P/E (Price-to-Earnings Ratio)

Exercise to be solved in the classroom

EXERCISE

Assume that, in 2008, Nokia launched an aggressive marketing campaign, which resulted in a 15% increase in sales. However, ROS reduced from 5.6% to 4.5%. Furthermore, suppose that Nokia has no other revenues, that the interest expense has not changed, and that the taxes are the same as in 2007:

a. What was Nokia's EBIT in 2008?
b. What was the net income in 2008?
c. If the P/E ratio and the number of shares issued do not change, what is the NOKIA share price in 2008?

NOKIA

	2007	**2008**
Ricavi di vendita	€ 51.058,00	
ROS	5,60%	4,50%
Proventi finanziari netti	€ 239,00	€ 239,00
Imposte %	18,40%	18,40%
P/E	14,6	14,6
Numero totale di azioni	3.890	3.890

Solve the problem

P/E (Price-to-Earnings Ratio)

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- **SOLUTION**

a. **Sales (2008**) = €51.058 × (1+0,15) = **€58.717**

b. **EBIT (2008)** = 4.5% × €58,717 = **€2.642** (it is assumed that there are no other revenues)

c. **Net Income (2008)** = EBIT + Net Financial Income - Taxes = (€2.642 + €239) × (1 - 0,184) = **€2.350,90**

d. **Price per share (2008)** = P/E (2008) × EPS (2008) = 14,6 × (€2.350,90 ÷ 3.890) = **€8,82**