Call Participants

EXECUTIVES

Jeffrey M. Schweitzer Chairman,
President & CEO

Brian J. Richardson
Senior Executive VP & CFO

ANALYSTS

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Presentation

Operator

Good morning all, and thank you for joining us for the Univest Financial Corporation First Quarter 2025 Earnings Call. My name is Carly, and I'll be coordinating the call today. [Operator Instructions]

I'd now like to hand over to our host, Jeff Schweitzer, President and CEO of Univest Financial Corporation. The floor is yours.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Carly, 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 $22.4 million during the first quarter or $0.77 per share. We're off to a solid start to 2025 in spite of the uncertainty in the economy with interest rates and geopolitical concerns.

While loan growth was muted during the quarter, we actually saw solid production. However, we were hit with some larger payoffs, resulting in net growth of $6.5 million.

With the recent uncertainty from the announcement of tariffs on April 2, we have witnessed commercial customers being more cautious looking for more clarity on a number of items related to tariffs, taxes, interest rates and the overall economy.

While deposits decreased $100.8 million during the quarter, this was predominantly due to the seasonal decline of public funds deposits. We continued to see a stabilization of noninterest-bearing deposits, which combined with discipline on loan pricing, helped our margin improve to 3.09% during the quarter from 2.88% for the fourth quarter of 2024.

Additionally, credit quality continues to remain strong as nonperforming assets to total assets increased slightly by 2 basis points during the quarter to 43 basis points with net charge-offs remaining low at 10 basis points on an annualized basis.

With respect to capital, yesterday, the Board of Directors announced a $0.01 increase in our quarterly dividend to $0.22 per share. Additionally, we repurchased 221,760 shares of stock during the quarter and we plan on continuing to be active with stock buybacks going forward.

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.

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 4 items from the earnings release.

First, as Jeff mentioned, we saw solid NIM expansion during the quarter with reported NIM increasing 21 basis points to 3.09%. Additionally, core NIM, which excludes excess liquidity of 3.12% increased 10 basis points compared to the fourth quarter.

Second, during the quarter, we recorded a provision for credit losses of $2.3 million. Our coverage ratio was 1.28% at March 31, which was consistent with December 31. Net charge-offs for the quarter totaled $1.7 million or 10 basis points annualized.

Third, noninterest income decreased $3.2 million or 12.4% compared to the first quarter of 2024. Excluding the nonrecurring $3.4 million gain on sale of MSRs in the first quarter of 2024 and the $1 million BOLI death benefit in the current quarter, noninterest income decreased $797,000 or 3.6%.

Contingent income in the insurance line of business decreased $700,000 compared to the first quarter of 2024. As a reminder, contingent income totaled $2.3 million in the first quarter of '24, which was an all-time record for our insurance business.

Fourth, noninterest expense decreased $746,000 or 1.5% compared to the first quarter of 2024 as we continued to prioritize prudent expense management.

As it relates to 2025 guidance, when excluding the $1 million BOLI debt benefit recorded in the quarter, 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. Carly, would you please begin the question-and-answer session?

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

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

I thought -- Brian, correct me if I'm wrong and maybe I missed it, but in terms of the fee income growth expectations, I thought it was mid-single digits for the year. And if that's the case, can you just maybe talk about kind of drivers to get there?

Brian J. Richardson
Senior Executive VP & CFO

Sure, Frank. Yes, 4% to 6% was our guidance range when we kind of came into the year and we continue to hold that steady. Of course, we'll see what occurs on the mortgage banking side, which will provide potential opportunity and lift there or something that we'll continue to keep an eye on.
And then you'll have -- inherently, when you look at the year-over-year current growth, when you back out the contingent income and the noise that, that put into the first quarter, we would again expect to fall into that low single-digit percentage range.

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Okay. And then just on the loan-to-deposit ratio, I think there's some seasonality there on the public funds and the deposits. And I think if, correct me if I'm wrong, you guys continue to target like a 95% to 105% ratio, I guess, where do you see that trending to? And if you can just remind us the cadence of kind of those balances, public funds, through the year?

Question and Answer

Brian J. Richardson
Senior Executive VP & CFO

Yes, Frank, so I'll start out there and then we could elaborate as necessary or appropriate. But on a longer term, we look to head towards 95% to 100%. That said, we realize that's going to be a process for us to navigate there. So we look to continually and methodically kind of ratchet that down over time, knowing that there's cyclicality and seasonality with public funds and how that presents at each quarter end from a loan-to-deposit ratio perspective.

Jeffrey M. Schweitzer
Chairman, President & CEO

Yes. So we'll hit a low point by June 30 on public funds and then they'll start to build in the second half of the year again.

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Okay. Great. And then just, lastly, you mentioned capital return. Just wondered if you could maybe size the potential for buybacks here in terms of payout ratio going forward.

Brian J. Richardson
Senior Executive VP & CFO

Sorry, payout ratio as it relates to buybacks? I mean, I think the volume that you saw in the first quarter just from an overall dollar perspective, if you looked at it from that perspective, it's something that we would continue to kind of target something in that general range.

Again, that's a decision that we make, though, on a quarterly basis as we look forward to projections of earnings and loan growth and projections of our regulatory capital ratios such that we're looking to deploy any excess capital that would be generated while not overreacting in any specific quarter for any kind of short-term blips, but looking over the longer-term time horizon, call it, the next 9 to 12 months of where we would expect capital to land. So that's kind of the process that we go through.

Operator
[Operator Instructions]
Our next question comes from Emily Lee of KBW. It appears we're not able to get any connection from Emily's line, and we currently have no further questions. So I'd like to hand back to Jeff Schweitzer for any further remarks.

Jeffrey M. Schweitzer
Chairman, President & CEO

All right. Thank you, Carly, and thank you, everyone, for participating on the call today. As we noted, we had a very solid first quarter. While there's a lot of uncertainty in the environment, we are very well poised to navigate through anything that is thrown at us.

And we look forward to talking to everybody who participates later today for our shareholders' meeting and then at the end of the second quarter. Have a great day.

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