Triumph Financial, Inc. Q2 Earnings Call | July 21, 2023

Luke Wyse:

Morning. It's 9:30 here and a beautiful day in Texas. We're looking forward to discussing our second quarter earnings with you. I'd like to open today by thanking you for attending the call and sharing your feedback with us to help us continue shaping and developing this communications process. We appreciate it, and keep the suggestions coming. Also, you'll notice Melissa is back with us at the table today, and she has a lot of great things to talk about in TriumphPay.

With that, let's get to business. In our results. The second quarter continued to present a challenging freight environment. However, there is a lot to be excited about at T Fin when the analysis moves beyond the headline. 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 while comments made today 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:

Good morning. Thank you for joining us. I hope the letter published yesterday afternoon was helpful. I have a few comments before turning this call over to investors for questions, and they are as follows. How you view this quarter entirely depends on your horizon. If your investment horizon is short, then our earnings are not welcome news. There is a freight recession, and all of us who are exposed to the freight market face the same headwind. And that problem is compounded by the fact that our funding costs are going up. This is true of almost every bank, and it will continue to be true until the Fed changes direction. Those factors combined to bring our earnings down relative to prior periods.

Now, on the other hand, if you have a long-term horizon, then there are definitely things to celebrate. I believe that our results from this quarter answer the question of whether TriumphPay will become the payments network for trucking. I also believe it demonstrates that we can grow profitably in our payment segment despite a very difficult market. When the market turns, whether it takes two months or two years, we will be poised to profit from that. With that introduction, we will turn the call over for questions.

Moderator:

We will now go to Q&A. If you have dialed into the Zoom window and would like to ask a question, please use the raise hand feature on the bottom of your Zoom window. Once called upon, please feel free to unmute and ask your question. Our first question comes from Tom Wendler from Stephens. Tom, please go ahead.

Tom Wendler:

Hey, good morning, everyone.

Aaron P. Graft:

Morning.

Tom Wendler:

I wanted to start out with a... Good morning. With getting a little color around the supply chain financing within T Pay. With this being more of a closed loop business, is it more of a shorter term opportunity or a longer term part of T Pay's growth story?

Aaron P. Graft:

Yeah, great question, and I attempted to address that in the letter. So, a couple different ways to look at it. In the short term, it is certainly an opportunity for us to generate revenue for the payments network. Beyond that, it's one of the few financing opportunities that you will ever see where the payment you are already handling, we are being paid a fee to handle the payment irrespective of whether we provide balance sheet liquidity. And so, it is an extremely efficient form of finance. As we go forward, I think supply chain finance will be with us for some time and will contribute materially to revenue alongside the fee income growth we generate inside the payments network. As the payments network scales beyond our own balance sheet, I think you will see the opportunity to do supply chain finance, both exist on our balance sheet and be syndicated out to other capital providers for the network. So, it's with us for the short term, and I think a piece of it will exist with us for the long term.

Melissa Forman:

And I think, Aaron, I would just add to that we had provided supply chain finance before with our quick-pay opportunities, and with the state that the market is in right now being recessionary, we are just answering the call for our customers, so we will be there to meet them where they need us to help them get through this recessionary period.

Tom Wendler:

That's great color. Thank you. And then, one more for me. We saw a step up in broker deposits last quarter. Could you maybe speak to the term of these deposits and how you're thinking about the funding profile of the company now that the supply chain financing will likely drive increased balances of T Pay?

W. Brad Voss:

The question about brokerage funding, if you dig in under that just a little bit, you'll see that that corresponded with a pretty considerably decrease in our use of federal home loan bank advances. We took out several hundred million of home loan bank advances in March in the wake of the Silicon Valley failure and the related issues in the banking sector overall out of an abundance of caution. But if you look at those two funding sources, they're very comparable in cost, and we will sometimes use them interchangeably. Each has its own advantages, but the brokerage CDs have the advantage of being fully insured, FDIC-insured deposits, so all else equal, we would gravitate there. And the term, as you asked, is generally pretty much a ladder between about one month and about a year. So, those will be kind of a rolling form of our funding base. And I think that over time, you'll see some form of wholesale funding be a part of our funding strategy because it does provide a lot of flexibility to us going forward.

Melissa Forman:

I think I would add to your question about how it impacts T Pay. T Pay is already self-funding, so we are using our own deposits to be able to leverage for our supply chain financing and are able to contribute some of that now back to the bank. So, we have plenty of room to grow in our supply chain financing with our own deposits at this point.

Tom Wendler:

All right. I appreciate the color, and thanks for answering my question.

Moderator:

Our next question comes from Joe [inaudible] from Raymond James. Joe, you may unmute and ask your question.

Joe:

Morning.

Aaron P. Graft:

Morning, Joe.

Joe:

So, T Pay announced several big customer wins inter quarter, and then, in the shareholder letter, you called out some incremental volume coming from some mid-tier brokers, assuming a static market, how much payment and audit volume do you expect that you'll add from these customers that are currently live and ramping on your payments network?

Aaron P. Graft:

Yeah, there's two things, Joe. First of all, from a revenue standpoint, and I think we disclosed that at the end of last quarter, the runway was 38 million. As we sit here today, revenue is just under 43 million, so a pretty dramatic step up on an annualized basis. Some of that's tied to the supply chain financing initiative. That does not include all of the revenue that comes from those wins, and for what's contracted and going live, it's roughly 9 billion in payment volume that should come on in the next few quarters. We would hope by the end of the year, some of that may spill over into the first quarter of next year. So, a significant amount of volume.

Joe:

And how much audit volume?

Melissa Forman:

I would say the majority of that would also be in the audit network as well. What I would point out is that regardless of whether they're on our audit product or have their own internal solution, they will be contributing to the network as a fully conforming broker. So, full network broker.

Joe:

Got it. What I'm trying to understand is end of quarter, the interchange fee had a nice increase, and I understand the customer mix, and there's the payment versus audit mix, how can impact that number. Are recent customer wins expected to be accretive to that fee?

Melissa Forman:

Yes, they are.

Aaron P. Graft:

And just so we're clear on that, yeah, as Melissa said, yes, definitely they are. What you should understand, and I think we've talked about this in past, but I just want to reiterate it. When someone goes live and we announce them, especially a tier one broker, especially someone in the top 10, the full monetization of that relationship may take up to a year because they have multiple divisions. It doesn't just switch on like a light switch day one. So, the things you've seen us announce, that incremental revenue will come on over the next two, three, four quarters. And it may even come on beyond that because what we've also found is the longer we go with someone as a part of the network, the more things we find that we can help them with, which increases our revenue per customer.

Joe:

Understood. And then, lastly for me, the corporate segment expenses had a pretty noticeable increase in the quarter. Can you provide more color on the increase and remind us of the composition of that segment?

W. Brad Voss:

Sure, Joe. The composition of that corporate segment is really everything that supports the enterprise as a whole. That would include the executive team, that would include our technology, finance, human resources, those sorts of activities. The growth that you're seeing in that segment over the last year or so is largely driven by our investments in technology, both people, and hardware, and software to support our growing and transportation efforts.

Aaron P. Graft:

And one thing I want to... Brad said, "The executive team." That would include Brad and me. That would not include Melissa, Tim, or Todd, each of whom would be allocated to the segments that they lead along with their teams and their specific technology teams. All of those live inside the segments.

Joe:

Perfect. And thanks for taking my questions. I'll hop back in the queue.

Moderator:

Our next question comes from Hal Goetsch from B. Riley. Hal, you may now ask your question.

Hal Goetsch:

Hey, good morning, everybody.

Aaron P. Graft:

Speaker 3:

Morning, Hal.

Joe:

Hey, my question is, could you just give us a feel for the long-term impacts of adding Highway in your investment [inaudible]? It seems to me that you're assembling all the functionality all the platform participants would want to have in a payment audit and fraud prevention network. As of right now, it's hard to see those pieces coming together from just our knowledge. We wanted to get your perspective on this [inaudible] in your announcements in the last 90 days. Thanks.

Aaron P. Graft:

Sure. Let's start with our shipper strategy. That's a 250 billion dollar market. There are some legacy players in that market who are banks that have been in that market for a long time. Our strategy is threefold. Number one, go find companies who are operating in that space who've developed more advanced technology than the legacy players, partner with them and invest in them and equip them to go compete against the legacy players by giving them access not just to the payments capacity of a bank, but to the payments network itself. There's a big distinction between those two things. It's one thing to have access to the fed rails and be able to make payments, and 4,000 other banks can do that. There is no other bank in the United States of America who's paid 280,000 truckers in the last few years, or in the last quarter we paid 127,000 truckers.

What happens is you take that audit functionality and you complement that with our payments data, and it allows these tech-first freight audit and pay providers to go aggregate market share. They win, we win. That's that part of the strategy, and it should generate a significant amount of float over time. It generates a significant amount of data, and it also expands the reach of the network because a day will come, even in an environment like this, where supply chain finance opportunities will exist for shippers. They may want to extend their days to pay. Whether we hold that on our balance sheet or that gets pushed out to the capital markets, we can facilitate that transaction because we understand it. That's a very powerful way for us to go to market, not altogether different than you having a merchant acquirer or go out and expand the Visa network for them. You could look at a freight audit and pay company in that way.

Turning to Highway, because I think I heard you ask about that, if you take what I just said, that we paid 127,000 carriers in the last quarter, we paid 280,000 carriers inception-to-date, 160,000 plus have registered on TriumphPay, we know a lot about the active carrier universe. We know more about the active carrier universe than any one broker or shipper could possibly know. When you take that payments data that we have, the audit data we have, and you have a 360 degree view of the market, maybe we don't have 360 degrees yet, but it certainly grows every time we add one of these large players, and you license that data to someone like Highway who has built a profile that tells you how much equipment a certain carrier presumably has, you can very quickly see carriers that are hauling five to 10 times the amount of loads that they should be able to haul.

With that data, you can start to make decisions, risk decisions. If you're in the business of procuring capacity, you have to think long and hard what loads am I willing to give to a carrier who apparently is hauling more freight than they have equipment to haul? They are likely engaged in double brokering, which could ultimately lead to fraud, and it could ultimately lead to a service standard that's below shipper expectations. That's just a feature of the network. As the network grows, these feature sets that we can deliver make the network more powerful, more efficient, and more inviting for new participants to join. That's our strategy.

Joe:

I guess one thought that if you compare the dream of integrating all that functionality and inviting in new platform participants, what could you see the take rate or your pricing power be just in ... Just dare to dream a little bit [inaudible] it could be. Does the take rate come up to the 20 basis points, 30 basis points, or is that still something still to be determined?

Aaron P. Graft:

Yeah. I would hesitate to give you specifics, but let's talk about the ways which we currently monetize the network. First of all, I want you to hear we're at today as we sit here, almost a 43 million dollar revenue run rate. Compare that to where we were two quarters ago. That doesn't even include what is in the pipeline. There has already been a lot of growth, but let's talk about the ways in which we monetize the network. Number one, for brokers who use us for audit and payment, we charge a fee for that. There is a fee to handle that transaction. They outsource it to us. There are other things that Melissa could go into far greater detail about how we can manage indexing on behalf of some of our ... That's a feature we're rolling out that would be valuable to others in the network.

All of those are fees that are charged on a subscription basis or a per invoice basis, and there's a migration of that to a more standardized format because some of these customers were signed up years ago when TriumphPay was more of an idea than a market reality. The second way is supply chain finance. Extending days to pay by seven days can improve working capital for many of our freight brokers, or in the alternative, we can help them manage their accounts receivable upstream from them because no freight broker created a load without a shipper above them. You have the ability to help on the AR side and the AP side. Some of that can live on our balance sheet at high yields and short duration. Some of that will eventually live in the capital markets. What you will see TriumphPay become is almost the facilitator of pushing that data out to someone who can make a balance sheet decision using our integrations. That's what Visa does. That is a syndication fee, an interchange fee. You can talk about it different ways, but that's an additional fee opportunity.

Lastly, and you see an example of this in Highway, is the value of the data itself. Our job is to protect the data of our customers, and we will absolutely do that. However, if they ask us to license the data back to them in a format that's valuable for their business, we will do that, but we will not do that for free. To just answer this in the form of take rate, a network transaction should in this market generate roughly $5 in revenue when you combine the payor side and the payee side, but I think that's looking at it too small. It's all the things that the network could do. Melissa, I'm sure I left things out. What would you add to that?

Melissa Forman:

Yeah. I think just when you think about fraud itself, it's our responsibility to find ways. We believe it's our responsibility given the view of the data we have to identify new and exciting ways to be able to leverage that to bring value to our customers. Highway is an example of that. You can't use a basis point calculation to figure out based on our payment volume how much revenue we're going to be able to derive from that. Same thing with our audit volume. As we mentioned last quarter, at last quarter we had 37 billion dollars in freight under management with rate compression, average invoice compression. We're now at 35 billion, even though our transaction volume has increased over 6%. By just looking at it from a view of basis points per dollars that we pay, you're missing out on much of the revenue opportunity that we're seeing and that we've already shown we're bringing into the network.

Joe:

Thank you.

Speaker 4:

All right. Our next question comes from Gary Tenner from DA Davidson.

Gary Tenner:

Thanks. Good morning. Aaron, you've made some comments in the release last night regarding some factoring pricing issues in terms of the ability of factors to scale pricing beyond the standard $3 per invoice price. I guess my first question is, is Triumph Business Capital doing that at this point?

Aaron P. Graft:

Yeah. I think Tim should take that question.

Tim Valdez:

There's a lot of opportunities for us. Historically, what has happened is the factoring market is on a very flat discount rate and it creates some diversity or some division when you come into a very volatile economic environment. Today what we're looking at is a variety of different initiatives within the product mix to enhance earnings as we run into those challenges within the environment.

Aaron P. Graft:

Yeah. Gary, something that we would add, and we've been talking about this internally and there's no perfect measure, but I think this is directionally correct. $ 1.68 a mile is in the last quarter where the market was. Most small carriers, not all small carriers, but most small carriers are going to need $2 a mile to break even. When we talk about this freight recession, there's different ways you can look at it. I think we're 17% ish below where many carriers could break even. Now, long-established carriers who have no debt, they can make it through markets like this. I think you're seeing some forces since the 1st of July press those rates back up, but they're not near up 17% yet. Now, there are some catalysts out there that may change that. We have to make a decision as a company, do you push through a cost of funds increase at a time when many of your customers cannot break even? In some cases you do. If they're not profitable customers or they're not working with our business the way we would ask them to work, or we think that the market will bear it, we will do it. But on the other hand, there are certain customers, if you think like we think that this freight recession does not last forever and that we're coming hopefully towards the end of it, then you work with them during this time and then you reset in a market in where rates have gone back to a price point where customers can earn their cost of capital. We're just in the trough right now.

Gary Tenner:

The follow- up to that though was, because I've always thought about the flat rate, if rates that factors charge or the discount rate increases if factors try to push that through, is there a competitive race to the bottom potentially by factors when funding costs go back the other way down the road, or is this an element that we've seen before when funding costs are higher? Have you seen

Gary Tenner:

... this before or is this a departure of behavior by factors than what we've seen in past cycles?

Aaron P. Graft:

If you ask people in the factoring industry like Tim, who've been in a long time, they would say, "We're on a long race to the bottom." IT technology has driven discounts down. And think about it this way. When in the old days, 15 years ago, the discount per invoice for a small owner operator was 4.9%. Okay, that's a 60% APR, but you were doing the whole back office for them. Now look at Triumph as a whole. Our average discount is 1.4%. That's roughly half of a credit card swipe. And so what has happened is scale and technology, for the whole industry, especially the top 20 factoring companies, has driven the yields down. But with that, the operating costs have also gone down from where they used to be. But long term, if you just plot on a yield chart our yield in our factoring segment, it is trending downward.

Inevitably, it will hit a point where it won't go lower. We don't want to be the catalyst to drive it lower. We're not trying to aggressively create the largest factor in the United States. That's not our goal. Our goal is to efficiently operate at the size we are with great customers and make great customer service, and help the whole factoring industry get better, because that's how we win the biggest way. That is our goal. So the factoring industry has not yet responded to the greatest rate cycle in 40 years. People are holding their fees where they are waiting for this, because not only did the rate cycle happen at the exact same time a freight recession hit, and so your ability to price that in is difficult. All that being said, our factoring segments, pre-tax, pre-provision ROA, in its worst quarter in a long time, was still 2.7 plus percent. It's a great business. We've got a great leader for it. We just have to follow what the market does from here.

Gary Tenner:

Yeah, and my questions were a long way of getting to the point that, as you said, we're in a long term race to the bottom from a pricing perspective on the factoring side, that should make factors increasingly willing to move on to the TriumphPay platform, and participate in that business because they could save costs on the other side.

Aaron P. Graft:

Yeah. Tim, you should speak to that.

Tim Valdez:

Correct. And one of the things or several-

Gary Tenner:

[inaudible].

Tim Valdez:

Oh, go ahead, Gary. Didn't finish.

Gary Tenner:

No, go ahead.

Tim Valdez:

I think that there's a couple of advantages. There is, one, we get very efficient at processing documentation quickly from the time of a submission from a carrier. So it gives opportunities for us to fund outside of normal business hours, to give us opportunities to fund more efficiently and quickly all the way along. So when we have a client using our factoring service, they inherently are using TriumphPay audit and all the functionalities with audit and even potentially payments. And so there's a lot of advantages for us across the board and of having TPay integrated within our client base.

Gary Tenner:

If I could ask one more, that was a lot. But Aaron, you also mentioned that there's a path to getting to EBITDA breakeven a little bit earlier than the exiting 2024 view. And I think as this momentum is building on the broker ads at TriumphPay, trying to start thinking about ... And I think investors are start thinking about 2025 a little bit. So maybe a little bit premature, but if you get to the EBITDA breakeven, if it's looking better and better, even if it's at the end of 2024 or not earlier, do you have any sense of what that base means for EBITDA in 2020, margins in 2025?

Aaron P. Graft:

Yeah, if I tried to answer that question, the people on the left and right of me would tackle me. But here's how we think about it. Our factoring business over a long period of time is a 50% efficiency ratio business. And in this quarter it certainly wasn't, but I'm talking if you look over long periods of time. I believe TriumphPay, because of its technology integrations, will exceed the efficiency ratio of our factoring business. In fact, if it doesn't, we shouldn't be doing it. And it should, TriumphPay, should also help other factoring companies approve their efficiency ratios. So then it just becomes a question of how much of the market is available for us to go get. We have five of the top 10, two of the top five. We have a very full pipeline behind that. And I think there are things that ... And I alluded to this earlier to Hal's question.

There are things that we are now thinking about, that Melissa and her team are now doing, that we didn't even imagine when we had a lower scale than this. So I know that investors want to try to figure out a long-term, "Where does Triumph land?" Here's what I'd say. You can look at our banking segment. Our banking segment, which does not get talked about nearly enough, because there's just a finite amount of investor attention for us, outperforms on a spread basis almost any other bank. And that does not include factoring, and that does not include our payments. Triumph factoring has historically on a pre-tax, pre-provision, ROA basis, been a two to 4% ROA provider, sometimes higher, sometimes lower. Always in excess of the highest performing banks in the US because just the nature of the business. TriumphPay should be more efficient at scale than our factoring business.

It may not generate as much revenue because it's more fee driven than balance sheet driven, which is great from as investors think about things, but it should be more efficient. And so if you put together a high performing bank, a factoring company that is more profitable than any other line of business in banking, and a payments' technology business that achieves margins like a payment network, that is a very high performing consolidated enterprise. And we have worked for years and we have invested hundreds of millions of dollars of our own capital to build that. And we can see it from here. We're not there yet. We are going faster than I think most people thought we would go, despite a market that's down over 30%. But when we get there, if you add those three components together, in my opinion, and of course I'm biased, it's very compelling as a consolidated enterprise.

Gary Tenner:

Thank you.

Speaker 5:

Our next question comes from Jared Shaw from Wells Fargo. Jared, you may go ahead.

Jared Shaw:

Hey, good morning. Thank you. Morning. Maybe can we go through some of the dynamics of margin and the expectation around margin? More looking at the broker deposits, looking at the ... Like you said, the core bank beta has been great. But maybe walk through some of the dynamics of margin and where we should expect to see that going over the next few quarters.

W. Brad Voss:

Jared, just as a reminder, and I know that we've talked about this before, but as a reminder, our margin over time will be dominated by our asset mix, to the extent that our factoring operation is a greater portion than it is now, which at some point I would expect to see a rebound in that. Then you'll see margin expansion regardless of what else is happening in the economy and what else is happening on our balance sheet. In the near term, assuming a status quo freight market, and based on what we see on our balance sheet now, I would expect net interest margins to be roughly flat for the next two or three quarters. The forces that would impact that, as I just mentioned, are mix of factoring. And then the other big one is how well we are able to keep attrition in our community bank core deposit franchise at bay.

And we've done a pretty good job of that so far. But those are the forces that are at play, because any attrition in the community bank deposit franchise will be back-filled by wholesale funding, which is more expensive. So we do have probably $40 million a month or so of fixed rate loan principal payments coming in that have the opportunity to be reinvested at higher rates. So that creates a little bit of upward pressure on the margin. And then any repricing of our deposits would go the other way. But on balance, I would expect a pretty flat margin over the next couple of quarters.

Todd Ritterbusch:

And if you don't mind, I'll just elaborate a little further with respect to the core bank. So with respect to lending yields, we may see lending yields drift higher because of the rate environment, but we may also see them drift a little higher because of mix. So the focus is on rotating out of lower yielding lending products into higher lending, yielding products. And any new origination we're doing, we're doing at yields that are very attractive, even if we have to fund them with more expensive wholesale sources. As it pertains to the core deposit mix, we have different buckets of core deposits. So Brad alluded to those core community bank deposits, which are highly granular, very stable. We continue to reprice those only on an exception basis, and so the betas on those deposits have been very, very low. We also have large commercial deposits that are associated with our commercial finance businesses. And in particular, the mortgage warehouse has seen the most significant drop in balances associated with rates.

Those are deposits that are very rate sensitive, and those deposits were what was responsible for more than half of what you saw in the point to point deposit reduction from over the last quarter. We're earning some of those deposits back. But keep in mind, when we gain those deposits or lose those deposits, those are already pretty high rate, high cost deposits, so that isn't going to have a really big effect on the overall cost of funds. If you're replacing a mortgage warehouse deposit with the wholesale funding source, it doesn't affect you that much. Conversely, gaining a bunch of new mortgage warehouse deposits isn't going to help us that much, with respect to our overall cost of funds.

W. Brad Voss:

One other thing I meant to add, Jared, that I would throw in, if you look at our overall cost of funds for the quarter, it was about 123. As we sit at the end of the quarter, our spot rates on that are probably 10 or 15 basis points higher than that as we roll over some older, less expensive funding. So there will be a little bit of a drift on the cost of fund side. I would expect that to rise. But I would also expect asset yields to drift a little bit higher as well.

Jared:

Great, thanks. And then any color on the charge off that was identified but not related to TFS.

Aaron P. Graft:

That was a legacy mail carrier. If you remember, several quarters ago we did an acquisition of a factoring business connected with one of our large clients. And as we dug into that business, the way those trucking companies who operated with the US postal Service, those trucking companies were in an over advanced position that we were not able to detect until we owned it and so we've continued to work through those. Much of it has been worked through. Covenant is a great partner of ours, covenant Logistics, great company. We agreed to work together to make the best of the situation. So that charge off was indemnified by them, a significant portion pursuant to agreement of several years ago.

And the only thing that remains is that, and we disclose it every quarter, that receivable from the United States Postal Service tied to Postal Fleet Services, I think it's roughly 19 and a half million. We or I am absolutely convinced that they owe us the money and we will collect it at the pace that it needs to happen. We would like for the government to go faster, I can't control that. And once that is done, that is the end of Triumphs exposure to the USPS, at least trucking related companies in the postal services. So that's what that came from. We have one left that we're dealing with and then we hope to be done with that.

Jared:

So that lawsuit, or I guess is it a lawsuit or is it just a request for payment from the post office that's still fully outstanding? And is this a charge off or write down associated with that or is this totally separate from that previously discussed, yeah whatever it is with the post office?

Aaron P. Graft:

It is neither reserved nor charged off. It is identified and we've spoken about it in prior letters. I think it's identified in the queue as well. It is a matter of litigation between us and the United States Postal Service.

W. Brad Voss:

Yeah, so Jared, that 19 million is reflected in our past due numbers and our classified asset numbers that you see. But as Aaron mentioned, we've not reserved against it. We fully expect to collect it.

Jared:

Okay, and there's no update on expected timing on that though.

Aaron P. Graft:

The only update I have for you is litigation is never fast, so no, there is not unfortunately.

Jared:

Okay. Okay. All right, that's it for me. Thanks.

Speaker 6:

Our next question comes from Michael Perito from KBW. Michael.

Michael Perito:

Hey, good morning everyone. Thanks for taking my questions. I just had a couple things I wanted to touch on quickly. I mean, I think you guys have hit a lot of it, so appreciate all the color provided already, but just on the expense side, the guidance to hold expenses flat for the remainder of the year, minus maybe a project here or there that could drift that higher. What does that assume around pipeline closure? I think, Aaron, you mentioned when a larger client gets signed on, there's some ramp up and the revenues don't come in till later. But does that include an assumption around onboarding of additional clients or could that be something that drifts that number higher if you guys closed more in the back half of the year than you have in the first half?

W. Brad Voss:

If we close clients of the type that we closed in this quarter, I think you could expect to see a similar bump. I think we called out about a million three in additional expenses this quarter that were related to those client successes. Those are the type of expenses I'm happy to see. Beyond that, I would expect things to remain flat.

Aaron P. Graft:

And I believe everything that is in the pipeline that we expect to close is in the expense guidance we gave. So if we deviate from that expense guidance, that would be new wins that are not currently in the pipeline.

Michael Perito:

Got it. And then just secondly in the release, you spent some time, Aaron speaking about how your second-largest credit exposure is the equipment finance portfolio. And it sounds like you guys over the last few quarters have maybe made some changes or tweaks, I guess for lack of a better way of putting it, of how you underwrite those loans for the environment as it's deteriorated. But just wondering if you can maybe spend an additional minute talking about the credit performance of that book, maybe vintages from 12 to 18 months ago, and how that is seasoned and what your expectations are there as we think about maybe this freight recession lasting for a bit longer here, just would love some additional color.

Melissa Forman:

Sure.

Todd Ritterbusch:

Yeah, I'll take that one. Thanks for the question. Yeah, so as I think about our equipment finance approach to credit, it has always been to be pretty consistent through the cycle, but not necessarily to follow any spike in asset prices. So when asset prices did spike, our natural reaction was just to require down payments, which allowed us us to stay within what we consider to be safe long-term loan to value. We continue to be in that position. And so that allows us in a situation where a carrier is running short on cash today, but has equity value in their equipment for us to think about ways that we can work with them to extend and lower their payments. And in some cases, that is going to be necessary as this freight recession continues. But we are fortunate that we continue to have the collateral coverage that allows us to do that. And we work with long-term relationships. The carriers that we lend to are not every carrier that we provide factoring services to. Most of our factoring clients wouldn't qualify for equipment financing with us. Those that have been through the cycle, and many of them have been through the cycle with our own equipment finance leadership team know how to work through these situations. And so we feel very comfortable with that sort of relationship in place if we get to the point where we actually have to liquidate this equipment. Obviously if we're within collateral values, that helps a lot. But again, the relationships come into play because we have relationships with other buyers and others who can help us to liquidate that equipment, either as a whole for that carrier, if that carrier's going to cease operations or just if that carrier's decided that they want to scale down their operations a little bit. So that's how we're managing through the freight recession.

Michael Perito:

Got it. And just lastly for me, thanks for that. I apologize if I missed this earlier on. I got on a few minutes late, but on the buybacks, the new authorization, I imagine in a really small scope of bank valuations, you guys look like you have a nice valuation today. But I imagine maybe to Gary's point, I mean you're not ready to communicate 2025 yet, but I imagine if you look out that far and the T Pay earning starts ramping, the valuation starts to look much more attractive relative to what your expectations are. And I'm just curious how we should think about your appetite for buybacks after doing the ASR in February moving forward.

Aaron P. Graft:

Yeah, our appetite is the same as we've disclosed previously. We believe in the long-term value of what we are creating. We are building something unique and something that will be hard to compete with at scale. So it's just how do we steward that for the journey? The three things we use capital for, number one is a buffer against uncertainty, you can have a great plan and a recession could put you in a position where you have to dilute yourself and greatly give away future value, we won't let that happen. So we have, if you look at regulatory minimums, we were almost 200 million of capital above that. The second thing we maintain capital for is to acquire or invest in companies that will expedite the journey of TriumphPay to becoming the payments network. You saw that last quarter with an investment in Trax.

There are other companies we're interested in. Those companies are fighting the freight headwinds now, and valuations look very different than if we had jumped the gun and been active in 21 and 22. So we continue to evaluate opportunities there to expand the network. Lastly, yes, we can buy back our shares and we never have perfect timing. This quarter we elected not to buy back any shares. We do have a 10b5 plan in place so that we can trade outside the window if market forces drive our shares down, we don't want to miss that opportunity. And that's just something as a board, we think about, we're not growing our balance sheet, we are trying to grow our revenue and we're definitely trying to grow our profitability. And so over the long term, that would lead you to believe that the more shares we buy back, the better. This quarter we did not. That doesn't mean next quarter we won't, we continue to evaluate the opportunity set of the three things I told you and collectively as a board make our decisions.

Michael Perito:

Great. Thank you guys. I appreciate you taking my questions.

Speaker 6:

There are no further questions on this line at this time. We'll now move over to the phone line for further Q and A. Thank you.

Moderator:

Thank you. Operator, if you would like to ask a question, please dial star five. Once, called [inaudible]. Please ask your question. I'll pause for a moment to compile the queue. Again, if you would like to ask a question, please dial star five. At this time there are no questions. I'd like to turn it back to the presenters for closing remarks. Thank you.

Aaron P. Graft:

Thank you for joining us this morning. We hope to see you soon. Have a great day.