

**The effect of Free Cash Flow on Profitability of Listed Diversified Holding Companies in the Colombo Stock Exchange**

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**ABSTRACT**

**Introduction** - The purpose of this study is to identify the effect of free cash flow on the profitability on the Diversified Holding companies listed in the Colombo Stock Exchange. This study will facilitate individual and institutional investors with information to take appropriate decision, as this paper deliver whether the free cash flow actually influence on the profitability.

**Design/Methodology/Approach** - The population consisted of nineteen (19) companies listed as Diversified Holdings on the CSE at June 2019. The Purposive sampling method is used to select a sample of 17 companies listed at CSE (panel data). Secondary data is extracted from audited annual reports and financial statements of firms, sourced from CSE for a period of five years (2014 –2019). Data analysis was done using a regression model since the nature of the data was quantitative using E views.

**Findings** - Free cash flow have not significant impact on profitability of the listed diversified holdings companies in Sri Lanka. In the model, as per the given results through the analysis, it can be concluded that, firm size and the Lag value of ROCE have a significant impact on the firm profitability.

**Conclusion** - The study concludes that free cash flows does not have a significant impact on company performance because the free cash flows create an agency problem due to this the conflict of interest increased between owner and management and because of such conflict firm performance decreases. And also problems related to the piking order theory were begun.

**Keywords:** *Free Cash Flow, Profitability, Diversified Holding Companies*