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

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Presentation

Operator

Good morning, all, and thank you for joining us for the Univest Financial Corporation Second Quarter 2024 Earnings Call. My name is Corley, and I'll be the call coordinator for today.

[Operator Instructions] I would like to hand over to our host, Jeff Schweitzer, CEO and President, to begin.

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Corley, 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 $18.2 million during the second quarter or $0.62 per share. During the quarter, we continued to see stabilization in the shift in the mix of deposits along with the cost of deposits. The highlight of the quarter was growth in deposits of $90 million or 5.6% annualized during the quarter, which was net of our normal seasonal runoff of public funds deposits along with the decrease of broker deposits as we experienced solid core deposit growth. Additionally, loan growth picked up in the second quarter as we grew loans by approximately $106 million or 6.4% annualized. Our diversified business model continued to serve us well as our noninterest income was up $1.1 million or 5.8% compared to the prior year. And finally, we continue to be active with stock buybacks during the quarter as we repurchased 190,808 shares of stock while still growing our 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 will 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 start by highlighting a few items from the earnings release. First, during the quarter, we continued to see signs of NIM stabilization and we expect core NIM to expand in the second half of the year. Reported NIM of 2.84% decreased 4 basis points from 2.88% in the first quarter. Core NIM of 2.86%, which excludes the impact of excess liquidity declined 5 basis points compared to the first quarter. During the quarter, loan yields decreased 5 basis points or increased 5 basis points to 5.73%. Interest-earning asset yields increased by 6 basis points and the cost of interest-bearing liabilities increased by 9 basis points. It is important to note the increase in our interest-earning asset yields approximates the increase in our loan yields as we are not seeing a benefit from shrinking the investment book that some of our peers are seeing.

We have consistently maintained the investment portfolio at 6% to 8% of total assets and plan to continue doing so.

Second, as it relates to the loan and deposit activity, loans grew $105.8 million, and deposits grew $90 million during the second quarter despite decreases in brokered and public fund deposits of $37.5 million

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and $24.1 million, respectively. Third, during the quarter, we recorded a provision for credit losses of $707,000. Our coverage ratio was 1.28% at June 30 compared to 1.3% at March 31.

Our general reserve coverage ratio, which excludes individually analyzed loans was 1.28% at June 30 compared to 1.27% at March 31. Net charge-offs for the quarter totaled $809,000 or 5 basis points annualized. During the quarter, we saw a decrease in nonperforming assets and relative stability in loan delinquencies and criticized and classified assets.

Fourth, noninterest income increased $1.1 million or 5.8% compared to the second quarter of 2023. This increase was primarily driven by a $671,000 or 64.6% increase in net gain on mortgage banking activities and a $530,000 or 11.3% increase in investment advisory, commission and fee income. We continue to be happy with and proud of the contributions from our fee income business is and our diversified business model.

Fifth, noninterest expense decreased $1.1 million or 2.2% compared to the second quarter of 2023. When excluding the $1.3 million of restructuring charges in the second quarter of 2023, expenses were up $239,000 or 0.5% year-over-year. This reflects the benefit of the various expense reduction strategies we deployed during 2023 and demonstrates our ongoing commitment to prudent expense management.

Lastly, during the second quarter, we repurchased approximately 191,000 shares of stock at an average all-in cost of $21.17 while growing tangible book value per share by $0.47 or 2.1%. During the first 6 months of 2024, we repurchased approximately 506,000 shares at an average all-in cost of $20.74. This represents 1.7% of the shares that were outstanding as of December 31, 2023.

As of June 30, there were approximately 696,000 shares available for repurchase under our share repurchase plan, and we plan to remain active with regards to buybacks. I believe the remainder of the earnings release was straightforward, and I would now like to provide an update to our 2024 guidance.

First, our previous loan growth guidance of 4% to 5% remains unchanged, and we expect net interest income to contract 3% to 5% for the full year of 2024 compared to 2023. This assumes that NIM has bottomed out in the second quarter and will expand during the second half of the year.

Second, our provision for credit loss guidance for the year is being reduced from $11 million to $13 million to $8 million to $10 million. However, the provision will continue to be event-driven, including loan growth, changes in economic-related assumptions and credit performance of the portfolio, including specific credits.

Third, our noninterest income growth guidance for the year is being increased from 4% to 6% to 7% to 9% when excluding the $3.4 million pretax gain on the sale of MSRs in the first quarter, including the gain on sale of MSRs, noninterest income growth guidance for the year is 11% to 13%. As a reminder, this is off the 2023 base of $76.8 million.

Fourth, in 2023, our noninterest expenses totaled $195.8 million when excluding the $1.5 million of restructuring charges. For 2024, we expect growth of 2% to 4% off the base of $195.8 million. Lastly, as it relates to income taxes, we expect our effective tax rate to be approximately 20% to 20.5% based off of current statutory rates.

The aggregate impact of these guidance updates when compared to our most recent guidance is accretive to EPS and relatively neutral to PPNR. While the revenue side of the equation is inherently being pressured, we have and will continue to strive to mitigate the impact on our bottom line by way of prudent expense to management. That concludes my prepared remarks. We'll be happy to answer any questions. Corley, 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 of ABC.

Frank Schiraldi

Just in terms of the fee income guide, it seems to me, like it calls for total fees to kind of decline slightly from second quarter levels. So is that right? And kind of what is the driver of that?

Brian J. Richardson
Senior Executive VP & CFO

If you look at an average, it is relatively in line with the second quarter. The first quarter was elevated when you think about the insurance contingent income and things like that, that come through, but we look for it to be relatively stable in comparison to the second quarter as you look at the third and fourth quarter.

Frank Schiraldi

Okay. And then just wondering if you could help a little bit just your thoughts on -- I know there's some seasonality there and otherwise had strong growth in core deposits. What are your expectations for deposit growth in the back half of the year? And maybe if you could just talk about specifics driving that.

Brian J. Richardson
Senior Executive VP & CFO

Sure. We do have the seasonal public funds bills, which occurs in the third quarter. As we said, we saw growth in core deposits in the second quarter. We would look for that to continue in addition to the public funds growth in the third quarter, that will be a couple of hundred million dollars on the public fund side. And then you start to see that wind down in the fourth quarter. Really, what we're looking to do is continue to -- and we've done so far this year, matching loan growth or exceeding loan growth with deposits and that will continue to be our goal and over time, ratcheting down the loan-to-deposit ratio.

Frank Schiraldi

Okay. And then just lastly, you mentioned buybacks. It sounds like you still have some appetite there. Obviously, bank stocks have moved a bit. So just wondering if you could provide any sort of guardrails around your thoughts for repurchase activity. Is the idea from here that you want to kind of hold capital level flattish and anything moving capital levels higher, you maybe could be used in capital return, just any thoughts around guardrails for how active you might be in the back half of the year?

Jeffrey M. Schweitzer
Chairman, President & CEO

Yes, Frank, this is Jeff. Exactly what you said, we aren't looking to grow capital given loan pipelines are still solid right now. So when we forecast out, we do believe that we'll still be the ability to generate some excess capital. We're not -- since we're not looking to grow capital levels, we would look to deploy that into the buyback area.

Operator

Our next question comes from [indiscernible] of KBW.

Unknown Analyst

This is [indiscernible]. I'm stepping in for Tim Switzer today. To start off, I just wanted to ask about your loan growth pipeline and what it's looking like and how you expect to fund it? Also what markets and loan categories are you seeing the most or least demand?

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

Yes. So first, our pipelines continue to -- they've expanded like they did from first quarter to second quarter. We would anticipate the third quarter to be somewhat similar in terms of net loan growth than what we saw in Q2 in terms of how we're going to fund it. As Brian just referenced, we will see a seasonal increase in our public funds. So we do expect our deposits to grow in the third and into the early part of the fourth quarter. And then in terms of types of loans, it's primarily C&I, a little CRE here or there, but our emphasis is on the C&I side, and that's where we see the most growth as we go forward.

Unknown Analyst

Great. And if I could ask one more, how is competition trending in your markets for loans and deposits? And are there any certain growth opportunities that have become available from others pulling back?

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

So competition is still there, especially for strong credits, which is what we're all searching for. I would tell you that some of our competitors earlier in the second quarter, anticipated where it would appear that they anticipated the Fed to move with rate decreases at a little bit faster pace because they were a little bit sharper with a pencil with regard to pricing than we were, but that seems to have stabilized a little bit as well. Deposit price -- deposits in totality are just very competitive at this point in time. We're all trying to manage our balance sheet and make sure that we have ample liquidity. So I would say not that loans aren't competitive, they are, but deposits are more -- are even more competitive the loans at this point in time.

Operator

[Operator Instructions] Our next question comes from David Mirochnick of Stephens.

David Jacob Mirochnick
Stephens Inc., Research Division

This is David Mirochnick on for Matt Breese. I was hoping if we could just stick on deposits. You guys kind of mentioned that the mix shift was starting to look a little more stable, and you talked about it still being competitive in the market. Just curious if you could touch on kind of what your outlook is for the cost of deposits going forward, a bit more of an increase in the last quarter in the cost. And with that competition still there, do you think it's maybe going to tick up a couple of modest points here and there? Or has it still got room to go?

Brian J. Richardson
Senior Executive VP & CFO

This is Brian. I'll take that one. As it relates to cost fund, you'd expect that, especially with the public loan build occurring in the third quarter, you'd expect that to pick up in the third quarter and into the fourth quarter, but at similar rates to what we've seen to slightly slower is what we'd expect.

David Jacob Mirochnick
Stephens Inc., Research Division

Great. And do you think you have that cost kind of picking up by year-end and hopefully, the rate cuts coming down after that?

Brian J. Richardson
Senior Executive VP & CFO

Correct.

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David Jacob Mirochnick
Stephens Inc., Research Division

Got it. Great. And switching to the loan side. I was just curious if you can give us an update for what percent of your loan book is purely floating rate as it will reprice sub 3 months?

Brian J. Richardson
Senior Executive VP & CFO

That's purely floating is right in the 32% range when you take the $250 million hedge that we have on the books that comes down effectively to 28% of the book is purely floating.

David Jacob Mirochnick
Stephens Inc., Research Division

Great. And then do you -- is it safe to assume that probably yield on that is around -- spread on is around 200, 250 basis points attached to SOFR prime?

Brian J. Richardson
Senior Executive VP & CFO

Yes, just a little bit north of there.

David Jacob Mirochnick
Stephens Inc., Research Division

Great. And sticking there, do you by chance have the yield on the fixed rate book then? I assume it's at least somewhere in the high 4s or the low 5s.

Brian J. Richardson
Senior Executive VP & CFO

Yes. It's right in that $485 million to $490 million range.

David Jacob Mirochnick
Stephens Inc., Research Division

Great. The rest of my questions have been asked.

Operator

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

Jeffrey M. Schweitzer
Chairman, President & CEO

Thank you, Corley, and thank you, everyone, for participating today. We appreciate your interest in Univest and taking your time out with us today. And we look forward to talking to everybody at the end of the third quarter and enjoy the rest of your summer.

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

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