

Wednesday, February 1, 2023

Re: Follow up questions concerning Darktrace

Darktrace has issued a lame “non-response” to our 70-page report issued yesterday. We note that in its recent RNS, management has not denied any of our allegations, limiting themselves to express “full confidence” in their own accounting practices. In our book, confidence is reserved for the Divine Providence, and we invite DT’s investors to instead follow Ronald Reagan’s advice: “trust, but verify”. Or rather, given Darktrace’s association with Autonomy, “don’t trust and verify”.

Given the gravity of what we allege, Darktrace should provide quick, concise, and factual answers as a duty to its investors and to the market. Should the substance of the allegations be confirmed correct, we expect Darktrace’s executives to admit their responsibility and resign at once.

None of our concerns have been addressed, so we have compiled a list of follow up questions for the company:

- 1) What is the nature of Darktrace’s relationship with Strategic Bridge Monaco and why did Strategic Bridge present its partnership with Darktrace sponsoring a motorcycle team whose CEO had just been arrested for fake invoicing and money laundering for the Italian mafia?
- 2) Why are there as many as four companies named “Strategic Bridge” in different countries all claiming to be resellers of Darktrace? Why do these companies have similar beneficial owners, websites and show few signs of obvious operations?
- 3) What is the relationship between Darktrace, I-quasar and Strategic bridge? Have any circular transactions been taking place between these entities?
- 4) Which clients bought Darktrace’s product through Strategic Bridge, I-Quasar, and Strategic Risk Consulting?
- 5) Why does a former director of Strategic Bridge and current director of I-Quasar figure in a criminal investigation concerning a \$2bn VAT dodging fraud?
- 6) Has Darktrace sold anything to suspected shell company Alfatrade & Services? Why does this company have seemingly no employees, website traffic or an office but has a turnover of \$31m?
- 7) Has Darktrace sold its products to Bolton Group via HWG? Has that revenue been booked? Why does Bolton’s Group IT manager claim that no sale took place?
- 8) Has Darktrace sold its system to the Verona airport through its partner Eurosystem? Has the Airport ever paid for such purchase? Why did Eurosystem hold three cyber events sponsored by Darktrace shortly after that “sale”? Why were the related webpages deleted? How much did Darktrace pay for such sponsorship?

- 9) What was the amount of Darktrace's sale to Bonfiglioli through its partner Yarix/VAR? Was there a price gap between the price paid by the end user and the one paid the partner? Was the event in Rimini hosted by Yarix/VAR sponsored by Darktrace for a comparable amount of the price gap?
- 10) Has Darktrace booked a sale to Maserati (a renewal) in July 2020? Has Maserati renewed the sale? Was such sale ever charged back?
- 11) What is the nature of Darktrace's relationship with Multicomputos? Which clients have purchased Darktrace's product through such Central American partner? Why did Darktrace sponsor a marketing event organized by this partner? What was the amount of the sponsorship? Was the amount comparable to the amount of the purchases made by Multicomputos?
- 12) Please provide a table comparing the amounts purchased and the end user identities for the purchases made by the following partners:
 - a. PC System srl
 - b. Project Informatica
 - c. Alkimia Consultores
 - d. Newtech (Malta)
 - e. Omnitech IT
 - f. Eurosystem
 - g. Strategic Risk Consulting (RHO), Strategic Bridge (Pavia), Strategic Bridge (Lugano), Strategic Bridge (Monaco)
 - h. Infinite Insight, Nap IT Solutions, Calibra, Inquest, TBSEK, Proctiv, AVB Group, Hanzolo, Ipway Networks, ALASCOM SRL, Quantum Security Solutions, GlobalSecur, NetSpec, Kilele, Ifinet Srl, HadronBit, Perfitcom, Bolton Technologies
- 13) What is the nature of Darktrace's relationship with the Innovation Group?
- 14) Why has deferred revenue (long term) dropped from 33% to 8% of sales in five years? Which procedures are in place to make sure that deferred revenue is not booked as actual revenue?
- 15) Has Darktrace sold a sizeable portion of its product up to 2020 as "capex" rather than "opex" as stated in the annual reports?
- 16) Why have we found multiple instances of contracts online clearly pointing to Capex sales?
- 17) What is meant by the mixed "capex/opex" contracts that partners routinely offer to their clients? Is the same hardware appliance depreciated simultaneously by both DT and the end users?
- 18) How many "immaterial" instances of "missing end users" were found by DT's auditors? Which partners were involved?
- 19) How much revenue does Darktrace generates from Malta, Cyprus and Monaco (relatively small markets)?
- 20) What % of DT's marketing budget is used to sponsor partners' events?

- 21) Is the huge % of SG&A expenses (mostly marketing) explained by the fact that DT frequently rewards its partners through sponsorships and participation to marketing events as an incentive to engage in anticipated sales and 'backfilling'?
- 22) Why is there an apparent 15% gap between the 5% commission salespeople claim to receive [source: Glassdoor] and the 20% that we estimated appeared on the 2021 financial statements?
- 23) According to DT's statements, Darktrace was paying Invoke Capital over \$4m for "management support services". Please clarify in detail the nature of the services provided by Invoke Capital to Darktrace. Were Mike Lynch and Sushovan Hussain remotely running the company?
- 24) How come most of the executives we profiled in our report did not disclose their prior affiliation with Autonomy Plc in their biography appearing on DT's website?
- 25) How come was Mr. Corrado Broli hired at Darktrace with the same position he held at Autonomy despite the allegations that emerged during the Autonomy lawsuit?
- 26) Why has the quality of account receivables been rapidly deteriorating in the last couple of years reaching as much as 12% of sales (including bad debt and credit loss provisions)?
- 27) Why have many executives and directors been selling stock aggressively in the recent months?

Sincerely

QCM Team