THE EFFECT OF FREE CASH FLOW, LEVERAGE AND PROFITABILITY ON DIVIDEND POLICY THROUGH CASH HOLDING ON PHARMACEUTICAL COMPANIES LISTED ON THE EXCHANGE INDONESIA EFFECT

Yulizartika[1], Bambang Satriawan[2], Robin[3], Muammar Khaddafi[4], Chablullah Wibisono[5]

[1,2,3,5]Faculty of Economics and Business, Universitas Batam
[4]Faculty of Economics and Business, Universitas Malikusaleh
Email: [1]yuli.zartika12@gmail.com,
[2]bambangsatriawan@univbatam.ac.id, [3]robin_1025@hotmail.com, [4]khaddafi@unimal.ac.id,
[5]chabullahwibisono@gmail.com

Abstract

This study aims to analyze Free Cash Flow, Leverage, and Profitability that affect Dividend Policy with Cash Holding as an intervening variable in Pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2021. The population in this study amounted to 12 companies. The sample selection method used purposive sampling technique, so the number of samples used was 8 companies. The number of observations used is 40 observations. The type of data used is secondary data with data analysis techniques used, namely panel data regression analysis with multiple linear regression tests and path analysis using Eviews software. The results showed that Free Cash Flow had a positive and insignificant effect on Dividend Policy, Leverage, Profitability and Cash Holding have no significant negative effect on Dividend Policy. Free Cash Flow and Profitability have a significant positive effect on Cash Ownership. Leverage has a negative and insignificant effect on Cash Holding. Cash Holding can only mediate Leverage on Dividend Policy.

Keywords : ***Free Cash Flow, Leverage, Profitability, Cash Holding, Dividend Policy***

1. INTRODUCTION

The impact of the COVID-19 pandemic is still being felt by almost all industries, both globally and nationally. Moreover, until now there is another new type of virus called omicron. This has implications for companies that run operations all over the world. Not a few companies went bankrupt or cut the number of employees to save their business. On the one hand, there is also a role that has increased or grown rapidly in this situation because of the product that is needed so that the company that produces it has increased.

One of the companies that experienced an increase was a company in the pharmaceutical sector. A pharmaceutical company is a company engaged in the pharmaceutical sector, namely a commercial business company that focuses on researching, developing and distributing druge specially in terms of health. Pharmaceutical companies that have products related to the Covid-19 pandemic in the form of promotive, preventive and curative products are able to survive and continue to grow. Promotive forms can be in the form of multivitamins, curative according to the national Covid-19 therapeutic regimen and preventive such as vaccines. The pharmaceutical industry is facing a moderate raised condition where the demand for pharmaceutical products related to the handling of Covid-19 has increased significantly, but on the other hand, the demand for products that are not directly related to Covid-19 has not experienced growth or has decreased. The problem is that the number of chronic disease patients visiting hospitals has decreased significantly and dentist services have also been temporarily closed, so that some products that are not directly related to Covid-19 grow slower.

There are differences from several previous studies which say that according to Firza (2021) in his research, it can be concluded that the test results can be concluded that Profitability, Leverage, Company Size, and Cash Holding have an effect on Dividend Policy, while Free Cash Flow has no effect on dividend policy. Based on the results of mediation, it shows that Cash

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Holding is able to become a media variable for the influence of Free Cash Flow on dividend policy. according to Sumbari (2020) the Free Cash Flow variable has a positive and significant effect on the dividend policy variable, but Leverage has a negative influence and Profitability has no effect on dividend policy.

Dividend policy is the company's policy regarding the decision to distribute net income to owners or shareholders in the form of dividends or to hold it in the form of retained earnings (Dewi & Sedana, 2018. 3626). Dividend policy concerns the issue of using profits which are the rights of shareholders (Masruroh, 2019,4).

Free Cash Flow can be interpreted as cash generated by the company after cash outflows to support operations and maintain capital assets (Firza, 2021.8). Unlike income or net income, Free Cash Flow is a probability measure that excludes non-cash expenses from the income statement and includes expenses for equipment and assets and changes in working capital.

Leverage is the use of debt or loan funds that are used to increase returns or profits in a business or investment. Quoted from the website of the Financial Services Authority (OJK), Leverage is the sum of asset exposures in the statement of financial position (balance sheet). Leverage is also often interpreted as the amount of debt used to finance or buy company assets, the goal is of course so that business profits can be maximized, aka ROI (return on investment).

Profitability means the company's ability to earn a profit in relation to sales, total assets and own capital. Dividend policy cannot be separated from profitability because dividend distribution is highly dependent on the company's profit. The distribution of dividends is sourced from the profits obtained by the company after fulfilling its obligations in the form of interest and taxes according to (Rina 2020). Profitability is in line with the level of profit earned, the higher the profit earned, the higher the level of assessment of the company. Investors invest shares in companies to get returns, which consist of yields and capital gains. The higher the ability to earn profits, the greater the return expected by investors. thus, making the value of the company better (Brigham and Houston 2012, 2). This study uses a proxy ratio of Return on Total Assets (ROA).

Cash Holding dividend policy has a very close relationship. We know that cash is a company's assets that are very liquid and short-term which can be used freely for the company's operational activities. Cash Holding is also generally defined as money that the company keeps in the bank, which can be cashed out at any time. Cash has a very important meaning in supporting every company activity. billed. Then another impact may be that the company is unable to cover the costs that have become the company's burden. Lack of cash can also hamper the company's operations because it is unable to buy raw materials or pay employee salaries. So, cash flow needs to be regulated or managed in such a way that the cash is not too small and not too over.

2. LITERATURE REVIEW
Trade-Off Theory

Based on the Keynes Trade-Off Theory, it states that the company's Cash Holding is managed by considering the boundaries between costs and benefits (costs and benefits) obtained from holding cash and precautionary motives, indicating that the company can accumulate more cash reserves to avoid future risks. or to finance its activities and investments. This theory suggests that the company will maximize the value of the company based on consideration of the costs of holding cash and the benefits of holding cash (Firza 2021, 19). According to Ditmar, Smith, & Servaes, the company conducts Cash Holdings because of the profits that come from transactional motives and precautionary motives (Firza 2021.19). Trade-Off Theory was first introduced by Modigliani and Miller in the American Economic Review article 53 with the title Corporate Income Taxes on the Cost of Capital: A Correction. arising from the use of debt (Cordiaz 2021, 17). If there is a deviation from the optimal level of debt, then companies make efforts to readjust to their optimal level of debt. Thus, the company must make decisions in dividend policy on financial cash so that the company's assets are saved. On the other hand, companies make capital

structure decisions based on the source of capital with the most expensive cost of capital. A Correction, Trade-Off Theory states that the optimal capital structure is achieved when there is a balance between benefits and sacrifices arising from the use of debt (Cordiaz 2021, 17). If there is a deviation from the optimal level of debt, then companies make efforts to readjust to their optimal level of debt. Thus, the company must make decisions in dividend policy on financial cash so that the company's assets are saved. On the other hand, companies make capital structure decisions based on the source of capital with the most expensive cost of capital. A Correction, Trade-Off Theory states that the optimal capital structure is achieved when there is a balance between benefits and sacrifices arising from the use of debt (Cordiaz 2021, 17). If there is a deviation from the optimal level of debt, then companies make efforts to readjust to their optimal level of debt. Thus, the company must make decisions in dividend policy on financial cash so that the company's assets are saved. On the other hand, companies make capital structure decisions based on the source of capital with the most expensive cost of capital. hence companies make efforts to readjust to their optimal debt levels. Thus, the company must make decisions in dividend policy on financial cash so that the company's assets are saved. On the other hand, companies make capital structure decisions based on the source of capital with the most expensive cost of capital. hence companies make efforts to readjust to their optimal debt levels. Thus, the company must make decisions in dividend policy on financial cash so that the company's assets are saved. On the other hand, companies make capital structure decisions based on the source of capital with the most expensive cost of capital.

If the company has Cash Holding, then the company does not need to liquidate or sell its assets to finance profitable investments. In addition, having Cash Holdings can also prevent companies from financial distress due to binding financial obligations. According to Purwati, the company's efforts to maintain cash in the company so as not to experience excess or deficiency in carrying out company activities are called cash optimization or cash optimization (Bayu, 2012. 27).

Pecking Order Theory

Pecking Order Theory was introduced by Myers and Majluf (1984). This theory explains about the company's funding sources. According to Yuharningsih, previous research, the company will use external sources of funds if the company's internal funds are not sufficient for the company's operational activities Pecking Order Theory (Arfiani 2020. 18). The Pecking Order Theory also states that the main source of company capital must first come from the company's operating results in the form of net profits after tax that are not distributed to company owners or shareholders (retained earnings). This retained earnings will be reinvested in profitable company ventures or projects. If retained earnings are not sufficient to finance the profitable investment project, then the company can increase its capital by seeking funds from debt and then from own capital or equity (Sutrisno 2017. 48). Pecking Order Theory states that the company will divide several arrangements when looking for sources of funds for corporate financing decisions. The company manager will choose the cheapest and least risky source of funds (Firza 2021. 21)

Dividend policy

Dividend policy is a policy taken by the management of a company to decide to pay part of the company's profits in the form of dividends to shareholders rather than holding it as retained earnings (Firza 2021). The dividend policy determines the dividends to be distributed, and dividends are part or all of the company's profits in running the business which are distributed to shareholders (Tandelilin, 2014: 32). Dividend policy is a guideline used by companies in making strategic decisions related to rational dividend payments. In the dividend policy, the management determines the distribution of profits between the company to shareholders and the company's reinvestment. The dividend policy of previous researchers is proxied using the Dividend Payout Ratio.

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Dividend Policy Formula

$$DPR = \frac{Dividen\ Per\ Share}{Earning\ Per\ Share}$$

Free Cash Flow

Free cash flow or Free Cash Flow (CFC) is Cash Flow that is available to be distributed to investors after the company invests in Fixed Assets and Working Capital that is needed to maintain its business continuity (Arfiani 2020). In other words, free cash flow is cash available above profitable investment needs. Free cash flow is actually the right of shareholders because free cash is cash flow that is actually available to be paid to all investors, shareholders and debt owners after the company places all of its assets. its investment in fixed assets, new products and working capital needed to maintain ongoing operations. The definition of Free Cash Flow is to define as follows:

Free Cash Flow Formula

$$FCF \quad \frac{Net\ Operating\ Cash\ Flow + Net\ Investment\ Cash\ Flow}{Total\ Assets}$$

Leverage

Leverage is a company policy about how far a company uses funding outside the company. Leverage is measured by dividing debt (interest bearing) by total assets. High leverage Leverage indicates that the company is not solvable, meaning that its total leverage is greater than its total assets (Firza, 2021). Previous research also revealed that companies with a higher level of leverage have the ability to obtain external funding more easily and cheaply so that companies reduce the amount of cash held. Leverage is a ratio that shows the extent to which the company is funded by debt from external parties (Nur 2018).

Leverage Formula

$$DAR = \frac{Total\ debt}{Total\ Assets}$$

Profitability

Profitability is the ability of a company to produce profit during a certain period at the level of sales, assets and capital share certain. The profitability of a company can be assessed in various ways depending on profits and assets or capital which will be compared with one another.

Profitability is one of the terms that exist in the business world, usually referred to as a ratio or profitability comparison. Financial ratios seen in a certain period of time. The increase in company profits is a positive signal for investors because with the company's profits, investors feel that they will get large dividends. However, the amount of dividend income paid to investors depends on the company's policy regarding dividend distribution to investors. Investors always expect high dividend income, but the company has strategic considerations related to the continuity and growth of the company in the future

Profitability Formula

$$ROA = \frac{Total\ Profit}{Total\ Asset}$$

Cash Holding

  *Cash Holding*is cash held by the company to meet the company's needs. Determining the optimal level of Cash Holding is very important for a company because Cash Holding that is too high will cause the company to lose the opportunity to invest and get a return, while Cash Holding that is too low will cause the company's operational activities to be disrupted and difficulties in paying off its obligations (Irwanto 2019).

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Cash Holding Formula

Cash Holding =		$\dfrac{\textbf{Total Cash + Short-term Investment}}{\textbf{Total Asset}}$

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3. IMPLEMENTATION METHOD

Method of collecting data

  In general, the notion of data is a collection of information or raw facts in the form of symbols, numbers, words, or images, which are obtained through the process of observation or searching for certain sources.

  Another opinion says that the definition of data is a collection of information or basic descriptions of a thing (object or event) obtained from observations (observations) and can be processed into more complex forms, such as: information, databases, or solutions to certain problems.

  Data is a raw material which if processed properly through various analyzes can give birth to various information. With this information, we can make a decision (Usman and Setiady, 2016, 15). This study uses secondary data, with secondary data there are many sources, ranging from books, journal, articles, and up to previous research. All can be used as a data source on this one. The most important thing is to make sure if the data obtained is really valid. The data collected is dividend policy, Free Cash Flow, Leverage, Profitability and Cash Holding, which is obtained by downloading the financial statements of Pharmaceutical Companies listed on the Indonesia Stock Exchange on the Indonesia Stock Exchange (IDX) through the website.www.idx.co.id
https://www.idx.co.id/enterprise-tercatat/laporan-keuangan-dan-tahunan/

Operational Definition and Variable Measurement Method

a. Data analysis technique

  Data analysis techniques are the methods used in analyzing data to find out the results of research. The analytical method used is descriptive statistical test, classical assumption test, multiple linear regression analysis with statistical data processing software tools, namely Eviews.

b. Descriptive statistics

  Descriptive statistics are used to describe and provide an overview of the frequency distribution of the variables in this study, the maximum, minimum, mean and standard deviation values.

c. Selection of Estimation Method

  This study uses panel data. Panel data is a combination of time series data and cross section data (Widarjono, 2013). For the testing approach, there are two models used in estimating the model from panel data, namely the model without individual influence (common effect model) and model with individual influence (fixed effect model and random effect model). In estimating model parameters with panel data, there are three techniques offered, namely the Common Effect Model (common effect models), and (fixed effect models and random effect models) (Widarjono, 2017).

 1) Common Effect Model (CEM)

  *Common Effect Model (CEM)*or also called pooled least square model or pooled regression is one of the models in panel data regression that combines time series and cross-section data. If the results of the panel data model test show the results of the Common Effect Model (CEM), then the classical assumption test is a statistical requirement that must

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be met in multiple linear regression analysis based on ordinary least squares (OLS) because the linear regression is based on Ordinary Least Square (OLS).

H0: CEM model is better than FEM model.

H1: FEM model is better than CEM model

2) Fixed Effect Model (FEM)

*Fixed Effect Model*is one of the models in panel data regression which in the estimation process will produce variations in effects between individuals. The Fixed Effect Model provides an intercept that varies between individuals but does not vary between time (time invariant), while the slope coefficient on the independent variable is fixed both between time and between individuals. Intercept differences in the Fixed Effect Model can be formed using dummy variables.

If the results of the panel data model test show the results of the Fixed Effect Model (FEM) or the classical assumption test does not need to be carried out because the linear regression is based on General Least Square (GLS):

If the probability value of Chi-square cross-section <0.05, then H0 is rejected, and Ha is accepted.

If the Chi-square cross-section probability value is > 0.05, then H0 is accepted, and Ha is rejected.

If the probability value is < 0.05, then the estimation model used is the Fixed Effect Model (FEM).

3) Random Effect Model (REM)

*Random Effect Model (REM)*is one of the models in panel data regression where the residual variable is thought to have a relationship between time and between individuals. Random Effect Model can be used to overcome the weakness of Fixed Effect Model which uses dummy variables. The most important assumption in this model is that there is no correlation or relationship between individual tools and the explanatory variables in the model.

This random effect model (REM) test is recommended if the panel data has less time series than the number of research individuals.

This model is also called the Error Components Model (ECM) because the residuals consist of two (2) components. 2021) The random effect model is used to overcome the weakness of the fixed effect model that uses dummy variables. Panel data analysis method with random effects model must meet the requirements, namely the number of cross sections must be greater than the number of research variables.

Model Significance Test

a. Chow test

This test is used to select the best model to use between the fixed effect model (FEM) or the common effect model (CEM). The Chow test is a test by looking at the F Statistics to choose a better model between the fixed effect model (FEM) or the common effect model (CEM. The FEM test assumes that the existence of variables that are not all included in the model equation allows for an intercept that is not constant. If the probability value is less than 0.05 then the model used is the Common Effect Model (CEM).

b. Hausman test

Hausman test is conducted for statistical testing to choose whether the fixed effect or random effect model is the most appropriate to use. Hausman's test market idea is an inverse relationship between a biased model and an efficient model.

c. Lagrange Multiplier Test

The Lagrange multiplier test is used to determine which is the best estimation test between the common effect model (CEM) or the random effect model (REM). The determination of the

model must compare the calculated Lagrange Multiplier value with the Chi-Square table with a = 0.05.

Model. So, the Lagrange Multiplier test is needed as the final stage to determine the Common Effect Model or Random Effect Model.

Hypothesis testing

To test the hypothesis, it is done by testing the accuracy of the estimate to find out how big the relationship between the independent variable and the dependent variable is. Statistically, hypothesis testing can be measured from the value of the F statistic, the value of the t statistic and the coefficient of determination (Ghozali, 2013).

a. Coefficient of Determination Test (R^2)

The coefficient of determination (R^2) essentially measures how far the model's ability to explain variations in the dependent variable is. The value of the coefficient of determination is between zero and one. A small value of R^2 means that the ability of the independent variables in explaining the variation of the dependent variable is very limited.

Ha: bi 0

That is, partially Independent has a significant effect on the dependent through the intervening variable.

The provisions used in the t statistical test are as follows:
a) With a significant value level of 0.05 then:
    1. If the significance value > (0.05) then H0 is accepted
    2. If the significance value is < (0.05), then H0 is rejected
b) Compare the value of t with the critical point according to the table. Is the value of the calculated t statistic higher than the t table value, we accept the alternative hypothesis which states that an independent variable individually affects the dependent variable.

b. Intervening Variable Testing (Indirect Effect)

In this study, to examine the effect of the intervening variable in mediating the independent variable on the dependent variable, path analysis technique was used in this study. Path analysis is an extension of multiple linear regression analysis or path analysis is the use of regression analysis to interpret causality relationships between variables (casual models) that have been determined based on theory. Path analysis technique is used to examine the contribution (contribution) indicated by the path coefficient on each path diagram of the causal relationship between variables Z (intervening) on Y and its impact. Correlation and regression analysis which is the basis for calculating path coefficients. A variable is said to be an intervening variable if the standardized coefficient value is P2 P3 > P1,

1) A direct relationship occurs if one variable affects other variables without a third variable that mediates (intervening),
2) While the relationship is indirect if there is a third variable that mediates the relationship between the two independent variables and the dependent variable. Like the equation below:
    a) Direct Effect of Xi to Y = P1
    b) Indirect Effect of Xi to Z to Y = P2 x P3
    c) Total Effect = P1 + (P2 x P3)
    d) If P1 < (P2 X P3) = Able to Mediate / Intervening
    e) If P1 > (P2 X P3) = Unable to Mediate

It can be understood from the explanation above that path analysis is an analysis to determine the direct and indirect effects and the total effect of one variable on other variables (Ridhani, 2020).

4. RESULTS AND DISCUSSION
Descriptive statistics

Descriptive statistics provide an initial description of the distribution pattern of research variables. The following descriptive statistics present the minimum value, maximum value and

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average value as well as the standard deviation of research variable data from 40 observations on pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The number of observations is 40 of the variables. Free Cash Flow (FCF), Leverage (DAR), Profitability (ROA), Dividend Policy (DPR), Cash Holding (CH).

The results of the descriptive statistics in this study can be seen in the table listed below:

Table 1. Descriptive Statistics

	(XI) Free Cash Flow	(X2) Leverage	(X3) Profitability	(Z) Cash Holding	(Y) Dividend Policy
mean	16.88317	38.46988	11.57771	15.61831	43.93212
Maximum	51.09871	80.87184	92.09977	31.92024	99.68354
Minimum	1.814215	8.338078	0.240751	0.237927	5.005776
Std. Dev.	10.41500	22.03052	14.78508	10.15646	26.30950
Observations	40	40	40	40	40

Source: Processed Output Software Eviews12 2022

a. **Determination of the Estimated Model between Common Effect Model (CEM) and Fixed Effect Model (FEM) with Chow. Test**

Table 2. Results of the Chow Test

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistics	df	Prob.
Cross-section F	3.860350	(7.29)	0.0044
Cross-section Chi-square	26.338266	7	0.0004

Source: Processed Output Software Eviews12 2022

Based on the results of the Chow test in Table 4.2, it is known that the probability value is0.0004. Because the probability value is $0.0004 < 0.05$, the estimation model used is the Fixed Effect Model (FEM).

b. **Determination of the Estimated Model between Fixed Effect Model (FEM) and Random Effect Model (REM) with Hausman Test.**

Table 3. Results of Hausman's Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq.	Chi-Sq. df	Prob.

	Statistics		
Cross-section random	5.179012	3	0.1591

Source: Processed Output Software Eviews12 2022

Based on the results of the Hausman test in Table 4.4, it is known that the probability value is 0.1591. Because the probability value is 0.1591 > 0.05, the estimation model used is the Random Effect Model (REM). So, it is clear from the two tests that have been carried out, the Random Effect Model (REM) is the best test.

Hypothesis test

Hypothesis testing in this study includes t statistical test (partial test) and F statistical test (simultaneous test) ... The hypothesis test carried out in the study consisted of the Coefficient of Determination (R2) test, F test, and t test.

Path Analysis)

Table 4. Path Analysis (Substructure I)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	60.90253	12,46829	4.884595	0.0000
Free Cash Flow (X1)	0.214284	0.359443	0.596155	0.5548
Leverage (X2)	-0.428363	0.237990	-1.799918	0.0803
Profitability (X3)	-0.354916	0.248843	-1.426261	0.1624
Effects Specification				
			SD	Rho
Cross-section random			14,88718	0.3636
Idiosyncratic random			19.69671	0.6364
Weighted Statistics				
MSE root	19.24314	R-squared		0.129745
Mean dependent var	22.37152	Adjusted R-squared		0.057224
SD dependent var	20.89058	SE of regression		20.28405
Sum squared resid	14811.94	F-statistics		1.789068
Durbin-Watson stat	1.786230	Prob(F-statistic)		0.166687
Unweighted Statistics				
R-squared	0.164877	Mean dependent var		43.93212
Sum squared resid	22544.49	Durbin-Watson stat		1.173570

Source: Processed Output Software Eviews12 2022

a. Coefficient of Determination Testing (R2)

Based on table 4.4, the coefficient of determination (r-squared) in substructure I is 5%, which means that Free Cash Flow, Leverage and Profitability are able to influence the Dividend Policy of 5%. The remaining 95% is influenced by other factors that are not measured or investigated in this study in pharmaceutical sector companies listed on the Indonesia Stock Exchange for the period 2017 - 2021.

b. Simultaneous Testing (Statistical Test F)

The F statistical test was conducted to see whether the independent variables simultaneously or simultaneously had an effect on the dependent variable. Based on table 4.4, it is known that the calculated F value is 1.789 < F table 2.866 with the prob value (F-Statistic) is 0.166 > 0.05, it is concluded that Free Cash Flow, Leverage and Profitability together or simultaneously have a positive but not significant effect on policy Dividends on pharmaceutical sector companies listed on the Indonesia Stock Exchange for the period 2017 - 2021.

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c. Partial Testing (t-test)

Partial Test (t-test) was conducted to see how far the influence of one independent variable individually in explaining the variation of the dependent variable. Based on table 4.4, the results of the partial test (t-test) on substructure I are known to be X1 namely Free Cash Flow has a t count of 0.596 < t table 2.028 with a probability value of 0.554 > 0.05, it is concluded that Free Cash Flow has a positive effect and does not significant impact on Dividend Policy in pharmaceutical sector companies listed on the Indonesia Stock Exchange for the period 2017 - 2021.

It is known that X2, namely Leverage, has a t count of -0.799 < t table 2.280 with a probability value of 0.080 < 0.05, it can be concluded that Leverage has a negative and insignificant effect on Dividend Policy in pharmaceutical sector companies listed on the Indonesia Stock Exchange for the period 2017 - 2021.

It is known that X3 is *Profitability* has a t count of -0.426 < t table 2.028 with a probability value of 0.162 > 0.05, it is concluded that profitability has a negative and insignificant effect on Dividend Policy in pharmaceutical sector companies listed on the Indonesia Stock Exchange for the period 2017 - 2021.

Table 5. Path Analysis (Substructure II)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	54,40844	10.26735	5.299169	0.0000
Cash Holding Z	-0.670772	0.505537	-1.326851	0.1925

Table 6. Path Analysis (Structure III)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13,74618	3.302743	4.162051	0.0002
X1	0.181726	0.077592	2.342063	0.0248
X2	-0.103385	0.067862	-1.523449	0.1364
X3	0.240222	0.051375	4.675827	0.0000
Effects Specification				
			SD	Rho
Cross-section random			6.344198	0.7480
Idiosyncratic random			3.682279	0.2520
Weighted Statistics				
MSE root	3.612322	R-squared		0.385157
Mean dependent var	3.924010	Adjusted R-squared		0.333920
SD dependent var	4.665540	SE of regression		3.807722
Sum squared resid	521.9548	F-statistics		7.517163
Durbin-Watson stat	1.266129	Prob(F-statistic)		0.000498
Unweighted Statistics				
R-squared	0.464240	Mean dependent var		15.61831
Sum squared resid	2155,359	Durbin-Watson stat		0.306614

Source: Processed Output Software Eviews12 2022

Intervening Testing (Indirect Effect)

Furthermore, the indirect effect is tested, namely testing whether Free Cash Flow (FCF), Leverage (DAR), Profitability (ROA), indirectly significantly affect Dividend Policy (DPR),

through Cash Holding (CH). In other words, does Cash Holding significantly mediate the relationship between Free Cash Flow, Leverage, and Profitability, on Dividend Policy in Pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2021.

1. **The value of the direct influence between the independent variables on the dependent variable (P1) is as follows:**
   a. Free Cash Flow to Dividend Policy = 0.214
   b. Leverage on Dividend Policy = -0.428
   c. Profitability to Dividend Policy = -0.354

2. **The value of the direct influence between the independent variables on the intervening variable (P2) is as follows:**
   a. Free Cash Flow to Cash Holding =-0.181
   b. Leverage against Cash Holding = -0.103
   c. Profitability against Cash Holding = 0.240

3. **The value of the direct influence between the intervening variables on the dependent variable (P3) is**

   Effect of Cash Holding on Dividend Policy 0.670 Then the results of the Path Analysis test are shown as follows:

Table 7. Path Analysis Path Analysis (Substructure IV)

Tabel	Pengaruh Langsung (P1)	Pengaruh Tidak Langsung (P2XP3)				Pengaruh Total	Keteranga
Free Cash Flow (X1)	0,214	0,181	X -0,670	=	-0,121	0,093	Tidak Mampu Memediasi
Leverage (X2)	-0,428	-0,103	X -0,670	=	0,069	-0,359	Mampu Memediasi/Intervening
Profitabilitas (X3)	-0,354	0,240	X -0,670	=	-0,161	-0,515	Tidak Mampu Memediasi

Source: Processed Output Software Eviews12 2022

a. Based on table 4.8 path analysis for Free Cash Flow on dividend policy through Cash Holding as mediation, the results of path analysis research show that the direct effect of Free Cash Flow on Dividend Policy (P1) is -0.214. While the direct effect of Free Cash Flow on Cash Holding (P2) is 0.181 and the direct effect of Cash Holding on Dividend Policy (P3) is -0.670 so that the indirect effect of Free Cash Flow on Dividend Policy through Cash Holding is 0.181 X -0.670 = -0.121. Because the direct effect is 0.214 which is greater than the indirect effect of -0.121, it is concluded that it does not mediate.

b. Based on table 4.8 Leverage Path analysis on dividend policy through Cash Holding as mediation. Then the results of the path analysis research show that the direct influence of Leverage on Dividend Policy (P1) is -0.428. While the direct effect of Leverage on Cash Holding (P2) is -0.103 and the direct effect of Leverage on Dividend Policy (P3) is -0.670. So that the indirect effect of Leverage on Dividend Policy through Cash Holding is -0.103 x -0.670 = 0.069. Because the direct effect is -0.428 which is smaller than the indirect effect of 0.069, it is concluded to mediate. In other words, Cash Holding is able to mediate the relationship between Leverage and Dividend Policy in pharmaceutical sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period.

c. Based on table 4.8 Leverage Path analysis on dividend policy through Cash Holding as mediation. then the results of the path analysis research show that the direct effect of Profitability on Dividend Policy (P1) is -0.354 While the direct effect of Profitability on Cash Holding (P2) is -0.240 and the direct effect of Cash Holding on Dividend Policy (P3) is -0.670. So that the indirect effect of Profitability on Dividend Policy through Cash Holding 0.240 x -0.670 = -0.161, because the direct effect is -0.354 greater than the indirect effect of -0.161, it is concluded that it does not mediate. In other words,

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5. CONCLUSION

Based on the results of data analysis in this study and the discussion that has been described in the previous section, the conclusions obtained are in accordance with the formulation of the problems in this study. The conclusions resulting from this research are as follows:

1. Free Cash Flow has a positive and insignificant effect on Dividend Policy in Pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2021
2. Leverage has a negative and insignificant effect on the dividend policy of pharmaceutical companies listed on the Indonesia Stock Exchange for the 2017-2021 period.
3. Profitability has a negative and insignificant effect on Dividend Policy in Pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2021.
4. Cash Holding has an insignificant negative effect on Dividend Policy in Pharmaceutical companies listed on the Indonesia Stock Exchange for the 2017-2021 period.
5. Free Cash Flow has a positive and significant impact on Cash Holding in Pharmaceutical companies listed on the Indonesia Stock Exchange for the 2017-2021 period.
6. Leverage has a negative and insignificant effect on cash holding in pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2021.
7. Profitability has a positive and significant impact on Cash Holding in Pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2021.
8. Cash Holding is unable to mediate the relationship between Free Cash Flow and Dividend Policy in Pharmaceutical companies listed on the Indonesia Stock Exchange for the 2017-2021 period.
9. Cash Holding is able to mediate the relationship between Leverage and Dividend Policy in Pharmaceutical companies listed on the Indonesia Stock Exchange for the 2017-2021 period.
10. Cash Holding is unable to mediate the relationship between Profitability and Dividend Policy in Pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2021.
11. Based on substructure I, Free Cash Flow, Leverage and Profitability can influence the Dividend Policy by 5%. The rest is 95%, and Cash Holding only affects 1% is influenced by other factors that are not measured or investigated in this study in pharmaceutical sector companies listed on the Indonesia Stock Exchange for the period 2017-2021.

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