Investment Analysis: Palantir

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1. **Recommendation:** Long Term Buy

We recommend a **long-term buy** for Palantir. Palantir is experiencing strong revenue and profit growth along with an impressive contribution margin. Its deep connections with the government provide stable, recurring revenue through long-term contracts. Additionally Palantir is well-positioned to capitalize on the early stages of AI adaptation in the enterprise sector which offers significant potential for growth especially as its commercial customer base continues to expand.

1. **Long Term Investment Strategy**:

2023 Annual Benefit from PPE = $41,386,115.82 As % of Revenue = 1.86%

2019 Annual Benefit from PPE = $67,295,416.90 As % of Revenue = 9.06%

(Data for long-term assets in 2018 is not available so 2019 was used instead)

1. From 2019 to 2023, Palantir’s annual benefit from long-term assets have decreased with long-term assets contributing less to overall revenue. It is important to note that in our analysis we used return on equity (ROE) as a proxy for irr in 2023 and CAPM for irr in 2019 as Palantir had a net loss in 2019. We believe that 2019’s annual benefit may be overstated because of Palantir’s high beta which stems from the fact that Palantir has only recently been able to deliver positive net income and has only recently started to trade on public markets. We believe that Palantir is currently not as risky as their beta suggests which is why we believe ROE is a more accurate proxy for irr. However, even with the potentially overstated annual benefit in 2019, we still believe that Palantir’s annual benefit from long-term assets have decreased with long-term assets contributing less to overall revenue.
2. Over the past four years Palantir has increased its revenue by 1.5 Billion Dollars while gross depreciable long-term assets have only increased by 10 Million. This is consistent with management's story as Palantir’s growth results from pilot programs and investment into customers on a case by case basis which is largely research and development as well as sales and marketing. During this process long-term assets do not need to be purchased to sustain the growth which is why annual benefit from long-term assets as a percentage of revenue decreases as revenue increases.

3. **Revenue and Long-term Assets Growth Rate**

The correlation coefficient between the growth in long-term assets and the following year’s growth in revenue is 0.41. It is important to note that this correlation coefficient may be inaccurate as data from the last five years was used instead of seven due to 2020 being Palantir’s first year trading on the NASDAQ. We do not believe that investment in long-term assets is an important driver of Palantir’s revenue.

4. **CM Estimate and Adjusted R-square**

Detailed information can be referred to the spreadsheet. After running the regression, the results were:

* **Estimated CM = 0.843573**
* **Adjusted R-square = -0.0018978**

As the Adjusted R-square < 0, which is unreasonable, we run the regression with growth in operating expenses as the dependent variable and the change in revenue as the independent variable. **We get Adjusted R-square = 0.131362.** This indicates that the change in revenue does not explain much of the variation in the change in operating expenses.

5. **Comparisons within the industry**

The three most suitable companies for comparison with Palantir are Salesforce, Datadog, and Snowflake. Palantir is a leader in a quickly growing and emerging industry where these companies also operate. If one compares Palantir’s Ratios to either the median or mean ratios of these other companies it becomes clear that Palantir trades at a considerable premium.

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| **Financial Ratios** | **Palantir (PLTR)** | **Snowflake (SNOW)** | **Datadog (DDOG)** | **Salesforce (CRM)** | **Median Ratio** | **Median Ratio** |
| **Price/Book (P/B)** | 38.12 | 9.7 | 17.92 | 4.87 | 9.7 | 10.83 |
| **Price/Earnings (P/E)** | 253.6 | -39.07 | 288.53 | 51 | 51 | 100.15 |
| **Price/Sales (P/S)** | 23.74 | 12.38 | 17.68 | 7.78 | 12.38 | 12.61 |

This is partially due to each company fulfilling different niches within the emerging data and analytics industry and thus being imperfect comparisons, however one should also consider the unique qualitative properties that make Palantir stand out. Palantir only IPO’d a short time ago but has a longstanding relationship with the American government as Palantir was initially funded by the venture capital arm of the CIA and exclusively worked with them for almost a decade. This along with the deep connections Palantir co-founder Peter Thiel has with political lobbying situates Palantir as a foreseeable benefactor of revenue from government contracts. Palantir generated 1.2 Billion dollars of revenue from government contracts in 2023 which dwarfs its competitors and with emerging opportunities for Palantir to integrate their software in the commercial market we believe that the premium on Palantir’s stock is warranted.

Appendix

<https://docs.google.com/spreadsheets/d/1tTKROKCPJKUyGDYtqqqywZXNoCSDUKY6kVKqa0NyFsU/edit?gid=1441885479#gid=1441885479>