What is 'Earnings Per Share - EPS'

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Calculated as:

$$= \frac{\text{Net Income} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

When calculating, it is more accurate to use a weighted average number of shares outstanding over the reporting term, because the number of shares outstanding can change over time. However, data sources sometimes simplify the calculation by using the number of shares outstanding at the end of the period.

Diluted EPS expands on basic EPS by including the shares of convertibles or warrants outstanding in the outstanding shares number.

What is the 'Price-Earnings Ratio - P/E Ratio'

The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

The price-earnings ratio can be calculated as:

Market Value per Share / Earnings per Share

For example, suppose that a company is currently trading at $43 a share and its earnings over the last 12 months were $1.95 per share. The P/E ratio for the stock could then be calculated as 43/1.95, or 22.05.

EPS is most often derived from the last four quarters. This form of the price-earnings ratio is called trailing P/E, which may be calculated by subtracting a company's share value at the beginning of the 12-month period from its value at the period's end, adjusting for stock splits if there have been any. Sometimes, price-earnings can also be taken from analysts' estimates of earnings expected during the next four quarters. This form of price-earnings is also called projected or forward P/E. A third, less common variation uses the sum of the last two actual quarters and the estimates of the next two quarters.

The price-earnings ratio is also sometimes known as the price multiple or the earnings multiple.