

Univest Corporation of Pennsylvania
First Quarter 2016 Earnings
April 28, 2016 at 9:00 a.m. Eastern

CORPORATE PARTICIPANTS

Jeff Schweitzer – *President & Chief Executive Officer*

Mike Keim – *Chief Financial Officer*

PRESENTATION

Operator

Good morning and welcome to the Univest Corporation of Pennsylvania First Quarter 2016 Earnings conference call. All participants will be in a listen-only mode. Should you need assistance please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then 1 on your telephone keypad. To withdraw your question, please press star then 2. Please note this event is being recorded.

On today's call are Jeff Schweitzer, President and Chief Executive Officer, and Mike Keim, Chief Financial Officer. I would now like to turn the call over to Jeff Schweitzer. Please go ahead, sir.

Jeff Schweitzer

Thank you, Denise. Good morning and thank you to all of our listeners for joining us. Joining me on the call, as Denise pointed out, is Mike Keim, who's not only Chief Financial Officer, but President of Univest Bank and Trust Co.

Before we begin we 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 are pleased to have reported net income of \$7.3 million during the first quarter, which included \$220,000 of merger and integration charges related to our pending acquisition of Fox Chase Bancorp. Excluding these charges, which were non-tax deductible, net income would have been \$7.5 million or \$0.38 per share. Excluding these charges, our return on average assets and average tangible equity were a solid 1.07% and 12.63% respectively.

While loans were essentially flat in the first quarter, average loans for the quarter were up \$44 million as a result of much of our loan growth in the fourth quarter coming late in the quarter. The second and fourth quarters are typically our strongest quarters for loan growth and that is proving out to be the case in 2016 as our pipelines entering the second quarter were strong. Our net interest margin improved 10 basis points from the fourth quarter of 2015 to 3.9% for the quarter due to loan funding's at the end of the fourth quarter of 2015 combined with improved investment yields.

Non-interest income grew 3.9% compared to the first quarter of 2015, due primarily to increased insurance commission and fee income which grew 9.9%. Asset quality continued to improve as we saw slight improvement in our ratio of non-performing loans to total loans of 6 basis points to 0.85%. And finally, we continue to move forward on our acquisition of Fox Chase with a target closing in early third quarter.

We wanted to keep our comments brief today so that we could get to any questions anybody has and, at this point, we'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

At this time we will begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset prior to pressing the keys. To withdraw your question, please press star then two. At this time we will pause momentarily to assemble our roster.

We have a question from Michael Perito from KBW. Please go ahead.

Michael Perito

Hey, good morning, guys.

Jeff Schweitzer

Good morning, Mike.

Michael Perito

I wanted to maybe start on the expenses. They were a little higher than what I was looking for this quarter. Can you guys maybe speak to what some of the drivers were for that and maybe your near-term outlook for the non-interest expense?

Mike Keim

Mike, I would tell you that the main driver was we continued to hire sales talent. Between the end of the third quarter of last year and the end of the first quarter of this year, we hired and added to our team 24 sales or revenue producing personnel. And we continue to look to do that, so they will have a short-term—obviously it will have an impact to our operating expenses and there will be a lag until the revenue generation comes from them. But we're taking advantage of the market disruption and the fact that we continue to be an attractive place for talented people to join, so the revenue will grow over time, but our expenses will be up relative to where we were in the fourth quarter as a result of that.

Jeff Schweitzer

Yes, we expect to continue to add talent on that side, on the sales side, over the next couple quarters, so you will see an elevation in the non-interest expenses until the revenue obviously starts to produce.

Michael Perito

And when do you guys obviously, depending on what these new hires specialize in, it could vary but when do you guys generally expect to see some of the revenue pick up from some of these hires? It's a pretty significant number that you guys have made so far.

Mike Keim

If you break it down, a third of the folks that we hired are on the mortgage side and typically on the mortgage side, that's a 90 day, taking out seasonality, in terms of when their pipelines will begin to build and they'll start to generate loan fundings. And then another ten are split between our commercial banking RMs and our small business initiative. We have loan flow going, but that's unlike mortgage where it's a gain on sale, this is an annuity stream, these are booked loans which build up over time and then we reap the net interest margin from the annuity, so that lag time is a little bit longer, obviously, than the mortgage folks.

Michael Perito

Okay, that's helpful, thanks. I want to maybe switch over looking at the credit in the quarter and the provision expense dropped sequentially. I'm assuming that at least a decent portion of that was due just to the lower net loan balance growth, but I guess how are you guys thinking about the provision expense going forward as what's given the credit profile as you see it in your loan pipeline.

Mike Keim

When we look at provision expense, Mike, you're right. First off, our assets quality has improved. Net loan growth obviously was flat in the quarter, so there is impact from that. I would expect us to trend back up in the remaining quarters of this year; in the \$0.75 million to \$1 million range per quarter. As we alluded to in the earnings release, loan growth, our pipeline was strong at the end of the quarter and we are expecting to have a very good quarter in the second quarter relative to funding months and that will drive provision.

Michael Perito

Okay, that makes sense, thanks. And then maybe just kind of a higher level question. Jeff, I appreciate the comments on the status of Fox Chase. Once you guys get that into the fold, I mean it sounds like there is quite a bit for you guys to take without potentially buying anybody else. I mean can you guys maybe just update on post Fox Chase where kind of the capital priorities will lie and what you guys will be most focused on?

Jeff Schweitzer

Yes, we've bought Valley Green 15 months ago we closed on that transaction. We'll be closing on Fox Chase early third quarter. And our anticipation is that we will be out of the bank M&A game for the foreseeable future. We need to make sure we digest these, integrate these acquisitions appropriately, get everybody onboard as Univest employees, because we don't want to have an impact on the culture that we've established and make sure that we get the full benefit of these acquisitions. So I don't see us participating on the bank, you never say never, but I don't see as participating on the bank M&A side at least for the next 12 to 18 months as we digest these acquisitions.

With that said, our overall goal is a 60/40 mix of revenue and earnings between our non-bank lines of business and our bank line of business, 40% on non-bank. We're going to be more 70/30 once we close the Fox Chase transaction, so I wouldn't rule out that we would do smaller M&A over the next year or so on the insurance and wealth management side. But those are typically \$5 million or \$10 million type deals that 15, 20 people come over. They're a lot easier to digest, a lot easier to fold into the operations than buying an entire bank. So the capital focus will really be on internal capital generation and any type of M&A opportunities in the non-bank lines of business at least for the foreseeable future.

Michael Perito

All right, thanks. And then maybe just one follow-up to that, just kind of taking everything we've talked about, so I mean if you look at you guys over the last few years, you kind of were a mid-single digit grower, 4% to 6% range. Once Fox Chase comes onboard like you said Valley Green has been on about a year and a half now. With bank M&A at least off the table at least it sounds like for next year and a half or so at minimum, do you guys expect that the organic opportunity in front of you is something that could support, kind of a high single-digit growth rate maybe a little above where you guys have been over the past few years before the Valley Green and Fox Chase acquisitions?

Jeff Schweitzer

Yes, we absolutely do. We are projecting that we will be growing in the high single-digits this year alone and Fox Chase is also feeling that way, so that combined with what's going on in the market and the ability to add talent, I think we should be able to hit that number relatively easily. There is a lot of opportunity right now with what's going on in our market.

Michael Perito

Perfect. All right, thanks guys. I appreciate the color.

Operator

Again if you would like to ask a question, please press star then one on your touchtone phone; that's star then one to ask a question. I'm showing no questions at this time. This will conclude our question and answer session. I would now like to turn the conference back over to management for any closing remarks.

CONCLUSION**Jeff Schweitzer**

Thanks, Denise, and thank you to everybody participating today. We appreciate you taking the time and being investors in Univest and hearing the story. As we said in the call, there is a lot of opportunity in our marketplace. We're in good markets and there is a lot of disruption going on that we are trying to take advantage of as well as we can through talent and customers. So we look forward to talking to everybody again next quarter, and have a great day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.