

Call Participants

EXECUTIVES

Jeffrey M. Schweitzer
Chairman, President & CEO

Michael S. Keim
COO & President, Univest Bank and Trust Co.

Brian J. Richardson
Senior Executive VP & CFO

ANALYSTS

Timothy Jeffrey Switzer
Keefe, Bruyette, & Woods, Inc., Research Division

Tyler Cacciator
Stephens Inc., Research Division

Presentation

Operator

Good morning all, and thank you for joining us for Univest Financial Corporation's Second 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, to begin. 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 \$20 million during the second quarter or \$0.69 per share. While loan outstandings contracted by \$31.9 million during the quarter, production has remained solid through the first 6 months of the year. However, we continue to be impacted by early payoffs and paydowns. Overall, year-to-date commercial loan production through June 30 was \$507 million compared to \$402 million in the prior year. However, this has resulted in contraction in loan outstandings year-to-date of \$25.4 million compared to growth of \$117.6 million in the prior year.

While deposits decreased \$75.8 million during the quarter, this was predominantly due to the seasonal decline of public funds deposits and a decline in broker deposits. Excluding these declines, deposits increased \$77.5 million during the quarter.

During the quarter, we recorded \$7.8 million of net charge-offs predominantly related to one credit, which accounted for \$7.3 million of the charge-offs. The remaining balance of this relationship of \$16.4 million has been placed on nonaccrual and is supported by the appraised value of the real estate collateral. As this is still an active situation where fraud is suspected, we will have no further comments at this time. Absent this one relationship, credit quality continues to remain strong.

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. I would also like to thank everyone for joining us today. I would like to start by highlighting a few items from the earnings release. First, during the quarter, reported NIM of 3.2% increased by 11 basis points from 3.09% in the prior quarter due to increased yields on assets and a reduction in our cost of funds. Core NIM of 3.24%, which excludes the impact of excess liquidity, expanded by 12 basis points compared to the first quarter. We expect core NIM to contract by a few basis points in the third quarter due to the repricing of our 2020 sub debt issuance and the seasonal build of higher cost public funds. However, we expect NII to be relatively in line with the second quarter.

Second, noninterest income increased by \$521,000 or 2.5% compared to the second quarter of 2024. This was primarily driven by increases in investment management fees, gains on sale of SBA loans and treasury management fees, partially offset by a decrease in net gains on mortgage banking due to elevated interest rate environment and competition.

Third, noninterest expense increased \$1.6 million or 3.3% compared to the second quarter of 2024. The increase was primarily driven by compensation costs, specifically annual merit increases, medical costs and variable incentives. I believe the remainder of the earnings release was straightforward, and I would now like to provide an update to our 2025 guidance.

First, for the full year, we expect loan growth of approximately 1% to 3%, and we expect net interest income growth of 10% to 12% compared to 2024. Second, our provision for credit loss guidance remains unchanged at \$12 million to \$14 million for 2025. However, the provision will continue to be event-driven, including loan growth, changes in economic-related assumptions and the credit performance of the portfolio, including specific credits. Third, 2024 noninterest income totaled \$84.5 million when excluding the \$3.5 million gain on sale of MSRs and \$245,000 of BOLI death benefits. For 2025, we expect noninterest income growth of approximately 1% to 3% off the \$84.5 million base.

Fourth, we reported noninterest expense of \$198 million for 2024. For 2025, we expect growth of approximately 2% to 4%. Lastly, as it relates to income taxes, our guidance remains unchanged at 20% to 20.5% based on current statutory rates. The aggregate impact of these guidance updates when compared to our most recent guidance is accretive to both EPS and PPNR. That concludes my prepared remarks. We will be happy to answer any questions.

Carly, would you please begin the question-and-answer session?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Tim Switzer from KBW.

Timothy Switzer

Keefe, Bruyette, & Woods, Inc., Research Division

I apologize, you broke up a little bit on my end on some of the guidance numbers. Could you give me your update for loan growth and expenses?

Brian J. Richardson

Senior Executive VP & CFO

Sure. Loan growth is 1% to 3% and corresponding net interest income growth is 10% to 12% and then expenses is 2% to 4%.

Timothy Switzer

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. I guess could you maybe talk about some of the changes there? It looks like both those numbers are down a little bit. Could you just talk about what you're seeing from the loan environment? Is there a lot of -- is demand kind of faltering a little bit? Or is it more about competition?

Brian J. Richardson

Senior Executive VP & CFO

Actually, as Jeff referenced at the beginning of his remarks, Tim, loan activity and loan origination activity is strong. We're consistent with what it has been in the prior year. We were just impacted fairly significantly by payoff activity in the first half of the year. We look to -- we predict that and forecast that and are interacting with our customers to the best of our ability. We're looking for that to slow down, that being prepayment activity in the second half of the year, and we'll continue to produce at the levels that we have, and therefore, that will lead to growth.

And then on the expense side, we just continue to see the benefit of our prudent expense management and discipline on that side. Of course, there's some variable expenses like medical costs and some things like that, that aren't directly controllable. But as we trend through the first 6 months of the year, that's what's causing us to ratchet the expense growth down from 4% to 5% down to 2% to 4%.

Timothy Jeffrey Switzer

Keefe, Bruyette, & Woods, Inc., Research Division

Got you. Okay. And you guys are sitting with very healthy capital levels. You haven't seemed all that determined to execute any M&A deals. You guys are doing a little bit of share repurchases, but with the share price coming up, it's going to be a longer earnback. Can you kind of talk about what your strategy is going to be to efficiently deploy that capital and whether you're going to return it to shareholders or find some opportunities to reinvest into the business?

Jeffrey M. Schweitzer

Chairman, President & CEO

Yes. So Tim, we will continue to be active on buybacks. And even with the rise in our share price, the earn-back period, while it's gotten longer, it's still well -- it's within a 2- to 3-year range even as we go up from here. So we'll continue to stay active on the buyback front. We feel that that's a good use of capital. While M&A isn't an immediate strategic priority of ours, we always want to have our eyes open and see what's available out there. There's nothing that's overly exciting right now. But we also look at on the insurance side, wealth management side, we're always keeping our eyes open there, too. So we're not opposed to M&A. I would say it's probably more on the nonbank side than the bank side at this point

that we would be more interested. But in lieu of opportunities like that, we're going to continue to also do share buybacks.

Timothy Jeffrey Switzer

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And I'm curious what you guys are hearing or seeing in terms of deposit competition out there. There's been some reports from some competitors that it's starting to step up a little bit. And with the Fed not lowering rates this year so far, it sounds like a lot of the deposit repricing has kind of already ran through.

Michael S. Keim

President & Director

No, I would say that that's consistent with what we see, especially on the consumer side with money market rates and CD rates. So yes, it is a tough environment out there. People continue to fight for deposits and generate the liquidity necessary to support their growth. So we've identified certain things, certain campaigns and certain niches that we continue to push forward with. And we look forward to continue to grow our deposits as the year moves forward. As you well know or most people know as they follow us, the third quarter will be a peak quarter for us on public funds. So that would be expected and we will continue to manage through. But no, it is a tough environment from a competitive perspective.

Timothy Jeffrey Switzer

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got you. And last question for me. Could you guys talk about your outlook in terms of the NIM trajectory going forward over the next couple of quarters? You mentioned public funds is going to be seasonally higher next quarter, so that impacts it a little bit. And then what would you guide -- what kind of impact would you expect from 1 or 2 rate cuts in the back half of the year?

Brian J. Richardson

Senior Executive VP & CFO

Sure, Tim. So as I had guided for the third quarter, we expect core NIM to pull back -- reported NIM to pull back for sure, core NIM to pull back slightly just again, due to our -- the repricing of our sub debt issuance as well as those higher cost public funds coming on, then we expect it to be flat to slightly up thereafter, assuming relatively stable interest rate environment for the next several quarters. If we -- 1 or 2 rate cuts, it really does not expect it to be impactful over a longer term. There might be noise within a given quarter just based on how the timing of when assets and liabilities reprice. But then once that kind of blends itself through, you're not expecting that to be overly impactful due to our relative neutrality from an ALM perspective.

Operator

[Operator Instructions] Our next question comes from Tyler Cacciator from Stephens.

Tyler Cacciator

Stephens Inc., Research Division

This is Tyler on for Matt Breese. I just wanted to start, last week, Senator Dave McCormick held Energy and Innovation Summit in Pittsburgh, outlining a number of projects totaling around \$90 billion in data centers, energy and power infrastructure and some other projects, some of which are expected in Eastern Pennsylvania. Just curious on if you've heard anything on these projects and if you think there could be some positive benefit in your footprint?

Jeffrey M. Schweitzer

Chairman, President & CEO

I mean any time that there's investment in our state, we're obviously very supportive of that and excited to see the money flowing into Pennsylvania. We'll benefit more from our customers being able

to participate in any projects that are being built out. We have a very diversified customer base, a lot of which are in electrical contracting and construction and things of that nature that could potentially benefit from this. I think it's a little early stages right now as far as that we've heard any significant chatter from our customers in market, but I know that everybody is excited, obviously, to see the investment made in Pennsylvania.

Michael S. Keim

President & Director

And I would just add, it wouldn't just be Eastern Pennsylvania for us. We're obviously active in Central Pennsylvania, and we have a presence in Western Pennsylvania. So to Jeff's point, we'd be certainly pleased to participate across our footprint.

Tyler Cacciator

Stephens Inc., Research Division

All right. And then I just had one more. I know you talked about the pipeline a little bit. I was just wondering how yields are holding up. I know you cited some increased competition. But in terms of spread compression, how much are you seeing there?

Brian J. Richardson

Senior Executive VP & CFO

We really haven't. New loan yields on the commercial side, especially have been relatively stable for the last quarter or 2. And again, as we said, production remained strong, just the lack of loan growth is really driven by the payoff headwinds.

Tyler Cacciator

Stephens Inc., Research Division

Okay. Great. So do you think without any rate cuts, this pace of loan yield expansion is repeatable?

Brian J. Richardson

Senior Executive VP & CFO

Not repeatable. I think that will definitely start to slow down from an expansion perspective because we have a repricing of the book occur, of course, as that base gets higher, just on a notional basis, that expansion will start to slow down even if you can remain with consistent production volume. So I think it would slow down a little bit and things remain competitive for sure, but nothing that would suggest at this point that it's going to start pulling back in any way.

Operator

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

Jeffrey M. Schweitzer

Chairman, President & CEO

I'd just like to thank everyone for participating today. I hope you're having a great summer, and we look forward to talking to everybody after the end of the third quarter.

Operator

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

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