Chapter 25
Conclusion

This book changes our understanding of corporate finance, investments, taxation, and rating procedures. It shows that the most used principles of financial management should be changed in accordance to BFO theory. Many of discoveries made within this theory still require interpretations and understanding as well as incorporation into real finance and economy. But it is clear now that without very serious modification of the conceptions of financial management, it is impossible to adequately manage manufacture, investments, taxation, and rating procedures, as well as finance in general.

The book has destroyed some main existing principles of financial management: among them is the trade-off theory, which was considered as a keystone of formation of optimal capital structure of the company during many decades. It was proved by the authors that the balance between advantages and shortcomings of debt financing could not provide the optimal capital structure for the company at all [and an explanation (nontrivial) to this fact has been done]. A new mechanism of formation of the company's optimal capital structure, different from the ones suggested by trade-off theory, has been suggested in monograph.

Let us also mention the discovered qualitatively new effect in corporate finance: decreasing of cost of equity k_e with leverage L. This changes the conceptions of dividend policy of company very significantly.

A very important discovery has been done recently by the authors within BFO theory. It is shown for the first time that valuation of weighted average cost of capital (WACC) in the Modigliani–Miller theory (perpetuity limit of BFO theory) (Modigliani and Miller 1958, 1963, 1966) is not minimal and valuation of the company capitalization is not maximal, as all financiers supposed up to now: at some age of the company ("golden age"), its WACC value turns out to be lower than in the Modigliani–Miller theory, and company capitalization V turns out to be greater than V in Modigliani–Miller theory (see Chaps. 18 and 19).

Existing rating methodologies have a lot of shortcomings. One of the major flaws of all of them is a failure or a very narrow use of discounting. But even in those rare cases where it is used, it is not quite correct, since the discount rate when discounting

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financial flows is chosen incorrectly. In this book, a new approach to rating methodology is suggested. Chapters 21 and 22 are devoted to rating of nonfinancial issuers, while Chap. 23 is devoted to long-term project rating. The key factors of a new approach are (1) the adequate use of discounting financial flows virtually not used in existing rating methodologies and (2) the incorporation of rating parameters (financial "ratios") into the modern theory of capital structure [Brusov–Filatova–Orekhova (BFO) theory]. This on the one hand allows use of the powerful tools of this theory in the rating, and on the other hand, it ensures the correct discount rates when discounting financial flows. We discuss also the interplay between rating ratios and leverage level which can be quite important in rating. All these create a new base for rating methodologies. New approach to ratings and rating methodologies allows to issue more correct ratings of issuers and makes the rating methodologies more understandable and transparent.

A distinctive feature of the book is the extensive and adequate use of mathematics that allows the reader to count various financial and economic parameters, including investment and taxation ones, up to the quantitative result.

Application of BFO theory in corporate finance, investments, taxation, business valuation, and ratings as well as in other areas of economy and finance (Filatova et al. 2008; Brusov and Filatova 2011; Brusov et al. 2011a, b, c, 2012a, b, 2013a, b, 2014a, b, 2015, 2018a, b, c, d) allows to make correct assessment of main financial parameters of the objects and the right managerial decisions. This will help to avoid financial crises, like the global financial crisis of 2008, in the future.

And we can see similar influence of the obtained results in many areas of finance and economy. Not all results, obtained by authors, found reflection in a book via its limited volume. Readers should look for recent and coming papers by authors in journals.

In conclusion, we mention the **applications of BFO theory in corporate finance, investments, business valuation, taxation, and ratings:**

1. **Companies and corporations**
2. **Rating agencies**
3. **Investment companies**
4. **Banks and credit organizations**
5. **Central banks**
6. **Ministry of finance**
7. **Business valuation**
8. **Insurance companies**
9. **Financial reports (ISFR, GAAP, etc.)**
10. **Fiscal organizations**

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