Palantir (PLTR) / 3 Feb 25 / 2024 Q4 Earnings call transcript

Company Profile

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Ana Soro

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Good afternoon. I'm Ana Soro from Palantir's finance team, and I'd like to welcome you to our fourth quarter 2024 earnings call. We'll be discussing the results announced in our press release issued after the market close and posted on our Investor Relations website.

During the call, we will make statements regarding our business that may be considered forward-looking within applicable securities laws, including statements regarding our first quarter and fiscal 2025 results, management's expectations for our future financial and operational performance, and other statements regarding our plans, prospects and expectations. These statements are not promises or guarantees and are subject to risks and uncertainties, which could cause them to differ materially from actual results. Information concerning those risks is available in our earnings press release distributed after the market closed today and in our SEC filings. We undertake no obligation to update forward-looking statements except as required by law. Further, during the course of today's call, we will refer to certain adjusted financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from GAAP measures.

Additional information about these non-GAAP measures, including reconciliation of non-GAAP to comparable GAAP measures is included in our press release and investor presentation provided today.

Our press release, investor presentation and other earnings materials are available on our Investor Relations website at investors.palantir.com.

Over the course of the call, we will refer to various growth rates when discussing our business. These rates reflect year-over-year comparisons, unless otherwise stated.

Joining me on today's call are Alex Karp, Chief Executive Officer; Shyam Sankar, Chief Technology Officer; Dave Glazer, Chief Financial Officer; and Ryan Taylor, Chief Revenue Officer and Chief Legal Officer. I'll now turn it over to Ryan to start the call.

Ryan Taylor

2024 was nothing short of incredible for Palantir.

Our momentum accelerated through year-end, closing out 2024 with exceptional Q4 results, including an extraordinary top line beat and outperformance led by our U.S. business. Revenue grew 14% sequentially and 36% year-over-year in Q4 and 29% year-over-year for the full year. The AI revolution continues, transforming industries and redefining how organizations operate. AI is a pivotal component in driving innovation and efficiency, something companies need to embrace or fall behind.

With the proliferation of AI models, the raw AI labor supply is exploding.

While everyone else is focused on the model supply side, we're transforming AI into a measurable stream of high-value finished goods and services. The result? The rapid emergence of quantified exceptionalism for organizations able to unlock the potential of these commoditized models through AIP. A byproduct of our incredible progress, our Rule of 40 score increased to 81 in the fourth quarter. It's a substantial leap to deploy LLMs into production with real impact. Most organizations are currently stuck on the wrong side of the widening chasm, working on their 2-, 5- and 10-year plans, which become obsolete days later, failing to ever take action, but not Palantir or our quickly growing customer base. We've taken our position through our decades-long investment in developing the ontology, which allows organizations to seamlessly weave LLM into their enterprise, unlocking their highest potential leverage. In this AI revolution, anyone looking for a solution that actually works is going to choose Palantir. Last quarter alone, we closed $1.8 billion of TCV across our business, which represents a 56% increase year-over-year. We closed a record-setting number of deals in Q4, including 32 deals worth $10 million or more.

Our U.S. business is at the forefront of the AI revolution, growing 52% year-over-year in Q4. Last quarter, U.S. commercial revenue grew 64% year-over-year and 20% sequentially. AIP continues to fuel new customer acquisition as we have nearly 5x the number of U.S. commercial customers as we did 3 years ago and significant expansion opportunities at existing customers. Organizations who have crossed the chasm with Palantir are driving real impact quickly. In this AI revolution, the biggest risk is not moving fast enough and organizations are looking to us. With Palantir, as soon as work begins, we're delivering real quantified exceptionalism for our customers. In my conversations, they're excitedly asking how we can replicate the success across their organizations.

One of America's largest pharmacies has been a customer since early 2024 and signed a $67 million TCV engagement with us right after the pilot for workflows, including automatically load balancing, prescription fulfillment, and orchestrating patient outreach. An American telecompany became a customer approximately 2 years ago and recently signed a $40 million TCV expansion deal to help manage and accelerate their decommissioning of old network technologies and equipment in order to achieve significant cost savings. Last earnings call, we mentioned a leading global insurance organization that deployed AIP to help automate underwriting workflows, reducing a 2-week process to 3 hours. That organization signed a nearly $11 million ACV expansion deal in Q4. Panasonic Energy North America is seeing the effects of its AIP expansion as they've created a maintenance assistant to help 350 technicians in making 5.5 million batteries per day, resulting in reduced machine downtime, greater throughput, and rapid onboarding of new technicians. In Q4, we also announced the customers in the inaugural Warp Speed cohort, which are using Palantir's Warp Speed to gain an advantage in aspects of their manufacturing operating system, including automated visual quality inspections and dynamic production scheduling. Anduril's CIO, Tom Bosco noted, "By using the software, we've seen up to 200x efficiency gain in our ability to anticipate and respond to supply shortages." Our U.S. government business, the foundation on which Palantir was built is exceedingly strong with revenue growing 45% year-over-year last quarter. We take pride in supporting the critical missions we're delivering against. Notable deals included the U.S. Army extending its long-standing partnership with Palantir to deliver the Army Vantage capability in support of the Army data platform for up to 4 years.

We also announced our recent contract expansion with U.S. Special Operations Command, marking the first deployment of Mission Manager to U.S. Special Operations Forces units.

Our international commercial business continues to see pockets of growth alongside the large renewals of some of our long-standing customers.

For example, Rio Tinto extended their partnership with Palantir for an additional 4 years, noting AIP is making their unstructured data accessible, allowing them to quickly attack problems previously deemed too complex.

Software, network rail specialists coordinate 53 driverless trains, each with 240 wagons, ultimately improving throughput and safety.

Our international government business also achieved strong growth. Revenue increased 26% sequentially last quarter, driven in large part by the U.K., including our work with the NHS to roll out the Federated Data Platform as 87 acute NHS trusts and 28 integrated care boards have signed up to use it as of November 2024. We accelerated through the end of the year and we remain full throttle. We're at the dawn of this AI revolution, and in this winner-take-all AI economy, Palantir leads the way. I'll now turn it over to Shyam.

Shyam Sankar

Thanks, Ryan.

For the last 2 years, we've been saying that even while the LLMs are improving, the models across both open and closed source are becoming more similar and performance will converge, all while the cost per token for inference continues to drop substantially. And that's because the market's been focused on AI supply, the models.

With the release of DeepSeek-R1, that has gone from a contrarian position to consensus. It's now blindingly obvious to everyone.

Our foundational investments in ontology and infrastructure have positioned us to uniquely deliver on AI demand. From the beginning, AIP was built for this reality. Chat was always a dead end. Instead, we viewed LLMs as a new run time for the AI labor. To capture the productive value of this AI labor, you need an intermediate representation of your enterprise that AI can actually interact with. How do you allocate inventory, onboard customers, process claims, call for prior authorization and the like? That intermediary representation that makes all of that possible is ontology, and that's why it's been the secret to our meteoric rise.

We are convinced the normative value for AI is enterprise autonomy, the self-driving company. Users go from performing the workflow to supervising an army of agents, teaching them how to handle edge cases and reducing dwell time. This is where we are maniacally focused with our customers. We've been working with a large multinational bank to automate core back-office processes. What used to take 5 days now takes 3 minutes. Much more than the labor savings, this improvement eliminates historical constraints on the middle office and now enables the bank to create entirely new and differentiated financial products. We're working with the top engineering and construction firm to automate the identification of risks across tens of thousands of pages of technical documents, replacing months of arduous manual reviews with AI labor that can flag major risks to engineers in minutes. And we're working with a large power systems company to automate the understanding of technical diagrams to turn them to quotes into orders. And finally, we're working with an automotive supplier to analyze CAD files for component designs to have AI labor validate engineering and manufacturability checks. That is a 100-hour process for human engineers, now automated and serving up exceptions for human review. The before and after with AI is stark and the speed of implementation is accelerating.

You can divide companies into 2 categories, the quick and the dead.

Turning to Warp Speed, Palantir's modern American manufacturing operating system, it continues to move at -- Our nation is in the beginning of a great reindustrialization as we compete with China to secure a free world and individual liberties. This is a competition we cannot afford to lose. We announced our first cohort of Warp Speed customers, including Anduril and L3Harris. The response has been exceptional and the pipeline is swelling. Warp Speed integrates engineering, test, production, quality and operations so that manufacturers can build better and build faster.

Our FedStart offering hit a major milestone with the approval of our FedRAMP high environment for FedStar customers. This is radical acceleration, both in reduction of time and cost of market access for software companies in the federal space.

Finally, in U.S. government, our deep investments in CJADC2 continue to deliver results. Maven continues to see significant adoption in its pathfinding new AI capabilities throughout the kill chain. Substantial new investments integrating contested logistics into Maven's AI-enabled kill chain met their moment in exercises in Q4. Adoption continues within the military department, specifically Army, Air Force and Space Force as well as at the Combatant Commands with expansions at Spacecom, SouthCom, Africom and Stratcom.

While Hurricane Helene response galvanized the adoption of Maven on beyond just the secret and top secret networks. The adoption has continued to grow as Maven is used for securing our nation's border and securing our nation's air space by enabling drone domain awareness. And Maven is reaching our allies and partners via U.S. supplied capabilities called Maven REL, all spurred by real-world events and the need to collaborate in real time and crisis.

We are really just getting started with Maven and have an ambitious road map and a set of customer opportunities in front of us to deliver the unfair advantage our war fighters deserve. I'll turn it over to Dave to talk us through the numbers.

David Glazer

Thanks, Shyam. We had an outstanding fourth quarter. Revenue growth accelerated to 36% year-over-year, exceeding the high end of our prior [indiscernible] by over 900 basis points and representing a 1,600 basis point increase compared to the growth rate in Q4 of last year. America continues to rapidly embrace the AI revolution, and we saw this unrelenting demand drive impressive performance in our U.S. business, which grew 52% year-over-year and 12% sequentially.

Our U.S. commercial business grew 64% year-over-year and 20% sequentially, and our U.S. government business grew 45% year-over-year and 7% sequentially.

On the back of this continued strength, we are guiding to a full year 2025 revenue midpoint of 3.749 billion, representing a 31% year-over-year growth rate. We delivered these outstanding top line results while expanding adjusted operating margin to 45%, the strongest adjusted operating margin in the company's history.

Our revenue and profitability drove a 13-point sequential increase to a Rule of 40 score from 68 in the third quarter to 81 in the fourth quarter.

We also had an exceptional cash flow quarter with adjusted free cash flow of $517 million, representing a margin of 63% and $1.25 billion in adjusted free cash flow for the full year, representing a margin of 44%.

Turning to global top line results. Fourth quarter revenue grew 36% year-over-year and 14% sequentially to $828 million. Full year revenue grew 29% year-over-year to $2.87 billion. Full year U.S. revenue grew 38% year-over-year to $1.9 billion.

Excluding the impact of revenue from strategic commercial contracts, fourth quarter revenue grew 39% year-over-year and 14% sequentially and full year revenue grew 32% year-over-year. Customer count grew 43% year-over-year and 13% sequentially to 711 customers. Revenue from our largest customers continues to expand. Fourth quarter trailing 12-month revenue from our top 20 customers increased 18% year-over-year to $65 million per customer.

Now moving to our commercial segment. Fourth quarter commercial revenue grew 31% year-over-year and 17% sequentially to $372 million. Full year commercial revenue grew 29% year-over-year to $1.3 billion.

Excluding the impact from strategic commercial contracts, fourth quarter commercial revenue grew 37% year-over-year and 18% sequentially, and full year commercial revenue grew 36% year-over-year. We had the strongest quarter of commercial TCV booked at $995 million, representing 42% growth year-over-year and 63% growth sequentially.

Our U.S. commercial business is seeing unprecedented demand with AIP driving both new customer conversions and existing customer expansions in the U.S. Fourth quarter U.S. commercial revenue grew 64% year-over-year and 20% sequentially to $214 million. Full year U.S. commercial revenue grew 54% year-over-year to $702 million.

Excluding revenue from strategic commercial contracts, fourth quarter U.S. commercial revenue grew 76% year-over-year and 19% sequentially, and full year U.S. commercial revenue grew 69% year-over-year.

We also had our strongest quarter of U.S. commercial TCV booked at $803 million, representing growth of 134% year-over-year and 170% sequentially. This exceeded our next highest quarter of U.S. commercial TCV booked by nearly $400 million, highlighting the increased demand for AI production use cases. Total remaining deal value in our U.S. commercial business grew 99% year-over-year and 47% sequentially.

Our U.S. commercial customer count grew to 382 customers, growth of 73% year-over-year and 19% sequentially. Fourth quarter international commercial revenue grew 3% year-over-year and 15% sequentially to $158 million, partially driven by revenue catch-up from a customer in Asia. Full year international commercial revenue grew 9% year-over-year to $594 million.

For international commercial business, we continue to capitalize on targeted growth opportunities in Asia, the Middle East and beyond, but remain focused on accelerating our growth in the U.S. commercial business. Revenue from strategic commercial contracts was $9.6 million for the quarter. We anticipate first quarter 2025 revenue from these contracts to decline to between $4 million to $6 million compared to $24 million in the first quarter of 2024. We anticipate 2025 revenue from these contracts to be approximately half of 1% of full year revenue. Shifting to our government segment. Fourth quarter government revenue grew 40% year-over-year and 11% sequentially to $455 million. Full year government revenue grew 28% year-over-year to $1.57 billion. Fourth quarter U.S. government revenue grew 45% year-over-year and 7% sequentially to $343 million. Full year U.S. government revenue grew 30% year-over-year to $1.2 billion. This acceleration was driven by continued execution in existing programs and new awards reflecting the growing demand for AI and our government software offerings. Fourth quarter international government revenue grew 28% year-over-year and 26% sequentially to $112 million, bolstered by our continued work in U.K. health care and defense. Full year international government revenue grew 23% year-over-year to $372 million. Fourth quarter TCV book was $1.79 billion, up 56% year-over-year and 63% sequentially. Net dollar retention was 120%, an increase of 200 basis points from last quarter. The increase was driven both by expansions at existing customers and new customers acquired in Q4 of last year as we see the effect of the AI revolution.

As net dollar retention does not include revenue from new customers that were acquired in the past 12 months, it has not yet fully captured the acceleration of velocity in our U.S. business over the past year. We ended the fourth quarter with $5.43 billion in total remaining deal value, an increase of 40% year-over-year and 20% sequentially, and $1.73 billion in remaining performance obligations, an increase of 39% year-over-year and 10% sequentially.

As a reminder, ARPU is primarily comprised of our commercial business as it did not take into account contracts with an initial term of less than 12 months and contractual obligations that fall beyond termination for convenience clauses, both of which are common in most of our government business.

Turning to margin and expense. Adjusted gross margin which excludes stock-based compensation expense, was 83% for the quarter and the full year. Adjusted income from operations, which excludes stock-based compensation expense and related employer payroll taxes was $373 million, representing adjusted operating margin of 45%. Full year adjusted income from operations was $1.13 billion, representing a margin of 39%. Q4 adjusted expense was $455 million, up 1% sequentially and 14% year-over-year, and full year adjusted expense was $1.74 billion, up 9% year-over-year, primarily driven by our continued investment in AIP and technical talent.

We expect to see a more significant increase in expense in 2025 as we invest in technical hires to product pipeline and continue our focus on AI production use cases, all while delivering our goals of sustained GAAP profitability.

On the back of the strength of our results, we want to congratulate our employees for the successful delivery of their market vesting stock appreciation rights or SARs.

As a result of this achievement, we accelerated $131 million of onetime expense in the fourth quarter related to these equity awards. Fourth quarter stock-based compensation expense was $282 million and employer-related equity tax expense was $80 million. Full year stock-based compensation expense was $692 million, and employer-related equity tax expense was $126 million. Fourth quarter GAAP operating income was $11 million, representing a margin of 1%. Fourth quarter operating income when excluding onetime SAR-related expenses, was $142 million, representing a 17% margin. Full year GAAP operating income was $310 million, representing an 11% margin. Full year operating income when excluding onetime SAR-related expenses, was $442 million, representing a 15% margin. Fourth quarter GAAP net income was $79 million, representing a 10% margin. Fourth quarter net income, when excluding onetime SAR-related expenses, was $165 million, representing a 20% margin. Full year GAAP net income was $462 million, representing a 16% margin. Fourth quarter GAAP earnings per share was $0.03, and earnings per share when excluding onetime SAR-related expenses was $0.07. Full year GAAP earnings per share was $0.19. Fourth quarter adjusted earnings per share was $0.14. Full year adjusted earnings per share was $0.41.

Additionally, our combined rate growth and adjusted operating margin accelerated to 81% in the fourth quarter, a 13-point increase to our Rule of 40 score from the prior quarter.

Turning to our cash flow. In the fourth quarter, we generated $460 million in cash from operations and $517 million in adjusted free cash flow, representing margins of 56% and 63%, respectively.

For the full year, we generated $1.15 billion in cash from operations and $1.25 billion in adjusted free cash flow, representing margins of 40% and 44%, respectively. Through the end of the fourth quarter, we repurchased approximately 2.1 million shares as part of our share repurchase program.

As of the end of the quarter, we have $936 million remaining of the original authorization. We ended the quarter with $5.2 billion in cash, cash equivalents and short-term U.S. Treasury securities.

Now turning to our outlook.

For Q1 2025, we expect: revenue of between $858 million and $862 million; and adjusted income from operations of between $354 million and $358 million.

For full year 2025, we expect revenue of between $3.741 billion and $3.757 billion, U.S. commercial revenue in excess of $1.079 billion, representing a growth rate of at least 54%; adjusted income from operations of between $1.551 and $1.567 billion; adjusted free cash flow of between $1.5 billion and $1.7 billion, and GAAP operating income and net income in each quarter of this year. With that, I'll turn it over to Alex for a few remarks, and then Ana will kick off the Q&A.

Alexander Karp

Welcome to our Palantir evolution, otherwise known as our earnings call. There really is a lot of debate about with these numbers if we even should have an earnings call, but there was also a lot of debate around which number is the best internally. We were undecided whether our 29% growth in aggregate, our 38% growth in the U.S., our 54% growth in U.S. commercial, our Rule of 81. They may have to redo the rule because when you're doing twice the rule, of course, maybe the rule isn't fair to other companies. We may have to have a different rule, the Rule of 70 or something. But we believe through that, over twice the Rule of 40. To say we did it our way is a minimization of what that meant.

We have taken a long bet over decades around the assumption that if we built the products that our partners, most importantly, our partners in the West, most importantly, our partners in the U.S., ought to build, not what they wanted us to build, not what they mandated we should build, not what investors, venture capitalists or analysts were saying they reward us for building, that company would generate so much value that we would get a small percentage of that. And we would end up as a massive significant and much more importantly, impactful company that could power the West to its obvious innate superiority, expose things that weren't working, rebuild the whole infrastructure of a company. We did that with many platforms. Most successfully, however, was our interest in figuring out how to power human-driven analytics with the assumption that what ought to come would not be human driven, i.e., would be AI at some point and that AI potentially could be something like a large language model. And what we've delivered to the market is a symbiotic relationship between data, computer, LLMs, organized, powered, made possible, made valuable by something we dare to call an Ontology, which was in the beginning viewed as a highly obnoxious anticlimactic term that people thought we were using to escape bad financials. And that Ontology and our willingness to stick to our guns, again, because there's been billions and billions and billions of dollars invested in large language models, the idea that you could dare to build a product that was built on the assumption that the power of large language models would be in their -- the ability to operationalize them in the context of the enterprise in common language.

So that was a revolution that we saw, that we built against, that we've led, that we've gotten off the ground for us in America.

We have 54% growth in U.S. home. By the way, USG has now reaccelerated. It grew 30%.

We are guiding above 30% at 31%. And we're doing this in a very, very complicated environment. The part of the reason we've done so well is experts look to the past as an indication of the future, and we're looking to the future as an indication of the present. And it's very, very hard to figure out what's going to happen.

You see, as much as I personally care about the broader west, including Continental Europe, despite our best efforts and working on every day, it's anemic. We're growing around 4% on 13% of our company. It does look like the continent of Europe will look to the past as a way of getting to the future, struggles with the idea that all the technology in this area is built in America. Perhaps our goal is with the fact that to make LLMs work, you have to find a way to build something like an Ontology. There's 1 available at Palantir.

We have rejected all the way through anti-meritocratic concepts, anti-transparent concepts. We're at the forefront of civil liberties.

One of the reasons Ontology is so valuable is because the concepts that we built into PG, that we built into Foundry, that are expressed in branching, our concepts that both accelerate revenue, it get -- decelerate, control CapEx, i.e., make the margins something like what you would find at Palantir but do it in a way that actually make the enterprise better, healthier, more ethical. We, at the end of the day, at Palantir are exporting our culture and way of doing things to enterprises, especially in America by allowing enterprises to capture their tribal knowledge in a way that they can utilize LLM, i.e., take the commodity side of LLM and hypercharge or specialize their secrets of their enterprise using the secrets of our enterprise, namely, how do you build product? How do you end up with Ontology? How do you implement it? And last not least, we believe we are making America more lethal, making our adversaries increasingly afraid of acting against the of America and especially Americans. And we are proud of our moral stance, and we are very long on the U.S. and what's happening and what will happen in the future. And with that, we should open up our earnings call. This is obviously a very, very special time to be at Palantir. Palantirians are very excited. And I am -- yes, it's by far the best time to be at Palantir.

One of the things that's crazy important about our time at Palantir now is it's actually the vibe internally, the vibe with our clients, the vibe with inside of our products is we are at the way beginning of our trajectory.

We are at the way beginning of revolution. And we plan to be a cornerstone, if not the cornerstone company and driving this revolution in the U.S. over the next 3 to 5 years. Thank you.

Ana Soro

Thanks, Alex. We'll now turn to a few questions from our shareholders before opening up the call.

Our first question is from Christina who asks, what is so unique about the Ontology? How does it give you an edge over your competitors? And why wouldn't any of them be able to recreate something similar?

Shyam Sankar

Well, thank you, Christina, for the question.

I think we could start by thinking about, if I was building software to solve problems for 1 company, well, you don't need an Ontology.

You just take the shortest path between A and B and that doesn't involve Ontology.

You could think about, okay, what if I'm building enterprise software for many customers? In a traditional way, not a forward deployed engineering way where I have -- I'm thinking about it deductively. I have large multiyear implementations. Never mind that those things never work, but the traditional software and industrial complex.

You're not even going to conceive of Ontology. But if you have the ambition to build software that works across government, across 50 different industries, you have to build Ontology. It is absolutely the longest path between point A and point B. But it gives you superpowers when you show up to your customers. And it gives your customer superpowers when they're managing the change in their enterprise, mergers and acquisitions, fighting the entropy of the universe, competing in the market. But what makes ontology essential is AI. Ontology ends up being the intermediary representation that makes your enterprise accessible to AI in a way that's governed and secure and provides you the observability that you need so you can actually trust the AI, but more importantly, the observability your regulators need so they can trust your transition to being a self-driving company.

Alexander Karp

Yes. And it also allows you to manage them so that the actual taxonomy and ability to put the large language model where it can be more exact so it can be managed at scale.

You could think of it as what we do in the foundry back-end where we have to create pipelines, it's basically anti-segmenting the data. To get the AI to actually work in an enterprise, you have to re-segment, re-concatenate the large language models in a way where the use case is thin enough that they can actually provide exact enough information. And the concatenation of that is exact enough to provide real results in an enterprise context, meaning you can rely on the large language model to do the same thing 500 people would be doing who are experts in dealing with text, and you can do that with 3 people. And then the question that Shyam's is getting -- is answering also, but why is it hard to build it? So now we know that Palantir is succeeding and has this pick your stat rule of 81 growth with no basically a nascent sales force. It's actually very hard to build because in order to have an idea how to do this, you would have to have taken all the lessons of every single product we've built, including security models, including how do you interact with the data of an actual enterprise. How do you impose branching? And then you'd have to interact with that and build something to work with the large language models, not as you thought they were, not as you'd like them to be, but as they are. And that process probably will begin for lots of companies now. It is a very long and hard process to do this in a productized form. And one of the reasons people didn't figure this out is because tech companies don't actually need this because they have 1 company and/or they have something but it is not a product. Taking this from 1 company to a company that can install as anywhere requires a very specialized dedicated product building culture with deep understandings of the enterprise. Last not least, in order to be able to teach large language model to get more exact precise information, you would have to have a secure and cleaned access to the underlying data of the enterprise. No other company in the world has the kind of access like Palantir, and that's why we're completely uniquely positioned to do this. And luckily for the world, we're very long America, and we're doing it primarily here because it's powerful as f***.

Ana Soro

Thank you both.

Our next question is from Kamal who asks, how will the new Chinese AI model DeepSeek impact Palantir? How can Palantir mitigate its impact?

Shyam Sankar

Well, I think one of the obvious lessons of DeepSeek-R1 is something that we've been saying for the last 2 years, which is that the models are commoditizing. Yes, they're getting better across both closed and open, but they're also getting more similar. And the price of inference is dropping like a rock. But I think the real lesson, the more profound 1 is that we are at war with China.

We are in an AI arms race. And I got into a disagreement with Sam Altman about this at the Senate AI Summit over a year ago, where I was arguing that we are in an AI arms race, and there's an opposing view that we can all get along and we can cooperate on these things. And I'm sure the other side feels quite different, realizing that their IP has been stolen in this process here. But this war started long ago as an economic war with the ascension of China to the World Trade Organization, the greatest IP theft in history, the greatest wealth transfer in history. It is an opium war. The #1 cause of deaths of 18- to 45-year-olds in this country is fentanyl. That is coming from China. It is a diplomatic war. The Belt and Road Initiative is basically indentured servitude for other countries to the CCP here. And the unprecedented gray zone operation of the CCP, how many times are we going to believe that anchors are dragged across the sea that cut undersea cables here? But I think one of the things -- China knows they're at war. The question is, we kind of equivocate on it as a peace-loving nation. But one of the things I want to make sure we all do realize is that the engineering in R1 is exquisite, the optimizations that they've done are really impressive. And I don't think you can get away with the explanation that the Chinese just copy and we're the only innovators.

We have to wake up with the respect for our adversary and realize that we are competing. But they absolutely did steal a lot of that through distillation of the models and perhaps they stole even more. And then you can look at the GPU sales growth in Singapore. It's a tiny island nation. I'm pretty sure there's some innovation going on there. And we have to realize that the AI race is winner take all, and it's going to be a whole of nation effort that extends well beyond the DoD in order for us as a nation to win. And that M Day was yesterday the time to mobilize comp.

Ana Soro

Our next question is from Dan with Wedbush. Dan, please turn on your camera and you'll receive a prompt to unmute your line.

Daniel Ives

[Question Inaudible]

Alexander Karp

By the way, Dan, we don't hear you.

Daniel Ives

Can you talk about, are you surprised at all?

Alexander Karp

Can you repeat the question? We didn't hear you. Thank you.

Daniel Ives

Yes. Are you surprised at how quick these sales cycles are actually taking place from when a customer first meets Palantir to now deploying AI initiatives? I mean, does that surprise the team at all?

Ryan Taylor

I would say, I'm not surprised because of the energy we feel on the ground in talking to customers and the impact -- Shyam shared some examples. Taking a back-office process from the largest banks from 5 days to under 3 minutes. Taking what used to -- automating a process for an automotive supplier from what used to take 100 hours to be automated with just a human check. And seeing the reactions of those customers when those are implemented and seeing the impact and seeing them wanting to move quickly, seeing them wanting to start quickly, expand quickly and essentially stay ahead of their competitors, like feeling that energy and feeling that reaction on the ground, I'm not surprised because you feel it. It's tangible.

Alexander Karp

What surprises me a lot is just customers and especially countries are just reacting completely differently.

So in broad swaths, American companies have approached this revolution in a very pragmatic way, which is, so we had all these experts saying that what you ought to do is buy a large language model and install it on your enterprise. And customers are like, "Great, we'll try that but we're also going to try Palantir."

And there's really no ideology in this -- in aggregate in this country defining how people do things. It's about output, how quick is that output, what is? And there are just -- there's a lot of communication between enterprises in America, especially in sectors.

So people talk about what's working and what's not working. And in contradistinction, if you look at Europe with 13% of our business and 4% growth rate last year, so compare that, it's like more than 10x better in America, i U.S. comm, right? And what's really happening there is people are reading literally basically PowerPoints of how you did tech installations in the '50s, and that's what they're doing. And what is jarring to me is that you just see adoption, radical adoption from some clients. Again, you do have some people in America who are still doing science projects. But it's -- how could it be that 1 set of companies in 1 geography adopts and in a very culturally similar geography, people are just like, okay, great, but that's not how we do it.

And so -- it's -- and this, by the way, is not just -- we talk a lot about U.S. commercial because we can't really talk in detail of what's happening on the battlefield. But the battlefield and Shyam can talk about this basically forever, this is basically -- we enjoy it. It's equally diversion. It's like you have cultures that are like, we have to fight in a way that suits our culture, that suits our ethics, where we have a primacy of winning and a primacy of maintaining our values. And those cultures are rebuilding how they fight, rebuilding the things that they think are valuable, looking at the evidence of what worked, what didn't, what was the cost structure. And meanwhile, there are just a lot of people who are just like but that could get away in the way of And so it is really, really jarring.

I think one of the things I am sympathetic with when investors look at Palantir is like, yes, but it's very hard to know because people are going on different paths. But yes, in America, in aggregate, the response is, I expected this to work in X amount of time.

You got it to work and beat what I was expecting in 1/10, 1/20, 1/50 of the time. And by the way, the other thing that is super surprising is 2, 3 years ago, when we were doing foundry or even some of our kind of more sensitive things in the military, I believe we were delivering results that were in 6 months would have taken 10 years and they were things that people couldn't deal with. But now because of the time and the power, you can't really hide it as easily in some department of your enterprise.

So what would happen to us in the past is we would do a pilot, we do an enterprise thing and because, obviously, people didn't appreciate our -- my charm and there were no steak dinners and we weren't laughing at your jokes and we were probably saying the wrong thing at the wrong times, that thing got stuck in some part of the enterprise. Everyone knew it was the most important thing about the enterprise, but no one would acknowledge it. And now it's just too powerful. People are like, yes, I don't particularly like them. They don't offer dinners. They don't wear suits. Shyam's hard to understand for me. But the results are massive. And that's what's driving the results in the -- that's what's driving the [fifth 4] number that we're guiding that we did last year, and we're guiding to this year in U.S. commercial. That's what's driving the beat. That's what's driving our ability to really maintain our culture. By the way, it's also the Rule of 81 really comes from this reaction to our company but also because we can stick to our culture, our Ontology of Palantir. We do not need 500 extra people a quarter. We just -- we can really power these things because the pull, when people actually see it, is enough to break down the institutional barriers, the political bulls*** that often we were not able to break through in the past.

Ana Soro

Thank you.

Our next question is from Mariana with Bank of America. Mariana, please turn on your camera and then you'll receive a prompt to unmute your line.

Mariana Perez Mora

So my first question is about disruption. Palantir has been like actually thriving when there is disruption from the very beginnings of the company, 9/11, coronavirus, supply chains, LLMs.

Now everyone is really concerned about DOGE with the change of administration. I could imagine like a focus on efficiencies, a focus on software modernization, digitalization could actually be a really good opportunity for you. I don't know if you can deep dive on like how is Palantir positioned to that. And my second question probably to Dave but like, I don't know, Shyam as well. When you see this demand, where do you invest to make sure that you're prepared to actually execute on it? Like is it talent? Is it sales? Is it engineers? Is it partnerships? Like what do you do to make sure that you can actually capture this opportunity?

Shyam Sankar

Well, on the first question here, I mean, I think no one really knows, but -- and we sense a huge amount of fear amongst the traditional system integrators and providers here, the traditional providers to the monopsony. But we're pretty optimistic. And I think if you look at my comments over the past, even my recent Senate service testimony last week, Palantir's real competition is a lack of accountability in government. These forever software projects that cost an insane amount, that don't actually deliver results. They're sacred cows of the deep state.

You can think about It cost billions of dollars and it didn't work...

Unknown Executive

$26 billion.

Shyam Sankar

Soldiers in war zones preferred Palantir because it worked, and it happened to only cost millions of dollars. And I think DOGE is going to bring meritocracy and transparency to government, and that's exactly what our commercial business is. The commercial market is meritocratic and transparent, and you see the results that we have in that sort of environment. And that's the basis of our optimism around this.

I think the work that we've done in government, it's deeply operational, it's deeply valuable. And we're pretty excited about exceptional engineers getting in there under the hood and being able to see that for a change.

Alexander Karp

We love disruption and whatever is good for America will be good for Americans and very good for Palantir. And I think you've got it exactly right. Disruption, at the end of the day, exposes things that aren't working. There'll be ups and downs. This is a revolution.

Some people can get their heads cut off. It's like we're expecting to see really unexpected things and to win, basically. That's what we're going to do. See unexpected things, report expected things and win. And we're planning to do that and we're pretty optimistic about the U.S. environment.

David Glazer

And on the investment front, it's like it is quality engineering, right? It's quality engineers and you can see it sort of how we set up our comm programs, sort of. And obviously, that does mean headcount is going to grow somewhat, but really, it is the quality engineers more than the. And you'll continue to see us do that this year. We did it last year, particularly in the back half, and you're seeing it sort of in the numbers in Q1 and beyond.

Alexander Karp

Yes.

You also, by the way, for the first time, people want to partner with us. It used to be partnership meetings were complete waste of time and BS, like largely so people could fill out a report that they met with us kind of thing, like high school dating for nerds. I met with him, perfect. I'm not going out with him. That was our experience with partnerships.

Now like in the last -- even the last couple of weeks, I've had real partnership discussions because a lot of these people own verticals have to deliver. They're under a lot of pressure and people know how good our products are. And last not least, what we're really investing in, in my view, is we have a truly unique culture. I visit with company every week. I've been doing it for 20 years. I've never seen a company or a culture anything like ours. And that's what we have to fight to keep. And every single Palantirian is special. Everyone here is doing something unique. We need to continue to attract and retain people who are different, think differently, are different and get them focused on the world's most important missions, building products the way we know how to build them. And that's our primary investment And it's not actually a question of money, which means that, that's how we crush the margins. It's about talent and just building really great things to things you ought to build, not the things you're supposed to build and getting them into the front line.

Ana Soro

Thank you, all. Alex, as always, we have a lot of individual investors on the line. Is there anything you'd like to say before we end the call?

Alexander Karp

We're doing it. We're doing it. And I'm sure you're enjoying this as much as I am.

Let's not talk to analysts about the burden of being right.

Our burdens of investing in Ontology, our burdens of actually looking at the math, the burden of reading what the Rule of 40 is, the burden of being honest about what an enterprise software company is or the burden of explaining to your friends that you're really happy. Maybe we should stop talking about it. I'm very happy to have you along for the journey and you are partners for us. Every Palantirian, we are crushing it. Everyone else is listening, we are dedicating our company, we have dedicated our company to the service of in the United States of America and we're super proud of the role we play especially in places we can't talk about. And we love our success in the U.S. and globally. Also, we are doing with United Kingdom and many other places. Palantir is here to disrupt and make our nations we partner with the very best in the world and, when it's necessary, to scare enemies and on occasion, kill them. And we hope you're in favor of that. We hope you're enjoying being our partner, and we're really happy and very, very focused on what we're doing. Thank you for your time.

Ana Soro

Thank you. That concludes the Q&A for today's call.