Position Close Update: Palantir (PLTR)

Palantir Technologies Inc. (PLTR: $11/share) – Closing Short Position – up 9% vs. S&P up 22%

We put Palantir in the Danger Zone on September 28, 2020, just days before its IPO. At the time of our report, PLTR earned an Unattractive rating. We pointed out that Palantir's profitless revenue growth, unique risks surrounding its government contracts, high level of customer concentration, and expensive pre-IPO valuation gave the stock poor/risk reward.

This report leverages our cutting-edge Robo-Analyst technology to deliver proven-superior[1] fundamental research and support more cost-effective fulfillment of the fiduciary duty of care.

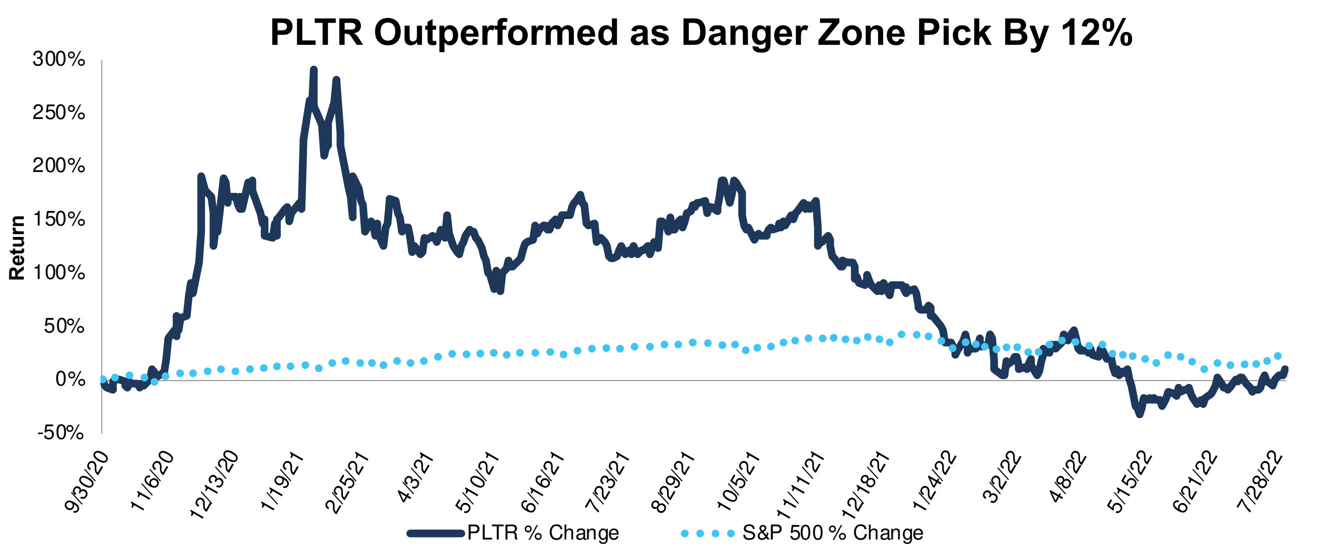
During the 1.5+ year holding period, PLTR outperformed as a short position, rising just 9% compared to a 22% gain for the S&P 500.

Though Palantir's Core Earnings over the trailing-twelve-months (TTM) are -$352 million, the company's profitability is improving. Return on invested capital (ROIC) rose from -49% in 2018 to -13% TTM and excluding 2020, the company's economic earnings have improved year-over-year each year since 2018.

In addition to the company's improved fundamentals, long-term tailwinds will continue to buttress Palantir's business and add more risk to shorting this stock. First, growing tension between the east (China & Russia) and the west (U.S. & Europe) will likely drive more demand for Palantir's products and services. Second, as governments continue to outsource military operations, companies like Palantir will see their businesses grow.

Lastly, we see risk of "dumb money" acquiring Palantir as a vanity asset, despite the high expectations for profit growth implied in its stock price. We think it is time to close this successful Danger Zone position.

Figure 1: PLTR vs. S&P 500 – Price Return –Successful Danger Zone Pick



Sources: New Constructs, LLC and company filings
Note: Gain/Decline performance analysis excludes transaction costs and dividends.

This article originally published on August 3, 2022.

[1] Our research utilizes our Core Earnings, a more reliable measure of profits, as proven in Core Earnings: New Data & Evidence, written by professors at Harvard Business School (HBS) & MIT Sloan and published in The Journal of Financial Economics.

Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Brian Pellegrini receive no compensation to write about any specific stock, style, or theme.

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Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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