Triumph Financial Q1 '25 Earnings Call | April 17, 2025

Luke Wyse:

Good morning. It's 9:30 in Dallas and we're looking forward to the conversation this morning. To begin, thank you for your interest in Triumph and for joining us this morning to discuss our first quarter 2025 results. With that, let's get to business. Aaron's letter last evening discussed the quarter's results and laid out the core transaction in detail, describing it as the foundation for all our transportation businesses. Despite persistently strong freight headwinds, we are demonstrating the ability to monetize what we've built and the underlying precursors to that revenue later in the year become clearer each quarter.

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 statements. For details, please refer to the Safe Harbor statement published in our shareholder letter last evening. All comments made during today's calls 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 Graft:

Thank you, Luke. I wrote a lot over the last few days to deliver the letter, so I'll only say a little bit before we turn over the call for questions. The headline earnings number is what it is, and the transportation market is clearly suffering from headwinds. However, if you look one level below those headlines, you will see that almost every metric we report improved in our transportation businesses and especially in our payment segment. You can also see that our credit quality improved. So this sets us up for the big question. Can Triumph grow revenue profitability throughout the remainder of this year and beyond despite market conditions?

I think the answer is yes because we have made the investments to get us in a position to do so. As hard as things are right now, what I like about it is that we have an objective test to see if what we have built creates value that is durable enough to grow in a harsh business environment. Great businesses do that, and we have built a great business. There is always the option to reduce investment in order to achieve profitability. It's not the option I prefer or believe we need at this time, but the fact remains that we have choices. With that paradigm set in place, let's turn the call over for questions.

Moderator:

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. Our first question comes from Gary Tenner from D.A Davidson. Please go ahead.

Gary Tenner:

Thanks. Morning everybody.

Aaron Graft:

Morning, Gary.

Gary Tenner:

I wanted to ask about, and you kind of addressed a little bit, Aaron, just in your quick remarks here, but as you talk about expenses, keeping them fairly flat in the absence of material revenue growth, as I think about the revenue outlook for the remainder of the year, it would seem that upside, if you will, to revenue would come kind of from two areas. One potentially load pay, and the second green screens once that gets integrated and you start generating revenue there. Is that the way that you're thinking about it in terms of where you think the revenue opportunities are as you look at over the next three quarters?

Aaron Graft:

Well, Gary, I actually think there's a couple more. You're definitely correct on both of those, so let's talk about a few of those. First of all, you saw, and you've tracked us for a long time, you saw how all the KPIs moved in payments. Now we have said that we were not going to monetize the C.H. Robinson relationship, and that's just one of many relationships, but that one in particular until the back half of the year. So you would expect to see as those KPIs move upwards, not just because of C.H. Robinson but because of other clients, you are going to see that happen. In fact, one of the reasons that I'm excited about Todd leading us in our payment segment is there is a tremendous opportunity to go to our original, our Legacy clients and demonstrate the value we have created for them when we started this product four or five, six years ago of how much better the technology suite, the product suite is. And so there's an opportunity to grow revenue from the existing customer base.

The good news is current customers are paying our quoted pricing. So just organically farming inside of that customer base, it's now time to do that. In addition, while factoring clearly you've got revenue headwinds there, and of course all the uncertainty around tariffs, that uncertainty creates opportunities for us. For example, we are seeing a lot of large trucking companies, some of whom left us back when the run-up in freight was happening and went into commercial banking relationships, they're returning to the factoring market because of their inability to maintain covenants in a difficult environment.

So I think between what you're going to see from our current payments clients, some of whom are paying nothing, some of whom are paying very little, what you're going to see by the fact that we are back on offense in our factoring business. What you're going to see from both green screens and load pay, which you've already evidenced. When you put all of that together, yeah, I mean it's what I said in the opening, we must grow revenue throughout the rest of the year. Now one caveat I want to put on that, Gary, and for everyone, the second quarter is likely to have a tremendous amount of noise in it with the potential closing of green screens and other things, and so it's really perhaps the cleanest site line to revenue will come in the back half of the year and we have lots of levers to pull in order to achieve that.

Gary Tenner:

Thanks for that, Aaron. And then just as a kind of follow-up second question. If I look at the conforming invoice volume, if you look at say second quarter last year to first quarter this year to eliminate some of the noise with the factor that left the network, your conforming invoice volume is up only about three or 4%, in dollar terms, but your fees in the payments segment were up about 12, 13%. So are those two good comparative factors to think about for increased or improved monetization of the payments business?

Todd Ritterbusch:

Sure, yeah, I'll take that one. So those are two different things really. So we charge payments regardless of whether they're conforming transactions or network transactions. And when Aaron refers to the opportunity we have with the Legacy clients versus the new clients, that doesn't have to be network transaction. So we're going to look at the services we provide on payments, think about the value we're delivering to the client and charge fairly for all that. And that can be disconnected from volume growth in a big way.

Aaron Graft:

Yeah. I would just to add onto that, Gary, a network transaction is a subset of the core transaction. The brokers pay us for both audit and payment, whether it's a network transaction or not. The question is on the network transaction is what does the payee pay us, which we only bill factoring companies for that. So you can grow revenue, including high value fee income revenue, away from network transactions. It's our preference to grow both.

Gary Tenner:

Got it. Appreciate the clarification. Thank you.

Aaron Graft:

Sure.

Moderator:

Our next question comes from Joe Yanchunis from Raymond James. Please go ahead.

Joe Yanchunis:

Hi, there.

Aaron Graft:

Good morning, Joe.

Joe Yanchunis:

So let me kind of tackle Gary's question a little bit differently here. So with revenue from C.H. Robinson expected to come online in the back half of the year, you get the wraparound benefit from clients upgrade to Next Gen Audit, you got accelerating adoption from factoring as a service and low pay. I mean, can you help us understand how we can think about the revenue split between the first half and the second half of the year, just all else equal static freight market, no benefit from green screens. Is that something that you could help with?

Aaron Graft:

I mean that is a tough thing, Joe, I mean you know it's not our historical practice to give revenue guidance segment by segment. I mean we give expense guidance. But as to going specifically what we will do in each of those that's-

Joe Yanchunis:

Well, I'm just saying on a consolidated basis.

Aaron Graft:

On a consolidated basis-

Joe Yanchunis:

If it's 60/40 for the balance of the year or something in that realm?

Aaron Graft:

So here's what I would say. The revenue from our transportation businesses right now is 206 million, I think it was we reported in this quarter. That number between now and the end of the year must go up materially in order for us to continue to invest the way we've invested. I would expect that the largest contributors on a gross dollar basis there would be between factoring and payments for sure. Load pay comes more towards the back half of the year. We have a really, what I think is an extremely compelling plan in intelligence and what we're going to go do. But you don't get that close till the second quarter, that ramp goes on into next year. So if I can answer your question well, I think the bulk of the revenue growth comes in payments and factoring.

Joe Yanchunis:

Okay, I appreciate that. And then over the last two quarters, you called out an annualized benefit, about 4 million, from upgrading Legacy contracts to your Next Gen Audit platform and by cross-selling brokers on your payments platform. Can you help us understand the remaining financial opportunity from migrating your partners to the Next Gen Audit? How long are these new contracts and can we expect additional price increases when they come up for renewal?

Todd Ritterbusch:

Yeah, we're still in the early stages of the Next Gen Audit migration and I would expect that you'll see that play out over the course of the next several quarters. So without giving you specific numbers, you can assume that it's well less than 50% of the opportunity that we've captured, but we will capture over the course of the next year.

Joe Yanchunis:

All right. Well, thank you for taking my questions.

Aaron Graft:

Thanks, Joe.

Moderator:

Our next question comes from Matt Olney from Stephens. Please go ahead.

Matt Olney:

Yeah. Thanks, guys. Good morning.

Aaron Graft:

Morning, Matt.

Matt Olney:

Want to follow up on the factoring as a service discussion and just to definitely appreciate that the growing importance of this yet not monetizing a portion of that until the back half of the year. Can you just help us think about some of the longer term KPIs and goals that we should consider within our forecast within this the next few years?

Aaron Graft:

Sure. So the first thing is to understand why is there just one customer using it currently. And I mean when you build a product like this, which is a very high touch product, it's something that every minute of the day has to be acting in a certain way, you want to make sure you get it right. And once you get it right, then you start monetizing it. So that is the phase we're in and we are seeing the growth happen. In the back half of the year we will be adding another FAS client, so that'll bring us to two. In the year 2026, we will add a few more and I think the onboarding of those will be way easier than numbers one and numbers two. As to what you're going to see, I wrote in the letter, our factoring segment generates 144 million in revenue in this quarter, which is a very low quarter for us.

If you go back, we've had quarters in that segment that were significantly above that for many of the quarters. But I specifically said that in the journey to 1 billion that we would expect to see our factoring segment at least double. And I stand by that, and I do mean at least double. And so that revenue that you see in factoring, a lot of that will show up there. As we get more clients on, can we break it out between what is organic Triumph factoring and FAS? Sure we can. But that's where all that revenue will live is in that segment, or the most part of that revenue will live in that segment.

Matt Olney:

Okay, I appreciate that. And then I guess on the green screen side, I totally get the strategic importance of what this brings to the company and how it can monetize the data. What else can you tell us about just the financial impact of green screens? And it's not something that's currently in my forecast, still trying to get additional data. So what else can you share with us about the impact of green screens?

Brad Voss:

There's really not a lot, Matt, that we can share at this time. We have submitted all the regulatory applications and so forth. We do expect to close it in the second quarter. But for the time being, it's still a privately held company and we just don't think it's appropriate to share a lot of financial information at this time. We will, however, assuming that we get that closed in the second quarter, we'll have a lot more to say about that in our next call.

Aaron Graft:

Yeah. And so, Matt, I don't know that this helps your model, but what we can answer to you is this. When you sum up what the industry is spending right now on products that are within the purview of what we intend to do in intelligence, you're well over $600 million that I can calculate and it's probably even higher than that. There is a significant demand for intelligence to help brokers do the things that we laid out in the letter. And so the industrial logic of doing this is that we already have this data. We capture this data in both our factoring and our payments business in a more granular way than anyone in the industry. The second part of that is we know that there is a big addressable market and that people desire this data and they desire it to be delivered in a better way then it's currently being delivered.

So the timing of us getting that onboarded and that ramp, like I said, second quarter is going to be noisy, back half of the year. It takes a while for those things to come into play. But those are the big markers for why, I mean, look, we're sitting here, we understand we could go buy back a significant part of our own shares right now. And we talk about that. We talk about it as a management team, talk about it as a board, just with the dollars we're spending towards green screens. We believe, firmly, that delivering this product at the margins that we expect to deliver at, we'll deliver more long-term shareholder value than buying back shares at these prices. And that's not a decision that's made lightly, it's not a decision that's made in isolation, and it's not a decision that's made without a lot of thinking about are we positioned to do this. And we firmly believe that we are positioned to do this.

Matt Olney:

Thank you, guys.

Aaron Graft:

Sure.

Moderator:

As a reminder, 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. Our next question comes from Tim Switzer from KBW. Please go ahead.

Tim Switzer:

Hey, good morning. Thank you for taking my questions. I was going to follow up on a topic brought up by Joe with the incremental annual revenue you guys have been talking about for upgrading clients. And I think that number you guys mentioned in the letter was 2.4 million. That 2.4 million, is that only from the clients you upgraded and cross-sold or does that also include the completely new partners you guys added? It was all in the same paragraph, so I'm not sure.

Todd Ritterbusch:

Yeah. That was only the clients that we had upgraded and cross-sold.

Tim Switzer:

Okay, nice.

Aaron Graft:

Tim, you're telling me that I didn't write very clearly. I'm sorry, I should have added another paragraph to make that more clear.

Tim Switzer:

No, it was a great letter. Great letter, I just wanted to clarify. And, Aaron, you also talked about how you're shifting your focus to monetizing the payments, and you've been talking about this for a few quarters, but can you talk about the strategy on getting the pricing you're looking for from customers and how these discussions have gone with customers who are on their Legacy contracts as they reach their term? And how many of them are upgrading before that legacy contract is up?

Aaron Graft:

I don't know that we could give you a specific number on that, and Todd may follow up with specifics. But from where does the confidence come that we can move people forward? It's that all the new clients we're onboarding are being onboarded at the pricing we quoted to you for both audit and payments. So if the market wasn't there, we wouldn't be able to charge that for new clients. So now it's just time to go back... And one of the things I think we have not done as well as we should have, and it's just because we're busy, is giving the data back to our customers in payments in a dashboard format that just helps the C-suite understand how much they are saving, how much brain damage they have offloaded onto us, how much we are protecting them from fraud with all the things we do.

I think we have undersold or under spoken about that, and that's something that Todd is going to do a great job of helping us do. I mean the difference between what the product was for someone who's paying the rates four years ago and what the product is today is, it's almost not even comparable. And so it's time to go back and talk to people about that. What else would you add to that?

Todd Ritterbusch:

Sure. So I would say even before I took on this new responsibility, there was a team that was working on repricing these legacy clients. And even without all the resources that I think they need to have to have these conversations, they were having success in those conversations. So we're refining the approach a little bit. We're maybe reprioritizing which conversations we have when, and we're going to put more resource towards having those conversations. But the early indications from those first conversations were positive.

Tim Switzer:

Okay, great. That was really helpful. I'm going to switch topics here real quick, but it's good to see some of the improvement in the credit metrics. And, Aaron, I think you conveyed some confidence in continuing to see improving NPAs going forward. What gives you that confidence given all the economic uncertainty we've seen and rates might not be coming down, we might have some issues with regards to tariffs and that could really impact, I would assume, the equipment finance portfolio as well. Could you just provide some more color there and maybe some details on what you expect for provision expense?

Todd Ritterbusch:

Yeah, I'll jump in there. So first of all, what we saw in the first quarter was the product of past efforts. So nothing that happened in the first quarter was the result of what we really did in the first quarter so much as the stage we had set, recognizing that we had credit stress building in the equipment finance portfolio, for example, from the freight recession. So we had been working on that for some time. We saw some of the fruits of that benefit in the first quarter. But there's still more to do. I would say we're only about 40% of the way through working through the credits that we have to work through. And we've already set aside what we think we need to set aside to complete that process.

So we're really optimistic about what we see in the second and third quarter based on sort of a steady state environment, not assuming a recovery from the freight recession or anything like that. Now you layer in the tariffs, the potential for a deeper recession and we have to look deeper at our portfolio at the sectors and geographies that are most likely to be affected by those things. And I don't want to downplay that at all, we can all come up with very dire scenarios where we'd have a lot of work to do there. But I would say relative to a lot of other organizations and the economy as a whole, we have less concentration in those areas that would be most effective.

Aaron Graft:

Yeah. And just to follow up, Tim, it's what we've said for years that the greatest risk when you are exposed in transportation to profitability is the revenue volatility that comes from so many of our assets repriced every 36 days, right? That's what happens. So revenue volatility, that's out of our control. Now we've talked about it's our job to grow revenue, so we're not going to use that as an excuse. You just got to go add more volume and do the things you've been doing. But the other thing I would say, and I sit on executive loan committee, every asset in the bank of size that is classified, I can tell you the name of, and I know the story behind it, and I know the resolution plan. That's the benefit of not being a $30 billion bank. I know, Todd knows, several of us know that portfolio and we know the lumpy assets that are in there, and we know what the resolution plan is.

Moreover, in equipment finance, those loans amortize down very quickly. And here's the newsflash, we've been in the bottom of a freight cycle for now over three years. So many of those loans, in fact, probably the majority of those loans were originated and have seasoned at a time in which it's been really hard in freight. Can tariffs make it even worse? Maybe. But these aren't loans that we're dealing with that were made back in 2020 and early 2021 when it seemed like trucking was forever going to go up. And I know that because I see them and Todd sees them. So we can't tell you quarter to quarter exactly when and what will happen. But, along with Todd, I firmly believe that credit will not be something that is a material topic of conversation for this institution towards the back half of this year. What we're going to be talking about is, did you grow revenue and did you do it at a margin that's accretive to the bottom line, and we fully intend to do that.

Tim Switzer:

That's good to hear. It'll be good to see things turning around to back half of the year. Thank you, guys.

Moderator:

There are no further questions at this time. Thank you.

Aaron Graft:

Thank you everyone for joining us. Hope you have a great day and we'll talk to you next quarter.