

When analyzing the M&A process, it is essential to look at the numbers to determine if the [merger or acquisition](#) will work financially for your company.

In this sense, knowledge of how to calculate earnings per share can make a difference in a **financially** successful transaction.

What is Earning per Share?

Earnings per share, or EPS, is a ratio used primarily by investors to determine how financially valuable a company is.

Generally speaking, it looks at the company's earnings and how much is allocated to each outstanding common stock. The higher the EPS, the more valuable the stocks are.

The standard EPS formula is quite simple: your ratio is calculated by taking net income of a company (the numerator) and dividing it by the weighted shares that are outstanding (the denominator).

STANDARD EPS = NET INCOME / OUTSTANDING SHARES

CALCULATION OF EPS IN PRACTICE

However, in practice, the EPS calculation considers the following records:

- The income statement
- Company balance sheet

This consultation takes place with the aim of mapping the number of shares outstanding, in addition to the net income to be considered.

It is worth mentioning that, for the calculation, both values, net profit and number of free trading in the market, must refer to the same time interval.

As an example, the calculation takes place as follows: imagine that the company "ABC" obtained a net profit of R\$ 100,000 in the period from January to March.

Also in this period, **the weighted average number of shares** outstanding was 50 thousand.

Therefore, the EPS will be $100,000 \div 50,000 = R\$2.00$ per share.

Once calculated, the interpretation of this data by a person with market expertise will be of paramount importance.

In other words, what is the real importance of EPS for a company? And, if there is importance, how does one identify it?

The questions above will be answered in the next section.

LIMITATIONS AND IMPORTANCE OF THE EPS CALCULATION

The EPS calculation is shown as one of the factors in identifying a company's profitability. The importance stems from its ability to identify a company's profit or loss.

[This information is of paramount importance for investors](#), for example.

However, the simple indication of the EPS does not allow the financial conclusion of the company's situation.

This is because the data used for its calculation refer to only one period.

In this regard, the ideal situation is that, together with the analysis of the EPS, the investors pay attention to the company's history and that of its competitors in the same sector to compare the evaluated indicators.

This way, the results and information obtained will be ideal for an investment evaluation using the EPS calculation.

In conclusion, these are the primary considerations of using the EPS to carry out a **financially** successful M&A. Did you like the content and want more tips about the business world? [Keep following our blog and follow our Instagram for more content.](#)