WSFS FINANCIAL CORPORATION

Moderator: Rodger Levenson
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1:00 p.m. ET

Operator: This is conference # 27352636.

Good day ladies and gentlemen, and welcome to the WSFS Financial Corporation first quarter 2015 earnings call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer sessions, and instructions will be given at those times. If anyone should require assistance during the program, please press star then zero on your touchtone telephone.

As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Rodger Levenson, Chief Financial Officer. Sir, you may begin.

Rodger Levenson: Thank you Jonathan. Thanks to all of you for taking the time to participate in our call today. With me on this call are Mark Turner, President and CEO, Paul Geraghty, Chief Wealth Officer, Steve Clark, Chief Commercial Banking Officer, Rick Wright, Chief Retail Banking Officer, Tom Stevenson, President of Cash Connect, and John Clatworthy, Senior Vice President of Client Services for Cash Connect. Similar to our Q4 2014 earnings call, the format of today's call has been modified to allow us to provide the second in a series of topical discussions.

Following our traditional earnings call, comments and Q&A, we will provide a brief presentation and question-and-answer session regarding the WSFS Cash Connect business. Mark will introduce that segment at the appropriate time.

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 of 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'll turn the discussion over to Mark Turner.

Mark Turner: Thanks Rodger. Thanks everyone, on the call for your time and attention. I'm pleased to report WSFS has reported an excellent first quarter. Our earnings per share was $1.34, and our return on assets was 1.06 percent .

Adjusted for positive and negative notable items detailed in the release, our pro forma results would have increased just a bit more to $1.38 in earnings per share, and 1.09 percent in return on assets. To add further perspective, in the same quarter last year, we saw pro forma earnings per share of $1.10, and return on assets of 90 basis points.

So in one year's time, core earnings per share and return on assets were up over 20 percent each. And for even a bit more historical perspective, two years ago we pegged our core first quarter 2013 results at 70 basis points return on assets.

So this quarter, at a return on assets of 106 basis points reported, or 109 basis pointed adjusted, that's an over 50 percent increase in performance in just two years, all while we are growing the Company nicely. Driving these core results, revenues were up 13 percent year-over-year, including strength in net interest income for both acquisition and organic growth, and strength in fee income, most of that coming from organic growth in Wealth, ATM services, and Mortgage fees. Moreover, as we have said, the first quarter of the year is typically our slowest.

Franchise growth and revenues are negatively impacted by the fewer number of days and generally slower economic activity, and expenses are typically higher for certain compensation items like 401(k) employer costs, taxes, and paid time off accruals. And there are other seasonal costs like snow removal.

However, this quarter we saw our momentum and operating leverage overcome typical seasonal slowness as evidenced by the following. Loans increased over 6 percent annualized in the first quarter with strength in most categories. Checking relationship deposits increased 12 percent annualized. Normalized margin, that is excluding the special Federal Home Loan Bank dividend, held steady at a healthy 3.74 percent .

Fee income actually increased over the usually stronger fourth quarter results on the back of mortgage banking and wealth revenue. Asset quality remains strong and credit costs low, as the local economy continues to improve. And expenses, even with the expected seasonal costs, increased only minimally from 4Q 2014 levels.

As a result of all this, and the improved valuation of our investment portfolio, tangible book value per share increased nearly 4 percent in this quarter alone, and more than 14 percent over the same time last year, to $47.56 per share. That's despite a 25 percent increase in our dividend, and the resumption of our share buyback program last year.

So based on our normal earnings trajectory over the course of a year, our recent acceleration of growth and operating leverage, and our current business development pipelines, we are on track to achieve an important strategic goal, that is, reaching a core and sustainable 1.2 percent return on assets by the fourth quarter of this year, all while continuing to grow the Company in a healthy way. There, of course, are no guarantees, that it will still require tremendous execution, but we have the team that is up for the challenge.

Our business model and strategic plan are clearly working. We are excited to enhance our presence in continuous counties in southeastern Pennsylvania, with our pending combination with the strengths of Alliance Bancorp.

Thank you, and at this time we'd be happy to take your questions.

Operator: Certainly. 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 and you'd like to remove yourself from the queue, please press the pound key.

Our first question comes from the line of Frank Schiraldi from Sandler O'Neill. Your question please.

Frank Schiraldi: Hi, guys. I know you spent some time on this last quarter, the wealth management business, but I just wondered if you could just give us a little detail, or talk a little bit about growth expectations for that business, just given what we saw in terms of revenue growth year-over-year?

Paul Geraghty: Thanks, Frank. This is Paul Geraghty speaking, and I'll comment on that. I think as I said in January, my expectation is that as the business gets bigger, we'll still have very good growth, but on a larger base. The percentage will decline. We're well-positioned in a couple of key areas that have provided a nice foundation for growth, and that is the bankruptcy administration part of our business, which is relatively new, combined with the capital markets trustee business for mortgage securities.

And when we add that to the retail broker that you may remember me mentioning in January, we brought somebody over from a wire house near the end of last year, he's been incredibly productive in terms of bringing almost his entire book over immediately, as well as cross-selling very effectively with his long-term clients, so we've also seen substantial growth there.

So together, the normal business that we've had continues to show indigenous growth, and then when we add on the capital markets activity, combined with some of the acquisitions of talent we've made, it all paints a very nice picture for us.

Frank Schiraldi: Great. Thanks for the color there, Paul. And then just in terms of M&A, given the size of the Alliance deal, does this sort of preclude WSFS from additional M&A here in the short to medium term, or how do you think about M&A going forward, if you could just give us some color there? Thanks.

Mark Turner: Thanks Frank, this is Mark again. So right now we're fully focused on the great execution of the Alliance acquisition. When we're ready, and I would not expect that to be until at the earliest later this year, we'll certainly keep our eyes and ears tuned for similar opportunities to recent combinations that we've done, and by that I mean ones where we know the business well; they're small but meaningful in size, there's no big problems to fix.

So they don't distract us from the momentum and trajectory in our normal business, and they have a strategic component, and they make sense financially, meaning an IRR that is commensurate with the risks, earnings per share accretion within the first year, and a tangible book value earn back, dilution earn-back that's reasonable.

Frank Schiraldi: OK. And is there sort of an upper bound on that earn-back? Is that something you focus on, or does it depend on how strategically attractive the deal is?

Mark Turner: I would say certainly there are bounds on it, but we are much more focused on the internal rate of return, on the investments, and the earnings per share accretion, and that's kind of our third metric that needs to be reasonable in light of the first two.

Frank Schiraldi: OK. And I can't recall blackouts during the quarter. Last question, just wondered about buyback activity, if that could potentially ramp up from what we saw in the first quarter?

Mark Turner: Yes, so we didn't do much in the first quarter, as you saw in the release, because we're blacked out a month out of every three months around earnings release anyway, and with the Alliance transaction, we were blacked out almost the entire first quarter, and probably were only in the market for a week, week and a half or so. So absent anything I can't predict at this point, I think we would be much more aggressive in the second quarter and going forward.

Frank Schiraldi: Great. Thank you.

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

Our next question comes from the line of Matt Schultheis from Boenning. Your question, please.

Matt Schultheis: Good afternoon.

Mark Turner: Good afternoon, Matt. How are you?

Matt Schultheis: I'm doing well. How are you?

Mark Turner: Good. Thank you.

Matt Schultheis: Good. I think Frank actually hit on a couple of questions that I had, but I did want to get any more color that you're willing to share regarding the integration of the Alliance transaction, just from your experience, how that seems to be integrating culturally, and are the data that you're getting from them meeting your expectations, better than, not as good as?

Mark Turner: Yes, so I would characterize it as going extremely well at this point. Just from a technical standpoint. The application was submitted on a timely basis. The S4 submitted on a timely basis. We've done a few of these, so we know what points to hit and what to be tight on, around in those applications, so that they don't get in the way. Alliance is a great partner, and culturally they have great talent that we're working with, and culturally they are very similar.

In fact, last night they attended our Annual Meeting of Shareholders, and the dinner we had afterwards, and explained to people there, why they liked combining with WSFS so much, and they thought it would be very successful, because in their words, WSFS is a bigger us, in terms of the way we approach our Customers, and our Community, and our Associates.

We've got over a dozen teams working closely on this, people from our organization and their organization, and things are well on track at this point. At this point, I expect we will hit all of our metrics and milestones, both in time and in dollar amounts.

Matt Schultheis: OK. Thank you very much.

Mark Turner: Thank you.

Operator: Thank you. And with no further questions in the queue, I'd like to turn the conference back over to Mr. Mark Turner.

Mark Turner: All right. Thank you. At this time we'll move to a brief presentation from our executives leading our Cash Connect ATM services business, which will be followed by an opportunity for additional Q&A, either on that presentation, or if you have other questions on the earnings presentation. So with that, I'll turn it over to Tom Stevenson, President of our Cash Connect division. Tom.

Tom Stevenson: Thank you Mark. Last quarter, after our earnings presentation, we had our wealth management team give an overview of their business, today we're going to focus on Cash Connect, which is business that also generates fee income for the bank.

And I thought I'd take about 10 or 15 minutes, and give you an overview of Cash Connect and our business model, and then I'll turn it over to John Clatworthy, our Senior Vice President of Client Services, to add some color around our new business pipeline and some future growth opportunities.

The original idea for Cash Connect, literally got its start on the back of a napkin over Saturday morning coffee between our Chairman, Skip Schoenhals and myself in 1999, when I was Chief Information Officer for the bank. And a few months later in January 2000, we launched Cash Connect. We're now the longest running provider of ATM cash and logistics in the United States, and one of only two banks in the country that specialize in that business.

We supply cash to over 15,000 ATMs in all 50 states, and last year we loaded about $11.4 billion in cash into those ATMs. Those aren't our ATMs, they're operated by non-bank ATM companies, that range from small mom and pop operations with maybe 25 to 50 ATMs, up to some of the very largest ATM deployers in the country with tens of thousands of locations nationwide.

I think it's important to point out that we provide that cash to these customers through a legal instrument called a bailment, as opposed to using a loan or a credit arrangement.

And the reason for that is that under a bailment, the cash always remains our asset, and we get it all back even in the event of a bankruptcy. In the bailment fees that we receive for the use of our cash, are calculated just like commercial loan interest would be, typically tied to prime, but they're recorded on our books as fee income rather than loan interest.

To help you understand the independent ATM model, the ATM operators typically prefer that the merchant where the ATM is located puts their own cash in the ATM. That way the ATM operator avoids the cost of armored car deliveries, and they have no cost of funds. And the merchant only has to tie up one day's worth of cash at a time, assuming that they load the ATM every day. But some merchants don't want their employees having access to the cash, and so they require that the ATM operator supplies the cash themselves.

When that happens, since the ATM operator can't get around to each ATM every day, they have to load a week or more of cash at a time, sometimes as much as a month's worth. And eventually that leads to the ATM operator having hundreds of thousands of dollars of their capital tied up in the form of cash inside the ATM machines.

When they get to the point that they want to free that capital up to grow their business, they'll come to Cash Connect to provide the cash for their ATMs. Just to give you one example of that, our very first customer at Cash Connect was a small independent operator in Pennsylvania whose brother-in-law owned a chain of about 15 gas station/convenience stores, and the ATM operator had to chance to put the ATMs in all those stores, but his brother-in-law didn't want his gas station employees having access to the cash.

The ATM operator estimated he'd need about $20,000 per machine for a total of $300,000, and he didn't have that much extra cash, so he was going to have to turn down the business. He came to us, we gave him a $500,000 bailment limit, and he got the deal. We also have an interesting external factor that's starting to have a pretty positive impact on our ATM Vault Cash Business. Overtime the last few years, several national tax office chains have started providing tax refunds on prepaid debit cards instead of issuing checks.

And as a result, the first quarter of each year, which used to be our lowest seasonal volume of outstanding cash, has now become our highest volume quarter of cash, passing up even the holiday shopping season and summer vacation seasons.

That wasn't something that we planned, of course, but it's having a very positive impact on our business. Today we have about $520 million in cash outstanding in our ATM Vault Cash Program, and that drives about 60 percent of our total revenues at Cash Connect.

A few years ago, we started adding managed services to our Vault Cash Program, including things like cash forecasting and armored carrier management, which our customers typically do for themselves. We now have over 6,500 ATMs under that service, making Cash Connect one of the largest buyers of ATM armored car services in the country.

This is one of our newer lines of business. It's currently about 10 percent of our total fee income, and it's also our fastest-growing product line. Also under the managed services category, we recently signed a letter of intent with a very large ATM operator, to perform settlement and reconcilement services on several thousand of their ATMs starting later this year, which will be a new managed service for Cash Connect.

We require that all of our customers insure the cash while it's in their ATMs, and they can either do that under our insurance program, or they can go out and get their own insurance. Currently about 70 percent of our customers take advantage of our program which contributes another 11 percent of our total fee income.

Through these different services, hopefully you can see our underlying business model of leveraging our scale economies on these 15,000 ATMs, to reduce expenses for our customers, and generate fee income for the bank.

Separately from these services to the U.S. ATM industry, we also operate 458 of our own ATMs in and around Delaware, which are branded under the WSFS bank name. That's by far the largest bank branded ATM network in the Delaware market.

Those 458 ATMs include 50 branch ATMs, and the rest are all off premise, which is about the opposite of what you would typically see in most banks. I'd normally expect to see a bank with about 400 branches, having around 50 off premise ATMs, and we're the exact opposite of that. Those 458 WSFS branded ATMs provide a great delivery channel for the bank, and they produce about 16 percent of Cash Connect's total fee income.

Hopefully that gives you a sense of our core services and Cash Connect's business model. As published in our 2014 10-K, we generated a total of about $25.7 million in fee income for the bank, and that produced about $7.4 million in pretax income, with a marginal ROA of (14.7) percent .

We track all of these 15,000 ATMs and their transactions in our proprietary cashtrack system, which we developed in-house, and in addition to that system, we've developed some pretty innovative software products for our own use, that we're just now just beginning to market to other companies. One of these that we call dotAlert, sends a text message alert whenever there is a hacking attempt on a Company's Web site.

If you click on that text message, it instantly blocks the attackers IP address from any new hacking attempts. We have a patent pending on dotAlert, and have just started marketing that product through a partnership with a data security consulting firm.

Separately, due to the large number of general ledger reconcilements that we perform daily at Cash Connect, we developed a fully automated banking reconcilement system, in addition to automating all of Cash Connect's reconcilements, we are currently rolling it out throughout the rest of the bank, and hope to be ready to market it to other banks nationwide by the end of this year.

In addition to the dotAlert and that automated reconcilement system, we have another four to six software systems that we've developed in-house, that we feel have pretty strong potential for licensing to other companies. Software licensing is a new business line that we're just getting started on, but we believe has long-term potential, diversifies our product mix, and leverages one of our core competencies.

With that, I'd like to turn it over to John Clatworthy, to give his perspective on new business opportunities, and then we'd be happy to take any questions.

John Clatworthy: Thanks Tom, and good afternoon. Appreciate the opportunity to share briefly about Cash Connect's business development efforts, and our prospects for continued fee income growth. Cash Connect is off to a solid start for the first quarter of 2015. Fee income is up 10 percent over first quarter 2014. We're seeing strong organic growth within our customer base, as well as several nice wins with new relationships to begin the year. Our Vault Cash and total cash management services are driving the majority of our growth.

Our total cash management, or TCM pipeline is strong, with over 1,000 ATMs which we anticipate boarding during the second and third quarters this year. This managed service offering is striking a chord with customers and prospects alike, as we're able to save them money on their armored carrier pricing, while offloading the management responsibilities.

We can do this because we've negotiated Best-in-Class pricing and service levels with top national armored car carriers. TCM has significant fee income without assets, which helps both profitability and ROA. The ATM industry is highly fragmented, so we focus considerable effort developing Web-based tools to support our customers that are positioned as aggregators in the industry.

These tools allow our customers that are aggregating other smaller customers to utilize our vault cash and TCM services, while earning the margin that they input through our web system.

We also have strong prospects for growth within our gaming customers that have large opportunities that they anticipate closing in the near term. It's estimated that these deals would require $40 million in added vault cash, as well as TCM services.

In terms of expanding our managed service offering, we have a letter of intent with a very large independent ATM deployer, where we would leverage our cash track automated settlement system, to reconcile the cash provided for their ATMs by two major banks for a monthly fee. Once fully rolled out over the next couple of years, this account would add over $1 million in annual fee income.

Lastly, our new Smart Safe offering leverages our core competency of cash management and logistics, and is attracting a lot of interest nationwide. Smart safes have highly accurate bill readers that can read and transmit the daily deposit information directly into our cash track system.

As opposed to a merchant having an armored carrier come out to pick up their deposits five days a week for a cost of $30 a day, Cash Connect can take a file from the safe and purchase the funds on a daily basis in ACH credits to the merchant's operating account, giving them the benefit of the cash flow, while we optimize the carrier pickup schedules. We have the ability to charge a monthly fee for this service, which would be in excess of the prime rate.

Where the ATM space in the U.S. is mature, industry analysts anticipate significant growth of 100,000 smart safes in the coming years. We currently have a production pilot of approximately 50 safes, and plan to move into full production during second quarter.

We have signed contracts with two major financial services companies that are marketing our smart safe program, and we're in discussions with well-known grocery store chains, quick service restaurant chains, and large hospitality properties.

In summary, we believe that we're well-positioned to drive fee income growth in 2015, and for years to come, because of the new innovation in service offering.

With that, we welcome any questions.

Operator: Certainly. And once again, 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 and you'd like to remove yourself from the queue, please press the pound key.

Our next question comes from the line of Frank Schiraldi from Sandler O'Neill. Your question, please.

Frank Schiraldi: Yes, hi guys, thanks for that. Just trying to understand, I certainly understand the idea you get interest here, and that shows up as fee income. Did you say what the rate was on that? I know it's variable.

Tom Stevenson: It's variable and it's tied to prime. Typically we have a couple of customers tied to LIBOR, and that'll range anywhere from prime plus one, down to prime minus one, in some cases a little bit less than that.

Frank Schiraldi: OK.

Tom Stevenson: And that all depends on whether they take advantage of our managed services and our insurance and other things, so that we can get the returns that we need from the entire relationship. I also should point out I was handed a note that said I misspoke and said our marginal ROA last year was 14.7 percent . It was actually 1.47 percent , although we would very much like it to get up to 14.7 percent sometime in the future. I just wanted to clarify that.

Frank Schiraldi: That's a good clarification. That's something I was going to actually ask about. It seems to me and I think you touched on it, John, was there's a push or an opportunity to reduce the A in that ROA calculation, and so that ROA should build over time, maybe not to 14.7 percent but should build over time, is that fair?

John Clatworthy: Yes, absolutely, and in fact to that end, in 2011 we put together a strategic partnership with Capital One, where they have availed up to $250 million in cash for our vault cash program, which allows us to blend in other banks' assets, so we are paying a little bit of a premium for those funds.

But that takes the A right out of the equation, and then as Tom has indicated with our other add-on offerings, like the vault cash insurance, our armored carrier management, our cash forecasting services, all of those layer on direct fee income without adding any asset, which helps us continue to drive to our target ROA numbers.

Frank Schiraldi: OK. And then just finally, obviously in the release, I saw the $0.03 per share in losses resulting from skimming fraud at ATMs. I don't know, is that part of Cash Connect, and can you just talk about liability, the liabilities there?

Tom Stevenson: It's really the same liability that a card issuing bank has when their ATMs are used anywhere, whether that's a Target store breach, for example, or your own ATMs, or any other ATMs. There's no foolproof way to prevent it. Every time you come up with a new deterrent, the skimmers seem to find new technology to get around it. We've got a number of defenses deployed on our ATMs.

Occasionally, they find a way to get around that. So we did have an event during first quarter, we've taken some additional measures to stop that, and if it happens again, to contain the losses even more quickly. That's just part of being a card issuing bank.

Frank Schiraldi: So that's from the card issuing side, not from the ATM cash supplying side.

Tom Stevenson: Yes, in this particular case the skimmers were placed on one of our own branch ATMs, however that could have happened at any bank anywhere, or any point of sale device, and the impact to the card issuing institution is the same. So under network regulations in the U.S., the card issuing bank absorbs the losses, and card fraud when it occurs, not the ATM owner or the store, where the point of sale device occurs.

Frank Schiraldi: OK. So that wouldn't necessarily be WSFS in this case, as I'm thinking about the national cash supplying business?

Tom Stevenson: No, that's correct.

Frank Schiraldi: But now, how does that change or does that change at all with the EMV chip? I know a point of sale, how the liability changes. I don't know at the point of, at an ATM.

Tom Stevenson: Yes, great question. That's going to shift to the ATM owner, only in the case where they don't upgrade their ATM machine to support EMV cards, and if the fraudulent card is used to withdraw cash at that ATM.

So if I'm operating an ATM that doesn't accept EMV chips, and somebody uses a counterfeit card with a magnetic stripe to withdraw cash from the ATM, as the ATM owner I will absorb the liability after that liability shift.

However, it's irrelevant where the actual skimming occurs, whether that's at your ATM, or someone else's. That can't be helped by the ATM owner. It's where the withdrawal is made with the counterfeit card that was manufactured after the skimming event. And we have a plan in place to have all of our ATMs upgraded to support EMV capabilities before that liability shift occurs. So that would not come back on WSFS with our ATMs that we operate.

Frank Schiraldi: OK. Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you have a question at this time, please press star then one on your touchtone telephone.

And with no further questions in the queue, I'd like to turn the conference back to Mr. Mark Turner.

Mark Turner: Thank you, (Jonathan). And thanks again, everyone. We are pleased again to have reported a solid start to 2015 and look for additional fundamental progress in the coming quarters. We will also be planning for another special topical presentation for the next quarter's call. Have a great weekend.

Operator: Thank you ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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