

**WSFS Financial Corporation [WSFS]  
3Q 2024 Earnings Conference Call  
Friday, October 25, 2024, 1:00 PM ET**

**Company Participants:**

Rodger Levenson; Chairman, President and Chief Executive Officer  
David Burg; Executive Vice President, Chief Financial Officer  
Art Bacci; Executive Vice President, Chief Operating Officer  
Steve Clark; Executive Vice President, Chief Commercial Banking Officer  
Shari Kruzinski; Executive Vice President, Chief Consumer Banking Officer

**Analysts:**

Frank Schiraldi; Piper Sandler & Co.  
Kate Ashley; Keefe, Bruyette, & Woods, Inc.  
Sharanjit Cheema; D.A. Davidson & Co.  
Jake Civiello; Janney Montgomery Scott LLC  
Russell Gunther; Stephens Inc.

**Presentation:**

*Operator: Thank you for standing by and welcome to the WSFS Financial Corporation Third Quarter Earnings Call. [Operator Instructions] I'd now like to turn the call over to Rodger Levenson, Chairman, President, and Chief Executive Officer. Sir, you may begin.*

**Rodger Levenson:** Thank you, Ron, and thanks to everyone for joining us on the call today. Before we get started, I wanted to officially introduce the newest member of our executive leadership team, Executive Vice President and CFO, David Burg. As many of you know, David joined WSFS in mid-August, following a 17-year career at Citigroup. During his short tenure with WSFS, he has demonstrated the leadership and skills to accelerate our growth and deliver shareholder value. We're thrilled to have him on the team. David?

**David Burg:** Thank you, Rodger, and thank you, everyone, for joining our third quarter 2024 earnings call.

Our Earnings Release and Earnings Release Supplement, which we will refer to on today's call, can be found in the Investor Relations section of our company website.

In addition to Rodger Levenson, our Chairman, President and CEO, I'm joined by Art Bacci, Chief Operating Officer; Steve Clark, Chief Commercial Banking Officer; and Shari Kruzinski, Chief Consumer Banking Officer.

Prior to reviewing our financial results, I would like to read our safe harbor statement. Our discussion today will include information about management's view of our future expectations, plans and prospects that constitute forward-looking statements. Actual results may differ materially from historical results or those indicated by these forward-looking statements due to risks and uncertainties, including, but not limited to, the risk factors included in our annual report on Form 10-K, our most recent quarterly reports on Form 10-Q, as well as other documents we periodically file with the Securities and Exchange Commission. All comments made during today's call are subject to the safe harbor statement.

I will now turn to our financial results. WSFS continued to demonstrate the strength of our franchise and diverse business model during the third quarter. Results included a core EPS of \$1.08 per share, core ROA of 1.22%, and core return on tangible common equity of 16.96%.

Loans and deposits increased 5% and 3%, respectively, on an annualized basis. Growth in loans was broad-based, and our deposits remain well diversified. Our loan-to-deposit ratio was 80% on September 30, providing ample balance sheet flexibility and capacity to fund future growth. Core fee revenue of \$90.1 million was up 5% linked quarter and 23% year over year. Wealth Management fee revenue declined 3% linked quarter but increased 12% over the third quarter of '23.

The third quarter was driven by strong results in Institutional Services, offset by seasonally lower fees in Private Wealth and the Bryn Mawr Trust Company of Delaware. Notably, this quarter also marks the successful completion of our trust accounting system conversion as well as the rollout of upgraded client account portal in accordance with our Bryn Mawr Trust integration plan, which positions us well for future growth.

Cash Connect® increased 3% linked quarter and 50% over the third quarter of '23, driven by increased bailment revenues as we captured market share over the past year. This, combined with the continued optimization of its units and funding mix, drove an ROA of 1.29% in the third quarter. Core banking increased 25% over the prior quarter, primarily due to an annual earn-out payment from the previously announced sale of Spring EQ, and an increase in bank-owned life insurance revenue. As noted in our Earnings Release, we have achieved our 2024 origination goal with Spring EQ, and do not expect new originations in the fourth quarter. We're currently evaluating 2025 volumes with the company.

Core non-interest expense of \$163.7 million was up 5% linked quarter, driven by unfunded loan commitment reserves, higher loan workout costs, and compensation-related expenses to support future franchise growth. Net interest income grew 2% linked quarter, and the net interest margin was 3.78%, down 7 basis points from 2Q '24. Our net interest margin was impacted by growth in higher-priced deposits as we took advantage of market opportunities to grow share as well as the impact of market value increases in our available-for-sale investment portfolio.

Total net credit cost of \$20.1 million increased modestly compared to the prior quarter, with a decrease in the provision for credit losses, offset by an increase in reserves for unfunded commitments and loan workout costs. Non-performing assets increased 12 basis points quarter-over-quarter to 44 basis points, primarily driven by the migration of two previously identified and unrelated problem loans. Net charge-offs increased 14 basis points quarter-over-quarter to 58 basis points, primarily driven by the write-down of one of the previously mentioned non-performing loans, and year-to-date charge-off levels are in line with our expectations.

Total stockholders' equity increased 8% linked quarter, driven by market value increases and available-for-sale investment securities and quarterly earnings. As a result, our book value per share increased 8% linked quarter to \$45.37, and our tangible book value per share increased 13% linked quarter to \$28.56.

On the last page of the Supplement, we provided an update to our full-year outlook to reflect the 50-basis points rate cut that occurred in September. As a reminder, our previous mid-year outlook did not reflect any rate cuts for 2024. Our outlook for loans, deposits, fee revenue growth, and efficiency ratio remains unchanged from the prior outlook. We updated our outlook for net interest margin, and now expect our full-year NIM to be approximately 3.80%, which is at the lower end of the range from our previous outlook that did not include any rate cuts. In addition, we updated our estimate for 4Q NIM to be 3.70% to 3.75%.

With respect to net charge-offs, we have reduced the outlook for the year to approximately 50 basis points, which corresponds to the low end of our previous range. And lastly, we updated our outlook for ROA to a range of 1.20% to 1.25%. This change is consistent with the sensitivity that we provided previously, that each 25-basis points reduction in the Fed funds rate would reduce ROA by approximately 3 basis points on an annualized basis. While the path of future rates remains uncertain, it's important to note that the impact of additional rate cuts on our financial results will not be linear and will be affected by the pace of future rate cuts, deposit pricing, the impact of our hedge program, and the behavior of our securities portfolio.

As we have done in the past, we will provide a full-year Outlook for 2025 in January, with the release of our fourth quarter 2024 financial results.

In summary, despite the economic uncertainty, WSFS continues to grow and deliver strong results in the third quarter. We remain well positioned to execute on our strategy and produce top-tier performance for the full year. Equally important, our liquidity and capital position provides a cushion to absorb any unexpected challenges that we might face.

Thank you, and we will now open the line for questions.

**Questions & Answers:**

*Operator: [Operator Instructions] Russell Gunther, Stephens.*

**Russell Gunther:** I appreciate the update to margin expectation, and understand we'll hold off on 2025. But if we could take a stab at thinking through the hedge program, as well as just what you would expect per 25 basis point hike impact to the NIM would be?

**David Burg:** Sure, Russell. Happy to do that. And Russell, before doing that, I just want to back up a little bit and talk about our NIM versus the prior quarter. As you know, we had a reduction of 7 basis points.

And when you think about that 7 basis points, you can kind of break it down in a few different categories. One was due to the write-up of our investment portfolio. So just purely math, about 2 basis points. We had a little tick-up in non-accruals, which was 2 basis points, and then higher deposit costs was 3 basis points. And obviously, that higher deposit cost is moderating. The rate of that increase is moderating.

So, when you think about the hedge program that you mentioned, we had \$1.2 billion completed last quarter. As you know, the program was initially -- the strategy was for \$1.5 billion. We completed the whole program this quarter. So, we now have about \$1.5 billion completed, and those are floor options, and they're basically 6 months forward with a 30-month term. And they start -- they basically strike at different levels. They kick in at different levels, but the first one starts to kick in at around 4.75%.

So, I think the way to think about the hedge program is obviously that it's a mitigant to the asset sensitivity that we have. And so, as we continue to go through the cycle, if we have additional cuts, that will mitigate some of the sensitivity that we provided. We provided -- our previous guidance, as you know, was about 5 basis points of NIM for 25 basis points of rate cut, and these hedges will mitigate that effect somewhat.

**Russell Gunther:** Okay. That's very helpful. Thank you for the answer. And then switching gears to the fee side. Another really strong quarter out of that credit, debit, ATM revenue fee item. As you guys look ahead to the fourth quarter and the potential for additional Fed cuts, how do you see that line-item trending linked quarter?

And then as we maybe broad stroke take a step to thinking about '25, a lot of market share and unique market share gains occurred in '24. What's a decent type of growth rate for that fee revenue item?

**David Burg:** Yeah. So, with respect to that line item, particularly Cash Connect®, as you said, there were significant market share gains this year. The focus of that business is to now optimize that network and really drive some efficiency in that network. Some of the decline that we saw on the pre-tax margin this quarter was related to idle cash, so cash that was non-earning. So, we really need to optimize that network to make sure that we drive the profitability into that business.

In terms of 2025 and the impact of interest rates in that business, from a top line perspective, remember, that business does charge based on the cash that is out in the ATMs. So, we will see a decline in top line revenue, but we will see an equal decline or more decline in expenses. So, when you think about our profitability, we should have higher profitability expansion in the down cycle for that business, even though the top line will see declines just based on interest rates coming down.

**Russell Gunther:** Okay. All right. Got it. Super helpful. And then just last one for me, guys, would be the impact of Spring EQ revenue on the fee income this quarter?

**David Burg:** Yeah. So, with Spring EQ, this was -- as a result of the previously announced sale, we had a number of provisions in the contract where we had earn-outs depending on achieving certain origination volumes. Since we were able to achieve our volume for this year, we basically -- as a result, that resulted in that earn-out of about \$2 million. The future earn-outs, the potentially, maybe one next year, but it will depend on the volume originations for that year. And that is something that is still -- that is under discussion now.

As we mentioned, in the fourth quarter, we don't anticipate new originations. And, as a result of the sale, Spring EQ is evaluating its strategy going forward and its funding profile. And as a result, we're discussing with them how 2025 is going to look. And we hope to provide an update on that in the January Outlook.

**Russell Gunther:** Understood. Okay, great. Well, thanks guys for taking all of my questions. Very helpful.

*Operator: Kate Ashley, KBW.*

**Kate Ashley:** Hi and good afternoon. This is Kate on for Kelly. So going back to the guide, so I appreciate that the charge-offs are lower than what was previously expected, but also mentioned some lumpiness from the Commercial charge-offs. So, with that move to NPA, like how should we be thinking about potential related NCOs off that?

**David Burg:** Yeah, Kate, I think the way to think about -- even though we had a tick up in some of our credit metrics, I think what's important to appreciate is that the impacts for this quarter were really driven by several problem loans across a few relationships. And these relationships were not a surprise to us, but ones that we have been monitoring, they have been in our problem assets, and ones that we're working on constructively with the sponsors towards a path to resolution. And so, these are not necessarily surprises, but these are the impacts of some of those credits working their way through the cycle. And that's why -- so basically, the net charge-offs this quarter were really driven by two C&I loans on the Commercial side, one was a suburban hotel property in suburban Philadelphia and another C&I credit in our footprint. And that was really kind of the uptick on the charge-off level.

And that's why we feel comfortable reducing our guide for the full year to the low end of the range, again, because these were expected. We saw these coming, and I think they don't present surprises to us. So, as you know, the first half of the year, in terms of Commercial charge-offs, was pretty low. We actually had a net release in the first quarter. And we knew that these were going to be uneven, and so now you're seeing some of that pipeline coming through the process.

**Kate Ashley:** Great. Thank you. That's it for me. I'll step back.

*Operator: Manuel Navas, D.A. Davidson.*

**Sharanjit Cheema:** This is Sharanjit on for Manuel. And I was wondering what deposit betas are expected on the way down, and there were approximately 36% on the way up. And what have you done so far since September in terms of rate cuts?

**David Burg:** Yeah. So, on your second question first, we've been pretty proactive about this. We -- even a little bit ahead of the rate cut, we reduced our CD pricing, and we brought in our, we had an 11-month CD product, which is our main product. We reduced pricing in that. And then we've also shortened the tenor on that from 11 months to 6 months.

We have a number of CDs, and about \$700 million that are indexed that would reprice automatically. And then we have about \$4.5 billion that are high-yield or money market CDs at the higher price points, and we've started taking actions on all of those. And so, we're working with each of those clients, and we're moving that portfolio. On the way down, as you said, our volume -- our interest-bearing beta was 51, our all in was in the mid-30s, as you mentioned. And clearly, looking at the deposit costs that we have, there will be a lag on the way down.

But we plan to be very proactive about this. I think our beta in the near term for these 50 basis points of cuts will be somewhere in the high teens or 20% for the fourth quarter. But the future beta for '25 will be highly dependent on the future, on how quickly those other rate cuts come and if they come. So, if we have a pause, that's one scenario. If we have a number of other rate cuts in rapid succession, that's a very different scenario, and allows us to be more aggressive.

But I would say the other thing that I wanted to point out is that we do have some disruption in our market from competitor dynamics. And we see the opportunity to pick up share and pick up clients. And so that's also something that we want to do with respect to our deposits. So, we're not, we're really not trying to manage for one quarter, but we're trying to manage for strategic market share gains, and that's how we'll behave and strategize about this.

**Sharanjit Cheema:** Okay. Thank you. And then for my last question, how are your Commercial loan pipelines looking right now?

**Steve Clark:** Yeah. This is Steve Clark. The Commercial pipeline is consistent with past quarters. So, our 90-day weighted average is running at about \$230 million, and that's what we expect in the near term in terms of closings. On top of that, we have Commercial businesses in our small business unit, our SBA unit, and our private banking teams, that would be in addition to that. But generally, we are pleased with our pipeline, and it remains consistent, which is good news as we have shown pretty decent mid-single-digit growth throughout the year.

**Sharanjit Cheema:** Great. Thank you. Perfect. I'll step back.

*Operator: Frank Schiraldi, Piper Sandler.*

**Frank Schiraldi:** Hey, guys. Just wanted to go back to credit for a second. I totally get when I look at NPAs, delinquencies, net charge-offs linked quarter, that is really just driven by a couple of credits. However, you mentioned that those -- I think the credits were already in the problem asset base. And I'm just trying to get a sense for what the main driver is in terms of the growth in problem assets linked quarter.

**David Burg:** Yeah. Frank, I think what I would say in terms of problem assets is that -- we have -- I think as we mentioned before, we have a pretty robust process where we look forward two years, we look at all of our maturities, we look at the underlying cash flows and we really evaluate the entire portfolio. And I think we try to take a very rigorous approach looking at cash flows, looking in the environment, continuously updating our valuations. So, I think -- I would say this is, I think, an indication more of a process rigor rather than a bad omen in the portfolio. And to give you an example, I mean, one of the increases this quarter was driven by a relationship where there are some specific short-term challenges.

But when we look at the collateral, it's -- we think that even based on updated valuations, we're at 50% to 60% of the value. So, I think that's just an example of something that's there. But I think again, more an indication of our process.

**Rodger Levenson:** Yeah. Frank, I'll just maybe just put a little more numbers around it. If you really look at the growth in the criticized loans, the problem loan category, there's three credits made up almost 70% of it. It was one larger relationship that David referred to, where our projects are very solid, but there's some stress in the sponsor's global cash flow that we're working through collaboratively. And another project that we have, a long-time Customer, where there's some slowness in some leasing up of a completed construction project. That's really the driver of that pop that you see in the problem loans.

**Frank Schiraldi:** Okay. Thanks for that color. And then just in terms of -- I don't know if you want to put a too fine a point on it. I know in the past; you talked about the 5 basis points of NIM compression for a given 25 basis point rate cut. Obviously, there's some mitigation here with this hedging program. I don't know if you wanted to put a number around adjusted for the hedges, what that could potentially look like going forward or if that's something your 2025 to do?

**David Burg:** Yeah, Frank, I think we'll do that in 2025. But again, I think the important thing is the non-linearity of it. And our hedges start at 4.75% and the lower we go, the more of an impact that is, that's number one. So, I think we want to see a little bit how the cuts play out. Number two, obviously, the point I mentioned about pricing and our ability to be more aggressive depending on how many cuts come.

And number three is also with respect to our securities portfolio, that's an important mitigant to the asset sensitivity on the downside because as you know, that portfolio kicks off about \$500 million of cash a year that we redeploy at about 4.5% higher. And so, depending on how far rates go, you may have accelerated paydowns because that's mostly the MBS portfolio. So, you also may have accelerated paydowns, and we have a large pickup as rates come down there. So, I think there are a few puts and takes there and really dependent on the trajectory of rates, and that's why I think it makes sense for us to give that Outlook next year as we see a little bit more about how things play out. So, I think that 5 basis points was more for the first few cuts, rather than something that you can extrapolate to the whole cycle.

**Frank Schiraldi:** Okay. And then just lastly, I just wanted to ask about capital. In terms of your profitability and growth trajectory, understanding the priority is organic growth, and you've done two larger-sized deals, still not too far in the rearview mirror. Just wondering if there's any updated thoughts around the potential, what you guys are -- as you look at the environment today, of further bank M&A?

**Rodger Levenson:** Hey Frank, it's Rodger. I think you really hit on all the important points. We're seeing great progress on the optimization of the two big investments. If you look through last year and the first three quarters of this year, pretty consistently growing loans, deposits, fee income, and taking market share. But as you know, we were starting from a very low bottom.

So, we think there is a -- in terms of our position in the market more broadly. So, we think there's still a lot of runway there to go. And as David said, particularly when you see some of the distractions that are going on in some of the larger players in our market. In addition to that, we continue to heavily invest in talent, that's somewhat reflected in the NIE. And if you look at the year-over-year adds to staff that we've had across the organization, about two-thirds of those are in business-generating lines of business.

Again, we're seeing opportunities that we've talked about to pick up talent from other organizations. So, we are investing very heavily in the business. We'll always keep an eye out for things that would be opportunistic that could help support those activities. But I would reiterate that the bar for that for us would be very, very high because it would have to be considered in light of how that would impact our ability to continue to execute on the organic opportunity.

So, we're running hard at it. We'll see what comes along, but our focus continues to be primarily on organic growth, from a bank standpoint.

**Frank Schiraldi:** Great. Okay. Appreciate all the color. Thanks, guys.

*Operator: And with no further questions in queue, I would like to turn the conference back over to Mr. Burg.*

**David Burg:** Thank you very much and thank you all for joining the call today. If you have any specific follow-up questions, please feel free to reach out to Andrew or me. Rodger, Art, and I will be attending conferences and investor meetings throughout the quarter, and we look forward to meeting with many of you during the quarter. Have a great day.

*Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.*