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): August 7, 2023

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 August 7, 2023, Red Violet, Inc., a Delaware corporation (the "Company"), issued a press release announcing its financial results for the second quarter ended June 30, 2023 (the "Earnings Release"). A copy of the Earnings Release is furnished herewith as Exhibit 99.1.

Also on August 7, 2023, following the issuance of the Earnings Release, the Company conducted a conference call to discuss the reported financial results for the second quarter ended June 30, 2023. The Company had issued a press release on July 24, 2023 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 August 7, 2023

99.2 August 7, 2023 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: August 9, 2023	By:	/s/ Derek Dubner
		Derek Dubner
		Chief Executive Officer (Principal Executive Officer)

Exhibit 99.1

red violet Announces Second Quarter 2023 Financial Results

Second Quarter Revenue Increased 17% to $14.7 Million, Generated EPS of $0.10

BOCA RATON, Fla. – August 7, 2023 – Red Violet, Inc. (NASDAQ: RDVT), a leading analytics and information solutions provider, today announced financial results for the quarter ended June 30, 2023.

“We are pleased with our second quarter results, further highlighting our ability to drive both top-line growth and profitability," stated Derek Dubner, red violet’s CEO. “We are seeing continued strength in new customer onboarding, pipeline expansion from higher-tier prospects, and robust customer conversion at all levels. Our consistent revenue growth and increasing profitability, which are driven by our distinct ability to meet strong industrywide demand for innovative, accurate, and highly-scalable identity solutions, bolster our position as we enter the back half of the year.”

Second Quarter Financial Results

For the three months ended June 30, 2023, as compared to the three months ended June 30, 2022:

- Total revenue increased 17% to $14.7 million.
- Gross profit increased 18% to $9.4 million. Gross margin remained consistent at 64%.
- Adjusted gross profit increased 19% to $11.4 million. Adjusted gross margin increased to 78% from 77%.
- Net income was $1.4 million, compared to a net loss of $0.2 million, which resulted in earnings of $0.10 per basic and diluted share. Net income margin increased to 9% from a net loss margin of (2%).
- Adjusted EBITDA increased 58% to $4.6 million. Adjusted EBITDA margin increased to 32% from 23%.
- Net cash from operating activities increased 40% to $3.5 million.
- Cash and cash equivalents were $31.4 million as of June 30, 2023.

Second Quarter and Recent Business Highlights

- Added 241 customers to IDI™ during the second quarter, ending the quarter with 7,497 customers.
- Added 15,189 users to FOREWARN® during the second quarter, ending the quarter with 146,537 users. Over 285 REALTOR® Associations throughout the U.S. are now contracted to use FOREWARN.
- Purchased 55,018 shares of the Company’s common stock during the six months ended June 30, 2023, at an average price of $17.04 per share pursuant to the Company’s $5.0 million Stock Repurchase Program that was authorized on May 2, 2022. The Company has $3.2 million remaining under the Stock Repurchase Program.

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 and full year results and provide a business update. Please click here to pre-register for the conference call and obtain your dial in number and passcode. 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, 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.

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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 EBITDA margin, adjusted gross profit, adjusted gross margin and free cash flow ("FCF"). Adjusted EBITDA is a financial measure equal to net income (loss), the most directly comparable financial measure based on US GAAP, excluding interest income, net, income tax expense, depreciation and amortization, share-based compensation expense, litigation costs, and write-off of long-lived assets and others. We define adjusted EBITDA margin as adjusted EBITDA as a percentage of revenue. 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. We define FCF as net cash provided by operating activities reduced by purchase of property and equipment and capitalized costs included in intangible assets.

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 we will be able to use our distinct ability to meet strong industrywide demand for innovative, accurate, and highly-scalable identity solutions to bolster our position as we enter the back half of the year. 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, 2022 filed on March 8, 2023, as may be supplemented or amended by the Company's other SEC filings. 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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)
(unaudited)

	June 30, 2023	December 31, 2022
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 31,368	$ 31,810
Accounts receivable, net of allowance for doubtful accounts of $86 and $60 as of June 30, 2023 and December 31, 2022, respectively	6,556	5,535
Prepaid expenses and other current assets	1,325	771
Total current assets	39,249	38,116
Property and equipment, net	640	709
Intangible assets, net	33,175	31,647
Goodwill	5,227	5,227
Right-of-use assets	821	1,114
Other noncurrent assets	765	601
Total assets	$ 79,877	$ 77,414
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 1,694	$ 2,229
Accrued expenses and other current liabilities	424	1,845
Current portion of operating lease liabilities	731	692
Deferred revenue	627	670
Total current liabilities	3,476	5,436
Noncurrent operating lease liabilities	222	598
Deferred tax liabilities	411	287
Total liabilities	4,109	6,321
Shareholders' equity:		
Preferred stock—$0.001 par value, 10,000,000 shares authorized, and 0 shares issued and outstanding, as of June 30, 2023 and December 31, 2022	-	-
Common stock—$0.001 par value, 200,000,000 shares authorized, 13,911,691 and 13,956,404 shares issued, and 13,908,953 and 13,956,404 shares outstanding, as of June 30, 2023 and December 31, 2022	14	14
Treasury stock, at cost, 2,738 and 0 shares as of June 30, 2023 and December 31, 2022	(52)	-
Additional paid-in capital	95,104	92,481
Accumulated deficit	(19,298)	(21,402)
Total shareholders' equity	75,768	71,093
Total liabilities and shareholders' equity	$ 79,877	$ 77,414

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	$ 14,680	$ 12,494	$ 29,306	$ 25,223
Costs and expenses[(1)]:				
Cost of revenue (exclusive of depreciation and amortization)	3,240	2,920	6,419	6,090
Sales and marketing expenses	3,078	2,822	6,967	5,213
General and administrative expenses	5,075	5,300	10,316	10,653
Depreciation and amortization	2,054	1,613	3,970	3,147
Total costs and expenses	13,447	12,655	27,672	25,103
Income (loss) from operations	1,233	(161)	1,634	120
Interest income, net	315	-	601	1
Income (loss) before income taxes	1,548	(161)	2,235	121
Income tax expense	160	44	131	219
Net income (loss)	$ 1,388	$ (205)	$ 2,104	$ (98)
Earnings (loss) per share:				
Basic	$ 0.10	$ (0.01)	$ 0.15	$ (0.01)
Diluted	$ 0.10	$ (0.01)	$ 0.15	$ (0.01)
Weighted average number of shares outstanding:				
Basic	13,961,862	13,776,479	13,979,411	13,660,686
Diluted	14,172,024	13,776,479	14,180,614	13,660,686

(1) Share-based compensation expense in each category:				
Sales and marketing expenses	$ 125	$ 108	$ 232	$ 155
General and administrative expenses	1,180	1,298	2,457	2,638
Total	$ 1,305	$ 1,406	$ 2,689	$ 2,793

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,104	$ (98)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,970	3,147
Share-based compensation expense	2,689	2,793
Write-off of long-lived assets	3	3
Provision for bad debts	789	61
Noncash lease expenses	293	267
Deferred income tax expense	124	197
Changes in assets and liabilities:		
Accounts receivable	(1,810)	(482)
Prepaid expenses and other current assets	(554)	(354)
Other noncurrent assets	(164)	-
Accounts payable	(535)	(157)
Accrued expenses and other current liabilities	(1,451)	97
Deferred revenue	(43)	(219)
Operating lease liabilities	(337)	(300)
Net cash provided by operating activities	5,078	4,955
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(51)	(221)
Capitalized costs included in intangible assets	(4,509)	(3,893)
Net cash used in investing activities	(4,560)	(4,114)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Taxes paid related to net share settlement of vesting of restricted stock units	(50)	(2,771)
Repurchases of common stock	(910)	-
Net cash used in financing activities	(960)	(2,771)
Net decrease in cash and cash equivalents	$ (442)	$ (1,930)
Cash and cash equivalents at beginning of period	31,810	34,258
Cash and cash equivalents at end of period	$ 31,368	$ 32,328
SUPPLEMENTAL DISCLOSURE INFORMATION		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ 22	$ -
Share-based compensation capitalized in intangible assets	$ 872	$ 723
Retirement of treasury stock	$ 938	$ 2,771

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 EBITDA margin, adjusted gross profit, adjusted gross margin and FCF. Adjusted EBITDA is a financial measure equal to net income (loss), the most directly comparable financial measure based on GAAP, excluding interest income, net, income tax expense, depreciation and amortization, share-based compensation expense, litigation costs, and write-off of long-lived assets and others, as noted in the tables below. We define adjusted EBITDA margin as adjusted EBITDA as a percentage of revenue. 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. We define FCF as net cash provided by operating activities reduced by purchase of property and equipment and capitalized costs included in intangible assets.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2023**	**2022**	**2023**	**2022**
Net income (loss)	$ 1,388	$ (205)	$ 2,104	$ (98)
Interest income, net	(315)	-	(601)	(1)
Income tax expense	160	44	131	219
Depreciation and amortization	2,054	1,613	3,970	3,147
Share-based compensation expense	1,305	1,406	2,689	2,793
Litigation costs	45	76	48	91
Write-off of long-lived assets and others	-	-	2	3
Adjusted EBITDA	$ 4,637	$ 2,934	$ 8,343	$ 6,154
Revenue	$ 14,680	$ 12,494	$ 29,306	$ 25,223
Net income (loss) margin	9%	(2)%	7%	(0)%
Adjusted EBITDA margin	32%	23%	28%	24%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2023**	**2022**	**2023**	**2022**
Revenue	$ 14,680	$ 12,494	$ 29,306	$ 25,223
Cost of revenue (exclusive of depreciation and amortization)	(3,240)	(2,920)	(6,419)	(6,090)
Depreciation and amortization of intangible assets	(1,995)	(1,551)	(3,853)	(3,023)
Gross profit	9,445	8,023	19,034	16,110
Depreciation and amortization of intangible assets	1,995	1,551	3,853	3,023
Adjusted gross profit	$ 11,440	$ 9,574	$ 22,887	$ 19,133
Gross margin	64%	64%	65%	64%
Adjusted gross margin	78%	77%	78%	76%

The following is a reconciliation of net cash provided by operating activities, the most directly comparable US GAAP measure, to FCF:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2023**	**2022**	**2023**	**2022**
Net cash provided by operating activities	$ 3,547	$ 2,525	$ 5,078	$ 4,955
Less:				
Purchase of property and equipment	(7)	(108)	(51)	(221)
Capitalized costs included in intangible assets	(2,236)	(2,099)	(4,509)	(3,893)
Free cash flow	$ 1,304	$ 318	$ 518	$ 841

In order to assist readers of our condensed 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 EBITDA margin, adjusted gross profit, adjusted gross margin and FCF 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 EBITDA margin, adjusted gross profit, adjusted gross margin and FCF 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. Adjusted EBITDA margin is calculated as adjusted EBITDA as a percentage of revenue. Our adjusted gross profit is a measure used by management in evaluating the business' 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. We believe FCF is an important liquidity measure of the cash that is available, after capital expenditures, for operational expenses and investment in our business. FCF is a measure used by management to understand and evaluate the business's operating performance and trends over time. FCF is calculated by using net cash provided by operating activities, less purchase of property and equipment and capitalized costs included in intangible assets.

Adjusted EBITDA, adjusted EBITDA margin, adjusted gross profit, adjusted gross margin and FCF 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 US GAAP. In addition, FCF is not intended to represent our residual cash flow available for discretionary expenses and is not necessarily a measure of our ability to fund our cash needs. The way we measure adjusted EBITDA, adjusted EBITDA margin, adjusted gross profit, adjusted gross margin and FCF 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)	**Q3'21**	**Q4'21**	**Q1'22**	**Q2'22**	**Q3'22**	**Q4'22**	**Q1'23**	**Q2'23**
Customer metrics								
IDI - billable customers[1]	6,314	6,548	6,592	6,817	6,873	7,021	7,256	7,497
FOREWARN - users[2]	74,377	82,419	91,490	101,261	110,051	116,960	131,348	146,537
Revenue metrics								
Contractual revenue %[3]	80 %	79 %	77 %	80 %	68 %	77 %	75 %	79 %
Gross revenue retention %[4]	95 %	96 %	97 %	95 %	94 %	95 %	94 %	94 %
Revenue from new customers[5]	$ 876	$ 920	$ 1,014	$ 805	$ 2,016	$ 1,216	$ 1,869	$ 1,147
Base revenue from existing customers[6]	$ 9,187	$ 9,114	$ 9,721	$ 10,164	$ 10,839	$ 10,574	$ 11,121	$ 11,707
Growth revenue from existing customers[7]	$ 1,605	$ 1,224	$ 1,994	$ 1,525	$ 2,171	$ 1,279	$ 1,636	$ 1,826
Other metrics								
Employees - sales and marketing	49	54	59	57	64	68	61	63
Employees - support	10	10	10	9	10	10	10	9
Employees - infrastructure	16	18	23	25	25	28	27	26
Employees - engineering	35	37	50	52	52	54	47	47
Employees - administration	20	22	26	27	26	27	25	25

(1) We define a billable customer of IDI 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) Gross revenue retention is defined as the revenue retained from existing customers, net of reinstated revenue, and excluding expansion revenue. 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. Gross revenue retention percentage is calculated on a trailing twelve-month basis. The numerator of which is 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, with the quotient subtracted from one. Prior to Q1’22, FOREWARN revenue was excluded from our gross revenue retention calculation. Beginning Q4’22, our gross revenue retention calculation excludes revenue from idiVERIFIED, which is purely transactional and currently represents less than 3% of total revenue.

(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.

Exhibit 99.2

Red Violet, Inc. (NASDAQ: RDVT)

Second Quarter 2023 Earnings Results Conference Call

Company Participants:

Camilo Ramirez, Vice President, 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 second quarter 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.

As a reminder this call is being recorded.

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

Camilo Ramirez:

Good afternoon and welcome. Thank you for joining us today to discuss our second quarter 2023 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, adjusted EBITDA, adjusted EBITDA margin, and free cash flow. Reconciliations of these non-GAAP financial measures to their most directly comparable US 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. Good afternoon to all and thanks for joining us today to discuss our results for the second quarter of 2023. We are pleased to report a very strong quarter, further highlighting our ability to drive both top-line growth and profitability. We are experiencing continued strength in new customer onboarding, pipeline expansion from higher-tier prospects, and robust customer conversion at all levels. We again generated solid revenue growth, which combined with our dedication to operational efficiency, translated into healthy margins throughout the P&L and solid net income, showcasing the company's resilience and adaptability in a dynamic market environment. Given our results and the present pulse on the business, including closing out a very strong July, we are well-positioned for the back half of the year.

Now, turning to the numbers. For the quarter, total revenue was $14.7 million, a 17% increase over prior year. We produced $11.4 million in adjusted gross profit, resulting in adjusted gross margin of 78% in the second quarter, up 1-percentage point. Adjusted EBITDA for the quarter was $4.6 million, up 58% over prior year. Adjusted EBITDA margin was 32% for the quarter, up 9-percentage points. We generated $1.3 million in free cash flow for the quarter, compared to generating $0.3 million in the prior year.

Our IDI billable customer base grew by 241 customers sequentially from the first quarter, ending the second quarter at 7,497 customers. FOREWARN added 15,189 users during the second quarter, ending the quarter at 146,537 users. Over 285 Realtor® Associations are now contracted to use FOREWARN.

Demand continues to be strong for identity and fraud solutions across the enterprise. We experienced healthy, proportional customer demand across all means of IDI access – API, batch and online. Last quarter, we saw our new customer applications at twelve-month highs. That trend continued throughout the second quarter just reported. As well, our higher-tier sales pipeline continues to grow and new higher-tier prospects appear to be more receptive to the idea of introducing new solutions into their workflows than they have been in the prior nine months.

Most importantly as it relates to our view of the business and our multi-year strategic roadmap, our growth continues to be profitable, enabling reinvestment in the business. We are strengthening the business as we scale, driving robust margins and cash flow. By way of example, our $1.9 million increase in adjusted gross profit produced a $1.7 million increase in adjusted EBITDA, a 90% contribution margin. The high operating leverage of our model enables us to dynamically adjust our capital allocation plan and affords us the flexibility of investing in our product roadmap while still maintaining a healthy financial profile.

Our continued growth demonstrates that our AI/ML-powered platform, proprietary linking algorithms, and unified data assets provide us a distinct advantage in delivering innovative, accurate, and highly-scalable solutions. We have been building AI into our platform and solutions for years, specifically the use of machine learning through supervised and unsupervised learning to identify, among other things, the patterns and types of data within our platform. Today, there is much excitement around the potential of large language models and their varied applications. The potential uses of large language models could undoubtedly transform industries and change business processes. The most prominent large language models today are trained on large datasets, specifically publicly-available information on the internet. As information on the internet contains errors, the output from such models also contains errors. What is abundantly clear at this early stage of the generative AI revolution is that the winners will be those with their own internal, proprietary high-confidence data assets. We have spent the better part of the past decade acquiring, assimilating, and internally generating data and, via our proprietary linking algorithms, unifying disparate data points to create high-confidence data sets that our clients rely on in their workflow. With our AI/ML platform and high-confidence data, we believe we have an extraordinary opportunity in front of us to build a number of AI applications, including generative AI, to layer over our platform, which will not only materially enhance our platform capabilities but also enable various industries to intelligently interact with and run analytics across our high-confidence data to inform their business processes and decision-making. Given the opportunity at hand, we will take a measured approach and increase our investment in AI, and as time passes and the opportunities become more defined, we will be able to better quantify the plans around the size and the impact of this investment.

Now, as to our stock repurchase program, during the second quarter, we purchased 44,081 shares of our common stock at an average price of $16.71 per share. In total, we have purchased 105,018 shares pursuant to our $5.0 million repurchase program that was authorized on May 2, 2022. We have $3.2 million remaining for additional purchases under the program.

Overall, our revenue growth and profitability demonstrate the effectiveness of our business model and the resonance of our offerings in the market. Coupled with a solid balance sheet, these results reflect our commitment to growth combined with financial stability and prudent management. As we move forward, we remain dedicated to driving innovation, nurturing customer relationships, and capitalizing on emerging opportunities. I'd like to extend my gratitude to the red violet team, as always, for their hard work and dedication. We are still in the early days of our long-term plan, and we are as financially strong and well positioned as we have ever been in our history.

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

Dan MacLachlan

Thank you, Derek, and good afternoon. We are extremely pleased with our second quarter results. We saw solid year-over-year revenue growth which flowed nicely down the P&L, translating into highly profitable growth dollars. As Derek pointed out earlier, our $1.9 million increase in adjusted gross profit produced a $1.7 million increase in adjusted EBITDA. This 90% contribution is indicative of our profitability leverage and underscores our disciplined approach to driving productivity and efficiency. We continue to see strength in the expansion of our opportunity pipeline, including higher-tier prospects, and are converting those opportunities to wins.

With that, let's jump into our second quarter results. For clarity, all the comparisons I will discuss today will be against the second quarter of 2022, unless noted otherwise.

Total revenue was $14.7 million, a 17% increase over prior year. We produced $11.4 million in adjusted gross profit, resulting in adjusted gross margin of 78% in the second quarter, up 1-percentage point. Adjusted EBITDA for the quarter was $4.6 million, up 58% over prior year. Adjusted EBITDA margin was 32%, up 9-percentage points. We generated $1.3 million in free cash flow for the quarter, compared to generating $0.3 million in prior year.

On the IDI side, we continue to see strong volume and double-digit revenue growth across several verticals, including Financial and Corporate Risk, Investigative, and Emerging Markets. As has been the case for several quarters, both Collections and Real Estate remained relatively flat over prior year. We do believe some tailwinds will form in Collections in the near-term and expect to see volumes, and corresponding revenue, increase in the not-too-distant future. As for Real Estate, volumes remain steady, but with interest rates still hovering around 7%, residential housing inventory remaining low, and commercial struggling with post-pandemic related issues and high interest rates, we expect IDI's Real Estate segment, which does not include FOREWARN, to remain flat for the remainder of the year.

On the FOREWARN side, which today services Real Estate as the leading fraud prevention and safety tool for realtors, we continue to see strong volume and double-digit revenue growth.

Continuing through the details of our P&L, as mentioned, revenue was $14.7 million for the second quarter, consisting of revenue from new customers of $1.2 million, base revenue from existing customers of $11.7 million and growth revenue from existing customers of $1.8 million. Our IDI billable customer base grew by 241 customers sequentially from the first quarter, ending the second quarter at 7,497 customers. FOREWARN added 15,189 users during the second quarter, ending the quarter at 146,537 users. Over 285 Realtor® Associations are now contracted to use FOREWARN.

Our contractual revenue was 79% for the quarter, down 1-percentage point from prior year. Our gross revenue retention was 94%, compared to 95% in prior year. We expect our gross revenue retention percentage to trend between 90% and 95% for the foreseeable future.

Moving back to the P&L, our cost of revenue (exclusive of depreciation and amortization) increased $0.3 million or 11% to $3.2 million. This $0.3 million increase was a result of an increase in data acquisition costs and third-party infrastructure fees. Adjusted gross profit increased 19% to $11.4 million, producing an adjusted gross margin of 78%, a 1-percentage point increase over the second quarter 2022.

Sales and marketing expenses increased $0.3 million or 9% to $3.1 million for the quarter. This increase was due primarily to an increase in salaries and benefits and bad debt provision. The $3.1 million of sales and marketing expense for the quarter consisted primarily of $1.6 million in employee salaries and benefits and $0.8 million in sales commissions.

General and administrative expenses decreased $0.2 million or 4% to $5.1 million for the quarter. This decrease was primarily the result of a $0.1 million decrease in share-based compensation expense and a $0.1 million decrease in professional fees. The $5.1 million in general and administrative expenses for the quarter consisted primarily of $2.6 million of employee salaries and benefits, $1.2 million of non-cash share-based compensation expense, and $0.8 million in accounting, IT and other professional fees.

Depreciation and amortization increased $0.5 million or 27% to $2.1 million for the quarter. This increase was primarily the result of the amortization of internally developed software.

Our net income for the quarter was $1.4 million, compared to a net loss of $0.2 million in prior year.

We reported earnings of 10 cents per basic and diluted share for the quarter based on a weighted average share count of 14.0 million shares basic and 14.2 million shares diluted.

Moving on to the balance sheet. Cash and cash equivalents were $31.4 million at June 30, 2023, compared to $31.8 million at December 31, 2022. Current assets were $39.2 million compared to $38.1 million and current liabilities were $3.5 million compared to $5.4 million.

We generated $5.1 million in cash from operating activities for the six months ended June 30, 2023, compared to generating $5.0 million in cash from operating activities for the same period in 2022.

Cash used in investing activities was $4.6 million for the six months ended June 30, 2023, mainly the result of $4.5 million used for software developed for internal use. Cash used in investing activities for the same period 2022 was $4.1 million.

Cash used in financing activities was $1.0 million for the six months ended June 30, 2023, mainly the result of purchasing 55,018 shares of company common stock under our stock repurchase program at an average price of $17.04 per share. During the same period 2022, cash used in financing activities was $2.8 million, the result of acquiring 106,254 shares of company common stock from the net share tax settlement of employee restricted stock units.

As it relates to our stock repurchase program, during the second quarter, we purchased 44,081 shares of our common stock at an average price of $16.71 per share.

In total, we have purchased 105,018 shares pursuant to our $5.0 million repurchase program that was authorized on May 2, 2022. We have $3.2 million remaining for additional purchases under the program. We will continue to monitor prevailing market conditions and other opportunities that we have for the use or investment of our cash balances and, as applicable, strategically acquire additional shares in accordance with our repurchase program.

In closing, we are pleased with our results for the first half of the year and look forward to accomplishing even more in the back half of 2023.

With that, our operator will now open the line for Q&A?

Operator

Thank you. We will now conduct a question and answer session. To ask a question, please press *11 on your telephone and wait for your name to be announced. To withdraw your question, please press *11 again. Please standby while we compile the Q&A roster. Alright, I am showing no questions at this time. I will now turn the conference over to Derek Dubner for closing remarks.

Derek Dubner

Thank you. And thank you again for joining us today. To conclude, we are pleased to report a strong quarter of top-line growth and profitability. Given our robust customer onboarding, our progress against our growing larger-enterprise pipeline, the secular tailwinds in identity verification and fraud solutions, and a healthy balance sheet, we are well positioned for the back half of the year and 2024.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.