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Auditor's Reputation Moderates the Impact of Free Cash Flow, Leverage, and Profitability on Stock Returns.

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Abstract

This study aims to investigate the impact of free cash flow, leverage, and profitability on stock returns. Additionally, it examines the role of auditor reputation in moderating the relationship between these financial factors and stock returns.This the research is quantitative, examining all technology sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023, totalling 34 companies. A purposive sampling method was used to choose the sample, resulting in 107 financial statement data points from 32 technology sector companies that met the criteria. The data utilized in this research is secondary and obtained from the IDX. The analysis was conducted using multiple regression analysis and moderation regression analysis, with the assistance of SPSS version 25. The findings indicate that both free cash flow and profitability have a positive and significant impact on stock returns, while leverage has a negative and significant impact. Furthermore, the analysis shows that auditor reputation, as a moderating variable, does not moderate the relationship between free cash flow, leverage, profitability, and stock returns. This research provide considerations for investment decision by utilizing the role of auditor reputation in moderating the impact of free cash flow, leverage, and profitability on stock returns. To fill the gap the previous research, this research measure the auditor reputation by the rank of annual auditing fees/revenues, instead of dummy variable. This research has limitations in the subjective measurement of auditor reputation. Commonly it was measured by dummy variable (1 for the big four and 0 for non-big four). In contrast this research measurement is based on the rank of the annual auditing revenue. Therefore the accounting firm that have the highest revenue is measured 5, then decreasing to 4, 3, 2, and 1. It might be other measurements that are more reliable in measuring the auditor reputations.

Keywords: Auditor reputation, free cash flow, leverage, profitability, stock returns

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1. Introduction

1.1 Background

One of the steps taken by investors to contribute to digital transformation and economic development in Indonesia is through investment in shares in technology companies. Shares are defined as representations of ownership in a corporate entity, where the individual who owns the shares is referred to as a shareholder. Stocks are an attractive option for most investors because they generate a greater rate of returns compared to other securities. The returns generated from stock investment are in the form of rewards for invested capital and readiness to bear the risks of the investment.

Investors must pay attention to stock returns in investing because stock returns reflect the performance of the issuer, with stock return movements that are in line with the issuer's performance (Hulu, 2023). When the issuer achieves better performance, the profits obtained from the company's operational activities also increase significantly. In accordance with signal theory, the company's improved performance creates a positive signal for investors, which is reflected in positive stock returns, providing favorable results and meeting investors' expectations. Then, investors respond by buying or holding the company's shares which will cause the stock price to rise. Conversely, a company's poor or poor performance can produce negative signals that will be reflected in negative stock returns, raising potential risks of uncertainty that can impact the investment value of investors. Investors will respond by selling the company's shares which can lead to a decline in the stock price. The market's response to information about the company's performance and the signals sent to investors is reflected in the movement of stock returns.

Investors analyze the components of financial statements related to the company's financial performance which include free cash flow, leverage, and profitability. Financial ratios are the process of comparing numerical data written in financial statements by dividing one number from another (Kasmir, 2019). Financial ratios provide a holistic view of various aspects of a company's operations and finances. In addition, financial ratios also show how the company's financial condition and performance are in a certain period of time. Leverage and profitability are among the financial ratios studied in this study. Meanwhile, free cash flow, although not a financial ratio, is still analyzed because free cash flow plays an equally important role in assessing a company's capabilities.

Investors analyze free cash flow (FCF) to assess the company's ability to generate cash. The FCF describes the net cash flow earned from operating activities after adjustments for capex and dividends (Weygandt et al., 2015). Based on agency theory, FCFs can lead to conflicts between management and shareholders, where shareholders want dividend distributions, while management may prefer to use the cash for company expansion. To overcome this potential conflict, FCF is often allocated in the form of dividends to avoid investments that are not necessarily profitable for the company (Krisardiyansah & Amanah, 2020).

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Leverage is also an important focus in financial analysis, where leverage ratios such as the debt-equity ratio (DER) are used to assess the extent to which a company uses debt to fund its operations. High leverage indicates greater risk to the company, which can negatively impact stock returns.

Profitability, measured by ratios such as Returns on Assets (ROA), is also an important indicator for investors in assessing a company's financial performance. High profitability indicates the efficiency of a company in using its assets to generate profits, which usually has a positive impact on stock returns.

Research on free cash flow, leverage, profitability, and stock returns has been conducted by previous researchers. Hertina & Saudi (2019) concluded that in real estate companies, RoA and RoE have no impact on stock returns. Meanwhile, Debt to Equity Ratio and Earning per share have a significant impact on stock returns. Nurhikmawaty, Isnurhadi, & Widiyanti (2020) prove that DER, ROE, and DPR have a significant impact on stock returns. Other research shows that profitability has a significant positive impact on stock returns. However, leverage and liquidity do not have a significant impact on stock returns. Meanwhile, the dividend policy is unable to mediate the influence of profitability, leverage, and liquidity on stock returns (Sefti, 2021). The results of research by Fatmawati & Afridayani (2022) found that free cash flow, investment opportunity set, and stock beta simultaneously affect stock returns. However, partially free cash flow has no impact on stock returns, investment opportunity sets and stock beta have an impact on stock returns.

This study was carried out to examine the influence of free cash flow, leverage, and profitability on stock returns by adding the auditor's reputation as a moderation variable in the context of technology sector companies listed on the Indonesia Stock Exchange in the 2018-2023 period. Technology companies were chosen as the object of research with the argument that this sector was intensively developing when the COVID-19 pandemic hit all aspects of the economy globally. Technology sector companies have a great opportunity to get high, stable profits, and have an impact on the returns on shares given to investors. This means that the greater the profit that the company gets, the higher the returns that can be shared. However, it is undeniable that some technology companies are inconsistent in providing stock returns that meet investor expectations.

1.2 Theoretical Foundation and Hypothesis Development

Signal Theory

Signal theory is a theory put forward by Michael Spence (1973) which refers to the actions of a company as an internal party to provide signals in the form of useful information for investors as an external party regarding the company's condition (Kencana, 2021). One form of information released by the company as a signal to external parties, especially investors, is financial statements with integrity.

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Financial statements contain several elements of financial information, one of which is financial ratios that are very important for financial statement users in valuing companies (Setiawati, Mariati, & Dewi 2023). Financial ratios are a positive signal for shareholders to know whether the company has met their expectations or not (Riswandari, 2023). In this study, the ratio of free cash flow, leverage, and profitability is used as a variable that is suspected to be a signal for investors in making investment decisions. The fluctuations of these three variables will be responded to by investors through selling, buying, or holding shares which will ultimately determine stock returns fluctuations.

Free Cash Flow

According to Weygandt et al., (2015), free cash flow describes the net cash flow obtained from operational activities after adjustments for capital expenditures and dividends. Through free cash flow, investors can obtain information on how capable the company is in generating cash, and assess the company's financial health and sustainability so that it can support dividend policies. The high amount of free cash flow generated also indicates that the company's financial condition is in a healthy and good state (Nariman & Criselda, 2021). This positive and high free cash flow indicates that the company's cash is sufficient to fund capital expenditure and investment. This means that the company's internal cash is sufficient to expand its business with investment and finance operational activities without relying on external funding, such as loans from creditors. Meanwhile, negative free cash flow indicates that the free cash flow it has is not enough to support its business expansion (Septiana et al., 2020). In other words, the company's cash is not enough to fund capital expenditures and investments. These obstacles can be overcome by issuing new shares or borrowing funds from creditors (Utami & Handayani, 2019).

Leverage

Leverage is needed to find out whether the company can pay off short-term debt or long-term debt, with the company's assets as collateral or the company's assets in a condition to be liquidated. Through this ratio, management can assess the level of efficiency and optimality in utilizing the resources it has. The method of measuring leverage or debt ratio is to use the debt-equity ratio (DER) which compares total liabilities, both derived from long-term debt and short-term debt, with the company's total equity or capital itself (Hermuningsih, Kusuma, Erawati, Rahmawati, 2022).

The high value of the DER leads to greater liabilities of the company compared to the equity of the company itself. This has implications for declining stock returns because high debt levels indicate a company's burden is getting bigger so it will reduce profits (Nurhikmawaty, Isnurhadi, & Widiyanti, 2020). In addition, a high value of DER can also lower the stock price because profits will tend to be used to pay off debt rather than to be distributed as dividends to shareholders.

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Profitability

One of the financial ratios used to measure a company's ability to earn a profit is called the profitability ratio. The opinion put forward by Gitman & Zutter (2015) states that Returns on Assets (ROA) or often referred to as Returns on Investment (ROI), measures the overall impactiveness of management in generating profits with available assets. The higher the result of the ROA calculation, the better the company uses its assets to generate profits so the better the profitability. The increase in ROA which reflects the company's ability to generate maximum profit through assets also has implications for the increase in the company's share price. The increase has a positive impact on the share returns received by shareholders.

Stock Returns

Stock returns refer to the results obtained from the results of investment policies that have been implemented by individuals or companies in the form of profits. A positive stock returns indicates that the company is making a profit or capital gain. On the other hand, a negative stock returns indicates that the company has suffered a loss or capital loss (Hermuningsih, Rahmawati, & Mujiono, 2018). This describes the company's financial performance in managing their investments. Positive stock returns are interpreted as positive signals related to the company's ability to provide favorable results for shareholders. Meanwhile, negative stock returns can raise potential uncertainty risks that can have an impact on the investment value of shareholders.

Auditor Reputation

Auditor reputation is an achievement and trust given by the public to a Public Accounting Firm (KAP) based on the reputation owned by the KAP (Balqis & Erinos, 2023). Public Accounting Firm (KAP) is a business entity or firm that has been authorized to provide audit services or services. Meanwhile, individuals or teams who work within the KAP and are responsible for carrying out the audit of the client's company are called external auditors. The role of the external auditor is to provide an independent and professional assessment of the reliability and fairness of the presentation of the company's financial statements. Meanwhile, in terms of management control mechanisms, the objective of external auditors is to ensure the presentation of reliable financial information and avoid fraudulent acts of accounting practices (Rosa & Mushdholifah, 2016).

The reputation of the auditor can be seen from the size or size of the KAP. The larger the KAP, the better the reputation it has, both from the company and the community. Large KAP have more adequate resource availability compared to smaller KAP thereby accelerating the audit process of financial statements (Ma'sumah & Rusyida, 2022). A reputable KAP can increase public confidence in audited financial statements. On the other hand, a reputation with a low reputation can cast doubt on the fairness of financial statements so it has a negative impact on the company.

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Hypothesis Development

The Impact of Free Cash Flow on Stock Returns

Investors need information about free cash flow to assess whether a company can be relied upon to generate cash that reflects the company's financial health and sustainability as well as its ability to support dividend policies. High and positive free cash flow reflects that the company is able to provide sufficient cash to fund capital expenditure and investment. On the other hand, low free cash flow, even negative, indicates that there is not enough cash available to finance capital expenditure and investment. However, free cash flow that is too high can cause conflicts of interest between management and principals. This dispute is caused by the inconsistent use of funds between the two parties.

Research by Nuryani & Aribowo (2023) and Maharani & Situngkir (2024) found that free cash flow can affect stock returns. The results of the study found that the cash owned by the company is enough to pay dividends to investors. Referring to the previous explanation that there is a significant relationship between free cash flow and stock returns, the hypothesis formulation is as follows.

H1: Free cash flow has a positive impact on stock returns.

The Impact of Leverage on Stock Returns

The leverage ratio represented by the debt to equity ratio (DER) is used to measure the extent to which a company uses debt compared to its own capital as well as to understand its impact and risk on the company. A high DER value indicates that the company has greater liabilities compared to its equity, which will reduce the profits earned and lower the stock returns.

Research conducted by Nurhikmawaty, Isnurhadi, & Widiyanti (2020) shows that the Debt to debt-equity ratio (DER) has a positive and significant influence on stock returns. The findings indicate that the high DER indicates that there is a lot of equity funding through debt so it can be concluded that the company's capital structure uses more debt. If the company's DER is high, then it is likely that there will be a low stock price. This is because companies that earn profits have a tendency to use those profits to pay debts rather than distribute dividends.

H2: Leverage has a positive impact on the Stock Returns.

The Impact of Profitability on Stock Returns

Profitability includes ratios in the analysis of financial statements that aim to measure a company's ability to earn profits. Companies that are able to optimize the best use of their assets for profit purposes, encourage investors to buy shares and allocate their capital to the company. As a result, there is an increase in demand for shares so that stock prices rise and the returns of shares obtained by investors increase.

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Research by Rahim, Hassan & Mohiuddin (2023) supports this statement by revealing that the profitability represented by ROA has a positive and significant impact on stock prices. The research is strengthened by research by Silver et al., (2023) which conclusion that the profitability represented by ROA has a positive and significant impact on stock returns. The findings confirm that the high ROA makes investors interested in investing in the company. This is because they see that companies that are higher in generating profits or profits will increase the returns they will get.

H3: Profitability has a positive impact on stock returns.

The Influence of Auditor Reputation on Free Cash Flow and Stock Returns

The auditor's reputation as a moderation variable can strengthen or weaken the relationship between free cash flow and stock returns. Reputable auditors, especially from the Big Four KAP are more trusted by investors because of their ability to verify the fairness of the company's cash flow statements derived from operations, investments and funding activities, including free cash flow. Supported by more effective and efficient resources, methods, techniques, and audit processes, Big Four auditors are very capable of detecting and reporting all forms of irregularities or manipulations that have the potential to be carried out by management in reporting free cash flow. Through this ability, auditors can provide reasonable opinions without exception on cash flow statements, especially free cash flow and other financial statement components.

Reasonable opinions without exception presented in independent auditors' reports can increase investor confidence. This trust will encourage investors to invest in shares in a company. Increasing investor confidence has led to an increase in demand for company shares which has an impact on stock prices which tend to increase. Higher stock prices will result in higher stock returns for investors. Thus, auditor reputation can play an important role as a moderation variable in the relationship between free cash flow and stock returns.

H4: Auditor's reputation moderates the impact of free cash flow on stock returns

The Influence of Auditor Reputation on Leverage and Stock Returns

Leverage is one of the focuses of auditor audits, where auditors will examine large and complex leverage-related accounts and transactions. If the auditor declares that leverage and other components of the financial statements have been presented in a reasonable manner, then the financial statements will receive a fair opinion without exception from the auditor. The auditor's reputation can act as a moderation variable between leverage and stock returns if the auditor who gives a reasonable opinion without exception is an auditor who is included in the category of a reputable Big Four KAP so that it tends to provide high-quality audit results and proves that the audited company's financial statements have been presented accurately and transparently. This can affect public perception, especially investors, of the level of risk that companies face related to leverage.

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When investors are confident in a company's financial statements audited by reputable auditors, they are more optimistic about the company's ability to manage leverage well and generate positive returns on stocks. Therefore, the reputation of auditors can strengthen the influence of leverage on stock returns by increasing investor confidence or confidence and reducing their concerns about possible risks. However, currently, research on auditor reputation as a variable of leverage moderation on stock returns is still limited. Therefore, the hypothesis is formulated as follows.

H5: Auditor's reputation moderates the impact of Leverage on Stock Returns

The Influence of Auditor Reputation on Profitability and Stock Returns

One of the financial ratios used to measure a company's ability to earn a profit is called the profitability ratio. The company's level of ability to generate profits is supported by KAP which has a good reputation in conducting audits. This is due to the availability of more adequate resources in large KAP so that it is able to provide an independent and comprehensive assessment of the company's financial condition and accelerate the financial statement audit process. In addition, a reputable auditor can verify the quality of financial information, especially profitability listed in the company's annual report that is deemed to have been reasonably presented by the Big Four KAP auditors. This information can increase the confidence of investors, creditors, the general public and other users of financial statements related to profitability performance that has an impact on stock returns. This is in accordance with research conducted by Ferdyantara & Kusuma (2018), the better reputation of auditors will have an impact on increasing stock returns which are influenced by the company's profitability. Based on the previous explanation, it can be concluded that the auditor's reputation can strengthen the influence of profitability on stock returns.

H6: Auditor's Reputation moderates the influence of Profitability on Stock Returns

2. Method

2.1 Population and Sample

This research is quantitative research involving 34 technology sector companies listed on the IDX in 2018-2023. Sample selection was carried out using the purposive sampling technique, where samples were determined based on specific research objectives or criteria (Radjab & Jam'an, 2017). Through the sample selection technique, it can be ensured that the selected sample is in accordance with the characteristics and properties to be studied. Samples were taken from 107 financial statements from 32 technology sector companies listed on the Indonesia Stock Exchange in 2018-2023 with the following criteria:

1. A technology sector company listed on the Indonesia Stock Exchange between 2018-2023.
2. Financial statements are prepared in Rupiah.
3. The company did not experience a stock suspension during 2018-2023.

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2.2 Research Variables

Stock Returns

Stock returns (Y) is a dependent variable in this study. Stock returns refer to the results obtained from the results of investment policies that have been implemented by individuals or companies in the form of profits. To find out whether stock returns are positive or negative, stock returns are measured by calculating the difference between the current period and the previous period, taking into account dividends (Ross, Westerfield, & Jordan, 2006). The formula for finding stock returns is as follows.

$$R = \frac{Pt - (Pt_{-1})}{Pt_{-1}} \quad (1)$$

Where:
R = stock returns
Pt = stock price in the current period
Pt_{-1} = stock price in the previous year's period

Free cash flow

Free cash flow is the net cash flow obtained from operational activities after adjustments for capital expenditure and dividends. The measurement of free cash flow is carried out by subtracting the amount of cash from the company's operating activities in the company's cash flow statement with capital expenditure and cash dividends, then dividing by the total cash balance. The following is a formula for finding free cash flow according to Weygandt et al., (2015).

$$FCF = \frac{Operating\ Cash\ Flows - Capital\ expenditure - Cash\ Dividend}{Total\ Cash\ Balance} \quad (2)$$

The measurement of free cash flow can also be calculated by subtracting the current year's profit from dividends and capital expenditure. The use of profit for the current year in the calculation of free cash flow is because the current year's profit reflects the company's ability to generate net profits that can be allocated to dividends and capital expenditures. In addition, the current year's profit also reflects overall financial performance, covering all revenues and expenses. This provides a more complete picture of a company's ability to generate cash after fulfilling all of its obligations, rather than using cash flows from operating activities that only reflect cash generated from core business operations without considering taxes, dividends, or capital expenditures.

Leverage

Leverage is needed to find out whether the company can pay off short-term debt or long-term debt, with the company's assets as collateral or the company's assets in a condition to be liquidated. Through this ratio, management can assess the level of efficiency and optimality in utilizing the resources it has. The method of measuring leverage or debt ratio is to use the Debt-

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to-Equity Ratio (DER) which compares total liabilities, both derived from long-term debt and short-term debt, with the total equity or capital of the company itself (Hermuningsih, Kusuma, Erawati, Rahmawati, 2022). Here's how to calculate leverage using the formula.

$$DER = \frac{Total\ Liabilities}{Total\ Equity} \quad (3)$$

Profitability

One of the financial ratios used to measure a company's ability to earn a profit is called the profitability ratio. In the profitability ratio, there is a Return on Assets (ROA) which is used to find out whether the company is using assets efficiently to generate profits. The calculation of ROA is net profit after tax compared to the total assets of the company listed in the financial statements.

$$ROA = \frac{Net\ Income}{Total\ Assets} \quad (4)$$

Auditor Reputation

The auditor's reputation was chosen as a variable that moderated the relationship between free cash flow and stock returns, leverage with stock returns and profitability with stock returns. Through the audit process, auditors can provide confidence to investors about the reliability and fairness of the company's financial statements presented and disclosed. Therefore, the auditor's reputation can affect investors' perception of the company's financial information so that it can strengthen or weaken the influence between these variables and stock returns.

The reputation of the auditor is measured based on the income of the Public Accounting Firm (KAP). The higher the income generated by KAP, the better the auditor's reputation. To measure the reputation of the auditor, it can be used an assessment scale with the following criteria:

1. Companies that use KAP services listed in The Big Four will be given a score of 5 for the KAP that generates the highest revenue.
2. Companies that use KAP services listed in The Big Four will be given a score of 2 for the KAP that generates the lowest revenue.
3. Companies that use KAP services outside the Big Four list will be given a score of 1 (Suwaldiman & Fitriani, 2023)

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Table 1. Big Four KAP Revenue Worldwide During 2018-2022

Accounting Firm	Revenues (in Billion US$)					Reputation Score
	2018	2019	2020	2021	2022	
Deloitte	43.2	46.2	47.6	50	59.3	5
PwC	41.3	42.4	43	45.1	50.3	4
Ernst & Young (EY)	34.8	36.4	37.2	39.9	45.2	3
KPMG	28.96	29.8	29.22	32.1	36.64	2
Non Big Four						1

Source: *Big 4 Accounting Firms Ranking* | Statista, *Statista* 2023.

The score shows the extent to which the company relies on KAP which is considered to have a high or low reputation judging from the revenue generated by the company. Meanwhile, the assessment scale takes into account the belief that KAPs that have held The Big Four status generally have higher credibility and expertise compared to KAPs outside of that status who may be considered to have a lower reputation.

Scoring as described earlier is called the ordinal assessment scale. The scale classifies objects or individuals into sequential categories based on their relative level but does not provide information about how much the differences between the categories are. In line with the opinion expressed by Kurniawan & Puspitaningtyas (2016) that ordinal scales are a type of measurement scale that makes it possible to identify ranks or sequences between levels, even though the distance or interval between each level is not clearly defined.

2.3 Data Analysis

This study uses descriptive statistics, classical assumption tests, and hypothesis tests as tools to analyze data. The classical assumption test consists of four test tools which include the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Hypothesis testing was carried out through three data analysis tools, namely the significance test (F test), determination coefficient (R2), and T-test.

This study analyzed the data using the moderation regression equation to test the hypothesis. Data analysis was carried out using Statistical Product and Service Solution (SPSS) software using multiple linear regression analysis. The hypothesis was tested using multiple linear regression analysis to determine the influence of independent variables on dependent variables. The analysis model is as follows:

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$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X1Z + \beta 5X2Z + \beta 6X3Z + e \quad (5)$$

Information:

Y	= Stock Returns
α	= constant (intercept)
β1, β2, β3, β4, β5, β6	= regression coefficients
X1	= Free cash flow (FCF)
X2	= Leverage (DER)
X3	= Profitability (ROA)
Z	= Auditor's Reputation
X1Z	= Interaction between free cash flow and auditor's reputation
X2Z	= The interaction between leverage and the auditor's reputation
X3Z	= The interaction between profitability and the auditor's reputation
e	= Error.

3. Results

3.1 Descriptive Statistics and Classical Assumption Tests

The population in this study consists of 34 technology sector companies listed on the Indonesia Stock Exchange from 2018 to 2023. The observation data from the sample that met the purposive sampling requirements was 107. Descriptive statistical analysis is needed to provide an overview or description of the research data being studied. The results of the statistical analysis are presented in the following table:

Table 2. Results of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Stock Returns	107	-.88	27.47	.3946	3.02100
Free cash flow	107	-276.36	78.70	-6.6429	40.94489
Leverage (DER)	107	-1.30	78.61	1.8262	8.02466
Profitability (ROA)	107	-5.90	.54	-.0733	.62415
Auditor Reputation	107	1.00	5.00	1.5327	1.07561
Valid N (listwise)	107				

Source: Data processed, SPSS 25 (2024)

The results of the classical assumption test are presented in the following table:

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Table 3. Classical Assumption Test Results

Test Type	Test Criteria	Test Results	
Normality	Kolmogorov-Smirnov	Asymp. Sig. (2-tailed)	0.072
Multikolinearity	VIF	Free Cash Flow	1.002
		Leverage (DER)	1.033
		Profitability (RoA)	1.003
		Auditor Reputation	1.035
Heroskedasticity	Significant	Free Cash Flow	0.590
		Leverage (DER)	0.794
		Profitability (RoA)	0.655
		Auditor Reputation	0.265
Autokorelation	Durbin Watson		2.101*

Source: Data processed, SPSS 25 (2024)

In the Durbin Watson (DW) test, with a sample count of 107 (N=107), three independent variables, and one moderation variable, the Durbin Watson (d) value of 2.101 was obtained. Using the Durbin-Watson table, the upper limit value (du) is 1.7631. The second upper limit (4-du) is 2.2369 which is obtained from subtraction of 4 with 1.7631. Based on these values, which are 1.7731 < 2.101 < 2.23 (du < d < 4-du), Durbin Watson's value is between the upper limit (du) and the second upper limit (4-du). This indicates that there is no autocorrelation in this regression model.

3.2 Moderated Regression Analysis (MRA)

In the Moderated Regression Analysis (MRA) test, decision-making is seen from a significant value compared to a probability value (0.05). If the significance value is less than 0.05 (the value of sig. < $\alpha = 0.05$) indicates that the existence of the moderation variable reinforces the influence of the independent variable on the dependent variable. Meanwhile, a significance value greater than 0.05 (sig. value > $\alpha = 0.05$) indicates that the presence of a moderation variable weakens the influence of independent variables on dependent variables. Here is an equation from the moderation regression analysis.

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Table 4. Results of Moderation Regression Analysis

Model		Coefficients	Standard Error	t Stat	Sig.
1	Intercept	0.918	0.634	1.449	0.151
	Free cash flow	0.003	0.021	0.143	0.036
	Leverage (DER)	-0.242	0.393	-0.616	0.025
	Profitability (ROA)	0.207	1.152	0.180	0.029
	Auditor Reputation	-0.247	0.314	-0.786	0.434
	FCF* Aud.Reput.	0.002	0.019	0.088	0.930
	Lev. (DER)* Aud.Rep.	0.081	0.132	0.612	0.542
	Prof. (RoA)* Aud.Rep.	-0.007	0.902	-0.008	0.993

Source: Data processed, SPSS 25 (2024)

Based on the results of the regression test in the table above, the multiple linear regression formula is obtained as follows:

$$Y = 0{,}919 + 0{,}003X1 - 0{,}244X2 + 0{,}210X3 - 0{,}248Z + 0{,}002X1Z + 0{,}081X2Z - 0{,}007X3Z + e$$

Y	= Stock Returns
α	= constant (intercept)
β1, β2, β3, β4, β5, β6	= regression coefficients
X1	= Free cash flow (FCF)
X2	= Leverage (DER)
X3	= Profitability (ROA)
Z	= Auditor's Reputation
X1Z	= Interaction between free cash flow and auditor's reputation
X2Z	= The interaction between leverage and the auditor's reputation
X3Z	= The interaction between profitability and the auditor's reputation

4. Discussion

4.1 The Impact of Free Cash Flow on Stock Returns

Based on the results of previous tests, the first hypothesis (H1) which states that free cash flow has a positive impact on stock returns is proven to be accepted. It is known from the results of regression testing that the free cash flow variable shows a beta coefficient value of 0.003 with a significance value of 0.036. When compared, the significance value has a value of less than 0.05 so it can be concluded that free cash flow has a positive and significant impact on stock returns. The higher the free cash flow, the greater the potential for stock returns obtained by the company. Companies with high free cash flow indicate that they have cash or enough to invest or distribute to shareholders after all of the company's operational and capital expenditure needs

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have been met. The cash or funds will later be used for business expansion, investment in new projects, or used in other purposes, without relying on external funding from creditors. If the company uses the free cash flow for profitable investments, this can contribute to better company growth in the future, which has the potential to increase stock returns.

High and positive free cash flow also indicates that the company is in a healthy and good financial condition. Investors see it as a profitable company because it is stable and maintains high and positive free cash flow. This opens up opportunities for companies to distribute dividends to shareholders. This dividend distribution can increase the attractiveness of the company's shares for investors, thereby encouraging an increase in stock prices and increasing stock returns. The results of this study show similar results to research by Nuryani & Aribowo (2023) which proves that free cash flow has a significant impact on stock returns.

4.2 The Impact of Leverage on Stock Returns

Based on the results of the previous test, the second hypothesis (H2) which states that the leverage measured by the Debt-to-equity ratio (DER) has a positive impact on stock returns is not proven or rejected. It is known from the results of regression testing that prove that the leverage variable shows a beta coefficient value of -0.242 with a significance value of 0.025. When compared, the significance value has a value of less than 0.05 so it can be concluded that leverage has a negative and significant impact on stock returns. The difference in the direction of the opposite influence is the reason why this second hypothesis is rejected.

Companies with high DER reflect a high proportion of funds sourced from debt as well. If the DER shows too high a figure, then it can be said that the company's performance deteriorates because the company relies more on debt to acquire capital. In addition, a high DER also indicates that the company has large long-term debts so it will affect the company's debt obligations to creditors. With the great dependence on external parties related to capital sources and the company's burden on creditors increasing, the company's risk also increases. As a result, investors may be reluctant to invest in companies with these conditions so there is a decline in stock returns.

The results of the study show that when the value of DER increases, the stock returns tend to decrease. And vice versa, when the value of DER is low, the stock returns tend to rise. A high DER value indicates that the company has a lot of debt and a high financial burden. This is evident from 107 research samples from 32 companies during the period 2018-2023, where the results of the leverage calculation are dominated by figures close to 100%. The implication is that investors' concerns increase and their interest in companies with high DER that have high-risk potential also decreases, so that stock prices and stock returns decrease. This research is strengthened by research conducted by Putri & Kufepaksi (2023) which states that DER has a negative impact on glamour stock returns. This happens because the returns on glamour stocks decrease when the company's DER increases. Therefore, the results of the research by Putri & Kufepaksi (2023) also refute the second hypothesis in this study.

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4.3 The Impact of Profitability on Stock Returns

Based on the results of previous tests, the third hypothesis (H3) which states that profitability measured by Returns on Asset (ROA) has a positive impact on stock returns is proven to be accepted. It is known from the results of regression testing that the profitability variable shows a beta coefficient value of 0.207 with a significance value of 0.029. When compared, the significance value has a value of less than 0.05 so it can be concluded that profitability has a positive and significant impact on stock returns. The profitability represented by ROA is a parameter to determine the extent to which the company is able to utilize its assets to generate profits. The higher the company's profitability level, the higher the returns on shares received by investors. A high level of ROA also indicates good company performance where assets are appropriately utilized to generate profits or profits. If the ROA level is low, it is a sign that the company is not managing the company's assets effectively.

The results of this study are supported by Silver et al., (2023) those who found that the profitability represented by ROA has a positive and significant impact on stock returns. In its findings, it was emphasized that investors are more interested in investing in companies that show high levels of ROA than in other companies with low levels of ROA. This is due to the fact that the higher the profit or profit generated by the company, the stock returns will also increase.

4.4. The Impact of Auditor Reputation on Free Cash Flow and Stock Returns

Based on the results of the previous test, the fourth hypothesis (H4) which states that the auditor's reputation moderates the impact of free cash flow on stock returns is not proven or rejected. It is known from the results of regression testing that proves that the interaction between free cash flow and auditor reputation shows a beta coefficient value of 0.002 with a significance value of 0.930 When compared, the significance value has a value greater than 0.05 so it can be concluded that the interaction between free cash flow and auditor reputation shows an insignificant influence on stock returns.

If investors have confidence that the free cash flow data reported by the company in the annual report has been presented accurately, transparently, and reliably, then the auditor's reputation is not considered a crucial aspect of investment decision-making by investors. This is due to investors' belief that in the reporting process, the company has followed the applicable accounting standards. With this belief, the task of high-reputation auditors, both from the Big Four and Non-Big Four in verifying the fairness of cash flow statements, especially free cash flow, no longer plays a role in moderating the relationship between free cash flow and stock returns.

4.5 The Impact of Auditor Reputation on Leverage and Stock Returns

Based on the results of previous tests, the fifth hypothesis (H5) states that the auditor's reputation moderates the influence of leverage on stock returns is not proven or rejected. It is known from the results of regression testing that proves that the interaction between leverage and the auditor's reputation shows a beta coefficient value of 0.081 with a significance value of 0.542 When

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compared, the significance value has a value greater than 0.05 so it can be concluded that the interaction between leverage and the auditor's reputation shows a non-significant influence on stock returns.

Although the auditor conducts a corporate leverage check, the auditor has no direct control over the company's debt management or financial decisions related to leverage. If the company has high debt, auditors, both from the Big Four KAP and the Non-Big Four KAP do not guarantee that the financial risk will be reduced or that the company will not experience financial difficulties in the future. Debt management remains the responsibility of the company's management, whereas auditors cannot prevent or address the risks that arise as a result of enormous debt. Therefore, the auditor's reputation does not moderate the influence of leverage on stock returns.

4.6 The Impact of Auditor Reputation on Profitability and Stock Returns

Based on the results of the previous test, the sixth hypothesis (H6) which states that the auditor's reputation moderates the influence of profitability on stock returns has been proven to be rejected. It is known from the results of regression testing that the interaction between profitability and auditor reputation shows a beta coefficient value of -0.007 with a significance value of 0.993. When compared, the significance value has a value greater than 0.05 so it can be concluded that the interaction between profitability and the auditor's reputation shows a non-significant influence on stock returns.

The factor that causes the auditor's reputation not to moderate the impact of profitability on stock returns is suspected because investors do not see the auditor's reputation as a factor to consider. This is because most companies listed on the IDX must use the services of experienced auditors from reputable KAP with good audit standards, even though they are not included in the Big Four category. Investors may focus more on other factors that are considered to more directly affect the company's performance, such as risk management and expansion strategies, among others. Therefore, the auditor's reputation does not have a significant influence on the company's performance and the quality of financial statements. The results of this study are not in line with Ferdyantara & Kusuma (2018) the results of their research, namely the reputation of auditors plays a role in strengthening the influence of profitability on stock returns. Ferdyantara & Kusuma (2018) argue that the better the auditor's reputation, the more the stock returns will increase which is influenced by the company's profitability.

5. Conclusion

This study examines the influence of free cash flow, leverage, and profitability on stock returns with the auditor's reputation as a moderator. The results of the study show that free cash flow has a significant positive impact on stock returns. The higher the free cash flow, the higher the stock returns in the company concerned. The increase in free cash flow will be responded to positively by investors so that it tends to increase stock prices and ultimately increase stock returns.

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This study also concludes that leverage measured by debt to equity ratio has a significant negative impact on stock returns. Information on increased leverage will be responded to negatively by investors, so it will lower the stock price and ultimately decrease the stock returns. The leverage in this study shows that every increase in investment risk in the company in question is an increase in investment risk, and any increase in investment risk will be responded to negatively by investors.

This study also proves that profitability has a significant positive impact on stock returns. Similar to the free cash flow variable, any increase in the company's profitability will be responded positively by investors so that it will increase stock returns.

The reputation of auditors as a moderation variable has not been proven to be able to strengthen the influence of free cash flow, leverage, and profitability on stock returns. In this study, whoever is the company's auditor is not an important piece of information that investors must consider in making investment decisions. Auditors are reputable or not do not seem to make investors change investment decisions to buy, sell, or hold shares.

This study is limited to using samples from technology sector companies. This limitation has an impact on the number of samples studied and only focuses on technology sector companies listed on the Indonesia Stock Exchange during 2018-2023. The number of companies in the technology sector is relatively small compared to other sectors, with a total population of 34 companies and only 32 companies that meet the sample criteria.

The variable moderating the auditor's reputation is also a limitation of this study. This study measures the reputation of auditors based on the annual income obtained by each KAP. It is possible that the annual income ranking of each KAP may not always reflect its reputation ranking.

For the next researcher, it is recommended to explore other moderation variables considering that in this study the reputation of the auditor does not moderate the influence of independent variables on dependent variables. It is also recommended to measure auditor reputation using criteria other than annual revenue and not just classifying between the big four and non-big four auditors. Researchers can then conduct research with a larger sample count, a longer period of time, and different sectors or industries. This is to see whether the results of the research conducted are consistent or there are changes, considering that each sector may have different financial characteristics that can affect the relationship between independent variables and dependent variables.

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