Financial Glossary

View All Terms

Price to Book Ratio

Price to book value is a financial ratio used to compare a company's book value to its current market price. Book value is an accounting term denoting the portion of the company held by the shareholders at accounting value (not market value). In other words, book value is the company's total tangible assets less its total liabilities.

The ratio has two calculation methods. In the first way, the company's market capitalization is divided by the company's total book value from its balance sheet. The second way, using per-share values, is to divide the company's current share price by the book value per share. In general, a low price to book value indicates that a stock is undervalued and thus more desirable.

In theory, if you purchased stock with a price to book value less than 1 and the company immediately went bankrupt, you would gain money on your investment. In reality, this may not be true since there are times when liquidation value, or the price at which a company's assets can be sold, is less than the book value of those assets.

For more information on evaluating valuation multiples similar to this, please see our original white paper research : Making Sense Of Valuation Multiples.

Formula

Price to Book Value = Share Price / Book Value Per Share

YCharts uses Total Shareholders Equity and the most recent quarter's common shares outstanding to calculate Book Value Per Share. Total Shareholders Equity is equal to Total Assets less Total Liabilities.

Analysis Tutorial

Related Terms

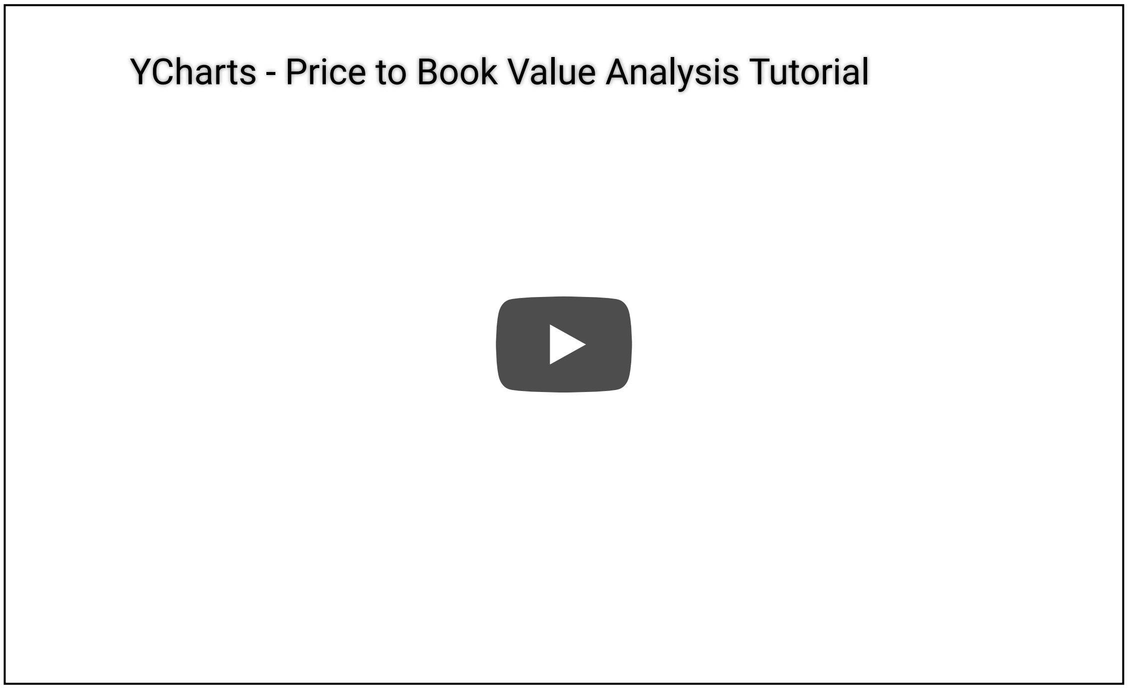
Price

Price to Cash Flow

Price to Earnings Ratio (PE Ratio)

Price to Sales Ratio

Price to Tangible Book Value


YCharts - Price to Book Value Analysis Tutorial