

Palantir Technologies

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Palantir Technologies: Synthesising the Second Machine Age

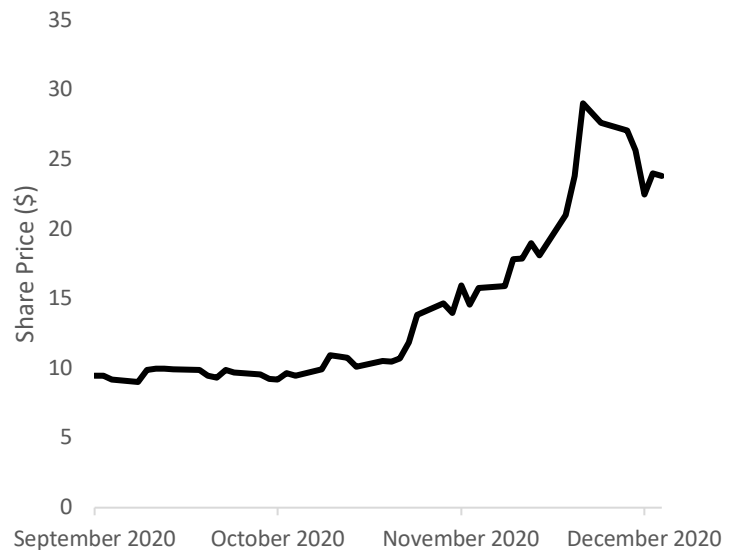
Company Overview:



Company Name:	Palantir Technologies
Exchange:	NYSE
Ticker:	PLTR
Country:	United States
Sub Industry:	Software

Company Data:

Price Rating:	Buy
Price Target:	40 USD
Current Price:	23.85 USD
Price Date:	5/12/20
52 Week Average:	14.28 USD
Market Cap:	\$44.8(bn)
Enterprise Value:	\$46.6(bn)



Company Overview

- US based company specialising in big data mining founded by Peter Thiel (co - founder of PayPal) and Alex Karp (CEO). The company went public in January 2019 at \$10 per share however governance structure implies founders can unilaterally adjust voting power via share redesignation.
- Key stratification of business segregates governmental (including the US army) and commercial clients (such as banks including J.P. Morgan) via adjacent vertical integration where respective offerings are Gotham and Foundry. Palantir Apollo exploits a simplistic triangulation of synergies as a continuous delivery system across Gotham and Foundry platforms. The result is a deeply specialised lean business model still capable of heavily exploiting network effects due to versatility of application.
- Systems are responsible for ordering and maintaining ordered and unordered big data sets enabling a competitive advantage to clients via cost savings.
- Palantir is targeting the global big data and analytics market valued at \$170 billion, forecasted to grow in line with a CAGR of 14%. Palantir achieved Q3 year - on - year revenue growth of 52% from 2019 to 2020.
- Revenue breakdown is predominantly governmental however balance sheet is highly diversified with rising share of 'Rest of World' revenue over total revenue. Partnership with Somp Holdings (announced June 2020) set to increase presence in Japan, further decreasing dependency on the UK, US and France.

Figure 1: Segmental Revenue Breakdown

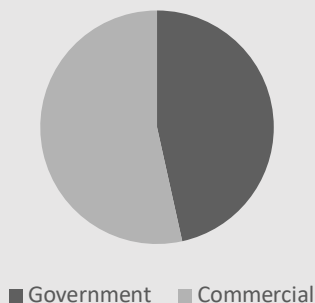
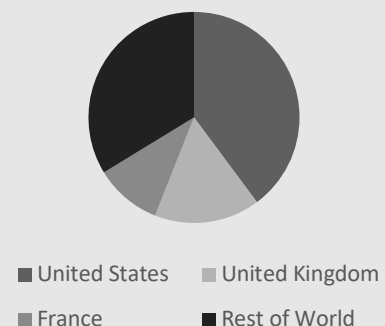


Figure 2: Geographic Revenue Breakdown



Reasons to Invest in Palantir

Palantir possesses a unique plethora of tailwinds which intertwine to compound its already impressive growth trajectory. The brink of a big data revolution has propelled demand for data manipulation and management services; approximately only 1% of big data is harnessed to full capacity yet 90% of big data was generated within the past 2 years implying an exponentially rising TAM. Firms are increasingly demanding data management platforms to enhance profitability hence Palantir's revenue per customer has increased from \$4.2 to \$5.8 million to reflect this. Furthermore, Palantir's aggressive specialisation and entrepreneurial flare has eclipsed rivals to several lucrative contracts, reinforcing its first mover advantage. This has culminated in a unique incentive structure fuelled by increasing switching costs where firms are increasingly punished for disloyalty. Furthermore, an increasingly diverse contract pool and wider applicability will mitigate inherent risks associated with the business, a core justification for current undervaluation.

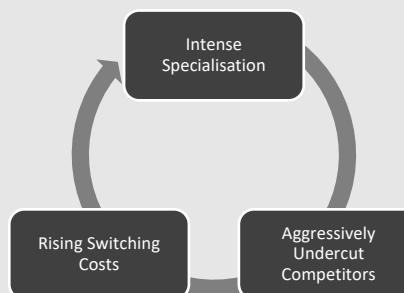
1. Unique Cost Dynamics and First Mover Advantage:

- Palantir have developed an observable first mover advantage by significantly increasing expenditure on corporate lobbying and subsequently winning US governmental contracts (\$91 million US army contract in Q3). This trajectory is forecasted to rise given a significant increase (over 100%) in Q3 2020 on Q3 2019 coinciding with Joe Biden winning the US presidential election. US defence spending is forecasted to decrease, increasing the prevalence of Palantir systems within the US army. This is due to highly competitive pricing because of specialisation, accelerated by aggressive lobbying expenditure (exceeding competitors by a considerable margin).
- Network effects result in synergies across Gotham, Foundry and Apollo platforms, further decreasing costs and subsequently increasing switching costs for Palantir clients. After a first mover advantage is established at this economic and political inflection point, substitutions away from Palantir systems are increasingly unlikely. Palantir's commercial business will also benefit via network effects after the inflection point; proprietary systems developed in house will become relatively more expensive, adding pressure to company boards against substitution (rising tendency towards SVM will also deter firms from incurring large fixed costs of proprietary systems).

Figure 3: Palantir Lobbying Expenditure



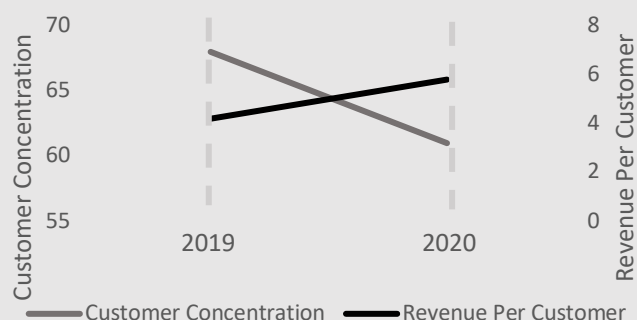
Figure 4: Illustration of Strategy



2. Sharpe Ratio Exceeds Expectations

- Alongside increased revenue per customer, Palantir has experienced a 7 percentage point fall in the proportion of total revenue generated by its top 20 customers. Increasing revenue per customer and decreasing concentration culminate in increasing favourability of Sharpe Ratio.
- Regulatory risk regarding data storage is overestimated because firm is considered instrumental in fight against COVID - 19; regulation is harder to politically justify with wide and socially beneficial applicability of systems.

Figure 5: Revenue per customer alongside concentration of Top 20 Customers



Palantir Technologies Valuation Methodology

We utilised a simplistic comparables approach against competitors, using the Price/Sales metric.

- Palantir has the third highest Price/Sales metric in our comparable analysis of nine companies. This valuation is not excessive given the tailwinds we established, and Palantir is still undervalued compared with CrowdStrike Holdings which is a direct competitor for Palantir Gotham. CrowdStrike's lobbying expenditure is under 10% of Palantir's and therefore a relative disparity should emerge between the two companies.
- Over the period analysed, Price/Sales for both Palantir and comparables increased by an average of 36% indicating continued investor sentiment towards big data mining.

Figure 6: Price/Sales Comparable Analysis

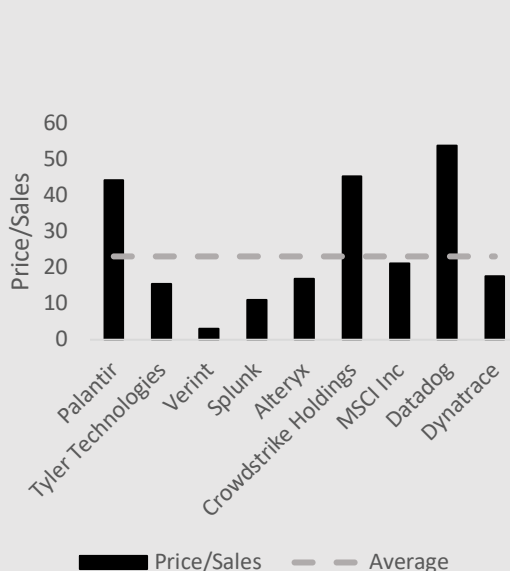
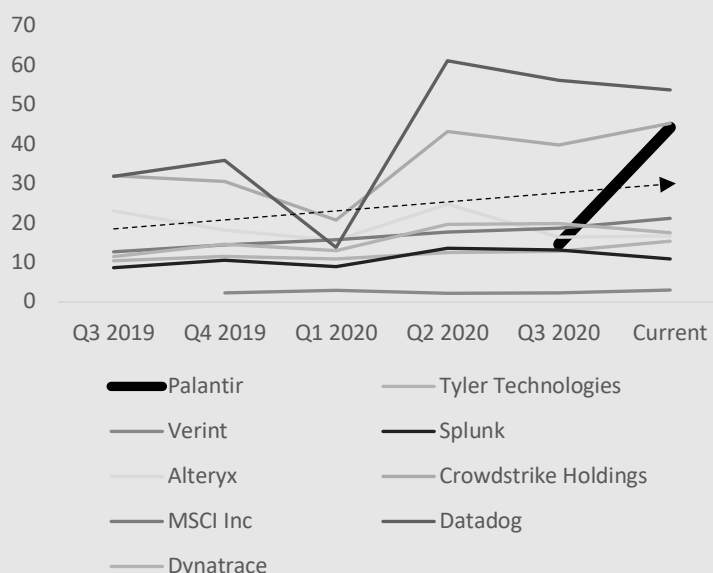


Figure 7: Price/Sales Timeline



Future Catalysts:

- **2020 Q3 Report:** Expansion into Asia (partnership with Sampo Holdings) and South America.
- **US Election:** Palantir Gotham propelled coinciding with Biden win due to reasons discussed.

Investment Risks:

- **In - House Systems:** Companies may choose to develop proprietary systems in replace of Palantir systems however this is very costly and often not financially viable.

Disclosure:

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