

13th April 2023

Darktrace plc Q3 FY 2023 Trading Update

- **Robust Q3 ARR growth but macro headwinds limit FY 2023 expectations**
- **Resilient business model supports sustained strong FY revenue outlook**
- **FY margin guidance increased on continued operating efficiency trends**

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 the three months ended 31st March 2023.

Operating and Financial Performance

At its FY 2023 constant currency rates⁽¹⁾, Darktrace is reporting ARR at 31st March 2023 of \$583.6 million, representing year-over-year growth of 33.7%⁽²⁾. This high constant currency ARR growth was supported by its multi-year contract structure, which continues to moderate the impact of a challenging macro-economic environment.

During Q3 FY 2023, the Group added net constant currency ARR of \$27.0 million, a decline of (6.3)% compared to the same quarter of FY 2022, and for the nine-months year-to-date, net ARR added was \$98.7 million, an increase of 3.2% above the comparable prior year period. This reflected what continues to be a difficult environment for new customer acquisitions, with Darktrace adding 225 net new customers in the quarter, less than the number added in the comparable prior year period. However, the total customer base grew 22.0% year-over-year, to 8,403 customers at 31st March 2023.

Darktrace saw a slight increase in churn and a corresponding decrease in net ARR retention during the quarter. One-year gross ARR churn and net ARR retention rates at 31st March 2023 were 6.9% (6.5% at 31st December 2022 and 6.2% at 31st March 2022), and 104.6% (105.1% at 31st December 2022 and 105.7% at 31st March 2022), respectively.

Darktrace is reporting revenue for Q3 FY 2023 of \$139.2 million, reflecting year-over-year growth of 28.1%. It also reports that gross margin for Q3 FY 2023 remained in the range of recent reported periods and that its Q3 FY 2023 adjusted EBITDA margin was at or above the top end of its previously communicated 16% to 18.5% FY 2023 guidance range.

(1) The Group’s primary currency exposures are the British Pound and the Euro converting to its US Dollar reporting currency. For FY 2023, its constant currency rates are 1.2146 and 1.0450 for the Pound and the Euro, respectively.

(2) Darktrace’s USD ARR at 31st March 2023 was \$589.2 million, for year-over-year growth of 30.6%.

FY 2023 Outlook

It remains clear that continuing uncertainty in the macro-economic environment is still having a significant impact on new customer additions and related ARR growth. Given this ongoing trend, Darktrace is now centring its FY 2023 constant currency ARR guidance around the low end of its previous range. With its significant committed backlog contributing most of the revenue for the remainder of the period, however, it is confirming revenue expectations at the top end of its previous range. The Group also expects to maintain operating efficiencies while continuing significant investments to support future growth, so is raising its expectations for adjusted EBITDA margin.

For FY 2023, Darktrace now expects year-over-year increase in its constant currency ARR to be at or around 29%, the low end of its previous 29% to 31.5% range. This implies a year-over-year change in net ARR added in a range around (2.5)%, for expected FY 2023 net ARR added in the region of \$140.6 million.

With the foreign exchange rate environment having remained relatively stable, and with most FY 2023 revenue already invoiced, Darktrace is now expecting year-over-year revenue growth to be at or around 31%, the high end of its previous 29.5% to 31% range.

Based on strong preliminary Q3 margins and its plans for Q4 operations and investment, Darktrace is increasing its expectations for its FY 2023 adjusted EBITDA margin to at or around 19%, above its previous 16% to 18.5% range.

Recent Developments

Darktrace/Email Upgrade

With AI that understands your business underpinning a best-in-class 4.8 Gartner Peer Review score, Darktrace/Email detects novel email attacks an average of 13 days earlier than email security tools trained solely on historic attack data⁽¹⁾.

On 3rd April 2023, Darktrace announced the [largest feature upgrade](#) ever made to its Darktrace/Email product. Already used by over 3,000 Darktrace customers worldwide, these new features bring immediate increased value to their existing deployments. The newly released feature set includes:

- Account takeover and email protection now combined in a single product;
- Behavioral detection of misdirected emails, preventing intellectual property or confidential information being sent to the wrong recipient;
- An employee-AI loop that leverages individual employee behavior to provide personalised, real-time, in-context insights and security awareness;
- Intelligent mail management for improved productivity of the graymail, spam, and newsletters that clutter inboxes;
- Optimised workflows & integrations for security teams, including the Darktrace mobile app; and
- Automated investigations integrating email incidents with other coverage areas with Darktrace's Cyber AI Analyst, further enhancing security team productivity and streamlining their workflows.

(1) 13 days is the mean average time that phishing payloads are active in the wild between the first response by Darktrace/Email and the earliest of 16 independent feeds submitted by other email security technologies.

Cathy Graham, CFO of Darktrace, said:

"I am pleased that we have been able to maintain high ARR and revenue growth in the period, as well as preserving profitability and cash generation. Clearly, however, the current macro-economic environment continues to pose challenges to winning new customers, as requirements to hold or cut spend have made prospects more reluctant to run product trials. Though we are very excited about the new and upsell opportunities created by our recent Darktrace/Email upgrade and continue to be optimistic about PREVENT's ability to contribute to our future growth, against a backdrop of weaker trends and continuing uncertainty, we are being prudent and expecting a slower than normal sales environment for the remainder of the financial year.

Despite macro-driven, and most likely temporary, slower growth expectations, it is a testament to our resilient business model that we can drive an increase in our profitability expectations. With strong margins, a significant cash position and ongoing operating cash generation, we intend to continue making smart investments in our future product pipeline, go-to-market strategy, and business foundations. Being able to take a forward-looking view means that we expect to emerge from this uncertain period in an even stronger position, both to capitalise on our very large market opportunity and to demonstrate to customers and investors that a period of economic adversity has not hindered what we believe is our unique and sustainable value proposition."

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 the Darktrace Cyber AI Research Centre in Cambridge, UK have resulted in over 135 patent applications filed and research published to contribute to the cyber security community. Rather than study attacks, Darktrace's technology continuously learns and updates its knowledge of 'you' and applies that understanding to optimise your state of optimal cyber security. Darktrace is 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 2,200 people around the world and protects over 8,400 customers globally from advanced cyber threats. Darktrace was named one of TIME magazine's 'Most Influential Companies' in 2021.

Cautionary Statement

This announcement contains certain forward-looking statements, including with respect to the Group'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.

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