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International Stock Market Weekly

Software

Palantir Technologies, Inc. (PLTR)

Palantir Technologies is often regarded as the most secretive startup to come out of Silicon Valley. The firm started building cutting-edge software platforms for the CIA and FBI. Furthermore, the CIA and Pentagon deployed Palantir's platform in Afghanistan and Iraq. It also said to have helped to track and locate Osama Bin Laden.

This year, Palantir stock surged during the previous meme stock rally to hit USD35/share. However, like many meme stocks, Palantir underwent a correction but is now returning to an upward trajectory

We like Palantir as the company's deep roots and immense capabilities in data-mining and analytics systems are without peer, but not without controversy, as the company generates about half of its business from the US federal government, and a sizable portion of that from intelligence agencies. The company has been focusing on expanding its customer base outside of the government sector and now generates more than half of its revenues from the private sector. Moreover, in the event of a recession, Palantir is able to weather the storm as its customers have multi-year contracts and government customers are unlikely to reduce spending.

Palantir shares have been lagging since hitting a high at the USD35 level in January. The company is rather challenging to evaluate, in part because it is not the most transparent company, given its work with the US government projects that demand secrecy. As such most analysts appear to be erring on the side of caution, in our view. We believe the stock offers a compelling value at its current price level.

Stock pick for the second week of December

Palantir Technologies, Inc. (PLTR)

About Palantir Technologies, Inc. (PLTR)

Denver, Colorado-based Palantir Technology builds software platforms for institutions. The company operates via the commercial and government segments. The commercial segment serves customers in non-government industries. The government segment serves customers that are agencies in the US federal government, and non-US governments. The company has built two software platforms Palantir Gotham (Gotham) and Palantir Foundry (Foundry). Its Gotham software platform, which is constructed for analysts at defense and intelligence agencies. Gotham enables users to identify patterns hidden deep within datasets, ranging from signals intelligence sources to reports from confidential informants, and helps US and allied military personnel. Its Foundry software platform creates a central operating system for organization's data. Individual users can integrate and analyze the data. The company was cofounded in 2003 by PayPal entrepreneur and author of Zero to One, Peter Thiel and several colleagues to provide software for "counterterrorism operations". The company has roots in the CIA-backed In-Q-Tel venture capital organization. The company released its Gotham software platform in 2008, which is used by government intelligence and defense sectors. In 2016 the company launched its Foundry software platform as part of its plan to become the data operating system for the private sector. The company's revenue roughly split between commercial and government customers. Palantir's customer base has continued to expand to include not only the Pentagon and agencies such as the CIA, DHS, but ones such as the CDC, FDA, and more. At present, the company supplies solutions to a growing number of international government and commercial organizations as well with solutions to manage and analyze large and varied data sets that enables them to obtain insights and generate meaningful outcomes.

Rationale

Palantir is now earning a profit, which is a good sign for long-term investors. On the top line, Palantir beat expectations, bringing in USD392mn vs. an estimated USD385mn, which amounts to 36% YoY growth.

Palantir is a company with great growth prospects. The software and analytics company has an impressive business model at the intersection of growth and stability that many long-term investors like. Palantir focuses on providing high-value customers. As such, its success in generating market-beating revenue growth could signal that a strong, long-term cash flow machine is just over the horizon. This is a company that continues to invest in its platform at the expense of profit. That said, recent earnings suggest this may soon start to pay off. In the last quarter, Palantir brought in USD0.04/share in earnings, in line with expectations. The company is now earning a profit, which is a good sign for long-term investors. On the top line, Palantir beat expectations, bringing in USD392mn vs. an estimated USD385mn, which amounts to 36% YoY growth.

Having the US

Palantir underwent a correction period immediately following the latest earnings report. We believe this had to do in part it rapid run up in the share prior to the release, driven in large part by frenzy as the stock is a favorite with 'meme stock' retail investors who were pricing in a massive beat this past

government as a core client is a good thing. The government will pay its bills and has unlimited resources to do so.

quarter, which failed to materialize. But Palantir is not simply a 'meme' stock, far from it. This is a disruptive company with game-changing technologies and run by a great management team. It operates in several businesses with very wide moats. However, this sort of volatile price action has made Palantir challenging to intrinsically value. That said, we believe that this is a company that could massively reward investors with longer view, as such volatility is largely irrelevant.

Another attractive point is the company's client mix. Unlike most large companies, which sell their goods to consumers or other large businesses, Palantir's focus has been on growing its revenue from government agencies while expanding on the commercial side in parallel. Having the US government as a core client is definitely a positive as it has the resources to pay its bills. And we believe the relationship between Palantir, and the government is entrenched. Switching costs are very high, and there is a wide moat around Palantir's core customer base. With the recent prolonged correction, which now appears to be coming to an end, Palantir shares are now bargain priced for a growth company. And one of the catalysts to the next phase of growth is with commercial contracts in the private sector. As the company is now aggressively pursuing and winning contracts with more commercial customers, its growth should pick up traction.

Palantir is somewhat secretive, given the nature of some of its work with different US government agencies. That said, within its niche, the company operates in a virtual blue ocean and thus has ample room to grow margins. Indeed, not many companies have the level of trust that Palantir does to work with US government defense projects. And this provides a very wide moat and stable revenue streams for Palantir. In parallel, the company is now expanding its commercial activities via its commercial-focused Foundry platform, and with its continued success in this area, the upside is limitless. With its increased activity on its commercial business, we should see a much higher multiple going forward. The SaaS model reduces barriers for potential customers with optimized pricing. As such, we believe Palantir could evolve into a leader in SaaS, as it demonstrates its capabilities to companies that are willing to spend on actionable big-data analytics innovations.

Growing growth stock

Palantir forecasts revenue to grow by at least 30% annually between fiscal 2021-25. That forecast implies its revenue will rise from its target of USD1.5bn in 2021 to USD4.3bn or more in 2025.

The company expects growth to be driven by new and expanded contracts with government agencies, as well as the growth of its Foundry platform for commercial clients. The accelerating growth of its commercial business over the past year, which outpaced the growth of its government business in the previous quarter should enable the company to achieve its goal.

AI for all

Palantir Edge AI is the company's AI orchestration and sensor fusion engine that embeds AI on disconnected, remote endpoints. The platform enables autonomous decision-making for models

consuming real-time sensor data, including video, images, radar, acoustic, radio data, and more. Edge AI minimizes the data that needs to be stored and transmitted, enabling low-latency, real-time decision-making at the device level if needed. It runs on cloud infrastructure, on-premise GPU servers, or SWaP optimized hardware. While most AI companies provide a single model out of the box, Palantir provides an end-to-end AI/ML solution. Palantir integrates data of any type or complexity, then carries out tasks around data quality, provenance, and cleaning to render a usable data asset for models.

The biggest challenge in AI/ML is defining problems and then deploying models against them. Palantir Edge AI addresses this challenge with Micro Models, which are modular, operation-specific models designed around a measurable objective. For flexibility, models can be run as processors in a series or in parallel. Palantir Edge AI runs on specialized compute HW or other low-SWaP form-factors. Deploying at the point of use enables optimum quality AI detections derived from the highest quality sensor, IoT, and video inputs. The platform transmits information away from the device depending on resource constraints. Palantir Edge AI supports multi-sensor models for those who requiring the fusing of data across diverse payloads. These fusion models can be deployed to Palantir Edge AI and run on edge devices. Indeed, Palantir Edge AI powers use cases from manufacturing quality to drug compound screening to autonomous navigation.

Palantir expects to deliver annual sales growth exceeding 30% through each of the next four years.

Market outlook

Beyond 2021, Palantir forecasts annual sales growth of more than 30% through each of the next four years. We believe the company's guidance is reasonable when considering its strong performance and the likelihood that its category of data analytics services will continue to enjoy strong demand tailwinds. The ability to gather and analyze data will be critical for success for public- and private-sector organizations over the next decade and beyond, and Palantir is a forward-thinking company is poised to benefit from huge long-term growth trends.

3Q earnings results

In 3Q, total revenue grew 36%. Commercial revenue growth accelerated in every quarter over the past year, from 4% in 4Q20 to 19% in 1Q to 28% in 2Q, to 37% in 3Q. US commercial revenue growth reached 103% YoY. The company added 34 net new customers in 3Q, up 46%, sequentially. Palantir more than doubled its commercial customer count since the start of 2021, closing 54 deals of USD1mn+, 33 were USD5mn or more, and 18 were USD10mn+. Adjusted FCF was a USD119mn. Total deal value grew 50% to USD3.6bn. Commercial deal value grew more than twofold to USD2.2bn. Remaining performance obligations skyrocketed 172%, and YTD revenue grew 44% to more than USD1.1bn. Adjusted FCF margin reached 29% and adjusted operating margin 32%. Revenue growth reached 36% in the quarter, bringing 3Q revenue to USD392mn and YTD revenue to more than USD1.1bn, up 44% versus the first nine months of 2020.

Total revenue grew 36% YoY ahead of prior guidance of 33%. The US business continues to post strong growth with revenue increasing 45% YoY in 3Q. Palantir's investments in product and distribution

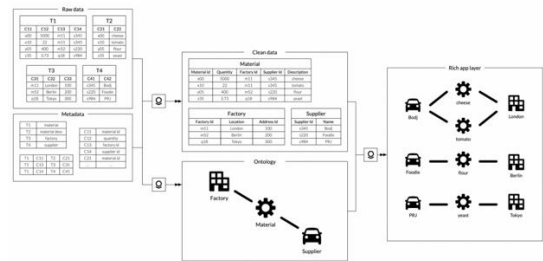
continued to drive growth, particularly in the US where commercial revenue jumped 103% in 3Q. And the international business continue to gain momentum as well with international commercial revenue growth accelerating for the third consecutive quarter as economies continue to reopen and recover. Government revenue rose 34% on the back of new deals with the Air Force, HHS, and NIH. Adjusted gross margin was 82%, up from 81% in the year-ago period. Contribution margin was 57%, up from 56% in the year-ago period. 3Q income from operations excluding stock-based compensation and related employer payroll taxes, was USD116mn, representing an adjusted operating margin of 30% its fourth consecutive quarter with adjusted operating margin at or above 30%. 3Q ended with more than USD2.3bn in cash and no debt. For 4Q revenue guidance, the company expects revenue of USD418mn and an adjusted operating margin of 22%. 4Q revenue guidance implies full-year 2021 revenue of USD1.527bn, which represents another year of revenue growth of 40% or higher. For the full-year 2021, it raised annual adjusted FCF guidance to USD400mn+, and up by USD100mn from previous guidance.

Fig 1. Palantir lets military forces to interact with data from all sensors and sources through a single point of access



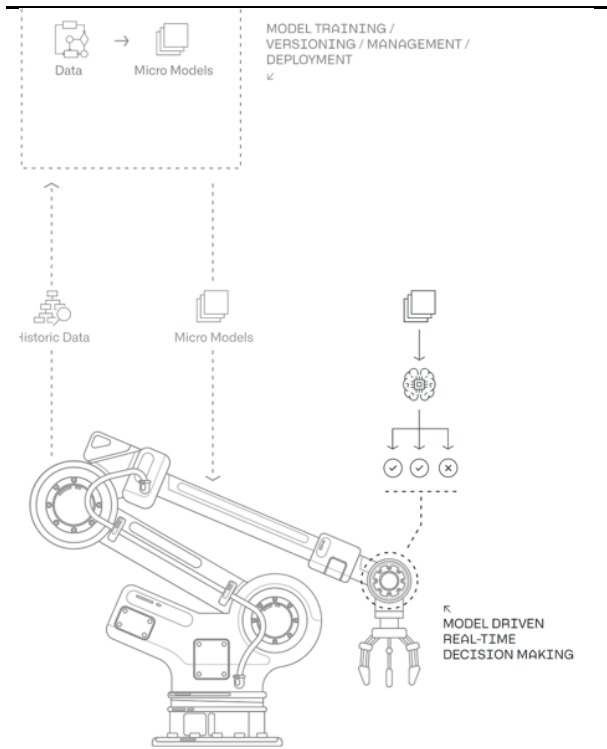
Source: Palantir, Hyundai Motor Securities

Fig 2. SDDI automates away cryptic 'raw data' overhead from data lakes or warehouses that make it impossible for teams to make data-driven decisions



Source: Palantir, Hyundai Motor Securities

Fig 3. Foundry: AI orchestration and sensor fusion engine that runs on disconnected, remote endpoints.



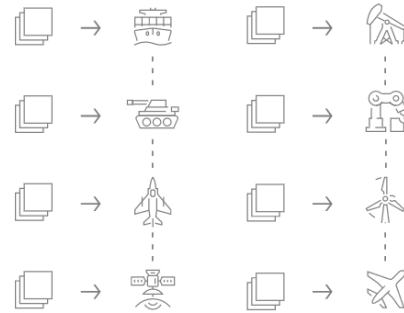
Source: Palantir, Hyundai Motor Securities

Fig 5. Sole provider of the US Army's Intelligence Data Fabric and Analytics Foundation



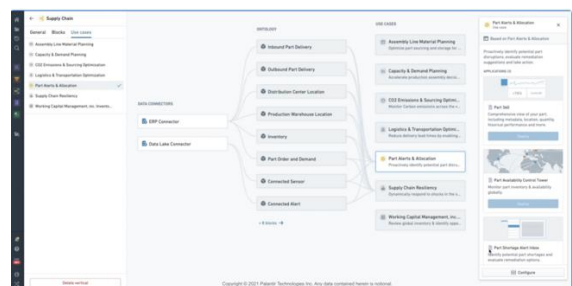
Source: Palantir, Hyundai Motor Securities

Fig 4. Foundry: Edge AI brings AI to drones, vehicles, buildings, oil rigs, aircraft, ships, robots, satellites, wind turbines, and more



Source: Palantir, Hyundai Motor Securities

Fig 6. Foundry Archetypes for supply chain use



Source: Palantir, Hyundai Motor Securities

Fig 7. Palantir Edge AI: UAV / Computer vision example

FIGURE 01 →

All processors plug into Palantir Edge AI over a gRPC API using protobuf.

Multiple AI models run in parallel and outputs from each are combined into a single stream by an Ensemble.

A Tracker module adds past context and predicted future paths for detected moving objects.

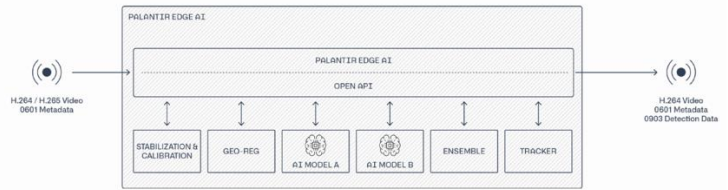
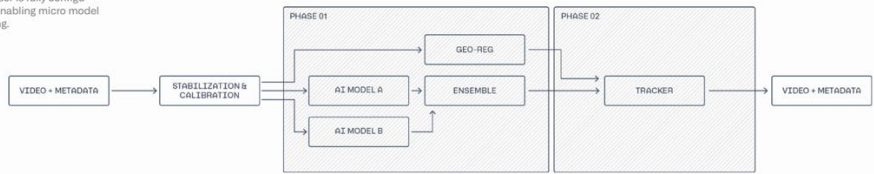





FIGURE 02 →

The order and latency of each processor is fully configurable, enabling micro model chaining.



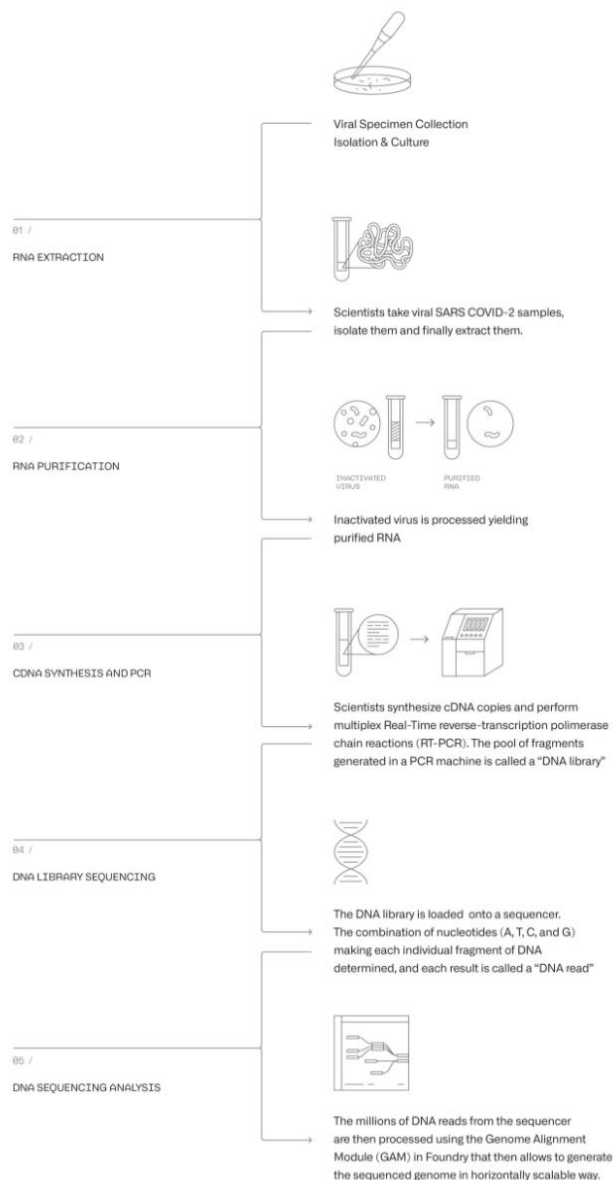
Source: Palantir, Hyundai Motor Securities

Fig 8. Palantir provides US defense with a tactical edge by land, sea, and air

ON THE GROUND SUPPORT	AIR AND SPACE SUPPORT	MARITIME OPERATIONS
 <p>Powered by Palantir, Army Vantage is the U.S. Army's award-winning data-driven operations and decision-making platform, enabling thousands of operators to view comprehensive Army-wide data, analyze trends, and turn insights into action.</p>	 <p>A trusted partner of the U.S. Space Force and U.S. Air Force, Palantir software enables collaborative and operational planning and execution, driving mission-critical readiness.</p>	 <p>In response to COVID-19, Palantir helped the U.S. Coast Guard create a common operating picture to determine resource allocation, including vaccines, to best respond to the pandemic and enhance readiness.</p>

Source: Palantir, Hyundai Motor Securities

Fig 9. Researchers use Foundry for end-to-end genome sequencing to monitor Covid-19 mutations



Source: Palantir, Hyundai Motor Securities

Valuation and risks

Palantir’s market cap as of Dec 8 is USD39.7bn. The most appropriate valuation measure for Palantir is the P/S. We excluded the P/B as it most likely underestimates the company's book value by overlooking hidden assets such as IP, while the PE and PEG ratios are not meaningful. Based in this, the company seems highly valued with a P/S of 24.79x, at the higher end of the SW industry. In terms of revenues/employee, RoA, and RoE, the company is performing well with the figures standing at USD586,762, (17.59%), and (29.29%) respectively. Despite sub-par performance at managing OE and managing resources, Palantir is a leader when it comes to generating revenues from employees compared to peers in the SW industry. Palantir holds a substantial amount of cash and cash equivalents on its BS, which can be used to fuel growth, pay dividends, and limit financial risk.

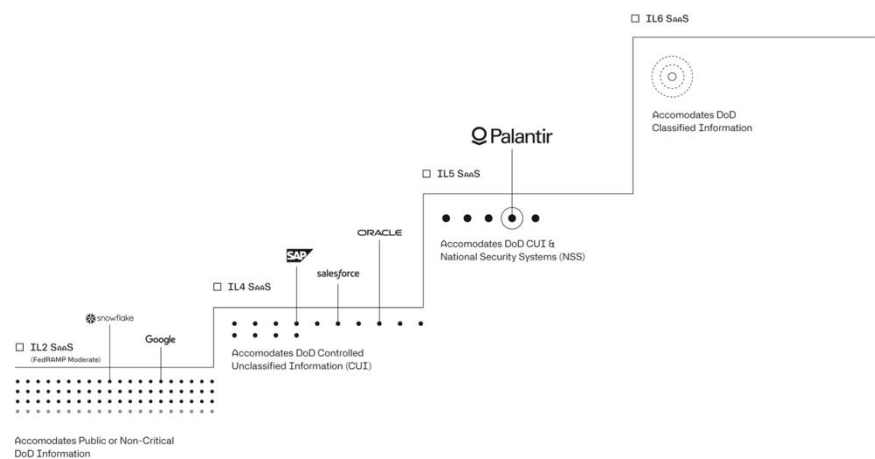
Cost of revenue provides some insight into how a company spends to generate more sales. After removing stock-based compensation, Palantir's sales and marketing costs rose 36%, and its general and administrative costs declined 34%. Both are positive signs, as the company is bolstering its sales team to obtain new customers and reduce its overhead.

There are other data analytics companies scrambling for a slice of the lucrative US government pie, and so Palantir may need to defend its position as competition intensifies. That said, it is very challenging to garner the trust of many of the government organizations which Palantir serves. Furthermore, the company's solutions are already well entrenched and switching costs (money and time) are likely to deter many of these organizations from opting for a competitor's unproven offering.

The bottom line

Palantir is an alluring long-term investment in the data-mining and analytics market. We believe the stock may well outperform the market and generate outsized gains. Palantir is very innovative and possesses the wherewithal to steadily while simultaneously improving margins. Indeed, the company is executing well, and as such should be able to fend off would-be competitors if it can continue to innovate. Palantir's aggressive expansion into the commercial sector also provides another reason to accumulate shares in this growth company despite its what may be viewed by some as a lofty P/S of 26.32x. Palantir has been growing at an impressive rate and has a long runway for expansion. We recommend Palantir for investors seeking exposure to the emerging data-analytics services category, as it is the most attractive play and has the potential to be a big winner in time.

Fig 10. Palantir SaaS is one of five offerings authorized for Mission Critical National Security Systems (IL5) by the US DoD



Source: Palantir, Hyundai Motor Securities

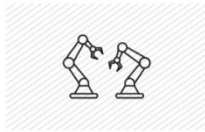
Fig 11. Palantir and Wejo provide integrated data ecosystem for mobility

AUTOMAKERS



The new data ecosystem will allow OEMs to discover the hidden value that lies within their data, spurring innovation, improving quality, and opening the doors for new products and services.

SUPPLIERS



Suppliers can perform data driven research using real-world data, and use it to improve quality and create products that meet consumer demand.

SMART CITIES



Smart city authorities can design better cities using mobility data and analytics to decrease congestion and improve safety on roads.

INSURANCE



Insurers and other adjacent industry partners can use data to improve pricing policies based on hyperlocal driving behavior.

Source: Palantir, Hyundai Motor Securities

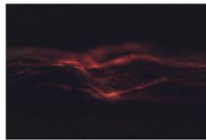
Fig 12. Foundry for crypto: powering the future of finance

ANTI-MONEY LAUNDERING



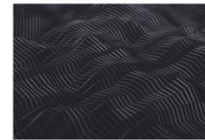
Palantir Foundry powers multi-factor AML + KYC solutions across fiat and cryptocurrencies to detect complex networks with low false positive rates and robust case management

FRAUD DETECTION



With multi-layered security, Palantir software is trusted by banking giants, up-and-coming fintechs, and regulators alike to deliver realtime fraud detection

DAPP BUSINESS INTELLIGENCE



Foundry for Crypto allows Web3 startups to build complex workflows on top of dApp metadata with rapid speed, enabling data-driven internal product roadmaps, external campaigns, and governance measures

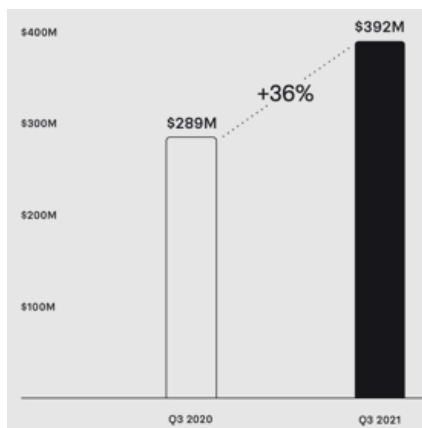
CROSS-CHAIN ANALYTICS



Palantir Foundry is chain-agnostic and automatically integrates transaction and smart contract data from top mainchains to enable rich analytics with low / no code, all the way back to the genesis block

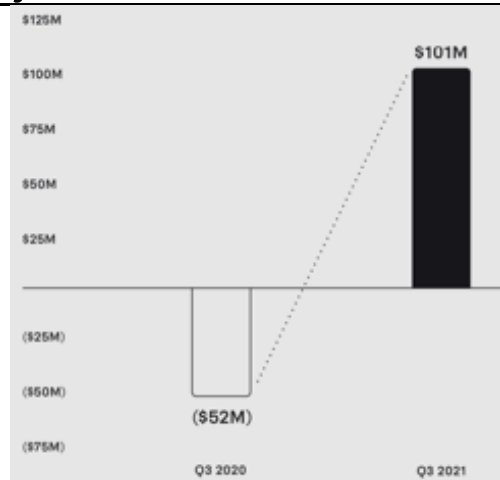
Source: Palantir, Hyundai Motor Securities

Fig 13. 3Q cash from operations was USD101mn, an improvement of USD153mn YoY



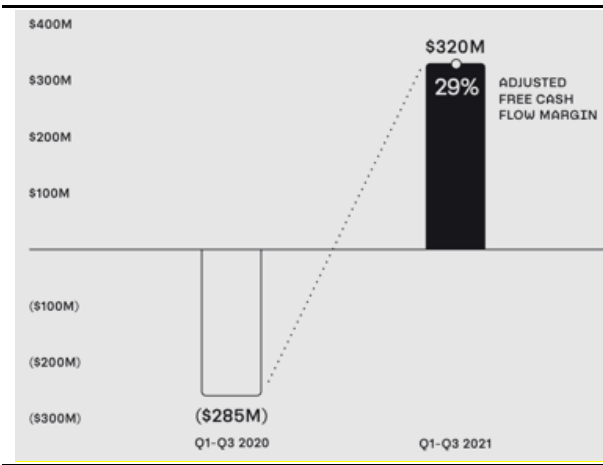
Source: Palantir, Hyundai Motor Securities

Fig 13. 3Q adjusted FCF was USD119mn, representing a margin of 30%



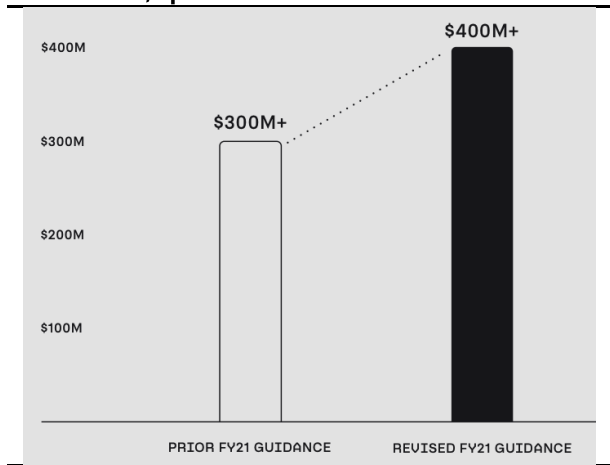
Source: Palantir, Hyundai Motor Securities

Fig 14. YTD adjusted FCF was \$320M, an improvement of USD605mn YoY



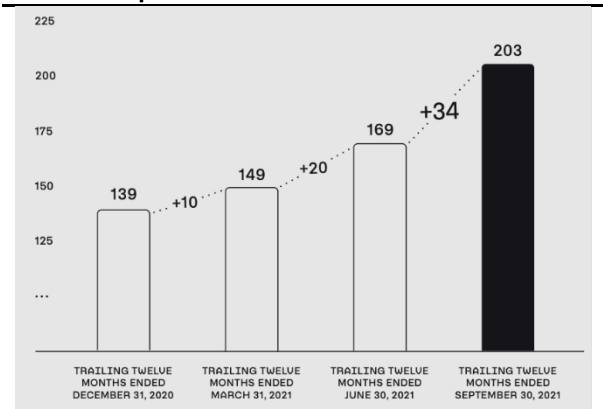
Source: Palantir, Hyundai Motor Securities

Fig 15. Increased full-year adjusted FCF guidance to USD400mn+, up from USD300mn+



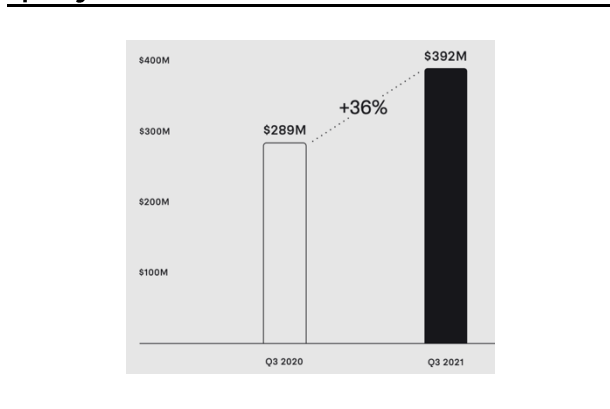
Source: Palantir, Hyundai Motor Securities

Fig 16. Added 34 net new customers in 3Q, with total customers up 20% QoQ



Source: Palantir, Hyundai Motor Securities

Fig 17. 3Q revenue grew 36% YoY to USD392mn, ahead of prior guidance of USD385mn



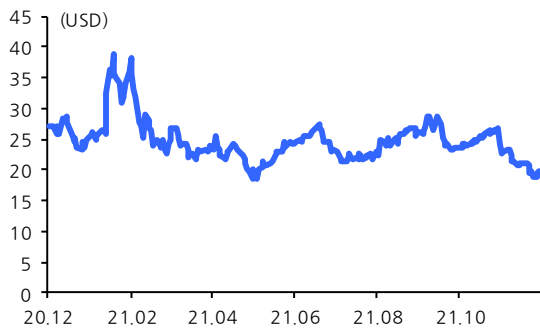
Source: Palantir, Hyundai Motor Securities

Fig 18. Peer Valuation

Company	Ticker	Market Cap(USDmn)	P/E Ratio	P/S Ratio	EV/EBITDA	Sales Growth (%)
Palantir Technologiuies Inc.	PLTR	38,513	NA	NA	NA	NA
Datadog, Inc.	DDOG	54,731	NA	NA	NA	NA
Snowflake Inc.	SNOW	110,672	NA	NA	NA	NA
Splunk Inc.	SPLK	17,967	NA	NA	NA	NA

Source: Thomson One, Hyundai Motor Securities

Fig 19. PLTR Stock Price



Source: Bloomberg, Hyundai Motor Securities

Compliance note

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 - Hyundai Motor Securities has not disclosed the material contained in this report to any institutional investor or third party prior to its publication.
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