Univest Financial Corporation

FQ3 2026 Earnings Call Transcript

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Call Participants

EXECUTIVES

Jeffrey M. Schweitzer
Chairman, President & CEO

Brian J. Richardson
Senior Executive VP & CFO

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

ANALYSTS

Manuel Antonio Navas
Piper Sandler Companies

Matthew M. Breese
Stephens Inc., Research Division

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

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Presentation

Operator

Thank you for standing by. My name is Jordan, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Univest Financial Corporation Third Quarter 2026 Earnings Call. [Operator Instructions]

I would now like to turn the conference over to Jeff Schweitzer, Chairman, President and CEO. You may begin.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Jordan, 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 $21.6 million or $0.78 per share for the third quarter. Our results for the quarter were negatively impacted by a $14.4 million charge-off associated with a commercial lending relationship, which had a specific reserve of $9.8 million at June 30. The remaining balance related to this credit is supported by a letter of intent to sell the business. While the results for the quarter were impacted by this credit event, excluding this charge-off, our core operations and pipelines remain solid, and our asset quality remains stable to improving, with our criticized classified loans expected to decline in the fourth quarter. While lending activity continues to be solid, loans declined just slightly during the quarter, primarily due to the planned payoff of a $35.3 million shared national credit and the previously noted charge-off.

Total deposits for the quarter increased $421.5 million or 6.1%, primarily due to the seasonal increase in public funds deposits, along with growth in commercial deposits. We continue to execute on our initiative to lower our loan-to-deposit ratio, which on average was 120 basis points lower year-to-date than through the first 9 months of 2025. Our fee businesses and fee income continue to contribute to our overall operations. Excluding BOLI death benefits, fee income increased 6.3% compared to the third quarter of 2025, led by wealth management, which increased 10.3%.

We continue to be active with respect to stock buybacks, buying back 301,127 shares of our stock during the quarter. Year-to-date, we have repurchased 1,077,804 shares or 3.8% of outstanding shares as of the beginning of the year.

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, and thank you to everybody for joining us today. I would like to start by touching on 4 items from the earnings release. First, we saw continued strength in net interest income and expansion of our core net interest margin during the quarter. Net interest income increased $1.5 million or 2.3% compared to the second quarter and increased $6.4 million or 10.5% compared to the third quarter of 2025.

Reported net interest margin was 3.42% compared to 3.49% in the second quarter. However, the decrease was driven by higher excess liquidity during the quarter from our seasonal public funds build. Excluding the impact of excess liquidity, our core net interest margin increased 2 basis points to 3.55% from 3.53% in the second quarter. Second, as it relates to credit, as Jeff mentioned, $14.4 million of the $17.6 million in net charge-offs for the quarter was associated with one commercial relationship we discussed last quarter. As a result of the elevated charge-off activity, our provision for credit losses was $9 million during the quarter.

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During the quarter, nonperforming assets declined to $51.4 million from $63 million at June 30. Our allowance for credit losses was $81 million or 1.15% of total loans held for investment compared to 1.28% at June 30.

Third, as Jeff mentioned, our core fee businesses continue to perform well during the quarter. As we've said in the past, our diversified fee income businesses continue to serve us well while providing earnings stability in varying economic environments.

Fourth, noninterest expense was $54 million for the quarter, an increase of $3.3 million or 6.6% compared to the third quarter of 2025. This was driven by higher compensation, marketing and data processing costs. With regards to compensation costs, in addition to annual merit increases, increased variable compensation and increased medical costs, we've seen increases in staff, primarily within revenue-producing areas and our data analytics functions.

With regards to marketing, we entered into a sponsorship agreement with a local university and have also seen increased advertising spend related to various deposit origination initiatives. Despite the year-over-year expense increase, our efficiency ratio improved to 59.5% for the quarter compared to 62.3% in the second quarter and 60.2% in the third quarter of last year.

I would now like to turn briefly to our outlook for the remainder of 2026. We are maintaining our outlook for loan growth of approximately 2% to 3% for the full year. We are updating our full year net interest income growth outlook to a range of 10% to 11%.

With respect to provision expense, we expect a full year provision of $15 million to $17 million. However, as I've said in the past, provisioning is event-driven and may be impacted by the resolution of workout credits, loan growth and changes in economic conditions.

With regards to noninterest income, we expect growth of 5% to 7%, excluding BOLI death benefits and OREO valuation adjustments. As it relates to noninterest expense, we expect growth of 5% to 6% for the full year when excluding restructuring charges.
That concludes my prepared remarks. Jordan, we would be happy to take any questions at this time.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Tim Switzer from KBW.

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

My first one is on the rate outlook with the NIM. We've already had one Fed rate hike, could maybe have a few more and hopefully more gradual last hike cycle. What are your guys thoughts on kind of the impact on the margin, assuming we get a few more? I know you guys talked about being neutral and maybe slightly asset sensitive. But does that change over the course of the cycle if we get several rate hikes? And how should we think about that?

Brian J. Richardson
Senior Executive VP & CFO

Tim, this is Brian. I'll start out on that one. Really, as we've said in the past, we are neutral. We don't expect, call it, the first 100 basis points or so in an upward rate environment to be overly impactful to our NIM. We do expect a small opportunity, a couple of basis points of potential expansion, say, if you look from Q4 where we're projecting -- we expect core NIM to increase slightly from Q3 into Q4. And then if you use that as a launching point going into '27, you might have a couple of basis points of expansion based on the current rate outlook. Of course, there is churn that we would expect and benefits from repricing on the loan side. However, competition in the competitive environment could weigh on that potential upside opportunity. And of course, on the liability side, competition for deposits remains fierce. So that's the other item that is at play. So I think there's slight opportunity, but, call it, relatively flat to slightly up would be the expectation for NIM.

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

Right. Okay. That's good to hear. And what are the early indications of customer demand for higher deposit rates with the Fed moving? And what does competition in your markets look like across your different geographies?

Michael S. Keim
President & Director

Tim, it's Mike. Brian alluded to it, there is increasing competition. You see people getting ahead of it a little bit. Customers are feeling the fact that the Fed will move. Therefore, their expectations are for a bump in rates. We continue to assess that. We've done some things strategically, specifically on the CD side where we're a bit -- we were a little bit more aggressive for lack of a better term, on a 25-month CD because we don't want to continue to have to deal with the churn and the pricing exceptions that would come through. So we've been out in front of that. We've done -- as part of the quarter that Brian referenced on the expense side, we spent some money on the marketing side on a checking account campaign. So we've been pushing across the board in terms of what we're trying to do. But the market is competitive out there. People are stepping up from a competitive perspective on rates across -- whether it's CDs, whether it's money market accounts, et cetera. The offers that you see in our marketplace for checking accounts can be as high as $800 to open up a checking account. Now, you have to read the fine print and see everything that goes along with that. But it is an aggressive and competitive marketplace. We think we're doing pretty good at this point in time, but there will be some pressure as we move forward and into 2027.

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

Okay. Okay. That makes sense. And then the last one for me. Could you give me an update on your guys' expansion in some of your new markets like Western PA, Maryland and your willingness to continue hiring in those markets?

Michael S. Keim
President & Director

Yes. So I would say, Tim, consistent with -- I think we've talked about this a couple of times over the last year or so, what we originally anticipated doing in both of those marketplaces was slowed down by the pandemic and then the, kind of, the bank failures that happened to put pressure on deposits. We continue, though, to move forward and expand the teams in both markets. It's just at

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a more measured pace. Both are run rate positive fairly significantly at this point in time. So we're happy with that. But it will be continued measured pace versus more aggressive. That said, when we see lift-out opportunities, if they arise, you can't wait on those because they won't be there if you "wait till you're ready". So to the extent that we see lift-out opportunities in either marketplace, we will jump on that as long as we can get good sales talent and add that to the team.

Operator

Your next question comes from the line of Matthew Breese from Stephens Inc.

Matthew M. Breese
Stephens Inc., Research Division

Maybe we can just start with the loan that was charged off. I'd just be curious what happened there? What asset class was it? Is it indicative of anything else going on within that kind of bucket? And then, Jeff, at the start, you kind of mentioned that asset quality is stable to improving. Just curious if we should read that as what you're seeing behind the scenes indicates that NPAs and can continue to be, kind of, down to the right in future periods?

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

Yes. So I'll start, Matt, with regard to the loan. C&I credit and more of a cyclical industry. Look, it was a significantly -- I would say, the $70 million to $80 million revenue company with strong EBITDA when we entered into it. And it just -- as you go through it without -- because I can't get into all the details for obvious reasons. But if you look at it, basically, management did not execute at the level that they needed to. And while additional equity was put into the company, it just deteriorated at a faster pace than what was necessary to service and support the debt that was associated with the company. It was a combination of term debt and lines of credit. The term debt had a more aggressive paydown that should have helped us and was helping us as we move forward here. And the line of credit was a working capital line of credit that was supported by inventory and receivables. At the end of the day, it's not indicative of anything that I would say, in the marketplace nor in our portfolio. It was a single credit that just was not executing at the level that it needed to do to support the debt level that was on the company.

Jeffrey M. Schweitzer
Chairman, President & CEO

Yes. And overall, we are seeing stable and improving credit quality, not that we saw deteriorating credit quality other than these one-off -- this one-off with this one credit for the fourth quarter, we're conservatively looking at criticized classifieds going down in the $35 million to $40 million range with potential upside there as we work through some other credits. So we're seeing really good asset quality, to be honest with you, and we would expect that our metrics would continue to improve as we head into year-end and honestly, into beginning of next year.

Matthew M. Breese
Stephens Inc., Research Division

Okay. I appreciate that. You had mentioned kind of strong pipelines. And obviously, there's some moving parts with the credit this quarter, but overall loan balances were down. So I'm curious, how is the pipeline heading into this quarter? How does it -- how does the pipeline today stack up relative to that? And the question in between there is what are you seeing on the prepay and payoff front? And can we get some decent growth in the coming quarters?

Mike Keim
COO and Univest Bank and Trust Co.

Yes. So the pipelines are strong, Matt, as referenced in the remarks. The payoff of the SNC that occurred, that was planned, and we actually worked with the borrower and actually communicated well with that. And the reality is we think there's other opportunities with that same borrower on different parts of their businesses. So it was anticipated, planned, and we actually think there's opportunities there to go from there. You got to also remember, and we had alluded to it, but we are back to the mortgage business being completely oriented based on Fannie, Freddie, FHA, so originate and sell. So our mortgage portfolio is actually declining quarter-over-quarter consistently. Now as rates are up, that might slow down a little bit because we won't get paid off as quickly as we otherwise would have. But the mortgage business, which used to be a net add to loan growth is now a net subtractor consistently on a quarter-over-quarter basis.

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And on the CRE side, we really changed our focus to be more of a commercial construction lender. So you see commitments are growing and that we will share in our -- it will drive growth at a level -- a nominal level as we move forward here, but we are not primarily doing any long-term CRE holds at this point in time. So our -- that CRE business is also basically churning the same level of capital lending growth. So there's factors of -- we got a planned payoff of the SNC, obviously, the charge-offs that we took. And then there's some methodology changes and philosophy changes that we've adjusted to on the residential mortgage side as well as the CRE side, which is naturally bringing our loan growth down. And really, the intent behind all of it was so that we can get -- we believe we can get higher fees on the construction side of the business and higher rates, which helps us from a profitability perspective, but also this philosophy allows us to get our long-term loan-to-deposit ratio in line with the 95% to 100% consistently where we want to live.

Matthew M. Breese
Stephens Inc., Research Division

Okay. All right. So it does sound like the loan growth guide for this year, 2% to 3%, probably good to carry out near term. And along with your, kind of, loan-to-deposit ratio point there, how much of deposit growth this quarter was seasonal and we should anticipate coming out? And I'm curious where the loan-to-deposit ratio kind of settles out ex kind of seasonality?

Brian J. Richardson
Senior Executive VP & CFO

Yes. So a good portion. I mean, we saw a couple of hundred million dollars of our total increase, $420 million coming in during the quarter. A significant portion of that was, in fact, public funds. We do expect that to run out $100 million to $200 million each quarter until we wind down to June of next year. So we'd see that start to kind of pull back a little bit. Of course, the offset is in periods like this, we do other higher cost deposits that we have out there as well as brokered, we dial those back in a time like this as well. So that will be a give and take in our overall loan-to-deposit ratio. That said, we do look to continue not doing anything drastic in one given quarter, but looking to manage that down methodically into that 95% to 100% range sustainable. And really, I think it's important to look year-over-year just based on the seasonality and where we're trending, and that's really what we focus on is how we're doing this year versus last as we march that down.

Operator

Your next question comes from the line of Manuel Navas from Piper Sandler.

Manuel Antonio Navas
Piper Sandler Companies

I understand the puts and takes -- some of the puts and takes on the loan portfolio. Is there a point where you could see it accelerate when you have it kind of the mix that you're looking for? Or -- and kind of thoughts into next year on growth? Is it -- does the 2% to 3% seem to hold into next year?

Jeffrey M. Schweitzer
Chairman, President & CEO

Yes. I'll just talk in philosophy and then Brian can obviously add in. Look, I think you really need to look at it as where we can go beyond just seasonal pickups and deposits and public funds. And when we consistently grow deposits, and we can, at attractive levels, and we can do it consistently, like I said, we will continue to increase, and I think we can grow loans at a faster pace. That said, the drag, for lack of a better term, of the change in methodology on the residential mortgage side and the commercial real estate side is not insignificant. So will we grow loans at a faster pace over time? I believe we will. Will it be based on what we used to do historically? No, it will not. And I would expect from a guide perspective, while we're not giving formal guidance for next year, I would expect that trend that we saw this year really continue in light of what Mike said with our kind of the deposit consideration and where we expect to grow there.

Manuel Antonio Navas
Piper Sandler Companies

Okay. Beyond your own appetite on the CRE side, are you seeing higher rates impact any of your projects that you're considering or in your borrower base?

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

Look, we do a really good job. Our credit team, together with the line, looks at all of the deals that are -- that we have outstanding and have been doing shocks and getting in discussions with customers to see where they were. So we've been -- and this gets back to overall credit quality and why we believe that absent these couple of blips, we're in a strong position. The reality is that we've been working with people. Look, there's no doubt that increases in interest rates are going to put some additional stress on projects. But we believe, based on what we've looked at, that we're in a good shape. And to the extent that we need a borrower to put additional capital into the equation here, we do that, and we're successful in that because we're having those discussions 12 months in advance of when the loans are going to reset or come to maturity. Now on top of that, the counter to this a little bit is, have we seen kind of new deals, people take a step back? Yes. In terms of we didn't close the loan. People have decided based upon where rates may be heading that they're going to pause on that opportunity until they get a better picture of the rate forecast longer term. So we think we're in a good position where we are with the existing book, but we are starting to see a slowdown from the perspective of people hesitating before they actually launch a new project based upon where the rate environment is.

Manuel Antonio Navas
Piper Sandler Companies

Got it. Last question for me. Can you run through an update on capital deployment opportunities? Where does the pace of the buyback fit in? And, kind of, any added color on thoughts on M&A, dividend and where the pace of buyback fits in with those deployment opportunities?

Jeffrey M. Schweitzer
Chairman, President & CEO

Yes, sure. So -- with respect to buybacks, we would expect to continue to be active in that market similar to how we have been for a couple of years now at this point that we -- we don't see that slowing down. Additionally, we are open to M&A. We wanted it to be strategic. Obviously, we're focused on payback periods and the like. But it is something that while we were -- we took a pause for a couple of years, it's something that we're very open to now in the right markets. And if the right opportunity were to come along, it's definitely something that we would entertain. So on capital deployment, it's all across the board. The Board of Directors is always looking at what our dividend is, what our payout ratio is. When we contemplate that, we're definitely going to be active in buybacks, but we also like to have dry powder in case any type of opportunities arose, whether it's on the bank side, the wealth management side or the insurance side. So it's something that we definitely are open to and looking to continue to try to execute on all fronts.

Operator

This concludes our question-and-answer session. I'd like to now turn the call back over to Jeff Schweitzer for closing remarks.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Jordan. I'd just like to thank everybody for listening in today and for the questions. We really appreciate the participation, and we look forward to ending 2026 on a high note and carrying momentum into next year. So I look forward to talking to you in January. Have a great day.

Operator
This concludes today's meeting. You may now disconnect.

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