Welcome & introduction.

LUK JANSSENS

SLIDE 1

Introduction from Luk

Hello ladies and gentlemen, and welcome to Darktrace plc's full year 2023 results. I'm Luk Janssens, Head of Investor Relations.

SLIDE 2

I'm joined by Poppy Gustafsson our CEO, Cathy Graham our CFO and Jack Stockdale, our Chief Technology Officer. Together, they will present for about 40 minutes, after which we will conduct a question-and-answer session.

We welcome questions from participants using the chat function, and you can start submitting questions throughout the presentation.

SLIDE 3

Here is a disclaimer which you can review, but now let me hand over to the CEO of Darktrace, Poppy Gustafsson, to open the presentation.

Over to you Poppy.

DARKTRACE

POPPY GUSTAFSSON

SLIDE 4 - A Watershed Moment

Thank you, Luk, and welcome once more to everyone joining us on the call.

What a moment to be working in AI!

Recent months have seen the stars align into what is a unique opportunity for us at Darktrace. We are seeing an undeniable seismic shift in the AI landscape; at a time where we have just completed a year long process in supercharging our Go-to-Market team. We are racing into a new financial year with a unique market opportunity ahead of us, and a refreshed team that is eager to make the most of it.

So let's talk AI; something we have been talking about for a decade. Some of you watching this might be carrying a little AI fatigue; viewing this with slightly narrowed eyes, fearing that the AI hype is a mere flash in the pan leaving a trail of AI chatbots in its wake. Some might be worried that AI is fuelling a new wave of scammers, spammers, and spoofers. Well, it is. And it will… but so will the next innovation, and probably the one after that… Novel threats arising from AI are inevitable, novel is the new normal.

For us, AI is not an exciting new tool for developers to get giddy over. It is essential. It is the only way in which we could do what we do. We are AI natives; AI is, and has always been, woven into our DNA. I feel more confident than ever in our competitive position within the market and Jack will talk more about this later on.

Shortly I will talk to you about how we have taken advantage in the weaker macro environment over the past year to refocus on investing in our Go-To-Market teams, but first, let me walk you through some delivery highlights from the past year.

PAUSE

SLIDE 5 – Highlights FY 2023

After launching Darktrace PREVENT in the summer of 2022, this summer we launched Darktrace HEAL – meaning we have now delivered on our ambition to create the Cyber AI Loop.

Despite a quieter macro environment, as reflected in a slowdown in new customer additions, we have ramped up investment in our existing customers, and the average size of existing customer contracts is up 9.5%.

We now have around 8,800 customers globally and have grown our revenue by 31.3% year-on-year. ARR grew by 29.6% year-on-year, and we generated free cash flow of $93.8m, well above previous guidance and showing our continued profitability.

We used that profitability to invest heavily into the foundations of our future growth. For me that meant supercharging our GTM teams, and getting them ready for the next phase of growth. In June, we appointed Chris Kozup as Chief Marketing Officer, who brings proven experience of leading high-performing marketing teams at fast-growing enterprise technology companies. We also made several key hires in our go-to-market team following the appointment of Denise Walter as Chief Revenue Officer in February of this year. Denise has driven the evolution of our incentive structures, we have invested in our systems and processes, with Workday currently being rolled out. We've also invested in learning and development, and the Darktrace Academy is now up and running.

These achievements have proven the success of our business model, and we have done it all against a challenging economic backdrop and a high level of scrutiny on the business in the year. We've made several years' worth of changes in a single year, with minimal impact to the business model near term, but allowing us the scalability we want to see longer term. We're going into FY 2024 in a position of strength, better prepared than ever, and we expect to see a re-acceleration of sales in the second half of FY 2024 as we reap the benefits of our investments.

SLIDE 6 – Darktrace is AI-Native

Before I pass over to Jack, let me return to say a few words about the hype around AI – which is admittedly at fever pitch.

As I said earlier, at Darktrace we are AI-native. Our technology has been built from the ground up by AI experts over 10 years, with AI its core. Our AI is future-proofed, because it has been designed to identify novel threats, irrespective of how that threat emerged, or what the latest capability that fuelled it. That concept was central to our genesis as a business – it is the problem we were trying to solve when we first started out.

You've seen the value of ***cloud-native*** products, which were designed to cope with cloud applications – constantly shrinking and expanding, moving between on-premises and off-premises, and bouncing across multiple cloud platforms. **But this wasn't only a technology change; it was also a mindset change.**

The same holds true for those vendors who think of enterprise security in siloes, instead of thinking in the new data-driven world of AI. AI requires a mindset change. Our approach to AI, which covers the entire digital ecosystem, has allowed us to move from being the market share leader in network security, to leader in next generation email security, to securing the cloud, operational technology, and beyond. With our core AI architecture, we are future-proofing customers against novel threats regardless of where they may occur.

Privacy concerns are addressed – the customer data stays where it is; we bring our AI to the data. And because we are not training systems on known bad, we don't rely on taking data from one customer to train a system for another customer.

For us, AI goes more than skin deep. It is the essence of what we do. Darktrace was the first to apply AI to the real-world challenges of cybersecurity– and today we're on our sixth generation of Cyber AI.

SLIDE 7 – The Era of AI-Powered Attacks is Here

But are we seeing AI powered attacks in the wild?

Ultimately, the use of AI among threat actors is still in its infancy and we don't know exactly how AI will evolve. But what we *do* know, is that it will affect the way that scammers, phishers, the bad guys are all working. Already now, we are seeing the growth of new techniques that indicate increasing use of automation and a focus on attacks that abuse user trust. Attacker behaviour and threats are always evolving; novel is the new normal!

With that, I'll pass over to Jack now, to explain why our approach is different and how our products are set up to protect our customers from the security challenges of this era.

JACK STOCKDALE

SLIDE 8 – Jack Stockdale, CTO

Jack: Thanks Poppy!

Now, we have a technology day for investors in November we'll be covering our approach and AI in much more detail, but I'd like to give a quick overview of what makes Darktrace's unique approach so essential to our customers.

SLIDE 9 – AI: What do we Mean?

AI. What do we mean by AI? Whether it's a public chatbot that can write you a fantastic new poem, or a tool to help you analyse medical images in your clinical role, or an enterprise AI that helps you make a critical judgement call, each of them is formed from a few essential ingredients.

Obviously you need some compute resource to build and run them on. You have some AI algorithms. And then you have some data.

The algorithms are definitely important – but it's the data you have, and how that data interacts with those algorithms that's absolutely critical.

Even though each of those AIs might be total game changers in their field - you absolutely need to use the right AI, trained on the right data, for the job in hand.

You wouldn't have a public chatbot trying to interpret private medical images, or an AI trained on medical images try to write a poem - if you tried to do so, the results would be a total disaster.

And this is just as true within the enterprise and security space, where Darktrace takes a completely unique approach to how we protect our customers – in those algorithms we use, in the data we use AND crucially how the two interact.

SLIDE 10 – Traditional AI Data Pipeline

Most AI in the world today is trained periodically in offline training labs – where the AI data pipeline uses huge amounts of combined historic training data. You take all that data, you feed it to the AI, and then after a few days or weeks, you get a static AI models output which you push into production. And it perfectly well serves its role until the next time your new model is ready and you can discard the old one. This a perfectly sensible way to go about things for many AI use cases. This is exactly how ChatGPT and most other public generative AI tools work.

SLIDE 11 – Real Time Cyber AI Pipeline

But at Darktrace, using customer data in real time lies at the heart of everything we do. This is our real difference and real advantage. We don't periodically hoover up all your data, combine it with other customers' data, and upload it to an AI lab somewhere.

Instead of taking your data to the AI, instead we take our AI to your data - wherever your data is.

Inside every single customer lies a Darktrace AI that is completely unique to them – **their OWN data AI pipeline** – plugged into their own enterprise and learning by itself in real time, completely automatically, from everything that happens in their digital world – across their email, their cloud systems, on their laptops, across their offices, their external exposure on the internet, and from the everyday applications their employees use.

Our AI is learning by itself in place with each customer - it was not taught in a large lab a few months ago.

This is completely different from nearly everything else we see, not only in cyber security but even the wider enterprise. And while there are certainly important tools that use those large, combined data sets to detect previously seen threats, it leaves Darktrace uniquely positioned in all the cases where the only way to protect yourself from a new or novel threat is from a deep understanding of your own business. In the real world, this can happen at any time, and it happens all the time.

SLIDE 12 – Timeline

So, if the customer's own data is the data source we use, what about our technology and algorithms?

As Poppy said, we have been a completely AI native technology from the beginning – we began as an AI Research Centre 10 years ago and were among the first to apply AI to cyber security.

Since then, our ongoing research has been key to our innovation and our new products. Our Original AI Research Centre in Cambridge has now grown to hundreds of R&D employees, we've added a second research centre in the Hague, and in both we draw people from a wide range of backgrounds and run a true research environment.

Instead of needing huge teams of people collecting examples and training and retraining those "lab based" models just to keep up with the latest threats, instead we give our researchers the freedom to be at the absolute cutting edge of applying new algorithms to customer data. We look at every new and emerging AI technique, and take the best of them, wherever they will help us solve the particular needs of our customers.

The occasional failure of a research project is completely accepted – even encouraged, but as each piece of successful research completes it pushes our innovation forward and very often goes on to form our products of tomorrow.

As we've grown the teams and increased the breadth of the research we do, we've significantly built our product set AND the patents we have protecting it.

Not only have we expanded the areas of the digital world we can learn from and protect, we've also added a whole suite of new algorithms – always following that same philosophy: "use the right AI and the right data for the job".

Now on its 6th generation, our current AI now uses a huge range of AI techniques and algorithms, all of which have been applied to real world cyber challenges across our customer base. These have been battle tested thousands and thousands of times in the real world, and they seem to work!

SLIDE 13 – A Combination of Approaches

We now use a wide range of our own self-learning methods that understand new information and decide if something never seen before looks suspicious.

- Real time Bayesian probabilistic methods allow models to be efficiently updated and controlled in real time.
- We use deep-neural networks to replicate the thought process of humans.
- Graph theory understands the incredibly complex relationships between people, systems and organisations and supply chains.
- Offensive AI techniques such as GANs help to test and improve our ability to counter AI driven attacks.

- We use generative and applied AI to run simulated phishing campaigns, tabletop exercises and realistic drills, unique for each customer.
- We also use natural language processing and large language models which can interpret and produce human readable output.

So we've built up this AI arsenal, and use each part where it best fits.

For example, we've seen over the years how important it is for AI systems to explain themselves. It's not enough to build the best product in the world – you need humans to use it – to understand it and trust it. Having AI able to explain its reasoning, and decisions is critical in the enterprise.

So, when we need to do that, we draw on our AI language models, the natural language processing, and the ability of generative AI provide that reasoning, or to summarise outcomes or translate reports.

To understand potential attack paths from a distant supply chain into your most critical assets, attack path modelling and graph theory are the best AI for the job.

Five years ago, when we started research into offensive AI and how best to defend against that, we turned to GANS and generative AI.

Always use the best AI, and the best data for the job.

SLIDE 14 – Self-Learning AI: The Right AI for Cyber

So why are these techniques and this data the best choice to protect our customers?

Well for a start, as soon as you make that fundamental shift of taking the AI to the data and giving each customer their own AI, many of the common challenges facing AI systems today just become non-issues.

- The customer's data doesn't go anywhere – this addresses privacy and compliance issues and helps prevent potential IP loss.
- The system inherently learns and works in real time – no more waiting days or weeks for a detection update.
- It's able to take real time actions against threats never seen before.
- You remove a lot of the need and costs transfer huge amounts of data in and out of your organisation.

But those are almost by-products – what you actually have is a system that is uniquely able to solve emerging cyber security challenges.

Once Darktrace has learnt a customer's business - it can start recommending pre-emptive actions you could take to lower your potential risks, letting you get ahead of the games.

It's also there - always on - always learning, able to detect and stop any potential threat to your business.
It doesn't really matter what the threat is, your individual Darktrace AI knows your business well enough to spot the unusual, the suspicious and the novel.

The pace of new threats, the technology and AI behind them now outpaces any notion that a weeks-old view of historic cyber threats can fully protect you as a business – whether from the threats that we're seeing today, or the threats of tomorrow, whatever they may be - whether that's self-evolving code designed to evade the best of those legacy defences, or automated deepfakes where you can't hear or trust what you're hearing or seeing, or your employee's being tricked into being inadvertent insiders.

Email is a perfect example of this. Most email AI security learns from historic attacks seen in emails elsewhere and will stop them if they target you.

Our AI learns from your own email to build its own understanding of the context and nuance of how each individual across an organisation uniquely communicates. Who they talk to and how.

This allows us stops existing threats, new novel threats and is even powerful enough to spot when something has not been written by who it says it was. Now we've seen the complexity of phishing attacks rise a lot since generative AI tools have been made available to everyone. Darktrace spots and stops these. This is why we have one of the most successful products in the world today for preventing novel attacks via email. And this is all without your confidential email data leaving your control.

As Poppy said, AI-powered attacks today are in their infancy and will certainly continue to evolve in unpredictable ways, but the cyber security industry has been plagued with novel attacks for years.

We've seen repeatedly that our approach works. We've always excelled at preventing these novel attacks.

That included Log4J, supply chain attacks like SolarWinds, the novel phishing scams we saw during the covid lockdowns, zero days like Netscaler, novel ransomware worms such as WannaCry, through to sophisticated nation-state attacks.

Darktrace doesn't protect you from these because we are looking specifically for them, we find these because every threat, whether known or novel, internal or external, accidental or malicious, human or AI driven, impacts your business or your people or your data – and so can be immediately detected and stopped by your own Darktrace AI.

As Poppy said, "Novel is the New Normal" – and it's the novel attacks that have historically done the most damage. GenAI phishing attacks and deepfakes are just the latest, and they won't be the last.

We'll being talking about other novel attacks and how our products prevent them at our Tech day in November but I hope this overview gives you a good sense of how our AI works and why it is so differentiated from others in the cyber security space.

Back to you, Poppy.

POPPY GUSTAFSSON

SLIDE 15 – Poppy Gustafsson

Thank you, Jack.

SLIDE 16 – Protecting our Customers from Evolving Threats

Our mission is to free the world of cyber disruption, which puts our customers at front and centre of everything we do. We are proud to be protecting around 8,800 organisations around the world – from healthcare institutions and public bodies through to multinational corporations.

We have continued to grow our customer base throughout the year, adding 1,362 new customers across a wide range industries. We were proud to protect global sporting events such as the Qatar World Cup in November, and we closed our biggest ever deal to date with a major critical infrastructure organisation. The value our customers place in Darktrace has been acknowledged by third parties – in June we were named a Customers' Choice in the 2023 Gartner Peer Insights Voice of the Customer for Network Detection and Response, and our technology won several awards throughout the year.

SLIDE 17 – Royal Caribbean

If you want to hear directly from a customer on how we're adding value to their team, I'd urge you to have a look at the video we've released today from Royal Caribbean which you can find on our LinkedIn page.

SLIDE 18 – GTM Leadership Hires

We are never standing still at Darktrace, but even for us this past year has been exceptionally busy! We have made some significant investments across the business, as I alluded to earlier. These have been focused on our go-to-market team and structure, our brand and positioning capabilities, and the systems and processes that our businesses sits upon.

A big part of that investment is in the appointment of Denise Walter as Chief Revenue Officer, bringing deep expertise in building high-performing teams at fast growing businesses.

Since joining in February, Denise has set a path for evolving the structure of our go-to-market teams for the next phase of growth, and has made a number of strategic hires across sales, channel and customer success to help drive that evolution. With the US being our biggest market but also representing our deepest opportunity going forward, we've taken steps to ensure we have the right resource in place there.

Having brought new talent in from companies including VMWare, Zscaler and Crowdstrike, the next phase of the strategy has been to harness that talent to drive success across the business. Our focus has been to evolve the structure of our salesforce to drive more from the strategic part of the market, particularly in the US.

Further to our appointment of Denise, in June we hired a new Chief Marketing Officer, Chris Kozup. Chris was previously CMO at Zscaler and is focused on strengthening the Darktrace brand globally to support our evolving Go-To-Market efforts. He will build out our marketing capabilities, with an emphasis on demand generation as well as product, digital and partner marketing.

SLIDE 19 – Best-in-Class GTM Model

Drawing on expertise from third party advisors and our new talent, we have evolved our compensation model to better align market best practice so that we're attracting and retaining top talent. This was not a cost saving exercise, but to ensure that we are driving behaviours to support growth across the Go-to-Market team, not just in sales but in other areas of the team including customer success and technical support, and ensuring success is rewarded early in a career journey. We expect to see these changes make a positive impact on productivity per seller, and to drive better attrition, which we have seen improve in FY 2023.

SLIDE 20 – Upgrading our Systems and Upskilling our People

In addition, we've taken steps to upgrade our systems and processes. We have invested in Workday, a cloud solution which will improve our HR, finance and expenses processes. In FY 2024, we plan to begin implementing a new CRM tool to help us to capture data on a more granular level and ensure better visibility and consistency.

As we look to upskill our workforce, we have invested in training and development across the employee base. I'm pleased to say that we've now launched Darktrace Academy, a huge initiative which allows our employees to develop and cultivate their skills at Darktrace. Within the Academy we have introduced MEDDPICC sales methodology training to every person within the sales and customer success team.

SLIDE 21 – Looking ahead: Positioned for the Next Phase of our Growth

As I said earlier, we have used this period to drive several years' worth of changes in a year, and needless to say, I'm hugely excited to see these investments paying off.

And the good news is, we've already paid for these changes. We have generated more cash than expected, some of which we have used to make these changes, particularly around compensation. And we have done all of this with no impact to our long-term model on profitability, just a short-term timing on cashflow. As more commission is paid upfront, rather than deferred, we're amending the way we're defining our adjusted EBITDA to ensure it remains comparable with our peers. I'll pass over to Cathy now to talk you through these points and our financial performance.

CATHY GRAHAM

SLIDE 22 – Cathy Graham, CFO

Thanks, Poppy, and thanks everyone for joining us.

I want to accomplish two things today. First, I want to give you more context around our final FY 2023 results, with final ARR measures slightly better, and Adjusted EBITDA much better, than we'd expected. And second, I want to confirm and expand on the FY 2024 expectations we gave in our July trading update. Since then, our outlook on FY 2024 operating performance hasn't changed, but modifications to sales commission plans that started 1 July – and the resulting accounting impacts - will affect Adjusted EBITDA; so much so that we've decided to change our definition of that measure. Free Cash Flow will also be affected as we transition between plan structures, temporarily reducing FCF before it normalises again beyond FY 2024.

I want to make sure you understand the impacts to both these measures, and more on that in a moment, but first, let's discuss FY 2023 results.

Over the past year, we continued to invest in our go-to markets teams and product pipeline. That, combined with the benefits of our multi-year contract and high variable cost model, enabled us to deliver strong revenue and ARR growth, as well as operating performance, against a challenging macro-economic backdrop.

SLIDE 23 – Revenue: Strong Growth & Recurring Features

In FY 2023, our revenue grew by 31.3% over the prior year. With subscription sales continuing to make up more than 99% of revenue, and with average contract term still averaging over 36 months, RPO, or contracted backlog, was up 25.3% over the prior year. Remember that about 80% of annual revenue is typically in RPO at the start of each financial year, so we not only have considerable revenue visibility, but significant committed future revenue to support growth.

SLIDE 24 – Strong Constant Currency ARR Growth

We focus on expanding constant currency ARR to drive top line growth. During FY 2023, our ability to grow ARR was dampened by macro-economic headwinds, as pressure on business budgets made prospects more reluctant to run product trials and lengthened sales cycles when they did. Despite that, we delivered constant currency net ARR added of $143.6 million, only $600,000 or 4/10ths of a percent, below FY 2022 levels, increasing our constant currency ARR by 29.6%. FX tailwinds in FY 2023 saw US Dollar denominated ARR outpace our constant currency measure, growing by 31.4%. As we reset constant currency rates each year to the rates in effect on the last day of the prior year, this $637.3 million US Dollar ARR balance reflects FY 2024 constant currency rates and is the value against which we'll measure constant currency ARR for the coming year.

SLIDE 25 – Increasing Customer Base and Contract Value

Our ARR measures continued to be driven mostly by the addition of new customers, which, in the recent environment, has been more challenging than usual. Year-over-year, we added 446 fewer net new customers than we did in FY 2022, but still grew our customer base 18.3% year-over-year.

To achieve relatively stable year-over-year net ARR added, the decline in net new customers added was offset by increased contract values across both new and existing customers. In aggregate, we saw a 9.5% year-over-year increase in average contract ARR across our customer base.

SLIDE 26 – Increasing ARR Distribution and Platform Adoption

We continued to sell across a broad range of customer and contract sizes, however, driven by greater focus on strategic accounts and the increase in average contract ARR, our account distribution again shifted larger. For FY 2023, 54% of ARR came from the 18% of customers with ARR of more than $100K, compared with 50% of the ARR from 15% of the customers in FY 2022.

Also key was the continuing product penetration that accompanied accelerated upsell activity in FY 2023. At 30 June, 48.8% of customers had purchased four or more of our products, up from 46.4% a year prior. While our customers still buy most of their products from us up front, we continue to strengthen our upsell focus, and expect this, along with an expanding product set, to continue deepening product penetration across our customer base.

SLIDE 27 – Resilient Churn and Retention Rates

Tracking broader trends, both one-year constant currency gross ARR churn and net ARR retention weakened from the prior year – but only slightly. Gross churn was 2/10ths of a percent higher, driven by an increase in bankruptcies and other defaults, as customers across our base grappled with their own financial challenges. That said, churn remains significantly below the pandemic highs we saw in FY 2021, and is still within what we consider to be a normal range for our customer base.

This slight increase in churn is reflected in the 6/10ths of a percent decline in net ARR retention we saw between years. While we drove a significant increase in product upsell activity in FY 2023, it was offset by contract downsells, where customers reduced coverage or eliminated products in response to their own budget pressures.

Despite a small, and we think temporary, reversal in what had until recently been improving trends in churn and net ARR retention, we're encouraged by this increase in upsell activity. While our primary focus remains on new customer acquisition, we've continued to structure team responsibilities and incentives to focus more attention on existing customer product adoption. With FY 2023 activity as an indicator and, combined with more exciting product launches and enhancements to come, we believe that both these measures will move back in the right direction as our go-to-market investments start to pay off and economic conditions continue to improve.

SLIDE 28 – Summary P&L: Cost of Sales

We've already talked growth trends and their drivers so now let's spend a few minutes on our costs and resulting profitability measures.

For FY 2023, gross margin increased by 6/10ths of a percent vs the prior year, staying at the high end of our expected range. The shift in composition of direct costs continued as hosting costs grew significantly faster than the total, reflecting increasing sales of cloud-based offerings and customers moving more of their digital footprint to the cloud. This was offset by slower growth in appliance depreciation and related deployment costs, and further by the typically small amount of costs for appliances sold to government or regulated customers being even smaller than the prior year.

Though our FY 2023 operating expenses increased substantially year-over-year, in aggregate, they came in below even our late year forecasts, driving higher than expected full year margins. In part, this was a function of our multi-year contract, high variable cost model, where in a slower sales environment, incentive compensation and other sensitive costs fall well before any impact to revenue. We also managed discretionary costs effectively across the year, and saw some late year cost delays, which offset a portion of the investments we made in our go-to-market capabilities and corporate infrastructure.

SLIDE 29 – Summary P&L: Sales & Marketing

Sales and Marketing expenses increased by 24.5% year-over-year, but as a percent of revenue, came down by 2.9 percentage points. The largest increases were in compensation costs, reflecting the second half hiring of our CRO and the experienced people she's attracted to Darktrace. This additional hiring also resulted in a significant second half increase in T&E, as newly organised teams travelled to meet customers, prospects and each other. These cost step-ups were partially offset by lower than planned variable compensation, reflecting a slower sales environment. Also offsetting this investment was a temporary pullback in late year marketing spend, as some activities and commitments were delayed to get input from our new CMO.

SLIDE 30 – Summary P&L: R&D

R&D costs increased by 8.2% year-over-year, and as a percent of revenue, came down by 1.9 percentage points. Cash compensation costs across our tech functions went up about 27%, reflecting continued hiring and salary adjustments to retain our talented teams. This was partially offset by a reduction in share-based payment and related tax charges of about 30%, following the first half vesting of significant IPO-related equity grants. Depreciation of capitalised R&D labour also declined by about 30%, reflecting the timing of development cycles.

SLIDE 31 – Summary P&L G&A

G&A costs increased by 43.2% year-over-year, and as a percent of revenue, increased by 1.8 percentage points. The largest factor was a doubling of professional services fees for both planned and unplanned engagements. Our implementation of Workday, which is now in its final stages, was in progress throughout the year. We also spent a significant amount to reassure stakeholders and provide confidence in our financial statement, after questions were raised by a short seller. Increases in bad debt, as well as higher fixed asset depreciation related to new office buildouts, also contributed to the increase.

SLIDE 32 – EBITDA & Adj. EBITDA

As we’ve consistently said and demonstrated, Darktrace has a resilient business model, where multi-year contracts cushion revenue growth during periods of economic uncertainty, and high variable costs allow us to be responsive to profitability and cash flow goals.

Reflecting this, adjusted EBITDA increased by $47.8 million year-over-year, for an FY 2023 adjusted EBITDA margin of 25.5%. This was higher than the 18% we expected at the start of the year, largely due to some of the cost factors I just mentioned. But it was also pushed up by some late-year, one-off items - bad debt recovery, reversing accruals and FX translation credits, to above the 22%+ we expected in July.

As you'll have seen in the RNS, we're now changing our definition of adjusted EBITDA, largely in response to commission plan changes that will have a permanent accounting impact. I'll walk you through the changes and the reasoning in a moment, but I did want to highlight that this is the last time you'll see adjusted EBITDA under this definition.

SLIDE 33 – Free Cash Flow

For FY23, free cash flow was $93.8 million, down slightly from the prior year period, and representing 67.4% of adjusted EBITDA. As we've said before, this decline, and FCF being below our typical 75% to 105% of adjusted EBITDA range, was expected; in fact, we guided to a 50% to 55% range and have outperformed that. I'll remind you that this year's variance from the norm reflects a decision to net settle a first half equity vesting for Executive Directors not from any change in our normal cash flow from operations or working capital movements.

Changes in how we pay commissions, as well as our re-definition of adjusted EBITDA going forward, are going to have an impact on how we guide free cash flow. Again, I'll walk you though this in a moment, but I just wanted to make sure you note the change and keep it in mind when you look at trends and comparisons.

But before we move to guidance, there are two other quick financial items impacting our FY 2023 results that I want to point out.

SLIDE 34 – DTA & Share Repurchases

For the first time, we've recognised a deferred tax asset related to our accumulated prior period losses. At 30 June, we recognised a DTA of $19.8 million, leaving a further $78.3 million unrecognised. We assess expectations for short-to-intermediate term profitability on an ongoing basis, and in future periods, will recognise additional DTA as and when our forecasts support it.

Also during the year, we spent $145.2 million to repurchase Darktrace shares. Of this, $94.3 million went to repurchase 28.3 million shares for our employee benefits trust. These shares will be used to offset future dilution under our equity-based incentive plans.

The remaining $50.9 million was used to repurchase shares with the intention of reducing our share capital. During the year, we repurchased 15.4 million shares, all of which have been, or will shortly be, cancelled. We have remaining authorisation under this programme so purchases have continued into FY 2024.

I'll note that these buybacks were largely self-funded, using the $134.0 million in cash from operating activities we generated in the year.

SLIDE 35 – FY 2024 Guidance

Today, we're confirming the FY 2024 constant currency ARR and revenue guidance we gave in our July trading update. We're still expecting ARR growth of between 21% and 23%, which will be measured against a finalised 30 June ARR balance, rebased for FY 2024 constant currency rates, of $637.3 million. This implies that we expect to add net new ARR of between $133.8 million and $146.6 million, for year-over-year growth of between (8)% and 1%.

We're balancing ongoing macro-economic uncertainty with early signs of recovery, and reflecting the time needed for recent investments in GTM strategy and teams to impact results. We continue to think of FY 2024 in terms of first half stabilisation and second half re-acceleration, and still expect approximately 55% of FY 2024 net new ARR to be added in the second half. This is more back weighted than typical and reflects what we expect to be accelerating sales performance later in the year.

Second half weighted ARR additions will have an impact on Darktrace's revenue growth, as a larger number of contracts generate revenue for a smaller portion of the year. Also, as trends in revenue typically lag those in ARR added by 6 to 12 months, the ARR added trends we saw in FY 2023 will be felt in FY 2024 revenue. However, we took this into account prior to our July trading update so are confirming our year-over-year revenue growth expectations of between 22.0% and 23.5%.

SLIDE 36 – FYI 2024 Guidance

Now, as you saw in our RNS, we're updating Adjusted EBITDA margin guidance to reflect first, changes in our sales commission plans, and second, a related change in our Adjusted EBITDA definition. To better align with market practices and improve our ability to hire and retain experienced talent, we'll now be paying 100% of sales commissions up front. From a cost recognition perspective, this means that we'll now capitalise substantially all sales commissions and recognise them over their contract lives; a change from past plans where we capitalised the first 50% but expensed the second 50% - typically over the first year. This has the effect of moving more commission costs to later periods, better aligning with revenue recognition. We don't expect this change to have any material impact to our long-term financial profile and are not changing our long-term steady-state economic model. You'll note that in FY 2023, we delivered an FY 2023 adjusted EBIT margin of 15.1% - well on the way to our mid-20%s target.

In July, we told you to expect FY 2024 Adjusted EBITDA at or around 22%, which was based on using prior period commission plans and related accounting treatments. If these plans had stayed the same, we would now be updating guidance to a range of between 22.0% and 24.0%. If we kept the same definition, but netted the cost benefit of capitalising 100% of commissions against the continued cost accruals for FY 2023 plan commissions, it would have added approximately 3 percentage points to our FY 2024 Adjusted EBITDA guidance range.

However, with 100% of commissions now being capitalised, and after reviewing comparable peer practices, we have decided that for prudence, and to better align revenue, profitability and cash flow measures going forward, we're going to change our definition of Adjusted EBITDA to treat all commissions amortisation as cash costs. On this basis, we're now guiding to an FY 2024 Adjusted EBITDA range of 17.0% to 19.0%. In the RNS, you'll find a table comparing adjusted EBITDA margin expansion between FY 2021 results and FY 2024 guidance, both pre and post changes, showing that our underlying performance trajectory is not changing.

SLIDE 37 – FY 2024 Guidance

Transitioning to a new commission payout schedule will also impact Free cash flow for FY 2024, as we pay both 100% of new commissions and remaining commissions from FY 2023. This impact will be temporary and largely confined to FY 2024 and early FY 2025. Longer term, our expectation for FCF expressed in terms of a range of percentages of Adjusted EBITDA will also change, almost entirely due to the change in our Adjusted EBITDA definition. Given this, we now expect FCF for FY 2024 to be in the range of 50% to 60% of the newly defined Adjusted EBITDA and, more typically, to fall in the range of 100% of Adjusted EBITDA, plus or minus 20 percentage points. As before, we're giving a range of normal FCF outcomes to account for variability in a range of cash flow timings. However, we've now expanded our range of outcomes to reflect additional variability from paying higher commissions in-period, as well as now factoring in assumptions for future deferred tax asset recognition and cash tax payments.

In summary, we're pleased with our positive FY 2023 performance amidst a challenging economic environment. Our resilient business model was put to the test and showed that indeed, multi-year contracts and high variable cost structures do allow for continued growth, investment, profit expansion and cash flow, even in uncertain times. And, as we expect to benefit from recent go-to-market investments later this year, we're looking forward to capturing more of what remains a large market opportunity, both in the second half of FY 2024 and beyond.

And with that I'm going to hand back to Poppy for some final comments.

POPPY GUSTAFSSON

SLIDE 38

Thank you, Cathy. So, as we look ahead, what are we going to see?

As ever, you can expect to see new innovations coming out of our AI Cyber Research centre in the coming year. Cloud is a huge area of focus for us, as we see an opportunity to improve the way that cloud systems are protected.

We have supercharged our go-to-market capabilities and we're ready to go after the 150,000 companies that can benefit from our technology. We expect to see sales accelerating in the second half – driven by the investments we've made, rather than external macro conditions.

So I end with what I said at the start, we have unique capabilities in a growth market, at a time when the business has never been more ready. This is our moment for the taking – and we couldn't be better positioned for it.

What a moment to be Darktrace!

With that, over to Luk to open up the floor for questions.

SLIDE 39 – Luk – Q&A

Thank you to Poppy, Cathy and Jack for that presentation.

We're now ready to take questions. The first question is from…