The Effect Of Financial Leverage On Profitability At Oracle Company

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ABSTRACT: *The purpose of this study is to determine whether financial leverage has a significant effect on the ability to earn profits. The results showed a very strong relationship between Financial leverage with Return On Investmentl, Financial leverage with Return On Invested Capital, Financial leverage with Return On Invested Capital. Determination of more than fifty percent is Determination of Financial leverage on Return On Assets, Financial leverage on Return On Invested Capital. Two-sided hypothesis using t-test which has a significant effect is: financial leverage has a significant effect on Return On Invested Capital, financial leverage has a significant effect on return on equity. Financial leverage that does not have a significant effect on net margins and Return On Assets. Financial leverage also has no significant effect on Return On Equity, financial leverage has no significant effect on Earning Per Share. To maximize research results, the number of samples should better increased both time and number of the company.*

KEYWORD: *Financial Leverage, Return On Investment, Return On Invested Capital Return On Assets, return on equity,Earning Per Share.*

INTRODUCTION

Financial leverage is the total debt reported to the equity of a company, which reflects the company's capacity to attract external financial resources in order to improve equity efficiency. Leverage is also understood as a modality where companies can increase their chances of growth. One of the best ways in which companies increase profits is through financial leverage. Financial leverage uses debt instruments so that the anticipated rate of return on company equity will increase.Debt is used by many companies to increase their capital and profits.

Companies use financial leverage with the aim that the profits obtained are greater than the cost of assets and sources of funds, thereby increasing the financial shareholders. Conversely leverage also increases profitability, because if the company turns out to get a lower profit than its fixed costs, the use of leverage will reduce shareholder profits.

LITERATURE REVIEW

Financial Leverage

Financial leverage thus shows changes (percentage) of earnings per share (earnings per share or EPS) as a result of changes in EBIT (Earning Before Intrest and Taxes).After calculating the DFL value, then analyze the results of the DFL calculation. DFL can be interpreted, if EBIT changes (up / down) by n%, then EPS will change in the direction of n% x DFL. So DFL shows the sensitivity level of EBIT to EPS. Financial leverage is additional variability in income from debt usage. Significant changes in the structure of assets and financial structures can change the composition of middle variables and fixed costs and fixed interest and the result is changes in operating leverage and financial leverage (1)(Keown, Martin, and Petty, 1985):

The greater the degree of financial leverage, the greater the fluctuations (positive or negative) in earnings per share. The common stockholder is required to endure greater variations in returns when the firm's management chooses to use more financial leverage rather then less (1)(Keown et al., 1985).

The concept of leverage is also useful for investors. If the company in one industry has a total leverage rating, then an investor feels optimistic about the company that can please him if the company has high leverage, and vice versa if the industry sales decline.

Financial Leverage And Profitability

Financial leverage employed by companies is intended to get more funds back from their costs. Surplus (or deficit) will increase (or decrease) the return on owner's equity. The return on owner's equity is leverage above or below the rate of return on total assets. The impact of financial leverage is not profitable when productive capacity of the company is less than what the lender expects. (2)Franklin & Muthusamy, (2011) assert that financial leverage is a prerequisite for achieving optimal capital structure. The optimal capital structure can affect company value and shareholder wealth through reducing capital costs. Therefore, determining the optimal level of debt and having an impact on the company on all capital structures is considered an inseparable part of the company's financial decisions. Financial leverage, or an increase in financial efficiency, called a variation on return on equity, depends on the return of assets and credit costs, namely, interest rates. (3)Brezeanu, (1999) states that financial leverage also reveals the financial impact of costs because loans are in a company's return on equity. Financial leverage can accelerate EPS, under favourable economic conditions but suppress EPS when the economy is not good at the economy and for the company. The unfavourable effect of financial leverage on EPS is more severe with more debt in the capital structure when EBIT is negative. Similarly, financial leverage can increase shareholder profits and can also increase the risk of the company as well. Finance Leverage employed by companies is intended to get more than fixed funding costs from their relative costs (4)Pandey, (2007). (5)Jensen & Meckling, (1976) identified a movement away from traditional bankruptcy tax costs, arguments towards consideration of cost institutions as the main determinant of financial leverage**.** It shows that with a risk of debt, the investment policy of a company is not fixed. It used to be acknowledged that the problem of lack of investment was by noting that shareholders of companies with risky debt would invest only when or to the point where the expected return on investment was at least as large as the payment promised to the bondholders. When the expected return is less than the promised payment, shareholders fail to carry out investment choices or invest less than the optimal amount, which reduces the value of the company. This decline in the value of the company that limits the amount of debt the company can issue (5)Myers, (1977). (6)Mandelkar, & Rhee, (1984) shows that DOL and DFL join to enlarge the percentage of certain changes in sales to potentially far greater percentages in EBIT. Operations and financial leverage together cause extensive fluctuations in EPS to be given changes in sales. If a company employs a high level of operations and financial leverage, even small changes in the level of sales, it will have a dramatic effect on EPS high levels of financial leverage allow shareholders to get return on equity, but they are also exposed to higher risks of significant losses if low asset returns. Also, using a loan can lead to limiting the independence of company management, and creditors are attracted to corporate debt. Financial leverage combined with operating leverage. The combined effect is the same as the product of operation and the financial leverage of (7)Nicoleta, (2010). Sales, interest, cash flow, asset structure, interest coverage, firm size, retained earnings, earnings before interest and taxes and intrinsic value from the influence of financial leverage (8)Franklin & Muthusamy, (2011).

(9)Chung (1989), using a randomly selected sample from industrial manufacturing and utilities, found that consumer demand and two uses all had an impact on the riskiness of a company. Some (10)(Keown et al., 1991; Weston and Brigham, 1990) have shown that risk reduction can be achieved by trade-offs between two leverage.

Debt is used by many companies to increase their capital and profits. However, debt is not the only influential factor to increase capital and profits. There are several factors that can affect a company's profitability. This study uses operational decision factors, macroeconomic factors, company size factors, and industry factors to help understand the effects of debt on profitability.The results showed that in categorized (not categorized into different industries) data, debt, company size, and the effect of positive operational decisions were significant, and macroeconomic effects were not significant for profitability. In addition, industrial factors were found to influence the profitability of the company. (11)Singapurwoko, Arif; El-Wahid, Muhammad Saladin Mustofa. (2011).

Relation Of Financial Leverage And Profit Ratio

In addition, companies profitable tends to reduce information asymmetry to creditors, investors and users who are thoroughly interested in using profitability (12) (Myers, 1984; Liaqat A., 2011; Qureshi et al, 2012) Therefore, there is a relationship between leverage and profitability (13)(John and Williams, 1985; Liaqat A., 2011; (Tong and Green, 2005; Al-Najjar and Taylor, 2008; Mazur, 2007)

There is a close relationship between financial leverage and company earnings per share. If the level of financial leverage is high and the return on investment is greater than the cost of debt capital, then the impact of leverage on EPS will be profitable. The financial impact of leverage is not profitable if the productive capacity of the company is less than what is expected by the debt lender.

According to previous research, financial leverage affects the cost of capital, influences company profitability and stock prices 14(Higgins, 1977; Miller, 1977; Myers, 1984; 1 Sheel, 1994).

Also, some researchers have studied the use of corporate debt and determinants of financial leverage by reporting that a company's debt-equity outcome is generally based on trade-offs between safeguarding interest taxes and stressful financial costs (15)(Kim, 1997; Sheel, 1994; Sunder & Myers, 1999; Titman & Wessles, 1988; Upneja & Dalbor, 2001). Debt tax benefits dominate up to certain debt ratios, resulting in higher returns on equity, but benefits will be less than costs after the level of the debt ratio. In other words, the more a company uses debt, the less taxable income that the company pays, but the greater financial risk. Since (16)Modigliani and Miller (1958) investigated the theory of equilibrium from capital the optimal structure between tax profits from debt and debt costs to maximize firm value, Subsequent research has attempted to find the determinants of the capital structure of each hotel industry (Upneja & Dalbor, 2001; Kim, 1997; Sheel, 1994). Despite the importance of structural capital, there are several studies, especially in the restaurant industry, on the relationship between internal performance measures based on internal and external corporate financial statements based on changes in stock prices.

Taiwo asalu and Olayinka Akinlo (2012) "profitability and leverage: evidence from Ingrain companies". Khan Huma (2012) "Analysis of liquidity, profitability and working capital management - empirical studies of companies registered with BSE". Wessels and Titman (1988) "Determinants of selected capital structures". Ali Liqat "The determination of the leverage of listed textile companies in India". Amsaveni, R (2009) "the impact of leverage on the profitability of the ability of the primary aluminum industry in India". Rafique Mahira (2011) "Effect of profitability and financial leverage on capital structure: Case of Pakistani cars in Pandanus conoideus Lamk".

METHODOLOGY

The object of research is limited to only Oracle Corporation. Their financial data that includes the balance sheet and income statement for 2007 to 2016 is obtained from the internet. Then calculate the degree of financial leverage (DFL.The eight variables considered in this study were to analyzes the effect of leverage on the profit ratio. Five va riables are used as the dependent variable and three variables are used as independents. The dependent variables include: Earning Before Tax Margin (EBTM), Net Margin (NM), Return on Assets (ROA), Return on Equity (ROE) and Return on Invested Capital (ROIC). Model: NM = a + β1 DFL ε ROA = a + β1 DFL ε ROE = a + β1 DFL.

The formulation of the problem of this research is whether there is an influence of financial leverage on the company's ability to get profit on the Oracle Corporation. As hypothesis :1. There is an Influence of Operating Leverage Levels on Profit Ratio.2. There is an influence of financial leverage level on profit ratio.3. There is the influence of the combined leverage level on the profit ratio. This study aims to determine whether there is influence of leverage on profit ratios covering a period of ten years, 2007 to 2016. Thus the focus of this study is financial statements in the form of balance sheets and income.This study adopts an analytical and descriptive research design.

RESULT & DISCUSSION

Oracle Corpotion is the world's largest provider of software companies and a leading provider of computer hardware products and services that are engineered to work together in clouds (cloud) and in data centers. Oracle offerings include Oracle databases and middleware software, software applications, cloud infrastructure, systems - including server computer hardware, storage and network related products and services.

Analysis Of Leverage Financial

The following are the results of processing from the Oracle Corporation's financial data regarding financial leverage in the following table:

Tabel 1
Financial Leverage 2007 to 2016

Year	Financial Leverage
2007	2,04
2008	2,05
2009	1,89
2010	2

2011	1,85
2012	1,79
2013	1,83
2014	1,93
2015	2,27
2016	2,37

Sources: Data Processing

The open question is whether or not the funding decision adds value to the owner. Does increasing financial leverage have a positive impact on Return On Equity. financial leverage or financial leverage describes the percentage change in EPS (Earning Per Share) with the percentage change in EBIT (Earning Before Intrest and Taxes). Oracle Corporation Financial Leverage describes changes in the percentage of EPS (Earning Per share) greater than the percentage change in EBIT (Earning Before Interest an Taxes). In 2007 Oracle Corporation's financial leverage was 2.04. In 2008 the company managed to increase its financial leverage to 2.05. In 2009 financial leverage decreased to 1.89. In 2010 financial leverage rose again to 2. Until 2014 financial leverage remained below 2. In 2015 corrections could be made to be 2.27. This position can be corrected by the Oracle Corporation to 2.37 2016. The increase in Oracle Corporation's financial leverage has a positive impact on Oracle's ROE (Return On Equity).

Company's Ability to Earn Profit

Based on the Financial Report and the following income statement, the profit ratio is included, among others, Earning Before Taxes Margin, Net Margin, Return on Assets, Return On Equity, Return on Equity.) and Level of Income on Invested Capital) and Earning Per Share in the following table.

Tabel 2
Ratio of EBT Margin, Net Margin, Return On Assets,
Return On Equity, Return On Invested, Earning Per Share Starting Month
Five Year 2007 Five Months of 2016 Oracle Corporation

Tahun	EBT Margin	Net Margin	Return On Assets	Return On Equity	Return On Invested Capital	Earning Per Share
2007	33,26	23,75	13,44	26,77	18,97	0,81
2008	34,93	24,61	13,49	26,77	18,92	1,06
2009	33,69	24,05	11,81	23,25	17,37	1,09
2010	30,73	22,87	11,26	21,95	16,58	1,21
2011	32,03	23,99	11,65	24,22	17,85	1,67
2012	34,92	26,89	13,14	23,92	17,94	1,96
2013	37,38	29,38	13,64	24,74	18,74	2,26
2014	35,8	28,62	12,73	23,94	17,1	2,38
2015	33,57	26	9,88	20,8	13,05	2,21
2016	30,89	24,03	7,98	18,55	10,59	2,07

Sources: Data Processing

The Effect of Financial Leverage on Net Margin

The relationship between Financial Leverage and Net Margin is 0.3437, which means that the relationship between Financial Leverage and Net Margin is not strong. The role of financial leverage as a determinant of Net Margin is also not strong, which is equal to 0.1181, which is equal to 0.8819, influenced by other factors outside of this study. The two-sided hypothesis uses the t test with degrees of freedom with two research variables 10-2 = 8, indicating that t table is 2,306. Whereas t count -1.035189496, then t count is smaller than t table so financial leverage does not have a significant effect on Net Margin. Likewise, the p-value test is equal to 0,3308 greater than 5%, the effect is not significant. NM regression equation = 33,42847224 + 4,000735384 DFL. This equation illustrates that if the degree of financial leverage is increased, it will increase the net margin.

The Effect of Financial Leverage on Return on Assets

The relationship or correlation between Financial leverage (Financial Leverage) and Return On Assets is equal to 0.773, which means that the relationship between financial leverage and Return On

Assets is strong. The role of financial leverage as a determinant of Return On Assets is also large, amounting to 0.5973 the rest, which is equal to 0.4027 influenced by other factors outside of this study. The two-sided hypothesis uses the t test with degrees of freedom with two research variables 10-2 = 8, indicating that t table is 2,306. While the t count is -3.445095345, then t count is greater than t table, the financial leverage has a significant effect on Return On Assets. Likewise, it is done with the p-value test, then for 0.0087 smaller than 5%, the effect is significant. The regression equation ROA = 26.75713936 + -7.420149528 DFL. From the regression equation when dfl is increased it will reduce ROA (return on assets)

The Effect of Financial Leverage Return on Equity

The relationship or correlation between Financial leverage (Financial Leverage) and Return On Equity is equal to 0.6148, which means the relationship between Financial Leverage and Moderate Return On Equity. The role of financial leverage as a determinant of small Return On Equity is equal to 0.3779, which is equal to 0.6221 influenced by other factors outside of this study. The two-sided hypothesis uses the t test with degrees of freedom with two research variables 10-2 = 8, indicating that t table is 2,306. While t count is -2,2047, then t count is smaller than t table, financial leverage does not have a significant effect on Return On Equity. Likewise, it is done with the p-value test, then at 0.0586 greater than 5%, the effect is not significant. The regression equation ROE = 39.90843057+ -8,200514769 DFL. From the regression equation, if it is increased, it will increase return on equity.

The Effect of Financial Leverage on Return on Invested Capital

The relationship or correlation between Financial Leverage and Return On Invested Capital is 0.831, which means that the relationship between Financial Leverage and Return On Invested Capital is strong. The role of financial leverage as a determinant of Return on Invested Capital is equal to 0.6907, which is equal to 0.3093, influenced by other factors outside of this study. The two-sided hypothesis uses the t test with degrees of freedom with two research variables 10-2 = 8, indicating that t table is 2,306. Whereas t count is -4.2265, then t count is greater than t table so financial leverage has a significant effect on Return On Invested Capital. Likewise, the p-value test is equal to 0.0029 smaller than 5%, the effect is significant. ROIC regression equation = 40.794503+ -12.02972178 DFL, this equation illustrates if the financial degree is increased it will reduce return on invested capital.

Financial Leverage Regression with Earning Per Share

The relationship between financial leverage with Earning Per Share is strong, which is equal to 0.0820, which means the relationship between financial leverage with Earning Per Share is weak. Determination of financial leverage to Earning Per Share is also large, which is equal to 0.0067, the rest is influenced by other factors outside of this research. The two-sided hypothesis uses the t test with degrees of freedom with two research variables 10-2 = 8, indicating that t table is 2,306. While t count 0.2327, then t count is greater than t table, financial leverage does not have a significant effect on Earning Per Share. Likewise, the p-value test is equal to 0.8219 greater than 5%, the effect is not significant. EPS regression equation = 1.170457164 + 0.250520897 DFL. This equation illustrates if the degree of financial leverage will increase pershare earnings.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

In 2007 Oracle Corporation's financial leverage was 2.04. In 2008 the company managed to increase it to 2.05. 2009 decreased to 1.89. The year 2010 rose again to 2. Until 2014 the financial leverage remained below 2. In 2015 correction could be made to be 2.27. This position can be corrected by Oracle Corporation to 2.37 in 2016 ..

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The relationship or correlation between Financial Leverage and Return On Invested Capital is 0.831, which means that the relationship between Financial Leverage and Return On Invested Capital is strong. The role of financial leverage as a determinant of Return on Invested Capital is equal to 0.6907, which is equal to 0.3093, influenced by other factors outside of this study. The two-sided hypothesis uses the t test indicating that t table is 2,306. Whereas t count is -4.2265, then t count is greater than t table so financial leverage has a significant effect on Return On Invested Capital. Likewise, the p-value test is carried out so that 0.0029 is smaller than 5%, the effect is significant.

The relationship or correlation between financial leverage with Earning Per Share is strong, which is equal to 0.0820, which means the relationship between financial leverage with Earning Per Share is weak. Determination of financial leverage to Earning Per Share is also large, which is equal to 0.0067, the rest is influenced by other factors outside of this research. The two-sided hypothesis uses the t test indicating that t table is 2,306. While t count 0.2327, then t count is greater than t table, financial leverage does not have a significant effect on Earning Per Share. Likewise, the test p-value is then equal to 0.8219 greater than 5%, the effect is not significant.

Recommendations

To maximize research results, the number of samples should better increased both time and number of the company.

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