Triumph Bancorp, Inc.

3rd Quarter 2021 Earnings

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CORPORATE PARTICIPANTS

Luke Wyse – *Investor Relations*

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Brad Voss – *Chief Financial Officer*

Geoff Brenner – *CEO of Triumph Business Capital*

Ed Schreyer – *President and COO of TriumphPay*

PRESENTATION

Operator
Good morning, and welcome to Triumph Bancorp 3rd Quarter 2021 Earnings conference call. 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 one on your touchtone phone. To withdraw from the question queue, please press star then two. Please note this event is being recorded.

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

Luke Wyse
Good morning. Welcome to the Triumph Bancorp conference call to discuss our third quarter 2021 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 statement. If you're logged into our webcast, please refer to the slide presentation available online, including our safe harbor statement on Slide 2. For those joining by phone, please note that the safe harbor statement and presentation are available on our website at www.triumphbancorp.com. All comments made during today's call are subject to that safe harbor statement.

I'm joined this morning by Triumph's Vice Chairman and CEO, Aaron Graft; our Chief Financial Officer, Brad Voss; Todd Ritterbusch, our Chief Lending Officer; Geoff Brenner, our CEO of Triumph Business Capital; and Ed Schreyer, our President and COO of TriumphPay. After the presentation, we will 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
Thank you, Luke. Good morning, everyone. For the third quarter, we earned net income to common stockholders of $23.6 million, or $0.94 per diluted share. As discussed in the earnings release, we had some unusual items affect our results this quarter, which lowered our core profitability. We do not expect these to be recurring.

Beginning this quarter, we are not going to address our community banking results in our prepared remarks, and instead, we'd use that time to discuss developments in our transportation financial technology platform, which includes both TriumphPay and Triumph Business Capital. We will continue to include all relevant metrics for our community bank segment in our investor presentations. Todd Ritterbusch, Luke, and I are always available to answer any questions investors and analysts may have regarding our community bank segment, and if there are any unusual events, we will, of course, address those in our comments.

Our goal for the community bank is continued improvement of our funding mix, prudent credit, moderate growth, and a focus on fee income. The team has been doing that with excellence for some time now. What everyone should appreciate about Triumph overall is that we generate enough cash to invest in a technology platform that is going to transform an industry, and even while doing so, we are achieving market-leading profitability. The ability to incubate a fintech that could be eventually valued in the billions of dollars without diluting our existing investors is extremely unique.

Related to that point, let's transition to some very important metrics. As we announced a few weeks ago, we have grown TriumphPay to be the largest payor in all of brokered freight. During the third quarter, TriumphPay processed approximately $3.8 million invoices, paying almost 117,000 distinct carriers. As of September 30th, we have paid over 156,000 distinct carriers in the last 12 months, which is over 60% of all active carriers.

Third quarter payments processed totaled approximately $4.2 billion, a 22% increase over the prior quarter, and a 243% increase from Q3 2020. TriumphPay's annual run rate payment volume for the quarter as a result was $16.8 billion. Using only the month of September as a baseline, the annualized payment volumes were $17.8 billion.

At this point, I am comfortable declaring that we have established a proof of concept. In other words, we have created an ecosystem that improves the experience for all involved, which is why we continue to experience such exponential growth. But volume alone is just vanity. And proving a concept is not the same as proving a business model. We know that volume must turn into revenue.

To that end, on Slide 15 of the deck, we illustrate how we are thinking about TriumphPay's revenue model upon the achievement of $75 billion in annualized payment volume. We believe that, over time, $75 billion could generate even more fee income than the $100 million noted, as more market participants join the network. The $75 billion in payment volume, or $100 million revenue number, do not represent the end goal for us. It's actually just the beginning of proving the business model.

We firmly believe that our value proposition is going to revolutionize presentment, audit, and payment in the for-hire trucking industry. That is a $420 billion market and growing.

Driving revenue requires engagement with all participants in the market, brokers, carriers, factors, and shippers. In the third quarter, we added another 6 factors to the HubTran ecosystem, bringing the total to 66. We have not lost a factor yet since the acquisition of HubTran. We have three more in various stages of integration. We also continue to add brokers to the network, bringing our total count of freight brokers to 532, who are TriumphPay customers, HubTran customers, or both.

On September 21st, Integrity Express Logistics went live with TriumphPay as our latest tier-one broker, bringing that total to 8 out of 25. In future quarters, we will add conforming transaction volume to our tracked metrics. We define a conforming transaction as one in which a network factor is on one side of a transaction, and a network broker is on the other. We believe conforming transaction volume will grow rapidly throughout 2022.

Switching to Triumph Business Capital. We had another strong quarter. We did recognize a downward adjustment to third quarter interest income of $3.5 million, or $0.11 per share, on certain factored receivables, the majority of which represents a timing difference for revenue that will be recognized in future periods. This adjustment will have minimal impact on subsequent quarters.

In addition to this item, we elected to add an additional $1.5 million to our 2021 bonus pool, to reward a much broader group of team members across the company for what is shaping up to be a fantastic year. The year-to-date catch-up adjustment in Q3 was just over $1.1 million, and contributed to our total noninterest expense for the quarter being a bit higher than the guidance we provided in our second quarter earnings call. The tax-effected impact of this decision was about $0.03.

Average purchases per day at Triumph Business Capital exceeded $55 million for the quarter, and the dollar volume of invoices purchased was $3.5 billion, a 78% increase over Q3 2020. That's an annualized run rate of approximately $14 billion in purchases. Average transportation invoice sizes were $2,195 for the quarter. Triumph Business Capital purchased approximately $1.5 million invoices, an increase of approximately $134,000 over the prior quarter, and a 49% increase over Q3 2020. Triumph Business Capital ended the quarter with $1.48 billion in accounts receivable, a 55% increase over Q3 2020.

Finally, I'd like to take a moment and comment on the strategic equity grant. We disclosed an incentive program in our 2019 proxy that covered a significant portion of our senior leadership team. We called this the Strategic Equity Grant, or the SEG. The purpose of this grant was to encourage unity among our team, as we repositioned the business away from the growth in the community bank and towards a transportation and fintech focus.

For an organization to be effective at change management, it requires focus, communication, and thoughtful incentive practices. The SEG was built around one of my core beliefs, that far too many banks focus on growing assets rather than profits. The SEG set a target for $10 of cumulative earnings per share for the years 2020 through 2022. Should we hit that metric, it would represent EPS growth in the 90th percentile of the historical EPS growth achieved by all banks we modeled in a very large peer group, and doing this, even while continuing to invest heavily in our transportation fintech platform. This was very much a stretch goal.

At the time we created the SEG program, our belief was that we would continue to buy back common shares, improve the quality of our deposit funding mix, and limit balance sheet asset growth, primarily to factored receivables at TBC. We have fulfilled many of those expectations, including buying back 2.95 million shares at a blended cost of $34 per share prior to the pandemic.

As of the end of this quarter, we have earned cumulative EPS of $5.86 since January 1, 2020. In a future period, were we to determine that some level of payout is likely, an inception-to-date catch-up of the accrual to cover the cost of the SEG grant would occur in that period, and then the remainder would be expensed quarterly through the end of 2022. Further details can be found in our 2019 proxy statement, or the equity footnote of our 10-K available on our website.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw from the question queue, please press star then two.

Our first question is from Brad Milsaps of Piper Sandler. Please go ahead.

Brad Milsaps
Hi, good morning.

Aaron Graft
Good morning, Brad.

Brad Milsaps
Aaron, looks like you guys continue to build tons of momentum in the transportation side of the business, and appreciate the additional color that you provided in the deck. And I know you don't have a crystal ball, but questions I've gotten this morning just, what is your timetable to achieve the $100 million of revenue? I know things can shift quickly. And just kind of curious what your crystal ball said in terms of

getting to that goal.

Aaron Graft
Yes, you're right that it's difficult to make a precise prediction on something that's never been done before, but I'm going to say three years. Hopefully sooner than that, but let's just use three years as a number to hold us to. And for all listening, for people to understand that $75 billion in payments and $100 million in revenue is not what we view to be a mature business model. That's just a waypoint on to what I think eventually is going to be a business that'll generate $500 million of income, as it gets fully integrated into this industry.

So, the timing on which all of that happens is hard to predict, but over the next three years, our goal would be to complete the metrics we've laid out for the first stage, which would be $75 billion in payments and $100 million in revenue. And understand that the further you go along with $75 billion in payment run rate, the more factors that integrate, that $100 million revenue on $75 billion goes up as more market participants use the system.

So, we were just putting that out there to give what I think investors need to see would be a major milestone, of course, $100 million revenue business, but that is, by no means, the endgame that we're playing for.

Brad Milsaps
That's helpful, thank you. Is the plan still, in 2022, to sort of, for lack of a better term, give the service away for free, or would you suspect [indiscernible] you start to see more of a pickup in the revenue?

Aaron Graft
I think, really, revenue does not become meaningful until 2023. There is going to be revenue growth in 2022, but as we've talked about previously, we are not giving this product away for free. When people fully understand how this adds efficiency to their business model and mitigates fraud, everyone is going to want to use it, and the price we are charging is a price that is going to be accretive to their business model. But I think we have to demonstrate that to them in the year 2022, and get paid for it in the year 2023. So, that has not changed.

Brad Milsaps
And then, Aaron, maybe final question from me, as you do ramp up, how should we think about the efficiency of that business? I mean, I know you've made a tremendous amount of investments to this point that, to get the product where it is. Just kind of curious kind of how to think about the incremental spend as the revenue does ramp.

Aaron Graft
I think as I said in the past, the bulk of the spending or the run rate for TriumphPay to achieve these goals exist today. However, I would say, over the next year, it would not be unreasonable to see that expense run rate increase by 15%, as we continue to add team members who are engaged. There's sort of a two phases to this recruitment process. There's the initial sales phase, where we engage with freight brokers, engage with factors, engage with shippers. There's the integration phase once those, any of those constituencies elects to become a fully-conforming TriumphPay participant. And then there's a follow-up phase, and this is the part no one should miss, that the ability to monetize things around the core transaction, the core transaction being a network transaction where you have parties on both sides, the payor and the payee, are fully-integrated TriumphPay entities, which we think should be a frictionless transaction; but there's additional things you can do around that core transaction that creates additional value for a market participant, and we're going to need talented team members and additional development to go in and be able to deliver that additional value in sort of a second wave.

So, longwinded way, but I'm trying to give you the way management thinks about things. And I would say in that 15% range would be a pretty good growth estimate for the year 2022, over our 2021 run rate for this segment.

Ed, would you add anything else to that?

Ed Schreyer
No, just we'll spend Q4 kind of stabilizing, call it the key leadership position to drive it forward. And then, to your point, the 15% growth would more or less tie with new wins, new brokers, factors coming on to the network to handle the integrations, and just the client volume that goes with that.

Aaron Graft
And the last thing I'd finish with, Brad, is we are weeks away from the completion of the conforming transaction, the actual programming and the product itself. And so, the next thing to happen is to begin integrations with some of the first factors to join the system. And maybe in Q4, but more likely in Q1 of next year, conforming tractions will start happening. And that's a KPI everyone should pay attention to, but it's not as if that—that technology is 90%-plus built. So, there's just not any big spend, big additional spends to be made to the expense base to keep the product moving along the timeline we've given you.

Brad Milsaps
That's great. And to be clear, is it 15% for that segment, or 15% consolidated?

Aaron Graft
For that segment.

Brad Milsaps
Okay, that's a lot [ph]. Thank you. Thank you. I appreciate it. I'll hop back in queue.

Operator
The next question is from Michael Rose of Raymond James. Please go ahead.

Michael Rose
Good morning. Thanks for taking my questions. So, it's good to see the growth in both the brokers and the factors. I think part of making this work is to get the larger freight brokers, the top 20, and then the larger factoring companies, I think the top 10 represent about 75% of the industry. Where do you stand with those efforts and negotiations? Because that really seems to be kind of the lynchpin to get the network up and running. And once the conforming transaction software is put into place, it seems like once you get those two pieces it's kind of off to the races. Is that the way to kind of think about it? Thanks.

Aaron Graft
Definitely, Michael, and there's a slide in the deck that shows the number of freight brokers and factors in the top 25 who are integrated. So, let's just start with freight brokers. So, we disclosed Integrity Express Logistics just went live on TriumphPay. Look, we don't have even all of its—something to understand, that all investors need to understand, when someone goes live at that size, we don't get 100% of the volume day one. We're going still see volume coming from them and BNSF, for example, as we fully ramp in to the payments that they do on a quarterly basis.

But when you think about the top 25 brokers, so we have 8 who use TriumphPay, and a couple of them who use TriumphPay plus HubTran. And at the end of this year, it's all going to collapse into TriumphPay, and it'll be a little simpler to explain. But we have nine additional tier-one brokers who are HubTran-enabled, which that is a warm handoff from them to move from that to fully utilizing the TriumphPay ecosystem for their payments. So, you can imagine we are in various stages of discussion.

And so, that only leaves eight prospects out there who don't either use TriumphPay or HubTran, and you can imagine we're talking to them. And I would say that there's an extensive amount of dialog, presentation, all the things you would do, and you would think you would be doing in an enterprise sales process on that side of the equation.

On the factoring side of the equation, if you take the top 20 factors, 11 of them already have HubTran integrations. And you're going to see next year, we may even announce it as early as the fourth quarter, we're going to start announcing the waves of factors that are in the queue to integrate with TriumphPay. And I would say that line is building. And it's building within the top 20, and it is certainly building outside the top 20. And I think it will actually go faster, because you can aggregate more, the top 20 factors aggregate more volume than the top 25 freight brokers. And so, we feel very good about that segment coming along.

And so, once you have those two integrated, then you now are in a great position for the $170 billion-plus of brokered freight spend to start driving conforming transaction volume to a significant piece of all payments being done. And all the time that's happening, we have another piece of our team who are out talking to the shipper community, as we try to take the same discipline, the same thing we're doing, and we start integrating with additional shippers.

So, stage one is the freight broker adoption and the top 25, and the factoring adoption in the top 20, and you're going to see movement in that every quarter for the foreseeable future.

Michael Rose
Okay, that's helpful. And then just on the $100 million revenue target, is that a quarterly run rate goal, or is that kind of like the cumulative target? And I assume that doesn't really include the brokered shipper market. That's just the broker freight market, correct?

Aaron Graft
Yes. There is not much included in here on the shipper side for that. This is, we're really trying to break this down into just the brokered freight market primarily. And so, I couldn't tell you, the day we get to $75 billion, is it $100 million annualized on that day? I actually think it might hit $100 million annualized slightly before that, but it seemed like a nice round number to land on as we're all making some predictions about the future here.

So, at $75 billion in volume, which, look, we're at $17.8 billion as a run rate in September. And as I assume everyone on this call expects, that number will be higher next quarter and higher the quarter after that. You should be seeing, to me, you're going to start seeing the seeds of this $100 million next year when we start reporting to you network fees. Because network fees are tied to conforming transactions, and conforming transactions are tied to fully-integrated freight brokers and factors handling invoices in a frictionless manner, and that kicks off in Q1. Triumph Business Capital will certainly be live, and a few other factors will be live at that time as well. So, you'll start to see the seeds of that growth over time, but I think you're going to see it next year.

When we get to $75 billion and $100 million in revenue, I can't precisely tell you, but you're going to start to see the stair steps along that progress beginning next year.

Michael Rose

Okay. And then when do you think the network hits profitability?

Aaron Graft
Well, at $100 million revenue run rate, if you look at our current expense rate in TriumphPay, and even if you increase it 15%, it's pretty profitable. I couldn't do that math on the fly here. But what I would say is, we've given you what our expense growth projections are for T-Pay, let's call it roughly 15% over the next year, and then we can come back to you. But we can do the math on where along that spectrum that $100 million, how much revenue you need to cover that and beyond. But it won't be all the way to $75 billion. We should be delivering EBITDA positive results well before $75 billion in annualized payments.

Michael Rose
Okay, that's helpful. Thanks for taking my questions.

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

Brady Gailey
Thanks. Good morning, guys.

Aaron Graft
Good morning.

Brady Gailey
Maybe to ask the question a little differently. Aaron, bigger picture, what do you see as the efficiency ratio for T-Pay? I know that'll probably go down over time as this business grows and grows, but it's like $100 million in revenue, how much of that do you think falls to the bottom line? Maybe not even at that level, but just bigger picture, longer term, what do you think is the efficiency ratio for T-Pay?

Aaron Graft
Yes, great question, Brady. So, at $100 million, I think a fair assumption for your model is a 50% efficiency ratio, or if we're going to talk like a fintech, 50% operating margin at that size. Ultimately, at scale from there, the efficiency ratio should be 25% or lower, or the operating margin should be 75% or higher, because this is software as a service at its core, and so the scalability is pretty powerful. So, that's what you should be looking for as we approach maturity. But at that first waypoint of $100 million revenue, let's just say that it's about a 50% efficiency ratio.

Brady Gailey
All right, that's helpful. Then, as you said, the $100 million does not include any benefit from the shipper's market. Is there any way to frame what the revenue or the payment opportunity could be from the shipper's side?

Aaron Graft
We have lots of thoughts on that, Brady, but they're not developed enough to put out there at this time. What I would invite you to look at is, it's $250 billion in payments being made. There's a freight audit component to that. And so, the freight audit piece is a fee income piece of what happens in that world. And there are players in that space, and some of those players, but not all, are banks who are equipped to make the payments on behalf of their freight audit and pay clients.

As we go forward in that space, you can be sure that is something we intend to do, because we think, as we pull more payments into the TriumphPay ecosystem, ultimately, you're going to touch every carrier out there. We've paid 60% or more of all active trucking companies. And I would suspect sometime in the next 12 months that number will be in the 90th percentile.

And so, once you've touched every trucking company out there, including the large fleets who primarily haul on the shipping space, and you have profiles built for them inside the payments network, the ability to talk to shippers about the transmission of funds on their behalf, and to known carriers, integrated carriers with the TriumphPay ecosystem, and if those carriers have factors, the factors are certainly going to be integrated into the TriumphPay ecosystem, I think you're going to see the opportunity to monetize that at scale.

It's a basis points at scale business, which we love, right? Because it's so powerful, and you can become so entrenched in everyone's business, and we can add, removes a lot of friction about how funds get transmitted between shippers and carriers. But I give you all that context. I'm not prepared at this moment to say, these are the metrics you should look at in the shipper market for how we're monetizing it. There will be a form of subscription fee, there will be a form of network fee, and there will be a syndication fee. And the syndication fee is, of course, where we, for carriers who want to get quick paid, where the shipper doesn't want to hold the quick pay receivable on their balance sheet, we will find a home for that receivable.

It likely will not live on the balance sheet of TriumphPay, because TriumphPay is an asset-light business. It likely won't even live inside of Triumph Business Capital. The place it will most likely end up living, and we will charge a fee to put it there, is in the hands of the factoring community, who are prepared to own these kind of receivables just by the very nature of their business. And so, we end up becoming—I think you've heard me say this before—we're a toll way, not a parking lot. And so, we'll charge a fee for getting that receivable to the place where it should belong, the balance sheet where it is best situated, and it won't sit on our balance sheet.

But those three components of fees that we've talked about, subscription, network, and syndication, they will apply in the shipper space, just not in quite the same ratio as they will in the brokered freight space.

Brady Gailey
All right, that's helpful. Then finally for me, Aaron, thanks for the heads-up on the Strategic Equity Grant. It feels like you guys have a shot at making that, which would be great for you all, great for shareholders. But can you just talk to us about the magnitude of what expense that could bring if you guys hit it?

Aaron Graft
Yes, and it has to be self-funded, Brady. So, if we hit at $10 a share, it's roughly going to be $0.30. So, we have to get to $10.30 of cumulative EPS for it to even trigger, because we had to deliver $10 of net EPS to our shareholders in order to hit it. And, of course, at the time, we thought TriumphPay was going to be a closed-loop payments network, which would be very profitable, and we thought we would've bought back more shares. Neither of those two things turned out quite the way we anticipated, but I think actually for the good of all is how it's gone. But because of the strong tailwinds, and because of what an awesome job Triumph Business Capital is doing and the community bank, we might actually make it.

The top end would be, if we deliver $12 of EPS, it would be $0.60 expense. So, we would have to earn $12.60 to hit the very top end of the range. So, the minimum impact to EPS is $0.30, the maximum impact, and I could be off a penny, but roughly is $0.60, but it has to be self-funded from earnings. And it's very plausible we could hit it, but we're also in an environment where freight, while it's really good right now, we've lived through cycles before, and so things could happen next year. Our corporate tax rate could change. We may need to make an additional investment in TriumphPay, which is the long-term plan to win big.

So, we're not at a place where we feel confident enough to start accruing for, but we thought it was appropriate for investors to be aware that it's out there, in the event, in the next quarter or two, we decide that's an appropriate thing to do.

Brady Gailey
Got it. Thanks for the color.

Operator
The next question is from Steve Moss of B. Riley Securities. Please go ahead.

Steve Moss
Good morning.

Aaron Graft
Good morning.

Steve Moss
You talked a lot about TriumphPay here. Maybe just one last thing there, as a thing of that. Just kind of curious, Aaron, what are you thinking for payments volume as you exit 2021? $17.8 billion, I think is what it was for September. Just kind of curious, what do you think is coming on board here, and how to think about that in the short-term?

Aaron Graft
Yes, it's so lumpy. It's really hard to make predictions in that short of timeframe, because, I mean, every time, you'd need to understand, you don't just tell a tier-one freight broker, hey, we're going to integrate with you on November 3rd, and be ready for us to show up at noon, right? Like it's a months' long process, which is great. It's painful on the integration side. It's great for the long-term viability of the business, because it's so sticky.

So, we have, inside the pipeline, enough volume to push us well over $20 billion. I just can't tell you exactly when it will fall. There will be additional growth in Q4. Will it be enough to push us over 20? That's hard to say. I'm going to say probably not. That's probably into the first part of next year. But if it ends up being in Q4, don't hate me too much for it, because we're just trying to get it done as fast as we can get it done, which also requires us to be dependent on the integration capabilities of the freight broker themself. We can't do all the integration ourselves. So, it's a dance that we have to do with them.

So, that's why I can't give you specific timing, but I will tell you it will go up. We will hit $20 billion in the next couple of quarters, and that's as much as I can tell you at this time.

Steve Moss
Okay, that's helpful. And then maybe just on your last comment there with additional investments in TriumphPay. Just kind of curious as to what you're looking at, maybe any color you can give, perhaps related to the shipper market you were talking about, but just kind of curious what additions you're maybe contemplating.

Ed Schreyer
Yes, so this is Ed Schreyer. I'll just kind of speak to what that foundation looks like. So, where we're really spending our time and adding resources tends to be around the foundation. So, if you look at, when Aaron just mentioned, getting to $20 billion, we're trying to build something that's going to hold 75 to 100 and north of that. So, we're trying to put as much in place now to do that, as we know there'll be

heavy onboarding over the next year. So, everything from customer service, to resiliency around the network, to fraud risk and mitigation, all the things that mature companies and payment companies have to do to put that in place to have longevity, that's really where the expense side is coming up.

Where the 15% will grow over time is just incremental growth. As you add more companies, we need to bring on more developers, more people to integrate. So, we're hoping we have a gearing ratio somewhere in the middle of ‘22 that really ties to revenue growth and volume growth, and the expenses follow that. But, in the meantime, we're building the strong foundation to support it long term.

Aaron Graft
And one thing to add to that, if you were to sit in our meetings here, we have the luxury, and I pointed this out in the early part of the call. We are generating top decile profitability for all banks, while reinvesting heavily into TriumphPay. And if we think about the long-term value of TriumphPay, and you think about this business, it can generate $500 million in income plus, what you should be doing now, where you can, is paying any costs associated with integrations, we need to recognize those now, hire the developers now, do those things now, rather than creating evergreen revenue sharing, because we are cash poor. Triumph is not cash poor. We generate a lot of money.

The community bank and TBC are shareholders in TriumphPay's success and TriumphPay's future, because they generate a substantial amount of profitability that allows us to do these things fast, with excellence, with the best people available, and not have to give away future revenue. So, we think a lot about that. So, that can spike some short-term expenses, because we're paying for something now, rather than giving someone an evergreen revenue share. Three years from now, five years from now, investors who take the long-term view with us are going to love that decision. But that's a reason why you may see short-term spikes in TriumphPay's expenses, is because we're trying to build this in a way to protect the most value well down the road.

Steve Moss
Okay, great. And then maybe one on factored receivables here. Good growth on the purchase volume side as well. Just kind of curious, what are your thoughts for that market going forward, and how we kind of think about purchase receivables? Obviously, invoice prices, I think probably remain strong, and I'm curious on that aspect of your thoughts, as well.

Geoff Brenner
Yes, Steve, this is Geoff Brenner. I think, from our viewpoint, the capacity is going to continue to be tight. Everything from driver shortages to classic backlog orders, stretching now 11 months, and you’ve probably seen on the news 100 ships off the Long Beach port. So, we're looking at 2022 as perhaps the entire year will be tight capacity, which is obviously good for our business because rates will stay high.

Steve Moss
Right. And then just in terms of the number of invoices you guys purchase continues to grow. Just kind of curious on the growth there, if you have any color.

Geoff Brenner
Yes, so over the past 2.5 years, our business has doubled, and our goal, obviously, is to keep growing. So, we're looking for significant growth in 2022 as well. I can't really give you a number right now, but we expect to continue to grow aggressively.

Steve Moss
All right, great. Thank you very much.

Operator
The next question is from Thomas Wendler of Stephens. Please go ahead.

Thomas Wendler
Hi, good morning, guys. Most of my questions have been answered, and I really appreciate all the color around to TriumphPay. Just a couple of nitpicky things for me. You guys had that $3.5 million revenue subject to the timing adjustment. Can you give me an idea of when that's going to be recognized? And then, also, I think there was a $3.6 million charge-off in factored receivables. If you can give me a little color around that as well, be great. Thank you.

Brad Voss
Hi, Thomas. This is Brad. I'll take the first part of that question. So, $2.5 million of that $3.5 million adjustment relates to our deferred revenue accounting on factored receivables. So, if you think about the way that that works, when we buy a receivable at a discount, our factoring system reports that invoice at face value. So, if it's a $2,000 invoice, we'll record a $2,000 receivable, and we book that discount as an upfront fee.

In reality, kind of similar to buying a zero coupon bond, we haven't really earned that fee until we collect from the debtor, hadn't earned it entirely until we collect from the debtor. So, each balance sheet day we have to estimate the balance of those fees that are unearned, based on the average age of the receivables and the average projected time to collection. And we report that deferred revenue as a reduction in our factor receivables balance, and then the change in that from period to period runs through interest income.

In the third quarter, we made a correction to that report that drives that calculation. That's what resulted in $2.5 million adjustment to bring that balance up to where it should be. It is a timing issue, but substantially all of that revenue should be earned in the current quarter and the fourth quarter, given the speed at which these receivables turn, but it will not likely be noticeable on our income statement because that gets offset by deferring revenue on new receivable that we purchased during this quarter.

So, as long as that portfolio is growing, there will be a very modest drag to the extent of maybe a penny a share on earnings that will happen on an ongoing basis, but all of those revenues will be collected. They'll just be replaced by new deferred revenues.

The other million dollars of that is a reversal of some accrued income on some factor receivables that were deemed uncollectible and charged off. Most of that actually does relate to the charge-off that you just mentioned.

I don't know, Geoff, if you want to give some color on what that was about.

Geoff Brenner
Sure. It was a one-time breakdown on our part accruing for revenue that part of the organization knew would be uncollectible, and it wasn't communicated appropriately. That's a people process and a technology miss on our part, and all three of those elements have been corrected.

Brad Voss
The charge-off itself, I think it was—

Aaron Graft
The charge-off was related to a non-transportation factoring relationship, which you're going to see not very many of those around here going forward.

Geoff Brenner
Yes, that was a relationship that was acquired going back to purchase a couple years ago. So, it had never performed. It had been fully reserved, and we tried to work it out for some time.

Thomas Wendler
That's great color, guys. Thank you.

Operator
The next question is from Jared Shaw of Wells Fargo. Please go ahead.

Jared Shaw
Hi, guys, thanks for the time. Just a couple of follow-ups. Just on the time to collection item around the timing, have you seen a change in the time to collection on invoices overall? Is that more of a change to your macro view? Has that been slowing down at all?

Brad Voss
No, it really hasn't. It's been pretty consistent over time. That was, as I mentioned, a correction in a report. There was a filter in that report that shouldn't have been there, and then we caught it during this quarter and corrected it. So, we're still collecting, on average, what, 37 days or so. And that will bounce around a little bit, but it's been fairly consistent over time.

Aaron Graft
Yes, so Jared, let me be clear for you and everyone listening. The $3.5 million is our fault, okay? The $2.5 million deferred revenue, it's going to get collected, it's just the way the report was running on a small segment of these factor relationships. It wasn't deferring it appropriately. And it's like pennies, but these pennies have added up. That's nothing to do with the industry. It's our fault. We caught it. We fixed it. We recognized it. You're not going to see it in future quarters.

It is a reason the yield on the factor receivables was lower this quarter. It will go back up next quarter, but that's how we had to recognize that adjustment. So, we're not seeing anything in the industry that suggests a slowdown or a decrease in average invoice sizes. All that happened is we found something. Smart people working really hard sometimes make mistakes. We found where two pieces of our business were not communicating well. We fixed it, and we're ready for the next quarter.

Jared Shaw
Okay. And then, talking about bringing on the freight brokers and the new factors, what percentage of the wallet share do you think you're getting now? And then, as you look at your aspirational goals, does that assume that you're getting 100% of those wallet shares?

Aaron Graft
Yes. So, that is a very astute question. We are designing the pricing to encourage network participants to use the network for everything, right? That's the whole point of using flat pricing, rather than per transaction pricing. It delays our profitability, but in the long run it strengthens the network. And if the network gets stronger, everyone wins. So, that's number one.

Our goal then, if that being true, would be to try to get 100% of the wallet share. Now, there are going to always be people who, due to their own internal processes, procedures, strategies, etc., choose not to use TriumphPay to make a 100% of their payments. And on the factoring side, of course, they're using TriumphPay only—I mean, the primary value to TriumphPay on the factoring side is the receipt and the frictionless presentment, audit, and payment of conforming transactions, which requires a network broker to be on the other side of the transaction.

Well, not all brokers are TriumphPay participants. Someday I hope to get them all. May not get every one of them, but I hope that we have most of them. So, there's that piece.

And then, of course, a factor can use the audit feature of our technology, which is currently known as HubTran, in transactions that are not fully-conforming transactions to help them with presentment and audit. And the way we're pricing that invites that factoring company to use that tool for every transaction. Whether they do or not's going to be their choice, but the pricing is set so that it doesn't penalize them for using it to add value on 100% of their transactions.

Jared Shaw
Okay, thanks. And then just finally for me, just to clarify on Slide 4, or Page 4, you have Triumph Business Capital purchase $3.5 billion of invoices, TriumphPay paid invoices of $4.2 billion. Does that $4.2 billion include the TBC $3.5 billion, or is that just $4.2 billion from outside of the Triumph ecosystem?

Aaron Graft
There would be roughly a 14% overlap, right, if you believe Triumph Business Capital is probably 14% of the entire factoring industry. And so, to the extent those $4.2 billion in payments with the factoring companies, which statistically, we would say 50% of that went to factoring companies, or $2.1 billion, you take that $2.1 billion, Triumph Business Capital would have been the recipient of about 14% of that.

Jared Shaw
Okay, great. Thank you.

Operator
Again, if you have a question, please press star then one. The next question is from Gary Tenner of DA Davidson. Please go ahead.

Gary Tenner
Thanks, good morning. Couple of questions. In terms of the fees that you laid out on Page 15, and then the comments you just made about kind of how you are putting down some flat fees, and we know you're doing that in 2022, as you're kind of proving the business model. As you're getting to these agreements with factors and brokers, is there a date where the fee model flips uniformly, or is it some 12-month period or something until that flip? So, in other words, January 1, 2023, is this the pricing that's in place, or is it staggered?

Aaron Graft
Yes, I think the idea, and of course every negotiation is different, but the idea is, January 2023, this is how the pricing works, right? The subscription fee should be set for a year. And the expectation should be that the subscription fee will go up over time at some percentage equal a cost of living-type percentage increase. And that fee is designed to recover processing costs, and encourage them to utilize the network for all invoices, because it's a flat-subscription model. The network fee is obviously a percentage of the conforming transactions, and what that network fee actually ends up being will be negotiated.

Whatever we're going to land with as the network fee in 2023, we can't materially move that in 2024. The market has to have transparency in pricing for factors, brokers, shippers. They have to know what it's going to be in order to trust us and to see the benefit in their own business. So, how you see the network fee going up is not the actual fee per transaction materially, but it's the number of transactions.

And as we add other value components to that experience, certainly if we can add value, we want to get paid for that value. And we think we can add value, but the network fee is not like, okay, it's this this year, and then we're going to change it 30% next year. That's just not how you run a payments network and cause people to trust and utilize the network.

And then the syndication fee is really us getting paid for placing receivables where they go, right? And I think when this whole thing started off, everyone thought the syndication fee, well, Triumph’s just going to use that to grow its own factored receivable portfolio. Well, the answer is, no, we're not. In fact, we're going the other way. We're going to solicit freight factors, who are in our network, to have them hold this quick pay, to generate revenue on their balance sheet. So, they're not just paying the network to make their business more efficient, they are doing that, but they're also getting revenue from the network, which we think is going to engender a tremendous amount of loyalty for anyone who integrates with us.

So, that fee, that syndication fee will move over time, but that will really move to the benefit—it'll be part of a holistic discussion of, if somebody is going to provide working capital into the ecosystem, and we don't think that somebody should be TriumphPay because of what TriumphPay is, then we think we will be solving for, what does a willing party who wants to inject liquidity into the system, a capital provider, what is the market rate at which they would hold that receivable, that they know is good, that they know is not fraudulent, that TriumphPay is servicing? And so, that fee will be figured out within that grid that I just shared with you.

Gary Tenner
Okay. So, just a quick follow-up on that, Aaron. As you're talking about doing, kind of placing some of these factored receivables, with the factors versus TriumphPay holding it, you've also got this portion of the slide that talks about quick pay interest income for what's funded by TriumphPay. Should we assume that's going to be a fairly de minimis amount, because you're going to try to work that out of your balance sheet.

Aaron Graft
Yes, very good, Gary. Yes, you nailed it. Look, for a season, TriumphPay will hold these receivables. We are part of a bank. And I think, going forward, that that's how we're going to look for the foreseeable future. But as we really think about this fintech business model we're creating, which I think needs to be in a bank, but it doesn't necessarily need to be the balance sheet, there's things you can do as a bank beyond being a balance sheet that delivers value that, frankly, the market pays a much higher revenue multiple on. We know that. You know that. That's where we're headed.

So, we are willing to use our balance sheet to hold these receivables at 10% and 11% yields. It makes a lot of money. But it would be shortsighted of us to try to hold all of those ourselves over the long term. The better thing to do is to go to the other capital providers who join the network, factoring companies first, and offer them to hold it, and we charge a revenue share for placing it with them. And that's where we're headed.

So, there will be a balance sheet component for a while, but the endgame we're playing for is that most of those receivables get placed into the hands of people who want to be the parking lot for that receivable, and we're the toll way.

Gary Tenner
Great. Thanks for that. And then just one follow-up on expenses. You kind of highlighted the expected growth in expenses for the payments segment. I think it's probably pretty fair to assume the bank segment will get little or no growth in the expenses over the kind of next 12 months, let's say, or through 2022.

What's the kind of key driver we should be thinking about in terms of the factoring segment? I mean, obviously, volume is an issue, but at some point, when spot rates come in and invoice prices come down, are there other offsets in terms of the expense levels?

Aaron Graft
Well, yes. Yes, I'll go first, and then let Geoff finish up. The one thing that was a standout this quarter is we had accrued a bonus for the staff who work in factoring, but across the enterprise for what is, by all accounts, is an unbelievable year when you look at all the wins that have been stacked up in TriumphPay, the fact that, year-to-date, ROA is 2%, and ROE is over 20%, all the while incubating a fintech. So, we felt it was appropriate to reward our team. So, that was a one-time deal.

But Geoff and his team, there are some things they're doing to create even more operational efficiencies in TBC. That will even get stronger or faster or more fulsome when TBC integrates with T-Pay beginning in the first quarter of '24. You're going to start to see a lot of touchless transactions, network transactions, which will be a really great thing to see.

Geoff, what else would you say, as far as what you're ready to do if invoices go up or down as we move throughout this next year?

Geoff Brenner
Yes. Well, I mean, I think on your point, Aaron, if I look at our volumes today and the staff we have with typical efficiency ratios, I would say we're understaffed and we need to add people. But as you noted, there's efficiencies and things we're implementing. The thing I'm really looking forward to is, if we can race, and this is why TBC is highly incented to do it, if we can get to the world where we have conforming transactions, I can see the volume go up, and I can bend or break that curve that typically applies with the people I have to follow it with.

So, we're all obviously running as fast as we can towards the conforming transactions. And from a TBC perspective, there's a selfish motive that’s going to make us more efficient.

Gary Tenner
So, if I were to boil that down over the next 12 months in the factoring segment, there should be little or modest increase in expense? I mean, is that too simple to say that?

Aaron Graft
Well, I would say, Gary, look, you're going to see operating leverage improve in the factoring segment in 2022. Can't tell you where invoice sizes are going, but if they stay where they are, I mean, the number of millions of dollars of NFE, net funds employed, handled per employee at Triumph Business Capital is what now, Geoff?

Geoff Brenner
It's twice the most efficient number we've ever seen. So, I mean—

Aaron Graft
Right. We have 366 FTEs handling $1.3 billion.

Geoff Brenner
And you would expect that to be closer to 650 in a normal world.

Aaron Graft
Right. I don't think, Gary, that even, and as we evaluate how TBC goes forward, a lot of this growth is

going to get pushed to other factoring companies out of TriumphPay. So, it's not going to all end up at TBC. I don't think you'll see the headcount reduced materially, and I don't think you'll see it increase materially. I think the FTE, which is 65% of all spending out there, so if that doesn't move materially, I don't think you're going to see expenses move materially. I think a safe thing to assume is an incremental growth in expenses, in the 2% to 3% range, but agility has to be the name of the game when you're in a revenue volatile business like we are.

So, I would use 2% to 3%, and if it changes, if the wins change for the market, we'll certainly make sure everybody knows that.

Gary Tenner
Great. Thanks, guys.

Aaron Graft
Thank you.

CONCLUSION

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

Aaron Graft
Thank you all for joining us today. We hope you have a great day, and we'll talk soon.

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