ICF

Conference Call to Discuss the Acquisition of ITG

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CORPORATE PARTICIPANTS

John Wasson - President, Chief Executive Officer
Sudhakar Kesavan - Executive Chairman
James Morgan - Chief Financial Officer
PRESENTATION

Operator
Hello and welcome to the ICF conference call to discuss the Acquisition of ITG. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "***" key followed by "0." After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press "***" then "1" on your touchtone phone, to withdraw your question, please press "***" then "2." Please note, that this conference is being recorded on Monday, January 13, 2020, and cannot be reproduced or re-broadcast without permission from the company.

And I would now like to turn the conference over to David Gold of Advisiry Partners.

David Gold
Thank you, Sean. Good afternoon, everyone, and thank you for joining us to review ICF’s acquisition of ITG. The call will be hosted by John Wasson, President and Chief Executive Officer who is joined by Sudhakar Kesavan, the Executive Chairman and James Morgan, Chief Financial Officer.

A slide presentation has been posted to the company’s website under the Investor Relations tab. During the 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 today’s press release and our SEC filings for discussions of those risks.

In addition, our statements during the 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 President and CEO, John Wasson to discuss the acquisition announced today. John?

John Wasson
Thank you, David, and thank you all for joining us this afternoon on such short notice. We are pleased to share further insight into today’s announcement of our acquisition of ITG, which we see as significantly strengthening ICF’s positioning to win large contracts in the federal government IT modernization market. In addition to our press release announcing this acquisition, we’ve included a presentation that provides more detail on ITG. I intend to briefly review this presentation and then we will take questions.

Let’s begin on slide three, which provides a snapshot of ITG. It was founded in 2010 as an IT consulting firm, delivering application, modernization and business transformation primarily for civilian agency clients within the U.S. federal government. The key takeaway here is that ITG represents the best-in-class in Federal IT modernization. The 350-plus person ITG team has driven IT monetization at the Department of Health and Human Resources, the Department of State, the Department of Homeland Security, the General Services Administration and the Department of Commerce, many of which, as you know, are longstanding ICF clients.
ITG has an outstanding reputation as a builder of technology solutions that solve challenging problems and add significant value for federal agencies using open source, low-code platforms and other next generation technologies. ITG was named ServiceNow’s 2019 "U.S. Federal Partner of the Year", is the second largest ServiceNow partner in the public sector and has the largest Appian Federal practice in North America. In short, ITG’s expertise and performance has driven substantial growth over the past ten years and has enabled the company to compete effectively, well above its weight class.

ITG’s revenues were approximately $90 million in 2019 and its annualized revenue run rate at the end of last year was over $100 million. This positive momentum also is evident in their backlog and business development metrics. Their EBITDA margin is above that of ICF.

Moving to slide four, we present the high-level picture of why this acquisition is strategically compelling for our federal business. First, the IT modernization and cloud market is estimated at $21 billion, the federal government is still in the early innings of undertaking this modernization, and the typical project is quite large by ICF’s standards. Second, we believe sustaining ICF’s long-term growth will require a broader technology offering beyond our existing engagement, cyber and software development capabilities. Finally, we believe we will be able to create immediate revenue synergies by combining ICF’s domain expertise and client relationships with ITG’s IT modernization capabilities.

Moving to slide five, we present the more detailed strategic elements that make this combination an important growth catalyst for our federal business. First, ITG’s expertise and track record with agile systems and cloud-based platforms fills out our capabilities and gives us the qualifications to compete effectively for the larger $100 million IT modernization opportunities. Those of you who attended our December Investor Day or tuned into the webcast will recall that we discussed the Next Gen IT market as one in which we see significant growth potential for ICF. We have succeeded in building out our qualifications through various organic initiatives. By bringing on ITG with their track record and pairing this with ICF’s domain expertise, client relationships, and contract vehicles, we will establish a leadership position in IT modernization. Third, we are confident that the ITG model of embedding agile software teams at GSA will resonate across our federal agency client base and will even be relevant to certain parts of our private sector clients. To sum up, there are multiple ways in which the ITG acquisition represents a synergistic “one plus one equals three” transaction for us.

On slide six, we have a broader look at the full lifecycle solutions that ITG brings to clients and the leading technology platforms and capabilities that it utilizes to deliver transformative results. For example, at the Department of Health and Human Services, ICF’s largest federal client, ITG used the ServiceNow platform to assist the Office of the Inspector General to modernize their operations management, improve their stakeholders’ user experience and enable efficient collaboration with existing contractors. As a combined entity, ICF and ITG will be uniquely positioned to architect and implement technology platforms that drive the kind of transformation that agencies need at the scale that they require.

On slide seven, we have mapped the key milestones that ITG has achieved since its founding. As you can see, they consistently have made the requisite strategic investments to develop new technology platforms that have driven growth and have built out their client roster. As highlighted on the slide, we have a significant number of clients in common, which represents a key part of our combined growth strategy and underscores our confidence in gaining revenue synergies over the near term.
This segues well into slide eight. First, keep in mind that ITG comes to us with a robust business development pipeline, which is at least three to four times as great as their revenue run rate. This level of qualified new business opportunities, along with their backlog levels, gives us good visibility on their ability to generate double-digit growth in 2020 and 2021.

Additionally, within the ICF pipeline we have a significant number of opportunities, representing over 10% of the total value of our pipeline, where ITG significantly enhances our chances of winning. Third, we are confident that the combination of ICF’s deep domain expertise and broad client base with ITG’s IT modernization skills and past performance will allow us to identify large “new-new” proposal opportunities that neither firm would have bid on their own. And lastly, there will be some revenue capture associated with our ability to bring in-house revenues that ITG has subcontracted out in the past.

Slide nine provides a summary of the financial details of this acquisition. First, the cash purchase price is $255 million, and the transaction will be accretive in 2020 on a non-GAAP EPS basis. The purchase price will be funded by our existing credit facility. Following the transaction, our leverage ratio will be less than 2.7. As you know, we have a strong track record of leveraging up to make acquisitions and then paying down debt relatively quickly given our strong free cash flow. Other data points to mention include ITG’s EBITDA margin, which is in the mid-teens, and the NPV of the tax benefit associated with the transaction that amounts to approximately $33 million.

Now to slide 10, where we’ve included certain metrics designed to help you in modeling for 2020. As you will have seen in this afternoon's release, we have provided preliminary guidance on our revenue outlook for 2020 and other metrics. Please keep in mind that these are preliminary estimates and that we are not in a position to discuss Q4 or go beyond the figures we provided in the release. We are still in the early stages of our roll up of 2019 results and 2020 projections, but we wanted to provide you with some insight to assist you in your modeling.

With that as background, let me summarize slide 10. First is our preliminary expectation for revenue growth of 10% this year, compared to estimated revenues of about $1.48 billion in 2019. In providing this revenue guidance, we considered an 11-month contribution from the ITG acquisition and organic growth in our federal and commercial markets, which more than offsets our expectation of lower revenues from our FEMA-funded contract in Puerto Rico that we had in 2019. The latter is a function of our client’s recent initiative to progressively in-source certain aspects of the contract throughout 2020. We are working closely with our client to achieve the best outcomes for the affected populations. The recovery in Puerto Rico is expected to last for five to ten years, and as we are meeting all our deliverables, we believe we are well positioned to continue to win work there.

Revenue guidance for 2020 does not include any additional disaster recovery contract wins or plus-ups relating to the 2017 or 2018 storms, nor any material benefit from winning related mitigation contracts or energy efficiency contracts in California.

While we will provide more detailed 2020 guidance on February 27th, when we issue our full year 2019 results, we did want to note the following. Interest expense will be higher in 2020 than in 2019, and the tax rate is expected to return to more normalized levels and be approximately 300 basis points above what it was in 2019. That said, our organic growth catalysts for 2020 remain in place and combined with the ITG acquisition support our expectation for another year of strong growth in 2020.
Slide 11 summarizes our thinking on the ITG acquisition. Again, we see it as transformational for our IT modernization business, as it gives ICF the scale, qualifications and expertise to greatly expand our business development opportunities in a fast-growing market. In addition, we've identified revenue synergies that we can pursue thanks to this combination.

Pairing ICF’s strategic consulting, analytics and deep domain expertise with ITG’s strong IT monetization capabilities will offer a robust portfolio of services to help our clients meet their new mandates. And, equally important, ITG is an excellent cultural fit with ICF, which was a key element in their choosing to combine with us. There is an experienced leadership team in place, and we all are highly motivated to move ahead together.

With that and the caveat that there's not much more we could add on 2019 and 2020 financial metrics, Operator, I would like to open the call for the questions.

**QUESTION AND ANSWER**

**Operator**
Thank you. We will now begin the question and answer session. To ask a question, you may press "*" and then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2."

Our first question will come from Joseph Vafi with Canaccord. Please go ahead.

**Joseph Vafi**
Hey guys, good afternoon and congratulations here. I was wondering if you could explain, now that you're moving more deeply into the IT world which has, obviously a much bigger TAM than any of your other individual TAMS, how does ITG here compared with the core ICF IT business and is it doubling the business, is it more complementary and how do you see your overall IT business integrating together? Then I have a follow up.

**John Wasson**
Sure, Joe, thanks for the question. So, ICF’s IT business today, where our focus is in the digital marketing and digital engagement front—we have scale and capability there; we certainly have scale and capability in cyber and in software development. And as we discussed in our 'Investor Day,' we have been building out our capabilities in the IT modernization market from an organic perspective. I would say the ITG acquisition brings a whole another level of depth and breadth of capabilities and skills within the firm and so really take us to the next level as I pointed out in the presentation. The IT modernization is quite a large and growing market with very large opportunities; there is opportunities...robust opportunities out there north of $100 million and opportunities in this market. And so it's certainly a robust growth market.

In terms of the overall scale of our IT business, I think it will take us north of $500 million and so ITG and the IT modernization will be about 20% to 25% of our overall IT business. It will essentially become a standalone division within our U.S. public service business, given that this will become the platform for IT modernization, it will report in as a separate division in our IT...in our U.S. public sector practice going forward.

**Joseph Vafi**
Okay. That's helpful. And then just a follow-up on your commentary on the Agile [ph] Software, TSA and some of the GSA schedule work. I was just wondering how you may be able to
leverage some of the other federal clients and that GSA schedule to introduce them here to some of the work that ITG is doing.

Sudhakar Kesavan
Joe as…Sudhakar here. As we stated at GSA the work which we are doing…the ITG folks are doing at GSA is the template which we think the other federal agencies will use. The GSA clients are very sophisticated in their whole agile approach and I think that we have been quite successful—the ITG folks working with them and expanding that business. So that's a template, which we believe will be followed by other agencies as they do their IT modernization work, so that past performance qualification is very useful for us to…will work in these other agencies as they take up their efforts to modernize.

Joseph Vafi
Sure, great. And then just maybe just one other quick one, I don't know if I saw in the slides, if you looked at that the composition of clients here for ITG between Civilian and DOD. And how does that change your perhaps some go-to-market strategy and some of these federal departments? Thanks a lot, guys.

John Wasson
Well, I think that ITG's client base is primarily civilian and so it's obviously in line given our civilian focus. I think we have a much broader array of clients than they do obviously given our scale. And so, I think we can certainly help take them into a broader set of civilian clients. And I'm sure they can take us into some of their clients. And you know the play here will be again as we've talked about quite regularly in terms of the strategic intent of ICF, obviously we can bring our subject matter expertise, our broader set of clients, our contract vehicles, they can bring their world-class IT capabilities, their partnerships with leading companies like ServiceNow and Appian. And so, I think we can…we can work out whitespace between the subject matter expertise and the next generation IT. And we've been quite successful in working out whitespace and making magic happen. I think we'll find significant synergistic revenues between our two companies.

Sudhakar Kesavan
Also, their past performance was very strong, so that will help us win [indiscernible].

Operator
Our next question will come from Sam England with Berenberg. Please go ahead.

Sam England
Just a couple from me. And the first one, I just wondered how long you expect the integration to take of the acquisition and if there's any sort of heavy lifting that needs to be done or whether it's a relatively straightforward deal that you can just slot into the business?

John Wasson
Sure. I think we expected the deal to close obviously by the end of January, and I think this will be a straightforward and relatively quick integration. I would think it would be integrated within six months. As I say I think we see ITG coming into ICF as a standalone division reporting to our head of U.S. public sector. They will become the platform for our next generation IT or IT modernization efforts. And so, I think it can be integrated quickly and seamlessly and we've obviously done quite a number of acquisitions and have a standard playbook for the integration. So I think, as things go this will be a pretty straightforward acquisition integration.
Sam England
Right.

Sudhakar Kesavan
And [multiple speakers] things are sort of federal government oriented. I think they use Cost Point. So, I think that that sort of makes it much easier for us to do that.

Sam England
Right. Thanks. And then the next one, I just wondered whether this is the start of an area where you could see yourselves doing more M&A in the future or whether this is really a standalone type of deal when you wouldn't look at further acquisitions in the same area.

John Wasson
Well, I would say that we're very excited about this acquisition, it does give us scale and I think really takes us to the next level in terms of our IT modernization capabilities. Having said that, we're regularly out in the market, these folks certainly bring the leading technology providers and partners, but that's not to say that if we found a company that brought complementary capabilities or unique value down the road we wouldn't look at it. But I think we felt like we've made the investment, we need to reach the level, the breadth and depth of the capabilities to compete for the largest opportunities out there, which as we continue to grow given our size and scale we have to be able to compete for those opportunities.

Sam England
Great. Thanks very much.

Operator
Our next question will come from Andrew Nicholas with William Blair. Please go ahead.

Andrew Nicholas
Hi, good afternoon. I just wanted to follow up a little bit on the financial items. I am just curious, and I apologize if I missed it, but if you could provide a little bit more color on maybe what the revenue growth rates were for ITG. I know you said that it got to about $100 million run rate at the end of the year, but about how fast is it growing? And then any color on the size of the backlog. I think you made a comment about the business development pipeline, but any color on the size of the backlog would be helpful.

James Morgan
Yes, this is James, Andrew. If you take a look at the growth rates over the last three years, on average, you're looking at a CAGR that's around 15%, or a little north of 15%. And with regard to backlog, if you look at the backlog and what we are running a little bit north of $100 million next year, certainly they have a backlog to support that, north of 90% as a backlog currently to support that.

Andrew Nicholas
Okay. Thank you. And then, in terms of the resource, excuse me, the recent insourcing initiative in Puerto Rico, just was hoping you can give a little bit more information on kind of what drove that change, how much of a headwind do you expect there to be in 2020. And if there's anything from your guys' perspective that you could have done differently, or if this was just something specific to Puerto Rico that was outside of your control?
John Wasson
Sure. So I'll start off and I'll let others...this is John. So, I think the insourcing in Puerto Rico is being driven by the new governor. There's a new governor in Puerto Rico who took over late in the summer last year. And I think she's expressed interest in seeing the Puerto Rican government play a greater role and in undertaking the work related to the FEMA work we do, which is oriented around public infrastructure projects. The insourcing has nothing to do with our performance. And we're certainly not being singled out in this insourcing. In addition it will impact the other companies that are supporting our client in Puerto Rico. I would say that the situation remains quite fluid and could change over the next month or so but this certainly has been an area of focus, very recently, within Puerto Rico.

And so, I think that's what's driving it. I think as we look down the road, I think we still believe that the disaster recovery market, as we've talked about in our Investor Day, we think it's going to be more stable and long-term revenues over the next five or ten years. I think we still believe that's the case in Puerto Rico, we think, we will be there for the long run. And we continue to believe certainly on the Puerto Rican housing side, we're doing well and see upside there. We've talked a lot about the mitigation funding that's coming and so I think the long-term outlook for us there remains strong. There's just this focus from the new governor on this insourcing.

Andrew Nicholas
Got it. And then, if I could just sneak one more in on slide eight, or maybe the yes, slide eight, you mentioned that ICF could have some opportunities in its pipeline enhanced by ITG or that ITG will enhance your win potential there. I was hoping you could just give an example or two what that might look like, just so we can kind of get a sense of that part of the revenue synergy dynamic. Thank you.

John Wasson
Sure. I think, as I said, we've been organically building our IT modernization capabilities. So we have a pipeline of opportunities in our pipeline that we've been in capture for our civilian clients. And I think we believe that if we...with ITG's capabilities and partnerships, that should materially improve our win probability on those opportunities. And so as we improve the win probability and win that has upside on the revenue. I think that we've been reviewing our pipeline, I think, there was about a dozen opportunities that we looked at that are in ICF's pipeline where ITG could improve our win probability in the future, and so, which could be material.

Andrew Nicholas
Great. Thank you.

Operator
Our next question will come from Toby Summer with SunTrust. Please go ahead.

Analyst
Thanks. This is [indiscernible] for Toby this afternoon. I wanted to ask about the client's decision to insource that FEMA contract, and if you have any visibility into when the government might provide more clarity on their recovery strategy, and that's with the backdrop of the CDBG mitigation dollars in the pipeline.

John Wasson
Sure, I think the focus on this insourcing has been in our, on our FEMA related work. We really haven't seen any indications or had any discussions around potentially insourcing on our
housing related contracts. And so, there’s been no discussion on that, it seems to be focused on the FEMA work. I think it's a fluid situation, I would expect we will have greater clarity on this by the time of our Q4 earnings call, and we will certainly provide an update. As I said, it's really being driven by the interest of the new governor. And I would say that the situation remains fluid. I do think...I would also note, this year is a political election in Puerto Rico. And so, there is a broader political dynamic here.

Sudhakar Kesavan
And let me also add that I think that what we've seen is the part of the FEMA contract, which is the insources, not all of it, so just to clarify that, I think the movement is to keep us engaged, but try and take some of it in-house. And I'm sure they're going to test to see whether that...how feasible that is going forward. So I think that's what we are currently dealing with, which is why John says it's a fluid situation. So there is this attempt to try and do it. And therefore, we are in the process of figuring out what they really want to do, what they want us to do, what they want to do. And that's something which is still fluid. And we're trying to figure that out.

John Wasson
Right. Now, but I think our expectations will remain engaged in working on our FEMA contract at some level through the end of that contract, which is in June of 2021. And so, this insourcing, it isn't complete insourcing, they're trying to sort through what aspects of that contract they intend to insource.

Analyst
Sure. And then, just following up to that, would you say this insourcing materially reduces overall opportunity in Puerto Rico in your opinion?

John Wasson
No, I don't think I would say that. I think this is just on our existing FEMA contract. I think, as I said, we haven't seen any indication just on our CDBG housing existing work for housing recovery, and we certainly fully expect that the mitigation related opportunities that still need to play out both in Texas and Puerto Rico later this year, the funding is still there and those are very significant opportunities and we are starting to expect to play on those, as those opportunities come to light or come reach the RFP stage. Those are very large dollars and very large opportunities which, again, I would emphasize that those of you who have been with us through our prior disaster recovery contracts know there is always chance for change on these contracts: unexpected puts and takes, client can modify their approach, and so it is not unusual for this to happen but I think the long-term outlook remains strong and the long-term growth driver is still in place certainly in terms of the housing recovery and the mitigation dollars over the long run, over the next five to ten years.

Analyst
Okay. Appreciate it. Thanks, guys.

Operator
Our next question will come from Kevin Steinke with Barrington Research. Please go ahead.

Kevin Steinke
Good afternoon and congratulations. I just wanted to ask a little bit about the process by which this acquisition came together, maybe how competitive it was and what ultimately made ITG a good fit from their perspective for you in terms of how they looked at, how binding with ICF benefitted them.
John Wasson
Sure, so as you know Kevin, at Investor Day, we talked about our M&A focus and our strategy and obviously, I think we talked about IT modernization and Next Gen IT as an area within the technology space that at ICF it is important for us to have greater scale and better breadth of capabilities. Given the significant funding in that market, the large contracts and there is a significant priority for the federal government to modernize their system and so we have been out in the marketplace looking at next generation IT companies over the last 18 to 24 months. I think it is fair to say we have looked at dozens...a dozen or more companies. We know the market, we have seen the market. We knew ITG and we've met the management and ICF got to know them five years ago. And so we knew this company and knew they were very quality and we always admired them as another company in our space. They did hire a banker, so it was a structured process, so we were the part of that process. There was quite a lot of interest in ITG.

I would say from our perspective what was attractive, first I think it's the cultural fit, it was quite good, I think that's quite important to us given our mission orientation and the strength of our culture. It is important to them and so I think that was a real selling factor on both sides. And then for us obviously they bring the deep technology expertise. They have absolutely terrific people. They bring the key partnerships with Appian and Amazon Web Services. They bring the contract vehicles, as Sudhakar said, so they were I think a very high-quality property right in the sweet spot of what we thought we needed from a strategic perspective.

For them, I think they looked at us and said they were very excited by our subject...deep subject matter expertise and our core civilian markets. I think that they appreciated and thought they could get leverage from our business development capabilities and you know investments around capture and proposal and other things, our vehicles, our client relationships, and so it just really seemed like a great fit and I think that's how we arrived at this deal. We couldn't be more excited about it. We think it's really the perfect fit for our portfolio at a time where this is a significant growth market and I think we can make magic here on a synergistic front. We can make one plus one equal three, leveraging each other's strengths given the opportunities in this market.

Sudhakar Kesavan
I would add that they have choice. Obviously, it was as John said a very sought-after company and they could make the decision and we are pleased that they made the decision to come with us because I think I am speaking for them now because based on what I have heard from them that they really liked culturally what we do. They liked the domain focus of what we do. They thought that the culture and the mission orientation would help keep the employees they have in a way which would be very different from if they went into a generic government contractor-type situation, so I think that for us it was very pleasing that they chose us and we are very pleased with the fact that we could do this based on their assessment also of a cultural fit.

Kevin Steinke
Okay. That sounds great. That's very helpful; and revenue synergies, you've touched on those quite a bit but anything more you can expand on there in terms of the synergies you see in terms of them being able to bring you into their client base. Is it just across all of your offerings within the federal government space that you see those synergies materializing or is it maybe certain agencies or areas of subject matter expertise that are also attractive for synergies for ICF going into the ITG client base?
Sudhakar Kesavan
Yes, so Kevin, I am looking at a list of our pipeline and the revenue synergies and I can tell you that our pipeline and it is a combination of our pipeline with their pipeline and all of them are in agencies where we have worked on the domain side, so you have HHS, you have FEMA, you have all the agencies in HHS. So I think that we feel that the fact that we will understand the mission of the agencies that much better will add to our technical approach and would therefore be really quite helpful.

Right now these guys bring a pipeline. I am giving you their numbers because about $640 million dollar unweighted pipeline with six opportunities in excess $50 million and all to be awarded prior to the end of 2021. We have $750 million pipeline of opportunities, so I think that when you add all the stuff up, the amount of opportunity is quite significant and the enhancement of the P win [ph] will certainly help us sort of accelerate their growth rate we feel, and I think that we are quite excited about that. So I think that based on this quite detailed assessment we did, we believe that it really is a really solid way to accelerate our growth in whole arena.

Kevin Steinke
Okay, great. Then, just a couple of numbers, really a question here, I just wanted to confirm if I heard correctly that you think ITG’s pipeline positions them to growth at a double-digit rate in 2020 and 2021, is that, I believe that’s what you said earlier?

James Morgan
Yes, that’s correct, Kevin.

Kevin Steinke
Okay. And then, when thinking about the net present value of the tax benefit, is that something you factored into your analysis as you thought about the purchase price?

James Morgan
Yes, we did. Certainly as we’ve mentioned that the tax benefit is fairly significant, to say the least, and so, we did take then into account the NPV value of the tax benefit when we took a look at what the purchase price was.

Kevin Steinke
Okay. And then, lastly, is it too early to estimate what intangible asset amortization will come out of the transaction and flow through the income statement?

James Morgan
Yes, certainly we will give you more guidance on that later. But, if you look at total intangibles, we are in the neighborhood of, call it $50 [million], $60 million range, which will obviously be amortized over a period ranging from five to ten years.

Kevin Steinke
Okay, great. That’s helpful. Thanks for taking the questions.

Operator
Our next question will come from Marc Reddick with Sidoti. Please go ahead.
Marc Reddick
Hi, good evening.

John Wasson
Hi, Marc.

Marc Reddick
Most of my questions have been answered. One thing I did want to touch on...so I think we did make a quick mention of this, I just want to make sure, when you look at the slides there does seem to be some exposure in the past with commercial customers and I was wondering if you could talk a little bit about that, it seems that has been something that's been a growing area for them at least compared to maybe the beginning of that particular slide. And maybe what percentage of revenue we are talking about there and what type of opportunities that may come on government contracts? Thank you.

John Wasson
Yes, ITG's commercial revenues are quite small, I think it's about 2% and so, I don't really think it's material and so, obviously, as we look at our capabilities then we see ways to take them into our commercial clients we'll certainly look to do that, but I think they are primarily--overwhelming majority of the revenue is focused on that, the federal market, and frankly it's a very large and growing market with very selective opportunities and we are just going to be...incredible synergies there. So, I think the short-term focus will be on the $21 billion federal IT monetization and cloud spend that's going on and I think the federal government is still in the early innings of that modernization effort. So, I think ITG is not constrained by the number of opportunities. There is plenty of opportunities out there for these folks.

Marc Reddick
Great. And then, last thing from me, I was wondering if you could touch a little bit on maybe you talked about the large size of the opportunities and is there a general way to think about general contract terms, renewals I suppose, things like that that we should think about with the existing contracts with different companies?

John Wasson
Yes, these are typically federal government IT implementation contracts, so three to five-year contracts. As I recall, ITG, the largest portion of their portfolio of contracts is T&M followed by fixed price, I think cost plus is the smallest percentage. And so, the contracts used here are consistent with what we see across our civilian clients in the IT arena. I think there is nothing unusual or different about these types of contracts from that perspective.

Marc Reddick
Okay, great. Thank you very much.

Operator
As a reminder, if you have a question please press "*" then "1."

Our next question is a follow-up from Joseph Vafi with Canaccord. Please go ahead.

Joseph Vafi
Hey, guys. Just a quick follow-up, I know there will be on guidance and the like here on the Q4 call, but it sounds like more or less that that preliminary number includes no major go, get new contracts. So, I was wondering if it's just from here to achieve that rate of growth in 2020 what
are we looking at in terms of new business awards or is that guidance more or less close to what you have in hand at this point. Thanks.

John Wasson
It's more of the latter, what you said. It reflects the backlog we started here with what's in our pipeline and like any year, we will start with a significant portion of work in backlog. I think we are generally comfortable that those growth rates are achievable. It is now as we said in the initial…the considerations for guidance, it is not including any new material awards on…plus on our existing disaster recovery contracts or mitigation related awards which could happen in the second half or material energy efficiency awards in the second half of the year. So, I think we are pretty comfortable with that guidance for next year. As has been the history of ICF, it includes both organic and obviously the inorganic growth from ITG. And we are pleased that the initial guidance is I think for the third year roughly double-digit growth and I think we grew a little bit over north of 9% in year before last, we will obviously be about 10% given in the guidance for 2019 and so we are pleased to maintain that level of growth for 2020.

Joseph Vafi
Great.

CONCLUSION

Operator
And this will conclude today's question and answer session as well as today's conference. Thank you for attending today’s presentation and you may now disconnect.