Triumph Financial Q4 '24 Earnings Call | January 23, 2025

Luke:

Morning. It's 9:30 in Dallas and we're excited to chat with you this morning. Thank you for your interest in Triumph and thanks for taking the time to join us to discuss our fourth quarter and full year 2024 results. With that, let's get to business.

Aaron's letter last evening discussed the quarter's results and introduced a new segment. We are excited about many things happening at Triumph now, but probably most excited about the opportunities we see developing from the density established in our network. We are helping America's truckers get paid with greater speed, accuracy, and transparency than was ever possible before, and we're allowing our partners to benefit from our transportation technology investments.

That quarterly shareholder letter published last evening and our quarterly results will form the basis of our call today. However, before we get started, I would like to remind you that this conversation may include forward-looking statements. Those statements are subject to risks and uncertainties that could cause actual and anticipated results to differ. The company undertakes no obligation to publicly revise any forward-looking statement. For details, please refer to the safe harbor statement in our shareholder letter published last evening. All comments made during today's call are subject to that safe harbor statement. With that, I'd like to turn the call over to Aaron for a welcome and to kick off our Q&A. Aaron.

Aaron:

Thank you, Luke, and thank you all for joining us today. As always, I hope that you found the shareholder letter valuable both in looking back at 2024 and also looking ahead into the future. I'm sure some of our announcements in the letter will generate many questions so we will get to those quickly, but before I do I want to say just a couple of things. Touching 50% of all brokered freight transactions in the United States is a big deal. It's worth celebrating. Eclipsing over $100 billion in total payments since we created our payment segment is also a milestone worth celebrating, and it's those milestones and all that went into doing those things that has paved the way for where we go from here. It puts us in a position to help the freight industry transact confidently. That is our brand promise. And then we know that if we do that with ever-improving offerings, that our investors are going to be rewarded, our team members will share in this success because our customers will be delighted, and that's the work we're excited to do. With that, we look forward to taking your questions.

Speaker 1:

We will now go to Q&A. If you have connected via Zoom and would like to ask a question, please use the raise hand feature at the bottom of your Zoom window, or if you have dialed in, press star nine. Once called upon, please feel free to unmute and ask your question. Please limit to one question and one related follow-up. Our first question will come from Timothy Switzer with KBW. Your line is open. Please go ahead. And it's star six to unmute, Timothy.

Timothy Switzer:

Hey, good morning. Thank you guys for taking my questions.

Aaron:

Morning.

Timothy Switzer:

Now that we have entered 2025 and have a line of sight into which partners will be online this year, how much volume they will bring, are you able to provide some kind of quantified ranges around what payment volume will look like towards the end of the year and the associated pull-through to revenue on that or perhaps a broad range on what the growth inflection looks like in the back half of the year, particularly with CHRW coming online?

Melissa Forman:

... for that, Aaron. And I think what is the most important metric to keep measuring and keep track of for the payments volume growth success is that of the market share, and so as we said in the letter, we've eclipsed the 50% market share goalpost and now we've moved that out for...

PART 1 OF 4 ENDS [00:14:03]

Melissa Forman:

...goalpost and now we've moved that out for ourselves. And our goals at the end of this year is to be at 60 to 65% of market share, and we have a clear line of sight into that. The other metric to look at is to continue to watch EBITDA performance and improvement as we will continue to improve those metrics throughout the year as well.

Certainly revenue associated with some newer deals will be in the second half of the year and new products. So yes, you'll look for that to be weighted there. But again, EBITDA improvement and 60 to 65% market share. Anything you'd want to add to that, Aaron?

Aaron:

Yeah, I think it's a great question. Melissa hit on the things that we would call knowable. These are things we have enough history to predict and say with specificity, but I think what's embedded in your question, and it's a question frankly I'm interested to see, it was just yesterday that our partner, C.H. Robinson, actually began the rollout of this marketing campaign of Robinson Financial, which we're tremendously excited to support behind the scenes, because that's what we are as it relates to the market, behind the scenes.

And so they're reaching out to thousands of carriers on a rolling basis. Now, what the pull through will look like from that in adding new factoring as a service customers to Robinson Financial, which we support behind the scenes, and the pull through will look like on adding new load pay customers is impossible to tell you. What I can tell you this morning is in the Slack channels that we all monitor in real time with just what went out yesterday, there's been an explosion of activity, but you can't build a trend line off that.

So I've said and I've tried to make it clear, the way we structured our deal with our partner, we want Robinson to be exceptionally successful in this. And for them, success means improving the carrier experience and, of course, that means monetizing it. But the way our deal with them works is we chose to take our opportunity, the financial incentive for what we're doing on the back end.

We're going to see as we grow revenue through this density gain and FAS and load pay and the things we're doing around it, you'll start to see that in the back half of the year. But it is way too early to tell you what that's going to do to EBITDA margin or revenue growth. We just don't know. What I would point out to you is despite the fact that we're making all the investments required to do those things right now, our EBITDA margin is still improving.

So we're trying to be really thoughtful about this and we're really excited about the future, and those two things have to live together. That's the tension between being profitable in the present and preparing for an exciting future. That's how we think about it. I hope that gives you the color you're looking for.

Timothy Switzer:

Yeah, no, that was really helpful. And Aaron, there's also comments in the shareholder letter, which was really helpful, it's great, about how AI and machine learning models have reduced the value of network transactions for factors. Are you seeing any other areas where AI or other technology advances are maybe impacting your value proposition elsewhere or the moat you have in some of your products?

Aaron:

Yeah, man, great question. And so just let me unpack that a little more. I know others will touch on this, and so I don't want to put it all out there now, but let me unpack that a little bit more just so you're clear on... There's two forces that are at work when we talk about the monetization and the adoption of network transactions.

And those two forces were things I didn't fully understand in Q3 of 2023 or even beyond when we conceptualize this idea that we need to connect payors and payees, and that thesis is entirely right, but the specifics of how we're going to monetize this was precisely wrong, but directionally correct. The value was there, but there's two ways in which the value is migrating from where we thought we would realize it to another area.

So the first thing, and just before we get into AI and ML, one of the things we've learned, and like mea culpa, we want you to understand this, is we built a pipe of structured data about this big. And when you look at the legacy software that most factors use, they can ingest it in a pipe about that big. And that's just the technical debt that happens when you use an off-the-shelf product that's several years old, even if you've built technology around it.

And dealing with technical debt, that's a problem all companies who touch technology deal with. And asking factors to modify their product, a core operating system they don't even totally control, in a three-year down market was a tall as. So if the pipe that they can ingest the data we give them is not as big, then the value proposition to them is different. So that's one thing, that's a learning.

That's what we learned from this, that network transactions are valuable, just not quite as valuable as we thought. The second piece, which is more what we've lived on our side of the transaction, is this concept of what can a model trained on all of our historical data do without a human? In 2023, I did not see it. It has been remarkable to see we are purchasing 75% of our invoices for our small carriers, and that's going to move upstream too with what's coming, without a human being ever touching it before funding.

That did not exist in 2023 and certainly not before that. And what we learned is structured data is helpful in that there's lots of ways it's helpful, but that the model is so good that even when it doesn't have structured data, it can make very accurate, better than human accurate decisions. And so as we extrapolate broadly to what we're working on, and we haven't talked about this a bunch with you all, but what Melissa and her team are working on is what we call touch-free processing.

I know people don't live this every day. But if you just visualize it, if on the broker side, and that's the payor, that's the person who owes the money, if our audit product and our audit and payment feature put together can process an invoice and tell and decide for the broker based on rules that they set that that invoice is appropriate for payment without a human being touching it, the audit process goes from days to seconds.

On the payee side, if the instant decision model with all that we've built into it can look at historical predictions for this carrier, this account debtor and these things, and in seconds decide this is probably a good invoice, and then those two systems can touch each other and say, "If we present this invoice to you in this way, would it be approved," and the system on the other side says, "Yes, it would be approved," that's a quantum leap forward.

That is AI and ML changing how network transactions work, but it's still that very thing. It is a network, but the technology has moved so far, so fast that, yeah, it's changing. I don't know how to speak to our moat, so to speak, of I think we have the most sophisticated product in the market on the factoring side. I think our product on the broker side is highly sophisticated, and we have the integrations.

We have the customer trust to go do this. So the world is changing. It changed from what I thought a few years ago and we try to lay that out in the letter so investors can understand and you can also understand how we're working to be part of the change and not disintermediated by it.

Timothy Switzer:

That was great. I really appreciate the in-depth answer there.

Aaron:

You got it.

Moderator:

Our next question comes...

Timothy Switzer:

And if I could get one.... Sorry, go ahead.

Aaron:

I think we need to go to the next person in the queue and we'll come back. If we don't hit them all, Tim, we'll certainly come back and answer it.

Moderator:

All right, our next question will come from Matt Olney with Stephens. Your line is open. Please go ahead.

Matt Olney:

Hey, thanks. Good morning. I want to dig more into the intelligence segment that you discussed in the letter. I'm curious, within this new segment, what's the go-to-market strategy for this initiative? Who are the clients you're going to be targeting? Are they existing or new clients? And how will you target these customers? Just trying to get a better idea of what the revenue ramp could look like for this segment over the next few years?

Aaron:

Yeah, totally understand that question, Matt. So the customers that we are going to start with are largely the 560 TriumphPay customers that we currently serve. Now, it will expand beyond that, but I've said to you before, the top 1,000 freight brokers control 90% of the $110 billion brokered truckload market. So the people we will be taking this out to will either already be a Triumph customer or they will certainly know our name because we touch everybody in brokered...

Frankly, in all of truckload. The reason we're doing it is because some of our largest customers have said to us, "Hey, there are some data things we would like to get from you. And we would like to get it from you because number one, you are not going to end up being a competitor. You are a bank. You are not a brokerage. You don't move freight. And some of the data providers in this industry, they don't have neutrality.

But you have neutrality. And so we trust you with our data. We would like for you to give it back to us in a way that helps us run our business more efficiently." And the second thing is we would like to consume this data from you because you have more of it than anyone. You pay more truckers than anyone. Everyone knows that. They see that. They see what we touch.

And then we would like to consume this data from you because you have precision in your data. You actually have what was paid, not what was asked, not what was claimed, not surveys. Payments don't lie. And so for those three reasons, which I put in the letter, that is why the customers came to us. So what do we do with that? Well, we already have the data.

I mean, not all of the data, but we have a lot of data in what we ingest because of the services we provide to our customers. In order to be transmitting hundreds of millions of dollars a day, you need real actionable data and you better understand that data. And we do that.

And so now we are layering on top of what that data set we have, technology such as the ISO acquisition, which takes the data they have, data we have, and creates quantitative scorecards that we can give back to our customers and that they can give to their customers so everyone can have clarity on how is a carrier performing. And for a broker, that's a big thing.

They want to know how a carrier is performing for their own benefit. And they also want to know what is their scorecard for, how are they doing for their shippers. Again, it's the data we already have. You're just layering the technology and some of the decisioning things that have been built on top of it. So our gross margin coming out of the gate in our intelligence segment is well over 90%, because we're not buying that data from anyone.

It's our data. We do a ton of work to get it because we have to in our factoring and payment segment. So it's taking what we already have and curating it and anonymizing it and positioning it in a way that our customers who already use us for other products can make their businesses better. That's why we did it. It was an ask of an existing customer base. Surely, this will allow us to expand in brokerage.

And eventually we may sell this to people who are not in transportation for other reasons, but today our focus is what can we do to make brokers better and give more transparency and get carriers paid more quickly. That's who we're serving. That's who this segment was built for.

Matt Olney:

And Aaron, just to follow up on that, as far as the revenue ramp within this segment, is that something we should expect anything material in 2025 or is this something that may not ramp until the next few years?

Aaron:

The multi-million dollar question. I mean, I'm always about it should happen now, but let's just look at things. We have set out... Let's look at it in the broader context. What we are doing right now as a company is we have a core community bank that we run, that...

PART 2 OF 4 ENDS [00:28:04]

Aaron:

Community bank that we run, that is designed to be run with stability and efficiency and we have a pretty mature factoring business and we take all of the revenue that we generate from those two businesses, and increasingly from our payments business, and our goal is for our transportation-related businesses to generate over a billion dollars in revenue. By what time? I can't tell you precisely. Today, if you just use exit 2024 run rate metrics, we generate $210 million. So 21% of our way to our goal. 150 million of that on a run rate basis comes from factoring, 60 million of it on a run rate basis comes from payments and almost none of it comes from intelligence. And if you look at that billion dollars, you can kind of divide it into thirds, right? We could be more precise, but I'm not going to be more precise on that. But factoring there's a 300 to $400 million market opportunity payments is actually bigger than we thought when you add load pay in.

Even though we were wrong on exactly what network transactions would be, I think payments has grown because we figured out how to pay carriers and monetize that float and data and the exchange fees, and then that leaves us with this intelligence segment, which is a whole lot of blue ocean there, right? That we only generate less than a million dollars of revenue through some existing partnerships. That needs to grow. I think you will see revenue in 2025 grow, but of course the denominator over which it's growing is very small. It won't be meaningful in 2025, and I would hope towards the back end of 2026 it will. The key to understand is the building blocks are already here, we just have to make sure what we take to the market is built in a way... Our customers have very high expectations of us and we are not going to roll out a product that's half built because we don't think that's the right thing to do.

And even if it makes me get on earnings calls and explain why is this growth slow, why is this growth not here today, you already have the customers, the answer is because we're not going to do it until we can do it or we're not going to do it at scale until we can do it with excellence.

Speaker 3:

Thank you.

Speaker 2:

Our next question will come from Joe Tunis with Raymond James. Please go ahead.

JT:

Good morning.

Aaron:

Morning.

JT:

So in your shareholder letter, you touched on how non-interest expenses are expected to increase. How should we think about the pace of increase in 2025 and can you provide additional color on some of the internal investments you're going to be making?

Brad:

So Joe, as you know, we evolve too fast to really provide explicit guidance beyond the next quarter, but my current expectation is that there will be very modest growth from that 99 million dollar level that we called out for Q1, call it low to mid single digits over the course of the year, barring investments and things that we're not looking at just yet. As far as what comprises those investments, some of it is just natural resets. We've got compensation resets that happen every first quarter. For the last two quarters of 2024, we've been accruing bonuses at less than our full target because we didn't hit all of our financial metrics that we wanted to hit in 2024, and our bonus pool reflects that. We'll reset that to a hundred percent because we do intend to hit those numbers this year. We've also got just general inflation in our healthcare costs and things like that.

So as far as what's driving the increase, the bulk of it is compensation. It does include layering in ISO for a full quarter. We close on that deal in December. And we do have some investments that we've made in both our intelligence segment, we will continue to make investments there, as well as just the operational resources that will be required to ramp up what we're doing in factoring as a service and in load pay. To the extent that that volume comes on faster or slower, we'll adjust accordingly, but that's where those dollars are going.

Aaron:

A hundred percent agree with Brad on that. One thing that, Joe, that you can watch for is with the instant decision model and the things like just for factoring, for example. You should see, assuming the market does not go down again, you should see and we should be held accountable for growing factoring market share. No questions, no excuses, we will do that organically through FAS. And what you really need to see, and what I'm watching for and what I firmly believe will happen is the gearing ratio as we do that is going to be better because we can use all this technology we've built to grow volumes without adding people expenses. Now there will always be some, but our margin should expand. That's why our operating margin should expand. Of course it'll expand if we get a tailwind in the market, but those dollars were spent to build technology to allow us to grow volume without having to add people every time we grow. That's something I would watch for. That's something I'm watching for and something I'll be reporting back to you on is we need to demonstrate efficiency as we grow.

JT:

I appreciate that. And then one more for me here. How should we think about increasing adoption of your factoring as a service product and how will that adoption translate to revenue? Just any sort of type unit economics you can provide would be helpful.

Aaron:

Yeah, so factoring as a service, it's starting with large brokers in the market with C.H Robinson. I don't think you'll see another announcement for a few months, but after that I think you will see other large brokers follow in this space because they have the best marketing funnel, no question, and they care about the carrier relationship and payments touches the carrier relationship. I think you may see other people who are not in the brokerage industry want to use our platform. That will be later in the year. In each of those scenarios, there's a negotiation about what the unit economics net to triumph look like. It depends on a variety of factors. You can look at it a lot of different ways, but the average factoring invoice today on an average, let's just say for a small carrier, $1,600 invoice is going to be roughly $35 of revenue. And then from that, you got to figure out how to pay your salespeople, you got to fund it, you got to all the things you have to do.

That's what you're dividing up. Now you're doing that hopefully thousands and then tens of thousands and then hundreds of thousands and then millions of times. But the thing about FAS for us is that, and I wrote about this in the letter, we have built the factory and it has been built at no small cost, a tremendous amount of investment, and we have a tremendous amount of talented people. And I think about Melissa Free, who even runs that specific business for her. Known her in this business for 14 years and watching her career progression and all the people she leads. Those investments are made. And the reason you build a factory and you build it big and you invest in all the ways that things should move is because you expect that the opportunity is going to come to push a lot of volume through it. And as volume increases, if we hold the headcount steady, which personnel expense is the largest expense in a factoring business at roughly 60% of it, you're going to see operating margin improve and you're going to see revenue grow and you're going to see volume grow.

And if the market gets back to normal, whatever we want to define that to be, but it needs to still move in favor of the carriers, no question, then that's exciting for us. It may not show up until the back half of this year. And we may suck wind in the first two quarters, I don't know, but that's what we're doing. C.H. Robinson will not be the only FAS customer. They'll be the only one through the first half of the year. We're going to make sure we do it amazingly well and we're going to learn from what we did, and then when we do it again, we're just going to make sure we serve our customer's needs in that regard, and our customer is whoever the FAS provider is. That's their product they're taking to the market. We are invisible and behind the scenes and entirely content to be so. I don't know if that gives you exactly what you're looking for, but that's directionally how we're thinking.

Melissa Forman:

I would add one thing to that, Aaron, and that's, when we have control of the factory, the technology, and we talk about the pipe we've built and the pipe that can receive the data with FAS, we are in control of that. So we are able to take network transactions and push them out to the FAS clients so that it can be useful in their models as well. So it is serving multiple participants, but it's also serving the network to allow us to continue to grow density in those transactions so they can be leveraged across the Triumph Enterprise.

JT:

Thank you very much for taking my questions. I'll hop back in the queue.

Aaron:

Thank you.

Speaker 2:

Our next question will come from Gary Tenner with GA Davidson. Your line is open. Please go ahead.

Gary Tenner:

Thanks. Morning everybody. First I had a follow up on your comments, Aaron, on the intelligence segment from the prior question. In the past you've talked about finding ways to monetize data. It sounds like, though, from what you were saying, this was more of a pull from clients and maybe departure from what you had thought about in the past. Is that accurate? So kind of the first step in monetization of the data?

Aaron:

Yeah, I think we had ideas. And if I go back to the acquisition of Hubtran in 2021 when we stepped into this space, we also had ideas and we had the ideas about the network and one of the learnings from that... And I think the network and OpenLoop and all of that is true and right and good. One of the things we learned is figure out exactly what your customer's pain points are, not what you think sitting afar. I mean, hopefully we don't sit in an ivory tower, that's not our goal, but we don't move freight. We have ideas on how to create efficiencies, but the way to do this is tell us what you need. What would be valuable to you? Because our job is to provide your service. And so we started with ideas, but that was very wet cement and then our customers shaped that for us and said, no, this is what we care about. This is what I would like to know.

This is a problem for me that I'm struggling to figure out how to solve, and so great. Then let us see what we can do to be specifically responsive to what it is you would want from us.

Gary Tenner:

And then follow up. Just in terms of load pay, you talked about factors of service, no announcements near term, obviously CHRW, the big focus there right now. Will load pay, will that broader rollout follow a similar case as what you're doing with factoring as a service?

Aaron:

Todd, do you want to take that first?

Todd R.:

Sure, yeah. Of course we're using the same channels to try to sell load pay as we are to sell factoring as a service. And the greatest value for the client comes from when you put those two things together. So the best use case here is to have a client that accepts factoring as a service and then has all of their carriers using load pay. So you need to think about that as our strategy first and foremost. But we do have a lot of other channels that we can use to sell load pay as well, and we're going to explore them in parallel.

Aaron:

To give you specifics, Gary, I mean we have 8,000 plus customers inside of our factoring business, and that represents more than 8,000 trucks because some of those customers have 5, 10, 15 trucks. Eventually an enterprise product is in the works. It won't be rolled out in the short term. And so we hope to be able to serve customers who have 200 trucks and parent-child accounts. There's a lot of things that have gone into our thinking about our long-term roadmap, and we had a great team working on that. So you've got that. I wouldn't call them a captive audience, but an audience we touch three times a week. Then you have our select carriers, which on the active select carrier basis in Triumph Pay, these are non-factored carriers who take quick pays from all Triumph Pay enabled brokers is over, what? 20,000? 20,000. So between those two right there, you have more than 10% of all active carriers.

Then you take C.H Robinson who touches thousands and thousands and thousands of carriers and pays them in their own quick pay program and all the things they do as the market's leading broker, that's another huge pond to fish in. And then there's crossover. So the ability to reach out and get this in people's hands, I don't know that... I think I can say I do not think any virtual wallet that has ever existed in transportation has a better chance of success than Load Pay. I just don't...

PART 3 OF 4 ENDS [00:42:04]

Aaron:

... and transportation has a better chance of success than LoadPay. I just don't think so. And it sits on the rails of a bank, so we don't have to use banking as a service. It lives in our accounts, we control the entire experience to make sure it's excellent. And lastly, we built it not as a fuel card. It's not that. It's so much bigger than that, and we built it in a way that it is friendly towards the cards that are out there. We let our customers move the money to where they want to move it to, when they want to move it to it. And so you add all that together and that makes me very excited about what we're going to go do with LoadPay, and the ability to instantly fund 24 by seven because we use subledgered accounts inside of Triumph.

I mean, that's really hard for someone else to imitate, right? That's really, really hard. And there's features, enhancements, and all the things we're going to add to it. And so this is not something we're doing as a hobby. This is a core part of going from moving the money from the broker to the carrier, the broker, to the factor, to the carrier. This is how we make sure carriers can receive that money instantly and use it instantly, and we get to expand our market. And that for us is really exciting.

Speaker 4:

Great. Thank you.

Aaron:

Yeah.

Speaker 5:

As a reminder, if you have a question, please use the raise hand feature, which can be found at the bottom of your Zoom interface. Our next question will come from Hal Goach with B. Riley, please go ahead.

Hal Goach:

Hey, good morning everybody. I got a...

Aaron:

Morning.

Hal Goach:

... quick question on maybe KPIs on LoadPay. If you had to guess what would be good, better, best spend levels for someone on this over the long run, what would be your guesstimates? Because we can look at other public companies that have a product that's like this, but it looks like the dollars could be a lot bigger on a little bit. There's bigger dollars involved. When someone fills up their tank and spends on a debit card, it's like 60 bucks. When the trucker fills up a tank, it's a lot more. There's a dollars in the trucking business than there is maybe their income. They spend a lot more than they make, probably. Right?

Todd R.:

Yeah. Right. Absolutely. So when you think about the funds flowing into the LoadPay account, one of the things that can happen is through the integration with fuel card, you can end up capturing all that fuel spend as part of the LoadPay spend. You also have the debit card feature, which is capturing all the other spend of the trucker. And then there is oftentimes the need for money to be transferred out of the LoadPay account for other cash needs. And so that's part of the value proposition as well. So basically you capture eventually 100% of the spend of that particular carrier through this process, if you do it right.

Aaron:

And Todd, speak to what we've been talking about, is how the exchange rate...

Todd R.:

Sure.

Aaron:

... changes depend upon where money's spent. Because I think investors could know that.

Todd R.:

Yeah, so what we're finding so far, and this is still early days, is that these LoadPay account holders are using their debit cards very actively. And so when they use their debit cards actively, the question is, how are they using it, how does that translate into interchange? So when you think about debit card interchange, it tends to be very low for a consumer. It's much higher for business transactions. And among business transactions you can have some that are more lucrative than others. For us, so far this month in January, the average interchange rate is about 1.9%. So if they're using that debit card, let's say 50 times a month, and the average per spend or per item spend is $80, you multiply that by about 1.9%, you can get a sense for what's happening already with very new debit card accounts. These aren't even fully mature yet. So that's an example of a single debit card on a single LoadPay account. Now imagine you take a LoadPay account, you could have multiple cards in that account, one for each truck. You can see how that then multiplies further and can become very large.

Hal Goach:

Okay. So when you guys say accounts, it can be multiple cards. It could be a small firm could be on one account.

Todd R.:

Yes. A single unit owner operator could have one card. Right.

Aaron:

But a 10 unit would have 10... It'd be one company, but they'd have 10 active users.

Todd R.:

At least 10. Because once you get larger, then you can have-

Hal Goach:

Are you going to report active users? Are you going to report active users or accounts? I mean, are they one and the same? Okay, thank you.

Todd R.:

No, they're not the same. Yeah, we can report both, if you like. Yeah.

Aaron:

Yeah. Sure, we can report all of it, Brad. Just report it.

Speaker 7:

Yeah, right?

Aaron:

I think, active users... Look, we want investors to be treated the way we would want to be treated if the roles were reversed. Telling you that there's an account, but it's an inactive account, that doesn't help you.

Hal Goach:

Yeah. Yeah, yeah.

Aaron:

Think what we need to tell you is who the active users are, so you can see really what are we monetizing at a per unit economics on active users. So I think that's the right thing to tell you.

Hal Goach:

Yeah. Right. Thank you.

Aaron:

Sure.

Speaker 5:

Our next question will come from Joey Enchunis with Raymond James. Please go ahead.

JT:

... you for taking a couple follow up questions I have. Just to piggyback on some of the LoadPay questions that have been asked, yeah, you seem to have this large distribution channel. Is there any way to handicap what you would view as a success for either account, or active user adoption, exiting 2025? Just trying to appreciate the opportunity over, say the near to intermediate term.

Aaron:

Yeah, I would say between five and 10,000. That's a broad band. If I got more narrow, people on here would be tackling me. But I would view that as a really good start. Somewhere in that band.

JT:

Okay. Then just one more for me here. You discussed about increasing market share in your factoring business, which I believe is currently around 15%. How quickly do you think you'll be able to raise your market share? Is something like 100 basis points a year achievable in your view?

Aaron:

Oh, I think you can get, yeah, 1% for sure. It's interesting, Joe, you made me think of something, because how we think about growing market share. So as Triumph just stayed, it said, we're going to stay at 15% market share with the open loop network, because we thought that was what people cared about. We didn't realize the bigger problem was the technology integration in the early days, we just enabled one company to grow at the expense of a bunch of others. And that's not going to happen anymore. Because it's not good for the industry, it's not good for everyone.

I firmly believe, it has not been proven... I mean, it's not that CH Robinson is the first freight broker to get into factoring. Four of the top 10 factoring companies were started by freight brokers, but they are the first freight broker of their size with their carrier base to say, "We want to be part of carrier payments, and we want to do it at scale, with cutting-edge technology." Their ability to drive adoption has yet to be proven. Of course, we're biased and rooting for them to win in a major way. And I think because that helps them win on multiple fronts. But you also have to think about what is the market opportunity out there. And so we pulled some metrics, Kim pulled them for me. The last normal year in freight, let's call that 2019, although as we said, I don't know if there's ever a normal year, our factoring business had 4, 360 new client applications. Those have been small clients, some large clients, et cetera. In 2021, we had 10,766 applications.

The ability to take market share when you're seeing a lot of apps flow through, people are moving, new entrants are coming, that's when you go get market share. It's an easier time to do it. In 2024, and this is why I would argue, I'm not going to use the term freight recession as a crutch anymore, but I do need you to understand where the freight market is, 2,835 applications. And I would even question of the 2,835 applications, I promise you some of those are fraudulent. Those are bad actors who are buying MC numbers and trying to penetrate the system. Just because we know that, we see it, that fraud. And that's again why our data is so valuable, is to protect against that. But it also tells you that the animal spirits that leads a trucker to leave some other form of employment and start a new carrier, isn't yet here. The value proposition relative to the risk is not here. Will that change in 2025? We all hope so, but as we sit here today, it hasn't changed. When that market starts to turn, we're going to be aggressively marketing in that market, CH Robinson's going to be aggressively marketing in that market, there are other talented competitors. And you'll start to see that, I think pull through to our numbers. I genuinely do. So yeah, to pick up 1% market share in a year, I'd be disappointed if that was all we did. We're not going to double in a year, but I certainly think we'll do better than adding 1%.

JT:

And then just a point of clarity, that CH Robinson factoring volume that they're going to generate, that'll be additive to your invoice purchases? That'll flow through your factoring business? Is that the right way to think about it?

Aaron:

Go ahead.

Speaker 6:

Yeah, that's the way we think about it. All of the factoring as a service invoices will show up on the factoring division.

Aaron:

Now it sits on our balance sheet, so Kim and her team are responsible. We have to think about the credit exposure is ours. You all the things we do for our regular factoring business, we will do there. And so, yeah. And we'll call it out for you, I think. And that's the plan, Kim. We will show you what percentage of the volume is coming through a FAS channel, but it'll all go into that revenue that shows up in our factoring segment.

JT:

Understood, I appreciate it.

Aaron:

Yeah.

Speaker 5:

And there are no further questions at this time. Thank you.

Aaron:

Thank you all for being with us. Have a great day.

PART 4 OF 4 ENDS [00:54:20]