Triumph Bancorp, Inc.

Fourth Quarter 2021 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

Brady Gailey, *KBW*

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Matt Olney, *Stephens Inc.*

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PRESENTATION

Operator

Welcome to the Triumph Bancorp Incorporated Fourth Quarter 2021 Earnings Conference Call.

My name is Juan and I will be coordinating your call today.

I will now hand over to your host, Luke Wyse, Senior Vice President of Investor Relations, to begin with. Please Luke, go ahead.

Luke Wyse

Good morning. Welcome to the Triumph Bancorp conference call to discuss our fourth quarter and full year 2021 financial results.

Before we get started, I would like to remind you that this presentation may include forward-looking statements. Those statements are subject to risks and uncertainties that could cause actual and anticipated results to differ. The Company undertakes no obligation to publicly revise any forward-looking statements.

If you are 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'd like to turn the call over to Aaron. Aaron?

Aaron P. Graft

Thank you, Luke. Good morning.

For the fourth quarter, we earned net income to common stockholders of $25.8 million, or $1.02 per diluted share. By almost any measure, this was a remarkable quarter. We did have one unusual item this quarter to accrue for the cost of our strategic equity grant, which I will discuss later in the call, which was a $0.23 drag on reported EPS.

Last quarter, we introduced you to the metrics that matter at TriumphPay. During the fourth quarter, TriumphPay processed approximately four million invoices, paying just over 120,000 distinct carriers. That represents an increase of about 50,000 distinct carriers, or 70% compared to the fourth quarter of 2020. Fourth quarter payments processed totaled approximately $5.2 billion, a 25% increase over the prior quarter and a 173% increase from Q4 of 2020. TriumphPay annual's run rate payment volume for the quarter was $21 billion.

Undoubtedly the strength of the market has had a positive effect on total dollar volume. The more important long-term metric is the number of market participants who use our platform. That number continues to grow, as you can see on Slide 9.

As important as the top line volume growth, we have as of January 11 completed our first conforming transaction and multiple thereafter. A conforming transaction is a payment between a fully TriumphPay-enabled payor, either a freight broker or a shipper, to a fully TriumphPay-enabled payee, either a carrier or their factoring company. As of today, we have two TriumphPay-enabled freight brokers making payments to five TriumphPay-enabled factoring companies in our test program. We have 11 more factors in the queue. Not all of these will be live next quarter, but they are in the integration queue for 2022.

As to our own factoring business, Triumph Business Capital, it is in the integration queue but has not gone live yet. We expect to complete the TBC integration into TriumphPay in the first half of 2022.

What makes the conforming transaction unique is that the entire process of presentment, audit, payment, and cash application can be completed in an automated environment. You can think of this as the difference between pulling out a checkbook at the grocery store 30 years ago versus tapping a credit card today: one process is manual, the other is automated using integrations and structured data. That conforming transaction reflects the culmination of years of software development, the ingestion and digital transformation of tens of millions of disparate paper transaction documents, the application of machine learning and artificial intelligence, and the assembly of a platform to take this to market.

As you see on Slide 8, we view this first conforming transaction as equivalent to the moment when Thomas Edison asked Mr. Watson to join him in the next room via the first-ever phone call. The complexity of this accomplishment is significant given the hundreds of data points that can apply to any given invoice on both sides of the transaction. This accomplishment has been years in the making.

I would also point out that beginning this quarter, we will re-brand the HubTran product as TriumphPay Audit, and you will hear us using that term going forward.

Creating the network effect requires engagement with all participants in the market: brokers, carriers, factors, and shippers. In the fourth quarter, we added another three factors to the TriumphPay Audit ecosystem, bringing the total to 69. We also continued to add brokers to the network, bringing our total count of freight brokers to 554, who are TriumphPay customers, TriumphPay Audit customers, or both.

We should also remember the carriers. These are the actual truckers who move the freight that keep our country rolling. Making their lives better goes to the heart of the TriumphPay network. As we have said before, it is one thing to pay a carrier, it is a better thing for a carrier to register with the TriumphPay network. In the fourth quarter, we added just over 12,000 new registered carriers, bringing the total to just over 91,000 registered carriers, a 15.3% increase for the quarter and a 72% increase over the fourth quarter of 2020.

Now turning to Triumph Business Capital, which also had a very strong quarter. Average purchases per day exceeded $60 million for the quarter, and the dollar volume of invoices purchased was $4.03 billion, a 63.8% increase over Q4 2020. That’s an annualized run rate of approximately $16.1 billion in purchases. Average transportation invoice sizes were $2,291 for the quarter.

Triumph Business Capital purchased approximately 1.7 million invoices, 8.7% higher than the prior quarter and a 40.4% increase over Q4 2020. Triumph Business Capital ended the quarter with $1.55 billion in accounts receivable, a 49.2% increase over Q4 of 2020. I cannot over-emphasize how remarkable the team’s effort has been to achieve these results. Our TBC team members deserve an extended standing ovation for their performance this year.

The outlook for transportation is strong well into 2022. Everything we see and read expects strength in the transportation demand and invoice prices to continue through the first half of 2022. Some economists are calling for a return to normal, whatever that new normal looks like in 2023, while others say that we should start to have some normalization in the back half of 2022. Like all of you, we don’t know, but we believe that 2022 will be another strong year for Triumph Business Capital and TriumphPay, and as we like to say, our sales are up and we are catching all the tailwinds we can for as long as they are available to be caught.

In the midst of all this good news around industry tailwinds and our march towards becoming the ubiquitous payments network in trucking, I want to urge caution for 2022 earnings estimates. Wages are rising, particularly in the area of technology hiring. Our need for technical resources is significant, more significant than I thought when I shared the 15% expense estimate growth for TriumphPay on the last call. Triumph Business Capital will also experience expense growth above projections due to wage pressure and hiring to invest in its technology stack.

In light of these facts, we need to adjust expectations from the last earnings call, and I am using this call to level-set for investors. First, we expect expenses for Q1 to be approximately $80 million excluding any ex-EG accrual. Second, by the end of 2022, our Company-wide non-interest expense base could be as much as 15% higher than it was in the fourth quarter of 2021, excluding the strategic equity grant.

It is difficult to predict the timing of this growth. The scope and timing of our plans are very ambitious. We view ourselves in the middle of a race to revolutionize payments in the trucking industry and we will invest heavily to ensure our success in reaching the finish line first. Our team has a significant economic incentive to maintain and grow profits in the near term, but if we did that to exclusion of what we view as a generational opportunity, we would not be working in the long-term best interests of our team or our shareholders.

The second risk, as a reminder, is that things will not always be like this in transportation and that there are many things out of our control. The upside of a tight freight market is that it boosts our current performance metrics. The downside is that these heady times can cause market constituents to delay implementation of efficiency measures, such as joining TriumphPay, because the rising tide is lifting all boats, even those using legacy systems. When the market turns, and it will, it will affect our short-term performance but it will also be a catalyst for participants to grab every efficiency they can, and we will be ready at that time to welcome them.

On that note, as a reminder, while the last couple of years have been atypical, we usually see a seasonal decline in quarterly invoice volume in the first quarter relative to the fourth quarter. In past years, this seasonality has ranged from as much as a 12.7% reduction in volume to a 2.7% increase in volume.

Finally, turning to the one unusual item in this quarter's numbers, on our last call we reminded investors about the strategic equity grant, or the SEG, which was designed in 2019 to incentivize key team members to embrace a strategic shift, prioritizing growth in our market-leading transportation businesses while de-emphasizing overall balance sheet growth. We believed then, as we do now, that this intense focus on what we do best would create an opportunity for us to materially grow earnings and enterprise value.

The SEG was designed to be a real stretch, requiring a minimum of $10 in cumulative earnings per share in the years 2020 through 2022 to trigger any distribution. The results so far have been extraordinary. Despite reinvesting in the business in ways that were not on our radar at the time we implemented the program, during the fourth quarter we determined that the $10 threshold will likely be surpassed and that as a result, we will distribute shares.

The estimated total three-year expense of the equity grant is $11.5 million and we recorded two-thirds of that amount, $7.4 million, as additional compensation expense in the fourth quarter. Net of taxes, this reduced our reported earnings per share by $0.23.

We will refresh our estimate of the full three-year expense throughout this year and we will record compensation expense each quarter to accrue towards those estimate goals. If our internal projections do not change during the year, we will record an additional $1 million of compensation expense during each quarter of 2022 for the SEG.

Further details can be found in our 2020 proxy statement or the equity footnote of our 10-K, available on our website.

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

Operator

Thank you.

The first question comes from Brady Gailey from KBW. Please Brady, your line is now open.

Brady Gailey

Thank you. Good morning guys. Just one question on the SEG. Is that based on just reported EPS or any sort of adjusted EPS?

W. Brad Voss

Hi Brady, it's Brad. It is based on reported fully diluted earnings per share.

Brady Gailey

Okay, yes, so you all are—I mean, last year plus 2020, you had almost $7, so yes, you all will clearly—it looks like you'll clearly make that.

W. Brad Voss

Just to remind you, the cost of the program is included in that, so to get to $10, we would need to get to about $10.30 to cover the cost of the program.

Brady Gailey

Got it, okay. Then Aaron, maybe just an update, as you guys continue to build out this payments platform, I know kind of the ultimate interchange fee that you guys can charge is a big piece of the profitability of this company longer term. I know early on, we talked about that looking like something like 25 to 50 basis points. Is that still the right way you're thinking about that kind of longer-term target?

Aaron P. Graft

Yes, it is. We think that—as we walked you through I think last quarter, the bucket of fees associated with the TriumphPay platform includes the subscription fee, the network fee, and the syndication fee. The subscription fee is just an annual subscription to participate in the network, paid on both sides. The network fee is a fee tied to the number of conforming transactions that we complete, and it's graduated, the size of that fee is graduated given the volume any given constituent brings into the market. As you saw, we completed the first conforming transaction just a week ago.

Then the syndication fee is a fee charged on the payee side of the market, where we are putting any receivables generated by the TriumphPay network into the appropriate party's balance sheet. There are lots of parties who are happy to hold those receivables. If you aggregate all of those fees together, the volume run rate comes in above 20 basis points, and I would say, Brady, where we started is not likely where we end up, but as we look at it now, the blended structure of all of those different items working together inside the network is where we believe we'll achieve a 20-basis point or greater fee structure.

Brady Gailey

Okay, all right. That's helpful.

Then I understood the guidance on the expense base - basically, $80 million in the first quarter, working its way up to—I think I calculated about $87 million of quarterly expense as you end the year, so a fairly big increase there. I know you guys are investing in the business, which is wise, but as we look to years beyond this one, should we continue to expect a material amount of expense increases from here, similar to kind of what you guys are seeing in 2022?

Aaron P. Graft

You know, it's an interesting question to answer, Brady, because as a technology-driven enterprise now, if we're going to dial it into the TriumphPay network, the second you solve one set of problems on behalf of your network constituents and you do it with excellence, they open up the idea of, "Well, now can you solve this problem for me?" and it's sort of a land-and-expand strategy as you bring people into the ecosystem, which inevitably requires additional technical resources.

I would say this is a unique year for that level of organic growth. Historically, we don't run at this level and I don't think that this will go on forever. I think what you're seeing is the intersection of a couple of different things: a very tight labor market; technology talent is—you know, it's a seller's market if you've got talent in technologist or systems engineer or all of the things that we need to make sure we continue to maintain the distance between us and any potential competitor; and you've just got an inflationary environment. Those three together is likely what's driving this expense growth more than it would be in any given year thereafter. I think this year is a standout as far as that topic goes.

I would point out in the community bank, we're holding the—its operating efficiency is going to be roughly flat to where it was last year, and expenses will be as well. The spending is really around Triumph Business Capital just to create the technology capacity and people capacity to handle such exceptional growth, which you can see in our numbers, and TriumphPay continuing to climb a mountain that no one's ever climbed before, so that's where all that expense falls.

Brady Gailey

All right, then just one last one for me. If you back out some noise this year, you made about $4.30 a share in earnings. If you look at the next couple years, it feels like you're still going to be in that $4 to $5 of EPS range. I think the market ultimately sees TPay as being able to earn—well, Triumph as being able to earn a lot more than that. When do you think you see a breakout in the EPS towards a materially higher earnings power?

Aaron P. Graft

First of all, for you, Brady, and everyone on the phone, we delivered a 1.75% ROA in a quarter with an extraordinary accrual for a bonus program that was announced two years ago that no one thought we could get to, and so if you normalize for that, you're looking at an ROA that's 2.15%. I don't know, but judging by the rest of the world, I would say that's a breakout, and we did that while incubating TriumphPay, which is going to continue to be a drag on earnings. If you were to take that out, I think you'd be close to a 2.5% ROA, but we're not solving for short-term profitability here, we're solving for creating long-term value.

I would say the fact that we're running at a 20% return on tangible common equity while reinvesting in the business is something we're very proud of, materially reinvesting in the business. We've said that 2023 is the first year you're going to see meaningful revenue growth in TriumphPay because we've chosen to show it to the market, what it can do, and bill for it in arrears. Rather than trying to give it away upfront or severely discount the price, the wiser thing to do is allow market constituents to use it and see its benefits and then bill them after the fact, and we're blessed to have the income engine to do that.

If the world were to stay the same, which I doubt it will, and you get to an environment where the community bank is doing what it's currently doing, Triumph Business Capital continues to do the extraordinary things it's continuing to do, and TriumphPay is better than breakeven or at that $100 million revenue run rate that we've called out on our end of our four-year journey, you would be looking at the most profitable bank in all of banking that I know of. We're not that far off from that now, but of course it will make a difference when TriumphPay is a net contributor, and for it to get there, we've got to continue to invest in it.

The short answer to your question is, it's 2023 and beyond when you start to see all three segments contributing to the bottom line. We've got two segments that are contributing and one segment that's being built out, and that will continue for all of this year.

Brady Gailey

Got it. Thanks Aaron.

Operator

Thank you. Our next question comes from Brad Milsaps from Piper Sandler. Please Brad, your line is now open.

Brad Milsaps

Hey, good morning.

Aaron P. Graft

Morning, Brad.

Brad Milsaps

Thanks for taking my questions. Aaron, just curious on the expense guidance, back of the envelope it looks like you'll spend, I don't know, $30 million or $35 million over annualized for fourth quarter expenses. Can you kind of break that down, kind of where some of those dollars are going, and does that necessarily translate—does that translate into more revenue, or is that more revenue maybe like 2024, 2025 as you talk about some of these new technology needs that you're uncovering for clients?

Aaron P. Graft

Yes, so it's broadly going to fall in two buckets, and the first of which is Triumph Business Capital. Geoff Brenner is with us. Why don't you speak to your expense growth in this year and kind of where you see that going, and then I can take TriumphPay.

Geoff Brenner

Sure, so there's two components of it. The first is people, and historically we've looked at trying to manage metrics and ratios where you have one FTE per $2 million of monthly invoice purchases, and that's best-in-class. Currently, we're running closer to one to four, which sounds really good but it's completely unsustainable. We have not been able to hire people on par with our growth in business, so a lot of that is just human catch-up. For example, in operations we have forecasting methods based on applications, fill rates, capacity ratios, and in the first quarter we'll need to play pretty significant catch-up in terms of people, and that spreads the costs across multiple departments.

The second part is Aaron mentioned technology spend. We have ambitious plans for creating a transportation portal, first for TBC and then for the larger Triumph transportation portfolio, and that's a technology spend and that's going to be significant as well, so both human and technology at TBC is going to be spend areas for us.

Aaron P. Graft

Brad, that's probably 25% to 30% of the spend for the expense growth we've called out between now and the end of the year. The remainder of that is going to be in TriumphPay, so I'll let Ed Schreyer speak to the things we're thinking about there, what are the drivers of those expenses.

Ed Schreyer

Yes, so Brad, almost an identical answer to what Geoff said, so you're going to look at people and technology. Ours is a little different on the people side. You're building a foundation of developers that are progressing the conforming transaction that we announced earlier. The appetite for that conforming transaction is very strong as we'll be adding additional factors and brokers, and that takes integration, so it's not only developers writing code and doing those things, but engineers and so on working with those individual companies to bring that on, so that can be labor-intensive upfront.

It's actually good for us in the moment because it's customized, it's unique for us to get involved with it, and they won't have multiple parties doing it at the same time, so what's in the queue is really strong, but that takes people. Then again, technology on top of that, all the things we need to do to build a foundation around systems and the stuff to really be a world-class payment network again takes technology investment and those people, just in different buckets.

Brad Milsaps

Okay, great. Thank you.

Then not to get too far into the weeds, but looking at some of the segment data, just curious, at TriumphPay it looked like fee revenues were maybe just up slightly, late quarter. Can you talk through how that will continue to build in 2022? I thought you would have seen another step up, just continuing to process more volume, but it could be a timing thing with folks getting on the network and so on. Just kind of curious how you see that number building through the year.

Aaron P. Graft

It will build through the year, Brad, but materially it shows up in 2023. There are things we are doing now for legacy clients that they're getting billed for, but the bulk of this growth in volume you're going to see this year. As we said previously, it's getting billed in arrears because it makes it much easier in the sales process when you're engaging with a shipper, with a broker, with a factor to say, "Hey, use this and we will bill you at the end of the year based upon how much you used it, because our experience has been anyone who uses it never stops using it, because they see the value proposition."

That was much easier than, "Hey, we're going to charge you every month or upfront," and so we think longer term you're going to see significantly more fee revenue because we've allowed people to build it into their everyday working operating process and then budget for it in the next year, based on how much they like it.

That just brings us to the same answer that you'll—I'm sure you will see some revenue growth in 2022, but 2023 is when I would start measuring that if I were you, and I would measure 2022 by volume growth, by how far—how much penetration did we create, because the more Tier 1 integrations we do, the wider the moat gets between us and anyone who would try to follow us.

Brad Milsaps

Okay, and just on that, I think you mentioned to Brady something north of 20 basis points. Last quarter, I thought we—not to split hairs, but something more in kind of the mid-teens by the time you weighed it all out. Are you feeling better about something north of 20 now going forward?

Aaron P. Graft

Well, it will depend upon the amount of syndication fee you're charging. That's the outlier that's hard to predict. If you're getting almost no syndication fee off the broker quick pays, then you would be in the mid-teens. We tend to believe these brokers want to offer quick pay as a solution back into the market, and we will be syndicating that on their behalf, perhaps even to the factoring industry. If you do that, that fee drives the overall blended base higher, and so the real answer is we don't know.

We can see how the elements come together, we know we'll be in the teens, but if syndications take off like we think they might at scale, then that will push you over 20 basis points, but we're all a little bit in a wait-and-see timing here because it's not been done before, and so we're just trying to give you the hash marks of where we think we could land.

Brad Milsaps

Got it. Very helpful. Maybe just a final question, kind of away from the factoring business, any more color on an update on the litigation with USPS? I know that's been hanging out there for a while. It's a pretty big number. I know you felt in the past that you feel like you guys are going to come out whole, but just kind of curious if you could add any more color beyond what you put in the press release.

Aaron P. Graft

Yes, I mean, the—you're dealing with the United States government, the post office, and the legal system, so the combined effect of having the three of them as part of this process means a lot of people have to be involved, and as we all know, no litigation moves fast. We continue the further we go in this to be more resolute in our belief that we will recover 100% of those misdirected funds, and if that changes, we will update everyone. It is our sincere hope that this is completed this year, and we just—you can only make the judicial system go as fast as you can make it go. That's really—there's no material update beyond that.

Brad Milsaps

Okay, great. Thank you, guys.

Operator

Thank you. Our next question comes from Matt Olney from Stephens. Please Matt, your line is now open.

Matt Olney

Hey thanks, good morning, and thanks for taking my question. TriumphPay, we're now at $21 billion of payments in the fourth quarter. Any color on what that number was in December or more recently? Just trying to appreciate the ramp in the near term. I think we last had the goal out there of $25 billion by the fourth quarter of '22. Is that still a good goal for us to think about?

Ed Schreyer

Yes, hey Matt, this is Ed. If you go back to the fourth quarter, we ran $16.8 billion of annualized payment volume - that's the average for the quarter. We came in—if you just want to look at the last month in December, it was approaching $18 billion, and as Aaron mentioned earlier, it hit $21 billion annualized. Again, big growth for the quarter. You can attribute some of that just to how fourth quarters work and just growth in the industry, and then a fair amount of that is just our own clients giving us more volume and the wins that we had talked about.

As we go through the year, hard to say, right, as you look at where volume's going to be, but the numbers that we had talked about before, getting into the mid-20s, approaching maybe $30 billion annualized aren't out of reach for us. Those are the goals we kind of set for ourselves when we look at what's out there and what's in the pipeline, that we should kind of run the same thing we've been doing the last year or so with that type of growth and expect that in the immediate future.

Aaron P. Graft

Matt, if I can just—and just to clarify, he said Q4. I think what Ed was saying, we exited Q3 at an $18 billion run rate. We exited Q4 at a $21 billion run rate. We will hit $25 billion this year. I can't tell you exactly when and all the different things that it will require for us to get there, but we called our shot and we're going to hit it.

Matt Olney

Okay, thanks for that. Then Aaron, you mentioned in your prepared remarks that the strong industry tailwinds had slowed some of the conversion of customers over to TPay. I think the analogy you used was the rising tide lifts all the boats. Is that something you're seeing today or something you're concerned you could see at some point this year? Just looking for any more commentary on that topic.

Aaron Graft

Yes, so any business is going to be resistant to change in a time in which they're beating their industry benchmarks, right? It's only the businesses that have a great forward vision that say, "Hey, notwithstanding the fact that we're earning a higher ROE than we've ever earned, we still want to invest to be better." Most businesses we find are, "Gosh, we're earning a high ROE, let's not do anything to mess this up for now." That being said, we still have a very full pipeline.

The second thing that all of this has done is the technology capacity of the constituents with whom we need to integrate, specifically the freight brokers, they're stretched. They're holding on for dear life, much the same way that Triumph Business Capital was as we went through the craziest surge in freight we've ever seen.

I don't necessarily view it as a headwind to what we're doing, we're just pointing out that the industry right now is better than it ever has in history earning its cost of capital, and doing so well above that, and so the sales cycle in an environment like this, where people are already—are short tech talent, you really have to fight hard to get large companies to come across and integrate. We are fighting hard and getting large companies to come across and integrate.

I believe that the second the headwinds show up and everybody starts scrambling for efficiency, and they look over at their colleagues who are participating in conforming transactions and therefore not having to handle tens of thousands of phone calls a month because those have now been dropped into the network, there will be a very fast me-too follow to get into what we're doing because there will be tremendous cost savings for them.

We're just pointing out kind of where the industry is right now. If you work in and around trucking and aren't making money, you've missed your calling because this was the time you should be doing exceptionally well, and we'll still get some integrations then but we think when the headwinds come, we think they'll come faster.

Matt Olney

Yes, okay. Great point. Thank you.

Operator

Thank you. Our next question comes from Steve Moss from B. Riley Securities. Please Steve, your line is now open.

Steve Moss

Good morning. Maybe just following up on the adds-on for Tier 1 brokers, just kind of curious here, how does the pipeline look maybe over the next six months in terms of any clients that may be going live here, or if I recall because I feel like there's some in the second half of 2022.

Aaron P. Graft

Yes, it's always a dangerous game to tell you an exact quarter when a Tier 1 broker especially is going to go live because things can change for them, but let's just level-set. We've got eight Tier 1 freight broker who use TriumphPay to make payments, we have another nine who use TriumphPay Audit for part of their audit functionality, so we have some level of integration with 17 of the 25 largest Tier 1 freight brokers.

We will, or we fully expect—let me say it that way—we fully expect to integrate multiple Tier 1 freight brokers in the year 2022. I don't think any of those will happen in the first quarter, but we do think those will happen throughout the year. As to the number and the timing of when those will happen exactly, it's impossible for us to give you that much clarity, other than to say we believe we will exceed the $25 billion payment run rate this year, as we've said, and we think you'll continue every quarter to see integrations happen, and the Tier 1s will follow probably in between quarters two through quarters four of this year.

Steve Moss

Okay, that's helpful. Then just maybe on the factoring side of the business, obviously first quarter is seasonally weak, but invoice prices and supply chain disruptions appear quite significant. Kind of curious where are invoice prices today, if you can give any color there, and just wondering if that level, if the pricing still remains strong, which I assume you say it will, if that probably helps drive a sequential quarter increase.

Geoff Brenner

Steve, this is Geoff. Look, we're 12 working days into the year but we do have data on those 12 working days, and thus far into January, the average invoice size remains very strong, as strong as it was in Q4. We are seeing average daily purchases decline a little bit in line with seasonal expectations, and if you track the industry, there's a million reasons why: non-contract truckers drive less in January, there's weather issues, there's produce slows down. There's just a number of reasons but we are seeing that the average invoice price is holding strong but utilization is down just a little bit, as we'd expect in January.

Aaron P. Graft

Yes, in fact it's a short sample period but I think, Geoff, the actual number is $2,454 for a transportation invoice, which is the highest we've ever seen. I would be very cautious about using that to extrapolate forward for what the full year looks like because I don't think the full market is engaged. I think a lot of trucks are parked, but I've never seen that in January. I've never seen that ever, a $2,454 blended transportation invoice over a two-week period, and we're just a small sample set. We're a very large player in the industry, but it does not appear that the spot market is weakening. It appears utilization is down, which as Geoff said, was totally predictable.

I don't know if $2,400 invoices are good for the market. Frankly, it's kind of like $100 oil, it makes people profitable in the short term but I don't know that it's healthy for the entire ecosystem. We think something in the $2,000 range and above for a long period of time is really good for drivers, it's obviously very good for our business, and it's hopefully something that those who are shipping goods through interstate commerce can afford to pass along, and I think frankly, that's what you're seeing. That's a driver in this inflationary growth we're seeing, is it's showing up in shipping and especially in trucking.

Steve Moss

All right, thank you very much. Appreciate all the color.

Operator

Thank you. The next question comes from Joe (Inaudible) from Raymond James. Please Joe, your line is now open.

Joe

Hi there. I know you guys just said that trucker utilization is experiencing a seasonal slowdown in the first quarter, but if you look at the past few quarters, it looks like you're really taking market share. When do you expect that to kind of slow down, and is that a concern that some of the factoring companies have with you with respect to TriumphPay?

Aaron P. Graft

Well, so let's be precise on what we're talking about. First of all, I don't think any factoring company is threatened by TriumphPay; in fact, TriumphPay has 69 factoring companies who use its services, including five who are now live doing fully conforming transactions, and we are a service provider to factoring companies and so the market share we're taking in TriumphPay is not excluding anyone. All it's doing is making payments that were already going to happen more efficient.

With respect to Triumph Business Capital, which does compete especially in the larger end of the factoring industry—I mean, if you look at most of the receivables in that portfolio, while we have a lot of small clients, the bulk of our portfolio is the larger end, what we would call nearly bankable client base. Most of those clients, most of that volume in Triumph Business Capital, the majority of the factoring industry as it currently exists wouldn't compete for them. It's too large and too thinly priced for them.

You could argue most of these clients we have are almost ABL-lite. I mean, we treat it as a factoring discipline, but from a yield profile it's more like ABL than it would be a—when we think about the independent factoring companies. Our competition with the independent factoring companies who are going to be the TriumphPay constituents, we believe will become less and less. I think Triumph Business Capital will continue to grow because trucking is growing, and we need Triumph Business Capital to do that.

We also are working on some things in Triumph Business Capital as a prototype that we intend to probably roll out to the factoring industry as a whole, that we think will help them in their engagement with their customers. I can't—you know, you could speak to the factoring industry to get their opinion. I think they see us as a formidable competitor who does what we say we'll do, who plays at the top end of the market, kind of away from where the bulk of other factoring companies play for.

One last thing, and I think investors should not miss this, we are growing market share in a growing market. The brokered freight market is not static. Brokered freight is taking more of the over-the-road trucking enterprise every year. More growth happens there than in the direct shipper market, so we address both the brokered market and the shipper market, but if the whole pie is growing and we're taking a larger share of that pie, that's a really good—for us, we're in a really good spot, and that's where we feel like we are.

Again, the growth in TriumphPay, the thing that matters the most frankly from a payment investor viewpoint, the growth in TriumphPay is growth that's not exclusive of growth for factoring companies or freight brokers. It just rides those very rails to get to where we want it to get, which is ultimately $100 billion in payments in the next few years.

Joe

Got it. That makes sense. Then just kind of focusing again on the payments network, I believe you previously stated that you expect it will become profitable at some point in 2023 and then reach annualized payment volume of $100 million in 2024. I guess has your thought process changed at all in the past few months about this target?

Aaron P. Graft

The only change in the thought process is the further you go in what we're doing—and let's just put a stake in the ground. We have completed a conforming transaction. It's never been done before. We put the screen shot of the raw data into the slide deck because for us, that's a really big deal. That's a leap forward that hasn't happened.

The technology is built to make conforming transactions work. What we're now building is how do we take this and make it ubiquitous, all the way to every convenience store you walk in, you carry your Visa card because you know they're going to be able to do a conforming transaction with you when you swipe your card. The change, we still see that as the addressable market, we still see the opportunity in the long term for hundreds of millions, not just a hundred but hundreds of millions in revenue, and the ability to build a business that just in TriumphPay itself that has a multiple billion-dollar enterprise valuation.

My only change since we addressed you last time is we need to spend, I don't know, $10 million or so more this year to get the talent in the door, to make sure we maintain the distance between us and any would-be competitors. That's the only thing that's changed. The long-term profitability, the operating efficiency of a payments business at scale is going to be 60%, 70% operating margins.

That view is unchanged. It's just we need to go fast, we need to win this race, we need to be excellent, and we need to demonstrate value to the market as a whole, and I need to hire some more people to do so, and I just happen to be trying to hire at a time when everyone else is trying to hire tech talent. That's why we wanted to reset the expense guidance for this year. That's not in perpetuity, it's just in this part of our journey.

Joe

Got it. So it sounds like the profitability target could get pushed out by maybe a quarter or so?

Aaron P. Graft

Yes, I mean—yes. When you're incubating, doing what we're doing, for us to miss a quarter on profitability targets and trying to build a payments network, we're not good enough to call it with that level of precision. So yes, whatever your number is, we could definitely be off a quarter or so. We're way more interested in the long-term value proposition of having everyone use this, and if we get that right, then everything else is going to get sorted out.

Joe

No, that makes sense. If I could just sneak in one more.

Aaron P. Graft

Yes.

Joe

You mentioned that TBC was currently in the queue to join the payments network, so I was wondering, when do you expect for Triumph Business Capital to go live on the network?

Then also with the payments network now live on a test basis, if you take a step back, is there anything you would have done differently during the initial build-out?

Aaron P. Graft

Oh, that's a hard question. Is there anything you would have done differently? I think had we known then what we know now, we would have saved some dead ends, but our team is remarkable and I should call them all out by name, but then I would be telling the whole world who all the really talented people are in our organization and you all would try to steal them, but we have just some great people, Mike Mangino and his team.

You've got to understand, we closed on HubTran June 1 of last year, and you had to get through all that and he had to keep that team together and what they were doing to integrate with us, and then in about four months we went from HubTran existing as an audit product to turning it into a fully functional, open loop payments network. I mean, the TriumphPay team is just exceptional to have done that in four months.

There are probably some things at the margins we would have done differently. We've already gone back and corrected many of that, but to get it done that fast, anyone who lives in the technology world would tell you that's highly unusual, so yes, I don't know that we would do anything differently.

Then as far as Triumph Business Capital, it was not first in the queue and there's a couple of reasons. First of all, let me go back to what we've said before. The goal of TriumphPay is to not make sure Triumph Business Capital is the most dominant factoring company that's ever existed, because that's a self-serving goal. The goal of TriumphPay is to reduce friction for everyone involved in the carrier payment process.

It just so happens to be an easier technological lift to integrate factoring companies who use off-the-shelf factoring management systems, what we call an FMS. That integration is easier, and we wanted to get it live and so we decided to go live with third parties. All the while we've been building the custom integration that has to be done for Triumph Business Capital, which runs on its own proprietary platform. It's not the only factoring company that does so, there's a couple more, and we're also working with them, so that's the long answer.

The short answer is we expect Triumph Business Capital to be live in the first quarter of 2022. We're a month or a couple of weeks away from that, and then we have several other factoring companies who will go live, and of course we need more freight brokers to go live, and you'll start to see us report as a KPI in each quarter the number of conforming transactions that were done, and you should see pretty exponential growth coming off these first few quarters because the denominator is so small, but we think that will continue to grow throughout the year.

Joe

Got it. That makes sense, and congrats on a good quarter.

Aaron P. Graft

Thank you.

Operator

Thank you. The next question comes from Jared Shaw from Wells Fargo Securities. Please Jared, your line is now open.

Jared Shaw

Hey guys, good morning. I guess one question just on the tech build-out. What do you think—you know, when you're talking about the hiring, what were you talking about in terms of, like, FTEs? How many people do you actually need when you're looking at that broad-based hiring goal?

Aaron P. Graft

Yes, I think in the tech space, I think we're adding between 15 to 25 people who are a variety of roles, from UX to the user experience to systems engineers. We need more engineering to help us go faster on integrations. We've got some technologists, some data science hiring, and that whole pool of people who sit within different places in the organization is 15 to 25 people.

Jared Shaw
That would be then plus the people you need for TBC and just sort of the capacity build-out?

Aaron P. Graft

Correct.

Jared Shaw
Okay. Then when you look at the tech—you know, the broader vision of tech and what you want to develop and bring out, what do you think—how much of that is going to be purely in-house versus partnering with either fintechs or large tech providers or software providers? What's the spend in-house versus outsourced?

Aaron P. Graft

Yes, while we use consultants for rifle shop projects, I would say 80% of what we spend is internal. We view the role of a consultant to come in once something's built and help you optimize it, like if you're hiring outsiders to build what you think is the golden goose, then you really don't understand the golden goose as well as you should understand it. That talent lives here, they're on our team, they're incentivized as you should be and protected with equity grants like the SEG to protect our intellectual property. If we were using third parties to do all this, I would be extremely worried about someone just being able to hire that firm and recreate what we're doing, so most all of this lives inside the Triumph ecosystem.

Jared Shaw

Okay. Then shifting a little bit, in the past you've talked about ultimately using less of the balance sheet as everything else grows. Can you give an update on your thoughts of partnering for the actual credit risk, or however you want to describe that partnership, especially I guess in light of this quarter we saw a reduction in deposits and with the expectation for rates to go higher. Do you think that's going to accelerate the desire to bring in partners to help either fund or hold that actual balance sheet risk?

Aaron P. Graft

Yes, it's a great question. The first thing, it's been interesting to watch the sell-off in tech pull us with it, so I guess to that end, we have done the job of convincing the market that our future is as a tech company, which we would say it is. That being said, if the Fed goes up 200 basis points this year, Triumph will make a lot more money than we otherwise would have because of the way our balance sheet is positioned, so we don't fear the rising rate environment perhaps as much as a tech company who makes no money.

That being said, we do think over the long run, for the network to be effective, Triumph Bancorp cannot be the balance sheet for the payments network, and I think you'll start to see us place the assets that are generated by the TriumphPay Network back into the ecosystem, and the first place we're going to offer them is to the factoring industry themselves, because they are the balance sheet on the payee side of the model, and so we'll go to the factoring industry and work with them if they're integrated with TriumphPay to say, "Here are receivables being generated from broker quick pays. Would you like to hold these on your balance sheet? They've already been verified by the network." To the extent they have the capacity to take those, they will.

Stuffing those into Triumph Business Capital or growing our balance sheet more is inconsistent with our long-term plan. We're not in a rush to go balance sheet light. We think inevitably we will get lighter as we go, and so that's why you've frankly not seen total assets grow, and a benefit to that inside a bank is we don't have the funding stress. Our 16-basis point cost of funds is pretty healthy.

Yeah, we should be delivering this year syndication opportunities back into the payments network, to the factoring industry, to other third party capital providers, and I don't think you'll see our balance sheet grow. It's not going to disappear overnight, but we're in a long-term march to a more streamlined balance sheet, more tech-heavy product set than we've ever been.

Jared Shaw

Okay, that's good color. I guess just on deposits, once we see rates go up, what's your expectation for beta on your deposit base?

W. Brad Voss

My working projection right now is that it's pretty low, at least at first. As we move into this, what looks like a rising rate environment, we're in a situation that's pretty atypical with the amount of liquidity that the banking system in general has. Our competitors are all flush with liquidity. I don't think any of us are going to be in rush to be the first ones to start to raise deposit rates, so I think early on, it's going to be fairly low. Longer term, it remains to be seen.

Aaron P. Graft

The other part I would point out, Jared, is don't overlook the growth of float from TriumphPay. The float in TriumphPay, the timing difference between when we invoice the party for whom we are making the payment on behalf of to actually making the payment, it's a three- to five-day lag depending on a variety of different things. At scale, we'll generate hundreds of millions of non-interest-bearing deposits. That number is, I think, close to $90 million as of the end of this year, which is a non-interest-bearing deposit that will have no beta in a rising rate environment, because it's just functionally how it's done.

As TriumphPay grows, it's one of the reasons we believe TriumphPay should live in a bank, if not a typical community bank but in a bank, is because of the value of the float you create when handling all these payments.

Jared Shaw

Great. Thanks a lot.

Todd Ritterbusch

Jared, this is Todd Ritterbusch. One other point about deposit balances. You noted that balances came down a little bit in the fourth quarter. That was completely attributable to a very short-term decline in mortgage warehouse balances, but we actually expect the mortgage warehouse balances to rebound from here and to continue to grow this year, and those balances are non-interest-bearing and always will be. Those are servicing deposits related to escrow and P&I and so forth, so we are expecting continued deposit growth this year overall.

Jared Shaw

Okay. Thanks a lot.

Operator

Thank you. Our next question comes from Gary Tenner from D.A. Davidson. Please Gary, your line is now open.

Gary Tenner

Thanks, good morning. Just a question on the spend as it relates to TBC. Obviously TriumphPay gets the bulk of attention externally, but on TBC, which is obviously a very profitable and growing company, how do you balance the spend there given that we're presumably near or at peak invoice prices, spot rates, etc.? When the market normalizes on those fronts, how do you manage that spend that you're undertaking?

Geoff Brenner

Yes hey, this is Geoff. I think what you've got to consider is when the rates normalize, we've still taken on 51% more clients than we had in Q4 of last year. The number of invoices, which are independent of the actual rate amount, that's up by 40%. Those are real volumetric pressure points on an organization, so regardless of what happens with the average invoice sizes, we have to service those clients and we have to manage those invoices, which are now pacing at about 25,000 invoices a day, so it's just sheer volume pressure. I think we'll look to be as efficient as we possibly can. I don't want to hire one FTE I don't need, but the reality right now is we need a lot just to catch up with the volume that we've taken.

Gary Tenner

Thanks for that. Then over time, you talked about TBC kind of onboarding the TriumphPay platform here in the first quarter, as more participants are active on the platform, does that ease or does that expand the capacity on a per-FTE basis at Triumph Business Capital, just given the overall efficiency of being on the TriumphPay Network?

Geoff Brenner

Yes, absolutely. When you look at the impact of a conforming transaction, we're not implemented yet but we understand how it works, and yes, there's absolutely efficiencies there that we'll look to seize. We'll also have to manage the percentage of our business that, at least for some period of time, is non-conforming, so those two things blend together, but yes, the short answer is of course as TriumphPay takes on more participants in the network, TBC being one of them, we'll look for those efficiencies to flow to us for sure.

Aaron P. Graft

Gary, just to pick up on what Geoff said, this is what internally, or at least I refer to as at some point in the next two years as you cross the chasm, and what I mean by that is for a season of time, you are going to have more and more brokers pushing conforming transactions through the network, and when a conforming transaction happens, that is a materially faster and less human intervention experience for the factoring company.

Any factoring company who doesn't engage in conforming transactions has no chance of staying up with the FTE staffing ratio that Geoff alluded to, because it's giving them a tool that reduces a tremendous amount of manual processes but until you get to the point where we're ubiquitous, where 80%, 90% of all payments in brokered freight that end up with factors are made across the network, you're going to have a subset of your team that has to be there to do the manual process for these other payments, which have to be done in real time.

Cash application outside the payments network is exceedingly difficult. Taking very large invoices, very large payments and trying to go out and figure which $2,300 invoice from 4,000 clients you had hauled for a very large freight broker has to be done manually, and so there's a tension as we approach the factoring industry of, oh my gosh, if everyone did this, it would change the world.

Everyone someday may do this, but during the interim period not everyone is doing it yet, and so factoring companies are integrating and seeing the conforming transactions that are happening, but you're probably a year or two away until they're really able to say, "Okay, so much of my volume is coming through in the form of a conforming transaction that I can change my staffing network." Which goes back to the reason why we didn't want to charge factors in 2022 or even materially in 2023, when they aren't able to reduce their—and it's not even to reduce their staffing counts.

What's happening is they are growing market share, so allowing them to grow on the same number of staff that they currently have, you need more volume flowing through as conforming transactions, and at some point you will cross the chasm where most payments are being done in a format that they're coming through as structured data and a conforming transaction, and at that point if you're not on board, you're going to get totally left behind.

I suspect that crossing moment happens out in 2023 at some point, maybe early 2024, but when we look at our pipeline, it's not multiple years away. We are starting to dial in on it, and once you get to $100 billion of payments, you will have the volume that inevitably you will be very close to having crossed over where transactions are expected to come through as conforming transaction. That's not a happy surprise when it does, it's how you expect to get paid, which ultimately completes that transition to what we hope to get to.

Grocery stores don't take checks anymore. Why don't they take checks? Because they know how inefficient it is, but I remember going to the grocery store with my mom and her pulling out the checkbook. Now no one does that because it's so much more efficient to use a payments network, and that's ultimately what we believe happens to this industry, and we think it's going to be good for everyone involved.

Gary Tenner

Great color. Thanks.

Operator

Thank you.

We currently have no further questions. I will hand over back to Aaron for any final remarks.

Aaron P. Graft

Thank you all for joining us today. I will say again this was a remarkable quarter. We also know that there's still a lot of problems out there in the world, people battling COVID, and the supply chain problems that are out there is hard on a lot of people, and so as much as Triumph can be involved in helping that, we are trying to do so. Until we speak again, take care of yourself, and thank you for your time and attention today. Have a great one.

Operator

This concludes today's call. Thank you so much for joining. You may now disconnect your lines.