Call Participants

EXECUTIVES

Jeffrey M. Schweitzer
Chairman, President & CEO

Brian J. Richardson
Senior Executive VP & CFO

Michael S. Keim
Chief Operating Officer &
President, Univest Bank and Trust Co.

ANALYSTS

David Jacob Mirochnick
Stephens Inc., Research Division

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

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Presentation

Operator

Welcome to the Univest Financial Corporation First Quarter 2024 Earnings Call. My name is Carla, and I'll be coordinating your call today. [Operator Instructions]

I will now hand you over to your host, Jeff Schweitzer, President and CEO of Univest Financial Corporation to begin. Jeff, please go ahead.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Carla, and good morning, and thank you to all of our listeners for joining us. Joining me on the call this morning is Mike Keim, our Chief Operating Officer and President of Univest Bank and Trust; and Brian Richardson, our Chief Financial Officer.

Before we begin, I would like to remind everyone of the forward-looking cautionary statements disclaimer. Please be advised that during the course of this conference call, management may make forward-looking statements that express management's intentions, beliefs or expectations within the meaning of the federal securities laws. Univest's actual results may differ materially from those contemplated by these forward-looking statements. I refer you to the forward-looking cautionary statements in our earnings release and in our SEC filings.

Hopefully, everyone had a chance to review our earnings release from yesterday, if not, it can be found on our website at univest.net under the Investor Relations tab.

We reported net income of $20.3 million during the first quarter or $0.69 per share. During the quarter, we continued to see stabilization in the shift in the mix of deposits along with the cost of deposits. This resulted in stabilization in our net interest margin.

Loan growth was muted during the quarter as loans grew $11.9 million. This is due to a combination of lower loan demand from customers given the higher interest rate environment, payoff activity of some problem credits, remaining disciplined on pricing and focusing on relationship customers and prospects.

With that said, Q1 is historically a slower quarter, and we are seeing pipelines grow as we head into the second quarter.

Our diversified business model served us well as the Insurance and Wealth Management lines of business had strong performance in the quarter. We were also active with stock buybacks during the quarter as we repurchased 315,507 shares of stock while still growing tangible book value.

Before I pass it over to Brian, I would like to thank the entire Univest family for the great work they do every day and for their continued efforts serving our customers, communities and each other.

I'll now turn it over to Brian for further discussion on our results.

Brian J. Richardson
Senior Executive VP & CFO

Thank you, Jeff, and I would also like to thank everyone for joining us today.

I would like to highlight a few items from the earnings release. First, during the quarter, we continued to see signs of NIM stabilization. Reported NIM of 2.88% increased 4 basis points from 2.84% in the fourth quarter of 2023. Core NIM of 2.91%, which excludes the impact of excess liquidity, declined 3 basis points compared to the fourth quarter. This compares to a 6 basis point decline experienced during the last quarter.

Second, as it relates to our loan and deposit activity, loans grew $11.9 million and deposits grew $29.6 million during the first quarter.

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Third, during the quarter, we recorded a provision for credit losses of $1.4 million. Our coverage ratio was 1.3% at March 31, which was consistent with December 31.

Net charge-offs for the quarter totaled $1.4 million or 9 basis points annualized.

During the quarter, we saw decreases in delinquent loans, criticized and classified loans and stability in nonperforming assets.

Fourth, noninterest income increased $5.9 million or 30.1% compared to the first quarter of 2023. This includes a $3.4 million net gain on sale of mortgage servicing rights. Insurance commission and fee income increased $714,000, primarily due to a $484,000 increase in contingent income. As a reminder, contingent income is largely recognized in the first quarter of each year.

Additionally, we saw notable increases in investment advisory, commission and fee income, treasury management fees, net gains on mortgage banking and the sale of SBA loans. These year-over-year increases continue to highlight the benefit of our diversified business model.

Fifth, noninterest expense increased $545,000 or 1.1% compared to the first quarter of 2023. This reflects the various expense management strategies deployed over the last year.

Lastly, during the first quarter, as Jeff said, we repurchased 315,507 shares of stock, and we plan to remain active with regard to buybacks.

As it relates to 2024 guidance, when excluding the $3.4 million pretax gain on the sale of mortgage servicing rights, there are no changes to the information I provided on last quarter's call.
That concludes my prepared remarks. We will be happy to answer any questions. Carla, would you please begin the question-and-answer session?

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Question and Answer

Operator

[Operator Instructions] Our first question comes from Frank Schiraldi from ABC (sic) [Piper Sandler]. [Operator Instructions]

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Can you guys hear me?

Operator

[Operator Instructions]

Our next question comes from David Mirochnick from Stephens.

David Jacob Mirochnick
Stephens Inc., Research Division

David here. I'm on for Matt Breese. I just wanted to touch a little bit on some commercial real estate exposure kind of in terms of just the help you're seeing in the Philly CRE market and kind of any large office exposures you have in that area? And if you could provide some color there?

Michael S. Keim
Chief Operating Officer & President, Univest Bank and Trust Co.

Yes, it's Mike Keim. In general, the CRE market continues to hold up. We're not a big participant in large-scale office holdings in the city of Philadelphia. So there is some movement there, but we are not a participant like I said. The biggest issue that we had seen from our specific book of business was more in the luxury townhome side of what we're doing on the CRE's perspective. We actually had a little bit over $20 million of total exposure, and we actually cut that basically in half in the first quarter of this year. So we have really de minimis exposure and feel good about the resolution of the remaining loans that we have on our balance sheet.

In terms of office altogether, like I said, we're not large in the city of Philadelphia with regard to our presence. It's a more of a suburban-oriented office kind of footprint for lack of better term. Our average loan size on the office is less than $2 million. And in the next 2 years, we have less than $25 million per year maturing.

So we've done a good job in terms of getting forward, making sure that we have good quality tenants and underlying guarantors. We've gotten ahead of it in terms of where interest rates are and trying to manage that and be proactive. So all things being equal, given the circumstances, we feel good about our overall credit book and also about where we're going from an office perspective. We haven't added to the portfolio, and it's actually running down as we move forward.

David Jacob Mirochnick
Stephens Inc., Research Division

Great. I appreciate that. And next moving on, would you kind of give some color on NIM puts and takes and the outlook from current levels, maybe where your outlook is for peak deposit cost this year too?

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Brian J. Richardson
Senior Executive VP & CFO

This is Brian Richardson. From a NIM perspective, again, we saw signs of stabilization here in the first quarter. We do expect that to continue into the second quarter and be relatively flat, call it, in that 2.90% range on a reported and core basis in the second quarter. And then really look for it to expand a couple of basis points each quarter thereafter, again, as loans reprice and we're seeing a stabilization on the deposit side, we'll look for that to drop down with an increase in NIM.

We do expect -- we saw the growth of beta slowdown in the first quarter and really expect that to kind of hold at the current levels as we progress through the remainder of the year.

David Jacob Mirochnick
Stephens Inc., Research Division

Okay. Great. And then last one for me. Just kind of on the appetite for -- you guys repurchased shares this quarter. And so just on the appetite for continued repurchases throughout the year with the stock at this level?

Brian J. Richardson
Senior Executive VP & CFO

Sure. This is Brian again. We look to continue to be active, as I said in my prepared comments there. At this point, we're really not looking to grow our regulatory capital. So to the extent that any capital that we generate organically is not deployed into loan growth. It'd be reasonable to conclude that we'd be putting at least a decent portion of that into repurchases for the foreseeable future.

Operator

[Operator Instructions] Our next question is from Frank Schiraldi from ABC.

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Can you guys hear me now? Hello?

Operator

[Operator Instructions] We have no further questions. I will hand over back to Jeff to conclude.

Jeffrey M. Schweitzer
Chairman, President & CEO

Well, we can wait, give Frank another 2 minutes just in case he plans on jumping back on as he's already tried twice.

Operator

Of course.

Jeffrey M. Schweitzer
Chairman, President & CEO

All right. Well, Frank, if you can hear us, you can always follow up with Brian or myself or Mike offline. So with that, we appreciate everybody listening in this morning. And for your questions, and we look forward to a good year. As we've said, it's going to -- there will be stabilization in the first half of the year, and we expect to see things continue to improve on the margin side as the year goes on. So still a decent economy even with a lower GDP print this morning, and we're starting to see activity pick up.

So we're looking forward to having a successful year. And for those of you participating in our shareholder meeting later today, we look forward to talking to you then also. Have a great day.

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Operator

This concludes today's call. Thank you for joining. You may now disconnect your lines.

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