



Triumph Financial Q3 '24 Earnings Call | October 17, 2024

Luke Wyse:

Morning. It's 9:30 in Dallas, so let's get started. We'd like to open by thanking you for your interest in Triumph and for joining us this morning to discuss our third quarter results. We appreciate it. With that, let's get to business.

Aaron's letter last evening discussed the quarter's results and provided more color on the products we have introduced and are introducing to the market, which we believe will create long-term shareholder value. We are excited about those opportunities, particularly where we can help America's truckers get immediate access to working capital and allow partners to leverage our transportation technology investments that quarterly shareholder letter published last evening and our quarterly results will form the basis of our call today. However, before we get started, I would like to remind you that this conversation 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 statements. For details, please refer to the safe harbor statement in our shareholder letter published last evening.

All comments made during today's call are subject to that safe harbor statement. With that, I'd like to turn the call over to Aaron for a kickoff and to welcome us to Q&A. Aaron?

Aaron Graft:

Thank you, Luke, and welcome everyone to the call. Before I give a few opening thoughts, I want to welcome Kim Fisk to the table. Kim has worked in our factoring business for 12 years and currently serves as its chief operating officer. We gave Tim the morning off so investors could hear from Kim, and having worked alongside Kim as long as I have, I can assure you that she is worth hearing from. The letter we filed last night covers lots of topics, among them is the acknowledgement that freight continues to be tough right now. There's no getting around it. I see nothing upon which to hang a reasonable hope of a turnaround in the short term. In the long term, however, I know that it will turn around. Notwithstanding the market, there are many things to celebrate. CH Robinson has gone live with Triumph Pay on the network and we are in a pilot launch of FAS and LoadPay with CH Robinson.

We are also demonstrating the ability to leverage models built with artificial intelligence and machine learning to purchase invoices in our factoring business without human intervention. And not only that, but then attaching that to the ability to fund at a time when every other bank in America would be closed. To my knowledge, there's no one else in the industry who can do that currently. So, we do not and will not sit back and pout about a tough freight market. We have been planning our work and doing it for years and we will continue to work that plan and I'm as convinced as I've ever been that the rewards of that plan are unfolding right in front of us. We look forward to hearing your questions, so let's get started.

Moderator:

We will now go to the Q&A. If you have connected via Zoom and would like to ask a question, please use the raised hand feature at the bottom of your Zoom window or if you've dialed in, please press star nine. Once called upon, please feel free to unmute and ask your question. Our first question will come from Joe Yanchunas. Joe, please go ahead.

Joe Yanchunas:

Good morning. Thank you for taking my questions.

Aaron Graft:

Morning, Joe.

Joe Yanchunas:

I appreciate the details in the shareholder letter about load pay and the total addressable market, but given market conditions, you note that the independent owner-operator base has shrunk as they have either left the industry or moved to work for a larger carrier. Do we expect this trend to continue with, say, the Amazon effect of permanently removing small business or do you think the independent truck driver base will either stabilize or recover? If it's the latter, what gives you confidence that'll occur? I guess what I'm just trying to get at is it possible that the current depressed spot rate could represent the new normal and effectively eliminate the independent driver?

Aaron Graft:

Yeah. Kim, why don't you go first?

Kim Fisk:

Yeah, sure. Thanks, Joe, for the question. I've been in the factoring industry for about 20 years and it's a cyclical business. I don't see a time when the small carrier will ever leave the market. Today they might be parking their trucks and leasing onto some of our larger carriers, but I don't ever see them leaving the market. I think the market will change and they'll come back and be independent again.

Aaron Graft:

Yeah, and I agree. When Kim and I were talking this morning, there's a slide deck from 10 years ago. Just internally, we were doing a business plan in our factoring business and it asked the question about the demise of the small trucker, because at that time the risk was the ELD mandate, and I've just done this long enough to know the small trucker is not going away forever.

And if you think about it the way the market is constructed, it wouldn't work if it did. If you look at these large freight brokers and the hundreds of millions if not billions of dollars they have invested in technology, the reason they made those investments, the reason those have worked is because it allowed technology to level the playing field to give access to loads to small truckers so that small truckers didn't have to try to invest to compete with larger fleets.

And so, that whole ecosystem depends on the small trucker. So we are in a trough of the longest cycle we've been in since deregulation. That trough will switch and when the spot market begins to offer greater rewards than these carriers would make working for someone else, they will return to the spot market and we will start the cycle over again.

Joe Yanchunas:

I appreciate that. If I could ask one more here, with CH Robinson's 10 and a half billion in volumes coming online earlier than expected for Q, can you give us a sense for how much annualized payment volume is currently contracted to come online through T-Pay, as well as the expected cadence? And then, it seems that you continue to add brokers to your network while not having the same success in adding factoring clients. Given this dynamic, I would think that a new factoring client would've enough network volume to immediately reduce overhead on day one of joining the network. Can you also talk about the onboarding pipeline for factoring companies? Thank you.

Aaron Graft:

Yeah, great question, Joe. You've said one more, but you asked two, but that's all right. Go ahead. You take the CH Robinson.

Melissa Forman:

Okay, I'll take the CH Robinson question first. Thank you, Joe. So, we are certainly excited about the onboarding of CH Robinson and its volume to the payments network. As I told you all last quarter, we're very excited about the status of our pipeline and how healthy it is. Even with the announcement of CH Robinson starting to do their onboarding process this quarter, which they just this week started with production volume, we still remain very positive about the health of our pipeline. It continues to be strong, as strong as it's ever been, which is really excited for us.

To give you exact numbers of what we would be able to tell you would be added in this quarter, I can't do that, and that's simply because of, as we've talked before, just how the ramps happen and how volume scales on it. You can expect, though, that the majority of CH Robinson's truckload volume will be on our platform end of Q4 into Q1 as a measurement there.

Aaron Graft:

And, of course, the question I know that follows that one is if that's true, I think you'll start to see the revenue from this strategic relationship with CH Robinson show up in the second half of 2025. There'll be incremental revenue along the way, but what we're talking about making real money for investors and real money for CH Robinson, frankly. I think that's back half.

So you asked the question about factoring, so let's talk about that. I think we've spent too much time, frankly, talking about how to invite the factors into our network and us being about the fact that we owned a factoring company and was that the gating issue? At the margins, look, it is. I'm sure it is, but I think really if we get down to what really drives these decisions, it's the fact that the factoring industry, many of them, use a legacy product for their factor management software, and that product, I will say, it is not innovative.

So they've been forced to be innovative on their own. They've built a tremendous amount of technology that sits on top of the legacy solutions they use, and they've been successful doing that. Well, along comes Triumph and we build a ground up system and then we build Triumph Pay. And I've lived it, frankly. It's the innovator's dilemma of, in the short term, it is probably more profitable, better for the bottom line to do the things you've done, the way you've always done them. Over the long run, it is absolutely clear that grabbing information, like I wrote about in the letter on exceptions to invoices, having that information day one versus day 30 is a better outcome. No one could dispute that it's are you willing to stomach the pain it takes to make the changes to be successful in the long term?

And that's hard. That's really hard. I don't think that factoring companies run their businesses from a rocking chair. That's not how they think and they're being innovative, but we're asking them to redo everything about the way they do business, and so I'm empathetic to that. But what we know and what you're going to see as people start using our factoring as a service platform is the ability to have connectivity into the source of truth, which is the broker's transportation management system, and to have all the features, including the ability to make instant decisions without human intervention, you can't beat that. It's just a superior technology and integration experience.

And so, I think there are going to be new entrants coming into the factoring industry and all of them, would be my expectation, will use our offerings because you couldn't recreate the scale we have. So, it's not as much about what the factoring industry is now and how many network factors there are. It's also about where the factoring industry is going. And because of what I see there, I'm convinced that a one quarter drop in network transactions is just noise and it is not a signal that over the long term, and it may even turn next quarter, additional volume will move through the network and therefore network transactions and specifically revenue from network transactions will go up. So I hope that answers the third question you asked, Joe.

Joe Yanchunas:

I appreciate it. Thank you.

Moderator:

Our next question will come from Matthew Olney of Stevens. Matthew, go ahead.

Matthew:

Hey, thanks. Good morning. I guess similar to the lines of the previous questions, we've talked about Triumph Pay and the step-up of potentially monetization of that business in 2025 with the caveat that it would depend upon the health of the overall freight markets. And based on your commentary in the letter, it sounds like you remain relatively cautious on the freight markets. So, with that in mind, just any thoughts about the monetization of that platform in 2025?

Melissa Forman:

That's a great question.

Aaron Graft:

No, you please.

Melissa Forman:

Okay, perfect.

Aaron Graft:

You got it.

Melissa Forman:

So, that's a good question and we do remain cautious about the freight market and where it's at and empathetic to our clients and the positions that they're in. And so, we will make decisions about how we price customers and increase pricing to customers with that in mind. But what I would like to point out

to you though is that even through this recession that's gone on 33 months, we've continued to be able to increase fee revenue for our portfolio in Triumph Pay and have increased it over 30% year over year.

And so, while we are cautious, while we are empathetic, we are providing value to our clients through additional features and opportunities to serve them that allow us to continue to grow our revenue associated with those services.

Aaron Graft:

Yeah, Melissa took the words ... You said them better than me. Matt, I think we are monetizing it. 30% fee revenue growth period to period in the face of the longest freight recession in history? I think that's doing it. I get it. We've got some lofty long-term goals out there, but it is happening and that's why I said in the opening, I think that this freight recession masks what you're seeing unfold right in front of you. We will eclipse over 50% of touching all of brokered freight. Nobody's ever been close to that before. We are EBITDA margin positive, notwithstanding a freight recession that's causing many companies to go bankrupt.

And it's also important to note, I think that bank investors may not think this way, but the technology investors who follow us, there is a hierarchy of the revenue that comes in to Triumph Pay and it starts with, first of all, fees, right? Because fees are not capital intensive and they're more scalable. And then, secondly, float because there's no associated credit risk with float. And then finally financing, which we will generate and do generate through quick pays and the other things we do with our partners.

The revenue growth, which you would think would be the hardest thing to grow in the face of a freight recession has grown. So, it's not overnight, it's not parabolic, it's not linear, but I think we are monetizing it and if the market returns to normal, this would all look a lot better. We're outrunning the treadmill, but the treadmill is running against us. If the treadmill just went to neutral, we would be going forward much faster.

Matthew:

Okay, I'll step back. Thank you guys.

Aaron Graft:

Thank you, Matt.

Moderator:

Our next question will come from Gary Tenner of D.A. Davidson. Gary, please go ahead and ask a question.

Gary Tenner:

Thanks. Good morning everybody.

Melissa Forman:

Good morning.

Gary Tenner:

Want to ask a follow-up on the LoadPay call that you had given previously, the expectation on the gross revenue per owner operator account is pretty specific, but I just want to know, I guess, of the 200,000

owner operators that you think are active in the country today, can you give us any kind of ballpark or range of how many you may have an existing relationship with through the factoring business or otherwise? And what are the offsets in terms of the cost versus that gross revenue expectation?

Aaron Graft:

Yeah, let's talk about the marketing channels because I think that's a really astute question. I wrote about that in the letter. I think a lot of fintechs worry so much about their product, they forget about distribution. So, what is our natural distribution for LoadPay? Well, the first place you would go is the 8,500 factoring clients we have. If you want to get paid today for free, then use LoadPay. And so that is rolling out as we speak.

The second place you would go is the 20,000 plus select carriers who have claimed their profile inside the Triumph Pay network. They don't factor with Triumph, they don't factor with anyone, but they're taking quick pays from Triumph Pay-enabled brokers. That's 20,000 plus carriers. We will go there.

The third place we would go is our channel market partner relationships. CH Robinson is the first. There are some other names coming behind that and if you think about the largest brokers and how many carriers they touch, you get to way more than 50%. More like 80% of the industry is touched by these parties. So, the distribution methods we have, I don't want to be presumptuous, but it's really hard to compete with all the different ways we would touch the carriers that are out there that you'll see us roll out through 2025.

Regarding the unit level economics, if we're going to go from talking about gross revenue to net margin, that's a little hard. There are 65 truckers today, maybe 66, I don't know. Maybe we signed up someone else overnight, live this moment. That's going to jump dramatically when we see you next quarter, and I would hope every quarter thereafter. We're having to make some assumptions. And so the best I can do for you is give you the assumptions like how we think about them.

The first thing I can say is the vast majority of the revenue that constitutes that \$750 ballmark is coming from interchange fees. And so, how you arrive at that conclusion of what that's going to be is just you have to make some assumptions about how much of the spend will that trucker make on the embedded debit card that's tied to the LoadPay relationship? I don't know yet. We don't know yet. It would not be prudent to tell you what 66 carriers have done other than to tell you we would rightfully be conservative when we give you an estimate. We want to incentivize them to spend on that card.

Of course, the second piece is the float, and to know the float, you need to know what the Fed's going to do and you need to know what the decay rate is for the balances in those cards, and we just don't have enough history to be able to speak to that. On the expense side of the equation, we are carrying the expenses of load pay right now. That lives here right now, some of it's capitalized, some of it's operating expense. This is not, " We need to go out and hire a bunch of people." I mean, sure, there'll be incremental marketing spend and ads, but that expense lives here now, so whatever revenue comes in, much of that will drop to the bottom line, and that's what's exciting. And there's other things that can be done. If we get our virtual wallet into your hand, there are many other things that can be done. We don't want to speak to that right now because it's a little early, but it doesn't just stop with interchange fees and float, we have some other ideas. So I hope that helps, Gary, talk about the distribution and talk about the monetization.

Gary Tenner:

Yeah, I appreciate the call, Aaron, thank you. And you had noted in your Charter letter that there was a loss of a factor. You talked about decisions made by factors in a tough environment, so did that factor go

out of business, did they consolidate with somebody else, or did they just move their relationship off the network? What's the best kind of color there?

Melissa Forman:

Yeah, they simply just moved their relationship off the network.

Gary Tenner:

Got it, thank you.

Moderator:

Our next question will come from Timothy Switzer from KBW. Timothy, please go ahead.

Timothy Switzer:

Hey, good morning. Thank you for taking my question. I have a quick follow up on that last one. Was Prime's factoring business at all a primary reason for that factor leaving the network and do you guys have what network of volume growth would've been excluding that impact?

Aaron Graft:

You take the second one, I'll take the first one. What would network volume have been excluding that impact? I think it would've gone up.

Melissa Forman:

It would've gone up a couple percentage points over the course of that quarter, just as other volume had ramped versus the 5.7%, I believe it, was reduction. So you're looking at likely a 10% to 11% swing.

Aaron Graft:

Yeah, so network volumes on the whole, but for that customer went up because the network continues to grow. Again, I would never be so presumptuous as to say why someone left, but I would be presumptuous enough to say they didn't leave because we have a factoring business, they knew that. We've done that for 15 years, that's been around for a long time and we've never told the market and we'll never tell the market that we're leaving the factoring business. We're not. We think we're part of an ecosystem that adds value and there's room for lots of people, and we intend to be valuable, and frankly, and I think this is important, I think that the factoring industry is not a finite pie. It has grown since I've been in the industry, since Tim, since Kim's been in the industry, the percentage of customers who are factored has grown, and that's because factoring companies are so much more and so much better than payday lenders.

We enable trucking companies to aggregate their purchasing power to save value with vendors with whom they spend money, and we save them more money there than they pay us for immediate access to their funds. And so much like the freight brokers have created technology that's allowed small truckers to have the access to capacity that you would have in a larger fleet, the factoring industry has aggregated the purchasing power and instant access to working capital that small truckers need to compete. And so I think the factoring industry, especially with things like load pay coming on board is going to grow. And that's great for all of us, we want the pie to grow.

I think this customer, they left for their own reasons, and that's one customer out of 63, and I think we have 37 network factors. You can choose what to focus on, it's less about one customer, it's more about

our network transactions increasing. We're talking about one quarter here. I feel confident, you can hold me accountable on this, that network transactions will continue to grow Q4 and throughout all of 2025 with C.H. Robinson's volume coming on and others behind it, the idea of the network and the transactions associated with it are going to absolutely grow.

Timothy Switzer:

Okay, great. Yeah, that makes sense, and we appreciate the color. And Aaron, you talked about this a little bit in your letter, and I know you might be limited about what you can share due to competitive reasons, but can you kind of help us understand what exactly you are offering in the next gen audit that enhances the value proposition, and maybe more importantly, how successful has that been on getting legacy clients to upgrade before their current contract is up? And can you provide any kind of parameters on what the pricing difference is if they do next gen audit versus the legacy product?

Aaron Graft:

All you.

Melissa Forman:

All right, got it. So great questions, and I'm glad that you asked it because I wanted to be able to talk about this because it's pretty exciting for our entire team and the work that they've put into this. So we get a lot of requests from our clients about how we can help serve their business more. As you guys know, a few years ago we acquired HubTran, who had a top of the line audit solution already in the market. Through that acquisition and in incremental improvements that we've made with that team and that product over the years, we've been able to create more value. Next Gen Audit is just taking that product to the next level and being able to respond to what our customers have been asking for in different aspects of their business and handling the transaction.

So a couple of the things I'd like to highlight that are important to take away here is that we're able to do POD and bill of lading validation. We're able to help with the indexing, not just extraction, but delivering fully indexed and validated invoices into either the audit product or into their own proprietary system that they're using so that they can make immediate decisions and change their processes to auto approve and auto submit for payment those invoices as they come through. We've been able to speed up the time it takes for a broker to get the POD and documentation from a carrier, and have seen, in early test cases that we're working through right now, two to three day DSO improvement for those brokers and being able to get those invoices and those PODs built out to their customers that helps improve their ability to collect.

And so these are just a few of the innovations that come with it and the technology enhancements, the accuracy rates, obviously using machine learning and AI, we have that embedded in different processes and parts of the system. We just continue to innovate, train the system, learn more and more from our customers every day and deliver new features that bring them more value. In terms of the pricing difference, again, I go back to our customers had different pricing depending on when they onboarded, whether they onboarded through TriumphPay's maturity life cycle or with HubTran, and so we charge them based on the value that we're able to provide them and what makes sense for both parties, and so we'll continue to do that. Many of the contracts that you see with Next Gen Audit, our existing clients who are upgrading early and allowing us to charge higher rates, and that's where you're seeing a lot of that fee revenue income growing year over year, is through the ability to leverage those feature sets to upgrade our clients to new solutions.

Timothy Switzer:

That's great. Thank you, Melissa.

Moderator:

Our next question will come from Hal Goetch from E. Riley. Hal, please ask your question.

Speaker 4:

Great, I got two questions if you can hear me. The first one is on load pay, is the current revenue model only interchange or will you venture into other dollar advances that if you have a checking account with a trucker, you're going to be able to do cashflow analysis on them, you can even see the frequency of deposits that they have throughout their daily transactions? There are some other fin techs out there that are doing small dollar advances two to three weeks. Is that something that you're considering? And then the second question is on the banking side of the deposit franchise looked like they have a terrific quarter with a lot of increase in deposits and quite a few of them that were not interest-bearing, which is the good stuff. So I'd like you to comment on that, thanks.

Aaron Graft:

So I'll do load pay and then we could talk about what we're doing, because I do think, people, a 1.57% cost of funds should be celebrated. And we don't talk enough about the bank, but on the first one, Hal, you've hit the nail on the head. Look if you control or have that customer relationship, and let me just point out one thing and then I'm going to answer it specifically, but I hope you and everyone who's read the letter, watching this, understands the power of Instant Decision. Instant Decision applies to factored carriers only. We will offer load pay to any carrier and someday we'll offer load pay to enterprise carriers I suspect, but let's just stick with that just for a second because I think it's important to understand. Instant Decision means just what it says. We've built a model that ingests data and can make an instant decision without human intervention on whether or not we would purchase this invoice. And that's never been done before. Generally you're touching it, people are touching it, I can't speak to what every factoring company does, but I know at scale Instant Decision, making decisions in less than 30 seconds.

And we're doing that based upon giant data sets. We know what that account debtor has done before, we know what the prior invoices that come from that carrier look like, we know all these factors in our own proprietary risk model that we've built through the school of hard knocks that Kim, I, Tim, others have seen all the different ways in which you can get hurt. But if you make an Instant Decision on a Saturday and you don't fund until Monday or Tuesday, that's like winning a race, and then after you win the race, them telling you that they're going to mail you their trophy and your winnings. You lose that instant gratification, what was the value in making an instant decision if you can't fund me instantly?

And so the power of load pay, and the reason I think adoption will be so strong, because offering it to other factors as well, it's not branded with Triumph's name on it, is the ability to get money instantly, sort of what Amazon has created for us, this expectation that we get what we order right when we want it, and it doesn't matter, the rules of 9-5 don't apply.

So now the money sits in the load pay account, it gets there, in that example I gave you in the shareholder letter, in less than a minute on a Saturday of a holiday weekend, never been done before. So once the money's there, of course we would want that carrier to spend money on the embedded debit card, that's great, we get interchange fees, you've already alluded to that, of course, we'll generate the float. If they decide to use push to debit and move that money to another account, there's a fee associated with that, that's great.

But you alluded to something, one of the things that freight brokers have not enjoyed doing and factoring companies have solved a little bit of this problem for them, and this is over the last decade, is advancing a percentage of the line haul, that's what we call it, what the carrier's getting paid, advancing a percentage of the line haul so that that carrier can buy fuel before they pick up the load. Call it a fuel advance, whatever you want to call it, that has historically been rife with fraud. There's risk because the load hasn't been moved yet. If you have all the data we have and you have a load pay account in someone's hands, the ability to do an advance, whether the broker does it, whether we do it, all this can be negotiated with our partners, but to be able to do an advance into that account and have the data we have, which tells us frankly far more about the veracity of that carrier than a FICO score ever would, then the now you've got to advance product embedded in that solution, which now that's of course left-hand side of the balance sheet revenue, but it's still very, very profitable, and so you should expect that and several other things are in the future feature sets that we intend to roll out for load pay, and I would expect most of that gets rolled out in 2025.

Speaker 4:

Thank you.

Aaron Graft:

Oh yeah, wait. Oh yeah, I forgot the bank.

Speaker 5:

Okay. Yeah, so as it pertains to deposits, I'll make a couple of points related to non-interest-bearing deposits, and then one point related to our interest-bearing deposits. When you look at the growth in the non-interest-bearing deposits, they're really two components. The biggest component this quarter was the continued growth in our mortgage warehouse servicing deposits. And so that's very valuable business to us because it comes to us and allows us to self-fund the mortgage warehouse at costs lower than wholesale funding.

With that said, they're not free, so while they're not interest-bearing, they do result in rebates on loans within the mortgage warehouse, and so there is some cost to those, it's just less than wholesale funding costs. We don't have high dependence on wholesale funding, this allows us to lessen that even more. So that's good for us, but it's not completely free. The other component is what we see happening within the broader community bank, and we saw the decline in deposits that every bank experienced coming out of the pandemic occur, then we stabilized and now we're beginning to grow again, and we're pretty excited about that. On the interest-bearing side, we were prepared when the Fed lowered rates to begin adjusting rates immediately, so we're already seeing our weighted average price of deposits in the money market accounts and CDs coming down, and so that's also contributing to the cost of funds dynamic that you're seeing.

Speaker 4:

Thank you.

Moderator:

There are no further questions at this time, back to management for closing remarks, thank you.

Aaron Graft:

Thank you all for joining us, have a great day.