

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 CAGR takes into account the compounding effect of growth from one period to the next.

The formula to Calculate CAGR:

$$CAGR = \left(\frac{\text{End Value}}{\text{Beginning Value}} \right)^{\frac{1}{\text{Number of Year}}} - 1$$

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 measured.

For example

— It a Company's revenue grow from \$100,000 to \$150,000 over 3 Year to CAGR would be

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

This means the Company revenue grow at an average rate 14.5% Per Year over the 3 Year Period.

CAGR is useful for

1. Evaluating investment Performance
2. Comparing growth rate between Companies or Industries.
3. Setting growth target or benchmarks
4. Analyzing historical growth trend.

Remember CAGR is a Smoothed rate of growth so it may not reflect the actual Year to Year fluctuation.

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