NASDAQ - WSFS

Moderator: Beth Sellers
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1:00 p.m. ET

Operator: This is conference 46479583.

Operator: Good day, ladies and gentlemen. Welcome to the WSFS Financial Corporation second quarter 2016 earnings conference call.

At this time all participant are in a listen only mode. Later we will conduct a question and answer session and instructions will be provided at that time. If anyone should require assistance during the conference you may press star then zero on your touchtone telephone.

As a reminder, this conference call is being recorded. I would now like to turn the call over to your host for today, Mr. Dominic Canuso, Chief Financial Officer. Sir you may begin.

Dominic Canuso: Thank you, Danielle. Thanks to all of you for taking the time to participate on our call today.

With me on this call are Mark Turner, President and CEO; Rodger Levenson, Chief Corporate Development Officer; Paul Geraghty, Chief Wealth Officer; Steve Clark, Chief Commercial Banking Officer; and Rick Wright, Chief Retail Banking Officer.

Before Mark begins with his opening remarks, I would like to read our Safe Harbor statement. Our discussion today will include information about our management's view for 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 and our most recent quarterly reports on Form 10-Q, as well as other documents we periodically file with the Securities and Exchange Commission.

With that read, I will turn the discussion over to Mark Turner.

Mark Turner: Thank you, Dominic. Thank you to everyone on the call for your time and attention. I'm going to provide a few overview comments on our second quarter results and highlights, and then hand it over to Rodger to walk through additional details.

We are pleased to have announced a very solid quarter, with Earnings Per Share of $0.58 on both a reported and a core basis. This is a 35 percent increase over the reported Earnings Per Share in the second quarter of 2015 and a 32 percent increase over the core earnings per share for the same quarter a year ago.

Core revenue (that is excluding securities gain) grew a robust 16 percent and reflected positive results across all of our business lines, including the benefits of good organic growth and our successful recent acquisitions.

Bottom line results translated into a very solid Return On Assets of 1.23 percent for the quarter on both a reported and a core basis. As total credit costs remain historically low, we estimate our core and sustainable ROA at 1.14 percent for the quarter. This result, our seasonality, and momentum all aligned with our expectation to exit the year with a 1.25 percent core and sustainable Return On Assets. And that does not include the expected positive impact of our pending combination with Penn Liberty Bank.

During the quarter we were also very pleased to have received an "A-minus rating from the Kroll Bond Rating Agency for WSFS Financial Corporation and a corresponding "A" rating for WSFS Bank. Our strong rating facilitated us raising $100 million of holding Company senior unsecured notes with a 10-year term and a fixed coupon of 4.5 percent for the first five years.

As indicated, the proceeds of this offering are expected to be used to "pre-fund" the September 2017 call on our current $55 million of senior holding Company notes which have a much higher coupon of 6.25 percent and are also expected to provide capital to invest in small fee-based acquisitions, stock buybacks, and other general corporate purposes.

Finally, we are very much on track for the closing and conversion of the Penn Liberty combination in the second week of August. Our collective integration teams have been working hard for a number of months and we are excited about further strengthening our franchise and leadership in southeastern Pennsylvania. As with the last two Community Bank transactions completed in 2014 and 2015, we expect this combination to be immediately accretive to Earnings-Per-Share and Return On Assets, excluding merger-related costs.

With that general overview, I will turn it over to Rodger for more detail and of course, I will participate in the Q&A section after his remarks. Thank you.

Rodger Levenson: Thanks Mark. As Mark outlined, our performance during this past quarter, similar to last quarter, was driven by core revenue growth which came in at a strong 16 percent compared to the second quarter of 2015. Once again, this growth was driven by both: net interest income, which grew 19 percent from both acquisition and organic growth; and fee income, which increased 11 percent, almost entirely from organic growth. The net interest margin came in at the top end of our range of expectations for 2016 at 3.90 percent, an increase of 19 basis points from the same period last year.

This expansion was a result of our recent acquisitions and continued disciplined loan and deposit pricing. Although this quarter's interest expense only saw a modest impact from our recent debt issuance, we anticipate starting in the third quarter approximately a net 8 basis point impact on the NIM from the new debt issued in June. Combined with the current rate curve expectations of no further increases in short-term interest rates for the remainder of 2016, our modeling now forecasts a NIM range of 3.80 to 3.85 percent through the end of the year.

Our core fee income growth of 11 percent versus the second quarter of 2015 was driven by performance across all of our fee generating business lines. Our core fee-based income to total revenue stood at a very strong 34 percent and while this figure will be modestly impacted by the Penn Liberty acquisition, we still have the goal of increasing this ratio to 40 percent by the end of our 2016 to 2018 strategic plan.

Our core expenses, which exclude M&A costs, grew $5.5 million in the quarter or 15 percent in support of both acquisition and organic growth. Adjusting our expenses for the litigation settlement disclosed in the notable items, the growth in expenses was $4.6 million or 12 percent. When compared with our 16 percent core revenue growth, this provided 4 points of positive core operating leverage over the same quarter last year and an adjusted core efficiency ratio of 59.5 percent.

Total loan growth was 4 percent annualized in the quarter. Highlights for the core quarter were a 13 percent (annualized) increase in C&I loans and 17 percent (annualized) growth in consumer loans, which were somewhat offset by expected construction loan payoffs and continued reduction of residential mortgage loans held in the balance sheet.

Our loan pipeline remains solid going into the third quarter and we expect overall organic loan growth, (that is excluding the impact of Penn Liberty), to be in the low-to-mid single-digits for the second half of 2016.

Our reported deposit growth was impacted by a $30 million decline in money market accounts related to an expected seasonal decline in municipal and school district deposits and the planned runoff of $20 million of higher cost CDs. Relationship-oriented checking accounts grew 5 percent annualized during the quarter. We anticipate that total organic core deposits will grow in the mid-to-high single-digits for the remainder of 2016.

Asset quality trends remain favorable during the quarter. NPAs declined by $6.1 million and now stand at 54 basis points of total assets. Total delinquencies, which include nonperforming delinquencies, were 64 basis points. Our loan loss provision of $1.3 million covered charge-offs of $1.1 million and provided for loan growth. Although we remain pleased with our current asset quality, credit costs can be lumpy, as was demonstrated in 2015, and we still believe that our longer-term guidance of $2 million to $2.5 million in average quarterly total credit cost is appropriate.

In summary, we had a very good second quarter and first half of 2016 and remain focused on improving our performance for the remainder of the year.

Thanks again for your time and attention, and we will now be happy to answer any questions.

Operator: Thank you. Ladies and gentlemen if you have a question at this time please press star then one on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue please press the pound key.

And your first question comes from the line of Catherine Mealor from KBW.

Catherine Mealor: Thanks good afternoon everyone.

Mark Turner: Good afternoon Catherine.

Catherine Mealor: Wanted to start maybe first with the loan growth in thinking about you've had really great loan growth on the C&I front but that's obviously been offset a little bit by some construction payoffs.

As you think into the back part of the year, are there any large construction payoffs that you see on the horizon? Or do you think that is going to be less of an offset moving forward?

Steve Clark: Catherine, this is Steve Clark. In the second quarter we did have approximately $50 million of construction loans or CRE loans pay off or go to the permanent market. In the third quarter, we see two lumpy payoffs totaling $35 million. Both of those coming out of the construction portfolio into the permanent market.

Mark Turner: And Catherine, that's factored in our expectations for back half of the year growth in the low to mid single digits for total loans. So we still expect good growth in the C&I and the consumer segments, but offset by the offset by runoff in construction and continued runoff in residential mortgages.

Catherine Mealor: Got it. OK and then at what point do think that Penn Liberty add could accelerate that low to mid single-digit growth rate a little bit higher? I know it's hard for that happen in the first quarter that you seal the deal, but is that you think that's a possibility as we move into 2017?

Steve Clark: Yes, I would -- we are very optimistic and positive with Penn Liberty joining us. With the amount have disruption in southeastern Pennsylvania through various acquisitions; we think the timing is perfect for WSFS and Penn Liberty to join forces. And we believe their team joined going ours will be accretive to our efforts.

Mark Turner: And we have been making joint calls with them for some time now to get to know their customers and their marketplace better.

And I would expect Catherine this is Mark Turner, I would expect by late in the year late next year absent the typical seasonality you see through the holiday and the winter months we should start to see a pickup from combining with them.

Catherine Mealor: OK, great. And then my second question is on the fees. And we've talked about this a lot over the years, but you've got this goal to get to 40 percent over your strategic planning session.

How much of that 40 percent growth or growth to 40 percent do think in happen organically versus the need to do another fee-based acquisition? And can you talk a little bit about have conversations picked up or what is your outlook for the likelihood of a fee-based acquisition in the next 12 months?

Rodger Levenson: Catherine this is Rodger. The majority of the growth we believe can come from continued double-digit -- low double digit growth from our existing fee-based businesses. But there is no question for us to get to that 40 percent that we will have to do several of these smaller fee-based acquisitions that we've talked about.

So when we talk about smaller, I would say transaction sizes in the range of $5 million to maybe up to $20 million in deal size. And would be either complementary to our existing product offering of potentially an entry into a new fee-based area.

We are initially focused on adding to our existing fee-based businesses with wealth management, a particular area of interest. And we are working on that goal I would say very diligently to get some opportunities to the finish line, hopefully in the near future.

Catherine Mealor: OK, great, great quarter guys, thanks.

Mark Turner: Thank you Catherine.

Operator: Your next question comes from the line of Joe Gladue from Merion Capital Group.

Joe Gladue: Hi, thanks.

Mark Turner: Hi Joe.

Joe Gladue: Just first off I guess like to touch a little bit more on the net interest margin. Just wondering looks like some variability in recent quarters from early payoffs and accretion and stuff. Wondering if that was very significant in the second quarter or any more so than it was in the first?

Dominic Canuso: So we did have a very strong net interest margin quarter at the high-end of the range and that did include about 4 basis points of accretion over and above our expectations. And that was slightly higher than the first quarter.

In our outlook, we do not expect the elevated levels of accretion to continue but as you know it may be lumpy from quarter to quarter. On a full-year range basis, we expect our net interest margin to be in the range of 3.83 percent to 3.87 percent for the remaining quarters to be in the range of 3.8 percent to 3.85 percent including the 8 basis point impact of the senior debt raise that we spoke about earlier.

Joe Gladue: All right. And you've built up a little bit of liquidity over the last few quarters. I imagine some of that is going to -- will be absorbed by acquisition is that -- any reason to believe differently?

Mark Turner: So and I don't know exactly what you are referring to. Some of that is probably likely from Cash Connect, and it is cash -- it is actually earning cash, it is cash in non-owned ATMs that may show up on some of the screens you are looking at like liquidity but is actually basic business of Cash Connect and earning fee income.

There also might be some they're coming from average balances off of the debt raise before we get a chance to pay off some short-term borrowings with that. But we don't have from our perspective any unanticipated spikes in liquidity this past quarter.

Joe Gladue: OK. And I guess on the topic of Cash Connect, that's had some good revenue growth over the last few quarters I guess. And I guess again, 12 percent growth this quarter.

If I remember that correctly. Is that going to slowdown at any point or do you see that with some of the new product, is that a sustainable level of growth for a little while?

Rodger Levenson: We believe -- Joe it's Rodger. We believe so. They've actually seen some nice increase in their traditional bailment business as they have been able to take some market share on that side of the business. And then the continued growth of their new product and additional services. We think combined will continue the growth rates at the trend that they have been showing recently.

Joe Gladue: I believe that's all I have. Thank you.

Mark Turner: All right, thank you Joe.

Operator: Thank you. Again ladies and gentlemen if you have a question at this time please press star then one.

Thank you. With no further questions in queue, I would like to turn the conference back over to Mr. Mark Turner.

Rodger Levenson: Actually this is Rodger. Rodger Levenson again. Thank you again for everybody for dialing in today. Mark, Dominic and I will be attending an investor conference in New York next week and we hope to see many of you there, if not later on down the road. Thank you.

Mark Turner: Have a great weekend everybody.

Operator: Ladies and gentleman thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.

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