



Free Cash Flow Effect on Investment Performance of Listed Companies in Tehran Stock Exchange

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ABSTRACT

The purpose of this research is study of free cash flow effect on investment performance of listed companies in Tehran Stock Exchange. Information of cash flow and investment performance were collected of financial statements of listed companies in Tehran Stock Exchange. 999 companies were considered as samples by using systematic sampling method. In this study, Kolmogorov–Smirnov test, Durbin-Watson and F test were used for regression analysis. The result showed there is no significant relationship between free cash flow, lever and growth with investment performance at 99% confidence level and there is significant relationship only between size of company and investment performance.

Keywords: Free Cash Flow, Investment, Investment Performance, Representation Cost.

INTRODUCTION

Due to economic theories, cost of transactions and investment is zero at efficient markets and Investment is being affected only by growth opportunities. In other words, as Modigliani and Miller mentioned, company financial strategies and decisions of investment structure was not associated with maximizing corporate value(Akbar & Tracogna, 2018). But the recent financial literature shows that companies work at inefficient markets and have limited access to resources and external resources which are more expensive than internal resources and cash flow affect investment(Chen, Sun, & Xu, 2016; Wang & van Kooten, 2018).

Free cash flow is criteria to measure of company performance and shows cash flow which companies have after spending for maintenance or development of assets. Participation of associated members and persons of interest increase by increasing of resources that are available to the director(Ali, Ormal, & Ahmad, 2018). Free cash flow may causes some managers invest free cash flow in projects with negative net present value in short time to provide some personal profits(Larkin, Ng, & Zhu, 2018).

Morgado and Pindado (2003), showed by using panel data in their research that there is an optimal level of investment that +NPV projects is performed in this level. Companies which invest at higher levels are in more investment process that is because of conflicts of interest between shareholders and managers under asymmetric information. In contrast, companies that their investment is less than the optimal level are investor because of asymmetric information and high

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cost of financing low. In this situation there is conflict between Interests of shareholders and creditors and present and future shareholders. They also mentioned companies with valuable investment opportunities have higher investment optimum level than companies don't have such opportunities. Carlos Roca, José García, and José de la Vega (2009), studied problems are created by less (more) investment. They showed that potential conflict between management, property and lenders affect fund structure, corporate governance and investment strategies of company, as result inefficient decisions by management and non-optimal investments that both of them are the main factors of less or more investment is generated.

Zhang (2006), studied relationship between flow cash and dividend payments. There were 299 Australian companies as samples. The result showed there is significant relationship between flow cash and dividend payments. It is mentioned too that flow cash is affected by some factors like size of company and lever.

METHODOLOGY

In terms of aim the research method was operational and to collect descriptive data was correlation type. All companies listed in Tehran Stock Exchange, from 2012 until the end of 2017, were considered as a population.

For the case study companies with the following characteristics to be considered:

* Financial year ended 29 March per year.

* Financial year of company doesn't change from 2012 until 2017.

* Company shouldn't be in financial intermediations groups (Banks, investors, etc.).

* Preparation of financial reports.

Information related to variables were collected of deferent informational sources and database such as database of Securities and Exchange Organization, financial statements, reports of the board of directors and financial software which present the information of companies like: Rah avard novin 3, Tadbir pardaz, Sahra.

RESULT

Table1. Central indexes and distributional parameters describing

Variable	Minimum	Maximum	Average	Variance
Investment	0	6022271	8314	2.21211
FCF	-1257	186504	-5.544	2.91511
Dividend	.000	8.031	.14060	.158
MTB	.041	4981.154	1.429112	1.8835
LOSS	0	1	.16	.133
SIZE	4.255	7.659	5.54770	.298
Leverage	.009	.997	.65754	.036
Stack	-.955	.989	.37359	.031
Valid N (list wise)				

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.523	0.273	-0.151	4122.898	1.768

Table 3. ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.6727	7	1.0967	0.645	0.0001
	Residual	2.0408	12	1.7007		
	Total	2.8078	19			

Table 4.

Investment _{i,t} = β ₀ + β ₁ FCF _{i,t} + β ₂ SIZE _{i,t} + β ₃ MTB _{i,t} + β ₄ Leverage _{i,t} + β ₅ Stack _{i,t} + β ₆ Dividend _{i,t} + β ₇ Loss _{i,t} + ε								
Model		Unstandardized Coefficients		Standardized Coefficients	t	p	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	Constant	963.835	13118.19		0.073	0.943		
	FCF	0.255	2.304	0.04	0.111	0.914	0.951	1.051
	SIZE	21.696	2556.045	0.275	0.85	0.0412	0.969	1.032
	Dividend	-41676.6	29919.253	-0.466	-1.393	0.0189	0.774	1.292
	MTB	-12.744	26.33	-0.140	-0.484	0.0637	0.982	1.019
	Leverage	-1088.065	7221.66	-0.053	-0.151	0.883	0.928	1.478
	Stack	-15435.89	11400.389	-0.566	-1.354	0.201	0.969	1.032
	LOSS	-7746.759	3789.047	-0.738	-2.045	0.63	0.774	1.292

a. Dependent Variable: Investment

CONCLUSION

Due to the result, it is shown that there is no significant relationship between cash flow and investment performance or significant relationship between the level of confidence of 95% of free cash flow and corporate investment efficiency is rejected and since there was no significant relationship in this study, it can be concluded that companies don't care cash flow at investing.

Due to limited financial resources this study suggests small companies possess a committee or guidelines to make better decisions about investment issues.

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