Triumph Financial, Inc. Q4 Earnings Call | January 24, 2024

Luke Wyse:

Good morning. It's 9:30 in Dallas, and we're looking forward to our time with you this morning. I'd like to start by thanking you for your interest in Triumph Financial. I speak with enough of you to know what a busy time of year this is, and we sincerely appreciate you taking a moment to discuss our fourth quarter results with us. With that, let's get to business.

We had some great developments this quarter, and we're carrying a lot of momentum despite a persistently challenging freight environment. As you read in the letter last evening, we are also working on some interesting opportunities and seeing positive results from our efforts and investments. We remain encouraged and optimistic. Last evening, we published our quarterly shareholder letter. That letter and our quarterly results will form the basis of our call today.

However, before we get started, I would like to remind you that this conversation may include forward-looking statements. Those statements are subject to risks and uncertainties that could cause actual and anticipated results to differ. The company undertakes no obligation to publicly revise any forward-looking statement. For details, please refer to the Safe Harbor statement in our shareholder letter published last evening.

All comments made during today's call are subject to that Safe Harbor statement. With that, I'd like to turn the call over to Aaron for a welcome and to kick off our Q&A. Aaron?

Aaron P. Graft:

Thank you, Luke. Good morning everyone, and welcome. I too, hope that you found the shareholder letter informative and even thought-provoking. Before turning it over to questions, I do want to reiterate the four things that I think investors should know.

First, TriumphPay hit the much-anticipated target of being breakeven one year ahead of schedule. We're not calling this a mission-accomplished moment, but it is encouraging to see this performance in the face of a very soft transportation market. Second, we used this letter to announce LoadPay as a natural extension of the payments network. This wallet is targeted towards smaller truckers, which make up 95% of the entire trucking universe. And we believe that the total addressable market for LoadPay will be very large.

We further believe that our unique positioning for distribution will set LoadPay apart from any others who've come before, and we hope and expect we will see widespread adoption. Third, we did recognize some credit expense during the quarter that was outside our normal performance. The majority of that was tied to the rate and freight environment. And while we don't ever love having that happen, I would say overall I'm pleased with how our credit performed through one of the most challenging years in recent memory.

And finally, the year ahead could continue to be difficult from a short-term or near-term earnings perspective, especially if interest rates fall as projected and transportation remains weak. Now, we have the ability to adjust our strategy at the margins to offset some of those headwinds, but we will not deviate from the plan. If you own our stock or are considering owning our stock, you need to be prepared to accept the revenue volatility that we talk about associated with our business. It would also be helpful if you're considering investing to understand we think in longer windows of time, five-year increments generally.

We are not distracted by one or two or even three years of headwinds if we are seeing progress on the long-term vision. There is no question in my mind we are seeing progress on the long-term vision. 2023 was not a great year for earnings, but it was a great year for Triumph Financial. We are far better as a company and far further on our journey than we were when we began the year. The plan is the same for 2024. With that, I'll turn the call over for questions.

Speaker 1:

We will now go to Q&A. If you have connected via Zoom and would like to ask a question, please use the raise hand feature at the bottom of your Zoom window. Or if you have dialed in, please press star nine. Once called upon, please feel free to unmute and ask your question. Our first question comes from Joe Yanchunis from Raymond James.

Joe:

Good morning.

Aaron P. Graft:

Good morning, Joe.

Joe:

I appreciate the color on non-interested expenses that you gave in the shareholder letter, but can you give a range of outcomes of how non-interested expenses would fare including some of the special initiatives you're working on? Then additionally, based on your shareholder letter, it sounds like the launch of LoadPay as well as what you just said is a given at this point. How much incremental expenses will that program add to 2024 and 2025?

Aaron P. Graft:

Brad, why don't you take the LoadPay question, and then I'll follow up?

Brad Voss:

Sure. So Joe, we have [inaudible 00:04:56] to a core expense growth for the year of about 5%. And we continue to think that is a good number, not considering initiatives like LoadPay. I think it would be a fair modeling assumption for today to think in terms of mid to high single digits for overall expense growth, including the things like LoadPay.

Aaron P. Graft:

I don't know, Joe, if I totally understood the first part of the question about the variability around expenses. We have a strategy that is built, as you well know, in and around creating [inaudible 00:05:33] payments network for trucking, and the ways in which we continue to add value and monetize that. I really don't think you're going to see anything happen in the year 2024 that will make us deviate from the investments in and around that strategy.

There are things, like I said in the opening, we could do with the margins, but there's not going to be material changes in how we think about investing or not investing, as long as we're seeing progress towards the long-term goals.

Joe:

Understood. Then on the 3Q call, you noted you had $9 billion in annualized payment volume that was scheduled to come online in the coming quarters. Looks like in this past quarter you added a billion three in annualized payment volume. I understand there's fluctuations in average invoice prices can move this amount, but can you provide us an update on how much contracted volume you expect to come online in the coming quarters?

Melissa Forman:

Yeah, I can take that one. So Joe, when we onboarded the clients from last quarter, we have seen the majority of that volume come onboard. There's about another 2 billion gap that is not there as a result of the continued pressures on the market that we had initially anticipated, but just there's shrinkage. And so that exists. It looks it could continue into this year, but that's where the miss is.

Additionally, there were shippers that are in our integration pipeline of another two billion, two to three billion, that were expected to be able to go live at the last quarter of last year, but they remain in the pipeline and we expect them to come on this first half.

Joe:

Got it. So about four to five billion annualized payment volume that's coming online that you have line of sight into.

Melissa Forman:

Yeah.

Joe:

Okay, a couple more for me here. In the shareholder letter, you noted that four factoring companies join T-Pay, which on a percentage basis is pretty meaningful. Is there any way to quantify the aggregate size of these factoring companies? And what does the typical volume ramp look like for a factoring company joining the payment network?

Melissa Forman:

Yeah, so one of them was what we would consider a tier one, which is over a hundred million dollars in NFE, our net funds employed. And the others were smaller factors in the network that would be classified as a tier three. So in terms of volumes, it's not huge. What they receive from the network though is different. You can't think of a factor the same way you do as a broker. The value to them is different in how they leverage the network. And so $100 million broker is very different than $100 million factor, but that's how they're classified.

Joe:

Okay, I appreciate that. Then the last one for me is I saw last night Covenant Logistics called out severe weather as a potential headwind to 1Q earnings along with normal seasonal declines. Understand quarter to date average transportation invoice size are up, but they do appear to be trending down. Do you have a sense for how 1Q volumes will shake out for the industry?

Tim Valdez:

Yeah, Joe, I think it's interesting, because what has happened is we are seven weeks into positive indication of average invoice amount and margin improvement for our carriers. I think the challenge that we have is we've had a head fake in this space before due to seasonality, due to weather, due to a variety of small carriers parking their capacity. And so it's a little bit too early to tell what direction we're going, but we have built our business around surviving whatever direction that is.

Aaron P. Graft:

Yeah, I think to add onto that, Joe, in our factoring business, 7% of our carriers who were active before the end of the year have not been active in January. We don't know whether that means they've left the industry, I doubt that all of them have done so. Some of them have chosen to park their trucks because they knew the market was soft. And the weather, if you're going to clear a spot load in this weather, a carrier is going to expect to be paid more because it's more difficult and time-consuming. So it's hard to create a trend line, as Tim was saying, over what you've seen some three weeks into the year.

Joe:

Perfect. Thank you for taking my questions.

Aaron P. Graft:

You got it. Thank you.

Speaker 1:

Our next question comes from Frank Shiraldi from Piper Sandler. Feel free to unmute and ask your question.

Frank Shiraldi:

Thanks. Good morning.

Aaron P. Graft:

Good morning.

Frank Shiraldi:

I'm wondering on the target you give in the near term, now obviously got the EBITDA positive ahead of schedule. You talked about getting to targeted processing more than 50% of all transactions in that segment of the market. What does that imply, or what are your thoughts on timing there? What does that imply maybe? Any guide you can give on near term profitability on TriumphPay? And

Frank Shiraldi:

And finally on that front, any targets? You saw really nice growth in network transactions. Any sort of targets you can share or thoughts you can share on continuing to ramp that up?

Melissa Forman:

I think overall we look at, as Aaron said in the opening at five-year time spans. And so when you think about the milestones that we laid out for TriumphPay of number one, we just want to maintain EBITDA profitability throughout the year and beyond. But the second of touching 50% of all broker freight transactions, we still have a ways to go. We're at one of three transactions today or 33%. And so we we'll continue to move forward on those.

How quickly that happens is certainly going to depend on the market and our organic growth that we've been able to demonstrate we're continuously doing and we have very strong pipelines.

The last one that is important, and again would be further out into that five-year plan, is to be able to hit that 50% EBITDA margin on our core business. At what date we plan on doing that, we won't be able to give you that kind of direction right now, but within the next five-year term.

Aaron P. Graft:

And I have one more to add, and I just want to also pause at this moment and say what the TriumphPay team did. And it's always the entire team. The TriumphPay team doesn't operate in isolation from the rest of the enterprise. During this past year was exceptional, absolutely exceptional. But the overall enterprise, what everyone did to pull together in the face of a very difficult environment was exceptional.

But there's one other thing I want to add to Melissa's, what she said. And at the stage we are in with TriumphPay, we think this is still a revenue growth story, not just an EBITDA margin story. So if you look at revenue growth in 2023 in the face of a falling market, pretty impressive.

I also think about achieving that goal we laid out several years ago of 100 million in total revenue. We're at about 50% of that goal. Now, we originally thought we would need to get to 100 million of revenue on 75 billion of transactions in order to break even. What we have learned in this journey is there's other ways to deliver value with the network that we've been able to monetize that we didn't foresee. And that is a most welcome sign.

So we think about full year EBITDA margin profitability for 2024. There will be volatility quarter to quarter with these investments we're making. With the freight markets we can't make any predictions related to that. Number two, we were after 50% of all brokered freight as Melissa alluded to, and we're within a couple of large names of achieving that goal. And that's a be a tremendous thing to touch one out of every two transactions.

Number three, getting to 100 million in revenue, roughly doubling the revenue from where it is currently. And then long-term, we believe just like other card networks that this business should operate at a 50% EBITDA margin or better. And all of that, as Melissa said in the next five years is the vision to go and deliver. That's about as specific on timing as we can be at this point.

Frank Shiraldi:

I appreciate that. And just on load pay, I just want to make sure I understand. Generally when a traditional bank is getting into and you guys sort of lay out the different partners and what they generally do in these relationships or in these build-outs. So are you generally, I think about a more traditional bank partnering with the FinTech to build out the more customer-facing side of things? In this case, is it Triumph that's sort of doing the whole, performing the entire from customer-facing side of things down to the more traditional banking, banking-as-a-service piece? Is that fair? And then, generally I've seen expenses upfront and revenue sort of 12 to 18 months out. Is that a reasonable kind timeframe for load pay?

Aaron P. Graft:

Yeah, indeed. We certainly use vendors, but we are doing the development. And that's a great question, Frank, and something I want to point out. We will, in the year 2024 spend, or I think of it as invest over 110 million in technology. Now that includes our people and that includes just tech spend away from people. That is over 25%, almost 30% of all of our non-interest expenses. I don't think that there is another bank that I'm aware of that invests that much in technology. We're not just here using other people to build the tech and then marketing it under our name. This is built from the ground up by us for truckers because we know that there is no other bank who cares about truckers the way we care about truckers. So it is being built by us. We certainly use vendors as any technology provider would.

To the second point, as we think that in the year 2024, you're going to see roughly 5 million of investment in the load pay initiative. Some of that'll be capitalized, some of that'll be expensed. It would be reasonable to expect revenue to start showing up in 2025. There may be some that shows up in 2024, but we're not counting on it. We think of this as a 2025 and beyond opportunity.

Todd Ritterbusch:

Go ahead-

Frank Shiraldi:

Gotcha. Okay. I appreciate that. And if I have ... Sorry, go ahead.

Todd Ritterbusch:

I was just going to confirm that yes, we are serving as the bank sponsor behind load pay as well, which is important from an economic perspective because it allows us to capture the float benefit, the fees, leverage our existing systems without as much incremental costs as we might otherwise if we had to rely on another bank sponsor.

Frank Shiraldi:

Okay. If I could sneak in just one more on the ... You mentioned in the letter on loan modifications, and just wanted to get a sense, I assume generally those continue to be on the rate side primarily. If you can share what those modifications generally look like from a rate standpoint in terms of reduction in rate, and then if you can just share total modifications end of period or growth in the quarter in the various segments. Thank you.

Todd Ritterbusch:

I can take that one. So to your question about the modifications, yes, they're primarily around rate. They deal with credits that had variable rates, and those variable rates had risen to over 10%. Most cases we're having to realign the rate to reflect the realities of the cashflow of the underlying borrower. So it means we're taking the rates down to typically between 6 and 6.5%, which you'll see in our disclosures. The total amount of the modifications we've made so far is around $125 million.

Frank Shiraldi:

Great. Okay. Thank you for all the color. I appreciate it.

Aaron P. Graft:

Of course. Thank you.

Speaker 2:

Our next question comes from Gary Tenner from DA Davidson.

Gary Tenner:

Sorry. Good morning. Unmute there.

Aaron P. Graft:

Good morning.

Gary Tenner:

Wanted to ask about what are your comments in the investor letter or shareholder letter regarding the renewal of contracts with factors on the T-Pay network. Was there a particularly large slug of renewals that came in the fourth quarter based on when folks came on board and joined the network? And can you talk about, in general about changes if any of the contracts that are more financially beneficial to T-Pay now that that value proposition is a bit more proven out?

Melissa Forman:

Yeah, I think those renewals are important just to speak to in terms of the entire year. But as we built out the payments network for factors, they came on later in 2022 and into 2023. Our pricing structure associated with those contracts contemplates the growth of the payments network and renegotiating the pricing to include the new brokers that have onboarded within the year and for the following year.

We made a conscious decision given the state of the market right now and the pain that factors are feeling with the compressed margins and rates to not increase their fees going into 2023. We wanted to be good partners for our factoring clients, but what we did, we're able to determine is that every one of them wanted to re-up their contract and continue leveraging the network, understanding that the value is there and continuing to grow for them.

Gary Tenner:

I mean, is your sense then ... So you chose not to increase the fee component. Is your sense that you will, in a better environment, be able to effectively have pricing power to do so, even though you kind of ...

Melissa Forman:

Yes, absolutely. And those are the conversations that we had with ... Oh, I'm sorry. I'm sorry, Gary.

Gary Tenner:

No, go ahead.

Melissa Forman:

Yes, that's exactly the conversation that we had with our clients is that we wanted to make sure that as the environment and the market recovers, that we would be going back and having those conversations again in 2024.

Gary Tenner:

Great. Appreciate that. And then just quick follow up. I don't think that I saw, and I'm sorry if I missed it, but the average float that TriumphPay for the quarter. Can you provide that?

Speaker 3:

I think it was roughly 300.

Melissa Forman:

300 million. Yeah, I think we're sitting right around $300 million in average flow.

Aaron P. Graft:

And Gary, how that gets accounted for, I think we've laid out in the letter before, one of the great things about where float sits now 'cause you're generating that float on roughly 24 billion-ish in payments is we are self-funding. So any supply chain finance we are doing, where we are injecting liquidity into transactions in order to make them easier for network participants is being funded out of that float. And then the excess float, of course, we just treat as if we sell overnight to the Fed at current Fed funds rates.

Melissa Forman:

And just one quick point of clarification.

Todd Ritterbusch:

Thanks

Melissa Forman:

The average was 340 million.

Melissa Forman:

The average was 340 million.

Speaker 4:

Thank you.

Speaker 5:

Our next question comes from Michael Perito from KBW.

Michael Perito:

Hey, good morning, guys. Thanks for taking my questions. I just had a couple, I still see a few hands up, so I don't want to take away everyone's ammo here, but just to follow up on Frank's questions around LoadPay, two questions.

One, I was wondering if you could just give us a really basic example of how you hope the technology to work in the field and what the value proposition is for the consumers itself. And then, secondly, behind that, just, I believe this is really the first time you guys are going to be doing a, quote unquote, banking as a service type setup. Are there any bank regulatory considerations, capital required, anything that we should be thinking about, just especially if LoadPay really starts to ramp in '25, '26, that should be on our radar?

Aaron P. Graft:

Let me take the first part of that, and then, Todd can answer the banking as a service piece.

If you think about the use case, and we've seen this in multiple fronts, and Tim has certainly seen this in our factoring business, when you think about the end of the day at a factoring company, when you're starting to bump up against the ACH deadline, and different banks time that at different times, but call it roughly 4:00 p.m. Central, there starts to be desperation to get dollars out the door because those truckers need that money to either fill up, or whatever they need to do. You get really pressured towards the end of the day, and certainly, coming off holidays and other seasons. The ability to not have that deadline but to be able to push money 24 by seven through just what is essentially a journal entry on the books of TBK Bank, it allows you to smooth out funding.

And Tim could speak about that with a lot of particularity. How I think about the application in TriumphPay is, we have almost 30,000 select carriers, for example, people who are not doing business with a factoring company but are being paid directly by TriumphPay, and in some cases, being quick paid by TriumphPay on behalf of the freight brokers we serve. The ability to smooth out funding to them and get it to them when they need it is a really big thing.

And Tim, any other thoughts around where the value prop, even from our own factoring clients, as we roll out LoadPay to them, what else would you consider?

Tim Valdez:

Yeah, I think you hit on the biggest part, is the ability to fund 24 hours a day, seven days a week without any sort of time constraints, the operational efficiencies within the factoring group is really important. The ability for having visibility quickly and easily for our clients as also an added benefit from that program. LoadPay, in general, just creates a portal for us outside of the Fed that gives us flexibility across the entire enterprise.

Melissa Forman:

And when you think about a trucking company or carrier owner operator on the road, they may have an emergency on a Saturday or on the 4th of July. They have a breakdown, a blowout. Today's solutions don't afford them. The ability to get paid quickly without having to do some sort of money code type transaction. LoadPay is going to allow them the opportunity to see what their pending payments are within TriumphPay, and then, select that they want to be paid now and not have to wait until the next business day to receive those funds. They'll receive it instantly and can solve whatever problem it is that they're trying to address. And that's huge, for a trucking company, for a carrier and a driver. Not being stuck on the side of the road waiting for funds to be able to fix their problem so they can get back on the road and be on time is a big deal.

Aaron P. Graft:

And one final thing, and then, we'll turn it to Todd-

Michael Perito:

So this is the ... Sorry, go ahead.

Aaron P. Graft:

... to speak about banking as a service. Just, there's far more to this than just the timing. The way the whole wallet is designed, the way we allow carriers to offload into a variety of products. If you think about who are we competing with, that's where ... You're competing, 97% of the payments we push out the door, or well over 90% are being ACH to a bank account. I have met no banks that really care that much about their truckers who have one to five trucks. They give them okay service, but they would never build a banking or wallet experience on behalf of a small trucker.

There's things we're doing in the way you can move money in, the way you can move money out, the things you can see in the user interface that no one's ever done before. And we're competing against banks who probably aren't that invested in staying the bank for a small trucking company. Of course, if it's a large fleet and publicly traded, of course, they're going to have sophisticated treasury management services, and we would not pretend that LoadPay is particularly valuable in that scenario, although we can see some things perhaps way down the road where we can be valuable with that, but we're competing against just standard bank accounts, which were never built and are not tweaked with the trucker in mind.

And that's how we do everything. How do we help truckers thrive? That's part of our mission, because if they thrive, we thrive. There's a lot more to this than just the timing. But maybe, just to finish up, make sure we hit your question, Todd, you can speak about banking as a service and what we're thinking about.

Todd Ritterbusch:

Sure thing. Yeah, your question about regulatory considerations is a good one. The biggest difference between providing banking as a service capabilities and doing regular traditional banking is the involvement of these third party vendors. And what is crystal clear is that you cannot lay off any of your compliance responsibility to any of those third parties. That means that, from a compliance perspective, we have to invest a lot of time and energy in making sure that we've got everything covered ourselves, or anything that is being done on behalf of a third party keeps us in compliance with the requirements. Yes, that is a significant thing for us, but we think we've got it under control.

Michael Perito:

Just one quick clarification question. For LoadPay, it's going to be a LoadPay mobile app that these truckers will download, and then, they will have BIN numbers with TBK bank bank accounts with you guys that the money will flow in and out of, correct? Is that the right general ... ?

Todd Ritterbusch:

That's correct, yes.

Michael Perito:

Okay. All right, great. And then, just ... Really appreciate all that. Thanks for spending a few minutes on it. And then, just lastly for me, and then, I'll step back. I'm sure someone else will maybe ask a couple more specifics about some of the credit migration you guys saw, but I have a bigger picture questionnaire, and I think the balance sheet obviously hasn't grown for a while.

You guys talk about your five-year plan here. What's the five-year plan for the balance sheet? How should we start, as we start to, we're obviously probably not doing it today, but in the near future, we'll start thinking about '26, we'll start going out further. How should we continue to think about the bank balance sheet? Does it continue to shrink? Do you think it continues to hold flat? It feels like, as the EBITDA gets better at TPay, the earnings of the bank, I don't want to say it becomes less valuable, but it's not serving the same purpose as it was historically when you were just building that up from the ground up. Just would love some updated thoughts there, if you're willing.

Aaron P. Graft:

Yeah, no, tremendous question. Very fair question.

Remember that, as we go out and we seek to be a counterparty for freight brokers, over 25 of which do over a billion dollars of transactions, and some much larger than that, they're outsourcing payments to us, which makes us a very large financial counterparty to them. I don't see any time in the near term where we're willing to just go it alone on fees in transportation because we could not stand face-to-face with a publicly traded freight broker and say, "We can weather a downturn." Because we're not going to go out and raise equity from private equity or venture capital. We don't need that. We don't want to dilute our investors. It's important for us to be able to weather the storm like we weathered the storm in 2023. Like I said, it wasn't a great year for earnings, but we still made $1.68 a share, so what?, almost $30 million after tax in the face of a very difficult environment even while dealing with some credit issues. That's important, number one, is just to be a strong financial counterparty to your constituents who are very large players and need to make sure that you can handle their business well.

How I think about the bank beyond that is, the value, look at our total cost of funds. It is roughly 1.4%. That measures up against almost ... There's very few banks that can outperform that. That's a benefit of not just relentlessly pursuing balance sheet growth. And that liquidity and that low cost of funds allows us to inject liquidity into the network. Now, I'll grant you that's different than ... Visa doesn't do that. MasterCard doesn't do that. But at this stage, the ability to inject and use our balance sheet to facilitate transactions to empower the network is really valuable, and I don't see that changing in the next few years.

What I can say with certainty is, you're not going to see any new lines of business for us. The lines we serve are the ones we serve and we want to do that with excellence. You're not going to see balance sheet growth. You're going to see us continue to really focus on the right hand side of the balance sheet and a very strong liquidity position and deposit base and try to be conservative and thoughtful on credit because we need to maintain a revenue base.

There is a reason we can invest $110 million in technology next year. It's because we have a very strong and durable revenue base to do that, and to do that and still make profits as an enterprise. I'm not willing to put us in a position where we put any of that at risk in the near term, so I think you should expect a static balance sheet, you should expect us to compound capital as a result of not growing our balance sheet, and you should expect us to be very focused on the right hand side of the balance sheet and making sure that we're doing things that protect the deposit franchise, and then, make smart loans, and we generally do. There were some things this

Aaron P. Graft:

... this quarter, and I'm not even distracted in the equipment finance part of the business, like the provisions we made there. When you look at that in the context of that whole portfolio and that team, that's not distracting to me. I mean, that's just going to ebb and flow, but every time we take a credit loss, we need to turn that into tuition. And it is not lost on us, I'll just end with this, that when you trade at the PE multiple at which we trade, we need to not be on this call talking about credit. What the investors are looking for is to see the payments network grow and for the way we generate the rest of our revenue to be done in a safe and sound manner. And that's how we think about it.

Michael Perito:

Yeah. No. That's all totally fair and really thorough, Aaron. Thank you. So I mean, just to kind of put some numbers and summarize it, I mean, so the balance sheet will stay in this $5+ billion range for the foreseeable future and you guys will hope to be compounding capital and continuing to invest in all your initiatives for the next handful of years minimum.

Aaron P. Graft:

Absolutely. Yeah. And right now we have about 200 million in excess capital over... We have internal buffers over regulatory minimums. So that number should go up absent the use of capital for M&A or to repurchase shares. And at our current valuation, I don't see that being something that we will act upon. And so M&A for us would be using that capital to do that without diluting our shareholders. We'll be done if we think we can do it in a way that's valuable for the long-term to the payments network. That's how we think about the use of our excess capital.

Michael Perito:

Great. Thank you, guys, very much for taking my questions this morning. Appreciate it.

Speaker 6:

As a reminder, if you would like to ask a question, feel free to use the Raise Hand icon at the bottom of your Zoom window. Our next question comes from Thomas Wendler from Stephens.

Thomas Wendler:

Hey. Good morning, everyone.

Aaron P. Graft:

Good morning.

Thomas Wendler:

I just want to go back to LoadPay here for a second. Distribution seems to be a pretty big focus for you guys and a bit of an edge you have. Have you reached out to any of these power users and gotten any preliminary feedback on the distribution of LoadPay?

Aaron P. Graft:

Yes, we have. We wouldn't talk about it with investors unless we had talked about it with customers first.

Thomas Wendler:

Okay. Thank you. And then just going back to credit, I know you guys not terribly big focus here, but the equipment finance and liquid credit balances both saw a decrease last quarter just due to tighter credit box. Can you give us an idea of how you're thinking about these loan categories moving forward?

Todd Ritterbusch:

Yeah. So on the liquid credit front we shared that we have taken the lessons learned from the loss that we experienced in the fourth quarter there and we're applying those lessons. So yeah, we're going to be looking at new credit opportunities and liquid credit very carefully, but we continue to feel that when the right market conditions exist and when we see the right credits, we have to be prepared to act. So you could see a time when we step back into that space if that were to occur. Do we see that coming right now? No. There are no indications that we'd move into that kind of environment right now, but you never know.

When it comes to equipment finance, we feel that we're at really the depth of the transportation equipment cycle at this point. And so we're dealing with the fact that we're at that depth and we've prepared ourselves to make sure that in the event that the transportation recession lasts a significant period longer, we're ready for that. Our appetite to lend into the equipment finance space is still there, but we've got to have the right risk adjusted returns there and you've got to have strong borrowers. And so the production that we expect in equipment finance is lower for the next quarter or two than it's been historically, but we hope eventually it returns to normal.

Thomas Wendler:

All right. I appreciate you answering my questions.

Speaker 6:

And our next question will come from Joe Yanchunis.

Joe:

[inaudible 00:37:19] my follow-up here. Several quarters ago I believe you discussed taking TPay international, to either Canada or Mexico. Is that something you're still considering? And if so, could we expect that to occur in the next couple of years? And then additionally, are there any updates you could provide about your plans to monetize some of the transportation data that you aggregate?

Melissa Forman:

Great questions. I'll take the first one. In terms of international payments, we are making payments in Canada and in Mexico and we are in active development on being able to take that to other regions of the world. And so you would expect to see that happen this year in 2024 as we support our growth and the shipper strategy.

Aaron P. Graft:

Yeah. And it's important to understand that I think in the next... It may be in the next 12 months. It might be slightly longer than that. I firmly believe TriumphPay will be touching one out of every two transactions in brokered freight. And so you could look at that and you could say, "Well, man, that's a large penetration of the market. How big is your total addressable market?" The other thing I would want you to remember is we touch 1% of transactions in the shipper market and it is a far larger market than the brokered market. And we cannot serve the shipper market at scale unless we do international payments. And so Todd and our team is... In addition to banking as a service, there's a large workflow tied to that. We've got to be able to do North America and ultimately international.

The second thing you asked about is data. And so let's talk about that and just kind of how we look at the world. I look at there are four buckets of revenue in and around our enterprise as it now sits and then where we want to go. Number one is financing revenue. And that's easy enough to understand. That's just loans and factored receivables on our balance sheet and that gets a certain multiple. Number two is float revenue. And you can see that in TriumphPay. To the extent we have excess funding, we're able to monetize that float depending upon what the interest rate environment is. The third bucket of fees would be what we call fees, network fees. And this would be very much like interchange fees in a Visa and MasterCard network. And you see the growth that we've called out there. The one thing we haven't talked about, but I promise you we will be talking about in the future is the final bucket of fees, which is data.

So if you touch one out of every two transactions in brokered freight, the question you have to ask yourself is how can you make that valuable for your network constituents? How can we be valuable? Because it's got to start there. If we just talk about monetizing it without thinking about the value proposition, you don't have a great business. And so we really want to think about how can we be valuable to the people who use our network, to the freight brokers, to the carriers. One way in which that's happening is the licensing of our payments data in our partnership with Highway, which is generating, I believe, over $1 million in run rate revenue to help ferret out fraud, to ferret out ghost carriers who never intended to haul the load that they bid on a load board but instead intended to double broker it or steal it. So we're already doing that but not at scale.

And so if you think about data, obviously that commands probably the highest multiple of any of those four buckets of fees because it's the most scalable and we think there is an enormous market for delivering data to our constituents to help them reduce friction, to help them identify capacity that's helpful to them and to mitigate fraud. And so it's in the longer-term roadmap, but it is definitely something, Joe, that we are working on.

Joe:

Perfect. Thank you very much.

Speaker 6:

There are no [inaudible 00:41:16] at this time. Thank you.

Aaron P. Graft:

So I believe what we just heard are there are no further questions. We thank you for joining us. We wish you all a prosperous 2024. And we'll talk to you soon. Thank you.