

AUTONOMY 2.0?  
THE DARK SIDE OF DARKTRACE

## **Autonomy 2.0?**

### **The dark side of Darktrace**



Report by Quintessential Capital Management

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QUINTESSENTIAL  
CAPITAL MANAGEMENT

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**Quintessential is SHORT shares of Darktrace ("DT")**

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IMPORTANT: the following text contains important [hyperlinks](#) and footnotes

### Executive Summary

Even before the mysterious [failure of the sale](#) to US private equity fund Thoma Bravo, we have targeted Darktrace (“DT”) with a thorough investigation into its business model, selling practices, international partnerships, affiliates, and sales force. After a careful analysis, **we are deeply skeptical about the validity of Darktrace’s financial statements and fear that sales, margins, and growth rates may be overstated and close to a sharp correction.**

Our opinion is based primarily on numerous transactions we detected during the period leading to DT’s IPO seemingly involving **simulated or anticipated sales to phantom end-users** through a network of willing resellers. Darktrace seems to have repeatedly used **marketing activities** to channel funds back into its partners as payment for apparently fictitious purchases. These alleged **channel stuffing** and **round-tripping** activities seem to have even involved shell companies in offshore jurisdictions manned by individuals with ties to **organized crime, money-laundering, and fraud.**

While the transactions we detected are limited to the geographical areas we focused on during our investigation and to the period preceding DT’s IPO, we are concerned that the issues they flag may be systemic and widespread.

Moreover, we have detected a pattern of transactions suggesting that **a portion of Darktrace’s past recurring software sales may instead be one-off sales of hardware appliances**, an issue with a potentially strong impact on DT’s financial metrics. Too, accounting anomalies involving deferred revenue suggest possible **problems with DT’s revenue recognition**, providing a potentially misleading picture about the Company’s cash generation.

Finally, we suspect that a large portion of legitimate sales have been obtained through an **extremely aggressive sales force** thanks to unsustainably high marketing expenses (about 100% of revenue) and despite an impossibly low R&D budget (less than 10%). We fear that true customer retention and addressable market are much lower

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than advertised and that **sales momentum might be about to drop** as the surge in contracts signed before Darktrace's IPO expire without being renewed by disappointed customers.

Far from coincidental, we believe that this situation may exist because Darktrace has been led or strongly influenced by many of the **very same individuals that participated in the Autonomy debacle**, especially during the years leading to its IPO and to an even greater extent than is currently acknowledged by the public.

We are about to show you detailed evidence and specific instances of these alleged situations including names, dates, sums, and entities involved. In most cases you will be able to confirm our findings using the same public sources we used.

If our allegations are confirmed, we expect Darktrace to follow the same tragic destiny of its predecessor, Autonomy.

**Given the above, we would like to give our strongest possible warning to investors and believe that DT's equity is overvalued and liable to a major correction, or worse**

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### Quintessential and its goals

We are an American hedge fund based in New York City. Our main activity consists in identifying, investigating and exposing fraud and criminal conduct in public companies around the world.

We use state-of-the-art investigative techniques and only act after acquiring overwhelming evidence to substantiate our claims. Since 2015, we have completed over ten short activist campaigns exposing various dishonest companies with a 100% success rate.<sup>1</sup>

Our recent intervention against **Cassava Sciences**, was closely followed by the announcement of critical regulatory and criminal probes by US federal authorities.

In July 2019, our in-depth report named “*A Parmalat in Bologna*” led to the collapse of the Italian €1.1b-unicorn **Bio-on S.p.A.** and the arrest and criminal prosecution of the executives involved.

In May 2018 our campaign against the Greek retailer **Folli Follie** led to the collapse and de-listing of the company in just three weeks: the perpetrators are currently behind bars.

In December 2018, our action against **Aphria**, a Canadian cannabis company with a market cap of more than \$4 billion, led to the immediate collapse of the stock and the dismissal of the entire board of directors.

In 2015 our report entitled “**A Greek Parmalat**” on Globo Plc led to the immediate collapse of the stock, bankruptcy of the company and resignation of the executives involved, who promptly admitted their guilt.

We also exposed fraud at **Akazoo**, a Nasdaq-listed music streaming provider. The stock collapsed, was delisted, and management was successfully sued by the Securities and Exchange Commission.

Our 2020 intervention against **Penumbra**, a US medical device manufacturer, has led to an immediate FDA recall of the product we denounced as deadly (stock price dropped 36%).

We are a commercial enterprise, and we work for profit. However, we firmly believe in the moral character of our work, which has the effect of removing dishonest companies from the markets. These “bad apples” take financial and human resources away from legitimate companies and harm both shareholders and the public.

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<sup>1</sup>In virtually all cases our theses have been confirmed by official inquiries. In several cases, the management of the target companies and/or the board of directors has been dismissed. In two cases, the companies ceased to exist weeks after our intervention.

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## Methodology

There have been several whistleblowers pointing to possible issues with DT’s corporate governance and culture, sales practices, or accounting standards.<sup>2 3</sup> Most of the red flags presented so far are worrisome, but there has been no mention of irregular business practices. In our investigation we aimed to gather evidence of questionable conduct, to understand in depth the dynamics of the alleged situation and to analyze its implications.

Given its close ties to Autonomy, it would be reasonable to wonder whether certain individuals within DT’s management team may have been tempted to replicate its problematic sales practices, perhaps with additional sophistication. We note that DT started operating in 2013, well before the Autonomy debacle led to pecuniary and criminal penalties for the perpetrators. Indeed, given the remarkable transaction price paid by HP, the Autonomy fraud may have been seen initially by its leadership as a successful “model” to be replicated elsewhere. We will show convincing evidence that, at least until the IPO and possibly beyond, DT may have been *de facto* led by Autonomy’s former management team.

We studied Autonomy’s legal proceedings and identified problematic business practices that may have been exported to DT as well. The next obvious step was investigating DT and checking for the presence of these irregular practices.

DT is a sizeable multinational company claiming over 7,000 customers, 500 “partners” (e.g., distributors and resellers) and operations in over 100 countries. It would have been prohibitively expensive and time consuming to probe DT’s entire network systematically. Instead, we focused our attention on a handful of European countries (especially Italy, Monaco, Malta and Switzerland) and Latin America (especially Central America) and sought to understand how DT operates there.

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<sup>2</sup> <https://www.theguardian.com/business/2022/jan/25/snake-oil-doubts-loom-over-tech-firm-DTs-high-octane-sales-strategy>

<sup>3</sup> <https://www.thetimes.co.uk/article/dark-destroyer-sets-out-DT-case-st806lncv>

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Following months of careful investigation, we collected a sample of dubious transactions that appear very similar – or even identical - to the ones that brought Autonomy to its demise. While each instance individually constituted a small portion of DT’s business, when taken together these problem practices give rise to the concern that there may be a more systematic problem and, in our opinion, put into question the reliability of DT’s financial statements.

It is important to point out that, while we feel confident in the transactions we highlighted, only an in-depth government probe can definitively confirm and assess to full extent of this alleged situation.

Our investigation focused on the following activities:

- Analysis of DT’s and selected partners’ **official filings**
- Analysis of Autonomy’s **court documents**
- **Interviews** with industry participants
- **Background checks** on selected individuals & corporate entities
- **Open-source** information e.g., social media
- **Site visits**
- **Expert opinions** from high-level accountants, legal advisors, and IT experts

The initial part of this report will provide a quick overview of the Autonomy fraud and its extensive links with DT. The next section will carefully explain the dynamics of the alleged scheme and provide many examples of problem transactions we identified during our investigation. The final part explores how accounting anomalies and opinions of employees and clients seem highly consistent with our findings. We also show convincing evidence that DT may be at an inflection point indicating a possible imminent unfolding of its fate.

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**The Autonomy saga** [if you are already familiar with Autonomy and its ties to DT you may skip to page 21]

### *Background*

The nature of DT's alleged scheme cannot be grasped without understanding the Autonomy story since, as we will see, DT seems to be engaging in a similar behavior, at least in the areas we sampled.

Autonomy was an enterprise software company co-founded in Cambridge (UK) in 1996 by Mike Lynch, a British entrepreneur. The company claimed to utilize artificial intelligence (AI) to aid enterprises in document management.

Autonomy's rise climaxed in 2011 when it was acquired by Hewlett-Packard for \$11.7b. Within a year, **HP wrote off 75% of Autonomy's value** claiming that its management had "*used accounting improprieties, misrepresentations, and disclosure failures to inflate the underlying financial metrics*"<sup>4</sup>. The affair led to a civil lawsuit by HP and a criminal probe by the US Department of Justice, both of which ended catastrophically for Autonomy, with heavy fines and criminal prosecution for its executives. The civil proceedings in the UK terminated in 2022 with an adverse outcome for the company<sup>5</sup>.

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<sup>4</sup> Source: <https://www.wired.com/story/mike-lynch-autonomy-extradition/>

<sup>5</sup> <https://www.bbc.com/news/uk-england-cambridgeshire-60170510>



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### *Autonomy's fraudulent practices*

The case against Autonomy was challenging due to the fraud's high level of sophistication. A summary of the allegations can be found in the sentencing in the UK lawsuit dated May 17<sup>th</sup> 2022 and in the US criminal proceedings<sup>6</sup>:

- (1) artificially inflating and accelerating Autonomy's reported revenues*
- (2) understating Autonomy's costs of goods sold to inflate gross margins*
- (3) misrepresenting Autonomy's rate of organic growth; and*
- (4) misrepresenting the nature and quality of revenues, as well as overstating gross and net profit*

This scheme included the following sales practices which may not have been illegal per se, but together had the effect of inflating the perceived value of Autonomy's. We believe we have identified some of these practices in DT's modus operandi as well:

1. VAR or "anticipated" sales: a form of channel stuffing i.e. inflating revenue by pressuring resellers to acquire a product in the absence of a committed end user.
2. Reciprocal transactions: a form of round-tripping with a company selling an unused product or service to a reseller, agreeing to buy back an item of similar same price.
3. Acceleration of revenue: front loading sales contracts with increasing revenue on the first year at the expense of the subsequent years and thereby misleadingly inflating recurring revenue figures.
4. Hardware transactions: Autonomy would buy hardware in the open market and sell it at a loss to resellers. This was at odds with Autonomy's description as a "pure software" company and generated fictitious revenue. Too, the cost of hardware purchases was erroneously booked as a "sales & marketing"

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<sup>6</sup> <https://casetext.com/case/united-states-v-hussain-16>

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expense, rather than as cost of sales, misleadingly inflating gross margins. Finally, Autonomy would use such sales to reward resellers.

### DT and Autonomy: multiple worrying links



*“Dr [Mike] Lynch ran the Autonomy group informally and through small cliques of loyal lieutenants within the “MRL Leadership Group”, namely **Mr Hussain**, **Mr Kanter** and **Mr Chamberlain**, with lesser input from **Dr Menell** and **Ms Eagan**, implementing decisions at the sales level, and through Mr Egan, Mr Scott and Mr Sullivan in the US. I describe them later as a **cabal**, of which **Dr Lynch**, when not ostensibly involved, was nevertheless the *éminence grise*.”*

*HONOURABLE MR JUSTICE HILDYWARD<sup>7</sup>*

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<sup>7</sup> Neutral Citation Number: [2022] EWHC 1178 (Ch) basically, all of the individuals in bold, having been called a “cabal” from the judge overseeing the Autonomy proceedings, are or have been involved in DT as executives, board members or shareholders.

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**Executive Management**


**Andrew Kanter, Chief Operating Officer and General Counsel**, aged 42, joined Autonomy in August 2000 as VP, International Operations and Legal Affairs, and has served as our COO since 2004. Prior to joining Autonomy, through 2000 Mr. Kanter was an associate attorney with Brobeck Hale and Butler LLP, engaged in international mergers and acquisitions and corporate finance. Through 1999, Mr. Kanter was a special attorney at Brobeck, Phleger & Harrison in San Francisco, and prior to that was an associate attorney with Shearman & Sterling in San Francisco. Mr. Kanter was Clerk to Hon. Christine Miller of the U.S. Court of Federal Claims, Washington, DC. Mr. Kanter holds a J.D. from the University of Southern California and a B.A. from Johns Hopkins University, and also studied at Kansas University of Foreign Studies, Omaha, Nebraska.

**Nicole Eagan, Chief Marketing Officer**, aged 42, joined the Autonomy group as Chief Marketing Officer in January 2006. Prior to working for Autonomy Ms. Eagan spent Verity as a Senior Vice President of Marketing and Chief Marketing Officer from June 2005. Before joining Verity, Ms. Eagan was Vice President, Global Marketing at Quest Software, an application, database and Windows management company from 2001 to 2005. Prior to Quest, Ms. Eagan was the Senior Vice President of Global Marketing at Peregrine from 2001 to 2004. Ms. Eagan also held senior marketing, strategy and business development positions at Extricity, a business process management company and Oracle Corporation. Ms. Eagan holds a B.S. from Montclair University, N.J.

**Stouffer Egan, CEO Autonomy, Inc.**, aged 42, joined Autonomy in March 2001 as Director of Global Accounts. He has served as our Chief Executive Officer, Autonomy, Inc., since 2002. Prior to joining Autonomy, from February 2000 through to March 2001, Mr. Egan was Vice President of Corporate Development for LeadingSide Inc. From January 1995 through February 2000, Mr. Egan held various positions with Dataware Technologies, most recently as VP, Corporate Development. Mr. Egan holds a B.A. in Economics from Trinity College, CT.

**Eloy Avila, Chief Technology Officer**, aged 37, joined Autonomy in January of 2004 and has been a part of the technology team since, most recently holding the role of US CTO. Prior to joining Autonomy, Mr. Avila did research and worked on building ultra-efficient electric vehicles. Mr. Avila holds a B.S. in Electrical Engineering from Stanford University, CA.

**Dr. Peter Menell, D.Phil. Oxon, Chief Research Officer**, aged 40, joined Autonomy's Engineering and Technology Solutions unit in 1998 and has served in senior technology roles since 2002 as Chief Technology Officer and Chief Research Officer. During that time he has overseen a number of significant advances in Autonomy technology, including key new patents filed, and been responsible for the successful development of Autonomy software at multi-divisional organisations across the globe. Prior to joining Autonomy, Dr. Menell conducted computational and neuro-physiology research. Dr. Menell holds a B.A. (Hons) and M.Sc. from York University and a D.Phil. from Magdalen College Oxford.



*Screenshot from Autonomy's annual report showing how almost all of Autonomy's executives are now (or have been) running DT*

DT appears to be profoundly linked to Autonomy through common leadership, key investors, offices and, as we shall see, alleged business practices: this bond is key to the allegations at the core of this report. As of February 2020, “half of DT’s board and six of its eight top executives are ex-Autonomy folks, which included Gustafsson (ex-corporate controller) and co-CEO Nicole Eagan (ex-chief marketing officer)<sup>8 9</sup>.

### *Autonomy’s former leadership*

Mike Lynch (CEO) and Sushovan Hussain (CFO) have been heavily sanctioned for the Autonomy fraud and their links to DT have been extensive from day one.

<sup>8</sup> [Skeletons In The Closet: \\$2 Billion Cybersecurity Firm DT Haunted By Characters From HP’s Failed Autonomy Deal](#)

<sup>9</sup> It should be said that the presence of shared staff between DT and Autonomy does not automatically suggest that any individual may be necessarily involved in the situations we are reporting in this document. More recently, the company hired additional board members and executives unrelated to Autonomy, but the presence of Autonomy is still dominant, in our opinion

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Mike Lynch features prominently as DT's co-founder, early provider of capital, and inventor of the company's flagship product. Until recently, he remained a member on the company's advisory council, and he still owns, together with his wife Angela Bacares, a 12% stake in the company<sup>10</sup>.

Sushovan Hussain was a director at DT until 2016, when he was charged (and convicted) for fraud. **He is currently serving a 5-year sentence in a US federal prison.** Moreover:

*“interviews with more than 25 current and former employees reveal his **lasting and sometimes troubling influence** on the rapidly growing cybersecurity firm. [...]*

*“In the early days, **Hussain was guiding the management team at DT**, including Gustafsson (who started off as financial controller) and chief revenue officer Nick Trim.” [...]*

*“He would also ask staff from various offices for daily sales updates (something DT disputes) and helped develop sales strategy, according to former employees, one of whom said that was the case up until at least mid-2017.”<sup>11</sup>*

Indeed, even DT seems transparent about Invoke Capital's involvement in DT's management, at page 189 of the 2021 Annual Report (see figure below) DT mentions paying over \$4m/year to Invoke for “**management support services**” as well as receiving significantly amounts of money for seemingly sharing office spaces.

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<sup>10</sup> [Toxic: DT's future clouded by concerns over culture and fraud case](#) (The Guardian)

<sup>11</sup> [Skeletons In The Closet: \\$2 Billion Cybersecurity Firm DT Haunted By Characters From HP's Failed Autonomy Deal](#) (Forbes)

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### Other Related Party Disclosures

Below are disclosed details of all transactions with ICP London Limited and its affiliated companies, Luminance Technologies Ltd and Neurence Limited, as company under common directorship up to 4 May 2021.

	Transaction value		Balances outstanding	
	FY 2021	FY 2020	FY 2021	FY 2020
	\$'000	\$'000	\$'000	\$'000
Fees for management support services	4,373	3,028	-	-
Recharge of staff expenditure	153	318	-	-
Income from recharge of office space	(596)	(188)	255	-

### DT's current executives

*Overall, According to ShadowFall's research, about 41 former Autonomy employees ended up at DT, of which more than 25 remain, including Gustafsson and chief strategy officer Nicole Eagan. During Lynch's civil fraud trial, lawyers for HP described Eagan as part of a trusted "cabal" around Lynch [...]"*

Our investigation identified many of Autonomy's or Invoke Capital's former employees in DT's current leadership. Again, the presence of shared staff between DT and Autonomy does not automatically suggest that any individual may be necessarily involved in the situations we report in this document.

We list a few notable findings:

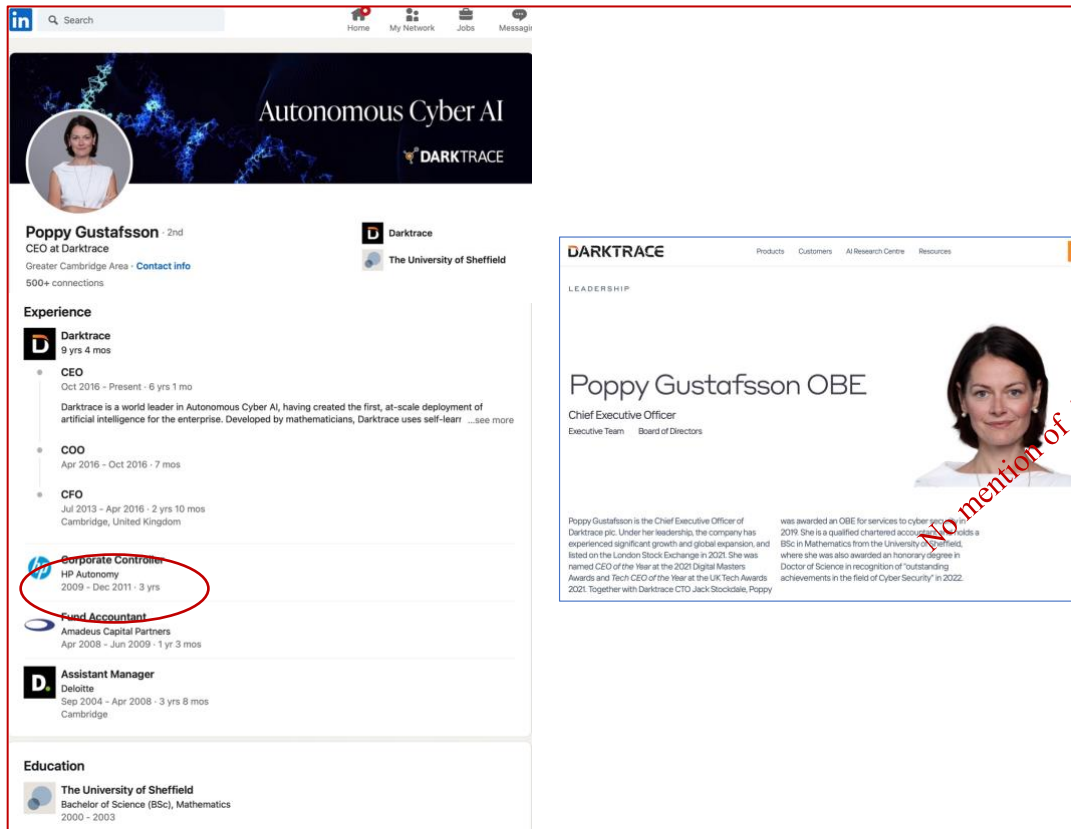


*Poppy Gustafsson* – DT's CEO & Board Member (previously CFO, COO). She was a **Corporate Controller at Autonomy (2009-2011)** and Assistant Manager at Deloitte (the auditing firm fined £15m for failings in its audits of Autonomy). One could wonder whether having served as a “financial controller” for a confirmed fraud represents an appropriate credential to head a public company.

Her promotion to the C-suite, despite no prior experience in leading a large corporation, fits the concern that she may have been coached “remotely” by Mr. Lynch and Mr. Sushovan. We note that Mrs.

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Gustafsson’s prior involvement with Autonomy does not show in her biography on DT’s website (a common pattern, as we shall see):



Unlike her LinkedIn profile on the left, CEO’s bio on DT’s website (on the right) doesn’t mention her involvement with Autonomy



Nicole Eagan – DT’s Chief Strategy Officer (previously Co-CEO). She was **Chief Marketing Officer at Autonomy** between 2005 and 2012, (not mentioned in her bio on DT’s website). “During Lynch’s civil fraud trial, the presiding judge described Eagan as **part of a trusted “cabal” around [Mike] Lynch [...]**”<sup>12</sup>

<sup>12</sup> ‘Toxic’: DT’s future clouded by concerns over culture and fraud case [The Guardian, 07 Sep 2022]

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*Stephen Chamberlain*: according to [this Forbes article](#), he was DT’s Chief Operations Manager until 2020 and **Finance VP at Autonomy**, for which he was **criminally charged by the US authorities**<sup>13</sup>.



*Eloy Avila* – DT’s Chief Technology Officer. Between 2004 and 2014, he has held extensive posts at Autonomy, ranging from CTO to VP of “Presales”. As usual, this is not mentioned on his DT website [bio](#).



*Emily Orton* – DT’s former Chief Marketing Officer (until July 2022). [Between 2009 and 2013](#), she was EU Marketing Manager at Autonomy (as usual, we could not find this on DT’s website bio). She was also Senior Associate at Invoke Capital, in 2012-2014.

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<sup>13</sup> <https://legaltechnology.com/2018/11/30/mike-lynch-vp-for-finance-stephen-chamberlain-charged-with-fraud-in-us-over-sale-of-autonomy/>

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*Vanessa Colomar* – board member (recently resigned her post). She was SVP of Communications at Autonomy (2011-2012), despite [reporting this on LinkedIn](#) just as “HP” instead of “Autonomy HP”. She is the only Director or Executive, for which the DT’s website bio mentions her past at Autonomy, perhaps because she has held a position not directly related to the accounting fraud, unlike Gustafsson, Eagan and others. She is also Co-Founder, Partner and the Head of Communications and Investor Relations at Invoke Capital.



*Andrew Kanter* – former board member of DT. He was Autonomy’s Chief Operating Officer for 11 years and his name features prominently in Autonomy’s legal proceedings. He was also a partner at Invoke Capital for 9 years.

### *DT’s shareholders*

As of the time of writing, more than 25% of DT’s shares<sup>14</sup> are held by entities directly or indirectly related to the people involved in Autonomy, as can be seen from the table below:

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<sup>14</sup> Source: S&P CapitalIQ. The list includes DT Employee Benefit Trust since it is reasonably controlled by DT’s current leadership that, as we saw, is deeply linked to Autonomy.



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Latest Holders		
Holder	Equivalent Held	% Of CSO
Bacares, Angela	56,605,607	8.629
Darktrace Employee Benefit Trust	39,768,460	6.062
Lynch FREng, FRS, O.B.E., OBE, Ph.D., Michael R. (Former Director)	30,511,750	4.651
Hussain, Sushovan	16,839,500	2.567
Eagan, Nicole (Chief Strategy Officer & AI Officer)	13,896,962	2.118
Kanter, Andrew M. (Former Director)	5,928,000	0.904
Colomar, Vanessa (Non-Independent Non-Executive Director)	4,695,100	0.716
Gustafsson O.B.E., Poppy C.V. (CEO & Executive Director)	3,715,673	0.566

Notably, the list above includes Mike Lynch (and his wife Angela Bacares), Sushovan Hussein, Andrew Kanter and Nicole Eagan. All these individuals feature prominently in the Autonomy fraud's legal proceedings and constitute four out of six members of the "cabal"<sup>15</sup>.

According to DT's 2021 annual report<sup>16</sup>, **Invoke Capital, was deemed to have significant influence over DT especially in the years 2019-2021, during which it held at peak 42% of DT's shares.**

### The emblematic case of Corrado Brolì



<sup>15</sup> Words used by a presiding judge to describe Autonomy people close to Mike Lynch

<sup>16</sup> Page 162

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The name of “Corrado Broli”, DT’s country manager<sup>17</sup> for Italy, features extensively in Autonomy’s fraud trial. According to the proceedings Mr. Broli, who was also country manager for Autonomy for almost 14 years, had a **central role in the execution of two of Autonomy’s largest fraudulent transactions**: the Vatican “sale” and the “sale” to Poste Italiane.<sup>18</sup> We invite the reader to read the relevant part at [this link](#)<sup>19</sup>. In short, Autonomy was in the early stage of a direct marketing pitch to the prestigious Vatican Libraries for a large \$11m-sale of its software. Though the Vatican was still far from committing, Autonomy decided to seek the help of one its partners, MicroTech, to “anticipate” the Vatican purchase in exchange for a 5% fee: this was a typical fictitious “VAR sale”. Unfortunately, the Vatican dropped out of the sales process, leaving MicroTech on the hook for the bill. To get it “off the hook” Autonomy purchased software it did not need from MicroTech in a typical “backfilling” (i.e., round-tripping) transaction. Broli had a primary role in this transaction since he was conducting negotiations with the Vatican and because he suggested the use of a partner to “anticipate” the sale.

In a similar episode, presumably under pressure by Autonomy’s management, Mr. Broli seems to have engineered a fictitious sale to Poste Italiane through a little-known Italian reseller called “Sales Consulting s.r.l.”. Even Autonomy’s CFO Hussain was skeptical as he asked Broli to provide a corporate email address and evidence of creditworthiness for the partner in question. Broli failed to provide either, despite repeated requests. Finally, there was no evidence suggesting that Poste Italiane was indeed an end user. Despite all this, the CFO recorded that “sale” in Autonomy’s financials. Sure enough, Sales Consulting s.r.l. never paid up and filed for bankruptcy shortly after the “purchase”.

This episode appeared in the lawsuit because it showed a willingness to book a fake sale to non-creditworthy entity. However, it is interesting to us because it shows that **Broli seemed to have**

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<sup>17</sup> He joined DT with a senior position from the outset of the company in July 2013 and remained in place for almost ten years. Apparently, he retired a few months ago.

<sup>18</sup> The Italian postal service

<sup>19</sup> Use “Broli” as a search word in the file or look from page 333 for the Vatican affair and 338 for the Sales Consulting sale

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**had no problem producing dubious sales to meet his quotas**, apparently eluding even his own fraudulent boss. Now the important takeaway: despite alleged deception, lack of integrity and complicity with the Autonomy fraud, **Broli was nevertheless invited to join DT with the very same position that he held in Autonomy**: country manager for Italy. We can't help but wonder whether this alleged lack of integrity, even to his own bosses, may have been overlooked because his "creativity" might have been a useful asset to DT. Whatever the reason, we believe that the presence of a man like Corrado Broli may go a long way to explain the presence of the irregularities we are about to show you. We point out that Mr. Broli has not been charged of any crime.

1.0 ★★★★★ ✓

Current Employee, less than 1 year

**Research "Autonomy" before working here.**

Oct 2, 2021 - Account Executive

✗ Recommend   ✗ CEO Approval   ✓ Business Outlook

**Pros**  
You get a ton of experience in a bunch of different areas. None of which you are paid for, but it's experience nonetheless.

**Cons**  
zero leadership. zero culture. zero enablement tools. highway robbery commission structure. zero interest in listening to suggestions of reps on anything.

Do a little research on Autonomy, the company that was sold to HP. Darktrace's management is copy/pasted from Autonomy (everyone from the top of the org to the VPs), and working at DT is exactly what I imagine being at Autonomy was like.

**Advice to Management**  
Resign en masse and hire some people who actually know what they're doing.

1.0 ★★★★★ ✓

Former Employee, more than 1 year

### An abusive company with a culture and business practices tainted by Autonomy

Apr 26, 2021 - Marketing Executive

✗ Recommend ✗ CEO Approval ✗ Business Outlook

**Pros**  
My immediate colleagues were some of the brightest, hardest working people I've been fortunate enough to work with

**Cons**  
TW: self-harm

Darktrace almost killed me. Literally. The verbal abuse, public disrespect, and cutthroat politics beat me to a pulp. Every day coming into work, I considered jumping in front of the train. I would take bathroom breaks to cry and scratch my arms. And I was lucky. I was a man, so I wasn't subject to the ogling, groping, harassment, and sexual assault that my female colleagues were forced to deal with on a regular basis.

This kind of culture doesn't come from nowhere. In the case of Darktrace, it came from another company: Autonomy. Darktrace's senior leadership, including the CEO, CMO, and CFO, were all ex-Autonomy. They brought with them a win-at-all-costs ethos that expected – and sometimes demanded – up to 14-hour work days. Minor mistakes were punished with public humiliation. Managers would do firings in public and would cc colleagues in verbally abusive emails.

Darktrace's lead investors were also ex-Autonomy, and in many ways, they were the source of these practices. While they were ostensibly mere investors, one of the first things I learned in onboarding was that the CEO was a figurehead. The real power base was in these investors.

Darktrace has tried to distance themselves from them, likely because many of them are facing (or have already been convicted of) conspiracy, wire fraud, and criminally over-inflating the value of Autonomy.

I have no knowledge of whether or not they oversaw similar fraud at Darktrace. What I do know is that they directly oversaw the day-to-day operations of the business, even personally approving or denying individual expenses.

Their influence over the company might have waned by now. Perhaps the culture has gotten better. I can only hope. Because if it's even a fraction as bad as it used to be, Darktrace remains one of the most toxic workplaces imaginable.

*Glassdoor reviews of former employees of DT alleging close management ties to Autonomy*

## THE DARK SIDE OF DT

### **How the alleged DT system works**

Based on the evidence we reviewed, we asked ourselves whether and how DT may be using multiple venues to inflate its revenue, profit margins and growth rate. What follows is our conclusion about these dubious dynamics, based on the evidence that we will share later in this report.

#### *Channel Stuffing and “anticipated” sales*

DT originates roughly a third of its sales from channel partners, including so-called “value added resellers”. Our field investigation suggests that, at least in the geographic areas and periods we investigated, DT frequently scrambles to boost its booked revenue to meet analysts’ expectations. We understand that DT occasionally identifies a direct potential client from its pipeline and asks a reseller to advance a purchase on behalf of that client, posing as an intermediary. The reseller in question is financially incentivized to do so and assumes that no payment is due to DT until the end-user buys the product.

If all goes well, the end-user completes the purchase from the reseller, enabling it to pay back DT in the next quarter. This looks to us like a form of **channel stuffing** and has the effect of **shifting tomorrow’s revenue into today’s books**: it is both unlawful and unsustainable. We roughly estimate<sup>20</sup> that a sizeable portion of DT’s indirect sales transactions may be of this type in the areas and in the period we sampled.

How do these alleged transactions evade the “watchful” eyes of the auditor? First, auditors presumably have access only to the contract between DT and the reseller, not to the one between the reseller and the end user. Second, because DT utilizes, as end-users, clients where a DT hardware device has already been deployed as part of a trial period, if an auditor were to verify a suspicious transaction, it would find an executed contract with a reseller and a device shipped to an end user. The auditor would be presumably unable to detect that the end user has not yet committed to a purchase (and can abandon the sales process at any time)<sup>21</sup>.

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<sup>20</sup> Based on interviews with industry participants

<sup>21</sup> In addition to this, the audit typically occurs at year end, several months after the dubious transaction has taken place, presumably after the end user eventually purchased the product. The “anticipation” would therefore be invisible to the auditor unless a check was made shortly after the sale.

## THE DARK SIDE OF DT

### *Alleged Round-tripping & Fictitious Sales*

Occasionally, the end-user in an anticipated transaction drops out of the sales process, leaving the reseller formally indebted to DT for a product it purchased on behalf of a now “phantom” client: this creates an open receivable bound to elicit questions from the auditors. We fear, based on our due diligence, that DT may have been tempted to solve this problem in multiple ways, none of which look kosher:

- 1) It may **sponsor a seminar**, or other marketing event organized by the indebted reseller, which can then **use the sponsorship money to repay DT for the fictitious sale.**
- 2) It may **sponsor a reseller’s participation** (e.g., purchasing a conference stand) to a sought-after third-party marketing event as payment/incentive.
- 3) It may use **a shell company in an offshore jurisdiction to pose as a phantom client** for that reseller and channel funds into that shell company through hard-to-detect cross-country transactions.
- 4) It may instruct its sales force to **onboard new direct clients through the reseller** until it receives enough business to extinguish its obligation to DT.

Option 1), 2) and 3) essentially would allow DT to **fabricate its own sales in circular transactions financed by its marketing budget.** Option 4) still qualifies as channel stuffing with additional complexity, as it appears that the initial agreement with the reseller, and DT’s own internal records, may contain the identity of the original end-user, rather than its substitutes<sup>22</sup>.

### *Allegedly disguised hardware sales*

Most companies nowadays deliver their software through the cloud, but DT oddly provides its services mostly through hardware appliances which are ostensibly not sold to clients<sup>23</sup>, but given out on loan and accounted for as DT’s assets. Because the appliances remain on DT’s book, their cost is slowly depreciated over a 5-year period, rather than expensed immediately as cost of goods sold, boosting profit margins.

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<sup>23</sup> Except in rare exceptions [Source: DT’s official filings]

## THE DARK SIDE OF DT

Our investigation has identified several instances where, at least until 2020, **DT may have sold, not lent, its appliances to end-users while probably keeping the devices on its books as assets**. Basically, the same device would appear as a capex sale in the contract between the reseller and the end user but would show up as loaned in the contract between the DT and the reseller. This discrepancy is absurd but invisible to the auditors which presumably have access only to the agreements between DT and the resellers.

If confirmed, this practice has dire implications:

- One-off hardware appliance sales are presented to investors as recurring software sales<sup>24</sup>, which command far higher multiples and are **“front-loaded”** toward the first year of the contracting period.
- If the device is sold, rather than loaned to the client, DT would need to expense its entire cost immediately as cost of sales, rather than depreciating it in 5 years as a fixed asset. As a result, **profit margins and EBITDA may appear inflated**.
- A sizeable portion<sup>25</sup> of DT’s balance sheet is constituted by hardware appliances. If a material part of these is in fact owned by DT’s clients, DT would need to take a **large asset write off**.
- This issue echoes with Autonomy’s infamous hardware sales to resellers, a **key allegation** in the trial.

Although this practice may have stopped around 2020<sup>26</sup>, because many contracts have a duration of 3 years or longer, we deduce that there may be appliances around which have been accounted for erroneously. In addition, if this practice is confirmed, it would shed doubt on the validity of the financials appearing in DT’s IPO prospectus.

We also heard from our conversations with resellers and other industry participants, that DT occasionally offers a capex/opex option that seems to suggest that both DT and the end user would retain title of the appliance simultaneously (?!). This is the verbatim description of one of the partners who offered the option:

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<sup>24</sup> We suspect that DT uses contracts deriving from these hidden Capex sales in the calculation of its ARR (annual recurring revenue). In our view they should be excluded from ARR.

<sup>25</sup> GBP 215m (or GBP 119m net of depreciation).

<sup>26</sup> Later in the report we will list a few “capex” contract we obtained in our due diligence. None of these contracts have been finalized after 2020. Likewise, when we spoke to a few current partners they claim that the “capex” option used to be available until around 2020, but it no longer is.

## THE DARK SIDE OF DT

*[we can offer] “a three-year “term license”. Whereas the customer normally does OPEX, let's say \$100,000 over three years, \$33,000 a year. With CapEx we can do it as 60 or \$70,000 upfront, then the balance (30 or 40k) as maintenance and support for the three years.”<sup>27</sup>*

It's not clear what that option exactly entails, but it seems to us that both DT and the client would be simultaneously depreciating the device (?) and that the contract might be frontloaded in the first year.

### *Doubts on deferred revenue accounting and training services*

Occasionally, DT receives payments for a software contract before delivering the service. This is not uncommon in the industry, and the excess payment typically is accounted for as “deferred revenue”. We noticed, however, that deferred revenue (non-current) as a percentage of sales has progressively decreased from 33% in 2018 to only 9% in 2022<sup>28</sup> (see chart below). Unless this reduction reflects a change in contracting terms<sup>29</sup>, we question whether **DT, striving to inflate its revenue figures<sup>30</sup>, may have increasingly been booking unearned revenue as actual sales.** We estimate that, if (non-current) deferred revenue in 2022 were 33% of sales, as in 2018, booked revenue would be reduced by more than 20%. This concern is backed by a recent accounting restatement involving revenue recognition. Alternatively, it should be investigated whether **DT may have occasionally tapped into the deferred revenue balance to compensate for missing revenue in the allegedly phantom sales** we highlighted earlier.

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<sup>27</sup> Verbatim conversation with one of DT's resellers in North America

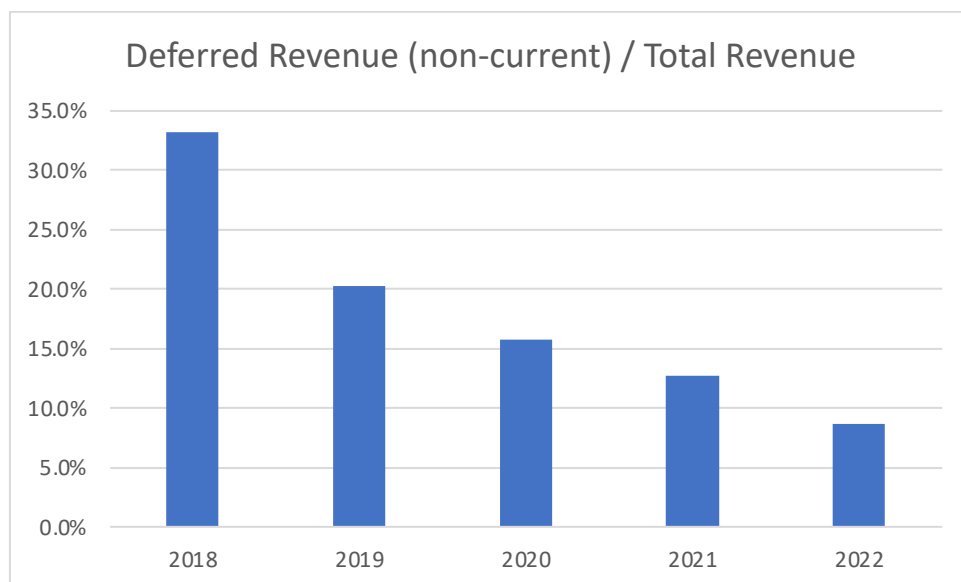
<sup>28</sup> Source: financials reclassified by S&P CapitalIQ

<sup>29</sup> Or some other reason we struggle to identify

<sup>30</sup> Or, perhaps, trying to compensate for “phantom” clients



## THE DARK SIDE OF DT



### *Opt-outs*

We understand that DT includes opt-out clauses in its client agreements allowing early termination of the contract. According to our understanding of IFRS rules, the opt-out clause can be problematic because it may have the effect of inflating the true value of DT's backlog and RPO<sup>31</sup>.

Additionally, because DT uses a straight-line revenue recognition for its multi-year contracts, the yearly revenue can be inflated if the opt-out clause is exercised before the end of the first year. We fear that **opt-out clauses in DT's contracts may not have been properly reflected in DT's revenue recognition**, at least until exit penalties were introduced in its contracts, as suggested by our investigation.

### *Churn rates*

Multiple analysts have made a strong case arguing that DT's **churn rate is significantly understated**. In our opinion, this is a mathematical reality because DT calculates its churn rate using the portion of clients who left during the last 12 months, ignoring the fact that the average contract duration is 3 years. A more reasonable approach would compare clients exiting now as a proportion of clients present three

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<sup>31</sup> The Remaining Performance Obligation (RPO) SaaS Metric

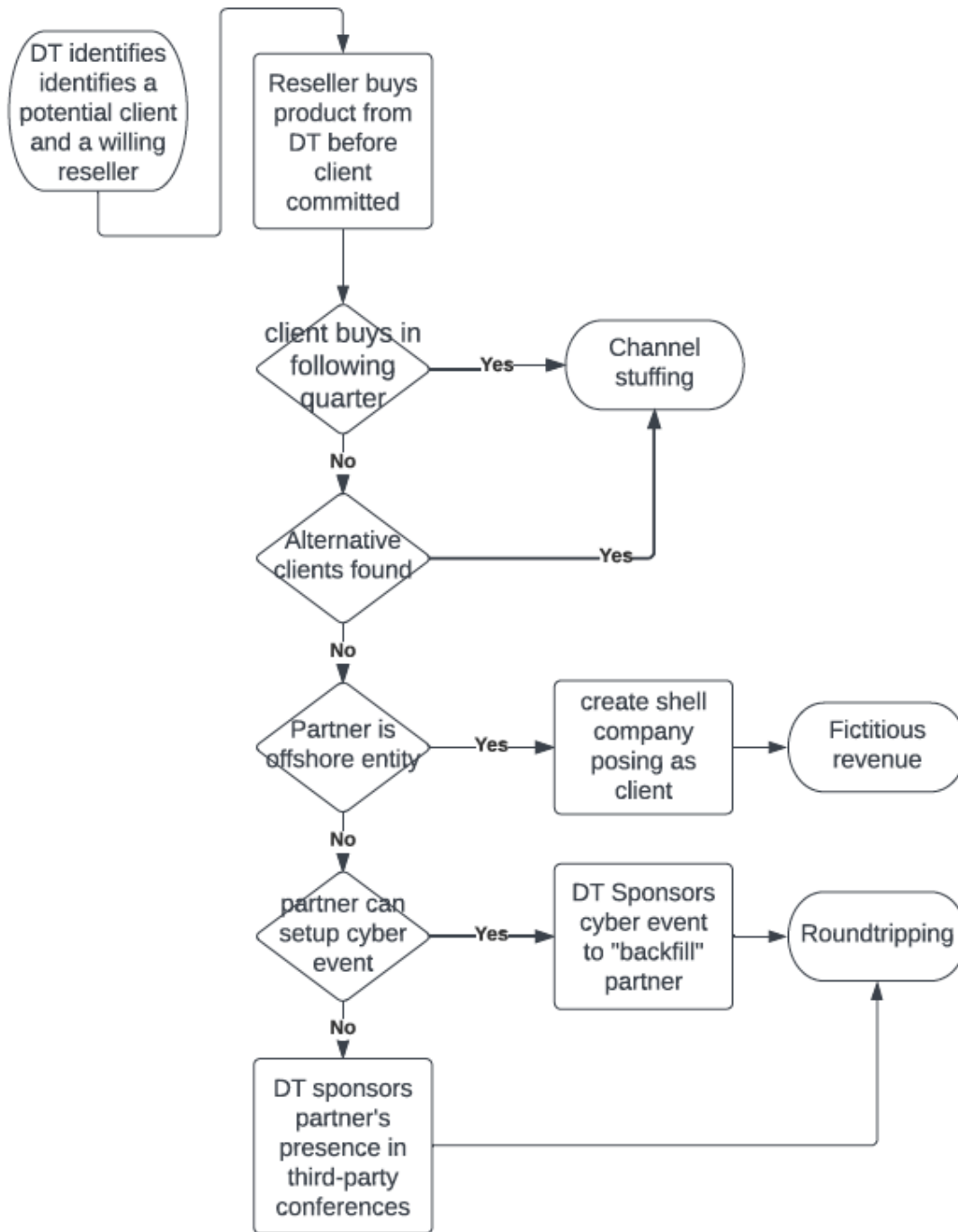
## THE DARK SIDE OF DT

years earlier. Because DT's sales are growing rapidly, the difference between the two approaches can be substantial and some analysts have estimated real churn rates to be as high as 30%<sup>32</sup>, rather than the 7.7% claimed by the DT.

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<sup>32</sup> Darktrace: Accounting, Channel Partners, and Churn (The Analyst, May 2022)

# THE DARK SIDE OF DT



*Our hypothesis about the nature of DT's disputed transactions<sup>33</sup>*

<sup>33</sup> This our interpretation of the data we collected during our field investigation. Because of the inherent uncertainty and lack of transparency of the situation, the graph should be understood as a hypothesis only.

### Examples of suspicious transactions

We worked intensely to identify several alleged examples of the irregular business practices we described earlier. We ignored the far more frequent “anticipated” transactions involving an end-user that eventually completed a purchase. Instead, we highlighted the more severe cases where we believe that the end-user “disappeared”, and an alleged round-tripping transaction may have taken place to “fix the problem”. Each instance we detected is the result of a thorough field investigation and, while we could document a limited number of transactions, we fear that this is only the tip of the iceberg<sup>34</sup>.

*“Sale” to Maserati (2020-2022) [anticipated sale to a phantom end user]*



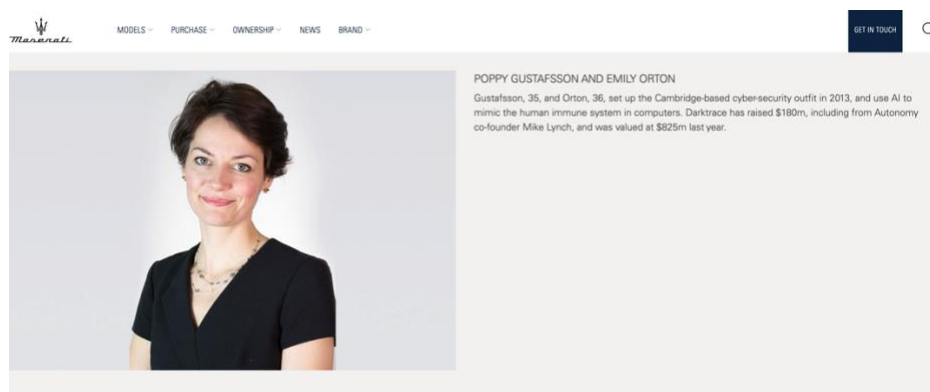
According to our investigation, in July 2020 a software license sold by DT to a client, the famous Italian car maker Maserati, was about to expire and would have been up for renewal shortly afterwards. As usual, probably due to pressure to meet analysts’ expectations, DT reached out to one of its trusted partners to arrange an “anticipated sale”.

The partner, unaware of the dubious nature of the request, agreed to sign the contract, assuming that it would not be expected to pay anything until Maserati purchased the license in a back-to-back transaction. After several months it became clear that **Maserati did not follow through with the purchase** and the partner was left with an unexpected financial obligation to DT. After about 1.5 years of heated discussions, it appears that DT credited that purchase back to the partner. We presume that, yet again, DT may have booked revenue for a sale without financial consideration and with a missing end user.

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<sup>34</sup> This opinion originates from 1) the similarity with Autonomy’s conduct; 2) the fact that we found similar transactions and modus operandi in multiple countries; 3) the occasional involvement of DT senior staff from HQ in some of the transactions (see for ex. Mariana Pereira at page 41)

## THE DARK SIDE OF DT



*DT's CEO Poppy Gustafsson featured on Maserati's website as "Investor of the year".*



*DT's partner Eurosystem S.p.A. and allegedly phantom end-user Verona Airport*

### *Suspected fictitious sale to the Verona Airport Valerio Catullo (phantom sale with backfilling)*

According to our understanding of the events, toward the end of 2018 DT approached one of its partners based in Verona, Eurosystem Spa, and asked it to make an anticipated purchase on behalf of a prospective client, the Airport of Verona Valerio Catullo. Eurosystem agreed to sign the agreement while the client was still in its trial period and had not yet decided to commit to a purchase. For unknown reasons, the client decided to drop out of the sale process.

Shortly afterwards, in the spring of 2019, **Eurosystem organized a tour in three Italian cities**, Verona, Bergamo and Bologna, hosting events on cybersecurity. The events appeared to have had little substance and counted few participants, including Eurosystem and DT's staff. DT sponsored all three events, and **we believe that the sponsorship money has been used by DT to channel funds into Eurosystem for the "backfilling" of the failed airport transaction**. Not surprisingly, it appears that **Eurosystem**

## THE DARK SIDE OF DT

subsequently deleted any reference of the events from its website, but we retrieved it from the Wayback Machine<sup>35</sup> and from social media. [Note: faces and names have been redacted for privacy].

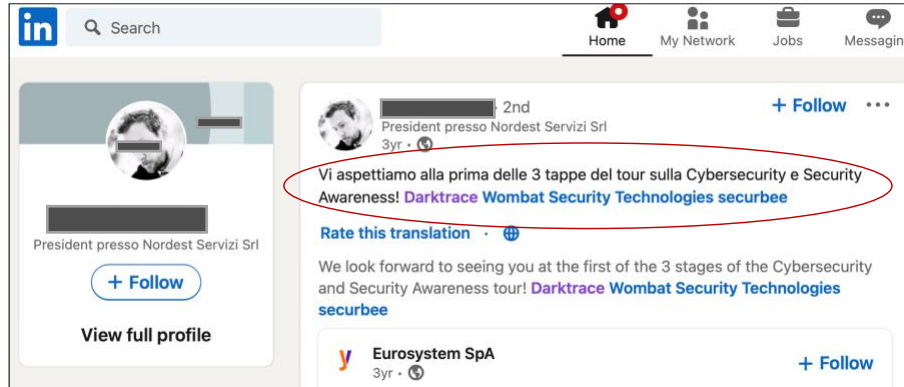


Fig. above and below: Eurosystem's CEO promotes the suspected "backfilling" events on social media (the identity of the CEO has been redacted for privacy)



Suspected backfilling event as advertised on LinkedIn (note the DT sponsorship at the bottom right corner in the figure below) and Twitter

List of suspected "backfilling" Eurosystem events:

- 1) Verona, March 21<sup>st</sup>, 2019. Venue: Hotel Veronesi La Torre
- 2) Bologna, Thursday March 28<sup>th</sup>, 2019. Venue: Ramada Encore Hotel
- 3) Bergamo, Thursday April 4<sup>th</sup>, 2019. Venue: Winter Garden Hotel

<sup>35</sup> The Wayback Machine is an internet useful tool to retrieve deleted web pages

# THE DARK SIDE OF DT

## Sei un buon guardiano della sicurezza aziendale?

Dalla consapevolezza alla remediation: quali risorse adottare.

QUANDO: **Giovedì 21 marzo 2019, ore 18.00**  
DOVE: **Villafranca di Verona (VR), Hotel Veronesi La Torre**

### Come raggiungerci

Oggi i **sistemi informativi devono farsi carico** di tutelare dati e know how dell'intera azienda. E le ultime normative chiedono di saperlo dimostrare.

### Quali recenti tecnologie possono supportare l'IT in questo compito?

Giovedì **21 marzo a Verona**, i nostri esperti e partner specializzati presenteranno le soluzioni più adatte a queste esigenze: dalle **piattaforme che aumentano e misurano la consapevolezza** dei dipendenti attraverso campagne di phishing simulate e personalizzate, ai **sistemi di IA che correlano deboli segnali di compromissione** per rispondere ad attacchi interni ed esterni.

### Agenda

**18.00-18.30**  
Nicola Bosello e Stefano Antonio Collet - gruppo Eurosystem  
**Sei un buon guardiano della sicurezza aziendale?**

**18.30-19.00**  
David Imoisili, Enterprise Account Manager Proofpoint  
**Demo Wombat Security Education Platform - Case history**

**19.00-19.30**  
Riccardo Trinchillo, Cyber Security Account Executive Darktrace  
**Demo Darktrace Enterprise Immune System e Antigena - Case history**

**19.30-21.00**  
Networking dinner: chiedi un parere ai nostri esperti!

[Deleted page](#) on Eurosystem's website and [retrieved page](#) on the Wayback Machine

**Nicola Bosello**  
President presso Nordest Servizi ISI

**Eurosystem SpA**  
3yr · [Follow](#)

"Con security awareness non parliamo solo di tecnologie, ma anche di una cultura organizzativa da diffondere. Come? Informando i lavoratori sui rischi che si corrono ogni giorno e supportandoli con programmi formativi costanti nel tempo. In questo modo potremo sostenere le aziende nella crescita di una cultura della sicurezza diffusa, duratura e radicata nel tempo."

Ha esordito così Michela Bonora, responsabile della nostra nuova divisione sicurezza, a Bologna nel corso della seconda tappa del security meeting "Sei un buon guardiano della sicurezza aziendale?".

Assieme ai nostri partner Wombat e **Darktrace** abbiamo dimostrato come la consapevolezza dei dipendenti sia fondamentale per rendere sicura l'organizzazione.

Prossima tappa del tour a Bergamo il 4 aprile!

[See translation](#)

**eurosystem** Sei un buon guardiano della sicurezza aziendale?

Software per infrast  
Sicurezza inform

## Sei un buon guardiano della sicurezza aziendale?

QUANDO: **Giovedì 4 aprile 2019, ore 18.00**  
DOVE: **Grassobbio (BG), Hotel Winter Garden**

Come raggiungerci

Oggi i **sistemi informativi devono farsi carico** di tutelare dati e know how dell'intera azienda. E le ultime normative chiedono di saperlo dimostrare.

Quali recenti tecnologie possono supportare l'IT in questo compito?

Giovedì **4 aprile a Bergamo**, i nostri esperti e partner specializzati presenteranno le soluzioni più adatte a queste esigenze: dalle **piattaforme che aumentano e misurano la consapevolezza** dei dipendenti attraverso campagne di phishing simulate e personalizzate, ai **sistemi di IA che correlano deboli segnali di compromissione** per rispondere ad attacchi interni ed esterni.

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Nicola Bosello e Stefano Antonio Collet - gruppo Eurosystem  
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**Demo Wombat Security Education Platform - Case history**

**19.00-19.30**  
Riccardo Barbieri, Cyber Security Account Executive Darktrace  
**Demo Darktrace Enterprise Immune System e Antigena - Case history**

The photo above shows the event in Bologna, left, with DT's participation and sponsorship. On the right the deleted (and retrieved) page on the Bergamo event

[Link to deleted page](#) on Eurosystem's website and [link to the retrieved webpage](#)

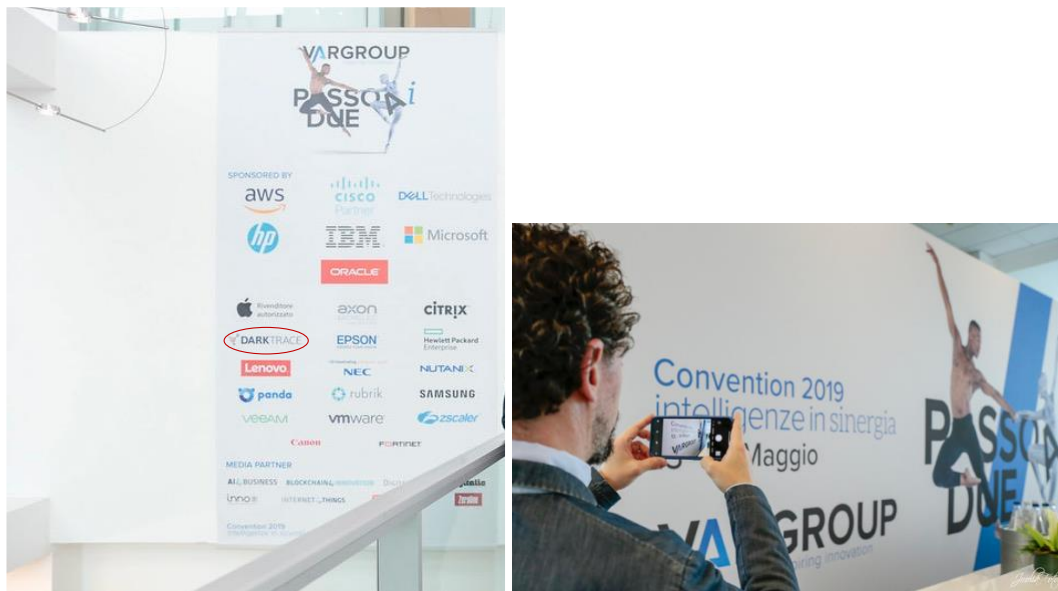
## THE DARK SIDE OF DT

### *Sale to Bonfiglioli via Yarix/VAR Group*



According to our investigation, around April 2019 DT sold a €700k contract through one of its partners Yarix/VAR Group, to Italian company Bonfiglioli as an end user. We learned that during the subsequent negotiations between Yarix and the end user, the latter refused to pay more than €500k, leaving a €200k gap between the purchase price with DT and the sale price to Bonfiglioli.

Shortly after this transaction, it appears that DT made a large sponsorship to an upcoming event organized by VAR Group: the 2019 Convention in Riccione (Italy) from May 12<sup>th</sup>-14<sup>th</sup> 2019. We suspect that this sponsorship may have been used to compensate VAR Group for the shortfall of the Bonfiglioli sale.



*DT features among large corporate sponsors in the VAR Group event in Riccione (May 2019)*



## THE DARK SIDE OF DT

*“Sale” to Bolton Group via DT’s partner HWG [large suspected “anticipated” sale gone wrong]*



According to our investigation, in June 2018 DT asked its partner HWG to perform a large, €1m “anticipated transaction” with Bolton Group, a large food & beverage multinational, as an end user. It appears that DT’s staff internally even held a small party to celebrate the sale.

However, after DT booked the sale to HWG, Bolton Group dropped out of the sales process for unrelated reasons. DT and HWG now had a big problem since the latter had an obligation to DT for a sale to a missing client. Worse, since HWG at the time had sales of only €5.2m<sup>36</sup>, it is debatable whether it was financially solid enough to even justify the purchase on a stand-alone basis.

We ignore what happened afterwards, but **we question whether the sale to HWG was booked by DT as revenue** and never reversed. We hypothesize that DT may have diverted multiple direct clients through HWG in the following months to “backfill” it or perhaps a “marketing transaction” may have been arranged.

We spoke to Bolton Group’s ICT director Mr. Gianluca Cerioli, who confirmed that, despite an initial negotiation, the Group decided not to proceed with a purchase of DT’s software. Interestingly, we cannot find any reference online suggesting that DT and HWG have even been partners, though our direct enquiries with HWG confirm it.

This transaction is particularly important because its \$1m size would exceed 1% of DT’s 2018 sales and, thus, the materiality threshold normally set by auditors.

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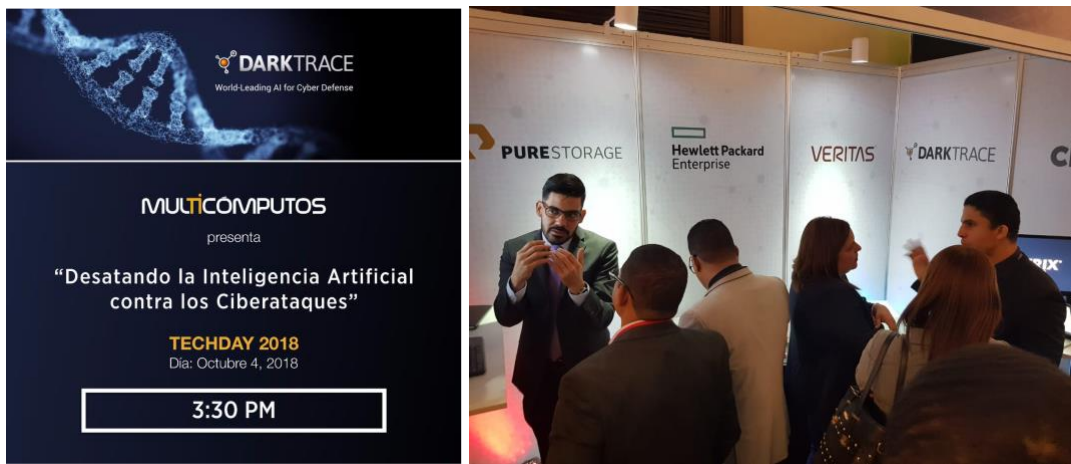
<sup>36</sup> Source: CapitalIQ

## THE DARK SIDE OF DT

*Multicomputos event (Dominican Republic) [suspected backfilling event in Central America]*

### MULTICOMPUTOS

Our investigation suggests that there may be a concentration of dubious DT/partners transactions in Central America. For example, on August 6<sup>th</sup> 2018 an IT consulting firm named “Multicomputos” and based in the Dominican Republic announced a partnership agreement with DT. Only a couple of months later, on October 4<sup>th</sup>, DT sponsored a cybersecurity event organized by this partner. Our investigation revealed that this sponsorship made little business sense and that DT’s participation occurred despite the reluctance of local staff. We suspect and invite the authorities to inquire whether this sponsorship may have been a payment or incentive for anticipated sales to phantom end users.



*Ad and photograph from the Multicomputos event sponsored by DT*



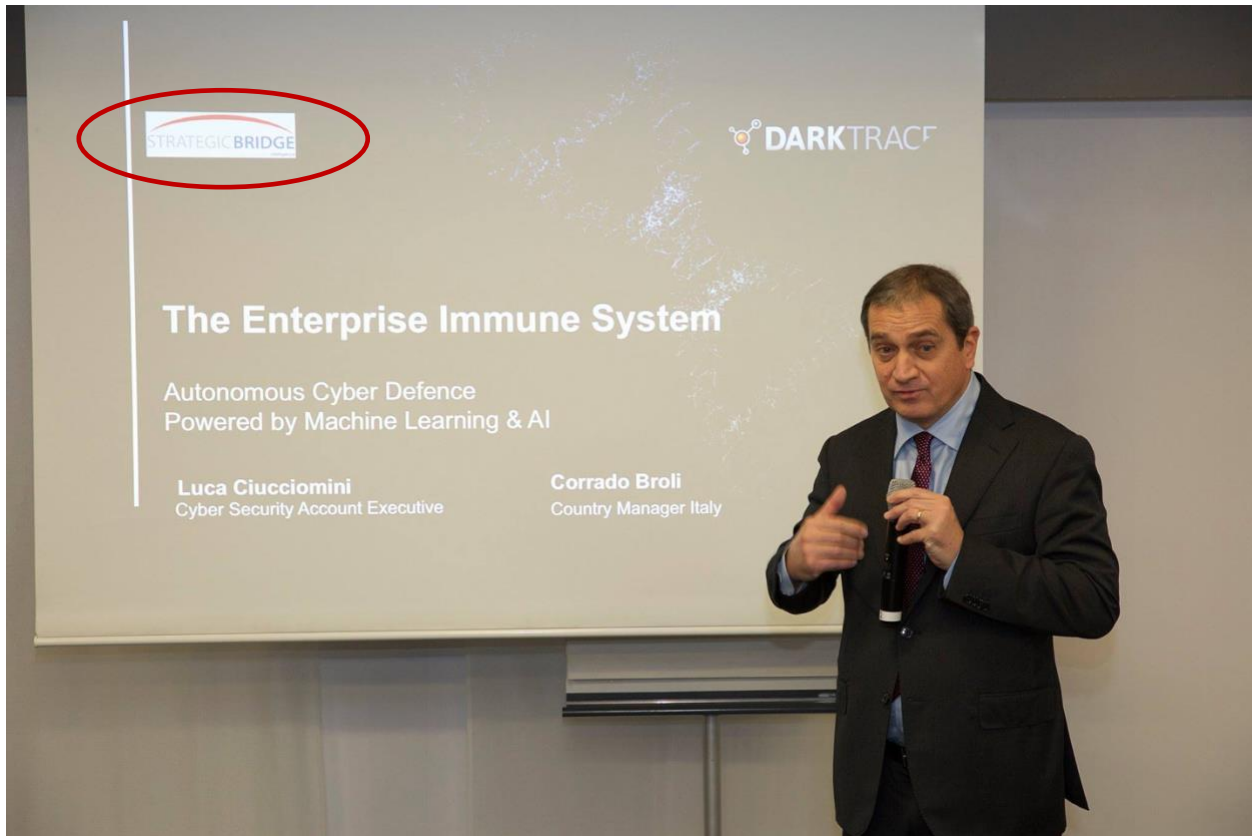
*Picture of Multicomputos office and negligible website traffic of its website<sup>37</sup>*

<sup>37</sup> Sources: Google Maps and Semrush respectively

## THE DARK SIDE OF DT

*Clients that “turn” into partners? Strategic Bridge and Imaging Group*

### *Strategic Bridge and I-Quasar (Principality of Monaco)*



*DT's country manager Corrado Broli in a joint event with Strategic Bridge*

One of the most shocking situations that emerged from our field investigation was DT's relationship with **Strategic Bridge Monaco** (“SB”), a little-known company based in the Principality of Monaco. Based on our understanding of the events, DT made an initial \$90k sale (subsequently increased to approx. \$400k) to SB, initially as a direct customer. SB, however, apparently did not pay for such sale, presumably creating an open receivable which could not be closed for several months. In the months and years following this initial transaction, we observed a staggering number of probable “backfilling” events, name changes, suspected shell companies, dubious sponsorships, and association with people suspected of money laundering, fraud, and similar crimes. We fear that the SB case may be emblematic

## THE DARK SIDE OF DT

of the questionable sales practices we highlighted earlier, featuring a combination of suspected channel staffing, round tripping, and fake invoicing.

**Strategic Bridge Monaco appears to be a shell company:** we think it has little or no revenue and its website shows zero traffic. Our visit to its office address in Monaco revealed a small sign on the external part of the building, but we were unable to find an office inside, despite checking every door in the compound. We called the phone number advertised on Google but received no answer. There are two directors, Pier Paolo Ranieri and Monica Macchioni: neither of which mentions Strategic Bridge on their LinkedIn bio.

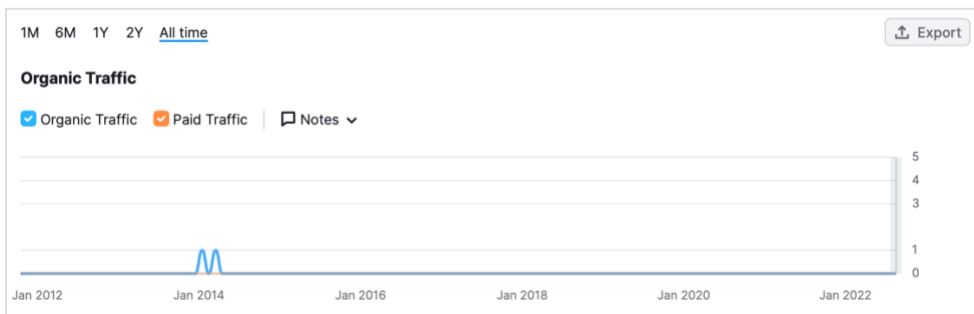


Fig. above: website traffic analysis shows no activity whatsoever on Strategic Bridge's website<sup>38</sup>



Fig. above: our site inspection revealed a name tag on the external part of the building, but no obvious signs of operations inside

<sup>38</sup> Source: semrush.com

## THE DARK SIDE OF DT

We suspect that, from the initial failed transaction with DT, SB has used several shell companies in Italy, Monaco, and the UK to pose as fictitious clients. We also suspect that complex cross-country transactions between these entities and DT may have generated additional questionable revenue (or enabled unpaid receivables to be moved from one entity to another without raising auditors' concern) and that various activities (e.g., marketing events, e-learning seminars, sponsorships) may have been used for roundtripping.

We are about to show you disturbing evidence of these transactions and some of the questionable characters involved.

### *a. DT/Strategic Bridge sponsorship of Team Grillini*

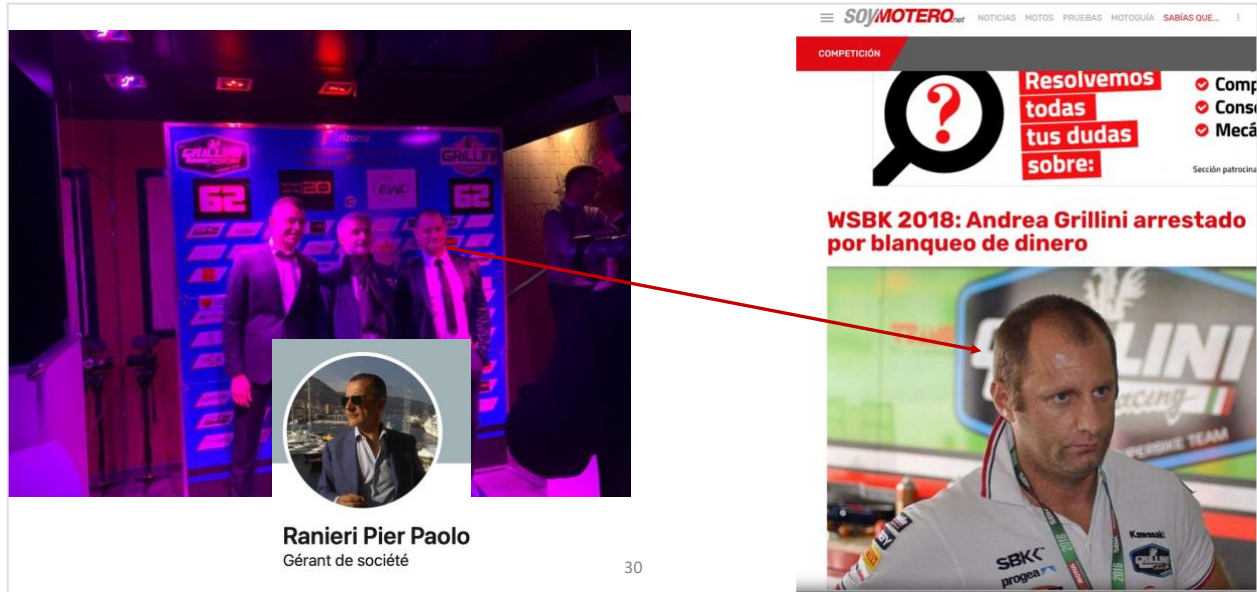
In December 2018, only a few months after the alleged “failed” transaction with DT, Strategic Bridge announced in a marketing event its collaboration with DT and the **sponsorship of an endurance bike team led by Mr. Andrea Grillini**, a Bologna-based entrepreneur.

In the same year, Mr. Grillini was arrested by the Italian police and charged with **fake invoicing** and **money laundering on behalf of Italian organized crime**<sup>39</sup> (!). Mr. Grillini would later receive a 4-year prison sentence in the subsequent trial<sup>40</sup>.

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<sup>39</sup> Mr. Grillini eventually was sentenced to 4 years in prison by an Italian court.

<sup>40</sup> an appeal is ongoing.



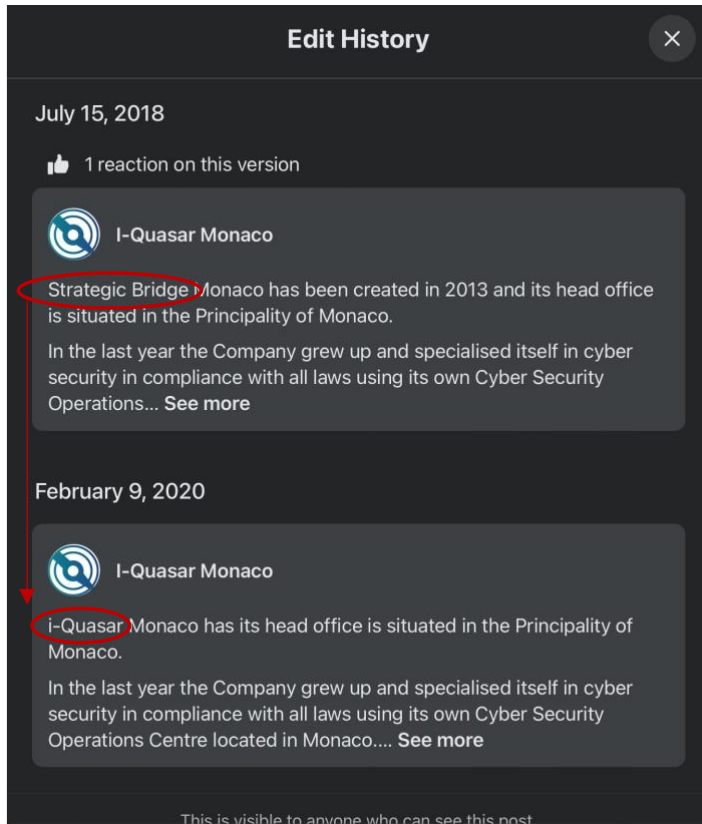
*Pier Paolo Ranieri, founder of DT's partner Strategic Bridge, posing with convicted felon Andrea Grillini in December 2018 in a Monaco event announcing its collaboration with DT. The article on the right reports Grillini's arrest for fake invoicing and money laundering just a few months earlier.*

b. Strategic Bridge “turns” into I-Quasar?

On its Facebook page, I-Quasar boasts of its “exclusive partnership” with DT, the only technology supplier mentioned on its description. The post appears dated July 15<sup>th</sup>, 2018, approximately when we estimate that Strategic Bridge made its first purchase with DT. A more careful search<sup>41</sup> including the edit history of that post, however, revealed that the original name on [I-Quasar Facebook](#) page used to be “Strategic Bridge”, not I-Quasar, and that **someone deliberately changed it to I-Quasar** on February 2020, only weeks after I-Quasar was incorporated.

<sup>41</sup> We invite readers to replicate this easy search themselves, before someone inevitably deletes the post

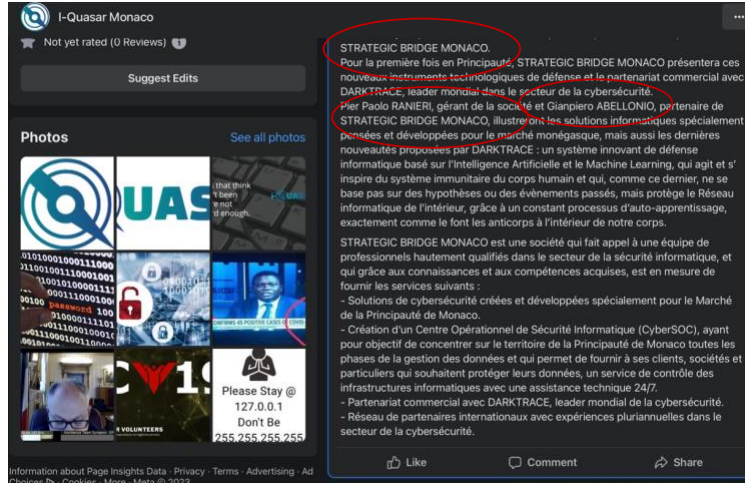
## THE DARK SIDE OF DT



*The screenshot above is taken from the edit history of I-Quasar's Facebook page and shows that Strategic Bridge "turned" into I-Quasar in 2020.*

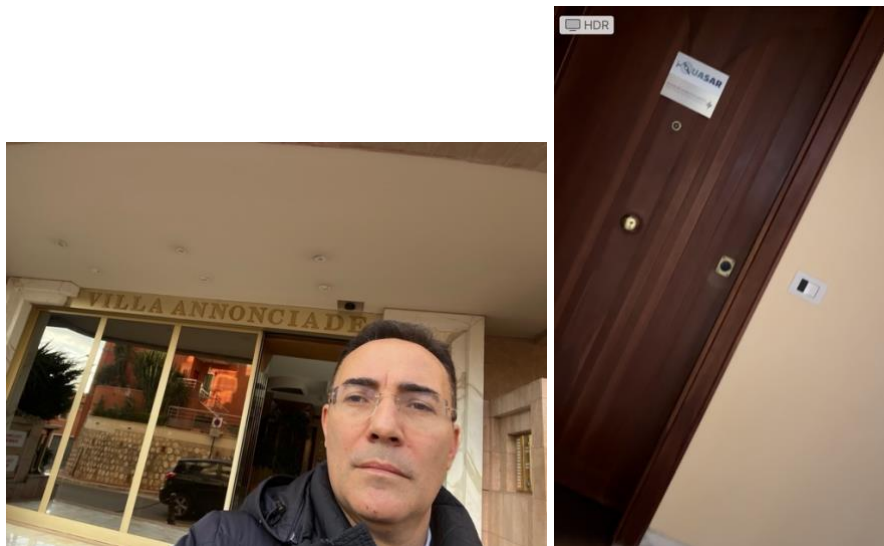
Similarly, we found Strategic Bridge's Twitter handle change into I-Quasar as well as posts indicating that I-Quasar was formerly Strategic Bridge, such as the post below dated July 2018 (two years before I-Quasar was even created) clearly referring to Strategic Bridge [See figure in the next page].

## THE DARK SIDE OF DT



*The very first post on I-Quasar Facebook page clearly refers to Strategic Bridge*

We suspect that this change of identity may be related to the “failed” DT sale we referred to earlier. For example, we question whether I-Quasar may have been created to pose as a “client” of Strategic Bridge to funnel money for the “backfilling” of the failed DT’s sale. We note that I-Quasar is in the Principality of Monaco domiciled at 24 Av. de l’Annonciade, in what appears to be a residential building<sup>42</sup>. There are no reviews appearing on its Google ad.



*Suspected shell company I-Quasar is in the Principality of Monaco domiciled at 24 Av. de l’Annonciade. We visited the address and found a small office at the ground floor of this building.*

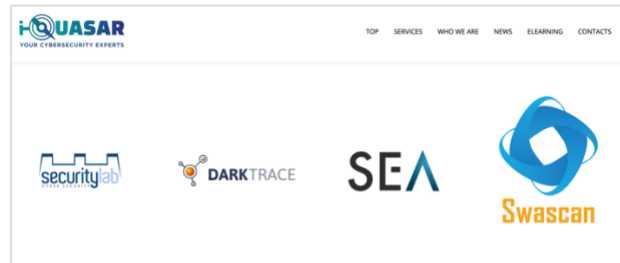
<sup>42</sup> We inquired with a local real estate agent who claims there are a few offices on the 1<sup>st</sup> floor



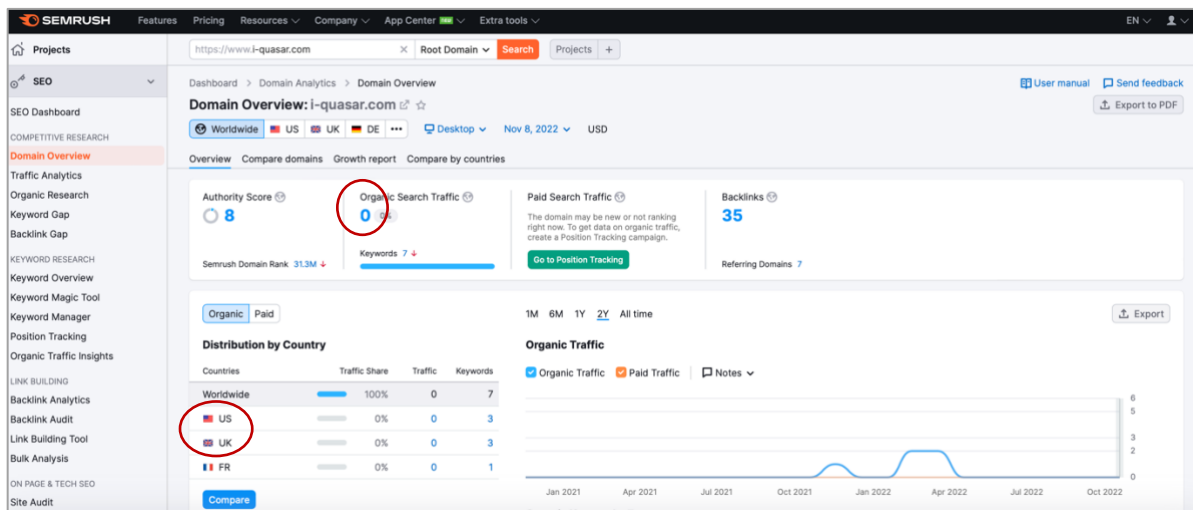
## THE DARK SIDE OF DT

### c. I-Quasar's transactions and links

I-Quasar's [webpage](#) and [Facebook page](#) show very little concrete activity<sup>43</sup>. The [news section](#) is simply reposting old media articles on general cyber-security topics. I-Quasar's webpage has virtually no traffic<sup>44</sup> and, perhaps surprisingly for a company based in Monaco, most visitors seem to originate from the UK (and from the US), where DT is domiciled.



Detail from I-Quasar website showing links with SecurityLab (Lugano), DT and website builder "SEA"



I-Quasar's webpage has almost no traffic, except for a handful of visits originating from the UK...

A look at I-Quasar's website and its referring sites, reveals that any visible activity seems limited to the following entities:

**SecurityLab:** a cyber-security firm based in Lugano (Switzerland) and [associated with DT](#)

**SEA SAS:** a small website design company led by Stefano A.

**Swascan:** an Italian IT company which later [became a partner](#) of DT in 2021

<sup>43</sup> Most posts on I-Quasar's FB page have zero "likes" and no comments

<sup>44</sup> According to Semrush<sup>44</sup> there have been just a handful of visits in the past few years

## THE DARK SIDE OF DT

**AlfaTrade & Services Ltd**: a London-based “energy shipping” company whose sole director and beneficial owner is Paolo Pensieri (also co-director of I-Quasar) and whose website has also been created by SEA. Alfatrade looks to us like a suspicious shell company because:

- It has virtually no website traffic<sup>45</sup> and no web footprint<sup>46</sup>
- It seems to have no employees<sup>47</sup>
- **Two of its former directors are mentioned in an Italian criminal probe** for overseeing bank accounts of UK entities involved in a large-scale, cross-country fraud (more about this later)
- We checked the address: the company is domiciled in accountant's office
- It seems to have sales of USD\$31m<sup>48</sup>, signaling a significant flow of money through this company



*We visited Alfatrade’s “seedy” address in 10 London Mews, Tyburnia, London W2 1HY, it corresponds to an accounting firm*

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<sup>45</sup> Source: Semrush

<sup>46</sup> A Google search returns almost exclusively database entries

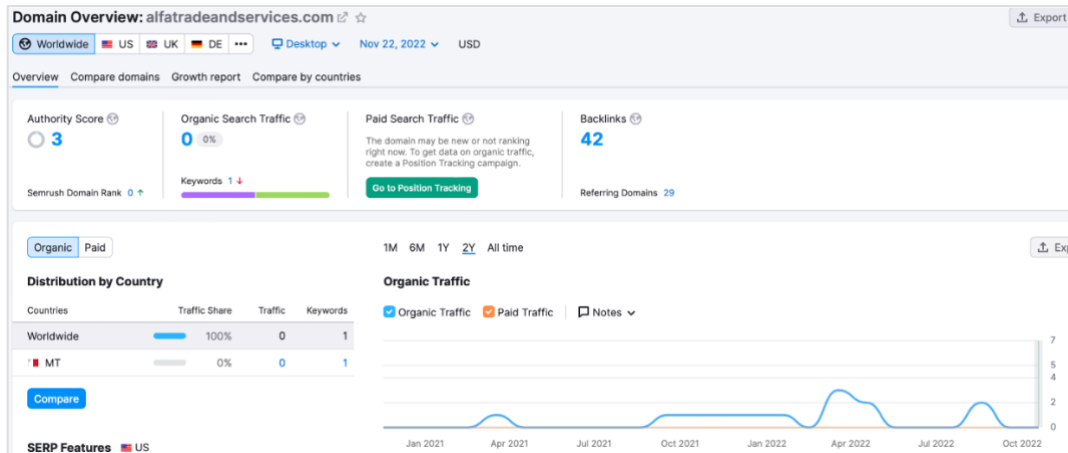
<sup>47</sup> Source: LinkedIn. D&B lists 3 employees.

<sup>48</sup> Source: D&B

## THE DARK SIDE OF DT



Screenshot from the homepage of Alfatrade & Services showing its website has been built by SEA



Alfatrade's (a UK company) web traffic analysis shows minimal activity, all of it originating from the Principality of Monaco (confirming links to Strategic Bridge )

We detected various dubious activities taking place between DT, Strategic Bridge (and its affiliates) SEA and SecurityLab, such as the

“usual” joint marketing events and seminars. We think there is a need to investigate whether some of these **events were used by DT in triangulated, cross-country transactions to channel funds back into Strategic**

**Bridge** (or its related entities) as “backfill” for purchases of software.

**securitylab** CYBER SECURITY

## Sommaro / Relatori

**[Redacted]**  
Partner & CEO Security Lab Group, Presidente Associazione Privacy

**[Redacted]** Introduzione

**[Redacted]** Senior Cyber Security Consultant **iQuasar**

- La protezione tramite intelligenza artificiale e machine learning di Darktrace
- Darktrace: demo dell'interfaccia grafica

**[Redacted]** Senior Cyber Security Consultant **Security Lab**

- Le evoluzioni dei sistemi di protezione delle infrastrutture
- Darktrace: esempi di attacchi reali rilevati

**Corrado Broli**  
Country Manager **Darktrace Italia**

Una nuova era di minacce informatiche: lo spostamento verso la rete auto-apprendente e auto-difendente basata sulla Intelligenza Artificiale e Machine Learning

**Mariana Pereira**  
Director soluzioni di Email Security **Darktrace UK**

Come l'AI può aumentare la cyber security delle mail

Sec-lab.com

Cyber security webinar hosted by Security Lab in October 2020 with I-Quasar and DT participants. Some names have been redacted for privacy.

**iQUASAR** YOUR CYBERSECURITY EXPERTS

E-LEARNING atelier

HOME CHI SIAMO SECURITY AWARENESS

**possiamo mettere in atto**

GIANPIERO ABELLONIO

### E-Learning Atelier

Security Awareness

Quando i dipendenti di un'impresa sono consapevoli della sicurezza informatica, significa che comprendono quali sono le minacce informatiche, il potenziale impatto che un attacco informatico avrà sulla loro attività e le misure necessarie per ridurre il rischio di impedire che il crimine informatico si infiltri nel loro spazio di lavoro.

Developed and Powered by:

**iQUASAR** YOUR CYBERSECURITY EXPERTS

**securitylab** CYBER SECURITY

E-learning Atelier: Joint I-Quasar/Security lab e-learning activity we fear may have been used for backfilling. Its website never had any traffic



*Reposting DT's country manager Corrado Broli in a joint event with Strategic Bridge in 2018*

#### d. People of interest in Strategic Bridge, and its affiliated companies

A check at the Principality of Monaco's corporate registry reveals 2 directors for a company affiliated with SB Monaco:

- 1) Mr. Paolo Pensieri: he is also a key person (sole director and owner) at Alfatrade & Services
- 2) Mr. XXX: appears in an investigation<sup>49</sup> of the Rome Prosecutor for a “**two-billion-euro VAT-dodging and international money-laundering scam**”<sup>50 51</sup>. According to our understanding of this document, Mr. XXX, together with Mr. Martin Stein and Mr. Hector Ramos, oversaw the bank accounts of UK entities which had an accessory role in the fraud. Interestingly, Mr. Ramos, Mr. Stein and Mr. Paolo Pensieri are or have been directors of Alfatrade!<sup>52</sup>

<sup>49</sup> To our knowledge he was never charged with a crime.

<sup>50</sup> Fastweb founder Scaglia acquitted

<sup>51</sup> Fresh scandal embarrasses Telecom Italia (Financial Times)

<sup>52</sup> Despite the investigation these people were not charged with any crimes to our knowledge

# THE DARK SIDE OF DT

The image shows two screenshots. On the left is a company profile for Alfatrade & Services Limited, featuring a sidebar with navigation options like 'OVERVIEW', 'PEOPLE & CONTACTS', 'FINANCIALS', 'CONTROL & OWNERSHIP', 'CREDIT RISK', 'COMPETITION', 'PROPERTY', and 'DOCUMENTS'. The main content area lists roles (Director, Secretary), status (Active, Resigned), occupation (Accountant, Accounts Clerk, Chartered Accountant, Director, Teacher), nationality (British, Italian, Other), and country of residence (England). A list of names and roles is shown, with three entries circled in red: Hector Ramos (Secretary, British, Born in Feb 1945), Mr John Robert Toogood (Director, British, Born in Oct 1933), and Mr Martin Stein (Director, British, England, Born in Jul 1936). The company logo at the bottom reads 'ALFATRADER & SERVICES "Clean Energy and Shipping Solutions"'. On the right is a snippet from the Financial Times website, dated February 25, 2010, with the headline 'Fresh scandal embarrasses Telecom Italia'. The article text mentions an out-of-court deal and 'paid damages' to settle a spy scandal from the early 2000s.

Alfatrade directorship (from Endole): two former directors appear in an **Italian criminal probe for money laundering and tax fraud**. Mr. Paolo Pensieri is also director at I-Quasar, DT's "parter"

3) Stefano A. is the owner of SEA SAS. According to [his LinkedIn profile](#), he previously worked for 6 years at Cogefi SAM, another company in Monaco featured in the Panama Papers and subject to [criminal investigation and arrests by the Italian police](#) for money laundering through the use of various shell companies<sup>53</sup>.

How many Strategic Bridge exist? Besides SB (Monaco), we found other companies named "Strategic Bridge" (or similar names) posing as DT's partners. Our investigation reveals that these entities may also be **shell companies** and that they are related to the **same beneficial owners**. We wonder whether that these companies may have been used to shift outstanding receivables from one entity to another and/or to channel funds through round-tripping transactions.

*Strategic Bridge* (Lugano, CH): Liquidated (apparently also due to criminal problems with one of the directors).

*Strategic Bridge* (Pavia, ITA): no obvious signs of operations. Company's address is an accounting firm.

Company seems associated with entities related to I-Quasar and Strategic Risk Consulting.

<sup>53</sup> We are not aware of the ending of the investigation and whether anyone was charged with any crimes.

## THE DARK SIDE OF DT

*Strategic Risk Consulting* (Rho, ITA): company is domiciled in a residential building in the office of a security guards' firm. This company is 40% owned by SB (Pavia).

Confused? That's probably the idea. Based on the evidence we have just shown, we believe that **DT and Strategic Bridge may have built or exploited an existing cross-country infrastructure involving companies in Italy, the Principality of Monaco, Switzerland, and the UK to enable round-tripping transactions and fictitious revenue**<sup>54</sup>.

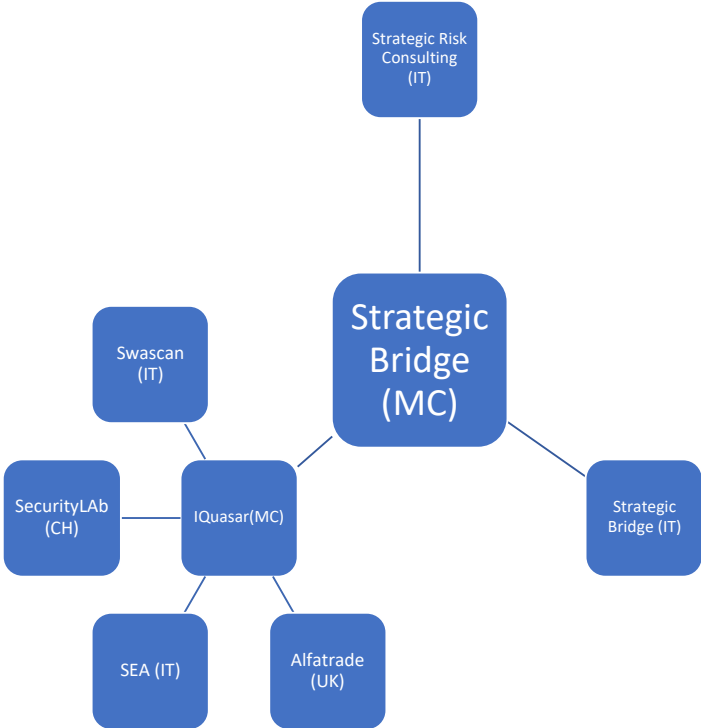


*Left: Strategic Risk Consulting address in Rho (Milan): address corresponds to a security guards' firm. Right Strategic Bridge office address in Pavia: it is a wholly residential building except an accounting firm. We spent time with the owner and saw no trace of Strategic Bridge.*

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<sup>54</sup> We came across two additional entities in Italy which we strongly suspect are related to the Strategic Bridge affair: Strategic Bridge srl (based in the Milan area) and Strategic Risk Consulting (Pavia).

THE DARK SIDE OF DT



*List of companies that we came across in our investigation on Strategic Bridge. Some of these entities are also related to each other through common beneficial owners, reciprocal transactions, and transactions with DT<sup>55</sup>*

<sup>55</sup> Having been included in this chart or mentioned in our investigation does not necessarily imply wrongdoing



## THE DARK SIDE OF DT



### *“Sale” to Imaging Group*

Imaging Group is a small (less than \$5m revenue<sup>56</sup>) firm in the Milan area focusing on document management: it does not specialize in cybersecurity. According to our investigation, it appears that in 2016 Imaging acquired one of DT’s systems for a substantial amount of money. Shortly afterwards, Imaging seems to have become one of DT’s partners<sup>57</sup> and we understand that several of DT’s direct clients may have been channeled through Imaging Group. In addition to this, we detected the usual marketing events sponsored by DT.

Based on the above, **we think there is a need to investigate whether the original “sale” to Imaging Group may have been an “anticipated sale” and that Imaging turned into a “partner” to allow DT to backfill it** through direct clients.



*DT sponsorship of an event organized by Imaging Group*



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<sup>56</sup> Source: Dun & Bradstreet




<sup>57</sup> The first reference of Imaging’s partnership with DT appears on the Wayback Machine dated October 25<sup>th</sup> 2016

## THE DARK SIDE OF DT


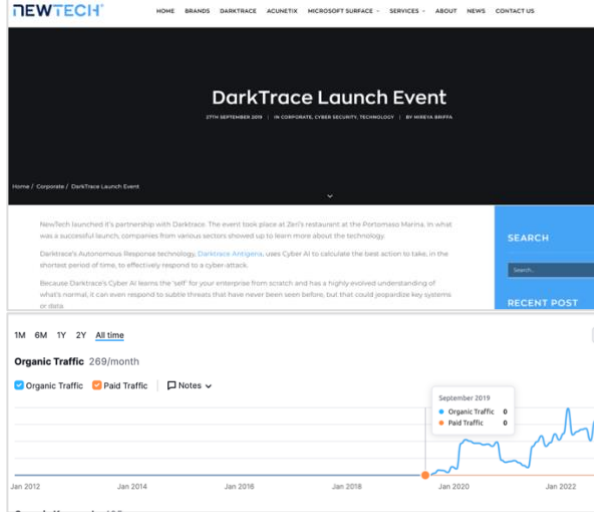
*A selection of marketing events that we fear have been used for “backfilling”:*

<i>EVENT/RESELLER</i>	<i>PARTNER</i>	<i>LOCATION</i>	<i>DATE</i>	<i>URL/PICTURE/NOTES</i>
Sicurezza ICT 2017 Bari	DT partner in southern Italy	BARI	19/10/2017	<a href="https://www.soiel.it/eventi/sicurezza-2017-bari/">https://www.soiel.it/eventi/sicurezza-2017-bari/</a> 
Cybersecurity Mediterranean	Not identified	Noto (Syracuse, Sicily)	May 10-11, 2018)	<a href="https://cybersecuritytrends.uk/2018/01/08/business-and-industry-4-0-at-the-core-of-the-5th-macro-regional-congress-cybersecurity-romania-sibiu-14-15-september-2017/">https://cybersecuritytrends.uk/2018/01/08/business-and-industry-4-0-at-the-core-of-the-5th-macro-regional-congress-cybersecurity-romania-sibiu-14-15-september-2017/</a>
Lunch Seminar	Omnitech IT	Milan (Hotel Parigi)	2019	<a href="https://www.cybertech.eu/category/blog/cybertech-news/page/11/">https://www.cybertech.eu/category/blog/cybertech-news/page/11/</a> (link to a possible 2015 edition)
Expo Security	DT partner based in Bari	Pescara	16 May 2019	<a href="https://confindustriachpe.it/component/k2/12-credito-finanza-e-fisco/download/6043_d3a034716217333dc05cc1c9852dc458">https://confindustriachpe.it/component/k2/12-credito-finanza-e-fisco/download/6043_d3a034716217333dc05cc1c9852dc458</a> 

THE DARK SIDE OF DT

<p>Cloudia Roadshow</p>	<p>PC System srl</p>	<p>Lucca, Pisa</p>	<p>23 May 2019 (Lucca), 11 Aprile 2019 (Pisa)</p>	 <p><a href="https://www.facebook.com/pcsystemsrl">Link to deleted webpage</a> <a href="https://www.facebook.com/pcsystemsrl">https://www.facebook.com/pcsystemsrl</a></p>
<p>Security Workshop</p>	<p>Project Informatica</p>	<p>Bergamo</p>	<p>Oct 1<sup>st</sup> 2019</p>	 <p><a href="#">Link to twitter post</a></p>
<p>Cena de presentación de Darktrace</p>	<p>Alkimia Consultores</p>	<p>Mexico City</p>	<p>Oct 27<sup>th</sup> 2016</p>	 <p><a href="https://www.facebook.com/AlkimiaConsultores/photos/pb.100027587816693.-2207520000./448451168611977/?type=3&amp;locale=zh_CN">https://www.facebook.com/AlkimiaConsultores/photos/pb.100027587816693.-2207520000./448451168611977/?type=3&amp;locale=zh_CN</a></p>

THE DARK SIDE OF DT

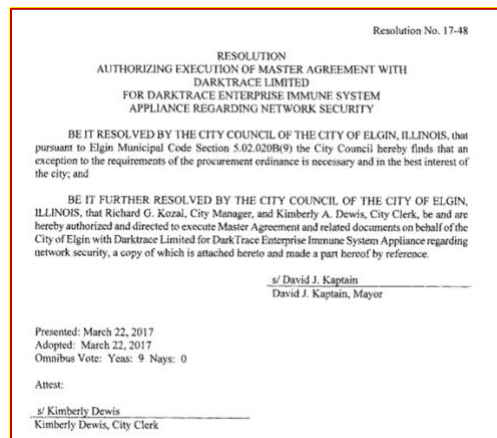
<p>The Enterprise Immune System</p>	<p>Alkimia Consultores</p>	<p>Mexico City (presumably)</p>	<p>Apr 19<sup>th</sup> 2017</p>	 <p><a href="https://www.facebook.com/photo/?fbid=546318065491953&amp;set=pb.100027587816693.-2207520000.&amp;locale=zh_CN">https://www.facebook.com/photo/?fbid=546318065491953&amp;set=pb.100027587816693.-2207520000.&amp;locale=zh_CN</a></p>
<p>Darktrace Launch Event</p>	<p>Newtech</p>	<p>Malta</p>	<p>Sept 2019</p>	 <p><a href="https://newtech.mt/blog-news/darktrace-launch-event/">https://newtech.mt/blog-news/darktrace-launch-event/</a></p> <p>From its webpage and Facebook page it appears little more than a laptop repair shop. Yet, D&amp;B shows Newtech sales of \$3.8m. LinkedIn lists 11 employees. According to Semrush, Newtech's website had zero visits until September 2019, <u>exactly the date when it announced its partnership with DT</u>. Also, Newtech's web archive has no entries prior to September 2019.</p>

## THE DARK SIDE OF DT

### *Instances of “capex” contracts*

As mentioned earlier, despite DT’s assertion in official filings that most appliances are generally given on loan to clients with DT retaining ownership, **we found multiple instances<sup>58</sup> of Capex contracts, with hardware sold, not loaned, to clients.** For example, we found the following documents taken from various local US government entities which publish online their contracts with DT for transparency reasons:

### A four year “capex” contract for the City of Elgin



- 4. HARDWARE**
- 4.1. **Hardware Products.** Subject to Clause 2.2, Darktrace shall sell to the City, and **City shall purchase from Darktrace, the Hardware element of the Products, subject to, and in accordance with, the terms of this Agreement. Unless otherwise agreed in a Product**

### A pure “capex” contract with the City of Tukwila

- 4. HARDWARE**
- 4.1. **Hardware Products.** Subject to Clause 2.2, **Darktrace shall sell to the Customer, and Customer shall purchase from Darktrace, the Hardware element of the Products, subject to, and in accordance with, the terms of this Agreement. Unless otherwise agreed in a**

<sup>58</sup> Admittedly DT declares in its annual reports that in rare cases the appliances are sold. However, the relative ease with which we found capex contracts online relative to opex contracts makes us suspect that such cases are not so rare.

# THE DARK SIDE OF DT

A pure “capex” contract to the Palmdale Water District

4. **HARDWARE**
- 4.1. **Hardware Products**, Subject to Clause 2.2 (if applicable), Darktrace will sell to the Customer, and Customer will purchase from Darktrace, the Hardware element of the Products, subject to and in accordance with the terms of this Agreement. Unless otherwise agreed in a Product Order Form, the cost of the Hardware is included in the Fees. Customer acknowledges that,

**AGENDA ITEM NO. 6.5**

**PALMDALE WATER DISTRICT  
BOARD MEMORANDUM**

DATE: January 3, 2019 January 14, 2019  
 TO: BOARD OF DIRECTORS Board Meeting  
 FROM: Jim Stanton, Information Technology Manager  
 VIA: Mr. Adam Ly, Assistant General Manager  
 Mr. Dennis D. LaMoreaux, General Manager  
 RE: AGENDA ITEM NO. 6.5 – APPROVE PURCHASE OF ENHANCED NETWORK SECURITY AND REPORTING. (\$48,000.00 – BUDGETED – INFORMATION TECHNOLOGY MANAGER STANTON)

**Recommendation:**  
 Staff recommends the Board approve the acquisition of Darktrace Enterprise enhanced network threat detection, classification and remediation.

A four-year “capex” contract with the County of Klamath (title transferred to client after 24 months)

**PRODUCT ORDER FORM**

Customer Name: Klamath County Product Order Form Ref: 30827-202003-05-588344-AK-05  
 Shipping Address: 316 Main St Room 20, Klamath Falls, OR 97601 Date Prepared: 2020/03/24  
 Invoice Address: 316 Main St Room 20, Klamath Falls, OR 97601 Expiry Date: 2020/03/31  
 Attn: Jessica Chastain  
 Email: jchastain@co.klamath.or.us

Line Item	Product/Services Description	Product Code	QTY	Term (months)	Annual Customer Price (USD)	Extended Customer Price (USD)
1	Enterprise Immune System comprising:	DCIP-ES		60	42,800	214,000
	Medium Appliance	DCIP-M	1			
	Antigena Network Software	DCIP-ANTI	1			
	Antigena Email Software	DCIP-AGE	1			
Term license commencing on 2020/04/01 ("Commencement Date")						
Installation Services						
Standard Support Services						
2	Threat Visualizer training, Virtual Instructor - Public	DCIP-TV-PT	1	-	-	Included
<b>Total</b>						<b>214,000</b>
Extended Customer Price if Product Order Form is executed after 31st March 2020						<b>273,820</b>

BOARD OF COMMISSIONERS  
Agenda Item Summary

Agenda Category: Agreements Item No: \_\_\_\_\_

Meeting Date: March 31, 2020

Originating Department: Information Technology

**Issue:** In the matter of accepting the agreement with DarkTrace to provide their Enterprise Immune System and Antigena Software to Klamath County

**Background:** Klamath County Information Technology accepted the proposal for DarkTrace Enterprise Immune System Product and Antigena Software, today March 24, 2020.

Autonomous Response		
DarkTrace	\$42,800/year	\$214,000

**Fiscal Impact:** The fiscal impact is to \$42,800 per year for five-years, for a total contract price of \$214,000. This would be paid out of the Technology Maintenance fund.

**Recommended Motion:** The Board accepts the agreement with DarkTrace. Total fiscal impact to be \$42,800 per year for five-years, for a total cost of \$214,000 paid within the Technology Maintenance Fund. Allowing the IT Director to sign the agreement with DarkTrace.

- 4.3. **Title to Hardware.** Notwithstanding anything in the Agreement to the contrary, title to the Hardware will remain with Darktrace during the first twenty-four (24) month period of the Term. Following such initial twenty-four (24) month period and provided Customer is current in all payment obligations to Darktrace, title in the Hardware will pass to Customer. Upon termination for any reason during the first twenty-four (24) month period of the Term (or if the Term is less than twenty-four (24) months in duration, on expiration of the Term), Customer shall return the Hardware to Darktrace, securely and

## THE DARK SIDE OF DT

In addition to the direct contracts above, we are aware of multiple capex contracts signed through partners/resellers in the years prior to 2020. For example, we have learned from our field investigation that Italian company “Poste Italiane” has signed a “capex” agreement with one of DT’s partners, but we have reason to believe that DT may have recorded such sale as “Opex”: if that is correct, an absurd situation would exist with both **DT and its client claiming title simultaneously for the same asset.**

Our investigation suggests that DT is no longer selling its appliances as Capex, as the most recent capex contracts we found are dated around 2020. Still, DT’s IPO prospectus issued in 2021 may be misleading in its claim that virtually all appliances are given out on-loan. Again, there are multiple<sup>59</sup> direct hardware sales that prove it, and we suspect that some reseller sales might show a discrepancy between the sale of hardware from DT to the reseller (Opex) and from the reseller to the end user (Capex).

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<sup>59</sup> We found 5 capex contracts online related to direct sales. Our interviews with partners and other industry participants confirmed that capex contracts have been offered to clients through resellers at least until 2020. In at least one case we reviewed, there seemed to be a discrepancy between the transfer from the reseller to the end user (a sale of the appliance) and the transfer from DT to the reseller (which did not specify whether it was a sale or a loan). We also found two instances of “mixed” capex/opex contracts which we struggle to reconcile with proper accounting regulations.

## THE DARK SIDE OF DT

### Accounting red flags

Our financial analysis has detected several accounting anomalies consistent with the suspicious practices we described in our report. We briefly mention the most interesting ones:

#### 1) Auditors' concerns

DT's auditors have flagged potential issues with revenue recognition and, specifically, with sales through channel partners. DT's auditors detected **“findings relating to the existence of end users” in DT's channel partners**. This is exactly what you would expect if an auditor came across one of the anticipated “phantom” transactions we explored earlier. These problem findings have been described by Grant Thornton as “immaterial” because they are presumably below the \$2.7m threshold for materiality (1% of 2021 sales). However, what if there are enough of these “findings” that, despite being “immaterial” individually, together they constitute a major issue?

#### Key Audit Matter – Group

##### Revenue Recognition

We identified revenue recognition as one of the most significant assessed risks of material misstatement due to the risk of fraud.

The Group has reported revenues of \$281.3m (2020: \$199.1m). The nature of the Group's revenue involves the processing of multi-year contracts which are recognised over time.

The audit team's assessment is that the vast majority of revenue transactions are non-complex, with no judgement applied over the amount recorded as revenue recognised equates to the value of the service, spread evenly over the period of each contract.

We have therefore focused our significant fraud risk assessment in two areas. Firstly, on new contracts entered into within the year, both for revenue and deferred revenue recognition as we consider this to be where the opportunity and incentive for revenue misstatement could occur.

Secondly, we focussed on the increased fraud risk in partner channels due to immaterial findings relating to existence of end users in the prior year.

Similarly, Grant Thornton has detected deferred revenue as an area where the “opportunity and incentive for [...] misstatement could occur.”



## THE DARK SIDE OF DT

### 2) Auditors' identity

DT has been consistently audited by Grant Thornton, an audit firm with an arguably less-than-stellar track record in detecting accounting fraud. Inter alia, we can mention Parmalat, Globo Plc (exposed by QCM) and Patisserie Valerie among complete accounting frauds audited by Grand Thornton, whose chief incredibly asserted that auditors “are not looking for fraud”<sup>60</sup>.

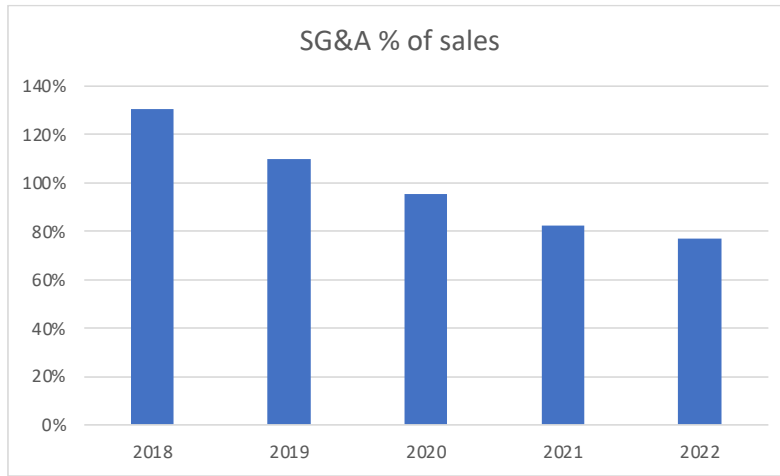
The screenshot shows the top of a Guardian article. At the top left, it says "Support the Guardian" with a "Support us" button. The Guardian logo is on the right. Below the navigation bar, the article title is "Patisserie Valerie auditors fined £2.3m over 'serious lack of competence'". A red arrow points to a sub-headline: "FRC says Grant Thornton 'missed red flags' and failed to question information from management". The author is Kalyeena Makortoff, dated Mon 27 Sep 2021 09:30 BST. A yellow banner indicates "This article is more than 1 year old".

The screenshot shows a Guardian article titled "Grant Thornton chief: Auditors aren't 'looking for fraud'". The author is Francois Badenhorst, dated 6th Feb 2019, with 20 comments. Below the title is a photo of a Grant Thornton building. The article text states: "Grant Thornton's new chief exec has told MPs that current audit procedures are not structured to spot fraud, merely to say whether company accounts are 'reasonable'".

<sup>60</sup> [Grant Thornton chief: Auditors aren't 'looking for fraud'](#)

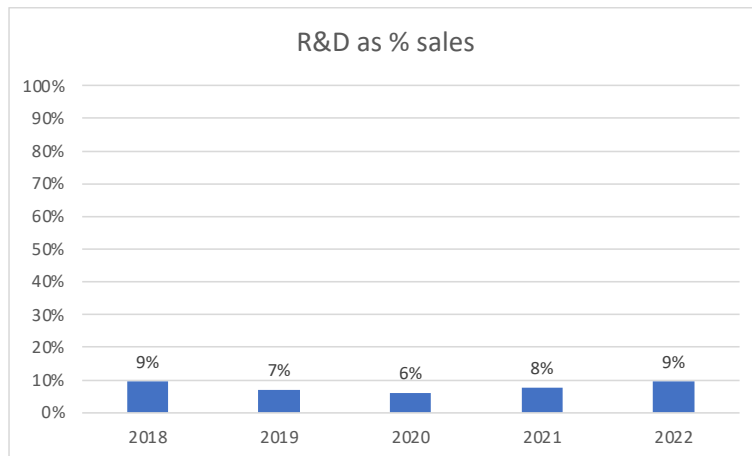
# THE DARK SIDE OF DT

### 3) Extremely high Selling, General, and Administrative (SG&A) Expenses as % of revenue



As clearly shown in this chart, DT’s SG&A, of which marketing expenses are probably the vast majority, are a huge proportion of revenue, exceeding 100% of sales until 2019. Even if all these expenses were legitimate, we question the sustainability of a business that needs to redeploy all of its revenue in marketing expenses to sustain growth. However, we are very concerned about our findings earlier in this report highlighting possible round-tripping transactions allegedly funded through DT’s marketing budget and worry that high SG&A expenses may be a confirmation of the scale of this problem.

### 4) Low Research & Development (R&D) Expenses



## THE DARK SIDE OF DT

Similarly, we find DT's R&D expenses, consistently below 10% of sales, to be inadequate to support the long-term viability of the company. Industry observers claim that a good software company should have R&D expenses around 40% of sales: DT's allocation seems **grossly deficient** and unsustainable<sup>61</sup>.

### 5) Commissions anomalies

According to an in-depth accounting analysis performed by Shadowfall earlier in 2022, estimated commissions earned by DT's staff in 2021 were about 20% of sales. This number seems to clash with several employees' reviews Shadowfall detected (and confirmed by us) on Glassdoor and with our own field investigation that suggest that sales staff commissions are instead closer to 5%<sup>62</sup>. We find that 15% gap disturbing and wonder whether the mismatch could partly be related to the "anticipated" sales and their "backfilling", as we saw earlier<sup>63</sup>.

### 6) Credit losses and receivables

Again, according to an analysis provided earlier by Shadowfall, while receivables as a percentage of sales appear to be dropping somewhat (admittedly a good sign), the **quality of those receivables seems to be deteriorating** as credit losses and write offs appear to be increasing rapidly (now about 12% of sales leads to bad debt or credit loss provisions). Based on our investigation, we understand that partners over time might have become less willing to engage in the alleged "backfilling" practices we described earlier so that "failed" anticipated sales might lead to bad debt rather than to long receivables.

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<sup>61</sup> DT claims that its AI model allows the company to function on a structurally lower R&D cost base. We are unconvinced, not least because DT is not the only cybersecurity player using AI

<sup>62</sup> According to LinkedIn Insights median employee tenure at DT is only 1.3 years. Because, based on the Glassdoor employee reviews, the 5% sales commission is paid 50% immediately and 50% after 12 months, we fear that a large part of the commission is eventually not paid because some employees leave the company before receiving the second tranche of their fee. This means that even a 5% commission is likely to be inflated.

<sup>63</sup> It is possible that a part of the commission expenses goes senior sales staff or there might be other reasonable explanations we are not aware of.

# THE DARK SIDE OF DT

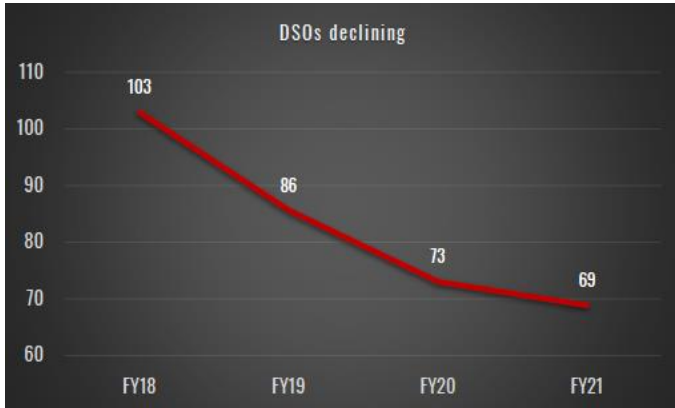


Figure 38 Days Sales Outstanding. Source: Company Filings, ShadowFall calculations

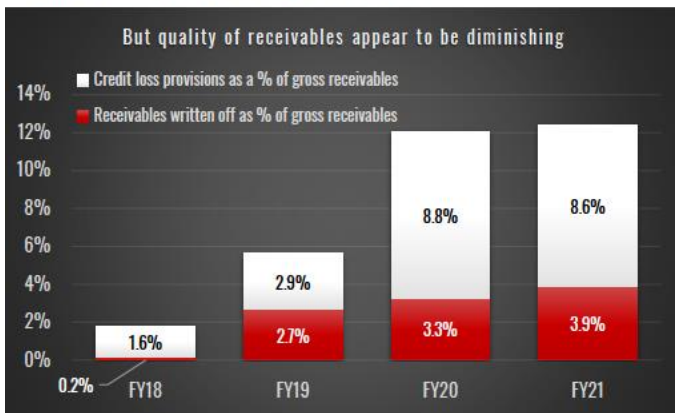


Figure 39 Quality of receivables. Source: Company Filings, ShadowFall calculations

## THE DARK SIDE OF DT

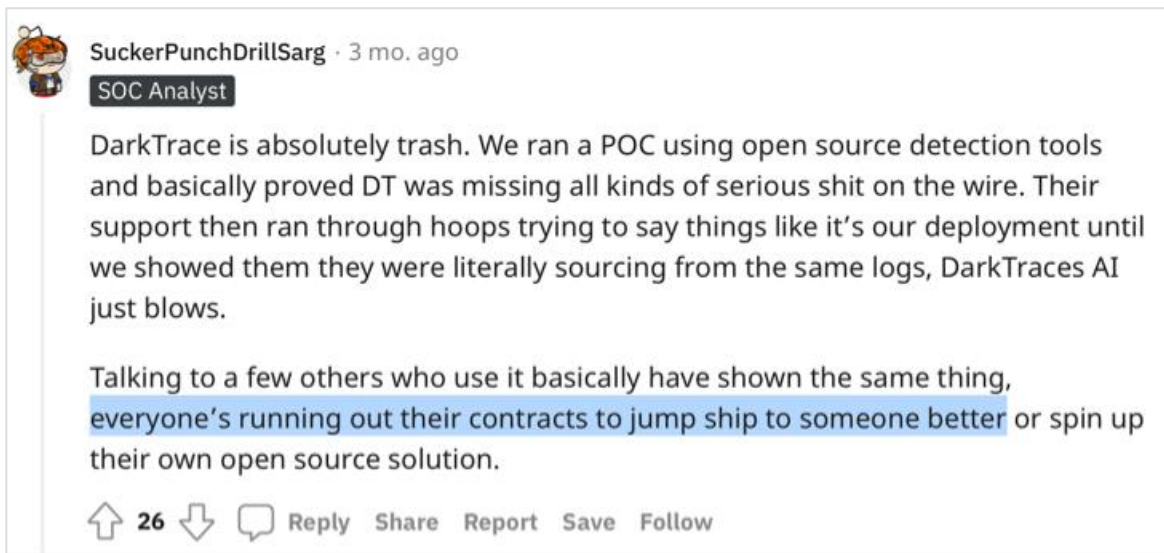
### Product quality and clients' opinion

While a few individuals we interviewed had a good opinion of DT's products, the majority were skeptical. We summarize the most recurring criticisms below:

1. System's failure to detect attacks (both in testing and real ones)
2. High number of false positives even after the initial "learning period"
3. Fancy user interface perceived as "smoke & mirrors"
4. System unable to detect threat if present prior to installation
5. Product perceived as too expensive relative to alternative solutions

Noteworthy links pointing to the issues above:

- [Problems with DarkTrace - Threats Undetected \(Reddit\)](#)
- [Darktrace, Anyone using it? \(Reddit\)](#)
- [Anyone using Darktrace? \(Reddit\)](#)
- [Vectra Vs. Darktrace: why customers choose us by a wide margin \(caution: by Vectra, DT's competitor\)](#)



*Recent feedback on DT's products we found on Reddit*

# THE DARK SIDE OF DT

Selection of negative customer reviews on Reddit:

← **r/cybersecurity**

Posted by u\_KR15714N 1 month ago

26 **Problems with DarkTrace - Threats Undetected**

**Business Security Questions & Discussion**

In the past few days my company decided to run a PoC with other vendors to determine if some threats were flying under the radar of our DT Antigena. Surprisingly the other vendors (less expensive ones) were showing more detections than DT. Has anyone here faced the same situation recently? I've saw a post from earlier this year that says AI engine of DT is overrated and is just fluffy marketing stuff. Any advice here?

AmIAdminOrAmIDancer · 1 mo. ago  
**Security Engineer**

DT is more flash than substance. We just did a POV on antigena and I told them straight up nothing blew my socks off. They found one gateway misconfig and acted like they saved us from a breach. I ended it there and they still tried some hard angle sales shit that made me want to hang up immediately.

Side note I recommend everyone who interacts with vendors study social engineering because that's all sales is these days too!

14 ↓ Reply Share Report Save Follow

ptekk · 24 days ago

Used it for over 3 years and it's just not a practical solution for performing investigations, the fancy interface just doesn't provide any value.

I've had countless, customer/technical/success account managers and the relationship has degraded over time.

I won't be renewing the contract. Probably make use of the Cisco Firepower appliances we now have, Vectra or Extrahop

OneWithCommonSense OP · 3y

It's targeting the Enterprise, but it's honestly an overpriced product with minimal features and capabilities. You cannot make your own dashboards or present yourself with applicable information regarding your environment. In it's current state, it's severely limited and overpriced. Maybe in 3-4 years it might be worth a look, but I have my doubts.

2 ↓

GoranLind · 1 mo. ago  
**Blue Team**

It's extremely useless. They paid a games company to create it. I used the DT API and visualized stuff in a network graph using an external visualization library. Less painful to watch.

MXH\_D · 1 mo. ago

Run for the hills. We had the same experience during a POC. Staggering they are such a market player when anyone I speak with is massively underwhelmed with the solution.

2 ↓ Reply Share Report Save Follow

still\_killing\_it · 3y

I concur. We don't have a dedicated security person (yet), but we're 6+ months in and still get a lot of false positives. Specifically, anytime we add a new device, it's essentially useless without our constant intervention for about 3 weeks.

1 ↓ Reply

unknowncarolina · 1 mo. ago  
**System Administrator**

Dark Trace is just a badass dashboard and a pushy sales team.

2 ↓ Reply Share Report Save Follow

[deleted] · 3y

We had it as a trial. Thought it was too expensive and interface was all bullshit and no substance and then to top it off the server failed.

Advanced-Meaning5529 · 1 mo. ago

I deployed DarkTrace globally for a financial organization. First of all, they're running Zeek with ELK on top and created a pretty UI. They triggered an anomalous alert for a sinkhole detection. After looking into the alert, it turned out that the detection looked for the keyword sinkhole in the URI. A user in our organization was researching sinkholes in Florida.

In addition, during a red team exercise, it didn't catch lateral movement, RDP or SSH tunneling, data exfiltration to a domain no one has ever accessed before, etc. Zero value.

## THE DARK SIDE OF DT

### Human resources issues

We suggest our readers to have a careful look at DT's employees' [reviews on Glassdoor](#). The overall grade is a low 3.1, and several posts dismiss positive reviews as “fake”. Overall, the hundreds of negative reviews we came across paint a picture consistent with the situation we have been describing in our report. Apparently, the environment is “toxic”, sales practices are unethical, staff turnover is extremely high and links with Autonomy are often obvious. The overall impression we received is that DT focuses hiring on recent graduates with little prior experience, enticing them with high potential commissions despite a low base salary. Most hires quit or are fired quickly after they understand that the reality is very different, often before receiving part of their sales commission<sup>64</sup>. Clearly this situation is unsustainable as DT is forming a bad reputation among the pool of potential hires.

1.0 ★ ★ ★ ★ ★ ✓

Former Employee, more than 1 year

**Buy a GAS MASK cause this place is TOXIC**

Jun 1, 2022 - Account Executive

✗ Recommend ✗ CEO Approval ✗ Business Outlook

Pros

get that closing title on your resume

Cons

- absolutely cut throat culture, VPs and directors don't care about you as a person and will belittle you on calls
- people steal accounts all the time
- awful CRM that crashes every 5 minutes
- during my time here I've seen 30+ AEs leave in less than a year

This is a churn and burn environment and you will be miserable here

65k base for a HCOL area is a joke

Advice to Management

get a better CRM, clean house from the leadership, do anonymous reviews from employees and buy gas masks for your employees because of the toxicity

*A typical DT negative review we selected on Glassdoor, out of hundreds of similar ones available*

<sup>64</sup> Part of the sales commission is delivered 12 months after the closing of a sale and we understand that it is waived if the salesperson leaves the company before that date.

### **DT at an inflection point?**

If Darktrace is indeed relying on creative accounting to improve its with its investor base, it would be vulnerable to a slowdown in the underlying market conditions. We have detected several signs suggesting that such slowdown may be taking place as we speak. Indeed, the [trading update](#) issued on January 11<sup>th</sup> seems to confirm this.

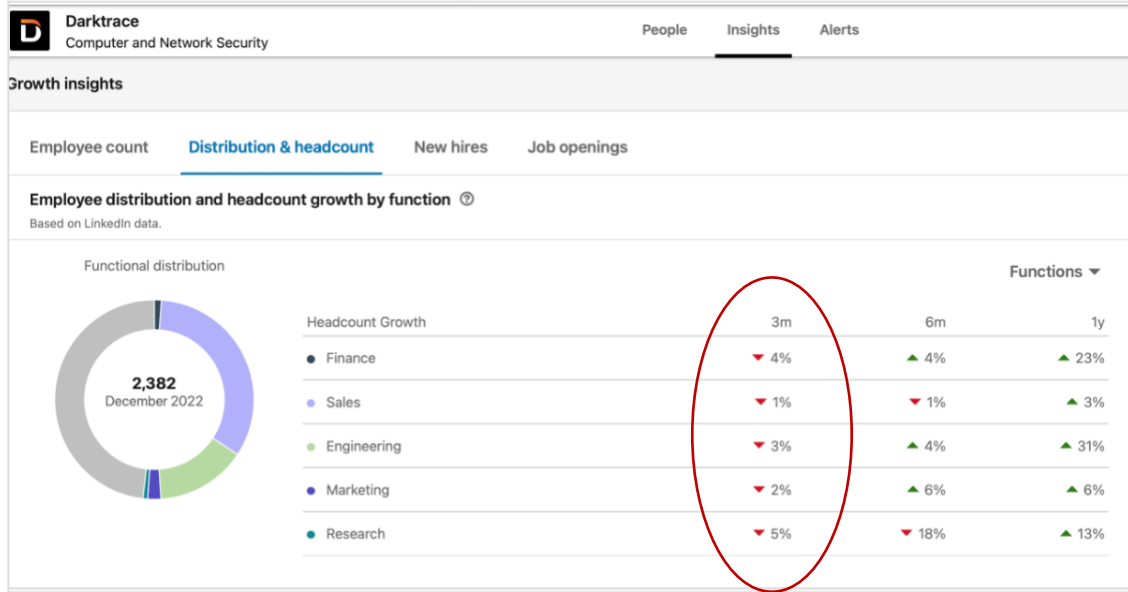
- 1) **Competitors are warning of tough times ahead**: DT's competitor's CrowdStrike has recently issued a profit warning citing "increased macroeconomic headwinds" and "elongated sales cycles". Other players such as Palo Alto expressed concerns about the worsening macro situation.
- 2) Our LinkedIn analysis suggests that **DT's may have sharply reduced hiring** during the last three months and **headcount has been dropping** in key areas after years of sustained growth.
- 3) Our analysis of website traffic and Google trends suggest that **interest for Darktrace may have peaked** around July 2022 and is now declining. This contrasts with continued interest for most of DT's competitors.
- 4) Many insiders and key investors appear to be **selling stock**<sup>65</sup> and a few key staff have left the company (notable recent sellers include resigning director Vanessa Colomar, Nicole Eagan, Jack Stockdale, Mike Lynch).
- 5) Our talks with industry players suggest that, in certain geographical areas, DT's relationships with vendors might be deteriorating and that **resellers might be less willing to play along** with the conduct we highlighted in this report.

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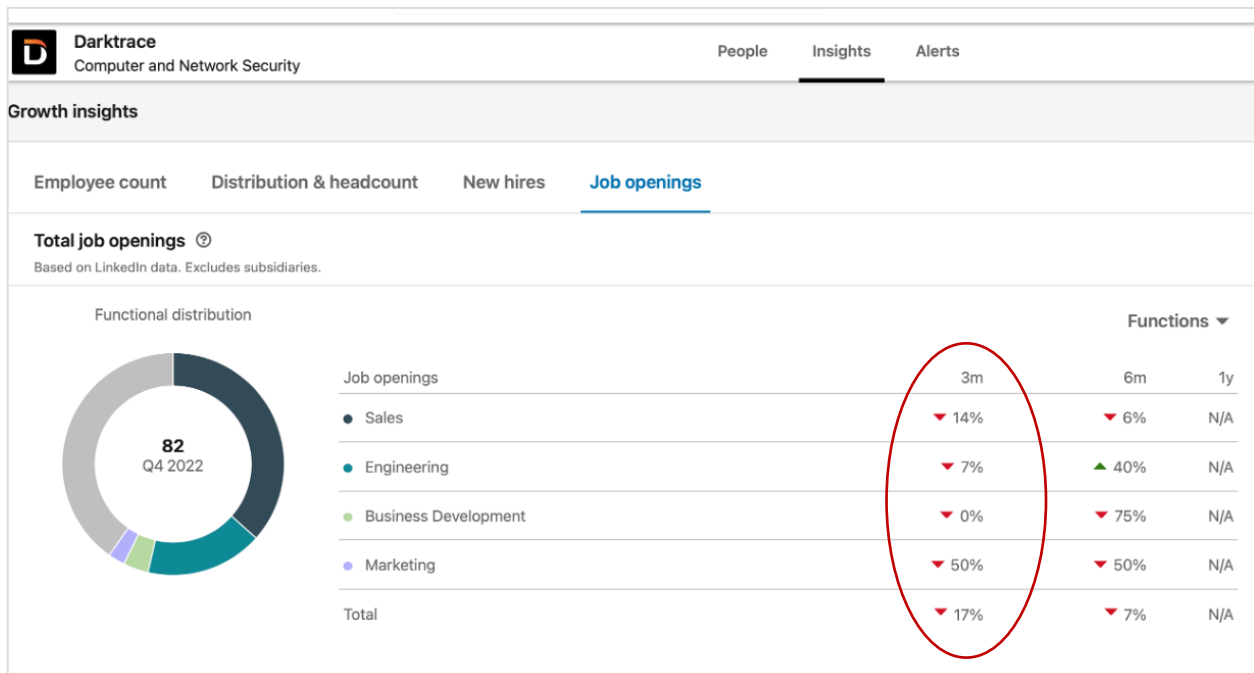
<sup>65</sup> Source" S&P CapitalIQ



# THE DARK SIDE OF DT



LinkedIn shows a drop in DT's headcount in key growth areas

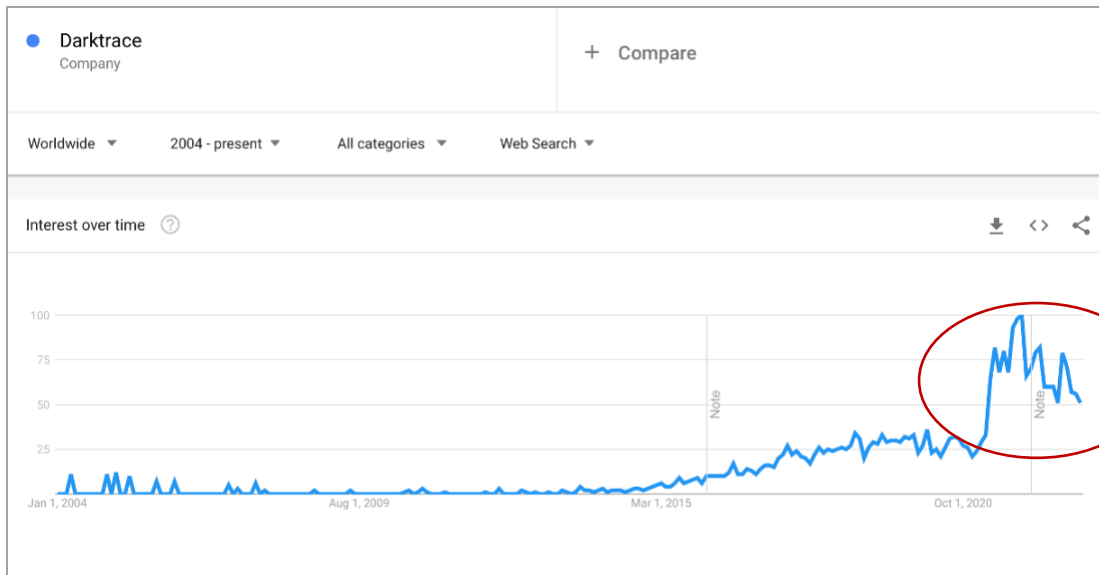


LinkedIn shows a sharp drop in DT's job openings in key growth areas

# THE DARK SIDE OF DT



*DT website traffic shows a 25% drop in website visits since July 2022 (source: Semrush)*



*Google Trends shows a recent marked decrease in the frequency of searches for the word "Darktrace"*

## THE DARK SIDE OF DT

### Devil's advocate

As an intellectual honesty exercise, we present data and theories that may be contrary to our thesis to allow the reader to form an unbiased opinion.

- Unlike a few frauds we came across during our careers, we verified that DT has a real product with legitimate sales. We do fear, based on our investigation, that a percentage of sales may qualify as “channel stuffing”, with a portion of these leading to “phantom” clients and round-tripping transactions.
- A few of the industry players we sampled had a good opinion of DT’s products, though most pointed out that it was “overhyped” and had important limitations/constraints and doubted its competitive stance vis-à-vis emerging players.
- Though we have a high degree of conviction regarding the existence of the problematic sales practices, it is harder to make an accurate estimate of their prevalence. However, a few factors lead us to believe that such issues may be systemic and widespread:
  - We detected nearly identical dubious transactions and conduct in **very different geographical areas**<sup>66</sup> (e.g. Southern Europe, Central America), suggesting a common “architect”.
  - The occasional appearance of DT’s senior managers from London<sup>67</sup> in possible “backfilling” events.
  - The placement of Mr. Corrado Broli as Italy’s Country Manager and of other **individuals involved with the Autonomy fraud**.
  - The **striking similarity** between the transactions we detected and the ones at Autonomy, makes it unlikely that they have spontaneously originated in a few “rogue” countries.

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<sup>66</sup> Our inquiries into the US, UK, African and Asian markets also hinted at the possible existence of similar issues though most of the evidence we collected focused on southern Europe and Latin America

<sup>67</sup> As can be seen from the screenshot on page 41, Mariana Pereira from DT’s London office participated to a possible “backfilling” event. She too was employed at Autonomy, like so many others.

## THE DARK SIDE OF DT

- The **consistency** between some of these alleged practices and the accounting issues we raised earlier.
- DT has added several new board members upon their IPO, including members of the UK Parliament and former members of the UK intelligence community. We respect UK institutions and doubt that such figures would have *knowingly* gotten involved with this situation. Indeed, we assume that most independent board members and some executives are unaware of the issues we highlighted. If so, we would expect such people to distance themselves from the company, especially if once our thesis is confirmed in an official probe.

### **Valuation: how much is DT worth?**

DT is trading at an EBITDA/Sales multiple of 4.5, which is not particularly expensive for a software company. However, we have issues with DT's sales figures due to the reasons highlighted elsewhere in this report. Too, we note that the company is barely breaking even on an accounting basis. It is our opinion that, should R&D expenses be normalized to a more acceptable level, DT would still be unprofitable. Too, a contraction in its marketing budget might cause a reduction in sales and operating leverage, further pressuring margins. Finally, there are significant legal, regulatory, and reputational liabilities should DT's alleged sales practices be confirmed in an official probe.

Due to the above, we fear that DT, in the long term, may be structurally unprofitable and believe it should be trading "at cash", implying an 85% downside.

### **Conclusion: Caveat Emptor!**

A correct grasp of Darktrace's true nature and its hidden risks is even more urgent for investors after Thoma Bravo walked away from its proposed acquisition. We are convinced, based on our probe, that something very sinister is happening at DT and fear that there won't be a happy ending.

We have exposed in depth DT's strong links with Autonomy at every level of the organization. We have provided a clear analysis of the business conduct that brought Autonomy to its knees. We have identified

## THE DARK SIDE OF DT

and dissected dozens of suspicious transactions at DT in multiple countries and in multiple years, suggesting a nearly identical modus operandi to its fraudulent predecessor. We have shared accounting red flags, a set of clients and employees' reviews and many dubious partners which are consistent with these problem practices. Though our investigation is necessarily based on a limited sample of transactions, we have explained why we believe that the problem may be widespread and systemic. In any case, we note how Autonomy seemingly collapsed due to only 35 fraudulent transactions and a handful of problem partners. Finally, we have shared several red flags indicating that DT may be approaching an inflection point and be close to a ruinous fall.

Based on the above, we provide a **strong warning to DT's investors and to regulators about the gravity of the situation** and call for an extensive probe to determine the full extent of these allegations. In the case of Autonomy, the market failed to detect problems before they ballooned reaching giant proportions: we are here to make sure this does not happen again.

*Errare humanum est, perseverare diabolicum*<sup>68</sup>

### **A WARNING TO DT'S MANAGEMENT TEAM AND ITS AFFILIATES**

We have the right to express our opinion about DT and management has a right to respond to our allegations. However, we will not tolerate any harassment via social media or any other means: threats, hacking attempts as well as any other violation by the company or its supporters will be immediately made public and forwarded to the relevant law enforcement institutions.

**Consider yourselves warned.**

If you have additional information about these important matters, please email us at [info@qcmfunds.com](mailto:info@qcmfunds.com).

Follow our updates on Twitter at @qcmfunds

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<sup>68</sup> "To err is human, (but) to persist is diabolical."

# THE DARK SIDE OF DT

## Appendix 1:

Selection of DT's partners that attracted our attention due to web traffic patterns, headcount, sales, domicile, or other factors<sup>69</sup>. Inclusion in this list does not imply any wrongdoing, but the list might constitute a good starting point to inquire about additional dubious transactions with DT.

Name of firm	Country	Linkedin Employees	Sales (\$000)	Website address	# web visits/month	notes
Infinite Insight	United Kingdom	1	79	<a href="https://www.ii-hq.com/">https://www.ii-hq.com/</a>		Run by Mark Edmonds. Company has only 80,000 GBP in sales and 400k GBP in assets (source: D&B, Endole). Only one employee + his wife Sophie. Website has zero visits. Company seems located in a residential address (check)
Nap IT Solutions	Dominican Republic	2	24	<a href="https://napdelcaribe.net.do/nap-it-solutions/">https://napdelcaribe.net.do/nap-it-solutions/</a>		
Calibra	Trinidad and Tobago	10	0.5	<a href="https://calibrasolutions.com/">https://calibrasolutions.com/</a>		Negligible website visits all originating from the US
Inquest	Serbia	11	2000	<a href="https://www.inquest.rs/">https://www.inquest.rs/</a>		\$2m revenue despite only a handful of web visitors. 11 employees. Most website visits originate from the US, only 15% from Serbia
Newtech	Malta	11	3800	<a href="https://newtech.mt/">https://newtech.mt/</a>		
TBSEK	Mexico	12	52	<a href="https://www.tbsek.mx/">https://www.tbsek.mx/</a>	0	
Proctiv	Indonesia	1		<a href="https://proctiv-security.com/">https://proctiv-security.com/</a>	0	Looks interesting. The company exists as we checked in the Indonesian registrar. Owned by two people who used to live in the United States. It is related to another Indonesian company called Digisec. They seem to emphasize Darktrace on their website. Website started having visits only recently through the company has been opened in 2014. Visits are only a few hundred and all originate from the USA despite this being an Indonesian company.
AVB Group	Czech Republic	12	3350	<a href="https://avbgroup.cz">https://avbgroup.cz</a>	0	This is a good one. Almost \$4m revenue but working from a residential address
Hanzolo	Angola	28	89	<a href="https://hanzolo.co.ao">https://hanzolo.co.ao</a>	1	Large discrepancy employees/sales/website visits
IPWAY NETWORKS	Italy (Vicenza)	8	880	<a href="https://www.ipwaynetworks.com">https://www.ipwaynetworks.com</a>	5	
ALASCOM SRL	Italy (Milano)	156	27280	<a href="http://www.alascom.it/">http://www.alascom.it/</a>	421	
Strategic Risk Consulting	Italy	1	700	<a href="http://www.strategicriskconsulting.com">http://www.strategicriskconsulting.com</a>	0	We suspect this company has the same beneficial owners as I-Quasars, Strategic Bridge (Monaco and Italy)
Strategic Bridge	Italy	n/a	30	<a href="http://www.strategicbridge.com">http://www.strategicbridge.com</a>	0	We suspect this company has the same beneficial owners as I-Quasars, Strategic Risk Consulting
Quantum Security Solutions	Ghana			<a href="https://qsec.io">https://qsec.io</a>	0	
GlobalSequor	Denmark	1	100	<a href="http://www.globalsequor.com/">http://www.globalsequor.com/</a>	0	
NetSpec	United States	0		<a href="https://netspec.com/">https://netspec.com/</a>	0	
Kilele Technology Solutions	Kenya	0		<a href="http://kileletech.co.ke/">http://kileletech.co.ke/</a>	0	
Ifinet Srl	Italy (Verona)	22		<a href="it/it/home/index">it/it/home/index</a>	n/a	Acquired by Deda Cloud in early 2021
Bolton Technologies	Cyprus	4		<a href="https://bts.com.cy/">https://bts.com.cy/</a>	0	No info on d&b. Barely any website traffic. One review on google probably by owner which seems not related to the company. Company with same name in India and in Florida
HadronBit	Colombia	4		<a href="https://www.hadronbit.com/">https://www.hadronbit.com/</a>	0	
Perfitcom	Cameroon	5		<a href="https://www.perfitcom.com/">https://www.perfitcom.com/</a>	0	

<sup>69</sup> Sources: LinkedIn, Semrush, D&B. These service providers are reliable, but their figures should be considered as rough estimates. QCM does not provide any warranty about these figures.