Triumph Financial, Inc. Q1 Earnings Call | April 26, 2023

Luke Wyse:

Good morning. It's 9:30 here and a typical spring day in Texas. It's time for our first quarter earnings call, so let's get to it.

I'd like to open today by thanking you for sharing your morning with us. You'll notice the set looks a little differently today and we're proud to unveil our new desk. This desk was constructed by Cody and Chris at the TBK Workshop, along with participants from our inaugural Forge The Future Program. The Workshop is a makerspace we've developed that is focused on community outreach through workforce development and educational initiatives.

You'll notice another difference this morning in our group here at the studio, Dan Curtis, our Chief Operating Officer in TriumphPay. We'll be filling in for Melissa. Melissa's daughter is completing her active duty service in the Navy, so Melissa will be attending a family celebration on board the USS Carl Vinson. Given the once in a lifetime opportunity and to celebrate her daughter's service, she wanted, and of course we wanted for her to be present at this special event. Dan brings a wealth of industry experience and an informed understanding of the market dynamics facing TriumphPay, as well as the opportunities we are pursuing. So please join me in welcoming him today. Melissa will be back with us in the next studio for next quarter's call.

Speaking of, let's get to business. Last evening we published our quarterly shareholder letter. That letter and our quarterly results will form the basis of our call today. However, before we get started, I'd 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 statement. 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 welcome and to kick off our Q&A. Aaron.

Aaron P. Graft:

Thank you, Luke. Good morning. Thank you for joining us. I hope that you found the letter we published last evening informative and helpful. I'll make a few opening comments and then we'll turn the call over for questions. Depending on your position related to Triumph Financial, I have one piece of bad news and three pieces of good news.

So let's start with the bad news. The freight recession is here and it's real. The softness in the market took a toll on our earnings for the quarter. Further, I think investors should know that the market has remained soft for the beginning of the second quarter. If the market stays this soft for a long period of time, many companies in transportation will experience financial distress. We don't have any projections for how long or how deep the recession will be. That is the bad news.

Now, for the good news. Even if the freight market stays soft, investors should expect Triumph Financial to remain profitable. Freight is the biggest part of what we do, but it is not the only thing we do. Further, we were reducing long-term freight risk when the market was the frothiest two years ago. For example, we slowed our growth in equipment finance in the last few years because we wanted to be particular on credit. We didn't know when the market would turn, but we never forgot that the freight market is cyclical. We expect to navigate this freight cycle just like the ones in the past, and past experience has taught us that bad markets often present compelling opportunities.

The second piece of good news. All of the ills that have caused trouble for the banking industry in the last 60 days are just generally not true of us. We have ample capital and liquidity. We take very limited interest rate risk, and we have avoided growth in the areas most likely to experience credit risk.

And now for the final piece of good news. Do not let the falling freight market confuse you on TriumphPay's performance. You will not see us use this freight recession, however long it may be, to walk back our guidance on profitability in that segment. To the contrary, we expect to do better. Depending on which markers you use, the truckload freight market is down between 10 to 30% over the past year, and the brokered freight market is towards the higher end of that range. In that same timeframe, TriumphPay has grown its volume by over 7%. In other words, we're taking market share in a falling market.

But more important than growing volume, we have improved our EBITDA margin by over 50% in one quarter. That improvement is not episodic. We always believe that the float we created in the network would be valuable. We just needed a different interest rate environment to demonstrate that value. That rate environment has now arrived. Last quarter, we noted that TriumphPay was self-funding as a segment for the first time. For this quarter, TriumphPay generated excess funding. Investing that excess funding at the Fed fund's rate created interest income of over 1.5 million for the quarter.

Second, certain upfront expenses in TriumphPay burn off over time. It is difficult and it is costly to onboard new clients, but that effort pays off over the long run. As a result, we are more bullish than ever on the long-term value of the network. And for the team and the board and our long-term investors, we think that is the best news of all. So with that intro out of the way, we'll now turn the call over for questions.

Moderator:

Thank you. We'll now move on to Q&A. If you have dialed into Zoom and would like to ask a question, please use the raise hand feature at the bottom of your Zoom window. Once called upon, please feel free to unmute and ask your question. Our first question comes from Matthew Olney from Stephens. Thank you, Matthew.

Matthew Olney:

Hey, good morning. Can you guys hear me okay?

Aaron P. Graft:

We can hear you fine, Matt.

Matthew Olney:

Okay, great. Thanks for taking the question. We previously talked about TPay was going to add, I think it was four new brokers that were pretty good size on the system sometime in late fourth quarter, early first quarter. Given the market headwinds that we're seeing right now, it's not easy to see the benefits of these new brokers. Can you just talk more about the onboarding process and the adoption of the TPay product within those newer brokers and how that compares to some of your internal expectations?

Dan Curtis:

So in Q1, we signed one tier one to audit and went live as well as one tier two in audit. We also went live with four tier twos in the first quarter. And our pipeline of both tier ones and tier twos for payment audit and network remains strong. We expect to bring more on in the second quarter as well as the third quarter. We can see the clear path of growth for this year based on the tier ones and tier twos that we have in integrations right now.

Aaron P. Graft:

And Matt, to add to that, since I was the one who made that prediction, the tier ones that we thought would be on the network by this quarter, a few of those have slid to next quarter. So that volume is yet to come. And that's why we're encouraged that we're able to grow EBITDA before even that volume comes because it proves that we're monetizing the network at a rate that exceeds what our original expectations were. The pipeline remains full and we continue to work, as Dan said, on bringing those large brokers and all brokers frankly onto the network.

Matthew Olney:

And just as a follow up to that, Aaron, why do you think some of those are sliding? Is it more market conditions? Is it more something else? Any color on kind of why some of those tier ones have slid into tier two?

Aaron P. Graft:

Well, tier ones haven't become tier twos, and those are our own calculations. We consider a tier one broker in a normalized market as someone with more than 500 million of purchase transportation spend. The reason they slide, and I think we've alluded to this in the past, an integration with TriumphPay is difficult technical and requires a lot of resources because it's not just something you can flip on with a switch. That's why that upfront cost is real. We've been burying that cost and like we alluded to, that cost burns off over time. So we have the technical resources stood up to complete the integration on our side.

But of course we need our broker, our payers who are entering the network to have the technical resources available on their side. There's just always a competition to have enough resources ready to do this because when you go live with payments, you can't kind of get it right. You have to get it absolutely right. And tech projects just oftentimes miss their deadlines, but the pipeline remains. And as soon as we're able to announce the next one, which I think will be this quarter, we will of course announce it. And every time we do, that just brings more volume into the network.

Matthew Olney:

That's helpful, Aaron. And just one more on TPay here, just about the various fee components for TPay. I know the fees are a smaller number today within TPay, but I'm curious about the types of fees that are currently running through the system today versus the types of fees that we could see as volumes ramp up, whether it's syndication fees, subscription fees, network fees. Just any colors on the fees today versus more the fees on the come. Thanks.

Dan Curtis:

We currently have subscription fees in our newer brokers that have signed on to our network and onto our invoice and payment audit processing. We also have network fees for factors now running through the system. We have our traditional QuickPay revenue share as well, which is the predominant source of our revenue still. But again, we have transitioned new clients to a subscription fee basis, pricing some existing clients to subscription fee, have our first network fees running through from a factor perspective, and we are recognizing more interest income than we have previously by creating our own funds.

Matthew Olney:

Okay, that's helpful. Thanks guys. I'll step back.

Aaron P. Graft:

Thanks, Matt.

Moderator:

Thank you. Our next question comes from Gary Tenner from D.A. Davidson. Thank you Gary.

Gary Tenner:

Thanks guys. Good morning. I wanted to ask, and Aaron, this is something you've talked about in the past a little bit as it relates to the sell through, the value proposition to the large brokers in a slower growth environment or in a freight recession type of environment. Can you give us a little more, as we're kind of starting to see this evolve, how those conversations have changed and if there's some degree of increased receptivity to that value proposition?

Aaron P. Graft:

Absolutely, and that's a great question, Gary. I would say there's three things that we are talking about now that weren't talked much about a year ago or a year and a half ago when freight was on fire. Number one, in a softening market, everybody wants more efficiency. So that discussion of efficiency in the back office is finding far more receptivity today when margins are compressed than it was a year ago.

The second thing, and this is interesting, is a year and a half ago, the large brokers, some of them or all of them probably didn't need a lot of balance sheet help. Now there are cases in which we can step in and provide financing for them alongside what they're doing to provide liquidity to allow them to achieve their goals. That conversation wasn't happening a year and a half ago.

And then the third, and this has become a very loud conversation, is the increase of fraud in transportation has been dramatic. Organized crime has gone after transportation because it's such a big and fragmented industry. So the ability to use what we do to mitigate fraud is a topic of every conversation we're having. So as a result of those three things and just more time, more proving out the network, those conversations are certainly advancing.

Gary Tenner:

Aaron, when you talk about the financing part to the brokers, do you mean them wanting to not use their own balance sheet to fund the QuickPay piece of it, or are you talking about direct financing or other kind of credit needs

Gary Tenner:

... to the brokers?

Aaron P. Graft:

Yeah, so first of all, every broker is different. There are some brokers who would never need our balance sheet and some who do it depends upon how they've constructed themselves. The first part, you alluded to the QuickPay revenue, we have said since the beginning, we are happy to grow the QuickPay program for freight brokers and they can hold that balance on their balance sheet and we will charge a fee to the network to administer that program for them. Or if they want us to hold it on our balance sheet and we remit a profit sharing back to them, we're happy to do that. As to the second part of your question, and this is something I think investors should understand, when we talk about the brokered freight market as 135 billion dollar market, that's actually a misnomer as I think about what triumph pays long-term value proposition is. A 135 billion is what freight brokers spend to purchase transportation in an average year.

Upstream of that spend, those same companies have 150 to 160 billion of accounts receivable on behalf of the clients they serve. As TriumphPay has grown and as their needs have changed, our ability to help them on the accounts receivable part of the business is a future growth prospect for Triumph. And so this quarter I think you'll see us step in and provide financing for a few brokers. Not all of them need this, but a few need it and it's a conversation we're having now that we certainly weren't having as regularly two years ago.

Gary Tenner:

Thank you, Aaron.

Speaker 1:

My next question is from Joe Yanchunis at Raymond James. Thank you, Joe.

Joe Yanchunis:

Good morning. So I want to start on expenses. In the 2Q expense guide of minimal sequential growth, was that based on the reported 89.3 million from the first quarter or do we need to adjust for any certain one-timers? And then also in the past you've given us some expense goal posts for the December quarter and I was wondering if you could provide that this time.

Brad Voss:

The run rate expenses from here? Yes, you should think about that as based on the 89 and a half million that we reported in Q1. As far as goalposts exiting the year that it's really hard to say at this point because we are going to be very nimble about that. We are restraining some expense growth that we might otherwise have undertaken in the near term just given the state of the freight market and the pressure that's put on our revenue. So if our revenues stay flat or decline further from here as a result of the freight recession, you will see those expenses held flat. If on the other hand in the back half of the year or whenever we see a return to revenue growth and healing of the freight market are expenses are likely to start trending a little bit higher. So I know that makes it a little bit difficult for you to model, but we're going to be nimble and thoughtful about adding expenses from here.

Joe Yanchunis:

Brad, I appreciate it. And then in your prepared commentary, you discussed that by moving the supply chain financing solutions from Triumph Business Capital to TPay, it'll shift 10 million in EBITDA to TPay. What's the timing on this transition and do you have a sense for the revenue and expense components of this EBITDA?

Dan Curtis:

So the timing on this transition is in the second quarter, that business produces a high...

Aaron P. Graft:

Go ahead.

Dan Curtis:

Sorry. That business produces a high return and we will be moving that full operation and business into TPay this quarter. Again, we expect on an annual basis for it to create about 10 million in EBITDA and look to grow that over time.

Aaron P. Graft:

And Joe, we will call that out for you. We want to be transparent about that. That's not organic revenue, that's not part of the EBITDA walk forward. So when that shows up in the next quarter, we'll call it out for you on the revenue and expense so you can separate that from organic margin that's coming into the business.

Joe Yanchunis:

Appreciate it. And then just a couple more from me here. At what blended interchange fee are you currently signing up new customers on TPay and how should this trend moving forward? And then as we think about the truck stop pay client acquisition, what kind of blended interchange fee do you expect them to join the network at? It looks like in the first quarter it was about 13 basis points, which at the same rate would imply this transaction would add about a million in annualized revenue. Am I thinking about that correctly?

Dan Curtis:

You want to take that one? Yeah.

Aaron P. Graft:

So I think you're doing the math correctly on what these clients were, where things are now. I would say again, we talk about when you use interchange fee, we think about subscription fees, network fees, and all the fees we charge on both sides of the transaction. I think long term and we have to distinguish between a network transaction and a non-network transaction. We made 20.3 billion in payments in the quarter and we charged fees for that. For network transactions at roughly the size of the market today, I mean if you think on a fully conforming or network transaction, it's over $5 is where today's pricing is. That's borne by both sides of the transaction, not just by one side of the transaction. That's roughly what it is that will move. It depends on different volume scales, but that's a good proxy for you. As it relates to the load pay customers who are coming on their historical pricing with load pay bears no resemblance to what we do at try and pay.

Because that wasn't a network that was just a payment provided mechanism. And so they're going to come in at generally our full retail pricing that we're bringing on new customers, how that translates downstream into overall interchange fees or network fees as we think about it on total volumes, we need to come back to you on that. I can't give you a specific number projecting forward at this time because again, it will depend a lot on growing network transactions. That's the one number that grew on an absolute basis in a quarter where every other number fell. And when you see that number goes up, the fee per transaction goes up because we're delivering more value. So you have to build some other assumptions into that set about how much of our total volume becomes network transactions to answer that question with the level of precision I would like to answer it for you.

Joe Yanchunis:

So I just don't think we have the components to kind of back into that. So maybe you could help me out. Could you break down the subscription network fee and [inaudible] fee that Tpay generated in the first quarter?

Aaron P. Graft:

I don't know that we have those exact numbers in the silos to prepared to give to you today. We will come back... If that's something the market wants to understand, we will go back and look at that and see if we can deliver that back to everybody to help them understand. Again, it depends a little bit on legacy clients, new clients. It's not just a one and done number. So we're not going to give you those specific components right now, but we will go do our work and come back with an answer that we think answers both what we did historically and what we intend to do in the future and we'll share that with the market.

Brad Voss:

And Joe, if I could add to that, there is a piece of that that you can see today when you look at our segment reporting on the letter that we sent last night, the interest income, that $2.7 million that you see in the payment segment, that would be the QuickPay part of that. The non-interest income that you see, the $3.94 million number is going to be a combination of all of the other fees, but we have not broken it down more granularly than that.

Joe Yanchunis:

All right. Well, thank you very much. And I'll hop back in the queue.

Speaker 1:

Thank you. Our next question comes from Timothy Switzer from KBW. Thank you, Timothy.

Tim Switzer:

Hey, good morning. I'm on for [inaudible]. Thanks for taking our question. I just have have one quick one about... You mentioned how onboarding is very technical, takes some time, and could you kind of help us break down maybe what the upfront cost is for a broker who is signing up for TPay? And I don't necessarily mean just kind of the text and they need to do, but also total manpower needed, things like that, and what percentage of the upfront costs are born by Triumph versus the broker?

Aaron P. Graft:

For large brokers who have custom-built TMSs, like we're talking the very largest brokers, it's a seven figure expense and for some of them it could approach $2 million. And it depends upon how they allocate resources internally. It's no small decision. We do not generally bear any of that cost. That is their cost to onboard, which they goes into their calculation of the long-term value proposition of the network to their operations. For smaller brokers who are on an off the shelf TMS, it is a much lower number and happens much quicker.

Tim Switzer:

Okay. That's helpful. And I don't even know if this is a reasonable question you guys are due to answer, but if this rate recession last and spot rates maybe go a little bit lower or volume decreases, what's kind of like the floor of where factoring volume could drop for you and would there be any willingness on your side to maybe take a little bit of market share volumes dropped further.

Aaron P. Graft:

Tim, why don't you start with that one?

Tim Valdez:

Yeah, So Tim, it's really difficult to predict because the challenge we run into has historically been through these cycles five or six times in my career in the factoring space. And so it's really difficult to understand when something's going to end, what the impact is. We are certainly above the 2019 levels and hope to maintain that, but it's so unpredictable and don't really know where it's going to land.

Aaron P. Graft:

Your question was would we take market share? We are standing by what we told the market, we're people of our word. We said to the factoring market, our market position is roughly 15% of the market and that's what we intend for it to be. Now the market has shrunk right as it is contracted. I do think you will see us backfill a significant amount of that lost revenue with the supply chain financing we are providing to the brokerage industry because that opportunity, as TriumphPay grows, our reach is much further. And frankly, the credit risk profile is not materially different. And so if we see growth, it will be there.

It will not be going after us taking market share. I mean, we're going to be in the marketing competitive in factory. We're going to deliver a great product, a great service, but we're not going to use this opportunity to compete against our very network constituents. We'll be a friendly competitive, I mean we'll be a competitor, but we're not going after them. But I do think you can see some of that revenue come back through the supply chain financing opportunity we provide to the brokerage market.

Tim Switzer:

Yeah, that's kind of the answer I expected there. Thank you guys.

Speaker 1:

Okay. Our next question comes from John Rao at Wells Fargo. Thank you, John.

John Rao:

Hi, this is John on for Jared Charles. Morning.

Aaron P. Graft:

Good morning.

John Rao:

I guess just one quick question on the TriumphPay, a net interest income that was generated this quarter from the excess funding that

John:

... that you had in the segment. Is that something that we could see as sustainable quarter over quarter? Or is that more of a one-time thing that was impacted by some factors this quarter?

Aaron P. Graft:

No, we would expect as volume goes up, float goes up. So, it was not episodic. You've just seen us bring on significant amount of volume and bring all the payments back into the network. The one thing that may happen is as TriumPay has opportunities to provide supply chain financing to network constituents, we may not be in an excess funding position such that you're getting fed fund rates on those excess balances. If that is true, you should expect the revenues we will generate on those funds to be much higher than fed fund balances.

John:

Okay, thank you. And then, just looking at the trend and invoice prices, could you talk about the trend throughout the quarter? What was the average for February or March, and how does that compare to what you're seeing today? I know it's kind of hard to predict with things moving around so quickly, but just a little bit more color on the last few months you've been seeing in that.

Tim Valdez:

Yeah, John, we had had a fairly decent, or excuse me, fairly decent month in January, and then, we saw a fall off in February and March, and a lot of that had to do with the average price of fuel. It started to drop as well. So, the prices in general just continued to drop throughout that first quarter. It has maintained some level of volatility, but it's still fairly soft where we sit today.

Aaron P. Graft:

I think average invoice prices, month to date for April, the best realtime data we can give you is just under $1,800. They could go up, they could go down. We make no predictions on that. We will tell you, and I think Tim would tell you this, is that level is pretty close to where most truckers would struggle to break even to run on a truckload because we generally have more long haul truckload exposure. We have some shipper exposure in our blended portfolio, which is helping holding us higher than what the spot market alone has done. And eventually, and I've been through a couple of these cycles, and Tim's been through five of them, eventually, low prices will be the solution to low prices. We went from 12,000 clients at Triumph in our factoring division to having roughly 10,000. Some of those people have left the industry altogether. Others have leased on with much larger carriers.

It could get worse from here. It would not surprise us. If we could predict that, we would be in a different kind of business. But what we know is inevitably, people will still buy things. Capacity leaves the market, and the market will tighten. And of course,, in our business that's a very profitable thing. And fuel is a great unknown. It's 20 to 30% of the cost, and we never know what OPEC's going to do. We don't know. There's just things that are out of our control. And our job is to be valuable and profitable, whether invoices are $1,780 or $2,400. And frankly, five years from now, I think we're going to look back at this and say, "Yeah, it wasn't fun to see our earnings contract for a season," but I think the opportunities that will give us as an enterprise for the future will far outweigh any near-term contraction in our earnings.

John:

Okay, thanks. That's very helpful. And then, just one more quick one from me. There was some talk of seeing some better risk adjusted returns in the community bank last quarter. I'm just wondering if that's still something that you're seeing today or we should expect growth in the community bank still in 2023?

Todd Ritterbusch:

Yeah, I'll take that one. Yeah, we were seeing better economics, better risk adjusted returns in the fourth quarter. We've sort of seen a plateauing in returns that are available with new deal flow. And so, I wouldn't say that we're more excited today about the pricing than we were in the fourth quarter, but we continue to monitor it. So, if we do see better risk adjusted returns on the right credits, we'll be ready to step in.

John:

Okay, thanks. That's all for me.

Speaker 2:

Okay, thank you. Our next question comes from Joe Anjunis from Raymond James again. Thank you, Joe.

Joe:

Thanks. Sorry. I just had a couple more I was hoping you could clear up for me. So, going back to Matt's question. On the 2Q '22 call, you announced the 15 billion in annualized payment volume that was being integrated into T Pay. I understand that the market downturn has caused that number to change. What percent of that volume has already been realized?

Aaron P. Graft:

Less than 30%.

Joe:

And spot rates aside, which-

Aaron P. Graft:

So, Joe, you could either say that's bad news or good news. Aaron, you could say Aaron's lousy at predicting timing. I'll own that. Things took longer. Or the good news is we're growing EBITDA in spite of not yet having that volume, but that's where we are.

Joe:

No, absolutely. I'm just trying to understand the volume component moving forward. And then, now, I did see that as of last week, C.H. Robinson did call for spot rates [inaudible] fuel to trough this month.

Obviously, that's just another prediction that's out there. But one of the things I was hoping you could help me with is how have volumes changed throughout April? Because they were down pretty handedly in the first quarter.

Tim Valdez:

I think one of the most interesting things is when you get to a point where rates are at the level they are is carriers are very selective on what they haul, when they haul. And if it's not an ideal scenario, they'll park assets. And they also look at using the most efficient pieces of equipment. So, if they have older equipment, they'll sit on the fence, and they'll just pull back capacity when it gets to a point where we are today, Joe. So, I think there's definitely some opportunities here coming up, we hope, but it's really difficult to make any sort of prediction about it.

Aaron P. Graft:

And we would expect, Joe, that as long as rates stay low, utilization will stay low. People don't like driving and losing money to do so. And so, when you build a model to try to predict our future earnings, you can't just plug spot rates, and you have to think about utilization, which I know you all have followed us long enough to do that. But the point is the drivers are getting paid less, so they're driving less, and those two things work together.

Joe:

All right, well, I appreciate you taking my questions the second time. Thank you.

Aaron P. Graft:

Got it.

Speaker 2:

Thank you. And my next question is from Brad Milsaps from Piper Sandler Companies. Thank you, Brad.

Brad Milsaps:

Hey. Good morning. Thanks for taking my question. You guys have addressed most everything. Just had a quick follow-up question on the bank, and I apologize if you addressed it, but Aaron, just curious how much longer you can hold deposit rates as low as they are? I know last quarter, you said you were just really exception pricing, on a one-off basis, but obviously, very low relative to the industry. I get that you don't need tons of funding, but just curious what kind of pressure point that could be out there.

Aaron P. Graft:

Yeah, go ahead, Todd.

Todd Ritterbusch:

Sure. Yeah. So, we're continuing to manage deposit rates through exception only for the time being. Don't really expect to change that at any point in the foreseeable future. We feel really good about where we stand. We haven't seen an uptick in the number of rate exception requests. The levels that we're receiving for rate exceptions have remained the same. With that said, we do expect continued pressure. We're so far below what the top of the market is on rates, we'll continue to have to make rate exceptions through time to retain our deposits. And we'll do so when warranted based on the relationship that we have with the client. I do expect that you'll continue to see deposit cost of funds or deposit costs rise. They may rise a little faster than what you've seen over the course of the last couple of quarters, and we will try to contain it as much as possible, but we're not going to let a big deposit outflow occur from our core deposit base.

Aaron P. Graft:

Yeah. Brad, Todd, as I alluded to, Todd and the team are doing a great job with that. Couple of things are in our favor. First of all, our deposit costs will go up. There is no question. We have performed well. I think we will continue to perform well relative to peer, but I don't think anyone should extrapolate from the last quarter and that we can hold it forever at that level of discount to what the fed funds, the other rates have moved. The things in our favor, number one, it's a very fragmented deposit base. We don't have concentration, liquidity concentration, for example. Number two, we are growing non-interest bearing deposits by virtue of the float we grow in the network. And number three, and this has been our refrain and it will continue to be our refrain, we are not a prisoner to growing assets.

Our belief is we should grow the things that make us the most money for our investors. So, when you're in a position to not have a bunch of loan growth that you need to go fund regardless of the cost, you can be more disciplined. That's why we're doing it. We don't have any magic. It's just as a result of those things, the fragmentation, the float we create, and the fact that we're not just going to always trying to be growing our asset base gives us the ability to, what we hope to do is to continue to outperform our peers as it relates to deposit beta.

Brad Milsaps:

Great. That's helpful. And Aaron, I know there are a lot of moving parts, and you tried to address this in some ways, but in any predictions? I know in the past, you've given on total revenue this year at Triumph Business Capital. Just curious, I know it's tough with all the moving parts, but just curious if you could offer any color or guidance there around how you're thinking about revenue this year.

Aaron P. Graft:

If I tried to do it, my CFO would tackle me. Number two, I wouldn't be telling you the truth because I have no idea, Brad. Eventually, what is going to happen is the market will capitulate, and enough capacity will leave the system, and shippers will burn through their excess inventory, and freight will get tight, and it will happen way sooner than anyone thinks. Whether it happens this year or next year, I have no idea. So, we've given you expense guidance, and that's something we can control. As you've saw in the letter, we know that we are willing to take revenue volatility. That is the risk we take. We try not to take credit risk, liquidity risk, interest rate risk. So, if that's the nature of your business, then this is the time in which you should not be making predictions.

What I will predict is we are going to be profitable no matter what happens because we're so well positioned relative to any peers. And because we have such a growth engine in TriumPay that needs what we're doing. And that really, I'm not trying to not answer the question. I just couldn't possibly answer it for you, Brad. That's as good as I can do.

Brad Milsaps:

No problem. It's tough for us too. And then, maybe finally, are you pretty much done with all your capital actions in terms of, obviously, you had the ASR, but how should we think about periodic paybacks going forward? And I think as this quarter, any further thoughts on taking out those higher costs trust, preferreds that you have? It seems like if you're looking for ways to generate earnings, that would be a pretty simple one. That's it for me. Thank you.

Aaron P. Graft:

Yeah. No, and I'm glad you asked that question about capital because I think that's something investors wonder about. As a reminder, the capital that was required to complete the ASR left the building last quarter. That capital went out the door. We're not done with the ASR. We're in the market right now, and we'll find out sometime in the second

Aaron P. Graft:

Quarter, I'm sure wouldn't surprise me if they're in the market buying today, it would be a good opportunity for them. So, after the end of this quarter, we would have over 130 million of excess capital. So, there are only two uses for that. Number one, we want to make sure we're positioned and at least have the authorization to do so, that should our shares fall because people are concerned about near-term earnings and missing long-term opportunities, you should expect we will be in the market because we believe in what we're doing and we can see it.

The second thing that we would do is because of the distress in the freight markets, because venture capital funding and debt has dried up, there are opportunities for us to partner with, invest in and perhaps even acquire companies which augment what TriumphPay is doing. And so we continue to look at those opportunities. Those are the two things as we think about this excess capital, which will continue to grow, we expect over the year of how we would use those funds.

Speaker 3:

And Brad, I'll answer the second part of your question about the trust preferreds. Simply put, no, we're not going to call those. That would, number one, put about a 10 million hole in our capital base because we've got those securities carried at a discount from when we acquired the banks that originally issued them. Number two, it's valuable tier one capital that can't be replaced in this market. That structure, as you all well know, just does not exist anymore and we'll continue to benefit from that going forward.

And then the third thing, and I think this gets lost on some people, is we do remain asset sensitive as a bank overall, and those are floating rate liabilities, some of our only true floating rate liabilities. So, in a scenario where interest rates start to go back down, having those floating rate liabilities on our balance sheet is actually beneficial to us. So, you're not going to see those going anywhere anytime soon.

Speaker 4:

Great. Thank you.

Speaker 5:

Thank you. There are no further questions on this line at this time, so we'll now hand over to the phone line for further Q&A. Thank you, Melinda.

Speaker 6:

Thank you. At this time, if you'd like to ask a question, please press the star, then one on your touch tone phone. You may remove yourself from the queue at any time by pressing star and two. Once again, that is star and one to signal for a question on the phone today. And we'll pause just briefly to assemble our queue. And we go to our first question from the line of a private investor, P. M. Kumar. Please go ahead, your line is open.

Speaker 7:

Hey, can you hear me?

Aaron P. Graft:

Yes.

Speaker 7:

Okay. I have a question for you. In the letter you mentioned TriumphPay Audit and TriumphPay payment annualized volume represents over 20% of the brokerage freight market in the US. So, the remaining 80% of the volume in the market, is that through legacy payment process, like manual checking and payment or are there similar offerings similar to TriumphPay that customers are using? And if yes, can you talk about the competitive positioning of TriumphPay?

Aaron P. Graft:

Yeah. Great question. To our knowledge, there is no one in the market that is doing payments on behalf of the brokered freight market like we do. There are other providers, legacy providers who do audit services for brokers. And I don't know that any of them are publicly traded and so I wouldn't be able to speak to the volume of audit that they're doing. All I can tell you is when you look at audit and payment for us, we touch one out of every five transactions in brokered freight. There is no one else doing payments at scale. And there are other audit provider companies, I can think of five off the top of my head, there's probably more than that. I would believe that we are among the largest, if not the largest in audit services to brokered freight, but I'm not certain that we are the largest.

Speaker 7:

Okay, thank you. And I have a follow-up question on that. Right now the volume that TriumphPay touch is about 20%. Where do you expect that to go in the next 2, 3, 5 years? What percent of market share would you think based on your current conversation with customers and their experience and all the future improvements, where do you think roughly... And I know that nobody has a crystal ball, just roughly where's the team's expectation?

Aaron P. Graft:

Yeah. Well, so we'd love to have all of it, but we know that that would be impossible. So, how I think about it, and Dan will jump in and correct if he thinks I said any of it... We can have different perspectives on this because Dan ran a large freight brokerage, but the top 30 freight brokers ish, those are over 500 million in spend, they control roughly 40% of the market. Okay. The top 1000 freight brokers control 90% of the market. So, once you get below the top thousand, you've got another seven or 8,000 freight brokers who are the long tail of the industry. And we have some of those as clients. So, let's return to the tier ones. We are integrated with, I believe... Is it 18 now with the one that went live?

Speaker 8:

Yes.

Aaron P. Graft:

So, 18 of the top 30 use us for audit, payment or both. We have already told you that throughout the rest of this year you will see additional tier one brokers come on to the platform. And so the density of penetration at the tier one level is going to go up. And again, that's 40%, give or take, of the market. My own belief is what the tier one brokers do, if they recognize the efficiencies and the economies of scale and all the value propositions that we're doing for them, the tier twos and tier threes are going to follow because the thing is they all use the same carriers to haul their loads.

Whenever a new tier one or tier two broker comes on, we have paid 97% of their carriers, 95% of their carriers. We're also able to tell them, "Hey, some of these carriers you've paid, we don't think they're actually hauling your loads." Like that is valuable information that the industry has not had the ability to get at scale. So, what the tier ones do, I think the rest of the market follows, and along the way we're adding those mid-size brokers and each one of them matters. Dan, what else would you add to that?

Speaker 8:

Yeah, I think that our pipeline and what we are currently in conversations and in integration with, we believe we can move that percentage up 30 to 40 to 50% over time. Our internal targets on a two-year basis approach those numbers. We have the proper path to get there. We can see the growth that's coming for the balance of this year. And as we start to recognize the amount of freight that we touch through audit, through payments, through the network as a whole, that number will move towards that 50% ultimately.

Aaron P. Graft:

Hope that helps.

Speaker 7:

Thank you. If I may ask one more question? Are there any new offerings that the team is looking in conjunction with TriumphPay, anything that the team can acquire that would strengthen the network as a whole? Or any new offering that the team's planning to build internally or opportunity areas that would strengthen the network of TriumphPay?

Aaron P. Graft:

Yes. We're not prepared to talk about those now, but we have things that we think about, as money moves from the shipper to the broker, to the carrier, to the carrier spend, there are things we can do. And when we're ready to talk about those things, the market will hear.

Speaker 7:

Thank you, Adam. Thanks Dan.

Aaron P. Graft:

You're welcome.

Speaker 6:

And once again, if you'd like to ask a question from the phone today, please press star, then one on your touch tone phone. And we'll pause again just briefly. It appears we have no further signals. I'll now turn today's program back over to our presenters for any additional or closing remarks.

Aaron P. Graft:

Thank you all for joining us. We look forward to seeing you next time. Have a great day.