

Palantir Technologies

Introducing the “Software Prime” – PLTR secures TITAN

Reiterate Rating: BUY | PO: 28.00 USD | Price: 24.75 USD

The AI Prime emerges

In Greek mythos, the War of Titans lasted 10 years and ended with the Olympians (a younger generation of gods) taking the helm. Eight years after Palantir sued the U.S. Army (and ultimately beat out Raytheon for the DGCS-A contract), we find it fitting Palantir has once again won a battle against the “old guard” and been named Prime on TITAN. See the award and program details below. In our view, the implications of this win stretch beyond the initial \$178mn two-year work scope. We see the win cementing Palantir as the AI Prime in the world of Defense and anticipate further penetration opportunities as the heritage defense companies acknowledge the advantages of outsourcing more software capabilities. Given the win and strong signal it sends to how procurement is evolving we reiterate our Buy; and increase our PO to \$28 from \$24.

TITAN ushers in a new era of procurement

This is the first time a software company has been named the Prime on a “hardware” production program, which we see as a signal the DoD is embracing change. The team assembled by PLTR is a mix of traditional partners (Northrop Grumman, L3 Harris, Sierra Nevada Corp) and non-traditional partners (Anduril, Pacific Defense, STC, and WWT). The approach is unique and a realization of PLTR’s strategy to develop cutting edge AI-enabled capabilities which are present from initial development to final product delivery.

A fixture for the development of JADC2 capabilities

[JADC2](#) is the DoD’s effort to connect individual networks of the services (Air Force, Army, Marine Corps, Navy, and Space Force) into a single network. Realizing this vision is a critical priority for the DoD, and key to the U.S. maintaining an enduring advantage against peer threats. At [CES 2023](#), Palantir showcased the demo TITAN- unit which used their software as a digital backbone, and how the software is capable of connecting sensor, comms, and vehicles across disparate systems. While Palantir was not initially selected for the consortium to develop the initial digital backbone under the ABMS two of Palantir’s TITAN partners (LHX / NOC) were. We see it likely Palantir will be more involved in the development either through their partners relationships or penetrate the program if TITAN proves to be as successful as Project Maven.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.06	0.25	0.30	0.39	0.50
GAAP EPS	(0.18)	0.09	0.13	0.22	0.35
EPS Change (YoY)	-53.8%	316.7%	20.0%	30.0%	28.2%
Consensus EPS (Bloomberg)			0.33	0.39	0.47
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	412.5x	99.0x	82.5x	63.5x	49.5x
GAAP P/E	NM	275.0x	190.4x	112.5x	70.7x
EV / EBITDA*	114.4x	76.1x	56.9x	43.3x	32.3x
Free Cash Flow Yield*	0.4%	1.3%	1.7%	2.2%	2.9%

* For full definitions of [IQmethodSM](#) measures, see page 7.

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Timestamp: 06 March 2024 10:28AM EST

06 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	24.00	28.00
2024E Rev (m)	2,679.0	2,697.7
2025E Rev (m)	3,333.3	3,385.5
2026E Rev (m)	4,164.3	4,263.7
2025E EPS	0.38	0.39
2026E EPS	0.49	0.50

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Stock Data

Price	24.75 USD
Price Objective	28.00 USD
Date Established	6-Mar-2024
Investment Opinion	C-1-9
52-Week Range	7.19 USD - 25.69 USD
Mrkt Val (mn) / Shares Out (mn)	52,245 USD / 2,110.9
Free Float	93.5%
Average Daily Value (mn)	2214.65 USD
BofA Ticker / Exchange	PLTR / NYS
Bloomberg / Reuters	PLTR US / PLTR.N
ROE (2024E)	18.6%
Net Dbt to Eqty (Dec-2023A)	-23.3%
ESGMeter™	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%	10.7%	13.7%
Return on Equity	5.1%	19.0%	18.6%	19.4%	20.0%
Operating Margin	-8.5%	5.4%	9.3%	15.2%	20.9%
Free Cash Flow	184	697	875	1,141	1,522

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%	-62.7%
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	2,698	3,385	4,264
% Change	23.6%	16.7%	21.2%	25.5%	25.9%
Gross Profit	1,497	1,794	2,216	2,781	3,502
% Change	24.5%	19.8%	23.5%	25.5%	25.9%
EBITDA	443	666	891	1,171	1,572
% Change	-9.2%	50.3%	33.8%	31.4%	34.3%
Net Interest & Other Income	(200)	117	134	156	186
Net Income (Adjusted)	124	574	738	978	1,279
% Change	-50.5%	363.9%	28.4%	32.6%	30.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(371)	217	328	570	917
Depreciation & Amortization	23	33	36	49	66
Change in Working Capital	(232)	56	(51)	(32)	(5)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	805	406	602	605	609
Capital Expenditure	(40)	(15)	(40)	(51)	(64)
Free Cash Flow	184	697	875	1,141	1,522
% Change	-42.8%	279.4%	25.5%	30.4%	33.4%
Share / Issue Repurchase	86	218	115	25	25
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	1,821	2,986	4,533
Trade Receivables	258	365	493	647	850
Other Current Assets	185	2,943	2,965	2,989	3,025
Property, Plant & Equipment	69	48	52	54	53
Other Non-Current Assets	350	336	291	248	208
Total Assets	3,461	4,522	5,623	6,925	8,669
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	588	746	846	984	1,208
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	231	215	215	223	232
Total Liabilities	819	961	1,062	1,207	1,440
Total Equity	2,642	3,561	4,561	5,718	7,228
Total Equity & Liabilities	3,461	4,522	5,623	6,925	8,669

* For full definitions of iQmethodSM measures, see page 7.

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 89,480,608

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

TITAN: deep sensing for long range fires & intel

The Tactical Intelligence Targeting Access Node (TITAN) ground station system is the Army's next-generation Intelligence, Surveillance and Reconnaissance (ISR) system. TITAN will consolidate the sensor processing capabilities from current ground systems and terminals (DCGS-A, OGS, TGS, ADV and RGT).

Additionally, TITAN will be able to conduct deep sensing operations leveraging data from Space, High Altitude, Aerial, and Terrestrial Layer sensors in support of Long Range Precision Fires (LRPF) operations and Situation Awareness/Situation Understanding (SA/SU).

Artificial intelligence and machine learning (AI/ML) plays a critical role on the deep-sensing capabilities to fuse the data and deliver targetable intelligence to lethal and nonlethal networks.

Palantir to deploy the Army's first AI-defined vehicle

The Army Contracting Command – Aberdeen Proving Ground (ACC-APG) awarded Palantir a \$178.4mn contract to develop 10 TITAN prototypes, integrate new critical technologies and transition to fielding. The initial five will be Basic variants (more expeditionary system). The other five Advanced variants will include Northrop's space kit with direct-access to space data.

This 2-year prototype maturation phase (PMP) award is just a portion of the TITAN effort. According to the PB2024 Justification Book, the total cost of the TITAN Middle Tier of Acquisition (MTA) RDT&E effort is \$486mn from FY2022 to FY2026. The TITAN program is fully funded across the Future Years Defense Program and the acquisition strategy is to leverage MTA for Rapid Prototyping.

The Army plans the first Basic unit to be available in 2025 and the completion of the Rapid Prototyping program, beginning of production and issue of the final prototypes in 2026. Usually, the production phases of military programs represent multiples of the R&D phase.

Palantir's TITAN team includes traditional and non-traditional partners, including Northrop Grumman, Anduril Industries, L3Harris Technologies, Pacific Defense, SNC, Strategic Technology Consulting, and World Wide Technology.

Raising EPS estimates to reflect strong US Govt

We are increasing our outyear EPS estimates to reflect TITAN award and penetration opportunities within the DoD. We increase our 2025e EPS to \$0.39 from \$0.38, 2026e to \$0.50 from \$0.49, and 2027e to \$0.64 from \$0.62.

Increasing PO to \$28 on strengthening defense

Given the TITAN win and strong signal it sends to how procurement is evolving we increase our PO to \$28 from \$24. Our PO of \$28 is based on a 0.7x EV/Sales/Growth multiple to 2025e and represents a sum of the parts of 0.7x on Government (vs. prior 0.6x - above Defense IT svcs on stronger EBITDA margins) and 0.7x on Commercial (in line with GAAP profitable software infrastructure and industrial automation).

Acronyms:

- DCGS-A: Distributed Common Ground System—Army
- TITAN: Tactical Intelligence Targeting Access Node
- DoD: Department of Defense
- JADC2: Joint All-Domain Command and Control
- ABMS: Advanced Battle Management Systems
- STC: Strategic Technology Consulting
- WWT: World Wide Technology
- OGS: Operational Intelligence Ground Station
- TGS: Tactical Ground Station
- ADV: Advanced Dissemination Vehicle
- RGT: Remote Ground Terminal

Other stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LHX	LHX US	L3Harris	US\$ 213.83	B-2-7
NOC	NOC US	Northrop Grumman	US\$ 458.26	B-1-7
RTX	RTX US	RTX	US\$ 90.06	B-2-7

Source: BofA Global Research



Price objective basis & risk

L3Harris (LHX)

Our PO of \$215 is based on an 15.8x 2024E P/FCF multiple. The P/FCF multiple reflects a 0.8x relative multiple to the S&P 500 on 2025 estimates. Improved sentiment on defense spending offset by operational hurdles is reflected through a relative valuation in line with the LHX and defense historical average, in our view.

Upside risk to our PO could result from LHX winning more content on new and existing programs vs. our expectations. Downside risk to our PO could result from continued supply chain challenges and LHX not integrating LLL and HRS as we expect. Integration challenges could put a strain on cash and impact our FCF estimates.

Northrop Grumman (NOC)

We derive our PO of \$615 based on a DCF analysis that reflects a 3.5% Y/Y growth rate for 2025-2030e, a 2.7% long term growth rate and a 7.8% discount rate. The US Defense Budget Authorization has grown at a 1.8% CAGR in constant dollars since post World War II. Considering the most profitable production phase of the B-21 Raider program starts in about ten years and the GBSD will enter production at the end of this decade, we expect NOC's next terminal growth rate could exceed the historical growth rate of US defense spending.

Downside risks to our PO are that execution risk on defense programs could result in cost overruns and margin contractions, and unexpected cancellations to programs in both commercial and military could materially impact NOC.

Palantir Technologies (PLTR)

Our PO of \$28 is based on a 0.7x EV/Sales/Growth multiple to 2025e and represents a sum of the parts of 0.7x on Government 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.

RTX Corp (RTX)

Our price objective (PO) of \$100 is based on a discounted cash flow (DCF) analysis that factors in a discount rate of 10.6%, a 5% next five-year growth rate, and a terminal growth rate of 4%.

Upside risks to our PO are if the GTF issues are fixed faster and smoother than anticipated, if the commercial aero and bizjet recoveries are better than expected, if margins fare better than we are forecasting, if the company executes on existing programs better than expected, or if gains share in the international market or makes a materially accretive acquisition.

Downside risks to our PO are a downturn in commercial aviation due to the natural



business cycle or an exogenous event such as a terrorist attack or a pandemic, additional complications related to the GTF powder-metal issue present further risks, a severe global economic slowdown affecting top-line growth as 45% of sales are generated outside the US, execution risk on defense programs or unexpected cancellations to programs, and uncertain timing around orders from international programs.

Analyst Certification

We, Mariana Perez Mora and Ronald J. Epstein, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective 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
	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

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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

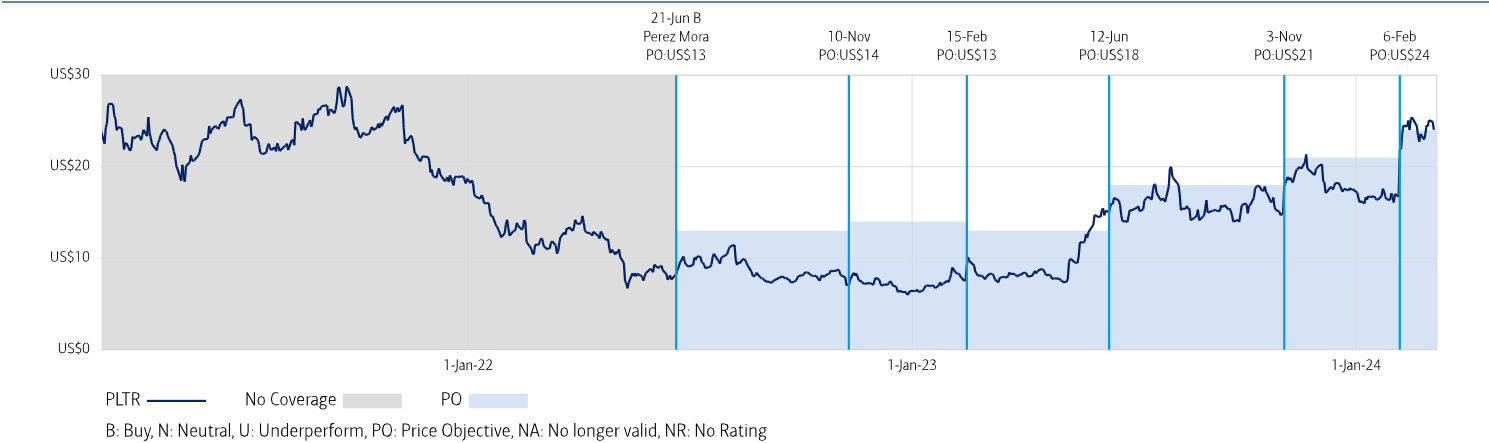
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Disclosures

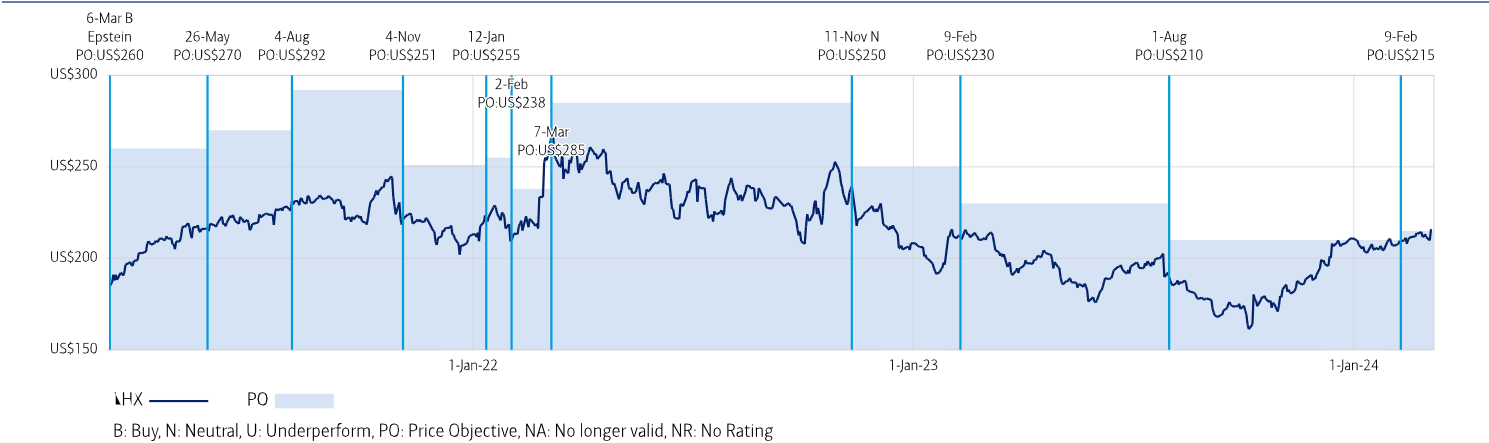
Important Disclosures

Palantir (PLTR) Price Chart



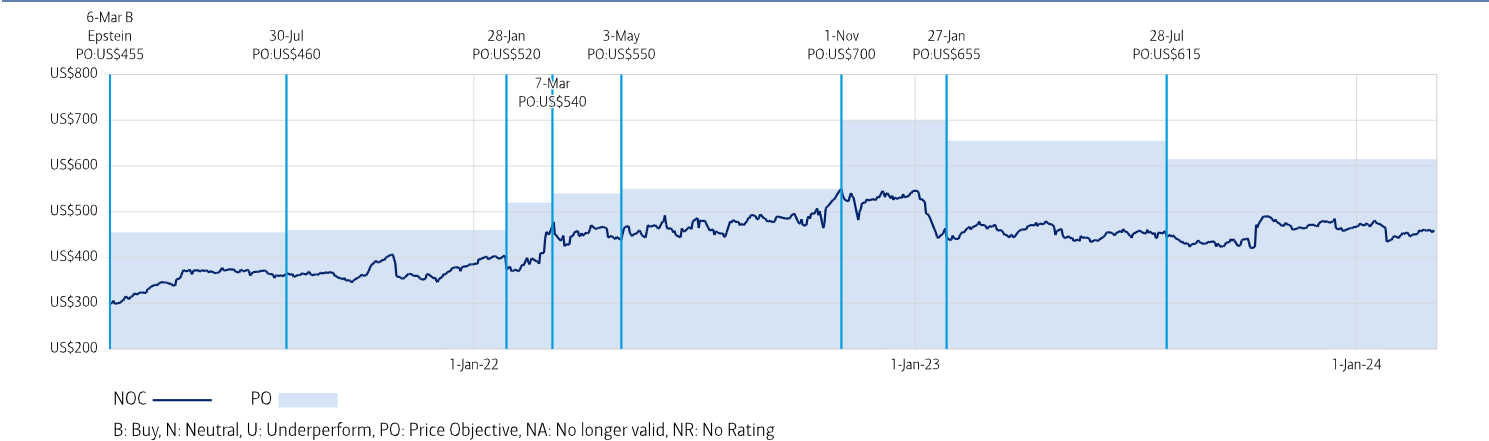
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

L3Harris (LHX) Price Chart



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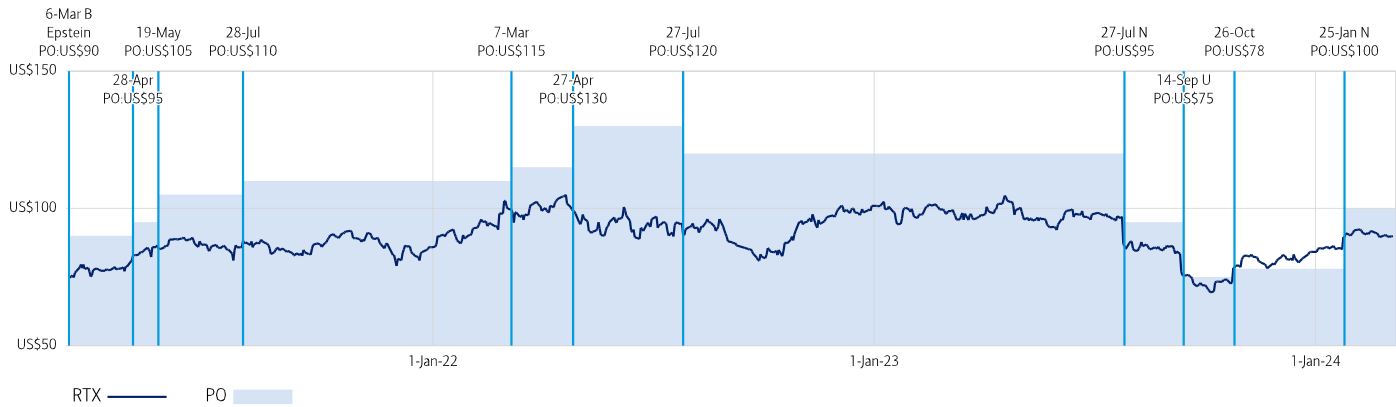
Northrop Grumman (NOC) Price Chart



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RTX (RTX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: L3Harris, Northrop Grumman, Palantir, RTX.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: L3Harris, Northrop Grumman, RTX.

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