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TBK - Q2 2015 Triumph Bancorp Inc Earnings Call

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CORPORATE PARTICIPANTS

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Brad Milsaps *Sandler O'Neill - Analyst*

Bill Carcache *Nomura Securities - Analyst*

Steve Moss *Evercore ISI - Analyst*

Timur Braziler *Wells Fargo - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Triumph Bancorp second quarter 2015 earnings conference call.

At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time.

(Operator Instructions).

I'd now like to turn the conference over to our host for today, Mr. Luke Wyse. Sir, you may begin.

Luke Wyse - *Triumph Bancorp Inc - VP - Finance & IR*

Good morning. Welcome to the Triumph Bancorp conference call to discuss our 2015 second quarter financial results. I am Luke Wyse, Vice President of Finance and Investor Relations with Triumph and I would like to thank you for joining us this morning.

I'll go over a few housekeeping items and then hand it over to Aaron Graft, our CEO, to lead the presentation. Triumph Bancorp filed its second quarter earnings release this morning as well as a slide deck and these items will form the substance of our call this morning.

If needed, copies of this earnings release and slide deck are available on the Investor Relations section of our website at www.triumphbancorp.com or by calling our Investor Relations department at 214-365-6936.

To begin, I would like to offer a few reminders. Some of the remarks made today will constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. We intend such statements to be covered by the Safe Harbor provisions for forward-looking statements contained in the Act. We caution you that forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, and uncertainties that are difficult to predict.

Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results or events may differ materially from those expressed in or suggested by the forward-looking statements.

Any forward-looking statement made by Triumph on this call speaks only as of the date hereof. New risks and uncertainties come up from time to time and it's impossible for Triumph to predict these events or how they may effect.

Triumph has no obligation and does not intend to update any forward-looking statements after the date hereof except as required by applicable law.

On this call we may discus a number of financial measures considered to be non-GAAP under SEC rules. Reconciliations of these financial measures with GAAP are included in the earnings release and slide deck filed this morning. At the conclusion of our remarks, we will open the telephone lines for Q&A.

With those reminders, I would like to turn the call over to Aaron. Aaron?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Thank you, Luke. Good morning, everyone. Thanks for joining us. It's my pleasure to review our second quarter results with you. After I finish, our CFO, Bryce Fowler, will provide additional comments. Dan Karas, our Chief Lending Officer, and Gibran Mahmud, our Chief Investment Officer at Triumph Capital Advisors are also joining us for the Q&A.

I can find very few things not to like about our second quarter. We improved in almost every metric from our core earnings in the first quarter. Net income available to common shareholders was $4.5 million. Fully diluted earnings per share were $0.25. Our significant improvement in earnings this quarter over the prior quarter was driven by exceptional loan growth and improved net interest margin. Growth in total loans held for investment was $141 million, representing a linked quarter growth rate of 14%.

Our commercial finance loan portfolio grew $82 million this quarter, representing a linked quarter growth rate of 21%. This growth was diversified as each of the products within the commercial finance portfolio experienced net growth, and this portfolio in total has now grown to $468 million or 41% of our total loan portfolio.

Net interest margin for the second quarter increased by over 100 basis points from the first quarter. Our yield on loans and net interest margin for the second quarter both adjusted to exclude the effect of loan discount accretion, were 8.96% and 6.78% respectively. Year to date we've grown tangible book value by $1 per share which is an increase of 9%.

I believe that this quarter demonstrates what we have talked about in investor meetings and on earnings calls, that our core earnings growth would continue to improve as we reap the benefits of investing into our platform the last several years. M&A, which we expect to provide the runway for core growth and further improve our operating efficiency and earnings, remains top of mind and we remain engaged in multiple discussions along those lines.

On our last call, we addressed how the seasonal slowdown we experienced in the first quarter impacted several of our businesses, and in particular we discussed the impact of lower oil and diesel prices on Triumph business capital, our factoring subsidiary. The balance of outstanding receivables at Triumph Business Capital increased 20.2 million or 12.9% this quarter to $176.2 million.

We purchased 276,000 invoices this quarter totaling $417 million with an average invoice size of $1,509 versus the first quarter in which we purchased 237,000 invoices, totaling $365 million with an average invoice size of $1,539. We remain very pleased with this segment as we continue to gain market share and control credit costs. Profitability remains strong even without the benefit of higher oil and diesel prices that increased average invoice sizes in prior quarters.

With that, I'd like to turn the call over to Bryce to provide his thoughts on our financial performance in the second quarter. Bryce?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Thank you, Aaron.

This was a very good quarter on multiple fronts. For the second quarter net income was $4.7 million and net income available to common stockholders was $4.5 million resulting in earnings per share both basic and diluted of $0.25.

This is an improvement from the first quarter fully diluted earnings per share of $0.14 after excluding impact of the Doral Money acquisition. Reported year to date net income available to common stockholders is $18.3 million, or $1.1 per fully diluted share.

Slide seven and eight, as well as the table that's attached to the earnings release, present the current and historic mix loan portfolio. Loans held for investment were $1.153 billion at June 30th, representing an increase quarter-over-quarter of $141.2 million or 14%.

On a year to date basis, total loans were up 14.6% and the commercial finance portfolio was up 24.6%.

Aaron addressed the performance metrics on our factoring segment, so allow me to fill in some additional details on overall loan growth.

The total factoring book, including the factoring segment, had balances at nearly $200 million as of June 30th, up from $171 million as of March 31st. From March 31st through June 30th, our combined asset-based lending loan portfolio from our Triumph commercial finance and healthcare groups grew approximately $33.8 million or 35.2% link quarter.

Over the same period, our equipment lending group grew $19.7 million, or 16.7% linked quarter. Our mortgage warehouse business grew $35.8 million due to increased market activity in the second quarter and increased utilization by our existing clients.

We also acquired approximately $30 million in shared national credits during the second quarter to improve earnings on excess cash as we assess acquisition targets.

Interest income on loans in the second quarter include the benefit of $1.7 million of delinquent interests collected upon the resolution, for cash, of a $5 million plus nonperforming loan in the Legacy Loan Portfolio acquired from Equity Bank and approximately $600,000 of fees received in conjunction with the restructuring of an asset-based healthcare loan.

This $2.3 million of interest and fee income, although not unusual in nature, was larger than typically reported on individual credits. These amounts are included in the calculation of all of our ratios presented in the tables in the earnings release, including loan yields and interest margin, including adjusted ratios that exclude loan discount accretion as well as efficiency ratio.

Not withstanding this $2.3 million benefit, we saw significant increases in the yield on total loans and net interest margin in the second quarter over the first quarter of 2015. Yield on loans increased 99 basis points to 9.49% as our relatively higher yieldingcommercial finance selling portfolio increased from 38% percent of total loans as of March 31st of 41% of total loans as of June 30th.

The adjusted yield on loans, which excludes the impact of approximately $1.5 million of purchased loan discount accretion recorded during the second quarter increased 92 basis points to 8.96%. As of June 30th, we had $14.4 million of remaining loan purchase discount of which we expect $7.8 million to accrete into income over remaining lives of the associated loans.

Net interest margin increased 109 basis points to 7.2% and adjusted interest margin increased 102 basis points to 6.78% as the average balance of loans as a percentage of average earning assets increased quarter over quarter.

We earned non-interest income of $4.8 million for the quarter ended June 30th which includes $1.3 million in asset management fees. Triumph Capital Advisors now has approximately $2 billion of assets under management earning approximately 37.5 basis points on average in management fees.

We amortized $208,000 during the second quarter of the intangible asset value assigned to CLL asset management contracts required from Doral Money. For the second quarter of 2015, non-interest expense totaled $19.6 million compared to $20.8 million for the first quarter. Excluding the Doral Money transaction, non-interest expense totaled $18.8 million in the first quarter.

Strong loan and revenue growth resulted in decreases in our - efficiency ratio and net non-interest expense ratio on a quarter over quarter basis.

Slide 13 presents our improved asset quality metrics. At the end of the second quarter, non-performing assets decreased $4.5 million to $19.3 million and non-performing assets as a percent of total assets decreased 36 basis points.

From March 31st to June 30th, our allowance for loan and lease loss increased from $9.3 million, or 92 basis points of total loans, to $11.5 million, or 99 basis points of total loans. The provision for the loan loss expense this quarter was $2.5 million.

Net loans charged off were $365,000 for the June 15 quarter, representing a non-annualized charge off rate to average loans of 3 basis points.

For the quarter, we established specific allocations for the allowance for loan loss of $690,000 on two non-performing commercial finance credits.

Also, as the Legacy Loan Portfolio that Triumph Community Bank turns over, the new loans become subject to our allowance evaluation. There are approximately $161 million of these legacy loans excluded from the allowance at the end of the June quarter versus $218 million which were excluded at the end of March.

And of course, provision for loan loss expense includes allocations for the $141 million of net loan growth experienced during the quarter.

With that, I'd like to turn it back over to Aaron.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Thank you, Bryce.

To wrap up before taking questions, I just want to say again how pleased I am with this quarter's results. We remain confident in our long-term vision for Triumph and confident in our ability to execute our plans to get us there.

I believe at this time we would like to turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question comes from the line of Brad Milsaps of Sandler O'Neill. Your line is open, please go ahead.

Brad Milsaps - *Sandler O'Neill - Analyst*

Hey, good morning.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Good morning, Brad.

Brad Milsaps - *Sandler O'Neill - Analyst*

Aaron, great loan growth this quarter. Just curious, you know, kind of what you think your pipeline looks like as you're, you know, moved through the third. And maybe just any - any more color on specifically factoring. I think you noted last quarter you added about 158 new customers, average invoice down a little bit. I know the price of oil is - is bouncing around. Any further color there would just be great.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Yes, so, I think in meetings in the past, Brad, we said that we thought out commercial finance book was going to grow 25% this year. Obviously we're on a pace to blow through that number and we almost did that in this quarter alone.

I would say, as we look at the pipeline, it's tough out there. I mean, competition is tough, pricing is tough. I suspect the third quarter we will grow but we will most likely not grow at the pace in which you saw us grow in the second quarter, but we do expect there to be growth. But as I said, it's very competitive.

As far as factoring goes, you know, we still suffer from the fact that invoices sizes, which were in the $1,700 range are now in the low $1,500 range. Actually Q2 to Q1, they made a $31 decrease in invoice sizes. The thing that worked for us in the second quarter is the average purchases per client were up in the second quarter, which -- that plus the fact that we added clients, allowed us to purchase about 51 million more this quarter than last.

And so, in Q2 over Q1 the average number of clients were up almost 180 new clients. And so what we continue to see is exceptional growth in new clients in this business, I think, as a result of our reputation in the industry, and as a result of our increased marketing efforts we've rolled out. If you were to visit mytriumph.com, you can see one of the new portals we've rolled out for clients and prospects.

In addition to those new clients we have, we certainly have client attrition every quarter and we do our best to monitor that and to lose as few -as possible. But in sum, Brad, I think all of our commercial finance lines are poised to continue to grow. I don't think you'll see the spike you saw Q1 to Q2, but we expect to see growth throughout the remainder of the year and we all have no idea, obviously, what's going on to happen with oil and gas, but I think we're doing an exceptional job given where that market is currently.

Brad Milsaps - *Sandler O'Neill - Analyst*

That's great. That's very helpful. And just a follow-up on Bryce's comments regarding, I think he mentioned $30 million in SNCs purchasedthis quarter. Would you guys anticipate doing more of that? I'm just curious, you know, kind of what types of, you know, SNCs you bought into this quarter and any outlook there would be great.

Aaron Graft - *Triumph Bancorp Inc - CEO*

I'll let Gibran talk about just generally what we bought. I would say we do not anticipate doing that in material amounts going forward. That was, you know, what we believe to be a good investment for excess cash at this time. That cash sooner rather than later we expect to be deployed in an M&A transaction. So, this, you know, this is not something we see as a growing portfolio but more as a place holder for the time being.

Gibran, you want to talk about just generally the credits?

Gibran Mahmud - *Triumph Bancorp Inc - CIO*

Yes, sure. Brad, this is Gibran. The SNCs that we have aren't, you know, two or three banks or five or ten banks, they're broadly syndicated credits with hundreds of banks involved and they're - the average size on the SNCs that we own was about $1.6 billion in facility size, so they're big large credits to corporations, all the rail businesses, all that cash flow. No land deals or anything like that, BB-rated credits.

So, overall classify them is large, safe credits yielding somewhere in the neighborhood of 3.5% to 4%.

Brad Milsaps - *Sandler O'Neill - Analyst*

Great. Thank you, guys.

Operator

Thank you. Our next question comes from the line of Bill Carcache of Nomura. Your line is open, please go ahead.

Bill Carcache - *Nomura Securities - Analyst*

Thank you, good morning. With the significant increase that we saw this quarter in your loan to deposit ratio, can you guys talk about, you know, how high you feel comfortable taking that ratio and is it reasonable to expect that some of the discussions that you mentioned that are taking place are with organizations that would provide incremental funding - deposit funding capacity?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Sure, Bill. Let me take that first bit. The answer to your second question is absolutely. That would be something that would be a part of any institution we're looking at is the availability of deposits to maintain, as we talked about, the runway for the core growth that we're experiencing. You know, as we've talked about things in the past, we want to be funded with a transactional solid deposit base. That's going to ebb and flow as you do M&A.

As you noted, because of the growth, we've had we've gone through a lot of the deposits. And Bryce will talk about kind of what we see deposit growth looking like organically here, but I just want to answer that second question that that is a key consideration for M&A.

Bryce, do you want to talk about the other part of this question?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Sure. Thank you. You were asking about the loan deposit ratio and kind of what levels can we image that being...

Bill Carcache - *Nomura Securities - Analyst*

Right.

Bryce Fowler - *Triumph Bancorp Inc - CFO*

So, we're obviously at the higher end of the range now, the loan deposit ratio. So, just during that quarter, the second quarter, we did have, you know, pretty rapid growth including our mortgage warehouse line in there which is a fairly volatile lending in there. So we tend to want to fund that with relatively short-term funds, you'll see our borrowings went up a little bit at the end of the quarter helping to fund that.

Overall, as Aaron said, I mean, the growth rate in our core deposits of regular checking accounts, money markets, customer relationships, and operations are not going to grow as fast as the overall loan book, especially in the commercial finance portfolio. We've talked about that several times. So, the long-term solution is, as Aaron talked about, is to help us on that side, on the M&A side.

In the interim I think we have plenty of capacity to continue to grow deposits relative to keep up with the loan growth. Frankly, a lot of that will be driven by time deposits in the interim.

Bill Carcache - *Nomura Securities - Analyst*

Yes, that's really helpful. Thank you. As a follow-up, I had a question on your efficiency ratio was obviously significantly better than expected this quarter and it seems like probably at least part of that driven by the top line strength that you - you guys reported this quarter. You just mentioned there in that you don't expect to grow at the same pace as you did this quarter.

So, can we kind of take that to mean that the efficiency ratio probably rises a little bit from what we saw this quarter for next quarter?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Yes, I think that's probably a fair assessment, you know, but I would offset that. So, we expect to complete the merger of our subsidiary banks most likely on 10/1. You know, following the completion of the third quarter.

There will be some one-time expenses associated with that followed by what we expect to be longer term net efficiencies achieved from that. If you're just talking about one quarter out, yes, maybe that's fair but I think we continue to be gain efficiency as our portfolio continues to grow.

So, this was an exceptional quarter for a couple of reasons but it wasn't exceptional in the trend line. The trend line is still going the same direction where our core earnings are growing at a much more rapid pace than our expense levels are.

Bill Carcache - *Nomura Securities - Analyst*

That's very helpful. Thanks, guys.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Thank you.

Operator

Thank you. Our next question comes from the line of Jared Shaw of Wells Fargo. Your line is open, please go ahead.

Timur Braziler - *Wells Fargo - Analyst*

Hi, good morning. This is actually [Timur Braziler] filling in for Jared.

My first question relates back to the loan and deposit ration. If I understand correctly, you think that you'll be able to grow deposits excluding an acquisition kind of in line with growth - with loan growth here, or is the loan and deposit ratio really going to act as a governor for potential balance sheet growth until a deal is - is sound?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

My deal is, we'll be able to create the deposit growth, with the loan growth overall.

Timur Braziler - *Wells Fargo - Analyst*

Okay. And then looking on the M&A side given the recent kind of fluctuation on the energy prices within your geographies, does that act as a potential stimulant for M&A activity? Are you seeing deals flow kind of and deal talks accelerate in recent months?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Well, you know, we see a narrow sliver of the market the people that we're talking to I would say that oil and gas prices, having done what they've done, has certainly brought some pricing expectations back to Earth for people we would talk to locally. As you know, we look in other geographies as well.

So, yes, I think in a way it has probably acted as a stimulant for some of these discussions. I think you still have a lot of institutions who are sitting with the hope and/or expectation that oil and gas prices will rebound which would, you know, improve what they would hope to be their multiple.

Timur Braziler - *Wells Fargo - Analyst*

Okay. That's helpful. And then just lastly looking at the CLO business, I think last time we spoke the expectation was for two new issuances by the end of the year. Is that still something that we should be expecting?

Aaron Graft - *Triumph Bancorp Inc - CEO*

That's our expectation. As we've talked about in the past, we expected future CLO issuance to be in the form of an independent entity, what we've called in the past a collateral management vehicle that we don't control, an independent entity that -is. There's nothing to report to that end yet. I suspect that that entity will be created and that TCA will see AUM growth by that amount through the end of the year.

Timur Braziler - *Wells Fargo - Analyst*

Okay, perfect. Thank you.

Operator

Thank you. (Operator Instructions).

Our next question comes from the line of Steve Moss of Evercore. Your line is open, please go ahead.

Steve Moss - *Evercore ISI - Analyst*

Good morning.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Good morning.

Steve Moss - *Evercore ISI - Analyst*

I was wondering if you could just start off with the total average balances for factor receivables this quarter if you have that number off [quote].

Aaron Graft - *Triumph Bancorp Inc - CEO*

I think it's right at $200 million total factory.

Bryce Fowler - *Triumph Bancorp Inc - CFO*

That's the end of the quarter.

Steve Moss - *Evercore ISI - Analyst*

The average for the quarter?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Hold on just a second.

Steve Moss - *Evercore ISI - Analyst*

Okay.

Bryce Fowler - *Triumph Bancorp Inc - CFO*

I know we ended the quarter with $200 million. You know, we have not been reporting average balances by line, including that one. But the growth throughout the quarter was pretty even.

Steve Moss - *Evercore ISI - Analyst*

Okay.

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Best I could answer that.

Steve Moss - *Evercore ISI - Analyst*

That's helpful. And then in terms of the - the provisioning this quarter, you know, how much was growth and how much was for the restructured health care?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Well, I think overall I think I mentioned we had - excuse me, I'm getting a little choked up here. Kind of walking through the provision expense, we had $365,000 of chargeoffs. We established a total of $690,000 to specific reserves inside the ALLL. And we also had the churn on our Triumph Community bank legacy portfolio that as those loans renews it's almost - they are like new loans, it becomes subject to ALLL.

So, in rough numbers there's probably close to $50 million of loans in that portfolio that had an ALLL put on them - on this month. So kind of that plus the $141 million is kind of a way to look at it as how much new loans provided provision on.

So, really the difference in the $2.5 million and $1 million almost 1 in charge offs and the specific reserves was all tribute of growth.

Steve Moss - *Evercore ISI - Analyst*

Okay. That's helpful.

And then, with regard to the mortgage warehouse loans growth this quarter, what's the yield on that portfolio?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

It's, you know, again was not - number has been reporting but, you know, like most of those programs it's in the fours.

Steve Moss - *Evercore ISI - Analyst*

Okay, thank you very much.

Operator

Thank you. And I'm showing no further questions in queue. I'd like to turn the conference back over to management for any closing remarks.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Thank you, everyone, for joining us today. As I mentioned, as we look forward our pipelines look strong and we remain focused on growing deeply into the markets we serve. We're executing our strategy and remain open to and are seeking acquisitions that create value as we work to improve the efficiency of our operations.

We thank you for your support and your time and I hope you have a great day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect. Have a great rest of your day.