



**Should You Buy Stock in Campbell Soup?**

Your investment team is going to have a chance to invest in Campbell Soup, but first you need to learn about Price/Earnings Ratio (P/E Ratio) a useful way to compare the price of one stock to another.



*Campbell Soup Company*

**Price-Earnings Ratio-- One Indicator for Understanding Stock Value.**

Stock buyers try to predict how well a company will do in the future by looking at its performance last year. One indicator they look at is the relationship between last year's earnings per share to the current price per share. This relationship, called Price/Earnings Ratio (P/E Ratio), is an example of a mathematical formula called a *ratio*. A ratio is a way of comparing two quantities as a division problem. P/E Ratio compares price to earnings.

$$\text{Earnings per share} \left| \frac{\text{Price per share}}{\text{Earnings per share}} \right. = \text{Price/Earnings Ratio (P/E Ratio)}$$

Using the P/E Ratio is one way of comparing the value of one stock to the value of any other stock.

**Problem:** If a corporation has annual earnings of \$525,000 and has 100,000 shares of stock issued, selling at a current price of \$42 per share, what is the P/E Ratio of this corporation?

**STEP 1:** First, divide the annual earnings by the number of shares of stock to find the earnings per share for this year.

$$\begin{array}{r} \text{\$ } \mathbf{5.25} \text{ Earnings per share} \\ \hline \mathbf{100,000} \text{ NO. OF SHARES} \quad \mathbf{\$ 525,000} \text{ ANNUAL EARNINGS} \end{array}$$

**STEP 2:** Now divide the market price per share by the earnings per share of the stock to get the price-earnings ratio.

$$\begin{array}{r} \mathbf{8} \text{ Price-Earnings Ratio} \\ \hline \mathbf{\$ 5.25} \text{ EARNINGS PER SHARE} \quad \mathbf{\$ 42.00} \text{ PRICE PER SHARE} \end{array}$$

**Problem:** A stock that you are considering buying has per-share-earnings of \$2.50, and is selling at \$21.25 per share. What is this stock's Price-Earnings Ratio? \_\_\_\_\_

**Problem:** If one share earns \$2.04, and the stock has a Price-Earnings Ratio of 16.3; what is the price of one share of this stock? \$\_\_\_\_\_