
Palantir Stock Valuation

Raj Kumar
Aug 19th, 2025



Valuation Framework & Assumptions





- Method: Discounted Free Cash Flow (FCFF) model
- 5-year explicit forecast + terminal value (constant-growth)
- WACC = 14.7% (Rf 4.34%, β 2.6, ERP 4.0%)
- Starting FCFF (2025E): \$1.29B (mgmt. midpoint)
- Growth path: 30%, 25%, 15%, 12% - Terminal $g = 3\%$
- Cash \$6.0B, Debt: \$0, Shares: 2.37B

DCF Results

- PV of Years 1-5 FCFF: \$11.8B
- PV of terminal Value: \$21.1B
- Enterprise Value: \$32.9B
- Equity Value: \$38.9B
- **Per Share Value: \$16.4**

Sensitivity & Relative Valuation

- **Sensitivity:**

- WACC  - Value 
- g  - Value 
- Range: ~ \$14/share (15.5%, g = 2%) - \$21/share (12%, g = 3%)

- **Relative Valuation (TTM):**

- EV/Sales ~ 118x vs. median ~11x
- EV/EBITDA ~ 680x vs. median ~25x
- P/E: 580x (TTM EPS \$0.30)

Recommendation & Risks

- Recommendation: Sell
- DCF fair value = \$16/share vs. market ~ \$154 (as of Aug 19th evening)
- Multiples confirm extreme premium
- Key Upside Risks: Faster AIP monetization, mega U.S gov't contracts, margin expansion
- Key Downside Risk: Budget politics, dilution from stock comp, competition in AI/analytics
- Model Risk: Sensitivity to WACC & terminal growth assumptions

Is it a “bubble”? When might the bubble burst, if at all?

- Based on themes I’ve encountered in “Extraordinary Popular Delusions & Madness of Crowds” by Charles Mackay, many bubbles followed a common sequence:
 - Innovation / novelty: a new narrative excites investors (AI in today’s case)
 - Overconfidence & herd behavior – investors extrapolate extraordinary growth indefinitely
 - Excessive valuation detachment – Prices rise far beyond fundamentals (e.x Palantir’s EV/Sales ~118x vs. sector 11x)
 - Trigger – Disappointing earnings, slowing growth, or tightening financial conditions
 - Collapse – Price falls back to levels justified by fundamentals, often overshooting
- Based on the above themes: Palantir appears to be in the mania phase (prices detached, narrative dominant)
- When to expect for the bubble to pop? Likely within 12-24 months if fundamentals disappoint (similar to dot-com timing once rate hikes + weak earnings hit)

Sources

- Sec 10-Q (Q2 2025)
- Palantir Press Release (Aug 2025 guidance)
- Damodaran data (ERP, sector multiples, July 2025)
- Yahoo Finance (Beta, EPS)
- Macrotrends (TTM Rev & EBITDA)

Label	Value	Comments:		
Risk-free rate (Rf)	0.04	10 Year Treasury		
ERP	0.04	Damodaran est.		
Beta	2.60	Yahoo Estimate		
Cost of rquity (Re)	0.15	CAPM		
WACC	0.15	No Debt		
Starting FCF (2025E)	1900.00	Management guidance midpoint		
Growth Year 1	0.30	30%		
Growth Year 2	0.25	25%		
Growth Year 3	0.20	20%		
Growth Year 4	0.15	15%		
Growth Year 5	0.12	12%		
Terminal g	0.03	long-run GDP like		
Cash	6000.00	from 10-Q		
Debt	0.00	from 10-Q		
Shares outstanding	2371.85	mm shares		
Year	FCFF	Growth	Discount	PV of FCFF
1	2,470.00	0.30	0.87	2,152.69
2	3,087.50	0.25	0.76	2,345.19
3	3,705.00	0.20	0.66	2,452.70
4	4,260.75	0.15	0.58	2,458.25
5	4,772.04	0.12	0.50	2,399.55
Terminal Value				
FCFF 6	4,915.20			
Terminal Value (at t=5)	41,867.13			
PV (TV)	21,052.27			
Enterprise Value and Equity Value				
PV	11,808.38			
PV (Terminal Value)	21,052.27			
Enterprise Value	32,860.65			
Equity Value	38,860.65			
Per-Share Value	16.38			