An Analysis of Effect of Free Cash Flow And Profitability on Leverage Companies With Investment Opportunity Set As Variable Moderating on Trade, Services & Investment Sectors Listed on BEI

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Abstract. The decline in the purchasing power of the public, as seen from the decline in the growth of Trade, Services and Investment sector in the retail sector subsector Retail sub-sector condition has been 2.5 years underperformance This study aims to test whether the influence of Investment Opportunity Set (IOS) free cash flow and profitability to leverage. Population in this research is Trade Company, Services & Investment, retail subsector, which is listed on BEI. period 2014-2016, ie as many as 23 Companies. Using the technique of porposive sampling, the sample in this study were 15 companies. Data analysis technique that is regersion analysis by using moderating variable. From the test results, showed that the Free cash flow has a significant effect on leverage, which is indicated from the significance value> 0.05 is 0.018. Profitability has a significant effect on firm leverage which is shown from significance value> 0.05 ie 0.000. IOS does not affect the relationship between free cash flow and leverage, as indicated by the significance value of IOS interaction with free cash flow <0.05 is 0.053. And IOS Set affects the relationship between Profitability with leverage shown from the significance value of IOS interaction with Profitability> 0.05 is 0.044.

1. Introduction

Leverage is basically very necessary as a tool to measure how much the use of debt in a company. Leverage can be used as a reference for both companies and investors in the use of debt rather than equity. Measuring the number of assets to be financed by debt also uses leverage. The creditor finances the asset in the form of debt usage, while the debt used is not from investors or shareholders (Sudarmadji et al., 2007). In meeting the operational needs of an enterprise, some sources of funds come from debt, thus the company must fulfill its obligations in accordance to the agreement with the parties concerned. In paying off the debt, each company should see the level of leverage from a company.

Pecking Order Theory Myers and Majluf (1984) in (Hardiningsih & Octaviani, 2012) explain that a company determines the most preferred hierarchy of funding sources. This theory is based on the existence of asymmetric information, which is a situation where the management has a more information about the company than any capital owner. This asymmetric information will influence the choice between the use of internal funds or external funds as well as among the options of adding new debt or new equity issuance. According to Sunder and Myers (1992) in (Indahningrum & Handayani, 2009), in the simplest form, the pecking order model in the company's funding explains that when the internal cash flow situation is insufficient to fund real and dividend investment, companies will do debt issuance.

In 2017, the decline in public purchasing power is evident in the decreasing growth of Trade, Services and Investment sector, which is in the retail subsector. In the retail subsector, one can see minus growth, the sluggishness retail sales have been occurring since 2.5 years ago, the underperformance condition of the present retail industry subsector for 2.5 years, which makes the situation of retailers in Indonesia are in a slump. As for the impact it will have on the retail companies (retail trade), if the purchasing

power drops continuously, the retail industry will undergo decreasing sales, which is based on the data recorded at the National Development Planning Agency show that real retail sales growth of 16.3 percent in June 2016, dropped to 6.7 percent in June 2017. Meanwhile, the debt used in the company's operational activities continues to grow. This difficulty of companies experience in paying off debts, will lead to other impacts, e.g. investors' interest will be reduced (Liputan6, 2017).

Leverage, according to Brigham and Houston in his book entitled Fundamentals of Financial Management (2010: 140), is to what extent the company uses its funding through debt. According to (Gunawan et al, 2015) financing the assets of a company in order to run the operational activities of the company by using debt is the notion of leverage. According to (Dewi, 2012), leverage by ratio is between total liabilities to total assets. The higher the level of debt to a company, the higher the risks will be faced by the owner, where the owner will ask for the higher profits rate for the company providing it is not threatened to be liquidated.

Free cash flow is an actual cash flow which is distributed to investors when the company has made all necessary investments and capital to maintain the sustainability of a company's operations. Besides, the cash obtained from an operating activity minus capital expenditures is required to maintain the current level of operations. Therefore, the researcher shall identify the capital expenditures in the investment cash flows in relation to maintaining ongoing operations, including the ones in free cash flow (Suastawan, 2014).

Profitability is a company's ability to generate profits during certain periods. Profitability shows the proportion of earnings with assets or capital earning profits. Profitability describes the company's ability to earn profit through all capabilities, as well as the available resources such as cash, capital, sales activities, number of employees and branches, and others. Besides, profitability, i.e. the ability of the company in obtaining profit during a certain period, can be calculated through the sale / total assets / capital itself (Novelma, 2014)

Investment Opportunity Set that is part of the value of the company and is the result of choices in making future investment decisions. Moreover, Opportunity Set Investment is an opportunity in the form of a combination of assets owned and investment options in the future. The higher the opportunity of investment, the less the dividend to be, since it will be better if the fund placed in the investment that produces a positive NPV level (Natalia, 2013).

Several previous studies have examined leverage using moderating variables, e.g. the research conducted by (Kennedy, 2009) that examines the Influence of Dividends, Free Cash Flows, Firm Size, Profitability and Risk on Leverage Corporate with Investment Opportunity Set (IOS) As Variable Moderating. Their findings show that IOS does not affect the relationship between free cash flow leverage and corporate, but it strengthens the relationship between profitability and corporate leverage. However, (Masruroh et al, 2011) resulting in moderated regression analysis conclude that free cash flow affects the level of corporate leverage. From two studies conducted by (Kennedy, 2009) and (Masruroh et al, 2011) who find different results, there may be other factors that lead to the different results of the two researches.

1.1. Free Cash Flow on Leverage

The existence of free cash flow for the company has the potential to create an agency conflict between shareholders and managers. Basically, shareholders prefer that the remaining funds to be distributed to them in the form of dividends. Whereas, in investing available funds, managers prefer to invest in more profitable projects in the hope of increasing incentives for them in the future. Jensen (1986) in (Fitriyah & Hidayat, 2006) argues that one solution to reducing agency costs arising from this agency conflict is by acquiring debt. With debt, the manager is motivated to work. Another research suggests that free cash flow as a description of the available cash after fulfilling all obligations or responsibilities, namely the need for payment to run an operating activity. Another opinion is that free cash flow reflects the available cash after the operating costs being deducted, both to increase working capital and operating assets maintenance (Suastawan, 2014).

In a research conducted by (Indahningrum & Handayani, 2009), they show that free cash flow affect the company's debt policy (leverage). Research about Free cash flow on debt is also done by (Nurwahyudi, 2004), which shows how free cash flow affects the debt (leverage).

H_1 : It is suspected that free cash flow has a positive and significant impact on leverage corporate.

1.2. Profitability to Leverage

Profitability reflects earnings for investment funding. It advises managers to use pecking orders in funding decisions. Pecking Order is a sequence in the use of funds for investment i.e. profits are retained as the first option, and then it will be followed by the retaining of debt and equity. If it is true, the implication is that there is a negative relationship between profitability with debt ratio. The insider does not want to share the profits with the creditor so that there is a tendency towards a smaller company debt ratio (Indahningrum & Handayani, 2009). Based on the agency theory companies with high profitability value should utilize debt to reduce misuse of funds by managers who do not pay attention to shareholder needs. Companies that generate high profits will certainly make every shareholder propose share of profits in the form of dividend. Increasing profits will make them think that they have a big enough opportunity to be able to further develop their business. To meet the need for large investments, additional funds derived from debt are required.

In a study that was presented by (Suastawan, 2014), he shows that there is a significant influence between profitability variables on the company's debt policy (leverage). The research that was conducted (Indahningrum & Handayani, 2009) shows that profitability has an impact to the debt policy (Leverage). Research related to the influence of profitability to leverage also conducted by (Nabela, 2012), his research shows that profitability affect the debt policy.

H_2 : It is assumed that profitability has a negative and significant effect on company leverage

1.3. Investment Opportunity Set company as a moderator of Free Cash Flow relationship to Leverage.

Jensen (1986) in (Kennedy, 2009) states that debt can reduce the flexibility of management in using free cash flow for activities with non-maximize value. With the debt, the manager must pay the principal and interest on the loan periodically and must comply with the terms of the debt agreement. Jensen also expresses the tendency of managers to waste on free cash flow is greater in companies with investment opportunity set low. Therefore, more oversight is required for companies having high free cash flow rates with investment opportunity sets low. However, according to Myres (1997) in (Masruroh et al., 2007) firms with high investment opportunity set (IOS) indicate that the company value is determined more by intangible assets than real assets. The characteristic of this company is that it has limitations in getting the debt, because they lack the real assets that can be used as debt guarantees. In addition, high investment opportunity set (IOS) reflects the high risk as will be borne by each lender thus causing cost of debt for the company as well as the company's ability to get access to the lenders.

In a study put forward by (Kennedy, 2009) on the effect of Investing Opportunity Set (IOS) on the relationship between free cash flow and leverage corporate, it shows that IOS does not affect the relationship between free cash flow and leverage corporate. While the research conducted by (Masruroh et al, 2011) shows that Investment Opportunity Set (IOS) is not.

H_3: It is suspected that Investment Opportunity Set (IOS) has no effect on the relationship between Free cash flow with leverage corporate.

1.4. Investment Opportunity Set as a Moderate to Profitability Relationship with Leverage

According to Amiruddin (2003) in (Kennedy, 2009) companies with high growth opportunities, the debt ratios are negatively correlated with firm value, because managers always have information advantages compared to outsiders. For market observers, the debt ratio can be viewed as a signal, potentially there is a negative correlation between debt and firm value when the company has a prospective growth opportunity. Anggria (2006) in (Kennedy, 2009) states profitability simultaneously significant effect on company leverage. This shows that the higher portion of funds available in financing the company's

operations and Investment Opportunity Set derived from retained earnings (earnings), the higher the level of corporate leverage.

In a study conducted by (Kennedy, 2009) on the effect of Investments Opportunity Set (IOS) on the relationship between profitability and corporate leverage, it shows that the Investment Opportunity Set (IOS) affects the strength of the relationship between profitability and corporate leverage. Meanwhile, research conducted by (Rahayu & Wirawan Yasa, 2018) show different results; it shows Investment Opportunity Set is unable to strengthen the negative impact of profitability on debt policy.

H_4: It is suspected that Investments Opportunity Set (IOS) has a significant effect on the relationship between profitability and leverage corporate.

2. Research Method

This research is quantitative. Quantitative research is a method of research based on the philosophy of positivism, which is used to examine the population or certain samples, the data collection using research instruments, and the data analysis that is quantitative or statistical, which aims to test the hypothesis that has been established (Sugiyono, 2015). The object of this research is the Trade, Services and Investment sectors listed on the Indonesia Stock Exchange. The population in this study is all Trade, Services and Investment listed on Indonesia Stock Exchange which amounts to 98 companies in 2014-2016. Sampling technique is Sampling Purposive. From the technique, the research samples that meet the overall criteria of 15 retail companies. The data in this study are quantitative data sourced from secondary data in the form of financial statements of the sample companies published on the Indonesia Stock Exchange website www.idx.co.id

Variable Operational Definition

No	Variable	Defense	Measurement	Source
1	Debt Equity Ratio (DER)	Comparison between total debts with total assets (equity).	Debt Equity Ratio (DER) = $\frac{Total\ Hutang}{total\ aset}$	(Brigham & Houston, 2010)
2	Free Cash Flow	Reduced operating cash flows with net capital expenditures and net working capital	FCF = Operating cash flow - Investments in operating capital	(Brigham & Houston, 2010)
3	Return On Investment (ROI)	Comparison between profit after tax and total assets	ROI = $\frac{\text{Laba Setelah pajak}}{\text{total aset}}$	(Brigham & Houston, 2010)
4	Market to book value of equity (MVEBVE)	Pervandingan between outstanding shares outstanding multiplied closing share price with total equity	MVEBVE = $\frac{\text{Lembar Saham Beredar x harga saham penutupan}}{\text{total ekuitas}}$	(Masruroh et al, 2011)

2.1. Data Analysis Technique

1. Descriptive Statistical Analysis

   Descriptive statistics are statistics that serve to describe or provide an overview on the object under study based on data samples or population as it should, without doing analysis and make conclusions that apply in general. In descriptive statistics, researchers put forward the ways of data presentation in the form of regular tables or frequency distribution, with graphs, pictograms and

circle diagrams (Sugiyono, 2015).

2. Classic Assumption Test
   The classic assumption test conducted in this study consisted of three tests namely normality test to see whether the data used was normalized by looking at the test by Kolmogorov-Smirnov test with, multicollinearity test to see if there was correlation between independent variables by looking at the value tolerance and VIF values, and heteroscedasticity test to see if there was a variance inequality of one observation residual to another observation by looking at the significant value of alpha 0.05 (Ghozali, 2012)
3. Regression Analysis with Moderating Variables
   Linear regression analysis by using the moderating variable was used to look at a relationship between a dependent variable (bound) with two or more independent variables (free) in stage I (one). While in phase II (two), linear analysis with moderating variable was used in seeing the influence of moderation in influencing the relationship between independent variable to dependent variable
   The equation in this research was:
   1. Regression Analysis Stage I
      $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$
   2. Regression Analysis Stage II
      $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_1 X_1 * Z + \beta_2 X_2 * Z$

   Where: Y = Leverage
   A = Constant Number
   β_1 = Coefficient Regression Free cash flow
   β_1 = coefficient of regression Profitability
   X_1 = Free cash flow
   X_2 = Profitability
   Z = Investment Opportunity Set (IOS)

4. Hypothesis Test
   - test F (simultaneous) is an association test regression simultaneously from variable-dependent variable(dependent)which aims to do together all independent variables (independent) have a significant influence on the variable dependent
   - T test, this test was used to see the effect of independent variable to partially dependent variable.
   - The coefficient of determination was used to measure the extent of the ability of the independent variable (X) in explaining the dependent variable (Y). Adjusted R Square ($R^{2)}$, which is between the value of zero to the value one.

3. Results And Discussion

3.1. Statistical analysis Descriptive

Based on the analysis of the description of the variables that have been done, the characteristics used in the study were then displayed, which include: number of samples (N), the lowest value (minimum), the highest value(maximum), the value of the sample average (mean) and standard deviation on each variable.

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Leverage (Y)	45	.01	9.55	.7584	1.47757
Free Cash Flow (X1)	45	-2.08	6.58	9.0242	1.61652
Profitability (X2)	45	-.68	.46	.0400	.16295
Investment Opportunity Set (Z)	45	-.60	243.25	9.0685	36.51224
Valid N (listwise)	45				

In the table above shows that the amount of data used in this study is as many as 45 samples, Lowest

value and highest value Leverage, Free Cash Flow, Profitability and Investment Opportunity Set can be seen in the table above. The average value of each variable and the standard deviation of each variable are also shown in Table 1.

3.2. Classic Assumption Test

3.2.1Normality Test.

In detecting the data distributed normally or not normally data this study used One-Kolmogorov-Smirnov test. In making the decision of this normality test, the value of Asymp.Sig (2-tailed) was observed. If the value of Asymp.Sig (2-tailed) > α = 0.05, then the data is normally distributed

Table 2
Normality Test Results

	Standardized Residual	Description
Kolmogorov-Smirnov Z	1,095	Normally distributed data
Asymp. Sig. (2-tailed)	0.182	

Source: Data Processed

Table 2 shows One-Sample Kolmogorov-Smirnov test. The result of the test demonstrates the asymp. standardized residual sig was 0.182. It can be concluded that the significant value was greater than alpha 0.05 thus it indicates normal distributed data.

3.2.2. Multicollinearity Test

Detecting the presence or absence of multicollinearity symptoms in the regression model, can be done from observing the tolerance and variance inflation factor (VIF). The cut-off common value used to indicate the presence of multicollinearity was the value tolerance <0.10 or equal to the VIF value> 10 (Ghozali, 2012).

Table 3
Multikoliniearitas Test Results

No.	Variable	Tolerance	VIF	Specification
1	Free Cash Flow (X1)	0807	1239	Did not happen Multicollinearity
2	Profitability (X2)	0807	1239	Did not happen Multicollinearity

Source: Processed Data

Based on Table 3 it can be concluded that the regression model was free from multicollinearity. This is evidenced by the values tolerance obtained for all the large independent variables of 0.10 and the VIF (variance inflation factor) value below 10. Where the variable Free cash flow shows that the tolerance value was 0.807> 0.10 , the VIF value was 1.239 < 10 , Profitability shows that the tolerance value was 0.807> 0.10 and the VIF value was1,239 <10

3.2.3. Heteroscedasticity Test

Heteroscedasticity test was performed to see if there was any uniformity of variance from residual one observation to other observation.

Table 4
Heteroskedasticity Test Results

No	Variable	Alpha	Asymp.Sig	Description
1	Free Cash Flow (X1)	0.05	1,000	No Heteroscedasticity
2	Profitability (X2)	0.05	1,000	No Heteroscedasticity

Source: Processed Data

Based on the results of heteroscedasticity test, it can be seen in table 4 above shows that the value of Asymp. Sig on all independent variables were greater than alpha 0.05 so it can be concluded that all independent variables in this study did not experience heteroscedasticity.

3.3. Linear regression analysis with moderating variables

The linear regression analysis with moderating variable was used to look at the relationship between a dependent variable with two or more independent variables in phase I (one). While in phase II (two), linear analysis with moderating variable was used to see the effect of moderation in influencing the relationship between independent variable to dependent variable.

Table 5
Linear regression analysis with moderating variables Phase I
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.815	.177		4.610	.000
Free Cash Flow .289.018	2,637	.000		2,461	(X1)
Profitability (X2)	-7347	1063	-.810	-6912	.000

Source: SPSS Data

Based on a linear regression analysis stage I obtained, the value of regression coefficient of free cash flow was 2.637 with positive parameters in which it can be concluded that any single-unit increase of free cash flow would result in the increase of coefficient value Leverage of 2.637. The Reitability Coefficient value of Profitability was -7.347 with negative parameters, which be concluded that each increase of one-unit Profitability would result in decrease of coefficient value Leverage equal to -7,347

Stage 2 (two) regression analysis was used to analyze influence of moderation. In this study regression analysis of the second stage was used to analyze the effect of Investment Opportunity Set moderation on the relationship between Free Cash Flow and profitability with company leverage. The technique used in multilevel regression analysis was Moderating Regression Analysis or MRA.

Table 6
Linear regression analysis with moderating variable Phase II
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.689	.163		4.214	.000
Free Cash Flow 5,692.623		.000	(X1)	2,699	.010
Profitability -9,150-1,009 -9,140		1,001		(X2)	.000
Interaction IOS * FCF	-9183	.000	-8652	- 1.990	.053
Interaction IOS * Profitability	.411 8,903.044			2,080	.856

a. Dependent Variable: Leverage (Y)

Source: SPSS Data

Based on the data analysis, the following equation was obtained:

$Y = a + \beta_1 X_1 + \beta_2 x_2 + \beta_1 X_1 * Z + \beta_2 X_2 * Z$

$Y = 0.689 + 5.692X_1 - 9{,}150X_2 - 9.183X_1 * Z + 0.856 X_2 * Z$

From the equation of moderating variable it is known that the interaction t value between Free Cash Flow to the Investment Opportunity Set of -1.990 with a significance value greater than 0,05 i.e. 0,053. It can be concluded that the variable Investment Opportunity Set did not affect the relationship between Free Cash Flow (X_1) with leverage corporate. It is also known that t value interaction between Profitability with Investment Opportunity Set of 2.080 with small significance value of 0,05 was 0,044. It can be concluded that variables Investment Opportunity Set had a significant effect on the influence of Profitability with variable Leverage.

Test f (Simultaneous Test)

Table 7
F Test
ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
–	Regression	51 327	2	25 664	24 095	.000[a]
	Residual	44 734	42	1,065		
	Total	96 062	44			

Source: SPSS Data

Based on Table 7 above, the amount of F obtained was 24.095, with a significance value used $\alpha = 0.05$. It can be concluded that the model used in this study was acceptable.

Test t (Partial)

Table 8
Statistical Test Results t
Linear Regression Analysis Phase I and Phase II

Variable	Phase I		Phase II	
	T	Sig.	t	Sig
(Constant)	4,610	0,000	4,214	0,000
Free Cash Flow (X_1)	2,461	0,018	2,699	0,10
Profitability ($X2_)$	-6,912	0,00	-9,140	0,000
IOS Interactions * FCF			-1,990	0.053
IOS Interactions * Profitability			2.080	0.044

Source: Data Processed

The results of the t statistical test (t test) on this research were as follows:

1. From t test on the variable Free Cash Flow (X_1) was obtained $t_{arithmetic} > t_{table}$. i.e. the value of t arithmetic of 2.461> 2.01669 with significant value 0.018. It was smaller than a significant level of 0.05 (5%). This shows that the variable Free Cash Flow (X_1) had positive and significant effect to Leverage (Y). The result of this t test supported hypothesis 1 (H_1).
2. T Test on the variable Profitability (X_2) $t_{arithmetic} > t_{table}$ was the value of t arithmetic -6.912 <2.0166 with a significant value of 0.000. It was smaller than a significant level of 0.05 (5%). This shows that the variable Profitability (X2) had a negative and significant effect on variable Leverage (Y). The result of this t test supported hypothesis 2 (H_2).
3. The moderating variable in this research was Investment Opportunity Set (Z) obtained $t_{count} > t_{table}$ on interaction Investment Opportunity Set (Z) with Free Cash Flow (X1) that was equal to -1,990 <2.0166 with significant value 0,053. It was bigger than significant level 0, 05 (5%). This indicates that the variable Investment Opportunity Set (Z) did not impact the influence of Free Cash Flow (X1) with variable Leverage (Y). This t test result supported hypothesis 3 (H_3).

4. The moderating variable in this research was Investment Opportunity Set (Z) obtained by $t_{count} > t_{table}$ on interaction Investment Opportunity Set (Z) with Profitability (X2) 2,080> 2.0166 with significant value 0.044. It was smaller than significant level 0,05 (5%). This indicates that the variable of Investment Opportunity Set (Z) affect the strength and was significant to the influence of Profitability (X2) with variable Leverage (Y). This t test result supported hypothesis 4 (H_4).

Test R^2 (Coefficient of Determination)

Table 9
Test R^2
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.731[a]	.534	.512	1.03204

a. Predictors: (Constant), Profitability (X2), Free Cash Flow (X1)

Source: SPSS Data

Based on the results of the determination coefficient test, it can be seen that the Adjusted R Square value was 0,512. This shows the variability of the dependent variable explained by the independent variable of 51.2% or 51.2%. It means that the levels leverage were influenced by Free cash flow ($X_{1),}$and profitability ($X_{2),}$while the remaining 48.8% was influenced by other variables not investigated in this study such as Managerial Ownership, Institutional Ownership, Dividend and Growth of the Company.

4. Discussion

Based on the testing of hypotheses by testing the regression equation the result can be obtained as follows:

1. Effect of Free Cash Flow to Leverage

The results of the hypothesis testing conducted on the hypothesis 1 indicate that the variable Free Cash Flow affected the leverage, which was seen from the significant value of 0.018. It was smaller than the significance level of 0.05 (5%). It can be concluded that Free Cash Flow was positively impact and was significant to the leverage. As the argument proposed by Junaidi (2012) in (Zuhria, 2016), the greater free cash flow, the lower debt policy of the company. It can be concluded that there was influence of free cash flow to leverage.

The results were consistent with the research by (Indahningrum & Hand, 2009) which examines the company Effect of Managerial Ownership, Institutional Ownership, Dividend, Growth Company, Free Cash Flow and Profitability of the Company Debt Policy of the manufacturing and non-manufacturing companies. They did not include actively financial companies in IDX in which their research results show that Free Cash Flow has positive and significant impact on leverage. The results of this study were also consistent with studies conducted by(Nurwahyudi, 2004) which examines the influence of Free Cash Flow to Debt, in which their research results show that the free cash flow affect the debt.

2. Profitability influence on Leverage

The results of hypothesis testing has been done on the hypothesis 2 show that variables affect the profitability of leverage, which can be seen the significant value gained from the 0,000 that is equal to the significance level of 0.05 (5%). It can be concluded that the profitability of a significant negative effect on leverage.

According to the citation by Anggria (2006) in (Kennedy, 2009) conclude that if profitability increases, the proportion of debt (leverage) will decrease, where it can be concluded that the influence of profitability on Leverage. The results of this study in accordance with the research that has been done by (Suastawan, 2014) that examines Effect of free cash flow and profitability in the debt policy on real estate companies, in which the research results showed that significantly influence Leverage

Profitability. The results of this study were also consistent with studies conducted by (Nabela, 2012) that examines Effect of Institutional Ownership, Dividend Policy and Policy Against Debt Profitability On Property and Real Estate Company in Indonesia Stock Exchange, where the research results show that the profitability effect on debt policy.

3. Effect of Free Cash Flow to Leverage Investment Opportunity Set as moderating

The results of hypothesis testing conducted on the hypothesis 3 indicate that the variable Investment Opportunity Set did not affect the relationship with the Free Cash Flow Leverage variables. It can be seen from the significant value gained from interaction Investment Opportunity Set with Free Cash Flow amounting to 0,053 which is greater than the significance level of 0.05 (5%). It can be concluded that Investment Opportunity Set did not affect the influence of the Free Cash Flow with variable leverage.

Jensen (1986) in (Kennedy, 2009) state that debt management can reduce the flexibility to use free cash flow for non-maximize value activities. The debt causes the manager obligated to pay principal and interest on the loan periodically and should comply with the provisions of the loan agreement. Jensen also said the tendency of managers to waste on free cash flow greater in company investment opportunity set low. Therefore, more oversight needed against companies contained high levels of free cash flow with lower investment opportunity set. This research results were consistent with the results of the research done by (Masruroh, 2011) that examined Moderating Effect Analysis Investment Opportunity Set with the Dividend Policy and Investment Opportunity Set Moderating the Free Cash Flow to the Leverage Levels Food and Beverage Companies Listed in the Stock Exchange, where the research results showed that Investment Opportunity Set no affect the relationship between Free Cash Flow with variable leverage. The results of this study were also consistent with studies conducted by(Kennedy, 2009) that examines Effect of Dividend, Free Cash Flow, Company Size, Profitability and Leverage Risks to the Company with the Investment Opportunity Set (IOS) As Moderating Variables in Manufacturing Companies listing on the Stock Exchange, where the research results showed that Investment Opportunity Set did not affect the influence of the Free Cash Flow with variable Leverage

4. Profitability influence on Leverage Investment Opportunity Set as moderating

The results of hypothesis testing conducted on the hypothesis 4 show that the variable Investment Opportunity Set strengthen and has significant effect on profitability with variable leverage effect. The significant value gained from the interaction between Investment Opportunity Set and profitability was 0,044, which was smaller than the significance level of 0.05 (5%). It can be concluded that Investment Opportunity Set strengthen and was significant to the influence of Profitability with Leverage variable.

Ismiyanti & Hanafi, (2004) also state that there is a negative relationship between profitability and debt. In accordance with the pecking order theory, the higher the profitability of the company resulted in the greater availability of internal funds used in investment. It makes use of debt. Rofniati, The results wereconsistent with the results of the research done by (Kennedy, 2009) that examines Effect of Dividend, Free Cash Flow, Company Size, Profitability and Leverage Risks to the Company with the Investment Opportunity Set (IOS) As Moderating Variables in Manufacturing Companies listing on the Stock Exchange, where the research results show that Investment Opportunity Set affected the relationship between the variables Leverage Profitability. Nevertheless, it was different from the results of research conducted by (Rahayu & Wirawan Yasa, 2018), which examines Investment Opportunity Set(IOS) As As moderating Effect of Managerial Ownership Against Profitability and Debt development policy. Their research results show that the Investment Opportunity Set was not able to amplify a negative effect on the profitability of the debt policy. In other words, Opportunity Set affected the relationship between the variables Leverage Profitability

5. Conclusion

From the results of hypothesis testing done on the analysis of Effect of Free Cash Flow and Profitability to Leverage Investment Opportunity Set For moderating variables , the following conclusions can be drawn:

1. Variable Free Cash Flow was positively and significantly impact the Leverage with sig 0.018 <0.05. The hypothesis was accepted because it supported the hypothesis 1 (H1) that Free Cash Flow has positive and significant impact on leverage.
2. Profitability variables had negative and significant impact on leverage with sig 0.000 <0.05. The hypothesis was accepted because it supported the hypothesis 2 (H2) that the profitability significantly has negative impact on the leverage.
3. Investment Opportunity Set variable did not affect the relationship of Free cash flow with Leverage variable with sig 0.053> 0.05. The hypothesis was accepted because it supported the hypothesis 3 (H3) that Investment Opportunity Set did not have any impact on the relationship between free cash flow and the leverage.
4. Investment Opportunity Set variable has impact to strengthen and was significant on the relationship between profitability and variable Leverage with sig 0, 044 <0.05. The hypothesis was accepted because it supported the hypothesis 4 (H4) that the Investment Opportunity Set affects relations between profitability and the Leverage.

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