**Price/Book Value Ratio**

**Definition**

**Price/book value ratio** is an investment valuation ratio used by investors or finance providers to compare market value of a company’s shares to its book value (Shareholder Equity). This ratio indicates how much shareholders are contributing/paying for a company’s net assets.

Book value provides an estimated value of a company if it is to be liquidated. It is the value of a company’s assets expressed in the [Statement of Financial Position](https://www.readyratios.com/reference/accounting/statement_of_financial_position.html) (B/S). It is calculated by subtracting company’s liabilities from its assets (Assets-Liabilities). In simple words it shows what shareholders will get after the company is sold and all its debts are paid off. Low ratio represents a good sign for the company.

The “price to book” or “price/book value ratio” helps investors to compare the market value, or the price they are normally paying per share, to the traditional measure of the firm’s value.

This ratio is best suitable for companies that possess a large number of tangible fixed assets as it does not account for intangible assets. Companies having buildings, factories, machineries, equipments, and other fixed assets can use this ratio to check the exact company position. This ratio is best suited to banks and insurance companies as they have a large number of financial assets.

**Calculations (formula)**

Price/Book Value Ratio = Stock Price Per Share / Shareholders’ Equity Per Share

For example, a company with a share price of $60 and a book value of $65 per share would have a P/B ratio of 0.9. A ratio over 1 generally implies that the market is willing to pay more than the equity per share, while a ratio under 1 implies that the market is willing to pay less.

**EV/EBITDA:**EBITDA, or Earnings Before Interest, Taxes, Depreciation, and Amortisation is widely regarded by analysts as more reliable since it removes distortions like effect of capital structure, varying tax rates, and non-operating income. Since EBITDA is the earnings before interest, the appropriate value in the numerator is taken as the Enterprise Value, or value of debt plus value of equity, plus cash balance.