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Original Article

Determinants of Indonesian Share Price: Do Capital Structure, Sales Growth, and Profitability Matter?

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Abstract *- This research aims at discovering the direct and indirect effects of capital structure and sales growth on share price, with profitability as the mediating variable. This research studied 26 companies listed in the LQ45 index from 2016–2017. They were selected by using the purposive sampling method. Fifty-two observation data were analyzed using path analysis. The hypothesis testing on the first substructure equation results in the conclusion that both capital structure and sales growth have no significant effects on profitability. On the second substructure equation, capital structure and sales growth also have no significant effects on the share price. However, profitability has significant positive effects on the share price. By using the Sobel test, the mediating effects of profitability on the effects of capital structure and sales growth on share price could not be confirmed.*

Keywords *- capital structure,sales growth,profitability, share price*

I. INTRODUCTION

The share price is an indicator to measure the corporate management performance. The pricereflects the tug of war between investors in their bids and asks for the share price. In general, a company's share price reflects investors' perception of the company's value. The higher a company's share price is, the better the investors' perception of the company is. On the other hand, a low share price which tends to decrease, reflects the poor performance or imperfect reputation of the company.A shareholder who is dissatisfied with the company's performance can sell his shares and invest the money in another company. This condition may be communicable to other shareholders, which cumulatively can put selling pressure on the company's shares, and eventually, it causes the share price to fall.

Share price becomes important to investors as it has economic consequences. Changes in share price can alter the market value, which also changes the investors' opportunities in the future. The share price is set based on the supplies and demandsin the market. Demands of shares are influenced by investors' expectations of the share issuer (the company). The better the performance of the share issuer, the higher the expectation of the investors is. This causes the company's share to be attractive and its price to become increasingly high. Conversely, when the company's financial performance is not good, the investors' expectation becomes low, and investors are not attracted to invest in the shares. In a nutshell,share price becomes an indicator of investors' expectations of a company's performance and its potential improvement in the future.Generally, there are some internal and external factors that affect the tug of war over the (potential) investors' supplies and demands, which influence the share price. The internal factors are the price influencing factors source from within a company, whereas the external factors are those price influencing factors originating from outside the company.

This present research focuses on the effects of the internal factors on the dynamics of share price movements which are directly and indirectly mediated by other internal factors. The internal factors are capital structure, sales growth, dan profitability level. The capital structure shows the financing sources of a company. A company that uses borrowed capital to fund its productive investments can have positive outcomes because the company's leverage can multiply its income to a higher level in comparison with the incurred fixed cost from the borrowed capital (Tally, 2014). The positive outcomes arethe increase inearnings and the rise of the share price. These outcomes also signify an increase in the shareholders' well-being (Tanni, 2012). On the other hand, negative outcomes are inevitable when the company cannot balance the increasing debts with productive investment, or, worse still, the increasing debts becomesa counterproductive burden on the company's finance. Previous research by Onyema and Oji (2018) concluded that financial leverage has no significant effects on profitability. In addition, high leverage reflects higher risks to the company itself; thus, investors tend to avoid investing in companies with high financial leverage (Bailia, Tommy, &Baramuli, 2016).

Sales growth, an output of a company's performance in the past, can be in the form of investment in fixed assets and sales capacity. Therefore, sales growth data can be used to predict sales growth in the future (Clarensia,

Rahayu, &Azizah, 2012; Chandra & Veronica, 2018). A constant increase in sales growth is an indicator that a company still has the opportunity to achieve higher performance levels and better prospects (Hayati, Simbolon, Situmorang, Haloho, &Tafonao, 2019). A high level of sales is a basic indicator that a company can increase its profitability which can motivate the investors' interest in buying the company's shares (Chandra & Veronica, 2018).

Profitability indicates whether a company's performance is good or bad (Utami&Prasetiono, 2016). A good performance of a company can attract investors to invest their money (Alipudin&Oktaviani, 2016), and this can affect the fluctuation of the company's share price (Vonna, Islahudin, &Musnadi, 2016).

II. LITERATURE REVIEW & HYPOTHESIS

A. Capital Structure and Profitability

The capital structure of a company is related to the decisions to develop its policies on sources of capital funding. Kipesha and Moshi (2014) are of the opinion that the decision to use a particular source of funding can have different effects on the company's performance. Thus, the company must try to formulate the best combination of debt and equity to maximize the company's market value (Voulgaris, Asteriou, &Agiomirgianakis, 2002). In other words, capital structure involves an important funding policy that generally can effect the earnings performance or can be used to maximize the shareholders' well-being (Onyema& Oji, 2018). A company uses debts to finance its investment, its expenses, and its efforts to increase sales. The financing policy of a company manifested in the amount of DER implicitly indicates the number of the company's liabilities in terms of a principal payment and interest expenses which cumulatively becomes financial liabilities and affects the amounts of the company's earnings.

Previous research has confirmed that a financing policy that is suitable for a company may not be suitable for others (Onyema& Oji, 2018). For a company, a higher debt ratio in its capital structure can yield profitable results when the company gains positive difference because the economic rentability level of the company is higher than the interest level of its debts. In this case, using borrowed capital is more favorable and can give more value-added, which is more profitable for the shareholders. In other words, when the economic situation is good, a greater use of debtscan increase profitability, and the increase of capital structure can affect a company's financing performance which increases the company's earnings(Felany&Worokinasih, 2018). Based on the opinion, the following hypothesis needs to be tested:

H_1: Capital structure has a significant positive effecton profitability.

B. Sales Growth and Profitability

Sales are the main operation and source of income for a companythat relies on sales to generate earnings. Sales growth is the increase of current sales from the previous year's sales stated in percentage (Carvalho& Costa, 2014).A high sales level is basically a metric to indicate the market penetration level of the company's products, and it is usually followed by significant sales growth. Therefore, sales growth reflects the company's success in its investment in the previous period, and it can be used to predict the company's growth in the future (Sambharakreshna, 2010; Clarensiaet al., 2012; Chandra & Veronica, 2018).

By identifying the sales growth quantity, a company can predict the number of earnings it willhave. Good sales growth can stimulateimprovement ofthe company's profitability. Previous research by Ali, Hussin, andGhani (2019) concluded that an increase in sales growth could moderately increase profitability measured by ROA, and, in general, continuous sales growth can affect the return on equity. This conclusion is in line with those of Shintya, Situmorang, and Iryani (2017) and Suryaputra and Christiawan (2016), which state that sales growth has a significant positive effect on profitability. Thus, the hypothesis is formulated as follows.

H_2: Sales growth has a significant positive effect on profitability.

C. Capital Structure and Share Price

Capital structure is basically a company's financial framework that combines the debt and equity capital of the company (Uwalomwa&Uadiale, 2012). The capital structure of a company is shown by comparing its total debts to the total shareholders' equity or commonly known as the debt to equity ratio (DER).

A company has the freedom of choosing the most suitable capital structure, which can increase its share price (Andow&Wetsi, 2018). However, it is important to note that capital structure is also an indicator of a company's financial risks. When a company uses a bigger amount of borrowed capital for its operationswhich means it has a higher capital structure ratio, it faces higher financial risks because of the intensity of cash outflow for principal loan payment and for interest expense payment.

When a company's long-term loan is getting bigger, the company may face potential liquidity disruptions in the future. The disruptions emerge because the company places a higher priority on using its earnings to pay the loan and its interests rather than using the earnings to pay dividends (Alipudin&Oktaviani, 2016). When this happens, the share price of the company may come under pressure, and, eventually, it will have an effect on the investors' lack of interest in buying the shares.This statement is confirmed by Widayanti and Colline (2017) and Andow and Wetsi (2018). Thus, the hypothesis to be tested is as follows.

H_3: Capital Structure has a significant negative effect on share price

D. Sales Growth and Share Price

A company with high sales growth will be able to fulfill its financial obligations (Clarensia et al., 2012). It is generally accepted that high sales growth affects the increase of the company's earnings which can motivate the investors' intention to buy the company's shares. In other words, the company's growth measured by the sales growth can affect the company's value or its share price because the company's growth indicates positive improvement of the company, which will receivepositive responses from the investors (Bailia et al., 2016).

A company's sales growth shows the company's condition externally. The rise of a company's sales growth indicates the company runs its operation properly. The company's ability to run a business properly gives a positive signal to the investors that it has good prospects in the future (Chandra & Veronica, 2018). If the company's sales growth keeps on increasing annually, the company has the prospects of surviving and being successful because sales growth affects the increase of earnings and will draw the investors' interest to buy its shares (Clarensia et al., 2012). Thus, the hypothesis to be tested is as follows.

H_4: Sales growth has a significant positive effect on the share price.

E. Profitability and Share Price

Profitability is a company's ability to generate earnings. Profitability is also a measurement of efficiency because the higher the profitability of a company is, the more efficient the company uses its assets (Alipudin&Oktaviani, 2016). Profitability is the company's main appeal in order to attract potential investors who are ultimately concerned about current earnings, future earnings, and earnings stability. In this case, investors must really take profitability into consideration because it determines the company's prospects.Every company will always try to increase its performance and generate great earnings, which enable the company to continue its operations and to grow. For investors, the high profitability of a companyis a signalthat the company's operations, investments, and financing are well-managed. This will eventually increase the company's share price and directly increase the company's value (Barakat, 2014).

Consistent reports on high earnings for some periods can attract investors to buy the company's shares. That is why profitability is considered as one of the internal factors which affect the level of attractiveness of certain shares because their profitability indicates the productivity of the company's assets to generate earnings (Chandra & Veronica, 2018). When some investors think that a share is attractive and worthy to be invested in, there will be buying pressure which eventually can increase the share price. In other words, the increase in profitability indicates the company's financial performance is good, and its share price will also increase. Based on this explanation, the hypothesis to be tested can be formulated as follow.

H_5: Profitability has a significant positive effect on share price

F. Profitability Mediates the Effect of Capital Structure on Share Price

The capital structure of a company influences its profitability. An increase in capital debts followed by returns that are higher than the incurring interest expenses will directly increase the company's net income and, of course, its earnings. High earnings indicate the company is efficiently well-managed. This will be the reason why (potential) investors are attracted to invest their money in the company, and this interest in buying the shares can boost the share price.From the brief explanation, it is suggested that profitability can mediate the influence of capital structure on the share price. Thus, the hypothesis to be tested is as follows.

H_6: Profitability mediates the effect of capital structure on share price

G. Profitability Mediates the Effect of Sales Growth on Share Price

Sales growth reflects the investment success in the previous period, and it can be used to predict the sales growth in the next period. The high level of sales growth reached by a company is one of the indicators that the company is able to run its operations properly. The increase in sales growth of a company which is balanced with the increase of current year earnings, is a positive indicator that can motivate the investors to buy the company's shares which, eventually, increases the share price.Based on the brief explanation, the hypothesis to be tested is formulated as follows.

H_7: Profitability mediates the effect of sales growth on share price

III. RESEARCH METHOD

The research populations were companies listed in the LQ45 index of the Indonesia Stock Exchange from 2016–2017 (four publication periods). The purposive sampling method was used to select the samples with five criteria: companies that were consistently listed in the LQ45 stock category from 2016–2017; companies that were regularly published their audited financial statements from 2016–2017; companies that did not perform corporate action of stock repurchase from 2016–2017; companies which did not belong to the category of the service companies or banking companies; and companies which did not generate negative earnings from 2016–2017. Based on the sampling criteria, there were 26 companies selected as the samples. The data were collected annually; thus, it created 52 observation data.

The present research is quantitative research using secondary data from the companies' stock reports and annual reports. The data were analyzed by using the multiple linear regression statistical technique to test the influence significance of the independent variableson the dependent variable. In addition, the data were also analyzed using path analysis to test the direct and indirect influence of the exogenous variable on the endogenous variable through the endogenous mediating variable. The path analysis was also used to measure the direct and indirect relationships between variables in the model.

Based on the hypothesis development, Figure 1 illustrates the conceptual framework of this present research.

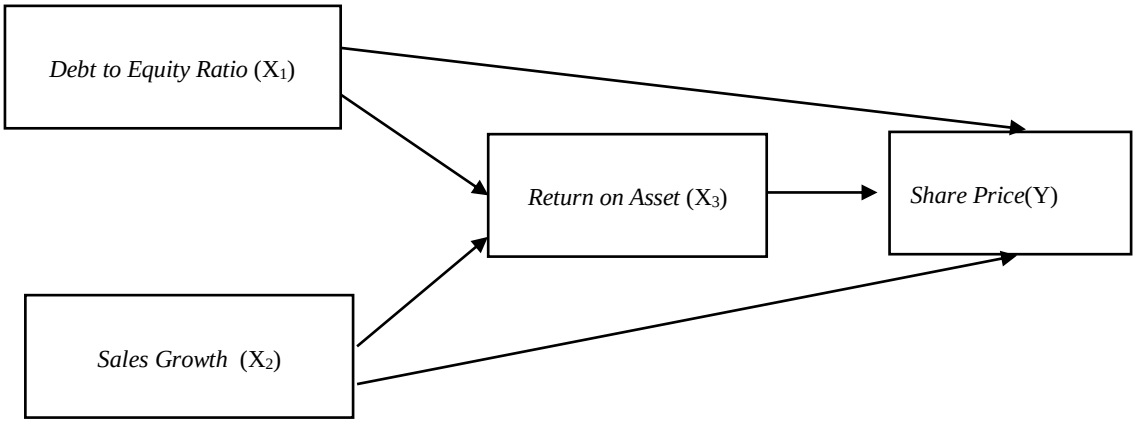

Fig. 1 Conceptual Framework

Table 1. summarizes the variables used in this present research, their operational definitions, types, and the measuring indicators.

Table 1. Operational Variables

Variables	Operational Definitions	Types of Variables	Measuring Indicators
Share Price (SP)	Share market price during the closing of semesters 1 and 2 from 2016–2017.	Endogenous Variable	Indonesian Rupiah (Rp) or IDR
Return on Assets (ROA)	Description of the company's ability to generate profits with its available assets.	Endogenous mediating variable	$ROA = \frac{\text{Net income}}{\text{Total asset}}$
Capital Structure (DER)	The relative proportion of total liabilities and common stock equity is used to finance the firm's total assets.	Exogenous variable	$DER = \frac{\text{Total Debts}}{\text{Total Equity}}$
Sales Growth (SG)	The increased sales and services between the current and previous year in percentage.	Exogenous variable	$SG = \frac{Sales_{it} - Sales_{it-1}}{Sales_{it-1}}$

The present research used path analysis which is an extension of multiple linear regression analysis used to predict the causality relationship between the variables which had been determined based on the theory. The data were processed using Eviews 9.

The first substructure equation is presented as follows.

$ROA = \beta_0 + \beta_1 DER + \beta_2 SG + \epsilon_1$

Where:
ROA = Profitability
DER = Capital Structure
SG = Sales Growth
β_0 = Constant term
β_1, β_2 = are slope to be estimated
ϵ_1 = Component unobserved error term

The second substructure equation is as follows.

$SP = \beta_0 + \beta_1 DER + \beta_2 SG + \beta_3 ROA + \epsilon_2$

Where:
SP = Share Price
DER = Capital Structure
SG = Sales Growth
ROA = Profitability
β_0 = Constant term
$\beta_1, \beta_2, \beta_3$ = are sloped to be estimated
ϵ_2 = Component unobserved error term

IV. RESULTS AND DISCUSSION

The descriptive statistics of the first and second substructures are summarized in Table 2.

Table 2. DescriptiveStatistics

	Share Price	DER	SG	ROA
Mean	8.1572	46.4734	19.9634	10.4875
Median	7.8709	37.5300	9.9000	7.4750
Maximum	10.9313	188.2200	110.6000	46.1700
Minimum	6.1903	0.0000	-23.0000	1.2000
Std. Dev.	1.0787	44.4566	27.0501	10.5936
Observations	52	52	52	52

The results of descriptive statistics of the 52 observation data, as shown in Table 2, describe the movements of each variable, which becomes the subject of this present research. The summary of each variable is explained briefly as follows.

First, the share price mean of the observed companies from 2016–2016 is 8.1572, and the price range is between 6.1903 (minimum price) and 10.9313 (maximum price). The standard deviation is 1.078705. By examining the movements of the price, which is rather tight, and the standard deviation, which is close to 0, it can be concluded that the observed shares had not been confirmed as shares with high liquidity. The shares are supposed to be listed in LQ45, which is an index of 45 shares that meet several criteria, two of which are the intensityof the trading days and/or the frequency of transactions.

Second, the mean of DER is 46.4734, and the standard deviation is 44.4566. The maximum DER is 188.2200 as attained by PT WaskitaKarya in 2017. The minimum DER is 0.0000, which was attained by PT MatahariDepartemen Store in 2016 and PT PP London Sumatra Indonesia in 2017. This minimum DER at 0.0000 indicates that both companies did not use any borrowed capital in financing their operations.

Third, the sales growth of the observed companies ranges from -23.0000 to 110.6000, and the mean growth is 9.96346%. The highest sales growth was booked by PT JasaMargaPersero in 2017. The data also shows a company, PT AKR Corporindo, which gained negative growth in 2016. However, with a standard deviation of27.0501, it is normally considered that the entire sales growth is at a positive level. In other words, even though the sales growth shows very high variations, the 26 observed companies still demonstrate the performance of companies with big capitalization, which can still maintain positive sales growth.

Fourth, the mean of ROA is 10.4875, and the standard deviation is 10.5936. The maximum ROA is 46.1700, which was booked by PT MatahariDepartemen Store in 2016, which also reported 0% of the debts in its capital structure in the same year. This means the lower debts (0%) might cause the company to gain the highest ROA in that period. On the other hand, the minimum ROA of 1.2000 was attained by PT LippoKarawaci in 2017. This result is relevant because the company had big capitalization. In general, it is proved that allthe observed companies' sharesare still valid to be used as investment instruments as they can still generate earnings.

The assumption generated bymultiple linear regression analysis must be tested by usingthe Jarque-Bera test to test the data normality, centered VIF to test multicollinearity, Glejser test to test heteroscedasticity, and Durbin-Watson test to test the autocorrelation. Using E-views, the test results show the data are quite sufficient to generate regression equations with fairly accurate estimation, unbiased, and consistent.

The use of E-views in processing data requires that Chow test, Hausman test, and Lagrange Multiplier test were undergone to determine the accuracy of one of the models, i.e.,common effect (CE), fixed effect (FE), or random effect (RE), which would be used. The results show that the fixed effect model is more suitable to be used for the first substructure equation, whereas the random effect model is more suitable to be used for the second substructure equation.

The results of the data processing are shown in Table 3 and Table 4 to create a regression equation in accordance with path analysis.

Table 3. Panel Data Regression of the First Substructure

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.8261	0.1916	9.5295	0.0000
DER	0.0018	0.0039	0.4740	0.6398
SG	0.0028	0.0026	1.0906	0.2862

The regression equation for the first substructure is formulated as follows.

ROA = 1.8261 + 0.0018 DER + 0.0028 SG

The first hypothesis states that capital structure has a significant positive effect on profitability. Some studies suggest that when the DER value increases, ROA also increases. Thismeans that the companies with massive borrowed capital are able to manage their business properly so that they can yield great earnings, as shown by the increase of their ROA. In Table 3, the DER coefficient is .0018, and the Prob. Is 0.6398. This indicates that although the coefficient value is positive, the first hypothesis is rejected because ofProb. > 0.05. This means the capital structure has no significant effect on profitability.

Companies' financing policies which are reflected in their debt-equity to ratio (DER), can influence the number of earnings gained by the companies. The companies which become the objects of this research belong to several sectors, one of which is the property sector, whichhas a type of industry thatuses debts as the major source of its capital. The use of debts that incur higher expenses than the cost of equity will motivate the increase in weighted average cost of capital. If this happens, a company will have to pay much bigger expenses to cover the company's liabilities, particularly the long-term debts. The condition becomes a burden for the company and reduces its profitability.

The second hypothesis states thatsales growth has a significant positive effect on profitability. The data in Table 3 shows SG coefficient is 0.0028, and the Prob. is 0.2862 which is > 0.05. This indicates that the effect of SG on profitability is positive but insignificant. Thus, the second hypothesis is rejected.

Sales growth, basically, can be used as the basisfor a projection of the total of profits that will be gained in current-year earnings with an assumption that good sales

growth can boost an increase in earnings.Nonetheless, sales growth is not an independent variable as it may influence or be influenced by other factors. In general, the consequence of sales growth is an increase of expenses used to achieve the sales growth, such as development costs, promotion costs, or distribution costs, not to mention the possible costs for purchasing certain assets driven by necessity.

This present research shows that sales growth is not the main factor for the increase in profitability. On one side, sales growth can boost an increase in profitability. On the other hand, the increase in profitability is proved to be achieved by paying for all the incurring expenses. In the end, the projected potential profitability decreases to a lower level.

Table 4. Panel Data Regression of the Second Substructure

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.8102	0.2630	29.6859	0.0000
DER	0.0016	0.0023	0.6914	0.4926
SG	-0.0018	0.0017	-1.0306	0.3079
ROA	0.0293	0.0115	2.5354	0.0145

The regression equation for the second substructure is as follows.

Share Price = 7.8102 + 0.0016 DER – 0.0018 SG + 00293 ROA

In Table 4, DER is 0.0016 with Prob. 0.4926. The third hypothesis states that DER (capital structure) has a significant negative effect on the share price. The Prob. 0.4926 is much higher than the 0.05 parameter. This indicates that capital structure has no significant effect on the share price. Thus, the third hypothesis is rejected because it is proved that investors did not use the capital structure as one of the determinants of the decision to invest in certain companies' shares.

A company's DER is a comparison of its leverage level (total debts use) with its total equity (its own capital). When DER is higher than 1.00, it indicates the total debts are higher than the equity. In general, DER value can indicate the extent of efforts done by the company management to develop its business in order to increase earnings or to maximize the company's value. If investors believe in this perception, their interest to invest will become higher. This will increase their buying transactions which eventually increase the share price. On the other hand, a high DER value also reflects the number of the company's liabilities and shows that the company relies on external capital sources. This increases the risks faced by investors because of the incurring interest expenses which have to be paid by the company. The risks reduce the investors' interest to invest, and they maycause the fall of the share price.

Once again, it appears that there is a tug of war between factors that can increase the share price and factors that can decrease the share price. This present research also shows that there is a balance of perceptions between investors who believe that the company is still in the stage of business development and those who believe that an increase in debts can put a burden on the company in the long run, and, therefore, the investors are not interested in buying the shares. Worse still, they may even sell their current shares instead.

The fourth hypothesis states that sales growth has a significant positive effect on the share price. Sales growth reflects the investment success in the previous period, and it can be used to predict the sales growth in the next period. The high level of a company's sales growth is an indicator that the company is able to run the business properly, and this positive indicator becomes the basis of investors' argumentation to buy the company's shares.

Table 4 shows the sales growth coefficient is -0.0018 in a negative number. This shows that the higher the sales are, the lower the share price is. The prob. is 0.3079 which is > 0.05. This fact proves that sales growth has no significant effect on share price; thus, the fourth hypothesis is rejected. The result of this present research also confirms the assumption that high sales growth is considered a burden for the company. Essentially, high sales growth is not identical tohigh income. For new products or products with low market attractiveness, it would take tremendous efforts to make the products be recognized and demanded by the market. One of the common efforts is to apply certain promotion strategies, which, of course, need a lot of money. Another way to boost sales growth is by giving discounts. This is commonly used by companies to reach short-term objectives, i.e., to meet the sales target. However, Jackson & Wilcox (2000) assert that this discount policy will result in negative long-term effects on the company because by giving discounts, the buyers get higher bargaining power. They will be accustomed to this discount policy, and they will buy the products only if they are sold at a discount. Furthermore, by applying this discount policy, the company is led into price competition with other similar companies. In the long run, the discount policy will inevitably entrap the company further into a financial problem as the policy will reduce its earnings. From this perspective, it is reasonable that some investors do not consider sales growth as one of the determinants of their investment decisions.

The fifth hypothesis states that profitability has a significant positive effect on the share price. The higher the earnings of a company are, the more obvious it is that the company is well-managed and efficient. It is also obvious that the company has the potential for reaping high earnings in the future. This kind of perception becomes the basic motivation for the investors to buy the shares, and this will cause an increase in the share price.

In Table 4, the ROA coefficient is 0.0293, which indicates that profitability has a positive effect on the share price. The Prob is 0.0145, which is lower than the 0.05 parameter. Thus, it can be concluded that profitability has

a significant positive effect on share price, and the fifth hypothesis is accepted. A company with a higher ROA indicates that the company is able to utilize its assets to generate earnings which meansa high ROA can increase profitability or the company's earnings. Companies with high ROA will increase the investors' trust and attract investors to invest money in the company's shares. The more investors make investments in a company, the higher the share price of the company will be.

To test the role of profitability as the intermediating variable of share price dynamics, this present research used the Sobel test. The standard formulation of the Sobel test is as follows.

$$Z = \frac{ab}{\sqrt{(b^2\,SE_a^2) + (a^2\,SE_b^2)}}$$

Where:
a = regression coefficient of the independent variable against the mediating variable
b = regression coefficient of the mediating variable against the independent variable
SE_a= standard error of the estimate from the effect of the independent variable on the mediating variable
SE_b= standard error of the estimate from the effect of the mediating variable on the dependent variable

The first test placed the profitability variable as the mediating variable on the effects of capital structure on the share price. The results are as follows.

$$Z = \frac{0.0018 \text{ x } 0.0293}{\sqrt{(0.0293^2 \text{ x } 0.0039^2) + (0.0018^2 \text{ x } 0.0115^2)}}$$

$Z = 0.4541$

Using the same equation, the Z value is estimated to test the effect of sales growth on the share price with profitability as the mediating variable. The result is shown as follows.

$$Z = \frac{0.0028 \text{ x } 0.0293}{\sqrt{(0.0293^2 \text{ x } 0.0026^2) + (0.0028^2 \text{ x } 0.0115^2)}}$$

$Z = 0.9920$

From the Sobel test, the Z from each test is 0.4541 and 0.9920, respectively, as they are used to test therole of profitability as the mediator of capital structure and sales growth effects on the share price. The values are below 1.98, with a significance level of 5%. Thus, it can be concluded that profitability and sales growth do not mediate the effects of capital structure on the share price. This means hypothesis six and hypothesis seven are rejected.

V. CONCLUSION

Based on the discussion, an empirical conclusion that can be drawn from this present research is that, partially, capital structure and sales growth have no significant effects on profitability and share price. However, the findings confirmed that profitability has significant effects on the share price. The present research also studied profitability as the mediating variable between capital structure and sales growth on the share price.The findings show that profitability does not mediate the effects of capital structure and sales growth on the share price.

The findings confirm the indication that the earnings variable or profit is an important variable that needs to be taken into consideration when investors want to invest in certain shares. Companies should take specific measures to increase their abilities to generate earnings because earnings affect the increase of the companies' value and the shareholders' well-being. Therefore, the companies should apply suitable strategies to control various internal factors which can affect the companies' abilities to generate earnings, including the ability to control costs (e.g., interest expenses).

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