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The effect of profitability, liquidity and free cash flow on firm value: evidence from LQ45 companies listed on the Indonesia Stock Exchange

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ABSTRACT

This study examines the effects of Return on Assets (ROA), Current Ratio (CR), and Free Cash Flow (FCF) on firm value, measured by Price to Book Value (PBV), in LQ45 companies. Using a quantitative causal-comparative design, 154 firm-year observations were selected through purposive sampling and analyzed using multiple linear regression. The results show that ROA has a positive but insignificant effect on PBV, while CR has a negative and insignificant effect. FCF has a positive and significant effect on PBV. These findings indicate that free cash flow is the main financial factor associated with firm value in the observed sample. Effective free cash flow management may therefore strengthen investor confidence and market valuation.

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh Return on Assets (ROA), Current Ratio (CR), dan Free Cash Flow (FCF) terhadap Price to Book Value (PBV) pada perusahaan yang tergabung dalam Indeks LQ45. Penelitian menggunakan pendekatan kuantitatif kausal komparatif dengan 154 observasi yang dipilih melalui purposive sampling. Data sekunder diperoleh dari laporan keuangan tahunan dan dianalisis menggunakan regresi linier berganda. Hasil penelitian menunjukkan bahwa ROA berpengaruh positif namun tidak signifikan terhadap PBV, CR berpengaruh negatif dan tidak signifikan, sedangkan FCF berpengaruh positif dan signifikan. Temuan ini menunjukkan bahwa free cash flow merupakan faktor keuangan yang paling berperan dalam meningkatkan nilai perusahaan. Oleh karena itu, perusahaan perlu mengelola free cash flow secara efektif untuk meningkatkan kepercayaan investor dan nilai pasar perusahaan.

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1. Introduction

Firm value is an important indicator that reflects public trust in a company's future prospects and financial performance. A high firm value indicates solid financial conditions and strong growth potential (Pambudi et al., 2022). Investors often consider firm value as the basis for evaluating competitiveness in increasingly dynamic markets (Sari & Mildawati, 2017). In the Indonesian capital market, stocks listed in the LQ45 index are widely used as a reference because of their high liquidity and relatively strong fundamentals (Taufani, 2024). Moreover, this index is considered a safer investment choice to reduce risks arising from internal company issues (Fatmayuni et al., 2024).

Firm value is commonly measured by the price to book value ratio (Brigham & Houston, 2019; Dewi & Wirajaya, 2013). Theoretically, companies listed in LQ45 should have a price to book value above 1 as a signal of market confidence (Brigham & Houston, 2019). However, empirical evidence shows otherwise. During 2021–2023, 27.8% of LQ45 firms in 2021, 25.5% in 2022, and 31.8% in 2023 were traded at a PBV below 1. In 2024, INKP even recorded a PBV lower than 0.35 due to high operating expenses and declining revenues. These facts indicate the existence of undervalued firms despite being part of a blue-chip index.

Profitability, measured by return on assets, is one of the most important determinants of firm value, as it indicates the efficiency of asset utilization in generating earnings (Fitriyani, 2015). However, not all LQ45 firms perform accordingly. Between 2021 – 2024, six companies recorded ROA below 1%, such as WIKA, BRPT, and PTPP. Several others even posted negative ROA, including BUKA with – 6.23 in 2024, which consequently lowered its PBV to 0.54.

Liquidity also plays a critical role in investor assessment. A higher current ratio reflects a company's ability to meet short-term obligations (Brigham & Houston, 2019). Nonetheless, nine LQ45 firms had a current ratio below 1, such as TOWR, MTEL, and UNVR, indicating potential liquidity risks. On the other hand, around 37% of firms recorded a current ratio above 3, including SRTG with a value of 140, suggesting inefficient use of current assets.

Free cash flow is another key factor that indicates the firm's ability to generate cash available for investments and dividends (Kieso et al., 2018). Stable FCF is expected to increase firm value. However, empirical findings show significant fluctuations among LQ45 firms, with 87% in 2021, dropping to 21% in 2022, and rising again to 86% in 2023 (Lestari et al., 2024). This inconsistency creates uncertainty for investors in assessing long-term value creation.

These facts highlight a gap between theoretical expectations and actual conditions in determining firm value, particularly among LQ45 companies. Therefore, this study aims to examine the effect of profitability, liquidity, and free cash flow on firm value in LQ45-listed companies on the Indonesia Stock Exchange during the period 2021–2024. The 2021–2024 research period was chosen because it is an adequate time span to consistently describe the company's financial condition and provide complete and comparable data to analyze the influence of Return on Assets (ROA), Current Ratio (CR), and Free Cash Flow (FCF) on the company's value.

Empirical contributions show that free cash flow is a factor that plays a more important role in increasing the company's value than the return on assets and current ratio of companies that are members of the LQ45 Index. These findings can be a reference for company management in optimizing cash flow management.

2. Literature Review

2.1. Agency Theory

Agency theory explains the contractual relationship between principals (capital owners) and agents (managers) that has the potential to cause conflicts of interest because managers can act in their own interests, not shareholders (Kimsen et al., 2019). Jensen & Meckling (1976) assert that this condition raises agency costs that can reduce company value.

From a financial perspective, agency theory is closely related to indicators such as return on assets, current ratio, and free cash flow. Return on assets is a measure of the manager's efficiency in managing the company's assets to generate profits, so low profitability reflects the agent's failure to align the interests of shareholders (Brigham & Houston, 2019). Furthermore, current ratio reflects the

company's ability to maintain liquidity; values that are too high or low indicate inefficiency in managing current assets that have the potential to increase agency costs (Brigham & Houston, 2019). Meanwhile, a large free cash flow may pose a risk of misuse for unproductive projects or managers' personal interests if the supervisory mechanism is weak, which in turn can reduce the value of the company (Brigham & Houston, 2019). Thus, agency theory emphasizes the importance of managers' efficiency in managing resources as well as the need for supervisory mechanisms so that conflicts of interest can be minimized and firm value remains optimal.

2.2. Company Value

Firm value is a performance measure that reflects the extent to which the company is able to create value for shareholders and other stakeholders (Brigham & Houston, 2019). This value is closely related to the stock price in the capital market, which reflects investors' perceptions of future profit prospects (Gitman & Zutter, 2019). The main objective of management is to maximize company value, because the higher the company value, the greater the prosperity of shareholders (Harjito & Martono, 2014; Harmono, 2014). The indicator in this study focuses on price to book value because it is easy to calculate with public data and is relevant for large physical asset companies such as those in the LQ45. Price to book value > 1 indicates optimal performance prospects, while price to book value < 1 indicates poor performance (Jerry J & Kimmel, 2022).

2.3. Profitability

Profitability in this study is proxied by return on assets, which is a ratio that shows the level of return on the use of company assets (Kasmir, 2019). Return on assets is considered more relevant than other measures because it is able to compare performance between companies across industries and sizes, and reflects the overall efficiency of asset use, not just capital structure (Gitman & Zutter, 2019). Profitability itself is influenced by various factors, including operational efficiency, capital structure, asset management, and pricing and revenue strategies (Brigham & Houston, 2019). Return on assets is calculated by comparing net income with total assets, so it can show the extent to which the company's assets are productive in creating profit after tax (Kieso et al., 2018; Tandelilin, 2018). Thus, the higher the return on assets shows the effectiveness of management in managing assets to improve the company's financial performance and value for shareholders. The return on assets formula can be written as follows (Brigham & Houston, 2019):

$$\text{Return on assets} = \text{net income} / \text{total assets} \quad (1)$$

2.4. Liquidity

Liquidity in this study is measured using the current ratio, which is a comparison between current assets and current liabilities that reflect the company's ability to meet its short-term obligations (Brigham & Houston, 2019; Kasmir, 2019). The current ratio was chosen because it is more comprehensive than the quick ratio, because it includes inventory so that it provides a comprehensive picture of short-term liquidity (Gitman & Zutter, 2019). The company's liquidity level is influenced by several factors, including asset structure, capital structure, profitability, and financial management policies that include cash management, receivables, inventory, and debt (Brigham & Houston, 2019). The higher the current ratio, the better the company's ability to meet short-term obligations, although a ratio that is too high can also indicate an excess of less productive current assets (Fahmi, 2012; Kieso et al., 2018). The current ratio formula can be written as follows (Brigham & Houston, 2019):

$$\text{Current ratio} = \text{current assets} / \text{current liability} \quad (2)$$

2.5. Free cash flow

Free cash flow is cash flow that is actually available to the company after meeting operational and investment needs, so that it can be used to pay debt, buy back shares, or increase liquidity (Brigham & Houston, 2019; Kieso et al., 2018). Free cash flow is influenced by three main factors, namely operating cash flow, capital expenditures, and changes in net working capital which determine the amount of cash left for other activities (Ross et al., 2022). Companies with positive free cash flow show the ability to grow sustainably, pay dividends, and maintain their financial health (Hery, 2014; Subramanyam, 2020). Conversely, low or negative free cash flow may indicate financial stress due to high operating costs or large investments. Therefore, free cash flow is one of the important indicators in assessing a company's value and its attractiveness to investors and creditors. The free cash flow formula can be written as follows (Ross et al., 2022):

$$\text{Free cash flow} = \text{OCF} - \text{CAPEX} - \text{NWC} \quad (3)$$

Note: OCF = Operating Cash Flow; Capex = Capital Expenditure; NWC = Net Working Capital

2.6. Influence between Variables

Return on assets describes the company's ability to generate profits from its assets (Brigham & Houston, 2019). An increase in return on assets reflects the efficiency of asset management, thereby reducing agency costs and providing a positive signal to investors regarding the company's prospects (Jensen & Meckling, 1976). A number of studies have shown that return on assets has a significant positive effect on firm value as measured by price to book value (Afinindy et al., 2021; Anggraini, 2020; Chaidir et al., 2022). However, some studies find different results: return on assets can have a negative effect if the increase in assets is not proportional to profits (Enalia, 2021; Lestari et al., 2023), and even no effect at all when the increase in assets is not followed by efficient use (Putra & Sari, 2023; Sihombing, 2021). The difference in research results indicates the inconsistency of empirical findings, so further testing is needed. So, the researcher makes the following hypothesis:

H1 = return on assets has a positive effect on firm value in companies indexed LQ45 on the Indonesia Stock Exchange.

Current assets reflect the liquidity of the company in meeting short-term obligations (Brigham & Houston, 2019). Maintained liquidity reduces the risk of default and can increase firm value (Santoso & Junaeni, 2022; Tamba, 2023). Research by Dwipa et al. (2020) shows that an adequate current ratio has a significant positive effect on firm value because it increases investor confidence in the company's ability to pay dividends. However, a current ratio that is too high is considered inefficient, because it shows that current assets are not optimized (Nasution et al., 2020). Several other studies have found no significant effect, because the current ratio only describes short-term liquidity without reflecting the profitability or market value of the company (Afinindy et al., 2021; Maryana & Nurhayati, 2022; Novianti et al., 2023). The variation in previous research findings highlights inconsistencies in empirical evidence, thereby necessitating further investigation. Accordingly, the researcher proposes the following hypothesis:

H2 = current ratio has a positive effect on firm value in companies indexed LQ45 on the Indonesia Stock Exchange.

Free cash flow shows the availability of net cash after operational needs and capital expenditures are met (Kieso et al., 2018). High free cash flow indicates the company's financial strength and flexibility in paying debt, distributing dividends, or reinvesting, so that it can increase investor confidence and company value (Perdana, 2021; Rengganis et al., 2023). A number of studies support the significant positive effect of free cash flow on firm value (Arifin & Sudiyatno, 2023; Azizah & Dillak, 2019; Yuliana, 2020). However, different results were shown by Rifana (2019); Saputra (2023); Sonjaya (2017), who found that free cash flow can have a negative impact on firm value when its use is inefficient or has the potential to cause conflicts of interest between management and shareholders. Inconsistent outcomes across previous studies demonstrate a gap in empirical evidence, making further testing necessary. Based on this, the researcher establishes the following hypothesis:

H3 = free cash flow has a positive effect on firm value in companies indexed LQ45 on the Indonesia Stock Exchange.

2.7. Research paradigm

Research paradigm in Figure 1 illustrates the relationship between the variables used in this study.

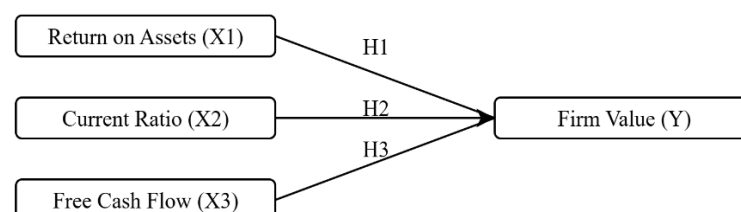


Figure 1. Research paradigm

3. Research Methods

This study uses a quantitative approach with a comparative causal type to analyses the effect of profitability, liquidity, and free cash flow on firm value. The research was conducted on companies included in the LQ45 index on the Indonesia Stock Exchange during the 2021-2024 period, with data obtained from the company's annual report and the official IDX website. The study population included all LQ45 companies during the period, while the sample was determined using purposive sampling based on the criteria 1) LQ45 indexed companies, not the banking sector, and 2) listed for more than one period. From 68 companies, 57 companies were obtained with a total of 154 observations.

Independent variables include return on assets, current ratio, and free cash flow, while the dependent variable is measured by price to book value. Data was collected through annual financial report documentation, including information on stock price, number of shares outstanding, total equity, assets, liabilities, net income, and cash flow. Data analysis was carried out through descriptive statistics, classical assumption tests (normality, multicollinearity, heteroscedasticity, autocorrelation), and hypothesis testing using multiple linear regression, t test, F test, and coefficient of determination (R^2) to assess the effect of independent variables on firm value (Ghozali, 2021).

4. Results and Discussion

4.1. Overview of Research Objects

The object of this research is companies included in the LQ45 Index on the Indonesia Stock Exchange during the period 2021-2024. The LQ45 Index includes 45 companies with high liquidity and large market capitalization, with membership evaluation carried out every six months. During the research period, there were 68 companies that experienced changes in membership status, and of these, 57 companies were selected as research samples.

4.2. Descriptive analysis

Descriptive analysis results are used to describe the characteristics of the research data that has been collected. This analysis presents information objectively in the form of mean, minimum, maximum, and standard deviation values, without aiming to make conclusions or predictions. Based on the variables studied, the descriptive results can be seen in Table 1.

Table 1. Descriptive analysis

Variable	Minimum	Maximum	Mean	Std. Deviation
PBV	0.21	44.86	2.92	6.16
ROA	-1.67	0.45	0.06	0.16
CR	0.18	165.44	4.57	17.47
FCF	-0.10	1.34	0.10	0.19

Source: Secondary data (2025)

Based on table 1 descriptive analysis of 154 research data, the company's price to book value (PBV) value ranges from 0.21 to 44.86 with an average of 2.92 and a standard deviation of 6.16, indicating considerable variation between companies. Return on assets (ROA) is in the range of -1.67 to 0.45 with an average of 0.06 and a standard deviation of 0.16, indicating differences in performance in asset utilization to generate profits. Current ratio (CR) has the lowest value of 0.18 and the highest of 165.44, with an average of 4.57 and a standard deviation of 17.47, reflecting variations in the company's ability to meet short-term obligations. Meanwhile, free cash flow (FCF) ranges from -0.10 to 1.34, with an average of 0.10 and a standard deviation of 0.19, indicating significant differences in free cash flow conditions between companies. Overall, these results illustrate the considerable variation in financial performance and firm value across the research sample.

4.3. Classical assumption test

In this study, the classical assumption test was conducted to ensure that the regression model met the criteria of a good estimator, including normality, heteroscedasticity, multicollinearity, and autocorrelation. The results of the normality test can be seen in Table 2.

Table 2. Normality test – Kolmogorov-Smirnov test

	Unstandardized Residual
N	154
Mean	0.000
Std. Deviation	4.089
Test Statistic	0.208
Asymp. Sig. (2-tailed)	0.001

Source: Secondary data (2025)

Based on Table 2, the results of the normality test using Kolmogorov-Smirnov show the Asymp. Sig. (2-tailed) of 0.000, which is <0.05 , so the normality assumption is not met. To overcome this, researchers applied four methods as recommended by [Hair et al. \(2019\)](#), namely winsorizing, outlier elimination, data transformation, and re-sampling using bootstrapping simulation.

Winsorising is a statistical transformation that limits extreme values to reduce the influence of outliers ([Khairunnisa et al., 2016](#)). Researchers identified extreme data through boxplots, and the extreme values were presented in table form for easy viewing and analysis. The results of the analysis are shown in Table 3.

Table 3. Extremes data (Winsoring)

Boxplot testing	Eliminated data row
1 st	76, 116, 38, 154, 114, 91, 63, 41, 71, 60, 18, 138, 99
2 nd	21, 75, 3, 31, 110, 23, 64
3 rd	30, 6, 95, 92, 63
4 th	124, 106, 1, 37, 10
5 th	16, 39, 48, 68, 80, 46, 90
6 th	93, 104, 2

Source: Secondary data (2025)

Based on table 3, extreme data have been identified through boxplots and researchers eliminated them. After elimination, normality test was conducted again, and the results are presented in Table 4.

Table 4. Normality test – Kolmogorov-Smirnov test (after Winsoring)

	Unstandardized Residual
N	114
Mean	-0.037
Std. Deviation	0.512
Test Statistic	0.122
Asymp. Sig. (2-tailed)	0.000
Monte Carlo Sig. (2-tailed)	0.061
Lower bound	0.055
Upper bound	0.067

Source: Secondary data (2025)

Based on Table 4, the result of Asymp. Sig. (2-tailed) result shows a value of 0.000, which is smaller than 0.05. However, researchers used Monte Carlo Sig. (2-tailed) to generate data, and obtained a value of 0.061, greater than 0.05 so that it passed the normality test. Next, a multicollinearity test was conducted, the results of which are presented in Table 5.

Table 5. Multicollinearity test (tolerance & VIF)

Variable	Collinearity Statistics	
	tolerance	VIF
ROA	0.87	1.14
CR	0.98	1.01
FCF	0.88	1.13

a. Dependent variable: PBV

Source: Secondary data (2025)

The multicollinearity test results in Table 5 show that all independent variables, namely return on assets (ROA), current ratio (CR), and free cash flow (FCF), have tolerance values above 0.10 and VIF

below 10. This indicates that there is no strong linear relationship between the independent variables, so the model passes the multicollinearity test. Thus, each independent variable can be analyzed separately without causing bias due to high correlation.

Next, a heteroscedasticity test was conducted, the results of which are presented in table 6.

Table 6. Heteroscedasticity test (Glejser test)

Variable	t – statistic	Sig.
ROA	0.941	0.349
CR	-0.525	0.601
FCF	0.610	0.543

a. Dependent variable: ABS_RES
Source: Secondary data (2025)

Based on the Glejser test in Table 6, all independent variables show significance values above 0.05. Thus, it can be concluded that there is no heteroscedasticity in this model. Next, an autocorrelation test is conducted, the results of which are presented in Table 7.

Table 7. Autocorrelation test (Run test)

Variable	Unstandardized Residual
<i>Number of Runs</i>	81
<i>Z</i>	0.485
<i>Asymp. Sig. (2-tailed)</i>	0.628

a. Dependent variable: RES
Source: Secondary data (2025)

Based on the results of the autocorrelation test in table 7, the significance value (Asymp. Sig. 2-tailed) is 0.628, which is greater than 0.05. This shows that the residuals are random, so it can be concluded that there is no autocorrelation in the regression model.

4.4. Multiple linear regression model

Multiple linear regression analysis was used to understand the relationship between variables and predict the effect of independent variables on the dependent variable. The results of the analysis are presented in Table 8.

Table 8. Multiple linear regression model

Model	Unstandardized Coefficients		t – statistic	Sig.
	<i>B</i>	<i>Std. Error</i>		
(Constant)	1.910	0.57	3.336	0.001
ROA	5.289	3.14	1.683	0.095
CR	-0.013	0.28	-0.480	0.632
FCF	7.298	2.70	2.699	0.008

Dependent variable: PBV_Y
Source: Secondary data (2025)

Based on the multiple linear regression table, the regression equation is $PBV = 1.910 + 5.289 X_1 - 0.013 X_2 + 7.298 X_3 + e$. The coefficient of ROA ($\beta_1 = 5.289$) is positive but not significant ($p = 0.095$), CR ($\beta_2 = -0.013$) is negative and not significant ($p = 0.632$), while FCF ($\beta_3 = 7.298$) is positive and significant ($p = 0.008$), indicating FCF has a significant effect on PBV.

4.5. Test Coefficient of Determination (R^2)

The coefficient of determination (R^2) shows the proportion of variation in the dependent variable that can be explained by the independent variable. The results of this test are presented in Table 9.

Table 9. Coefficient of determination (R^2)

Model	R	R Square	Adjusted R Square
1	0.308 ^a	0.095	0.077

Source: Secondary data (2025)

Based on Table 10, the Adjusted R^2 value is 0.077 or 7.7%, which indicates that the ROA, CR, and FCF variables together explain 7.7% of the PBV variation, while the remaining 92.3% is influenced by other variables outside this study.

4.6. F test

The F test is used to evaluate whether the independent variables collectively affect the dependent variable, as well as assess the extent to which the regression model is able to explain data variations. The F test results are presented in Table 10.

Table 10. F test

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	551.117	3	183.706	5.229	0,002 ^b
Residual	5270.042	150	35.134		
Total	5821.159	153			

Source: Secondary data (2025)

Based on the F test results, the significance value is $0.002 < 0.05$, which indicates that the regression model has a good fit.

4.7. t test (partial)

The t test is used to measure the effect of each independent variable on the dependent variable in the regression model. The t test results are presented in Table 11.

Table 11. t test

Model	B	t statistic	t Table	Sig.	Sig Accepted	Conclusion
(Constant)	1.910	3.336	-	0.001	-	-
ROA	5.289	1.683	1.976	0.095	0.05	H ₁ Rejected
CR	-0.013	-0.480	1.976	0.632	0.05	H ₂ Rejected
FCF	7.298	2.699	1.976	0.008	0.05	H ₃ Accepted

Dependent Variable: PBV

Source: Secondary data (2025)

Base on table 10, variable return on assets (ROA) shows a positive influence on price to book value (PBV) with a regression coefficient of 5.289. However, this effect is not statistically significant because the t value is 1.683 and the significance is 0.095 (>0.05). Thus, H₀ is accepted and H₁ is rejected, indicating that the company's ability to generate profits from assets has not been significantly reflected in the company's value.

The current ratio (CR) variable shows a negative effect on PBV with a coefficient of -0.013, t statistic -0.480, and significance 0.632 (>0.05). This result is not statistically significant so that H₀ is accepted and H₂ is rejected, indicating that the company's short-term liquidity does not directly affect firm value.

In contrast, the free cash flow (FCF) variable has a positive and significant effect on PBV with a coefficient of 7.298, t-statistic of 2.699, and significance of 0.008 (<0.05). H₃ is accepted and H₀ is rejected, which indicates that the company's free cash flow is an important indicator in determining the company's value.

4.8. Discussion

Based on the regression test results, the Return on Assets (ROA) variable shows a positive relationship direction towards Price to Book Value (PBV). However, the t-statistic value is smaller than the t-table, and the significance value is greater than the significance level. This indicates that the effect of ROA on PBV is positive but not significant, so the null hypothesis (H₀) is accepted, while the alternative hypothesis (H₁) is rejected. From the company's perspective, this finding indicates that although ROA increases, it does not fully reflect the company's ability to create optimal value. Ideally, ROA reflects management's effectiveness in managing total assets to generate profits, but an increase in assets is not always followed by a proportional increase in profits. This condition indicates that assets have not been utilized efficiently in the company's operations, so asset utilization strategies

need to be evaluated through optimizing production capacity, operational efficiency, and reviewing less productive assets. ROA that is not significant to PBV can be a reflection for companies to conduct internal evaluations, not just as a measure of financial performance. This finding is in line with research by Putra & Sari (2023); Sihombing (2021), which show that ROA is not always able to significantly explain changes in firm value.

The regression test results on Current ratio (CR) show a negative regression coefficient, with a t-statistic value smaller than the t-table and a significance value greater than the significance level. This indicates an insignificant negative effect of CR on PBV, so the null hypothesis (H_0) is accepted and the alternative hypothesis (H_2) is rejected. Conceptually, the current ratio reflects the company's ability to meet short-term liabilities using current assets, but this result shows that short-term liquidity has not contributed significantly to the company's market value. Excessive focus on liquidity may not affect market perception, as CR only reflects short-term efficiency without showing the effectiveness of asset utilization to generate long-term profits. This research is consistent with the findings of Afinindy et al. (2021); Anggraini (2020); Maryana & Nurhayati (2022); Putra & Sari (2023); Santoso & Junaeni (2022), who concluded that CR has an insignificant negative effect on firm value. Thus, companies need to balance liquidity management with efforts to increase profitability and asset efficiency in order to create more optimal company value.

In contrast, the Free Cash Flow (FCF) variable has a positive regression coefficient, with a t-statistic value greater than the t-table and a significance value smaller than the significance level, indicating a positive and significant effect on PBV. The null hypothesis (H_0) is rejected and the alternative hypothesis (H_3) is accepted. Theoretically, high free cash flow increases the company's ability to finance operational activities, fulfil obligations, and fund productive investments, thereby strengthening its financial position and providing long-term strategic flexibility. This finding is in line with signaling theory, which states that high FCF reflects healthy financial performance and strong growth potential, making the company more stable and competitive in the market (Rengganis et al., 2023). According to Arifin & Sudiyatno (2023), high FCF allows companies to pay off debt, pay dividends, and fund expansion without relying on external sources of funds, providing flexibility for management in increasing company value in a sustainable manner. This finding is also supported by the research of Azizah & Dillak (2019); Rengganis et al. (2023); Yuliana (2020), which concluded that FCF has a significant positive effect on firm value. Thus, free cash flow is an important factor in creating firm value as measured by price to book value.

The effect of Return on Assets (ROA) on Company Value shows that Return on Assets (ROA) has a positive but insignificant effect on company value. Based on Signaling Theory, information about profitability conveyed through financial statements is a signal for investors in assessing the company's prospects. However, these signals will only be responded positively if they are able to reflect the company's ability to create value in a sustainable manner. Thus, an increase in ROA is not necessarily followed by an increase in company value if investors consider that the profits generated do not reflect the company's overall growth prospects.

The effect of Current Ratio (CR) on Company Value shows that Current Ratio (CR) has a negative but not significant effect on company value. Based on Signaling Theory, information about liquidity is not always a strong signal for investors if it is not followed by the company's ability to create profits and growth in the future. A current ratio that is too high can even indicate that some current assets have not been utilized productively so that they do not provide added value for the company. Therefore, investors tend to pay more attention to the efficiency of resource management than just the company's ability to meet short-term obligations (Firm's Value: Governance, Risk Management, Compliance and Profitability, 2024).

The Effect of Free Cash Flow (FCF) on Company Value shows that Free Cash Flow (FCF) has a positive and significant effect on company value. Based on Signaling Theory, free cash flow is a signal that shows a company's ability to generate cash after meeting operational and investment needs. This information gives investors confidence that the company has the financial flexibility to finance expansion, pay dividends, and fulfill financial obligations so that it can increase the company's value. Therefore, the higher the free cash flow that a company has, the more positive the investor response to the company will be.

The Simultaneous Effect of ROA, CR, and FCF on Company Value shows that Return on Assets (ROA), Current Ratio (CR), and Free Cash Flow (FCF) simultaneously have a significant effect on

company value. This shows that investors do not only consider one financial ratio, but evaluate all financial information in an integrated manner in assessing the condition and prospects of the company. According to Bafera and Kleinert (2023), the various financial information published by the company will be a signal for investors in shaping investment decisions, so that the combination of profitability, liquidity, and free cash flow together can affect the value of the company.

5. Conclusion

Based on the results of research on the effect of Return on Assets (ROA), Current Ratio (CR), and Free Cash Flow (FCF) on firm value in LQ45 companies, it can be concluded that ROA has a positive but insignificant effect on firm value, indicating that the company's ability to generate profits from total assets has not been substantially reflected in market value. Current ratio has a negative and insignificant effect, which indicates that a high level of short-term liquidity has not directly increased the company's value. In contrast, FCF has a positive and significant effect on firm value, confirming that free cash flow is an important indicator that reflects a firm's financial flexibility and ability to support sustainable growth.

The results of this study have practical and managerial implications, namely company management needs to priorities managing free cash flow strategically, including optimizing investments that generate high returns, to increase the value of the company in the eyes of investors and stakeholders. ROA and CR need to be considered in the context of asset efficiency and working capital management so that their contribution to firm value is more optimal. Theoretically, this study confirms the importance of FCF as a fundamental variable in the assessment of firm value, while ROA and CR provide additional information that supports strategic decisions.

Some of the limitations in this study are that not all companies that are members of the LQ45 Index have complete data according to the needs of the research, so the number of samples that can be analyzed is limited. There are differences in the presentation of information in the financial statements of several companies that require adjustments during data processing, and this study only uses quantitative data from financial statements so that it is not able to describe non-financial factors that may also affect the value of the company.

Based on these findings, the suggestion for company management is to improve the efficiency of using cash flow by prioritizing productive investments and financial strategies that strengthen the company's long-term position. For future research, it is recommended to add other independent variables such as capital structure, company size, or external factors such as macroeconomic conditions, and expand the research object not only limited to LQ45 companies so that the results are more comprehensive and wider generalization.

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