Call Participants

EXECUTIVES

Jeffrey M. Schweitzer
Chairman, President & CEO

Brian J. Richardson
Senior Executive VP & CFO

Mike Keim
COO & President, Univest Bank and Trust Co.

ANALYSTS

Emily Noelle Lee
Keefe, Bruyette, & Woods, Inc., Research Division

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Presentation

Operator

Good morning, all, and thank you for joining us for the Univest Financial Corporation Fourth Quarter 2024 Earnings Call. My name is Karli, and I'll be coordinating your call today. [Operator Instructions]. I'd now like to hand over to your host, Jeff Schweitzer to begin. The floor is yours.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Karli, 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 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 will 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 $18.9 million during the fourth quarter or $0.65 per share. We were pleased with how we ended 2024 as we had solid loan growth during the quarter with loans growing by $95.8 million or 5.6% annualized. Additionally, consumer and commercial deposits increased $104 million during the quarter, which was offset by the seasonal decline of public funds deposits of $185 million and a slight decline in broker deposits.

Our diversified business model continues to serve us well as our noninterest income was up $2.7 million or 14.6% compared to the fourth quarter of the prior year as we continue to see growth in our fee businesses. Additionally, credit quality continues to remain strong as nonperforming assets to total assets declined 4 basis points during the quarter and 11 basis points during the year to 41 basis point points with minimal net charge-offs of 6 basis points for the year.

With respect to capital, we continue to be active and plan on continuing to be active with stock buybacks as we repurchased 139,492 shares of stock during the quarter and 802,535 shares in 2024 which represented 2.7% of shares outstanding as of December 31, 2023, while also growing tangible book value per share of 9.01% during 2024.

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 will now turn it over to Brian for further discussion on our results and our outlook for 2025.

Brian J. Richardson
Senior Executive VP & CFO

Thank you, Jeff. I would also like to thank everyone for joining us today. I would like to start by touching on 5 items from the earnings release. First, during the quarter, we saw continued NIM stabilization. Reported NIM of 2.88% increased 6 basis points from 2.82% in the third quarter. Additionally, core NIM, which excludes excess liquidity of 3.02% increased 11 basis points compared to the third quarter. Second, as it relates to our loan and deposit activity, loans grew by $95.8 million or 5.6% annualized in the fourth quarter and grew by $259.4 million or 3.9% for the full year of 2024.

During the quarter, deposits decreased by $94.9 million. But as Jeff mentioned, public funds decreased by $185.6 million and broker deposits decreased by $13.4 million. Offsetting these decreases was a $104.1

million increase in commercial and consumer accounts. During the fourth quarter, noninterest-bearing deposits increased by $90.7 million. As of December 31, noninterest-bearing deposits represented 20.9% of total deposits compared to 19.3% at September 30. For the full year of 2024, total deposits grew by $383.5 million or 6%.

Third, during the quarter, we recorded a provision for credit losses of $2.4 million. Our coverage ratio was at 1.28% at December 31, which was consistent with September 30. Net charge-offs for the quarter totaled $767,000 or 5 basis points annualized. Fourth, noninterest income increased by $2.7 million or 14.6% compared to the fourth quarter of 2023. This was primarily driven by increases in wealth management, mortgage banking and service fee income. Fifth, noninterest expense increased by $1.6 million or 3.3% compared to the fourth quarter of 2023. For the full year of 2024, expenses increased by $2.1 million or 1.1% when excluding restructuring charges recorded in 2023.

I believe that the remainder of the earnings release was straightforward, and I would now like to focus on 5 items as it relates to 2025 guidance. First, for 2024, net interest income totaled $211.2 million. For 2025, we expect loan growth of approximately 3% to 5% with modest NIM expansion resulting in net interest income growth of approximately 5% to 7%. This assumes a relatively stable rate environment with 1 or 2 25 basis point rate decreases in 2025. However, modest Fed actions are not expected to have a material impact on our NII due to our overall ALM neutrality.

Second, the provision for credit losses will continue to be driven by changes in economic forecast and credit performance of the portfolio. At this time, we expect the provision for 2025 to be approximately $12 million to $14 million. Third, 2024, net noninterest income totaled $84.5 million when excluding the $3.4 million gain on sale of MSRs and $225,000 BOLI death benefit. For 2025, we expect noninterest income growth of approximately 4% to 6% off of the $84.5 million base. Fourth, we reported noninterest expense of $198 million for 2024. For 2025, we expect growth of approximately 4% to 5%. Lastly, as it relates to income taxes, we expect our effective tax rate to be approximately 20% to 20.5% based on current statutory rates.

That concludes my prepared remarks. We will be happy to answer any questions. Karli, would you please begin the question-and-answer session?

Question and Answer

Operator

[Operator Instructions]. Our first question comes from Emily Lee with KBW.

Emily Noelle Lee
Keefe, Bruyette, & Woods, Inc., Research Division

I'm on for Tim Switzer today. I wanted to ask what are the factors driving your 2025 guide and what you think can drive it up or down in either direction.

Brian J. Richardson
Senior Executive VP & CFO

This is Brian. I'll take that one. The guide really is based on everything we're seeing in the current environment and our strategic priorities and focus that's really where we think things will land. And any time guidance is provided, of course, there -- we pick the middle of the road of where we expect things to go. And that's why I provide ranges in accordance with that. So I mean, you can pick any number of possible variables that could present potential upside or downside, both macro or micro related. But I think there's kind of -- that's an infinite number of answers in all honesty.

Emily Noelle Lee
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And another question is, it might be a little early for this, but with the change in administration occurring, there's a lot of different puts and takes on the macro outlook and the impact of tariffs and where rates will go. Are you seeing that result in any caution from some of your C&I borrowers at all or maybe the other direction, certain industries where they're a little bit more bullish as it's impacted like your loan pipeline in any way?

Jeffrey M. Schweitzer
Chairman, President & CEO

Yes. Emily, this is Jeff. I would say that overall, there's a lot of optimism heading into 2025 from our customer base. As we all know, based on history, a lot of this will be -- will be shaken out over the next few months as far as tariffs, what products, what countries, amount, et cetera. But given more regulatory-friendly environment that everybody is anticipating probably a heated up M&A environment as there's more appetite for that. We are -- our customer base overall is pretty excited.

We don't have a lot of customers that deal internationally necessarily. So it's a little muted with our customer base. But overall, I would say that the optimism is there for what could be a solid 2025.

Emily Noelle Lee
Keefe, Bruyette, & Woods, Inc., Research Division

Great. I have one more question. This quarter deposits decreased 6% quarter-over-quarter in Q4, although noninterest-bearing deposits increased 27%. Can you expand a little bit on the drivers of what we saw in deposit trends in Q4.

Brian J. Richardson
Senior Executive VP & CFO

Sure. This is Brian. I'll take that one. Again, we saw a decrease between brokered deposits and public funds of approximately $200 million in the quarter. That's a seasonal outflow and just our intentional management of the broker deposit book was a combination of those 2 items there. We did see growth in commercial and consumer deposits across a wide population there. It wasn't 1 or 2 specific deposits that drove it, but we did see growth of $104 million during the quarter. So that's kind of what we saw occurring there.

And I guess the next question logically would be what we would expect to occur going forward. There is continued seasonal outflow to be expected on the public funds book anywhere from $50 million to $100 million per month. So we would expect that, that continues to kind of wind down throughout the first quarter. And as we've said in the past, you hit your annual trough occurs at the end of the second quarter every year, then tax collections in the third quarter brings you back up to the high point.

Operator

[Operator Instructions]. Our next question comes from Frank Schiraldi of Piper Sandler.

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

The loan growth assumptions, the 3% to 5% growth in 2025, it seems like most people have talked to in the industry are expecting or maybe hopeful that loan growth will pick up more in the second half of the year as maybe we get a better sense of where the new administration's policy sort of shake out. So just curious if that 3% to 5%, is that -- does that also assume some pickup in the back half of the year? Is that more, I guess, back loaded for 2025?

Mike Keim
COO & President, Univest Bank and Trust Co.

Yes, Frank, to some degree, I mean, there's -- the second and the fourth quarters historically are always our stronger quarters from a loan growth perspective. It's -- given the 3% to 5%, it's not that dramatically different quarter-to-quarter, and we are getting off to a decent start in the first quarter here. I wouldn't necessarily say that there could be the macro impact of that due to what the administration may or may not do. For us, and from our perspective, we've always been able to source it. It is us managing the growth of the loan book now with our deposit growth to maintain our loan-to-deposit ratio and ultimately start to push down our loan-to-deposit ratio.

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Okay. And then just on the net interest income guidance. Brian, you mentioned the pretty neutral, I guess, at this point. So rate cuts don't matter too much for expectations. I would assume a steeper yield curve is better. So just curious if the yield curve -- there's been a lot of movement in the longer end. Are you -- would you say if we get rates staying at the longer end where they are currently, there could be some upside to that? Or is that sort of the higher end of your guide, that 7%? Just trying to get a little more color on the potential drivers to maybe outperform there.

Brian J. Richardson
Senior Executive VP & CFO

Sure, Frank. This is Brian. So of course, the steepening -- a continued steepening of the curve would benefit us as well as majority of the financial institutions. So I think that would be a fair assessment, and that is not in any way kind of baked into the 5% to 7% guide. The 5% to 7% guide is simply just modest NIM expansion. And really, if you think about what happened to NIM, both on a quarterly reported basis throughout '24 and where we ended, if that just even helped steady, you have inherent expansion year-over-year just because of the low points that we started with in 2024.

So you have couple of basis points of NIM expansion that gives you a couple of percent on potential NII lift. And then when you think about the 3% to 5% loan growth that provides the other component of what's baked into our guide currently. But of course, again, steepening yield curve could have further implications.

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Okay. And just lastly on the buyback. You -- any color there in terms of should we anticipate maybe more consistent buybacks at sort of these levels? Would you say you continue to be -- or would you say continue to be more opportunistic on that front?

Brian J. Richardson
Senior Executive VP & CFO

This is Brian. What we've said previously and we continue to operate with is our goal really is to deploy excess capital that is generated on the buybacks. So we're not looking to grow regulatory capital just for the sake of growth. So therefore, we -- that's kind of the guardrails that we're managing with. But we will, from certain times when valuations that may be dislocated, we are a little bit more opportunistic with an all-in goal of, on a quarterly basis, kind of buying at a level that, that doesn't result in significant growth of our regulatory capital.

Operator

We currently have no further questions. So I'd like to hand back to Jeff Schweitzer for any closing remarks.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Karli, and I'd like to thank everybody for listening in today. As I said earlier, we're excited about the year we had in 2024 and the momentum we have heading into 2025, and we look forward to talking to everybody at the end of the first quarter. Have a great day.

Operator
As we conclude today's call, we'd like to thank everyone for joining. You may now disconnect your lines.