Financial Glossary

Price to Earnings Ratio (PE Ratio)

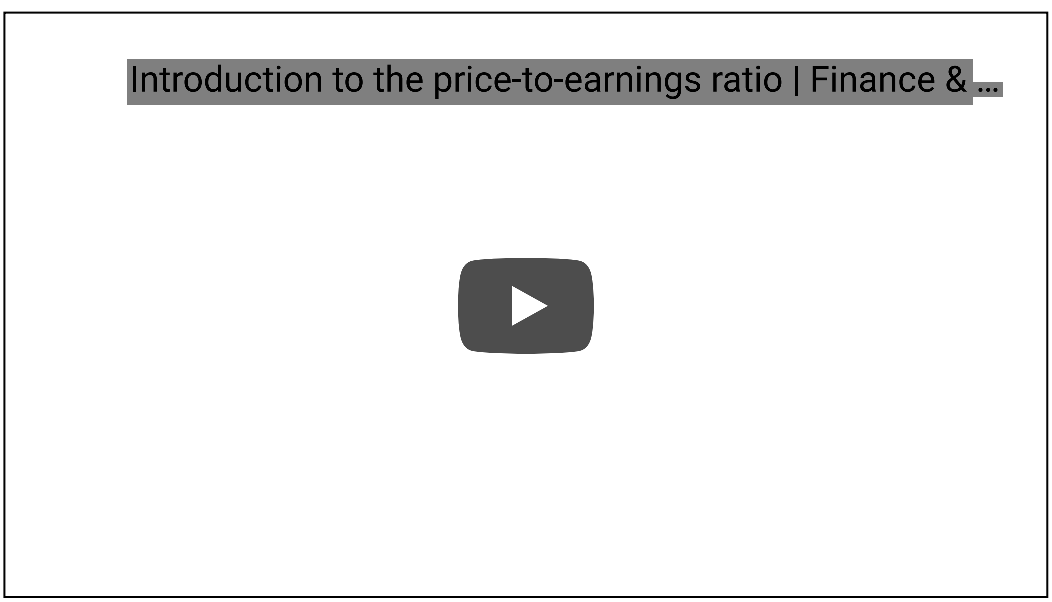
The price to earnings ratio (PE Ratio) is the measure of the share price relative to the annual net income earned by the firm per share. PE ratio shows current investor demand for a company share. A high PE ratio generally indicates increased demand because investors anticipate earnings growth in the future. The PE ratio has units of years, which can be interpreted as the number of years of earnings to pay back purchase price.

PE ratio is often referred to as the "multiple" because it demonstrates how much an investor is willing to pay for one dollar of earnings. PE Ratios are sometimes calculated using estimations of next year's earnings per share in the denominator. When this happens, it is usually noted.

Formula

Price to Earnings Ratio = Price / Earnings Per Share (EPS)
(Note: YCharts uses the Trailing Twelve Months (TTM) sum of Net EPS Diluted in the denominator)

Analysis Tutorial



Related Terms

- Earnings per Share
- Earnings Yield
- Forward PE Ratio
- PE 10
- PE Ratio (Forward 1y)
- PE Value (Pro)
- PEG Ratio
- Price
- Price to Book Ratio
- Price to Cash Flow
- Price to Earnings Less Cash
- Price to Sales Ratio