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ICFI - Q4 2011 ICF International Earnings Conference Call

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PRESENTATION

Operator

Welcome to the ICF International fourth quarter and year end 2011 conference call. During the presentation, all participants will be in a listen-only mode. Afterward, you will be invited to participate in a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded on Wednesday, February 29, 2012, and cannot be reproduced or rebroadcast without permission from the Company. And now, I'd like to turn the program over to Mr. Douglas Beck, Senior Vice President Corporate Development. Please go ahead, sir.

Douglas Beck - *ICF International Inc - SVP Corporate Development*

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

During this conference call, we will make forward-looking statements to assist you in understanding ICF's 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 to you our February 29, 2012, press release and our SEC filings for discussions of those risks. In addition, our statements during this call are based on our views as of today. We anticipate 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 fourth quarter 2011 highlights. Sudhakar.

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

Thank you, Doug. Good afternoon, everyone, and thank you for joining us. We are pleased to report on another strong quarter and full year, discuss our guidance for 2012, and how we see our business evolving over the next year. First, to the fourth quarter. Revenues came in within our guidance range, driven by the strength of our commercial business, which was up 59% over the comparable 2010 period. Much of this growth was in energy efficiency work, where we believe we are the market leaders. We are currently doing some level of energy efficiency work in 26 states, and have significant opportunities to build upon initial assignments by; one, leveraging the experience we have gained on the larger projects, and two, by entering new state markets. In addition, our environmental management work on pipelines and transmission lines continues to be strong, and will be an ongoing source of long-term growth for ICF. We also reported quarter-over-quarter growth in both our state, local, and federal businesses.

The 7.2% increase in state and local primarily resulted from the infrastructure project management work that we are doing out West, much of which has been funded by bond issues and municipal sales taxes.

Our federal business grew at 2.1%, led by demand for our implementation work, especially in health-related IT services. The federal growth rate was lower than what we expected. Looking forward, we believe that the growth in the federal business will remain constrained due to the tightening federal budget, and our expectation is that federal businesses will grow at a mid-single digit rate. We hope to do better, given our strong backlog and record sales, but it is prudent to be cautious. Our profitability in the fourth quarter again significantly outpaced revenue growth, benefiting from a favorable mix of business, greater productivity, and lower depreciation and amortization costs.

Full year 2011 was another strong year for ICF in terms of financial results. Both operating profits and net income increased at more than twice the rate of our revenue growth, benefiting in large part from the strong growth of our commercial business, and our ability to effectively executive on larger contracts. Contract awards for the year reached a record $1.2 billion, up 43% year on year, and implementation contracts valued at $25 million or more accounted for more than 50% of this year's sales. We believe that the combination of ICF domain expertise and our greater IT capabilities continues to distinguish our proposals.

Our success in business development positions us well for continued growth across our key markets. Currently, our energy, environment, and infrastructure business serves both government and commercial clients, and represents an addressable market of over $16 billion. Our health and social programs business serving government clients, represents an addressable market of over $19 billion. These two businesses have been the drivers of our growth for the last five years, and where we have built our domain expertise over the last 40 years. Our two recent acquisitions, however, have significantly expanded our business opportunities, and have positioned ICF to take advantage of three new business areas that can serve as additional growth drivers over the next five years. These business areas are -- first, providing digital interactive implementation services to our commercial and government clients; second, consulting to commercial clients such as payers and providers in the health sector; and third, taking advantage of advisory and implementation opportunities in Asia and Europe, due to ICF's increased scale and presence in these geographies. As a result of the Ironworks Consulting acquisition, which was completed on December 31, 2011, providing digital interactive service has become a key new implementation service offering for ICF.

This is estimated to be a $34 billion addressable market in 2011, and is expected to grow annually at 17% over the next 5 years. We acquired an attractive balance of commercial and Federal Government work in this arena, and leading interactive media, and content portal expertise. This provides us with substantial opportunities to take advantage of the existing strong demand, as well as cost sale new implementation services to existing ICF clients. Ironworks will also be able to offer ICF data analytics capabilities and strategic communication services to its client base. The Ironworks transaction also gives ICF entree into a $14 billion addressable commercial health consulting market. Here, we plan to build upon Ironworks' consulting experience, and long-standing client relationships in the health sector by leveraging ICF's federal health expertise to expand the breadth and depth of our combined offerings to healthcare providers and insurance companies.

The GHK acquisition, which closed today, will double our international business outside of the Americas, and gives us a broad footprint of services and geographies from which to grow. GHK expands the depth and breadth of our core domain expertise in social programs, environment, transportation, and planning. The increased scale of our business and closer proximity to clients will able us to significantly expand our work in Europe and Asia. In summary, we believe that these recent accessions are the most potentially transformative transactions ICF has made to date, and we are enthusiastic about what we are already seeing in terms of cross marketing success. We ended 2011 with a backlog of $1.7 billion, and our pipeline is $2.7 billion, setting the stage for another growth year in 2012. I would now like to turn the call over to John Wasson, our President and Chief Operating Officer.

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

Thank you, Sudhakar. Good afternoon. As Sudhakar noted, we ended the year with the strongest sales total we have ever had, $1.2 billion. This included a fourth quarter sales total of $163 million, which, by seasonal standards, is quite strong. This year's fourth quarter sales were 8.5% higher than last year, which is excellent performance following our record third quarter. We were also pleased that the sales were well represented across our main markets, and in both the government and commercial sectors. The largest commercial wins included energy efficiency projects; infrastructure environment management, especially for transmission systems and pipelines; aviation; industry management consulting; and energy consulting around fuel use, power markets, and infrastructure protection. Of course, next quarter we will also be recording the sales from our Ironworks acquisition in new commercial markets such as health and financial services, as well as in energy where we are already strong.

Last quarter, the largest single commercial award was in energy efficiency with PEPCO Holdings, located here in the Mid-Atlantic region. This $12 million contract focuses on the residential energy efficiency market, where we have an industry-leading track record in driving customer participation, coupled with building the necessary technical infrastructure to deliver the program services. We continue to remain bullish about the growth prospects in energy efficiency programs. In fact, last month, the Institute For Electric Efficiency completed its annual survey of over 200 utilities and government organizations tasked with saving energy. This study found that 2011 energy efficiency budgets reached $6.8 billion, 20% higher than 2010 levels, and more than double the level of 2007 funding. You may note that last night, we announced an $11.5 million extension of our work at the Southern Maryland Electric Cooperative.

In the federal market, we logged new sales with nearly every Cabinet agency, representing all of our major markets, from Energy and Environment, to Health and Human Services, to National and Homeland Security. Our largest win was a $32.8 million contract with the Department of Education, where for the first time, we were tasked to operate the Regional Education Laboratory Mid-Atlantic, known as REL. REL is one the 10 federal regional labs charged with supporting applied research and development, and disseminating best practices. In the federal market, other significant wins ranged from health communication campaigns and cyber security work at the Department of Defense to technical assistance and web development at the Department of Health and Human Services, to survey and data analysis at the National Science Foundation.

Our wins in the state and local markets continued to emphasize environmental management, air quality, and energy conservation work. And finally, in the areas outside the US, we continued to win work in energy efficiency and clean energy, and airport and airline consulting services. We certainly look forward to augmenting these augmenting these areas with GHK's capabilities in Asia and Europe. As you know, we are now over eight weeks into our acquisition of Ironworks. I wanted to report that the integration is proceeding smoothly, and they now are fully integrated into our financial systems.

In business development, we have teams working on how we can jointly leverage our capabilities in energy, to tell the interactive story to ICF clients, to introduce ICF strategic communications and IT capabilities to commercial healthcare payers and payees, to introduce Ironworks interactive services to ICF's broad list of non-profit clients, and to totally exploit a full range of interactive capabilities for federal clients. Thus far, we have had very positive feedback, and have already sold elements of our communication capabilities to a healthcare insurance payer. As Sudhakar noted, our current pipeline is $2.7 billion, a significant jump over the $2.3 billion pipeline at the end of the third quarter, which was seasonality lower after logging a record $600 million-plus in sales. We continue to see robust opportunity across all of our markets, and currently the pipeline includes 24 opportunities greater than $25 million, and 41 opportunities greater than $10 million. Finally, in the fourth quarter, we experienced a very low personal turnover rate of 2.3%, yielding an equally impressive low turnover of 10.3% for the year. Now, let me turn the call to our Interim CFO, Sandy Murray. Sandy?

Sandy Murray - *ICF International Inc - Interim CFO*

Thanks, John. Good afternoon, everyone. I am pleased to review another successful quarter and full year, and provide guidance on certain line items for 2012. Revenue for the fourth quarter was $213.9 million, an increase of 11% over the prior-year fourth quarter. As Sudhakar stated earlier, this growth was driven by the strength of our commercial business, largely in the energy efficiency area. Gross profit margin was 38.6%, up from 38.1% in last year's fourth quarter. The expanded gross margin reflects the continued benefit of our increased commercial business, partially offset by higher subcontractor costs related to our larger implementation contracts.

Indirect and selling expenses remained stable as a percentage of revenues. They were at $63.5 million in the quarter, an increase of 13% over last year's fourth quarter, including $1.3 million in acquisition-related expenses. Exclusive of these charges, indirect and selling expenses were 29.1% of revenues, compared to 29% last year. It was 29.7% in this year's fourth quarter, compared to 29% last year, and 28.7% for the full year, compared to 28.6% last year. Amortization of purchased intangibles was $2.4 million in the fourth quarter, in line with expectations. Operating income in the fourth quarter was $13.9 million, an increase of 19.1% over the prior-year fourth quarter. And operating income margin was 6.5%, compared to 6% in the 2010 fourth quarter.

Excluding acquisition-related expenses in the fourth quarter of 2011, operating income margin would be 7.1%. The effective tax rate for the fourth quarter was 34%, compared to 34.2% in the prior year. The income tax rate was positively affected in each year by certain favorable adjustments that brought the rates down below the statutory rates. Net income was $8.8 million in the fourth quarter, up 24% from last year's fourth quarter, and diluted earnings per share of $0.44, up from $0.36. As Sudhakar noted, full year 2011 was another year of strong year-over-year growth for ICF. Revenue increased to $840.8 million, 10% over the prior year. Full year gross profit margin was 38.1%, compared to 37.7%. Operating income was $58.9 million, an increase of 25.5%, and operating income margin was 7%, compared to 6.1% in the prior year.

Net income was $34.9 million, up 28%, and diluted earnings per share was $1.75, up 26%. Our acquisition of Ironworks was completed on December 31, 2011. As a result of this transaction, our long-term debt increased $145 million. We ended the year with a debt-to-capital ratio of 27%. Cash flow from operating activities was $59.5 million for the year. We utilized our strong cash flow to pay down $48 million in debt in 2011. Days sales outstanding for the year, including the impact of deferred revenues was 75, compared to 72 in the prior year. This excludes the impact of the Ironworks acquisition. At December 31, 2011, backlog was $1.7 billion, up 22% year on year, and inclusive of about $30 million related to Ironworks.

Looking ahead to 2012, we expect the amortization of intangibles to be approximately $14.3 million to $14.8 million, subject to change based on final purchase price allocations for acquisitions; depreciation and amortization of $12.6 million to $13.1 million; interest expense of $4.1 million to $4.5 million; full tax rate to be 40%, and the fully diluted weighted average shares for the year to be $20.2 million. Our projected capital expenditures are $15.4 million to $16 million. Thank you, and with that, I'd like to turn the call back over to Sudhakar.

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

Thank you, Sandy. We expect 2012 to be another strong year for ICF. For the full year, we expect revenues to be in the range of $1 billion to $1.04 billion, which is at the big point is over 21% above 2011 levels. EBITDA margin is expected to range from 9.5% to 10.5%. This is the first time we've increased the range since we began giving guidance. At the midpoint, that will put EBITDA at $102 million, or 29% above 2011. We expect a range of diluted earnings of $2.05 to $2.15. For the first quarter of 2012, we are guiding revenues to $227 million to $233 million, and diluted EPS of $0.43 to $0.47. Operator, I would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

All right. Thank you very much.

(Operator Instructions)

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

Tim Quillin - *Stephens Inc. - Analyst*

Good afternoon. Could you talk just a little bit about your debt capacity right now, and what type of acquisitions you might consider from here? I think the last two acquisitions were very strategic, and I think in line with what you had said you would do. What do you do for a follow-up act?

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

There are a number of possibilities. We obviously are looking to get scale, as we've said right from the beginning when we started talking to you as a public company. We think that our domain expertise, we're quite happy with being in the domains we are in. We clearly want to diversify into commercial areas, so commercial health was one of the examples I gave. We'll expand our implementation service offerings, so the Ironworks acquisition certainly does that. I think that in all these cases there's a case to be made for greater scale, so we will continue to look for ways in which we can get greater scale in these areas, and it could be -- we are certainly focused, now, on, not only, as I said, on the Federal Government, but also commercial markets in our domains, as well as international markets in our domains, so the breadth of opportunities for acquisitions which we can look at has certainly expanded.

Tim Quillin - *Stephens Inc. - Analyst*

And what size acquisition are you able to look at right now, given your balance sheet, and should we expect any sizable acquisitions this year?

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

Well, I think the guidance of the Board is that they would like acquisitions which are greater than $50 million in revenue, because of the fact that those are more institutionalized companies, and it's easier to integrate them, plus there's less risk. Clearly, we have tried, certainly, to adhere by their guidance. Once in a while, we make the case as to why a certain acquisition is powerful, strategic, and therefore we need to do it. So the size of the acquisitions will be $50 million-plus in revenue. The debt capacity aspects, at the moment, allow us to go up to larger sizes, and we will look on it in a very considered way, and do acquisitions which fit the general set of parameters of our business.

Tim Quillin - *Stephens Inc. - Analyst*

Perfect. Thanks Sudhakar.

Operator

Our next question comes from the line of George Price with BB&T Capital Markets. Please proceed.

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

Hi, thanks very much for taking my questions. Just, I guess to start off, focusing on the 2012 guidance. $230 million is the midpoint of the guidance range for first quarter, and so off of that, to hit the midpoint of the full-year guidance, you need something along the lines of 7% quarter-over-quarter growth for the next three quarters. Obviously, you're going to get an uptick from the full quarter of GHK in the second quarter, and I also acknowledge that seasonally your second quarter tends to be very strong for you, your fourth quarter generally a little bit down. I guess where I'm going with this is how should we think about the revenue progression through the year in that light? Then, given the uncertainties in the market, how do we kind of get comfortable about that, particularly the federal space?

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

Yes, I think clearly the federal space, as we have said, is going to grow, as I said in my conference call remarks, at a mid-single digit rate. We certainly hope to do better, we have a very strong backlog, but hopefully the Government will go ahead and make decisions and spend the money. But we're expecting 5%, clearly, therefore, the commercial market has to grow more rapidly than the federal business, clearly, as it has in 2011. So I think our overall sense is that the organic growth rate, guidance was given as 8% to 12%, and so we think that if you exclude the acquisitions, the general pattern of revenue growth would be stronger in the second and third quarter, and lower in the first and fourth quarter. So I think that would be the way I would look at it, nothing different from what we've done in the last few years.

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

Okay. Okay. What part of the federal work in the quarter disappointed? Can you point out any particular vehicle, or agency, or type of work?

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

Sure. This is John Wasson. So I think that it was a mixed bag. I think there were certain parts of our federal work that were actually quite strong and showed robust double digit growth. Health and Human Services, State Department, Department of Transportation were all up significantly. I think we saw weakness and some contraction at the Department of Agriculture. We've had some broadband work there. The Postal Service, Housing and Urban Development was down a bit. EPA was down a little bit, so those would be the agencies where we've seen some weakness in the last quarter.

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

Okay. And how much of the contract awards in the quarter represented new work?

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

The majority.

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

The majority I think was, I'm sure we have the numbers. We don't have them handy at the moment.

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

Yes, but it is certainly well into the majority.

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

Okay. Okay. Last, last question if I could. And then maybe I'll circle back. But just, Sandy, on the tax rate in 4Q, I've noted, looking back the last couple of years, you've had a dip in the tax rate in the fourth quarter, so if you can just let us know what happened there. And I guess notwithstanding the 40% tax rate guide for the year, should as a rule, is there a reason we should model every fourth quarter a dip in the tax rate? Thanks.

Sandy Murray - *ICF International Inc - Interim CFO*

The reason for 2010 and 2011 were some one-time reclassifications that we did from prior years, so we had a favorable pick-up in some FIN 48 adjustments. I really don't think we can project that that will occur every fourth quarter.

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

Okay. So that was all FIN 48. Okay, fair enough. Great. Thank you.

Operator

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

Timothy McHugh - *William Blair & Company - Analyst*

Yes, thanks. First, just following up on the questions about the federal business this quarter. You mentioned some of the agencies. Were there any particular large projects or anything that moved to the right on you, or was it just broadly a little slower than you might have hoped?

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

Yes, I think it was several things. I think we did see some project delays. We saw some client turnover on one or two large contracts that impacted the ramp up, and then there's some budget uncertainty. So I would say a mix of those reasons. It's not a single reason. We do expect some of these -- the client turnover on a couple key contracts will get resolved, and we'll pick back up. But it is several things that drove it in the fourth quarter.

Timothy McHugh - *William Blair & Company - Analyst*

As we think about that backlog growth, how different was the federal business backlog growth, or even the contract growth, is probably a better number, so if you're up 40% -- did federal contracts, if you stripped out the commercial and kind of international stuff, still grow 20%, 30%? I'm just trying to think about that relative to the 5%, or kind of mid-single digit growth you're talking about for federal.

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

Yes. I think that the federal business clearly did continue to grow, and that the award activity continued. I think that it so happened that there were certain, as John said, there was no specific singular reason, so there wasn't like an -- I hear some of the DOD-focused companies, government services companies, talking about broad policy aspects, which impact their business. But I think here, we had a confluence of multiple factors which we think will resolve themselves, and we'll be able to take advantage of some of the growth in backlog, the strong growth in backlog, and the fact that we have a good, strong [base] where we can do the work. I think having said that, it is important to understand that this fact that there is some budget uncertainty has driven some of the Federal clients to, even if they have the money, to sort of slowly decide, so the decision making certainly has slowed down, regardless of whether they have the money or not.

So I think there's a whole psychological impact, I think of this whole, of all the budget talk, and therefore that is slowing it down. We hope that it will resolve itself in the next few months, that people understand. We have seen the 2013 budget. It doesn't appear as drastic as we thought -- at least the President's budget. Now, that, people will say, is not likely to be passed, but at least it's an indication of where the spending is, and where the spending is not. It's a flat budget. There are one or two places where it's a little lower, but it's actually quite okay. So once that goes along, and that goes around, then hopefully things will even out, and the federal clients will become more comfortable, and we'll get back to higher growth rates.

Timothy McHugh - *William Blair & Company - Analyst*

As we, just another question on a different topic for margins in 2012. It seems like given some of the acquisitions and the shift, commercial, I guess if I just layered in the acquisitions, it would put you above the midpoint of that EBITDA margin guidance for next year. Maybe my math's wrong, or are there some, are there some offsetting factors that you have kind of embedded into there? I'm trying to think about where within that range --

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

9.5% to 10.5%, we've given. The midpoint of $1 billion to $1.04 billion is $1.02 billion. 10% of $1.02 billion is $102 million, which is what I said the EBITDA is going to be. So I don't know, the math is pretty straightforward.

Timothy McHugh - *William Blair & Company - Analyst*

No, I get that math. I'm saying if I took your EBITDA margin from last year and made some -- took what we know, or at least what I think I know about the margins of the businesses you've acquired, it would seem your margins assumptions are even a little conservative. I guess I was trying to see if there is something else impacting the number there, and what to think about for you margins next year.

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

No. If we can generate more margins, we certainly will. I think based on the things we have looked at, we need to understand these businesses. We need to know that they will actually produce what they have produced in a non-ICF setting, and that, as we pointed out in the Ironworks situation, the back office was a pretty thin back office. We obviously had to invest there. Once we get a better sense of that run rate, we certainly hope that we can generate more margins, but I think at the moment, we are reasonably confident that we can generate what we've told you we can.

Timothy McHugh - *William Blair & Company - Analyst*

Okay. Great. And my last question would be, given the amount of depreciation and amortization, do you have a sense for, or a target for free cash flow next year at all, or maybe a delta between GAAP EPS and the free cash flow that you hope to generate?

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

Large amounts of free cash flow. (Laughter) No, we don't have -- we certainly manage cash I think quite effectively. We certainly hope to generate, continue to do well, on the free cash flow front. So we do not have a specific target, no, which we can talk about.

Timothy McHugh - *William Blair & Company - Analyst*

Okay. All right. Thank you.

Operator

Our next question comes from the line of Tobey Sommer with SunTrust. Please proceed.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. I was wondering if you could give us an update on, I believe it's a pair of contract protests that were underway. See if you've heard, or if that's still pending, thanks?

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

Yes. I think the long and the short of the two contracts we discussed last time is that those contracts remained under protest, and the issues are unresolved. So there's no -- they're still unresolved. The protests.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

John, is the time line, as near as you can judge, because you never know until you do, but sometime over the next month or so?

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

Yes. I would hope in the next month or two. We certainly hope so.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay. And then I wanted to ask a question about your facility in rural Virginia. First of all, is it open, and if you were able to take a look at how the business and the composition may look in a year or two's time, how many employees, maybe what proportion of employees do you think you could house in a location like that?

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

Well, the facility in Martinsville, Virginia, we did open it, I think, in January, middle of January. We have, I think, we're up to about 150 employees in that facility upon opening. I think it has capacity for somewhere north of 500, 500 to 550 employees. I think our hope would be to get there, certainly, in the next couple of years, and so I think, as we've talked about, we believe that the services that we've run out of that facility, the implementation services around business processing, call centers, outsourcing are a key new implementation service that we can sell in our verticals. So I think it's going very well. We've been able to hire high-quality people, we're finding it to be a very efficient workforce, and so I think it's serving the purposes we'd hoped, and as I say, we've opened it in the last month or six weeks. We have 150 people we've hired, and our goal is to get to 500 or 550, certainly, in the next couple of years.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you very much.

Operator

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

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi. Thank you. Looking on the federal business, it sounds like the tone has changed in terms of talking about the federal growth. Even earlier this year I didn't get the sense from talking with you guys that you were going to see that you thought the federal would be where it is. So, how quickly did you hear this? Is this kind of a change in tone? Because I'm a little surprised with, just, you said, with the exception of the protest, that the record amount of awards you've won have been staffing up and ramping up with no issues, and then we did have the budget passed in mid-December, which didn't help the fourth quarter too much, but going forward, I would think it would, as those funds get applied to contract, the record amount of contracts you won, so is this something that, the tone that's really been changing in the last month or so?

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

I think for us, we're aware of the fact that, as you point out, that we were more bullish about the federal business than it actually turned out to be, so we have been a little more cautious. We won all these awards, we thought the awards would translate into significant amounts of revenues. The award activity hasn't slowed. Everybody seems to be putting out RFPs, and we continue to bid, and we have record backlog. But the task orders take longer to come. Things have, we think, slowed down. So we think that we would be delighted if we can go back to the tone of a quarter or two, and we hope that we can do that next time we talk to you, but at the moment, given that we've been saying something, and it's not turned out to be exactly what we thought it will be, we have decided to rein it back a bit, and we think that the numbers we're giving you now are consistent with the behavior of the Federal Government client base at the moment.

Bill Loomis - *Stifel Nicolaus - Analyst*

So even with the budget, mid-December money starting to flow through, you're being conservative based on what you saw last quarter?

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

Yes. I mean, if we can -- once the money starts flowing through, and once we see all these things going, and the client base is getting us to go ahead and do what we need to do with the right amount of, with the complete okay, then, yes, we will go back to the tone, but at the moment we think that it's prudent to adopt the tone we have adopted this quarter.

Bill Loomis - *Stifel Nicolaus - Analyst*

Then on the energy efficiency, what was the number that institute gave on the energy efficiency market? Was that $6.8 billion? And I guess I'm just trying to understand how much of that is addressable by the services that you provide? Because when I look at the size of yours, even your biggest one with BG&E, and then I look at some competitors' sizes, they're not, I mean, they're nice pieces of work for sure, but I just have a hard time adding up to get to $6 billion, so how much of that would really be an addressable market for what you do?

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

I think the $6.8 billion includes a bunch of incentives and other monies which is spent by the utilities for all kinds of acquisitions of hardware. So if you take those out, the addressable market would be, perhaps, 25% of that $6.8 billion.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Which is still huge compared to --

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

Which is still huge, yes.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

So when you look at your pipeline, I mean, are you able to bid, do you have to wait for -- we've talked in the past about California, and their re-compete cycle, and that's certainly a big chunk of that spending. But is this something that you just have to wait for the contracts to turn over, and the re-compete cycles, before you can start further increasing your market share?

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

I think in California that is certainly true, but we don't have to wait in the other states. We are in half the states, and we're certainly in the process of expanding to the other states, and increasing the size of the assignments in the states we're in. So some of the announcements which have been made and which we hope to make will certainly add to the scale of the work we do in each of these states.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

So I mean, I'm not trying asking to you make a forecast on this, but would it be possible for this energy efficiency business of yours to double in two years, for example? Based on the opportunities you see in the pipeline and, I'm just trying to get a sense of how much growth from this current level could we really see if things went right?

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

Yes, that's a reasonable assumption. Doubling of the size of the business.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you.

Operator

(Operator Instructions)

Our next question is a follow-up that comes from the line of George Price with BB&T Capital Markets. Please proceed. Mr. Price, your line is open.

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

I had a couple of follow-ups. First of all, John, on the protests, what's assumed in guidance for those? Is there a potential for material impact on those one way or another, if they come sooner or later?

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

I don't think there's a material impact. I think of the 2 protests, one we have not included in the guidance, and the second we've assumed it to be resolved at some point in the second quarter, so there is some revenues from that contract in our guidance, but it's not material.

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

Okay. And are there any, what are the additional acquisition related costs, maybe, that may hit in first quarter '12 and beyond that, in terms of acquisition transaction costs, Sandy?

Sandy Murray - *ICF International Inc - Interim CFO*

Probably around $300,000 to $400,000.

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

And that's all in first quarter?

Sandy Murray - *ICF International Inc - Interim CFO*

Mostly, yes.

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

Okay. And last thing is just, did you give the specific acquired revenue, or could you, at least, for what you're going to get from GHK in the first quarter?

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

I think we've given the revenue guidance. We have given the size of the business. So I think that it will be one month out of the three months, so one-twelfth of $30 million.

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

Okay. I just wondered if there might be some seasonality in those. What do you expect that business to do from a growth perspective in 2012?

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

We have assumed that it will not grow in 2012, because we're trying to -- that's the assumption in our -- it has grown over the years on its own, but we've assumed no growth in 2012, because we're trying to get our hands around it. There's a whole integration aspect. Jeanne Townend is moving over there at the end of this month. So at the moment, we have assumed no growth, but then hopefully it will growth at the normal rates it has grown. 9%, 10% going forward.

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

Okay. All right. Great, thanks very much.

Operator

Ladies and gentlemen, that will conclude the question-and-answer portion of our event. I'd now like to turn the presentation over to Management for closing remarks.

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

Oh, thank you very much, and we look forward to speaking to you again at the next earnings call in May. Thanks for joining us.

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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