Triumph Bancorp, Inc.

2nd Quarter 2021 Earnings

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CORPORATE PARTICIPANTS

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Aaron Graft – *Founder, Vice Chairman and CEO*

Todd Ritterbusch – *Chief Lending Officer*

Geoff Brenner – *CEO, Triumph Business Capital*

PRESENTATION

Operator
Good day and welcome to the Triumph Bancorp Incorporated Second Quarter 2021 Earnings conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Luke Wyse. Please go ahead.

Luke Wyse
Good morning. Welcome to the Triumph Bancorp conference call to discuss our second quarter 2021 financial results. Before we get started, I would like to remind you that this presentation may include forward-looking statements. Those statements are subject to risks and uncertainties that could cause actual and anticipated results to differ. The company undertakes no obligation to publicly revise any forward-looking statement.

If you're logged into our webcast, please refer to the slide presentation available online including our Safe Harbor statement on slide 2. For those joining by phone, please note that the safe harbor statement and presentation are available on our website at www.triumphbancorp.com. All comments made during today's call are subject to that Safe Harbor statement.

I'm joined this morning by Triumph's Vice Chairman and CEO, Aaron Graft; our Chief Financial Officer, Bryce Fowler; Todd Ritterbusch, our Chief Lending Officer; Geoff Brenner, our CEO of Triumph Business Capital; and Brad Voss, our Treasurer. After the presentation, we will be happy to answer any questions you may have.

At this time, I'd like to turn the call over to Aaron. Aaron?

Aaron Graft
Thank you, Luke. Good morning. For the second quarter, we earned net income to common stockholders of $27.2 million or $1.08 per diluted share. Adjusting for closing costs related to the HubTran acquisition, adjusted earnings per share were $1.17.

Before I go into specifics on the quarter, I want to address two topics. First on July 15th, we announced that Bryce Fowler will be retiring on September 1st. Bryce has been my steady companion since Triumph became a bank. He is a great friend and teammate. He is in the room with me today and will continue to be in the room as he serves on our bank Board of Directors following his retirement. We wish him nothing but the best in his well-deserved retirement and all of us join together and thank him for all he has done.

Upon Bryce's retirement, Brad Voss will be promoted to Chief Financial Officer. Brad has also been part of our team since the early days and speaks to the depth of leadership we have built over the last ten years. Brad's promotion is the culmination of Bryce's mentoring within our succession planning process and investors and team members should witness a seamless transition. Brad has deep experience in broad areas of finance and banking and most importantly, he is steeped in our culture of transparency, innovation and servant leadership.

The second topic I want to address is a change in the way we present our results. Beginning this quarter, we reconfigured our reporting to break the consolidated entity into four reportable segments, consisting of payments, factoring, banking and corporate. The payment segment relates solely to the activities of TriumphPay, making it easier for investors to see and monitor our progress.

The Factoring segment is unchanged from before and consists of all factoring, both transportation and non-transportation, at Triumph Business Capital. The Banking segment is unchanged from before with the exception of removing TriumphPay and includes our traditional lending and deposit relationship banking activities, as well as our mortgage warehouse lending, ABL, the liquid credit portfolio and equipment lending.

The Corporate segment also remains unchanged from before containing our holding company activities and certain expenses to support the overall operations of the company.

Now turning to the quarter. It was a strong an eventful quarter for TBK with a number of positive things to call out. Before covering those, I think it's appropriate to address non-interest expenses, as I'm sure investors have questions given that the number grew just under $10 million from last quarter to this one.

If I were to break that increase into a few buckets, it goes like this: $3 million were professional fees associated with the HubTran acquisition. This is not a recurring expense. $1.3 million was for HubTran operations and amortization expense for the partial quarter. This is recurring and we expect HubTran to add $3.6 million of expense per quarter going forward. $1 million was an additional bonus accrual in the second quarter.

As our operating metrics have improved significantly over the first quarter, I would expect an elevated level of accrual through year end. $2 million was for additional stock compensation expense. This is recurring and reflects grants made to our team, largely at Triumph Business Capital and TriumphPay including the new team members from HubTran. Finally, $2.6 million of additional compensation for new team members and commission expense on sales at Triumph Business Capital and TriumphPay both relate to the exceptional volumes and growth I will discuss later in this call. Going forward, we expect quarterly expenses of $71 million through year-end.

Triumph Business Capital continues to grow and execute with excellence. A few interesting facts about the results that speak to the current market conditions. During the second quarter, Triumph Business Capital crossed over 10,000 active clients. Now, while client count is not the perfect proxy for growth, because for Triumph Business Capital, a single client can be a 500 truck fleet or just a single owner operator, it is noteworthy given that we were at 8,835 clients in the first quarter and 6,302 clients in Q2 of 2020.

The client growth has continued into July with a very strong pipeline that is averaging more than a 1,000 new client applications per month. This is a significant lift versus any prior period in our history. During this quarter, we also saw several days in which purchases exceeded $50 million and we averaged nearly $48 million per business day for the entire quarter.

Triumph Business Capital purchased approximately 1.4 million invoices, an increase of more than $200,000 over the first quarter. Second quarter Triumph Business Capital factoring revenue was $47.4 million and the dollar volume of invoices purchased was $3.1 billion, that's an annualized run rate of approximately $12.4 billion in purchases. Average transportation invoice sizes were $2,090 for the quarter. Given the size of TBC relative to our balance sheet, investors should understand that a $100 move up or down in average transportation invoice prices would impact annualized EPS by about $0.26 per share.

To that point, we often receive questions about our economic outlook and how long we expect this transportation cycle to continue. Everything we're currently seeing and reading suggest strength in the spot market through the end of the year and some transportation experts are beginning to speculate it could continue well into the first half of 2022. Given the multitude of variables that affect transportation, we are not comfortable making any projections for 2022.

Turning to TriumphPay. On June 1st, we closed the acquisition of HubTran and made good progress in the integration of our teams and systems. HubTran broughtclient relationships and integrations with over 225 freight brokers and 55 factors. We have not lost a single factor or broker following the announcement. In fact, we have added five more factors to HubTran, including a couple, who had not begun negotiations until after the acquisition announcement. The acquisition resulted in $27.3 million of intangible assets and $73.7 million of goodwill.

Additional detail on the acquired intangible assets will be in our 10-Q, but total amortization expense on all of our intangible assets will be $6.5 million over the last two quarters of this year. While there are not a lot of quantitative items to discuss as we continue to integrate the teams and products, these additions of factors and freight brokers are a testament to how the industry views what we're building. We now have 60 factors and 482 freight brokers who were TriumphPay customers, HubTran customers, or both.

Our focus going forward is to create full product relationships with each of them as we build out the network. You can see the metrics on slide 11 and 12 of our deck. During the second quarter, TriumphPay processed 3.2 million invoices paying almost 93,000 distinct carriers. As of June 30th, we have paid 135,000 distinct carriers in the last 12 months, which is over 50% of all active carriers. Second quarter payments processed totaled approximately $3.4 billion, a 49% increase over the prior quarter and a 413% increase from Q2 2020. TriumphPay's annual run rate payment volume as a result was $13.7 billion. This was an exceptional growth quarter for TriumphPay.

We've added a new section around TriumphPay beginning on slide 7 in our investor deck, as we want to be clear about the metrics that matter. In addition to the $13.7 billion annualized run rate going through TriumphPay currently, HubTran touches companies with an additional $13 billion in volume. That volume is valuable; however, it would not be appropriate to count it as true payment volume. To be specific, we need to define the difference between the current HubTran product and the TriumphPay product at least in the current state of affairs.

To our freight broker clients, HubTran serves an audit function allowing these clients to validate the invoices as presented are correct, paperwork is in order, and the invoice is legitimate for the broker to pay. For our factor clients, HubTran serves the same audit function, allowing them to determine whether or not to purchase a particular invoice and also provides a mechanism to present and process the invoice by the factor for purchase.

TriumphPay, on the other hand specializes in the presentment of invoices and the payment of the invoice on behalf of the freight broker, but prior to HubTran, was missing the audit functionality that we now have. Combined these two technology platforms create seamless presentment, audit and payment of transportation invoices. We expect the merger of these technology platforms to be complete in Q1 2022. Until that date, we will continue our practice of only reporting payment volumes on what TriumphPay actually touches.

We will also report additions of factors and brokers on both products in the near term as you see on slide 12 and call out brokers or factors who utilize both products. We expect to finalize pricing for the combined technology in the third quarter. As I said, we expect to deliver an integrated product in Q1 of 2022 with the ability to offer a fully conforming transaction solution at that point, meaning little to no human interaction in the full cycle from presentment through audit to payment. I want to urge investor patience as these results come in.

Even with an integrated product in 2022, a meaningful trend line for the revenue growth and profitability of this business is unlikely to emerge until 2023. Creating a payments network is an exceedingly complex endeavor. Beyond the technology build, it require sophisticated integrations with thousands of market participants. Following these integrations, ultimate success requires participants to modify their operating procedures to take advantage of the efficiency, data security, and fraud mitigation the network offers.

In other words, TriumphPay's customers need to see the value we are offering in their bottom line before we can meaningfully see it in ours. All of this is happening as we speak. Day by day, we move the ball further down the field and revenue and volume is growing quarter-over-quarter. We remain as excited and committed as ever to the future of TriumphPay, in part, because of the size of the market.

To this end, I'd like to call your attention to slide 13. The addressable market for brokered freight is not simple to define; however based on the best available sources of information we can find and our own internal data, we believe the for-hire market to be $420 billion with about a $170 billion of that in brokered freight and $250 billion in contract shipping.

Slides 14 and 15 break that addressable market out by volume and participants. At $13.7 billion in annualized payment volume, TriumphPay has a lot of runway in front of it. As we stated last quarter, we're providing the metrics as we have in the past, but due to the shift in strategy toward the open-loop, these metrics and what we monitor for success will change going forward.

With that said, I'd like to call your attention to the new TriumphPay segment table in our earnings release. This table breaks out TriumphPay reporting elements while also presenting the data in an EBITDA format. We believe this is appropriate and useful to investors given our direction toward fee income versus balance sheet growth for TriumphPay.

Now, I would like to turn the call over to Todd Ritterbusch, our Chief Lending Officer.

Todd Ritterbusch
Thanks, Aaron. First, I'd like to provide a brief update on our pandemic relief efforts. Loans and pandemic related deferrals are down to $54 million or 1.1% of total loans. Over 80% of our 2020 originated PPP loans have been forgiven and PPP loan forgiveness resulted in $1.8 million in fee recognition during the second quarter. We have another $90 million in PPP loans that were originated earlier this year and all outstanding PPP loans represent another $5.2 million in fees that will be realized as they are forgiven.

Moving to our core lending activity, our equipment finance business represents our steadiest source of loan growth with $95 million in new originations in the second quarter, which was our second highest quarter ever. As we've rebuilt our ABL leadership team and sales capacity, our ABL pipeline has grown and represents additional growth potential for the latter half of 2021 and the first half of 2022. Our mortgage warehouse business balances declined $245 million through April and May and then partially rebounded in June and overall mortgage warehouse loan balances remain at elevated levels with deposits growing $111 million during the second quarter as we continue to deepen existing relationships.

Our community bank loan balances continue to shrink due primarily to the refinancing of credit only CRE loans, however, community bank deposits and fee income continue to increase as we acquired and expanded more deposit and treasury services clients.

For the second quarter, our weighted-average interest rate on new non-PPP originations were 6.1%, led by equipment finance at 6.7% with ABL and general C&I lending at 6.2%. Margins on commercial real estate remain compressed and we expect continued run-off in this portfolio until long-term rates normalize.

Finally, our core lending credit quality remain solid. Our reported NPA ratio was 97 basis points and our reported past due ratio was 2.28%. The USPS misdirected payments and the over-formula advances both discussed in our earnings release contributed 34 basis points and 61 basis points to these ratios, respectively.

I'll now turn the call back over to Aaron.

Aaron Graft
Thank you, Todd. With all the talk about transportation and payments, I hope investors appreciate the growth in our high-quality deposit base. Non-interest bearing deposits grew approximately $166 million and now represent about 38% of total deposits. That is up 164% since we announced our plan to focus on this discipline.

It is gratifying to see the fruits of that effort. Couple that with a net interest margin of almost 6.5%, a return on assets of just under 2%, and a return on tangible common equity of 21%, all while incubating a fintech of considerable upside value and we are very pleased with how things are going.

With that, we will turn the call over for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press the star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press the star then two. At this time, we will pause momentarily to assemble our roster.

Our first question today comes from Jared Shaw with Wells Fargo Securities. Please go ahead.

Jared Shaw
Hi, good morning, everybody. Bryce, congratulations. Wish you the best in retirements. It's been great working with you over the years since Triumph has gone public. Maybe just starting with expenses, you called out on the delta, I guess this quarter, $3 million of professional fees that are likely to not be there next quarter, but sticking with the $71 million a quarter, where is that $3 million difference going to end up? Is that the full quarter impact of HubTran, the $3.6 million you're talking about or is this HubTran going up $3.6 million from where it is now?

Aaron Graft
No, you're right, on the first part of the call when we were bullet pointing this out, that was only a partial period for HubTran. So, I believe a full quarter of HubTran will add another $2.3 million to that run rate, the other $700,000 would just be in other investments we're making in TriumphPay and TBC.

Jared Shaw
Okay. And then just looking, you called out $100 change in average invoice size equates to $0.26 per share on a full year basis. Is that $0.26 per share of revenue or is that of EPS because I guess average invoice size is up $92 this quarter and we didn't really see that flow through to the biggest thing of that equivalent delta and EPS [indiscernible]?

Aaron Graft
Well that's earnings per share, Jared, and the way that we look at that, it has a lot of moving parts in there because it has a lot to do with what the volumes are on a client basis as well, but you have to remember, we do just as much work on a $1,500 invoices we do on a $2,100 invoice. So there's not a lot of difference between revenue and earnings when it comes to those deltas.

Jared Shaw
Okay. So, I guess just this quarter though when we look at some of the higher comp expenses and incentive expenses that were called out versus I guess the $63.4 million run rate expectation last quarter of total expenses, that's more of a one-time catch up to reflect where the business is now? And then additional invoice increases would flow through is the way we should think about that?

Aaron Graft
Largely, that is correct, Jared. Part of the bonus accrual this quarter was catching up back to Q1 because performance has been so exceptional that the way our internal metrics work, we needed to increase that allocation. Were there to be a meaningful increase from here and invoice sizes, we're already running so far above plan, I don't think you would see a meaningful bonus increase on top of that, of course there are the sales commissions and all of those things that are tied to certain metrics.

But I think ultimately what we're just trying to help people understand is directionally $100 move in invoices when Triumph Business Capital is approaching 45% of our revenue is going to have an impact on revenue. And there will be other moving parts in there, we just want investors to be able to understand how correlated some of this outperformance is with where the market sits today.

Jared Shaw
Got it. Okay. Thanks. I mean just finally from me, I guess, can you give an update on the spot freight market continues to be really strong, is it at a level where you're actually seeing people sort of come off the sidelines and either by a truck or drive their truck more? In the past, you've talked about that cycle of spot freight rate being higher, people coming in to the market and then the cycles getting saturated and going back the other way, but have we actually started seeing that build yet in terms of an increase in the number of drivers out there on the road?

Geoff Brenner
Yes, Jared. This is Geoff Brenner. We're seeing added capacity in 2021 over the capacity we saw in 2020. There continues to be supply chain and availability of tractors are an issue. For example, we were talking with a very large client of ours last week, who is able to get new tractors because they ordered in advance and did a lot of smart things during the downturn, but the market right now just for used tractors with 250,000 miles on them, he is able to sell those almost for the same prices what he pays for a new one.

So you're seeing lack of availability in terms of the assets you need to move and 42,000 new tractors entered the market, is the best number I've seen, and if that equates to about 3% capacity lift, the same report suggested volumes are up 16%. So there is capacity coming in, but the volumes continue to outstrip it.

Aaron Graft
And another thing that's happening is as you see the client growth at Triumph Business Capital, many of those truckers were already driving, they were just working for someone else. But as the market conditions have gotten as strong as they are now, they're leaving a larger company that they were leased on with and getting their own authority and when they do that, they generally need a factoring company

to provide liquidity and back office services. So that creates a bit of a perfect storm for us and I think probably the entire factoring industry.

You're driving more new carrier authorities, but because of a lack of availability of new equipment, you're not adding a bunch of equipment, which in past cycles, trucking companies, a lot like banks don't handle cycles well, right? Too much capacity would come into the system and it would struggle and the market forces would switch and then you'd have a down cycle. Here that lack of availability of drivers and equipment plus just elevated demand is helping. So, just understand that new client growth that Triumph Business Capital is capturing, we don't have perfect numbers on this, but I would suggest for you the vast majority of those new clients were already driving trucks for someone else. They are now just driving for themselves.

Jared Shaw
Great. Good color. Thanks a lot guys.

Operator
The next question comes from Michael Rose with Raymond James. Please go ahead.

Michael Rose
Hi, good morning and thanks for taking my questions. I thought slide 13 was really interesting, especially as it relates to the TAM for the broker freight market. It's a little bit larger than I thought it had been or was or at least according to our team here.

Do you think that's a temporary number and will come down just because of the pandemic and work from home and things like that, or do you think that is actually a sustainable and growing number? Thanks.

Aaron Graft
We think it's growing. We've called brokered freight $150 billion around here for the last three to four years, but as we dig deeper into the data, as we get better data from TriumphPay integration and what we're seeing, we believe that market is growing. And it would be appropriate, Michael, to point out here something. We report numbers to you when it comes to TriumphPay, especially. I mean, an almost 50% growth quarter-over-quarter in payment volume. I mean, that's an outstanding number when you would look at also the underlying amount of transactions, because in a market in which invoice sizes are getting smaller because the market’s contracting or pricing is getting weaker, what we still measure for TriumphPay is adoption.

So, in a down market and freight, you might say brokered freight could drop back to $150 billion or $160 billion. Our overall thesis is that the brokered freight market, brokers are taking more market share just because of superior technology and the way they're able to be nimble, hiring drivers, and we don't see that trend changing.

Michael Rose
Okay, that's helpful. And then I know you haven't talked a ton about the contracts shipping market and I appreciate the color on slide 14 just given the outside potential. So obviously the flip to the open-loop network is focused on the brokered freight market, but can you talk about how and the role that TriumphPay would play in the contract shipping market—which obviously slide 13 has a bigger TAM—and what the competitive dynamics are in that market relative to the brokered freight market where you're much larger at this point? Thanks.

Aaron Graft
Sure. So first of all, I would say we are already processing payments in the shipping market for some

very large names including Medtronic and Johnson Controls. We pay truckers on their behalf and we have more Tier 1 names coming in that space and a couple of Tier 2 names even this coming quarter. I think the way to think about it or the way at least I think about it is TriumphPay has now paid over half of all truckers and those truckers don't just haul in brokered freight, they haul in contract and brokered freight.

And at some point in the next 12 months, I suspect we will have paid 90% of all active truckers at the pace we're going. So, eventually the payments network and how it operates in brokered freight, we believe will operate in a similar manner in the shipper market. You have to provide the audit functionality to brokers, provide to contract shippers and certain other things you need to do that brokers are very good at doing for their customers.

But eventually if you have a payment profile on a trucking company and the user experience is so digital, seamless, frictionless, the truckers are in our opinion eventually going to ask anyone they haul for, we want to be paid by TriumphPay because it gives us the freedom to choose of when we get paid, how we get paid, it gives our factor, whichever factoring company they use, the ability, the tools to process things faster, and so that's our belief that we think this technology—I mean, we're already more than a couple of billion dollars in the shipper market and we haven't talked about it as much, but it is growing.

As you move into that market more, you're going to be seeing a higher proportion of the trucking companies you pay are going to be large trucking companies. Well we happen to think TriumphPay can provide value to them. They don't need our financing solution or anyone's financing solution in the actual payment process. But if we can streamline cash application and other functionality for them and create labor savings, then we think there is a value proposition for both contract shippers and trucking companies that serve that market and the trucking companies that serve that market also serve the brokered freight market.

So we view the total addressable market as $420 billion. It doesn't mean all parts of the market will interact the same way with the payments network, but our intent is to move as much of all that volume on to the network as we can because we think there’s value for everyone who touches it.

Michael Rose
That's very helpful. Maybe just one more for me. The annualized payments volume at 13.7 is obviously a big number at this point. I know previously you’d given some guidance there with hot trend in the mix at least through year-end. Do you have any, and just what you can see from the clients that you've signed up, I mean, do you have any sense at least by year-end what a reasonable target for payments volume could be? Thanks.

Aaron Graft
If you annualize the month of June, we're running $16 billion and there’s more volume coming from existing Tier 1 integrations that we've already announced and there are more Tier 1 integrations coming in the third quarter. So, honestly, Michael, I don't know that I can hazard a guess. There’s a whole lot of opportunity and there's a lot in the queue and part of that will depend upon what the spot market does and invoice prices, but it will go up and I think you'll see it go up significantly.

And one thing I would point out, and we tried to make this very clear because we don't want to mislead people to the upside, the $13.7 billion in payments is what TriumphPay actually paid. HubTran has integrations with freight brokers that touch another $13 billion of payments, but we are not making those payments and wouldn't count that to our benefit, unless and until that freight broker becomes a full TriumphPay customer. So when you think about HubTran, at least between now and the first quarter of 2022, what you ought to be thinking about is the integrations it brings. That's the metric that matters because those integrations give us a warm lead to build into a full TriumphPay relationship, both on the factoring side and the freight broker side.

So I can't point you to specific payment volume that will come solely as a result of HubTran being part of our mix, but what I can point you to is 60 factoring integrations and 258 freight broker integrations that HubTran already have that once we have the fully conforming product in first quarter of 2022, we'll be well situated to come into the network based upon that prior HubTran relationship and that doesn't just include the integration, the API integration, but also just knowing who they're doing business with and getting to know TriumphPay as a result of that existing relationship.

Michael Rose
I'll try to follow up on that. With those coming integrations in the first quarter of 2022, what is the payment volume that HubTran is currently experiencing? I'm just trying to get a ballpark of what that could look like once everything—

Aaron Graft
HubTran has no payment volume. HubTran provides audit functionality to $13 billion of transactions of its customers. That's what it touches, it does not have payment volume. It never made payments. It was an audit solution that was integrated into the operating processes and procedures of companies doing payments on their own.

So I can't promise anyone that every HubTran customer that currently exists is going to move all that volume on to TriumphPay. I think the value proposition makes it very likely that we will win a majority of that business, but HubTran has added zero payment volume to what TriumphPay has done to date. What it did bring was audit functionality that allows us to finish the build out that we're going to be delivering to the market in the first quarter of 2022 of a network that can provide a fully conforming transaction with presentment, audit, and payment with minimal human interaction.

Michael Rose
Understood. Thanks for all the color and really appreciate it.

Aaron Graft
You got it.

Operator
The next question comes from Brad Milsaps with Piper Sandler. Please go ahead.

Brad Milsaps
Hi, good morning. Bryce, congrats on your retirement. We'll definitely miss talking to you. Aaron just kind of curious, as you guys have started to talk about the payments network in the market. I know you've discussed an interchange fee that's anywhere from 20 basis points, maybe as high as 50, just kind of curious what maybe initially you've heard from customers or as you kind of test things, and get out there and talk about it, have you come any closer to kind of where that fee could potentially settle?

Aaron Graft
Yes. We have done a lot of work on that, Brad. And one thing I would say is it is unlikely we will be defining this fee as it applies to the market as an interchange fee, just as we've gone out and sat and talked to people and understood what they need, what they want, where the value comes from. It will more likely be a—there'll be a subscription fee for people who use the network and then there will eventually be a network fee that's tied to the number of fully conforming transactions. And the general narrative we're telling the factoring community is, whatever we can demonstrate your cost savings to be,

we think our ask would be roughly half of that, so half of the net value provided to them falls to their bottom line, and that doesn't even count fraud mitigation.

So I believe in the future, Brad, that on a total fee basis, when you include those, both subscription fees and network fees and our share of the upside created by the network, I still believe we will be within that range we gave you, but it won't start there day one and we have to demonstrate it to the market like they have to tangibly see it and know that it will also likely be a lagging fee.

In other words, we have to show people in their bottom line, okay, this is how much you saved this year when we price it for the future and I think that's the appropriate way to get the market to adopt what you're doing and make the investments and the operating procedural changes. You can't ask them to pay the money upfront and hope the savings will come and that's why I made the point of urging patience. Revenue is going to keep growing and fee revenue will grow faster than balance sheet revenue in that space, that's what we're targeting

So I think eventually we will get into that strike zone that you referenced, I don't know that we'll call it interchange fees, like I said, I think it's more of a subscription fee and a network transaction fee. And so, my intent is, we are meeting with dozens and dozens of factoring companies and freight brokers this quarter to demonstrate the product, demonstrate what it does. So my expectation is we will be able to give you clarity on exactly what we intend to do with pricing on the third quarter earnings call.

Brad Milsaps
Great, very helpful. And from this point, I know you talked about $71 million expenses kind of near-term, what type of investments do you think you continue to make to kind of get the technology where you want to be, I mean, I know there are a lot of comp related expenses in this quarter, but you're up 20% year-over-year, obviously a month of HubTran in there as well. But does that pace begin to slow down or do you think you have more money to spend to get to where you want to be for this huge revenue opportunity?

Aaron Graft
The majority of the senior team at TriumphPay is in place. We have great leadership. Jordan Graft's leadership, the vision that he casts, it's exceptional; Ed Schreyer, Melissa Forman, the people we've added underneath them. And so what you saw in this quarter was them starting to realize the stock compensation that they well deserved. It's also good for us because that connects them to our future. And so that run rate picks up a lot of those of the technology staff and HubTran staff, who just started.

We have several people who we needed to make sure were incentivized to stay with us and see this to the end. We still have senior people that we will need to hire along the way, no doubt. But I think the bulk, I cannot foresee, Brad, another quarter where you see a jump like we had between these two quarters. I think this $71 million run rate encapsulates a whole lot of talent that is warehoused in this organization, both technical talent, financial talent, otherwise, because we have to keep a pretty large integrations team right now, that is going out—every time we onboard a new customer, we have to have technical resources available in real time to do that integration.

So that all lives here now. I would expect any jumps going forward to be incremental, not as significant as you saw between the last two quarters.

Brad Milsaps
Got it. Very helpful. And then just final question for me. Can you add any color to the jump in factoring yield this quarter, was up about 115 basis points, is that just more seasonal because volumes even stronger or a mix issue? Just kind of curious kind what drove that increase?

Geoff Brenner
I think a couple of important metrics on the jump. If you look at Q2 and you compare it to Q1, average invoice amounts increased by about 5%, which is this tailwind that we talk about, but our purchases increased by 25%. So, you're seeing a lot of growth in purchases in client count that outstrips the increase in the tailwind. And we're not adding proportionately more and more people to capture that volume. If you look back, just on the growth from Q1 to Q2, it's mind boggling and the team has managed that incredibly efficiently.

So, I think you're seeing higher than ever revenues, higher than ever purchases, higher than ever client counts, and it's a trailing staffing and cost matrix that's chasing that, so that's producing better returns.

Aaron Graft
And to the specific question that he was asking is the yield difference quarter-over-quarter, I think some of that also, Brad, has to do with the TFS transaction winding down. Those TFS receivables were priced low to begin with and they were a drag on a GAAP basis. And so as you see that go away, we're returning to more normalized historical run rate for us.

Brad Milsaps
Got it. That makes sense. Thanks for all the color.

Aaron Graft
You got it.

Operator
The next question comes from Gary Tenner with D.A. Davidson. Please go ahead.

Gary Tenner
Thanks, good morning, everybody. Wanted to just ask about—taking a step back from TriumphPay and HubTran for a second to Triumph Business Capital. Obviously, the performance there has been tremendous. But my understanding or at least from past commentary, is that with the pivot of TriumphPay, there was maybe going to be some additional development of Triumph Business Capital in terms of integration with the bank and offering products to its factor and customers. Can you talk a little bit about kind of plans for that side of the business even as you run that concurrently with growing the payments network?

Todd Ritterbusch
Yes. Good morning. This is Todd Ritterbusch. Geoff and I and a number of the leaders on our respective teams have been working really hard on this. And so, there are I call two main elements of this. In the near term, we're working very hard to get our people to work together, specifically our salespeople, so that we understand one another and the value proposition that we can present together to a TBC client. So that work is going really well, we’ve had sales conferences, we’ve aligned incentive plans, the working relationships have developed, and we're seeing good improvement in referral activity from TBC into the bank to create and manage broader relationships.

The longer term is the development of the MyTriumph portal to include all of this as well. So, the MyTriumph portal is the factoring portal that our factoring clients use today. It's a very nice online system for looking at all of the factoring related activity of the client, imagine that being expanded to look more like a holistic online banking platform where you see the factoring dashboard, but you also see key information related to the other products and services that the client uses or banner advertising to cross-sell those products and services to the clients with specific offers. So that part of the process, that technology development will take a bit longer and will probably not be fully available for at least another year or so.

Gary Tenner
Great. Thank you.

Operator
The next question comes from Brady Gailey with KBW. Please go ahead.

Brady Gailey
Hi, thanks, good morning, guys. Most of my questions have been answered, but I did just have one last one. I mean, it seems like everything is going just great related to the growth in TPay and the build out of that business and the acquisitions. It seems like you guys are clearly on the right path there to create something big and special. Aaron, in your opinion, what are the biggest risks to ultimately being successful with TPay?

Aaron Graft
Well, of course, whenever you handle the volume that TPay is handling, there is cyber risk to that, I mean, that's just an omnipresent risk that we have to build around. Beyond that, from a strategic perspective, Brady, I think the risk would be to try to monetize it too early. The way we do this right is we demonstrate to each client the savings that they are experiencing, the fraud mitigation that they are experiencing, the data security.

For the first time ever in this network, we can prevent people from misusing unmasked data, so protecting everyone's data, and you show people that they need to think about it, they need to see it and they need to plan for how that affects their business processes in the years to come. And so, as long as we stay committed and keep telling investors, if you want to invest in us, you need to understand this is a long-term play that depends, first of all on getting a level of market adoption, so that a significant portion of transactions become conforming.

And that takes time and so anything we do that jeopardizes the trust that people have for us in the network from the factoring community, they have to trust that they get to compete heads up with our own factoring company. The freight brokers have to trust that we're protecting their data, which we are. So anything we do that doesn't allow them to experience that value before we try to get paid for it to me jeopardizes the vast amount of goodwill we have right now.

And moreover, we have to make sure that payments go to the right people and that sounds really simple for those of you sitting on the other end of the phone, but I will tell you for the team that's here, when you onboard a new Tier 1 broker and now you have 60,000 new clients that come with that, truckers that need to get paid, and you have to know which truckers have factoring companies and who gets paid at what address in real time, every day. It's a significant undertaking, a significant amount of our $71 million of overhead goes into making sure we can pay hundreds of thousands of people every day with precision. And there have been times where that has gotten overwhelming for us and we've had to pull it together and add more people to solve the problem.

We're now getting better at managing that, projecting that discipline, but if we were to sell more than we were able to service and therefore we had misdirected payments not end up where they should go, then there would be a loss of confidence in the network. And so the network has to inspire confidence in everyone who touches it and I am committed to doing whatever I have to do, whatever resources we have to have, to make sure that never happens. And that would be the most existential risk I think, Brady, to this not working.

Brady Gailey
Alright, that's good color. I don't think you're going to be able to answer this next question, Aaron, but how many years do you think it will take to get TPay where you want it to be?

Aaron Graft
Well, I think about that in multiple phases, right? So, the first part of it is establishing for the entire trucking industry that TPay is the preferred way to get paid because of all the value it brings. I don't think that is as far off as you may think. I mean, there is not many of the top 1,000 freight brokers we haven't touched, spoken to, or already have integrations with. We're already talking to Tier 1 shipper clients and have significant amount of those that were engaged with. So in three to five years, I think we will have had all the at-bats we need to become the ubiquitous payments network for this space.

The second and more interesting question is how long does it take for us to monetize this in a way that investors and fintech investors, bank investors, whomever, can look at operating margins that they're used to seeing in SaaS type companies. My guess is that that is going to lag the land grab, if you will, the adding the volume, it's going to lag that by three to three years because you have to give people time to experience the product, change their processes to engage with the product, and then you can get paid adequately for the product.

So this is a long-term game. I mean, it's a giant addressable market, $400 billion-plus in payments being made to 250,000 different trucking companies and we're going to do whatever it takes to make sure that we deliver value to everyone involved and I'm willing to invest in this for this to be a drag on earnings for us until such point as everyone sees it, adopts it, and then we'll start to price for it.

So, I gave you a lot of words without a specific timeline because I don't know, I've not done this before, no one's done this before in trucking. But perhaps the specific answer on number of years would be that, what volume we have in the next three to five years would be the tell for how much of the market—it's going to give you a sight line into how much of the market will ultimately come to use this tool.

Brady Gailey
Okay, got it. Thanks, Aaron. Bryce, good luck in retirement and Brad look forward to working with you.

Brad Voss
Thank you.

Bryce Fowler
Thank you.

Operator
As a reminder, if you have a question, please press star then one. The next question comes from Matt Olney with Stephens. Please go ahead.

Tom Wendler
Hi, good morning, everyone, this is Tom Wendler on for Matt Olney. Only a couple of quick questions from me. So HubTran payment fees last quarter were about $1 million for one month of being on the books. Is $3 million is going to be a good way thinking about that for the remainder of the year?

Aaron Graft
Yes.

Tom Wendler
Alright, thank you. And then can you give me idea of the mix between refi and new purchase in your mortgage warehouse and then can you give me any near-term expectations you have for your warehouse balances?

Aaron Graft
Yes. So, I'd say that the balance mix is shifting pretty significantly. We saw a lot of slowdown in refi activity and for a while there the new purchase activity was still holding up. But more recently we've seen new purchase activity declining as well. So I don't know the mix as of today, but clearly it's been shifting more toward new purchase for a little while now. And it's still decelerating faster in refi than it is new purchase.

Tom Wendler
Alright, thank you. And then just one final one for me. Can you guys give me any early feedback you have from factors that were formerly competitors about adopting TriumphPay?

Aaron Graft
Yes. There is no uniform answer. We know a lot of these people were respectful competitors to them. I guess what I would point you to is none of the existing factoring companies who are on HubTran's technology left after the acquisition and we added five more. So, the idea that everyone would just vacate the market because they thought we would use this data for our own good, I think we've gotten out in front of that. I mean, we still have work to do to convince factoring companies that this is in their best interest and will help them win going forward, but early returns are we've added factoring companies, not lost any.

Tom Wendler
Alright. That sounds good. Thank you.

CONCLUSION

Operator
This concludes our question and answer session. I would like to turn the conference back over to Aaron Graft for any closing remarks.

Aaron Graft
Thank you all for being with us today, and again, we do all wish Bryce well in his retirement. And we look forward to talking to you all next quarter. Thank you.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.