PALANTIR TECHNOLOGIES IN 2021: EXPANDING FROM THE GOVERNMENT TO THE COMMERCIAL

University of Muenster Consulting

Adressee: Management Board of Palantir
Date: 6th of January 2022

Presented by: Niklas, Christoph, Tobias and Christian

Goals of the meeting

- Illustrate on how to address the most pertinent issues at hand for Palantir
- Present a strategy regarding Palantir's future business
- Describe the impact of the strategy

Agenda

1. Management summary

2. Analysis and development of alternatives

3. Recommendation

4. Implementation

5. Financials and risks

6. Conclusion

In order to clearly define where to play and how to win the strategy “Last Mile Tailor“ is recommended providing US$2.7 bn revenue in 2025

Why change the direction?

Status quo

What works exceptionally?

- Two established business lines
- Strong IPO in 2020
- Promising market

What needs to be tackled?

- Not profitable yet
- Dependency on major customers
- Highly competitive industry
- Adverse impacts from social activism

How to change direction?

Initiatives

What is new? – Last Mile Tailor

- New business line targeting SMEs
- Well-considered expansion of the product portfolio
- Use of technology to create a better society

What does this change provide?

Outcome

What is the result?

- Revenue growth up US$ 2.7 bn revenue in 2025
- Profitable for the first time in Q3 2023
- Less dependency on major customers
- Improved social acceptance

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Internal analysis: Several internal factors influencing Palantir's organization need to be considered – further transition to different customer lines may reduce threats

Strengths

- Scalable and transferable products
- Efficiency
- Adaptive to trends

Usage of overall product potential

Weaknesses

- Bad reputation leads to difficulty to get employees
- Profitability issues

Improve profitability and reputation

Opportunities

- Further transition to commercial sector
- Usage of different trends arising

Further transition to commercial sector by reaction on trends

Threats

- Customer base (reputational and financial problems)
- Product manufacturing becomes more expensive due to complexity and individualization

Try to reduce individualization in products and address different customer line

External analysis: Several external factors influencing Palantir's organization need to be considered – the current market is very competitive and needs to be circumvent/ outperformed

Political	Economic	Social	Technological	Environmental	Legal
• Governmental policies may influence Palantir • Political stability is given in industrial countries	• Fast growing market • Competitive landscape	• Awareness for humanity issues • The actions of companies are discussed in social media	• State of the art is quickly replaced • Big data, AI.. Become more and more important • Automation	• Trends of sustainability and environ-mental awareness may influence products • Environmental responsibility	• Data industry has strict legal requirements • High contract costs
Target markets provide appropriate political enviro.	**Competitors need to be outperformed / circumvented**	**Good reputation needs to be prioritized**	**Rising relevance of Big Data, AI etc. needs to be focused on**	**Products should address sustainability topics**	**Legal requirements need to be considered**

Competitors can be circumvented by providing standardized products for SME – trends like machine learning can be addresses

Economic

- Fast growing market
- Competitive landscape

Competitors need to be outperformed / circumvented

Threats

- Customer base (reputational and financial problems)
- Product manufacturing becomes more expensive due to complexity and individualization

Try to reduce individualization in products and address different customer line

Opportunities

- Further transition to commercial sector
- Usage of different trends arising

Further transition to commercial sector by reaction on trends

Alternative 1:
Circumvent competitors..

..by providing standardized industrywide products for small companies. Individualization only at a very low degree (last mile)

…meanwhile integrate different trends like machine learning

Governments as customers can be detached – by this both – reputation and profitability can be reduced

Social

- Awareness for humanity issues
- The actions of companies are discussed in social media

Good reputation needs to be prioritized

Weaknesses

- Bad reputation leads to difficulty to get employees
- Profitability issues

Improve profitability reputation

Alternative 2:
Provide products no longer for Governments due to bad reputation in this business line..

...and improve profitability because companies are more willing to pay then governments

Palantir can use its technical expertise to address the rising relevance of technological trends enabling own data infrats

Strengths

- Scalable and transferable products
- Efficiency
- Adaptive to trends

Usage of overall product potential

Technological

- State of the art is quickly replaced
- Big data, AI.. Become more and more important
- Automation

Rising relevance of Big Data, AI etc. needs to be focused on

Alternative 3:
Use product potential and overall technical expertise to collect and sell data on your own…

…since Big data, AI becomes more and more important, and you have the technical expertise to work with

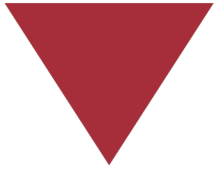
Three alternatives transferred into strategies have been figured out to be most suitable to Palantir –each of the derived strategies has different scope and impact

1 | Last Mile Tailor

Standardize products for additional business line (SME) with adding machine Learning

Increase the number of customers

2 | Corporate clients only



Detach from governments as customers and focus on profitability

Focus on big corporate clients

3 | Intelligent Warehouse

Use potential to collect, sell and work with data on your own

Enable own infrastructure

Three alternatives transferred into strategies have been figured out to be most suitable to Palantir –each of the derived strategies has different scope and impact

	1 | Last Mile Tailor	2 | Corporate clients only	3 | Intelligent Warehouse
	Standardize products for additional business line (SME) with adding machine Learning	Detach from governments as customers and focus on profitability	Use potential to collect, sell and work with data on your own
	Increase the number of customers	Focus on big corporate clients	Enable own infrastructure

Which strategy is most suitable for Palantir at the present time?

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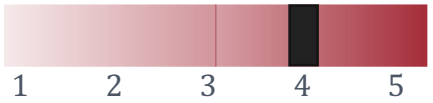
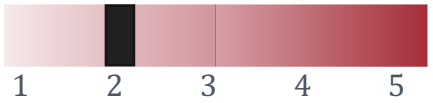
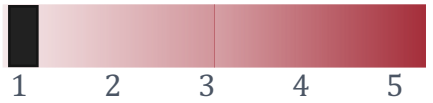
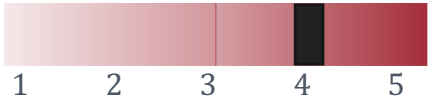
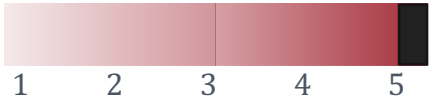
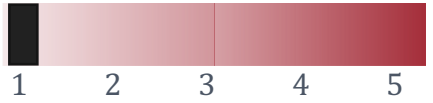
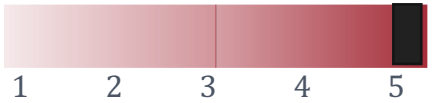
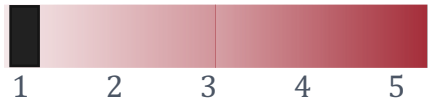
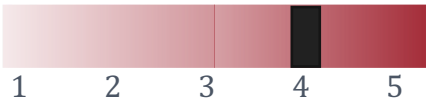
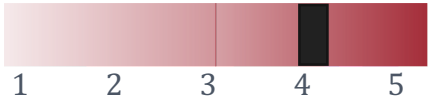
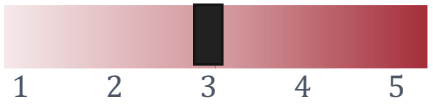
Last Mile Tailor scores best compared the the other strategies especially due to its advantages regarding grade of diversification and internal consistency

Criteria	Last Mile Tailor	Downsizing	Intelligent Warehouse
1. Grade of diversification			
2. Internal consistency			
3. Social acceptance			
4. Distinction from competition			
5. Financial impact			
Overall score	21	14	12

Key: 1: not satisfied 5: fully satisfied

Different strategies may fit to Palantir - By choosing “Last Mile Tailor” the number of customers will be increased tremendously

Our recommendation

1 | Last Mile Tailor

Standardize products for additional business line (SME) with adding machine Learning

Increase the number of customers

2 | Corporate clients only

Detach from governments as customers and focus on profitability

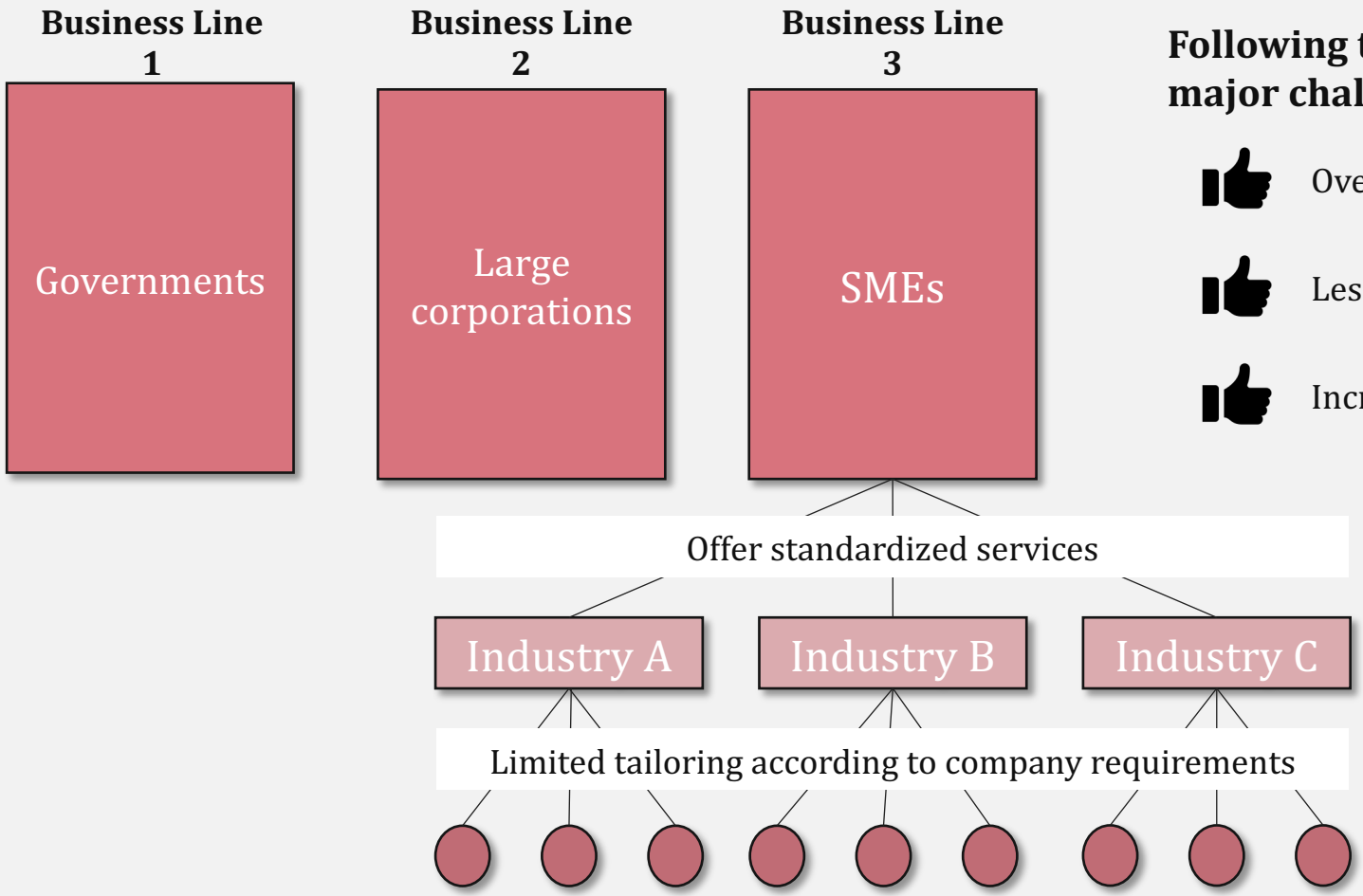
Focus on big corporate clients

3 | Intelligent Warehouse

Use potential to collect, sell and work with data on your own

Enable own infrastructure

Adding a new business line according to the “Last Mile Tailor” strategy helps to tackle the pertinent issues Palantir is facing



Following the “Last Mile Tailor” strategy helps tackling major challenges

- Overcome reputational issues
- Less dependance on small number of powerful customers
- Increased customer base support road to profitability

= Small and medium-sized enterprises (SMEs)

The action plan to successfully implement “Last Mile Tailor” is divided into two main pillars that include five initiatives

Action plan

Establishment of new business line

1 | Development of suitable products

KPI
# of product offerings to SMEs

2 | Selection of target industries

# of targeted industries

3 | Generating personnel capabilities

# of employees working in business line

Generate customers

4 | Convincing SMEs

# of SME customers

5 | Cooperation with NGOs

# of NGO partners

Last Mile Tailor

Deep dives following in the implementation

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New business line

Generate customers

New business line| Developing products that fit to the needs of customers is the first step of creating a new business line

What is it?	**Development of suitable products**	New business line / Generate customers
Why is it needed?	• New product offerings must meet the demands of smaller-sized businesses and fit to Palantir's mission • Machine learning can improve process efficiency and thereby adding value for customers	
How does it work?	**Introduce different machine learning services** Chatbot optimization • Customer services of many SMEs are not digitized yet and require a lot of work • Palantir can offer customers the integration of a digital customer service via chatbots Predictive maintenance • The maintenance of production facilities depicts an important cost factor for SMEs • Machines collect data and indicate when maintenance is necessary, increasing process efficiency	
Which KPI to use?	Number of product offerings to SMEs	**Strategic priority** (low – high) / **Effort required** (low – high)

New business line| Selecting key industries with the designed products ensures a successful and efficient rollout of the strategy

What is it?	**Selection of target industries**	New business line / Generate customers
Why is it needed?	• A criteria-based selection of industries ensures success when rolling out new business line • Such procedure allows to identify most promising markets to begin with	
How does it work?	**Determine a set of criteria for industry selection** Applicability of machine learning services Financial potential Social image of the industry Availability of SMEs • Examples for potential industries: Automobiles & Retail • Scalability: Machine Learning can be rolled out to almost all industries	
Which KPI to use?	Number of targeted industries	**Strategic priority** low high; **Effort required** low high

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New business line| The personnel capacities must be added in order to be able to service the new customer base

What is it?	**Generating personnel expertise**	New business line / Generate customers
Why is it needed?	• Sourcing sufficient talent is major challenge for any company intending to grow • Employer image particularly challenging for Palantir	

How does it work?	**Ensure sufficient personnel to start new business line**
	• Estimated number of employees needed until 2025: 335
	• Recruiting of new employees
	  • Target tech graduates and experienced developers
	  • Convincing message: "Come work for a company that supports the backbone of our economy!"
	• Shifting opportunities for existing employees
	  • Give existing employees chance to shift to new business line if desired
	  • Proven successful for competitors (e.g., Microsoft)	

Which KPI to use?	Number of employees working in business line	**Strategic priority** low high; **Effort required** low high

New business line

Social acceptance

Social acceptance| The success of the new business line is based on successfully getting SMEs as new customers on board

What is it?	**Convincing SMEs**	New business line / **Generate customers**
Why is it needed?	• The success of the strategy is built on working with SMEs • SMEs might be hesitant regarding digitization and working with Palantir	
How does it work?	**Convince SMEs through efforts of salespeople and a marketing campaign** Salespeople • Train salespeople to become familiar with new product and new customer type • Message to SMEs: "Palantir's services help you save time and cost through innovative services" Marketing campaign • Show up at industry trade fairs introducing your offerings • Offer free-trial periods of software to give chance to familiarize • Ensure direct communication and customer support	
Which KPI to use?	Number of SME customers	**Strategic priority** (low – high) / **Effort required** (low – high)

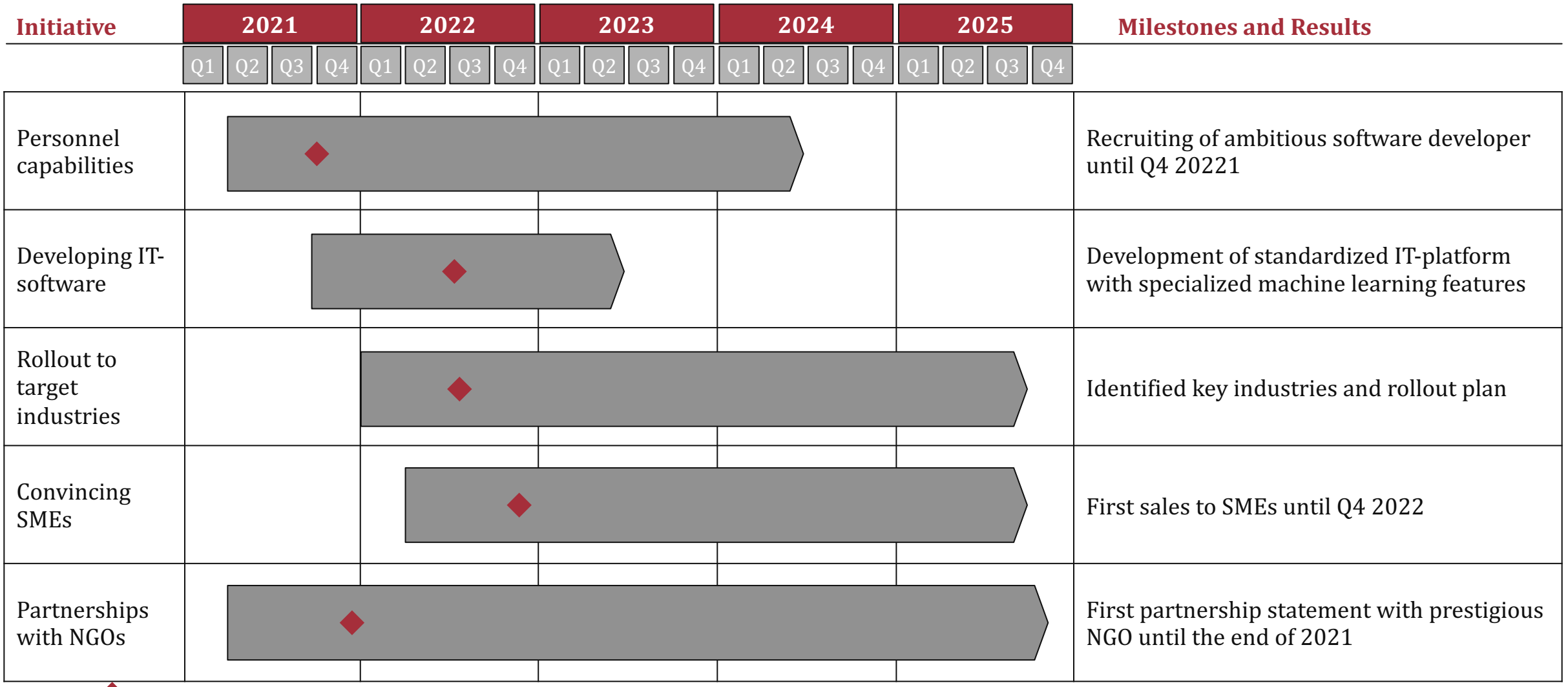
Generate customers| Cooperating with NGOs helps improving Palantir's image while remaining to stick to its mission

What is it?	**Cooperation with NGOs**	New business line / **Generate customers**
Why is it needed?	• Risk of adverse effects from social activism pointed out as major challenge • NGOs enjoy high societal reputation and supporting them fits to Palantir's mission	

How does it work?	**Expand machine learning offering to NGOs**
	• Several areas of application for NGOs
	  • NGOs can optimize chatbots when being in contact with their supporters
	  • Using data analytics for developmental work (e.g., making farming more efficient)
	• Make services available with a zero-profit goal
	• Use positive image created for acquiring new personnel or addressing potential customers	

Which KPI to use?	Number of NGO partners	**Strategic priority** (low – high) **Effort required** (low – high)

The different initiatives of Last Mile Tailor have to be implemented within 5 years – First results of initiative personell increase can be seen in Q3 2021



Legend: ◆ Milestone

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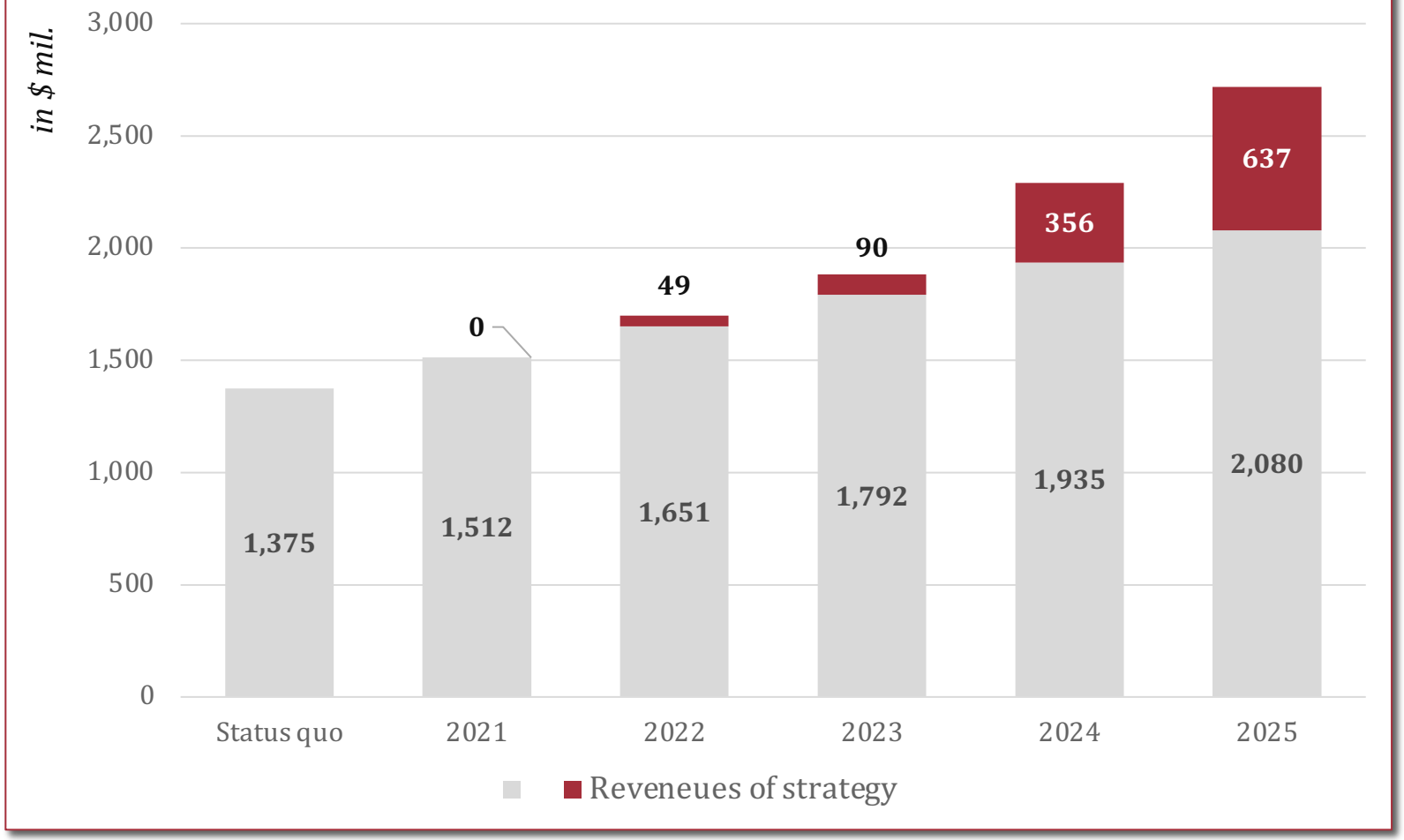
Different KPIs can be used in order to track the successful implementation of Last Mile Tailors initiatives – The software development will be the main initiative to tackle the SME market

	Establishment of new business line			Generate customers	
	1 | **Development of suitable products**	2 | **Selection of target industries**	3 | **Generating personnel capabilities**	4 | **Convincing SMEs**	5 | **Cooperation with NGOs**
KPI	# of product offerings to SMEs	# of targeted industries	# of employees working in business line	# of SME customers	# of NGO partners
Target number in 2025:	**6**	**8**	**335**	**900**	**53**
Total expenses	**$372.8 mil.**	**$4.4 mil.**	**$96.5 mil.**	**$33.6 mil.**	**$9.4 mil.**

The mix of initiatives will lead to a positive impact on sales with moderate financial investments

The ambitious Last Mile Tailor achieve additional revenues of $1.1 bn. over five years according to the attraction of new customers in the new business line SMEs

Revenue development



Key revenue driver

Development of IT platform for SMEs leads to increasing additional revenues

Current business lines will remain stable and will be further maintained

Starting in 2024 the rollout of the services will increase across different industries

The additional revenues of the Last Mile Tailor and moderate expenses for the initiatives lead to a NPV of $119 mil. over the next five years

Project net present value

Year	2021	2022	2023	2024	2025
Additional revenues	0	49	90	356	637
General operating expenses	0	-15	-27	-107	-191
Expenses from initiatives					
Software development	-54.0	-121.0	-43.8	-58.0	-96.0
Selection of target industries		-0.8	-1.2	-1.2	-1.2
Personnel increase	-3	-16	-17	-26	-35
SME Marketing		-20.4	-7.2	-4.0	-2.0
NGO Partnerships		-2.1	-2.4	-2.4	-2.6
Free cash flows	-57	-126	-9	158	310
NPV	**119**				

in $ mil.

Estimated profitability

2023

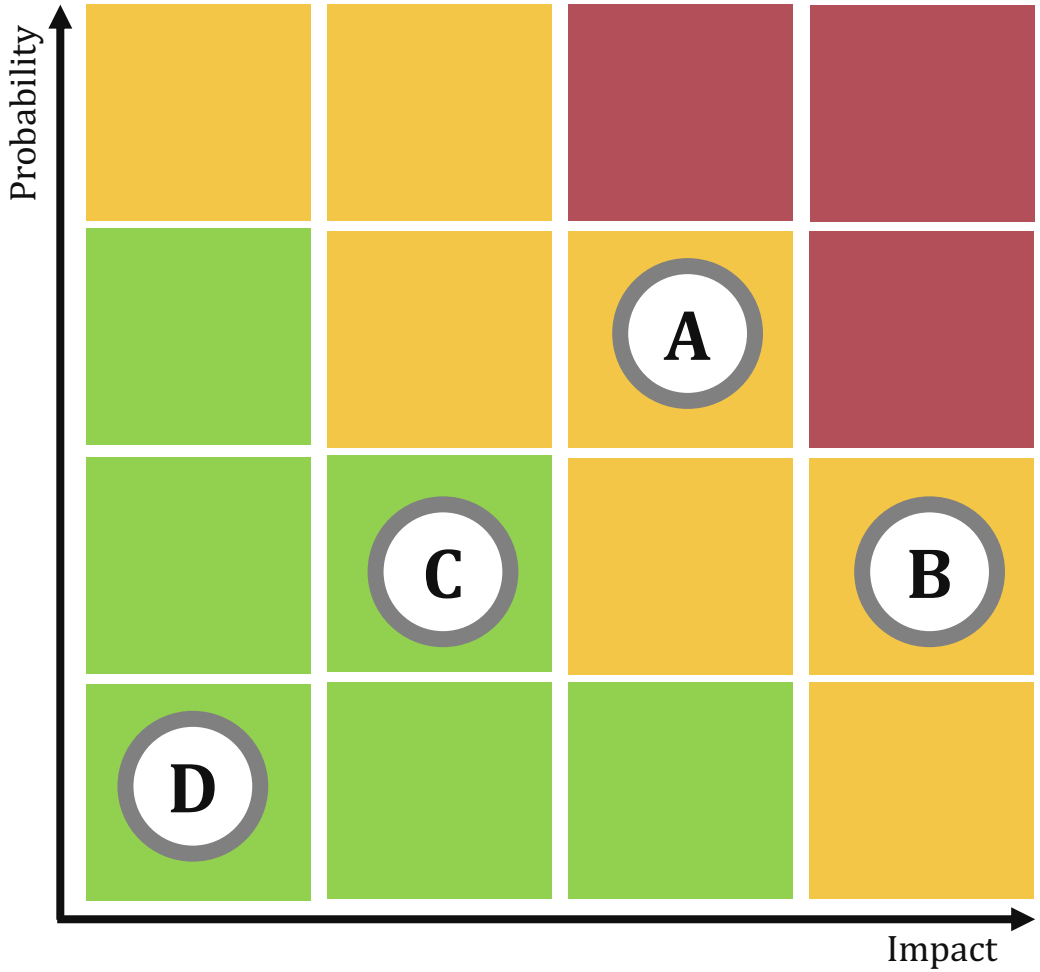
Estimated first positive net income

Key assumptions

- Growth rate current business: 5%
- CAGR Machine learning market: 44.9%
- Annual Price for SMEs: $550,000
- Annual price for NGOs: $140,000
  - ⟹ approx. self-costs
- Operating Margin: 30%
- WACC: 12%

The strategy is exposed to various risks – the most influential risk will be solved by xy

Risk matrix



Risks and Countermeasure

	Risk	Countermeasure
A	Issues with the acquisition of customers	Using success stories for advertising
B	Loss of existing high-volume orders to competitors	Deliver the highest legal and technical standards
C	Further increase in public criticism	Communicate social achievements
D	Shareholders do not approve the new strategy	Point out that the strategy is the fastest way to healthy profitability

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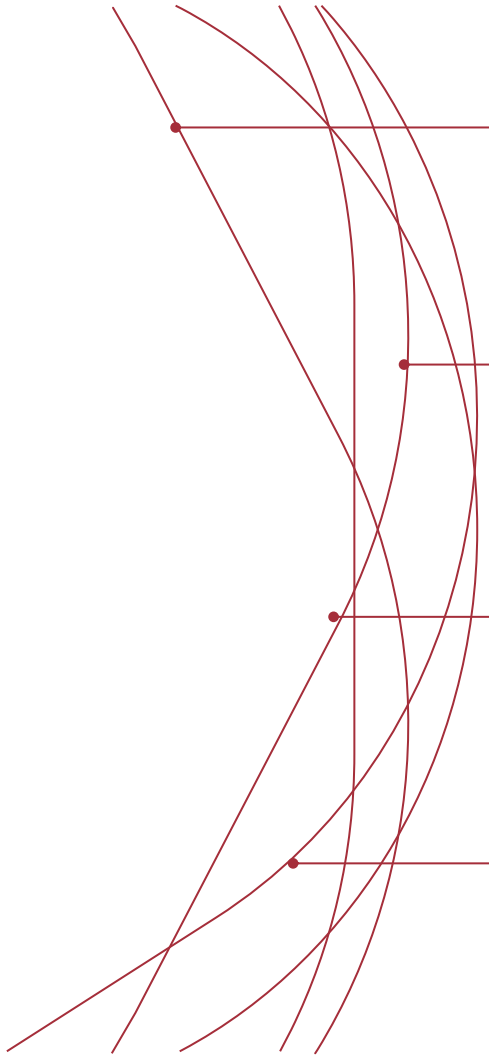
The “Last Mile Tailor” strategy enables Palantir to achieve further growth and become sustainably profitable



Status quo

- Not profitable yet
- Controversial business model

Analysis

- Potential of adverse impacts from social activism
- Dependency on major customers needs to be changed

Recommendation

- Enable a third business line
- Well-considered expansion of the product portfolio

Impact

- Revenue growth up US$ 2.7 bn. revenue in 2025
- Improved image through new business areas

A follow up project with the UMC would kick off with the following…

Action 1:

Work on your image

Action 2:

Verify applicability to additional industries

Action 3:

Add value for the society

Thank you for your attention.

Backup

Appendix 1: Derivation of the criteria

1	Grade of diversification	The strategy should increase the diversity of the product portfolio
2	Internal consistency	In a well-organized company, each strategy fits into an integrated pattern – supporting the overall company goals
3	Social acceptance	The strategy must have a clear focus on social acceptance in order to improve the image of the company
4	Distinction from the competition	The strategy should differentiate the company from the competition
5	Financial impact	The strategy should provide positive financial impact

Appendix 1: Financial Assumptions

Appendix 1: Deep Dive in the cost calculation of the presented net present value analysis

Detailed cost calculation	1	2	3	4	5
	2021	2022	2023	2024	2025
Personal expenses	**-2.9**	**-15.8**	**-17.3**	**-25.9**	**-34.6**
New employees	10.0	55.0	60.0	90.0	120.0
Entry payment	-200,000	-200,000	-200,000	-200,000	-200,000
Salary per employee	-80,000	-80,000	-80,000	-80,000	-80,000
Onboarding program and trainings	-5,000	-5,000	-5,000	-5,000	-5,000
Other annual operative expenses per employee	-3,000	-3,000	-3,000	-3,000	-3,000
Marketing campaign SMEs		**-20**	**-7**	**-4**	**-2**
Potential SMEs customers		8,000,000	0	0	0
Target group		3,200,000	0	0	0
Costs per click	$ (2)	$ (2)	$ (2)	$ (2)	$ (2)
Content creation		$ (6,000,000)	-4,000,000	-2,000,000	-2,000,000
Industry trade affairs		-4,000,000	-1,200,000		
Personal expenses					
Machine learning	**-54**	**-121**	**-44**	**-58**	**-96**
Development IT-infrastructure	-54	-68	-22		
Development Backend dashboard		-44			
Interface integration customers			-4	-15	-27
Implementation customers			-7	-30	-54
Maintenance expenses		-8	-10	-12	-14
Other operating expenses		-1	-1	-1	-1
Costs per customers		**-1.030**	**-0.265**	**-0.106**	**-0.101**

Appendix 1: Deep Dive in the cost calculation of the presented net present value analysis

Machine learning	**-54**	**-121**	**-14,033**	**-14,013**	**-14,015**
Development IT-infrastructure	-54	-68	-22		
Development Backend dashboard		-44			
Interface integration customers			-5,600	-5,600	-5,600
Implementation customers			-8,400	-8,400	-8,400
Maintenance expenses		-8	-10	-12	-14
Other operating expenses		-1	-1	-1	-1
NGOs	**0**	**-2**	**-2**	**-2**	**-3**
Donations	**0**	**-1,875,000**	**-2,250,000**	**-2,250,000**	**-2,625,000**
Opportunity costs for projects	0	750,000	900,000	900,000	1,050,000
Marketing expenses		-1,000,000	-1,000,000	-1,000,000	-1,000,000
Donations per partner	-50,000				

Appendix 1: Deep Dive in rough estimation of the P&L from palantir

Revenues						
Worldwide	**Status Quo**	**2021**	**2022**	**2023**	**2024**	**2025**
Revenues without strategy	**1375**	**1512**	**1651**	**1792**	**1935**	**2080**
Additional revenues strategy	0	0	49	90	356	637
Total revenues	1375	1512	1700	1882	2291	2717
COGS	-1238	-1210	-1190	-941	-687	0
Marketing	-413	-454	-425	-376	-458	0
SG&A	-138	-151	-170	-188	-229	-272
Other costs	-206	-227	-255	-282	-344	-408
Strategy costs		-56.88	-158.04	-69.48	-89.12	-133.76
EBITDA	-618.75	-586.08	-498.09	24.63	483.71	1904.25
Depreciation, Amortization	-68.75	29.30	24.90	-1.23	-24.19	-95.21
EBIT	-687.50	-556.78	-473.19	23.40	459.52	1809.04
Interest & Tax	206.25	167.03	141.96	-7.02	-137.86	-542.71
Net income	-481.25	-389.74	-331.23	16.38	321.66	1266.33
EBITDA Margin	-45%	-39%	-29%	1%	21%	70%
Net income margin	-35%	-26%	-19%	1%	14%	47%