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Q4 2019 ICF International Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to the Fourth Quarter and Full Year 2019 ICF Earnings Conference. My name is Brandon, and I'll be your operator for today.

(Operator Instructions) Please note, this conference is being recorded on Thursday, February 27, 2020, and cannot be reproduced or rebroadcast without permission from the company.

I will now turn the call over to Lynn Morgen of AdvisIRy Partners. And Lynn, you may begin.

Lynn Morgen ***AdvisIRy Partners***

Thank you, Brandon. Good afternoon, everyone, and thank you for joining us to review ICF's fourth quarter and full year 2019 performance. With us today from ICF are Sudhakar Kesavan, Executive Chairman; John Wasson, President and CEO; James Morgan, CFO; and Bettina Welsh, SVP, Finance.

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 February 27, 2020, press release and our SEC filings for discussions of those risks.

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

I will now turn the call over to ICF's Executive Chairman, Sudhakar Kesavan, to discuss fourth quarter and full year 2019 performance. Sudhakar?

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

Thank you, Lynn, and thank you all for joining us today to review our 2019 results and discuss our business outlook for 2020. 2019 was another year of strong performance for ICF driven by our differentiated service offerings in growth markets. By pairing deep domain expertise in the broad areas of energy, environment, disaster management and health with broad technology and engagement skills and by growing our marketing services business, we delivered another year of double-digit revenue and earnings growth.

At our Investor Day in early December last year, I made several points that are relevant as we look ahead to ICF's opportunities in 2020 and beyond. First, ICF's revenue growth has been resilient across administrations. So although the rhetoric will intensify as the election approaches, keep in mind that we've had steady growth under both Democratic and Republican administrations. Second, we have successfully leveraged up and down over the last 13-plus years since we have been public as we have made acquisitions and then paid down debt with our strong cash flow, and that is the strategy that remains in place today. Third and finally, our strategic intent of providing advice to our clients and implementing their advice in our areas of expertise has been the hallmark of our success for more

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than a decade, and we have significant growth runway ahead. We're expecting 2020 to be another strong year for ICF with double-digit growth in revenue and EBITDA.

Before handing over the call to John, I would like to make a few comments on our recent acquisition of ITG, a leading provider of cloud-based platform services to U.S. federal government agencies. We view ITG as an excellent strategic fit for ICF and emblematic of the types of acquisitions you can expect us to pursue. First, ITG is a well-regarded service provider in a large and growing market, namely IT modernization, which, together with cloud, is estimated at over $21 billion. With ITG's more than 350 people and excellent track record of providing transformational solutions to federal agency clients, ICF now has the qualifications to bid on larger contracts that are aligned with our subject matter knowledge. Second, ITG is working in many federal agencies that are long-standing ICF clients, notably the Department of Health and Human Services, the Department of State, the Department of Homeland Security, the General Services Administration and others. This should enable us to achieve revenue synergies quickly as we already are aware of our clients' needs. Third, ITG represents an excellent cultural fit with ICF as we both have created collaborative, entrepreneurial work environments. This was a key element in their decision to join with us.

These characteristics, notably good positioning in a large and growing market, readily identifiable revenue synergies, and strong cultural alignment are ones that you can expect to see in future acquisitions.

With that, I'm pleased to turn the call over to ICF's CEO, John Wasson.

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

Thank you, Sudhakar, and good afternoon, everyone. ICF's strong 2019 performance reflected positive catalysts in our business that drove significant year-on-year revenue growth and enabled us to post even higher earnings per share results. Revenues from each of our client categories increased year-on-year in 2019, demonstrating ICF's strong positioning in growth markets. For the year, we reported 10.5% revenue growth, a 12.9% increase in GAAP EPS and an 11.3% increase in non-GAAP EPS, benefiting from a favorable business mix, higher utilization and a lower tax rate.

Beginning with our largest client category, revenue growth from federal government clients picked up considerably in the second half of 2019, reaching mid-single-digit growth in both the third and fourth quarter of the year. The fiscal 2020 federal budget was passed and signed in mid-December with a 4% increase in spending, and the longer-term budget outlook is favorable. Congress has already negotiated and finalized the spending caps for fiscal year 2021 for civilian and defense agencies, and we expect spending in fiscal year 2021 to be very similar to fiscal year 2020, providing a level of certainty for our agency clients.

As you know, we have identified several areas within our federal business that we believe provides robust growth potential for ICF, namely public health, IT modernization and engagement. With respect to public health, ICF is currently working with the Centers for Disease Control to develop messaging and communications about the threat of the coronavirus. Also, we currently have multiple contract vehicles with the CDC, so we're well positioned to assist the agency as they develop and implement programs to address the coronavirus threat. Also, we continue to be bullish on opportunities to combat the opioid epidemic. The ITG acquisition has significantly increased our scale in IT modernization, and we were pleased to see the fiscal 2020 budget includes additional funds for IT modernization across our civilian client base. In addition, we have identified existing opportunities in the ICF pipeline equal to over $650 million for which the combination with ITG increases our probability of winning. So to sum up on federal, we see this as a strong growth market for ICF in 2020 and beyond.

State and local revenue, which was up significantly in 2019, will be lower as a percentage of revenue in 2020, primarily as a result of the in-sourcing of certain aspects of our FEMA-funded contract in Puerto Rico that we announced in January of this year. As we noted, we are working closely with our client to achieve the best outcomes for the affected populations, and we expect recovery and mitigation programs in Puerto Rico to last another 5 to 10 years. The complexity, scope and scale of [Puerto Rican] recovery in the coming years is significant and continues to stretch local capacity. We are meeting all our deliverables, and we believe we are well positioned to continue to win work there.

I am pleased to report initial progress on winning disaster recovery mitigation work. We recently won a small contract with a Midwestern

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U.S. state to help them prepare their CDBG mitigation action plan and a contract to support the North Carolina Community Development block grant funded disaster recovery buyout program. Also, subsequent to the end of the fourth quarter, we were awarded another small contract with Columbia, South Carolina to develop the city's first-ever disaster management CDBG mitigation action plan. As you know, the federal government has appropriated over $15 billion across a number of jurisdictions for mitigation and resilience programs to lessen the impact of extreme weather disasters. This work is going to continue over the next decade. ICF has one of the largest, if not the largest, climate change and resiliency consultancies in the U.S., which provides us with very relevant credentials to bid on mitigation work that should be a part of RFPs later in 2020.

Our non-U.S. government business did very well in the fourth quarter with revenues up 10%, bringing full year revenues to flat with last year. This was a very respectable performance, keeping in mind that in 2018, revenues were up 34%. Looking ahead, there's a new European Commission in place with clear priorities, and the Brexit settlement has eased market uncertainty, both positive indications for ICF. We have an active pipeline of international government opportunities, which leads us to expect continued growth in 2020.

Moving to our commercial business. As you know, the lion's share is comprised of our marketing services business, branded as ICF Next, and energy markets that is comprised of energy efficiency and distributed energy programs, transactional energy-related advisory work and our environment-related project work for commercial clients. Together, marketing and energy account for 93% of ICF's commercial revenues.

Commercial marketing services revenues increased at a high single-digit rate in 2019, reflecting the continued strength of our commercial health care vertical where we are driving enrollment, redesigning websites, refreshing brands and developing personalized engagement programs. Also, we have launched several successful campaigns across our consumer client set and added a new loyalty program client. Last year's branding of all of our communication services as ICF Next has been a positive driver in winning new business, and we continue to have good success in increasing integrated sales across ICF Next.

We also had a great year of recognition in 2019, closing it out in the fourth quarter with our Loyalty360 Best in Class Agency award. This year's highlights included maintaining our position as a leader in Forrester's Loyal Technology Wave (sic) [Loyalty Technology Wave] report, being named the Holmes Report's Digital Agency of the Year for our work combining marketing and technology and receiving 12 Cannes Lions. The personalization around marketing plays to our strength in having an industry-leading loyalty platform, which has strong technology capabilities that are highly relevant, and which we expect will serve as a long-term growth driver for us in this arena.

Commercial energy revenues increased by just under 3% in 2019, inclusive of the wind-down of certain environmental monitoring projects. We are very well positioned for long-term growth in this area and see several key catalysts that play to our strengths. First, in energy efficiency, there is the California opportunity, which is going to create an annual addressable market for us of at least $250 million a year in a state where we currently have a small footprint. We expect that awards will start to be announced in the second half of this year.

Second, several states are increasing their energy efficiency targets based on carbon-reduction goals. These include Massachusetts, New York and Illinois. Governor Cuomo of New York, for example, recently announced an additional $2 billion in utility energy efficiency and building electrification initiatives to combat climate change.

Third, we have significant growth potential in the further penetration of distributed energy resources, such as solar, storage and electric vehicles. As we detailed during our Investor Day in December, ICF is already advising utilities on distributed energy strategies, and we are implementing about 10 pilot programs with existing utilities. Although work today is around advisory and pilots, we believe these pilots can scale into programs across entire service territories that are likely to be of similar size and scope to the energy efficiency programs we have been implementing for a decade.

In summary, we are quite bullish on the organic growth prospects on the horizon for ICF and about the revenue synergies that we believe we'll be able to achieve in short order, thanks to the ITG acquisition.

Also, we are pleased with the EBITDA performance that we anticipate for 2020, which will represent 16% year-on-year growth.

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We ended the year with a business development pipeline of $6.5 billion after winning more than $350 million in contracts in the fourth quarter. This pipeline, which includes only qualified opportunities, is balanced across our client set and comprised of 65 opportunities larger than $25 million and 94 opportunities between $10 million and $25 million. Also, ICF's 2019 turnover rate was 15.7%, below the industry average and representative of the strong corporate culture that we have developed here over many, many years.

Before turning the call over to James for his financial review, I wanted to comment on the CFO succession we announced in a separate release this afternoon. As you read, James will be taking on a newly created role of EVP and Chief of Business Operations effective on February 29. This is an excellent opportunity for us to leverage James' strong leadership skills to strengthen areas that are critical to our continued growth. Also, we are pleased to welcome Bettina Welsh as our new CFO. She has been working closely with James over the past 6 months and her strong credentials make her an excellent fit for this position. We look forward to introducing her over the next several months to those of you who did not meet her at our Investor Day.

With that, now let me turn it over to James for the financial review.

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

Thank you, John. Good afternoon, everyone. Let me give you a more detailed overview of ICF's fourth quarter and full year 2019 financial performance. Fourth quarter revenue was $396.6 million, up 5% from the $377.9 million reported in last year's fourth quarter. Year-on-year growth was driven by a 7.6% increase in revenue from government clients where we saw strong comparisons across our client set. Service revenue was up 5.1% to $251.9 million compared to $239.6 million in the fourth quarter of 2018. Pass-through revenue increased by 4.7% to $144.7 million and accounted for 36.5% of total revenue, essentially in line with the 36.6% we reported in last year's fourth quarter.

Gross profit increased 2.9% to $132.6 million from $128.9 million in the fourth quarter of 2018. Gross margin was 33.4% in 2019's fourth quarter compared to 34.1% last year. Gross margin on service revenue was 52.6% in 2019 as compared to 53.8% in the fourth quarter of 2018. Keep in mind that last year's fourth quarter was an exceptional -- was exceptional in terms of gross margin on service revenue due to high utilization rates associated with program ramp-ups.

Indirect and selling expenses for the fourth quarter increased 6.2% to $97.7 million compared to $92 million in the year ago quarter. As a percentage of revenue, indirect and selling expenses amounted to 24.6% of total revenue, slightly up as compared to 24.3% in the fourth quarter of 2018.

EBITDA was $34.9 million in the fourth quarter of 2019 as compared to last year's $36.9 million. Adjusted EBITDA, which excludes special charges associated with acquisition-related expenses, office closures and severance charges, was $37.4 million compared to $39.4 million reported in the fourth quarter of 2018. Adjusted EBITDA on service revenue was 14.9% in the fourth quarter of 2019.

We reported net income for the fourth quarter of 2019 of $19.4 million compared to $18.7 million in last year's fourth quarter. Diluted EPS was $1.01 per share inclusive of $0.09 of tax-effected special charges, primarily tied to M&A cost. This compares to $0.97 in the fourth quarter of 2018, also inclusive of $0.09 of tax-effected special charges. This year's fourth quarter benefited from a lower tax rate mainly due to the deductibility of equity-based compensation and return to provision true-ups.

Non-GAAP diluted EPS, which excludes the impact of the previously mentioned special charges and amortization of intangibles, was $1.18 in the fourth quarter of 2019, slightly ahead of the $1.17 reported in the fourth quarter of 2018.

Now let me give you more color on our 2019 full year results. We had record revenue of $1.48 billion, up 10.5% year-on-year. This performance was led by 13.1% revenue growth from government clients, which accounted for 65% of full year 2019 revenue, up from 64% in 2018. Revenue from federal clients increased 2.7%, in line with our expectations of low to mid-single-digit year-on-year growth. State and local client revenue increased $0.525, and international government revenue held flat, representing 19% and 8% of total revenue, respectively.

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On a constant currency basis, international government revenue was up year-over-year by just over 5%. Commercial revenue increased 6% year-over-year and accounted for approximately 35% of our total revenue compared to 36% in 2018. Service revenue was up 8.3% to $1 billion compared to $925.8 million in 2018. Pass-through revenues increased by 15.4% and to $475.7 million. Adjusted EBITDA increased 8.9% to $134.8 million and accounted for 13.4% of service revenue in 2019, the same as last year. We slightly missed our target of 10 to 20 basis points of improvement in adjusted EBITDA margin on service revenue compared to 2018 levels due primarily to higher-than-anticipated fringe expense and less-than-expected revenue associated with our FEMA-funded contract in Puerto Rico. We expect to resume our 10 to 20 basis points of margin expansion in 2020.

Net income increased 12.3% to $68.9 million in 2019 compared to $61.4 million in 2018 as we benefited from a lower tax rate of 23.6% compared to 25.9% in 2018 that more than offset the higher interest expense.

Reported diluted earnings per share were $3.59 for 2019, inclusive of $0.24 of tax-effected special charges related to staff realignment, facility consolidation, M&A expense, primarily related to the ITG acquisition. This compares to $3.18 per diluted share in 2018, which included $0.17 of tax-effected special charges.

Non-GAAP diluted EPS for the full year, which excludes the special charges I've just mentioned as well as amortization of intangibles, was $4.15 per share for the -- for 2019, up 11.3% compared to the $3.73 reported last year. In 2019, we had $91.4 million of cash provided by operating activities, ahead of our updated guidance due to strong collections during the month of December. This year, we made ongoing investments in our infrastructure and intellectual property, leading to a $3 million year-over-year increase in capital expenditures to $28.5 million for the full year.

We paid down debt, lowering borrowings on our credit facility at the end of December by 17.5% to $165.4 million compared to $200.4 million at the end of 2018. Days sales outstanding for the fourth quarter was 83 days. Excluding our large FEMA contract in Puerto Rico, it was 71 days.

For modeling purposes, we want to share our expectations for certain 2020 financial metrics. We anticipate depreciation and amortization expense to be in the range of $22 million to $23 million for the full year 2020; amortization of intangibles should be in the range of $13 million to $13.5 million; full year interest expense should range from $19 million to $20 million; capital expenditures are anticipated to be between $28 million to $30 million; we expect the full year tax rate to be no greater than 27%; and we expect fully diluted weighted average shares of approximately $19.2 million for 2020.

Also for modeling purposes, keep in mind that while ITG, our recent acquisition, has an EBITDA margin that is in the mid-teens, above that of ICF's, its gross margin percentage is lower than ICF's average and is, therefore, expected to result in a slight year-over-year decline in gross margin percentage for the consolidated company. Additionally, we are expecting a significant increase in operating cash flow in 2020, which we anticipate to be approximately $120 million or more than 30% higher than in 2019. Thus free cash flow is projected to be over $90 million or about $4.75 per share.

In 2019, we repurchased 248,000 shares under our share repurchase program for a total outlay of $18.1 million to offset the dilution of our employee incentive programs. We plan to maintain a balanced approach to our capital-allocation strategy, and we'll continue to invest in our business, pursue acquisitions, delever, buy back shares to offset dilution and pay dividends. Speaking of which, today, we declared a quarterly cash dividend of $0.14 per share payable on April 13, 2020, to shareholders of record on March 27, 2020.

With that, I will turn the call back to you, John.

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

Thank you, James. We are looking forward to a year of strong growth in 2020. We expect revenue of $1.6 billion to $1.65 billion and EBITDA of $145 million to $155 million, representing year-on-year growth of 10% and 16%, respectively, at the midpoints. Revenue and EBITDA growth is expected to follow a similar pattern to that of recent years with roughly 45% materializing in the first half of the year and 55% in the second half.

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As you've seen from our earnings release, this strong operating performance will not carry through to our non-GAAP EPS results in 2020. This is in part due to a higher tax rate this year, which we estimate will impact earnings by $0.15. The other element is the reduction in projected revenue of approximately $65 million on our FEMA-funded recovery contract in Puerto Rico, which is at the high end of our federal margin range. That said, we are expecting strong revenue and EBITDA growth for this year and a substantial increase in operating and free cash flow.

Additionally, our guidance for 2020 is based on our current backlog and portfolio of business and does not include any additional material contract wins or expansions in the disaster recovery arena nor any material benefit from new disaster recovery-related mitigation contract awards or energy efficiency contract wins in California, all areas that represent significant long-term growth for ICF. We will keep you posted on all this.

In closing, I would like to note that we have a very strong culture here at ICF and that is the source of competitive advantage for us. We are collegial and passionate about what we do. This culture has been a key driver of our growth today. It is what attracts like-minded acquisition candidates, and it is what clients see and feel when working with us.

Operator, I'd now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from Canaccord, we have Joseph Vafi.

Joseph Anthony Vafi ***Canaccord Genuity Corp., Research Division - Analyst***

James, congrats on the new role. Hopefully, we will still hear and see you from time to time here on The Wall Street side of things.

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

Thank you.

Joseph Anthony Vafi ***Canaccord Genuity Corp., Research Division - Analyst***

Yes. And so maybe we just kind of start kind of what the requisite to Puerto Rico question. Any other color to provide there? Do you see -- how do you see the working relationship this year? And what are the prospects outside of the in-sourcing initiative there that could provide potentially some more volumes on that contract as we look through this year and into next year?

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

Sure, Joe, happy to do that. So I think as we said in the remarks, we expect $65 million of revenue to be in-sourced in Puerto Rico for 2020. I think that's consistent with our expectations when we last spoke upon announcing the ITG acquisition. We don't believe at this point there'll be any more in-sourcing in Puerto Rico on our work. I mean it is a fluid situation. But I would say, we continue to do good work. We're meeting all our deliverable -- all of our deliverables, we have strong client relationships and we certainly continue to see significant opportunity. I think it is a long-term recovery in Puerto Rico over the next 5 to 10 years. I think it will continue, as we discussed at our Investor Day, at a steady pace. And so we still view it as significant, long-term opportunities in Puerto Rico, certainly, with the mitigation of budgets in Puerto Rico being a key part of that long-term opportunity.

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

Yes. And I would just add that we continue to work with this client. They [wanted] partial in-sourcing of the work. It's not as if all the work is going away and is being in-sourced, just so that -- just to clarify that. It's...

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

It's about 50%, I think, that we consumed.

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

50%. We continue to work on 50% around the balance being in-sourced.

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Joseph Anthony Vafi ***Canaccord Genuity Corp., Research Division - Analyst***

Sure. And then -- that's helpful. And then just secondly, I mean, ITG has been in-house here for a little while. I was wondering if you could provide some commentary there on pipeline that perhaps has developed since the last time we spoke there, especially on cross-sell as well as maybe stand-alone IT deals that perhaps you weren't really capable of doing before.

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

Sure. So I mean, I think, as I said in my remarks, I mean, first, ICF, we had a pipeline prior to the ITG acquisition. It was $650 million of IT and IT modernization opportunities that we believe their skills and capabilities will certainly raise the probability of our win rates and our pipeline. And similarly, ITG had a set of a sizable pipeline, and I certainly think they can leverage our deep domain expertise in our contract vehicles to help them both improve their probability win rates and access new clients. We are also in the process of identifying new opportunities that neither firm would have bid. We all can make up with some initial views of that. Obviously, those will need to go into capture and will be longer-term opportunities, but we're quite confident those exist.

And I think, which we also talked about, ITG was subcontracting about 30% of their revenues. We believe we can deploy ICF staff on some of that work, which will certainly benefit us going forward. I mean, so we're quite bullish on the opportunities and the synergy associated with ITG. I would say the integration is going great. I mean we've had very positive signs on the business development, we're working together quite collaboratively and I fully expect we'll be announcing material new awards here in the next quarter or 2 on the IT modernization front. I think that you'll see some very quick synergies on the IT modernization front.

Operator

From SunTrust, we have Tobey Sommer.

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

If I think about the different revenue opportunities you have for mitigation, the utility work in California, the opioid epidemic, how would you rank order them in terms of opportunities that are not reflected in your guidance?

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

Well, I think mitigation, we really -- as I said, we haven't assumed any material mitigation awards in our guidance. And so that's -- there's no material mitigation opportunities there. On the California energy efficiency front, again, I would say, we've assumed a small amount of revenue late in the second half of the year. But frankly, I think the way we see that playing out is that we'll be bidding quite heavily this year, and we're in the process of bidding quite heavily that we'll start to see awards later in the second half of the year, but there really isn't significant California energy efficiency revenues in our guidance.

On the opioid front, I think the total value -- a broad range of opportunities won there to date is $25 million to $50 million of contract wins. And so I think there's still potential upside there, and that could play out this year. But right now, we have $25 million to $50 million of 3- to 5-year contracts. And so it gives you a flavor of what's built into our -- on an annual basis into our guidance. I think there is potentially more opportunity -- certainly more opportunity that's relevant for 2020 there.

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

Okay. So was that the order in which you can see...

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

I'd also say it doesn't -- it also doesn't include, obviously, Tobey, and we've seen some very early opportunities around the coronavirus where we're actually starting some work with CDC on that. I think as I'm sure you've seen the President had a press conference, there's bills in front of Congress with -- ranges of potential funding for addressing that in the range of 2 to -- $8 billion to $10 billion. And so I think that has the potential to create short-term opportunity for us, too.

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

That change, if you were to measure it -- how big is your climate change business, if you were to measure it in dollars or number of people, whatever metrics you provided?

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

I think the total number of people is about 200 people. And so I think broadly, it's a $50 million to $60 million business kind of with a climate resiliency focus. I mean I think if we were to include our energy efficiency, obviously, that number would go up significantly. But kind of the core climate business has a couple of hundred people. And round numbers, $50 million of revenue.

Operator

From William Blair, we have Andrew Nicholas.

Trevor Romeo ***William Blair & Company L.L.C., Research Division - Associate***

This is actually Trevor Romeo in for Andrew. John, you just mentioned some of the work that you're already doing with CDC on coronavirus-prevention efforts. Just curious if you could kind of describe maybe any similar efforts you've worked on in the past and maybe how large those types of projects tend to be?

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

Yes. I mean I think the work we're obviously focused on the coronavirus is communication and messaging from a public health perspective, to get the message out. I mean that's been a key growth driver for us and a core part of our public health business. I mean we've been doing similar work on smoking, vaping, opioid abuse...

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

HIV/AIDS.

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

HIV/AIDS, obesity. And so -- and there's -- several of those programs have been quite material to the company over the long run. I think one of our largest contracts is north of $100 million, I think, it's a 7- or 8-year contract to support anti-smoking with teens and tweens. And so these opportunities can be quite material, $10 million, $15 million, $20 million a year of potential revenue on these kinds of public health programs over time on each program depending on the issue.

Trevor Romeo ***William Blair & Company L.L.C., Research Division - Associate***

Got it. Okay. And then I know I think Sudhakar had mentioned, you guys have seen revenue growth in both Democrat and Republican administrations. But I was just curious, since we do have the general election coming up later this year, are you seeing any desire in any clients and certain agencies to either slow down or accelerate their decision-making at this point on contracts prior to the election?

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

I mean I don't think we've seen any change in client decision-making or spending in advance of the election. I think as you see in our results, on the federal side, our revenues have been accelerated a bit in the mid -- north of 5% the last 2 quarters. I think we believe we can maintain that. And so we haven't seen anything to date. And frankly, I think -- and so no, there's been no change.

Operator

From Barrington Research, we have Kevin Steinke.

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

Just wanted to follow-up on that last question, make sure I clarified something in my mind in terms of the growth you expect in the federal government market in 2020. Do you think it can grow at a similar rate to what it did in 2019?

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

Yes. And let me clarify that. And when I said 5% growth, I mean, that's obviously the legacy ICF federal business, which we do expect can grow mid-single digit for 2020. Obviously, when we factor in the ITG acquisition, which primarily is a federal-oriented business, our overall growth in federal markets for 2020 will be well north of 25%.

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

Got it. Okay. Yes, that makes sense. And you mentioned your opportunities in the pipeline of about $650 million that ITG increases your chances of winning. Maybe just, I guess, it might be fairly straightforward, but kind of the thinking or the thought process you went through when looking at your pipeline and figuring out which ones were enhanced by the combination with ITG?

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

Yes. Sure. I mean I think, obviously, we look at the pipeline of -- the quality of the relationships that we have at -- in those agencies, and also kind of where -- kind of what -- and how that matches up with the service providers and partners that ITG has that would work in those agencies like ServiceNow and Appian. And so it's -- it was focused on both the quality of our relationships, the capabilities we bring, the specific opportunities that we saw in our pipeline on the IT modernization front. And so how did those map in to the specific contracts we were bidding and then how could their specific partner relationships where they do have these deep and long-term partnerships with ServiceNow and Appian where we can demonstrate [with their] calls that we really know what we're -- we're at a whole new game and depth of capability to kind of demonstrate to our clients we can bring these platforms into them efficiently and effectively. So I think those are the primary things we thought about.

And let me just stick with that. The $650 million is kind of our total pipeline across all of ICF kind of as we -- prior to the ITG acquisition, and then we're focused on how can we just raise the win probabilities across that pipeline.

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

Okay. Yes. That's helpful. And then you stated in your commentary on the outlook, obviously, that your guidance doesn't include any additional material contract wins or expansion in disaster recovery or material, new disaster recovery -- mitigation contracts, I mean, as well. So I think on your third quarter call, you talked about perhaps timing of some of the RFPs for the 2018 hurricanes happening maybe early first half of 2020 and then also maybe some of the larger storm mitigation RFPs coming out in the second half of 2020. So is that still kind of the timing you're thinking about in terms of when those opportunities might start to emerge?

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

Yes. I think that's still the case. I mean I would say on the mitigation front, we think that we'll certainly see opportunities in Texas. We'll begin to see opportunities in the second quarter, but we'll certainly see awards in the second half of the year. I think as you recall, I believe, Texas' numbers for mitigation was about 4 -- $4 billion to $5 billion of funding. So we -- there will be awards there. We haven't assumed any material new awards in Texas in the second half of the year. There's a possibility that's going to occur. I think as we've talked about before, these awards can be sizable and they can be lumpy. And so we'll -- we haven't put any in our guidance that we've given. Obviously, they're awarded earlier in the second half of the year. We'll update you on that.

The North Carolina opportunities, we have begun to see some opportunities there. We've won a contract, an IDIQ contract that gives us the ability to work in the Carolina on CDBG-related work. We expect more opportunities there in the second half of the year and from the 2018 storms. And so again, if we were to -- there was a couple -- I think it was somewhere between $2 billion and $3 billion appropriated for the 2018 storms that hit the Carolinas. And so there's certainly potential upside there, too. Long-winded way of saying I don't know, kind of what we've reported last quarter has not changed.

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

Okay. Great. And last question here, just with James' new role, how much of that is a replacement for the COO role that you used to hold, John, versus kind of a new role? And how might it be different than the COO role?

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

Yes. Sure. So I think that -- first is, I think, as I said when I became CEO, I wanted to -- I thought it was critically important for me to be externally focused, focused on our strategy, trends in our market, our clients, our growth opportunities. Obviously, as President, I did have client-facing organizations and corporate business development reporting to me, and they will continue to report to me given my focus on the external markets and on the clients as CEO. I also had responsibility as CEO for a variety of corporate functions that, given the shift in my interest and focus on being strongly focused that I really felt that we needed to create a new position and have somebody I know who could really focus on those corporate functions that I think are going to be quite critical to our continued growth and things

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like M&A and acquisition integration and our project management office, which plays a key role in helping to manage our most complex and most strategic and critical programs and a variety of other functions. I just think, James -- so for me to allow to have that external focus and have somebody to take on those roles, James was a terrific candidate. He obviously understands the company. He's -- and I think he -- this is very well suited to his skills and his capabilities. I have a great deal of trust and confidence in James. So it is a new position. It has more of a corporate focus on some of those key functions that are critical to our growth. And I'm really pleased to have James in it. And it's also -- we brought Bettina onboard. She's been here for 6 months. I think she has terrific background and skills and capabilities. And I really expect it will be a seamless transition as James steps into this new role and Bettina take over as CFO.

Operator

And from Sidoti, we have Marc Riddick.

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

I wanted to touch a little bit on -- if you could share some greater details around with ITG. I think you mentioned that they're are about 37% or 38% of revenue sort of being outsourced and that it was -- there's an opportunity to sort of bring some of that work in-house. I was wondering if you could sort of delve a little bit deeper into that and talk about what you feel the potential upside is there, maybe what percentage you could bring it down to or maybe what type of time frame that you think might be attainable with those efforts.

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

So just to clarify, yes. No, happy to do that. So of their total revenues, about 30% they subcontract out, right? So they subcontract it out to other firms. I think they have given our IT skills and capabilities and the professionals we have here at ICF. I mean I think over time, we could probably in-source -- bring in-house, perhaps 10% of that 30%. And I think as we do the work, first, I think it generally will be more profitable. This also allows us to build skills, more profitable than -- to the overall company than them subcontract it out to another firm. And it also allows us to build those skills and capability inside the firm, which we think can leverage (inaudible). And so I would say about 1/3 of it over time.

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

And is that based on sort of where you are now from a personnel standpoint? Or do you anticipate sort of adding in that -- and those capacities over the next couple of years or so?

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

Well, I think it will be both. I mean I think obviously, we're looking for -- it's a short-term win if we can deploy people who have capacity on existing work they have. And so we'll sort of look to do that. And then, over time, as we add more folks, we'll consider -- we'll certainly go that route, too.

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

Okay. And then switching back over to the initial work that you're doing regarding coronavirus with the CDC. I was wondering if it may be a little difficult to see this on the outside looking in, but do you get the sense that maybe with increased focus on these projects, is there any risk that you see with some other projects that might sort of be put on the back burner? Or prior to getting added funding, have to be sources of funding from other projects that you may be working on? Is there any type of color that you might get from that as of yet?

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

Yes. I don't think -- we're not concerned that dollars on other key public health issues we're working on will be shifted to coronavirus and our efforts on the other public health issues will be diminished or put on hold. I think our general experience is that will not be the case. And so I certainly don't have any expectation of that.

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

Okay. And then finally, I just want to get a general thought around your corporate headcount as you go into 2020 and beyond, and sort of maybe what your -- what would your thinking might be the -- from that planning standpoint?

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

Well, I think as we've talked about, I mean, we're obviously a people business. And so if our -- in round numbers, if our service revenue increases 10%, that's the work that we do. We always are looking to get some more leverage out of our existing staff and raise utilization, but I mean, realistically, as we grow, which is a good thing, we have to add more staff. And so if we're growing 10%, we'll need to add 8.5% or 9% more staff over time to deliver that growth. But we're always looking for ways to get the most out of the staff we have as we grow.

Operator

(Operator Instructions) And we do have a follow-up. From SunTrust, we have Tobey Sommer.

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

In the mitigation arena, could you compare and contrast your -- the competitive set for that business versus more traditional reconstruction work? And then in so doing, could you kind of characterize your position in mitigation in a different fashion, either better, worse or the same as you start to bid on those kind of projects more often?

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

I would say that we -- the competitive set is similar to disaster recovery. We see more niche-oriented consulting firms that don't have the scale of ICF but have expertise similar to ICF on the Community Development Block Grant and front. We see the larger engineering firms and we'll see the larger program management firms. I would say that I think our competitive position on mitigation is stronger. And when you compare it to the more traditional housing disaster recovery, and that's not to say we think we have a very strong housing recovery position and are a market leader, but I think what we can add on that front, Tobey, is we just bring -- it's the climate and resiliency experience and experiences and expertise, which are highly relevant to what this mitigation of funding is now focused on. And through those efforts -- and we've been doing that for 20 to 25 years, the climate and resiliency work, and we've been doing that at scale for federal agencies and state and local agencies. And now we're increasingly doing it for regulated utilities who I think we've talked about are more and more focused on resiliency and their work and how do they protect their assets. Many of these -- many utilities are adding the position Chief Resiliency Officer. And so we can bring that broad perspective to the mitigation work and project-level experience.

And so I do think on the mitigation front, we're very strong competitively, and we have scale. We have terrific people, and we have terrific past performance. And so I think we really -- it is a significant opportunity for us. I mean the other thing we bring is we bring significant thought leadership. I mean we can -- we fork it from all angles, so.

Operator

And we have no further questions at this time. We'll now turn it back to CEO, John Wasson, for closing comments.

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

Okay. Thank you for participating in today's call. We look forward to seeing you at upcoming conferences. Thank you.

Operator

Thank you. And ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.

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