Triumph Bancorp Inc.

First Quarter 2019 Earnings Conference Call and Webcast

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CORPORATE PARTICIPANTS

Aaron Graft, *Vice Chairman and Chief Executive Officer*

Bryce Fowler, *Chief Financial Officer*

Luke Wyse, Senior *Vice President of Finance and Investor Relations*

Dan Karas, *Chief Lending Officer*

PRESENTATION

Operator
Good day and welcome to the Triumph Bancorp First Quarter 2019 Earnings Conference Call and Webcast. All participants will be in 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 1 on a touchtone phone. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Luke Wyse, Senior Vice President of Finance and Investor Relations. Please go ahead.

Luke Wyse
Good morning. Welcome to the Triumph Bancorp conference call to discuss our first quarter 2019 financial results. Before we get started, I'd 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 statements.

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, and Dan Karas, our Chief Lending Officer. After the presentation, we'll be happy to address any questions you may have.

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

Aaron Graft
Good morning. For the first quarter, we earned net income to common stockholders of $14.8 million, or 55 cents per diluted share. Return on average assets for the quarter was 1.33 percent. First quarter net interest income was down $3.6 million from Q4. Loan yield declined 15 basis points, to 7.99 percent, and the cost of total deposits increased 8 basis points, to 99 basis points. Net interest margin declined 19 basis points, to 6.15 percent. We accreted $1.6 million of loan discount in Q1.

Our first quarter loan growth was very soft, and the drop-off in factoring caused our net interest margin to compress. This has been consistent over the last five years, and it was especially so this year. Our factoring portfolio shrunk due to reduced individual invoice sizes and reduced utilization. Our ABL portfolio also shrunk due to payoffs. Neither of these were surprising occurrences, but it was a bit surprising by the order of magnitude.

On the positive side, our commercial real estate portfolio grew by 10 percent in Q1 and continues to perform exceptionally well. A second positive note is that our current loan pipeline for Q2 closings is between $300 [million] to $400 million, which will be our largest organic growth quarter ever. That growth is showing up in multiple lines of business, which is

encouraging. As a result of that growth, much of which will come towards the end of the quarter, our provision expense for loan growth will be a drag on earnings per share in Q2.

In Q1, total factoring revenue at Triumph Business Capital decreased $4 million quarter over quarter, or 13 percent, to a total of $25 million. The decrease in revenue was driven by a 14 percent decline in purchases, to $1.3 billion, during Q1. The number of invoices purchased decreased $92,000 from Q4. We purchased 790,000 invoices total in Q1. This is illustrative of the drop-in utilization as many of our clients parked their trucks for part of the quarter due to non-compelling prices, bad weather, and vacations. None of this is new or unusual, but it is exacerbated this year coming off the record year we had in 2018. Average transportation invoices decreased $84, to $1,541, or 5 percent. This contributed to a $54 million decline in receivables factored at Triumph Business Capital for the quarter.

We can't control either invoice sizes or utilization, but with respect to what we can control, I am encouraged that the number of active clients increased by 191 clients, to a total of 6,382 clients, during the first quarter. Not all clients generate the same amount of revenue. Our smallest clients generate, on average, less than $500 a month in revenue, although the yields are very high. Some of our largest clients generate monthly revenues well into the five figures, with yields in the high single digits. Net client growth matters, but it also matters that we grow the right mix of clients, which will translate to a greater volume of purchased invoices. I expect us to continue to perform well this year on these controllable variables, which will create value for the long term.

Perhaps the biggest news for Triumph Business Capital this quarter was the hiring of Geoff Brenner as CEO. Geoff will join our other senior leadership team, including George Thorsen and Steve Hausman. In addition to being a great cultural leader, Geoff is going to bring greater discipline and metric-based performance analysis into this business. Even that we expect to purchase approximately 4 million invoices this year, even small efficiency improvements in each part of the invoice purchasing and collection process can have a material impact on our overall profitability and customer experience.

For TriumphPay, we have a 130 clients utilizing the TriumphPay system, up from 113 clients last quarter. During the first quarter, TriumphPay processed 114,000 invoices, paid 23,000 distinct carriers approximately $141 million. We continue to believe everything we have said about this business for the past several quarters. We have a pipeline of freight brokers in the queue to join the system, and we continue to work with some of the largest third-party logistic companies in the country to become TriumphPay customers. We also continue to develop the technology to provide more flexibility and features to third-party logistics users and truckers utilizing the system.

Our asset quality remains solid. All of our reported asset quality metrics were flat or down versus December 31st, and net charge-offs to average loans for the quarter were 3 basis points. Our loan-to-deposit ratio at quarter end increased to 109 percent. This ratio was inflated approximately 9 percent by our use of Federal Home Loan Bank advances to fund our mortgage warehouse lines.

Total deposits declined by $136 million in the first quarter. Over $100 million of this decline was event driven or intentional, which we do not foresee repeating. That being said, we have work to do on the deposit front. We are in the process of overhauling our retail product offerings and sales efforts. We have recently launched a major upgrade to our treasury management capabilities, which we expect to start growing balances this quarter and throughout the

remainder of the year. Finally, we have broken ground on our new banking center in the heart of Dallas, which we hope to open by the end of this year. We expect this to be our largest branch shortly after opening.

First quarter expenses were slightly better than the $49.5 million estimate we provided in our last earnings call. We estimate that non-interest expense will increase to $51.5 million for the second quarter of 2019. We now expect full-year expenses of $202 million, about 1 percent above our projection given last quarter. For non-interest income, we had approximately $400,000 of other non-interest income in the quarter that we do not expect to be recurring.

During the quarter, we purchased 247,312 shares in the treasury stock at an average price of $30.51, for a total of $7.6 million. We believe our shares are a good value at these prices; however, we must balance that opportunity to buy back our shares versus making investments to grow our business, particularly on the deposit front. In the absence of a transaction, I suspect we will continue to repurchase our shares throughout the year if, in our view, the stock remains undervalued.

A 1.33 percent return on average assets is not a bad start relative to our peers, but it is not where we intend to be. We have a long ways to go to achieve our goal for Q4. A 1.8 percent return on average assets is where we believe we can run our business annually once we are fully optimized. Once we arrive at that optimization, we will still experience the seasonal variances we have historically encountered. We continue to work towards achieving a 1.8 percent ROA by Q4 of this year. We will need the transportation market to rebound in order to achieve that goal. In the past few years, that rebound has been strong. It remains to be seen how this year will unfold. Whatever the case, we won’t compromise our credit quality in order to make a short-term gain that could lead to long-term consequences.

More importantly than what we do in Q4 of this year, is where do we think we can run the business for the long term? As I said, we believe that we can run a full-year 1.8 percent ROA once the initiatives like treasury management and other retail programs are fully functional and with TriumphPay becoming a net contributor, which we expect late this year or early next year. My goal for 2020 is for us to achieve a minimum of a 1.65 percent full-year return on average assets, which will likely include a few quarters at 1.8 percent or better and for 2021, to achieve a full-year 1.8 percent return on average assets.

With that, I’ll turn the call back over to the Operator for any questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then 1 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 star, then 2. At this time, we will pause momentarily to assemble our roster.

The first question comes from Matt Olney of Stephens. Please go ahead.

Matt Olney
Hey, thanks. Good morning, guys.

Aaron Graft
Good morning, Matt.

Matt Olney
I want to start in the factoring segment. I think you guys added 191 new clients in the business, which is good growth, but still a slowdown from the pace that you guys experienced in 2018 that was closer to around 300. Can you talk about that slowdown, and is this a reflection of market saturation, seasonality, or what do you think it is, and what would you expect this number to be for the rest of the year?

Aaron Graft
Yeah, Matt, as far as what it will end up being for the rest of the year, I hesitate to make a specific projection. I will say that the pipeline is still very full, so I don't view that the onboarding of 191 net new clients is that — doesn't feel like a material deviation from last year. I will say that everything this year so far feels a lot more like 2017 did than 2018. And 2018 was the high watermark for the spot market for a variety of reasons, and so what we're feeling now is still better than the historical averages but more like 2017, and I think that holds true with average invoice sizes. I also think that holds true with how much of the market Triumph Business Capital continues to capture. So I suspect we will have a year of net client growth that won't materially deviate from what we've done in the past, but on absolute numbers, on percentages, of course, as we grow, the percentage gets smaller.

Matt Olney
Sure. Okay, that's helpful. And then, Aaron, you mentioned that the long-term ROA for the full year remains at that 180 range, but that would assume a full optimization. Can you just kind of clarify a full optimization? I think you mentioned treasury management fully onboard as well as more contribution from TriumphPay. Can you put some more numbers around kind of what that could mean for TriumphPay?

Aaron Graft
Well, we're not going to break out TriumphPay at this time for competitive reasons other than to say that by the end of this year, it will be very close to breakeven, if not swinging above that number. It depends upon some large customers who we are in dialogue with. Once it swings, you know, it starts to swing pretty dramatically, but you're just talking about a long sales cycle with some of these very large freight brokers that we're now coming into the later innings with. So, I mean, I think TriumphPay —what you'll end up seeing there, Matt, is if you take our Triumph Business Capital, our factoring business, as we've said many times before, is between a 5% and 6 percent pre-tax ROA line of business. We think TriumphPay is probably more like a 3½% to 4 percent pre-tax ROA business, so as you start to see scale come in that business, it's obviously going to have the same or similar effect on our overall net interest margin and revenue growth that Triumph Business Capital has had in that it's very different than our other lines of business as far as yields and margins.

As far as for a full-year 18 ROA, what we need in the relative size of where this organization sits, is, you know, we're going to have loan growth this year, between $500 [million] and $700 million. That incremental funding cost to deliver that, we need to be getting through channels other than just the highest-rate market —The highest advertised rates in the market. So one of the things we need to help with the 18 ROA is generating between — up to $100 million through our treasury management and retail offerings at prices that are very different than the highest-dollar incremental time deposits you can go out and get right now. And so with that, which we

think will continually get better as we slowly compel existing clients onto our treasury management platform and do a better job of marketing throughout our retail network, we think you'll see improvement there, because without doing that, you're going to see deposit costs creep, you know, 6 to 7 basis points a quarter for the foreseeable future. So we need to have that in place to protect our net interest margin above 6 percent, which we think we can do.

So fully optimized for a full year, Matt, which I'm saying is 2021, to be at a 18 ROA for a full year, you're going to have some quarters in there that are probably more like a 16, and you're going to have some quarters that are like a 2 percent ROA, and that is just by virtue of the fact that 25 percent of our revenue, more or less, is tied to the spot freight market, and we can't control that. All we can do is efficiently serve that market, but even with the volatility in that market, it remains by a wide margin our most profitable business.

Matt Olney
Okay. Yeah, that's helpful. You guys have been pretty clear about the seasonality there for a while now. I'll hop back in the queue. Thank you.

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

Brady Gailey
Hey, good morning, guys.

Aaron Graft
Good morning.

Brady Gailey
Well, on our last quarter, we talked about, you know, the net interest margin possibly seeing some mild expansion year over year, 2019 versus 2018. I know that outlook on rates has changed pretty dramatically, the yield curve is flat. And how are you all thinking about the margin for 2019?

Aaron Graft
I think, Brady, we're going to finish the year with a net interest margin of around 6 percent unless we see unusual or outsized growth at Triumph Business Capital, so that would be a very slight contraction over where we sit now. I think you will see it probably contract a little more in Q2 and then start to expand towards the latter part of the year. Back in and what the actual number ends up being relative to that 6 percent mark, I don't know, but if factoring stays where it is now, I think you're looking at something right around a 6 percent number.

Brady Gailey
Okay. And then, you repurchased about 1 percent of the company this quarter. It sounds like you'll continue to be active on that front. How do you think about the magnitude of how much stock you want to buy at this level?

Aaron Graft
Well, I mean, we live this company day in and day out, and the opportunity to buy our stock back at less than 10 times forward earnings remains compelling to me every day. It's not about the order of magnitude of what we buy back, because we think we have the capital to support that. It's more about, Brady, as we think about what our next M&A transaction might be, those dollars that we spend to buy back our stock, if you end up chewing through a lot of your excess

capital and liquidity by buying back your own stock, you don't have that same currency to use in a transaction, and we remain very interested in doing branch deals or deposit-rich acquisitions, and so it's not about how —I think the answer on how much stock would we buy back in the absence of a deal, would be whatever, we could buy that would still keep us above the capital ratios that we've told the market we intend to run this organization at. But we're not going to race to that number as we evaluate a few things that are in our M&A pipeline.

Brady Gailey
All right. And then when you mentioned M&A, maybe just a little more color on —, the stock price is down. You don't have as much power as you once had on the M&A front. Do you think M&A is likely in the near term, or is it something that my happen, it may not happen?

Aaron Graft
I mean, it's hard for me to distinguish between likely versus may or may not happen. If it happens, what I can tell you, Brady, is it's not going to be a large, pristine organization in the middle of a major metro market, right? That's never been our maneuver, and it's especially not our maneuver now, given that where we trade relative to tangible book and what we think it would take to do a deal like that. So I think it's probable this year that we will announce either a branch transaction or the acquisition of an institution that has a favorable deposit profile that's within or adjacent to the markets that we currently operate. I still think that's more likely than not, but there's nothing imminent.

Brady Gailey
All right, great. Thanks, guys.

Operator
The next question comes from Brad Milsaps of Sandler O'Neill. Please go ahead.

Brad Milsaps
Hey, good morning, Aaron.

Aaron Graft
Morning.

Brad Milsaps
Hey, I was writing quickly, but I think you mentioned you expected $300 [million] to $400 million of your pipeline was $300 [million] to $400 million for the second quarter, a lot of that might close towards the end. I was curious, kind of the pull-through rate on that and how that impacts your sort of annual guidance, and what's a mix of kind of that pipeline look like? Is it more community bank assets or more your kind of specialty-finance type loans that don't have higher yields?

Aaron Graft
Yeah, I think it's probably safe to say, Brad, that a third of it would be commercial finance and two-thirds would be community bank profiles, so fairly similar to where the portfolio is situated now. It's impossible to predict with total accuracy where and when all this stuff will close. Bryce, I don't know if you have anything you want to add about the pull-through rate or averages versus end of period.

Bryce Fowler

I mean, it is a very [unintelligible] from period to period on what actually is in the pipeline and closes through, but I think those proportions you talked about there are right. There's a lot in the pipeline, and it's looking pretty good. I think that mix is about right, and I would expect that range of $300 [million] to $400 [million] to be a reasonable estimate.

Aaron Graft
And, Brad, one other thing to add that doesn't get talked about or hasn't been talked about as much, I think you'll start to see this quarter, is you're start to see ABL go the other way, and meaning that I think you're going to see us start to return to growth, and I have hopes for what that group under Dan's leadership is going to accomplish through the remainder of the year. We spent the last few quarters doing a very deep dive into that portfolio to make sure that we were comfortable with the credits that are there. We've run — you know, we've exited through payoffs and otherwise the credits we weren't comfortable with.

We now feel like we have that firm foundation to move forward, and I think that's important, because the blended yield on an ABL relationship it's around 8½ percent, so next to factoring, it's the — among the highest-yielding products that we do. And so to have that back growing again this quarter and on through the rest of the year alongside of recovery and transportation invoices, invoice sizes and utilization, those are things that are going to help us achieve our goals.

Brad Milsaps
Great. And so, you still feel comfortable — obviously the timing can change, but the kind of 15 percent(ish) growth for the year in total loans?

Aaron Graft
Absolutely.

Brad Milsaps
Okay. And then I appreciate the additional color on expenses for the second quarter in the year. I know it's a subtle change, but just curious of the drivers and if you've been able to realize kind of all the cost savings from the deals that you completed last year? I know you were working through a few things in the factoring business in the fourth quarter that may have hurt you on the revenue side with some operational changes, but have you worked through everything else, and any other levers on the expense side that you see out there that could be pulled?

Aaron Graft
The $202 million number we gave you, Brad, includes most of those levers, so I can't tell you that I have any degree of confidence it will drop below that. There are still some expense — that number that I'm giving you still includes some initiatives which is going to reduce expense line items in certain areas of our business from where they are currently. On the other hand, I mean, we've done things like add a CEO for Triumph Business Capital. We've got a couple other senior hires around here that we think are necessary to run this institution the way it needs to be run, that, you know, offset some of those savings. So the bottom-line answer, Brad, if revenues slow dramatically, yes, there are probably some things we can do to freeze expenses that would be prudent to do, if that's what we find. If the economy reacts like we think it will, which is where you start to see some growth, and once we figure out what we're doing with China and things normalize, then I'm pretty confident that that $202 million number is where we're going to land.

Brad Milsaps
Great. Thanks, Aaron.

Operator
The next question comes from Jared Shaw with Wells Fargo Securities. Please go ahead.

Jared Shaw
Hi, good morning.

Aaron Graft
Good morning, Jared.

Jared Shaw
I think we hit on most things. the growth rate, are you still seeing any pressure from the integration of Interstate, or is that fully integrated? When you look at the quarter-over-quarter growth and even given the seasonality, it seems like the slowdown is a little more noticeable than we were expecting. Are you getting the full benefit of that acquisition yet, or is there still some integration opportunity there that could help boost growth in the future?

Aaron Graft
Yeah. Look, I'd say — so let me answer the first question on the integration of ICC. We are not done with that yet, and there are some things that we're working on to really streamline that and to make sure we've eliminated all duplicative functions and that we have our colleagues down in El Paso working on the customer base that they're best at serving and that what we're doing in Coppell in the Dallas market is serving the customer base it's best at serving and that that we're all marching together and in sync and have achieved those efficiencies. That is not done yet, but I think we are coming into the late innings of that.

That being said, no matter how efficient we run the back office of our factoring operation, it's like pushing on a string when you run into the time in the market, which is generally the first quarter, where freight slows down. When the spot market falls dramatically below the contractual rate market —we have customers who are going to say, "it's not worth it for me to drive," so they'll just park their truck and wait until the spot market rebounds, which could happen very quickly. It depends on a lot of factors like weather and things that move very fast. So we want to be always prepared and as efficient as we can to capture the market opportunity in front of us, because it's so important to our bottom line, but being efficient on the back end has nothing to do with what the market — we can only buy the invoices that are presented to us, and we can't control that piece of it.

Jared Shaw
So you're not losing customers that were Interstate customers that aren't making the transition onto the Triumph system?

Aaron Graft
Yeah, that's correct. I mean, look, we lose customers every month for a variety of reasons. I think the number to look at is that we are adding more and retaining more than we're losing. And I have no doubt there have been some ICC customers that as a result of the transition have chosen to go elsewhere, but it hasn't risen to a statistically significant number.

Jared Shaw

Okay. Okay. And then on the ROA targets, I understand the desire and the targeted growth to treasury management. Did the other component — did you say that you're looking to transition more of the deposit base to overall commercial as well? Was that the second component of reaching the 18 ROA target? And, if that's the case, do you have any other investments that need to happen to build out that commercial funding base?

Aaron Graft
so the answer to the first question is yes, because the incremental cost of funds, the new dollars in at any scale, is starting to get close to 3 percent, and I think that's that way for everyone. If you're bringing in time deposits without a commercial relationship, that certainly is going to put pressure on your margin, so we don't want to depend on that channel to be our primary channel.

On the commercial deposit side, the technology is still the conversion happened last month, and, as with any conversion, you spend a few days fielding phone calls from all your customers, which our team did admirably, and now we have five salespeople going out to lean on the customer base we have in the communities we serve, to market this new service offering. And we've had many commercial finance clients who have never historically been deposit clients of this institution, because they're not located in our geography, and we didn't have the digital tools and robust things they needed to meet their needs. Well, we now do, so you're going to start to see those deposits show up this quarter, and so, yeah, I believe to achieve an 18 ROA, that the journey from here to where we hit that number at $5 billion in assets or $6 billion in assets, can't just be funded with expensive CDs. It's going to have to be a mix, and I think we're positioned for that, but we've got to go execute on it.

Jared Shaw
Okay, thanks. And then finally for me on the TriumphPay, I understand you don't want to give a lot of the details around numbers, but when you look at that growth, from 113 clients to 130 clients, and then you're talking about it being breakeven or profitable, call it, in a year or so, is that more incrementally growth along those lines, or do we start seeing hockey-stick growth at some point in TriumphPay to transition into a profitable contributor?

Aaron Graft
Yeah, so I think it will most likely be hockey stick when — with some of the larger customers that we have focused a lot of our attention on. So here's how I think that will play out, because, you know, I realize it's always more complicated and takes a little longer than it does in a pure Excel model. The first hockey stick you'll see is the number of invoices flowing through the system and the amount of carriers we're paying through the system, which we're disclosing to you every quarter. And, when you see that, I think within a 90-day lag of that, and then it will continue to get better, is you'll start to see the QuickPay adoption ratio, in other words, going — transitioning from just paying all these carriers on behalf of our freight broker clients, to actually having a significant portion of these carriers adopting the QuickPay, which, in effect, is like a factored receivable for us.

Those are going to very, very closely correlate with one another, because we — in our testing and analysis, we know what the QuickPay adoption ratio is relative to the total universal payments we're making. So I think we're going to bread crumb [phonetic] that for you all. It was 15 percent quarter-over-quarter growth as far as number of clients, and we have a lot in the queue and some large ones in the pipeline, so as you see that number go up, you'll start to see the net funds deployed relative to the TriumphPay channel go up, which, you know, will become a more and more meaningful contributor.

Jared Shaw
Great. Thank you.

Operator
The next question comes from Steve Moss of B. Riley FBR. Please go ahead.

Steve Moss
Good morning.

Aaron Graft
Good morning.

Steve Moss
I guess one thing on the provision cost for the quarter, you know, should we think about the reserve ratio basically staying stable or maybe ticking up a little bit, given the late quarter growth that you anticipate?

Bryce Fowler
Hi, this is Bryce. I think I would expect it to be pretty stable from here. I think the mix of product coming on is going to be similar to what we have today. If we have a big jump in Triumph Business Capital there, it could go up a little bit, but I wouldn't expect that to be measurable.

Steve Moss
Okay, that's helpful. And then on the margin, are you talking about a 6 percent margin? I was wondering, this quarter looks like the yield on factored receivables came down a little bit. It's still up versus a year-ago levels, but are you seeing some extension of the terms when it comes to receivables, and is that an impact on your margin [unintelligible]?

Aaron Graft
No, you're not seeing the contractual — or let me say it another way — the overall portfolio is still turning in just over 30 days, so that hasn't changed. There are certainly customers, shippers that negotiate longer payment terms with carriers, which of course affects our yield on those, but that's been going on since we've been in this business. I think there's a couple things at play if you just look at the overall — if you take a longer look at Triumph Business Capital — and the first would be as we've grown and become more sophisticated and able to serve larger and larger clients, we have some factoring clients now who have, the yield profile on their portfolios in the single digits, which was unheard of when we started in this business.

On the other hand, they're selling us a significant scale of receivables on a monthly basis, and so we can service those more efficiently. So that would be number one. Number two is it's just a very competitive market. I mean, the technology has leveled the playing field a bit, and that's why we continue to invest to stay ahead. And so you've seen big or smallest customers go from a 4.99%, or just call it a 5 percent discount per purchased invoice, to a 3 percent, to 3½ percent. So when you do that, on a growing sample size, of course, the yields come down. I'm actually very proud of the fact that the yields still hang in around 20 percent in this business, given just those two factors.

So beyond that, what we see for the rest of the year, I don't think you're going to see the yield profile change. What we're all hoping for, and I think you're starting to see, although it has not — let me be clear to everyone, it has not snapped back dramatically, but what we are starting to

see is the slightly increased utilization and average invoice sizes slightly better. Now, we're hopeful that due to a variety of factors as we get later on into the spring and into the summer, it will come back more strongly. I don't believe at this point we — I think it is unlikely we will get back to mid-$1,800-plus invoice sizes we saw last year. Now, we can still make a lot of money in this business between $1,600 and $1,700 average invoice sizes, but it does not appear to us at this point, that we will get back to those high watermarks of last year.

Steve Moss
Okay, thank you very much. That's helpful.

Operator
Again, if you have a question, please press star, then 1 on a touchtone phone. The next question comes from Gary Tenner of D.A. Davidson. Please go ahead.

Gary Tenner
Thanks. Good morning, guys.

Aaron Graft
Good morning.

Gary Tenner
First, just a point of verification on your margin commentary. Were you suggesting a 6 percent margin by the end of the year or 6 percent for the full year if there was no pick-up in spot rates?

Aaron Graft
I think full year.

Gary Tenner
Okay, for the full year. Thank you. And then as it relates to the spot rates, and you just sort of alluded to this a bit Aaron, but we've not really seen a pick-up yet kind of early in the second quarter. All the prices are certainly higher now than they were in the first quarter and at the tail end of the fourth quarter. Can you talk about any underlying dynamics, other than the fact that we had some other issues in the first quarter that might preclude spot rates from moving higher? Any changes in sort of transportation volumes, anything that would be indicative of a broader sort of economic slowdown?

Aaron Graft
Right. And we spend a lot of time thinking about this, Gary. So the first thing is you've got to make sure that our comparative set is based on —we've got to set the comparison group right. I think last year — and I don't think I'm alone in this; in fact I know I'm not — last year you had some artificial inflation in the spot markets due to the looming tariff issue with China, so that pulled through a lot of freight, and, of course, when you pull through a lot of freight like that, the spot market's naturally going to go up, because it's got nowhere to go. So that may have artificially inflated where we were last year.

With the start of this year, there's still some of that uncertainty, and you've got the weather disruptions have been pretty dramatic for several of our customers. When they're already running thing margins, a lot of them will just — if they believe there's a potential for a weather delay, they just won't drive the truck, because they're not going to make any money on that haul, or they're concerned they won't be able to find a profitable backhaul after they drop the existing load.

So those are some factors away and apart from what the overall health of the economy — what we're seeing, and we're not economists, but what we're seeing is, like I said, something that looks more like 2017 than 2018, which is not indicative to us of a recession in the next 12 months. It feels like there's going to be growth. It may not just be growth at quite the same pace we saw last year, and that's as clear as our crystal ball is at this time.

Gary Tenner
All right. Thank you for that. And then just the last question. As it relates to the growth in the community banking segment, good growth in the first quarter. You talked about the pipeline going into the second quarter. Have you guys put your foot downon the gas at all in that business? Because of maybe slower pace of growth in the commercial finance business, or is it just timing of kind of some success there?

Aaron Graft
I think a lot of it is timing. A lot of it continues to be — it's performance in our commercial real estate group, and they've built a reputation for being easy to deal with and good partners, and so we're seeing a lot of very successful developers become repeat clients, because we treat them the way we would want to be treated. You know, we are pushing for growth in our community bank, but, like the discussion I had with our team yesterday, you can't just have in the community bank, loan growth. You've got to have total-relationship growth, and so we're not going to just go out and grow loans without paying attention to whether these customers have deposit balances with us, because you can't get to the sort of numbers we have set for ourselves as a goal with growing one without a relationship on the other side.

So I would say on the whole, the reason you're seeing so much more growth in the second quarter is just some stuff that we had hoped might happen in the first quarter slid to the second quarter, and, you know, just, I think, business is building a little for us.

Gary Tenner
And in the commercial real estate segment, is there a particular geography that you've have outside success in?

Aaron Graft
No, we don't do a lot of construction, so you're talking about — you know, we're doing multi-family, industrial, some office. We have a group of, as I've said before, customers who we've now done multiple deals with, who are — we're comfortable with the leverage ratio they apply to projects they're doing. They're comfortable with us, and so it's just, like anything in life, it's getting connected with the right people, doing the right things, and so it's as much relationship as it is a single product type.

Gary Tenner
Great. Thank you.

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

CONCLUSION

Aaron Graft
Thank you all for joining us today. We look forward to speaking with you again soon.

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