Triumph Bancorp, Inc.

3rd Quarter 2018 Earnings Conference Call

October 18, 2018 at 8:00 a.m. Eastern

CORPORATE PARTICIPANTS

Luke Wyse – *SVP Finance and Investor Relations*

Aaron Graft – *Vice Chairman and Chief Executive Officer*

Bryce Fowler – *Chief Financial Officer*

Dan Karas - *Chief Lending Officer*

PRESENTATION

Operator
Good morning. And welcome to the Triumph Bancorp Third Quarter 2018 Earnings Conference 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. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Luke Wyse, SVP, Finance and Investor Relations. Please go ahead.

Luke Wyse
Good morning. Welcome to the Triumph Bancorp conference call to discuss our third quarter 2018 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 in to our webcast, please refer to the slide presentation available online, including our Safe Harbor statement on slide 2. For those joining 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; and Dan Karas, our Chief Lending Officer. After the presentation, we'll be happy to address any questions you may have.

At this time I would like to turn the call over to Aaron. Aaron?

Aaron Graft
Good morning. For the third quarter we earned net income to common stockholders of $9 million, or $0.34 per diluted share. Adjusted for $4.5 million in after-tax transaction costs related to our acquisition of two bank holding companies during the quarter, net income to common shareholders was $13.5 million, or $0.51 per diluted share.

There are two material items this quarter worth mentioning. First, on September 8th we closed on the acquisitions of two bank holding companies. One of these holding companies owned two banks, so we acquired three banks in all. The footprint of these acquisitions is in Colorado and New Mexico, with combined $753 million in total assets, $288 million in loans and $675 million in attractive deposits. This reduced our loan-to-deposit ratio 16%, to 102%. The transactions also increased our branch count to 61 across six states, and give us 37 locations in Colorado and entry into the New Mexico market.

Second, on September 20th we announced a $4 million charge-off on a single asset-based lending relationship, for which we carried a $700,000 specific reserve. A substantial portion of the loss resulted from fraudulent conduct believed to be perpetrated by one or more of the employees of the borrower. As a result of that loss, we increased the estimates of the allowance for loan loss reserve recorded against the remaining asset-based lending portfolio by $2.5 million, as a result of the higher loss factors being incorporated into our allowance for loan loss reserve methodology. The total provision for loan loss attributed to this single credit decreased earnings per share by $0.16 after-tax.

I want to pause here and say emphatically and unequivocally how disappointing this loss was, not only on the part of the borrower who perpetrated it, but also for our team. Detecting fraud is part of our business. We have to be better than this, and we will do our best to be better in the future. In recent weeks we have performed a review of 100% of the remainder of the ABL portfolio, and did not identify any additional issues. We have also made changes in our personnel and risk management processes to improve our risk management within our ABL team.

Now let me also say that, notwithstanding the real loss due to this fraud, this was our best quarter ever for our core business. If you extract the costs associated with the transactions and the fraud loss discussed above, we were close to hitting our goal of delivering a 1.8% return on average assets. I point this out not to minimize the transaction costs for the loss, those are real, but to direct your attention to the growing earnings power of our core business.

Beyond strong core earnings, our asset trends showed continued improvements. Net charge-offs were $4.1 million, or 12 basis points of average loans in Q3. Excluding the $4 million fraud related charge-off I just outlined, net charge-offs for the quarter were approximately $52,000. Year-to-date net charge-offs are 19 basis points of average loans, roughly 6 basis points excluding the ABL fraud loss.

The goal for us was to reduce our non-performing asset ratio to lower than 1% by year-end. We achieved that goal this quarter, as non-performing assets as a percentage of total assets moved lower by 35 basis points to 93 basis points at September 30th. Non-performing loans as a percentage of loans were down 30 basis points, or 1.13%, driven by a $6.2 million decrease in non-performing loans and the addition of $288 million of loans from the aforementioned bank acquisitions.

Loan growth for the quarter was $316 million, inclusive of $288 million of loans acquired from the three purchased banks. At first glance, organic growth in the quarter appears relatively flat overall at $28 million. But excluding our mortgage warehouse business, we grew loans organically by $95 million, or 3.3%. The period end balance of mortgage warehouse was down at quarter-end, however, average balances increased $52 million this quarter to $290 million.

Asset-based lending grew $12 million, or 4.5%. Equipment lending grew $34 million, or 11.5%. And factored receivables grew $8 million, or 1.2%. At Triumph Business Capital, our factoring subsidiary, some of our metrics were impacted by the inclusion of ICC for only one month in the prior quarter. Setting that aside, the core business remains very strong. Total factoring revenue increased $7.1 million quarter-over-quarter, or 34%, to $28.4 million. Purchases increased by $340 million, or 29%, to $1.5 billion during Q3.

The number of invoices purchased climbed 180,000 over Q2 to 837,000 invoices, and the average invoice size this quarter increased $25 to $1,796. Average transportation invoices decreased $29 to $1,666 due to normal seasonal patterns. Outstanding transportation invoices comprised approximately 83% of the gross balance of factored receivables at September 30, 2018. Our number of active clients increased by 422 clients to a total of 5,932. This secular growth has been consistent for over six years, and it shows no sign of abating.

We increased our accrued liability for the contingent consideration payable to the sellers of ICC by 487,000, which is reflected as a reduction of other non-interest income in the statement of earnings. We have now accrued $20.5 million of the maximum $22 million final payment for this business. This accrual is a direct result of the strength of the business.

As it relates to TriumphPay, we have 86 clients utilizing the TriumphPay system, up from 76 last quarter. During Q3 TriumphPay processed 66,000 invoices, paying 16,000 distinct carriers approximately $96 million. For TriumphPay we are also in the integration and on-boarding phase of one of the top 20 brokers in the nation, which we expect to complete by the end of the year. We expect additional large brokers to join TriumphPay in 2019.

Net interest margin was 6.59%, which remains in the top of the industry. Net interest income was up $8.5 million over Q2. Loan yields were 8.33%, or 8.18% adjusted for purchase discount accretion, which was helped this quarter with the full quarter impact of ICC. Similarly, with the acquisition of the three banks in September, we'd expect to see loan yields and net interest margin contract slightly in Q4 with the full quarter impact of the acquired banks. Net interest margin adjusted to exclude discount accretion was up 53 basis points to 6.45% for the quarter, while the total cost of deposits increased 12 basis points to 85 basis points.

Our loan-to-deposit ratio at September 30 decreased to 102%. This ratio is inflated by approximately 8% due to our use of Federal Home Loan Bank advances to fund our mortgage warehouse lending business.

Non-interest income was up $1.1 million from the second quarter to $6.1 million. There are two items we should note that are unique to this quarter. First, card income includes a bonus payment of 398,000 related to the achievement of certain volume related goals in that relationship in the first year. This is not expected to continue next quarter, and year two incentive goals are not as lucrative.

Second, other income was also negatively impacted by our updates to the Triumph Community Bank brand in the Midwest. We've re-branded that region to our standardized TBK Bank brand. This resulted in the write-down of signage and other assets in the amount of $324,000 as they were replaced.

Net of these items, the increase in non-interest income was led by the addition of three banks and strong fee income from Triumph Business Capital. The increase in non-interest expense this quarter was driven primarily by the transaction related costs associated with the acquisition of the three banks, the full quarter impact of ICC's operating costs and the partial quarter impact of the three acquired banks.

Transaction costs were $5.9 million, and are reported in the following line items of non-interest expense: $1.4 million in severance and compensation; $1.4 million in legal and consulting professional fees; $3 million in IT related expenses; and $50,000 to $100,000 in miscellaneous filing fees, appraisals and other expenses.

Our non-interest expense for the quarter came in very close to the estimate we provided for the quarter on our last call after adjusting for transaction costs and expenses of the three acquired banks. We expect Q4 non-interest expense to be 47 million. This increase is related to a full quarter of the three acquired bank's operations, technological development and investment in our overall infrastructure. We will continue to invest in the future of our business.

The acquisition of the three banks resulted in our recording $72.1 million of goodwill and $14.1 million of amortizable intangible assets, which will be amortized on an accelerated method. Including the intangible assets recognized through the bank transactions, we expect total amortization expense for all of our intangible assets to be $2.5 million in Q4 and $9.2 million for the 2019 fiscal year. These amounts are contemplated in the Q4 expense guidance I mentioned previously.

In closing, I would state the obvious: this was a noisy quarter. What encourages me is the core trends in our business. We continue to grow and improve, and we are optimistic about the path forward. With that, I'll turn the call back over to the operator for any questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. 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 our roster.

Our first question comes from Jared Shaw with Wells Fargo Securities. Please go ahead.

Jared Shaw
Hi. Good morning, guys.

Aaron Graft
Good morning, Jared.

Jared Shaw
It's great to see the movement—the growth in deposits this quarter. Are you on a better trajectory for deposit growth there, and should we organically be able to see the loan-to-deposit ratio continue to come down from where we are, or is it giving you enough funding for the growth that you're contemplating, or should we be thinking of you as still on the hunt for more deposits?

Aaron Graft
Yes, there's a couple of questions in there. As far as our ability to drive organic growth of the kind of deposits we desire, which would be transactional accounts, yes, I think you'll see that organically grow, as in Q4 and Q1 we complete the development and the rollout of our treasury management system and some other products and feature sets that we think will help us. That being said, those feature sets alone will not be able to generate deposit growth significant enough to stay up with the growth of our loan portfolio. As a result, we would expect to organically grow our time deposits, which have some value. We're seeing many new customers come into our branches as a result of our rates being at the top of some of the markets in which we operate.

So I believe that we can fund the growth of this institution organically. However, we continue to remain on the hunt for additional acquisitions which will improve our overall deposit profile.

Jared Shaw
Okay. That's helpful. Thanks. And then on the factoring, again good growth trends there. When you look at the transportation factoring average ticket size, and it declined this quarter, what’s going to be driving average ticket size higher? Is it going to be continued tight transportation market? Is it fuel costs? Ultimately, what type of growth should we be looking for in the average ticket size maybe on a year-over-year basis?

Aaron Graft
Yes, if I knew the answer to that question I wouldn't tell you, because we would be speculating and making money other ways. The answer is we don't know. The underlying drivers are of course what you identified, which is how tight the transportation market is, and then of course fuel is a major expense component. Obviously, diesel prices it feels like are going to go upwards but we obviously

don't know what will happen. The variation we saw this quarter was a typical seasonal variation of mix shift between the types of freight our truckers are hauling.

We certainly don't see any signs that there's downward pressure throughout the rest of the year, so this is just one man's opinion, that it would be flat to the potential to go up for the rest of the year. But there are so many factors that we don't have an institutional view on that. Our institutional view is on board clients, service them well and drive revenue through that whatever the invoice size is.

Jared Shaw
Great. Thank you.

Operator
Our next question comes from Brad Milsaps with Sandler O'Neill. Please go ahead.

Brad Milsaps
Good morning, Aaron.

Aaron Graft
Good morning.

Brad Milsaps
Just to follow up on the factoring, obviously great growth in clients this quarter, the average invoice was up. And I apologize if I missed it in your opening remarks, but it didn't necessarily translate into a lot of kind of period end growth in factoring. Are the loans turning quicker, or is there any other dynamic there? Is it all [indiscernible], as you maybe added a lot of those clients late in the quarter, so maybe you get a bigger upswing in the fourth quarter? Just kind of looking for additional color there.

Aaron Graft
Yes. So that is a great point and I'm glad you asked. The thing that I would look at would never be the period end balance, the NFE balance, because what that doesn't take into account is the velocity in which we turn the portfolio. In this quarter, the portfolio turned in 34.4 days, which is one day faster than it was in prior quarters. And we can't always control that. We can be better about collections, which of course would speed things up, but then you're also dependent upon how quickly account debtors pay you.

So what I would look at is the revenue increase, and so our total revenue increase was 34% or $7.1 million over last quarter, and that was driven on a purchase increase of $340 million, or 29%. So it's a business that you've got to look at the turn that's happening all quarter long, rather than where you sit at the end of one specific day on a quarter-end.

Overall, I would say the business just continues to perform as it has performed in the past. We add net new clients, losses are minimal. Our reserves in this business, we continue to outperform our own expectations at times as far as credit quality. And as we continue to add new clients and they sell us invoices, the business becomes more efficient and obviously creates upward strength in our net interest margin, and so we're very pleased with where it is.

Brad Milsaps
Great. That's helpful. And then just one follow up on your expense guidance of $47 million for the fourth quarter. Does that include any impact from cost savings or if those [indiscernible], or is it one of those things where you guys continue to invest and we might not see those as we get into 2019? I just wanted to get a little more color around kind of what comprises the $47 million number.

Bryce Fowler
Sure. Hi, this is Bryce. And I think that the guidance does include our estimate of the cost saves that we expect to achieve from the banks overall. I think overall that number, we've modeled it and had planned it out to be achieved over a full quarter period. I think that everything's still on track there. There's a good chunk of that that we hope to begin to achieve on the next big piece in the next quarter with the conversion of the last bank, the Bank of Durango, overall, so I think we're on track there.

Really, overall the increase is mainly that, there's the increase in the banks, there's a little bit of tech spend that we have going on at Triumph Business Capital, finishing off some projects there, and then just a little bit of modest overall increase in staffing levels is baked into that increase.

Brad Milsaps
Got it. Bryce, is it too early to give any insight on what you guys are thinking from an expense standpoint into 2019?

Bryce Fowler
Yes, I think we're not at that point to communicate that.

Brad Milsaps
Okay. All right, great. Thanks for the color.

Operator
Our next question comes from Brady Gailey with KBW. Please go ahead.

Brady Gailey
Good morning, guys.

Aaron Graft
Good morning, Brady.

Brady Gailey
The core margin was up huge this quarter, you talked about it going back down a little bit in the fourth quarter just as you have the full impact from the bank deals. Any idea the magnitude of how much the margin could decline in 4Q?

Aaron Graft
We don't know. One big factor will be what happens in our factoring business in Q4. That's historically been a really good quarter for us. Of course if it grows, that'll create some countervailing pressure. But I think our thinking is that our net interest margin will still be easily above 6% in Q4, so you may be looking at 20 basis point, 30 basis point contraction, but it will be very dependent upon the relative growth of our factoring business vis-à-vis the rest of our business.

Brady Gailey
All right. And then you gave us some color on just the moving pieces in the mortgage warehouse business, with the period end being down but average being up pretty nicely. We've had a couple of your peers here in Texas just talk about that business, they talk about how competitive it is, they've seen lower yields in the mortgage warehouse business due to the competition. Maybe just an update on kind of how you guys are thinking about the warehouse from here on out.

Dan Karas

Good morning, Brady. It's Dan. I think the items you pointed out are the same items that we see impacting our business as well. With the rising rate environment we haven't seen a lot of pressure on yield, certainly competitors forced some yields down earlier in the year. Rising rates have caused a shift from purchase to refinance, we're doing fewer refinances, so volume is going to be impacted going forward. But we continue to operate that business lean, with a relatively small number of clients, we service them well, and we get really good utilization out of that group. So overall I think the business is going to continue on the same path but be subject to lower volume going forward, just as I've heard from other institutions.

Brady Gailey
And then finally for me, Aaron, I know you've talked about hitting this 180 ROA by the end of next year, but as you said, on a core adjusted basis you almost hit it this quarter. Do you think we can see a 180 before year-end next year?

Aaron Graft
Well, I don't know. I would remind you there's seasonality in our business, and so Q2 and Q4 are always our strongest quarters on a seasonal basis, or have historically been our strongest quarters on a seasonal basis. If we do it will be a pleasant surprise. As I look at this quarter, you've got net interest income to average assets over 6%. Our net overhead ratio was like 3.6%, so that 240 pre-tax, pre-provision ROA, again, if you normalize out the one fraud loss we had almost no other credit costs in our portfolio, and that gets you above a 17 and close to a 18. So can we deliver on that sometime next year? It's possible. I'd stick to my guidance, which is you can hold us accountable to deliver a core quarter in Q4 of next year in alignment with these goals.

Just so you know, when we talk with our team what we describe to be from a financial metric a perfect quarter, or the ideal quarter we're looking for is a 1.8% ROA or better, non-performing assets below 1%, and then the other things we talk about are regulatory excellence, maintaining our outstanding CRA designation, and then some team member satisfaction scores. So those five things, as we as a management team running this institution for the long term think about, that's what we're looking for. And we're really close, we're over that hump in many of those metrics, really close on some others.

So I don't know if it happens before Q4 of '19. But I think if you dig into this quarter you can see the business plan is working, and we're going to stick to that plan, and then TriumphPay will add on whatever TriumphPay adds on. So we're very excited about where we go from here.

Brady Gailey
Got it. Thanks, Aaron.

Operator
Our next question comes from Steve Moss with B. Riley FBR. Please go ahead.

Zach Weiss
Good morning, everybody. This is Zach Weiss filling in for Steve today. Thanks for taking my questions. So just quickly back to the factoring business, if you guys could provide commentary on just more so volumes and how we should expect for those to shake out. I know in the third quarter you guys were guiding for about a $6 billion run rate of accounts receivable purchases and kind of right on there. I'm just curious how we should think about that moving forward.

Aaron Graft
Yes, it's a hard business to predict because you have two different things. What I view as our controllable is net client growth, because if we have a better mousetrap than everyone else in the

market and if we're servicing our clients well, you're going to attract more clients. We think we're the biggest in the industry, we have a lot of our name recognition, we can cross-sell off our insurance product and our equipment finance offerings that non-bank factoring companies, those are tools they don't generally have in their playbook.

So if you look at our annualized client growth on what that’s been, I think it was 7% this quarter, so if you annualize that out, that's 25% to 30% growth. I don't know that you can necessarily extrapolate from that you're going to see 25% to 30% NFE growth or revenue growth because some of those clients are on the smaller end. It's just hard to predict. This business will grow double-digits next year, I just feel confident enough to say that. And beyond that, we'll just have to see how it plays out.

Zach Weiss
Okay, great. That's helpful. Then if you could provide any commentary just how things are going with TriumphPay. I missed the first half of what you all said in the prepared remarks in terms of integration of a bigger third-party logistics provider partner, so maybe if you could speak to that at all and then any idea on when this business could be material to your income.

Aaron Graft
Sure. So what I said was we are in the on-boarding and integration process with a top 20 freight broker at this time, and once that is completed we will announce it. I would expect that to happen before year-end. In addition, we expect several other freight brokers of similar size to come onto the platform in 2019.

As I've said before, what we are focused on right now is creating the ubiquitous payment platform that everyone uses, that carriers use, freight brokers use, even our competitor factoring companies use in order to process payments, handle notification of assignments, all the things that have to happen in the transportation factoring space. And so that is our mindset, is to provide a superior technology, user experience, price it in such a way that we capture that market.

I suspect that you'll start to see in 2019 this be a contributor. But when I talk about our ‘18 ROA objectives, TriumphPay is not included in that, because it's too nebulous and too unpredictable of what it will be at that time. Again, our focus is less about when it starts contributing to the bottom line than it is about becoming the market leader by a wide margin, completing integrations with all the transportation management service companies and having all that done, which we have, which has given us a material leg up on competition, and using our market strength, the data we have, the relationships we have to take a large chunk of this market. That's my focus.

Again, I think if we do that, whatever the value that you would extrapolate from that I can't quantify for you now. But it's real. And so that's what we're focused on for 2019, rather than being able to point to a specific contribution to the bottom line.

Zach Weiss
All right. Thank you very much.

Operator
Our next question comes from Matt Olney with Stephens, Inc. Please go ahead.

Matt Olney
Thanks. Good morning, guys.

Aaron Graft

Good morning.

Matt Olney
Aaron, I want to go back to credit quality. You mentioned NPA's assets are now below that 1% target level. Remind me what's still in that bucket, legacy assets versus acquired assets, how much is ag versus non-ag. I'm just trying to get a better feel for what's in there and what your expectations are as far as resolutions.

Dan Karas
Good morning, Matt. It's Dan. One item that is not in there any longer, fortunately, is a foundry that I've talked about over the last several quarters. That was one I'd hoped to have resolved in Q2, and it got pushed to Q3. So that was a big win for us to resolve that, exit that credit, and not take a loss on it.

But if we look at the balance of what's in there, there is a 90% USDA guaranteed facility. So we show the total exposure but only have 10% risk. We have a service provider out of our West group, out of the Colorado group, that is being managed by ABL. The company is performing well. We're not yet ready to upgrade that. We have one energy company sitting in the equipment finance, and then it's just a handful of small issues. So no major single clients in that that could impact us going forward. They're just normal relationships that we're trying to exit.

Matt Olney
Okay. Thanks for that, Dan. On the deposit growth, Aaron, you sound more confident about your ability to fund organic loan growth without any additional M&A. Am I reading this right? And if so, what are some of the channels you're having success on on the deposit front?

Aaron Graft
Matt, look, so we think about the world, there's two different kinds of deposits, and they overlap. But of course what we're all pursuing are transactional accounts, non-interest bearing of course, or interest-bearing demand accounts. Those are, as we all know, in a rising rate environment very valuable. So we're trying to use the lending relationships we have with the recent and actually forthcoming treasury management upgrades we have in order to capture more of that from our lending clients.

Setting that aside, I mean, we have a 63 branch network that covers five states. We can drive people into those branches and drive deposit growth through rate and service. We are reticent to do that preemptively, because in doing that you also re-price your entire existing deposit franchise.

And so the absolute answer is, yes, we can fund ourselves organically through our deposit franchise. We don't want to do too much of that just through time deposits because we'll end up compressing our margins, and in many of the markets in which we operate what the prevailing market rates are, are very different than where we operate in Dallas, which is one of the great—, our strategic advantages with the way we've built this company.

So, you're not going to see us pass up the opportunity to do smart, risk-adjusted, profitable lending because of a lack of deposits. We'll do that organically if we need to. While we do that, we certainly remain focused on strategic acquisitions, which generally are going to be focused on the right-hand side of the balance sheet, and improving our footprint in many of the markets in which we're in. So we can do it organically, but you should not be surprised to see us do an acquisition in 2019, one or two acquisitions, that are targeted towards improving our deposit franchise.

Matt Olney
Okay. Thanks, guys.

Operator
Our next question comes from Gary Tenner with D.A. Davidson. Please go ahead.

Gary Tenner
Thanks. Good morning.
Aaron Graft
Good morning.

Gary Tenner
I just want to ask a couple questions. I guess, first, just to clarify that the $1.1 million accrual for the payout of ICC, that was part of the $5.9 million of the total transaction cost, or is that over and above that?

Bryce Fowler
The accrual part of the contingent payout was not part of the transaction costs. Transaction costs were a total of $5.9 million. Those are all in operating expenses. The accrual this quarter for the continued payout is up there as a reduction of other non-interest income.

Gary Tenner
Okay. Thank you. And then just as it relates, one more question on factoring business. With the size of the business now and the speed with which it turns, that 1.5 billion of invoices purchased in the quarter sounds like it's basically the run rate just to keep balances flat. So adding clients and purchasing incremental invoices quarter-by-quarter is still the driver of overall volume and balance sheet growth. Is that fair?

Bryce Fowler
Absolutely correct.

Gary Tenner
Okay. All right. And then just as it relates to the questions regarding M&A and deposits. As you think about what your map looks like on slide 4 and where your community bank business is, any changes where you'd be targeting and maybe an update on your thoughts and plans for the Dallas market.

Aaron Graft
Well, I'll take that one first. The Dallas branch, which we've talked about previously, which doesn't yet have a physical location, as we're working through the permitting and then followed by the construction process, has about $175 million in deposits in it already through relationships we have. Our presumption that we would be able to generate core deposits in Dallas was correct, and we've done it without even the deposit building. Yes, so I still believe Dallas will be, I believe I've shared in the past, I think it will be a $500 million branch, with some very large customers in that branch, very different than the rest of our branch footprint but very valuable in its own way.

As far as future acquisitions, of course we focus on Colorado, New Mexico and Texas, far western Kansas, that remains an area of focus. We would of course do an end market deal in Iowa or Illinois that fit within those footprints, as they exist. Then we also remain open to looking at a strategic large opportunity that would take us into a new market. But it would have to be on the right pricing metrics, with the right deposit franchise for us, and those are out there but harder and less likely to do.

Gary Tenner
Thanks, Aaron. Then just as it relates to that, and the last question for me, in terms of the treasury

management system upgrade, I'd imagine that's probably a little more slated towards the prospects of the Dallas customer base maybe than the rest of your customer base. But can you talk about the timing and when you think you'd launch the new offer.

Aaron Graft
I think pieces of it come online in Q4. But let's say that it will be completely done and turned on by Q1 of ’19, which as you've maybe heard me allude to, it's one of about 30 initiatives here, many of them technological, that we've done and completed in 2018, which I'm very proud of, that we've achieved the profitability we have while doing a massive amount of reinvesting into our business.

You were correct that the treasury management solution, the biggest market opportunity, I mean, Dallas is the biggest market in which we operate. But that being said, we're in and around Denver and other growth areas of Colorado, there's a tremendous treasury management opportunity there. And as a kid who grew up in a small town, I also know that in many of these small towns in which we operate there are very healthy businesses that can use treasury management services. So the volume opportunity is in Dallas, but we intend to roll it out everywhere. And as a result of doing that, I'm excited about generating more transactional account relationships.

Gary Tenner
Great. Thanks very much.

Operator
As a reminder, if you have a question, please press star and then one. Our next question comes from Brett Rabatin with Piper Jaffray. Please go ahead.

Brett Rabatin
Hi, guys. Good morning.

Aaron Graft
Good morning.

Brett Rabatin
I wanted to ask, Aaron, in the past you exited healthcare after that became an issue, and I'm just curious you have such potential in the transportation industry, I guess I'm just curious, are some of the other areas that are in your commercial finance portfolio potential exits at some point, or can you talk about like where you want the factor receivables to be relative to the overall finance book over time?

Aaron Graft
Yes, so let me answer the first question. Look, it is a fine art between being an expert in a few silos of business to that crossing over to having your business entirely correlated to a sector, and I for one do not believe it is wise to have our entire business correlated to the transportation sector. We believe in it. We’re heavily invested into it, between factoring even some asset-based lending in that space, and of course our equipment finance business. But cycles come and cycles go in transportation, just like everywhere else, and so we want the diversity of businesses.

As of right now, all of the businesses we’re in we're committed to. We don't have plans to add any new businesses at this time. We think that the way we’re structured, with approximately 60% of our assets being in our traditional community bank enterprise and 40% being in commercial finance, is appropriate. As of today, factoring is starting to approach being 50% of that commercial finance portfolio.

We don't have any bright lines drawn as far as that commercial finance portfolio composition. What I would say Brett is with respect to transportation factoring specifically, we're going to keep doing what we've always done, which is finding new clients, which ultimately lead to collecting from generally the same counterparties, those account debtors which do most of the shipping in the United States whose credit we understand.

So we're comfortable with that growing faster than the remainder of the portfolio, but it's going to grow on our terms. It's going to grow because our product offering's better not because we're going to change the way we're doing the business.

So we like where we are right now. Obviously, we continue to review everything. We've got heightened scrutiny around asset-based lending. We need to prove to ourselves and to the market we can do that well. We think it's appropriate inside our institution right now, and we're happy to be diversified in the way we are, both geographically and by product type.

Brett Rabatin
Okay. Fair enough. Then I wanted to ask, you've talked about TriumphPay and the potential for it, but the expectations for related fee income are fairly modest for the next year or so. Can you maybe give us an update on how you see that playing out, and then what's the endgame? You're obviously going to be gathering quite a bit of data and then there's also other potential ancillary things that you could be doing with more fuel cards, that kind of stuff, what's the longer term potential for that?

Aaron Graft
I think it's at least a $175 billion market when you just talk about the brokered freight market. If you go beyond the brokered freight market to the direct shipper market, that's another $400 billion market. Our focus right now is in the brokered freight market, and so that's where our relationships are, that's the people we know.

So it starts, first and foremost, with delivering a product that makes the life of the third party logistics companies who move freight in this country easier, and the life of the carriers who actually drive those loads up and down the road easier. And you already alluded to the many ways in which this could produce value for TBK going forward.

Right now I am going to say what I said before, we are 100% focused on delivering the best user experiencing technology to the freight broker market, and of course the carriers who serve them. If we do that well and we capture a significant portion of that $175 billion marketing using our platform, whether they factor with us, don't factor with us, whether they quick pay with us, don't quick pay, if we just create the ecosystem on which these payments are done in a safe, fast, reliable manner, there's going to be many ways in which everyone will benefit. And of course from our perspective the data we will have, the market penetration creates a lot of opportunities.

So I don't know what the endgame will be once we're there. Right now we're focused on driving growth in the market. And so what I would encourage you to look at is as we continue to onboard significant freight brokers, but they're not just the end of the story, there's thousands of other freight brokers who we intend to bring onto the system, and where it goes from there we'll see when we get there. But I need to stay focused on what we're doing right now, and we'll deal with what I think will be a high-class problem later down the road.

Brett Rabatin
Okay. Great. Thanks for all the color.

CONCLUSION

Operator
This concludes our question and answer session. I would like to turn the conference back over to Aaron Graft for any closing remarks.

Aaron Graft
Thank you all for joining us today. I hope you have a great week.

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