FINAL TRANSCRIPT

Thomson StreetEvents℠

ICFI - Q1 2011 ICF International Inc Earnings Conference Call

Event Date/Time: May. 05. 2011 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Douglas Beck
ICF International, Inc. - SVP

Sudhakar Kesavan
ICF International, Inc. - Chairman & CEO

John Wasson
ICF International, Inc. - President & COO

Ron Vargo
ICF International, Inc. - CFO

CONFERENCE CALL PARTICIPANTS

Joseph Vafi
Jefferies & Co. - Analyst

Bill Loomis
Stifel Nicolaus - Analyst

Erik Olbeter
Pacific Crest Securities - Analyst

Matt Hill
William Blair & Co. - Analyst

Eric Prouty
Canaccord Genuity - Analyst

Rick Escilson
Wells Fargo Securities - Analyst

Tim Quillin
Stephens Inc. - Analyst

PRESENTATION

Operator

Welcome to the ICF International first-quarter 2011 conference call. During the presentation, all participants will be in a listen-only mode. Afterward, you will be invited to participate in a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded on Thursday, May 5, 2011 and cannot be reproduced or rebroadcast without permission from the Company. And now I would like to turn the program over to Douglas Beck, Senior Vice President, Corporate Development. Please go ahead.

Douglas Beck - *ICF International, Inc. - SVP*

Thank you, operator. Good afternoon, everyone and thank you for joining us to review ICF's first-quarter 2011 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO; John Wasson, President and COO; Ron Vargo, CFO; and Sandy Murray, Interim CFO.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectation 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 May 5, 2011 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 our CEO, Sudhakar Kesavan, to discuss first-quarter 2011 highlights.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you, Doug and good afternoon, everyone and thank you for participating in today's call. We are pleased with our first-quarter performance as it represents a strong start to the year. Revenues came in firmly within expectations with the upside coming in our EPS, which reached $0.39, exceeding the high end of our guidance range. This increased profitability resulted from the substantial growth of our domestic commercial business this quarter, which was up 40.8% from last year's level and up 14.7% sequentially.

The major drivers were energy efficiency programs and related performance incentives, additional environmental project management work that we did for utility clients around transmission infrastructure and a pickup in transaction-related work for utilities and other energy market participants. We are pleased with this increase in our commercial work. However, there is still some way to go before all facets of our commercial business regain the level of activity that they had prior to the downturn.

Our revenue performance by market in the first quarter demonstrated the advantages of our balanced portfolio of businesses. In 2010, our health, education and social programs business had above-average growth with revenues increasing by 17%. As you know, this resulted from our success in winning high-profile contracts in priority federal spending areas such as Head Start and Race to the Top, as well as our multiple contracts with large agencies such as the Center for Disease Control and the National Institutes of Health.

Despite some disruption from the federal government shutdown, we experienced solid demand from this market in this year's first quarter with revenue growth of 8% and we expect it to continue to be a strong contributor to our corporate revenue growth this year.

By contrast, in 2010, our energy environment and transportation business grew 7%, but was the fastest-growing market for us in the first quarter of this year, up 16% year-over-year. We are benefiting from our leadership position in energy efficiency program development and management, our recovery and transactional activity and work associated with transmission expansion by utilities.

The three growth drivers for ICF in this market are, one, increasing interest in renewables such as California's adoption of a 33% renewable portfolio standard in April; two, analysis focused on its affecting the mix of fossil fuels, including shale gas in the overall portfolio of our future energy supply; and three, emergency response programs as a result of a new concern about nuclear energy. Finally, our homeland defense security market showed revenue growth of 11.1%. This was due primarily to increased cyber work and Homeland Security training and evaluation.

A key takeaway here is that we believe the expertise ICF has across a broad range of market sectors, our mix of government and commercial clients and our flexibility in positioning the Company in high-growth areas provide us an important advantage within the current business environment.

First-quarter sales were relatively strong at $217 million. We expect the second-quarter sales momentum will be impacted for the late March, early April threats of a government shutdown, which caused some dislocation with respect to contract awards. We are confident, however, that ICF's first-half 2011 sales will show growth over the comparable 2010 period.

We ended the first quarter with a seasonably stable backlog of $1.4 billion and funded backlog of $639 million. Our pipeline remained steady at $2.6 billion after a strong sales quarter and was well-diversified across our major markets. At this point, I would like to turn the call over to John Wasson, ICF's President, to provide additional insight into our first-quarter operations and awards. John?

John Wasson - *ICF International, Inc. - President & COO*

Thank you, Sudhakar, and good afternoon. As Sudhakar noted, we had a strong quarter of growth in revenues, earnings and sales. Our commercial sector had solid sales gains and as has been the pattern for many quarters, we continue to win new energy efficiency projects and additions to existing contracts.

While energy efficiency continues to show strength, commercial sales were quite balanced among many sectors. Among the more than 250 wins were projects that ranged from power and fuels market assessment, asset valuations, renewables and regulatory work in the utility sector, to critical infrastructure and cyber protection on the power grid to environmental management for transmission infrastructure and conservation efforts.

In the federal government space, we also achieved a number of key wins. In addition to the contracts mentioned in today's earnings release, other contract wins in the first quarter that have not been released include awards for technical support, IT, and cyber security contracts at key federal agencies.

As we noted in the last call, an important part of ICF's growth strategy is to gain placement on larger strategic contract vehicles such as the indefinite delivery/indefinite quantity contracts known as ID/IQs in order that we are positioned to bid on a regular stream of major projects with our key clients. Last quarter, we announced the win at the Centers for Disease Control known as CDC [SIMS], for which we are already submitting task order bids on large information technology and program support projects.

In the first quarter, we won another new $100 million ID/IQ at CDC to provide evaluation and technical assistance for the US government's global AIDS effort and it is the first time in 10 years that the President's emergency plan for AIDS relief has its own ID/IQ.

ICF has great experience in this area and the win complements our position on the other existing ID/IQ by the issuing office, the Center for Global Health. Therefore, we are well-positioned to continue supporting this important aspect of CDC's mission.

Also, in the first quarter, we won a $107 million ID/IQ at the EPA's Office of Environmental Information to support the agency's information technology solutions business information strategic support known as ITS-BISS program.

Although ICF has had many prime contracts at EPA over the years, this is the first time that we have been recognized as a leading contender for IT-related services and reflects our success in building our implementation capabilities. Please note that we assumed no sales or backlog dollars from these ID/IQ vehicles in our Q1 numbers.

Continuing on the sales front, I should note that our energy efficiency wins were not limited to the commercial space. In the first quarter, we won two very important energy efficiency contracts with the federal government. First, ICF continued its nearly two decade support of the ENERGY STAR programs by again winning the contract to promote energy efficiency products and higher standards in residential buildings valued at $36.5 million. This is one of three ENERGY STAR contracts that ICF holds at EPA and this win helps to ensure our acknowledged leadership in this growing market at both the federal and state level.

Second, we also won a contract valued at up to $10 million to support AID's energy efficiency for clean development program, which works with any US AID mission globally to promote energy efficient and what is referred to as low emissions development. This gives us a new international dimension for ICF to provide energy efficiency service for many of its overseas offices. And we already have been asked to provide support in three regions.

Our sales pipeline continues to be strong at $2.6 billion despite the high level of contract wins this quarter. The pipeline, which includes only those leads that we have decided to pursue actively, include some 68 opportunities that are valued at $10 million or greater and 20 opportunities valued at $25 million or greater and the pipeline is well balanced among our major markets.

Finally, our rate of personnel turnover, which was 3% in Q1, continues to be below the industry average. Now, I will turn the call over to our CFO, Ron Vargo, to review the first-quarter financial results. Ron?

Ron Vargo - *ICF International, Inc. - CFO*

Thanks, John and good afternoon. Total revenue for the first quarter of 2011 was $194.7 million, an increase of 11.6% over the 2010 first-quarter revenue of $174.4 million. This quarter's gross profit increased to $76.5 million compared to $66.9 million in last year's first quarter. Our gross profit margin was 39.3% compared to 38.3% in the first quarter of 2010. The improvement in gross profit margin was attributable in part to the growth in revenue from our domestic energy-related clients. And both quarters had lower-than-average subcontractor and other direct costs as a percent of total revenue, about 22.8% in 2011 and 21.8% in 2010.

Indirect and selling expenses were $57.9 million in the quarter, up from $51 million reported in the 2010 first quarter, reflecting an increase in indirect labor expenses, including bid and proposal costs associated with the growth in the size of the firm. Indirect and selling expense as a percent of revenue was 29.7% compared to 29.3% in the first quarter of 2010.

Amortization of purchased intangibles was $2.4 million in the first quarter of 2011, down from $3.1 million in the first quarter of 2010 and depreciation and amortization was $2.8 million compared to $2.7 million in the first quarter of last year.

Total operating costs and expenses in the first quarter of 2011 were $63.1 million compared to $56.8 million in the first quarter of 2010, an increase of 11%. And operating income in the first quarter of 2011 was $13.4 million compared to $10.1 million in the first quarter of 2010, an increase of 32.9%. The increase in operating income reflects growth in gross revenue that increased at a rate higher than that of our operating costs.

Primarily as a result of lower debt balances, interest expense was approximately $0.6 million this year, down from $1 million in the first quarter of 2010 and the effective tax rate in the quarter was 40.0% versus last year's 40.8%.

Net income was $7.7 million in the quarter, or $0.39 per share, based on 19.8 million fully diluted weighted average shares compared to $5.4 million, or $0.28 per share, based upon 19.5 million fully diluted weighted average shares in the first quarter of 2010. Cash flow from operating activities was $13.8 million in 2011 compared to $15.9 million in 2010. And our days sales outstanding, including the impact of deferred revenue, was 74 days compared to 78 days in the first quarter of 2010.

During the first quarter of 2011, our capital expenditures totaled $1.7 million and we reduced our debt balance by $5 million to $80 million at the end of the quarter and continue to have a strong balance sheet ending the quarter with a debt to total capital ratio of 18%.

For full-year 2011, based upon our current portfolio of business, we expect the amortization of our intangible assets to be $9.5 million and depreciation and amortization to be approximately $11 million, capital expenditures to be between $10 million and $11 million, interest expense of about $2.5 million and the full-year tax rate to be approximately 40%.

And finally, fully diluted weighted average shares in the second quarter and for the full-year 2011 to be approximately 19.9 million and 20.1 million respectively. Thank you and with that, I would like to turn the call back over to Sudhakar.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you, Ron. Before reviewing our guidance, I would like to note that this is Ron Vargo's last conference call as our CFO and that we appreciate the contributions he has made here and wish him the very best. As you know, we have named Sandy Murray as Interim CFO and we expect that you will have an opportunity to meet her over the next several months.

Based on our funded backlog at the end of the first quarter and our business trends, we reaffirmed our revenue guidance for the full year of 2011 of $830 million to $865 million and we have reaffirmed our fully diluted EPS guidance of $1.63 to $1.73.

For the second quarter, we expect revenues to be in the range of $212 million to $220 million. Earnings per diluted share are expected to be between $0.43 and $0.47. At this point, operator, I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Joseph Vafi, Jefferies & Co.

Joseph Vafi - *Jefferies & Co. - Analyst*

Hey, guys, good afternoon and good results. I was wondering if we could drill down into, I guess, the bookings number or the awards in the quarter. It trended pretty well, just slightly book-to-bill above 1 at the 217. How much did commercial benefit that bookings number versus some of the core government business?

John Wasson - *ICF International, Inc. - President & COO*

Yes, this is John Wasson. I think I would expect commercial to be proportional to its overall percentage of the Company's revenue. So I think it is in the range of 20% of our total sales were in commercial. I don't think there was anything unusual in commercial sales in the first quarter.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay. And then I think, Sudhakar, did you say that you still, despite the latest threat of a shutdown, that you still expect bookings to be up in the first half of 2011?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, that is what I said, that the bookings would be up first half of 2011 as compared to first half of 2010. I think the thing which I was saying was that the bookings in quarter two, because of the shutdown threat and because everyone in the government was focused on figuring out how to -- what to do in the shutdown, I think some of the awards might move to the right. So the quarter two bookings will be okay, but not as robust as we normally expect in the normal course.

As you know, we have said in the past that Q1 is low, Q2 is higher, Q3 is the highest and then Q4 goes down. In our case, I think Q2 we hope will be good, but still I think we have enough in the pipeline to -- when you add up Q1 and Q2, it will be more than -- for 2011 first half, it will be more than Q1 plus Q2 (inaudible) 2010 first half.

Operator

Bill Loomis, Stifel Nicolaus.

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi, thank you. Good results also. Just can you talk a little bit -- when I run the map on the segment growth, great growth on commercial, but federal slowed down quite a bit. Can you just talk about that and the expectations of the year-over-year federal growth as we go into the second quarter and the second half? What was the reason for the deceleration there?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think federal has -- there was some on the health side. We basically -- there was -- one or two contracts were slowing down. The other contracts were cranking up. I think as the CDC contract and as the big ID/IQs start, hopefully winning task orders on them, the federal growth in that health sector will accelerate.

On the energy side of the house, it is a 50/50 federal -- actually 50% government, 50% commercial. So I think in that world, the federal work last year was almost around 8%, 9%, 10%. And I think this year will be the same rate. I think last year, our health arena, the federal growth was very rapid and I think that will regain momentum as we win some of these CDC jobs. So I think it is going to be in the 9% to 13% range, as we've said, because that is what our guidance is and the federal business is a very significant portion of our overall business.

We are pretty optimistic about the federal business being pretty solid going forward. It certainly slowed down because of the health business, but I think that will hopefully crank up in the second half of the year.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, and a follow-up. The international picked up or was up sequentially I should say and had good growth year-over-year. What are your expectations there for the next few quarters in the pipeline on international?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

International, our scale is a little small, so we think that it will hopefully continue to pick up going forward. We need to get some scale internationally and we are looking hard to see how we can get that scale either through acquisition, which is the obvious method. So we are quite focused on making sure that we grow the international business because we want to balance our geographical portfolio.

So we are certainly focused on growing it. Will it make a difference to the overall -- move the needle for the overall Company? It will move the needle to the extent it does now, but unless we do an acquisition in the international sector, it is going to be hard for us to make it significant. But we are quite focused on organic growth, as well as acquisition growth and hopefully that will happen in the next few quarters.

Operator

Erik Olbeter, Pacific Crest Securities.

Erik Olbeter - *Pacific Crest Securities - Analyst*

Hi, good afternoon. I was wondering if you could give us a little more detail on your expectations of the commercial business with respect to gross margins going forward for the rest of the year. It seemed like you got a pretty good pickup this quarter. Would you expect it to contribute to gross margins through the end of the year?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, I think that we had a pretty good pickup this quarter. I think that we think that the gross margin, because of the commercial business cranking up, will be somewhere in between what we did last year, which was 37.7% and what we did this first quarter, which was 39.3%. So I think that it will be somewhere in between. We will have a better sense as we go through the second quarter and as the commercial business hopefully stays strong going forward. So we certainly see an uptick in the gross margin overall for the Company because of the commercial business picking up.

Erik Olbeter - *Pacific Crest Securities - Analyst*

Right. And then on that commercial side, did you guys see a pickup in your aviation business in the quarter?

John Wasson - *ICF International, Inc. - President & COO*

This is John Wasson. No, I think the aviation business remains flat. I think there is a few green shoots. We have seen some opportunities certainly in the financial and technical services and in the management consulting. So there is early indications for a cause for optimism, but overall I think that one piece of the commercial business still remains flat for us.

Operator

Tim McHugh, William Blair.

Matt Hill - *William Blair & Co. - Analyst*

Hi, this is Matt Hill in for Tim McHugh today. I had a question on the new contracts in the quarter. It looks like the $217 million, I am just wondering roughly what the proportion of that is to some previously announced ID/IQ contracts?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

We have no revenue from the previously announced ID/IQ contracts. As we've said, the CDC SIMS, the global AIDS contract and the ITS-BISS contract we have just one over the last three or four months and we are in the process of looking at outquarters and bidding them. So ID/IQ is traditionally -- they are new ID/IQs. We don't include any of their potential revenues either in backlog and since we have not heard on any of these task order sales, there is no revenue in the sales effort -- in the sales revenue for the first quarter. So there is zero there.

Matt Hill - *William Blair & Co. - Analyst*

Okay. And then with the large IT project at the EPA, how much revenue did you see from that in the first quarter?

Ron Vargo - *ICF International, Inc. - CFO*

We just won that in the last quarter. So again, I think we are just starting to see task order proposals coming out. So we still have -- we are submitting task order bids, but we have not won any task orders under that contract or booked any revenue under that contract yet.

Operator

Eric Prouty, Canaccord.

Eric Prouty - *Canaccord Genuity - Analyst*

Great, thanks. Good quarter also. A quick question back to the commercial side of the business, if you look at your pipeline, is the pipeline of opportunities in commercial as great as the percent of revenue you booked this quarter or would you expect, as government picks up, for that percent in commercial to head back down again?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

For us, the commercial business, when you count it all now, because they are energy efficiency contracts, which are multiyear contracts, therefore, we have some backlog, substantial backlog for the multiyear contract in our backlog, but traditionally our commercial business is very fast velocity. The (inaudible) does not have that much of backlog, but I think it is fair to say that we have a significant amount of backlog because of the long-term energy efficiency contracts. And we think that if we, going forward -- there are some things in the pipeline, which we win, the backlog will only go up. So I think that the energy efficiency contracts I am talking about, the commercial ones because of the long-term nature, three, four, five years sometimes, those will -- the backlog will go up. Was that the question?

Eric Prouty - *Canaccord Genuity - Analyst*

Yes. And also just a follow-up to that would be more just on the rate of opportunities. I mean are you seeing the number and the rate of opportunities increasing in the commercial side? And how much of that is just specific to your end markets and how much of that would you attribute just to an improving economy?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think it is to do with -- there are a certain number of states -- I think there are 34 states, which have energy efficiency programs, so clearly there are more states which can do it. We are obviously not present in all the states and we would certainly like to expand our presence in some of these states. So we are making every effort to do so. So we believe that the opportunities will continue to be strong in that arena and I think most of these opportunities are not focused that much on the economy. They are more regulated utilities, which basically levy -- the Public Service Commission levees public benefits charges, which fund these opportunities.

So I think that it is more to do with the fact that there is a need for energy conservation. The Public Service Commission wants the utilities, the regulating entities to do it and therefore that is why it happens. So we think that, as that trend spreads across the country, there will be more and more states, which will be doing it and we certainly want to be commissioned to exploit those opportunities in those states.

John Wasson - *ICF International, Inc. - President & COO*

This is John Wasson. I will just maybe add a little more color. I agree with Sudhakar that the energy efficiency rate opportunities in commercial remain quite strong. I do think that we have seen in the last quarter a pickup in our commercial energy transaction business around mergers and acquisitions and asset valuation. And so I think part of what we are seeing here is certainly a pickup and improvement in that market, which should be reflected in the sales and pipeline going forward.

As I mentioned, the third piece of our commercial business, the aviation, I think remains flat. So we are hopeful to see improvement there in the next quarter or two. But we certainly have seen an improvement in the transactional energy business in the last quarter.

Operator

Edward Caso, Wells Fargo.

Rick Escilson - *Wells Fargo Securities - Analyst*

Yes, hi. It is actually Rick Escilson on for Ed. Just a quick question on the expected weakness in the federal bookings in Q2. Have those bookings or have those opportunities just been pushed out or have you seen opportunities canceled as a result of the budget agreement that was reached to avert the shutdown?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

No, I am just anticipating that they may be pushed out. There are still two months to go and who knows, they might decide to bounce back and quickly make decisions. But I think they have all been -- they have just been pushed back. We don't see any cancellations.

Rick Escilson - *Wells Fargo Securities - Analyst*

Okay, thanks a lot.

Operator

(Operator Instructions). Tim Quillin, Stephens Inc.

Tim Quillin - *Stephens Inc. - Analyst*

Hey, how are you? Nice numbers. I think there is a lot of questions about the commercial business probably because analysts are tired of talking about federal this quarter. So the commercial business was up nicely, growing nicely. I am wondering if there is anything that is in there that would fluctuate, that is maybe not sustainable in the quarter. And maybe if you could break down what the components of the commercial revenue are, how much is the energy efficiency programs and what else is in there for us. Thanks.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

We traditionally don't break these things down, so we won't do that starting now, but what we did indicate earlier is that the performance incentives, which cranked up our gross margin this quarter, will not recur every quarter, which is why the gross margin numbers going forward, as I said, will be higher than what we had last year, but not as high as we had this quarter. So why don't we leave it at that?

Tim Quillin - *Stephens Inc. - Analyst*

Okay. And I was thinking more in terms of the revenue composition, but I guess we will see if it hits that. And maybe if I could -- maybe if you could kind of give us a sense of your CDC task order pipeline. I guess particularly on SIMS, where I think you probably have had -- there is probably -- you have had some time to look at RFPs and maybe have a sense of timing now?

John Wasson - *ICF International, Inc. - President & COO*

Sure. This is John Wasson. I mean I think we have a robust pipeline there. I think there is dozens of task orders that are either out or coming and I think those can range anywhere from under $1 million to as much as -- go north of $50 million in terms of task orders. And so we think that there is going to be significant opportunities there and quite a robust pipeline of opportunities in the next couple quarters. So I think that there is some real opportunity there for us.

Operator

Ladies and gentlemen, that concludes our Q&A session for today's event. I would now like to turn the call back over to management for closing remarks.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you very much for joining us today and we look forward to speaking to you again on the next earnings call in early August. Thank you again.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You are free to disconnect and have a great day.
