# Price-to-earnings ratio

Fundamental ratios | Original synthetic example | Edition 2026-11-26

The price-to-earnings ratio relates a share price to earnings per share for a declared period or forecast. A positive ratio is not generally meaningful when the EPS denominator is zero or negative.

**FORMULA P/E = share price / positive earnings per share**

**SCENARIO 01: Share price 100; all EPS inputs positive and same period**




## WORKED EXAMPLE

At EPS 5, P/E is 100 / 5 = 20. A ratio alone does not establish fair value.

## COMMON MISTAKE

Comparing a trailing ratio with a forward ratio as though the earnings periods matched changes the basis of comparison.

## BEFORE YOU USE THE CALCULATION

1. State trailing or forecast EPS.
2. Check positive and comparable earnings.
3. Consider accounting quality and one-off items.

## COMPARE TWO MORE INPUT SETS

Scenario 05: Share price 140; all EPS inputs positive and same period. At EPS 5, P/E is 140 / 5 = 28. A ratio alone does not establish fair value.

Scenario 10: Share price 190; all EPS inputs positive and same period. At EPS 5, P/E is 190 / 5 = 38. A ratio alone does not establish fair value.



Synthetic values are not historical market data. Educational material; trading can result in substantial losses.