# Triumph Bancorp, Inc.

## Q3 2019 Earnings Conference Call

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**CORPORATE PARTICIPANTS**

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

**Aaron P. Graft** – V*ice Chairman and Chief Executive Officer*

**R. Bryce Fowler** – *Chief Financial Officer*

**Todd Ritterbusch** – *Chief Lending Officer*

## PRESENTATION

**Operator**
Good morning, and welcome to the Triumph Bancorp Third Quarter Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad. To withdraw your question, please press star (*) then two (2). Please note this event is being recorded.

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

**Luke Wyse**
Good morning. Welcome to the Triumph Bancorp conference call to discuss our third quarter 2019 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 statement.

If you are logged into our webcast, please refer to the slide presentation available online, including our Safe Harbor Statement on Slide two. 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 am joined this morning by Triumph's Vice Chairman and CEO, Aaron Graft, our Chief Financial Officer, Bryce Fowler, and Todd Ritterbusch, our Chief Lending Officer. After the presentation, we will be happy to address any questions you may have.

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

**Aaron P. Graft**
Thank you, Luke. Good morning, I believe this is one of the more important earnings calls that we have ever done at Triumph, because in addition to reviewing our quarterly results, we will outline changes to our strategic approach as well as our financial outlook for 2020. We appreciate you joining us.

First, let us review the quarter. For the third quarter, we earned net income to common stockholders of $14.3 million or $0.56 per diluted share. Q3 was an average quarter for our overall financial performance and was generally in line with expectations. On the positive side, due to a very strong housing market and a full pipeline exiting Q2, loan growth was robust with loans up $374 million or 10% quarter-over-quarter. Approximately 55% of the growth was in our mortgage warehouse business with about 24% sourcing from commercial finance and another 12% from our national lending platforms.

Mortgage warehouse average balances were up approximately $120 million over Q2, while we cannot predict the housing market and thus our mortgage warehouse balances, we expect loan growth to moderate in the fourth quarter and beyond as we implement the strategic balance sheet discipline we will discuss later in this call. You can see the composition by loan product in the investor deck on Slide 9 and tables in the earnings release.

The commercial finance portfolio grew $89 million or 8%, total deposits increased by $39 million or 1% in the third quarter. I am encouraged that non-interest-bearing deposits grew by $70 million or 10% in the quarter. Our loan-to-deposit ratio at quarter end increased to 114%. As a reminder, we fund the majority of our mortgage warehouse activity with FHLB advances and this ratio is inflated approximately 16 percentage points by our use of FHLB advances to fund our mortgage warehouse line of business.

Third quarter net interest income was, up $1.3 million from Q2, loan yields declined 32 basis points to 7.63%. The cost of total deposits increased 5 basis points to 1.19%. Net interest margin declined 14 basis points to 5.85%, we accreted $1.2 million of loan discount in Q3.

Our asset quality metrics experienced some fluctuation during the third quarter but remain solid. NPAs to total assets remain below 1% at 91 basis points. Past due loans to total loans increased from 1.9% to 2.47%. However, we do not believe this is indicative of any larger adverse trend and net charge-offs to average loans were 1 basis point during the quarter. Third quarter expenses were $52.2 million, which was slightly lower than our estimate of $52.8 million for Q3 provided in the second quarter earnings call. We estimate that non-interest expense will increase to $52.9 million for the fourth quarter of 2019.

During the quarter, we repurchased approximately 850,000 shares into treasury stock at an average price of $29.38 for a total of $25 million, this completed the $25 million repurchase program authorized by our Board in July. Together with the prior $25 million stock repurchase program completed in the second quarter, we have repurchased approximately 6% of our outstanding common stock that was outstanding on 12/31/2018. I will discuss our future capital plans later on in these remarks.

Now I would like to ask our Chief Lending Officer, Todd Ritterbusch to highlight the strengths and weaknesses in our community banking line of business. These businesses do not get as much airtime as our transportation-centric businesses, but they are vital to our current and future success. Todd?

**Todd Ritterbusch**
Thank you, Aaron. Our community bank is the largest part of our business and there is a lot to like about it. First, our community bank deposits are very high quality with a total cost of funds of only 46 basis points. Our credit quality in the community bank has also been exceptional with low annualized loss rates of only 9 basis points over the past three years.

Loan growth has been strong and demand for credit remains high in most markets. Our Midwest division, which was our first bank acquisition continues to deliver stable profits, high credit quality and highly satisfied clients. Our West and Mountain divisions, which are concentrated in Colorado, but also have branches in Kansas and New Mexico are newer to the bank and have more recently completed the hard work of conversions and integration with TBK systems.

Through these changes our branch teams done a remarkable job of learning, adapting and most importantly retaining our client relationships. Back in Dallas, we are rapidly approaching the grand opening of our new branch, which will deliver a customer experience unlike any other along with special products and services. We launched our new consumer and small business deposit products earlier this month, and the new commercial checking offering will follow shortly. Our new treasury services platform is now fully operational with the most robust set of capabilities that we have ever been able to offer.

Looking forward, we expect our growth in the community bank in 2020 to be primarily in the area of core deposits and services to generate fee income. Our asset growth for the community bank is dependent on economic conditions within the communities we serve, and we expect total asset growth for the community bank to be more moderate than in years past.

**Aaron P. Graft**
Thank you, Todd. Beyond our community banking in our national lines of business we generate approximately one-third of our revenues from the transportation industry. This includes our factoring business, equipment finance, our insurance brokerage and TriumphPay. We touch the transportation industry specifically over-the-road trucking in more ways than any other financial institution I know of. It is the most profitable, differentiated and defensible area of our business. I expect our growth over the next three years to be primarily in our transportation related businesses, we also maintain the option to sell off a portion of our transportation assets to maintain a prudent level of exposure to transportation, we believe this could be done profitably given the high margins we generate.

We now have 163 TriumphPay clients, up from 146 clients last quarter. During the third quarter, TriumphPay processed 169,000 invoices paying 30,000 distinct carriers, payments process totaled approximately $190 million, a 12% increase over the prior quarter and a 99% increase from Q3 2018. We added a top 20 freight broker, Transplace, on September 27th. After quarter end, but prior to the date of this earnings call we also on-boarded U.S. Xpress.

As of today, Triumph pays annualized run rate gross payment volume is slightly below $2 billion, which is approximately another 100% increase over our Q3 2019 totals. Considering the schedule of integrations in our pipeline, we expect to add several billion dollars of run rate volume in 2020. Given this strong adoption, we are doubling down on our investment in hiring additional technical and development team members.

As a result of this investment, TriumphPay will continue to be a drag on earnings for the remainder of this year and at least all of next year. At scale we believe TriumphPay's operating margins and returns on capital will easily justify these investments. Total factoring revenue at Triumph Business Capital was relatively flat quarter-over-quarter at $26 million. This was primarily the result of transportation invoice prices rising less than 1% to $1,497. The dollar volume of invoices purchased increased 3% to $1.5 billion during Q3. We purchased 891,000 invoices during the quarter, an increase of 17,000 invoices or 2%.

Growth remains slower this quarter than last year, which was a record year for transportation. Net client growth for the quarter was 0.2% for a total client base of 6,471 clients as of quarter end. This growth number is lower than in the past, but not because our pipeline has shrunk. Through the first three quarters of 2019 TBC funded 2,030 new clients, which given a net year-to-date growth of 280 clients or 4.33%, means that 1,750 clients have exited. Our attrition analysis suggests that greater than 75% of those exits were in the small trucking segment, which we believe is causally linked to spot rate declines in 2019 versus 2018.

Our view is that the transportation market is still working through the excesses of last year. The market's overall tonnage is currently healthy, but the flood of capacity chasing high rates in 2018 is now resetting and weeding out the weaker competitors. This is normal and not surprising in a low barrier to entry business like trucking. Because we are restricting growth in our lower margin businesses, we expect to return capital to shareholders through continued

buybacks, as we have not realized our full earnings power and we believe the market does not yet recognize the value of TriumphPay.

Thus yesterday, we announced the completion of our $25 million buyback plan and announced a new $50 million plan. From this point forward, we expect to maintain a more efficient capital structure than we did in the past when we were actively engaged in a series of acquisitions. As I said, going forward majority of our loan growth will be driven by our transportation businesses, primarily Triumph Business Capital and TriumphPay. On the deposit side, we are prioritizing our resources to growing high-quality, lower cost deposits to be a higher proportion of our funding.

Our expected net asset growth going forward will be more moderate than in the past, likely low to mid-single-digits on an annual percentage basis. This path will, over time, lead to relatively higher yields on our lending activities and lower cost funding resulting in wider net interest margin and a higher return on assets. We have concluded that we do not need to grow materially and certainly not beyond the $10 billion threshold to maximize shareholder value. We intend to repurchase common [unintelligible] earnings and maintain a ratio of tangible common equity of approximately 9%. As we transition the balance sheet allocation and capital levels, our long-term goal is to achieve a return on assets in excess of 2% and a return on tangible common equity in excess of 20%.

In connection with these changes, we have modified the return on asset walk forward slide in our investor deck to include our target return on tangible common equity. We are providing additional color regarding some of our key assumptions and financial expectations for 2020. We are providing this additional color in conjunction with this change in our strategic approach in order to assist investors in resetting their financial models for the company and incorporating the expected impact of these changes.

Our baseline financial forecast through 2020 includes the following assumptions: total loans of approximately $4.3 billion at the end of 2020 or about a 4% increase from the end of 2019. Substantially, all 2020 loan growth is projected to be from our transportation businesses, mainly Triumph Business Capital and TriumphPay. Mortgage warehouse lending volume is subject to market conditions, but is expected to be 10% or less of total loans. We are scrutinizing lower returning assets and relationships that are not core to our strategy for opportunities to either increase their return profile or exit the position. Growth in low-cost, high quality deposits in 2020 should keep pace with loan production and we expect the loan-to-deposit ratio around 100%, when adjusted for mortgage warehouse balances funded with Federal Home Loan Bank advances.

We expect net interest margin of approximately 6.4% in 2020 assuming the September 30 yield curve is sustained. We believe net interest margin will increase in subsequent years as our highest margin lines of business consume a greater proportion of our balance sheet. We expect non-interest expense in 2020 of between $220 [million] to $225 million, including increased spending on technology, our new Dallas branch and TriumphPay.

In the first quarter of 2020, we anticipate a 4% to 6% decline in total revenue from Q4 of 2019 consistent with patterns in prior years, due mainly to the annual cyclical nature of our transportation business. Also in the first quarter of 2020, non-interest expense will increase over the prior quarter, due to the annual reset of payroll taxes and increase in benefits cost and the cost of operating our new Dallas branch for the full quarter.

Our intent, as I said, is to continue to repurchase shares of TBK going forward and we are considering the issuance and additional sub debt to support this. We are not providing color on the timing, volume or price of future share repurchases, other than the announcement of the $50 million share repurchase authorization made today. We are confident that our go-forward strategy will increase return on equity over time and that we can execute on these plans. But as a reminder, it will take several quarters for the impact of the remixed loan and deposit growth to work through our balance sheet and earnings.

Consequently, excluding the impact of potential share repurchases, loan sales or sub debt issuance, we estimate 2020 EPS in the range of $2.25 to $2.50 per share. We also want to remind investors that our estimated EPS range could vary materially, due to items such as changes in transportation invoice prices and other macro trends outside of our control. For example, in setting our estimated EPS range, we assumed average transportation invoice prices remain flat for 2020, to give investors a sense of this volatility for every $100 change in average invoice prices for the year, we estimate a correlating change of approximately $0.22 to $0.24 and our resulting EPS for the year. It is not been our historical practice to give full year EPS guidance, I think it is unlikely we will do it again in the future. We are giving it at this time, so that investors can understand where we are as a company. If 2020 unfolds like we predict, we will be able to make significant investments into our transportation FinTech platform and still deliver top quartile financial performance compared to our banking peers. We view that as a win-win and we are more excited than ever about the future of TBK.

Having said all that, we will turn the call over for questions.

**QUESTIONS AND ANSWERS**

**Operator**
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star (*) then one (1) on your touchtone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2).

The first question today comes from Brady Gailey with KBW. Please go ahead.

**Brady Gailey**
Hey, good morning guys.

**Todd Ritterbusch**
Good morning, Brady.

**Brady Gailey**
Maybe going to start with deposit costs. I know some of your peers have seen a little relief with deposit costs coming down. I know yours still climbed a little bit, but do you think that 3Q is the peak for deposit costs and that it should decline from here for you guys?

**Aaron P. Graft**
Yes, we do Brady, we think that is a lagging indicator for us. May and June of this year was when we were bringing on a significant amount of time deposits to support growth as prior to the strategic shift we talked about in this call, and so those deposits would have come in at higher costs -- this would be the first and only the first full quarter of those deposits sitting on our balance sheet, so from here we expect deposit cost to fall going forward and also we talked

about the $70 million in non-interest bearing deposits, those came on later in the quarter, we continue to generate those type of deposits through the initiatives we talked about. So, I think you are safe to assume that this is the highest cost of funds we would show for the foreseeable future.

**Brady Gailey**
All right, and then, the buyback number, it was a fairly big number this quarter over 3% of the company repurchase, it sounds like you all may raise some stuff that to continue there, but should we expect a similar level of buyback maybe, between that 2% to 3%, which is where you all have been running the last couple of quarters going forward?

**Aaron P. Graft**
Yes, as we said we are not going to give specific guidance to the timing of buybacks, nor the price. I mean, we always want to pay attention to what the market is doing, but here is what I would say so investors can understand our thinking behind this. Stock buybacks, a lot of companies do that to defend the stock price, that is part of our thinking, but that is not our primary motivation. We believe, and we think the numbers are bearing out that we are creating something unique here that has a return potential, very different than any of our community bank peers and we think were valued like our community bank peers, and so our view is using whether it is sub debt or just using our net income over the next four, six or eight quarters to continue to repurchase shares and lessen until the market gives appropriate valuation to this FinTech platform we are building, the internal rate of return on those purchases over a long period of time it is going to make it a very good investment for our shareholders.

So, we intend, as long as the prices are where they are to buyback, as much of the Company, as we can for our long-term shareholders, and so you should expect a material portion of our net income going forward, if we continue to trade in the range we are in, to be used to buy back shares.

**Brady Gailey**
All right, and then finally for me, I mean you mentioned selling off some transportation assets maybe over time. At what point do you hit the concentration level that you want with transportation assets where you would think about selling some of those assets to other banks or other investors?

**Aaron P. Graft**
Yes, the concentration analysis is a two-fold analysis. On the one hand, it would be concentration in the specific name, which gets into loan to one borrower concerns to the extent we are doing a lot of business with a large shipper or a large freight brokerage, we would think about that and we are prepared to do that in real time. I would say overall, down the road, if -- when we get to a point where transportation -- I do not foresee transportation assets materially exceeding 50% of our total asset base.

And further, we think we get the better valuation for what we are doing, especially in sort of the factoring and TriumphPay piece of our business to the extent those are fee income businesses for us more than balance sheet down the road if they continue to scale, we think they will command a higher valuation. So we are laying the ground work right now to run those -- along those lines, and so I am not really concerned, particularly about percentages of revenue that come from transportation, as long as where the Community Bank is delivering safe quality funding, high quality loans and we are not over concentrated in any one name as far as what is

on our balance sheet. We will allow the revenue that comes from transportation to grow, as the market opportunity grows.

**Brady Gailey**
Okay. Great, thanks guys.

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

**Brad Milsaps**
Hey, good morning guys.

**Aaron P. Graft**
Good morning, Brad.

**Brad Milsaps**
Thanks for all the color around your thoughts on 2020. Just kind of curious the -- but I was writing quickly, but the $4.3 billion loan target, you mentioned, you expected warehouse to be 10% or less of the total? Can you talk a little about the rest of the mix where you would see, kind of commercial finance, the higher yielding pieces of book, relative to the overall loan book? I know you have historically targeted that 60-40, but you have recently said that you would be willing to take that higher given your change in how you are managing the company?

**Aaron P. Graft**
Yes. So, I think what we said on the call is true. I do not think you are going to see growth in -- any material growth that is in any loan segment we have in 2020 other than TriumphPay or TBC, everything else would be very moderate growth or relatively flat as we service the customers we have. So, it is important to remember in our commercial finance line of business, obviously those factored receivables associated with transportation at much higher yields than even our other commercial finance lines of business, and so that is where the growth will come from, everything else we are holding relatively static and lessen until economic conditions change.

We do not think in some of our other lines of business that we are getting paid appropriately for the risk we are taking, and so we are going to hold those businesses flat, serve those customers, and also as a result of employing that balance sheet discipline on mortgage warehouse when you -- we think as you look forward to the end of 2020, NIM is going to grow for us regardless of what the yield curve does just as a result of that mix shift.

**Brad Milsaps**
Got it, and then just on the EPS guidance, I think you mentioned $225 to $250. You talked a little bit about invoice size is a big swing factor. What do you think the other factors are in your mind being at the low or high end of the range? Obviously, growth is going to be a big component of that in the mix, but anything else that jumps out as a big swing factor in terms of the range.

**Aaron P. Graft**
Continuing the pipeline of quality deposit growth that we are building. I mean that will make a material difference, of course, we would not have the funding pressures we have had in the past, because we were straining growth of the overall balance sheet. There is no doubt in my mind, our transportation related businesses will grow on the whole for the year. How much they

grow will be of course highly correlated to the macroeconomic factors that we cannot predict, so that plus growing quality deposits and maintaining credit quality and everything else we are doing, those are the driving factors.

**Brad Milsaps**
But the guidance now is based on the current transportation environment we are in?

**Aaron P. Graft**
Correct. Yes, all we did was project forward and I just want to be clear, Brad, as you know, we have never given full-year guidance, what we want people to understand is that we are having more success with our transportation FinTech platform than we even expected. There is a first-mover advantage, we are investing heavily to maintain and widen that lead, because of the long-term value proposition and so our EPS in 2020 could definitely be higher, if we were trying to optimize for just 2020, but we are optimizing for the longer term and doing something unique. So, we are giving away some of the earnings we would otherwise have. I would not say giving it away the bad analogy, we are investing those earnings into what we think has the opportunity to create significant value for our investors. So, we did not try to predict where the economy was going in 2020 or any of that, all we were trying to illustrate to investors is our psychology of how we are thinking about 2020 relative to the longer-term value opportunity.

**Brad Milsaps**
Yes, I get it, and then just one final housekeeping. The tax rate this quarter was little low, but I expect that to go back up into the low '20s going forward?

**R. Bryce Fowler**
Yes, sir. I do. We did have some adjustments from return -- amended returns to pay the state taxes and such this quarter, but we will return the 23.5%-ish area.

**Brad Milsaps**
Okay. Great, thank you guys.

**Operator**
The next question comes from Gary Tenner with D.A. Davidson. Please go ahead.

Mr. Tenner, your line is open.

**Gary Tenner**
Hi, sorry about that. Good morning. You answered a lot of questions with your guidance, Aaron for 2020, but I may draw down the margin guides incorrectly, so then you could just repeat that to start?

**Aaron P. Graft**
Our guidance for 2020 full-year net interest margin of 6.4%. Just to use that question as something to talk about in this quarter, the reason our margin compressed in this quarter were just a mix shift, mortgage warehouse grew faster than anything else. I do not anticipate that repeating as we said for 2020, we are going to keep mortgage warehouse to roughly 10% of loans or smaller. So, based upon mix shift, if the yield curve stays where it is, we think it is 6.4% for 2020 full year.

**Gary Tenner**

Okay, thanks, and during your comments you have pointed out that you were not necessarily trying to predict the economy in 2020, but I am curious based on what you are seeing in the transportation industry, you have talked about in the past that may be trade, the trade war is having some impact on freight volumes, etc. What are you seeing, just in terms of trends in the trucking industry that would give you any read, positively or negatively on the overall health of the economy?

**Aaron P. Graft**
Yes, it is a mixed bag, Gary and more than it has been really any time that I remember, I would refer you to Page 11 in our earnings release where we show the correlation between spot freight rates and then new truck orders and you can see how much capacity was ordered, new equipment was ordered in 2018, as the market chased it up and that is obviously is driven this much softer market in 2019, and now you can see spot freights drifting higher in 2019, but people are not ordering as many trucks. So, I feel very confident in saying that capacity is leaving the system, I do not know that it is a huge amount of capacity and I feel pretty confident that tonnage market overall tonnage is not materially deteriorating. So that is both ends of the teeter-totter there, we do not see any signs in the market that a material recession is out there, we just see -- excess capacity that came in the system having to work itself out, which is what we -- why I think we are seeing so much attrition in our smaller trucking clients, because they just cannot earn enough to cover their operating overhead with all this capacity, but to the extent our numbers we are trying to project from our numbers, what the overall economy is doing, it feels flat -- feels decent not super exciting, but no sign of -- from what we see of an imminent recession.

**Gary Tenner**
Okay, that is helpful, and if I could ask one more question. Your guidance for next year, gave us a -- probably a pretty good guidepost in terms of building net interest income outlook, you talked about a growing contribution on the fee side. Is that maybe more of the 2021 event as you onboard more larger carriers? How should we think about the fee side of things?

**Aaron P. Graft**
Yes, I think 2020 is a year in which we will be completing the rollout the up -- some of the technology innovations that we are building for our overall transportation FinTech platform that will be rolled out throughout the year and also as a year where we need to maintain a significant amount of team member support and technical team member support to drive integration. It is not easy to do an integration with a large company and become their outsource payment provider.

So 2021 and 2022 again, again I would not argue that any of that platform would be mature by that point, but the dollars coming through that platform in those out years is when we start to think about how do we create a business model that allows us to prudently manage balance sheet risk and also maximize our multiples, and we think the way to do that is for a piece of that business in those out years to start showing up as fee income, rather than just all balance sheet. So, the answer to your question is yes, I think that is further out into the future, that is not a focus of ours in 2020, 2020 is just about continuing to pull away from the pack that we are currently leading.

**Gary Tenner**
On that fee income piece in terms of maximizing things, is that a question of reclassifying in a sense where you are generating revenue or is it creation of incremental additional fee income?

**Aaron P. Graft**
I think it would be -- that is a hard question to answer, but holistically, I would say, to the extent you create the pluming, where you do not hold all the receivables you generate on your balance sheet, you are going to be generating fee income from the sale of those receivables versus the spread income you would have generated had you held them all on your balance sheet, and we will always hold a significant portion on our balance sheet, because there is nothing that I am aware of that has the credit quality that they do, generates the yields that they do in terms in 36 days, but eventually we think that it is probably prudent for us to have both our balance sheet component and then generate a fee income component by laying off some of that production.

**Gary Tenner**
Great, thanks. Thanks for all the color.

**Operator**
The next question comes from Matt Olney with Stephens. Please go ahead.

**Matt Olney**
Hi. Thanks, good morning guys.

**Todd Ritterbusch**
Good morning.

**Matt Olney**
On the operating expenses, it sounds like you are going to continue reinvest in Triumph Pay, which makes sense given the opportunities that you see, but can you talk more about these reinvestments, is this technology, is it adding programs or on-boarding new clients? And does the guidance for next year, does it assume any benefits from businesses that you could be de-emphasizing over the next few quarters as well?

**Aaron P. Graft**
Just let me clarify that last question, Matt. When you say, does it include any benefits from businesses, we will be de-emphasizing what is your question specifically there?

**Matt Olney**
Well, you are going to be slowing down the loan growth holistically and I did not know, if there would be some benefits on the expense side and is that guidance considering those benefits?

**Aaron P. Graft**
Got it. So, I would say overall, what you have is us holding expenses and businesses away from – let us just separate the transportation FinTech platform, which I would argue is both TriumphPay, TBC and some ancillary things in the – in data, machine learning and other things we are doing in that space. That stuff that we are not ready yet to roll out to the market. So, let us talk about the rest of the balance sheet, I think you will see incremental loan growth, but as we have tried to be clear, we do not expect a large amount of loan growth in any of these other lines of business, we are going to serve the customers we have. As a result, you would expect expenses will be flat for the year in those lines of business. I do not think there is material expense reductions in any of those lines of business, but we do continually evaluate, if there is lower ROE segments of our balance sheet that are not core to what we are doing. We certainly are open to looking at whether those businesses, but still belong as part of the overall enterprise. So those numbers do not -- in that full-year expense guidance does not really project large expense reductions and other parts of our business.

Further, in that expense guidance is a lot of spend around technical hires, software engineers, developers and then even consultants to help us with the more advanced pieces of what we are doing. Ultimately, where we think we get with that is number one, you get the ability to do faster and more integrations of freight broker clients and shipper clients into our TriumphPay platform. The second thing you get from that is the ability to scale TBC in a way that we have never been able to do it before, and we would expect over the long-term for the net overhead ratio at TBC to start to fall as we use technology and the data feeds that we are creating to do some of the back office verification and other parts of the business that we have done manually here historically, and so I think in the out years, you will start see more operating efficiency in that business than we have ever been able to deliver in the past.

**Matt Olney**
Okay, that is helpful, Aaron, and then on the TBC, we finally saw a good year-over-year comparison since the ICC deal closed in the second quarter of last year and kind of skewed the year-over-year comparisons, and year-over-year, I think the number of purchased invoices was about 6% growth from 3Q this year to 3Q last year. How do you feel about that 6% growth as a go-forward run rate? It is not the level we saw previously, but you have a much larger market share at this point. So, any thoughts you have on that?

**Aaron P. Graft**
That is hard to predict. I think generally speaking, in the future, you are going to see more of our client growth in the larger carrier segment, and of course, there is a tremendous amount of difference between one client, who generates several hundred invoices a month versus an owner operator, who generates 15 invoices a month. So, part of that will be the mix shift within that line of business itself, between the types of clients we have.  I would say overall Geoff Brenner, who is the CEO of Triumph Business Capital, in his three-year plan, where I see him taking us, he still believes in -- our plan would call for some pretty significant growth going forward. So I am not prepared to get any more granular with that line of business than we did just in the full-year guidance, but I would say we still have high expectations for that business to -- it is going to generate a significant amount of the revenue growth for us over the next three years.

**Matt Olney**
Okay, and then lastly from me, I think you took out the long-term ROA goals from 1.8% to 2%, and it sounds like a part of this is going to be a smaller balance sheet and more disciplined growth strategy, but I assume part of this must also be the benefits of TriumphPay, it sounds like you feel really good about the opportunity you see there. Can you help us, kind of, think about those two items, and what is the bigger driver of increasing that long-term ROA from 1.8% to 2%?

**Aaron P. Graft**
Sure, and you already hit on it. I think we are becoming a more specialized bank, and everyone should understand that, and the reason we are doing it is because we have some market position that allows us to generate outsized returns relative to anything else we do. The community bank is important to us. We will continue to invest in it. I do not think you will see it grow materially unless the economy gives us that opportunity. So, if you just go out into the future and we maintain a much more efficient capital structure and we -- the majority of our growth comes in businesses that both yield assets that are above 10% at a minimum on a blended basis, you start to see NIM expand, and in doing that, you start to move beyond, and look TriumphPay is, as we said, it is going to be a drag on earnings, because we are choosing

to go fast, but the operating margins of that part of our business at scale are -- you are talking about something approaching a 25% efficiency ratio.

Now that scale is several years out, and you could always stop and realize that efficiency ratio more quickly, but from our perspective if our goal is to be the primary network upon which brokered freight is -- payments are transmitted, then we need to continue to go fast after that market, but a few years out, notwithstanding our investments to continue to go fast and drive adoption, the margins in that business just start to catch-up and start to swing from a drag on earnings to pulling us forward, and so that is why -- and we are not saying it is 10 years out, I do not think it is five years out, but I do think a 2% ROA and a 20% ROE with a disciplined balance sheet and more specialized asset mix and the margins we generate from these technology investments are going to pull us into those long-term goals.

**Matt Olney**
Great. Thank you, guys.

**Operator**
Next question comes from Steve Moss with B. Riley FBR. Please go ahead.

**Steve Moss**
Good morning, guys.

**Aaron P. Graft**
Good morning.

**Steve Moss**
I wanted to dive into little more on the TriumphPay ramp up here with a run rate over $2 billion in TriumphPay, just wondering if that includes US Xpress, which you announced in October, and just as we think about the ramp-up going forward. Is there more of a ramp-up from that relationship or is more of the growth in that you are thinking about over the next say 12 months from the addition of new clients?

**Aaron P. Graft**
The number that we said, which is just under $2 billion annualized as of the date of this call, would include both Transplace for a full-year projection and US Xpress. The ramp from here will be the addition of new clients, and within the next year, we will be on-boarding more top 20 freight brokers, and we will announce those as they come, and of course, as that happens, it will create significant jump each time that happens, of course, as we go forward the denominator gets bigger, so I cannot promise 100% growth every quarter into perpetuity, but I do think we are going to have significant growth over the next four quarters.

**Steve Moss**
Okay. That is helpful. I am just wondering, how long is the integration process as you are doing with these larger carriers, more or less? Maybe give a little clarity there?

**Aaron P. Graft**
Well, the sales cycle, it moves around, but the sales cycle for a large freight broker is a long time, because this is an invasive technological integration and investment and our team -- and Jordan Graft who leads that team and the team he is building have done a great job sowing seeds over the last two years. We have dreamed up this product five years ago and have continued to invest in it. So, you got to understand, first of all, the sales cycle is our – it is a long

sales cycle. The actual integration moves around depending upon the custom programing that has to be done, I mean, you are talking about for the largest freight broker with their own custom transportation management software, it is a several months endeavor. As far as freight brokers, who use an off-the-shelf transportation management software with which we have already built integrations. Well, that is – that is a much quicker process, probably 60, 90 days.

**Steve Moss**
Okay, and then one more thing, just thinking about it. Just think about factored receivable growth in 2020. Is it really driven by TriumphPay or just both the existing business and ramp-up in TriumphPay?

**Aaron P. Graft**
I think, it comes from both TBC and TriumphPay. TBC has a very exciting business plan for this next year, and it is going to be a material part of that growth. It would not just come from TriumphPay.

**Steve Moss**
Okay. Thank you very much. Appreciate that.

**Aaron P. Graft**
Sure.

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

**Timur Braziler**
Hi, good morning. This is actually, Timur Braziler filling in for Jared. Maybe just one...

**Todd Ritterbusch**
Good morning.

**Timur Braziler**
Good morning, one more on the margin assumptions for next year. Understand that much of the benefit is going to be achieved through improved mix on the asset side. I am just wondering what the assumptions are on the funding side? And how quick that ramp to drive funding costs lower, you expect, well, not having to fund as big a balance sheet?

**R. Bryce Fowler**
Sure. This is Bryce Fowler. I will try to take that one. So, on the funding side, our plans are, as we talked about, is to continue to grow the non-interest-bearing deposit mix and other treasury management deposits from our current existing customer base, as well as other opportunities in the marketplaces that we serve out there. So, we are projecting pretty significant growth of $150 [million] to $200 million of growth in quality deposits over 2020, and as you combine that with a lack of a need to continue to grow and the incremental cost of -- what was costing us bring in growth deposits, we would expect our funding cost to begin to -- almost immediately begin to drop from here.

**Timur Braziler**
Okay, and the opportunities for organic deposit growth. Is that going to be through additional items like the Dallas branch? Or what gives you increased confidence that the deposits are going to be there for the taking on the organic side?

**Todd Ritterbusch**
Yes. This is Todd Ritterbusch, I will jump in on that one. So, we have a number of different levers we can pull to drive organic deposit growth. Yes, the Dallas branch will be one of those levers, but it is not the majority of the deposit growth that we are planning much more of the growth comes from existing clients. We have a large share of clients within both our commercial finance and our community banking businesses that are credit only clients today, and we would like to continue those relationships, but if we are going to continue those relationships, we are going to compel them to bring a broader relationship to us in the form of their treasury and deposits as well. So, we probably would not win all of those cases, but based on the pipeline that we see, there is real opportunity there and we are confident in our plans for the future.

**Aaron P. Graft**
Tim, this is Aaron, another thing to remember is the payments -- as payment volume and TriumphPay grows, we start to generate a greater amount of float from that payment volume, and so it -- while it does not totally self-fund itself, it starts to generate non-interest-bearing deposits that correlate to the growth of payments going through that platform.

**Timur Braziler**
Okay. That is good color. Thank you, and then just one last one for me, Aaron, I think you had mentioned that you saw an increase in past due loans. Any granularity there? Any specific industry? Any additional color you can provide on that would be great?

**Aaron P. Graft**
No -- I mean there is no theme to that, Timur, it is a lot of legacy loans, some of which have already -- were in a certain position as of quarter-end that have already been cleaned up. We have got some ag loans in there, a couple of real estate loans. Most of them have had some duration and we are just working through them. So, it is not a deterioration of any specific segment we are seeing. It is -- I think this was more of an anomaly and we will work through those, and we do not expect in that portfolio to see any significant charge-offs.

**Todd Ritterbusch**
Aaron, can I jump in there, too? So those past dues were driven largely by maturity events, not payment defaults. So, we had a number of situations where we came up against a maturity. We wanted to change the terms choosing in some way. We are still working through the negotiations on those things in several cases, but they are coming to resolution, and so you see that as a past due, because it is past the maturity, but it does not mean that we have got a payment default there.

**Timur Braziler**
Understood. Thank you.

**Operator**
Again, if you have a question, please press star (*) then one (1).

The next question is a follow-up from Gary Tenner with D.A. Davidson. Please go ahead.

**Gary Tenner**

Hey, thanks for the follow-up question. With the shift and the larger proportion of total loans that would be factored receivables obviously a pretty short-duration asset. How does that inform, kind of, how you would be thinking about changes with CECL coming in January?

**R. Bryce Fowler**
Sure. This is Bryce. Let me take that one. We will put some disclosure in our Q around this, but our work around CECL overall is our conclusion is that it will have, I mean, a very immaterial impact to retained earnings in overall ALLL balance.  Like other banks are announcing, we will see within the portfolio shorter-duration assets like factoring will probably get the smaller allocation, longer duration will get bigger, but net-net, as the cycle ends, pretty close to zero impact based on September 30th balances and conditions.

**Gary Tenner**
Okay, great. And just to clarify, the 2020 guidance on EPS, does that assume execution of the $50 million buyback completely over some period of time?

**Aaron P. Graft**
No. As we said, that guidance is assuming no buybacks because we didn't -- weren't making predictions around that. Of course, I mean, given what you have heard, I would expect us to be in the market buying back shares, but that was not in that forecast guidance.

**Gary Tenner**
Okay. I missed that. Perfect, thank you.

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

**CONCLUSION**

**Aaron P. Graft**
Yes. Thank you all for joining us for this call, and we look forward to speaking with you in the future.

**Operator**
This conference has now concluded.  Thank you, for attending today’s presentation.  You may now disconnect.