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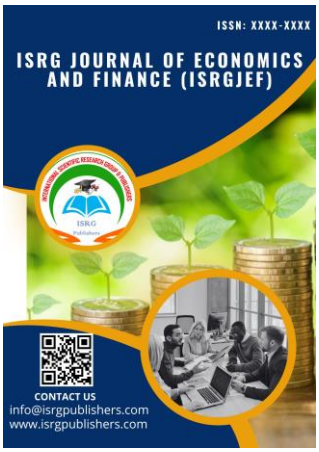

THE MODERATION EFFECT OF FREE CASH FLOW ON THE INFLUENCE OF FINANCIAL PERFORMANCE ON STOCK PRICES OF LQ -45 INDEX COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE PERIOD 2018-2022

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Abstract

This article investigates the impact of free cash flow (FCF) on the relationship between financial performance and stock prices in companies listed on the LQ45 Index of the Indonesia Stock Exchange for the period 2018-2022. The research method used is causal associative research with a quantitative approach. The research sample consists of 15 companies selected using purposive sampling technique. The variables studied include Current Ratio (CR), Debt to Equity Ratio (DER), Return On Equity (ROE), and stock prices, with FCF as a moderating variable. Data analysis was performed using multiple linear regression and Moderated Regression Analysis (MRA). The results show that CR and DER do not significantly affect stock prices, while ROE has a positive and significant effect. FCF does not moderate the effect of CR and ROE on stock prices but does moderate the effect of DER on stock prices. This study underscores the importance of considering moderating factors such as FCF in analyzing the relationship between financial performance and stock prices.

Key Words: Free Cash Flow, Financial Performance, Share Prices

INTRODUCTION

The relationship between financial performance and share price is an important aspect in evaluating the value and attractiveness of a company for investors. Several studies have investigated this relationship, explaining the various factors that influence stock prices. One of the key factors that can moderate the relationship between financial performance and stock prices is the level of free cash flow within the company. Free cash flow, which represents the cash a company generates after accounting for capital expenditures, can influence how financial performance is translated into share price movements (Jianu & Jianu, 2018).

The influence of free cash flow (FCF) on the relationship between financial performance and stock prices is diverse and influenced by various factors. Studies show that FCF generally has a positive impact on financial performance, which in turn can increase stock prices. For example, research on Nigerian commercial banks shows that FCF positively influences share prices, indicating that efficient utilization of FCF can lead to better financial results and increased investor confidence (Rotimi et al., 2022) (Absari, 2022). However, this relationship is not easy, because other financial performance indicators such as economic value added and net interest margin can have a negative effect on stock prices (Komal et al., 2022).

Firm characteristics such as size and age may moderate this relationship, with larger and older firms potentially experiencing a reduced positive effect of FCF on financial performance. In the context of the Indonesian market, earnings per share (EPS) has been identified as a significant moderating variable that can enhance the positive impact of financial performance on share prices, suggesting that higher EPS can amplify the benefits of strong financial performance driven by FCF (Ochieng et al. , 2017). Additionally, corporate governance plays an important role in this dynamic. Good corporate governance can moderate the relationship between FCF and company value, although its effectiveness varies in various contexts and is not always significant (Waly et al., 2021)(Dzulfikar & Firmansyah, 2022). The presence of independent commissioners can also strengthen the negative effect of FCF on revenue management, thereby potentially increasing financial transparency and performance (Purnawarman et al., 2020). Thus, FCF generally supports better financial performance and higher share prices, the degree of impact is moderated by the company's specific characteristics, governance structure, and other financial indicators, (Dewi & Priyadi, 2016) (Purnawarman & Handayati, 2021).

Several studies show that free cash flow does not significantly affect company value directly, but can still play a role in financial performance by providing the liquidity needed for investments and operations, which can indirectly influence share prices (Sunrowiyati et al., 2019) (Waly et al., 2021). In addition, the interaction between free cash flow and financial performance can be influenced by other factors such as dividend policy, which can weaken the positive effect of profitability on cash holdings, thereby affecting the overall financial health and share price of the company (Suhadak et al., 2019) . Thus, free cash flow does not directly moderate the effect of financial performance on stock prices, but contributes to the financial ecosystem which ultimately influences stock prices through various direct and indirect channels (Absari, 2022) (Satryo et al., 2017) (Taristy et al., 2023) .

Research by Permata (2022) highlights a contrasting view where high levels of free cash flow can actually have a negative impact on share prices. This perspective stems from the notion that excessive free cash flow can tempt management to engage in activities that do not necessarily benefit shareholders, leading to a decline in firm value. These findings underscore the importance of considering the nuances of free cash flow dynamics when analyzing its moderating effect on the relationship between financial performance and stock prices. A study by Yuliana et al., (2022) which studied the impact of free cash flow on share repurchase policies, revealed a negative relationship between free cash flow and share repurchase decisions. This explains how companies with sufficient free cash flow can choose alternative strategies instead of using it to increase shareholder value through share repurchases. These insights emphasize the complex interactions between free cash flow and stock-related decisions within a company.

Furthermore, a study by Atmaz & Basak (2018) explores the spread of confidence in the stock market, emphasizing the role of cash flow news in influencing stock prices. The findings suggest that positive cash flow news can cause an additional boost in stock prices driven by high optimism. This highlights how perceptions and expectations regarding cash flow performance can influence share price movements, further underscoring the complex relationship between financial indicators and market valuation.

In this context, the influence of financial ratios such as the Current Ratio (CR), Debt to Equity Ratio (DER), and Return on Equity (ROE) on the stock prices of LQ-45 index companies has been studied extensively, with mixed results. CR has been found to have a positive and significant effect on stock prices in several studies, indicating that higher liquidity can lead to higher stock prices (Prasetya & Fitra, 2022). However, other research shows that CR has an insignificant effect on stock returns, implying that liquidity alone may not be a strong predictor of stock performance (Hutauruk et al., 2022). The impact of DER on share prices is also debated; while some studies show a positive and significant effect, indicating that higher leverage can increase stock returns (Syahputri et al., 2022), others find a negative or insignificant relationship, indicating that increasing debt may not always be beneficial for stock prices (Hasanudin , 2022) (Nainggolan et al., 2021). ROE generally shows a positive impact on stock returns, as higher profitability often attracts investors (Faujiah & Nursito, 2022). However, the moderating effect of Free Cash Flow (FCF) on this relationship is less explored. FCF has the potential to amplify the positive effects of CR and ROE on stock prices by providing additional liquidity and financial stability, making the company more attractive to investors. Conversely, high FCF can reduce the negative impact of DER by indicating that the company can easily meet its debt, thereby reducing financial risk. Research has shown that other moderating variables such as PER can strengthen the relationship between financial ratios and stock prices, suggesting that FCF can play a similar role (Fatonah et al., 2022)

Research Problems

"How does free cash flow (FCF) influence the relationship between financial performance and share prices in companies listed on the LQ-45 Index of the Indonesia Stock Exchange for the 2018-2022 period.

LITERATURE REVIEW

Financial performance.

Financial performance refers to how effectively and efficiently a company uses its assets to generate income and profits. This concept covers various aspects of a company's operations,

including the company's ability to generate profits, manage debt, and maintain liquidity. Financial performance measurement usually involves analysis of financial reports such as balance sheets, profit and loss statements, and cash flow statements. Financial performance can be defined as the final result of various operational, investment and funding activities of a company which are measured in the form of certain financial indicators. These indicators can include financial ratios, profit margins, return on investment (ROI), return on equity (ROE), and various other measures that reflect a company's profitability, solvency, and liquidity.

Stock price.
The share price is the value required to buy one unit of company shares traded on the stock exchange. This price reflects the market value of a company's equity and is determined by the forces of supply and demand in the stock market. Stock prices are influenced by various factors, including company performance, macroeconomic conditions, industry trends, and market sentiment. In general, share prices are considered an indicator of a company's performance and investors' perceptions of its future prospects.

Free Cash Flow (Free Cash Flow).
Free Cash Flow (FCF) is a measure of cash generated by a company after taking into account capital expenditures required to maintain or expand its operational assets. FCF is an important indicator for investors and management because it shows the company's ability to generate net cash that can be used for various purposes, such as paying debt, distributing dividends, buying back shares, or making further investments.

Current Ratio.
Liquidity is most commonly used to measure a company's ability to meet its short-term obligations with the current assets it owns. This ratio shows how much current assets the company has compared to the current liabilities that must be paid in the near future. In other words, the Current Ratio provides an overview of the health of a company's liquidity and its ability to avoid financial problems in the short term.

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Debt to Equity Ratio.
Debt to Equity Ratio (DER) is a financial ratio used to measure the extent to which a company uses debt to finance its assets compared to equity. This ratio provides an overview of the company's capital structure and how much the company relies on debt as a source of funding. DER is one of the main indicators used by investors, financial analysts and creditors to assess financial risk and company stability

Return on Equity.
Return on Equity (ROE) is one of the most important and widely used financial ratios to assess a company's profitability relative to shareholder equity. ROE measures how effectively a company uses capital invested by shareholders to generate profits. This ratio provides an overview of the company management's ability to manage capital to generate adequate profits for shareholders.

Moderating Effects.
The moderation effect in statistical analysis is a concept that refers to the influence of a third variable (moderator variable) which can strengthen or weaken the relationship between the independent variable (predictor) and the dependent variable (outcome). In other words, a moderation effect occurs when the strength or direction of the relationship between two variables changes depending on the level or value of the moderator variable.

Moderated Regression Analysis (MRA).
Moderated Regression Analysis (MRA) is a statistical technique used to test moderation effects, namely the effect of a third variable called a moderator on the relationship between the independent variable (predictor) and the dependent variable (outcome). MRA is used to determine whether the relationship between independent and dependent variables changes at different levels of the moderator variable. In this context, a moderator is a variable that influences the strength or direction of the relationship between the independent and dependent variables.

LQ-45 index.
LQ-45 index.
The LQ-45 index is one of the stock market indices on the Indonesia Stock Exchange (BEI) which consists of 45 companies with high liquidity and market capitalization. This index is designed to provide an overview of the performance of the most liquid shares on the Indonesian stock market.

The LQ-45 index consists of 45 company shares selected based on certain criteria such as liquidity and market capitalization. The main criteria for including shares in this index include: being included in the 60 companies with the highest market capitalization over the last 12 months, being included in the 60 companies with the highest transaction value over the last 12 months, having been listed on the Indonesia Stock Exchange for at least three months, having a financial condition , future prospects, and good company management. The composition of the LQ-45 Index is evaluated and adjusted twice a year, in February and August, to ensure that only stocks that meet the criteria are included in this index.

RESEARCH METHODS

Population, Sample, and Sampling Techniques.
The type of research used in the research is associative causal research (cause and effect) using a quantitative approach. According to Sugiyono (2016) causal associative research is research that aims to determine the relationship between two or more variables, namely between the independent variable and the dependent variable. A quantitative approach is used because the data that will be used to analyze the influence between variables is expressed in numbers and the analysis uses statistics.

This research aims to determine the causal relationship between the independent variables, namely the liquidity ratio with the Current Ratio (CR) proxy, the leverage ratio with the Debt to Equity Ratio

(DER) proxy, and the profitability ratio with the Return On Equity (ROE) proxy for the dependent variable, namely price. shares (closing price) and free cash flow (FCF) as moderating variables.

The population used in this research is all companies on the LQ45 Index listed on the Indonesia Stock Exchange (BEI) with a research period of 5 years, namely from 2018 to 2022, totaling 45 companies. In this research, the population selected as the sample was determined using a non-probability sampling technique, namely purposive sampling, which is sampling based on certain conditions or criteria.

Based on the sampling criteria determined through a purposive sampling technique, 15 companies in the LQ45 Index were selected that met the criteria that could be used as samples in the research.

Research Variables

In this research, the dependent variable is the stock price of LQ45 Index companies for 2018-2022 which is denoted by Y. Meanwhile, the independent variable (X) is the liquidity ratio (Current Ratio) which is proxied by comparing current assets to current liabilities. This proxy is expressed in percentage with the formula: (current assets : current liabilities)×100%; leverage ratio (Debt to Equity Ratio) which is proxied by comparing total debt to total company equity. This proxy is expressed as a percentage with the formula: (total debt : total equity) X 100%; and the profitability ratio (Return On Equity) which is proxied by comparing net profit to total equity. This proxy is expressed as a percentage with the formula: (net profit : total equity) X 100%; and as a moderating variable is free cash flow which is calculated using the formula = (net profit after tax – dividends + depreciation) / total assets Moderated Regression Analysis

The regression analysis used in this research is multiple linear regression analysis with Moderated Regression Analysis (MRA). To use MRA with three independent variables (X), you must compare three regression equations to determine the type of moderator variable (Ghozali, 2021). These three equations are:

To test H_1, 〖H〗_2, and H_3, the following statistical equation is used:

$$Y_i = \propto + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

To see the type of moderation, the following equation is used:

$$Y_i = \propto + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z + \varepsilon \ldots\ldots\ldots\ldots\ldots (2)$$

If the results of the tests carried out show that the observed variable is a moderating variable then the equation will be analyzed to test it H_4, H_5, $dan\ H_6$ are as follows:

$$Y_i = \propto + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z + \beta_5 X_1 Z + \beta_6 X_2 Z + \beta_7 X_3 Z + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Information:

Y: Dependent variable

∝ : Constant value

X_(1-3) : Independent variable

β_(1-7): Regression coefficient value

Z : Moderating variable

ε : Error

The moderation effect can be seen from the probability value resulting from the interaction effect or multiplication of the independent variable with the moderating variable on the dependent variable. A significant probability value indicates that the moderating variable is able to moderate the influence of the independent variable on the dependent variable, while an insignificant probability value indicates that the moderating variable is unable to moderate the influence of the independent variable on the dependent variable. Moderating variables can be classified into three groups, namely pure moderators, quasi moderators, and homologizers (Ghozali, 2021). The way to determine the type of moderating variable is to look at the probability value of the regression coefficient or beta (β), namely β_4 in equation 2 and β_(5-7) in The following is the classification of moderating variables: equation

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 2. Descriptive Statistical Test Results

	Harga Saham (Rupiah)	CR (%)	DER (%)	ROE (%)	FCF (Rupiah)
Mean	9.205,600	200,034	82,210	23,614	0,455
Maximum	45.400,000	466,000	358,000	145,090	0,810
Minimum	765,000	61,000	19,000	1,070	0,140
Std. Dev.	9.455,345	95,387	66,245	31,739	0,188
Skewness	1,984	0,899	2,709	2,917	0,392
Kurtosis	7,063	3,622	10,939	10,605	1,869
Observations	75	75	75	75	75

Source: Appendix 2

Note: CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Based on the calculation results in table 2 above, it can be seen that the amount of data used in this research for each variable is 75 observation data sourced from 15 LQ45 Index companies multiplied by the observation period, which is 5 years.

The share price is known to have a minimum value of IDR 765,- which was achieved by Aneka Tambang Tbk. in 2018 and a maximum value of IDR 45,400,- achieved by Unilever Indonesia Tbk. in 2018. These results show that the share prices of LQ45 Index companies are quite varied, where there are companies that have the lowest share prices of IDR 765,- and there are companies that have the highest share prices of IDR 45,400,-. Then the average value (mean) is IDR 9,205,600,- meaning that the

agreement price between one investor and another investor is IDR 9,205,600,- The standard deviation value is 9,455,345%, indicating a figure greater than the average value (mean) which is IDR 9,205,600,- this indicates that the share price variable is heterogeneous. Apart from that, the stock price has a skewness value of 1.984, indicating normal data because the stock price skewness value is between -2 to 2. Meanwhile, the kurtosis is 7.063, which means the kurtosis value is greater than 3, so the distribution curve is called leptokurtic. .

Based on the results of the descriptive analysis in table 2, it can be concluded that the liquidity ratio proxied by the Current Ratio (CR) is known to have a minimum value of 61% achieved by Unilever Indonesia Tbk. in 2021 and 2022 and a maximum value of 466% achieved by Kalbe Farma Tbk. in 2018. These results show that LQ45 Index companies have the lowest current assets of 61% to meet their short-term debt, and the highest is 466%. Then the average (mean) CR value is 200.034%, which is in accordance with the standard CR value of 150% to 200%, which means the company is good at managing its liquidity so that it can be a positive perception for investors regarding the level of liquidity of the index company. LQ45 is included well in guaranteeing current liabilities, where every Rp. 100,- of current liabilities is guaranteed by current assets of Rp. 200.03,-. The standard deviation value of 95.387% shows a figure smaller than the average value (mean) of 200.034%, which indicates that the CR variable is homogeneous. Apart from that, CR has a skewness value of 0.899, indicating normal data because the CR skewness value is between -2 to 2. Meanwhile, the kurtosis is 3.622, which means the kurtosis value is greater than 3, so the distribution curve is called leptokurtic.

The leverage ratio which is proxied as Debt To Equity Ratio (DER) is known to have a minimum value of 19% which was achieved by Kalbe Farma Tbk. in 2018 and the maximum value was 358% achieved by Unilever Indonesia Tbk. in 2022. These results show that LQ45 Index companies use debt as low as 19% compared to their equity and as high as 358%. Then the average value is 82.210%, meaning that every Rp. 100,- of total equity can be used to guarantee total debt of Rp. 82.21,-. The average (mean) value is lower than the standard good DER value of 100%, which indicates that LQ45 Index companies during the 2018-2022 period are reducing the use of debt in their capital structure. The standard deviation value of 66.245% shows a figure smaller than the average value (mean) of 82.210%, which indicates that the DER variable is homogeneous. Apart from that, DER has a skewness value of 2.709, indicating that the data is not normal because the DER skewness value is not in the range of -2 to 2. Meanwhile, the kurtosis is 10.939, which means the kurtosis value is greater than 3, so the distribution curve is called leptokurtic.

The profitability ratio which is proxied as Return On Equity (ROE) is known to have a minimum value of 1.07% which was achieved by Aneka Tmbang Tbk. in 2019 and the maximum value was 145.09% achieved by Unilever Indonesia Tbk. in 2020.

These results show the ability of LQ45 Index companies to produce varying profitability, where during the 2018-2022 period there were companies that experienced the lowest profit of 1.07% and experienced the highest profit of 145.09%. Then the average value (mean) is 23.614%, meaning that every IDR 100,- of total equity will produce a net profit of IDR 23.61,-. The average (mean) value is above the standard good ROE value of 15%, meaning that the ability of LQ45 Index companies to obtain profitability is very good during the 2018-2022 period. The standard deviation value of 31.739% shows a figure greater than the average value (mean), namely 23.614%, which indicates that the ROE variable is heterogeneous. Apart from that, ROE has a skewness value of 2.917, indicating that the data is not normal because the ROE skewness value is not in the range of -2 to 2. Meanwhile, the kurtosis is 10.605, which means the kurtosis value is greater than 3, so the distribution curve is called leptokurtic.

Free cash flow as proxied by Free Cash Flow (FCF) is known to have a minimum value of 0.14% which is achieved by Indofood CBP Sukses Makmur Tbk. in 2021 and 2022 and a maximum value of 0.81% achieved by Telkom Indonesia Persero Tbk. in 2019. Then the average value (mean) was 0.455%. The standard deviation value of 0.188% shows a figure smaller than the average value (mean), which is 0.455%, which indicates that the FCF variable is homogeneous. Apart from that, FCF has a skewness value of 0.392, indicating normal data because the FCF skewness value is between -2 and 2. While the kurtosis is 1.869, which means the kurtosis value is smaller than 3, the distribution curve is called platykurtic.

Estimation of Panel Data Regression Models

There are three panel data regression models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), Random Effect Model (REM).

Common Effect Method (Common Effect Model)

The common effect model assumes that the intercept and slope coefficient are constant between time and space and the error term includes differences over time and individuals (space). The following are the results of data processing from the panel data regression model estimation using the Common Effect Model:

Table 3. Common Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2,187	1,389	1,575	0,120
CR	0,436	0,416	1,049	0,298
DER	0,500	0,330	1,516	0,134
ROE	0,007	0,144	0,051	0,960
FCF	0,583	0,296	2,883	0,005
R-Squared	0,141			
Adjusted R-Squared	0,092			

Source: Appendix 3

Information:

C = Constant ; CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Fixed Effect Model (Fixed Effect Model)

Fixed effect terminology shows that although the individual intercept varies between individuals, each individual intercept does not vary over time, which is called time invariant. It can also be stated that based on the FEM model, it is assumed that the slope coefficient of the regressor does not vary between individuals or over time. The following are the results of data processing from the panel data regression model estimation using the Fixed Effect Model:

Table 4. Fixed Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4,015	1,126	3,565	0,000
CR	0,194	0,348	0,558	0,579
DER	-0,797	0,336	-2,368	0,021
ROE	0,411	0,122	3,368	0,001
FCF	-0,729	0,458	-1,590	0,118
R-Squared	0,903			
Adjusted R-Squared	0,871			

Source: Appendix 4

Note: C = Constant; CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Random Effect Model (Random Effect Model)

The Random Effects Model is used to overcome the weakness of the fixed effects model which uses dummy variables, so that the model experiences uncertainty. Using dummy variables will reduce the degree of freedom which will ultimately reduce the efficiency of the estimated parameters. In this model, intercept differences are accommodated by the error term for each company which is a random variable. The following are the results of data processing from the panel data regression model estimation using the Random Effect Model:

Table 5. Random Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3,446	1,072	3,215	0,003
CR	0,263	0,330	0,796	0,429
DER	-0,383	0,295	-1,300	0,198
ROE	0,330	0,114	2,902	0,005
FCF	-0,092	0,377	-0,245	0,807
R-Squared	0,244			
Adjusted R-Squared	0,201			

Source: Appendix 5

Note: C = Constant; CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Model Selection Method

The model selection method is used to find out the most appropriate model or the best model to describe research data, whether using the Common Effect Model (CEM), Fixed Effect Model (FEM), Random Effect Model (REM). There are several tests carried out to select the most appropriate model to use, namely:

Test Chow

The Chow test is carried out to determine the appropriate model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The hypotheses in the Chow test are as follows:

H0: Common Effect Model

H1: Fixed Effect Model

If the cross-section probability value is > 0.05 then H0 is accepted, so the model chosen is common effect. Vice versa, if the cross-section probability value is <0.05 then H0 is rejected, so the model chosen is fixed effect.

The following are the results of data processing from the Chow Test as follows:

Table 6. Chow Test Results

Effect Test	Statistic	d.f.	Prob.
Cross-section F	31,302	(14,56)	0,000
Cross-section Chi-square	163,322	14	0,000

Source: Appendix 6

Based on the Chow Test results table, it was found that the most appropriate model to use to estimate panel data is the Fixed Effect Model (FEM). This is based on the cross-section chi-square probability value of 0.000 which is smaller than the significance level of 0.05, meaning that

H0 is rejected and H1 is accepted or the Fixed Effect Model (FEM) is better than the Common Effect Model (CEM).

Hausman test

The Hausman test is carried out to select the most appropriate model to use between the Fixed Effect Model (FEM) or Random Effect Model (REM). The hypotheses in the Hausman test are as follows:

H0: Random Effect Model

H1: Fixed Effect Model

If the random cross-section probability value is > 0.05 then H0 is accepted, so the model chosen is random effect. Vice versa, if the random cross-section probability value is <0.05 then H0 is rejected, so the model chosen is fixed effect. The data processing results from the Hausman Test are as follows:

Based on the Hausman Test results table, it is found that the most appropriate model to use to estimate panel data is the Random Effect Model (REM). This is based on a random cross-section probability value of 0.099 which is greater than the significance level of 0.05, meaning that H0 is accepted and H1 is rejected or the Random Effect Model (REM) is better than the Fixed Effect Model (FEM).

Lagrange Multiplier (LM) Test

The Lagrange Multiplier test was carried out to find out whether the Random Effect Model (REM) is better to use than the Common Effect Model (CEM). The hypotheses in the Lagrange Multiplier Test are as follows:

H0: Common Effect Model

H1: Random Effect Model

In the Lagrange multiplier test, if the Both Breusch-Pagan value is > 0.05 then H0 is accepted, so the appropriate model to use is common effect. Meanwhile, if the Both Breusch-Pagan value is <0.05 then H0 is rejected, so the most appropriate model is chosen random effects. The following are the results of the Lagrange Multiplier Test. The results of data processing from the Lagrange Multiplier (LM) Test are as follows:

Table 8. Lagrange Multiplier (LM) Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	93,915 (0,000)	1,321 (0,438)	95,237 (0,000)

Source: Appendix 8

Based on the Lagrange Multiplier (LM) Test results table, it was found that the most appropriate model to use to estimate panel data is the Random Effect Model (REM). This is based on the Both Breusch-Pagan value of 0.000 which is smaller than the significance level of 0.05, meaning that H0 is rejected and H1 is accepted or the Random Effect Model (REM) is better than the Common Effect Model (CEM).

Based on the results of the panel data model selection tests that have been carried out, namely the Chow Test, Hausman Test and Lagrange Multiplier Test, it can be concluded that the most appropriate model to use in this research is the Random Effect Model (REM) due to the output results from the Hausman Test and Lagrange Multiplier Test. shows that REM is the most appropriate model used in this research.

The following table presents the panel data model test results:

Table 9. Results of Model Selection Method

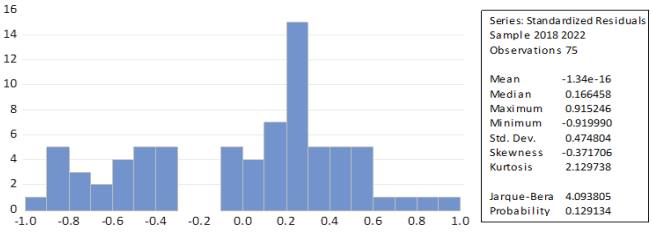
No.	Metode	Pengujian	Hasil
1.	Uji *Chow*	*Common Effect Model* (CEM) da *Fixed Effect Model* (FEM)	*Fixed Effect Model* (FEM)
2.	Uji *Hausman*	*Random Effect Model* (REM) dan *Fixed Effect Model* (FEM)	*Random Effect Model* (REM)
3.	Uji *Lagrange Multiplier*	*Common Effect Model* (CEM) dan *Random Effect Model* (REM)	*Random Effect Model* (REM)
Kesimpulan		*Random Effect Model* (REM)	

Classical Assumption Test

To carry out the classical assumption test, several tests are carried out, including the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. The following describes the results of the classical assumption test processed using EViews 12:

Normality Test

The normality test aims to test whether in the regression model, the confounding or residual variables have a normal distribution. In this study, the residual normality test used was the Jarque-Bera (JB) test. The basis for making decisions on normality tests with the Jarque-Bera Test is to look at the probability values compared with a significance level of 0.05 or 5 percent. The criteria used are if the probability value is > 0.05 then it is assumed that the residual is normally distributed. Vice versa, if the probability is <0.05 then it is assumed that the residual is distributed non-normally. The normality test output results can be seen in the following picture:



Based on Figure 1, the normality test with the Jarque-Bera test obtained a probability value of 0.129, which is greater than the significance level of 0.05 (0.129 > 0.05). These results indicate that the residuals are normally distributed.

Multicollinearity Test

The multicollinearity test aims to examine whether the regression model found a correlation between the independent variables. A good regression model is one where there is no correlation between the independent variables in the research. The multicollinearity test is carried out using criteria, namely if between independent variables there is a correlation value that is quite high or greater than 0.90 (>0.90), then it is assumed that there is a multicollinearity problem. Vice versa, if the correlation value is smaller than 0.90 (<0.90) then it is assumed that there is no multicollinearity problem in the research. The output results of the multicollinearity test can be seen in the following table:

Table 10. Multicollinearity Test Results

	CR	DER	ROE	FCF
CR	1,000	-0,802	-0,192	-0,207
DER	-0,802	1,000	0,311	-0,011
ROE	-0,192	0,311	1,000	0,294
FCF	-0,207	-0,011	0,294	1,000

Note: CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Based on the results of the correlation matrix output above, it can be seen that the correlation between CR and DER is -0.802, the correlation between CR and ROE is -0.192, the correlation between CR and FCF is -0.207, the correlation between DER and ROE is 0.311, the correlation between DER and FCF of -0.011, the correlation between ROE and FCF is 0.294. There is no high correlation between independent variables and moderating variables above 0.90. So it can be concluded that there is no multicollinearity problem in the regression model in this research.

Autocorrelation Test

The autocorrelation test aims to test whether in the linear regression model there is a correlation between confounding errors in period t and confounding errors in period t-1 (previous). In this study, to detect the presence or absence of autocorrelation, the Breusch-Godfrey test was used. The Breusch-Godfrey test is carried out by looking at the assessment criteria of the probability value. If the probability value is smaller than 0.05 (< 0.05) then it can be concluded that there is an autocorrelation problem in the model. Likewise, if the probability value is greater than 0.05 (> 0.05), it can be concluded that there is no autocorrelation problem in the research model. The results of the autocorrelation test can be seen as follows:

Table 11. Autocorrelation Test Results

F-statistic	0,175	Prob. F(2,68)	0,840
Obs*R-squared	0,383	Prob. Chi Square (2)	0,826

Based on Table 11 above, you can see the results of the autocorrelation test with the Prob value. Chi-Square (2) is 0.826, which is greater than 0.05 (0.826 > 0.05), so it can be concluded that there is no autocorrelation problem in this research model.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. A good regression model is one that is homoscedastic or does not have heteroscedasticity. To detect the presence or absence of heteroscedasticity, this research uses the Glejser Test with the criterion that if the probability value of all independent variables is > 0.05 then heteroscedasticity does not occur. The output results of the heteroscedasticity test can be seen in the following table:

Table 12. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.247,178	2.685,822	2,326	0,023
CR	-6,959	6,974	-0,998	0,322
DER	-22,372	15,568	-1,437	0,155
ROE	114,975	27,949	4,114	0,000
FCF	2.018,028	2.735,329	0,738	0,463

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Note: C = Constant; CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

The results of the output display above show that the probability value for the ROE variable is significant at 0.05, namely 0.000, while the probability value for the CR, DER, and FCF variables is not significant at 0.05, namely CR is 0.322, DER is 0.155, and FCF of 0.463. Therefore, it can be concluded that there is a heteroscedasticity problem in the regression model in this research. According to Ghozali and Ratmono (2018), one way to treat heteroscedasticity in the regression model is to transform variables in logarithmic form. Therefore, in this study, variable transformation was carried out in logarithmic form to treat heteroscedasticity in the regression model. The output results of heteroscedasticity testing after transformation using logarithms can be seen in the following table:

Table 13. Heteroscedasticity Test Results After Data Transformation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,902	0,594	1,518	0,134
CR	-0,196	0,178	-1,103	0,274
DER	-0,148	0,141	-1,052	0,296
ROE	0,091	0,062	1,471	0,146
FCF	0,176	0,125	-1,401	0,166

Note: C = Constant; CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Based on table 13, the heteroscedasticity test after transformation using logarithms obtained probability values for all independent variables and significant moderating variables at 0.05 or greater than 0.05, namely X1 (CR) of 0.274, X2 (DER) of 0.296, X3 (DER) is 0.146, and Z (FCF) is 0.166. Therefore, it can be concluded that there is no heteroscedasticity problem in the regression model in this research. So the next test (regression) follows, which is processed using data that has been transformed using logarithms.

Moderation regression analysis in this research is used to analyze the influence of liquidity, leverage and profitability variables on stock prices with free cash flow as a moderating variable. In this research, multiple linear regression analysis was tested using Moderated Regression Analysis (MRA). To use Moderated Regression Analysis (MRA), in this research there are three regression equations, namely:

Moderated Regression Analysis (MRA) Model 1

The first equation is used to test and analyze the main effect, namely the influence of the independent variables (CR, DER, and ROE) on the dependent variable (share price). The following are the results of multiple linear regression model 1:

Table 14. Model 1 Moderation Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3,337	0,991	3,367	0,001
CR	0,297	0,305	0,974	0,333
DER	-0,336	0,226	-1,490	0,141
ROE	0,314	0,095	3,299	0,002

Note: C = Constanta; CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity

Based on the table above, it is found that the multiple linear regression equation model 1 in this study is as follows:

HS = 3.337 + 0.297 CR – 0.336 DER + 0.314 ROE

Information:

HS= Share Price

CR = Current Ratio

DER = Debt to Equity Ratio

ROE = Return On Equity

Moderated Regression Analysis (MRA) Model 2

The second equation is used to test the influence of the independent variables (CR, DER, and ROE) and the moderating variable (FCF) on the dependent variable (share price) so that the type of moderating variable can be known. The following are the results of multiple linear regression model 2:

Table 15. Model 2 Moderation Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3,446	1,072	3,215	0,002
CR	0,263	0,330	0,796	0,429
DER	-0,383	0,295	-1,300	0,198
ROE	0,330	0,114	2,902	0,005
FCF	-0,092	0,377	-0,245	0,807

Note: C = Constant; CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Based on the table above, it is found that the multiple linear regression equation model 2 in this study is as follows:

HS = 3.446 + 0.263 CR – 0.383 DER + 0.330 ROE – 0.092 FCF

Information:

HS= Share Price

CR = Current Ratio

DER = Debt to Equity Ratio

ROE = Return On Equity

FCF = Free Cash Flow

The third equation is used to test the moderating effect (interaction) of the moderating variable (FCF) on the influence of the independent variables (CR, DER, and ROE) on the dependent variable (share price). The following are the results of multiple linear regression model 3

Table 16. Model 3 Moderation Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5,470	2,050	2,668	0,010
CR	0,303	0,639	0,474	0,637
DER	-1,463	0,530	-2,757	0,008
ROE	0,337	0,233	1,450	0,152
FCF	3,837	3,851	0,996	0,323
CR*FCF	0,500	1,202	0,416	0,679
DER*FCF	-2,639	1,018	-2,593	0,012
ROE*FCF	0,141	0,587	0,241	0,811

Note: C = Constant; CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Based on the table above, it is found that the model 3 multiple linear regression equation in this study is as follows:

HS = 5.470 + 0.303 CR - 1.463 DER + 0.337 ROE + 3.837 FCF + 0.500 (CR*FCF) – 2.639 (DER*FCF) + 0.141 (ROE*FCF)

Information:

HS= Share Price

CR = Current Ratio

DER = Debt to Equity Ratio

ROE = Return On Equity

FCF = Free Cash Flow

Hypothesis Testing

In this research, the results of the hypothesis test which consist of partial significance test (t statistical test), model feasibility (F test), and coefficient of determination (Adjusted R2) are described as follows:

Statistical Test t

The t statistical test aims to determine how much influence each independent variable individually has in explaining variations in the dependent variable. This test was carried out with a significance level (σ) of 5%. Based on the regression testing model above, the following are the results of the t test:

Model 1 t statistical test

Model 2 t statistical test

The results of the t test model 1 which aims to test and analyze the main effect, namely the influence of the independent variables (CR, DER, and ROE) on the dependent variable (share price) shows the results of the regression coefficient for the CR variable of 0.297, indicating that there is a positive or unidirectional influence between the CR variables. to share prices. The probability value of the CR variable is 0.333 > 0.05, so it can be concluded that CR has a positive and insignificant effect on stock prices. Thus, H1 which states that the Current Ratio (CR) has a positive effect on share prices is rejected.

The regression coefficient for the DER variable is -0.336, indicating that there is a negative or unidirectional influence between the DER variable on stock prices. The probability value of the DER variable is 0.141 > 0.05, so it can be concluded that DER has a negative and insignificant effect on stock prices. Thus, H2 which states that the Debt to Equity Ratio (DER) has a positive effect on share prices is rejected.

The regression coefficient for the ROE variable is 0.314, indicating that there is a positive or unidirectional influence between the ROE variable on stock prices. The probability value of the ROE variable is 0.002 <0.05, so it can be concluded that ROE has a positive and significant effect on stock prices. Thus, H3 which states that Return On Equity (ROE) has a positive effect on share prices is accepted.

Model 2 t statistical test

The results of the t test model 2 aim to test the influence of the independent variables (CR, DER, and ROE) and the moderating variable (FCF) on the dependent variable (share price) so that the type of moderating variable can be known on the influence of each independent variable on the dependent variable. . The regression coefficient for the FCF moderating variable is -0.092, indicating that there is a negative or unidirectional influence between the DPR variable on stock prices. The probability value of the FCF variable is 0.807 > 0.05, so it can be concluded that FCF has a negative and insignificant effect on stock prices.

In this case, the FCF moderation variable is included as a type of homologizer moderation in moderating the influence of CR on stock prices which can be determined through the prob value. The FCF variable in regression model 2 is not significant (0.807 > 0.05) and the prob. The interaction variable (CR*FCF) on stock prices in regression model 3 is not significant (0.679 > 0.05). Furthermore, the FCF moderation variable is included as a type of pure moderator moderation in moderating the influence of DER on share prices which can be known through the prob value. The FCF variable in regression model 2 is not significant (0.807 > 0.05) and the prob. The interaction variable (DER*FCF) on stock prices in regression model 3 is significant (0.012 < 0.05).

Then the FCF moderation variable is included as a type of homologizer moderation in moderating the influence of ROE on share prices which can be known through the prob value. The FCF variable in regression model 2 is not significant (0.807 > 0.05) and the prob. The interaction variable (ROE*FCF) on stock prices in regression model 3 is not significant (0.811 > 0.05).

Statistical Test t Model 3

The results of the t test model 3 which aims to test the moderating (interaction) effect of the moderating variable (FCF) on the influence of the independent variables (CR, DER, and ROE) on the dependent variable (share price) shows that the regression coefficient of the interaction variable (CR*FCF) of 0.500 indicates that there is a positive or unidirectional influence between the interaction variables (CR*FCF) on stock prices. The probability value of the interaction variable (CR*FCF) is 0.679 > 0.05, so it can be concluded that FCF is unable to moderate the influence of CR on stock prices. Thus, H4 which states that Free Cash Flow (FCF) is able to moderate the influence of the Current Ratio (CR) on share prices is rejected. In this case, FCF acts as a homologizer which can be determined through the prob value. The FCF variable in regression model 2 is not significant (0.807 > 0.05) and the prob. The interaction variable (CR*FCF) on stock prices in regression model 3 is not significant (0.679 > 0.05).

The interaction variable regression coefficient (DER*FCF) is -2.639, indicating that there is a negative or unidirectional influence between the interaction variables (DER*FCF) on stock prices. The probability value of the interaction variable (DER*FCF) is 0.012 < 0.05, so it can be concluded that FCF is able to moderate the influence of DER on stock prices. Thus, H5 which states that Free Cash Flow (FCF) is able to moderate the influence of Debt to Equity Ratio (DER) on share prices is accepted.

In this case, FCF acts as a pure moderator which can be known through the prob value. The FCF variable in regression model 2 is not significant (0.807 > 0.05) and the prob. The interaction variable (DER*FCF) on stock prices in regression model 3 is significant (0.012 < 0.05).

The interaction variable regression coefficient (ROE*FCF) is 0.141, indicating that there is a positive or unidirectional influence between the interaction variables (ROE*FCF) on stock prices. The probability value of the interaction variable (ROE*FCF) is 0.811 > 0.05, so it can be concluded that FCF is unable to moderate the influence of ROE on stock prices. Thus, H6 which states that Free Cash Flow (FCF) is able to moderate the influence of Return On Equity (ROE) on share prices is rejected. In this case, FCF acts as a homologizer which can be determined through the prob value. The FCF variable in regression model 2 is not significant (0.807 > 0.05) and the prob. The interaction variable (ROE*FCF) on stock prices in regression model 3 is not significant (0.811 > 0.05).

F test

Model suitability testing or the F test is carried out to find out whether the model to be used meets the fit criteria or not. If the value of Prob. (F-statistic) < 0.05 then the regression model is declared fit or feasible (meets BLUE criteria). Conversely, if the value of Prob. (F-statistic) > 0.05 then the regression model is

declared unfeasible. The following are the results of the F test for the feasibility of the regression model. The following are the results of the feasibility test regression model (goodness of fit) in the three regression models:

Table 17. Regression Model Feasibility F Test Results

Model	F-statistic	Prob (F-statistic)
Model 1	7,643	0,000
Model 2	5,651	0,001
Model 3	4,523	0,000

Based on the table above, it can be seen that the F value in model 1 is 7.643, model 2 is 5.651, and model 3 is 4.523 with the probability value of all models being significant at 0.05 or less than 0.05. So it can be concluded that the three regression models are declared feasible or fit to meet the BLUE (Best Linear Unbiased Estimator) criteria.

Coefficient of Determination Test

The Coefficient of Determination Test (R2) aims to measure the ability of the model used to explain variations in the dependent variable. The coefficient of determination value is between 0 and 1. R2 has the weakness of being biased towards the number of independent variables included in the regression model. Therefore, many researchers recommend using the Adjusted R2 value. The following are the results of the coefficient of determination test for the three regression models:

Table 18. Coefficient of Determination Test Results

Model	*R-squared*	*Adjusted R-squared*
Model 1	0,244	0,212
Model 2	0,244	0,201
Model 3	0,321	0,250

Based on the table above, it shows that the results of the model 1 regression coefficient of determination test which aims to test and analyze the main effect, namely the influence of the independent variables (CR, DER, and ROE) on the dependent (share price) produces an output R-squared value of 0.244 and an Adjusted R value -squared of 0.212 or 21.20% means that the share prices of LQ45 Index companies for the 2018-2020 period are influenced by CR, DER and ROE by 21.20% and the remaining 78.80% is influenced by other variables not included in the research model.

The results of the model 2 regression coefficient of determination test which aims to test the influence of the independent variables (CR, DER, and ROE) and the moderating variable (FCF) on the dependent variable (share price) produce an output R-squared value of 0.244 and an Adjusted R-squared value of 0.201 or 20.10% means that the share prices of LQ45 Index companies for the 2018-2020 period are influenced by CR, DER, ROE and FCF by 20.10% and the remaining 79.90% is influenced by other variables not included in the research model.

The results of the coefficient of determination regression model 3 test which aims to test the moderating effect (interaction) of the moderating variable (FCF) on the influence of the independent variables (CR, DER, and ROE) on the dependent variable (share price) produces an output R-squared value of 0.321 and a value of Adjusted R-squared of 0.250 or 25% means that the share prices of LQ45 Index companies for the 2018-2020 period are influenced by moderated CR, DER and ROE by FCF of 25% and the remaining 75% is influenced by other variables not included in the research model.

DISCUSSION

Based on the results of the tests that have been carried out, we will explain in more depth the discussion of each variable, the influence of the independent variables, namely Current Ratio (CR), Debt to Equity Ratio (DER), and Return On Equity (ROE) on the dependent variable, namely stock prices with Free Cash Flow (FCF) as a moderating variable. A summary of the results of hypothesis testing in this research is shown in the following table:

Table 19. Summary of Hypothesis Test Results

Hipotesis	Variabel	Pengaruh	Signifikansi	Keputusan Hipotesis
H_1	CR	+	Tidak signifikan	Ditolak
H_2	DER	-	Tidak signifikan	Ditolak
H_3	ROE	+	Signifikan	Diterima
H_4	CR*FCF	+	Tidak signifikan	Ditolak
H_5	DER*FCF	-	Signifikan	Diterima
H_6	ROE*FCF	+	Tidak signifikan	Ditolak

Note: CR = Current Ratio; DER = Debt to Equity Ratio; ROE = Return On Equity; FCF = Free Cash Flow

Based on table 19 above, it shows that only H3 and H5 were accepted, while H1, H2, H4, and H6 were rejected.

Based on the results of the tests and analyzes that have been carried out, several main findings can be explained regarding the influence of independent variables (CR, DER, and ROE) on stock prices with Free Cash Flow (FCF) as a moderating variable.

The Effect of Current Ratio (CR) on Stock Prices

The results of the analysis show that CR does not have a significant influence on company share prices in the LQ45 Index. Although in theory a high CR indicates a company's ability to meet its short-term obligations, this does not always translate into an increase in share price. It is possible that investors are considering other factors that influence the company's long-term growth prospects.

The Effect of Debt to Equity Ratio (DER) on Stock Prices

DER also does not show a significant influence on stock prices. A high leverage ratio is often associated with risk larger financial situation, which may worry investors. However, in the context of a stable or well-growing company, this negative impact may be reduced or even undetectable.

The Effect of Return On Equity (ROE) on Share Prices

ROE is proven to have a positive and significant influence on share prices. This shows that investors appreciate the company's efficiency in generating profits from the equity it owns. A high ROE is often interpreted as a sign of effective management and good profit prospects in the future, thereby increasing the stock's attractiveness in the eyes of investors.

The Role of Free Cash Flow (FCF) as a Moderating Variable

o Effect of FCF on CR on Share Prices: FCF does not moderate the influence of CR on share prices. This suggests that a company's liquidity, although important, is not enough to change investors' perceptions when free cash flow is taken into account.

o Effect of FCF on DER on Share Prices: FCF is able to moderate the influence of DER on share prices. This means that in companies with high FCF, the negative impact of high leverage on share prices can be reduced. Investors may view high free cash flow as a buffer that can offset the risks resulting from high leverage.

Effect of FCF on ROE on Share Prices: FCF also does not moderate the influence of ROE on share prices. This means that

high profitability remains the main factor considered by investors without being affected by the level of free cash flow.

Conclusion

This research provides several important implications for companies, investors and capital market practitioners:

1. Companies need to realize that high profitability (measured by ROE) is one of the key factors valued by investors and can increase share prices. Management needs to focus on strategies that can increase ROE to attract more investors.
2. Investors should not only focus on traditional indicators such as liquidity (CR) or leverage (DER), but also consider free cash flow as an important indicator that can influence the relationship between financial ratios and stock prices.
3. Capital market practitioners and financial analysts need to pay attention to the moderating role of FCF when assessing the financial health and prospects of a company's shares. High FCF can be an additional marker indicating a company's ability to survive and grow despite having a high leverage ratio.

Overall, this research highlights the complexity of the interaction between financial performance and stock prices and the importance of considering various moderating factors such as free cash flow in financial analysis. This research aims to examine the influence of free cash flow (FCF) in moderating the relationship between financial performance and share prices of companies listed on the LQ45 Index of the Indonesia Stock Exchange for the 2018-2022 period.

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