Welcome to the ICF International Third Quarter 2019 Earnings Conference Call. My name is Vanessa, and I will be your operator for today’s call. (Operator Instructions) Please note that this conference is being recorded on Wednesday, November 6, 2019 and cannot be reproduced or rebroadcast without permission from the company.

And now I would like to turn the program over to Lynn Morgen of AdvisirY Partners.

Lynn Morgen;Advisiry Partners^ Thanks, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF’s third quarter 2019 performance. With us today from ICF are Sudhakar Kesavan, Executive Chairman; John Wasson, President and CEO; and James Morgan, CFO.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management’s expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our November 6, 2019 press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light. We may, at some point, elect to update the forward-looking statements made today but specifically disclaim any obligation to do so.

I will now turn the call over to ICF’s Executive Chairman, Sudhakar Kesavan, to discuss third quarter 2019 performance. Sudhakar?

Thank you, Lynn, and good afternoon, everyone. Thank you for joining us to review our third quarter results and discuss our business outlook.

This was another excellent quarter for ICF with strong year-to-date results. Revenue increased 13%, adjusted EBITDA increased 15% and EPS increased 16%. We are particularly pleased that EBITDA and earnings growth outpaced revenue growth.

Our year-to-date growth has been broad-based and reflects several of ICF’s differentiators, namely, our unique position in government and commercial markets; our deep domain expertise in growing markets such as energy, health, resilience and cybersecurity; and the services that we...
have built over the last 10 plus years around IT, program management, data analytics and customer and citizen engagement that have enabled us to win and effectively execute on large, multiyear implementation contracts.

These same competitive advantages provide significant runway for ICF to continue long-term growth over the next several years. We also see opportunities to complement that growth with additional organic initiatives by hiring people with deep subject matter expertise and by making acquisitions, which increases the breadth and depth of our expertise similar to what we have done in the past.

For example, in our federal markets, we are working toward gaining further scale in the area of IT modernization, as agencies are facing tremendous pressure to streamline and replace older legacy systems. Here, we have succeeded in leveraging ICF’s competitive differentiators, which I just described, to win important contracts at existing federal agency clients, and we believe we have the potential to expand these types of contracts substantially. Currently we are building scale incrementally through account expansion and key hires, but we are also pursuing acquisition targets that could accelerate our growth in this arena.

Another example in which we are expanding organically and where acquisitions could be accretive to our positioning is in energy markets. We see multiple opportunities here to build out our distributed energy capabilities, as pilot programs that we are running, have the potential to evolve into full-scale implementation work over time.

Additionally, recent events in California bring home the fragility of the grid and the need for utilities to invest in resilience and mitigation programs. ICF currently has one of the largest consultancies in the world, providing advisory and implementation services associated with energy, climate change and resilience. This gives us considerable scale and the qualifications to capture opportunities in this arena. These are just 2 examples which we believe that ICF is well positioned for future growth and where we are moving ahead to build our capabilities and brand recognition.

As you know, we will be hosting an Investor Day in New York on December 3 and look forward to providing further insight into what we consider to be drivers of ICF’s long-term growth. Please feel free to contact Lynn Morgen for further information on this event.

At this point, I would now like to turn the call over to ICF’s newly appointed CEO, John Wasson, who, of course, as you know, has been ICF’s President for nearly a decade and a key to our success, for a review of our business trends and our outlook headed into 2020. John?

John Wasson - ICF International, Inc. - President, CEO & Director

Thank you, Sudhakar, for your kind words, and welcome, everyone. Sudhakar’s shoes at ICF are big ones to fill and thus, I am pleased to have excellent third quarter results to discuss on my first call as CEO.

To begin with, the double-digit revenue growth that we achieved in the third quarter reflected broad-based growth across each of our markets. This demonstrates how well ICF is positioned in key growth areas in our government and commercial markets, the ongoing strength of the growth catalysts driving opportunities in our markets and our excellent execution on these opportunities throughout the company.

In fact, in the third quarter, revenues from both government and commercial clients increased at double-digit rates, with government up 11% and commercial up 14%. We were pleased to see a 6% increase in revenues from federal government clients, which brought year-to-date growth in line with our expectations of low to mid-single-digit year-on-year growth. This positive momentum represented the start-up and ramp-up of several contracts that were awarded to ICF in the second half of 2018 but had been delayed, in part as a result of the government shutdown that took place early this year. Thus, we would expect to see our federal business increase at a similar pace in this year’s fourth quarter.

At the end of the third quarter, the business development pipeline for our federal markets was at record levels, setting the stage for continued growth in 2020. We continue to be very busy with bid and proposal work and are actively pursuing larger opportunities in the IT modernization, engagement and cybersecurity arenas.

Additionally, in the third quarter, ICF was awarded 2 new opioid-related contracts from the Centers for Disease Control and Prevention. We were awarded a 3-year $6 million contract to develop and implement a comprehensive training and technical assistance program for CDC’s "Overdose
to Action" grantees. Also, we were awarded an $11 million contract to expand CDC's prescription awareness campaign. Currently, ICF is supporting the State of Georgia's effort to write a blueprint for how all states should allocate dollars received from the multiple pending lawsuits across the pharmaceutical industry connected to their roles in fueling the opioid crisis. We would expect to see more state and local opportunities of this nature in the coming quarters.

The 29% growth in our state and local business was a major contributor to the strong year on [year] increase in ICF's government revenues. This growth continues to be driven by our disaster recovery work in Puerto Rico and Texas following the 2017 hurricanes. We were awarded the majority of these contracts in mid-2018, with the most recent being the $25 million 3-year contract that we were awarded in June of this year. This contract with the Government of Puerto Rico is to assist with Community Development Block Grant housing recovery programs, funded by the U.S. Housing and Urban Development agency. I am pleased to report that we are executing well on all these contracts, have met or exceeded the required milestones and that we are making a difference for the affected populations. The pace of the housing recovery, however, will be based on the construction [management] capacity on the island. Thus, we expect that our activity on this contract will reflect a long, steady 5-plus year recovery, rather than being as front-loaded as other housing recovery efforts have been historically.

As we have discussed previously, we believe there are additional opportunities and the potential for contract expansion related to housing recovery in both Puerto Rico and Texas. Additionally, we are actively capturing opportunities related to federal funding for housing recovery following hurricanes Florence and Michael, which occurred in 2018. Over $2 billion of federal CDBG funds have been appropriated for this housing recovery work, and we would expect to see RFPs by early next year.

Continuing with disaster recovery opportunities, the whole area of mitigation - which involves taking preventative measures that reduce the potential damage done by future hurricanes and other natural disasters - has for the first time attracted considerable federal dollars. The federal government has appropriated $16 billion through its CDBG funding for post-storm mitigation work, a significant percentage of which is earmarked for Texas and Puerto Rico.

As Sudhakar mentioned in discussing energy markets opportunities, ICF has one of the largest, if not the largest, climate change and resiliency consultancies in the U.S., which provides us with very relevant credentials to bid on mitigation work that should be part of RFPs later in 2020. We will speak more about this at our Investor Day.

Moving ahead to the international government business, we saw mid-single-digit growth in the third quarter and a high level of bid and proposal activity for the U.K. government and European Commission. This business development activity is built around ICF's qualifications in policy design, analysis and program management as well as in core verticals, including strategic communications, energy, environmental and aviation.

Revenues from commercial clients increased 14%, which represented very strong performance for both our marketing and our energy businesses. Double-digit year-on-year revenue growth in commercial marketing services benefited from our significant capabilities in loyalty programs, marketing platform technologies, and brand and media strategy, and the scale we have attained by branding all of our communications services as ICF Next.

The health care vertical continues to be a key area of growth for our commercial marketing services as we have brought together technology, marketing, organizational change management, and corporate affairs capabilities for clients. This was also another quarter in which we had good success in driving growth in integrated sales across ICF Next.

ICF's commercial energy business continued to perform well in the third quarter. This performance reflected a continuation of work on existing energy efficiency programs and significant growth in our energy advisory services. ICF advised on a considerable number of transactions in the third quarter, largely driven by renewables and gas asset development, where we have proprietary analytics and deep domain expertise. We've also been assisting several utilities with resiliency planning activities, and this area seems poised for growth as Federal and State regulators focus additional attention to the resiliency of our key energy infrastructures.
As many of you know, California rules call for 60% of utility energy efficiency program funding to be outsourced by 2022. California utilities are using a 2-step process to procure for energy efficiency program implementation. ICF has had significant success in down selection from RFA to RFP, and we expect award decisions to occur by the end of the first half of 2020. Other areas of growth potential include advisory and implementation work in distributed energy resources such as solar, storage and electric vehicles. A panel discussion at our December Investor Day will explore these opportunities in greater detail.

To sum up, we are pleased with our third quarter and year-to-date performance, which demonstrates ICF's positioning in key growth markets, and the excellent work that we're doing on behalf of our government and commercial clients. ICF's annualized year-to-date turnover rate was 16%, below the industry average, and representative of the strong corporate culture that we have developed over many, many years.

Now I turn the call over to our CFO, James Morgan, for a more detailed financial review. James?

James C. Morgan - ICF International, Inc. - Executive VP & CFO

Thank you, John. Good afternoon, everyone. I am pleased to report on ICF's third quarter performance, which has positioned us to meet our full year 2019 guidance and has set the stage for further growth in 2020.

Total revenue for the third quarter of 2019 was $373.9 million, representing a 12.3% increase from the $333 million in last year's third quarter. This was driven by an 11.4% increase in revenues from government clients and a 14.1% growth in revenues from commercial clients.

During the third quarter, we had year-over-year revenue growth in all of our key client categories. The high year-to-date growth in State and Local revenues has resulted in a shifting of our percentage of revenues between client categories. The breakdown of our year-to-date percentage of revenues by client category shows federal government clients representing 39% of total revenue; down from 43% in the similar period last year; state and local government clients accounted for 19% this year, up significantly from last year's 13%, due to the increase in our disaster recovery work; International government was 8%, as compared to 9% it represented last year; and commercial clients accounting for 34% of the first 9 months revenue compared to 35% last year.

Third quarter service revenue was $257.2 million, up 11.2% from the $231.3 million reported in the year ago quarter. Pass-through revenue represented 31.2% of total revenue, up from 30.5% last year, with much of the increase due to the hiring of local subcontractors to support us in our disaster recovery work. This percentage of pass-through revenue is representative of what we expect for the full year.

Gross profit was $135.8 million in the third quarter of 2019, representing a 12.3% increase from the $119.9 million in the year ago quarter. Our gross margin increased 30 basis points year-on-year to 36.3% and our gross margin on service revenue, which is more indicative of our business trends, expanded 90 basis points to 52.8%.

Indirect and selling expenses increased 12.6% to $100.1 million compared to the previous year's quarter. As a percentage of revenue though, indirect and selling expenses were essentially flat at 26.8%.

EBITDA was up 15.1% to $35.6 million and operating income increased 18.3% to $28.7 million, both increasing at a higher rate than revenue growth primarily as a result of favorable revenue mix. Adjusted EBITDA margin on service revenue expanded by 20 basis points to 14% from last year's third quarter.

Net income for the third quarter was $19.6 million, up 17.7%. Diluted EPS was $1.02 per diluted share, up 18.6% year-over-year from the $0.86 per diluted share reported in the third quarter of 2018. Diluted earnings per share benefited from a slightly lower-than-expected tax rate of 23.6%. Our tax rate for the fourth quarter is expected to be no more than 27%, bringing the full year tax rate to no more than 24.5%.

Exclusive of charges related to amortization of intangibles, along with non-GAAP diluted EPS increased 10.9% to $1.12 per diluted share in the third quarter of 2019 from $1.01 per diluted share in last year's third quarter.
Turning to cash flow, we generated $6.4 million of cash from operations in the first 9 months of the year, compared to $10.4 million last year, reflecting the slow pace of receivables collection from our disaster management work in Puerto Rico relating to a large federally funded contract we won in 2018. I am pleased to report that in addition to the $8.4 million we collected during the third quarter, we received additional payments related to this contract subsequent to the end of the third quarter of $26 million for a total of $34.4 million over the last month or so. Based on the recent payments and expectations for additional payments prior to year-end, we now are expecting operating cash flow to be around $80 million for the full year. While this is below our initial expectations, it still represents significant cash flow generation for the year, and position us well for pickup in 2020.

Days sales outstanding for the third quarter was 94 days compared to 84 days in last year’s third quarter. Excluding the slower paying Puerto Rico contract, days sales outstanding would have been 76 for the quarter. We now anticipate days sales outstanding to range from 83 to 88 days for the full year, including the impact of the slower paying Puerto Rico contract.

Debt outstanding on our credit facility at the end of the third quarter of 2019 increased by $44.6 million from 2018 year-end, mainly due to the slower pace of collection activity on the receivables that I just mentioned. Our outstanding debt at the end of the third quarter was $245 million, which represents on a trailing 12-month basis a 1.87 debt-to-EBITDA leverage ratio.

Our capital expenditures amounted to $22.3 million, mainly related to IT investments and facilities consolidation activities. Based on year-to-date numbers, we expect our full year capital expenditures to be in the range of $26 million to $28 million. Our capital allocation priorities remain the same: grow our business organically, fund acquisitions and pay down debt, and as necessary, we will continue to repurchase shares under our current authorization to minimize dilution for our employee incentive programs.

Lastly, we are pleased to declare our eighth quarterly dividend of $0.14 per share payable on January 14, 2020 to shareholders on record as of December 13, 2019.

For modeling purposes, we expect our depreciation and amortization expense to be in the range of $21 million to $21.5 million for 2019; amortization of intangibles is anticipated to be approximately $8 million; our full year interest expense is expected to range from $10 million to $11 million; as previously mentioned, we expect our effective tax rate for the full year to be no more than 24.5%; and lastly, we expect our fully diluted share count to be around 19.2 million for 2019.

With that, I'd like to turn the call back to John for his closing remarks.

John Wasson - ICF International, Inc. - President, CEO & Director

Thank you, James.

As you have heard, year-to-date results have set the stage for 2019 to be a year of substantial growth for ICF, and we expect many of the positive trends we saw this year to continue in 2020. We ended the third quarter with a record business development pipeline of $6.5 billion balanced across our client set and comprised of 63 opportunities larger than $25 million and 79 opportunities between $10 million and $25 million. The size and diversity of our pipeline, together with our $2.5 billion backlog, support our confidence that 2020 will be another year of solid growth for ICF.

In the meantime, we are pleased to reaffirm our full year 2019 guidance for revenues in the range of $1.475 billion to $1.5 billion, GAAP EPS of between $3.80 and $3.95, exclusive of special charges, and non-GAAP EPS of $4.10 to $4.25.

Operator, now we'd like to open the call to questions.
Andrew Owen Nicholas - William Blair & Company L.L.C., Research Division - Analyst

Just want to start with state and local. I was a bit surprised to see it down a bit sequentially given my understanding that there’s still some ramping up to do in Texas. So I guess I was just wondering if there’s anything to call out there in the quarter or if we should kind of think about this number as a good near term run rate absent any new mandates.

John Wasson - ICF International, Inc. - President, CEO & Director

Yes. I don’t think I would read too much into the sequential change. I think it is a good number for kind of how to think about the current business we’ve won. Obviously, as I’ve discussed in my remarks, there remains very significant opportunity there. We continue to see potential plus-ups on our contracts, both the FEMA contract in Puerto Rico. Certainly, on the housing recovery program in Puerto Rico, we’ve discussed that there’s significant upside potential on that opportunity that will play out in the coming months and years. And then we have quite a robust pipeline of additional opportunities and also opportunities to expand our work in Texas. And so it’s an area that we see a runway for continued significant growth and significant opportunity as we look to the future.

James C. Morgan - ICF International, Inc. - Executive VP & CFO

Andrew, this is James. I guess the other thing I’d mention too is that, keep in mind that Q2 had 1 more day, working day, than Q3. So that pretty much makes up what the difference is for the most part.

Andrew Owen Nicholas - William Blair & Company L.L.C., Research Division - Analyst

Got it. That’s helpful. And then in your prepared remarks, you talked a decent bit about adding scale in IT modernization. I’m just curious, is that primarily headcount or is that something where you’d want to add some capabilities? I’m just trying to get a little bit more color on kind of what the outlook is there, what you might be looking to add? And then maybe any color on the competitive environment you would be going up against and how you differentiate yourselves in that area?

John Wasson - ICF International, Inc. - President, CEO & Director

Sure. So I mean, I think we’re -- as I said in my remarks, I mean, we’re continuing to win business organically on the IT modernization front. And so we’re certainly adding talent there. Those kinds of opportunities get at agile development, cloud and infrastructure, data analytics, digital, artificial intelligence. And there’s a lot of opportunity and a lot of focus in federal markets around those issues, including with our civilian clients. And so it’s certainly an area of organic growth for us and we’re certainly interested in continuing to add additional scale in this area. So as Sudhakar’s remarks said, it’s an area we’re certainly looking at the possibility of acquisitions on the IT modernization front.

Sudhakar Kesavan - ICF International, Inc. - Executive Chairman

Yes. Andrew, I would just add that we have a long tradition of analytics since we were founded. And so we are quite comfortable in this arena. And I think that while there’s obviously competition in the government services space, I think that we are particularly well situated, especially with the civilian part of the federal government. And we do think that we will benefit from this progression away from legacy systems. So we are bullish on that. And I think that there’s always competition in every federal contract but we think we will do well there.
Awesome. And then if you wouldn't mind me squeezing one more in. I think we're close to a year anniversary on the We are Vista acquisition. So I'm just wondering how you'd characterize the success of that deal a year later and maybe how the marketing services business is shaping up in Europe more broadly.

John Wasson - ICF International, Inc. - President, CEO & Director

Sure. I think the We are Vista acquisition has been a terrific acquisition. It's certainly performed and outperformed our expectations in the commercial European market. We've also been able to leverage their capabilities and some of their key client sets to sell in some of the broader capabilities in ICF Next. So we've been able to sell capabilities in ICF into the market and clients that We are Vista serves and vice versa. We've been able to leverage their capabilities into other parts of the ICF Next business. And so that's been a very positive acquisition. I think it's certainly been growing quite nicely. I think we're very bullish on We are Vista and our opportunities in Europe on the marketing services side.

Operator

Our next question comes from Tobey Sommer with SunTrust.

Tobey O'Brien Sommer - SunTrust Robinson Humphrey, Inc., Research Division - MD

Wanted to ask a question about your positioning in opioid abuse and the crisis there. How do we think of the settlements that are being discussed and those dollars and whether or not they can drive business for the firm?

Sudhakar Kesavan - ICF International, Inc. - Executive Chairman

Yes. Tobey, I think that we are working with the State of Georgia, as was mentioned by John, in writing some proposals up which are funded through some of these settlements. It's too early to tell. But over the years, at ICF, I have found that once these settlements are happening and gets institutionalized -- and this settlement is going to be a very large one -- there's a lot of work usually which comes out because the focus of these settlements is a specific activity. And I think in the opioid case it will obviously be a whole bunch of stuff associated with prevention and mitigation and communication. So we are waiting and watching, and we think that as these settlements take place, there'll be opportunity for us given our experience and given what we are doing currently with some of the state clients.

Tobey O'Brien Sommer - SunTrust Robinson Humphrey, Inc., Research Division - MD

So is your federal experience and activities in this arena sort of directly applicable to states and local jurisdictions?

Sudhakar Kesavan - ICF International, Inc. - Executive Chairman

Yes. Yes. Absolutely. And I think even -- Yes. Absolutely. Yes.

John Wasson - ICF International, Inc. - President, CEO & Director

Yes. I would say both on the subject matter advisory expertise and then obviously the marketing and communications expertise. I mean, as you know, some of the tobacco settlements went to fund anti-smoking campaigns, marketing and communications. And so I mean, there is a precedent here. And I think that certainly based on that precedent, our capabilities played well. And I would expect them to play well as this opportunity plays
out. I do agree with Sudhakar. We're really pleased to be working with Georgia early in this kind of opportunity, but I think it's too early to really put a boundary around it, Tobey.

**Tobey O'Brien Sommer - SunTrust Robinson Humphrey, Inc., Research Division - MD**

Fair enough. That makes sense. With respect to disaster recovery, could you update us on your expectations for the timing of mitigation contract awards and to the extent you can kind of compare and contrast it with what we in the investment community are a little bit more familiar with on the reconstruction side?

**John Wasson - ICF International, Inc. - President, CEO & Director**

Sure. I mean, as I said in my remarks, I mean, the mitigation dollars that have been appropriated by Congress, which are around $16 billion, are relatively new funding to focus on preventing damage from future storms. And so it is quite a sizable potential opportunity. And as we talked about and I talked about in my remarks and Sudhakar discussed, we think some of the early work we've done for HUD on mitigation and a lot of our climate expertise plays into the opportunity and the demand for services here.

And so those opportunities, as you know, HUD has published guidelines for the mitigation dollars for North American geographies. And so state and local governments will be submitting their plans to HUD, their action plans to how they'll go about spending this money for HUD rules and get approval early to the middle of next year. And so we would see opportunities playing out in the middle to late 2020 on mitigation. And generally, kind of the dollars committed to administering and managing those programs is about 5% of the total spend. And so 5% of $16 billion, you can do the math, these will be quite sizable opportunities.

And so the first tranche will go focused on North America. There's also, of that $16 billion, about half of it's for Puerto Rico. HUD has not published the guidelines for Puerto Rico in terms of what they need to do to submit their plans. So I would expect that to play out a bit later next year. And so those opportunities will probably be later in the year. But these will be material opportunities for us as we get into the second half of the year, Tobey, and they'll be quite sizable potentially.

**Sudhakar Kesavan - ICF International, Inc. - Executive Chairman**

I would just add, Tobey, that one other element of it is that, as you recall, our DMS acquisition last year, they have a lot of experience doing resiliency work with utility, with large utilities. And that's going to be one of the areas, I'm sure, where some of the mitigation dollars are going to be spent. So we do have experience in that arena. We are currently working with one large utility. And we certainly hope that we'll be working with more as this funding gets realized.

**John Wasson - ICF International, Inc. - President, CEO & Director**

Yes. A lot of the work we're doing for state and local governments in support of climate mitigation-related activities is the resiliency work. And so we've built up a set of capabilities and clients doing this kind of work that will play very well with this mitigation funding.

**Tobey O'Brien Sommer - SunTrust Robinson Humphrey, Inc., Research Division - MD**

Great. If I could ask a question about the cash collections. Is that something that you expect from the customer that's been slower in terms of its process to improve over time as they're in a position to have an infrastructure that gets built out or do you expect that to remain stable for the foreseeable future?
James C. Morgan - ICF International, Inc. - Executive VP & CFO

Tobey, this is James. I mean, certainly, we are expecting the cash flow collections to improve over what they've been in the past. Certainly, the recent track record is starting to show some evidence of that. I mean, to put in perspective, as I mentioned, we've collected almost $35 million on this one client in the last 6 weeks or so. For the full year, we've collected somewhere like $75 million or so. So it's been a pretty big pickup in our collections, the rate of collections in the recent months. And the client team is certainly becoming much more, I would say, organized and better staffed to be able to handle the activity more so than what they were before. So we are anticipating a pickup which then should, as we start catching up on older receivables, should give us a boost to cash flow for next year.

Tobey O'Brien Sommer - SunTrust Robinson Humphrey, Inc., Research Division - MD

Last question for me. In terms of the...

John Wasson - ICF International, Inc. - President, CEO & Director

I would agree really from my perspective. I mean, we are having timing issues with this client, but our confidence in getting paid is, we will get paid here.

Tobey O'Brien Sommer - SunTrust Robinson Humphrey, Inc., Research Division - MD

Yes. Last question for me. With respect to acquisitions, Sudhakar, you mentioned, like could you frame like kind of the filter or lens that you're looking at in terms of size, valuations, margins? Are they accretive? However you're thinking about it. Would be helpful if you could share that with us.

Sudhakar Kesavan - ICF International, Inc. - Executive Chairman

Yes. I think all these acquisitions are not going to be -- they'll all be in the $50 million to $100 million range or maybe slightly larger than that. We don't know that they'll be much larger than that. And I think that the profile is pretty similar to the ones we have done in the past. I mean there's nothing dramatically different about them from a valuation perspective. We're always looking for value. We hope we can get it. And we certainly have been pretty disciplined over the last many years while doing these acquisitions. And we certainly will aim to be exercising similar discipline going forward. So I think the 2 areas I mentioned, both the IT modernization as well as the energy storage utility sector, are good areas for us. We basically have very strong presence in each of those 2 areas and I think we are in the process of trying to just deepen, broaden the expertise there. So we will certainly pursue them similar to what we've done in the past. I don't know that I can tell you anything more than that.

Operator

We have our next question from Sam England with Berenberg.


Just a couple for me. The first one, it was another strong quarter on the contract win side and strong year overall so far. Can you just give us an idea of how that's feeding into visibility on 2020 revenues or are these contracts a bit further out and longer dated?

Sudhakar Kesavan - ICF International, Inc. - Executive Chairman

I think, Sam, you said the quarter, we actually had a good book-to-bill ratio of 1.3. So the quarter is a reasonably strong one. I think were you referring to the trailing 12-month aspect of it or were you referring to the quarter?

Well, I said both just given how strong it’s been in the first sort of 9 months this year, what’s that doing for your visibility heading into sort of Q4 and 2020?

John Wasson - ICF International, Inc. - President, CEO & Director

Yes. I mean, I think, as Sudhakar said, I mean, I think we’re certainly pleased with the 1.3 book-to-bill ratio in Q3. I think the trend year-to-date as we discussed in our first quarter call with the government shutdown, the sales were a bit slower than expected. I think our book-to-bill was 0.85 in Q1. It went to 1.1 in Q2. It’s 1.28 in Q3. So I think the trend is good. I’ll just remind you also that in Q2 and Q3 of last year, we had extraordinary book-to-bill ratios, 1.82 and 1.94, respectively. And frankly, we’ve been a little surprised that the flow of revenues haven’t been as high on the government side as we thought they’d be given those awards, but that has picked up in the last quarter or 2. So I think we are seeing opportunities we’ve won last year in Q2 and Q3 ramping up here. And so that’s helping to drive the growth you saw, north of 5% growth in our federal markets. And so I think given those 2 effects, we feel quite good. If you look back over the last 6 quarters, our book-to-bill ratio is 1.27. And so I think we feel good about the sales. We feel good about the awards. We feel good about the trend in the federal business. And so I think it gives us confidence that we’ll continue to see growth going forward.


Okay. Great. And then next one around margins. You’ve obviously done a bit better in the first 9 months of the year than the 20 to 30 basis point improvement you’ve talked about historically. Should we expect that continues into Q4 or is there a sort of step back that we should expect for Q4?

James C. Morgan - ICF International, Inc. - Executive VP & CFO

Yes. I think what the -- historically, what we’ve said is that we would typically have margin improvement, margin improvement being defined as adjusted EBITDA as a percent of service revenue up 10 to 20 basis points per year. This year, we said that’s going to be in the 20 to 30 basis points for the year. And we’re expecting that continued improvement in margins for the full year of still in that 20 to 30 basis point of margin improvement year-over-year. So that hasn’t changed. And certainly, we will have to continue to have improvement in Q4 year-over-year over last year’s Q4 to drive that full year improvement.


Okay. Great. And then the last one was just around the commercial sales, obviously, a pretty broad range of contract wins. Are there any there that you’d call out as being particularly large or significant or is it pretty broad-based and a range of smaller deals that you signed?

John Wasson - ICF International, Inc. - President, CEO & Director

I don’t think there was anything unusual or unusually large. I mean, I think it’s a typical quarter for us in terms of our commercial mix of business. We typically sign a set of smaller advisory opportunities in the advisory portion of the business. The implementation side, we’ll see some larger, longer-term opportunities on the technology, energy efficiency front, but I don’t think there was anything unusual. I think it was a typical quarter for our sales in terms of the size and mix of advisory and implementation.

Operator

Our next question is from Kevin Steinke with Barrington Research.
Kevin Mark Steinke - Barrington Research Associates, Inc., Research Division - MD

You talked about in your prepared comments -- I want to make sure I got this right -- one of your disaster recovery contracts maybe be more of like steady 5-plus-year opportunity due to a lack of construction capacity. Were you referring to the recent 3-year $25 million award in Puerto Rico on the housing recovery side?

John Wasson - ICF International, Inc. - President, CEO & Director

That was what I was speaking to. The housing recovery contract we won in Puerto Rico will be a longer 5-plus-year opportunity with a more steady recovery. It won't be as front-loaded as some of the prior recoveries that we've played a key role. I think the size and scope of that opportunity remains unchanged. It's just the pace at which that recovery will occur. It will be a longer-term recovery over a 5-plus-year period. I think there's just a tremendous amount of recovery that needs to be done there across both the housing side and the public infrastructure side. And so that's going to be the regulator, the capacity to undertake that recovery over time.

Sudhakar Kesavan - ICF International, Inc. - Executive Chairman

Yes. And I would just say that, obviously, the plus-ups will continue on beyond the $25 million versus that. And I do think that, to some extent, I've been through 2 or 3 of these big disaster recovery contracts. And I think that the important thing which traditionally the Street thinks about is that the stuff goes up like a meteor and comes down over a 3- or 4-year period. And then people think that, that revenue, therefore, is not quite as valuable as traditional ongoing revenue. We have seen some comments like that from some analyst reports. And I would just say that if recoveries continue for longer periods of time, that's like a traditional revenue. And I think that based on our experience now over the last few years, disasters are going to happen every few years and therefore, it really is sort of permanent revenue and should be considered as such and not sort of anecdotal or yes or up and down. So I think that it's pretty -- I think the revenue is going to be much more stable in terms of the trajectory than it has been in past disasters.

Kevin Mark Steinke - Barrington Research Associates, Inc., Research Division - MD

Okay. Got it. That's helpful. And secondly for me, you talked about some of those delayed federal government contracts from the second half of '18 beginning to move now and ramp up. Are those delays pretty much behind you or are there others that maybe are still in the pipeline that haven't ramped up yet?

John Wasson - ICF International, Inc. - President, CEO & Director

Well, I think they're pretty much behind us. I mean, I think we've seen the ramp-up. I mean, I think these are a set of contracts at HHS, USAID that have been ramping up and I think we're seeing a nice trajectory on them. So I don't think this is an ongoing issue. And I think you see it in our growth. I mean, obviously, our growth in the federal market is now up in the mid-single digit. And I think, as I said, we certainly expect it to remain there for the rest of this year as we look forward.

Kevin Mark Steinke - Barrington Research Associates, Inc., Research Division - MD

Okay. Great. Just maybe any comment on the climate in Washington in terms of debates over funding currently and I was reading about potential stopgap funding bills to avoid a government shutdown. I mean kind of what's your view of the budget situation there and how it may affect your business going forward?
Yes. I mean, well, I would first say that we're quite pleased. I mean, for the first 4 years of the Trump administration, actually, civilian budgets are up kind of mid-single digit, which we're pleased with that. And I think that's been a positive development for us. I mean there's no question that we need a continuing resolution or we need a budget put in place here in the short run. That's been an ongoing issue for the last several years across administrations. I don't have a crystal ball, Kevin, to predict what will happen here. And I guess the thing I'd say is, generally, these things get worked out. If they don't, we've been through it before. We've been through government shutdowns before. We know how to manage it. I would expect it to be a short-term impact. And so we'll manage it. We'll deal with it. As I said, I don't have a crystal ball. I don't know, Sudhakar, if you want to?

I would just say that we've been through it so many times now that we have a pretty finely honed way of doing it. Plus, you cannot predict how the clients have also started managing this in a very effective way, where basically they appropriate the monies to us, and we basically continue even though they may not be there. So that happened a few times in the past. So I think that it just depends exactly on how it happens that we just have to go contract by contract to make sure that we manage it. And the last time when it happened at the beginning of this year, I mean, there was some impact, but I think it was interesting to see that the clients also have become much more sophisticated in managing the flow of work to us. So we'll just manage it. And I think we know the drill. And it's actually, to some extent, we've finely honed now.

Yes. I mean, I think, obviously, we were pleased with the quarterly results. And as you say, those are robust results for us. I mean, we've generally been guiding to at least mid-single-digit growth across our commercial markets for this year in both energy and marketing services and have delivered that. I think Q3 was a particularly strong quarter related to specific client opportunities and specific projects. I think we continue to view them as growth markets and we'll continue to grow. Obviously, we haven't given guidance for next year. I'm sure we'll continue to grow nicely, but this was a particularly robust quarter for those 2 businesses.

Wanted to see if you could spend a little time talking about the announcement of the global headquarters and what we might be looking at there as far as timing and potential benefits that you see there as well as potential CapEx needs and that type of thing. And then I have a couple of follow-ups.
John Wasson  -  ICF International, Inc. - President, CEO & Director

Okay. Sure. Why don’t I start off and I’ll let James talk about the financial side. And so we’re quite pleased with the new corporate headquarters. I mean, we’ve been in our Fairfax location for over 30 years. It’s served us well. And I do think that in our move to Reston, we’ll have a facility that’s designed for the ICF today. We are a highly collaborative place. Obviously, we encourage creativity. We want to recruit the best talent, which means we need places that provide amenities and good experiences for our employees.

And so I think we think this new home is well attuned to the ICF for today, for our culture, will really help us on the collaboration and creativity front, will help us really recruit top talent who want to work in a location that provide amenities, provides public transportation and is also surrounded by other employers that are doing interesting things, which we’ll certainly have in the new Reston headquarters. And so I think from a culture and from a strategy and from a recruiting standpoint, it’s a real positive and it will be a much better experience for our people going forward. Why don’t I let you, James, kind of talk about that?

James C. Morgan  -  ICF International, Inc. - Executive VP & CFO

Yes. Sure. I mean, I guess, simplistically, the way to think about it from a financial perspective, I mean, obviously, this new space is, it’s much more efficient than the building that we’re in. And because of that, the way to think of this is from an economic perspective, the company will certainly save money year-over-year. I won’t give the exact number, but I will tell you, it’s in the 7 figures and north of $1 million a year that we will save on total cost. After you consider the impact of amortization of tenant improvements and the lease and everything else, we will still be saving north of $1 million per year and have a much better space, as John outlined. So that’s the way that I would think about it.

Marc Frye Riddick  -  Sidoti & Company, LLC - Business and Consumer Services Analyst

Okay. And then shifting gears over to -- I wonder if you could sort of give some thoughts as to what you’re seeing internationally and if you could sort of give an update, maybe it’s kind of the client feedback that you’re getting there because it certainly seems as though there’s still activity going on, but I was wondering if you were getting anything from general concern standpoint or anything that’s different that maybe you’ve seen over the last few months before.

John Wasson  -  ICF International, Inc. - President, CEO & Director

Sure. I mean, obviously, our largest client in Europe is the European Commission. I mean, I think, generally, the budgets out there have been generally stable to up low single digit. And so it’s business as usual in the European Commission. We’re working across a variety of the key directives there on the types of work that we do. And so I think we’ve generally seen positive trends. I think you saw it reflected in our third quarter results. I talked about the strong pipeline. And we continue to see opportunity in the U.K. government. Obviously, Brexit is a topic there, but that’s a much smaller portion of our world. And so that generally has been positive, too. And so I think we generally talked about that business being flat to low single digit growth. And I think we’re generally comfortable with that. And certainly, the third quarter was a good quarter for us.

Operator

And thank you. We have no further questions at this time. I will now turn the call over to management for closing remarks.

John Wasson  -  ICF International, Inc. - President, CEO & Director

Okay. Thank you. Thanks for participating in today’s call. We look forward to seeing you at our Investor Day on December 3 and speak to you again when we report on our full year 2020 results in late February.
And thank you, ladies and gentlemen. This concludes today’s conference. Thank you for participating. You may now disconnect.