WSFS Financial Corporation [WSFS]
1Q 2025 Earnings Conference Call
Friday, April 25, 2024, 1:00 PM ET

Company Participants:
Rodger Levenson; Chairman, President and Chief Executive Officer
David Burg; Executive Vice President, Chief Financial Officer

Analysts:
Frank Schiraldi; Piper Sandler & Co.
Kelly Motta; Keefe, Bruyette, & Woods, Inc.
Manuel Navas; D.A. Davidson & Co.
Russell Gunther; Stephens Inc.

Presentation:
Operator: Thank you for standing by. Welcome to the WSFS Financial Corporation First Quarter 2025 Earnings Call. [Operator Instructions] I'd now like to turn the call over to David Burg, Chief Financial Officer. Sir, you may begin.

David Burg: Okay, thank you very much, operator. Good afternoon, everyone, and thank you for joining our first quarter 2025 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. With me on this call is Rodger Levenson, Chairman, President and CEO.

Prior to reviewing our financial results, I would like to read our Safe Harbor statement. Our discussion today will include information of our 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, in Form 10-K, and 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 had a solid start to 2025, continuing to demonstrate the strength of our franchise and diverse business model. Our first quarter results included core earnings per share of $1.13, core ROA of 1.29%, core PPNR of $104.6 million, and core return on tangible common equity of 16.97%. All of these metrics represented improvements from the prior quarter.

Core net interest margin expanded 8 basis points to 3.88%. This reflects a reduction in total funding costs of 15 basis points to 1.77%. Our funding costs benefited from a 12 basis points reduction in total deposit costs from a repricing actions, as well as the redemption of $70 million in higher price sub debt. On a year-over-year basis, our net interest margin expanded by 4 basis points, despite absorbing 100 basis points of interest rate cuts. Our total deposit cost was 1.71%, with an interest-bearing deposit beta of 38%.

Core fee revenue grew 6% year-over-year, powered by Wealth and Trust, which grew 19%. Institutional Services and The Bryn Mawr Trust Company of Delaware both delivered very strong year-over-year growth by driving higher deal flow. As a reminder, Institutional Services provides trustee and agent services on securitization, debt issuance, and corporate bankruptcy transactions, and the business continues to win market share in these areas.

While Cash Connect® fees declined quarter-over-quarter due to seasonally lower volumes and the impact of lower interest rates, the business delivered higher profit margins through expense and pricing offsets.

The core efficiency ratio was 59% this quarter as expenses declined by 9% quarter-over-quarter from seasonally high 4Q levels and were also impacted by some one-timers in this quarter.

Gross loans were down less than 1% linked quarter. Commercial loans were generally flat linked quarter, and originations were more muted as Clients postponed investments due to the uncertainty in the macroeconomic environment. Our pipeline is at the same level as the past several quarters, and we continue to be actively engaged with our Clients as they navigate the current environment.

Client deposits declined 1% in quarter primarily due to seasonality and expected outflows in Trust. Client deposits are up 4% year-over-year, driven by broad-based growth across business lines. Noninterest bearing deposits continue to be strong and were up 6% year-over-year.

Our loan-to-deposit ratio remained at 77% and continues to provide ample balance sheet flexibility and capacity to fund future growth.

Our total net credit costs were $17.6 million, an increase of $8.9 million from the previous quarter, and our net charge-offs were $24.6 million. The increase in credit costs and charge-offs was driven by a $15.9 million charge-off of a previously identified non-performing office-related C&I loan. This loan was acquired as part of the Bryn Mawr Trust acquisition, and we don't have similar loans in our portfolio. Excluding this loan, we recorded that charge-off of 27 basis points and 19 basis points without Upstart, which continued to show a decline in losses.

Our ACL coverage ratio ended the quarter with 1.43%, which included a small upward adjustment to reflect the recent macro volatility. We continue to monitor the overall environment and will make adjustments as needed going forward.

Our capital ratios remain strong and significantly above well-capitalized regulatory targets with a CET1 of 14.1% and a TCE of 8.63%. During the first quarter, WSFS returned $62.6 million of capital, including $53.8 million in buybacks and $8.8 million in dividends. Our buybacks for the first quarter are over 55% of the total buyback amount completed in 2024.

Additionally, we announced a 13% increase in the quarterly dividend to $0.17 per share, along with an additional share repurchase authorization of 10% of our outstanding shares as of quarter-end. This brings our total authorization to 14% of our outstanding shares as of the end of the quarter.

As part of our annual capital current process and has seen on Slide 9 of the Earnings Supplement, we made an update to our capital philosophy, where we will be targeting a CET1 ratio of 12% in the medium-term. We will execute a gradual multi-year glide path to this target and retain discretion to adjust the pace of buybacks based on the macroeconomic environment, our business performance, as well as potential investment opportunities.

Overall, we're pleased with these results to start the year in a difficult macro environment. As part of a normal process, we will provide an updated full-year outlook when we present our 2Q results. We remain committed to delivering high performance and will now open the line for any questions.

Questions & Answers:
Operator: [Operator Instructions] Your first question comes from the line of Russell Gunther of Stephens.

Russell Gunther: You guys may have just addressed this, but I know you don't typically give the updated guide until mid-year. It sounds like that's still the plan. I was surprised though with the lack of the guidance slides still in the deck. So, as we wait for an update, is there anything to read into any decrease in visibility on the PPNR or credit quality front as to why that may not have been in the deck this quarter.

David Burg: No, Russell, nothing to read into that, that's typically as the usual pattern, we will update the guidance after the second quarter. We don't like to give guidance every quarter or update the guidance, because obviously it's early in the year and also you can see how volatile the environment is. So, I think it's probably more meaningful to give that update after the second quarter and that's what we'll do. So, nothing to read into from that.

Russell Gunther: Okay, I appreciate you, taking that question. And then maybe on the net charge-off front and again I'm not sure what you can say as we await a mid-quarter update or mid-year update, but obviously the one isolated or idiosyncratic credit this quarter pushed you outside of that 35 to 45 basis points guide, from the end of the year. Does that set you up to reiterate that kind of expectation? Is 35 basis points to 45 basis points still the right way to think about it? Obviously, a lot of increased volatility since that was given, but how should we think about the puts and takes there from a charge-off perspective?

David Burg: Yeah. Russell, I would say, again that loan, as you alluded to previously identified, obviously a one-off item, as I mentioned in the earlier remarks, it was an acquired loan, and we don't have another one like that in the portfolio. If you exclude that, we're about 27 basis points on net charge-off. So, if you exclude that one-time loan, some of the other – all the other portfolios are behaving in line with expectation. Some of the places where we've had elevated charge-offs before in terms of Upstart, NewLane, those continue to decline quarter-over-quarter. And are both below $3 million this quarter. So, I think that continues to be a positive story. So, I would say other than that, there's really nothing that we're seeing that would cause concern, and I think the portfolio is behaving generally as expected

Russell Gunther: Okay, thanks David. And then just last one for me if I could please on the expense line, could you give us a sense for how 1Q kind of shapes up relative to the run rate going forward? I know there was some seasonality in Cash Connect®. Maybe you could address what I think was a $1.9 million non-recurring Cash Connect® item as well, just how you again would fold all that together and what we should think about expenses in the coming quarter.

David Burg: Yeah, absolutely happy to. Yeah, there are a few puts and takes, as you said. Cash Connect® we did have the $1.9 million quarter-over-quarter variance, as you mentioned. Also, volumes are a bit down this quarter and because of interest rates, as the top-line in Cash Connect® comes down. So, as you know when you look at Cash Connect®, the expenses are very closely correlated to the revenue. So, when you look at quarter-over-quarter, we had about a $5 million decline due to Cash Connect®, including that $1 million one-time item that you mentioned.

I would say other than that, we did have kind of a one-time item related to, incentive accruals this quarter for about $4 million. That just corresponds to our annual, the first quarter we go through our annual review process, and true up our incentive accrual. So, we did have a reversal of $4 million there and, like you said, fourth quarter was seasonally higher with some legal expenses and typical kind of year-end things.

So, in terms of run rate, I would say this quarter was lower than a run rate quarter. I would say probably $4 million one timer and maybe $4 million else of timing items. So, the run rate is kind of in between the fourth quarter and this quarter. We're about $152 million this quarter again, there's probably $4 million of a one timer and $4 million of timing items. So, the run rate is, that $160 million range between the two quarters.

David Burg: Okay. That's very helpful, David. Thank you very much. I'll step back.

Operator: Your next question comes from the line of Frank Schiraldi from Piper Sandler.

Frank Schiraldi: Just on the and recognizing that you're not updating the guide until July, just in terms of broad thoughts here on commercial growth, at least in the near term I guess, over the next coming months just given the macro uncertainty and what we saw in the first quarter.

Rodger Levenson: Yeah. Frank, I would tell you as I'm out and about with our Customers and as David mentioned, in his remarks, we're seeing Customers performing well – kind of hanging in there but very cautious around expansion or change because of the volatility and kind of unevenness that's been in the markets. So, we've had a number of situations where we had approved deals and for business expansion or adding a building or things like that and the Customer just called us and said I'm just going to sit tight for at least 60, 90 days till I get a better visibility. And that's been the tone of the conversations I've had with a lot of our borrowers. So as David said, the pipeline remains at consistent levels, we're seeing opportunities to take market share, but whenever you go through a period of disruption like we've seen over the last couple of months, changing banks or adding to existing facilities, that kind of stuff gets impacted hopefully as some of the near term outlook gets a little bit clearer, some of that volatility will be reduced and that should hopefully accrue to our benefit and our Customers' benefit.

Frank Schiraldi: Great. Okay, appreciate it, Rodger. And then just in terms of either problem loans or delinquent – increased delinquencies, which I think came on the C&I side, any sort of common thread there or commentary around that linked quarter.

David Burg: No. Frank, I would just say, like you mentioned in the fourth quarter, both of those metrics came down, came up a bit in the first quarter, similar to the levels that we saw in the third quarter. So, there's some ins and outs there, but as we look at that delinquency increase, there are no large loan increases there. The largest one was $5 million, so it's pretty and there's not kind of a pattern or a particular vertical or sector. So, I would say no kind of red flags go up from looking at that. And obviously we continue to manage that closely, continue to be very closely engaged with our Clients in those situations.

Frank Schiraldi: Got it. And then recognizing that, that rate moves can -- are going to impact the Cash Connect® business is on both revenues and expenses, if we get some more rate cuts in the back half of the year, should that really have an impact on overall returns of Cash Connect® and kind of what are you thinking in terms of ROA here as we progress through the year on that business specifically.

David Burg: Yeah. So, on Cash Connect®, as you referred to obviously our focus has been on driving the profitability or the ROA of that business. Primarily we're focused on looking at the profitability and as you can see, the profitability came in a bit above 7%, which is an improvement year-over-year and quarter-over-quarter when you normalize for that one-time Client event. So, it is moving in the right direction, but there's more work to do, and we continue to want to drive it higher.

Now with respect to interest rates, interest rates are going to impact the top line of Cash Connect® with an offsetting benefit and expenses. So, it does actually improve profitability, and you can think of it about $400,000 per rate cut on an annualized basis is kind of the profitability improvement from rates. So, when you think about the overall profitability equation of Cash Connect®, there are a few things that are going on.

One is rates, which is accretive, volumes have been, this is a seasonally low volume quarter, and volumes have been a bit softer in general, so volumes have been a bit of a headwind. But to offset that we're trying to implement some pricing increase. We actually implemented a pricing increase this quarter which leverages some of the scale that we have in the market, which fell to the bottom line. And so, I think some of those efforts are beginning to bear fruit to offset, some of the headwinds that we're seeing with the goal of continuing to drive the profit margin.

So I do expect that business, I do expect that profit margin to continue to go up with again, maybe have some volatility quarter-to-quarter, but to continue to go up and, I do expect that ROA to be accretive to us.

Frank Schiraldi: Very helpful. Thank you.

Operator: Our last question comes from the line of Manuel Navas from DA Davidson.

Manuel Navas: Given your strength and deposit betas, are there any updates, deposit beta expectations from here and just kind of how does that impact your kind of near-term NIM expectations?

David Burg: Yeah. Hey Manuel, good afternoon. So, on deposit betas, we had a goal of getting to 40%. Our guide was to get to 40% by the end of the year-end, and we've exceeded the pace that we initially set out for ourselves because we basically got to 38% this quarter. So essentially, we're there. We're going to continue to push higher, I think we've squeezed a lot of the juice out of that, and have done a good job in repricing, but I think we're going to continue to push higher to get some additional upside, but I would say Manuel, with your broader question on net interest margin management, there are a few things that I wanted to point out which is, there are a number of tools that we use to manage NIM, and deposit beta is obviously the big one, but there are other tools and for example, we've really done some optimization around our wholesale funding. In the last two quarters we paid off a facility in the fourth quarter. We paid off sub debt facility in the first quarter. So, we've also reduced our wholesale funding and we did that through cash, through our deposit generation. That's number one.

Number two is the hedging program that we have. And just as a reminder, we have $1.5 billion of floor options – notional $1.5 billion, where we sit right now, about $500 million are in the money. And with every successive rate cut, more and more become in the money. So, with another rate cut, another $350 million hit the strike price, the second rate cut another $250 million and if we're in a scenario where we have more three or four rate cuts, basically all of that $1.5 billion will be in the money. So, every rate cut, the impact to our NIM of every rate cut is going to be lower as we go through the cycle. And so, I think we are, we do use all of those tools to mitigate net interest margin kind of compression, and I feel good about our ability to continue to do that.

Manuel Navas: And at the same time, you're having flows that could go from securities in many quarters to loan growth and pick up there as well.

David Burg: Exactly. Our securities portfolio continues. The yield is 2.37% this quarter. Whether we invest, if we invest in loans at over 6%, even if we invest in other securities at high fours, we're still picking up, meaningful amount of upside there. So, I think that higher end staying longer provides another lever. You're absolutely right.

Rodger Levenson: Yeah, and I would just add Manuel, as David said, I think we have opportunity on that deposit beta. We obviously got to our goal quicker than we thought, but we continue to take actions to drive that higher while maintaining deposit levels. So, I think there's some opportunity there, although it's clearly not as significant as what happened in the back half of last year.

Manuel Navas: That’s really helpful. Just to shift topic a little bit, can we talk about the medium-term time frame on the 12% CET1 target? Is that kind of something you've been contemplating with your last three-year plan, and how does that kind of compare with, I think you kind of talked about a 50% total capital payout this year. Is that still the right level? There's a couple of questions there, but just thinking about the timeframe and then about the 50% this year in terms of buyback preference.

David Burg: Yeah. Let me try to address both of those. So, in terms of the timeframe for medium-term, I would think about it as a two-to-three-year glide path. It's hard to be specific because it depends on the macro environment, obviously we want to be careful, if there's deterioration, also our business performance and any future investments, so we want to retain discretion, but think of it as a two-to-three-year glide path.

And the way this developed is every, at every point in the year at this time in the first quarter we go through a capital planning process where based on the Fed scenarios we stress our balance sheet, we stress our capital, and we evaluate our capital position. As you know we've built some capital over the last few years. I think we feel good about our ability to perform under those stresses, and we wanted to provide some clarity around what that medium-term target can be. So, in the first quarter we obviously leaned into the buybacks because we thought it was a great opportunity and we returned about 95% of earnings in the first quarter. I don't want to give specific guidance for the rest of the year, but I think the intention of sharing that framework and the path of travel is that, we clearly have the ability and want to lean into the buybacks. And so, we're going to weigh all of the factors that we talked about, but if everything holds steady, I think we have an opportunity to do more, continue to lean in.

Manuel Navas: The citing the macro environment as something you're considering where does that fit in terms of your desire to hit the pedal on buybacks is right now the macro environment make you feel less likely to like to slow versus where you were in the first quarter, kind of just how did, where do you feel with the macro environment currently?

David Burg: Yeah. I think again, like you said we leaned in, in the first quarter. I think we have, we're very well capitalized at a 14% CET1. And we feel – we don't see anything at this point that would make us change our view, but we said macro environment because of course we have to watch for further deterioration, but nothing specifically that we're seeing.

Manuel Navas: How does AOCI impact any of your thought process? Obviously, you didn't even use it in the determination of this, but there's been swings of it either way, just kind of initial thoughts on that.

David Burg: Yeah, good question. On the AOCI, it is a secondary metric, we look at our TCE ratio, tangible common equity ratio which includes the AOCI, and even though the primary metric we're targeting is the CET1, the TCE is a secondary metric that we also look at. And so obviously we take those swings into account. But as our overall securities portfolio has come down over the years, and as you know that AOCI has been getting just the -- it throws off about $500 million of cash flow a year. The AOCI gets smaller kind of in the same percentage, 8% to 10% a year. So, if that becomes a smaller factor, we think that's that that TCE is going to be kind of less of an important driver relative to CET1, but it's something we always look at as well.

Manuel Navas: Thank you. I appreciate the commentary

Operator: Your next question comes from the line of Kelly Motta from KBW.

Kelly Motta: Hi, good afternoon, thanks for the question. I guess turning to just the loan side of things and the increased uncertainty, just wondering if you've done any, understanding it's early, just any preliminary analysis on the portfolio that could be impacted by the new tariff policies. And if you're making just in light of increased uncertainty, any changes to your underwriting or getting more incrementally more cautious on any areas, interested to hear your thoughts. Thank you.

Rodger Levenson: Yeah, thanks, Kelly. It's Rodger. So, we have looked at the C&I book in particular. Potential exposure to both the impact of the federal government contraction, the DOGE projects, and separately the tariffs, we looked at all those larger relationships. At this point we haven't done anything yet because candidly everything seems to change so frequently it would be hard to change our underwriting criteria based on information that hasn't even really been implemented yet, but we know the populations we're watching it we're in close contact, with those Clients, but nothing at this point to report in terms of any impact from a credit or a credit underwriting standards.

Kelly Motta: Got it. That's super helpful. And then just from a net growth perspective, I understand that 1Q is kind of challenging across the board, a lot of unknowns, and you spoke of Clients just hitting the pause on projects. What do you think needs to occur in order to kind of spur some net growth again? Is it on some greater certainty on some of these policy things, just trying to piece together kind of the thought process of where, we could see some net growth picking up and what would have to occur in order to see that.

Rodger Levenson: So, you know our loan book, it's primarily C&I businesses and real estate developers called up to $100 million, $150 million in annual revenue or projects, things like that. And so, there's these are entrepreneurs, and I would tell you over many, many years when there's certainty, even if the certainty isn't all good news at least if it's not good news, they know how to factor that into their business, and they will continue to move ahead.

The challenge that borrowers are expressing to us now is they don't know how to factor it into their business because the numbers keep changing, particularly on the tariffs, and it's very hard then to make business decisions. So, people are, like I said, I think generally our Customers are doing fine. They're just in a holding pattern until there's a little bit more certainty, and then I think we'll start to see some movement, going forward and I would reiterate that, uncertainty does not have to mean that everything has to be great, but just tell them what the rules of the road are and entrepreneurs have a very strong capability to adjust accordingly.

Kelly Motta: Great, thanks for the color. I'll step back.

Operator: Thank you. And with no further questions in queue, I would like to turn the conference back over to you, David.

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

Operator: This concludes today's conference call. You may now disconnect.