Price to Sales

Price to Sales

- The Price to Sales Ratio or PSR values the sales of a business by dividing the sales per share by the share price

Price to Sales

- This ratio was developed by Kenneth L Fisher to help with the valuation of early stage businesses
- Initially these business are highly valued (but may have few sales)
- As they grow, initial optimistic expectations may decline and the share price falls

Price to Sales

- The PSR enables investors to value the sales of the company irrespective of hype or earnings
- How much are investors paying for $1 of sales?
- This also enables businesses to be valued before they make profits

Price to Sales

- This metric ignores the capital structure of the business
- It is focused on equity investors who are seeking a market based metric to understand the company's valuation

Price to Sales

- You can use historic LTM sales or a Forecast sales number
- If you are making comparisons ensure that you use the same sales figure in all your calculations

Price to Sales

- You should be cautious about using PSR to compare companies in different sectors or at different stages of growth
- The ratio does not distinguish between leveraged or unleveraged businesses
- It does not consider the profitability of the company

Price to Sales

- PSR is a useful high level metric but should only be used in conjunction with other valuation metrics

Price to Sales