Triumph Bancorp

Equity Research Report

By Francisco F Guadarrama

Summary

Triumph Bancorp, Inc. is a financial holding company headquartered in Dallas, Texas. Our bank subsidiary, TBK Bank, SSB, is a Texas-state savings bank offering commercial and consumer banking products. They serve consumers and small businesses through 18 branches spread throughout Iowa and Illinois under a community banking platform, Triumph Community Bank, a division of TBK Bank. They also serve consumers and small businesses with 18 branches throughout Colorado and western Kansas under the name TBK Bank. Triumph also serves a broad national customer base through commercial finance divisions, including equipment lending and general asset based lending through Triumph Commercial Finance, healthcare asset based lending through Triumph Healthcare Finance, premium finance solutions for independent insurance agents through Triumph Premium Finance. Triumph also offers discount factoring through Triumph Business Capital and insurance through Triumph Insurance Group, Inc. As of December 2016, Triumph's portfolio was approximately 40% real estate and 60% commercial, factoring, and industrial. Triumph has a network of 37 branches across five states.

Profile

TBK US Equity	$	33.50
12 M Target Price	$	34.71
52 Wk H	$	34.90
52 W L	$	20.50
Market Cap (million)		696.50
SI% of Float		2.39%
P/E		29.36
P/B		1.85
EPS		1.63
Dividend Yield		N/A

Total Return Analysis	
1 Month	9.30%
3 Month	18.38%
6 Month	44.71%
YTD	28.11%
1 Year	55.09%

SWOT Analysis

<table>
<tr><th>Strengths</th><th>Opportunities</th></tr>
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Diversified portfolio in various industries and nationwide focus on attract new business
20%+ organic growth in their commercial finance portfolio
TBK is both a community bank and a commercial finance company
Focus on niche markets often ignored by competitors

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Single largest exposure is in Texas with 23% of their portfolio. Texas, Colorado, Illinois, and Iowa comprise 73% of TBK's portfolio.
Loss of non-interest income due to divestment of asset management business

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<tr><th>Weaknesses</th><th>Threats</th></tr>
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Unclear how the firm will adapt to technology changes in the banking landscape
Ability to secure cheap capital to keep up with demand for loans

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Smaller banks are more sensitive to changes in economic environment
The factoring business segment is particularly at risk as it relies in small-to-mid-sized transportation firms which are particularly sensitive to economic conditions

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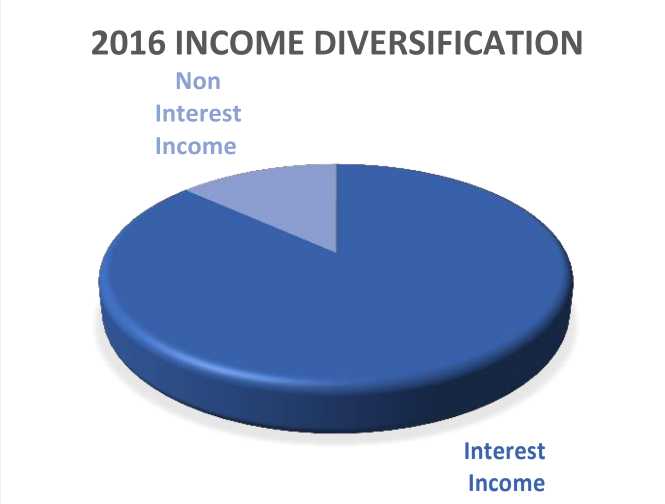


Interest Income		Non Interest Income	
	84%		16%
$	112.36	$	20.96

Bloomberg estimates that Triumph will achieve 21.3% annual growth in revenue and 16.2% growth in profit through 2019. In 2016 the firm reported $133.3 in revenue and is estimated to report $217.2 million in FY2019.

Forecast	2016		2017E		2018E		2019E	
Revenue	$	133	$	177	$	212	$	238
Net Income	$	21	$	35	$	46	$	54
Rev Growth Rate		7.6%		32.5%		19.7%		12.4%
NetIncGrowthRate		48%		67%		31%		17%

Triumph's growth is a mix of MA deals and organic growth. Part of the company's strategy it to acquire smaller banks in high growth markets to secure capital and satisfy customer demand for loans. Most recently Triumph has acquired a number of firms in rural areas of Colorado where the company can operate with less competition than in large metropolitan areas. The expansion into Colorado offsets the slower growth in Illinois where other branches are located. Specifically, Illinois is experienced negative growth rates in construction, manufacturing, information, and financial activities. Colorado on the other hand ranks among on the fastest growing states by GDP, employment growth, population growth and unemployment rate.

COLORADO RANK AMONG OTHER STATES

Metric	1-Year	3-Year	5-Year	10-Year
Real GDP Growth	4	3	5	11
Employment Growth	8	5	3	4
Population Growth	2	3	3	4
Personal Income Growth	23	1	2	7
PCPI Growth	43	1	2	30
PCPI	13	18	22	13
Average Annual Pay Growth	28	26	18	23
Average Annual Pay	13	14	13	11
Unemployment Rate	8	18	29	20
Labor Force Growth	7	10	7	5
FHFA Home Price Index	2	2	4	3

Data Sources: Bureau of Economic Analysis (2015), Bureau of Labor Statistics (9/16), U.S. Census Bureau (2015), Bureau of Labor Statistics (2015), Bureau Federal Housing Finance Agency All Transactions Index (Q3 2016), BRD calculations. Note: 1-year, 3-year, and 5-year are based on the compound annual growth rate.

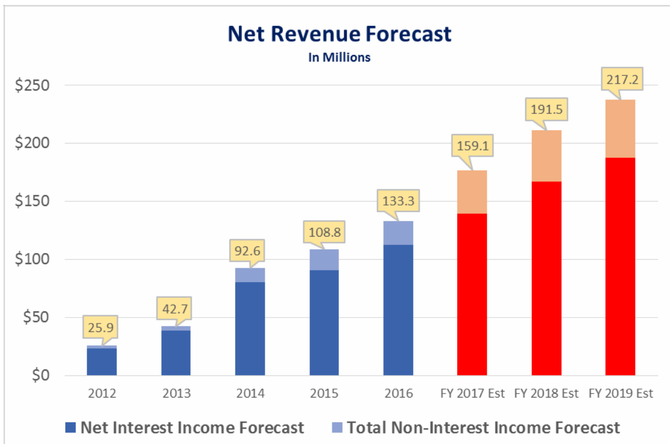
According to the Colorado Business Economic Outlook the **Trade, Transportation, and Utilities Sector** is the largest provider of jobs in Colorado. Nearly one-fifth of Colorado workers are included in this industry. Improving wholesale and retail sales helped increase the number of jobs in the sector by 2.1% in 2016, to a total of 454,700. The sector is expected to grow another 1.6% in 2017, to total 461,800 jobs.

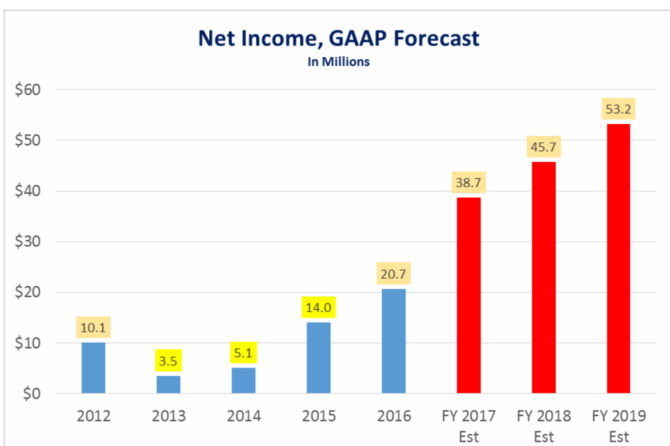
Colorado's finance sector on the other hand hasn't fared as well losing 10% of its workforce between 2006 and 2011. The sector has been growing since 2011 but at a slow pace. This year the sector is expected to add 5,300 new jobs with a net growth of .03%.

Triumph portfolio mix is diversified across various products and industries. The figures below are for 2016.

Product/Segment Revenue Mix
Banking = 79.9%
Factoring = 27.1%
Corporate = 0%
Asset Management = -6.8%
Product/Segment Profit Mix
Banking = 65.2%
Factoring = 30.3%
Corporate = 0%
Asset Management = 4.5%

Loan Portfolio Mix	$ 2,028	
Community Banking / Other	**Amount**	**Percent of Portfolio**
Real Estate	$ 799	39.4%
Commercial	$ 323	15.9%
Consumer	$ 30	1.5%
Mortgage Warehouse	$ 182	9.0%
Total	**$ 1,334**	**65.8%**
Commercial Finance	**Amount**	**Percent of Portfolio**
Factored Receivables	$ 238	11.7%
Equipment Finance	$ 190	9.4%
Asset Based Lending	$ 162	8.0%
Healthcare Asset Based Lending	$ 80	3.9%
Premium Finance	$ 24	1.2%
Total	**$ 694**	**34.2%**





Risks

- Increase in interest rates may slow down the economy and compress net interest margin. A flat slope of the yield curve is a greater risk to financial firms. Increase in interest rates result in larger payments for borrowers which increases potential for default and non-performing assets.

- A concentration in the transportation industry for small-to-mid-sized trucking businesses makes up approximately 77% of the factoring portfolio. An economic reduction will have a negative effect on transportation as there will be less goods to transport. Increase in client's cost of doing business such as an increase in the cost of fuel or diesel as transportation companies may not be able to pass down the cost to costumers.

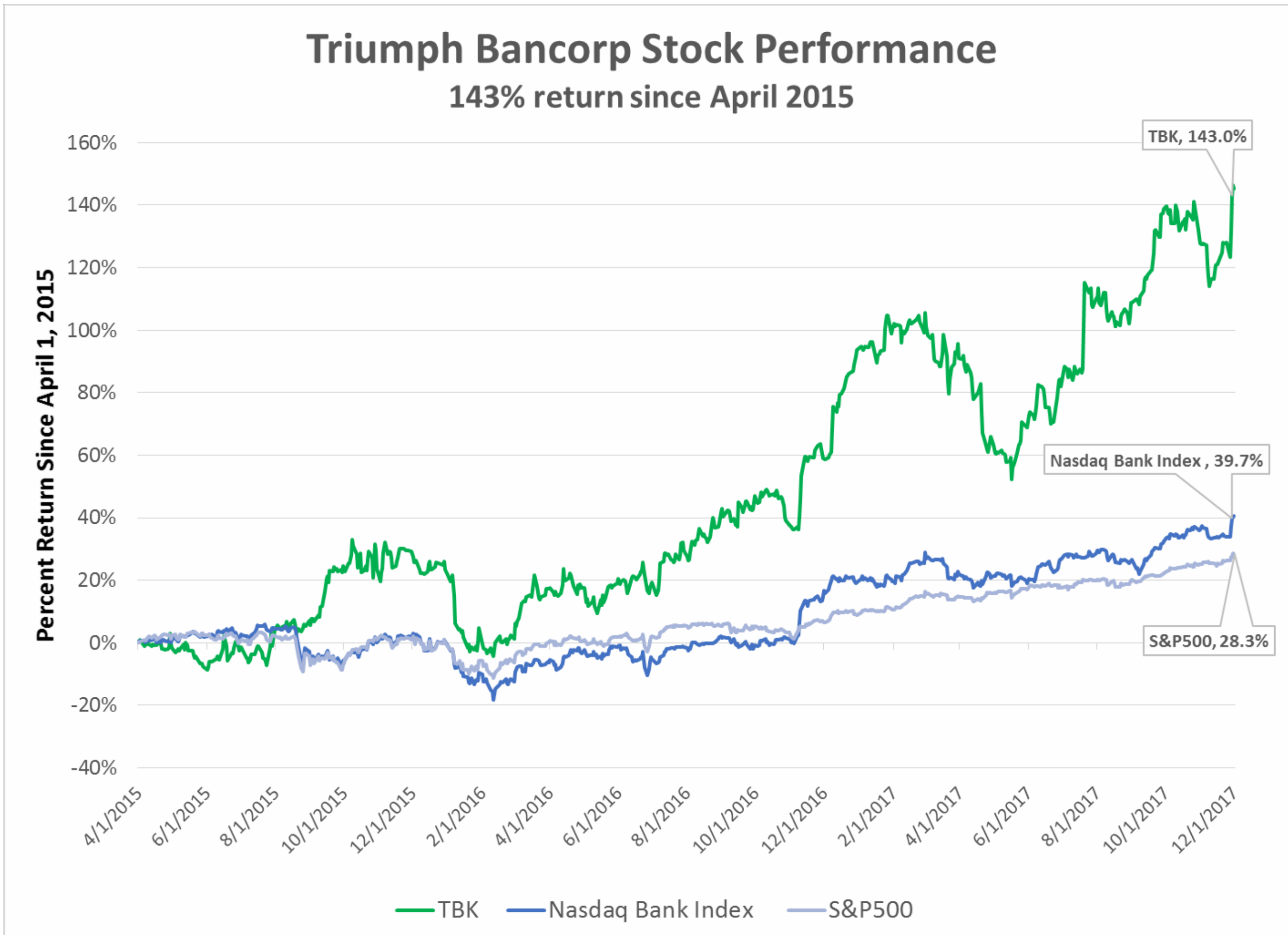
- Additional regulation could have disproportionate impact on the small-to-mid-sized trucking business that comprise primary factoring clients. Proposed regulations by FMCSA to monitor and implement maximum hours of service could disproportionately drive up the cost of doing business for small-to-mid-sized trucking companies and may push some businesses out of the market.

- Changes in commodity prices may expose the firm to risk of credit default. Agriculture loans generally consist of (i) real estate loans secured by farmland, (ii) equipment financing for specific agriculture equipment, including irrigation systems, (iii) crop input loans primarily focused on corn, wheat and soybeans, and (iv) loans secured by cattle and other livestock.

- Lack of seasoning in portions of loan portfolio could increase risk of credit defaults in the future. Loans may not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio.

- The small-to-mid-sized businesses that comprise a material portion of the loan portfolio may have fewer resources to weather a downturn in the economy, which may impair their ability to repay their loans.

- Concentration of loans in markets of Iowa, Illinois, Colorado, and Kansas in industries such as transportation, construction, and energy services.



Triumph Bancorp Stock Performance
143% return since April 2015
Percent Return Since April 1, 2015
160%
140%
120%
100%
80%
60%
40%
20%
0%
-20%
-40%
TBK, 143.0%
Nasdaq Bank Index , 39.7%
S&P500, 28.3%
4/1/2015
6/1/2015
8/1/2015
10/1/2015
12/1/2015
2/1/2016
4/1/2016
6/1/2016
8/1/2016
10/1/2016
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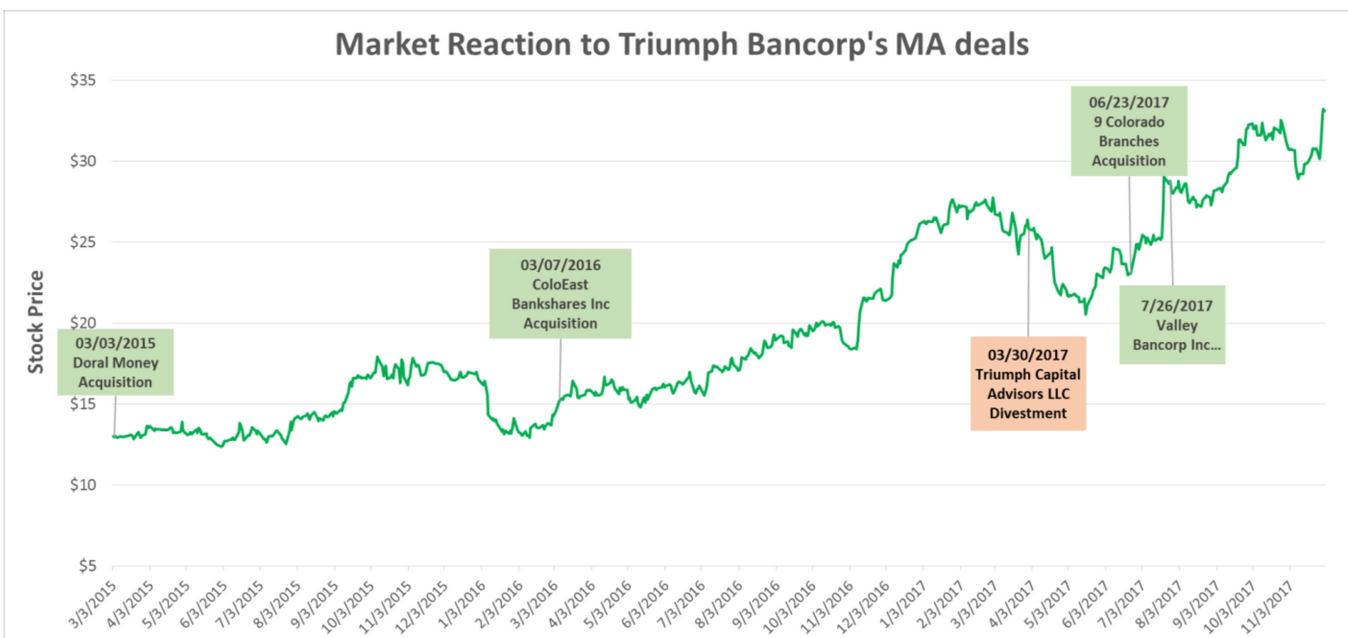
TBK
Nasdaq Bank Index
S&P500



Market Reaction to Triumph Bancorp's MA deals
Stock Price
$35
$30
$25
$20
$15
$10
$5
03/03/2015 Doral Money Acquisition
03/07/2016 ColoEast Bankshares Inc Acquisition
03/30/2017 Triumph Capital Advisors LLC Divestment
06/23/2017 9 Colorado Branches Acquisition
7/26/2017 Valley Bancorp Inc...
3/3/2015
4/3/2015
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10/3/2017
11/3/2017

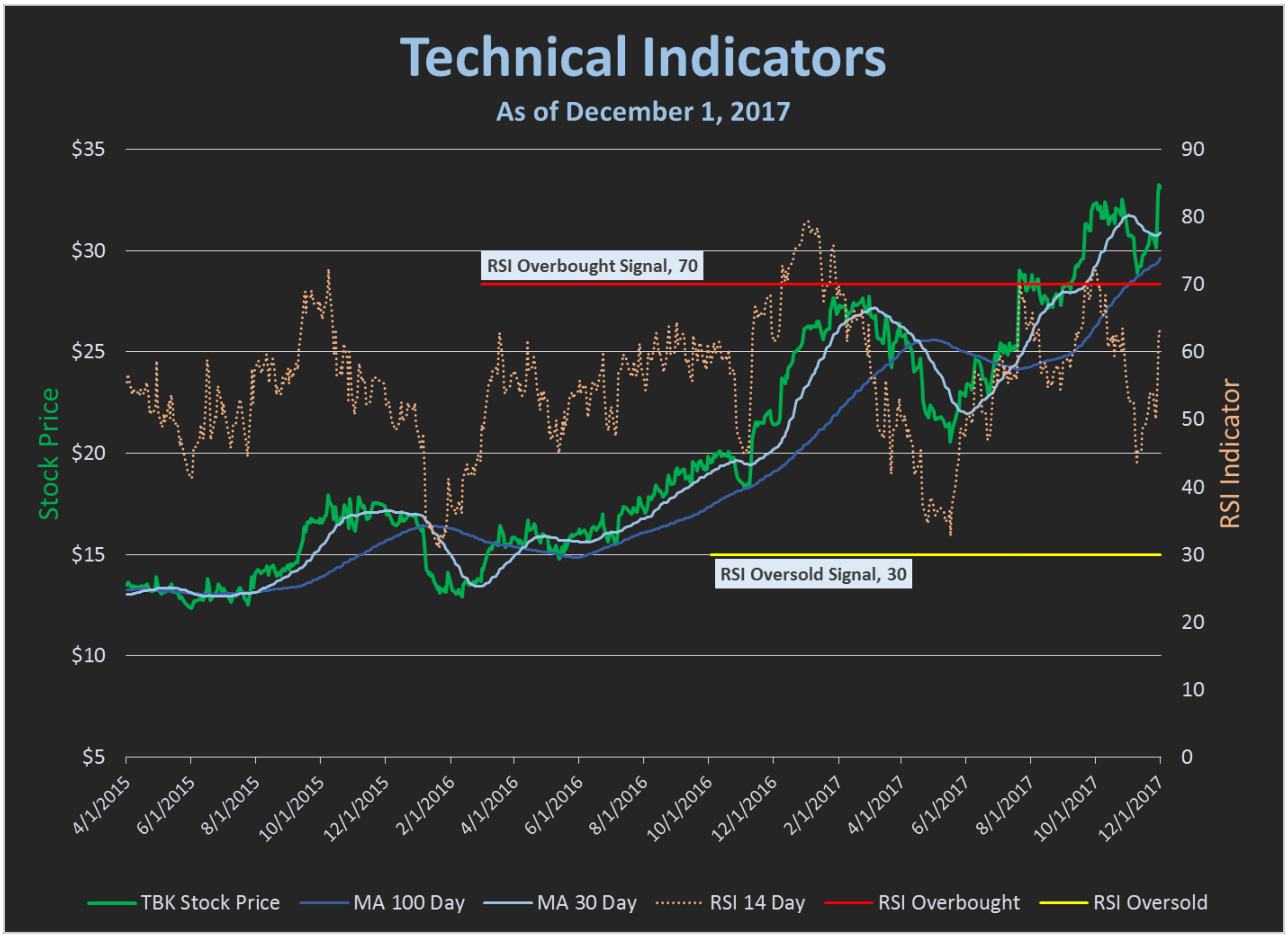
Technical Indicators

Earnings Surprise: Since the beginning of 2015 TBK has reported earnings below analyst estimates 58% of the time (7/12). The two most recent earning's release were positive with a 60% earnings surprise on 7/19/17 and 5% on 10/2/17.

Moving averages suggest that Triumph Bancorp is a buy while RSI and Bollinger Bands suggest a neutral position. Our belief is that moving averages and the RSI oscillator are approximating a sell signal which might provide a good entry opportunity to buy the stock. However, due to the difficulty in timing the market, Triumph's strong financials and successful business strategy might suggest a buy and hold position.

Moving Averages		Signal
MA (5)	33.51	Buy
MA (10)	32.72	Buy
MA (20)	31.90	Buy
MA (50)	31.03	Buy
MA (100)	29.75	Buy

Technical Indicators		
RSI (14)	69.95	Neutral
CCI	110.61	Buy
MACD	0.44	Buy
Bollinger Bands (20,2)	28.41-35.39	Neutral



Catalyst for future growth

On September 1, 2016, the Company acquired **Southern Transportation Insurance Agency, Ltd**. in an all-cash transaction for $2.2 million. The main purpose of this acquisition was to expand the Company's product offerings for clients in the transportation industry. The Company recognized a customer-related intangible asset of $1.6 million and goodwill of $0.6 million. Goodwill resulted from expected enhanced product offerings.

A key element of their strategy is to supplement the asset generation capacity in our community banking markets with commercial finance product lines which are offered on a nationwide basis and which serve to enhance the overall yield of our portfolio. These products include their factoring services, provided principally in the transportation sector (though increasingly in other industries as well), their asset-based lending and equipment finance products marketed under our Triumph Commercial Finance brand, their healthcare asset-based lending products offered under Triumph Healthcare Finance brand, and lastly, premium finance products marketed under our Triumph Premium Finance brand.

In particular, we note continued positive performance in the transportation factored receivables industry in the face of the headwinds caused by lower oil and freight prices, with consistent growth in the number of clients and number of invoices processed, which has contributed to the strong year-over-year growth in their factored receivables which should position them well for a potential rebound in oil and freight prices. In addition, we believe that the fundamentals of the U.S. healthcare industry (e.g., an aging population and continued increasing healthcare costs) will continue to provide growth opportunities for their healthcare asset-based loan portfolio. These positive trends have caused increased competition from existing as well as new lenders that have entered these markets, which resulted in increased pricing pressure. Despite competitive conditions, TBK remains disciplined in approaching structuring and underwriting parameters.

Triumph Bancorp Inc (TBK US) – Adjusted Income Statement

In Millions of USD except Per Share 12 Months Ending	FY 2016 12/31/2016	FY 2017 Est 12/31/2017	FY 2018 Est 12/31/2018	FY 2019 Est 12/31/2018	3 Yr CAGR
Net Revenue	**133.3**	**176.7**	**211.5**	**237.8**	**21.3%**
+ Net Interest Income	**112.4**	**139.6**	**167.1**	**187.8**	**18.7%**
+ Total Interest Income	124.5	**152.7**	**182.8**	**205.5**	**18.2%**
+ *Interest Income*	*120.1*	**147.9**	**177.1**	**199.0**	**18.3%**
+ *Investment Income*	*4.4*	**4.8**	**5.7**	**6.4**	**13.5%**
- Total Interest Expense	12.1	**13.1**	**15.7**	**17.6**	**13.2%**
+ Total Non-Interest Income	**21.0**	**37.1**	**44.4**	**49.9**	**33.6%**
+ Trading Securities G/L	0.0	**2.9**	**3.4**	**3.8**	
+ Trading Account Profits/Losses	0.0	**0.0**	**0.0**	**0.0**	
+ Investment & Loan Inc (Loss)	0.0	**2.9**	**0.0**	**0.0**	
+ Other Income (Loss)	0.0	**0.0**	**0.0**	**0.0**	
+ Commissions & Fees Earned	15.0	**25.5**	**30.5**	**34.3**	**31.7%**
+ Other Operating Income (Losses)	6.0	**8.8**	**10.5**	**11.8**	**25.4%**
- Provision for Loan Losses	**6.7**	**10.5**	**12.5**	**14.1**	**28.2%**
Net Revenue after Provisions	**126.6**	**166.2**	**199.0**	**223.7**	**20.9%**
- Total Non-Interest Expense	**91.5**	**106.0**	**133.1**	**223.7**	**34.7%**
+ Commissions & Fees Paid	0.0	**0.0**	**0.0**	**0.0**	
+ Other Operating Expenses	91.5	**130.5**	**186.3**	**265.8**	**42.7%**
Operating Income (Loss)	**35.1**	**60.2**	**65.9**		**42.7%**
- Non-Operating (Income) Loss	**0.0**				
+ Other Non-Op (Income) Loss	0.0				
Pretax Income (Loss), Adjusted	**35.1**	**53.5**	**70.8**	**103.5**	**46.1%**
- Abnormal Losses (Gains)	**1.6**	**0.0**	**0.0**	**0.0**	
+ Merger/Acquisition Expense	1.6	**2.3**	**3.3**	**4.7**	**42.7%**
+ Gain/Loss on Sale/Acquisition of Busin	—				
Pretax Income (Loss), GAAP	**33.5**	**53.5**	**70.8**	**87.5**	**23.5%**
- Income Tax Expense (Benefit)	**12.8**	**14.9**	**25.1**	**34.3**	
+ Current Income Tax	10.9				
+ Deferred Income Tax	1.9				
+ Tax Allowance/Credit	-0.1				
Income (Loss) from Cont Ops	**20.7**	**38.7**	**45.7**	**53.2**	**16.2%**
- Net Extraordinary Losses (Gains)	**0.0**				
+ Discontinued Operations	0.0				
+ XO & Accounting Changes	0.0				
Income (Loss) Incl. MI	**20.7**	**38.7**	**45.7**	**53.2**	
- Minority Interest	0.0	**0.0**	**0.0**	**0.0**	
Net Income, GAAP	**20.7**	**38.7**	**45.7**	**53.2**	**16.2%**
- Preferred Dividends	0.9				
- Other Adjustments	0.0				
Net Income Avail to Common, GAAP	**19.8**	**38.7**	**45.7**	**53.6**	**17.3%**
Net Income Avail to Common, Adj	**21.2**	**35.3**	**46.1**	**69.5**	**50.9%**
Net Abnormal Losses (Gains)	1.4	**-7.2**	**-7.2**	**-7.2**	
Net Extraordinary Losses (Gains)	0.0				
Reference Items	**FY 2016**				
Basic Weighted Avg Shares	18.1	**25.8**	**36.8**	**52.5**	
Basic EPS, GAAP	**1.11**	**1.96**	**2.17**	**2.4**	**10.7%**
Basic EPS from Cont Ops	**1.11**	**1.96**	**2.17**	**2.4**	**10.7%**
Basic EPS from Cont Ops, Adjusted	**1.17**	**1.63**	**2.17**	**3.1**	**42.2%**
Diluted Weighted Avg Shares	18.1	**25.8**	**36.8**	**52.5**	
Diluted EPS, GAAP	**1.10**	**1.96**	**2.17**	**2.42**	**11.4%**
Diluted EPS from Cont Ops	**1.10**	**1.96**	**2.17**	**2.42**	**11.4%**
Diluted EPS from Cont Ops, Adjusted	**1.17**	**1.63**	**2.17**	**3.09**	**42.2%**

Definitions

Price to book ratio (price variable):

Calculated as:

Market Value per Share / Book Value per Share

P/B values are often considered useful for the financial industry, where the market value of a firm is heavily related to the value of its equity.

Net interest Margin:

Calculated as:

*((Trailing 12M Net Interest Income + Trailing 12M Taxable Equivalent Adjustment) / (Earning Assets + Prior Year Earning Assets) / 2) * 100*

Net interest margin in percentage is a performance metric that examines how successful a firm's investment decisions are compared to its debt situations. A negative value denotes that the firm did not make an optimal decision, because interest expenses were greater than the amount of returns generated by investments.

Return on assets:

Calculated as:

*(Trailing 12M Net Income / Average Total Assets) * 100*

Indicator of how profitable a company is relative to its total assets, in percentage. Return on assets gives an idea as to how efficient management is at using its assets to generate earnings.

Operating ROIC:

Calculated as:

*[Trailing 12 Month Operating Income / ((Total Invested Capital beginning balance + Total Invested Capital ending balance) / 2)] * 100*

Indication of how effectively a company uses the sources of capital through its operations.

Current total 1 year returns:

Calculated as:

One year total return as of current weekday. Start date is the first business day on or before twelve months (to the date) prior to the ending date (as of date). Dividends are reinvested. Net dividend is used in calculation for New Zealand and Australian equities and funds. Gross dividend is used for all other securities.

Growth in total loans:

Calculated as:

Growth 1 Year (Total Loans)

Measures the one year growth of total loans.

Net charge off to avg total loans:

Calculated as:

*(Annualized Actual Loan Losses / Average Total Loan) * 100*

Ratio of actual loan losses charged-off in the period to average total loans (in percentage).

BB 5 year default probability:

Probability of default of the company over the next five years calculated by the Bloomberg Issuer Default Risk Model.

IG = Investment Grade (1-10)

HY = High Yield (1-6)

DS = Distressed (1-5)