Financial Glossary

View All Terms

Price to Sales Ratio

The price to sales ratio (PS ratio) is calculated by dividing stock price by the revenue per share. It is most useful for comparing companies within a sector or industry because "normal" values for this ratio vary from industry to industry. In general, low price to sales ratios are more appealing because they suggest that a company is undervalued.

An example illustrating why PS ratios should not be compared across industries: On June 21, 2010, Starbucks had a PS ratio of 1.12 while Yahoo! had a PS ratio of 2.56. In other words, Yahoo! shareholders were paying $2.56 for $1 of sales while Starbucks shareholders would only pay $1.12 for $1 of sales. However, at that same moment, the two companies' price to earnings ratios were virtually identical (Starbucks: 28.09 and Yahoo!: 27.78). Hence, shareholders were paying nearly the same amount for $1.00 in earnings. The PS ratios, though, are less comparable since Yahoo!'s profit margins are much higher than that of Starbucks.

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

Formula

PS Ratio = Price / Revenue Per Share
(Note: YCharts uses the Trailing Twelve Months (TTM) Revenue Per Share in the denominator)

Analysis Tutorial

Related Terms

- Forward PS Ratio
- Price
- Price to Book Ratio
- Price to Cash Flow
- Price to Earnings Ratio (PE Ratio)
- Price to Sales Value Score
- Price to Tangible Book Value
- Profit Margin

YCharts - Price to Sales Ratio Analysis Tutorial