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## **Hacking Profits in Real Estate: The Influence of Capital Structure, Liquidity, and External Factors**

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### **ABSTRACT**

*This study seeks to empirically examine the influence of capital structure, liquidity, firm value, firm size, and external factors on profitability within companies operating in the property and real estate sector listed on the Indonesia Stock Exchange, utilizing sample data from 2018 to 2022. Through purposive sampling, 10 companies were selected as research subjects, employing panel data regression analysis. The findings indicate that liquidity and company size have a negative and significant impact on profitability. Conversely, inflation exerts a positive and significant influence on profitability. However, neither capital structure nor firm value significantly affect profitability. These results contribute to understanding the factors influencing the profitability of property and real estate sector companies within the Indonesian capital market context.*

*Keywords: Profitability, Capital Structure, Liquidity, Firm Value, Firm Size, Inflation.*

### **INTRODUCTION**

Real estate is an industry sub-sector listed on the Indonesia Stock Exchange (IDX) that deals with development services by facilitating the construction of integrated and dynamic areas. Conceptually, real estate includes land and all permanent improvements, including buildings, roads, open land, and other permanent developments. The growing human resource potential and government support, such as the VAT DTP (Government Borne

Value Added Tax) incentive of up to 100% for purchasing commercial houses, significantly boost the industry.

In the real estate sector, profitability is an important parameter for the continuity of the business. A shortage of cash or a financial state of loss may lead to a reduction of future projects. Investments by the company are made before the granting of properties via sale or rent and gaining profitability. Profitability is the expression of the development of the company which sells or provides the properties for rent by using the resources wholly (Grozdic et al., 2020; Omolaye & Jacob, 2018).

Return on investment ROI is significant for the investors, and the level of profitability is the prominent indicator of the success of the company in the provision of the required ROI. Profitability is the main parameter for companies as well as the shareholders which is used to evaluate the rewards or the benefits with respect to the sacrifices (Erfani & Vasigh, 2018; Ghosh, 2017). It can be said that for the investors, a good ratio of profitability would imply that the company would be able to provide an adequate amount of profit.

There are various methods for assessing profitability, such as gross profit margin, net profit margin, return on assets, and return on equity. In this study, return on equity was selected as a measure of financial performance. This metric gauges how effectively a company generates profits from shareholders' investments, as higher returns signify better performance. Moreover, understanding investor perspectives is crucial in analyzing capital structure ratios, as they impact the supply and demand dynamics of shares in the capital market. In addition, liquidity is a crucial element. By using liquidity ratios one can assess how well a company is able to meet short-term financial obligations.

In the real estate industry ROEs of service companies fluctuate more and are fundamentally on a downward trend rising ROEs mainly come from increasing income or the average amount of money remaining on equity investments within agreed limits. In prior research, the profits dependent variable has been reached by different results. For example, Sukmayanti & Triaryati (2019) conducted multiple linear analyses and found that the capital structure variable has an insignificant positive effect on profitability. Liquidity and company size are also both negatively significantly related to profitability.

Three different studies all suggest the same conclusion, that capital structure significantly impacts rate of return on capital (ROA). Febria & Halmawati (2014), Kristianti (2018), and Ningsih & Utami (2020) liquidity has any significant positive effect on profitability. Darmayanti & Susila (2022) findings were supported by Novita & Sofie

(2015), Sukmayanti & Triaryati (2019) found that there is a negative significant impact. On the contrary, Febriansyah et al. (2022) report that there is a significant positive effect of firm value on profitability. Additionally, Aghnitama et al. (2021) discovered that company size has a significant negative impact on both ROA and ROI, but it does not affect ROE. In a broader study, Nainggolan et al. (2022) concluded that company size has a positive, albeit insignificant, effect on profitability. Furthermore, Ridhwan (2016) conducted a study revealing that inflation positively and significantly impacts profitability.

The objective of this study was to examine how capital structure, liquidity, firm value, firm size, and external factors influence profitability within the real estate sector. The differences lie in several aspects. First, there needs to be more specificity in the external factors variable, where previous studies faced a void in clearly defining the external factors involved or did not explore external factors specific to the real estate sector. Secondly, although liquidity is identified as a variable, the liquidity-related analysis does not include various metrics that could provide deeper insights into its impact on profitability in the context of the real estate sector. Thirdly, there needs to be more specificity in the capital structure variable, where specific components of capital structure, such as debt ratios or forms of capital that are more suited to business characteristics in the real estate sector, are not sufficiently explained. Fourthly, there is poor contextualization of external factors, where there is insufficient explanation of how external factors are linked to market conditions or economic environment specific to the real estate sector.

By improving these aspects, this study can fill the knowledge gap and provide a deeper understanding of the factors that affect the profitability of companies in the real estate sector. This study has many significant contributions to understanding firms' profitability in the real estate sector. The contributions include a deeper understanding of how these factors affect profitability, which can be used by the management of real estate firms in designing more effective financial strategies. Moreover, the results of the study can help regulators and policymakers to create policies that can sustain the growth and stability of the real estate industry. In addition to that, real estate companies can also benefit from the result of the study by improving their risk management especially in capital structure and liquidity management. Lastly, in the academic context, this study contributes to the existing literature on the real estate sector, with an emphasis on financial and non-financial factors' relationship to profitability. In conclusion, this research offers a better understanding of the

profitability of the real estate sector that can be used in decision-making and further development of the sector in terms of stability and sustainable growth.

## **LITERATURE REVIEW**

### **The effect of capital structure on profitability**

Capital structure ratio has always been the crucial point in determining the proportion of debt and equity in a company's overall financial structure. The composition of capital sources has an impact on the is control to be applied on various company sources. Capital structure ratio analysis has been the basis of the investors' perceptions in the capital market that affects on the supply and demand dynamics of their management and the profitability of their related firms.

The capital structure ratio characterizes the proportion of internal and external funding supporting the company's operations. The level is identified using the Debt to Total Equity Ratio. According to Febria & Halmawati (2014), Kristianti (2018), and Ningsih & Utami (2020), it is evident that capital structure produces a positive effect on financial performance, which includes the Return on Assets indicator. The growth of capital structure can be regarded as a strategy contributing to improving funding efficiency, and it is important to conduct this study to develop a better understanding of this relationship in the context of the real estate sector.

H1: Capital structure affects the company's profitability

### **The effect of liquidity on profitability**

Dewi et al. (2021), the liquidity ratio reflects a company's ability to fulfill its short-term financial obligations or current liabilities. Liquidity represents the company's capability to settle its short-term commitments, which may include various long-term debts due within a specific timeframe. Ardianti (2018) also emphasizes the definition of liquidity as the company's capacity to settle all impending short-term liabilities promptly. Essentially, the company's stability relies on its liquidity ratios.

This study uses the current ratio as a liquidity ratio, which measures the ratio between the company's current assets and liabilities. Darmayanti & Susila (2022) and Novita & Sofie (2015) found that liquidity positively and significantly affects profitability, indicating that companies with good liquidity tend to have better financial performance. Sukmayanti & Triaryati (2019) revealed a negative and notable impact of liquidity on profitability,

indicating the intricate nature of the association between liquidity and financial performance, which could be influenced by specific contextual factors. Within this study, liquidity is highlighted among the independent variables, aiming to comprehend its influence on the profitability of real estate sector companies.

H2: Liquidity affects profitability

### **The effect of company value on profitability**

The value of a company, particularly those not yet publicly traded, can be gauged by the prices potential buyers are willing to pay in the event of a sale. Conversely, for publicly traded companies, their value is evident in the trading value of their shares in the stock market. The primary objective of every company going public is to enhance its overall value. The growth in company value serves as a key indicator of its success as it directly influences the prosperity of its owners and shareholders, leading to an increase in their wealth (Rakhmat, 2017).

Various ratio analysis methods are employed to evaluate market value, including the price-earnings ratio (PER), Tobin's Q, and price-book value ratio (PBV). These methodologies aim to illustrate how much importance the market places on a company. Febriansyah et al. (2022) validate through their research that firm value has a positive and significant impact on profitability. These outcomes suggest that enhancing company value can play a pivotal role in enhancing its financial performance and profitability. Therefore, endeavors to boost company value are integral to the company's financial strategy in attaining both success and sustainable growth.

H3: Firm value affects profitability

### **The effect of company size on profitability**

In a broad sense, size refers to the dimensions or magnitude of an object. However, within a business framework, a company is established by individuals, groups, or entities to conduct production and distribution operations to fulfill economic needs. Company size is regarded as a factor influencing financial structure. Larger company sizes may have a greater impact on profitability. Investors often place greater trust in larger companies, particularly during challenging economic conditions, as they perceive them to be more capable of repaying debts and ensuring business continuity.

Various studies present divergent findings concerning the impact of company size on profitability. For instance, Sukmayanti & Triaryati (2019) discovered that company size significantly and adversely influences Return on Assets (ROA). Conversely, Aghnitama et al. (2021) revealed that company size has a noteworthy negative impact on Return on Assets (ROA) and Return on Investment (ROI) but does not affect Return on Equity (ROE). Furthermore, the research conducted by Nainggolan et al. (2022) indicates that company size has a positive albeit insignificant effect on profitability. Hence, the correlation between firm size and profitability varies and is contingent upon the context and circumstances of the studies.

H4: Company size affects profitability

### **The effect of inflation on profitability**

Inflation refers to a general and sustained increase in goods and services prices over time. An increase in the price of goods leads to a decrease in consumer purchasing power and an increase in poverty. Inflation affects almost all aspects, not just the price increase of one or two goods. Factors that can cause inflation include the inability to control market demand. Inflation can occur when the demand for a good or service is not in line with the available supply, causing scarcity of goods in the market. Second, rising production costs can cause inflation, especially if the increase is sustained. Thirdly, geopolitical tensions, such as geopolitical crises, can cause inflation.

Some financial planners suggest that property investment is a sector that is less affected by inflation. However, it is essential to remain vigilant about the effect of mortgage interest rates on prices and consumers' ability to purchase the property. Mortgage interest rates can affect the price and ability of consumers to buy property. For homeowners with fixed-rate mortgages, inflation may benefit them by reducing the amount they owe.

Inflation can also trigger an increase in borrowing costs, causing potential consumers to back out after recalculating the amount of money to be spent. Although inflation can lead to above-average house price increases, the demand in the property market tends to be stable, partly due to government policies that provide incentives such as tax discounts, low down payments, special interest rates, and ease of applying for mortgage loans. Some research, such as that conducted by Ridhwan (2016), shows that inflation has a positive and significant effect on profitability.

H5: Inflation affects profitability

## METHOD

The data for this research was collected from the annual financial reports of publicly traded real estate sector companies on the Indonesia Stock Exchange for five consecutive years, spanning from 2018 to 2022. The variables examined include Profitability (ROE), Capital Structure (DER), Liquidity (CR), Firm Value (PBV), Firm Size (FZR), and Inflation (INL). The Indonesia Stock Exchange served as the primary source of information. The study population consists of 25 real estate sector firms listed on the Indonesia Stock Exchange throughout the specified timeframe. Purposive sampling was employed to select the samples, adhering to specific criteria such as continuous listing on the IDX between 2018 and 2022, consistent financial reporting during this period, demonstration of profitability, and availability of complete data for the research variables. A sample of 10 real estate sector companies was obtained with these criteria.

$$ROE_{it} = \alpha + \beta_1 DER_{it} + \beta_2 CR_{it} + \beta_3 PBV_{it} + \beta_4 FZR_{it} + \beta_5 INL_{it} + \varepsilon$$

Data analysis used the panel data regression (pooled data) method. The panel data approach was chosen because the research involved several years and involved a large number of companies. Time series data is used because it covers a five-year period, while the cross-section approach is chosen because it involves many companies. In panel data regression analysis, choosing the best model is a multi-step process. First, the study must be able to choose between a random and a fixed effects model. To this end, the Hausman test may be adopted, which examines whether the variance of individuals associated with the independent variables.

The following of the conventional assumptions underpin the process of running the test: linearity characterizes the relationship between the dependent and the independent variables; there is no relationship between the residuals or errors obtained from different observations unless the No Correlation condition is established; the homoscedasticity requires that the dispersion of the residuals relative to the independent variables is equal on every level of this variable; normalcy dictates that the residuals are normally distributed ; finally, the absence of multicollinearity indicates that there is no perfectly linear relationship between the independent variables.

**Table 1. Variable Research**

Variable	Measure	Source
Profitability	$ROE = \frac{\text{Net Profit}}{\text{Total Assets}}$	Ardimas & Wardoyo (2014), Kim et al. (2021)
Capital Structure	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$	Ramdhonah et al. (2019), Chandra & Osesoga (2021)
Liquidity	$CR = \frac{\text{Current Asset}}{\text{Current Liability}}$	Erari (2014), Killins (2020)
Firm Value	$PBV = \frac{\text{Market Value/Share}}{\text{Book Value/Share}}$	Kusumawati & Rosady (2018), Lu et al. (2016), Sari et al. (2022)
Firm Size	$\text{Size} = \text{Ln}(\text{Total Asset})$	Bambang (2008), Novari & Lestari (2016), Nurmindia et al. (2017)
Inflation	$\text{Inf} = \frac{\text{IHKn} - \text{IHKo} \times 100\%}{\text{IHKo}}$	Putong (2013), Safitri & Jamal (2020), Salim et al. (2021)

## RESULTS AND DISCUSSION

The data available for description involves six factors in which an evaluation is conducted: Return on Equity , Debt-to-Equity Ratio , Current Ratio, Price Book Value , Firm Size, and Inflation. Nominal and range measures are used for each of the variables under consideration. ROE, which rates shareholders’ returns, has a mean of 9.67%, a minimum of 24.39% and 0.94%. The DER has a mean of 65.82 and ranges from the minimum of 0% to the maximum of 138%. Regarding CR, which gives the company liquidity, the mean is 3.44. The Price to Book Value ranges from 0.31 and 5.75. Moreover, FZR has a mean of 23.13. Finally, INL average is 2.98%. Following the Table 2, it is apparent that the analysis will provide an insight into the general characteristics and distribution of each variable used in the data set. The measures will provide information required to reach conclusions about the observed real estate sector.

**Table 2. Statistic Descriptive**

	ROE	DER	CR	PBV	FZR	INL
Mean	0.096738	0.309600	3.439400	1.425400	23.12940	0.029820
Median	0.087600	0.275000	2.700000	1.095000	22.95000	0.027200
Maximum	0.243900	1.380000	12.77000	5.750000	24.90000	0.055100
Minimum	0.009400	0.000000	0.940000	0.310000	21.15000	0.016800
Std. Dev.	0.052653	0.329960	2.690924	1.124338	1.100948	0.013860
Skewness	0.953633	1.489740	1.916882	2.127792	-0.115442	0.972392



Kurtosis	3.424952	5.318831	6.371130	7.578252	1.931043	2.553441
Observations	50	50	50	50	50	50

According to the results presented in Table 2, which exhibits the normality test utilizing the Jarque-Bera statistic, a probability of 0.5817 is obtained. This probability surpasses the 5% significance level, indicating that the research data adheres to the normality assumption. Additionally, the multicollinearity test conducted through the correlation matrix indicates that the values of the five independent variables are all below 0.9. Thus, it can be inferred that there is no significant correlation among the independent variables, and no signs of multicollinearity are detected.

**Table 3. The Classical Assumptions Results**

Diagnostic	Indicator	Value	Prob.
Normality Data	Jarque-Bera	1.0834	0.5817
		DER to CR -0.0165 < 0.9	
Multicollinearity	Correlation Matriks	DER to PBV -0.0591 < 0.9	
		DER to FZR 0.5229 < 0.9	
		DER to INL -0.1035 < 0.9	
		CR to PBV -0.3394 < 0.9	
		CR to FZR 0.2194 < 0.9	
		CR to INL 0.0494 < 0.9	
		PBV to FZR 0.0826 < 0.9	
		PBV to INL -0.0154 < 0.9	
		FZR to INL 0.0219 < 0.9	
		Heteroskedasticity	White
Autocorrelation	Durbin Watson DU < DW < 4-DU	1.7708 < 2.2011 < 2.2292	

The heteroscedasticity test with White's indicator shows a probability of 0.1521, more significant than the 5% significance level. Therefore, the research data related to heteroscedasticity has also passed the test. Based on the findings from Table 4, the Durbin-Watson statistic yields a value of 2.2011. With a sample size of 50 and 5 independent variables, the Durbin-Watson table provides a dL value of 1.7708 and a dU value of 2.2292. Calculating 4-dU yields 2.2292, indicating that there is no autocorrelation present since  $dU < dW < 4-dU$ , or  $1.7708 < 2.2011 < 2.2292$ .

In Table 4, determining the most suitable model for panel data regression involves conducting a Chow test to choose between the Common Effect Model (CEM) and the Fixed

Effect Model (FEM) initially. The preferred model is considered to be FEM when the p-value is lower than the test's significance level, typically set at 5%. Additionally, the comparison between FEM and REM is performed using the Wald test. In this case, since the p-value of the Hausman test is less than 5%, FEM is selected for regression analysis. Therefore, based on these test results, it can be concluded that the Fixed Effect Model is the optimal choice for regression analysis.

**Table 4. Fixed Effect Model**

<b>Variable</b>	<b>CEM</b>	<b>FEM</b>	<b>REM</b>
C	0.4184	0.0038	0.7190
DER	0.0018	0.6217	0.2482
CR	0.1570	0.0229*	0.0670
PBV	0.3247	0.3385	0.1577
FIRM SIZE	0.1619	0.0042*	0.9966
INFLATION	0.4276	0.0154*	0.1445
R-Squared	0.2878	0.6990	0.1841
Adjusted R-Squared	0.2069	0.5787	0.0914
Prob(F-Statistic)	0.0086	0.0000	0.0994

**Effect of Capital Structure on Profitability**

The outcome of the study revealed that capital structure does not depict a significant impact on the profitability of the company. This finding is as a result that differs in the combination of proportion between debt and equity in terms of composition of respective capital do not have a significant impact on the level of profitability to a firm. One may estimate whether this interpretation is a possibility from different factors, primarily an neutral capital structure.

Synonymous to this, the interpretation can be analyzed theoretically based on trying to derive the neutrality theory of capital structure which are appropriate for ensuring that capital debt and equity may prove to render firms' value or profitability. On the other hand, the second factor that may lead to the outcome is effective management finance. In this case, if a firm has a viable policy of managing finance, then change in the capital structure will lead to in a minimal-change in the profitability of the firm.

Besides, the ineffectiveness of capital structure on profitability can also result due to the insignificance of changes on the cost of capital. When changes in capital structure lead

to insignificant changes in the cost of capital, it will also have an insignificant impact on profitability. This way, the cost of capital theory can be inferred where insignificant changes in the cost of capital can call for company stability and financial efficiency.

The efficiency of financial management, such as maintaining financial stability and flexibility without being significantly altered by the equity-to-debt ratio, leads to many advantages. Some of the advantages include considerable financial stability, high operational flexibility, and growth prospects. As a result, investors may have greater satisfaction with the confidence in their investments once they see the stability of financial performance of the company.

It is noteworthy that the results of this study remain consistent with prior research, Febria & Halmawati (2014), Kristianti (2018), and Ningsih & Utami (2020), which state that capital structure has a positive and significant impact on profitability. However, it is vital to note that the relationship between capital structure and profitability is complex, which means multiple factors and various company-specific condition may affect the relationship.

### **The Effect of Liquidity on Profitability**

The result of this study, namely that liquidity in terms of the current ratio negatively and significantly affects the profit of the company. Low liquidity can have a significant negative impact on companies operating in the real estate sector. Liquidity of the company concerns the theory of finance, liquid companies have less risk. The current ratio describes the company's ability to meet its obligations in the short term.

If liquidity is low, the company will have difficulties in the short term in providing financing for the implementation of obligations on time. In practice, low liquidity is due to inefficient cash management, excessive debt, slow payment of receivables, high inventories, and unregulated capital expenditures. The influence of low liquidity is manifested through high financial costs, bankruptcy risk, low investor confidence, low stock value, and poor credit.

This result is in line with research by Sukmayanti & Triaryati (2019), which also shows the negative effect of business liquidity on company performance. This is different from

the research conducted by Darmayanti & Susila (2022) and Novita & Sofie (2015), which show that business liquidity has a positive effect on company performance.

### **The Effect of Company Value on Profitability**

The outcome of the study presents an exciting result, as firm value, as assessed in terms of Price Earning Ratio, Tobin's Q, and Price Book Value Ratio, do not affect the level of profitability of companies in the real estate sector. Theoretically, it can be assumed that high or low firm value might be associated with the same range of profitability. One of the theoretical arguments is that if the firm's value is high, the market expects the real estate firm to deliver a good range of results, which should be secondarily associated with high profitability. However, the current variation of firm value does not affect the profitability of firms in the real estate sectors.

There are several possible explanations for this outcome. First, efficient management of business or the fact that the appropriate business strategy has been used may cause the mismatch between the current variation of firm value and the level of its profitability. One of the basic assumptions of the financial theory is that efficiency in management of firms requires optimal management of firms' resources. Second, there are some disruptions in relation to external externalities or reputational crises, which should be used in order to explain this mismatch. This theory implies that the firm value represents the market's health and its current affection of the firm's operations. However, in the case of an event or a crisis that does not affect firms' operations, this might affect the variation of the firm value and simultaneously be associated with the same level of profitability. At the same time, the outcome is in contrast with the outcome of the research of Febriansyah et al. (2022).

### **The Effect of Company Size on Profitability**

The results of the study have illustrated that there is a relationship between forecasting profitability and firm size. Moreover, the results of the study show a negative and significant effect of firm size on profitability. I.e., according to financial theory, large-scale firms are subject to operational and structural constraints that affect the likelihood of profitability.

Firstly, the concept of "diseconomies of scale" suggests that, while there can provide some benefits to scale of operations, firms cannot be too large due to problems with operation. When companies are too large, their operational flexibility can be impacted as

multiple levels of management face operational and decisional difficulty and the response to changes in the market slow down. In addition, the results of the “Rigidity of large organizations” state that large companies, therefore, operate less successfully in response to changes in the market and technology . Secondly, these can be associated with the concept of the “agency costs”. Large companies have agents inside and outside the company that need to be monitored and accounted for. As a result, agency costs and risks are large. Such costs and risks can result in the firm being less profitable.

As for the second constraint, the management theory suggests that effective management and adaptive business strategies can overcome it. A practical management approach can help cut expensive bureaucracy and improve the pace of decision-making. Adaptive business strategies allow firms to adjust to changes in the market and help to lower the negative effects of large firm size. This result is similar to the results gone by Sukmayanti & Triaryati (2019), found that company size is influencing Return on Assets significantly negatively. However, this result contradicts the study Nainggolan et al. (2022), company size is influencing profitability positively, but the effect is insignificant.

### **The Effect of Inflation on Profitability**

The findings of the current research indicate that inflation has a significant and positive influence on corporate profitability. Estimating an applicable interpretation of the discovered relation between the two variables includes describing the connection between inflation and profitability with its relation to theory and the previous years’ research outcomes. First, the positive effect of inflation on profitability can be observed through the effect of price adjustment. Under inflation, companies that can adjust their prices of the offered products and services promptly and effectively can maximize profits. By rising prices in proportion to the rate of inflation, companies can cover for increased cost of production and improve the profit margin. Economic theory stipulates that adjusting prices in a responsive way to inflation is profitable for companies.

Second, from a finance management perspective, inflation has a positive.. effect on the company’s debt burden. If a company has debt with a fixed rate of payment, its real value decreases at an increasing inflation rate, according to finance theory known as the ‘wealth transfer effect.’ Cheaper real-value debt can lead to a decrease in the company’s financial burden and increased profit. However, it should be noted that this positive impact is not absolute and may depend on some factors, including the company's ability to manage risk,

pricing strategy, and market conditions. High inflation can create uncertainty and increase production costs, negatively impacting profitability.

This finding aligns with economic theories, which state that inflation can have a complex impact on economic activities, including firm profitability. The results of this study also support the findings of Ridhwan (2016), who shows that inflation has a positive and significant effect on profitability.

## **CONCLUSION**

According to the research findings, the influence of capital structure on profitability is inconclusive. This ambiguity stems from the intricate relationship between debt levels and a company's profitability, where not all highly indebted companies necessarily exhibit high profitability. Moreover, liquidity exerts a negative and noteworthy impact on profitability, suggesting that excessive current assets requiring optimization can hamper a company's profitability. Efficient management of liquidity is thus vital for maintaining profitability.

In addition, it is proven that this characteristic does not significantly affect profitability. However, it is necessary to ask about which certain unexplored politico-financial factors influence, and how. Meanwhile, it is concluded that such a variable as the sizes of a company, affects profitability. Consequently, larger firms more often face such threats as drops in profitability, direct risks challenge the work of organizations. Lastly, inflation has a positive and significant influence on profitability. This means that higher rates of inflation can also result in increased profit receiving. However, the degree of influence also depends on the company's opportunities to raise prices and manage all existing risks.

It can manifest that all five tested variables influence firm value. Taking these findings into account, investors should base their conclusions on liquidity, firm value, and inflation. This study can contribute to future research, and researchers are expected to explore the impact of these variables on other corporate sectors to gain a more holistic understanding of the factors that influence profitability.

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