

Earnings Per Share (EPS)



Trade for
Good.



What Is Earnings Per Share (EPS)?

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock.

$$\text{Earnings per Share} = \frac{\text{End-of-Period Common Shares Outstanding}}{\text{Net Income} - \text{Preferred Dividends}}$$

The number serves as an indicator of a company's profitability.

The **higher** a company's **EPS**, the **more profitable** it is considered to be.

Trade for
Good.



Key Takeaways

- EPS indicates how **much money** a company **makes for each stock**
- A **higher EPS** indicates **greater value**, because investors will pay more for a company's shares if they think the company has higher profits relative to its share price
- EPS is **most valuable when compared against competitor** metrics in the same industry, or across a period of time

Trade for
Good.



How is EPS Used?

EPS is a major component of calculating P/E ratio, the E in P/E refers to EPS.

By **dividing a company's share price by its earnings per share**, an investor can see the **value of a stock** in terms of how much the market is willing to pay for each dollar of earnings.

EPS is one of the many indicators you could use to pick stocks, if you have an interest in stock trading or investing.

Trade for
Good.



What is a Good EPS?

A good EPS depends on factors such as;

- **Recent performance** of the company
- **Performance of its competitors**
- And **expectations of analysts** that follow the stock

It is important to always judge EPS in relation to the company's share price, such as by looking at the company's P/E or earnings yield.

Trade for
Good.



Limitations of EPS

Possible drawbacks of EPS are;

- **Company can adjust its EPS** by buying back stock, or reducing shares outstanding, and inflating the EPS number given the same level of earnings.
- **Changes to accounting policy** for reporting.
- EPS also does not take into account the price of the share, so it has little to say about whether a company's **stock is over or undervalued.**

Trade for
Good.



The Bottom Line

EPS is an **important profitability measure** used in relating a stock's price to a company's actual earnings.

Generally higher EPS is better, but you should consider;

- The **number of shares outstanding**
- Potential **share dilution**
- And **earning trends over time**

Trade for
Good.