

# **IMPACT OF FREE CASH FLOW ON THE SHARE PRICE: AN EMPIRICAL STUDY ON MANUFACTURING FIRMS OF PAKISTAN**

**BY**

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Javeria Tahir

## ABSTRACT

**Purpose-** The purpose of the study is to examine the relation between free cash flow and dividend policy with share price volatility. It is to understand the behavioural response of investors toward excess of free cash flow and the management of dividend policy.

**Design:** Descriptive and quantitative analysis are used to perform analysis. Panel data is collected 12 companies from 4 manufacturing sectors from year 2015-16 to 2019-20. Quarterly data is taken from 12 companies whose year ended in June.

**Findings:** Free cash flow and dividend policy have significant statistical relation with share price volatility in single linear regression. However, in multiple linear regression along with control variable free cash flow turn insignificant, whereas, dividend policy remains significant. Investors prefer low dividend from top performing sectors as increasing dividend increases the volatility of a stock. Excess free cash flow should be reinvested instead of dividend payment.

**Research limitations:** Quarterly data is unavailable from more than 5 years, in some cases quarterly data is available of only 2-3 years.

**Originality:** This paper is useful for both management and researchers as it analysis investor preference and expectation from well-performing sectors. This paper provides valuable insight about treatment of free cash flow in making dividend policy.

**Recommendation:** Further researches can be performed by increasing the sample size and time period. Including all sectors in the sample will give general idea about the investors preference from management.

**Keywords:** free cash flow, share price volatility, dividend policy, agency cost, clientele effect

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