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TBK - Triumph Bancorp Inc Conference Call to Discuss its Definitive Agreement to Acquire ColoEast Bankshares Inc

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## CORPORATE PARTICIPANTS

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**Brad Milsaps** *Sandler O'Neill - Analyst*

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**Christopher Nolan** *FBR & Company - Analyst*

**Dan Oxman** *JAM Partners - Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Triumph Bancorp corporate call.

(Operator Instructions)

I would now like to introduce your host for today's conference, Mr. Luke Wyse. Sir, you may begin.

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### Luke Wyse - Triumph Bancorp, Inc. - VP of Finance and IR

Good morning. Welcome to the Triumph Bancorp conference call to discuss the acquisition of ColoEast Bankshares, Inc. I am Luke Wyse, Vice President of Finance and Investor Relations of Triumph, and I would like to thank you for joining us this morning. I will go over a few housekeeping items and then hand it over to Aaron Graft, our CEO, to lead the discussion.

Triumph Bancorp today announced that it has signed a definitive merger agreement to acquire ColoEast Bankshares, Inc., the parent of Colorado East Bank & Trust, headquartered in Lamar, Colorado. If needed, copies of the slide deck filed this morning with the SEC are also available on the Investor Relations section of our website, [www.triumphbancorp.com](http://www.triumphbancorp.com), or by calling our Investor Relations department at 214-365-6936. That deck will form the substance of our call this morning.

To begin, I would like to offer a few reminders. Some of the remarks made today will constitute forward-looking statements as defined by 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 conference call speaks only as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for Triumph to predict these events or how they may affect it. Triumph has no obligation, and does not intend, to update any forward-looking statements, after the date hereof, except as required by applicable law. At the conclusion of our remarks, we will open the telephone lines for a Q&A.

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



**Aaron Graft** - *Triumph Bancorp Inc - CEO*

Thank you, Luke. Good morning, and thank you for joining us for this call. I would like to spend a few minutes discussing the parameters of the definitive agreement and acquisition in general. Included with me on the call are Bryce Fowler, our CFO, and Adam Nelson, our General Counsel. We announced this morning a definitive agreement to acquire ColoEast Bankshares, Inc., the parent of Colorado East Bank & Trust, headquartered in Lamar, Colorado. If you will flip to page 3 of the slide deck, you will find a transaction overview. Here are a few highlights.

We are buying the common equity of ColoEast for \$70 million cash. The agreement contains certain closing conditions, such as a minimum level of common equity of \$60.5 million, and a maximum level of non-performing assets. The purchase price could be reduced to \$69 million should ColoEast not achieve certain asset quality targets. We expect to close this deal in the third quarter and to complete the core conversion of ColoEast Bank & Trust in the fourth quarter.

At most of our investor meetings and presentations over the last two years, we have been explaining the characteristics of a deal that we would consider favorable. ColoEast meets with nearly all of these characteristics. A few points on this, which are covered on slides 4 to 6.

First, ColoEast has an appealing deposit franchise. 68% of its deposits are in transactional, money market, and savings accounts, which will materially improve Triumph's overall deposit mix and funding structure.

Second, ColoEast's low loan-to-deposit ratio of 68% and significant liquidity position is well suited to support Triumph's loan growth.

Third, at \$759 million in assets, ColoEast is large enough to support the incremental costs of Triumph's expansion into a new geography and to allow Triumph to start its operations with a meaningful presence already in place.

Fourth, ColoEast has Triumph's preferred mix of branches in rural markets with the opportunity to expand into higher growth markets in and around Denver, Colorado Springs, and Fort Collins. We like rural markets because operations are cheaper, depositors are more loyal, and loan rates can be better.

Fifth, there are obvious back-office synergies with ColoEast that we will begin to implement immediately at closing. We expect a cumulative total of these savings to equal \$5 million annually, with these savings being realized over four quarters. Beyond just removing duplicative systems and overhead, we believe we can grow ColoEast within its existing footprint by providing it with upgraded technology, product offerings, and other tools that it currently does not have the infrastructure to support.

Sixth, ColoEast is within our preferred geography. While we will look at deals nationwide, we have set our preferences to focus within the middle part of the country. Given its footprint of 19 locations in Colorado and far western Kansas, ColoEast diversifies Triumph's geographic exposure. We believe that Colorado has a lot of positives going for it, and we are excited to add this new, regional platform from which to grow.

Seventh, we are paying reasonable multiples of tangible book value and earnings, and importantly, the transaction is all cash, and thus avoids dilution for Triumph's shareholders. As an all-cash transaction, it gives Triumph the opportunity to right-size our capital structure of our own bank and holding company. It deploys our cash in the acquisition of a bank that we believe will enhance our franchise value. This transaction is accretive to earnings, and we expect to recover dilution on tangible book value in less than 3.5 years.

Last, but certainly not least, we have a cultural fit with the management of ColoEast. We sourced this deal ourselves and maintained a relationship with ColoEast for over a year, which is very similar to how we sourced and handled the acquisition of National Bankshares, Inc., the former parent of what is now Triumph Community Bank. In fact, many of the points I just made above are very similar in this transaction to our acquisition of National Bankshares, Inc. in 2013. As you well know, that has been a very successful transaction for us, and the operational integration has been excellent. We expect the same result here. We've done this before, and we expect to do it again.

Based on ColoEast's December 31, 2015 balance sheet, we are paying 1.4 times tangible book value for the common equity. This is about 16.1 times the annualized net income from the last two quarters of 2015, which we believe represents a good run rate from where ColoEast is now in its

turnaround. We expect the transaction to be immediately accretive to earnings, with an estimated \$0.10 a share impact for the last two quarters of 2016, and a projected \$0.35 a share impact in 2017.

As previously stated, we are modeling an earn back of less than 3.5 years on tangible book value dilution and are assuming approximately \$5 million of cost savings, phased in conservatively over four quarters. The details surrounding the assumptions can be found on slide 9 of the deck. We are modeling a 9% tangible common equity to tangible asset ratio at close, and expect pro forma capital ratios to remain well capitalized.

In summary, we've signed up a transaction that is down the fairway of what we have told the market we were going to do. We think everyone benefits from this deal. ColoEast's team members get to become part of an entrepreneurial and growing bank that values local relationships. ColoEast's customers get access to resources found at larger banks. Triumph will improve its funding, geographic diversity, operational efficiency, and capital structure, all of which should enhance our franchise value.

At this time, we are happy to take your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Brad Milsaps, Sandler O'Neill.

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### Brad Milsaps - Sandler O'Neill - Analyst

Good morning.

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### Aaron Graft - Triumph Bancorp Inc - CEO

Good morning, Brad.

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### Brad Milsaps - Sandler O'Neill - Analyst

This deal looks really consistent with what you guys have been talking about. Just curious, you mentioned opportunities to grow within their footprint, but how do you balance that with getting the mix back, short of your targeted 60/40, specialty finance-- community bank specialty finance loan book. I'm curious how quickly, or over what time period you sort of see you moving back towards that optimal mix that you guys have talked about for so long?

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### Aaron Graft - Triumph Bancorp Inc - CEO

Sure. Brad, immediately following this acquisition, we think the mix between commercial finance and community banking will be about 30% / 70%. We expect to be able to grow organically within Colorado East's footprint, and of course, we would look at add-on opportunities within that area. But I think we're still in the same scenario here that we have been in with Triumph Community Bank.

If we do well, Colorado East will grow at 5% to 10% organically in its community bank footprint. As we've said before, we think our commercial finance business will continue to grow at 30% to 40% a year. The trend back into that formula that we try to maintain over the long-term should take a little over a year at those types of growth rates.



We are not managing exactly to that number, we're just letting the businesses grow organically as opportunities are presented to them. This acquisition obviously moves us for a temporary period of time below our target ratio. It doesn't change the fact that our commercial finance business is the fastest growing segment of our bank.

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**Brad Milsaps** - *Sandler O'Neill - Analyst*

That is helpful. Just a little bit on ColoEast's loan book. I think I saw you guys are taking a 3% mark. On your due diligence, I know they've had some recent credit issues, maybe some fraud, do they have any energy exposure in Colorado?

Any color you can get on how they got to that point and what you guys found through the due diligence process? Any other concentrations within the real estate segment or the C&I book that cause you to pause or something new that you guys aren't in?

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**Aaron Graft** - *Triumph Bancorp Inc - CEO*

Sure. Our diligence on ColoEast led us to believe, this looks remarkably like was what was then the National Bank or Triumph Community Bank. It was a bank -- Colorado East has been around for 22 years. They've covered Eastern Colorado well, they've expanded to the Front Range. They've even gone over into Kansas. A lot of years of a very successful track record.

What happened to them, as happened with thousands of community banks, is loans, construction, acquisition, development loans, made in 2006 and 2007 did not perform as well through the downturn. They did have that fraud that you talked about, although I think, based on our diligence, that was a very isolated instance of one employee. As a result, they ended up where-- you have heard us, Brad, describe banks that are not going to fail, that are marginally profitable, that live inside of a holding company that has debt obligations upon it that the underlying bank cannot support, either because of regulatory orders, or there is not enough profitability, and so it creates financial distress at the holding company that is worse than the underlying distress of the loan portfolio.

That is what we saw with National Bancshares, Inc., and that is what we see here. The loan portfolio here has been trending the right way for a while. If you look at the agreement itself, obviously we believe that the nonperforming asset portfolio is going to drop below \$10 million by the time we close, and I think there's even a really good chance it will be below \$6 million.

As to what their loan book currently looks like, there are some construction and development loans; we've, as you would expect, taken a deep look at those. That is about \$67 million of that 40% residential, 60% commercial. There is a \$92 million CRE book, of that; \$62 million of it would be non-owner-occupied traditional commercial real estate lending. \$30.2 million of that would be owner-occupied.

And then there is \$146 million in commercial C&I loans. Of that, \$92 million, or 63%, of that is ag. It is revolving lines of credit provided to farmers throughout their footprint. The remainder would be traditional C&I.

Their largest loan relationship is just under \$12 million. There is no concentration of credits, credit with any one borrower. We like the mix. There's not a lot of out-of-state or out-of-market lending.

It's I think what we would've expected to have found. Very similar to Triumph Community Bank, where you have some exposure to markets like Colorado Springs, where you will see more commercial opportunities, but the majority of your branch footprint in these more rural markets where you are going to be exposed to small business but also a lot of ag. As we have expressed, that is our preferred area.

We think the depositors are more loyal, operations are certainly cheaper, and frankly, as you can see by their existing yield on their loan book, your ability to price loans at a more sensible rate is more real than it is in highly competitive commercial markets. That is the color I would give you on their loan book. If there's things I did not touch on, I am happy to.



**Brad Milsaps** - *Sandler O'Neill - Analyst*

That is helpful. It doesn't sound like there's any material energy exposure; they are staying in-state, and nothing major there.

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**Aaron Graft** - *Triumph Bancorp Inc - CEO*

No. It is almost nonexistent.

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**Brad Milsaps** - *Sandler O'Neill - Analyst*

Great. Thank you, guys.

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**Operator**

Jared Shaw, Wells Fargo Securities.

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**Timur Braziler** - *Wells Fargo Securities - Analyst*

Good morning. This is actually Timur Braziler filling in for Jared. Can we talk a little about the growth they've seen on the funding side, and what the expectations are there going forward? I guess another way of saying it, is that going to be strong enough to support the commercial finance growth that you guys are putting up organically?

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**Bryce Fowler** - *Triumph Bancorp Inc - CFO*

This is Bryce. I'll take a shot at that one. Over the recent periods, ColoEast has been going through some of their assets and working through their asset quality issues. They really haven't been aggressively trying to grow their deposit base, so we think there's an opportunity to step in, provide them the capital and marketing and resources necessary to get that revved back up again. I think we are also thinking there is opportunity, frankly, and perhaps reach further into some of the more non-rural areas toward Denver, Colorado Springs, other areas that we can look at for future growth on the deposit side.

Perhaps, as well, with this operating platform that is in place, it could serve as a base for future M&A at the appropriate time, maybe to plug in smaller institutions as well. Certainly, we're looking to do what we can to put all of that back on offense and get the growth out of it that we think is reasonable.

Can it keep up with the commercial finance growth? Frankly, I think probably not. This is probably helps us for the next couple of years in terms of providing liquidity we need with the organic growth we think we can create with ColoEast and what we have. We will still be looking to further improve the funding mix overall.

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**Aaron Graft** - *Triumph Bancorp Inc - CEO*

Okay. I'd like to add on to that question really quickly. One of the things that we are going to be able to provide to ColoEast is the treasury management capabilities that we built that are a bit more sophisticated than they currently do now. Even within their existing footprint and existing customer base, we think we'll be able to capture some additional deposits.

But to Bryce's point, I don't expect that we can grow the deposit franchise there at the same rate we grow our commercial finance platform. But, this does solve funding questions for at least the next few years.



**Timur Braziler** - Wells Fargo Securities - Analyst

That is very good color. I guess maybe touching on one of the other points you have made, given the general stickiness of the deposits that you acquired and the loyalty to the existing institution, what are you guys modeling in for attrition rate? Are you worried there's going to be potentially a 15% haircut when you actually close this deal?

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**Aaron Graft** - Triumph Bancorp Inc - CEO

I don't think so. Of course, we can never predict it. We had almost zero attrition when we did acquire Triumph Community Bank.

Where I historically have seen attrition, is when an acquisition is being done in-market, and you end up having a lender or a very senior branch level person at the target institution go across the street. In this case, as we've just communicated with ColoEast's team members, if you're a customer-facing team member or employee, this is a great deal for you. We are not in these markets, and you are going to get the benefit of the bigger bank behind you, the extra products we have, and it is not as if we are buying you because we have a branch across town and we are going to close your branch.

Our experience, at least, in that kind of a scenario, where you're moving in a new geography, especially a non-primary geography like Denver, where it would be hyper-competitive, but in these more secondary markets. And you are offering the existing employees the opportunity to be part of something bigger and more entrepreneurial. People are generally excited about it.

There are always questions and concerns with any type of change. But we don't think we will experience attrition anywhere near that level.

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**Timur Braziler** - Wells Fargo Securities - Analyst

Great. If I could do one more, maybe on switching to the asset side of the equation. Is there anything on the commercial side, maybe the ag portfolio, I think it's going to quadruple the size of your existing business, that played a meaningful role in this deal, or is this primarily just a funding solution near-term?

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**Aaron Graft** - Triumph Bancorp Inc - CEO

It is not just a funding solution, because you buy the whole bank. From our perspective, we already have some ag exposure in Triumph Community Bank. We have been around it for a while.

We like it. We think it is -- if done correctly and not overly correlated to any one single commodity-- we think it is a great, long-term relationship, because we know it is something that has to stay there. Obviously the business, the farm or ranch, has to stay where it is, and the people are running it stay where it is.

But this being an agricultural -- having a large agricultural portfolio was not what drove this. What drove this transaction is, we found a bank where we liked the senior leadership culturally, we think that they are a great fit with us. We like the multiple. We think we can accelerate the turnaround even more than what we have shown you in our models, trying to be conservative.

We like the deposit base, and we like the expansion opportunities and the geographic diversity. It wasn't overweight any one of those things, and certainly not overweight any one particular loan class that led us to this deal. I would say, instead, it's just holistically how well it fits within what Triumph does.

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**Timur Braziler** - Wells Fargo Securities - Analyst

Thank you for the color. I appreciate it.

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**Operator**

Christopher Nolan, FBR & Company.

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**Christopher Nolan** - FBR & Company - Analyst

Any plans on repaying TARP, or any of the balance sheet debt of ColoEast?

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**Bryce Fowler** - Triumph Bancorp Inc - CFO

Yes. This is Bryce. If you haven't had a chance to take a look at the slides that we put out, I think we detailed quite a bit of that on page 9 in summary, on that deck.

They do have TARP outstanding, with some accrued and unpaid dividends that are there. We do expect that those will be paid off-- dividends brought current and paid off at or before closing. They also have subordinated debt securities of \$2.8 million that are also in deferral. And again, at or before closing expect those to be paid off.

Have a small amount of senior debt at the holding company as well, about \$880,000 that we also expect to pay off. They do have about \$11.9 million of trust-preferred securities that are in deferral. We will bring those current, but we'll leave those outstanding. Kind of clean it up.

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**Christopher Nolan** - FBR & Company - Analyst

I saw the slide. Thank you for the clarification. \$5 million in cost savings. Where is that being sourced from primarily?

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**Aaron Graft** - Triumph Bancorp Inc - CEO

That is -- as a result in the timing of this transaction, there is some planned retirements that are happening. The planned retirements plus synergies in back-office operations is probably going to bring you close to half of those savings. The remainder would be in technology and duplicative processes like that. Of course, duplicative costs such as FDIC insurance, audit, and so forth.

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**Christopher Nolan** - FBR & Company - Analyst

Okay. Given that you're moving into a new geography, any plans on expanding the branch footprint there?

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**Aaron Graft** - Triumph Bancorp Inc - CEO

Sure. No immediate plans. We haven't identified anything. Just as we done in Triumph Community Bank's footprint, where we recently just built another branch. What we are doing, going in there getting behind local leadership who we believe in and then saying, where do you see the opportunities, and evaluating those alongside them. I certainly hope we can expand from here.

If the right opportunity comes to move into a primary market like Denver, then we would look at that as well. But, we are happy to be in the eastern half of the state and the Front Range, and we think there are some fill-in opportunities that can be handled organically. And also in far western

Kansas, I think if you really look at the institutions out there, just really strong deposit base and a great complement to our organization. I would hope, in a year or two from now, we've talked about further expansion within the footprint.

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**Christopher Nolan** - *FBR & Company - Analyst*

Great. Thank you for taking my questions.

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**Operator**

(Operator Instructions)

Dan Oxman, JAM Partners.

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**Dan Oxman** - *JAM Partners - Analyst*

Thanks for taking my question. A question on the estimated close date. You said Q3. Do you know approximately when in Q3 that would be?

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**Bryce Fowler** - *Triumph Bancorp Inc - CFO*

This is Bryce. We don't know exactly. Obviously, we need to shareholder approval, regulatory approval, there would be logistical considerations in setting that date. But we're certainly hopeful that it would be by the end of that quarter.

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**Dan Oxman** - *JAM Partners - Analyst*

Okay. Great. You mentioned TARP repayment prior to close. What exactly does that mean? Is that simultaneous, or do you really think you can repay TARP prior to closing the deal?

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**Bryce Fowler** - *Triumph Bancorp Inc - CFO*

I think there is an outside chance that the bank there-- ColoEast is working through, it's kind of a turnaround situation. Recently, in fact you may have noticed they had their holding company written order released by the Fed. They are working with their regulators to perhaps be able to get all or some of it done prior to close.

But obviously, we don't control that, and there is no certainty on that. That's what I meant by possibly prior to close. If not, we will clean it up at closing, or shortly thereafter.

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**Dan Oxman** - *JAM Partners - Analyst*

Right. Great. That's all I got. Thank you.

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**Bryce Fowler** - *Triumph Bancorp Inc - CFO*

You bet.



**Operator**

I am not showing any further questions at this time. I would like to hand the call back over to Mr. Aaron Graft, CEO, for further closing remarks.

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**Aaron Graft** - *Triumph Bancorp Inc - CEO*

Thank you all for joining us. It is an exciting time for Triumph in this acquisition. We'll look forward to speaking with and seeing you again soon. Thank you, and have a great day.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone have a great day.

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