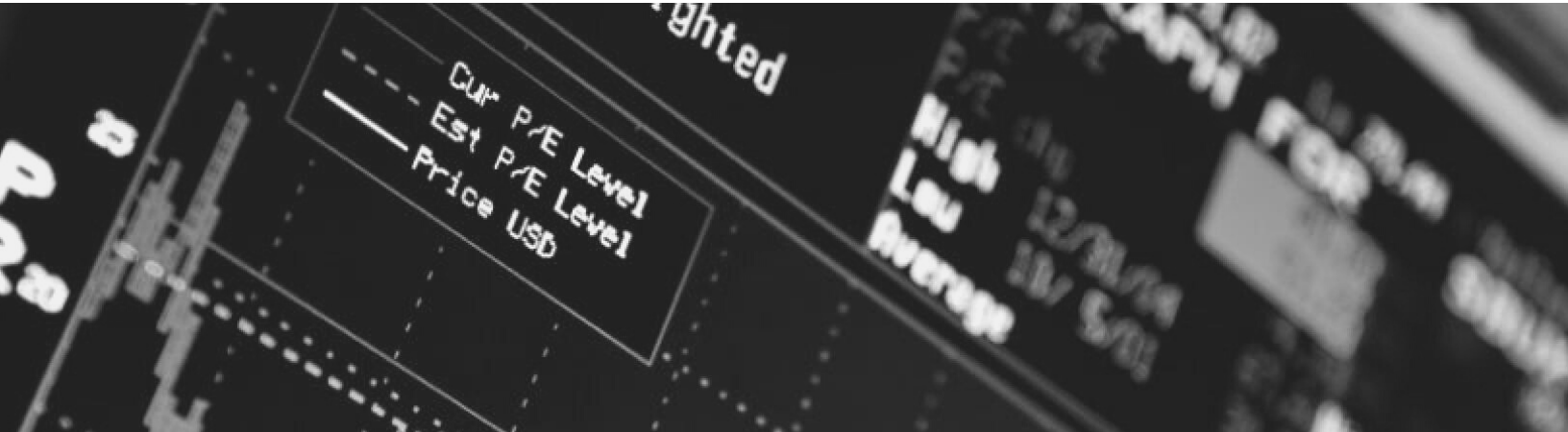




Weekly Educational Topics



Price-to-Earnings Ratio Basics

"ONE OF THE MORE SIGNIFICANT CONCEPTS IN THE INVESTING WORLD, THE PRICE-TO-EARNINGS RATIO (P/E RATIO) IS THE RATIO FOR VALUING A COMPANY THAT MEASURES ITS CURRENT SHARE PRICE RELATIVE TO ITS PER-SHARE EARNINGS (EPS)."

One of the more significant concepts in the investing world, the price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS). The price-to-earnings ratio is also sometimes known as the "price multiple" or the "earnings multiple". P/E ratios are used by investors and financial analysts to determine the relative value of a company's shares. It can also be used to compare a company against its own historical record or to compare markets against one another or over time.

Analysts and investors review a company's P/E ratio when they determine if the share price accurately represents the projected earnings per share. The formula and calculation used for this process are shown below.

P/E Ratio= Earnings Per Share / Market Value Per Share

To determine the P/E value, simply divide the current stock price by the earnings per share (EPS). The current stock price (P) can be shown by plugging a stock's ticker symbol into any finance website, and though this, reflects what investors must currently pay for a stock.

As a historical example, let's calculate the P/E ratio for Walmart Stores Inc. (WMT) as of November 14, 2017, when the company's stock price closed at \$91.09. The company's profit for the fiscal year ending January 31, 2017, was US\$13.64 billion, and its number of shares outstanding was 3.1 billion. Its EPS can be calculated as \$13.64 billion / 3.1 billion = \$4.40.

Walmart's P/E ratio is, therefore, \$91.09 / \$4.40 = 20.70x.

"P/E RATIOS ARE USED BY INVESTORS AND FINANCIAL ANALYSTS TO DETERMINE THE RELATIVE VALUE OF A COMPANY'S SHARES."

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