

The Krause Fund

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Palantir Technologies (PLTR)

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Information Technology – Software – Infrastructure

Stock Rating

SELL

Investment Thesis

We recommend selling Palantir. Our DCF-derived value is \$70.18, meaning that its current price is selling at a premium of 93.36%. Revenue forecasts are high for 2026 to 2034, and expense forecasts place Palantir as extremely competitive compared to industry peers, however these optimistic assumptions require almost perfect execution to justify. Sensitivity analysis indicates small margin of safety for performance and the model relies heavily on unsustainable growth within the commercial sector.

Drivers of Thesis

- **Aggressive Commercial Revenue growth assumptions:** The model assumes a 90% growth deceleration in commercial revenue for years 2026-2034, meaning it requires commercial revenue to sustain ~40-45% YoY growth through 2031, which is rarely achieved by software companies.
- **Margin Expansion is Unsustainable:** NOPLAT margin grows from 32% in 2025 to 58% in 2034, which is mainly fueled by revenue growing significantly faster than costs (S&M: 24% in 2025 to 10% 2034, R&D: 13% 2025 to 6% 2034). These declines are an extremely aggressive case and still must sustain high revenue growth in commercial and government segments.
- **Sensitivity Analysis Results:** Results showing the percent of revenue from government contracts deceleration show that current optimistic assumptions (WACC: 12.6%, Gov Decel. rate: 75%) have DCF price significantly below current price. This number is highly sensitive to macro factors, such as a shift in defense priorities and other federal budget decisions.

Risks to Thesis

- **Commercial Adoption is Beyond Model Assumptions:** Platform gains faster than expected, especially in the commercial segment, could make achieving and sustaining the 40-50% YoY growth possible. Such massive growth was the case for Salesforce in the 2000s, a competitor of Palantir.
- **More Resilient Government Spending:** Currently, the thesis is predicted on a sharp decline in government revenue based on a 0.75 deceleration rate. However, increased geopolitical tensions could lead to sustained defense and intelligence spending resulting in a much higher deceleration rate. Sensitivity analysis shows a much narrower difference between DCF price and market price as deceleration rate increases.

Earnings Estimates

Year	2023	2024	2025	2026E	2027E	2028E
EPS	\$00.25	\$00.41	\$00.75	\$01.28	\$01.81	\$02.63
KF est. growth	316.7%	64.0%	82.9%	10.9%	57.8%	48.9%

Target Price

\$65-75

Krause Fund DCF \$69.75

Relative Multiple \$72.92

Price Data

Current Price \$152.14

52wk Range \$89.31 – 207.50

Consensus 1yr Target \$196.00

Key Statistics

Market Cap (B) \$348.92

Shares Outstanding (M) \$2565.20

Institutional Ownership 58.49%

Beta 1.8

Dividend Yield .67%

Est. 5yr Growth 3.3%

Price/Earnings (TTM) 280.50

Price/Earnings (FY1) 113.0

Price/Sales (TTM) 101.80

Price/Book (mrq) 57.5

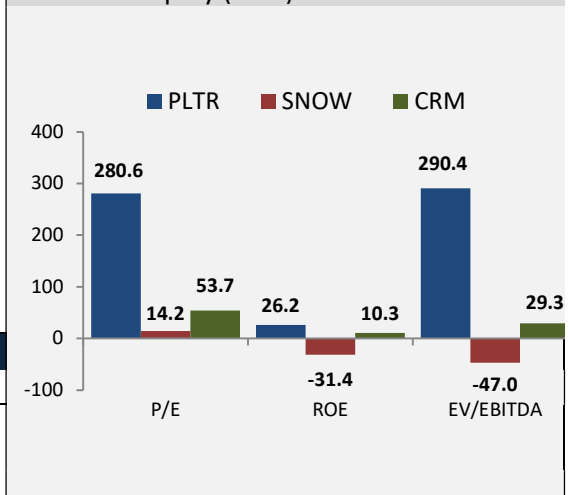
Profitability

Operating Margin 31.59%

Profit Margin 36.31%

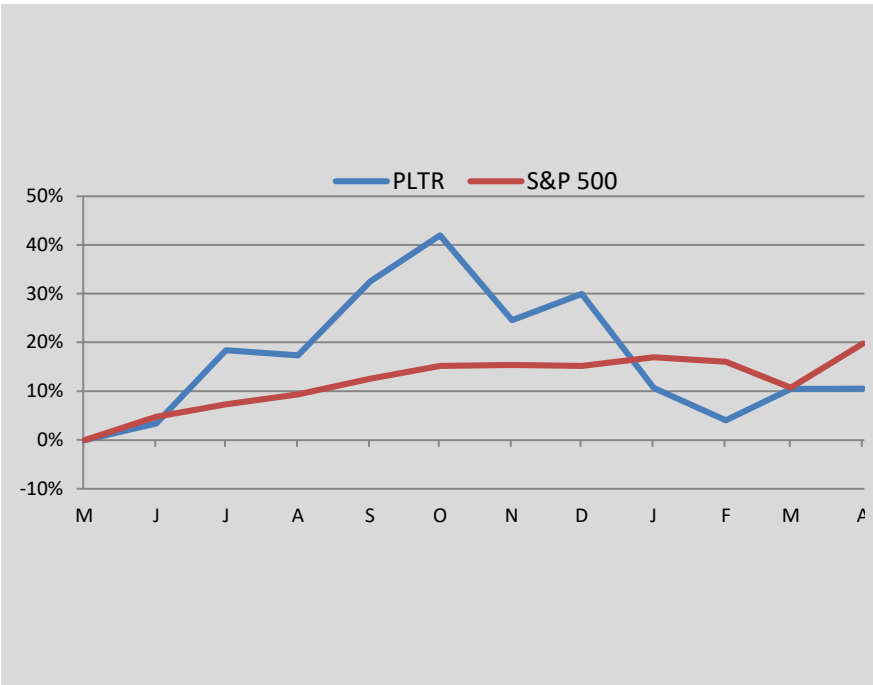
Return on Assets (TTM) 21.32%

Return on Equity (TTM) 26.23%



12 Month Performance

Company Description



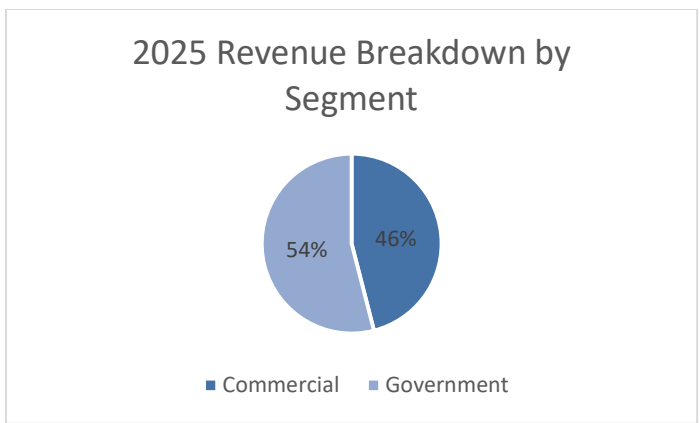
Palantir Technologies is a software company that develops advanced data integration and analytics platforms. These tools help large organizations and governments combine massive amounts of information to make better, faster decisions. Its key offerings support national security and defense work, while its commercial platforms enable businesses to improve operations and deploy artificial intelligence in controlled environments.

The company primarily serves government agencies, militaries, and large enterprises in healthcare, finance, manufacturing, and energy. Headquartered in Denver, Colorado, Palantir operates across the United States, Europe, and other regions, with a strong focus on secure, human-guided data analysis.

COMPANY DESCRIPTION

Palantir is a technology company that builds platforms focused on integrating, managing, and securing data. Their platforms include AIP (a platform used for activating and controlling AI on customer’s private network), Foundry (integrates data into a single location to support decision making), Gotham (AI data integration tool for government and defense), and Apollo (automates deployment and management of software).

Palantir primarily generates their revenue through long term software contracts where customers pay recurring subscription fees to access its platforms. Palantir reports through revenue breakdown by government versus commercial, with their most recent report for 2025 showing government contracts contributions to revenue at 54% and 46% from commercial customers.



Source: 1

Government Revenue Analysis

Palantir works primarily with the department of defense, providing tools like Apollo for defense developers to easily leverage data, and create and deploy solutions for complex problems. In 2025, they generated \$2402.3 million from government contracts, representing 54% of the total revenue. This number also grew by 53% from the year before. The contribution margin for government also improved, rising 66% from 2024, which shows operating leverage in scaling existing contracts versus new ones.

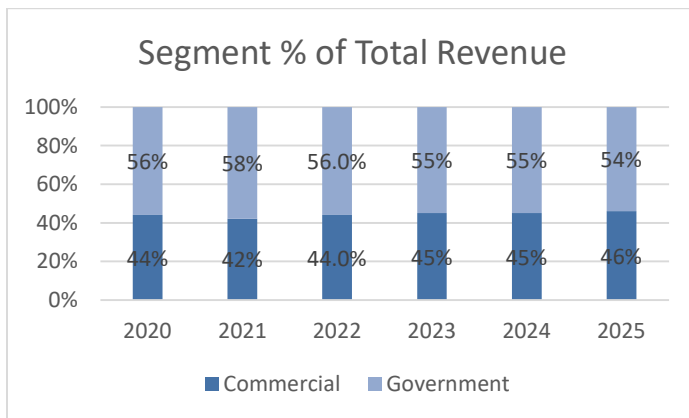
Despite the strong results, especially going from 2023/2024 to 2025, we forecasted government revenue growth to decelerate strongly by a multiplier of 0.75. This resulted in government revenue growth to fall from 40% in 2026 to 4% in 2034. Our assumption is grounded in the seasonal nature of government contracts, where the intense growth into 2025 cannot be fully sustained for long with a fixed federal budget. This is explicitly mentioned in their 2025 10k, “Our rapid growth. In recent years may obscure the extent to which seasonality trends have affected our business and may continue to affect our business.” (1).

Commercial Revenue Analysis

Commercial revenue shot ~\$2073.2 million in the year 2025, making up 46% of the total revenue for the year. This number grew 60% from the previous year, most likely driven by rapid adoption of their AI platforms and other

services, as well as by expanding their relationship with their current customers.

We forecasted commercial revenue to grow from \$3000 M in 2026 to \$67,431.4 M in 2034 under a revenue growth deceleration rate of 0.90. This means commercial revenue will represent the majority of total revenue in our forecasted years and the valuation relies on Palantir being able to sustain revenue growth of ~45%-50% through 2031. This is an extremely optimistic figure, especially given the intense competition within AI and the industry, especially from companies like Microsoft and Google.



ROIC & Value Creation Analysis

Based on the NOPLAT margin, which has expanded from -77.62% in 2019 to 31.90% in 2025, Palantir is a high margin business. Likewise, based on the value of the total operating working capital being negative from 2019 to 2024 (due to operating liabilities growing faster than operating assets) Palantir is a negative turnover business.

This aligns with Palantir’s software as a service business model where customers pay upfront to use Palantir’s platforms before Palantir can incur costs. However, this makes interpreting ROIC and invested capital turnover difficult as the negative working capital makes them unstable and uninterpretable. Evidently, ROIC swings widely from deeply negative numbers like -257.66% in 2022 to extremely positive like 646.39% in 2025. Our future forecasts for ROIC are deeply negative due to extremely large negative working capital forecasts.

Comparing ROIC to WACC also has its limits because Palantir has only become profitable (and generating a positive NOPLAT) for two years since 2023.

Cost Structure Analysis

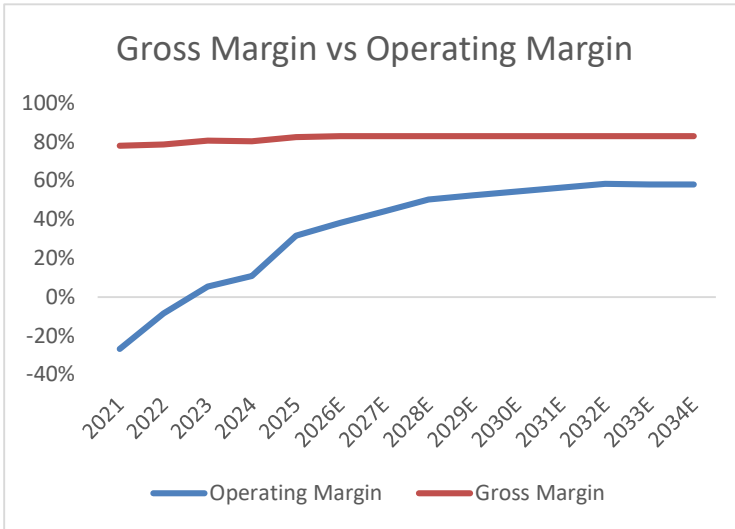
Palantir’s cost structure reflects a highly scalable software business model, with strong improvements in both gross and operating margins over time. As shown in the chart, gross margin increases from approximately 72% in 2018 to about 83% in the forecast period and remains relatively stable thereafter. This reflects the company’s ability to deliver its software platform efficiently, with cost of revenue declining as a percentage of sales due to improved scale and infrastructure utilization.

Operating margin shows a much more significant improvement, increasing from approximately -105% in 2018 to nearly 58% by the end of the forecast period. This represents substantial margin expansion of over 6,000 basis points, driven primarily by operating leverage as the business scales. The key drivers of this expansion are reductions in operating expenses as a percentage of revenue, particularly in Sales and Marketing and General and Administrative expenses. Sales and Marketing declines from roughly 78% of revenue in 2018 to around 10% in the forecast period, while G&A falls from over 50% to approximately 9%. These trends indicate that Palantir is becoming significantly more efficient at acquiring and supporting customers as revenue grows.

From a cost structure perspective, cost of revenue represents the most variable expense, as it is tied to platform delivery, cloud infrastructure, and customer support. In contrast, R&D and G&A are more fixed or semi-fixed in nature, as they do not scale directly with revenue in the short term. Sales and Marketing is partially variable, but the model shows strong leverage, as revenue growth significantly outpaces spending in this category over time.

The forecast assumptions are consistent with Palantir’s historical behavior, which already demonstrates improving margins and declining expense ratios. Additionally, these assumptions align with industry peers such as Snowflake and CRM, which exhibit high gross margins and expanding operating margins as they scale. The model assumes that Palantir will continue transitioning from a growth-focused company with heavy upfront investment to a more mature, efficient software platform.

There is clear evidence of operating leverage throughout the forecast. Revenue growth significantly outpaces growth in operating expenses, leading to declining expense ratios and substantial margin expansion. As a result, operating leverage plays a central role in driving profitability, with margin expansion primarily driven by SG&A efficiency and modest improvements in cost of revenue, partially offset by continued investment in R&D.



Invested Capital Analysis

Palantir is best described as an intangible-driven, capital-light software business rather than a fixed-capital-intensive one. The company’s economics are attractive because it has been able to raise revenue much faster than the capital required to support that growth. From 2018 to 2025, revenue increased from about \$595 million to \$4.48 billion, while total invested capital rose from roughly negative \$326 million to \$683 million. In other words, Palantir added nearly \$3.9 billion revenue while requiring only about \$1.0 billion of additional invested capital, which is strong evidence of a highly scalable business model.

Working capital is the most important driver of invested capital. The largest components are accounts receivable on the asset side and deferred revenue, customer deposits, and accrued liabilities on the liability side. Historically, these operating liabilities helped finance the business, keeping working capital low or negative. However, accounts receivable has grown much faster than revenue, which is the main reason invested capital has increased. This suggests Palantir has shifted away from being paid mostly in advance and toward collecting more revenue after the sale.

Fixed capital is much less important. Net PPE remains small relative to revenue, while the main fixed capital items are lease right-of-use assets and other long-term operating assets. This confirms Palantir is not a fixed-asset-heavy business and does not need major physical reinvestment to grow. Although intangible capital is not separately reported in the model, it is economically the most important part of the business. Palantir’s software, engineering talent, and platform capabilities drive growth, but those investments are mostly expensed through R&D and operating costs rather than capitalized on the balance sheet.

The key takeaway is that Palantir’s business model is highly scalable. It benefits from both operating leverage and low capital intensity. The main risk to invested capital efficiency is receivables growth. Going forward, I would forecast Palantir as remaining capital-light overall, but with accounts receivable as the main swing factor in incremental capital needs. If receivables continue to rise faster than sales, capital intensity could worsen somewhat; if billing terms stabilize, Palantir should continue generating high returns on incremental capital.

ROIC should also be interpreted carefully. Some of the very large ROIC figures in the model are distorted by very low or negative beginning invested capital. The more important conclusion is that Palantir’s NOPLAT is rising much faster than invested capital, which supports the view that the company can earn strong incremental returns as it scales.

MARKETS AND COMPETITION

Palantir operates in two primary markets: government and defense intelligence, which remains its core foundation, and the commercial enterprise software sector. Both fall within the broader AI platform and data analytics industry, a space still experiencing strong growth driven by demand for advanced data integration, analytics, and operational AI capabilities.

In the government segment, competition is relatively measured and centers on long term contracts, security clearances, and proven reliability. Palantir maintains a strong position here through its high-level clearances and track record delivering mission critical software. Its main competitors include traditional defense contractors such

as Lockheed Martin, Raytheon, Leidos, and Booz Allen Hamilton, along with newer entrants like Anduril. Palantir often partners with these firms while differentiating through software agility and faster deployment capabilities.

The commercial market presents a much more intense and fragmented competitive environment. Palantir positions its Foundry and Artificial Intelligence Platform as an operational intelligence layer that integrates complex, real world data sources. It competes directly against hyperscalers including Microsoft, AWS, and Google Cloud, as well as data platforms such as Databricks and Snowflake. These rivals frequently offer lower cost, highly scalable solutions that integrate tightly with existing enterprise systems.

Key industry trends include the rise of agentic and multimodal AI, increasing focus on measurable return on investment, domain specific applications, and greater emphasis on data governance and security. These developments are expected to reshape the landscape in coming years. In government work, modernization efforts and sustained defense priorities should continue to favor established players like Palantir that offer trusted, secure solutions. However, potential shifts in federal budgets or defense spending could introduce volatility. In commercial markets, trends toward commoditization of foundational AI tools and stronger hyperscaler ecosystems are likely to increase pressure on standalone platforms, making it more difficult to sustain premium pricing and rapid growth.

Customer bargaining power remains significant in both segments. Government customers leverage formal procurement processes and budget constraints, while large enterprises can choose from multiple vendors or build solutions internally. This dynamic contributes to longer sales cycles and requires substantial investment in sales and marketing, even as Palantir benefits from high gross margins typical of software businesses. Supplier power, particularly for specialized talent, is moderate but adds to operating costs.

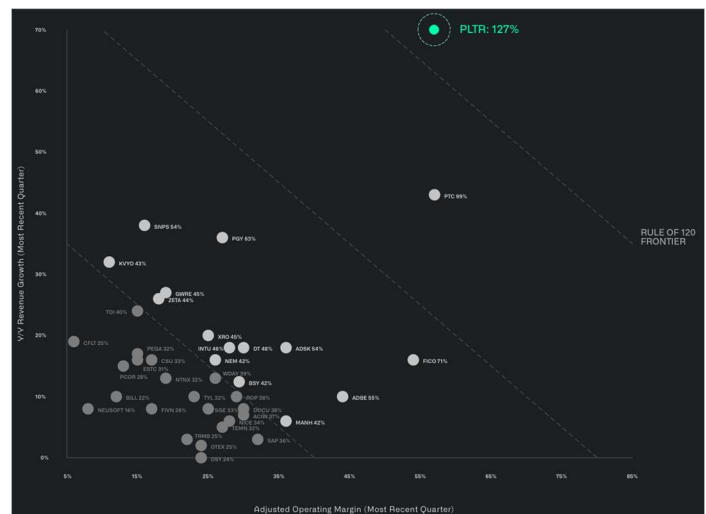
Palantir's strategic advantage lies in its ontology-based approach, which excels at turning messy data into actionable intelligence in high stakes environments. This supports strong differentiation through product quality, security, and switching costs rather than price

competition alone. While the government business enjoys relatively stable, rational competition anchored by barriers to entry, the commercial side faces aggressive rivalry that is increasingly influenced by scale and ecosystem integration.

These industry dynamics support Palantir's competitive position in its government franchise, where contract stickiness and clearances provide durability. However, they challenge the company's commercial expansion goals. Sustaining the aggressive revenue growth and margin expansion assumed in the valuation model will require exceptional execution in a market where hyperscalers and data specialists continue to close capability gaps. Intensifying competition is likely to keep sales and marketing expenses elevated and limit pricing power, putting pressure on both future growth rates and profitability. This reinforces the view that current share prices reflect overly optimistic assumptions with limited margin of safety.

Peer Comparisons

A critical component of evaluating Palantir's investment profile is understanding how it performs relative to its peers across the core drivers of economic value: pricing power, cost efficiency, and capital efficiency. These factors ultimately determine return on invested capital (ROIC) and provide insight into the durability of the company's competitive advantages.



Source: 12

The attached competitive positioning framework highlights Palantir as a significant outlier, with a combined growth and margin profile of approximately 127%, far above the traditional Rule of 40 threshold (12). This is directly supported by recent financial results from the Q4 2025 investor presentation, where revenue grew 70% year-over-year to \$1.41 billion while adjusted operating margins reached 57%, producing a Rule of 40 score of 127% and adjusted free cash flow margins of 56%. Importantly, this performance is not isolated but part of a clear acceleration trend, with revenue growth progressing from 39% to 63% and ultimately 70% over successive quarters, while margins expanded alongside growth rather than compressing.

This combination of high growth and expanding profitability is rare in enterprise software and directly reflects Palantir's pricing power. Gross margins in the low-80% range indicate that customers are paying for deeply embedded, mission-critical capabilities rather than commoditized software functionality. The company's platforms are integrated into government operations and large enterprise workflows, creating high switching costs and operational dependency. This allows Palantir to maintain premium pricing while expanding contract sizes, particularly in U.S. commercial markets, which grew 137% year-over-year in Q4 2025 alone. Compared to peers such as Snowflake or Datadog, which operate in more modular and competitive software segments, Palantir benefits from stronger customer lock-in and lower churn sensitivity.

Cost efficiency is another key driver of its superior economics. The company has successfully transitioned from a labor-intensive deployment model to a more scalable platform-driven structure. This is reflected in its operating margin expansion to 57% and strong free cash flow conversion exceeding 50%. Earlier-stage SaaS peers often struggle with sustained sales and marketing intensity or high R&D reinvestment requirements, while Palantir is increasingly demonstrating operating leverage as incremental revenue flows through a largely fixed-cost software base. This shift indicates that the business is moving deeper into a high-margin, high-scalability phase of its lifecycle.

Capital efficiency further reinforces Palantir's ROIC profile. The company operates with minimal physical capital requirements and no inventory, enabling strong invested capital turnover. Revenue growth is driven by software

reuse across customers and expansion within existing accounts rather than capital-intensive expansion. This efficiency is amplified by long-duration contracts in both government and enterprise segments, which provide revenue visibility and reduce volatility. As a result, Palantir is generating improving returns on invested capital while simultaneously scaling rapidly—an uncommon combination in the software industry.

Taken together, these factors explain why Palantir consistently exceeds the Rule of 40 threshold and why its ROIC profile is structurally higher than most peers. Most competitors either sacrifice margins for growth or maintain profitability with slower expansion. Palantir, in contrast, is achieving both simultaneously, supported by accelerating adoption of its Artificial Intelligence Platform (AIP), which is driving large-scale enterprise deployment and accelerating deal flow.

Looking forward, industry dynamics continue to favor integrated AI and data platforms over point solutions. Palantir's ability to unify data infrastructure, analytics, and operational decision-making positions it well within this shift. However, the sustainability of its advantages will depend on continued execution in the face of increasing competition from hyperscale cloud providers and potential AI commoditization pressures. Despite these risks, current financial performance suggests that Palantir is not only outperforming peers today but is also structurally positioned to maintain a premium economic profile in the near to medium term.

RECENT DEVELOPMENTS

Recent Earnings Announcement

Palantir's most recent earnings release was its Q4 2025 / FY2025 results, reported on February 2, 2026. The company reported Q4 revenue of \$1.407 billion, up 70% year over year, with GAAP EPS of \$0.24 and adjusted diluted EPS of \$0.25. Full-year 2025 revenue reached \$4.475 billion, up 56% year over year.

The quarter was a clear beat versus street expectations. Consensus revenue was about \$1.33–\$1.34 billion, while adjusted EPS expectations were about \$0.23. That means Palantir beat revenue by roughly \$65–\$75 million and beat adjusted EPS by about \$0.02. Zacks Equity Research

reported that the company’s sales came in above analysts’ estimate of \$1.33 billion, while MarketBeat showed consensus adjusted EPS of \$0.23 and consensus revenue of \$1.34 billion.

The main reason Palantir outperformed was that growth accelerated in both of its most important U.S. businesses. In Q4, U.S. commercial revenue rose 137% year over year to \$507 million, while U.S. government revenue rose 66% to \$570 million. Total U.S. revenue increased 93% to \$1.08 billion. Palantir also reported very strong deal activity, closing 180 deals worth at least \$1 million, including 84 deals above \$5 million and 61 deals above \$10 million. In addition, U.S. commercial remaining deal value increased 145% to \$4.38 billion, suggesting that demand was not just a one-quarter spike but reflected a deeper pipeline of future business.

On EPS, it is important to note that the Street usually focuses on adjusted EPS, which was \$0.25. Palantir’s GAAP EPS was \$0.24, so even on a stricter basis the company still showed very strong profitability. The difference between GAAP and adjusted EPS mainly comes from Palantir’s treatment of items such as stock-based compensation, related payroll taxes, and tax adjustments. In other words, the EPS beat was real, but part of the headline “adjusted” beat also reflects the company’s non-GAAP presentation.

Include a discussion of the latest quarterly (or annual) earnings announcement, whichever is most recent. This discussion should highlight the revenue and profit results relative to consensus expectations, highlighting why the company may have outperformed or underperformed expectations. Compare EPS to street consensus and explain differences.

In addition, provide a discussion of any managerial guidance for upcoming revenue and profit estimates, capital expenditure projections, or any type of financing changes. Each of these guidance areas should be related to what you have modeled over the same forecast period. Be specific! Explain why your forecasts are different from management’s guidance.

Recent Developments

Government Expansion

A major recent development for Palantir is the continued expansion of its government business. Reported in March 2026 that the Pentagon plans to make Palantir’s Maven Smart System a formal “program of record.” This is important because it would move Palantir further into long-term, embedded defense infrastructure rather than one-off contracts. That should improve revenue durability and increase switching costs over time. Source 8.

Palantir is also expanding across civilian government agencies. On April 22, 2026, USDA signed a \$300 million software purchase agreement with Palantir tied to modernization and farmer service delivery. This suggests Palantir’s government opportunity is broadening beyond defense and intelligence, which could help diversify public-sector revenue going forward. Source 9.

Commercial AI Adoption

Palantir is also gaining momentum in commercial markets. The company recently renewed and expanded its partnership with Stellantis for another five years. This matters because it shows Palantir is winning larger enterprise use cases in areas such as engineering, manufacturing, and digital transformation. It also supports the idea that Palantir is benefiting from a wider shift as companies move from testing AI tools to using them in real operating workflows. Source 10.

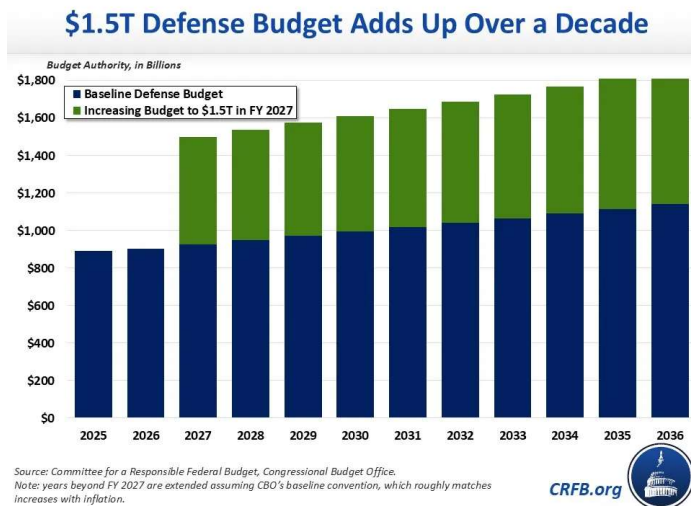
This commercial traction is also supported by Palantir’s latest financial results. In its most recent earnings release, the company reported Q4 2025 revenue growth of 70% year over year and guided for about 61% full-year revenue growth in 2026. That guidance suggests demand for Palantir’s AI Platform remains strong and that the company is scaling while also improving profitability.

RISKS

Commercial Adoption is Beyond Model Assumptions: If Palantir establishes its platforms and services as the dominant AI operating layer. Palantir is already heavily embedded government intelligence workflows, especially

its platform Gotham, giving it a better starting position compared to other competitors in the AI space (2). Assumptions could turn out to be too conservative, as the revenue from commercial customers increased by \$777.3 million, of which \$425.2 million came from existing customers (1). This means that not only is Palantir keeping strong business with existing customers but is also growing significantly with new customers as well.

More Resilient Government Spending: Our current forecast assumes deceleration rate of government revenue growth by 0.75, meaning % of government revenue growth goes from 53% in 2025 down to 5% in 2033. However, escalating geopolitical tensions and increased funding towards federal AI and defense software could raise deceleration rates from 0.75 to 0.90. A sensitivity analysis shows that raising the deceleration rate and holding WACC steady at 10% raises DCF stock price from \$86.42 to \$110.82. This indicates that the valuation is extremely sensitive to government spending levels.



Source: 6

Debt Maturity Analysis

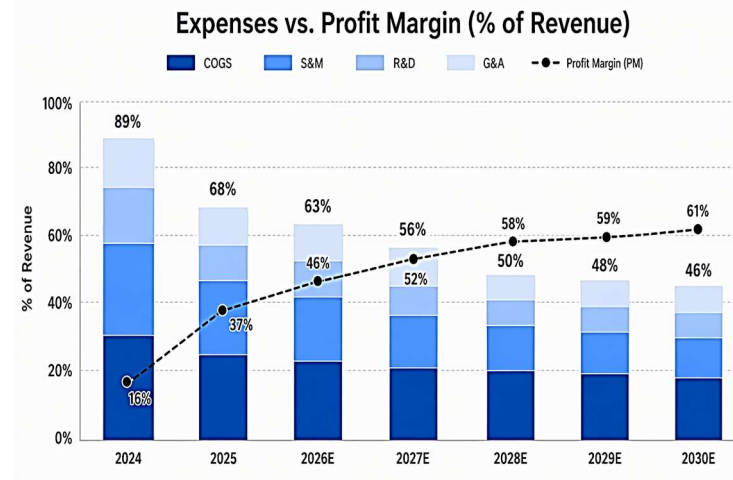
According to the 2025 10-K: "As of December 31, 2025, the Company had no outstanding debt balances under the 2014 Credit Facility."

VALUATION

Our valuation reflects the view that Palantir Technologies remains a structurally strong, AI-enabled software platform with significant long-term growth potential, but that current market expectations embed an aggressive and potentially unsustainable growth trajectory. While the company benefits from expanding commercial adoption and continued government demand, our model assumes a gradual normalization in both growth and operating leverage as the firm scales.

Revenue growth (near-term and long-term)

Our model forecasts total revenue growing from \$6344.4 M in 2026 to \$76435.5 M in 2034. This is built off of two different components: Government revenue and Commercial revenue. Government revenue is assumed to



decelerate at a 0.75x annual rate, which is more conservative based on federal budget limits and risk explicitly flagged in the 2025 10-K around the current administrations risk factors. Commercial revenue growth is assumed to decline at a deceleration rate of 0.90. Although this seems aggressive it's justified on the jump in commercial revenue from 2024 to 2025 of 109% and the rapid growth in total customer count from 497 in 2023 to 954 in 2025.

Operating expense assumptions (COGS, SGA)

The COGS assumption forecasts cost of revenue at a flat 17% of revenue throughout the forecasting period. This is reflective of Palantir's software-heavy and low-incremental cost revenue model. Cloud hosting and contracting costs could scale somewhat with revenue, but

the fixed cost nature of their platform means gross margins should remain relatively stable.

Profit margin forecasts

Our profit margin forecast assumes only modest gross margin expansion, with cost of revenue declining from 17.6% of revenue in 2025 to 17.0% in the outer years. This implies gross margin improves slightly from about 82.4% to 83.0% over the forecast period. We chose this assumption because Palantir already operates with a very strong gross margin profile, which is typical of a scaled enterprise software business.

The more important driver of margin expansion in our model is operating leverage below gross profit. We forecast sales and marketing expense to decline from 23.6% of revenue in 2025 to 10.0% long term, R&D to decline from 12.5% to 6.0%, and G&A to fall from 14.7% to 9.0%. We view these assumptions as reasonable because Palantir should not need to grow its cost base at the same pace as revenue forever. As the company scales, it does not need as much operating expenses because it will spread its overhead costs across a larger revenue base.

Taken together, our model assumes Palantir's profitability improves primarily because revenue grows faster than operating expenses, not because gross margin changes dramatically. Palantir is already a high-gross-margin business, so future earnings growth depends on management's ability to convert scale into operating efficiency. At the same time, we do not assume unlimited margin expansion, since later-stage efficiency gains are typically harder to achieve as the business matures.

Earnings estimates relative to the consensus

Our earnings estimates are below Wall Street consensus, reflecting a more conservative view of Palantir's revenue growth and long-term margin expansion. While the market continues to price in strong AI-driven momentum, our model assumes that growth gradually normalizes and that operating leverage, while meaningful, is not unlimited. As a result, our lower EPS outlook suggests downside risk if investor expectations remain too optimistic.

Our earnings forecasts are modestly below FactSet consensus beginning in 2026E, with our model projecting EPS of \$0.83 vs. \$1.28 in 2026E, \$1.31 vs. \$1.81 in 2027E, and \$1.95 vs. \$2.63 in 2028E. This implies that our earnings outlook is materially more conservative than the Street,

even though both forecasts reflect continued growth. The gap suggests that our model assumes a more measured pace of earnings expansion than current analyst expectations.

We believe this more conservative earnings profile is justified by our broader valuation assumptions. While Palantir should continue to benefit from strong commercial momentum and operating leverage, our model assumes that growth and margin expansion normalize over time rather than accelerate indefinitely. In particular, our estimates reflect a more cautious view on how quickly the company can translate rapid top-line growth into bottom-line earnings at the level currently implied by consensus

Capital Expenditure Assumptions

Our model assumes capital expenditures grow at a steady 5% annual rate over the forecast period. We view this as a reasonable assumption given Palantir's business model, which is not heavily dependent on physical assets or large-scale inventory investment. As a software and data platform company, Palantir's growth is driven primarily by intellectual property, engineering talent, and platform development rather than by meaningful expansion in plant, property, and equipment. As a result, capital expenditures should remain relatively modest compared to revenue growth.

We chose a 5% growth rate because it reflects the need for ongoing investment in infrastructure, equipment, and internal support capabilities, while still recognizing that Palantir is a low-capital-intensity business. This assumption implies that CapEx grows more slowly than revenue, which is consistent with a scalable software model and supports stronger free cash flow generation over time. In other words, the valuation does not depend on large fixed-asset investments to sustain growth. Instead, it assumes Palantir can continue expanding largely through operating scale rather than through heavy balance sheet reinvestment.

Capital structure Forecasts

Our valuation assumes Palantir maintains a highly conservative capital structure over the forecast period, with minimal financial leverage and no meaningful reliance on debt financing. This assumption is supported by the company's current balance sheet, which shows no reported traditional short-term or long-term debt,

alongside a substantial liquidity position of approximately \$2.1 billion in cash and cash equivalents and \$3.1 billion in marketable securities. Relative to its liability base and operating profile, this suggests Palantir is primarily equity financed and has significant financial flexibility.

We believe this capital structure is appropriate for the business and should remain largely intact going forward. Palantir has been able to grow revenue and operating income without taking on material debt, which indicates that the company does not need external borrowing to fund expansion. With leverage effectively near zero relative to revenue, operating income, and total assets, Palantir faces limited financial risk from refinancing needs or interest rate exposure. As a result, our valuation does not rely on debt-funded growth or a more aggressive leverage strategy. Instead, it assumes the company continues to fund investment primarily through internally generated cash flow and its strong existing liquidity position.

Payout Policy Forecasts

Our model assumes Palantir will not pay a dividend over the forecast period. We believe this is appropriate given the company's growth profile, software-based business model, and capital allocation priorities. Rather than returning cash to shareholders through dividends, Palantir is more likely to retain earnings and reinvest internally to support commercial expansion, product development, and long-term strategic flexibility.

This assumption is consistent with both Palantir's historical payout policy and the broader economics of the business. The company's strong liquidity and low-leverage balance sheet reduce the need to signal financial strength through dividends, while its growth opportunities make reinvestment a more attractive use of capital. As a result, our valuation assumes shareholder returns are driven by operating performance and free cash flow growth rather than direct cash payouts.

Contingent Liabilities or Concerns

At present, Palantir does not appear to face a major disclosed contingent liability that is clearly large enough to dominate the valuation case. In its 2025 Form 10-K, the company states that it is subject to legal proceedings and claims in the ordinary course of business, but based on current knowledge, it does not believe reasonably possible losses would have a material adverse effect individually or

in the aggregate. At the same time, management also notes that litigation outcomes are inherently uncertain and that unfavorable resolutions could still materially affect future results.

The more important concern in our view is regulatory and contractual risk tied to the nature of Palantir's business. Because the company handles sensitive data and serves government and enterprise customers, it faces growing compliance exposure related to privacy, data protection, cybersecurity, and evolving AI regulation. Palantir specifically flags frameworks such as GDPR, the EU AI Act, and NIS2 as sources of potential added cost, operational complexity, fines, investigations, or required changes to business practices. In addition, its software is subject to U.S. export controls, which could restrict international sales or increase compliance burdens.

Another key risk is Palantir's dependence on public-sector business. The company states that a significant portion of revenue depends on government contracts, which are exposed to budget changes, procurement delays, termination-for-convenience clauses, audits, and other compliance requirements that are more restrictive than typical commercial contracts. These risks matter for valuation because even if there is no single large liability recorded today, adverse regulatory developments, contract disruptions, or legal findings could slow growth, reduce margins, or increase required investment. We also did not find evidence in the current 10-K of a meaningful pension-related concern, and patent expiration appears less central than data, IP, and regulatory risk given Palantir's software-based model.

Sensitivity Analysis

One important sensitivity analysis performed was crossing the assumption about WACC against the government revenue deceleration rate, two factors that are strongly influenced by macro factors outside of Palantir's control. The only cases that supported the current market price were not realistic and were highly optimistic, for example a WACC of 7% and a government deceleration rate of 0.90, meaning government growth would barely slow. Even then, the implied price is only barely above the market price, meaning there is little margin of safety. At a more realistic WACC of 10-12% and government deceleration rate of 65%-75%, The prices fall between \$80-\$90. The sensitivity analysis makes it clear that Palantir's current valuation is very optimistic and requires investors to

assume the best-case outcome for multiple factors like government spending, commercial growth sustainability, and discount rates.

	69.75	60%	65%	70%	75%	80%	85%	90%
7%		103.61	105.18	107.41	110.76	116.08	125.13	141.76
8%		95.30	96.75	98.81	101.91	106.82	115.17	130.51
9%		87.70	89.04	90.96	93.82	98.36	106.07	120.22
10%		80.75	81.99	83.77	86.42	90.63	97.75	110.82
11%		74.39	75.54	77.19	79.65	83.54	90.13	102.20
12%		68.56	69.63	71.16	73.45	77.05	83.15	94.31
13%		63.21	64.21	65.64	67.75	71.10	76.75	87.08

The model differs from the consensus mainly in the way revenue growth and margin expansion was measured. The market appears to be pricing for prolonged AI driven acceleration, especially in the commercial segment (11). This model, however, builds upon a deceleration across both government and commercial revenues. Due to this, the EPS forecasts fall below consensus, implying the current market rate reflects more optimistic assumptions. The valuation still continues show that Palantir will continue to scale successfully, but the growth will eventually normalize as the company matures approaching 2034 and as external constrains, like government budget limits and market competition, become more intense. Uncertainties, such as pace and durability of AI adoption and potential regulatory changes, introduce more risk of losing value if expectations change.

KEYS TO MONITOR

The overall analysis concludes a Sell recommendation with a DCF-derived price target of \$69.75. Palantir is a high-quality business, with a defensible government platform, differentiated products, rapidly expanding commercial momentum, and a low-expense business model. This, however, requires near perfect execution to achieve.

Investment Positives:

A continued revenue growth in both government and commercial segments could make the analysis change. If adoption of AI platforms from product led growth continues at scale it has been in recent years for Palantir, commercial revenue growing from \$1,002.8 M in 2023 to \$2,073.2 M, this would indicate meaningful and sustained growth that would make deceleration assumption in thesis too aggressive. Especially in the case for government revenue growth, the aggressive deceleration assumption could change due to escalating geopolitical conflict that could drive further government investment into defense

AI and other software applications. Analysts should continue to monitor annual defense spending and any expansions of Palantir’s existing government contracts.

Investment Negatives:

The sell thesis could prove too conservative in a number of cases. If the 10-K is correct in its explicit risk acknowledgement and the current administration continue its efforts to reduce overall government spending, then any further cuts to defense spending could sharply reduce Palantir’s revenue generation and make the current price target optimistic. Another case that would further support our conclusion of sell is if industry competitors outpace Palantir in innovation and development. If competitors like Google and Microsoft continue to innovate and develop their AI capabilities, particularly in data governance and secure deployment, Palantir could lose pricing power faster than out model assumes.

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