



MODERATING VARIABLE AT FINANCIAL RATIOS : EVIDENCE FROM INDONESIA

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ABSTRACT

*This research aims to examine the impact of accounting information by internal growth rate (IGR) company and the sustainability of the growth rate (SGR) companies using some variable financial ratios include EPS, ROE, ROI, and ROS in PT H.M Sampoerna Tbk, the financial statements for the year ended on December 31, 1998 until December 31, 2012. To measure the impact of the financial ratios on the SGR and IGR authors use variable regression analysis was moderate, with IGR and the dependent variable as SGR and EPS, ROI, ROE, ROS as variables, as well as EPS In depend * ROI * ROE * ROS * IGR as the moderate variable. From the research that has been done can be inferred that the variable value adjusted IGR provide R^2 of 99% and the variable SGR provides value amounted to 58%, this means it can be explained by variation in the independent variables of EPS, ROI, ROE and ROS, while the remainder (100%-90%= 1%) and (100%-58% = 42%) explained by causes other than the causal model.*

Key Words: financial ratio, EPS, ROI, ROE, IGR, SGR.

JEL Classification: G20, C58, C36

1. INTRODUCTION

In Healy, Palepu & Bernard, 2004 explained that the financial reports of a company provide an information that can describe the condition of the company at a time when the financial reports published. There are several factors that may affect the conditions of a financial statement, the first factor is, how the main activity of a company and the second factor is the company's accounting systems applied by the company itself. A lot of research regarding how meaningful an information good financial reports financial reports are published on an annual basis or commonly called as the interim report. In a study conducted by Lev Trigrajan, 1993 and Abarbanell & Bushee, 1998 describes the existence of research related to the study of accounting information in predicting financial performance of a company in the future, such as



the determination of profit and growth rates of the company, or in other research that assesses the impact of the application of an accounting method against the stock price.

In a study conducted by Ohlson 1980 concerning the use of financial ratio analysis can help an investor or lender in making investment decisions and can do the prediction performance of the company in the future at some companies, it can also give a yellow light and warning about the existence of a deceleration process of the financial condition of a company.

In his Ross, Westerfield, Jordan & 2006, and in some research done by Johnson et al 2003; Hobarth, 2006 as well as in Daniati & Suhairi, 2006; Sussanto & Ekawati, 2006; Meythi, 2006 do an investigation about the study that looked at how the relationship between the occurrence of financial reporting information and stock returns by using five categories of commonly used financial ratios, including in terms of or concerns the level of profitability, long-term solvency level/degree of leverage, short-run solvency level/level of liquidity, the utilization rate of the top asset turnover, and users/market value. By using several model variables and using two additional variables from previous research; The size of the variables used, derived from the total company assets, and cash flow from operations is very often in the set of variables in the study.

In a study conducted by Johnson et al 2003, using the financial statements of the company for the time lapse 478 financial reporting 1982-1998 gives the conclusion that the size of a company and his favor a large company with high advertising spending has better performance in terms of the three measurements. In research lainnya by Hobarth (2006) using the model of the correlation between financial indicators and company performance of the companies listed in the United States for a period of 19 years, using 17 indicators of financial ratios and three financial ratio variable in measuring the performance of the company, namely the performance measured using market level change in market value of the company it self, then the cash flow performance or dividends per share have been distributed, as well as the use of the variable profitability (ROI) in performance measurement company. From the research that has been done by Hobart gives a conclusion that companies that have low book value for the ratio of the market, the use of efficient working capital management, lower liquidity, as well as the values of equity and liabilities less adequate, as well as companies that have profits on hold, tend to have a high ROI profitability. The companies that get the results of the audit opinion of the financial statements with an unqualified opinion from the auditor, usually in their financial reports have more liabilities and equity or a little less, then it will have total assets of low and profit withheld as well as having a cash flow performance is better because the company is measured with the model of granting cash dividend. As with other companies that have low book value for the ratio



of the market, will usually have the working capital management more efficient, and have a little more equity and the value of the obligation is also less, and has a total value of assets that are low and yields a higher EBIT margin, will have a better market performance, it was measured by the occurrence of the change in the price of the shares of the company are examined.

In a study conducted by Daniat and Suhairi (2006), provide information about the existence of the application of accounting in predicting returns of stock levels, where such research is conducted in Indonesia. The research gives a conclusion that the company's cash flow from investment activity, gross profit, as well as the variable size of the companies that use significantly affect other variables in terms of the application of the stock value. But in other respects, the company's cash flow from operating activities as mentioned, does not affect the expected results significantly. In other research conducted by Meythi (2006), research using a sample of 100 manufacturing companies listed on the JSE's financial reporting during the period from 1992 to 2002, provide a conclusion that, companies that have or benefit which is used as an intervening variable, explaining that the cash flow from operating activities do not affect the stock price. However, in a study conducted by Hamza in the year (2007), using the analysis of the relationship between financial ratios such as liquidity ratios include several Current ratio, ROI, Total Assets Turnover, and Debt to equity ratio, provided a sample of companies taken experience gain (loss) and the dividend payment. The study took a sample of 135 manufacturing companies listed on the Jakarta Stock Exchange. From the research that has been done to find that all the financial ratios used in the study, have a positive correlation with the capital gain (loss). However, only the ratio is now statistically significant ($\alpha = 5\%$).

In other research conducted by Dwi Martani, Malone, Ratfink Khairurizka (2009), looking at the impact of the effect of financial ratio, the size of the company, as well as cash flow from operating activities in the interim reports against the Return of shares. The research using a sample of 39 manufacturing companies listed on the Indonesia stock exchange. From the research that has been carried out provide a conclusion that the level of profitability, turnover ratio and market companies have significant influence towards the return of shares.

Research conducted by the author at this time will be arranged as follows. In the next part will contain a review of the literature and is followed by a research methodology. The fourth part discusses the results of research, and at the later part contains conclusions about research that has been done.



2. REVIEW OF THE LITERATURE

One of the main goals is to get a business activity or obtain profitability.

The main goal of a company is basically looking for profits, and make the existing companies can develop and operate properly, create value for especially for its owners or shareholders. One of the company's main mechanism for doing it is to get as much money as possible. After the advantages stated there in, and there are basically two things companies can do it:

1. declare that all or part of the balance of profit belonging to increase shareholder value through the value of the stock or equity owners on the balance sheet.
2. the distribution of all or any portion of the company's revenue to the owner (shareholder) in the form of dividends granting either directly or in any other form.

A metric for measuring the profitability of a company usually has a size of the ability to get it, therefore the subject of interest of owners or investors that have shares in the company or on potential investors. Parties in this Company should get more than they expect. In order to achieve as well as making the company to keep it afloat, and can live to compete and grow in need some reason reasons, one of which is the level of profit and profitability metrics, as well as getting high interest income for the company's directors, management, employees and competitors.

The metric of profitability it has some purpose.

The company's profitability metrics can be calculated based on each time the processor reporting period the financial statements of the company are published. Metric to compare the profitability of the company may be made by means of the analysis step is illustrated here with an industry standard "best competitors". Step analysis can be considered not only with metrics that exist today, but also for the periods trends in metrics in advance. With each reporting period, in addition, the management company will focus attention on profitability metrics — especially to three ratio margin gross profit margin, including margin and operating profit margin of ata on gains on sales. Profit or margin levels in can be very important to measure the performance of the management of a company, because the center of the margin is to know the business model of a company. Margin level in the business model that's expected to show exactly where the company can make money as well as to make money. With a profit margin, described later how good the company achieved its goal of a business plan.



The level of Profits and margins

In terms of net income is one of the "Bottom line", or the net profit on the sale of the company's financial performance is measured for a period in the study, but the income statement about it also contains other performance metrics. There is the one that becomes the difference between the net sales revenue and cost of goods sold commonly called by the name of gross profit, i.e. the existence of recognition of profit from operating activities activities or in brief profit before tax, or before the gains and losses from financial items, or also called the extraordinary income — called operating income (or operating profit).

If we conclude there are three lines of income statement advantage i.e. gross profit, operating profit and net income, which can also be expressed as a percentage of net sales, namely as the margin. Gross margin is considered as an example of a financial ratio whereby gross profit divided by net sales.

A. Gross margin/gross profit

Understanding Gross profit is a term used in accounting for the comparison between net sales reduced by the costs directly produce goods and services. Gross margin is the ratio in the form of gross profit divided by net sales, this ratio is usually expressed in the form of a percentage. While the gross margin is the profit levels reported before the reduced indirect costs and administration as well as the public in one cycle of business activities conducted by the company.

Gross margin ratio is calculated from the income figures, which showed the company's gross margin for the period, management will also of course interested in gross margin for the product lines of every product and service that exists within the company. Calculate gross margin of individual products requires information that is not usually available in the financial statements of the public report: product sales, revenue from individual and direct costs of individual products.

B. Operating margin/operating profit

Operating profit could be construed that the revenue Receipt after lower costs for the company's business operations are normal, but earlier in the tax-on in come wear in the financial



contribution income, financial costs, extraordinary items, and tax. Usually expressed as a percentage of net sales benefits operating income is referred to as operating margin.

Analysts will often compare the company's operating profit margin with margin net profit on the sale, especially after the period when the company is experiencing significant results or losses classified as "exceptional." The company must reduce employee any headcount substantially, for example, will usually cost you the extraordinary magnitude for this action (for a severance package, out placement expenses, and other costs that are not in the know by employees). Exceptional costs issued too large will have an impact on sales profit margin level ("bottom line"), but will not affect the operating profit margin. This is possible in such cases to show a positive operating profit, but a net loss to net profit "bottom line".

C. The amount of the sales profit/profit margin

Ordinary net income or net profit on the sale of so-called, or "bottom line" is profit after income taxes pertaining to normal, after income and goods after the weights, this spider in a matter after financial income are taken into account. Net profit will increase the value of the owner of the company by adding an item of income, or in other words to shareholders as a dividend. Net income expressed as a percentage of net sales or revenues in the company's profit margin is considered.

D. Return on total assets (roa)

Return on total assets, or back over the Assets (ROA) is one of the metrics of financial ratios that are some times also called "Return on Investment" (ROI). For the company this ROI is not a problem with cash flow return on investment, or ROI is simple by comparing the investment costs or regular re-investment called for action of plant number of capital that has been done.

Back up of assets is one of the indicators of "what the company earns" with "what he has to run the effort, at least for the reporting period only analyzed. Generally, the higher the results of ROA a corporation, tends to be preferred. Not surprisingly, if in the company's asset-intensive industries (e.g., transportation, construction, manufacturing or heavy) tend to have low ROA figures, while companies in the industry that does not require such as ROI as an asset base (maybe financially or consultation) usually have a model model ROA is much higher.



ROA is calculated of course refers to a specific reporting period, from which the input data for the "back" (profit or margin) is taken. Analysts and investors evaluate figures ROA, will compare the company to the extent of ROA standar ROA for certain industries, and they will also pay attention to the changes for years in the company of the ROA is not as they desire.

E. Return on equity (roe) return on investment/owner/

Some analysts and investors consider the return on equity (ROE) of the most important levels of profitability metrics, because comparing the company's profit or return directly to the equity value of the company, if the company has relations directly (that is, net income compared to what shareholders own/owner directly). EPS reflects the other name used for shareholders' equity, ROE, also known as the return on investment of owners or back over the net worth of the owners on investment that the has done.

Two approaches to computing ROE are commonly used:

- Some analysts and investors prefer to calculate ROE using the total equity of the balance sheet and income statement of earnings. This approach is in the below described as "simple ROE"
- Yet another thing, many analysts choose to delete the contributions of share dividends on stock options and equity options from the calculation. This is because the owners of stock options over shares in the owner of the have priority dividend payment and payment in liquidation. Ownership option thus represents funds that do not and will not be available for owners of common stock. This approach to the repayment of the capital are described below as a return on common equity.

ROE return on equity and the public View of just how the company's revenue compared to investment owners (shareholders' investment), while ROA (previous section) shows how earnings compare investment total investment assets plus owners made with borrowed funds. Because income (profit) came from the owner of the investment (equity) and the assets funded by lenders (liabilities), sensitive metrics to improve ROE effect, while ROA was much more sensitive to leverage (ROA based on figures total assets and pay no attention to the source of funding of assets).

F. Earnings per share

Earnings per share (EPS) was seen by some analysts and investors as the most important metric of profitability, while others pointing back at equity (previous section) as the "most important." In any case, EPS directly shows the returns (income, or profits) delivered by the company for



any out standing shares of common stock. Note that the EPS "E" to the equally important assessment metrics, the price/earnings ratio (or p/e).

Note that the EPS was published and online reports often give labels the term EPS (TTM), which is only an indicator that the number refers to the "Trailing twelve month" (the previous twelve months). Earnings per share was always referring to earnings per share of outstanding common stock. Stock options are excluded from the calculation for the same reason that shareholders equity options are some times excluded from calculations of ROE (previous section): the stock option owner has priority has common stock in the payment of dividends and payments in liquidation. Ownership option thus represents funds that do not and will not be available for owners of common stock. To complete the exception of wide selection of impact on EPS, metric figure income in the calculation of EPS is a net gain which is less preferred stock dividends. Investors and prospective investors get a rough picture of what they can expect from the company in terms of dividends taking into account the earnings per share (EPS) figures, along with the company's dividend payment history. Also, as one of the components of the two metrics, assessment ratio price earnings, EPS played a key role in showing how much confidence investors have in the future growth of the company's revenue. P/E ratio is high indicate high confidence in earnings growth in the future. Near the end of each accounting period, before the financial results were announced, analysts predict the EPS to public companies (sometimes the company it self also set expectations for EPS). When the results of the actual EPS, it EPS value which is expected to fail, but it could be just the share price is likely to decline.

3. HYPOTHESIS AND RESERACH METHOD

This paper will discuss that with the use of regression will moderate in the get better results. The hypothesis made the author in this study are as follows:

HI: IGR effect on EPS, ROI, ROE, ROS and moderate

HI: SGR effect on EPS, ROI, ROE, ROS and moderate

3.1 Time Research and Research Model

Research conducted by the author at the time of October 2013-February 2014. After reviewing and assessing some of the companies as well as the shape of the model equation is there, then the author forms a research model with multiple variables that are considered necessary and important.



The equation and variables used for the study are given below:

$$IGR = \beta\alpha + \beta_1 EPS + \beta_2 ROE + \beta_3 ROI + \beta_4 ROS + \beta_5 MODERATVARIABLE$$

$$SGR = \beta\alpha + \beta_1 EPS + \beta_2 ROE + \beta_3 ROI + \beta_4 ROS + \beta_5 MODERATVARIABLE$$

The dependent variable is Earnings per Share, while independent variables are: IGR, SGR, EPS, ROE, ROI, ROS, Moderate Variable.

Table 1 Variables description

Category	Symbol	Description	Hypothesis
Internal Growth Rate	IGR	Internal Growth Rate	Dependent
Sustainable Growth Rate	SGR	Sustainable Growth Rate	Independent
Earnings Per Share	EPS	Earnings per share	Independent
Return on Equity	ROE	Return on equity	Independent
Return On Investment	ROI	Return On Investment	Independent
Return on Sales	ROS		Independent
Moderating Var. IGR	EPS*ROE*ROI*ROS*IGR	IGR	Moderating
Moderating Var. SGR	EPS*ROE*ROI*ROS*SGR	SGR	Moderating

Notes: IGR=Internal Growth rate; SGR=Sustainable Growth Rate; EPS=Earnings Per Share; ROE = Return on equity; ROI=Return on Investment; ROS=Return on Sales

3.2 Research sample

The research of using primary data from the financial statements of PT H.M Sampoerna Tbk to finance report ended in 1998-2011, issued by the company and listed on the Indonesia stock exchange formerly Jakarta Stock Exchange. In addition, other sources such as textbooks, newspapers, and journals are also utilized to review the theoretical framework of the study. Author consider that PT H. M Sampoerna Tbk has long standing and listed on the stock



exchange and also often have long distributed a dividend over share.

4. RESULTS

Descriptive statistics of each variable in this study are shown in the table below. It can be seen from the descriptive statistics that the value for the ratio of the IGR, SGR, EPS, ROI, ROE and ROS company fluctuates from one year to another. The maximum value of net income earning per share and for the other ratios we can see on the chart below, while the minimum value can also have a look at the table below.

Table. 2 Result Descriptive statistics

	IGR	SGR	EPS	ROE	ROI	ROS
Mean	0.285818	-1.022968	0.086395	40.03464	20.07303	0.114940
Median	0.278081	-1.021086	0.176668	45.60907	21.75770	0.124596
Maximum	0.713828	-0.982190	0.803829	78.14534	41.65110	0.262083
Minimum	-0.164318	-1.045541	-0.485151	-55.14822	-19.66272	-0.141821
Std. Dev.	0.212991	0.015955	0.328038	31.63846	14.42817	0.082341
Skewness	0.077503	0.684330	-0.111629	-1.766859	-1.162785	-1.809277
Kurtosis	3.244641	4.085766	3.336230	6.594660	5.024054	8.030586
Jarque-Bera	0.052422	1.907575	0.101809	15.88046	5.940670	24.00046
Probability	0.974129	0.385279	0.950369	0.000356	0.051286	0.000006
Sum	4.287268	-15.34451	1.295932	600.5197	301.0954	1.724101
Sum Sq. Dev.	0.635115	0.003564	1.506527	14013.89	2914.408	0.094920
Observations	15	15	15	15	15	15

**Source proceed by author*

The table above shows that there is an impact of some variables used as IGR, SGR, EPS, ROI, ROE and ROS. Each to the value of the average financial ratios is 0.2858, -1.02296, 40.4346,,



0.0863 20.073 and 0.1149. For a maximum value of -0.713828, -0.9821, 0.8038, 78.1453, 41.6511 and 0.2620. A significant portion of the probability level and some not.

As evidenced by the table above ROE (Return on equity), have a significant probability. When a higher ROE pointed out that companies can get a higher return over equity shareholders. A higher ROE also showed higher efficiency in spending the money invested by the shareholders in order to obtain profit growth. Therefore, it can be concluded that investors will pay attention to the ROE.

Here we see for the regression model for the first moderate:

Table. 3 Result regression for IGR With Moderating Variable

Dependent Variable: SGR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.022760	0.013668	-1.665218	0.1302
EPS	0.049883	0.031018	1.608198	0.1423
ROE	-0.001777	0.001091	-1.628881	0.1378
ROI	0.011779	0.003259	3.614418	0.0056
ROS	0.852960	0.312676	2.727940	0.0233
MODERAT	-0.002887	0.000545	-5.296815	0.0005
R-squared	0.993961	Mean dependent var	0.285818	
Adjusted R-squared	0.990607	S.D. dependent var	0.212991	
S.E. of regression	0.020643	Akaike info criterion	-4.633699	
Sum squared resid	0.003835	Schwarz criterion	-4.350479	
Log likelihood	40.75274	Hannan-Quinn criter.	-4.636716	
F-statistic	296.2803	Durbin-Watson stat	1.483363	
Prob(F-statistic)	0.000000			

Based on results of output the table above gives the value of the adjusted R^2 of 0.99, this means 99% of the variation of the value of the variable in the IGR described by variables of EPS, ROI, ROE, ROS and moderate. While the rest (100%-99% = 1%) in the described because of other reasons outside the model. Here we see the regression results to put out the second moderate:



Table. 4 Result regression for SGR With Moderating Variable

Dependent Variable: SGR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.033986	0.006768	-152.7781	0.0000
EPS	0.055184	0.015359	3.592829	0.0058
ROE	-2.69E-05	0.000540	-0.049875	0.9613
ROI	-0.001666	0.001614	-1.032509	0.3288
ROS	0.303248	0.154829	1.958603	0.0818
MODERAT	-0.000418	0.000270	-1.547036	0.1563
R-squared	0.736148	Mean dependent var	-1.022968	
Adjusted R-squared	0.589564	S.D. dependent var	0.015955	
S.E. of regression	0.010222	Akaike info criterion	-6.039392	
Sum squared resid	0.000940	Schwarz criterion	-5.756172	
Log likelihood	51.29544	Hannan-Quinn criter.	-6.042409	
F-statistic	5.022014	Durbin-Watson stat	0.809734	
Prob(F-statistic)	0.017904			

*Source proceed by author

Based on results of out put on the table the SGR above provide value adjusted R^2 of 0.73, this means 45.7% variation of the value of SGR in variable variables explain by EPS, ROI, ROE, ROS and moderate. While the rest ($100\% - 70\% = 27\%$) in the described because of other reasons outside the model.

Investors/shareholders consider current profit, profit in the future, and stability are important, so they focus their analysis against the profitability of the company. Their concern about financial conditions that will affect the company's ability to pay dividends and avoid bankruptcy (Horne, 2002).

5. CONCLUSION

Based on the results of the regression, it can be concluded that the financial ratios, ROE, ROI, ROS and moderate altogether almost affect earning IGR and SGR.



The consistent variables significantly to earnings per share is the ratio against the previous (ROS). This shows that from the point of view of the investor's financial ratios that are used in decision-making to see growth above revenue.

This research also led that movement earning per share affected many factors other than the financial performance of the company. Of all the models used in this study, the highest R² reached 99%. This shows that there is other information in addition to the fundamental factors that also affect the movement of the returns of the company. Within a certain period, changes to return the shares does not reflect the financial performance of the company. Macro-economic conditions in Indonesia, the political situation in Indonesia, the Government's industrial policy in Indonesia, and technical aspects in the company are factors other than financial performance which may affect change in return shares.

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