBV is doubled compared to stagnant market conditions.

To ensure the stability of the estimates against potential omitted variable bias, **Model 3** incorporates firm size (SIZE) as a control variable within a robustness check framework. The estimation results indicate that although firm size exerts a significant influence on firm value (p is 0.041), its inclusion does not alter the direction or magnitude of the primary relationships. The coefficients for the profitability variables (ROE and EPS) and their respective interaction terms maintain high stability and consistency. This indicates that the model remains insensitive to the addition of specific firm characteristics.

The methodological integrity of this study is further bolstered by the progressive increase in the Adjusted R-Squared value, which rose from 0.397 in the basic model to 0.508 in the final model. This improvement in explanatory power validates the model's capacity to robustly detect variations in firm value. It ensures that the documented nexus between profitability, market moderation, and valuation is not a result of spurious correlations.

As a final stage of methodological verification to eliminate the possibility of bias arising from reverse causality, this study performs an endogeneity analysis using the Durbin Wu Hausman test. The results presented in **Table 4** reveal p-values of 0.342 for the Hausman Chi Square and 0.355 for the Wu Hausman F-test. Since both values significantly exceed the 0.050 threshold, the null hypothesis of exogeneity cannot be rejected.

This statistical evidence formally confirms the absence of severe endogeneity within the data. It provides methodological assurance that the causal direction in this study runs strictly from financial performance to firm value, rather than vice versa. The validity of ini results ensures that the conclusions drawn are grounded in a robust econometric foundation, yielding unbiased and consistent coefficients for strategic decision making.

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

Table 4. Durbin Wu Hausman Endogeneity Test Results

Test Statistic	Value	Probability	Conclusion
Hausman Chi-Square	2.145	0.342	Exogenous
Wu-Hausman F-test	1.870	0.355	Exogenous

Source: Data processed, 2026

DISCUSSION

The Influence of Capital Structure on Company Value. The findings of this study reveal that capital structure, as measured by the Debt-to-Equity Ratio (DER), exerts a positive but statistically insignificant influence on company value. This result highlights an important insight: while the relationship's direction aligns with financial theory, the magnitude of the impact is insufficient to suggest that debt use significantly enhances firm valuation in the observed sample. The implication is that although companies may use debt financing as part of their capital structure, this strategy alone does not necessarily improve market value. The interpretation of these findings suggests that the proportion of debt in a firm's capital structure has not yet reached a level that meaningfully influences market perceptions of corporate value.

In corporate finance theory, capital structure refers to the specific combination of debt and equity a company uses to finance its operations and growth initiatives. The trade-off theory provides a foundational explanation for this balance, proposing that firms seek to optimize their capital structure by weighing the tax advantages of debt financing—particularly the deductibility of interest payments—against the costs of financial distress and agency problems (Myers, 1984; Irfani, 2020). In theory, as companies increase their use of debt, the firm's value should rise until the marginal cost of additional debt exceeds its marginal benefit. Beyond this optimal threshold, further leverage is expected to reduce firm value due to heightened bankruptcy risk and declining investor confidence. However, the findings from this study indicate that the pharmaceutical companies listed on the Indonesia Stock Exchange have likely not attained this optimal capital structure. The absence of a significant relationship between DER and company value suggests that the benefits of debt utilization are offset—or potentially overshadowed—by other financial or operational risks. This could be attributed to factors such as poor debt management, elevated interest costs, or low investor responsiveness to changes in leverage ratios. Furthermore, the pharmaceutical sector's capital-intensive, highly regulated nature may prompt investors to prioritize other performance indicators, such as innovation capacity or return metrics, rather than focusing solely on financing structure.

This finding is consistent with the trade-off theory, which asserts that capital structure decisions are highly contingent upon contextual factors, including industry characteristics, firm-specific risk tolerance, and macroeconomic conditions (Togatorop & Susan, 2022). While the theory offers a robust conceptual framework, its practical application is far from uniform. As such, the capital structure's real impact on firm value may vary significantly across different industries and time periods. In this case, the insignificant effect observed suggests that DER may be a less influential determinant of firm value in pharmaceutical companies compared to sectors where debt financing plays a more prominent role in strategic growth and investor signaling. When contextualizing

these results within the broader literature, similar findings have been documented. Notably, Meliani & Ariyanto (2021) found that capital structure had no significant effect on company value. Their study highlighted that high levels of debt, contrary to theoretical expectations, do not necessarily translate into increased valuation. Instead, excessive leverage can increase financial risks, eroding stakeholder confidence and suppressing firm value. These insights are particularly relevant for firms in sensitive industries such as healthcare, where operational risks, product liabilities, and regulatory scrutiny already significantly contribute to their overall risk profile.

The Effect of Return on Equity on Company Value. The results of this study indicate that Return on Equity (ROE) has a positive and significant effect on company value. This finding confirms that a company's ability to generate profit from shareholders' equity is a crucial determinant in shaping market valuation. ROE is an essential indicator of managerial efficiency, capturing how well a company uses invested capital to generate earnings. The higher the ROE, the more favorably the company is perceived by investors and market participants. This suggests that shareholders and potential investors value firms that demonstrate strong and consistent profitability from their equity base. Interpreting these findings in the context of financial theory, ROE reflects both operational performance and financial discipline. From a fundamental standpoint, a high ROE indicates that the company is managing its resources effectively and delivering substantial returns to shareholders. This not only enhances investor confidence but also contributes to the firm's overall attractiveness in competitive capital markets. As such, ROE is often seen as a key signal in investment decision-making, with consistent, strong performance associated with lower investment risk and greater prospects.

Conceptually, this relationship aligns with the principles of trade-off theory. While trade-off theory is often associated with decisions around debt utilization, it also supports the idea that companies must balance their capital structure to maximize firm value. When firms generate high profits through equity rather than debt, they reduce their exposure to bankruptcy costs and financial distress. In other words, a company that produces substantial returns from equity capital may rely less on debt financing, thereby avoiding the risks associated with high leverage. This optimal balance contributes to long-term value creation. Thus, the positive relationship observed in this study between ROE and firm value reinforces the trade-off framework by illustrating how equity-based profitability strengthens financial health and enhances perceived company value (Myers, 1984; Irfani, 2020). This interpretation is supported by prior research findings that affirm the significance of ROE in determining firm value. For instance, the study by Khalifaturofi'ah & Setiawan (2025) found a similar positive and significant relationship between ROE and firm value among real estate companies in Indonesia. Their research emphasized that ROE is not only a measure of financial performance but also a strong predictor of market confidence. These findings validate the argument that profitability indicators play a central role in investors' evaluation of corporate potential. The consistency between their findings and the current study strengthens the reliability of ROE as a performance metric across sectors.

In addition, this study contributes to the growing body of evidence suggesting that companies with robust financial performance often enjoy a stronger bargaining position in attracting capital and negotiating favorable investment terms. This stems from their demonstrated ability to manage capital efficiently, deliver predictable earnings, and

maintain financial autonomy, minimizing reliance on external borrowing. As a result, firms with high ROE tend to be perceived as more stable and sustainable over the long term, increasing their appeal to both institutional and individual investors. Moreover, high ROE values signal a company's ability to fund its operations and growth initiatives internally without incurring additional debt costs. This self-sufficiency aligns with investor preferences for low-risk, high-efficiency firms. Therefore, enhancing ROE not only improves internal financial metrics but also shapes external perceptions of company strength and reliability. In this sense, ROE serves as both a strategic management tool and a reputational asset in the marketplace. In practical terms, this means that company executives and financial managers must treat ROE not just as an accounting figure but also as a central objective in their broader value-creation strategy. Sustained improvement in ROE requires disciplined operational management, careful capital allocation, and continuous monitoring of performance drivers. Companies that consistently deliver high ROE are more likely to be viewed as effective stewards of shareholder capital, which, in turn, translates into higher valuations and easier access to funding.

The Effect of Return on Equity on Company Value. The results of this study show that Return on Equity (ROE) has a positive and significant effect on company value, indicating a strong association between a firm's ability to generate profits from equity capital and its market perception. ROE is a critical financial ratio that reflects how effectively management uses shareholders' capital to generate earnings. This efficiency, when consistently high, signals to investors and stakeholders that the firm is not only profitable but also capable of sustaining its financial health in the long term. The findings suggest that the greater the profitability derived from equity, the more likely the firm is to be valued positively by the capital market. This interpretation is rooted in a foundational understanding of how equity-based profitability influences valuation. ROE essentially encapsulates both operational performance and financial strategy by linking net income to shareholders' equity. When a company achieves a strong ROE, it demonstrates its ability to convert invested capital into returns, enhancing investor trust and increasing its attractiveness in financial markets. In this context, ROE is not just a backward-looking indicator of historical performance; it also serves as a forward-looking signal about a firm's capacity to maintain profitability under competitive and dynamic market conditions.

From a theoretical standpoint, the positive relationship between ROE and firm value aligns with the trade-off theory of capital structure. While the theory traditionally focuses on the balance between debt and equity financing, it also supports the broader idea that companies should optimize their capital structure to maximize value. According to trade-off theory, firms strive to achieve an optimal capital structure where the marginal benefits of debt—such as tax shields—are balanced against the potential costs of financial distress. When a firm generates strong profits through equity rather than relying heavily on debt, it minimizes the risks associated with high leverage. As such, companies with high ROE are likely to maintain greater financial stability and lower bankruptcy risk, both of which contribute to higher firm valuation (Myers, 1984; Irfani, 2020). The significant effect of ROE on firm value also supports the notion that internal financial strength serves as a strategic asset in capital markets. Investors typically regard ROE as a key metric for evaluating a company's earnings quality and its capacity to generate shareholder value. Companies with high ROE are often perceived as better able to reinvest profits efficiently or distribute dividends, which further enhances their appeal to both retail and institutional

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

investors. This reflects a broader market consensus that profitability indicators such as ROE are among the most influential factors in determining a firm's intrinsic and market-based value.

These results are also consistent with prior empirical studies. In particular, Khalifaturofi'ah & Setiawan (2025) found that ROE had a positive and significant influence on firm value in Indonesian real estate companies. Their research highlighted how investors consistently prioritize profitability when assessing a company's growth potential and market value. The similarity between their findings and those of this study reinforces the generalizability of ROE's impact across different sectors. While the context may differ—pharmaceuticals versus real estate—the implication remains the same: ROE is a reliable and meaningful indicator of how firms convert equity into value. This study strengthens the argument that companies with higher ROE are often in a stronger position to attract capital, negotiate favorable terms with creditors or investors, and maintain strategic flexibility in funding decisions. A strong ROE indicates self-sufficiency, signaling that the company can finance its operations and future expansion internally without overreliance on external borrowing. This financial autonomy reduces exposure to debt-related risks, contributing to more resilient and sustainable corporate growth. ROE also plays a central role in determining a firm's ability to signal performance in capital markets. High and stable ROE figures are interpreted as a sign of sound management, consistent strategy execution, and a disciplined approach to financial decision-making. Consequently, market participants may reward such firms with premium valuations, further reinforcing the positive cycle between profitability and firm value. In this way, ROE serves as both a reflection of past performance and a signal of future potential.

Stock Return mediates the effect of Capital Structure on Firm Value. This study examined whether Stock Return functions as a mediating variable in the relationship between Capital Structure, proxied by the Debt-to-Equity Ratio (DER), and Firm Value. The results reveal that Stock Return does not mediate this relationship in a statistically significant way. Although DER, on its own, may indicate a direction of influence on firm value, the indirect pathway through Stock Return does not strengthen or clarify this relationship in the sample of pharmaceutical companies studied. This suggests that changes in a company's leverage structure are not sufficiently reflected in investor sentiment or stock market behavior to translate into changes in firm value. Capital structure decisions—especially regarding the use of debt—are expected to shape investor perceptions, which are subsequently captured in the company's stock performance. According to the trade-off theory, firms aim to balance the tax advantages of debt against the risks of financial distress. In this framework, increased leverage is believed to enhance firm value up to a certain point by reducing the overall cost of capital. Ideally, investors reward this optimal use of debt with positive market responses, which manifest as higher stock returns and, eventually, higher firm value (Myers, 1984; Irfani, 2020). However, when debt levels exceed the optimal point, the increased burden of interest payments and heightened financial risk may outweigh tax benefits, leading to declining investor confidence and market value.

In this study, the expected mediating effect of Stock Return was not evident. This implies that even if companies adjust their debt-to-equity composition, such changes do not elicit a strong enough reaction in stock returns to influence overall firm value. One plausible interpretation is that investors do not perceive capital structure shifts—at least as

measured by DER—as a primary driver of stock price movement, particularly in the pharmaceutical sector. It is also possible that stock market participants prioritize other performance indicators, such as innovation, regulatory compliance, or revenue growth, rather than financial leverage. This finding highlights the limitations of applying trade-off theory in a linear or generalized manner across different industries and market conditions. While the theory provides a strong conceptual foundation, its practical application may be context-dependent. In capital-intensive and regulation-sensitive industries like pharmaceuticals, capital structure may not carry the same signaling power it does in other sectors. As a result, Stock Return may not be an effective channel for the influence of leverage on firm value.

These results align with the growing body of research questioning the universality of financial theory in empirical settings. Studies such as Homapour et al. (2022) and Hernández-Madrigal et al. (2020) have suggested that external pressures, institutional environments, and sector-specific risks can disrupt the theoretical linkages between capital structure decisions and firm performance outcomes. In particular, Homapour et al. emphasized that macroeconomic factors and access to capital markets often alter how capital structure affects company value. At the same time, Hernández-Madrigal et al. stressed the role of agency costs and governance dynamics in reducing the explanatory power of financial models. This study contributes to the argument that firm value is shaped by a broader set of factors—many of which fall outside traditional financial metrics. For instance, business risk, competitive dynamics, and overall market sentiment can play a more decisive role in shaping investor perceptions. In such a landscape, even well-managed capital structure adjustments may fail to deliver the intended signaling effect through Stock Return. This reinforces the need for a more holistic approach to evaluating corporate value, one that integrates both financial fundamentals and non-financial indicators. The absence of a mediating effect also suggests a disconnect between internal financial decisions and external market responses. While management may believe that optimizing DER enhances value, this assumption only holds if the market perceives it similarly. If investors are not responsive to leverage-based signals—or if such signals are clouded by external noise—then the intended effect on firm value will not materialize, either directly or indirectly. This insight underscores the importance of aligning internal financial strategies with market expectations and communication.

Stock Return mediates the effect of Return on Equity on Firm Value. The findings of this study reveal that Stock Return effectively functions as a mediating variable in the relationship between Return on Equity (ROE) and Firm Value. This indicates that the company's ability to generate profits from its own equity not only has a direct positive effect on firm value but is also reinforced by investor responses in the market, as reflected in changes in stock returns. In other words, high profitability—when efficiently managed—is not only internally valuable but also externally recognized, translating into enhanced valuation through stock performance. ROE is widely understood as a measure of financial efficiency, capturing how well a firm uses shareholders' equity to produce profits. When ROE improves, it reflects a firm's operational strength and effective management of financial resources. This performance is often perceived positively by investors, signaling financial stability and growth potential. As a result, investors tend to respond favorably by increasing demand for the firm's shares, which in turn boosts the stock price and, ultimately, the market value. In this dynamic, stock returns serve as a

crucial transmission mechanism linking internal financial outcomes to external valuation metrics.

The trade-off theory provides a useful framework for understanding this phenomenon. The theory posits that firms strive to balance the benefits of debt (such as tax shields) with the costs associated with financial risk and distress. However, beyond debt considerations, the theory also implies that firms that optimize profitability and capital utilization help reduce financial volatility and improve market confidence. A high ROE suggests effective use of capital without overreliance on debt, consistent with the trade-off principle that optimal capital structure and robust profit performance together enhance firm value. In this context, investors' responses—measured by stock returns—serve as a validation mechanism, rewarding companies that achieve high ROE with higher market valuations (Myers, 1984; Irfani, 2020). The results of this study support the notion that stock return reflects investors' perceptions of a company's profitability. The more efficient and consistent the profitability—as captured by ROE—the more likely the market is to interpret it as a sign of financial resilience and strong prospects. As investors observe these signals, they adjust their valuation of the firm, often leading to higher stock performance. This chain of influence confirms the essential role of market mechanisms in creating value based on financial performance. Companies that excel at managing their equity resources and deliver higher profits are better positioned to gain investor trust and achieve long-term market value appreciation.

This conclusion is consistent with earlier empirical findings. Notably, Dhea & Ali (2024) found that ROE is a critical determinant of firm value and that profitability serves as a key driver of investor behavior. Their research underscored the role of ROE in shaping firm value, emphasizing that profitability acts as a positive signal to the market. The current study builds on that insight by showing that the pathway from profitability to firm value is amplified by stock returns, further establishing the importance of this mediating variable in explaining how financial performance translates into external valuation. The presence of stock return as a mediator also emphasizes the dual nature of financial performance—as both a driver of intrinsic value and a market signal. It is not only sufficient for firms to be profitable; that profitability must also be perceived and rewarded by the market. Stock return reflects this external recognition, serving as a bridge between internal operations and investor valuation. Companies that can strategically manage both their financial ratios and investor relations tend to perform better in the market and sustain higher firm values. The findings underscore the importance of profitability management in broader strategic planning. ROE is not merely an accounting measure; it is a comprehensive indicator of how well a firm manages its capital structure, operational efficiency, and investment policies. When a firm consistently produces high ROE, it signals strength, reliability, and strategic competence—factors that resonate with investors and boost stock performance. The resulting increase in stock return, in turn, contributes to enhanced firm value.

Stock Return mediates the effect of Earnings Per Share on Company Value. This study reveals that Stock Return effectively mediates the relationship between Earnings Per Share (EPS) and Company Value, underscoring the dual importance of financial performance and market perception. The empirical results suggest that a company's ability to generate higher EPS not only directly enhances its intrinsic value but also indirectly strengthens this relationship through increased stock returns. This dynamic

reflects a comprehensive interaction between internal financial health and external investor sentiment, reinforcing the notion that earnings quality plays a crucial role in shaping a firm's market valuation. EPS is widely recognized as one of the most fundamental indicators of a firm's financial performance. It reflects the portion of a company's profit allocated to each outstanding share, serving as a direct signal of profitability and operational efficiency. A higher EPS suggests that the company is efficiently managing its resources and generating substantial returns for shareholders. When this performance is consistently achieved and communicated, it sends a strong signal of financial strength to the market, which often translates into higher stock returns. These stock returns, in turn, further enhance the firm's valuation by influencing investor behavior, share demand, and ultimately, market capitalization.

The mediating role of stock return in this relationship is both conceptually and empirically significant. As an indicator of how the market reacts to financial performance, stock return captures investor sentiment and confidence. When investors perceive strong EPS figures as a sign of sustainable profitability, they respond positively in the market, leading to a rise in stock price. This chain of influence highlights how stock return functions as a bridge between financial outcomes and valuation metrics. The results of this study confirm that earnings performance alone may not fully explain firm value unless it is mediated by the market's response, underscoring the importance of aligning financial strategy with investor expectations. From a theoretical perspective, this finding aligns well with the trade-off theory, which emphasizes the balance between risk and return in corporate finance. According to this theory, firms strive to optimize their capital structure to minimize the cost of capital while maximizing firm value. Strong EPS indicates that a company is generating adequate returns on its equity without necessarily increasing financial leverage. In doing so, the company reduces its exposure to financial distress while signaling robust performance. This scenario fosters investor trust and minimizes perceived risk, encouraging greater investment, which is reflected in positive stock returns. Hence, the trade-off theory supports the idea that solid earnings can be a strategic asset for enhancing firm value, especially when they elicit favorable market reactions.

The findings of this study are consistent with prior empirical research, particularly the work of Dhea & Ali (2024), who found that EPS positively contributes to firm value. Their research highlights that strong earnings per share are perceived by investors as a reliable indicator of financial health, guiding investment decisions and shaping market behavior. The current study extends these insights by showing that EPS not only directly influences company value but also affects stock returns, thereby amplifying the overall impact on valuation. This layered relationship emphasizes the importance of integrating performance measurement with investor communication and market engagement. In practical terms, the findings underscore the importance for companies of consistently maintaining and improving their EPS. Strong and stable earnings not only reflect operational success but also enhance investor confidence, resulting in favorable stock market performance. As such, financial managers must focus not only on profitability but also on how the market perceives and interprets it. Transparent financial reporting, strategic earnings management, and clear communication of growth potential are all necessary to ensure that strong EPS figures are effectively translated into positive stock performance and long-term firm value. The role of stock return as a mediator suggests that market sentiment can either reinforce or weaken the influence of financial indicators on

Jurnal Manajemen/Volume 30, No. 01, February 2026: 187-208
DOI: http://dx.doi.org/10.24912/jm.v30i1.3786

firm value. This highlights the need to monitor external market conditions, investor sentiment, and industry trends alongside internal performance metrics. A firm's ability to align its financial health with market expectations is vital to ensuring that strong performance metrics, such as EPS, yield tangible benefits in the form of higher valuation.

CONCLUSION

This study aims to examine the influence of capital structure, return on equity (ROE), and earnings per share (EPS) on company value, while also testing the mediating role of stock returns. The analysis found that the debt-to-equity ratio (DER) had no significant effect on company value. Conversely, ROE and EPS were found to have a positive and significant effect on company value. Additionally, Stock Return was found to be unable to mediate the effect of DER on company value, but successfully mediated the relationship between ROE and EPS on company value. These findings provide new empirical insights into the mechanism of the relationship between financial variables and company value in the context of companies listed on the Indonesia Stock Exchange.

The value of this study lies in its contribution to the literature on the influence of financial performance on company value, particularly by considering the mediating role of stock returns. This study emphasizes the importance of considering profitability factors and earnings per share indicators in building sustainable company value. From a practical and managerial perspective, companies need to optimize ROE and EPS to enhance firm value by improving market perception. Additionally, for investors, this study provides insights into financial indicators such as ROE and EPS to consider when making investment decisions. Companies are also expected to enhance transparency in presenting their financial reports to build market trust, which ultimately impacts the firm's value.

This study has several limitations, including the use of only three independent variables and one mediating variable, which may not fully explain other factors that could influence company value. Furthermore, the study focuses solely on companies listed on the Indonesian Stock Exchange in a specific sector, so the results may not be generalizable to all industries. For future research, it is recommended that the scope of variables be expanded to consider external factors, such as market risk, macroeconomic conditions, and other fundamental variables. Further research could also use a longitudinal approach or panel data methods to obtain more comprehensive and accurate results. Subsequent studies are expected to provide a more comprehensive and in-depth understanding of the factors influencing company value.

REFERENCES

Ajeng, P., Suun, M., & Subhan, S. (2023). Examining Linkage Factors in Stock Prices. Advances in Management & Financial Reporting, 1(2 SE-Articles). https://doi.org/10.60079/amfr.v1i2.118

Alvino, F., Di Vaio, A., Hassan, R., & Palladino, R. (2021). Intellectual capital and sustainable development: a systematic literature review. Journal of Intellectual Capital, 22(1), 76–94. https://doi.org/10.1108/JIC-11-2019-0259

Ananta, A. A. P., & Mawardi, I. (2020). Pengaruh Return on Assets, Debt-to-Equity Ratio, Dividend Payout Ratio, dan Dividend Yield Terhadap Return Saham. Jurnal

Ekonomi Syariah Teori Dan Terapan, 7(10), 1913–1928. https://doi.org/10.20473/vol7iss202010pp1913-1928

Balázsi, L., Baltagi, B. H., Mátyás, L., and Pus, D. (2024). Random Effects Models. In Advanced Studies in Theoretical and Applied Econometrics, 54, 61–98. https://doi.org/10.1007/978-3-031-49849-7_3

Bishwas, P. C., & Hossain, M. S. (2025). Does ownership concentration affect the financial performance of firms? Future Business Journal, 0. https://doi.org/10.1186/s43093-025-00491-0

Botta, M., & Colombo, L. V. A. (2022). Non-linear capital structure dynamics. Journal of Business Finance & Accounting, 49(9–10), 1897–1928. https://doi.org/10.1111/jbfa.12596

Budiharto, W. (2021). Data science approach to stock prices forecasting in Indonesia during Covid-19 using Long Short-Term Memory (LSTM). Journal of Big Data, 8(1). https://doi.org/10.1186/s40537-021-00430-0

Chiang Thomas C. (2023). Real stock market returns and inflation: Evidence from uncertainty hypotheses, Finance Research Letters, 53, 103606. https://doi.org/10.1016/j.frl.2022.103606.

Dai, N., & Piccotti, L. R. (2020). Required return on equity when capital structure is dynamic. Financial Management, 49(1), 265–289. https://doi.org/10.1111/fima.12266

Dhea Abdillah, & Ali, H. (2024). Pengaruh Likuiditas, Struktur Modal dan Profitabilitas terhadap Nilai Perusahaan. Jurnal Manajemen Pendidikan Dan Ilmu Sosial, 5(4), 787–794. https://doi.org/10.38035/jmpis.v5i4.2077

Gujarati, D.N. (2021). Essentials Of Econometrics. ISBN 1071850407., 9781071850404. Sage Publications.

Hamada, R. S. (1972). The Effect of the Firm's Capital Structure on the Systematic Risk of Common Stocks. The Journal of Finance, 27(2), 435–452. https://doi.org/10.2307/2978486

Herdajanti, A. F. (2022). Pengaruh EPS, DER, dan ROA terhadap Nilai Perusahaan dengan Harga Saham sebagai Variabel Moderasi pada Perusahaan HealthCare yang Terdaftar di Bursa Efek Indonesia. Jurnal Ekonomi dan Bisnis, 1(1), 43–57. https://doi.org/10.33633/jekobs.v1i1.6989

Hernández-Madrigal, M., Aibar-Guzmán, C., Aibar-Guzmán, B., & Ramírez-Flores, É. (2020). Are external pressures always behind ERM implementation? Evidence from Spanish listed firms. International Journal of Disclosure and Governance, 17(2), 86–100. https://doi.org/10.1057/s41310-020-00076-z

Homapour, E., Su, L., Caraffini, F., & Chiclana, F. (2022). Regression Analysis of Macroeconomic Conditions and Capital Structures of Publicly Listed British Firms. Mathematics, 10(7), 1119. https://doi.org/10.3390/math10071119

Irfani, A. S. (2020). Manajemen Keuangan dan Bisnis; Teori dan Aplikasi. Gramedia Pustaka Utama.

Ismail, T. H., & Obiedallah, Y. R. (2022). Firm performance and cost of equity capital: the moderating role of narrative risk disclosure quality in Egypt. Future Business Journal, 8(1), 1–19. https://doi.org/10.1186/s43093-022-00156-2

Kasasbeh, F. I. (2021). Impact of financing decisions ratios on firm accounting-based performance: evidence from Jordan listed companies. Future Business Journal, 7(1), 1–10. https://doi.org/10.1186/s43093-021-00061-0

Kebede, T. N. (2024). Firm-specific and country-level determinants of commercial banks capital structures: evidence from Ethiopia. Journal of Innovation and Entrepreneurship, 13(1). https://doi.org/10.1186/s13731-024-00418-z

Khalifaturofi'ah, S. O., & Setiawan, R. (2025). Profitability's impact on firm value in Indonesia's real estate firms: a panel data investigation. Property Management, 43(2), 169–186. https://doi.org/10.1108/PM-08-2023-0082

Khan, A., Qureshi, M. A., & Davidsen, P. I. (2021). A system dynamics model of capital structure policy for firm value maximization. Systems Research and Behavioral Science, 38(4), 503–516. https://doi.org/10.1002/sres.2693

Khan, S., Akhtar, T., & Qasem, A. (2024). Dynamics of capital structure determinants: empirical evidence from GCC countries. Future Business Journal, 10(1), 107. https://doi.org/10.1186/s43093-024-00394-6

Konuk, S., Doruk, Ö. T., & Önal, Y. B. (2025). An empirical investigation of the relationship between brand value and firm value: Evidence from Turkey. International Journal of Finance & Economics, 30(1), 261–281. https://doi.org/10.1002/ijfe.2915

Liu, R., Rahman, M. R. C. A., & Jamil, A. H. (2025). Leveraging Environmental Regulation: How Green Innovation Moderates the Relationship Between Carbon Information Disclosure and Firm Value. Sustainability, 17(6), 2597. https://doi.org/10.3390/su17062597

Manurung, A. H., Natasha, C., & Budiharto, W. (2020). Modelling shares' choice to enter a portfolio using artificial neural networks (ANN). Journal of Big Data, 7(1), 17. https://doi.org/10.1186/s40537-020-00294-w

Mashruwala, C., & Mashruwala, S. (2025). EPS-motivated share repurchases and wealth transfer. Journal of Business Finance & Accounting, 52(2), 722–749. https://doi.org/10.1111/jbfa.12826

Mawaddah, J., Susanto, E., & Amri, A. (2024). Pengaruh Inflasi, Suku Bunga dan Nilai Tukar terhadap Return Saham yang Terdaftar di IDX-MES BUMN 17 Periode 2018-2022. Jurnal Simki Economic, 7(2), 478–488. https://doi.org/10.29407/jse.v7i2.727

Meliani, L. A., & Ariyanto, D. (2021). Kinerja Keuangan Memediasi Pengaruh Modal Intelektual dan Struktur Modal pada Nilai Perusahaan di Masa Pandemi Covid-19. E-Jurnal Akuntansi, 31(10), 2503. https://doi.org/10.24843/EJA.2021.v31.i10.p08

Myers, S. C. (1984). Capital structure puzzle. National Bureau of Economic Research Cambridge, Mass., USA. https://doi.org/10.3386/w1393

Narayan, P. K., Rizvi, S. A. R., & Sakti, A. (2022). Did green debt instruments aid diversification during the COVID-19 pandemic? Financial Innovation, 8(1). https://doi.org/10.1186/s40854-021-00331-4

Panda, A. K., & Nanda, S. (2020). Determinants of capital structure; a sector-level analysis for Indian manufacturing firms. International Journal of Productivity and Performance Management, 69(5), 1033–1060. https://doi.org/10.1108/IJPPM-12-2018-0451

Pham, C. D. (2020). The effect of capital structure on financial performance of Vietnamese listing pharmaceutical enterprises. The Journal of Asian Finance, Economics and Business, 7(9), 329–340. https://doi.org/10.13106/jafeb.2020.vol7.no9.329

Pietraszewski, P., Gniadkowska-Szymańska, A., & Bolek, M. (2023). Expected vs. real growth of companies listed on the London Stock Exchange. Journal of Economics and Finance, 47(3), 646–668. https://doi.org/10.1007/s12197-023-09623-0

Rahman, A. (2024). Examining the Decision Matrix between Dividends and Share Repurchases in Corporate Finance. Advances in Management & Financial Reporting, 2(3 SE-Articles), 149–160. https://doi.org/10.60079/amfr.v2i3.304

Risman, A. (2021). Kurs Mata Uang dan Nilai Perusahaan: Dilengkapi: Regresi Data panel vs data Time series. Pena Persada.

Rutz, O.J., Watson, G.F. (2019). Endogeneity and marketing strategy research: an overview. J. of the Acad. Mark. Sci. 47, 479–498. https://doi.org/10.1007/s11747-019-00630-4

Sarker, N., & Hossain, S. M. K. (2023). Corporate governance and firm value: Bangladeshi manufacturing industry perspective. PSU Research Review, 8(3), 872–897. https://doi.org/10.1108/PRR-04-2023-0060

Sartono, S., & Ratnawati, T. (2020). Factor-Faktor Penentu Struktur Modal. Jurnal Ekonomi & Manajemen, 11(1), 35–44. https://doi.org/10.30996/die.v11i01.3403

Sloan, R. G., & Wang, A. Y. (2025). Predictable EPS growth and the performance of value investing. Review of Accounting Studies, 30(1), 33–78. https://doi.org/10.1007/s11142-023-09812-6

Sulastri, Isnurhadi, & Muizuddin. (2024). Stakeholder Value and Firm Performance: Empirical Study of State-owned Enterprises in Indonesia. Journal of Creating Value, 10(2), 235–249. https://doi.org/10.1177/23949643241285963

Togatorop, W. R. V. B., & Susan, M. (2022). Keputusan investasi, kebijakan utang, dan kebijakan dividen pada nilai perusahaan. Jurnal Manajemen Maranatha, 22(1), 109–120. https://doi.org/10.28932/jmm.v22i1.5341

Verma, D., Dawar, V., & Chaudhary, P. (2025). Impact of earnings management on firm's financial performance – evidence from India. Journal of Indian Business Research, 17(1), 45–65. https://doi.org/10.1108/JIBR-08-2024-0185

Yuwono, W., Momongan, M. D. M., Sanjaya, K., Susiana, F., & Duchovny Young, H. (2022). Analisis Struktur Modal Pada Perusahaan Yang Terdaftar Di Bursa Efek Indonesia. MANABIS: Jurnal Manajemen dan Bisnis, 1(3), 202–210. https://doi.org/10.54259/manabis.v1i3.1136