Boss of start-up Metigy confesses to campaign of duplicity

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The boss of failed artificial intelligence marketing company Metigy has confessed that he lied to investors, forged bank statements, and fabricated revenue as part of a campaign of deception [https://www.afr.com/technology/i-doctored-the-statements-the-final-moments-of-ai-start-up-charade-20230730-p5dsfs] that lasted for years.

But David Fairfull, Metigy's chief executive and co-founder, insisted that the Sydney-based company's other co-founder, Johnson Lin, and chief financial officer, Stephen Robinson, were unaware of his lies before the start-up collapsed last year. [https://www.afr.com/technology/metigy-suspected-of-insolvent-trading-while-founder-bought-luxury-homes-20220824-p5bcir]

In an extraordinary disclosure on Tuesday, Mr Fairfull provided the first explanation for his decision to take $7.7 million from Metigy through a loan, which he used to purchase two luxury properties for his family. It was, he said, a temporary measure that he believed would only last a month until delayed financing for the properties came through.

David Fairfull, Metigy's co-founder, outside court on Tuesday. **Rhett Wyman**

“I had to come up with a short-term solution,” Mr Fairfull told the Federal Court during a public examination by Metigy’s liquidators, who are trying to determine if there are further claims they can pursue for creditors including Regal Funds Management, Five V Capital and Thorney Investments.

Mr Fairfull is not on trial and his comments, painting a picture of himself as a man who acted alone, cannot be used against him in any legal proceedings.
“Nobody,” Mr Fairfull said when asked who he had told about Metigy’s true finances.

Metigy was founded in 2015, and ostensibly provided a platform for businesses that used AI to improve online marketing. It was given a valuation of $1 billion before its collapse by Five V [https://www.afr.com/link/follow-20180101-p5b65f], which invested $2.5 million in 2020 and $5.3 million in 2021.

Three years ago, both Mr Fairfull and another early investor, Cygnet Capital, suggested Metigy was growing quickly and heading toward the ASX.

But the financial forecasts that year were fabricated. Miles Condon SC, acting for Metigy’s liquidators Cathro & Partners, asked Mr Fairfull whether he produced made-up numbers “knowing it was dishonest?”

“Yes,” Mr Fairfull replied, agreeing also that he had provided investors with “false bank statements – that is, fraudulently prepared bank statements”.

Had he not lied to investors, Mr Fairfull conceded, Metigy would have had to "essentially stop all product development and stop the business".

But Mr Fairfull – who is a different person to the chairman of accounting firm Hall Chadwick, who shares his name – would not let that happen. "I was still focused on being able to solve the issues with the product and get to the point where we're generating significant revenue," he told the court.

He claimed he had personally altered the bank statements using Adobe software. He said that he had created Metigy's glossy presentations for investors, including graphics, photographs and professional-looking formatting. He was the only Metigy staff member on calls with investors and the only one sending out the doctored documents, Mr Fairfull said.

Tax returns weren't lodged for years, superannuation went unpaid for periods, and payroll tax was not transferred to the state government at times. Accounts weren't accurate or up to date.

The entrepreneur, hunched and greying in black jeans and an open blue blazer, answered questions in a calm, blunt monotone to concede those issues, but rejected many of Mr Condon's characterisations of his motivations.

When asked about Metigy's failure to pay payroll tax in July 2021, for example, Mr Fairfull said he "was just being conservative with funds".

At other times, Mr Fairfull disputed suggestions that Metigy was unable to pay its debts, pointing out there were periods where it did have the funds to pay because it had just raised money from investors. "We could've met all obligations," he said.

But when Metigy raised a major round of capital in 2020, the company did not apply it to debts, which authorities were chasing. "There's no excuse," Mr Fairfull said of that conduct.

Instead, he used a major portion of it for a 2021 loan of $7.7 million to his private company, which he and his wife used to buy two luxury properties. The first was a $10.5 million five-bedroom mansion in Mosman, overlooking Sydney Harbour. The second was an estate near Kangaroo Valley with a private rainforest, waterfall, tennis court, swimming pool, stables, horse arena and four-bedroom house.

He said that he took out the loan after a lender called Prime had delayed a previously approved loan and intended to pay it back within a month.

But the loan kept being delayed and Mr Fairfull continued dealing with it until just a week before Metigy went into administration, repaying $3.7 million in that time, he said.

The loan document said it was for “income producing assets”, which Mr Fairfull said was correct because although the Mosman property was a family home, the Wattamolla property was a holiday house that could be rented out.

Mr Robinson, the chief financial officer, told Mr Fairfull that the loan was “inappropriate” at the time, according to Mr Fairfull. But Mr Fairfull lied, he said, and told Mr Robinson that Cygnet Capital, which was advising Metigy, had approved it.

The loans took up more than 60 per cent of Metigy’s capital at that point, leaving it with only about four months’ cash, the court heard. The company also owed about $2 million to tax authorities, according to one communiqué read in court.

David Fairfull with Metigy’s chief technical officer and co-founder Johnson Lin in happier times. **Dominic Lorrimer**

But Metigy had been in financial strife long before the luxury property episode.

In one earlier email read out in court from mid-2020, Mr Fairfull told staff that "if anyone needs any cash ... then please let me know, and I will aim to meet the need". He said Metigy employees, who were not being paid on time at that point, should address their concerns to him or his co-founder Mr Lin. "The topic is obviously sensitive given the capital raising process," Mr Fairfull noted.

Mr Fairfull said that all he had told Mr Lin about the finances in that period was that a planned capital raising had been delayed by the COVID-19 pandemic, and it would be resolved. He denied that the offer of cash payments was to ensure staff did not talk to investors and spoil the capital raising, which was eventually successful, by revealing Metigy's perilous finances. "That wasn't the offer," Mr Fairfull said, claiming he just wanted to prioritise the limited cash.

Mr Fairfull described Mr Lin as wholly focused on Metigy's technical work and accepting of his explanations about Metigy's finances on the rare occasions they came up.

Mr Condon will continue examining Mr Fairfull on Wednesday, along with two other unnamed witnesses. ASIC is continuing to investigate Metigy's collapse.

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