# Darktrace orders third-party review into finances as it fends off short-seller report

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arktrace has ordered an external report into its finances in a bid to fend off a short-seller report questioning the validity of its statements to shareholders.

The cybersecurity firm has appointed accountancy firm Ernst & Young to provide an additional independent third-party review of its key financial processes and controls.

In a 70-page report released at the end of January, New York-based Quintessential Capital Management said it was “deeply skeptical” about the validity of Darktrace’s financial statements and expressed its fear that “sales, margins, and growth rates may be overstated and close to a sharp correction.”

“Darktrace seems to have repeatedly used marketing activities to channel funds back into its partners as payment for apparently fictitious purchases,” Quintessential said in its report.

“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.”

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News of the report sent Darktrace shares plunging as much as 10%, causing the stock to roughly halve in value since the beginning of March last year, the second major blow in months after private equity firm Thoma Bravo abandoned plans to take the business private in September.

Darktrace has denied the allegations raised in the report and said the EY review would demonstrate its belief that its financial statements are accurate.

Chairman Gordon Hurst, said: "The Board believes fully in the robustness of Darktrace's financial processes and controls.

"As a sign of that confidence, we have commissioned this independent third-party review by E&Y. We look forward to the outcome of this review."

Darktrace could not confirm the publication date for its external review but said this was likely to take place later than the release of its interim financial results in early March.

Poppy Gustafsson, CEO of Darktrace said: "We embrace the scrutiny of the public markets.

"However, it is also important to refute any unfounded inferences about the listed business we are today and push back in the strongest terms on any suggestions that this is a business that is not being run with the greatest integrity."

Quintessential called its report "Autonomy 2.0?" in a jibe at

Darktrace’s ties with Mike Lynch, the billionaire businessman facing extradition to the US after being accused of deliberately overstating the value of tech business Autonomy, which he sold to Hewlett-Packard in 2011. Lynch denies the claim.

In June, Gustaffson sought to distance the company from Lynch, telling the Standard: “It’s going to become less of an issue…he’s a shareholder, he owns 4% of the business but he’s not involved operation in the business.”

“It’s not question that our employees ask us about or our customers ask us about.”

Following the announcement of the review, Darktrace shares climbed 1.3% to 266p. Short positions in the business rose to 2.5% of its share capital at the beginning of February, data from ResearchTree shows, but have since fallen back to just over 1%.