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ICFI - Q3 2012 ICF International Earnings Conference Call

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PRESENTATION

Operator

Welcome to the ICF International third-quarter 2012 conference call. During the presentation, all participants will be in a listen-only mode. Afterward, we will be invited to participate in a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded on Friday, November 2, 2012, 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, Corporate Development*

Thank you, Operator. Good morning, everyone, and thank you for joining us to review ICF's third-quarter 2012 performance. With us today from ICF International our Sudhakar Kesavan, Chairman and CEO; John Wasson, President and COO; and James Morgan, CFO.

During this conference call we will make forward-looking statements to assist you in understanding ICF managements' expectations about future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer to our November 2, 2012, 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 future developments will cause our views to change. Please consider the information presented in that light. We may, at some point, elect to update 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 third-quarter 2012 highlights. Sudhakar?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Thank you, Doug. And good morning, everyone. Thank you for participating in our call to review this year's third-quarter results and discuss our business trends. We continue to effectively execute our strategy of building a balanced business portfolio. The increased contributions from our commercial and international businesses brought their share in the aggregate to 29% of third-quarter revenue, up from 24% in the 2011 third quarter; and our state and local government businesses grew 10%, to represent 10% of revenue.

US Federal Government work accounted for the remaining 61% of our business in the third quarter. And we are pleased that most of our federal business is in areas that are expected to grow; such as health, health informatics, and energy.

Third-quarter revenues increased 9% year on year; but, as expected, remained essentially flat with second-quarter levels. Similar to this year's second quarter, our organic growth rates were affected by a reduction in subcontractor costs and the winding down of a large commercial infrastructure project. As a result, our reported organic growth for the third quarter was negative 1.7%; but for the first nine months of 2012, was a positive 1.9%.

Our service revenue, which represents revenue generated by ICF staff direct billing, was $176 million for the third quarter, a year-over-year increase of 12.4%; and $533 million for the first nine months of 2012, a year-over-year increase of 14.9%. On an organic basis, service revenue increased 1.8% for the third quarter, and 4.2% for the nine months.

This metric provides an important window on the strength of our business where we continue to report solid year-over-year revenue growth. Also, I'm pleased to report that we achieved revenue growth across all our key markets. In the third quarter, revenues from Energy, Environment and Infrastructure grew 4.6%; Health, Social Programs and Consumer Financial increased 15.2%. Together, they accounted for 86% of total revenue. Revenues for our Public Safety and Defense market increased 2.9%.

With regard to profitability, EBITDA continued to outpace revenue growth, increasing 11% over last year's third quarter; and EBITDA margin increased to 9.8%.

We have moved ahead this year with six initiatives that should enable ICF to continue to grow in 2013. Let me describe them to you.

First, as we mentioned last quarter, we have realigned staff in order to ensure that we maintain our EBITDA margins at or above current levels. As part of this, we eliminated positions in certain parts of our federal business and either reassigned or added staff to those areas in the federal and commercial space that we expected to grow within the current environment; including health, energy, digital interactive, cyber, and domain-driven IT services.

Second, we've expanded the scope of our energy efficiency business development activity, where we have recently won several strategically important new contracts, and where we see substantial growth opportunity. Specifically, we are differentiating ICF in the energy efficiency marketplace in three ways.

One, regional hub and spoke approach that leverages the resources of our larger regional hub offices, as we expand to neighboring states within the geography. Two, our expanded suite of customized offerings for utilities to help their commercial and industrial customers reduce energy use. And the recent addition of Symbiotic Engineering will further enhance this program. And three, our ability to offer an integrated set of services to utilities through which we can provide technical expertise, as well as incentive processing, call center and customer service support, strategic communications and IT solutions.

So to recap, those are the first two initiatives -- the realignment of staff and expanding the scope of the energy efficiency business.

On to our third initiative -- we have combined our legacy strategic communications and Web development activities with Ironworks' digital interactive business to form a new division. With an annual run rate of over $150 million, we now have the scale and qualifications to secure larger contracts in both the government and commercial arenas, with end-to-end services that optimizes our clients' relationship with its customers and stakeholders.

Fourth, we are investing in a small commercial healthcare consulting practice that we carved out from Ironworks, which we intend to grow by leveraging our subject matter expertise in the payer and provider market.

Fifth, we are building upon the positive momentum we have seen in our -- in 2012 in our aviation consulting business to expand the penetration globally of both airport planning and development, as well as the full spectrum of strategic and tactical services to help airlines address their rapidly changing markets.

Finally, we are allocating resources for the development of our international business. The GHK acquisition provided scale; and, while still at an early stage, we are confident that we can replicate the --internationally, the business model that we have built domestically, maintaining a balance of government and commercial work and bringing up our profitability level.

So, with that as a backdrop, I would like to turn the call over to our Chief Operating Officer, John Wasson, to provide more detail on our business trends. John?

John Wasson *- ICF International Inc. - President and COO*

Thank you, Sudhakar, and good morning. As Sudhakar noted, we solid saw solid revenue growth in the third quarter, thanks to the continued performance of our commercial and international businesses, and the continued progress we are making in expanding our state and local government work. In the third quarter, our commercial business increased 20% after having increased 48% in last year's third quarter. Exclusive of the large infrastructure project that Sudhakar mentioned earlier, commercial revenue growth was actually 39%.

Organic commercial revenue growth, without the large infrastructure project, was low-double-digits, and slightly negative all-in. In the third quarter we continued to win a number of strategically important, high-profile commercial contracts, which contributed to our year-to-date commercial book-to-bill ratio of 1.23, which indicates solid future growth.

Again this quarter, energy efficiency programs continue to be among the largest and steadiest drivers of our commercial business, increasing 9.3% year on year, and accounting for more than 35% of total commercial revenues. Among our largest commercial wins in this arena in Q3 was a $7.5 million expansion in scope of an ongoing program in the residential arena for a large Midwestern utility client.

We have also been selected as the winners of two other significant new contracts, which will be included in our fourth-quarter sales results. Both of them strategically position us with programs in two states we have not previously served -- one in the West, where we expect other opportunities to be opening up over the next few years; and one in the Midwest, where we are building a brand that we plan to leverage within the region.

Sudhakar mentioned several business development initiatives that we are moving ahead with to continue to grow our energy efficiency business. Offering integrated services to our utility clients is a real differentiator for ICF, and cost savings for our clients.

In the aviation space, we continue to see strong, double-digit growth driven by both increased work from airlines; financial institutions, providing financing for aircraft leasing; and from airports that are either under construction or looking to reposition themselves in a changing market.

In Q3, we were awarded two new contracts with a combined value of more than $5 million to provide an assessment of the leasing market for a major financial institution, and to map out the commercial cargo development strategy for a large airport in China.

In the federal market, we were very pleased with the level of wins that we achieved in the third quarter, the majority of which, in both dollars and number of contracts, were for new wins, not re-competes. In addition, we completed an assessment of our wins in Q3 this year versus Q3 last year, specifically to look at the expected timing of the revenue flow from those wins.

It turns out that while we did achieve a higher total volume of Q3 sales last year, the revenue dollars expected from those wins in the following calendar year -- as opposed to two or more years out -- were about the same as those we expect in 2013 from this year's sales. As a consequence, the value of sales wins in Q3 that we expect to drive business in 2013 in the federal space is similar to where we stood last year, even though the volume of sales in the last year's third quarter was higher.

The press release this morning highlighted the largest of our federal wins. They included an important re-compete when win under a new contract vehicle at the National Institutes of Health, valued at $45 million, to continue our providing biomedical, health and disaster and information management services at multiple NIH institutes and centers, including the National Library of Medicine and the National Cancer Institute.

We also secured some new important contracts, including an $18.1 million win at the Department of Homeland Security to help sustain and improve their network of centers to share information with state and local governments, known as Fusion Centers; and a $12.1 million grant with the Department of Education to operate a regional education center to help school districts in four Appalachian states.

Finally, in the third quarter we logged two wins from our CDC CIMS contract; which, as you recall, is an IDIQ to provide a broad array of technology services to the Centers for Disease Control. Because some agencies take longer than others to approve our press releases, we just received approval to announce one of those Q3 wins last Wednesday, a $9.2 million task from the Division of Informatics Solutions and Operations to support public health in clinical laboratories initiatives.

I would also like to give you a brief update on our most in recent acquisitions, Ironworks and GHK. Ironworks is making a material difference in our ability to offer a full spectrum of services and enabling organizations to understand and interact better with their customers and stakeholders.

In addition to combining many of these ICF-wide capabilities into one position, as Sudhakar mentioned earlier, we are seeing an increase in active proposals, and some wins in areas that neither company could have pursued separately.

In the third quarter, we won two significant interactive data application projects for an industry trade group and the Department of Defense through our combined efforts. More importantly, the volume of joint proposals that blend interactive technology with customer outreach has grown significantly, and we look forward to reporting new wins in that area in the future.

We are also pleased with the process of our integration and joint proposal efforts with GHK. We have organizationally combined the legacy ICF and GHK resources in Europe and Asia into one group, headed by one of our most experienced executives, Jeanne Townend, who previously headed up our health and social programs position. We already have numerous joint proposals submitted in the domains of energy and the environment, health, and development in other areas of labor and social policy.

In Europe, we are focusing on winning broader contract vehicles as well as using the ones we already have in place, especially with the European commission. This past quarter we jointly developed and won what is called a framework contract on evaluating programs for the UK Department of International Development, known as DFID. Using our combined qualifications, we are now preparing bids under this contract on [paths] in public health and climate change issues. At the EC, we are rapidly expanding our joint qualifications in areas such as public health, environment, education, and strategic communications.

Outside of Europe, we are growing our joint pipeline addressing USAID, and [developing] bank work in energy, public health, and project implementation.

To sum up, we are confident in our ability to deliver above-average results. Our pipeline at the end of the quarter was $2.7 billion, below Q2 levels because of the strong third-quarter awards activity; but significantly ahead of the $2.3 billion at the end of last year's third quarter.

Currently, our pipeline includes 34 opportunities greater than $10 million, and 22 greater than $25 million. Finally, our voluntary turnover continues to be low. For the third quarter, our turnover was 3.2%, and our year-to-date turnover translates into an annual rate of 11.1%.

Now I'd like to turn the call over to our CFO, James Morgan. James?

James Morgan - *ICF International Inc. - EVP and CFO*

Thanks, John. Good morning, everyone. Revenue for the third quarter of 2012 was $237.9 million, an increase of 8.8% compared to the prior year. And revenue for the first nine months reached $705.2 million, or 12.5% ahead of last year. As outlined by John, year-to-date revenue growth has been primarily driven by our commercial and non-US government business.

Gross profit margin was 37.7%, an increase over the 37.2% in the 2011 third quarter; driven by growth in service revenue and our increase in business with commercial clients, which are typically more profitable than non-commercial clients.

Indirect and selling expenses as a percentage of revenues were 27.9%, similar to the 27.6% of last year's third quarter, but below the 28.5% reported for the first two quarters of 2012. Q3 benefited from the cost reduction actions discussed during last quarter's earnings call.

Our EBITDA margin for both the third quarter and year to date was 9.8%, up from 9.6% in last year's third quarter and year-to-date periods. The increases in the EBITDA margins are reflective of the previously mentioned growth in our service revenues, as well as our growth in commercial business and our ongoing efforts to effectively manage indirect and selling expenses.

Depreciation and amortization was $2.9 million in the third quarter of 2012, compared to $2.5 million last year. Amortization of purchased intangibles was $3.5 million in the third quarter of 2012, up from $2.4 million in the third quarter of last year, due to our recent acquisitions.

Operating income in the third quarter was $16.9 million, an increase of 4.8% over last year's third quarter. And operating income margin was 7.1%, down from 7.4% in 2011's third quarter, driven largely by an increase in amortization of purchased intangibles.

Net income was $9.6 million in the third quarter, up 2.6% from last year's third quarter. And diluted EPS was $0.48, up from $0.47 in the third quarter of 2011. Cash flow from operating activities was $66.9 million in the nine months ending September 30, 2012, an increase of 42.8% of the prior year. The increase was primarily due to a decrease in accounts receivable resulting from improved collections.

Days sales outstanding for the quarter, including the impact of deferred revenue, were 71 days compared to 75 days at the end of last year. As we have stated in the past, we expect our DSOs to be within the 70- to 75-day range. Due to our strong cash flow generation, we paid down $28.5 million of debt from the third quarter, which resulted in long-term debt of $115 million at the end of the period, down from $143.5 million at June 30, 2012.

We ended the quarter with a debt to capital ratio of 22%, down from 26% at the end of the second quarter of 2012, and down from 27% at the end of 2011. In addition, in the third quarter, we repurchased 211,000 shares for approximately $4.6 million, bringing shares repurchased year to date to 470,000 shares for approximately $10.5 million. This level of year-to-date share repurchases essentially offsets the 2012 dilutive impact of employee equity awards, allowing for a fairly constant year-over-year diluted share count.

Capital expenditures for the first nine months of 2012 were $10.4 million, a 51% increase over 2011, primarily related to the opening of our Martinsville Operations Center and the consolidation of several of our Maryland offices in Rockville.

Now I'll update you on our full-year expectations for certain line items. We continue to expect amortization of intangibles to range from $14 million to $14.5 million; depreciation and amortization expense to range from $10.5 million to $11 million; and capital expenditures to range from $15.4 million to $16 million.

We are lowering our expectations for interest expense to a range of $3.3 million to $3.8 million, from $4 million to $4.5 million. We continue to expect a full-year tax rate of approximately 40%. And, lastly, we expect fully diluted weighted average shares for the year of 20 million.

With that, I'd like to turn the call back over to Sudhakar.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Thank you, James. As you can see from our news release, we have narrowed the full-year revenue guidance to a range of $930 million to $945 million, a year-over-year increase of 11.5% at the midpoint; and fully diluted earnings per share range of to $1.90 to $1.95, which represents 10% growth at the midpoint.

Also, based on our strong cash flow generation year to date, we are increasing our guidance for full-year 2012 cash flow to more than $75 million. For the fourth quarter, we expect revenues to range from $225 million to $240 million, and earnings per diluted share to range from $0.46 to $0.51.

Looking ahead, we believe that ICF is well-positioned for growth. Let me share our preliminary outlook for 2013 with you at this time. With a year-to-date book-to-bill ratio of 1.13, we are on track to continue to grow next year. We expect to enter the year with a funded backlog similar to the levels we have had at the beginning of this year, which gives us relatively good visibility.

At the same time, we expect continued growth from our commercial business in 2013, specifically from the areas I mentioned earlier -- that is efficiency, digital interactive, aviation consulting, and international. And on a Company-wide basis, we expect net income performance to outpace that of revenue. We will give you more specific guidance at the time of our fourth-quarter 2012 earnings release early next year.

With that, Operator, I would like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Tim Quillin, Stephens Inc.

Tim Quillin - *Stephens Inc. - Analyst*

Good morning. Sudhakar, I'm trying to figure out precisely how to take your comments on 2013. When you say that funded backlog should be about the same as it was when you entered 2012, at the end of the day it looks like organic growth is going to be relatively flat in 2012.

But are you saying that that funded backlog is more representative of your federal outlook, and that you expect commercial growth to re-accelerate after you lap the large infrastructure contract that wound it down?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Yes, I think that what I was saying was that the funded backlog numbers which we had, as a percentage of the overall revenue number for the year, is very similar. So, if you look at that, then the nature of the business is, in the federal arena, is pretty similar to what it was, end of 2011. And we certainly -- I agree with you, we certainly expect the commercial business to accelerate once the infrastructure project -- it doesn't wind down; it's not going to go to zero; it's just that the amount they are spending this year, given the size of the project last year, was quite significant. It was almost $30 million. And this year, the project is going to spend still $18 million or $19 million. The next year, again, it is again going to spend around $15 million, we think. It's not that it's going to zero. It's just that the scale of the project was so significant that, as we reduce it, it impacts the organic growth numbers.

So I think that we certainly continue to expect the aviation business -- which is growing very rapidly, again, in 3Q -- to continue to grow; the energy efficiency business to continue to grow; and overall organic growth in the commercial business, to accelerate, as you say, once we have reached steady-state on the infrastructure project.

Tim Quillin - *Stephens Inc. - Analyst*

Right. And then, what is the outlook for federal over the next couple of quarters? What are your customers telling you as they are dealing with the potential for sequestration? How much of a lull in bookings are you going to have to endure or think about as you plan for 2013? Thank you.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

I think that our bookings for the quarter were quite good. We think the bookings for Q4 are trending in a good way. We are quite optimistic about the performance of our Q4 bookings. We think that the commercial bookings will also accelerate.

John mentioned some of the energy efficiency projects, which are sort of like federal projects, in the sense that they -- when you get one of those projects, it's a long-term project and you get the funds immediately, in the sense they are available for you to spend.

So I think that we are that we are optimistic about the Q4 bookings, both in the federal and commercial arena, as well as the Q3 bookings look good. So, now it's a question of -- there's no real significant change in our outlook, on the ground, in the federal business, from what has been in the last quarter.

How are clients responding to sequestration? Obviously, things have slowed down in the federal business, as you can see. But there's no change in that. I think the pace is what it is. And it appears to us that, at least for the moment, it is continuing the way it had been for the last quarter were two.

Tim Quillin - *Stephens Inc. - Analyst*

Thank you.

Operator

Bill Loomis, Stifel Nicolaus.

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi, good morning. Looking at the commercial, Sudhakar, could you talk about -- it had big sequential growth from first to second quarter; and then, a sequential decline from second to third. Can you touch on what the drivers were there? I know you talked about year over year, but just sequentially, and then what you expect in the fourth quarter for commercial?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Sure. I think the commercial revenues, basically -- the first thing is that some of our -- the infrastructure project had what are called red flag days. Red flag days are dangers of fire risk. Every time there is a red flag day you lose $100,000 that day. You cannot -- and we had a number of red flag days in California. So that had some impact. We think it is a temporary impact. We just moved to the right, so the revenues are there. It's a question of they didn't defer in the right time.

And our litigation business, which is quite lumpy, didn't have as much volume as we thought it would have in Q3. We don't believe there's anything out of the ordinary here. I think the red flag day revenues will accrue sometime in Q4 and Q1. And then, the litigation work will come back up as and when it comes back up. It always seems to go up and down.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. And on the organic, what was on the -- I missed -- I might have confused the numbers on organic growth or commercial, both with and without the large infrastructure project.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

It was low-double-digits without the infrastructure project, and slightly negative with the infrastructure project.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. And then on the two energy efficiency deals you are negotiating, are these -- can you give us the ballpark magnitude on the size of those two?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

I think around $50 million.

Bill Loomis - *Stifel Nicolaus - Analyst*

Combined?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Combined.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, thank you.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Let me say, $40 million to $50 million.

Operator

George Price, BB&T Capital Markets.

George Price - *BB&T Capital Markets - Analyst*

Hi, thanks. Good morning. Thanks for taking my questions. Wanted to continue on the commercial side. Certainly given some of the political and macro uncertainty, some of the public companies out there that play in spaces much like Ironworks and adjacent to Ironworks, have recently talked about slower sales cycles, slower project ramps. Not declining growth, but -- or, not declines, but a little bit slower growth.

So I wanted to understand, really, what happened; what your outlook is going into the fourth quarter and next year; what your commercial growth expectation is in light of that, if you are seeing any of those trends.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

You mean first quarter next year, [Craig]?

George Price - *BB&T Capital Markets - Analyst*

I'm sorry?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Going into next year, I think that we, basically, overall, on our commercial side, we think that we can do around 10%, which we have said. I think if you combine all our growth rates, I think that 10% number is a good one for us to work with. And we think that we can do that.

I think our -- we have given some scale in the commercial business to the digital interactive arena. We certainly hope that that will help us win bigger projects. So we anticipate that that business will continue to grow. How much, and whether it is going to slow down or not, I don't have a view on that at the moment. Right now, it's doing okay, and we certainly hope that we can accelerate it and not have it slow down.

George Price - *BB&T Capital Markets - Analyst*

Well, I guess -- let me ask it a different way. Are you seeing the pace of deals on the commercial side of -- project ramps on the commercial side -- are you seeing the pace coming in as you expected? Or are you seeing any impacts of slower sales cycles and slower project ramps?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

No. In fact, our book-to-bill ratio, as John mentioned, was 1.23 on commercial. So we certainly think the commercial velocity of the work is higher. Plus our Q4 bookings in commercial are going to be quite strong, so we don't see a slowdown there.

George Price - *BB&T Capital Markets - Analyst*

Okay. In terms of the 2012 guidance coming down, at least at the top end, is that more -- can you talk about what specifically is driving that down? Is that just continued sluggishness on the federal side? Things moving to the right and so forth, as opposed to commercial or anything else coming in lower than previously expected?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

No, our commercial business, as I said, is doing quite well. I think it's primarily because of the fact that we continue to see the federal business at the same sort of pace. And we think that it's not going to suddenly accelerate in Q4. We thought that we will give you guidance which we think is appropriate. I don't think we are reducing any guidance. I think we are narrowing it. And we are narrowing it to reflect what we see as the business going forward.

George Price - *BB&T Capital Markets - Analyst*

Okay. All right, thank you.

Operator

Matt Hill, William Blair and Company.

Matt Hill - *William Blair & Company - Analyst*

Good morning. My first question, in regards to the federal segment, I think you had mentioned that you are seeing a number of new wins coming in contracts, and not so much re-competes. So I was wondering how that compared to last year; and then, maybe, what's behind that change?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

I think John mentioned that the quantum of work -- the number of re-competes we had was lower this year, which is a good thing. We won a large number of re-competes last year. So this year, the number of re-competes as an overall percentage was lower -- 46% re-competes in 2011. 36% of our wins in Q3 were re-competes for 2012. And I think that we -- and the amount of revenue which will accrue from the wins in Q3 in 2013, is approximately the same as we had, even though the volume of wins last year was higher.

I think that it's just -- there's nothing strange about it. We were just trying to indicate that it's a good news story; that we have enough wins, and the normality of the whole award process indicates that we should do okay on the federal side, as far as, at least, the backlog and the winning of contracts is concerned.

Now, how quickly they spend the money, et cetera, will depend to some extent as to how the transition takes place. But we certainly think that, from a contract [baco] perspective and from backlog perspective, we are in very good shape.

Matt Hill - *William Blair & Company - Analyst*

Okay. And then, on the reimbursable and subcontractor costs, the decrease we've seen this year -- can we expect that trend to hold going forward? Or is this more of a fact of the slowdown in the events business we had seen earlier?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

I think that, to some extent, there is some slowdown, because in certain government arenas, the number of conferences, et cetera, declined. It also generally doesn't vary that much -- 1 or 2 percentage points, I think, from quarter to quarter. So I think that it's hard to predict exactly what it will be. Whether it will be 1 percentage point lower or higher, because of, as you called it, the event issues.

If the government resolves all the contracting issues associated with events, then it will crank up. It's just one of those things where it's hard to project exactly, but the variation is not huge. It is 1% or 2%. But we don't think that that really indicates any trend.

Matt Hill - *William Blair & Company - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). Tobey Sommer, SunTrust.

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Tobey Sommer - *SunTrust - Analyst*

Thank you. Sudhakar, I was trying to understand your comment -- or John's comment, I guess, excuse me -- about third-quarter contract awards having the same impact on next year's results, as a larger number of contract awards did a year ago. Is it because the contracts are shorter duration or something like that, so they are going to be more concentrated in the following year's results? Could you give me a little bit more color?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Yes, John can answer, or I can answer, since I appear to be answering -- no, I think what happened last year was that we won a number of contracts, which were six-, seven-year contracts. And this year, we are back to the five-year contracts. So I think it's just -- they are not shorter, in that they are like one-year contracts. But they are more normal in the sense of traditional five-year government contracts or the three-year energy efficiency contracts.

So I think that that, basically, accounts for the difference. Last year when we won over almost $500 million plus of work in the third quarter, a lot of that revenue would occur in year two and three. Here, a lot of the revenue would occur in year one, and then two and three and -- a majority of the revenue would occur in year one, and then two and three.

So I think that was just -- we had to divide by seven -- to be simple, we had to divide by seven for certain contracts last year. And here, you have to divide by three or five.

Tobey Sommer - *SunTrust - Analyst*

Okay, so, yes, a shorter duration; but it isn't that this quarter is abnormal. That year-ago quarter was longer than normal.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Right.

Tobey Sommer - *SunTrust - Analyst*

The cash flow guidance is very strong. Were there any contributions to this year's cash flow that wouldn't persist on an ongoing basis?

James Morgan - *ICF International Inc. - EVP and CFO*

This is James. Typically, if you look at our net income and some of the non-cash items and amortization, and so forth -- we would expect, at our level now, that you would have cash flow of $70 million to $75 million. And really, we're driving above that, due to the fact that we just have improved collections, and continue to improve our DSO position. So there is nothing too abnormal, other than we have improved cash flow collections a little bit this year, and reduced the DSO from 75 days to 71 days. And we expect to continue to stay in that range in the future. That is kind of the normal range that we anticipate.

Tobey Sommer - *SunTrust - Analyst*

Okay, so what is the benefit of that reduction from 75 days to 71 days to get an ongoing cash flow generation capability?

James Morgan - *ICF International Inc. - EVP and CFO*

You're typically speaking to something in the neighborhood of $2.5 million or so per day, is roughly what it is.

Tobey Sommer - *SunTrust - Analyst*

Okay. And then I wanted to ask a question on the endeavor to start a commercial healthcare practice. What kind of expectations do you have for that to be a contributor? And I think you mentioned payer and providers. Could you give us a little bit more color on what your plans are there? Thanks.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

We're not starting it from scratch. There is a $10 million or so run rate business we have currently, commercial, which was part of Ironworks. We are just adding more resources. And they already have a strong set of clients and is a bigger platform, so we hope there is more credibility of doing larger projects.

They are currently doing work without a lot of payers and some providers; but primarily payers. And we certainly hope to expand that business going forward. We have added two or three folks on the commercial business development sales, commercial sales, side of the house. We think that we can grow the business more rapidly, with more resources than has been possible. And we will know more as we invest in it and as it grows. We certainly hope for more than 10% growth there. We'll see what happens. And we will report back to you as this transpires.

Tobey Sommer - *SunTrust - Analyst*

Thank you, Sudhakar. My last question has to do with your international aspirations. You did gain some scale with GHK. It sounded like your plans do entail additional investment internationally. Can you, in your opinion, get margin expansion together with that investment? Or is it more a function of driving growth and trying to manage profitability at some stable level?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

No, we certainly hope for margin expansion. We certainly think that we get margin expansion as we grow there. I think we have some scale. We would like more scale, but we have some scale. And we think that the margins can be expanded as we grow. Just like we have done here, we certainly hope that we can demonstrate growth and margin expansion, both.

Tobey Sommer - *SunTrust - Analyst*

Thank you very much.

Operator

George Price, BB&T Capital Markets.

George Price - *BB&T Capital Markets - Analyst*

Hi. Thanks very much. Just a couple of things, looking at your comments around next year. First, to talk about continuing to grow next year, does that factor, in any way, any specific planning around sequestration? My assumption is no, since it's such an unknown. But I wanted to confirm that.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Yes. All the plans we've done around sequestration is to batten down the hatches, and try and control costs on the federal side, to the extent you can, and watch what happens. But it's very hard to plan for something which is so uncertain.

George Price - *BB&T Capital Markets - Analyst*

Yes. No, no, understood. And then on your comment about expecting net income to outpace revenue growth in 2013, is that primarily driven -- your expectation that that will be primarily driven by higher margins? Does that factor in any share repurchases above and beyond, maybe offsetting dilution? Any other factors, perhaps like tax rate, if you are pushing more internationally -- if you had any comments on that.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

You wouldn't like my answer; all of the above, and we tell you more in the 4Q earnings call next year.

George Price - *BB&T Capital Markets - Analyst*

Okay, all right. Fair enough. Thank you.

Operator

Tim Quillin, Stephens Inc.

Tim Quillin - *Stephens Inc. - Analyst*

Hi. Thanks for taking my follow-up. First of all, on the commercial bookings in the third quarter of $49 million; so, book-to-bill was a little below 1. Granted, you had the couple of energy efficiency contracts that maybe were pushed out. But is book-to-bill below 1 unusual for commercial?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

No, I think the book-to-bill for year to date is 1.23, as we said, so it's not unusual. To some extent, it is a little lumpy. But, generally, we think that the book-to-bill of 1.2-plus is pretty good. At any time we have hundreds of commercial projects underway, and some -- you win some for longer durations, and some for shorter durations. So I would -- my plea to you is not to just look at Q3, but look at Q1 through Q3. And I think that would give you a better run rate of our book-to-bill than just looking at Q3.

George Price - *BB&T Capital Markets - Analyst*

Okay, that's fair. And then, how should we think about the timing of a re-acceleration of organic growth in commercial, which you said was slightly negative in the quarter? Would that start next year? Or can you see it in the pipeline, when things roll off and when things start? And do you have pretty good confidence in that re-acceleration?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Yes, I think it will start next year. I think you should see this starting up again in Q1 of 2013.

George Price - *BB&T Capital Markets - Analyst*

Okay. And then lastly, on capital deployment. So you're generating a lot of cash, obviously. You are buying back stock, but just to offset dilution. So is there any chance that you would accelerate buybacks or start paying a dividend? Or is the idea to stockpile cash to -- for future acquisitions? Thanks.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

As we have said before, our capital allocation priorities are obviously investing in business development, acquisitions, stock buyback, and then other things, including dividend, as you point out. I think those remain our priorities. I think we certainly think that there is a strong pipeline of acquisitions which we could potentially do. Plus, we are also doing continued internal investment.

I think we have good cash flow generation, so most -- I think a good proportion of our cash is used, also, to pay down our debt. And then, of course, we have the ability to leverage up as we need to. So I think that those remain our priorities. And we will continue to use our ability and our debt capacity to do those things. And I think those remain our priorities. That is what, at least, is our current position.

George Price - *BB&T Capital Markets - Analyst*

Thank you.

Operator

Mark Jordan, Noble Financial.

Mark Jordan - *Noble Financial Group - Analyst*

Good morning. Question is relative to the experience you've had in 2012 and 2011, with regards to either contracts that have come to their end and have -- business gone away and/or re-competes lost. What is the amount of business in those categories that you have had to replace in both 2011 and 2012?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Mark, it's good to hear from you. I couldn't, offhand, tell you. Re-compete [will] rates are pretty high, 91%, 92% on a dollar-weighted basis. If you look at that number, I guess you would replace the 8% on each of the years. So I think that is the best I can give, you just off my head.

Mark Jordan - *Noble Financial Group - Analyst*

Okay. And you did mention one infrastructure contract that was completed. Do you track programs that are not evergreen, as such, and that come to an end that you -- in your business model, you have to replace to get organic growth back to flat?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Yes, we certainly do that. This infrastructure project is not, as I pointed out earlier, not -- it's not been completed. It's just that they spent $30 million last year; and they're going to spend $18 million this year and $15 million next year. And we don't know how long -- it could go on for another few years.

And then there are other projects, which the same company does, which we certainly hope to continue to work on. So to some extent, this project is not one of those things which will -- the project itself might start and end, but our relationship with the company will continue. And they are spending a lot of money on infrastructure development. So we think that we can continue to get a stream of revenue from that company in this sort of activity for many years.

We certainly track those projects. And we certainly look at those, and look to see how we can replace that revenue, absolutely. We are looking at it all the time.

Mark Jordan - *Noble Financial Group - Analyst*

Okay. But you don't have, in the back of your mind, a level of business -- of new business you have to generate to reflect either re-complete loss, or things that may be coming to an end? There's not an 8%, 10%, 12%, 15% number?

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

I think that most of our relationships in the commercial arena are ongoing. They are project-to-project. But once you start working for a specific client, that client always has a need to hire consultants all the time, and it is sort of the nature of the business. We certainly have to replace some percentage of projects. On the infrastructure side, I think, the large project, we just have one or two or three projects like the one which I'm talking about. Not that scale, but in the $5 million to $10 million range. And we are constantly having to look to see what else we can do to win other projects as those ones come to an end.

That's a normal part of our (technical difficulty). What the percentages percentage is, off my head, I don't know. There's no single contract we have across the Company which is more than 4% -- around 3.5% to 4% of our annual revenues. Is that helpful? I don't know whether that's helpful.

Mark Jordan - *Noble Financial Group - Analyst*

Well, thank you.

Operator

(Operator Instructions). There are no further questions. I will now turn the call back over to Sudhakar Kesavan, CEO, for closing remarks.

Sudhakar Kesavan - *ICF International Inc. - Chairman and CEO*

Thank you very much for your interest. We look forward to speaking with you next year. And in anticipation, Happy New Year, and we will see you in February. Thank you.

Operator

And thank you, ladies and gentlemen. This concludes today's conference. Thank you for your participating. You may now disconnect.
