Darktrace plc FY 2022 Trading Update

Positive 2022 performance continues in Q4, leading to strong FY 2023 expectations

Darktrace plc (DARK.L) (together with its subsidiaries, "Darktrace" or "the Group") a global leader in cyber security AI, today provides a trading update for its fourth quarter and full financial year ended 30th June 2022.

Highlights

- Year-over-year growth of at least:
  - 32% in number of customers
  - 42% in constant currency ARR
  - 48% in revenue
- Adjusted EBITDA margin of at least 19.5%
- Free cash flow generated in an amount approximately equal to 95% of adjusted EBITDA
- Maintaining YoY improvement in one-year ARR gross churn and net ARR retention
- Strong guidance for FY 2023, including expected YoY constant currency ARR growth of 31% to 34%
- Today's launch of PREVENT product family expands product offering and continues delivery on Darktrace's technology vision of industry-first Cyber AI Loop

Operating and Financial Performance

Darktrace continued to deliver strong sales performance in its fourth quarter, adding over 500 net new customers, and bringing the Group's customer base at year-end to over 7,400. This reflects year-over-year growth of approximately 32%.

The Group also delivered strong growth in its constant currency Annualized Recurring Revenue (ARR). After recasting FY 2021 ARR and related measures to reflect Cybersprint on a retrospective basis[1], Darktrace expects, at its FY 2022 constant currency rates, ARR at 30th June 2022 of at least $513.0 million, implying net ARR added for the year of at least $152 million. This represents year-over-year growth in constant currency ARR of approximately 42% and growth in net ARR added of approximately 35%.

Darktrace expects that at year-end, its one-year gross ARR churn and net ARR retention rate will remain in the ranges reported with its half-year FY 2022 results.

Darktrace also expects revenue for FY 2022 of at least $417.0 million, reflecting year-over-year growth of approximately 48%. It also expects that gross margin for FY 2022 will have remained in the range of recent reported periods.

While work remains before Darktrace can finalise full year costs, its preliminary view is that adjusted EBITDA margin for the year should be no less than 19.5%, above the high end of its previous guidance range of 15% to 17%.

Moving forward, Darktrace will also be providing a free cash flow measure on its annual results, with free cash flow defined as net cash from operating activities *less* purchases (other than purchases made in connection with business combinations) of intangible assets and property plant and equipment (PP&E), and payments for leases. Its preliminary view is that for FY 2022, the Group should have generated free cash flow of approximately 95% of adjusted EBITDA. This would be slightly above the 90% that is typical of what it expects for free cash flow as a percent of adjusted EBITDA, though with invoicing, collections and other cash flow timings being highly variable, there can be a normal plus or minus 15 percentage point range in any financial year.

FY 2023 Outlook

To enable a consistent basis for evaluating its performance, Darktrace reports ARR in constant currency, established as the average rates on the last day of the prior financial year[2]. Applying FY 2023 rates to the Group's ARR balance for 30th June 2022 and all prior comparison periods, results in a rebased ARR balance of at least $483 million, implying net ARR added for FY 2022 of at least $142 million. These amounts, when finalised, will become the new amounts against which Darktrace will measure constant currency ARR and net ARR added growth for FY 2023.

In providing its FY 2023 estimates, Darktrace is balancing the strong sales trends exiting FY 2022 against the uncertainties inherent in the current global economic environment. This includes the already realised impacts of exchange rate movements on its revenue recognition, as well considering the potential impact these economic concerns may have on customer behaviour. Also, as it has said previously, the Group is bridging from FY 2022, where travel and entertainment, facilities and other costs were suppressed by pandemic restrictions, to FY 2023, where restrictions have been released and these costs are returning, with that impact heightened further by inflationary pressures across its cost structure. Darktrace considers these factors to be temporary and does not believe they will have any impact on its long-term economic model, which as previously disclosed, anticipates adjusted EBIT margins in the mid-20%s.

Darktrace now expects a year-over-year increase in its constant currency ARR of between 31% and 34%, implying year-over-year growth in new ARR added of between 5% and 15%. It also confirms that for the coming financial year, it has no reason to expect any shift in its normal quarterly seasonality patterns, including its typically softer first quarter sales and new ARR generation.

The Group also now expects year-over-year revenue growth of between 29% and 32%. It cautions that particularly for the first six-to-nine months of the year, year-over-year growth comparisons are expected to be dampened by the impact that significant movements in exchange rates relative to the prior year period have already had, and are expected to continue to have, on the conversion of British Pound and Euro-denominated ARR to US Dollar-denominated revenue.

Darktrace is giving revenue guidance based on the exchange rate environment on 30th June 2022, the date at which it established its FY 2023 constant currency rates. It advises that on this basis, the revenue guidance it is giving for FY 2023 represents approximately 4% to 5% less revenue, and 6 to 7 percentage points lower revenue growth, than it would have been presenting if monthly exchange rates were equal to those in effect in FY 2022.

Darktrace now expects an adjusted EBITDA margin for FY 2023 of between 15% and 18%. The Group advises that in FY 2023, it anticipates unusually high cash payments for employer taxes related to the vesting of grants made to a broad group of employees at IPO, as part of the transition from private to public company share plan structures. As such, solely because of these tax payments and for FY 2023 only, it expects free cash flow as a percent of adjusted EBITDA to be in the vicinity of 10 to 15 percentage points below its normal expected range. The Group also expects that for FY 2023, the dilution resulting from securities issued under its employee share plans will be limited to approximately 1% of outstanding shares.

(in $millions)	30 Jun 2021	30 Sept 2021	31 Dec 2021	31 Mar 2022	30 Jun 2022
FY'23 CC Rates	$340.7	$364.1	$407.6	$436.4	At least $483.0
FY'22 CC Rates	$360.7	$385.3	$431.6	$462.6	At least $513.0

Recent Developments

Launch PREVENT product family

As previously announced, Darktrace has been working to bring its new PREVENT product family to market. PREVENT is an interconnected set of AI products that deliver a proactive cyber security

capability to help organizations pre-empt future cyber-attacks. PREVENT is the third of four product areas in Darktrace's delivery of a Cyber AI Loop, the industry-first set of AI capabilities which work together autonomously to optimize an organization's state of security through a continuous feedback loop. The next component of the loop, HEAL, is expected to be delivered to early adopters in calendar year 2023.

The new Darktrace PREVENT product family is based on breakthroughs developed in the firm's Cambridge Cyber AI Research Centre and the capabilities gained through the acquisition of Cybersprint in March this year. The first two PREVENT products, PREVENT/End-to-End (E2E) and PREVENT/Attack Surface Management (ASM), will be made generally available from August 1st. More detail on the launch of PREVENT, including new data from Darktrace on the evolving nature of high-priority cyber incidents across its global customer base, can be found *here*.

From 9am-10am BST this morning, we invite investors, analysts, and media to join Poppy Gustafsson (CEO), Jack Stockdale (CTO), and Max Heinemeyer (VP of Technology Innovation) for a presentation and product demonstration of PREVENT. Following the presentation, we will take questions, at which time Cathy Graham (CFO) will join as well. Please register prior to the start of the event *here.*

Darktrace brand update

In the second half of FY 2022, Darktrace conducted a thorough review of its brand and positioning, and as a result, has completed an exercise to update its brand look and feel, including its logo, and to sharpen its product taxonomy as it rapidly brings more products to market.   As part of this process, the Darktrace website has been redesigned to reflect the brand, introduce the new PREVENT product family and to optimise the user experience. The Darktrace website with its new branding can be viewed *here.*

Darktrace announces changes to executive team

Today, Darktrace also announces several changes to its executive management team as it seeks to bring in further leadership capabilities in key areas including human resources and corporate affairs. The announcement can be read in more detail *here.*

Poppy Gustafsson, CEO of Darktrace, said:

"We are delighted to report strong operating and financial performance for FY2022, where we saw demand for our products continuing to grow as organisations seek to protect themselves from growing cyber threats. We expect this business momentum to continue into FY 2023 as against a turbulent geopolitical background, it's no surprise that long-term cyber risk is an even higher priority for Chief Information and Security Officers and senior executives.

In addition to our strong performance announced today, I am thrilled to announce the launch of Darktrace PREVENT, the third product area in our delivery of a Cyber AI Loop, which will provide continuous feedback and a deep interconnected understanding of the enterprise to strengthen an organization's state of security. We're excited about the value PREVENT will bring to our customers as we continue to pursue our mission of freeing the world from cyber disruption."

Reporting Full Year Results

Darktrace intends to report its FY 2022 results on 8th September 2022. Conference call and other details will be made available in due course.

About Darktrace

Darktrace (DARK.L), a global leader in cyber security artificial intelligence, is on a mission to free the world of cyber disruption. Breakthrough innovations in our Cyber AI Research Centre in Cambridge, UK have resulted in over 100 patents filed and research published to contribute to the cyber security community. Rather than study attacks, our technology continuously learns and updates its knowledge of 'you' and applies that understanding to optimize your state of optimal cyber security. We are delivering the first ever Cyber AI Loop, fuelling a continuous end-to-end security capability that can autonomously spot and respond to novel in-progress threats within seconds. Darktrace employs over

2,000 people around the world and protects over 7,400 customers globally from advanced cyber threats. Darktrace was named one of TIME magazine's 'Most Influential Companies' in 2021. To learn more, visit http://www.darktrace.com.

Cautionary Statement

This announcement contains certain forward-looking statements, including with respect to the Company's current targets, expectations and projections about future performance, anticipated events or trends and other matters that are not historical facts. These forward-looking statements, which sometimes use words such as "aim", "anticipate", "believe", "intend", "plan", "estimate", "expect" and words of similar meaning, include all matters that are not historical facts and reflect the directors' beliefs and expectations, made in good faith and based on the information available to them at the time of the announcement. Such statements involve a number of risks, uncertainties and assumptions that could cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statement and should be treated with caution. Any forward-looking statements made in this announcement by or on behalf of Darktrace speak only as of the date they are made. Except as required by applicable law or regulation, Darktrace expressly disclaims any obligation or undertaking to publish any updates or revisions to any forward-looking statements contained in this announcement to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Important Information

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation (EU) No. 596/2014 (as it forms part of UK law pursuant to the European Union (Withdrawal) Act 2018). Upon publication of this announcement, this information is now considered in the public domain.

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