Darktrace PLC FY 2023 Results

6 September 2023

MEET THE TEAM

Poppy Gustafsson OBE

Chief Executive Officer

Cathy Graham

Chief Financial Officer

Jack Stockdale OBE

Chief Technology Officer

Disclaimer

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.

Past performance of the Company cannot be relied on as a guide for future performance. Nothing in this presentation should be construed as a profit forecast or profit estimate save for the FY 2024 Guidance.

The financial information in this presentation does not contain sufficient detail to allow a full understanding of the results of the Company. For more detailed information, please see the full year results announcement for the financial year to June 2023.

A Watershed Moment

A unique opportunity for Darktrace

Global, seismic shift in AI

Supercharged Go-to-Market team

Highlights: FY 2023

Darktrace HEAL™ — Launched in July 2023	9.5% — Increase in avg. customer contract size	1,362 — Customers added, 8,799 at FYE 2023	31.3% — YoY Revenue Growth

29.6% — Constant currency ARR growth	$93.8m — Free cash flow	CMO & CRO — Strategic leadership hires	25.5% — Adjusted EBITDA margin	2,200+ — Employees globally

DARKTRACE

Darktrace is AI-Native

Future-proofed technology

No reliance on known 'bads'

Works across the business

We bring our AI to the data

The Era of AI-Powered Attacks is Here

AI poses emerging
and unpredictable risks

Indications of increased
automation in attacks

Constant evolution in attacker
behaviour and techniques

Jack Stockdale
CTO

AI: What Do We Mean?

Compute resource + AI Algorithms + Data

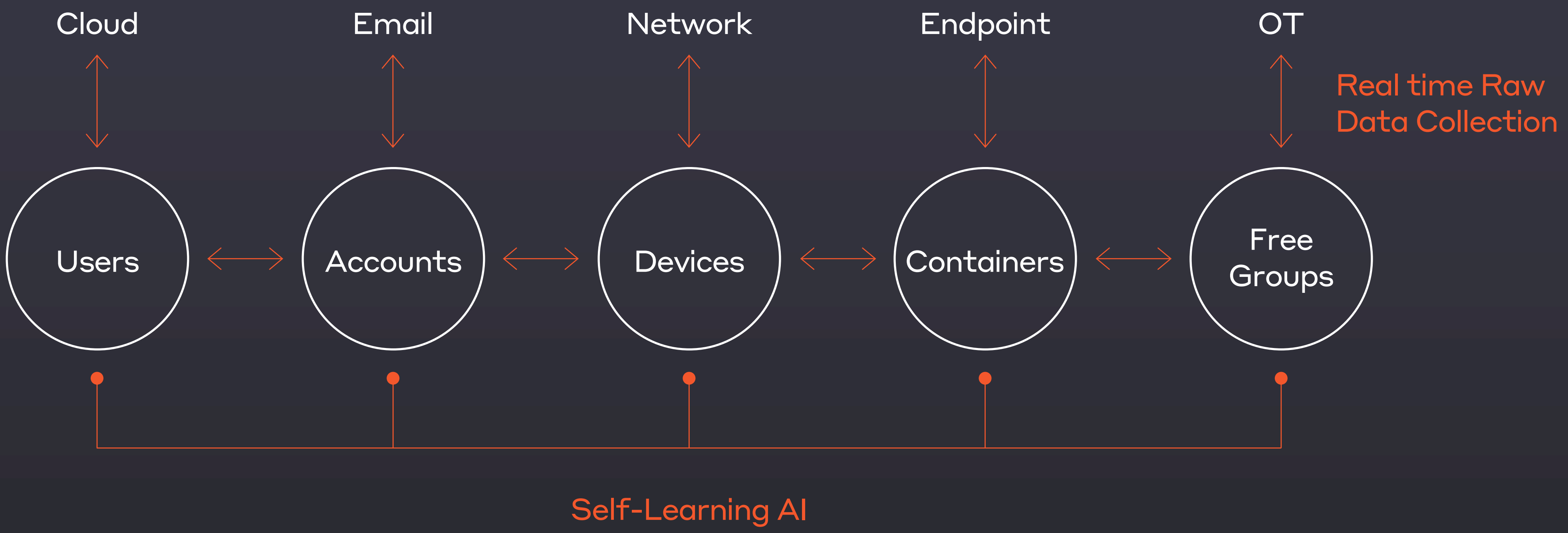
The best approach to AI requires finding the right AI for the job

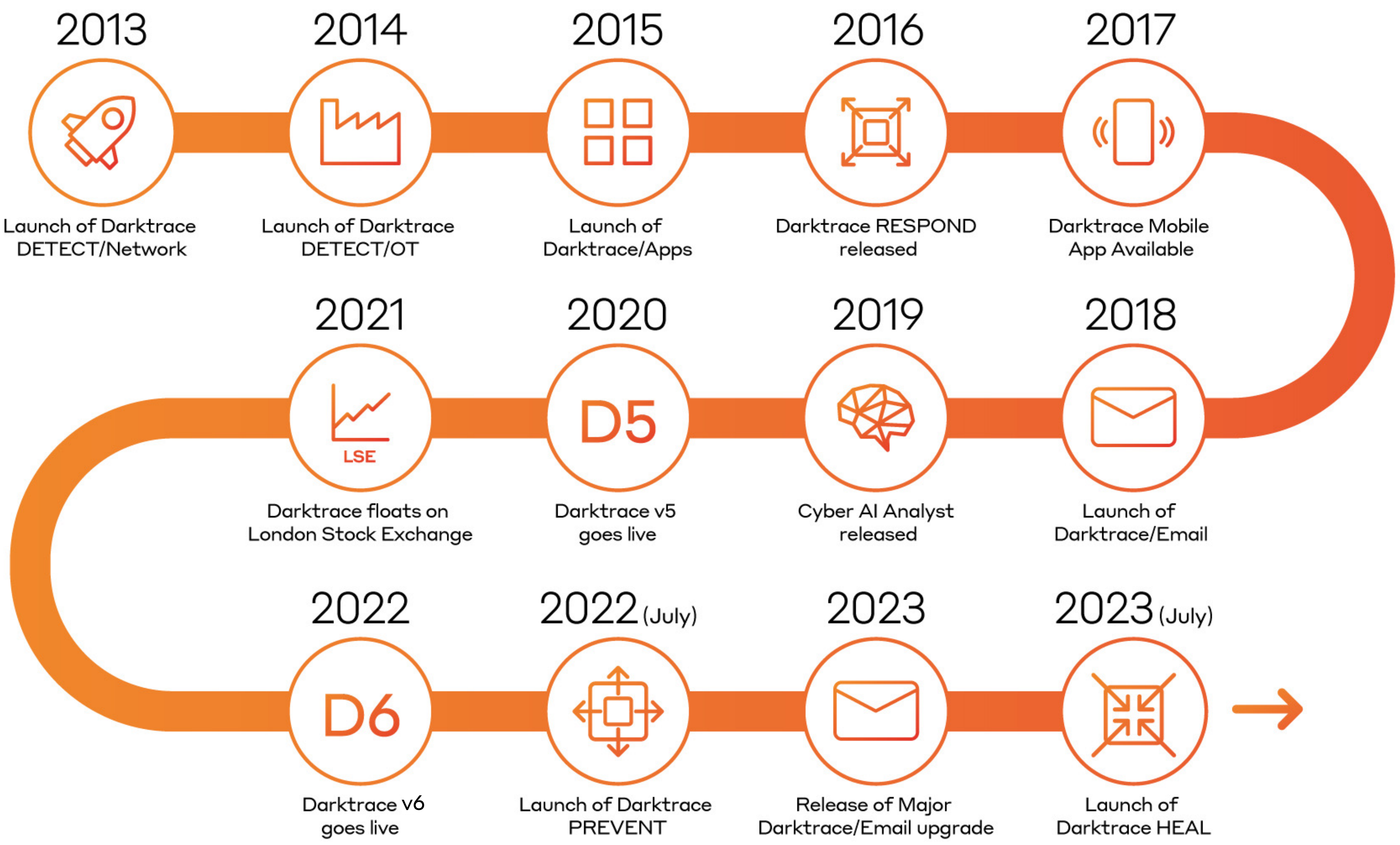
Traditional AI Data Pipeline

Collection	Data Preparation	Model Training in Lab	Deploy in Production
Logs, threat intelligence, signals, signatures, etc.	Cleanse data, classify data with labels	Select appropriate algorithm and build a model; test it with training data	Test to see which models work and fail in the real world

Identify Business Problem → Collect Data → Prepare Data → Build Model → Govern → Deploy → Test Model

Real Time Cyber AI Pipeline




2013
Launch of Darktrace DETECT/Network
2014
Launch of Darktrace DETECT/OT
2015
Launch of Darktrace/Apps
2016
Darktrace RESPOND released
2017
Darktrace Mobile App Available
2018
Launch of Darktrace/Email
2019
Cyber AI Analyst released
2020
D5
Darktrace v5 goes live
2021
LSE
Darktrace floats on London Stock Exchange
2022
D6
Darktrace v6 goes live
2022 (July)
Launch of Darktrace PREVENT
2023
Release of Major Darktrace/Email upgrade
2023 (July)
Launch of Darktrace HEAL

SELF-LEARNING AI:

A Combination of Methods

/ Bayesian probabilistic methods

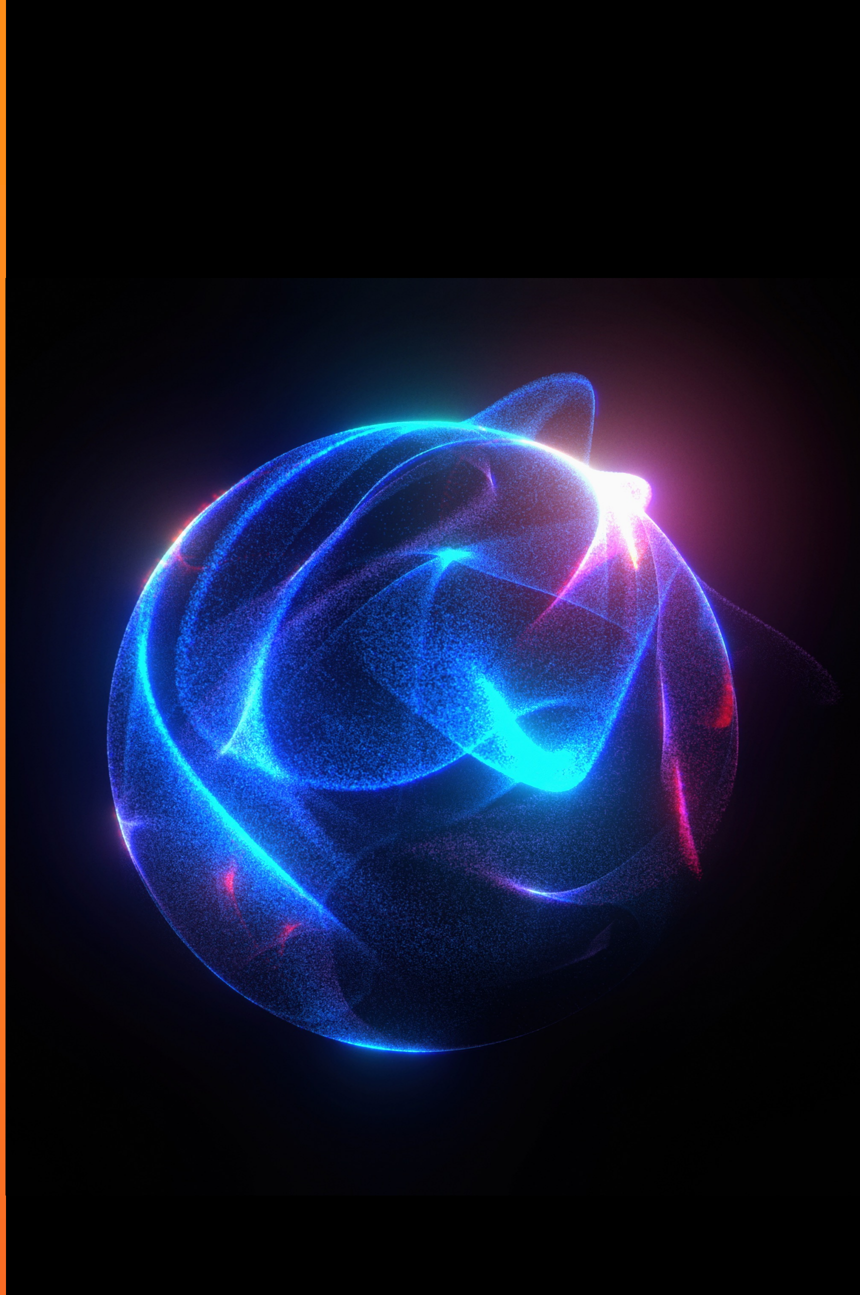
/ Deep neural networks

/ Graph theory

/ Offensive AI techniques (eg, GANS)

/ Generative and applied AI

/ Natural language processing



Self-Learning AI: The Right AI for Cyber

Customer's data doesn't leave the business	System learns in real time	Takes immediate, autonomous action

Self-Learning AI holds many advantages

Poppy Gustafsson, CEO

APPROXIMATELY 8,800 CUSTOMERS IN 110 COUNTRIES

- Technology
- Financial & Insurance
- Governments
- Healthcare
- Critical Infrastructure
- Telecommunications
- Global Retailers
- Education

Darktrace is very complementary to all that we are trying to do.

TERRY GRIFFITH

Senior Director, Operations, Royal Caribbean

GTM Leadership Hires

Denise Walter, Chief Revenue Officer

"Over the past few months, I have been focused on implementing a number of strategic structural and procedural changes within the GTM team to help best position Darktrace for continued growth. The company's strong performance so far is testament to the success of its technology and the positive outcomes that we are delivering to our customers and partners. I am excited to continue building on that foundation through the optimizations we are making to our GTM organization and will continue our focus on delivering excellent service and a cutting-edge product suite to our customers.

Chris Kozup, Chief Marketing Officer

"I am excited to join a company driving such meaningful innovation at the intersection of cyber security and AI that helps organizations stay at the forefront of cyber resilience against new and unknown threats. As the CMO my focus is on strengthening the brand awareness for Darktrace in strategic markets globally while scaling a demand generation engine designed to engage with future and existing customers to help drive the next phase of growth.

Chris and Denise have made several senior hires across the Go-To-Market and Marketing functions since joining

salesforce zscaler COHESITY vmware NetApp FORTINET CROWDSTRIKE

Best-in-Class GTM Model

Adjustments
to sales structure

Compensation
changes

Refining
GTM processes

Upgrading our Systems and Upskilling our People

New Internal Systems

Workday

Leading CRM system

Improving productivity and efficiency

Investment in training and development

Darktrace Academy

MEDDPICC

Furthering success in Darktrace and beyond

Looking Ahead: Well Positioned for the Next Phase of our Growth

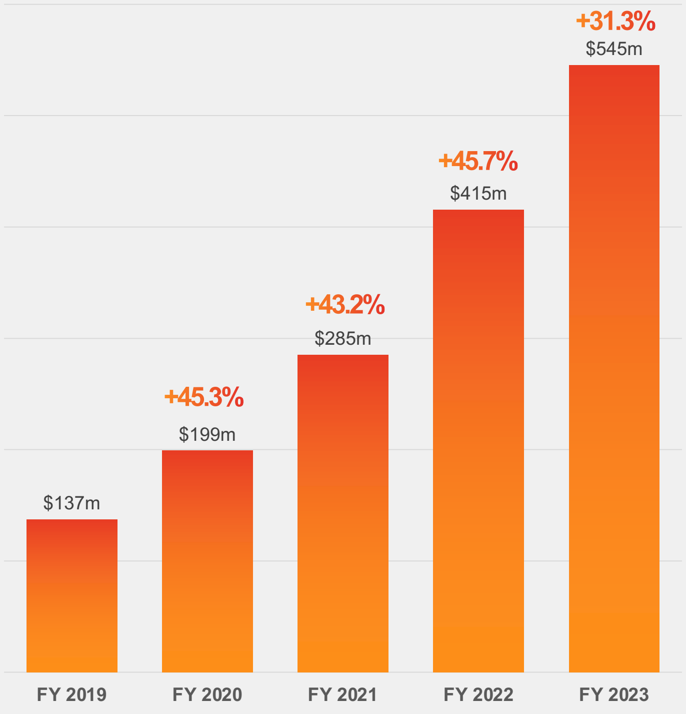
DARKTRACE

Cathy Graham
CFO

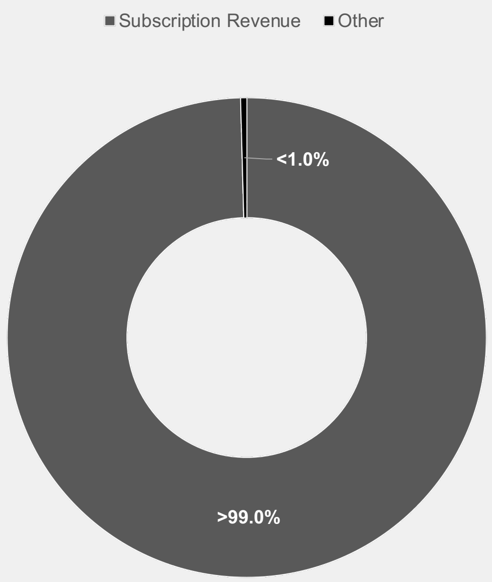
[DTL1]

Revenue: Strong Growth & Recurring Features

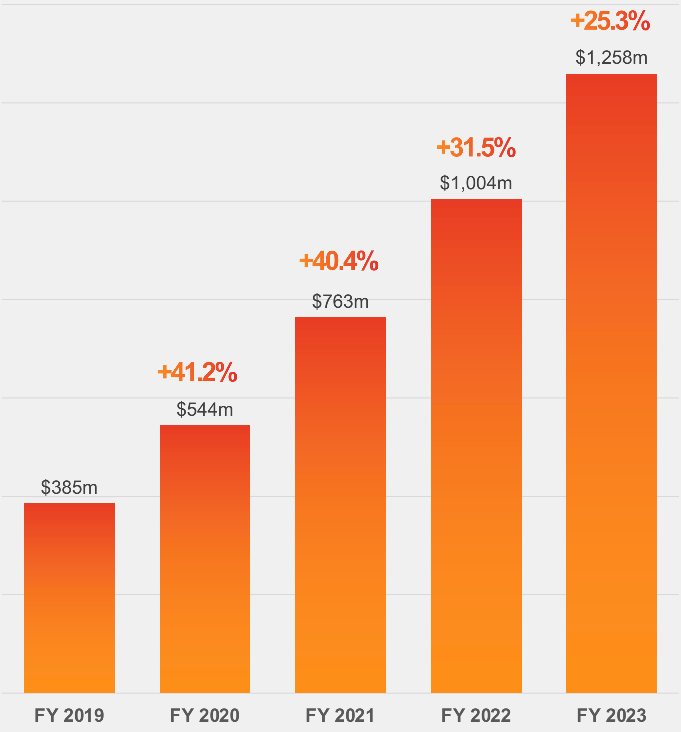
Revenue
($m, FY 30 Jun)



Highly Recurring Revenue
(% of FY 2023 Revenue, FY 30 Jun)

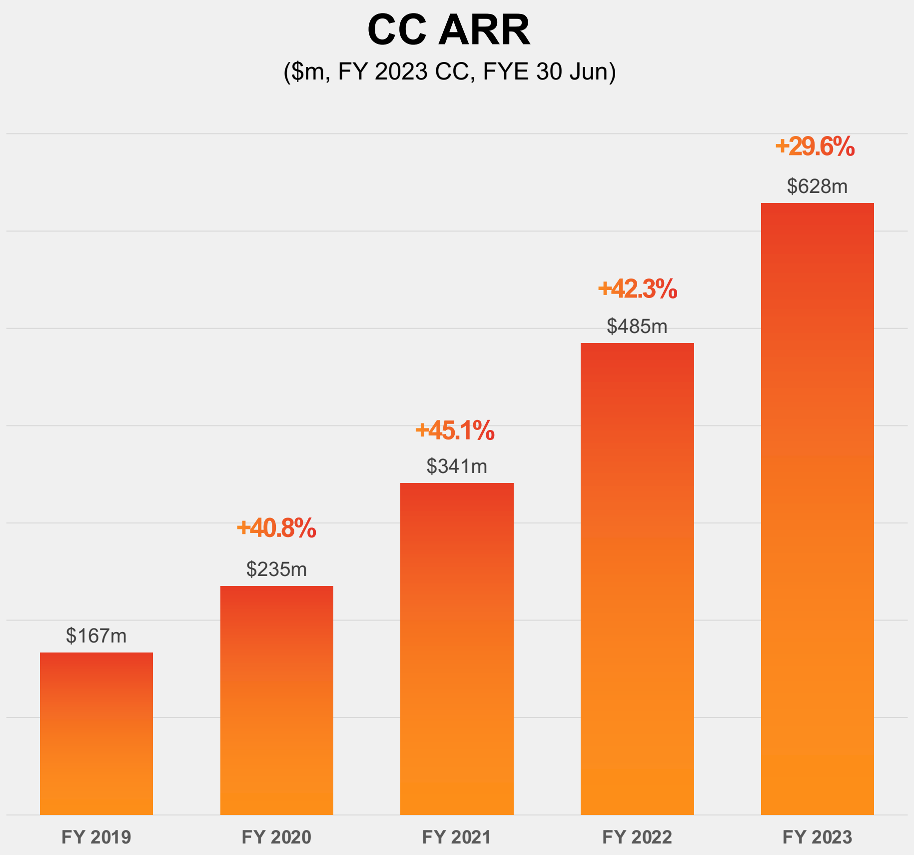


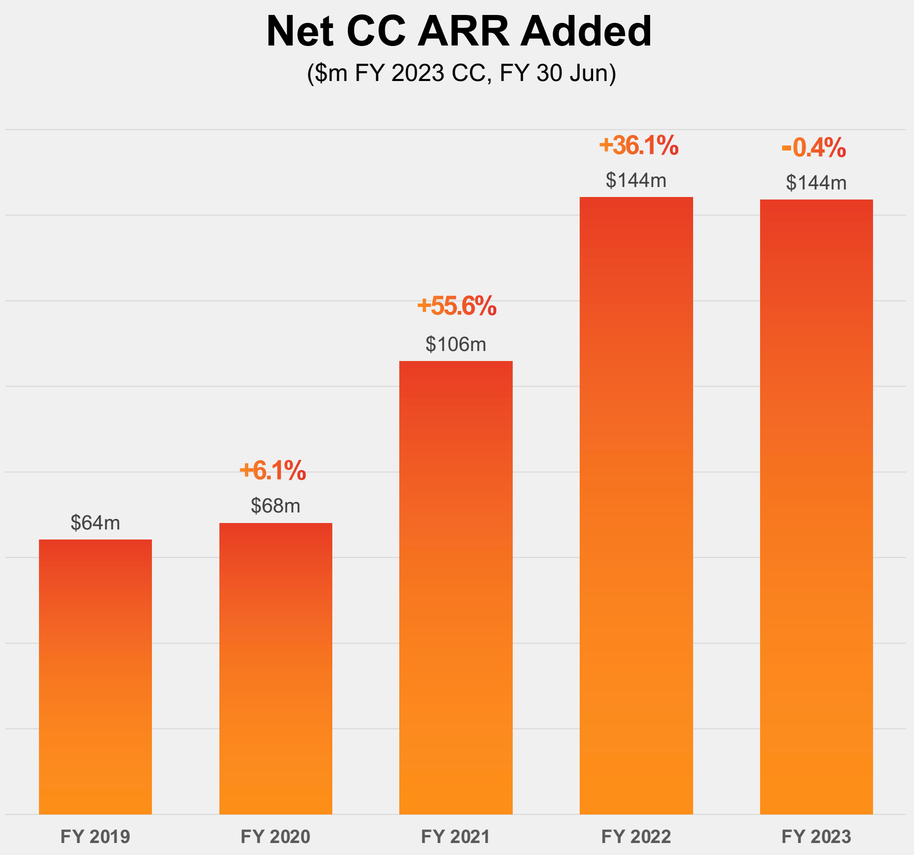
Significant Contracted Backlog
(Remaining Performance Obligations, $m, FYE 30 Jun)



Note: Alternative Performance Measures (APMs) are used by Darktrace management and Board of Directors to understand and manage performance. Definitions of the company's APMs can be found in the Appendix.
Customers, ARR and ARR-related measures have been re-cast to treat Cybersprint as though it had been owned in all periods presented.

Strong Constant Currency ARR Growth





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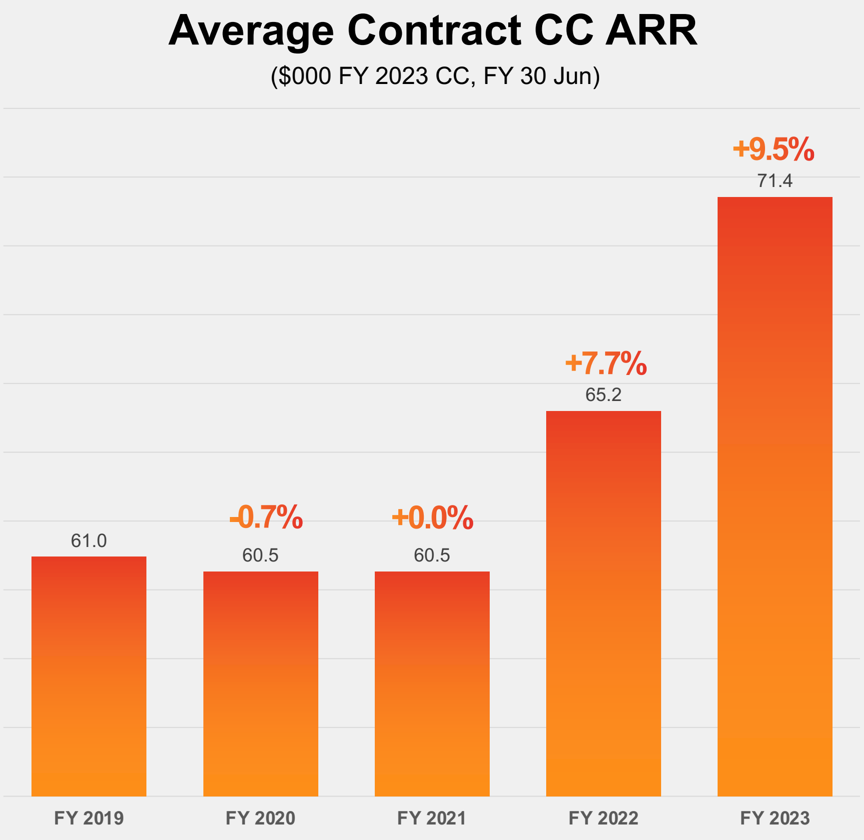
Increasing Customer Base and Contract Value



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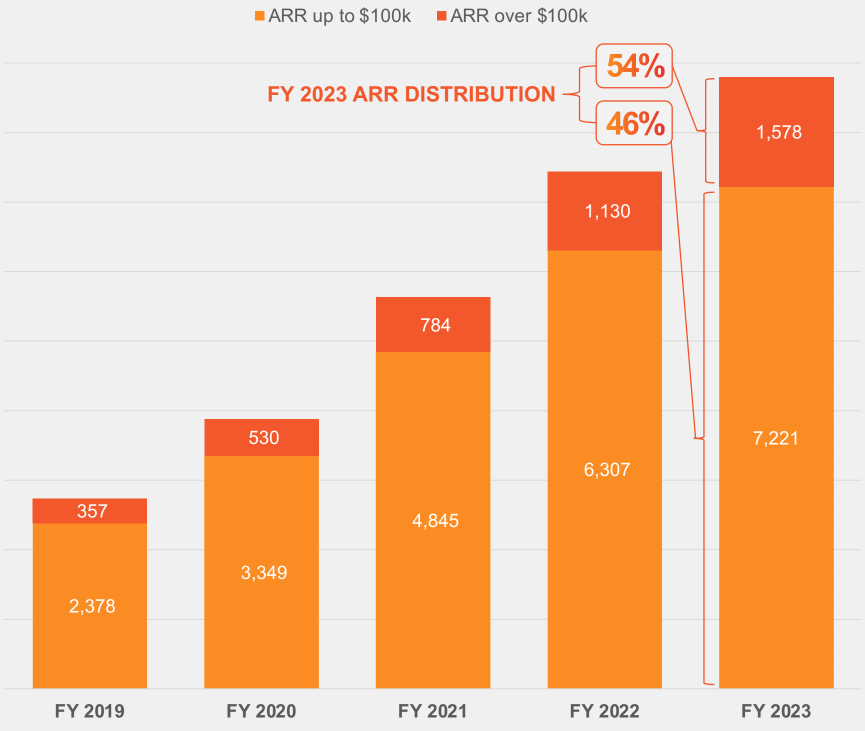
Increasing ARR Distribution and Platform Adoption

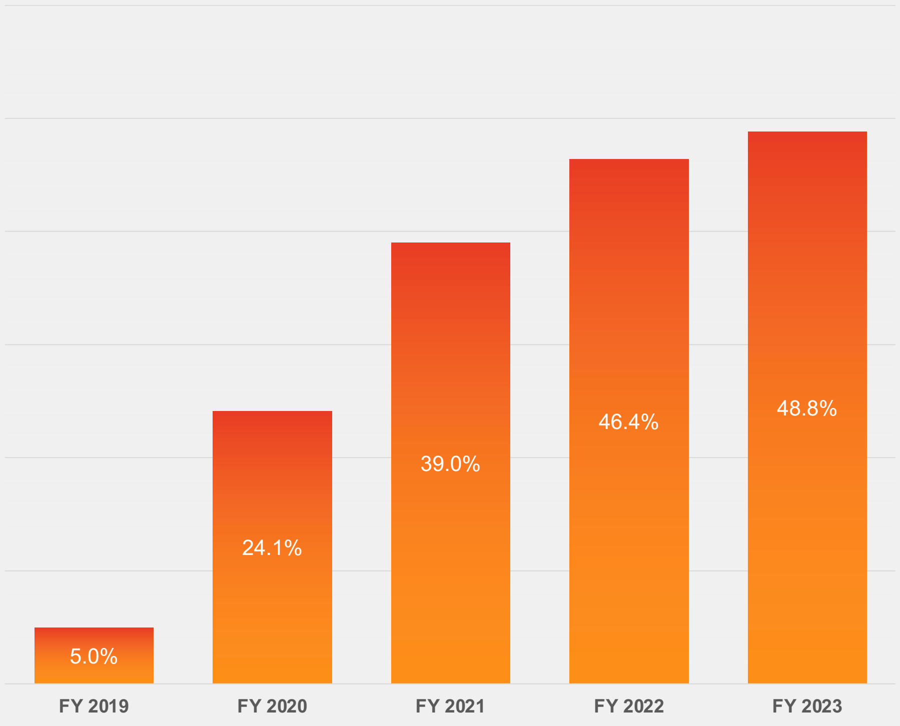
Customers with ARR over $100k

(# of customers, FY 2023 CC, FYE 30 Jun)



Platform Adoption

(% customers with four or more products, FYE 30 Jun)



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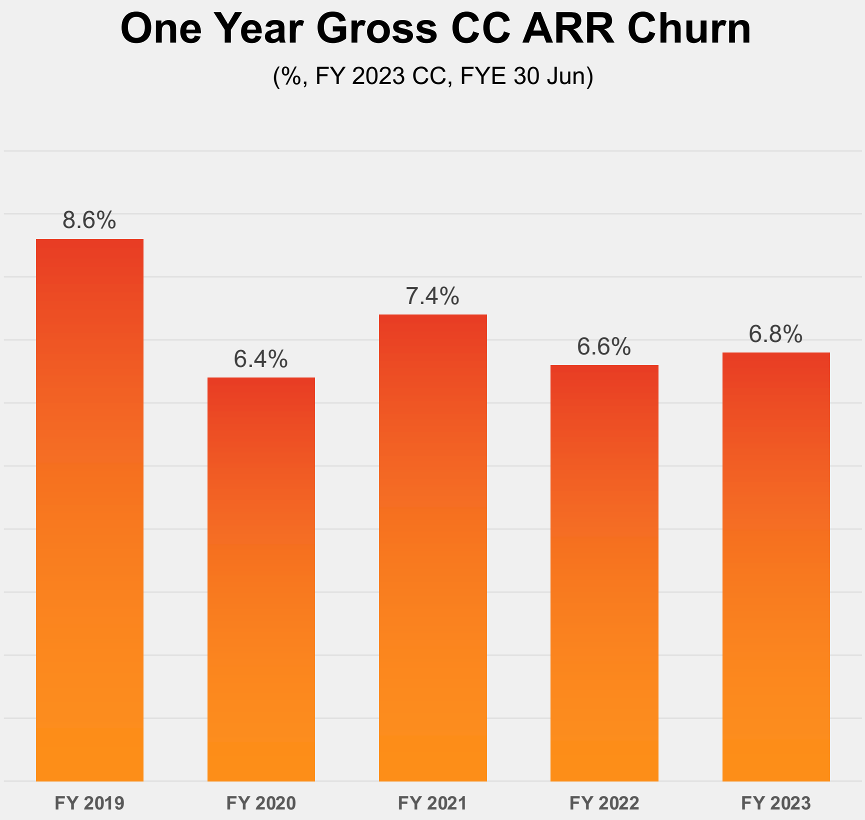
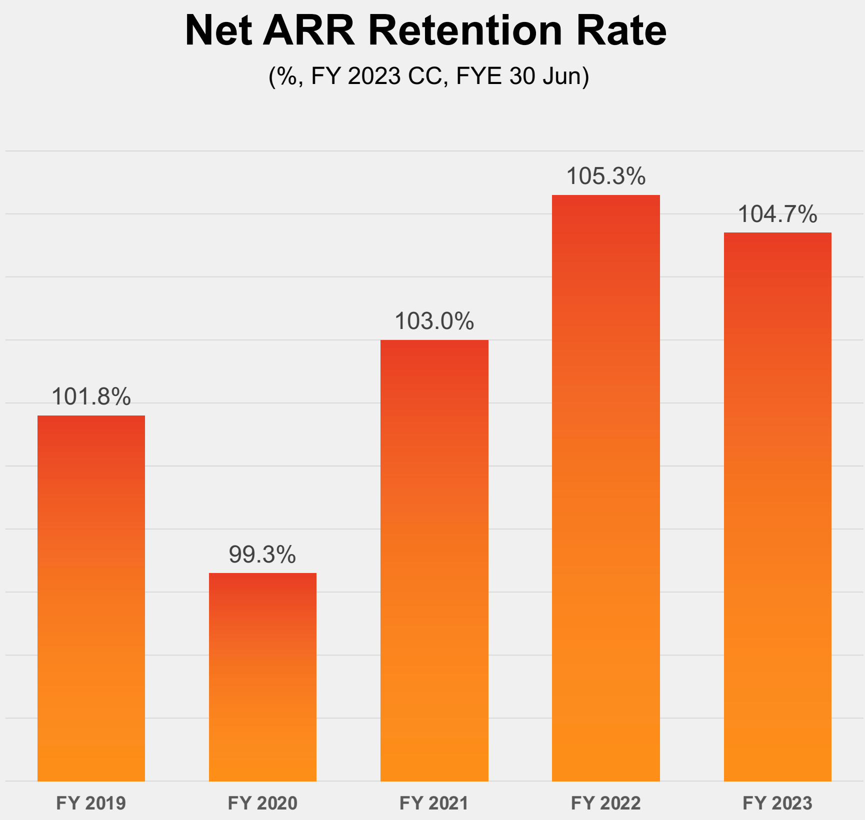
Resilient Churn and Retention Rates





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Customers, ARR and ARR-related measures have been re-cast to treat Cybersprint as though it had been owned in all periods presented.

Summary P&L: Cost of Sales

$000	FY 2022	FY 2023	YoY %
Revenue	**415,482**	**545,430**	***31.3%***
Cost of sales	**(44,848)**	**(55,642)**	***24.1%***
Gross profit	**370,634**	**489,788**	***32.1%***
Gross profit margin %	***89.2%***	***89.8%***	
Sales & marketing costs, excl. SBP & ETC	**(217,425)**	**(272,197)**	***25.2%***
S&M: SBP & related employer tax charges	(15,347)	(17,506)	
Research & development costs, excl. SBP & ETC	**(32,615)**	**(39,666)**	***21.6%***
R&D: SBP & related employer tax charges	(11,647)	(8,228)	
General & administrative, excl. SBP & ETC	**(65,947)**	**(97,743)**	***48.2%***
G&A: SBP & related employer tax charges	(15,220)	(18,475)	
Foreign exchange differences	(6,502)	(2,127)	
Other operating income	1,671	2,666	
Operating profit (EBIT)	**7,602**	**36,512**	***380.3%***
Operating income (EBIT) margin %	***1.8%***	***6.7%***	
Finance costs, net	(2,289)	4,523	
Taxation	(3,856)	17,923	
Net profit	**1,457**	**58,958**	***3945.8%***
Net income margin (%)	***0.4%***	***10.8%***	

Cost of Sales - $000	FY22	% of Rev.	FY23	% of Rev.
Employment costs	(13,490)	*-3.2%*	(18,593)	*-3.4%*
Hosting costs	(10,653)	*-2.6%*	(16,887)	*-3.1%*
Appliance depreciation	(14,589)	*-3.5%*	(16,721)	*-3.1%*
Shipping & other direct costs	(6,115)	*-1.5%*	(3,441)	*-0.6%*
Cost of sales	**(44,848)**	*-10.8%*	**(55,642)**	*-10.2%*
Gross margin %	***89.2%***		***89.8%***	

- Relative composition of direct costs continues to evolve as cloud replaces appliances in an increasing number of deployments.
- Increasing cloud deployments provide the opportunity to take advantage of negotiated volume discounts and support future in-expected range gross margin.

DARKTRACE

[DTL1]

Summary P&L: Sales & Marketing

$000	FY 2022	FY 2023	YoY %
Revenue	**415,482**	**545,430**	***31.3%***
Cost of sales	**(44,848)**	**(55,642)**	***24.1%***
Gross profit	**370,634**	**489,788**	***32.1%***
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Net profit	**1,457**	**58,958**	***3945.8%***
Net income margin (%)	***0.4%***	***10.8%***	

- Excluding SBP & ETC, S&M costs increased 25.2% year-over-year. Largest increase was in employee-related compensation costs (up 32.5% on prior year), reflecting second half hiring of CRO and experienced GTM leaders, and corresponding increases in T&E spend.
- Cost step-ups were partially offset by lower than planned variable compensation, reflecting a slower sales environment, and also a temporary pullback in late-year marketing spend, as some activities and commitments were delayed to allow our new CMO to have input.

Summary P&L: Research & Development

$000	FY 2022	FY 2023	YoY %
Revenue	**415,482**	**545,430**	***31.3%***
Cost of sales	**(44,848)**	**(55,642)**	***24.1%***
Gross profit	**370,634**	**489,788**	***32.1%***
Gross profit margin %	***89.2%***	***89.8%***	
Sales & marketing costs, excl. SBP & ETC	**(217,425)**	**(272,197)**	***25.2%***
S&M: SBP & related employer tax charges	(15,347)	(17,506)	
Research & development costs, excl. SBP & ETC	**(32,615)**	**(39,666)**	***21.6%***
R&D: SBP & related employer tax charges	(11,647)	(8,228)	
General & administrative, excl. SBP & ETC	**(65,947)**	**(97,743)**	***48.2%***
G&A: SBP & related employer tax charges	(15,220)	(18,475)	
Foreign exchange differences	(6,502)	(2,127)	
Other operating income	1,671	2,666	
Operating profit (EBIT)	**7,602**	**36,512**	***380.3%***
Operating income (EBIT) margin %	***1.8%***	***6.7%***	
Finance costs, net	(2,289)	4,523	
Taxation	(3,856)	17,923	
Net profit	**1,457**	**58,958**	***3945.8%***
Net income margin (%)	***0.4%***	***10.8%***	

- Excluding SBP & ETC, R&D costs increased by 21.6%. Cash compensation costs increased c27%, reflecting continued hiring and salary adjustments to attract and retain talented product research and development teams.
- Core cost increases partially offset by a year-over-year decrease in depreciation of capitalised R&D, reflecting the timing of development cycles.

Summary P&L: General & Administrative

$000	FY 2022	FY 2023	YoY %
Revenue	**415,482**	**545,430**	***31.3%***
Cost of sales	**(44,848)**	**(55,642)**	***24.1%***
Gross profit	**370,634**	**489,788**	***32.1%***
Gross profit margin %	***89.2%***	***89.8%***	
Sales & marketing costs, excl. SBP & ETC	**(217,425)**	**(272,197)**	***25.2%***
S&M: SBP & related employer tax charges	(15,347)	(17,506)	
Research & development costs, excl. SBP & ETC	**(32,615)**	**(39,666)**	***21.6%***
R&D: SBP & related employer tax charges	(11,647)	(8,228)	
General & administrative, excl. SBP & ETC	**(65,947)**	**(97,743)**	***48.2%***
G&A: SBP & related employer tax charges	(15,220)	(18,475)	
Foreign exchange differences	(6,502)	(2,127)	
Other operating income	1,671	2,666	
Operating profit (EBIT)	**7,602**	**36,512**	***380.3%***
Operating income (EBIT) margin %	***1.8%***	***6.7%***	
Finance costs, net	(2,289)	4,523	
Taxation	(3,856)	17,923	
Net profit	**1,457**	**58,958**	***3945.8%***
Net income margin (%)	***0.4%***	***10.8%***	

- Excluding SBP & ETC, G&A costs increased 48.2% year-over-year. The largest factor was a doubling of professional services fees for both planned and unplanned engagements.
- Implementation of Workday, which is now in its final stages, was in progress throughout the year. Expected increases in bad debt, as well as higher fixed asset depreciation related to new office buildouts, also contributed to the increase.

EBITDA & Adj. EBITDA

$000	FY 2022	FY 2023
Net profit	**1,457**	**58,958**
Taxation	3,856	(17,923)
Finance income	(518)	(8,016)
Finance cost	2,807	3,493
Operating profit (EBIT)	**7,602**	**36,512**
Depreciation & Amortisation	56,185	73,378
EBITDA	**63,787**	**109,890**
Appliance depreciation in cost of sales	(14,589)	(16,721)
Impairment of right-of-use asset	-	1,781
Share-based payment (SBP) charges	44,018	39,989
SBP related employer tax charges	(1,804)	4,224
Adjusted EBITDA	**91,412**	**139,163**
Adjusted EBITDA Margin %	***22.0%***	***25.5%***

- FY 2023 Adjusted EBITDA margin of 25.5% reflects multi-year contract model, which cushions revenue growth during periods of economic uncertainty, and responsiveness of highly variable cost base.
- One-off items, such as late-stage bad debt recovery, reversal of accruals and FX impacts, also increased FY 2023 margin.

	COS	S&M	R&D	G&A
Depreciation & Amortisation				
Amort'n of capitalised commission	-	(32,471)	-	-
Amort'n of intangible assets	-	-	(5,524)	(73)
Dep'n of PPE (excl. Appliances)	-	(1,405)	(1,262)	(2,402)
Dep'n of Right of Use Assets	-	(6,931)	(1,589)	(1,806)
Dep'n of Appliances (Opex-only)	-	(3,195)	-	-
Dep'n of Appliances (CoS-only)[1]	(16,721)	-	-	-
Share-based Payments (SBP)				
SBP charge[2]	-	(16,524)	(7,418)	(16,753)
Capitalised development cost	-	-	706	-
SBP-related employer tax charge[2]	-	(981)	(1,522)	(1,722)
Capitalised development cost	-	-	3	-
Impairment of right-of-use asset	**-**	**-**	**-**	**(1,781)**
Total Adjustments	n/a	**(61,507)**	**(16,607)**	**(24,537)**

[1] *Adj. EBIT & EBITDA includes depreciation of appliances attributed to Cost of Sales*
[2] *Gross of capitalisation*

Note: For FY 2024 onwards, Darktrace is updating its definition of Adjusted EBITDA

Free Cash Flow

$000	FY 2022	FY 2023
Adjusted EBITDA	**91,412**	**139,163**
Appliance depreciation in cost of sales	14,589	16,721
SBP related employer tax charges	1,526	(13,920)
Loss on disposal or impairment	3,117	2,985
Other non-cash movements	9,612	(976)
Working capital movements	26,498	(6,383)
Tax related payments/receivables	(6,510)	(3,542)
Net cash inflow from operating activities	**140,244**	**134,047**
Capitalised research and development	(1,292)	(1,813)
Property, plant and equipment purchased	(31,863)	(24,306)
Lease costs capitalised	(7,572)	(14,175)
Free Cash Flow	**99,517**	**93,754**
FCF conversion (as % of Adjusted EBITDA)	***108.9%***	***67.4%***

- Free cash flow (FCF) of $93.8 million, 67.4% of Adj. EBITDA (FY 23 definition), reflects continued strong cash generation, somewhat reduced from prior year by net settlement of vesting equity grants for Executive Directors in the period.

DTA & Share Repurchases

- Recognised a deferred tax asset (DTA) related to accumulated prior period losses. For FY 2023, recognised a DTA of $19.8 million, leaving a further $78.3 million of DTA unrecognised.
- Assess expectations for short-to-intermediate term profitability on an ongoing basis, and in future periods, will recognise additional DTA as and when forecasts support it.
- Spent $145.2 million on share repurchases in the year, of which 28.3 million shares went to EBT and 15.4 million have been, or will shortly be, cancelled.
- Repurchases were largely self-funded using operating cash generated in FY 2023.

FY 2024 Guidance

Confirming ARR and revenue expectations

Guidance	FY 2024
YoY Revenue Growth	22.0% to 23.5%
YoY CC ARR Growth[1]	21.0% to 23.0%
Net CC ARR Added[1]	$133.8m to $146.6m (8)% to 1%, as implied by ARR growth range

"A tale of two halves"

55% of FY 2024 Net ARR added in second half

[1] 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. For FY 2024, its constant currency rates are 1.2682 and 1.0908 for the Pound and the Euro, respectively. **Applying FY 2024 rates to the Group's ARR balance for 30th June 2023, results in a rebased ARR balance of $637.3 million.**

FY 2024 Guidance

Underlying upgrade to FY 2024 margin before commissions changes, definition update

Shift to 100% up-front commission payments, drives capitalisation of substantially all sales commissions; moves more commission cost to later periods and better aligns with revenue recognition.

Changing Adjusted EBITDA definition to treat all commissions amortisation as cash costs, to remain comparable with peers and better align revenue, profitability and cash flow measures.

1. **If prior period plans had been maintained, would expect to update guidance range to between 22.0% and 24.0% (vs prev. July 23 guidance of "at or around 22%").**
2. If definition of Adjusted EBITDA remained unchanged, but netted the cost benefit from capitalising 100% of commissions against the continued cost accruals for FY 2023 plan commission through FY 2024, estimate this would add approx. 3 ppts to FY 2024 Adjusted EBITDA guidance range.
3. **After commissions changes and under new definition, guiding to FY 2024 Adjusted EBITDA range of 17.0% to 19.0%.**
   - Underlying performance trajectory is not changing (11.2 ppt margin expansion on both old / new basis).

	($ million)	FY 2021	FY 2022	FY 2023	FY 2024e*	∆ FY21-FY24e
1	Adjusted EBITDA (pre-changes)	$33.5	$91.4	$139.2	N/A	
	Adjusted EBITDA margin %	*11.8%*	*22.0%*	*25.5%*	*23.0%*	*11.2 ppts*
	Amortisation of capitalised commission	*$(14.1)*	*$(21.8)*	*$(32.5)*	*N/A*	
3	**Adjusted EBITDA (post-changes)**	**$19.4**	**$69.6**	**$106.7**	**N/A**	
	Adjusted EBITDA margin %	***6.8%***	***16.8%***	***19.6%***	***18.0%***	***11.2 ppts***

** Midpoint of Darktrace's FY 2024 Adjusted EBITDA guidance range*

DARKTRACE

FY 2024 Guidance

Confirming ARR and revenue expectations; underlying upgrade to FY 2024 margin

Guidance	FY 2024
YoY Revenue Growth	**22.0% to 23.5%**
YoY CC ARR Growth[1]	**21.0% to 23.0%**
Net CC ARR Added[1]	**$133.8m to $146.6m** (8)% to 1%, as implied by ARR growth range
Adj. EBITDA Margin [New definition*]	**17.0% to 19.0%**
Free cash flow (FCF)	**50% to 60%** Percentage of Adjusted EBITDA

"A tale of two halves"

55% of FY 2024 Net ARR added in second half

Reflects new definition following changes to sales compensation structures for FY 2024 onwards. If prior year structures had been maintained, **Darktrace would have expected FY 2024 Adj. EBITDA margin of between 22.0% and 24.0%** (vs prev. 19 July 2023 guidance for 'at or around 22%') – *see: Appendix*

Reflects temporary FY 2024 impact of transition to new commission payout schedules. **Normalised range expected to be 100% of Adj. EBITDA +/- 20 ppts** – *see: Appendix*

[1] 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. For FY 2024, its constant currency rates are 1.2682 and 1.0908 for the Pound and the Euro, respectively. **Applying FY 2024 rates to the Group's ARR balance for 30th June 2023, results in a rebased ARR balance of $637.3 million.**

***Note:** Definitions of the company's APMs can be found in the Appendix.

What's to Come in FY24?

Greater product & R&D innovation	Supercharged GTM model	Increased focus on ESG and in our people

We are capitalising on this watershed moment

Luk Janssens, Head of Investor Relations Q+A

FY 2024 Guidance - Appendix [1/3]

Changes to commission structures

- Of the changes made to Darktrace's commissions structures, the most financially impactful is the decision to pay 100% of sales commissions up front, a change from past practice where 50% of commission was paid up-front and the remaining 50% typically paid one year later. This was done to better align with market practices, supporting Darktrace's ability to hire and retain key talent.
- **Darktrace expects no material impact to its long-term financial profile and its long-term steady-state economic model remains unchanged.**
- If prior period plans had been maintained, it would have expected to now provide an updated guidance range of between 22.0% and 24.0%.
- Reflecting the changes, Darktrace will now capitalise substantially all sales commission and recognise them over the lives of the related contracts, rather than under past plans where it capitalised the first 50% but expensed the second 50% typically over the first year. This has the effect of moving more commission cost recognition to later periods, better aligning with revenue recognition.
- Darktrace notes that FY 2024 will be a transition year as it will still be accruing remaining portions earned, and paying out mostly all, of the second 50% of commissions it owes under FY 2023 plans.
- If the definition of Adjusted EBITDA was unchanged, netting the cost recognition benefit it will see from capitalising 100% of commissions against the transition period need to continue accruing costs related to FY 2023 plans, Darktrace calculates that its commission plan changes alone would have added approximately 3 percentage points to its FY 2024 Adjusted EBITDA guidance range.

FY 2024 Guidance - Appendix [2/3]

Update to Adjusted EBITDA

- With 100% of commissions now being capitalised, and after reviewing comparable peer practices, **Darktrace has determined that to be prudent, and to better align revenue, profitability and cash flow measures for its next phase of growth, it will change its definition of Adjusted EBITDA to treat all amortisation of commissions as though they were cash costs.**
- Darktrace's updated definition of Adjusted EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation, adjusted to include appliance depreciation attributed to cost of sales and amortisation of capitalised commissions, and adjusted to remove uncapitalised share-based payment charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets.
- On this basis, Darktrace is now guiding to an FY 2024 Adjusted EBITDA range of 17.0% to 19.0%.
- Demonstrating that while changes to commissions payouts and its Adjusted EBITDA definition are resetting its baseline, underlying performance trajectory is not changing, a comparison of Adjusted EBITDA margin expansion between FY 2021 and FY 2024 guidance on a both a pre-any and post-all changes basis, shows the same expected margin expansion of 11.2 percentage points in each case:

($ million)	FY 2021	FY 2022	FY 2023	FY 2024e*	∆ FY21-FY24e
Adjusted EBITDA (pre-changes)	$33.5	$91.4	$139.2	N/A	
Adjusted EBITDA margin %	*11.8%*	*22.0%*	*25.5%*	*23.0%*	*11.2 ppts*
Amortisation of capitalised commission	*$(14.1)*	*$(21.8)*	*$(32.5)*	*N/A*	
Adjusted EBITDA (post-changes)	**$19.4**	**$69.6**	**$106.7**	**N/A**	
Adjusted EBITDA margin %	***6.8%***	***16.8%***	***19.6%***	***18.0%***	***11.2 ppts***

** Midpoint of Darktrace's FY 2024 Adjusted EBITDA guidance range*

FY 2024 guidance if prior period commission plans had been maintained

FY2024 guidance after changes to commissions plans (effective FY 2024 only) and the changes to the definition of Adjusted EBITDA (all periods)

FY 2024 Guidance - Appendix [3/3]

Free cash flow (FCF)

- For FY 2024, transitioning to new commission payout schedules will have an impact on Free cash flow (FCF) as Darktrace pays out both all new commissions and second half commissions from FY 2023, however, this impact will be temporary. Longer term, its expectation for FCF expressed in terms of a range of percentages of Adjusted EBITDA will change almost entirely due to the change it is making to the definition of Adjusted EBITDA.

- **Considering these factors, Darktrace expects FCF for FY 2024 to be in the range of 50% to 60% of Adjusted EBITDA and, more typically, to fall in the range of 100% of Adjusted EBITDA, plus or minus 20 percentage points.**

- Note that, as under its prior expectations for FCF (90% plus or minus 15 percentage points), Darktrace is providing a range of normal FCF outcomes to account for variable trends in ARR, invoicing, collections, ranges of share option exercises influenced by the share price, and other cash flow timings.

- It has, however, now expanded its range of outcomes to plus or minus 20 percentage points to reflect additional variability in paying out higher commissions in-period as well as, for the first time, factoring in assumptions for future deferred tax asset recognition and cash tax payments.

Steady State Economic Model is Unchanged

Cost on Adj. EBIT basis	% of Revenue
Cost of Sales	10 – 13%
Sales & Marketing	40 – 43%
Research & Development	10 – 13%
General & Administrative	10 – 13%
Adjusted EBIT Margin: +/- 20%s	

Note: This long-term steady state is not anticipated to be achieved in the foreseeable future or in a linear fashion, if at all, and the Group's targets may change based on developments in the Group's business.

Alternative Performance Measure Definitions

EBIT
Earnings before interest and taxes, or EBIT, is the Group's operating profit or (loss).

Adjusted EBIT
Adjusted EBIT is the Group's EBIT adjusted to remove uncapitalised share-based payment (SBP) charges and related employer tax charges, and certain one-off charges including the impairment of right-of-use assets.

Adjusted EBITDA [prior definition]
Adjusted EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation, adjusted to include appliance depreciation attributed to cost of sales, and adjusted to remove uncapitalised share-based payment charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets.

Adjusted EBITDA [new definition]
Adjusted EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation, adjusted to include appliance depreciation attributed to cost of sales and amortisation of capitalised commissions, and adjusted to remove uncapitalised share-based payment charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets.

Free cash flow [presented annually]
Net cash from operating activities less purchases (other than purchases made in connection with business combinations) of intangible assets and property plant and equipment (PPE), and payments for leases.

CC Annualised Recurring Revenue (ARR)
The sum of all ARR, at the period's constant currency (CC) rate, for customers as of the measurement date. The ARR for each customer is the annual committed subscription value of each order booked for which it will be entitled to recognise revenue. In the small number of cases where a customer has an opt-out within six months of entering a contract, Darktrace does not recognise ARR on that contract until after that opt-out period has passed.

Net CC ARR added
New customer constant currency ARR added, plus the net impact of upsell, down-sell, and churn activity in the existing customer base, in the same constant currency, for a period.

One-year CC ARR gross churn rate
Constant currency ARR value of customers lost from the existing customer cohort one year prior to the measurement date, divided by the total ARR value of that existing customer cohort. This churn rate reflects only customer losses and does not reflect customer expansions or contractions.

Net CC ARR retention rate
Current constant currency ARR value for all customers that were customers one year prior to the measurement date, divided by their ARR in the same constant currency one year prior to the measurement date. This retention rate reflects customer losses, expansions, and contractions.

Average contract ARR
Average contract ARR is defined as the total ARR at the measurement date, divided by the number of customers at that measurement date.

Constant currency (CC) rates
Rates established at the start of each year and used for reporting ARR and related measures without the impact of foreign exchange movements. For FY 2023, constant currency rates were 1.2146 and 1.0450 for the British Pound and the Euro, respectively. . For FY 2024, its constant currency rates are 1.2682 and 1.0908 for the Pound and the Euro, respectively.

Number of customers
Count of contracting entities that are generating ARR at the measurement date.

Remaining performance obligations (RPO)
Represents committed revenue backlog. RPO is calculated by summing all committed customer contract ARR values that have not yet been recognised as revenue, valued at the exchange rates on the last day of the reporting period.

