

Cogint, Inc.
Form 10-K
March 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File Number: 001-37893

COGINT, INC.

(Exact name of registrant as specified in its charter)

Delaware 77-0688094
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

2650 North Military Trail, Suite 300,

Boca Raton, Florida 33431

(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.0005 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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. o

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes No

On June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value (based on the closing per share sales price of its common stock on that date) of the voting stock held by non-affiliates of the registrant was approximately \$104.0 million.

The number of shares outstanding of the registrant's common stock, as of March 13, 2018, was 72,060,119.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2017 are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

COGINT, INC.

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PART I

Item 1. Business.

This business description should be read in conjunction with our audited consolidated financial statements and accompanying notes thereto appearing elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”), which are incorporated herein by this reference.

Company Overview

Cogint, Inc. (“we,” “us,” “our,” “cogint,” or the “Company”), a Delaware corporation, is a data and analytics company providing cloud-based mission-critical information and performance marketing solutions to enterprises in a variety of industries. cogint’s mission is to transform data into intelligence utilizing our proprietary technology platforms to solve complex problems for our clients. Harnessing the power of data fusion and powerful analytics, we transform data into intelligence, in a fast and efficient manner, so that our clients can spend their time on what matters most, running their organizations with confidence. Through our intelligent platforms, CORE™ and Agile Audience Engine™, we uncover the relevance of disparate data points to deliver end-to-end, ROI-driven results for our customers. Our analytical capabilities enable us to build comprehensive datasets in real-time and provide insightful views of people, businesses, assets and their interrelationships. We empower clients across markets and industries to better execute all aspects of their business, from managing risk, identifying fraud and abuse, ensuring legislative compliance, and debt recovery, to identifying and acquiring new customers. With the goal of reducing the cost of doing business and enhancing the consumer experience, our solutions enable our clients to optimize overall decision-making and to have a holistic view of their customers.

We provide unique and compelling solutions essential to the daily workflow of organizations within both the public and private sectors. Our cloud-based data fusion and customer acquisition technology platforms, combined with our massive database consisting of public-record, proprietary and publicly-available data, as well as a unique repository of self-reported information on millions of consumers, enables the delivery of differentiated products and solutions used for a variety of essential functions. These essential functions include identification and authentication, investigation and validation, and customer acquisition and retention.

The Company operates through two reportable segments: (i) Information Services and (ii) Performance Marketing. For financial information relating to our segments and by geographic areas, see Note 15, “Segment information” in our Notes to Consolidated Financial Statements.

Information Services—Leveraging leading-edge technology, proprietary algorithms, and massive datasets, and through intuitive and powerful analytical applications, we provide solutions to organizations within the risk management and consumer marketing industries. CORE is our next generation data fusion platform, providing mission-critical information about individuals, businesses and assets to a variety of markets and industries. Through machine learning and advanced analytics, our Information Services segment uses the power of data fusion to ingest and analyze data at a massive scale. The derived information from the data fusion process ultimately serves to generate unique solutions for banking and financial services companies, insurance companies, healthcare companies, law enforcement and government, the collection industry, law firms, retail, telecommunications companies, corporate security and investigative firms. In addition, our data acquisition solutions enable clients to rapidly grow their customer databases by using self-declared consumer insights to identify, connect with, and acquire first-party consumer data and multi-channel marketing consent at massive scale.

Built in a secure Payment Card Industry (PCI) compliant environment, our cloud-based next generation technology delivers greater than four 9s of service uptime. By leveraging our proprietary infrastructure design within the cloud,

we currently operate in six datacenters spread geographically across the U.S. and are able to dynamically and seamlessly scale as needed. Using our intelligent framework and leveraging a micro services architecture where appropriate, we reduce operational cost and complexity, thus delivering superior performance at greatly reduced costs compared to traditional datacenter architectures. Since the release of our CORE platform in May 2016, we have added billions of data records and continue to add approximately over a billion records per month on average. Our average query response time for a comprehensive profile is less than 250 milliseconds versus competitive platforms that measure comprehensive profile response times in seconds.

Performance Marketing—Our Agile Audience Engine drives our Performance Marketing segment, which provides solutions to help brands, advertisers and marketers find the right customers in every major business-to-consumer (B2C) vertical, including internet and telecommunications, financial services, health and wellness, consumer packaged goods, career and education, and retail and entertainment. We deterministically target consumers across various marketing channels and devices, through the user- supplied acquisition of personally identifiable information on behalf of our clients, such as email addresses, other identifying information and

responses to dynamically-populated survey questions. Additionally, 80% of our consumer interaction comes from mobile, a highly-differentiated characteristic compared to our competitors whose platforms are not mobile-first.

We own hundreds of media properties, through which we engage millions of consumers everyday with interactive content, such as job postings, cost savings, surveys, promotions and sweepstakes that generate on average over 850,000 consumer registrations and over 8.8 million compiled survey responses daily, with a record high of over 1.0 million registrations and over 10.3 million compiled survey responses in a single day. Our owned media properties alone have created a database of approximately 150 million U.S. adults with detailed profiles, including 224 million unique email addresses, across over 75 million households. With meaningful, people-based interaction that focuses on consumer behavior and declared first-party data, leveraged on a mobile-centric platform that provides seamless omni-channel capabilities, we have the ability to target and develop comprehensive consumer profiles that redefine the way advertisers view their most valuable customers.

For the years ended December 31, 2017, 2016 and 2015, we had revenue of \$220.3 million, \$186.8 million, and \$14.1 million, net loss attributable to cogint of \$53.2 million, \$29.1 million and \$84.5 million, and adjusted EBITDA of \$24.2 million, \$15.0 million, and negative \$6.6 million, respectively. Adjusted EBITDA is a non-GAAP financial measure equal to net loss, the most directly comparable financial measure based on US GAAP, adding back net loss from discontinued operations, interest expense, income tax benefit, depreciation and amortization, share-based compensation expense, and other adjustments, as noted in the tables included in “Use and Reconciliation of Non-GAAP Financial Measures” of Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our Markets

The target markets for our data and analytical solutions today consist primarily of businesses within the risk management and consumer marketing industries.

International Data Corporation, a global provider of market intelligence and advisory services, estimates that worldwide revenue for big data and business analytics services will be \$150.8 billion in 2017 and is expected to be more than \$210.0 billion in the year 2020, representing a CAGR of 11.9% from 2017 through 2020. The big data and analytics sector continues to grow at an accelerated pace due to the proliferation of data generated by technological advancements and changing consumer behavior. Continued, rapid adoption and use of smartphones and other mobile devices, social media and online purchasing channels, and the necessity of organizations to sort through this sea of data to glean actionable intelligence to support their daily operations, serve as key drivers of the sector’s growth.

Risk management and fraud analytics has become increasingly important not only in the banking and financial services sectors but across multiple other industries and use cases. According to the market research company MarketsAndMarkets, the risk analytics software market is projected to grow from \$17.6 billion in 2017, with North America estimated to hold the largest market share in the risk analytics market, to \$35.9 billion by 2022, owing to unprecedented growth of data in the region driven by the increasing adoption of mobile and Internet of Things technologies and the direct presence of major risk analytics vendors. Data fusion analytics and the information derived therefrom is now the primary service product for risk management associated with key purchasers such as banking and financial services companies, insurance companies, healthcare companies, law enforcement and government, collection agencies, law firms, retail, telecommunications companies and private investigative firms. Primary use cases include, but are not limited to, obtaining information on consumers, businesses and assets (and their interrelationships) to facilitate the location of individuals and assets, identity verification, and to support criminal, legal, financial, insurance, and corporate investigations, due diligence and the assessment of counterparty risk.

According to the Interactive Advertising Bureau (IAB)'s "Internet Advertising Revenue Report, 2017 first six months results," total digital ad spend in the U.S. was \$40.1 billion for the first six months of 2017, a 22.6% increase over the first six months of 2016. Mobile was the leading ad format accounting for 54% of revenue, and performance-based advertising was the leading pricing model accounting for 65% of total U.S. digital advertising spending.

Consumer marketing, which consists of paid advertising, public relations, sales strategy, customer communications and market research, is a multi-trillion-dollar global industry. Digital marketing is the fastest growing subset of this marketplace, with performance marketing being the most dominant format utilized across the industry. Advertisers prefer performance marketing because they only pay when specific actions are completed by consumers in response to their ads, such as making purchases, filling out information request forms, or clicking through to websites. In addition, performance marketing campaigns that target registered and validated consumers are referred to as "people-based" marketing campaigns, and are gaining favor over cookie-based campaigns which target anonymous site visitors. People-based performance marketing campaigns improve the effectiveness of advertising, increase return on ad spend, and facilitate the deterministic targeting of consumers across digital channels such as display, social, search, video and addressable television.

According to eMarketer's, a leading market research company, worldwide spend on paid media will increase to \$584.1 billion in 2017 and is expected to grow to \$757.4 billion by 2021, representing a CAGR of 6.7%. Although growth will vary by region, North America is projected to remain the number one advertising region in the world.

Companies in all industries are inundated with data sourced from a growing number of digital mediums including e-commerce, mobile and social media, which provide new information on a daily basis. Companies struggle to parse through the data available to them to make decisions in real-time that improve scale and efficiency while helping them achieve and exceed their strategic goals. Our platform, solutions, and analytical capabilities directly address these issues in an industry-agnostic manner to solve complex problems in a robust and growing marketplace.

Key Challenges Facing our Customers

We believe our products and solutions address the challenges that the industry faces today, which include:

Actionable Big Data Insights Through A Single Platform—As the velocity and volume of data continues to grow exponentially, enterprises have become overwhelmed with data and their inability to glean intelligence from such data to derive successful business decisions in real-time. Customers demand full-suite, turn-key solutions that are agile, flexible, and available on-demand in order to gain the speed, scale and insight necessary to drive their business models. As the breadth and depth of data increases, providers will need to deploy new technologies that enable both the ingestion of data at massive scale in real-time, irrespective of structure or form, and the analytics components necessary to function across multiple channels. The continued digitization of human interactions, and the corresponding availability of the data resulting therefrom, is driving demand for data capture, management and analysis software. As a result, customers are looking for flexible and efficient solutions to fuse disparate sets of not only transactional data but also demographic, ethnographic and behavioral data as well, in order to provide insights that are truly actionable.

Engaging Customers Across All Devices—According to the IAB, mobile advertising in the U.S. totaled \$21.7 billion for the first half of 2017, a 40% increase from first half 2016. This impressive growth demonstrates to advertisers the importance of mobile interaction as they search for ways to engage consumers and effectively gather critical data. Developing capabilities to acquire data from all devices and creating omni-channel advertising campaigns are both costly and complex. Traditional cookie-based targeting has proven less effective as support for cookies on mobile devices is infrequent or non-existent, ushering in the need for newer approaches for reaching consumers across devices. Developing a full solution is complex and many offerings in the marketplace struggle to adequately address this growing need.

Pricing Methodology—Historically, internet advertising has been sold on a cost-per-impression (CPM) model where an advertiser is charged each time an advertisement is displayed, regardless of user engagement with the advertisement. This dated methodology has made it difficult to truly gauge the effectiveness of advertising campaigns, and determine the actual costs associated with successful user engagement. Today's advertising landscape now has several options for pricing advertisements, including the historical CPM method, as well as cost-per-click (CPC) which is most common in search advertising, cost-per-action (CPA), and hybrid models that may combine aspects of the various models. With chief marketing officers increasingly accountable for demonstrating concrete return on their marketing investments, CPA and CPC models are more favorable alternatives to CPM-based offerings.

Cost and Performance Pressures—As our customers face constant cost pressures, they need to continually improve the value they receive from their information solutions. Whether it is right-party contact, managing risk, skip tracing or regulatory compliance, customers are increasingly more sophisticated, requiring enhanced performance that provides fast, accurate, and cost-effective solutions to satisfy their