

Assignment - 6

Explain the CAGR

CAGR stands for Compound Annual Growth Rate. It's a financial metric that measures the rate of return or growth of an investment, business, or metric over a specific period of time. usually, Year. CAGR takes into account the compounding effect of growth from one period to the next.

The formula to calculate CAGR is :

$$CAGR = \left(\frac{\text{End value}}{\text{Beginning value}} \right)^{\frac{1}{\text{No of Year}}} - 1$$

where:

- End Value is the final value of the investment or metric.
- Beginning value is the initial value of the investment or metric.
- Number of Year is the time period over which the growth is measured.

For example:

If a company's revenue

$$CAGR = (\$150,000 / \$100,000)^{1/3} - 1 = 14.5\%$$

This means the company's revenue grew at an average rate 14.5% per year over the 3-year period.

CAGR is useful for

1. Evaluating investment performance
2. Comparing growth rates between companies or industries
3. Setting growth target or benchmarks.
4. Analyzing historical growth trends.

Remember, CAGR is a smoothed rate of growth so it may not reflect the actual year-to-year fluctuations.

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