

Palantir Technologies

Unlocking the value of AI at speed & scale

- Reiterate Buy & raise PO to \$24

Reiterate Rating: BUY | PO: 24.00 USD | Price: 16.72 USD

Leader in accessible AI and data-driven solutions

Palantir's Artificial Intelligence Platform (AIP) is still in its infancy and already contributing in a meaningful way. US Commercial sales were up 70% Y/Y in 4Q23 and the business added 40 new customers (up 22% Q/Q). We expect the momentum to continue. We think this remarkable growth is a sign of Palantir's unique position as an enabler of AI-powered data-driven decision making in a tangible, accessible, and operational way. We reiterate our Buy rating and raise PO from \$21 to \$24.

Bootcamps do in 10hrs what internal teams in 10 months

The newest bootcamp-like pilot approach is accelerating PLTR's go-to-market strategy and expanding addressable market. Since launched last October, PLTR has completed 560+ AIP bootcamps across 465 organizations (5x larger than the pilots run in 2022). The company has run more than 200 use cases with applications across defense, healthcare, telecom, insurance, car rental, finance, pharma, manufacturing, and others.

US Government re-accelerating through several channels

We continue to see significant opportunities within the US Government (USG). Software is becoming increasingly critical to military missions, and the primes seem to be lagging. Sales from the USG will be fueled by 1) Palantir's strong portfolio of existing solutions to rapidly respond to accelerating software requirements, 2) Strengthening customer intimacy and understanding of the mission through traditional programs of record, 3) Newly launched Mission Manager solutions (infrastructure that allows the USG to build and manage multivendor continuous-competition ecosystems), and 4) Deepening relationships with the defense industrial base (from start-ups to primes).

Cash is king: FCF margin of 33-34% & \$3.7bn of net cash

Palantir printed 36% adjusted operating margins in 4Q and expects 2024 to be 31-32%. Most importantly, the company generated FCF at 33% of sales and expects to at least repeat this performance in 2024. We view the financial strength as a significant differentiator. In both the government and commercial arenas, prospective customers pay attention to these metrics as a proxy for survivability.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.06	0.25	0.30	0.38	0.49
GAAP EPS	(0.18)	0.09	0.13	0.21	0.34
EPS Change (YoY)	-53.8%	316.7%	20.0%	26.7%	28.9%
Consensus EPS (Bloomberg)			0.30	0.35	0.53
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	278.7x	66.9x	55.7x	44.0x	34.1x
GAAP P/E	NM	185.8x	128.6x	79.6x	49.2x
EV / EBITDA*	74.6x	49.7x	37.4x	28.7x	21.6x
Free Cash Flow Yield*	0.5%	2.0%	2.5%	3.3%	4.3%

* For full definitions of *IQmethod*SM measures, see page 6.

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06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	21.00	24.00
2024E Rev (m)	2,670.8	2,679.0
2025E Rev (m)	3,323.3	3,333.3
2026E Rev (m)	4,112.8	4,164.3
2024E EPS	0.27	0.30
2025E EPS	0.37	0.38
2026E EPS	0.48	0.49

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Stock Data

Price	16.72 USD
Price Objective	24.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-1-9
52-Week Range	7.19 USD - 21.85 USD
Mkt Val (mn) / Shares Out (mn)	34,601 USD / 2,069.4
Free Float	93.4%
Average Daily Value (mn)	754.10 USD
BofA Ticker / Exchange	PLTR / NYS
Bloomberg / Reuters	PLTR US / PLTR.N
ROE (2024E)	18.7%
Net Dbt to Eqty (Dec-2023A)	-23.3%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Palantir Technologies

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-4.6%	6.8%	7.8%	10.4%	13.3%
Return on Equity	5.1%	19.0%	18.7%	19.0%	19.8%
Operating Margin	-8.5%	5.4%	9.2%	14.9%	20.5%
Free Cash Flow	184	697	876	1,129	1,490

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.8x	1.2x	1.2x	1.2x	1.2x
Asset Replacement Ratio	1.8x	0.5x	1.1x	1.0x	1.0x
Tax Rate	NM	8.3%	15.0%	15.0%	15.0%
Net Debt-to-Equity Ratio	-98.3%	-23.3%	-39.9%	-52.2%	-62.5%
Interest Cover	-39.7x	34.6x	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,906	2,225	2,679	3,333	4,164
% Change	23.6%	16.7%	20.4%	24.4%	24.9%
Gross Profit	1,497	1,794	2,201	2,738	3,421
% Change	24.5%	19.8%	22.7%	24.4%	24.9%
EBITDA	443	666	885	1,152	1,532
% Change	-9.2%	50.3%	32.9%	30.1%	33.0%
Net Interest & Other Income	(200)	117	142	156	186
Net Income (Adjusted)	124	574	743	960	1,257
% Change	-50.5%	363.9%	29.4%	29.2%	30.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(371)	217	330	554	883
Depreciation & Amortization	23	33	36	48	64
Change in Working Capital	(232)	56	(52)	(29)	(4)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	805	406	602	605	609
Capital Expenditure	(40)	(15)	(40)	(50)	(62)
Free Cash Flow	184	697	876	1,129	1,490
% Change	-42.8%	279.4%	25.7%	28.9%	32.0%
Share / Issue Repurchase	86	218	115	25	19
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,599	831	1,822	2,976	4,485
Trade Receivables	258	365	485	631	823
Other Current Assets	185	2,943	2,965	2,989	3,023
Property, Plant & Equipment	69	48	52	54	52
Other Non-Current Assets	350	336	291	248	208
Total Assets	3,461	4,522	5,616	6,898	8,590
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	588	746	837	971	1,183
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	231	215	215	222	232
Total Liabilities	819	961	1,053	1,193	1,415
Total Equity	2,642	3,561	4,563	5,705	7,175
Total Equity & Liabilities	3,461	4,522	5,616	6,898	8,590

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Server & Enterprise Software

Company Description

Palantir Technologies Inc. builds and deploys software platforms that serve as a central data operating system that can analyze massive amounts of data from disparate unstructured sources, empower data with machine learning and user/analytics interactions, and present it in a user-friendly interactive view (including AI interaction). The more accessible, actionable and operational data enables users from defense to intel to enterprise logistics to make faster more informed decisions.

Investment Rationale

We see Palantir as a beneficiary of rapidly growing demand for Artificial Intelligence (AI)-platforms in both commercial and government end-markets. Palantir's dominant position in the AI-powered software market, differentiated end-to-end, ontology-powered & highly secure solutions and first mover advantages should support revenue growth and improving profits in the midterm. Increased urgency on modernizing military and intel capabilities may provide significant opportunities for Palantir.

Stock Data

Average Daily Volume 45,101,656

Quarterly Earnings Estimates

	2023	2024
Q1	0.05A	0.07E
Q2	0.05A	0.07E
Q3	0.07A	0.08E
Q4	0.08A	0.08E

Mission Manager: Palantir allowing multi-vendor approach

We think the launched Mission Manager product is a huge opportunity for Palantir to become the common data operational system for the US Government. The US Government, including the DoD, has widely expressed their concerns about “vendor lock in.” There are several efforts to achieve a competitive multi-vendor offering (when possible). However, the required infrastructure is not easy to implement and is usually dependent on outsourcing the mission to a systems integrator that develops a bespoke product and charges on a level of effort for both the development and maintenance portions.

Palantir is launching a software-driven approach to this goal that leverages on the decades of expertise working along with the government and the power of its portfolio of products (like Apollo, Rubix, zero-trust compute & networking, and Ontology Software Development Kit – OSDK). This will enable “an ecosystem” of commercial and government provider with a focus on modularity, speed, and openness.

A common and always improving data operating system could allow a continued-competition and multi-vendor approach, more amicable to commercial-like software companies. Additionally, if implemented across different USG agencies, this system could eventually support joint-efforts and interoperability.

Mission Manager applied to Army Vantage supports incumbency

In late December, the US Army awarded Palantir an unexpected one-year extension of the Vantage program. See details [here](#). We were positively surprised to learn that the company is already implementing Mission Manager within the program. PLTR plans to continue to onboard partners and demonstrate the value of this multi-vendor ecosystem during this option year.

FedStart could unlock further revenue opportunities along 2024

As the government works to expand its contractor base, we see PLTR’s FedStart offering as a critical service within the field.

The Federal Risk and Authorization Management Program (FedRAMP) is a standardized approach to security authorizations for Cloud Service Offerings. Palantir’s FedStart solutions are designed to offer a cheaper and faster solution to start-up software companies that want to work with the government in an already secure and accredited environment. FedStart solutions are built on Mission Manager’s capabilities.

- FedStart IL5 (DoD Impact Level 5: applicable to Controlled Unclassified Information -CUI- & National Security Systems - NSS) is already available
- FedStart IL6 (DoD Impact Level 6: applicable to Classified Information up to SECRET) will be available at the end of 2Q24
- FedStart FedRAMP High (Applicable to High Impact data, usually in Law Enforcement and Emergency Services systems, Financial systems, Health systems, and any other where loss of confidentiality, integrity, or availability could be expected to have a severe or catastrophic adverse effect on organizational operations, organizational assets, or individuals) will be available in 3Q-4Q24.

Increasing EPS estimates

We are increasing our 2024 and outyear EPS estimates to reflect stronger than expected AIP momentum and profitability. We raise our 2024e EPS to \$0.30 from \$0.27, 2025e to \$0.38 from \$0.37, and 2026e to \$0.49 from \$0.48.

Raise PO to \$24 on strong sales & cash position

We raise our PO to \$24 from \$21 to reflect higher sales and net cash position. Our PO of \$24 is based on a 0.6x EV/Sales/Growth multiple to 2025e and represents a sum of



the parts of 0.6x on Government (above Defense IT svcs on stronger EBITDA margins) and 0.7x on Commercial (vs. prior 0.8x on some AI-hype easing).

Price objective basis & risk

Palantir Technologies (PLTR)

Our PO of \$24 is based on a 0.6x EV/Sales/Growth multiple to 2025e and represents a sum of the parts of 0.6x on Government (above Defense IT svcs on stronger EBITDA margins) and 0.7x on Commercial (in line with GAAP profitable software infrastructure and industrial automation). We think that higher-than-peers' stock based compensation, outsized founders' voting power, and a less conventional investment and sales strategy are balanced by a beneficial position to national security and US government/allies' modernization efforts, a leading role in artificial intelligence (AI)-powered platforms, opportunistic partnerships, strong balance sheet and strengthening profitability.

Downside risks to our PO are lower-than-expected AI-platforms market growth, faster than expected commoditization, higher success from competitors to catch up with technologies, and/or stronger than expected resistance from government customers to use commercial off the shelf solutions.

Upside risks to our PO are stronger-than-expected growth of the AI-platforms market, higher-than-expected PLTR penetration, better-than-expected profitability, and/or successful agreements and investments.

Analyst Certification

I, Mariana Perez Mora, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein
NEUTRAL				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein



US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
UNDERPERFORM				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein
	Spirit AeroSys-A	SPR	SPR US	Ronald J. Epstein

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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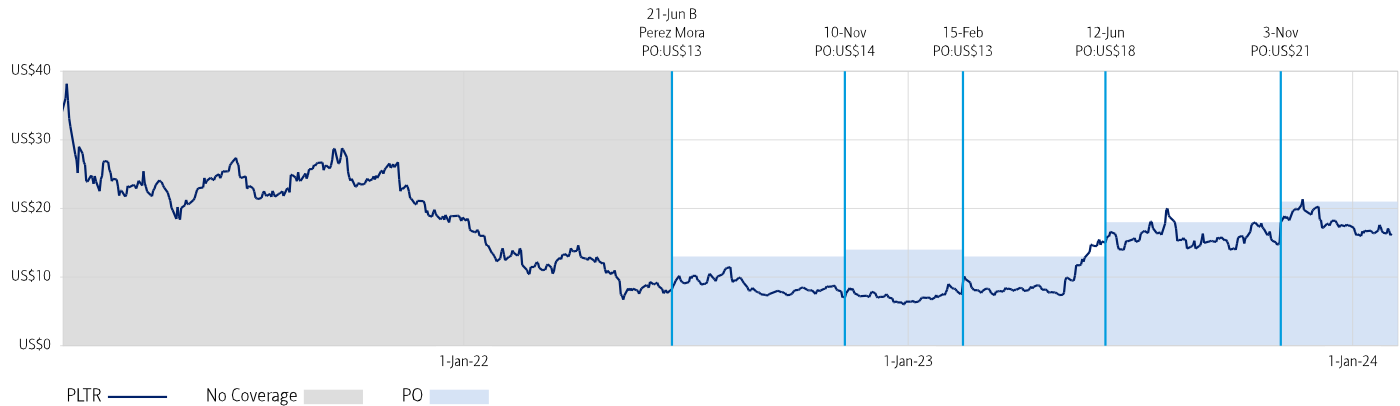
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Palantir (PLTR) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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