

Palantir (PLTR) / 5 Aug 24 / 2024 Q2 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 second 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 third quarter and fiscal 2024 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

We are thrilled to report tremendous results for our business, driven foremost by strong execution in our U.S. commercial business and continued U.S. government business acceleration. Overall revenue growth, excluding strategic commercial contracts, accelerated to 30% year-over-year and 10% sequential in Q2.

Our exceptional results are a reflection of a market that is quickly awakening to a reality that our customers have already known, we stand alone in our ability to deliver enterprise AI production impact at scale.

We are delivering these results in the face of an unprecedented enterprise AI opportunity.

As noted by Sequoia, the revenue expectations from the AI ecosystem's infrastructure build-out have grown from \$200 billion to \$600 billion per year in just 9 months. The world is struggling with this huge problem. There's a great bottleneck between prototype and production. The world has also come to understand what we've been saying all along: The standard playbook does not and will not work. It cannot solve this problem.

While many companies can build prototypes, the leap from prototype to production is substantial. Palantir has made that leap.

Our focus is on deploying enterprise AI and production, solving meaningful problems for our customers.

We have the right products at the right time, and our history means that we understand the \$600 billion opportunity unlike anyone else in the space.

We are uniquely situated and you see that in our results now. Last quarter, we signed 27 deals worth \$10 million or more and closed nearly \$1 billion of TCV.

One of the most notable indicators of our delivery is the volume of existing customers who are signing expansion deals, many of which are a direct result of AIP.

We continue to see the greatest transformation in our U.S. commercial business, evident in the mini AIP-driven deals closed last quarter.

Our U.S. commercial revenue, excluding strategic commercial contracts, climbed 70% year-over-year.

Our U.S. commercial ACV closed was up 44% year-over-year and up 19% sequentially, while our deal count in U.S. commercial was nearly twice what it was just a year ago. We maintain conviction in our ability to land new customers and subsequently expand those engagements as we sharpen our focus to taking our customers across the chasm from prototype to production. Tampa General signed a 7-year expansion, deploying AIP to deliver a care coordination operating system, where we've helped them reduce patient length of stay by 30%. Panasonic Energy of North America signed a 3-year expansion using AIP across finance, quality control, and manufacturing operations. AARP shared they're utilizing AIP to provide targeted, personalized experiences for their 29 million unique visitors on a monthly basis. Eaton deepened our relationship, leveraging AIP to modernize ERP deployments in addition to finance, sales, and supply chain use cases. Kinder Morgan signed a 5-year Foundry and AIP enterprise expansion with production use cases, including storage optimization, pipeline integrity monitoring, and power optimization. These are just a handful of the significant expansions last quarter into production with AIP, and the magnitude of expansion is notable. A major North American industrial company started working with us in late 2022, expanded to a \$5 million run rate in 2023 and further deepened engagement to a \$20 million run rate this year.

One of America's leading hospitals began working with us in 2021, generated approximately \$1.5 million of revenue in 2022, over \$4 million of revenue in 2023, and is on track to generate nearly \$15 million of revenue this year. With regard to landing new customers, U.S. commercial customer count grew 83% year-over-year last quarter. Bootcamps remain a key go-to-market motion, particularly for prototyping what is possible with AI, but the real opportunity and our unique capability lies in moving from prototype to production with these customers. That is where we are focused. We closed a 7-figure deal with a large wholesale insurance brokerage firm for an initial production automated policy review use case just 16 days after the Bootcamp. A leading convenience store chain went from prototype out of Bootcamp to paid pilot in 25 days, then converted the inventory management and pricing optimization use case into initial production immediately following the pilot.

Our product charisma remains unparalleled. We plan to leverage this combination of Bootcamps and pilots with a focus on moving towards high-value production use cases to continue landing new customers. At the same time, we are heightening our concentration towards building deep production-level relationships with every single customer. The phenomenal strength of our U.S. government business shows the power and scale of our enterprise software delivery.

Our U.S. government business continued accelerating, growing more than 8% sequentially for 2 consecutive quarters. We proudly received several notable awards last quarter, including a production contract from the Department of Defense Chief Digital and Artificial Intelligence Office, CDAO, to deploy and scale an AI-enabled operating system across the DoD, starting with an initial order of \$153 million to support certain combatant commands and the joint staff, while additional awards can be made up to \$480 million over a 5-year period. This award reflects the criticality of our software and our nation's defense capabilities. Shortly after, CDAO announced a new initiative, Open DAGIR, to enable defense tech companies, traditional contractors, and government developers to develop applications and integrations on top of Maven powered by Palantir in a contract worth \$33 million. We maintain pride in the mission-critical impact of our products and celebrate the long-term strength of our U.S. government business, evident in last quarter's results.

Looking ahead, I've never felt more bullish about our business than I do today. We're charging full steam ahead, leading our customers across the bridge from prototype to production with our ever-expanding product capabilities, laying the path for that journey. I'll now turn it over to Shyam to share more details.

Shyam Sankar

Thanks, Ryan.

Our customers have been ahead of investors and markets. Customers choose us not because we're delivering proofs of concepts but because we deliver proof, years of foundational investments in our infrastructure and in particular, in Ontology, I'll note a widely ignored and discounted innovation have put us in the pole position. Gen AI has made prototyping incredibly easy and charismatic but with the same utility of a PowerPoint slide. The journey to production, as the market is now discovering, is fraught and requires a foundational set of technologies that we have uniquely invested in, creating a product pipeline that's needed to harvest economic value from AI. And that's a journey that we were pathfinders on with the U.S. Department of Defense starting in 2018 and one we continue to be the leaders in across both segments, government and commercial today. The bottleneck and the transition from prototype to production is a very hard set of technical problems. We didn't build those technologies eating berries in San Francisco. We had to be on the factory floor, in the foxhole, eating pain with our customers, seeing the secret truths of what does and doesn't work and metabolizing it into product. This has always been the secret of Palantir. It is the anti playbook. Today's AIP developers will be the enterprise's next generation of builders. Apollo delivers eye-watering agility and responsiveness. AIP deprecates back-end development the same way that hyperscalers deprecated infrastructure, providing the mechanism to bring AI into production in the enterprise quickly.

Our builder investments are feeding our product pipeline with our customers, developers in the wild. Compute modules have enabled the integration of our customers' own containerized applications into operational workflows. Today, this technology is powering exquisite missile warning systems in the U.S. government and sophisticated production plan optimization across commercial. In Ontology, SDK has enabled customers to build their own pro code applications backed by Ontology, the critical ingredient for harnessing LLMs in the enterprise. And we pulled all these investments together in code workspaces where we have enabled an end-to-end development environment that lets customers treat their business as code. These investments have made us the emerging choice not only for application developers but also data scientists.

Our platforms have become the fastest place for our customers to develop, refine, and manage not only their models but integrated offerings that deliver business impact. And once again, history is repeating itself with data scientists as they abandon the thin playbook products of the past. We recently hosted 2 champions road events, 1 in Denver and 1 in Munich that pulled together the most experienced and prolific customer developers to share the latest on our road map, but more importantly, to surface new opportunities to go deeper. At build.palantir.com, developers in the U.S., U.K., Canada, and India, amongst a growing list of countries, can now access a free developer tier in a library of quick starts, tutorials and reference implementations for themselves. This developer movement is matched on the government side, whether it's with developers in Armed Forces Ukraine or the U.S. Army. In government, CDAO's recent contract award on Maven will enable us to scale those exquisite capabilities to the DoD enterprise and to bring integrated JADC2 capabilities across space, cyber, electronic warfare, and logistics. The CDAO Open DAGIR contract also enables defense tech companies, traditional contractors, and government developers to leverage Apollo in the Ontology software development kit, OSDK, to develop applications and integrations on top of Maven, all powered by Palantir's Mission Manager. And finally, fresh out of the AIP product pipeline, we are launching a new offering, Warp Speed to power American reindustrialization. The software playbooks have also failed in manufacturing. And all the founders driving reindustrialization know it. This is why SpaceX built their own ERP. We created Warp Speed from our years of experience on the factory floors, helping

customers build planes, trains, automobiles, and even ships. Today, we power production of jet engines, satellites, and weapon systems in the industrial base. Warp Speed, built on AIP, on our industrial AI and with Ontology, is the modern American manufacturing operating system that reimagines how to bend atoms better with bits. At the dawn of World War II, we didn't have a defense industrial base. We had an American industrial base. Chrysler made missiles, and General Mills wasn't just a cereal company. This is also what our future must look like. It is clear that the nation must reindustrialize and mobilize at warp speed to win. This platform will transform production in the value chains that power our kill chains. I'll turn it over to Dave to talk us through the financials.

David Glazer

Thanks, Shyam. Q2 was an exceptional quarter. Revenue growth accelerated to 27% year-over-year, exceeding the high end of our prior guidance by 5%, driven by the strength in our U.S. commercial and government businesses.

On the back of this strength, we are increasing our full year revenue guidance midpoint to \$2.746 billion, representing a 23% year-over-year growth rate. We delivered these tremendous top line results while expanding adjusted operating margin to 37%, highlighting the strong unit economics of our business.

We also delivered our seventh consecutive quarter of GAAP profitability, generating a record \$134 million of GAAP net income and our sixth consecutive quarter of GAAP operating profit, generating a record \$105 million of GAAP operating income.

Our revenue and profitability drove a 7-point sequential increase to our Rule of 40 score from 57 in the first quarter to 64 in the second quarter.

Turning to our global top line results. Revenue continues to accelerate. We generated \$678 million in revenue, up 27% year-over-year and 7% sequentially.

Excluding the impact of revenue from strategic commercial contracts, second quarter revenue grew 30% year-over-year and 10% sequentially. Customer count grew 41% year-over-year and 7% sequentially to 593 customers. Revenue from our largest customers continues to expand.

Second quarter trailing 12-month revenue from our top 20 customers increased 9% year-over-year to \$57 million per customer.

Now moving to our commercial segment.

Second quarter commercial revenue grew 33% year-over-year and 3% sequentially to \$307 million.

Excluding the impact from strategic commercial contracts, commercial revenue grew 40% year-over-year and 8% sequentially.

Second quarter commercial TCV book was \$377 million, representing 31% growth year-over-year.

Our U.S. commercial business continues to see unprecedented demand, with AIP driving both new customer conversions and existing customer expansions in the U.S.

Second quarter U.S. commercial revenue grew 55% year-over-year and 6% sequentially to \$159 million.

Excluding revenue from strategic commercial contracts, U.S. commercial revenue grew 70% year-over-year and 8% sequentially. In the second quarter, we booked \$262 million of U.S. commercial TCV, representing 152% growth year-over-year. Total remaining deal value in our U.S. commercial business grew 103% year-over-year and 11% sequentially.

Our U.S. commercial customer account grew to 295 customers, reflecting 83% growth year-over-year and 13% growth sequentially. We generated \$148 million in international commercial revenue in the second quarter, representing 15% growth year-over-year and 1% sequential decline as a result of continued headwinds in Europe.

We continue to capitalize on targeted growth opportunities in Asia, the Middle East, and beyond. Revenue from strategic commercial contracts declined to \$9 million for the quarter. We anticipate third quarter 2024 revenue from these customers to continue to decline to between \$6 million to \$8 million compared to \$15 million in the third quarter of 2023.

We continue to anticipate 2024 revenue from these customers to be less than 2% of full year revenue. Shifting to our government segment.

Second quarter government revenue grew 23% year-over-year and 11% sequentially to \$371 million.

Second quarter U.S. government revenue grew 24% year-over-year and 8% sequentially to \$278 million.

As Ryan mentioned, we were selected for several notable awards in Q2, which led to the strongest U.S. government bookings quarter since 2022, reflecting the growing demand for our government software offerings.

Second quarter international government revenue grew 21% year-over-year and 18% sequentially to \$93 million, primarily driven by additional funding from a partner nation related to our ongoing efforts in Eastern Europe.

Second quarter TCV booked was \$946 million, up 47% year-over-year. Net dollar retention was 114%, an increase of 300 basis points from last quarter. The increase was driven both by expansions at existing customers and new customers acquired in Q2 of last year.

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 in velocity in our U.S. commercial business over the past year. We ended the second quarter with \$4.3 billion in total remaining deal value, an increase of 26% year-over-year and 5% sequentially, and \$1.4 billion in remaining performance obligations, an increase of 41% year-over-year and 5% sequentially.

As a reminder, RPO is primarily comprised of our commercial business as it does 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. Adjusted income from operations, which excludes stock-based compensation expense and related employer payroll taxes, was \$254 million, representing adjusted operating margin of 37% and marking the seventh consecutive quarter of expanding adjusted operating margins. Q2 adjusted expense was \$425 million, up 4% sequentially and 7% year-over-year.

We continue to expect expenses to ramp through the back half of the year as we invest in the product pipeline and hard technical problems in debottlenecking the journey from prototype to production that Shyam just outlined. We remain focused, however, on calibrating expense growth below revenue growth for the full year in order to continue delivering on our goals of sustained GAAP profitability and operating income. In the second quarter, we generated GAAP operating income of \$105 million, representing a 16% margin, our sixth consecutive quarter of GAAP operating income and fifth consecutive quarter of expanding GAAP operating margins. We generated second quarter GAAP net income of \$134 million, representing a 20% margin, our seventh consecutive quarter of GAAP profitability.

Second quarter adjusted earnings per share was \$0.09 and GAAP earnings per share was \$0.06.

Additionally, our combined revenue growth and adjusted operating margin accelerated to 64% in the first quarter, a 7-point increase to our Rule of 40 score from the prior quarter.

Turning to our cash flow. In the second quarter, we generated \$144 million in cash from operations and \$149 million in adjusted free cash flow, representing a margin of 21% and 22%, respectively.

We expect cash flow to ramp through the back half of the year, in line with the expected timing of government and commercial year-end collections. Through the end of the second quarter, we repurchased approximately 1.2 million shares as part of our share repurchase program.

As of the end of the quarter, we have \$973 million remaining of the original authorization. We ended the quarter with \$4 billion in cash, cash equivalents, and short-term U.S. Treasury securities.

Now turning to our outlook.

For Q3 2024, we expect: revenue of between \$697 million and \$701 million; and adjusted income from operations of between \$233 million and \$237 million.

For full year 2024, we are raising our revenue guidance to between \$2.742 billion and \$2.750 billion.

We are raising our U.S. commercial revenue guidance to an excess of \$672 million, representing a growth rate of at least 47%.

We are raising our adjusted income from operations guidance to between \$966 million and \$974 million.

We continue to expect adjusted free cash flow of between \$800 million and \$1 billion, and we continue to expect 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

Thank you for participating in our earnings. We founded this company to be a ray of light to America and our Western allies. And in doing so, we built software for the institutions as they ought to exist, not as they do exist. And of course, the whole playbook around building software, building institutional software, building software that would be transformative and especially in the current context around AI and large language models flew in the face of everything that people have been taught to know about enterprises, what makes them work, how they can transform themselves, what software products would be valuable, what software products people would adopt, how would they adopt them, how would you get value from analyst users in the software context, how would you transform manufacturing, how would you use in the current context of large language models, not as an act of self-flagellation or something that just makes a small group of people richer. But in a way that you can extract value in existential life and death context like the battlefield or in institutional or commercial context like the transformation that is happening all across America and in some other countries. And in the face of this, we made bold claims that looked ridiculous to many people. One bold claim was these large language models will not work without foundational software. They will not work without a means to process them. They will stay something like self-pleasuring or PowerPoints, which is the purveyor which are sold to institutions as a way of deceiving institutions from transferring their high-value revenue to other enterprises without actually transforming themselves, which were addictive and thin and led to dysfunction in enterprises, much like their allegory in the political world of woke-ism became slower, dumber, not able to actually produce results. And we built the infrastructure you need to move from self-flagellation, PowerPoints, and prototypes flawlessly into production. Production meaning your enterprise gets faster, it runs better. The margins are better. The people inside the enterprise become more valuable.

Your tribal knowledge and your enterprise, the knowledge which differentiates you from all other enterprises, becomes truly valuable. It becomes a weapon in your hand, whether that weapon is in the commercial context, to make what you know how to do better than anyone else work better than anyone else, by making engineers better, by making the workers more able to do things engineers would be able to do, by treating your company as a portfolio as opposed to dots on a PowerPoint. We believed, and the numbers now show that we were right, that by doing this, we could give America and its allies a structural advantage in the commercial area, which we have seen and our numbers prove and arguably even more importantly, on the battlefield, which we can't talk as much about but is the absolute most important area where America and its allies have to have dominance and leadership, that we had a structural advantage. And what is gratifying about our -- this quarter and, in general, about what we've done is not the banality that we were right and the playbook purveyors are obviously somewhat laughable. It is that you can build a great business, be aligned with America and the West, that, that alignment will make you stronger and better, that your software products will actually be products and not PowerPoints and that you can actually build something with the best people in the world, the best investors in the world that will lead to structural advantages.

Of course, all along the way, we had many, many doubters. We had people that thought we would never be profitable. We had -- now we are over 7 quarters in profitability. thought people that we would never be able to grow the revenue. We'd never be able to reaccelerate the U.S. government because of its -- it's often opaque, but we asserted that product superiority would overcome many of the vicissitudes and difficulties of working with the U.S. government witness reacceleration. We asserted that our products were the precursor to making LLMs valuable, that we would productize how you create this value much the way hyperscalers, as Shyam had mentioned, have productized other technical issues and that we would give those, that

productization to our customers. Witness our 70% after [indiscernible] quarter -- the third quarter in a row where we're growing at what amounts to a ridiculous rate. And there's a witness of the reacceleration of our global business ex to 30%. Witness our backlog, look at any part of our business, then it is like, well, how are we doing? This is a really long, interesting question that people will dedicate their academic careers on but we do not have time to address and it may not be learnable for everyone, but we do, do it. And the single most important part, however, of this is that we are going to play a determinant role in making America and its Western allies the dominant force again in this world. And because of that, the best times for this company are not in the past. I would say the single most interesting thing about this quarter, if you had to reduce it to 1 simple fact after 20 years, after changing the way people do intel, after changing the way the battlefield works, after changing the way people procure software, after exporting our platforms to our allies, after punishing our adversaries, after building a commercial business, after DPO, after seeing it all reaccelerate, the best times for us are yet to come, and we are planning to just take our energy and run this business as a business at which we are, which is our owners.

We are owners with a very long-term focus for the best interest of our country, our allies, and our Palantirians, and our investors.

And so I'm very thrilled to have you participate in this, what for us, means historic earnings. And last not least, the world is on the precipice of what could be a very severe set of violent interactions in the Middle East. And it goes without saying that at Palantir, we know where we stand and we are very much supporting America and its allies in the Middle East, including Israel. Thank you.

Ana Soro

Thanks, Alex. We'll now turn to a few questions from our shareholders before opening up the call. Axle asks, what is Palantir doing to be different from its AI competitors? And what is the company's plan to stay competitive?

Shyam Sankar

Thanks, Axle. Well, all the value and where the market is completely bottlenecked is on that transition from prototyping to production. And that happens to be the place that we are most differentiated. That differentiation is built on more than a decade of deep technical investments, technologies like the Ontology, OSDK, the primitives that we have that permeate the platform, security, functions on objects, actions, write-back, machinery, automations, and a deep product pipeline that really is focused on addressing this very problem on this transition from prototyping to production. And I think when you think about the ChatGPT moment, it's so very clearly invalidated the thin product playbooks of the past.

I think this bottleneck is doing that same thing to AI software. It is so easy to create an AI prototype, the equivalent effort of making a PowerPoint slide, but it's actually very, very hard to get that in production, probably 10 to 100x harder than traditional software transitioning to production. And therein lies our entire opportunity in the market. That's what you see with the expansions that have happened with Panasonic Energy and Tampa General, and that's what you frankly see in the numbers of this quarter.

Ana Soro

Thanks, Shyam.

Our next question is from Jacob who asks, we understand why Foundry has become the operating system for the modern enterprise. How does this change with LLMs?

Shyam Sankar

Well, the market doesn't need point solutions even if it's slightly addicted to them. And our customers can't solve their business problems with hyperscaler infrastructure alone. They need a system that organizes and orchestrates the interaction of their physical business with their technology with AI and LLMs in the same way that your operating system orchestrates and organizes your hardware with your applications, and in the same way that your operating system gives you application development frameworks like AppKit for Mac or WinUI for Windows, Palantir's OSDK in Ontology is that application development framework for the entirety of your business that allows you to treat your business like code, leveraging the primitives that we've built that extend LLMs throughout your enterprise.

Alexander Karp

And just as a point that we've already mentioned, a lot of what we're doing sounds complex on the outside, but what is not complex is the customers already understand they need it.

So it's like a lot of our actual advantages, the customer is way ahead of investors, way ahead of people investing in this. And we also -- and we're way ahead of our customers and we have distribution.

So typically in a revolution, the revolution comes from like small companies somewhere. But this revolution is coming from being ahead of where the customers, are and the customers are years ahead of what analysts and others think. And we are actually monetizing simply the fact that we're ahead of our customers and years ahead of everyone else. And all of these things that Shyam was talking about, but how does an Ontology work with an SDK? How does that work with an enterprise? How would you actually use a large language model in a way where it's differentiated, meaning you use the right large language model at the right time under the right conditions in the logic, meaning in the way the business understands itself under the -- within the context of the security and security logic of the business? Those things are largely not understood on the outside but every single person and government who's trying to use them or who is using them, every single customer who's buying this witness the numbers. They either understand this overtly or they understand that nothing else works. And in many cases, they simply understand that nothing else is giving them any value. And they're increasingly getting tired of paying for things they either don't use or they shouldn't use.

Ana Soro

Thank you both.

Our next question is from Dan with Wedbush.

Daniel Ives

Look, I think historic quarter for Palantir, so congrats. Does it feel out, and the team, does it feel like you're starting to now, in terms of the conversions from the Bootcamps to deals, it's starting to accelerate? It seems like that based on the actual quarter but can you just give some granularity there?

Ryan Taylor

Yes, I can give -- first of all, I think the numbers speak for themselves. We closed 27 deals worth more than \$10 million or more, \$1 billion of TCV in quarter.

And so I'll start with the numbers because they speak for themselves. Bootcamps are an important part of that motion. We're seeing them expose customers to new opportunities and new potential customers to opportunities. That being said, it was, as Shyam was highlighting, what everyone underestimates is the immense challenge of deploying enterprise production AI software at scale.

And so we're very much focusing our energy and going deep in production with those customers. And that's the massive opportunity before us and that's where we're running at full speed.

You see that in the numbers.

You see that in the customer's reaction who are blown away by the impact we're having for them and demanding more and more in that direction from us and really where we're focusing on.

Alexander Karp

Maybe a slightly orthogonal indirect way of answering your question is if you take the battlefield where these things -- the few places these things are LLMs are in use or the battlefield, where other forms of AI are in use and you take U.S. commercial, what you're really seeing is a very tight learning circle, what works, what doesn't, why? And that's very different than places that aren't working. And America has many businesses that are very strong and they're very, very agile so they're learning very, very quickly. And then much like people watching this call, they're like, "Oh, okay, this is working. There were leaders like you who'd predicted this would work, but most people actually are customers want to see it in production and then say, okay, well, why is this working? And that's a separate -- and what's very special about what's happening now is you have more and more people who are like, "Okay, I know this works. I want to understand exactly why and how would I expand it. And why is nothing else working?" And so that's leading to a very different motion.

I think it's going to lead to a very different way of looking at our company in all areas, including financial areas because it's like when you're making assertions, you need avant-garde innovators to look at it and say, okay, well, this is something that's not quite there but I think it could work. And we're very much moving into the phase of, yes, this is working.

Our adversaries know this works.

Our U.S. military knows this works, people on the ground knows, and it's very similar in U.S. commercial. And that's what's generating the 70% number that is kind of jaw-dropping, like the jaw-dropping numbers are being generated by, okay, this works. How do I expand and explain to me how it's working, can we expand these things? And by the way, our innovation is also because we're like, okay, we see this works but this could work 5x better if we had different kinds of innovation that no one else has.

Ana Soro

Thank you.

Our next question is from Mariana with Bank of America.

Mariana Perez Mora

I'm going to try to squeeze 2 questions as usual.

So the first one, I'm curious about Warp Speed. What is it? Is it like a new system that allows companies to build their own ERP system? Is it something that runs on top of your existing old school legacy ERP system? Or is Palantir creating like a solution that is ERP, like a little bit details about that.

The second 1 is not just Warp Speed but also all this American industrialization. GAO posted a report recently where they've said, so far an implementation are the 2 biggest barriers for the U.S. to be able to produce the weapons that they need. What is the biggest barrier or like hurdle for the U.S. primes or the -- especially the old guard primes to come to you and let you help them re-industrialize, produce, and get back on track on this like multibillion-dollar contracts they have?

Shyam Sankar

Yes. Thank you, Mariana.

So with Warp Speed, it really is a -- we conceived of it as an operating system for the modern American manufacturer. It touches not just ERP but also MES, PLM, PLCs, so it's interacting with the factory floor. And we think there's an opportunity to reimagine this.

So I think the kind of congenital defect from most of the software was designed historically in the '70s for the CFO. Why would you do that? If you were starting over today, you would build software that was designed for the head of production that was focused principally on production. And then how you integrate both your extant legacy systems and use Warp Speed in place of the investments that you haven't made.

I think the big opportunity, so if you go to the big legacy manufacturers and you say this, it sounds crazy. They've made a bunch of historical investments. They're not yet convinced or even aware of the fact that the legacy software playbook doesn't work. But if you go to new manufacturers, the one that are powering the reindustrialization of the country, they all know this. They're all alumni of the Tesla SpaceX world where they built their own systems from scratch, principally because the other stuff doesn't work at all. And they also know they can't afford the 300 engineers it would take to build this completely from scratch or the time it would take to do that.

So there's this very powerful role of taking AIP, building the applications on top of it using the OSDK and delivering the integrated suite of applications that are also malleable to the business because I think one of the other key insights here is it's not actually believable that the same ERP manufacturing system that you use to build rockets is what you would use to build rackets. And how do you -- what is the right way to think about grafting the software around the manufacturer in a way that gives them alpha, not just creates a huge amount of services for the system integrators? We live in a world today where it's \$1 of license for \$9 of implementation that never seems to quite work. Who is really happy with the implementation of these systems? Which ones are even happening on time? Who can say that those systems didn't fall apart in 10 seconds when COVID supply chain disruptions happened, right? There's an entire opportunity to reinvent this now, and I think the bolus of energy around national defense and reindustrialization is catalyzing this opportunity.

Alexander Karp

Well, and Shyam's taking this charge, but the reason it, I think, is likely to work is because not just America but every allied nation is -- has the problem that they cannot get their military production to work.

So your question is not really 2 questions. It's what are you building from my perspective and why is it likely to work, and they're very linked. It's likely to work because every single Western country, when you talk to these leaders in private, the conversation I often have with them is what could we possibly do to make manufacturing work so we will actually be competitive on the battlefield? And the answer to that for these countries really is reimagine how you produce and the people who do it are going to be people who are alumni of the companies that have actually built companies correctly, call it, the Palantir alumni and people from the SpaceX network are really the only people who have done these things. And the first thing they want is a software program that will allow them, including with large language models and AI, to build the way you ought to build. Ought does not mean build near term in the interest of your CFO so you can IPO quickly and build something that's fake. It means build something that is real, build something that's sustainable, built something where the production is actually production of a product. And that aligns very squarely with how Palantir wins and how we build things. And that's why this is a super important thing we're working on.

Ana Soro

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

Alexander Karp

Well, again, thank you for your support that we've had good and bad times. This is a super important time for Palantir because we have proven to the world that what we do is quantifiable and real.

We are focused on growing this company to be much more impactful, much larger, and much more valuable. And we appreciate your support, and we know that many of you also support us because you realize that we are value-aligned with your values, which means fighting to make the West a stronger and better place, including on the battlefield. And that battlefield may be upon us now, and we appreciate your support and do what you can to help America and help our allies. Thank you.

Ana Soro

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