Discount rate

Risk Free Rate: The percentage of return generated by investing in risk free financial instruments.

Equity Market Risk Premium: The return on investment that investors require above the risk free rate.

Discount rate= risk free rate + beta*(equity market risk premium)

Beta coefficient - how the expected return of a stock or portfolio is correlated to the return of the financial market as a whole.

The discount rates typically applied to different types of companies:

- Startups seeking money: 50 – 100 %
- Early Startups: 40 – 60 %
- Late Startups: 30 – 50%
- Mature Companies: 10 – 25%

Discount factor

The **discount factor**, D(n), is the number which a future cash flow, to be received at year n, must be multiplied by, to obtain the current present value. A fixed annually compounded discount rate is:

$$D(n) = \frac{1}{(1+r)^n}$$

The fixed continuously compounded discount rate is:

$$D(n) = e^{-r\,n}$$