UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (date of earliest event reported): March 10, 2021

RED VIOLET, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**001-38407**	**82-2408531**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**(I.R.S. Employer Identification Number)**

2650 North Military Trail, Suite 300, Boca Raton, FL 33431
(Address of principal executive offices)

561-757-4000
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol (s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	RDVT	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition

On March 10, 2021, Red Violet, Inc., a Delaware corporation (the "Company"), issued a press release announcing its financial results for the fourth quarter and year ended December 31, 2020 (the "Earnings Release"). A copy of the Earnings Release is furnished herewith as Exhibit 99.1.

Also on March 10, 2021, following the issuance of the Earnings Release, the Company conducted a conference call to discuss the reported financial results for the fourth quarter and year ended December 31, 2020. The Company had issued a press release on March 2, 2021 to announce the scheduling of the conference call. A copy of the transcript of the conference call is furnished herewith as Exhibit 99.2.

The information included herein and in Exhibit 99.1 and Exhibit 99.2 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

99.1 Press Release dated March 10, 2021.

99.2 March 10, 2021 conference call transcript.

104 Cover page Interactive Data File (embedded within the inline XBRL file).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		Red Violet, Inc.
Date: March 12, 2021	By:	/s/ Derek Dubner
		Derek Dubner
		Chief Executive Officer (Principal Executive Officer)

red violet Announces Fourth Quarter and Full Year 2020 Financial Results

Strong Finish to the Year Produces Record $1.8 Million in Positive Cash Flow from Operations in the Fourth Quarter

Full Year 2020 Revenue up 14% to $34.6 Million

BOCA RATON, Fla. – March 10, 2021 – Red Violet, Inc. (NASDAQ: RDVT), a leading analytics and information solutions provider, today announced financial results for the quarter and full year ended December 31, 2020.

"red violet delivered a solid quarter, concluding a year in which we performed better in all key financial metrics compared to 2019 despite pandemic impacts," stated Derek Dubner, red violet's CEO. "We saw rapid expansion in our profitability driven by increasing platform revenue, demonstrating our ability to drive highly profitable growth during a time of economic uncertainty. While the fourth quarter is historically a seasonally slower quarter for our business, I am extremely pleased with our performance, and 2021 is off to a great start with the first quarter pacing towards record revenue and adjusted EBITDA. As economic conditions improve, we are confident our innovative technology and customer-centric solutions are well positioned to continue to drive strong growth in 2021 and beyond."

Fourth Quarter Financial Results

For the three months ended December 31, 2020 as compared to the three months ended December 31, 2019:

- Total revenue decreased 1% to $9.0 million. Platform revenue increased 12% to $8.6 million. Services revenue decreased 74% to $0.4 million.
- Net loss narrowed 61% to $1.9 million.
- Adjusted EBITDA increased 49% to $1.2 million.
- Gross profit increased 5% to $5.1 million. Gross margin increased to 57% from 54%.
- Adjusted gross profit increased 11% to $6.3 million. Adjusted gross margin increased to 70% from 62%.
- Generated $1.8 million in cash from operating activities in the fourth quarter.
- Cash and cash equivalents were $13.0 million as of December 31, 2020.

Full Year Financial Results

For the year ended December 31, 2020 as compared to the year ended December 31, 2019:

- Total revenue increased 14% to $34.6 million. Platform revenue increased 26% to $32.5 million. Services revenue decreased 54% to $2.0 million.
- Net loss narrowed 38% to $6.8 million.
- Adjusted EBITDA increased 213% to $5.9 million.
- Gross profit increased 26% to $19.3 million. Gross margin increased to 56% from 51%.
- Adjusted gross profit increased 29% to $23.3 million. Adjusted gross margin increased to 67% from 60%.
- Generated $6.5 million in cash from operating activities in 2020.

Fourth Quarter and Recent Business Highlights

- Despite pandemic headwinds, strong growth in our high-margin platform revenue allowed us to generate over 90% contribution of total incremental revenue to adjusted EBITDA, with a $4.3 million increase in total revenue in 2020 generating a $4.0 million increase in adjusted EBITDA.
- idiCORE™ ended the fourth quarter 2020 with 5,726 customers, a 13% increase from the fourth quarter 2019.
- FOREWARN® ended the fourth quarter 2020 with 48,377 users, a 58% increase from the fourth quarter of 2019.
- Added 12 product development and infrastructure members to the technology team to address growth opportunities.

Use of Non-GAAP Financial Measures

Management evaluates the financial performance of our business on a variety of key indicators, including non-GAAP metrics of adjusted EBITDA, adjusted gross profit and adjusted gross margin. Adjusted EBITDA is a financial measure equal to net loss, the most directly comparable financial measure based on US GAAP, excluding interest expense (income), net, depreciation and amortization, share-based compensation expense, write-off of long-lived assets and others, and sales and use tax expense. We define adjusted gross profit as revenue less cost of revenue (exclusive of depreciation and amortization), and adjusted gross margin as adjusted gross profit as a percentage of revenue.

Conference Call

In conjunction with this release, red violet will host a conference call and webcast today at 4:30pm ET to discuss its quarterly results and provide a business update. To listen to the call, please dial (877) 665-6635 for domestic callers or (602) 563-8608 for international callers, using the passcode 6558028. To access the live audio webcast, visit the Investors section of the red violet website at www.redviolet.com. Please login at least 15 minutes prior to the start of the call to ensure adequate time for any downloads that may be required. Following the completion of the conference call, a replay will be available for approximately one week by dialing (855) 859-2056 or (404) 537-3406 with the replay passcode 6558028. An archived webcast of the conference call will be available on the Investors section of the red violet website at www.redviolet.com.

About red violet®

At red violet, we build proprietary technologies and apply analytical capabilities to deliver identity intelligence. Our technology powers critical solutions, which empower organizations to operate with confidence. Our solutions enable the real-time identification and location of people, businesses, assets and their interrelationships. These solutions are used for purposes including risk mitigation, due diligence, fraud detection and prevention, regulatory compliance, and customer acquisition. Our intelligent platform, CORE™, is purpose-built for the enterprise, yet flexible enough for organizations of all sizes, bringing clarity to massive datasets by transforming data into intelligence. Our solutions are used today to enable frictionless commerce, to ensure safety, and to reduce fraud and the concomitant expense borne by society. For more information, please visit www.redviolet.com.

FORWARD-LOOKING STATEMENTS

This press release contains "forward-looking statements," as that term is defined under the Private Securities Litigation Reform Act of 1995 (PSLRA), which statements may be identified by words such as "expects," "plans," "projects," "will," "may," "anticipate," "believes," "should," "intends," "estimates," and other words of similar meaning. Such forward looking statements are subject to risks and uncertainties that are often difficult to predict, are beyond our control and which may cause results to differ materially from expectations, including whether 2021 is off to a great start with the first quarter pacing towards record revenue and adjusted EBITDA and whether our innovative technology and customer-centric solutions are well positioned to continue to drive strong growth in 2021 and beyond. Readers are cautioned not to place undue reliance on these forward-looking statements, which are based on our expectations as of the date of this press release and speak only as of the date of this press release and are advised to consider the factors listed above together with the additional factors under the heading "Forward-Looking Statements" and "Risk Factors" in red violet's Form 10-K for the year ended December 31, 2019 filed on March 12, 2020, as may be supplemented or amended by the Company's other SEC filings, including the Form 10-K for year ended December 31, 2020 expected to be filed today. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

RED VIOLET, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	December 31, 2020	December 31, 2019
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 12,957	$ 11,776
Accounts receivable, net of allowance for doubtful accounts of $38 and $40 as of December 31, 2020 and 2019, respectively	3,201	3,543
Prepaid expenses and other current assets	581	722
Total current assets	16,739	16,041
Property and equipment, net	558	660
Intangible assets, net	27,170	24,034
Goodwill	5,227	5,227
Right-of-use assets	2,161	2,620
Other noncurrent assets	139	289
Total assets	$ 51,994	$ 48,871
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 2,075	$ 2,138
Accrued expenses and other current liabilities	1,458	1,571
Current portion of operating lease liabilities	552	491
Current portion of long-term loan	449	-
Deferred revenue	504	128
Total current liabilities	5,038	4,328
Noncurrent operating lease liabilities	1,908	2,459
Long-term loan	1,703	-
Total liabilities	8,649	6,787
Shareholders' equity:		
Preferred stock—$0.001 par value, 10,000,000 shares authorized, and 0 shares issued and outstanding, as of December 31, 2020 and 2019	-	-
Common stock—$0.001 par value, 200,000,000 shares authorized, 12,167,327 and 11,657,912 shares issued, 12,167,327 and 11,554,765 shares outstanding, as of December 31, 2020 and 2019	13	12
Treasury stock, at cost, 0 and 103,147 shares as of December 31, 2020 and 2019	-	(1,255)
Additional paid-in capital	66,005	59,187
Accumulated deficit	(22,673)	(15,860)
Total shareholders' equity	43,345	42,084
Total liabilities and shareholders' equity	$ 51,994	$ 48,871

RED VIOLET, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share data)

	Year Ended December 31, 2020		Year Ended December 31, 2019	
Revenue	$	34,586	$	30,286
Costs and expenses(1):				
Cost of revenue (exclusive of depreciation and amortization)		11,276		12,257
Sales and marketing expenses		8,098		7,528
General and administrative expenses		17,827		18,824
Depreciation and amortization		4,216		2,889
Total costs and expenses		41,417		41,498
Loss from operations		(6,831)		(11,212)
Interest income, net		18		136
Loss before income taxes		(6,813)		(11,076)
Income taxes		-		-
Net loss	$	(6,813)	$	(11,076)
Loss per share:				
Basic and diluted	$	(0.57)	$	(1.03)
Weighted average number of shares outstanding:				
Basic and diluted		11,863,413		10,762,881

(1) Share-based compensation expense in each category:

Sales and marketing expenses	$	609	$	454
General and administrative expenses		7,455		9,459
Total	$	8,064	$	9,913

RED VIOLET, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,813)	$ (11,076)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,216	2,889
Share-based compensation expense	8,064	9,913
Write-off of long-lived assets	337	30
Provision for bad debts	406	582
Noncash lease expenses	459	422
Interest expense	12	-
Changes in assets and liabilities:		
Accounts receivable	(64)	(1,860)
Prepaid expenses and other current assets	141	212
Other noncurrent assets	63	339
Accounts payable	(63)	(108)
Accrued expenses and other current liabilities	(125)	639
Deferred revenue	376	102
Operating lease liabilities	(490)	(437)
Net cash provided by operating activities	6,519	1,647
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(154)	(90)
Capitalized costs included in intangible assets	(5,508)	(5,912)
Net cash used in investing activities	(5,662)	(6,002)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of shares, net of issuance costs	-	7,436
Proceeds from long-term loan	2,152	-
Taxes paid related to net share settlement of vesting of restricted stock units	(1,828)	(1,255)
Net cash provided by financing activities	324	6,181
Net increase in cash and cash equivalents	$ 1,181	$ 1,826
Cash and cash equivalents at beginning of period	11,776	9,950
Cash and cash equivalents at end of period	$ 12,957	$ 11,776
SUPPLEMENTAL DISCLOSURE INFORMATION		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Share-based compensation capitalized in intangible assets	$ 1,838	$ 788
Right-of-use assets obtained in exchange of operating lease liabilities	$ -	$ 3,042
Operating lease liabilities arising from obtaining right-of-use assets	$ -	$ 3,387

Use and Reconciliation of Non-GAAP Financial Measures

Management evaluates the financial performance of our business on a variety of key indicators, including non-GAAP metrics of adjusted EBITDA, adjusted gross profit and adjusted gross margin. Adjusted EBITDA is a financial measure equal to net loss, the most directly comparable financial measure based on US GAAP, excluding interest expense (income), net, depreciation and amortization, share-based compensation expense, write-off of long-lived assets and others, and sales and use tax expense, as noted in the tables below. We define adjusted gross profit as revenue less cost of revenue (exclusive of depreciation and amortization), and adjusted gross margin as adjusted gross profit as a percentage of revenue.

	Three Months Ended December 31,		Year Ended December 31,	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Net loss	$ (1,875)	$ (4,856)	$ (6,813)	$ (11,076)
Interest expense (income), net	6	(13)	(18)	(136)
Depreciation and amortization	1,196	840	4,216	2,889
Share-based compensation expense	1,648	4,623	8,064	9,913
Write-off of long-lived assets and others	222	3	474	98
Sales and use tax expense	-	205	-	205
Adjusted EBITDA	$ 1,197	$ 802	$ 5,923	$ 1,893

The following is a reconciliation of gross profit, the most directly comparable GAAP financial measure, to adjusted gross profit:

	Three Months Ended December 31,		Year Ended December 31,	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Revenue	$ 8,963	$ 9,050	$ 34,586	$ 30,286
Cost of revenue (exclusive of depreciation and amortization)	(2,694)	(3,414)	(11,276)	(12,257)
Depreciation and amortization of intangible assets	(1,143)	(777)	(3,990)	(2,637)
Gross profit	5,126	4,859	19,320	15,392
Depreciation and amortization of intangible assets	1,143	777	3,990	2,637
Adjusted gross profit	$ 6,269	$ 5,636	$ 23,310	$ 18,029
Gross margin	57%	54%	56%	51%
Adjusted gross margin	70%	62%	67%	60%

In order to assist readers of our consolidated financial statements in understanding the operating results that management uses to evaluate the business and for financial planning purposes, we present non-GAAP measures of adjusted EBITDA, adjusted gross profit and adjusted gross margin as supplemental measures of our operating performance. We believe they provide useful information to our investors as they eliminate the impact of certain items that we do not consider indicative of our cash operations and ongoing operating performance. In addition, we use them as an integral part of our internal reporting to measure the performance and operating strength of our business.

We believe adjusted EBITDA, adjusted gross profit and adjusted gross margin are relevant and provide useful information frequently used by securities analysts, investors and other interested parties in their evaluation of the operating performance of companies similar to ours and are indicators of the operational strength of our business. We believe adjusted EBITDA eliminates the uneven effect of considerable amounts of non-cash depreciation and amortization, share-based compensation expense and the impact of other non-recurring items, providing useful comparisons versus prior periods or forecasts. Our adjusted gross profit is a measure used by management in evaluating the business's current operating performance by excluding the impact of prior historical costs of assets that are expensed systematically and allocated over the estimated useful lives of the assets, which may not be indicative of the current operating activity. Our adjusted gross profit is calculated by using revenue, less cost of revenue (exclusive of depreciation and amortization). We believe adjusted gross profit provides useful information to our investors by eliminating the impact of non-cash depreciation and amortization, and specifically the amortization of software developed for internal use, providing a baseline of our core operating results that allow for analyzing trends in our underlying business consistently over multiple periods. Adjusted gross margin is calculated as adjusted gross profit as a percentage of revenue.

Adjusted EBITDA, adjusted gross profit and adjusted gross margin are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, financial measures presented in accordance with GAAP. The way we measure adjusted EBITDA, adjusted gross profit and adjusted gross margin may not be comparable to similarly titled measures presented by other companies, and may not be identical to corresponding measures used in our various agreements.

SUPPLEMENTAL METRICS

The following metrics are intended as a supplement to the financial statements found in this release and other information furnished or filed with the SEC. These supplemental metrics are not necessarily derived from any underlying financial statement amounts. We believe these supplemental metrics help investors understand trends within our business and evaluate the performance of such trends quickly and effectively. In the event of discrepancies between amounts in these tables and the Company's historical disclosures or financial statements, readers should rely on the Company's filings with the SEC and financial statements in the Company's most recent earnings release.

We intend to periodically review and refine the definition, methodology and appropriateness of each of these supplemental metrics. As a result, metrics are subject to removal and/or changes, and such changes could be material.

	(Unaudited)							
(Dollars in thousands)	**Q1'19**	**Q2'19**	**Q3'19**	**Q4'19**	**Q1'20**	**Q2'20**	**Q3'20**	**Q4'20**
Customer metrics								
idiCORE - billable customers(1)	4,020	4,370	4,781	5,064	5,326	5,375	5,758	5,726
FOREWARN - users(2)	15,444	19,721	23,853	30,577	36,506	40,857	44,927	48,377
Revenue metrics								
Contractual revenue %(3)	67%	62%	66%	66%	69%	79%	68%	77%
Revenue attrition %(4)	5%	5%	6%	6%	8%	11%	10%	11%
Revenue from new customers(5)	$ 1,285	$ 1,596	$ 1,406	$ 1,018	$ 1,417	$ 916	$ 726	$ 877
Base revenue from existing customers(6)	$ 3,593	$ 4,480	$ 5,578	$ 6,690	$ 6,629	$ 5,047	$ 5,797	$ 6,678
Growth revenue from existing customers(7)	$ 856	$ 1,169	$ 1,273	$ 1,342	$ 1,254	$ 1,093	$ 2,744	$ 1,408
Platform financial metrics								
Platform revenue(8)	$ 4,894	$ 6,153	$ 7,085	$ 7,652	$ 8,108	$ 6,857	$ 8,968	$ 8,604
Cost of revenue (exclusive of depreciation and amortization)	$ 2,069	$ 2,287	$ 2,286	$ 2,431	$ 2,498	$ 2,427	$ 2,489	$ 2,447
Adjusted gross margin	58%	63%	68%	68%	69%	65%	72%	72%
Services financial metrics								
Services revenue(9)	$ 839	$ 1,093	$ 1,171	$ 1,399	$ 1,191	$ 200	$ 299	$ 360
Cost of revenue (exclusive of depreciation and amortization)	$ 600	$ 765	$ 836	$ 983	$ 794	$ 159	$ 214	$ 246
Adjusted gross margin	29%	30%	29%	30%	33%	20%	28%	31%
Other metrics								
Employees - sales and marketing	47	48	48	51	51	53	52	53
Employees - support	6	7	8	7	8	8	9	9
Employees - infrastructure	12	12	13	11	13	12	12	14
Employees - engineering	20	20	25	23	26	27	27	32
Employees - administration	14	14	13	16	15	14	15	18

(1) We define a billable customer of idiCORE as a single entity that generated revenue in the last three months of the period. Billable customers are typically corporate organizations. In most cases, corporate organizations will have multiple users and/or departments purchasing our solutions, however, we count the entire organization as a discrete customer.

(2) We define a user of FOREWARN as a unique person that has a subscription to use the FOREWARN service as of the last day of the period. A unique person can only have one user account.

(3) Contractual revenue % represents revenue generated from customers pursuant to pricing contracts containing a monthly fee and any additional overage divided by total revenue. Pricing contracts are generally annual contracts or longer, with auto renewal.

(4) Revenue attrition is defined as the revenue lost as a result of customer attrition, net of reinstated customer revenue. It excludes expansion revenue and revenue from FOREWARN. Revenue is measured once a customer has generated revenue for six consecutive months. Revenue is considered lost when all revenue from a customer ceases for three consecutive months; revenue generated by a customer after the three-month loss period is defined as reinstated revenue. Revenue attrition percentage is calculated on a trailing twelve-month basis, the numerator of which is the revenue lost during the period due to attrition, net of reinstated revenue, and the denominator of which is total revenue based on an average of total revenue at the beginning of each month during the period.

(5) Revenue from new customers represents the total monthly revenue generated from new customers in a given period. A customer is defined as a new customer during the first six months of revenue generation.

(6) Base revenue from existing customers represents the total monthly revenue generated from existing customers in a given period that does not exceed the customers' trailing six-month average revenue. A customer is defined as an existing customer six months after their initial month of revenue.

(7) Growth revenue from existing customers represents the total monthly revenue generated from existing customers in a given period in excess of the customers' trailing six-month average revenue.

(8) Platform revenue consists of both contractual and transactional revenue generated from our technology platform, CORE. It includes all revenue generated through our idiCORE and FOREWARN solutions. The cost of revenue, which consists primarily of data acquisition costs, remains relatively fixed irrespective of revenue generation.

(9) Services revenue consists of transactional revenue generated from our idiVERIFIED service. The cost of revenue, which consists primarily of third-party servicer costs, is variable.

Investor Relations Contact:
Camilo Ramirez
Red Violet, Inc.
561-757-4500
ir@redviolet.com

Exhibit 99.2

Red Violet, Inc. (NASDAQ: RDVT) Fourth Quarter 2020 Earnings Results Conference Call

Company Participants:

Camilo Ramirez, Director of Finance and Investor Relations

Derek Dubner, Chairman and Chief Executive Officer

Dan MacLachlan, Chief Financial Officer

Operator:

Good day ladies and gentlemen, and welcome to red violet's fourth quarter and full year 2020 earnings conference call. At this time, all participants are in a listen only mode. Later we will conduct a question and answer session and instructions will follow at that time. If anyone should require operator assistance, please press star then zero on your phone.

As a reminder this call is being recorded.

I would now like to introduce your host for today's conference Camilo Ramirez, Director of Finance and Investor Relations. Please go ahead.

Camilo Ramirez:

Good afternoon and welcome. Thank you for joining us today to discuss our fourth quarter and full year 2020 financial results. With me today is Derek Dubner, our Chairman and Chief Executive Officer, and Dan MacLachlan, our Chief Financial Officer. Our call today will begin with comments from Derek and Dan, followed by a question and answer session.

I would like to remind you that this call is being webcast live and recorded. A replay of the event will be available following the call on our website. To access the webcast, please visit our Investors page on our website www.redviolet.com.

Before we begin, I would like to advise listeners that certain information discussed by management during this conference call are forward-looking statements covered under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with the company's business. The company undertakes no obligation to update the information provided on this call. For a discussion of risks and uncertainties associated with red violet's business, I encourage you to review the company's filings with the Securities and Exchange Commission, including the most recent Annual Report on Form 10-K and the subsequent 10-Qs.

During the call, we may present certain non-GAAP financial information relating to adjusted gross profit, adjusted gross margin and adjusted EBITDA. Reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measure are provided in the earnings press release issued earlier today. In addition, certain supplemental metrics that are not necessarily derived from any underlying financial statement amounts may be discussed and these metrics and their definitions can also be found in the earnings press release issued earlier today.

With that, I am pleased to introduce red violet's Chairman and Chief Executive Officer, Derek Dubner.

Derek Dubner:

Thanks Camilo, and good afternoon to those joining us today to discuss our fourth quarter and full year 2020 results. red violet delivered another strong quarter as we close out a very unique year. It was a year full of challenges, in which the red violet team executed brilliantly. Throughout, we remained focused on the key drivers of our business, leveraging our business model to not only bolster our financial strength, but also positioning ourselves for the recovery. We demonstrated the power and versatility of our innovative technology and critical solutions. We performed better in all key financial metrics in 2020 as compared to the prior year. Turning now to the numbers, fourth quarter revenue was $9.0 million, a 1% decrease from prior year. Adjusted gross profit increased 11% to $6.3 million and adjusted gross margin increased to 70% from 62% compared to the same period of 2019. Adjusted EBITDA increased 49% to $1.2 million. Of key importance, our high margin platform revenue increased 12% to $8.6 million for the quarter. In the fourth quarter, we set a new record for contractual revenue at 77%, backing out the spike that occurred in the second quarter of 2020 as a result of our accommodations granted to certain pandemic-impacted customers. For the full year 2020, total revenue increased 14% to $34.6 million. Platform revenue increased 26% to $32.5 million and adjusted EBITDA increased 213% to $5.9 million. Evidencing the strength of our business model, our high-margin platform revenue allowed us to generate over 90% contribution of total incremental revenue to adjusted EBITDA, with a $4.3 million increase in total revenue in 2020 generating a $4.0 million increase in adjusted EBITDA.

While the fourth quarter traditionally faces seasonal headwinds, our business is firing on all cylinders. Platform revenue is strong. With the exception of certain parts of our collections vertical, all of our verticals are back to pre-pandemic levels and I'm pleased to report that the first quarter of 2021 is currently pacing towards record revenue and adjusted EBITDA.

Performing in the manner we did throughout 2020 has energized the company internally. Overcoming the obstacles that 2020 presented has strengthened an already strong culture. It has confirmed that which we already knew. We have demonstrated that organizations across diverse industries need our solutions to conduct business with confidence.

In order to ensure continued success, our 2021 goals are straightforward. We are devoting our time and resources to the expansion of our competitive strengths. These strengths include innovative, cloud-native technology, a massive, differentiated and unified data asset, and customer-centric solutions by which customers derive better intelligence-driven decisions.

Behind the information that drives these solutions is our innovative technology. Unlike legacy technology constructs, our technology, purpose-built for the enterprise, was built in the cloud from the ground up. Due to its cloud-native construct, our platform exhibits increased speed and scalability against competitor technologies. Competitors are investing millions of dollars transitioning their platforms from dated infrastructures to primarily hybrid-cloud environments. We are already cloud native, and we are investing our time and our resources in our technology and people to widen our lead over competitive technologies.

We have spent years assimilating and unifying a massive, differentiated data asset. The accelerating digitization of human interactions and the corresponding generation of data therefrom is creating information overload for organizations that are desirous of unifying often disparate and siloed sets of data. We are continuously working towards the enhancement of our data assets so that customers can seamlessly integrate a single platform to drive their workflow.

We are relentlessly focused on innovation and the customer experience. Customers rely on our solutions to solve complex problems, make better information-driven decisions, and to produce greater efficiencies in their workflow. We endeavor to understand our customers' needs at the moment of first engagement. We continuously engage with our customers thereafter to evaluate their usage of our solutions throughout their life cycle, to maximize utilization of our solutions and, hence, their productivity. We are working to enhance our current solutions and develop new products, to enable more intelligent interaction with information, which further engrains us in the daily workflow of our customers.

As we have demonstrated over the last couple of years, if we remain committed to focusing on these key areas – our technology, data assets, and customer-centric solutions, then our solutions expand in applicability to larger customers, additional industries and use cases within.

As to our incredible red violet team, I am proud of their devotion to the success of the company. We have added 12 team members throughout the year to our product development and infrastructure teams to deepen and strengthen our current capabilities to ensure that we stand ready to meet current and future growth opportunities.

I'd like to share with you our theme for 2021. It is "Raising the Bar". While we are pleased with our performance to date, we are by no means complacent. Consistent with this theme, 2021 is a year of advancing our technology, expanding our solutions, deepening our data assets, bolstering our infrastructure, and augmenting the teams to accomplish these objectives. I have every bit of confidence in the red violet team and I remain as confident as I have ever been in our business model, the health of our business, and our prospects in 2021 and beyond.

With that, I turn it over to Dan to discuss the financials.

Dan MacLachlan:

Thank you, Derek, and good afternoon. With the pandemic related challenges faced this past year, like most of us, I'm happy that 2020 is solidly behind us. I want to personally thank our team members for their dedication and hard work despite the challenges each faced both personally and professionally. Notwithstanding these challenges on a global level, our team outperformed and our business showed continued strength and resilience. The underlying financials of our business are as strong as ever. Looking back to this time last year, I provided some color on the operational leverage of our business and I would like to revisit that because I believe it speaks volumes of the health of our business despite the challenges we faced in 2020. For the full-year 2020, our $4.3 million increase in total revenue translated into a $5.3 million increase in adjusted gross profit, underlined by the strength and profitability of our 26% growth in platform revenue. That $5.3 million increase in adjusted gross profit translated into a $4.9 million increase in cash flow from operations, a greater than 90% contribution of incremental adjusted gross profit to cash flow from operations. Looking at this from a P&L perspective, the $5.3 million increase in adjusted gross profit translated into $4.0 million of incremental growth in adjusted EBITDA, a greater than 75% contribution of incremental adjusted gross profit to adjusted EBITDA. We are excited about these numbers because it demonstrates, for the second year in a row, the capabilities of our technology platform, our people, and our business to drive profitable growth.

Moving on to the fourth quarter results. Despite the fourth quarter historically being a seasonally slower growth quarter for the business and competing against a healthy pre-Covid comp from last year, I'm pleased to report we capped off the year with a strong fourth quarter. For clarity, all the comparisons I will discuss today will be against the fourth quarter of 2019, unless noted otherwise.

Total revenue was $9.0 million, a 1% decrease over prior year, attributed to our services revenue being down $1.0 million or 74%. Important to understand, and we have discussed this in the past, our services revenue consists of transactional revenue generated from an ancillary solution we provide to the collections market to complement our collections suite of products. This ancillary solution, known as idiVERIFIED, provides very little margin for the business and is offered merely to complete a one stop solution for a small subset of our collections customers. Our platform revenue, on the other hand, which provides nearly 100% incremental contribution margin on every dollar of growth, grew 12% to $8.6 million in the fourth quarter. As a result, we produced an adjusted gross margin of 70%, up 8-percentage points. These profitable dollars flowed nicely down the P&L, generating $1.2 million in adjusted EBITDA, up 49% over prior year.

Overall, we saw strong demand for our products across all verticals. As we discussed on our third quarter conference call, with the exception of our collections vertical, volume returned to pre-Covid levels by end of third quarter. That trend continued in the fourth quarter with volumes at or above pre-Covid levels. Within collections, we saw encouraging trends from platform revenue. Collections platform revenue was less than 5% off its first quarter 2020 pre-Covid high. As government-imposed collections moratoria and forbearance programs were extended into 2021 and with the additional $1.9 trillion in government stimulus expected to be signed this week, we believe we will continue to see a soft recovery in collections through the first half of 2021.

Continuing through the details of our P&L, as mentioned, revenue was $9.0 million for the fourth quarter, consisting of revenue from new customers of $0.9 million, base revenue from existing customers of $6.7 million and growth revenue from existing customers of $1.4 million. Our idiCORE billable customer base remained flat sequentially compared to the third quarter of 2020, ending the fourth quarter at 5,726 customers. FOREWARN added over 3,400 users during the quarter. I would like to provide some additional color on the idiCORE billable customer count. At the end of the third quarter, we implemented enhanced credentialing and compliance standards. This impacted mostly smaller customers in the private investigator and process server space. As a result of this initiative, we lost a total of 258 customers in the fourth quarter due to such customers not meeting our heightened compliance standards. These 258 customers represented, in total, a loss of only $7 thousand in monthly revenue. Netting out this compliance initiative, our sequential customer adds to the idiCORE billable customer base in the fourth quarter would be consistent with prior quarters and in line with trending expectations. We expect to see some residual impact from this compliance initiative in the first quarter of 2021 as well.

Our contractual revenue was 77% for the quarter, an 11-percentage point increase over prior year. Our revenue attrition percentage was 11%, compared to 6% in prior year, a result of some lingering effects from the pandemic related customer concessions we provided in the second and third quarter and transactional customers who temporarily paused volume during that period. Because revenue attrition is calculated on a trailing twelve-month basis, we expect to see improvement over the next several quarters as we move away from the Covid impacted periods and expect our revenue attrition percentage to trend around 7% to 8% by the end of 2021.

Moving on from our revenue metrics and down the P&L, our cost of revenue (exclusive of depreciation and amortization) decreased $0.7 million or 21% to $2.7 million. This $0.7 million decrease was a result of a decrease in third-party servicer costs associated with our services revenue, partially offset by an increase in data acquisition costs. Adjusted gross profit increased 11% to $6.3 million, producing an adjusted gross margin of 70%, an 8-percentage point increase over fourth quarter 2019.

Sales and marketing expenses decreased $0.1 million or 7% to $2.0 million for the quarter. The decrease was due primarily to a decrease in the provision for bad debts. The $2.0 million of sales and marketing expense for the quarter consisted primarily of $1.1 million in employee salaries and benefits and $0.4 million in sales commissions.

General and administrative expenses decreased $2.6 million or 34% to $5.0 million for the quarter. This decrease was primarily the result of a $3.0 million decrease in share-based compensation expense slightly offset by an increase in payroll and benefits. The $5.0 million in general and administrative expenses for the quarter consisted primarily of $1.9 million of employee salaries and benefits, $1.5 million of non-cash share-based compensation expense, and $0.9 million in accounting, IT and other professional fees.

Depreciation and amortization increased $0.4 million or 42% to $1.2 million for the quarter. This increase was primarily the result of the amortization of internally developed software.

Net loss narrowed $3.0 million or 61% to $1.9 million for the quarter.

We reported a loss of 15 cents per share for the quarter based on a weighted average share count of 12.2 million shares.

Moving on to the balance sheet. Cash and cash equivalents were $13.0 million at December 31, 2020, compared to $11.8 million at December 31, 2019. Current assets were $16.7 million compared to $16.0 million and current liabilities were $5.0 million compared to $4.3 million.

We generated $6.5 million in cash from operating activities for the year ended December 31, 2020, compared to generating $1.6 million in cash from operating activities for the same period in 2019.

Internally, we track our operational cash earn versus burn on a monthly basis by calculating adjusted EBITDA and subtracting the cash we use for the development of internal use software and other capital expenses which can be found on our statement of cash flows. Based on this operational earn/burn analysis, we were cash neutral for the fourth quarter 2020, compared to burning $0.7 million for the fourth quarter 2019.

Cash used in investing activities was $5.7 million for the year ended December 31, 2020, mainly the result of $5.5 million used for software developed for internal use.

Cash provided by financing activities was $0.3 million for the year ended December 31, 2020, resulting from the net proceeds of $2.2 million from the Cares Act Loan, less $1.8 million of cash used for the taxes on the net settlement of approximately 122,000 shares of restricted stock units.

In closing, I am pleased with our strong performance in the fourth quarter. We’re off to a great start in 2021 and I am looking forward to what this team will accomplish over the next twelve months and beyond.

And with that, our operator will now open the line for Q&A.

Operator:

And we do have a question on the line from Pam Nelson from Carter Management.

Pam Nelson from Carter Management:

Hi, thank you for taking my question. Your platform revenue growth this year was very impressive given the economic environment. Along those lines, you have some encouraging commentary around the collections space as it relates to platform revenue. So my question is really two fold: Do you believe your collections platform business can be a growth vertical for you in the future and what percentage today is collections to your overall revenue?

Dan MacLachlan:

Great, thank you Pam and this is Dan and I appreciate the question. So, yes, we are extremely pleased with our 26% platform revenue growth despite the Covid related challenges we faced this year. Our focus has and will continue to be to drive revenue growth on our technology platform as it provides the greatest amount of leverage for our business. So, looking at collections specifically, we are confident it can be a growth vertical for us once some of the government mandated moratoria and forbearance programs subside and the economic stimulus runs its course. So, despite the challenges the collections market has faced as a whole and relative to some of our competitor’s conservative commentary on the space, our collections platform revenue has performed well and we expect to see decent growth trends in the collections space in the second half of 2021. So, today, collections revenue is less than 30% of our overall revenue.

Pam Nelson from Carter Management:

Great, thank you for much.

Derek Dubner:

Thanks Pam.

Operator:

At this time, there are no further questions in the queue.

Derek Dubner:

Thank you all for joining us today. As you can see, we made significant progress throughout 2020 in not only recovering from the extraordinary economic conditions during the year, but in strengthening our financial and strategic business interests. We are fundamentally strong and we are very well positioned for the foreseeable future. Thank you to our team members, thank you to our customers and those on the call today supporting us. Good afternoon.