

# FINAL TRANSCRIPT

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## **ICFI - Q3 2009 ICF INTERNATIONAL INC Earnings Conference Call**

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*ICF International - SVP - Business and Corporate Development*

**Sudhakar Kesavan**

*ICF International - Chairman and CEO*

**John Wasson**

*ICF International - COO*

**Alan Stewart**

*ICF International - CFO*

## CONFERENCE CALL PARTICIPANTS

**Eric Prouty**

*Canaccord Adams - Analyst*

**Tim McHugh**

*William Blair & Co. - Analyst*

**Tim Quillin**

*Stephens, Inc. - Analyst*

**Joseph Vafi**

*Jefferies & Co. - Analyst*

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the ICF International Third Quarter 2009 Conference Call. During the presentation, all participants will be in 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, November 5th, 2009 and cannot be reproduced or rebroadcast without permission from the company.

And now, I'd like to turn the program over to Douglas Beck, Senior Vice President, Corporate Developments. Please go ahead, sir.

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**Douglas Beck** - *ICF International - SVP - Business and Corporate Development*

Thank you. Good afternoon, everyone, and thank you for joining us to review ICF's third quarter 2009 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO, John Wasson, COO and Alan Stewart, CFO.

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During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our November 5th, 2009 press release and our SEC filings for discussion 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 third quarter 2009 highlights. Sudhakar?

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

Good afternoon and thank you for participating in our third quarter conference call. This marked the first full quarter in which core business revenues comprised 100% of total revenues and I am pleased to report that we succeeded in our transition from the Road Home contract without carrying a residual expense infrastructure. EBITDA margin remained at 9% and direct expenses declined by 10% sequentially and our fully diluted earnings per share came in at the high end of our guidance range before a tax benefit that added an additional \$0.02 per share.

Significant year-over-year core business revenue growth was achieved across each of our three major markets. Energy, Environment and Infrastructure was up 15% and accounted for 46% of total revenues in the third quarter. Health, Human Services and Social Programs increased 135% and accounted for 41% of total revenues, thanks to organic growth of about 31% plus the Macro acquisition. And Homeland Security and Defense was up 8% and represents 13% of total revenues. There's a shift of a few percentage points in the mix by market during the quarter because we fine-tuned to the end markets for certain of our contracts.

Organic growth was 14.1% which was the upper end of the guidance range we gave last quarter. Our robust federal business, which accounted for 67% of revenues was a major growth driver. On the commercial side, which represented 16% of total revenues, we continued to see significant organic growth in energy efficiency and are executing in a range of corporate assignments in the areas of emissions, fuel assessments and sustainability strategies. While it is too early to signal a turnaround in our commercial transportation business, we did see a pickup in the third quarter and believe that the business has stabilized.

State and local government business accounted for 11% of revenues. Certain projects that moved to the right last quarter came back on track in the third quarter. International work represented about 6% of total revenues. For the first six months of [barro] ICF, Macro International revenue was \$71.5 million which was a little less than we had initially expected due to pass-throughs moving to the right on a large state department contract. Our ICF Macro business development activities however are in high gear, which John will discuss shortly. Based on current visibility, we are confident about our ability to get Macro to a double-digit growth rate during 2010.

One of the key takeaways this quarter is a record core business sale we posted for the payer. At \$454 million, this was the highest level of contract wins since the Road Home contract and this represented business captured in a broad range of priority areas such as energy efficiency, health and education, broadband and housing. It also speaks to the success of our strategy to leverage our advisory track record with clients to gain larger implementation projects. We continue to execute well on that strategy and are benefiting from increased demand for combining domain expertise and IT solutions.

Our backlog at the end of the third quarter was \$1.4 billion, up 17% sequentially and almost twice as much as the core business backlog of \$735 million that we reported at the end of last year's third quarter. Funded backlog was \$556 million, up 24% sequentially. At the same time, we're maintaining a robust pipeline, which after this quarter, record contract wins was \$1.94 billion.



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To sum up, this was a strong quarter for us in terms of the financial and operating performance as well as a strategically important one. We succeeded in navigating the final transition for the Road Home contract while integrating the Macro acquisition and maintaining our profitability level. The record sales achieved in the period illustrate how well positioned ICF is in the markets where there's increased spending by the federal government and our increasing recognition amongst commercial clients.

At this point, I'd like to turn the call over to John Wasson for a review of our operations. John?

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**John Wasson** - *ICF International - COO*

Thank you, Sudhakar, and good afternoon, everyone. As Sudhakar noted, we experienced record sales of \$454 million in the third quarter. We are pleased that these record sales were not concentrated in a few areas but touched every one of our major markets.

In Health, Human Services and Social Programs, for example, we won two new regions and also one or two incumbent regions to support the Head Start Program with contracts valued at more than \$47 million. We made strong gains in the substance abuse and mental health service administration at HHS by winning more than \$44 million in four key engagements in support of programs with health communications, IT, research, and training and technical assistance services.

In the Energy and Environmental markets, we continued to win large energy efficiency program and management engagements with major utilities in the Midwest totaling in excess of \$41 million. Additionally, we won over 200 projects for commercial clients during the third quarter that included work on climate change, regulatory planning and environmental management. As Sudhakar noted, our commercial aviation business is improving. We saw solid sequential growth in this business in Q3 relative to Q2 and we see more opportunities entering the pipeline for 2010.

Finally, we're also seeing continued progress in the Homeland Security and Defense arenas. In Defense, we won an important indefinite delivery/indefinite quantity or ID/IQ contract with the Army Research Institute valued up to \$60 million to conduct research and analysis on personnel, organizational and leadership development issues.

At the Department of Homeland Security, ICF received a \$15 million reward to conduct large-scale boating safety surveys and we were pleased to be one of a handful of firms to be awarded an ID/IQ valued up to \$135 million to assist the Office of Infrastructure Protection to manage risks and develop contingency plans for critical national infrastructure.

In addition, we have begun to see some benefits from the stimulus programs. Specifically, we won a \$13 million grant to assist with housing stabilization and a \$27 million contract later expanded to \$35 million to support the rural utilities service efforts to provide grants for rural broadband services.

In total, we competed for over a \$1 billion in awards and had a solid win rate of 42%. This took over a \$1 billion out of our pipeline but we have already replenished it already with leads that are in active pursuit for more than one half that amount and the pipeline now stands at almost \$2 billion. It includes about 20 opportunities over \$25 million in size and nearly 50 opportunities over \$10 million in size.

Integration of ICF Macro into the larger ICF International business continues to go well. In business development, we have won over a dozen contracts that can truly be classified as joint efforts at existing clients of the two entities and new client areas in the federal and state governments.

In addition, the joint Macro and ICF pipeline includes more than 20 opportunities. Macro and ICF business groups are now being merged together to accelerate our ability to address existing clients and prospects seamlessly with the combined capabilities of both companies. Finally, our personnel retention rate continues to be excellent. For the first three quarters of this year, personnel turnover for the core business was 8.7% at an annualized rate.

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I'd like to turn the call over to our CFO, Alan Stewart, to review the third quarter financial highlights. Alan?

**Alan Stewart** - *ICF International - CFO*

Thank you, John, and good afternoon. Total revenue for the third quarter of 2009 was \$167.1 million and was comprised entirely of core business revenue. This was a 44.2% increase over the 2008 third quarter core business revenues of \$115.9 million. In last year's third quarter, \$60.4 million revenue from the Road Home contract brought total revenues to \$176.3 million.

This quarter's gross profit increased 7.6% from \$60.9 million to \$65.5 million compared to the third quarter of 2008 due to the decline in sub-contractor costs related to the Road Home contract. Our gross profit margin was 39.2%, up from 34.5% in the third quarter of 2008. This was slightly below the 40% level we projected due to a higher level of sub-contractor and other direct costs at Macro.

Indirect and selling expenses were \$50.4 million this quarter compared to \$44.3 million in the third quarter of 2008. Excluding the non-cash stock compensation charge of \$1.9 million for this quarter compared to \$1.5 million for Q3 '08, indirect and selling expenses were \$48.5 million this quarter which represents a significant decline of \$5.1 million or 9.5% from the \$53.6 million in indirect and selling costs reported in the second quarter this year. This reflected the positive impact of higher utilization of our global staff and the success of our cost management efforts.

Amortization of purchased intangibles was \$3.2 million this quarter compared to \$2.2 million in the third quarter of 2008. The increase is attributable to amortization related to the recent Macro acquisition. Depreciation and amortization for the quarter was \$2.5 million compared to \$1.7 million last year. Interest expense was \$1.5 million this quarter, up from the \$0.8 million reported in the third quarter of 2008 and comparable to the \$1.5 million reported in the second quarter of this year.

The effective tax rate for the third quarter of 2009 was 35.4% which was substantially less than the rate for the third quarter of 2008 of 42.5%. The effective tax rate without one-time discrete items expected for this year's fourth quarter is 41.5%. The decline in the third quarter rate resulted from a combination of the true-up of calendar year 2008 income tax provision based on the filing of the final tax returns this September as well as a benefit of amending some prior tax returns.

These two items amounted to several hundred thousand dollars. These benefits reflect the substantial efforts underway by ICF in reviewing certain of our current and prior year tax positions and amending prior returns of ICF and acquired companies when warranted. Based on this continued work, net income was \$5.1 million for this third quarter of 2009 or \$0.32 per share based on 15.844 million fully diluted weighted average shares.

And turning to the balance sheet, accounts receivable was \$167.1 million compared to the \$169.5 million reported for the June 30, 2009 quarter. This represents 90 days sales outstanding at June 30th -- sorry, at December 30th, 86 days adjusted for the Road Home contract receivables compared to an 87 days sales outstanding at June 30th and 83 days as of December 31st, 2008.

If you deduct the amount of deferred revenue from these periods, the adjusted days sales outstanding would be 81 days as of December 30th, 80 days at June 30th and 77 days at December 31st. We continue to anticipate DSOs in the long-term to be at our 75 to 85 day historical average.

Our revolving debt balance was \$210 million at September 30th, down \$11.7 million from the June 30th balance of \$221.7 million. This does not take into account the \$9.3 million cash balance we had at September 30th in anticipation of the payroll later that week. We would anticipate paying down another \$10 million of debt by December 31st, 2009.

Cash flow from operating activities for the first nine months of 2009 was \$36.1 million. We had cash capital expenditures during this period of approximately \$5.7 million. For the fourth quarter of this year, we expect cash capital expenditures of approximately



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\$4.0 million, reflecting our continued investments in corporate infrastructure resulting in approximately \$9.7 million for the calendar year which is slightly less than the \$10 million expended in calendar year 2008.

And with that, I'd like to turn the call over to Sudhakar.

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

Thank you, Alan. Looking ahead, we expect our positive momentum to continue in the fourth quarter which usually is our slowest quarter. This year, however, is likely to be similar to the third.

We anticipate reporting fourth quarter 2009 revenues of between \$165 million and \$170 million and earnings per diluted share of \$0.30 to \$0.33 based on the tax rate of 41.5%. In the press release, we tightened the total revenue range for full year 2009 guidance to \$665 million to \$670 million of which \$605 million to \$610 million will be the core business revenues. This is a significant increase over the \$432.6 million of core business revenues in 2008. Our organic growth rate will be approximately 15% for the year. Earnings per share will range from \$1.33 to \$1.36.

We also provided preliminary indications for 2010. Based on our current backlog levels and our existing portfolio of business, we expect core business revenue growth of 18% to 24%, equal revenues of \$715 million to \$750 million. Organic growth should be in the range of 11% to 16% which will include three quarters of Macro, so I consider this a very strong statement. EBITDA margin expected to be between 9% and 10%. As you can see, we are expecting another strong year in 2010.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions).

Our first question comes from the line of Eric Prouty with Canaccord Adams. Please proceed.

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**Eric Prouty** - *Canaccord Adams - Analyst*

Great. Thank you. Good quarter, guys. Just a couple quick questions. First, on the current state of business, you mentioned some of the areas of strength or improving areas for the commercial markets. Which of your traditional commercial end markets would you consider to still be weak, kind of impacted by the economy still?

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**John Wasson** - *ICF International - COO*

Well, I would say the commercial transportation I think is still being impacted by the economy. We have seen some improvement, but there's still weakness there. And then, certainly, the transactional side of the energy business is still being impacted. We're not seeing the level of asset valuation and litigation support that we typically would see in energy markets if the economy was strong.



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**Eric Prouty** - *Canaccord Adams - Analyst*

Great. And then, are your commercial customers asking for any new or different type projects as opposed to what you've been working on historically, or are you just reassuming some of the same type work you've done in the past?

**John Wasson** - *ICF International - COO*

I think on the commercial transportation side, we're resuming things that we've done in the past. And so, we do see interest on the sustainability side with our commercial clients and we have added some new technology clients to bring sustainability interest to green-related interests to us.

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

Yes, I think the emissions -- people interested in emissions, as I said in my remarks, to sustain ready strategies, fuel assessments, all based on sort of the impending variance of the climate change legislation on the Hill. So, I think that -- a lot of the analytical work has been driven by potential water regulatory situation could be going forward.

**Eric Prouty** - *Canaccord Adams - Analyst*

Great. And then, just finally, your 2010 guidance, I know it's very preliminary but maybe you can help us understand some of your own assumption instead of going into those numbers. Just a couple points, maybe you could comment on what level of stimulus spending is in your guidance? And then, also, to the point you were just making, what is kind of the economic outlook that's embedded in your outlook, kind of more of the same, improving economy, et cetera? Maybe you could just touch on some of those macro issues and how you're viewing that in regard to your 2010 guidance.

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

I think for us, we've been pretty transparent about our stimulus wins, about \$50 million or \$60 million over a three-year period, so if you just divide 50 by three, you get about \$17 million, \$18 million a year potentially which could be stimulus money coming through based on our current wins for that assumption.

And I think there's -- we have significant visibility based on our government business, so we believe that that will continue. And if the commercial markets come back, then we'll be at the upper end of the range which we've told you. And if the commercial markets stay soft, then it could be somewhere in between. So, I think that's basically the assumptions we've made.

**Eric Prouty** - *Canaccord Adams - Analyst*

Great. Fair enough. Thanks a lot, guys.

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

Thank you.

**John Wasson** - *ICF International - COO*

Thank you, Eric.

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**Operator**

Our next question comes from the line of Tim McHugh with William Blair and Company. Please proceed.

**Tim McHugh** - *William Blair & Co. - Analyst*

Yes, guys. Just want to ask maybe if you talk a little bit further -- during your comments, you talked about kind of the joint launches between Macro and the legacy ICF. Just -- the new window overall, I guess -- did Macro start to see a pickup in terms of the wins that they had on their own? Implicitly, I guess in the organic growth you gave for 2010, it seems like they must have.

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

Yes. I think based on -- correct me if I'm wrong, but I think based on the \$100 million or so of Macro --

**Alan Stewart** - *ICF International - CFO*

Yes, yes. Macro did quite well this quarter. They had over \$100 million in wins; that was part of the \$454 million. So, there was a substantial amount that was on their own as well as some increased work obviously as a result of joint projects.

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

Sounds like, for example, the boating survey I think was --

**Alan Stewart** - *ICF International - CFO*

Yes, the boating survey that we mentioned, that was really a Macro going after on its own. But we're seeing more opportunities obviously if we're doing things like combining IT work that we do with Macro, et cetera. But it really is a combination of both.

**John Wasson** - *ICF International - COO*

Macro is also seeing significant opportunities at the CDC in Atlanta right now. We've had quite a bit of proposal activity out of the CDC.

**Tim McHugh** - *William Blair & Co. - Analyst*

Okay. That's good. Do you have Macro's overall -- what their backlog looks like at this point, just to get a sense for that organic growth in the backlog if you will?

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

We haven't -- we don't have -- we gave you the Macro backlog when we, I think, acquired them. We don't have a net-net number here, but Tim, I think it's generally grown. I mean, I think the -- my sense is that it has grown. We're trying to come up with it. Yes, the number is \$475 million.



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Tim McHugh. Okay, great. Thank you. And then, just -- if I could follow up, any trends you're seeing in terms of ID/IQ versus normal wins and other trends in the contract structure that you're seeing coming out here and how that plays into I guess your visibility and your growth that you're expecting?

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

Nothing unusual. We're basically trying to go after some significant ID/IQs where we know there'll be money spent, but it's not like commissions of old contracts. There's no change really in the trends. The visibility we have is based primarily on our experience with a specific office regardless of the contracting mechanism because they use traditionally the mission support contract guides will be, historically, whatever they do and then the ID/IQ guys, when they use the ID/IQs we have some sense of how they'll spend the money going forward. So, we haven't seen any dramatic change or any change in any trend change.

**Tim McHugh** - *William Blair & Co. - Analyst*

Okay. Thank you.

**Operator**

Our next question comes from the line of Tim Quillin with Stephens Incorporated. Please proceed.

**Tim Quillin** - *Stephens, Inc. - Analyst*

Good afternoon. Great bookings quarter. With the \$454 million in -- how many do you treat multiple award ID/IQs like the DoD contract that you mentioned?

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

We don't take -- usually ID/IQs are treated as zero.

**Tim Quillin** - *Stephens, Inc. - Analyst*

Yes. Okay. So is that \$454 million exclude ID/IQs?

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

Correct.

**Douglas Beck** - *ICF International - SVP - Business and Corporate Development*

Yes. To be technically correct, Tim, there are -- as you well know, there are a lot of different kinds of ID/IQs. The vast, vast majority we treat as zero. There are some that are so narrowly defined, and if our business people have great confidence with the results, there may be a small amount of that that is expected gross revenue that's put there. But that's the minority of cases. In most cases, we treat it as full and open, full and open, and we book it as the task -- from sales perspective, take it as the task comp.

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**Tim Quillin** - *Stephens, Inc. - Analyst*

Right. Okay, fair. And this is obviously a great number -- should we expect 4Q to dip below a book-to-bill of one or how do you think 4Q bookings might shape up for you?

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

4Q usually is slow. I would say that 4Q would be a normal bookings quarter. I don't know that it'll be -- I wouldn't expect a quarter like quarter three.

**Tim Quillin** - *Stephens, Inc. - Analyst*

No, that'd be a little too much to ask for. You mentioned, Alan, that the stock comp I think was \$1.9 million in 3Q which looked a little unusually high. What kind of stock comp would you expect in 4Q?

**Alan Stewart** - *ICF International - CFO*

Well, I think it's running -- it was about \$2 million in the prior quarter, so I would say \$1.9 million to \$2 million in stock compensation per quarter is our run-rate of existing RSUs, options and grants.

**Tim Quillin** - *Stephens, Inc. - Analyst*

Okay, okay. And then, I know some of this is going to be dependent on mix and I guess especially at Macro between sub and direct labor. But I've been looking for a pickup in EBITDA margin in 4Q. Are you still looking for that to get to 9.5% or so in 4Q?

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

Yes. If you do the math based on what guidance we've given you, you'll see that the EBITDA number moves up. Yes.

**Tim Quillin** - *Stephens, Inc. - Analyst*

Right. And then, in terms of the 2010 9% to 10% range gives us some idea, but from that 9.5% that you might get to in 4Q or whatever it is, is that a level that you can improve off of in 2010?

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

Yes. I think if the commercial business as I said cranks up, the ramp rates there are very high and therefore it could go higher.

**Tim Quillin** - *Stephens, Inc. - Analyst*

Okay. And then, Alan, what kind of tax rate are you looking for in 2010?

**Alan Stewart** - *ICF International - CFO*

I would say it's a little premature as we're working through the budget and our details. I would say our Q4 rate is a normalized effective rate of 41.5%. We would hope to improve on that next year, but it's premature to give a number at this point.



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**Tim Quillin** - *Stephens, Inc. - Analyst*

Okay. Thanks. Well, congratulations on the bookings in the quarter.

**Alan Stewart** - *ICF International - CFO*

Thank you.

**Operator**

Our next question comes from the line of [Joseph Vafi] with Jefferies and Company. Please proceed.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Hey, guys. Good afternoon and great bookings. Congratulations.

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

Thank you.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Just one more question on the bookings. It seems like it was pretty broad. There was clearly some good contribution from Macro in there. Were there any large pieces of business in there that maybe we should be aware of that drove the number higher?

**Douglas Beck** - *ICF International - SVP - Business and Corporate Development*

Joe, this is Doug. I think in the press release we tried to highlight the larger pieces of business and it wasn't -- if you're asking was there a giant \$100 million game changer, the answer is no. And if you refer to the press release, that's pretty much coverage. I think that, frankly, what was nice is that even among smaller contracts, we seem to have won more of them, it was pretty much across the board, so it was like all boats were lifted during the quarter and it was nice to see.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Ok. That's helpful. And then, I noticed on the tape a little while ago there was a pretty large ID/IQ that was a joint win between Macro and ICF for the Census. Was Census part of Macro's business last time around?

**Douglas Beck** - *ICF International - SVP - Business and Corporate Development*

Yes. I'll mention that it actually was two wins -- ICF and Macro both winners under the same ID/IQ which was an interesting situation --

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Okay.

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**Douglas Beck** - *ICF International - SVP - Business and Corporate Development*

-- but decline is very comfortable for it. Actually, Macro had been a winner before but it wasn't a priority area for them and they, frankly, didn't work it very much. Now, with the combination of the two companies and also we are told that Census with new leadership is focusing more in this area.

This is not about the decennial census. This is statistical survey, methodological work around all the other work they do. We're making it more of a priority, so part of the reason we listed is that we feel that A, we got a strong competitive position because with our combination we really are a big player in that ID/IQ; and B, I think we think we can work it for some nice revenue coming forward.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Okay. That's helpful. And then, Alan, if we kind of looked at Q3 numbers and if were to assume the commercial aviation business was acting somewhat normally, what do you think that would do to bump up margin structure in the quarter we just had here?

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

I'm sorry. I did not understand the question. You mean if the commercial business was -- commercial aviation business was back to full normality? How much the margin will go up?

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Yes. If it was in its full margin structure. Yes, normal margin structure. Twist the question around, how much margin was robbed in the quarter by the aviation business not being at normal run-rate?

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

It's hard to say, Joe. That's a tough question. I mean, you're like -- we haven't looked at it that way. We -- I really -- I can't even guess.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Okay. I mean, would it be like 20 bps or 10 bps or 30? I mean, I'm just trying to get a feel for kind of drivers to the margin structure next year other than maybe potential operating leverage and growth in revenue.

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

I wouldn't have a guess, Joe, at the moment. I'm sorry. I haven't thought about it at all. Usually, we think of every analytical way of looking at the numbers. We haven't thought of that one.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Okay. All right, fair enough. And then, if we kind of look at the pipeline, well, if we talk about the stimulus, obviously, there's been a couple of stimulus wins and that's great. Are you seeing potentially the stimulus being a negative at this point because

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there's so much money coming down the pike, for stimulus that clients may not be spending on initiatives out of their normal budgets because they may be getting these monies?

**Alan Stewart** - *ICF International - CFO*

No, I don't -- we haven't seen -- I don't think we've seen that. I don't think we have a concern about that.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Ok. And then, finally, maybe we can just talk about the pipeline and the larger deals. Is there are any emerging patterns in those larger deals be they in a specific sector or private sector versus government work?

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

The big change over the last year has been the fact that we got these very large energy efficiency deals and those we hope to continue to win.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Okay.

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

But in the other cases, there are -- traditionally, we're trying to focus on some of the other federal contracts which are larger which we have traditionally not gone after and trying to make sure that we position for them and make sure that we make up as play there. So, there's a whole bunch, for example, IT contracts with various health agencies which we're looking at very seriously. We believe that we're very well positioned for those and those are very large.

So, I think there's lots of them in the pipeline where we are positioning for the larger deals and those are the sort of -- that is guidance we have given to our folks that we need to spend our business development dollars more efficiently. And to the extent we can, we should focus on the larger federal deals.

**Joseph Vafi** - *Jefferies & Co. - Analyst*

Okay. All right. Thank you very much, gentlemen. Great bookings again.

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

Thank you.

**Operator**

Our next question comes from the line of Steve Fordham with UBS. Please proceed.

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**Steve Fordham** - UBS - Analyst

Hey, guys. Thanks for taking my question. I want to ask you guys what your thoughts are on the current healthcare reform bills out there and how they'll impact your business? And also, do you guys see a lot of opportunity with the health IT trend, with electronic medical records and et cetera?

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

I think I can broadly answer the question. I think on the healthcare reform, on the health IT front, we basically have some existing -- big existing contracts with NIH and with other federal health agencies which we certainly hope will grow going forward. We don't have any particular specialty in electronic medical records, so I wouldn't claim that we have anything there.

On the healthcare reform bill, obviously, the more -- once the bill gets going there'll be all kinds of changes in the different federal agencies. And change generally is good for us and we believe that we'll be -- we are well situated with the right contracts in a variety of health agencies within HHS. And anything they do to position themselves to train themselves affecting the systems in the new world, I think we'll be in a position to provide. So, I think that change is good for us and the more talk over the phone, the more our clients will have to adjust and therefore their adjustment we can help them with.

**Steve Fordham** - UBS - Analyst

Do you think we'll see that impact in 2010 or would it be even longer?

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

Yes. I think we will see that impact in 2010. As you can see, our growth in the health business has been fairly strong even without the acquisitions. So, I just want to make sure that you're already seeing some of it and we hope to continue to see it going forward.

**Steve Fordham** - UBS - Analyst

Okay. Last question, I was just -- any thoughts -- preliminary thoughts on this '11 budget request?

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

None really. I mean, we've seen that the emphasis again continues to be more on civilian side and we think that we're well positioned to perhaps get -- in our markets we're well positioned. So, similar to the answer I gave you earlier, we have been spending there. We are well positioned to perhaps be helpful there.

**Douglas Beck** - ICF International - SVP - Business and Corporate Development

Yes, if I could just add, also, as you know, it hasn't finished yet and one of the things that we've learned is that the top-line headline's on the budget request may not be the ones that affects our business and what we're in the process of doing is we work through with our folks is to what -- let's take it down to another level even sometimes office by office or program by program, and that takes a while to do. So, really in the process of assessing that and I think we'll have a better handle on that in the coming months as we look into the details because that's really where the action is for us in most cases.

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**Steve Fordham** - UBS - Analyst

Okay. Appreciate it.

**Operator**

Our next question comes from the line of Bill Loomis with Stifel Nicolaus. Please proceed.

**William Loomis** - Stifel Nicolaus - Analyst

Hi. Thanks. Good quarter, guys. Just looking at the fourth quarter guidance by my model roughly at 9.60 EBITDA margin at the upper end. So, where should we expect most of the improvement sequentially? It's going to come in the gross margin getting back up over 40%?

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

I think that you will see the energy efficiency jobs crank up and be fully working away and I think that will certainly add to that. The broadband job which we have, that will help. That will be fully scaled up and that is going to be a substantial contributor. Both those jobs have I think margins which are healthy and that is what's going to help us get to the high levels.

**William Loomis** - Stifel Nicolaus - Analyst

Okay. So, that's more of a gross margin component, utilization improves when these jobs start up?

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

Yes.

**William Loomis** - Stifel Nicolaus - Analyst

Okay.

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

Yes.

**William Loomis** - Stifel Nicolaus - Analyst

And then on the third quarter, you mentioned that gross margin -- one of the reasons why gross margin was lower was you had a higher sub than Macro. But then, I think there was another comment that pass throughs were lower than what you expected at Macro. Which one was right or are they both right?

**Alan Stewart** - ICF International - CFO

No, I think we said both sub-contractors impasses were higher at Macro for their gross margin brought down the overall contract.

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

I think relative to ICF, that is why -- and then the revenues would have been higher had they been -- some of the parts have moved to the right, so both are right.

**William Loomis** - *Stifel Nicolaus - Analyst*

So, you thought you're probably having more pass-throughs than you did, but pass-throughs were higher anyway driving gross margin down. Is that correct?

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

Right. Yes.

**William Loomis** - *Stifel Nicolaus - Analyst*

Okay. And then just looking at the 2010, in the EBITDA margin guidance, per guidance your earnings is going to be in the mid-nine in the fourth quarter and normally a slow quarter for you. What are some of the kind of things that will negatively -- could put drag on margins in 2010 because it seems, based on the business you've won and you're growing your infrastructure, Road Home is completely away that I could certainly see the positive impact to margins. But based on this guidance, there has to be some headwinds as well that you guys are seeing particularly at the lower end of that range. What are they in 2010?

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

I think traditionally we're worried about the first quarter. First quarter could be a little slower. The federal government also might be a little slower in the first quarter than is usual. If you look at our first quarter the last few years it's been pretty slow. So I think that we think we can get there but because we are at the high number in the fourth quarter this year, it doesn't mean replicate itself immediately in the first quarter. We hope it does but there is some possibility that it doesn't.

And then, the -- and then some of the work which we have in broadband, et cetera, will slow down at the end of the second quarter. So, we are trying to figure out how exactly that's going to impact us and we're still in the process of budgeting which is why we've given you these broad numbers because we really don't quite have the numbers all done -- budgeting process ends by the middle of -- first week in December, so we'll have more color and probably we're going to give you more at the next call sometime early part next year.

**William Loomis** - *Stifel Nicolaus - Analyst*

Okay, understand. Okay. Thank you. Good quarter

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

Thank you.

**Operator**

Our next question comes from the line of Steve Ferazani with Sidoti and Company. Please proceed.





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**Steve Ferazani** - *Sidoti & Co. - Analyst*

Good evening, everyone. Alan, you gave a little bit of color about the reason for the reduction in SG&A. Just trying to figure out looking forward, trying to get a better sense why it's bounced around a little bit, I mean is this Macro integration-related or is it, I mean, we've see sales staff reduced this quarter. Can you give a little bit more color there?

**John Wasson** - *ICF International - COO*

I would say the primary reason's really the utilization of all the staff. The third quarter's usually our strongest quarter, so you've got less bench time and more availability and that clearly helps us. And I think there's -- the second issue really be our cost management has worked. Going to the clients' push market is another area as we try to watch the costs pretty carefully for the last couple of quarters. I think you've seen the benefit of that.

**Steve Ferazani** - *Sidoti & Co. - Analyst*

Okay. On energy efficiency, the potential pipeline out there, climate change bill finally being taken up by the senate, will that will push through things a little bit faster with some of the other customers that may be aren't a part of backlog at this point?

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

I think there's so much of uncertainty associated with climate change that people who have voluntarily tried to do something also stopped to see exactly what they should be doing on a larger scale. There are some people still doing work on sustainability as I mentioned but I think the compliance market, if there is actually a regulation, the compliance market will be large. That will certainly make our growth, we believe, more rapid.

But at the moment, we are benefiting from the fact that there is a lot of -- all these bills there we could be analyzing all of them. And so, it's not like we're not currently benefiting. Obviously, if there is a regulation, then the compliance market is much larger than the analytical market, [once after the bills]. So I think that will definitely help us going forward.

**Steve Ferazani** - *Sidoti & Co. - Analyst*

You obviously have some significant contracts with energy efficiency this quarter. Is that -- would you consider that a small piece of what you think is out there over the next two years, or I mean can you characterize it?

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

There will be energy efficiency contracts out there but I don't know if there'd be so many which are these large. I mean there will be -- every utility in the nation is going to do something on energy efficiency but they'll be I think smaller in size. The ones we have seen currently are smaller in size but they could be more numerous.

**Steve Ferazani** - *Sidoti & Co. - Analyst*

Ok. Last question for me is usually every quarter you do tout your -- the limited headcount turnover. I guess any reason you didn't mention this quarter? And also, did you see much turnover since you've integrated Macro?

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

No, we did mention that we saw -- John mentioned it -- mentioned it at 8% --

**John Wasson** - *ICF International - COO*

8.7%

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

8.7%

**Alan Stewart** - *ICF International - CFO*

Annualized.

**John Wasson** - *ICF International - COO*

And we've really not had any material turnover at Macro.

**Steve Ferazani** - *Sidoti & Co. - Analyst*

Fair enough. Thanks a lot, guys.

**Operator**

(Operator Instructions).

Our next question comes from the line of Toby Summer with SunTrust. Please proceed.

**Toby Summer** - *SunTrust - Analyst*

Thank you. I was wondering if you could comment about how we should think about the EBITDA margin and the operating margin as maybe some of the more cyclical commercial elements coming back perhaps with a rebound. Just some broad strokes, I know you give guidance on a multiyear period but kind of how should we think about that?

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

I think that's a -- basically, if the commercial market comes back, the margins go up and they go to the upper end of the range we've given you in terms of the EBITDA margin. If they don't come back, then they stay around where we are at the moment. So, I think that's basically the way to think about it. If the commercial market comes back and if transactions start happening, that will help our margins go to the upper end.

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**Toby Sumner** - SunTrust - Analyst

Thanks. I was wondering if you could comment about, if you have at this stage, some CapEx and maybe cash flow expectations going forward, just whatever preliminaries you want to put around this?

**Alan Stewart** - ICF International - CFO

I think it's for -- again, we've given indications for '09. We're still early in the process of 2010 budgeting so it's a little premature. I guess at this point we want to see a significant increase over '09, maybe less but it's too early for us to define that at the present time.

**Toby Sumner** - SunTrust - Analyst

Okay. Thanks very much. A lot of my questions have already been asked.

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

Thank you.

**Operator**

I'd now like to turn the call back over to management for closing comments.

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

Thank you for joining us. We appreciate your time and we will see you next year. Have a happy new year in case we don't speak to some of you. Take care. Bye-bye.

**Operator**

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a wonderful day.

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