Triumph Bancorp, Inc.

Q1 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

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

Aaron Graft – *Founder, Vice Chairman and Chief Executive Officer*

Todd Ritterbusch – *Executive Vice President and Chief Lending Officer*

Geoff Brenner – *Chief Executive Officer, Triumph Business Capital*

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PRESENTATION

Operator
Good morning, and welcome to the Triumph Bancorp First Quarter 2021 Earnings Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. Please note that this event is being recorded.

Now I would like to turn the call over to Mr. Luke Wyse, Investor Relations Officer. Please go ahead.

Luke Wyse
Good morning. Welcome to the Triumph Bancorp Conference Call to discuss our first quarter 2021 financial results. Before we get started, I'd like to remind you that this presentation may include forward-looking statements. Those statements are subject to risks and uncertainties that could cause actual and anticipated results to differ. The company undertakes no obligation to publicly revise any forward-looking statement.

If you're logged into our webcast, please refer to the slide presentation available online, including our Safe Harbor statement on Slide 2. For those joined by phone, please note that the Safe Harbor statement and presentation are available on our website at www.triumphbancorp.com. All comments made during today's call are subject to that Safe Harbor statement.

I'm joined this morning by Triumph's Vice Chairman and CEO, Aaron Graft; our Chief Financial Officer, Bryce Fowler; Todd Ritterbusch, our Chief Lending Officer; and Geoff Brenner, our CEO of Triumph Business Capital. After this presentation, we will be happy to address any questions you may have.

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

Aaron Graft
Thank you, Luke. Good morning, everyone. For the first quarter, we earned net income to common stockholders of $33.1 million or $1.32 per diluted share. There are so many good things to talk about this quarter, it's hard to know where to start. Therefore, I will start by providing an update on the only negative item of note I have to report on today, and that being the continuing developments associated with our acquisition of TFS. Then we will move on to addressing the many great things impacting this quarter and the future of our business.

We acquired the transportation factoring assets of Transport Financial Solutions, or TFS, from Covenant Logistics Group in the third quarter of 2020. Upon discovering several issues related to TFS post-closing, Covenant agreed to indemnify us for up to $45 million of losses incurred on the $60 million of over advanced receivables acquired in the original transaction. By the end of last year, we had fully reserved for the entire $41.3 million relationship to the largest customer in this portfolio.

In the first quarter, given new adverse developments with that customer, we charged off the entire $41.3 million relationship, which had no impact on earnings, given that it had been fully reserved in prior periods. Covenant has reimbursed us $35.6 million of this charge-off in accordance with the indemnification agreement, which they funded by drawing on their secured credit facility with us. At quarter end, our entire remaining over formula advance position is down from $62.1 million at year end to $10.6 million. In the first quarter, we increased our related reserve by $2.9 million to fully reserve for the remaining $10.6 million balance. This had the effect of increasing our credit loss expense in ACL by $2.9 million.

We summarize the TFS impact in our earnings release. However to state it simply here, the net impact on first quarter results of the additional $2.9 million reserve and the upward revaluation of the remaining indemnification asset led to a pre-tax gain of $1.8 million.

In conclusion on this topic, I want to say something that is not entirely germane to this call. The TFS transaction was a mess, but the leadership at Covenant Logistics Group consists of some of the finest and most honorable people I know in our industry. They have been people of their word throughout this workout.

As it relates to the diverted $19.2 million currently in dispute with the US Postal Service and our former client, the process continues to work its way through litigation, and we have no material updates at this time. Based upon our legal analysis and discussions with our counsel advising us on this matter, we continue to believe it is probable that we will prevail in our action against the USPS and that they have the financial capacity to pay us what we are owed. Therefore, we continue to carry this receivable without a specific reserve at the end of the quarter.

Staying on non-core matters but now turning to good news, we released $9.5 million of reserves due to improved economic forecasts this quarter. Our current ACL stands at $48 million, including an existing specific reserve of $10.6 million on the remaining portion of the TFS acquisition. Prior to the pandemic, our ACL as a percentage of loans was around 70 basis points, and should macroeconomic conditions continue to improve, it is possible that we could return to that level. Our current level is at 0.94%.

Now let's turn to the great core things that happened this quarter. This was another record quarter for TBK on many fronts. We continue to grow our deposit base. Non-interest-bearing deposits grew approximately $285 million and now represent 34% of total deposits. Our loan-to-deposit ratio is relatively unchanged at 106%. Our loan yields this quarter were 7.24%. NIM is 6.06%. Looking out into the second quarter, we projected expenses will grow to approximately $63.4 million, incorporating continued investment in our transportation-related businesses.

Now I would like to turn the call over to Todd Ritterbusch, our Chief Lending Officer.

Todd Ritterbusch
Thanks, Aaron. I would like to start by providing an update on our PPP lending and forgiveness efforts. In 2021, we have originated just over $83 million in new first and second-draw loans, with an additional $10 million that we expect to close soon. With the expiration of the latest round of funding in sight, we recently shifted resources from originating new PPP loans to forgiving existing loans. We have completed the forgiveness process on $74 million, or roughly one-third of the loans made in 2020. We also recognized $1.1 million in PPP fee income in first quarter 2021, with an estimated $6.6 million more to be recognized as we complete the forgiveness process. About 80% of the remaining balances originated in 2020 are in various stages of completing the forgiveness process.

For loans that have been forgiven to date, over 99% of the outstanding balances have been forgiven, resulting in negligible outstanding amortizing loans. Interestingly, we have not yet seen the expected corresponding decrease in deposit balances associated with the forgiveness of these clients' loans.

Moving to our core lending activities, competition for quality loans remains stiff. Some competitors, particularly in our community bank markets, are not yet raising prices on term loans to reflect recent changes in the yield curve. Consequently, we expect to see balances decline in credit only relationships along with additional spread compression as we defend broader long-term relationships that still deliver acceptable relationship returns and are not driven solely by price.

Fortunately, we still have relatively attractive options for deploying our capital and excess liquidity. These options extend beyond our transportation payments businesses to equipment finance and ABL, in particular. The pipelines in these businesses are robust and deal flow is accelerating. We are also putting greater emphasis on leveraging these capabilities, along with our treasury management offerings to support our efforts to build deeper, longer-term relationships with factoring clients.

Overall, we don't expect the balance sheet of the lending organization to grow as fast as it has in the past, but we are increasingly recognizing and realizing other growth opportunities. For example, our new treasury management product sales are already 50% higher than last year and growing rapidly. While it is clear that fiscal stimulus has driven some of our liquidity growth, it's also clear that a significant share of the growth was driven by deepening client relationships.

I'll now turn the discussion back over to Aaron for a transportation update.

Aaron Graft
Thank you, Todd. In the second quarter of 2019 we announced a pivot in our business model. We narrowed our focus towards our transportation businesses, specifically leaning into TriumphPay and Triumph Business Capital. This quarter, we announced a major step consistent with that pivot. With the agreement to acquire HubTran, we are creating an open loop payments network for the trucking industry. By open loop, I mean that multiple capital providers can join the network; it's not just for Triumph. The network will provide tools and services to create frictionless presentment settlement and payment of invoices. In other words, TriumphPay is now becoming more than a B2B payments technology platform. With HubTran, we can use data integrations with parties on both sides of the transaction to materially change the way the industry operates.

On Slide 10, we map out a typical transaction between a carrier, a factor and a freight broker, as it now exists. Everywhere you see a hand is a point of human interaction in the process. For a $1,500 average invoice, this is extremely inefficient for everyone involved. Factoring companies have large staffs to mitigate fraud, manually handle all documentation, paperwork, and to call or email brokers to verify that invoices are valid. Brokers have large staffs to handle those calls and emails and to manually match the document type with the loads being hauled by the carrier.

Now if you flip to Slide 11, we demonstrate how this process will work with TriumphPay plus HubTran in an open loop environment. Before a carrier even takes up the load, their factoring company will be able to see the load in the broker’s transportation management software. After hauling the load, carriers will be able to select the load from their factors portal which is connected to TriumphPay. TriumphPay is the invisible pipe that allows parties on both sides of the transaction, the factoring company and the broker, to share structured data instantly between them. Efficiency, speed and fraud mitigation take a quantum leap forward. Everyone wins.

In order to deliver this process optimization, we needed to complete the technology suite to handle the life of the trucking load in a structured format. You can see how we do that in this combination on Slide 12. Moreover, not only is HubTran a technology fit, it is also a well-known player in the transportation payment space, with a multitude of legacy integrations that will speed up our progress to scale. The technology only works if you have an integration to the source of truth for the data. HubTran brings client relationships and integrations of over 230 freight brokers and 50 factoring companies. As a result of this transaction, TriumphPay plus HubTran will have integrations with 14 of the top 25 freight brokers, as well as several of the largest factoring companies.

Combining HubTran and TriumphPay, we estimate that we touch total transactional volume of $25

billion in brokered freight, which is just under 20% of the market. We expect this transaction to close in Q2, with total intangibles created approaching 90% of the purchase price.
Customer relationship intangible and internally developed software could be 25% to 50% of total intangibles. We expect the acquisition to be a modest drag on earnings, mostly driven by amortization of intangibles, the magnitude of which is still being finalized. With this acquisition, Triumph will have invested more than $120 million in the creation of TriumphPay. We are fully committed to this strategy and we firmly believe that through it we will compound value for all of our stakeholders.

Before leaving this topic, I want to point out the obvious. For the payments network to be effective, we have to deliver a compelling value proposition to all participants. That includes data security for both brokers and factors who join the platform. All factors, including Triumph Business Capital, must operate from a level-playing field. We are intentionally building safeguards into the terms of service for TriumphPay to align everyone's interests and to protect their proprietary data. As a bank and a fiduciary to our customers, this is a well-understood responsibility that we take very seriously.

Now to TriumphPay's quarterly results. We're providing the metrics, as we have in the past, but due to the shift in strategy toward the open loop, our key performance indicators will change going forward. For example, we will de-emphasize QuickPay on our balance sheet in favor of transaction-based fees and the Select Carrier Program will evolve to reflect the open loop focus. Next quarter, we will enhance the TriumphPay disclosures in our financials to make its progress easier to track for investors.

During the first quarter, TriumphPay processed 2.53 million invoices, paying over 77,000 carriers. As of March 31, we have paid 132,000 carriers since inception. Payments processed in the first quarter totaled approximately $2.3 billion, a 27% increase over the prior quarter. Using March numbers only, TriumphPay's annual run rate payment volume was $10.7 billion. We added one more Tier 1 broker in the first quarter and expect to add another in the next few weeks. As a result, we expect volumes to continue to grow.

Finally, we turn to Triumph Business Capital. All I can say is that this team is amazing. While we spend a lot of airtime talking about TriumphPay, everyone would do well to remember that very few companies are able to incubate a fintech start-up the size of TriumphPay and still deliver return on tangible common equity above 20%. That wouldn't be happening with our Triumph Business Capital. We have a tailwind unlike any I have ever seen in transportation, but without the people, technology and processes to catch that tailwind, it would pass us by.

Triumph Business Capital purchased approximately 1.19 million invoices in the first quarter from just over 8,000 clients. Q1 factoring revenue was $37.6 million, excluding the $4.7 million gain on the indemnification asset referenced in the opening. The dollar volume of invoices purchased was $2.5 billion in Q1 2021. That is a 1.3% increase compared to last quarter and a 72% increase over the first quarter of 2020. Average transportation invoice sizes were $1,974 for the quarter. This is the strongest first quarter we have ever seen.

The conversion of TriumphPay to an open loop payments network takes away potential advantages for Triumph Business Capital that our team had spent several years discussing. In the end, however, we think the health of the entire transportation factoring industry is the best course. The market needs several healthy participants to meet the capital and other needs of the smaller trucking universe. Triumph Business Capital will be a leader among those participants. TBC is working on several technology projects of its own to improve efficiencies and the user experience for our customers. Again, I can't say enough about how exceptional our team at TBC is and what they're continuing to do.

Finally, regarding return to office after this most unusual past year, as of April 19, working in consultation with healthcare professionals, we returned to approximately 60% occupancy at our headquarters. Despite the remote environment, we had one of our finest quarters ever. I'm exceptionally proud of our team and their work.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble the roster.

The first question comes from Brad Milsaps of Piper Sandler. Please go ahead.

Brad Milsaps
Hey, good morning.

Aaron Graft
Good morning, Brad.

Brad Milsaps
Aaron, thanks for all the great color. Maybe just to start bigger picture, what do you think is the kind of best measure going forward? Is it still we should be tracking the number of invoices, the number of distinct carriers that you guys continue to add to the platform? Is that sort of the best way to kind of manage your progress? Just trying to get a sense of how the handoff is going to be from traditional type Triumph Business Capital or even TriumphPay type revenue to kind of what you've now developed with the acquisition of HubTran.

Aaron Graft
Yes, it's a great question and one that we owe you some metrics next quarter. But stepping back, if you think about volume and freight broker adoption, of course, that matters. What also matters now that didn't matter so much prior to converting to open loop is, how many factoring companies have chosen to engage on the other side of the network, so that's something you should look for. Are we able to grow the number of participants? If there’s 400 factoring companies and HubTran is engaged with 50 of them existing, how many more will come on because they see the efficiency gain that will come from this? So I would point you to that.

Secondly, is to start to understand fee income. Right now, if you combine TriumphPay and HubTran, on a run rate basis the revenues are around $18.5 million. Of course, for us if we achieve what we're after, we expect that to grow materially, but it's important that that grows in fee-based revenue. HubTran prices things on a per-load basis, a per invoice basis. TriumphPay historically used its balance sheet and generated QuickPay revenue, which is, as you know, spread revenue; that will be deemphasized going forward. So I think those are the things to look for.

But clearly a leading indicator for being successful is the continued growth of volume going through the network. That includes Tier 1 brokers, all the way through Tier 4 brokers. But there's 25 Tier 1 freight brokers who have more than $500 million in revenue, and as we told you, we're now integrated on a combined basis with 14 of those. You should watch and see how many more of those come, and of course that will materially drive volume.

Does that give some amount of clarity of what we'll be pointing you to in the future?

Brad Milsaps
Yes, just need some numbers, right, to back it up. But, yes, I think I get the roadmap. Do you still think there's still shelf space for plus or minus $2 billion of kind of traditional factored receivables? Can that number grow? Just kind of any color around that. Average invoice prices there saw another tick up this quarter as well, not as dramatic as last quarter, but obviously still running very high relative to history.

Aaron Graft
Yes, so let me start off, then I'm going to ask Geoff to finish. Look we want to make clear, TriumphPay is a tool that is built for the entire industry. And so that means that it's built for other factoring companies, Triumph Business Capital will be treated with equal parity to them in that tool. And so, going forward, you're going to see more growth on a just volume basis in TriumphPay because it addresses the entire market. But as to Triumph Business Capital, which as you know for a long time has delivered very high profitability around here, we're still very proud of that business and think it will grow organically. Geoff, do you want to talk about some of the things you think that might affect the next few quarters.

Geoff Brenner
Yes, I think going back and just thinking about the factoring industry itself, it remains highly fragmented. You do have a few large players that occupy a third of the market and then it drops off relatively swiftly to hundreds of other smaller players. I think there will be some consolidation in that. I think, honestly, those that come into the network will enjoy benefits along with Triumph Business Capital. I think those that don't come into the network could become vulnerable to losing market share. So, I think there's a lot of growth for Triumph Business Capital organically. Our plan has always been to go into the market and take market share. We'll do it a little differently in the open loop model, but we're still going to do it.

Brad Milsaps
Great. And just final question for me. Aaron, I know you mentioned the intangible amortization—or maybe for Bryce—can you give us any sense of kind of maybe where to start with operating expenses from a run rate perspective as HubTran comes on board?

Bryce Fowler
This is Bryce. I mean, the run rate expenses of HubTran itself are not that material. I mean, really overall, I mean, their run rate revenue is kind of building up to $8 million to $10 million annualized range over the last few months and are running at around probably in that breakeven before the amortization impact overall, it's kind of what's being plugged in, and of course we'll be spending on technology and integration costs over the next few quarters to plug all that in.

Brad Milsaps
Okay. Thank you.

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

Michael Rose
Hi, good morning guys. How are you?

Aaron Graft
Good morning. We're great.

Michael Rose
Hi, good. I think part of building this open loop network involves buying, obviously, from not only the freight brokers, but also from your competitors on the factoring side. Just wanted to see— I know it's still early days, but where those efforts stand. And obviously, part of the HubTran acquisition comes with 50 factoring clients, I think was a big part of the rationale for the deal. Can you just give us an update on kind of where the open loop network build stands and maybe how long you think this will take to kind of get up and running at this point? Thanks.

Aaron Graft
Sure. So the first thing is, we have to actually close on HubTran, which we would expect to happen in the second quarter. We have to get regulatory approval to do that, which we don't expect to be a problem. On the topic of how is the factoring industry responding to this? Well, I think they respond like you might think so. They know us to be a formidable competitor through Triumph Business Capital. And all of them wanted clarity on what does this mean. Does this mean that a HubTran and TriumphPay combined enterprise is going to either take away features and tools that factors currently use with HubTran— is Triumph going to take that away, is Triumph going to weaponize the data against us and a lot of legitimate questions.

And so, we've been out on the road, meeting face-to-face with the factoring industry and explaining, number one, we would never spend the kind of money we did on HubTran to buy something on a technology multiple to turn around and destroy its client base just as a lead generator. I mean, that would make no economic sense.

Secondly, that we don't think we should be, nor do we think the industry would allow a single capital provider to meet all of its needs. That doesn't make sense. And that our goal is to actually see interchange fee, fee-based revenue growth, and if that grows faster than our factoring business, then great.

And so I think those conversations are in various stages. I think we do have relational capital with the industry that we've always done what we said we would do. And so I think what the factoring industry is waiting on and deserves to see is the written terms of service of how this network will operate and what sort of data security will be provided. And it's not just them. I think, if there’s a major catalyst for why TriumphPay will achieve its long-term goals, is both sides of the network, freight brokers, factors, carriers as well, they want to protect their data. And their data historically has not been protected in the way the market operates. And so we view ourselves as a bank with all of the obligations and regulations around our responsibility there, our responsibility as a fiduciary as the appropriate place to give people an area to interact with each other while protecting their data.

So that's a lot in that. But I would say, Michael, we are meeting and have met with most of the factoring companies that we know well. We'll continue the outreach to others, and it's our job to demonstrate the value proposition for them so that they're excited about this and can see how they can grow and especially make their business more efficient and mitigate fraud risk by choosing to integrate with the network.

Michael Rose
That's very helpful. Maybe just going to TPay for a sec, I noticed that the average invoice size was down a little bit more than I was expecting. Any sort of color there? I know fourth quarter was a little bit more elevated than kind of the second and third quarters of last year. Just any thoughts on expectations of where that number could shake out? Thanks.

Aaron Graft

Just to clarify, are you talking about the average invoice size for TriumphPay?

Michael Rose
Correct, for TriumphPay.
Aaron Graft
There is nothing—we don't see a trend in any of that. Some of that's going to be seasonality. If more refrigerated trucks are moving vis-a-vis the rest of the industry, that will pull prices up. If more flatbeds are moving, that pull prices up. I think what you're seeing in there is just small cyclical businesses inside a greater very cyclical industry. I think our view right now is the spot market will probably not strengthen materially from here. I think it's more likely that it might weaken some because it's been distorted by the difference in where contractual lanes were being priced versus spot rates based upon a whole year of unknowns and uncertainties.

So, it seems to us right now the firmwide view for both TriumphPay and Triumph Business Capital is that average invoice sizes won't appreciate upward or won't go up materially from here, but we don't think they'll go down materially either. And we think utilization rates will stay very high. There is just some really strong secular things going on that appear to be setting up for a very good year for freight.

Michael Rose
Very helpful. And then just one last one for me. Just going back to Brad's question, we're all trying to get at what the amortization could be. Maybe if you could just help us out. Are you going to use like a 10-year sum of the years digits or straight line? Just to give us some sense of what the amortization could be on a quarterly basis. Thanks.

Bryce Fowler
I don't have the number. The valuation work is still being completed, but it'll be an accelerated amortization method, probably sum of years' digits, probably in the range of an 8-year life. But I'm guessing those to some degree here, until that work is completed, but it's probably in that range.

Michael Rose
Okay, very helpful. Thanks for taking my question, guys.

Aaron Graft
You got it.

Operator
Thank you. Next question from Steve Moss of B. Riley FBR. Please go ahead.

Steve Moss
Good morning, guys.

Bryce Fowler
Good morning.

Steve Moss
Just want to follow-up on, you guys mentioned with TriumphPay at $10.7 billion run rate at March, adding additional Tier 1 broker in the coming weeks. Just kind of curious where did that Tier 1 broker take you? And is that additive to the $25 billion you have combined with HubTran?

Aaron Graft
It would be, yes, additive to that, I think you'll see—it would not surprise me if by the end of the second

quarter we were getting closer to 17 of the top 25 being integrated. The one that is in process that we thought would integrate this quarter but slid a few weeks to next quarter probably brings around $500 million to $600 million of volume to the network. But we continue the dialog with the remaining Tier 1 brokers, and of course the mid-sized brokers as well. But you are correct, the run rate as of March is $10.7 billion. And of course, the reason that's higher than for the entire quarter is because we on-boarded a few brokers during the quarter, and so what we're capturing in March was the best indication of what the fully loaded run rate would be that we're starting off with for Q2.

Steve Moss
Okay. And so it sounds like with the pipeline continuing to be strong in terms of additional integrations, then thinking about the HubTran acquisition was a $25 billion run rate, but it sounds like the growth to that number will continue throughout the year, is kind of a fair assumption?

Aaron Graft
Yes, My own view here, Steve, is it is very, very likely that the freight brokerage community will continue to come, because they see very easily for them the value proposition of cost savings, the data protection, all of the things we're offering. The thing that you need to watch for that's important, and I think we will have success at it, but it requires us getting out on the road and sitting down face-to-face with the factoring industry and helping them understand the equal value proposition for them. And so that's a KPI we owe you going forward because you need both sides of the network for a network to exist, and that's what our focus is.

Steve Moss
Right. No, that's definitely helpful, there. And then just in terms of just one balance sheet item. You guys talked about picking up pipeline for equipment finance and ABL. I'm kind of wondering just how to think about where are the yields for those portfolios and just how we think about growth for the full year there?

Todd Ritterbusch
Yes, good morning. This is Todd. I'll answer that question. So yields in equipment finance have remained very steady over the last few months. You can think about that yield being in the 575 range, and new originations coming on at that range, sometimes a little higher, sometimes a little lower. Asset-based lending is a lumpier business, so it's more deal-by-deal, it's hard to use averages. But where we have carved out our niche in asset-based lending, we feel that we're still going to be able to get pricing in the, say L plus 350, L plus 400 range.

Steve Moss
Okay, great. Well, thank you very much for everything.

Operator
Thank you. The next question is from Gary Tenner of D.A. Davidson. Please go ahead.

Gary Tenner
Good morning, everybody. I guess I'm going to ask a few more questions about the TriumphPay and HubTran integration. From a technology perspective, I know you've been working with them. What's the timeframe, assuming a second quarter close, to kind of the integration of the HubTran product with TriumphPay to be able to get it ready to offer the product to the industry? How long does that process take?

Aaron Graft
Yes, Gary, so the first thing is there is no one specific finish line. What we would say is there will be

things we offer almost immediately. There are some things we can do in TriumphPay and HubTran together that helps, for instance, the factoring industry with cash application, and some integrations we can turn on for them.

What you're asking about I think is the ultimate end state, which you saw on Slide 11. Slide 11 would be effectively lights out processing taken as far as we can see. And what that means is that a load shows up for a— that the factoring company or the carrier itself, if they're not factored. But generally, we're talking about a factoring company can see the load and you have structured data that exist before the load ever got picked up by the trucker. And then for the whole life cycle of the load, that data stays structured and there is only one human intervention in that entire process, now would be what you could call lights out processing, which is an efficiency that's never been seen before in our industry.

I think it's more likely that that is a first, second quarter of next year before that is fully completed. It will come on piece by piece as freight brokers fully integrate with the system and the factoring companies fully integrate. But to get to where a material amount of all transactions are done on a lights out basis, I think that's probably 12 months. Along the way, we will be releasing enhancements and different feature sets to both freight brokers and factoring companies that will continue to improve their experience all along that journey to the end game, which I think is, like I said, first, second quarter of next year.

Gary Tenner
Okay, thanks for that. And then just to go back to TFS for a quick second here. The remaining $10.5 million, obviously that $41 million relationship accelerated in terms of resolution via charge-offs. The remaining amount, is anything going on that would accelerate that too? I know the numbers now become quite a bit smaller, but is this still kind of a just a longer term expectation for the workout?

Aaron Graft
Well, that customer, or the customers underlying that portion of the over advanced portfolio are in a different financial position than the one that we charged off. And so of course they're always out looking for their growth capital for themselves. And so it's possible that could resolve in a favorable manner in short order. If we had had any inkling that we thought we needed to charge it off, we would have charged it off this quarter. But like I said, the underlying client situation is different with respect to that piece of the portfolio versus what we charged off.

Gary Tenner
Okay, great. Thanks for the questions.

Operator
Thank you. The next question is from Brady Gailey, KBW. Please go ahead.

Brady Gailey
Thank you. Good morning, guys.

Aaron Graft
Good morning, Brady.

Brady Gailey
So Aaron, with HubTran you're at $25 billion of annualized payments. How big do you think annualized payments can get over time?

Aaron Graft

Well, that's a great question. So brokered freight is somewhere between, in our opinion, $100 billion to $150 billion. I think it's skewing to the higher end of that right now, just given market conditions and invoice sizes are higher, so I think it's skewing to the higher end. We know that the top 25 freight brokers control 40% of the market and the top 1,000 freight brokers control 90% of the market, and then the remaining 10% is divided up among 7,000—plus or minus—very small freight brokers, some of whom are subsidiaries of carriers. So our goal is to go after as much of the 90% of the market as we can, Tier 1, 2 and 3 freight brokers. We also will serve Tier 4, the smallest ones. But if it's a volume game and trying to get to a network scale, that's who we have to go after.

There is no doubt that we won't get them all, for reasons I can't even anticipate, but we think that the value proposition, Brady, is this. Right now, to pay a $1,500 invoice, which is historically what the average would be, we think there's $60 of liquidity and friction cost. Of course, we don't fix the liquidity cost, I mean, somebody needs to get paid their cost of capital to provide instant liquidity to the carrier who needs it. But setting that part aside, there is $30, plus or minus, that's just friction cost to get this done.

My vision, our team's vision is that TriumphPay materially changes that, that that $30 number gets way smaller because data stays structured, fraud risk is mitigated, we use integrations versus emails, integrations versus phone calls, and everything speeds up. And so, if that's true, if that's the value proposition we bring to the market, I would think a lot of the market would want that. No one wants unnecessary friction. They want to provide capital and liquidity, and carriers want capital and liquidity, and freight brokers want to provide QuickPay, and all that should and will happen. But if we can eliminate what is roughly our estimate of $30 of just expense per invoice that's not doing anything for anyone, we think that a large part of the market is going to want that.

So, I can't give you an ultimate target number. I can tell you we're going after the top thousand freight brokers. We've got several hundred of them already, and we obviously want all factoring companies who want to join the network to join the network, and hopefully they see the cost savings available to them and get excited about that.

Brady Gailey
To me, it doesn't feel like $100 billion of annualized payments is unrealistic. Maybe it's a stretch goal, but you guys will basically have the market. So is $100 billion, at some point in the future, an unrealistic stretch goal?

Aaron Graft
I mean, yes, that's stretch, but I wouldn't call it unrealistic if we're delivering a value proposition. And remember this, Brady, beyond brokered freight, which is clearly our focus now, we think the same product should work in a modified format but should work for the shipper market, which is a $250 billion market. Because I know, as of right now, at Triumph Business Capital, for example, 70% of the invoices we purchase from truckers are brokered freight, but 30% are shippers. And so, obviously that means we have trucking customers who haul both in the brokered market, but they also haul directly for shippers.

So our view is if this works, and with further feature sets and enhancements, is, well, where else are truckers hauling, where else does this issue present itself? And that would be with the larger shipper market. And that's certainly a two to three years down the road plan. We've got a lot of work in front of us, just to attack what is right in front of us. And so, in light of that additional market opportunity, Brady, I don't think $100 billion is out of reach.

Brady Gailey

All right. And then, Aaron, can you just talk a little bit about kind of the strategic shift away from QuickPay and towards interchange income with your new network. I mean, will you all still focus on QuickPay, but more of the focus will be on interchange? And then I know it's tough, but is there any way to guesstimate what that interchange fee could be once the network is mature and a few years out?

Aaron Graft
Yes. So let's take the first topic. QuickPay, and where TriumphPay was originally born is— does the same thing as factoring, it's reverse factoring. And so in 2015 when the idea for TriumphPay was dreamed up by Steve Hausman, who was our CEO of Triumph Business Capital at the time, and as we continued to work on it, that was its purpose. We used our balance sheet to hold QuickPays on behalf of freight brokers who weren't capitalized from a cost— it wasn't effective to them to hold QuickPays on their balance sheet. TriumphPay can't do that the same way we started off if we're really going to convert to an open loop network. That would not be fair to the factoring industries integration [audio drops].

Operator
Again, if you have a question, please press star then one. Next question is from Jared Shaw from Wells Fargo Securities. Please go ahead.

Jared Shaw
Hey, guys, can you hear me? I can't hear anything on your end.

Operator
One moment while the Triumph management team reconnects their line. Thank you. Pardon me, everyone. This is the operator. We've reconnected the speakers. Mr. Jared Shaw, you're at the podium for your question. Please go ahead at this time.

Jared Shaw
Hi guys, thanks.

Aaron Graft
Hi, Jared.

Jared Shaw
Hi. Just shifting back to the Triumph Business Capital discussion and your thought that there's going to be more consolidation among some of the smaller factors, just given the strong ROEs and the system you've put in place on that side of the business, what's the appetite for being part of consolidation and being an active consolidator of maybe some of the less efficient capital providers out there?

Aaron Graft
Yes, great question Jared. I think our appetite, given this conversion to the open loop, is probably lower than it has ever been in the past. What we want to see is Triumph Business Capital win on an organic basis. And I think they're doing that. Some of the stuff that we're doing with the user experience and ancillary services and products that are being offered to truckers that Geoff and team, and frankly working with Todd Ritterbusch and our lending team, we're really excited about frankly engaging these factoring clients as bank customers. So we want that business to grow. It is growing at a very large clip.

I think, frankly, where we sit right now at this very day, it is more important to us to demonstrate to the rest of the factoring industry that we have their best interest in mind than it is to go out and try to buy a bunch of competitors. And you know, I mean, the whole point of what we're doing here is to try to grow fee income and be valued more like a fintech payments company, which is what I think we've created for a market that's 8% of GDP, than we are the largest factoring company in the history of transportation. That's less of our goal.

So obviously the profitability, I mean, you see it, Triumph Business Capital is operating at a 6% plus pre-tax ROA, so that pays the bills around here and more. And so we like that. But I don't think you'll see us aggressively be out consolidating factoring companies. I think there are other players who would like to do that, and we think will probably allow them to do that. But that doesn't mean, just last point on that, that doesn't mean we won't look at compelling opportunities, especially on the larger factoring companies, if someone approaches us and wants to merge with us, of course we will look at that. But it's not our stated goal right now to go out and try to gobble up as many factoring companies as we can.

And one last thing on that. I think TriumphPay also brings with it the ability of smaller entrants to now have a little bit of parity with the larger players to the extent they use the network to do their back office processing. And so I think you'll see smaller factoring companies who are really focused on sales and really efficient and using the network to do what historically you had a large staff to do, I think that they've got a shot to build a nice business within this industry. So, it all remains to be seen, but those are our thoughts.

Jared Shaw
Okay, and then just circling back on Brady's question, I think you may have got cut off at the end there, but when we look at HubTran, can you just walk us through or remind us what are they charging now in terms of interchange? And then once you have this ramped up and approach that total addressable market, whatever it is, where do you think that interchange goes to as they work to eliminate part of that $60 of friction?

Aaron Graft
Yes. So right now, and you got to understand, HubTran, as it exists is not a network and so there are things that TriumphPay plus HubTran as a network is going to do that are not part of the world for HubTran as it now exists. But HubTran right now charges between $0.50 and $1 a load to the to the freight broker community for the services it provides, and it charges between $0.50 and $1 a load to the factoring community for the service it provides. Now, it was never able to provide full integration and ultimately fraud mitigation and all the things that come with having a direct pipe between the factoring company and the freight broker.

So this is Brady's question and I'm sorry we got cut off, but I'm going to project Jared, that long-term—and we will continue to add feature sets as we go, but I think once you get to lights out processing where the network owns the risk of fraud in certain aspects because of the way it's structured, our goal would be an interchange fee that is somewhere between 25 to 50 basis points, we think will still allow adequate profitability to be remitted back to freight brokers and the factoring companies. And so that all three of us win and we can create the scale and volume that I think our payments investors would like to see.

Jared Shaw
Okay, great. Thanks.

Operator

Again, if you have a question, please press star then one. Next is a follow-up question from Brady Gailey of KBW. Please go ahead.

Brady Gailey
Hi, I just don't know what happened there, guys. Hey, my other question was just, Aaron, I know longer-term you've talked about getting the company up to 2%, 2.5% ROA or potentially higher. I was just wondering, do you have any updated thoughts on that? Just with HubTran now in the mix and you're now looking at the profitability a little different with interchange fees coming up, is there any update on what the RO of this company could be longer-term?

Aaron Graft
Well, the first thing, so if you strip everything down right now and take the noise out of the quarter, and it is my sincere hope this is the last quarter we have to spend four paragraphs talking about TFS, but if you strip everything down and the ACL release is out, on a core run rate we're running between 1.65% and 1.7% ROA. And we are doing that, Brady, with TriumphPay being a couple of a million dollar drag a quarter. And so if we were running this business as a mature, stable business, we would be at a 2% ROA right now, no question in my mind. But we've chosen over the long run to invest in an ambitious project that is going to transform how payments are done in an industry that's 8% of GDP. And so to do that, you've got to invest. And so, we're going to walk the tight rope of trying to be a top quartile earner relative to our banking peers, all the while continuing to invest and experiencing the amortization expense that comes from all these intangibles with HubTran.

And so, I can't give you, in this new world, a prediction on a steady state 2% ROA run rate. I think the gating question to getting there is at what point does TriumphPay become accretive to earnings versus a drag on earnings? And as we said, we've invested $120 million with HubTran included at least to build this. We think the opportunity set is, frankly, that TriumphPay can be worth up well over $1 billion once we get to where we're going and even beyond that, depending upon how you want to look at what the interchange fees will be and whether you think we can take this to the shipper market and all of those things. And so for us it's acceptable to back off of what I previously told you about trying to get to this 2% run rate to try to incubate this fintech and give it every advantage it needs to win the race to become a ubiquitous payments network for this entire segment of the industry, and that involves hiring good people.

So, if and when that 2% ROA comes is beyond 2022, maybe it's 2023, I really can't project, Brady. What I have to do now is we have to make sure we do everything in our power that getting this far in the process, we set TriumphPay up to complete the race that it started.

Brady Gailey
Yes. I would think the ultimate value of TPay could be a lot higher than $1 billion. If you run the math, $100 billion of payments, you're earning, say, in the lower end of your interchange ratio of 25 basis points, and that's $250 million of revenue. And if you put a high teens multiple on the revenue, which I think is how the market values at, I mean, that's a lot higher than $1 billion.

Aaron Graft
I mean, so first thing just remember that only one out of every two invoices or 50% of the brokered freight market is currently factored, and I'm not saying there won't be a way for us to deliver value on the non-factored portion. But I would start with running that off a 50% financing rate to that market. But yes, I mean, look, it took a great deal of courage for our board and our team to take this step of creating an open loop and giving to the industries, specifically many of our factoring competitors, the same

advantages that Triumph Business Capital would have had and level the playing field. There was a lot of discussion. I mean, it's a scary thing to disrupt your most profitable line of business.

But our ultimate conclusion was this is what the market really wants and needs and somebody is going to do this. And based upon the knowledge we built from being in this industry for 15 years, we were the best equipped to do it if we would just have the courage to go after it. So, I own for you the fact that 2% ROA was the target. I was not thinking open loop at the time. We see open loop now is the future, and so that's going to delay that. But I think for investors, they ought to see that if we pull this off, the valuation, especially if you can take this beyond the brokered freight market into the shipper market, you've got the chance to create something that's worth many times of our current market cap. And so that's what we're running for.

Brady Gailey
Yes, that makes total sense. Thanks for all the color, Aaron.

Aaron Graft
You got it.

CONCLUSION

Operator
This concludes our question-and-answer session. Now I'd like to turn the conference back over to Mr. Aaron Graft for closing remarks. Please go ahead.

Aaron Graft
Thank you all for your time today. We apologize for the technical glitch. But we look forward to seeing you soon, and for our investors, hopefully, in person soon. Everyone, have a great day.

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