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ICFI - Q4 2014 ICF International Inc Earnings Call

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PRESENTATION

Operator

Welcome to the ICF International fourth-quarter and full-year 2014 results conference call.

(Operator Instructions)

As a reminder, this conference is being recorded on Thursday, February 26, 2015 and cannot be reproduced or rebroadcast without permission from the Company.

I would now like to turn the program over to Douglas Beck of ICF. Please go ahead, sir.

Douglas Beck - *ICF International, Inc. - SVP & Director of Corporate Development*

Thank you, operator. Good afternoon, everyone, and thank you for joining us to review ICF's fourth-quarter and full-year 2014 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO; John Wasson, President and COO; and James Morgan, CFO.

During this conference call we will make forward-looking statements to assist you in understanding ICF 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 26, 2015 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 the fourth-quarter and full-year 2014 performance. Sudhakar?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you, Doug. Good afternoon everyone and thank you for joining us today to discuss fourth-quarter and full-year 2014 results and our expectation for 2015.

In 2014 ICF reached an important milestone. We surpassed a $1 billion in revenue for the first time. This double-digit growth in revenue from the prior year was led by a 19% increase in commercial business and a doubling of our international business revenues.

Revenue from our digital services and strategic communications offerings ended the year with a run rate in excess of $300 million which gives us a competitive scale to bid on and win large contracts in commercial and government markets in both North America and Europe. 2014 performance reflects our success in significantly diversifying our revenue sources while at the same time maintaining our focus on key markets. Despite the diversification, our key markets health and energy broadly defined continue to account for the vast majority of our total revenues illustrating the importance of our domain expertise, a key competitive advantage for ICF.

From a strategic standpoint 2014 was a transformational year for ICF in terms of client mix, scale and scope of operations. We completed three acquisitions last year namely Olson, CITYTECH and Mostra. The November acquisition of Olson deepens our expertise in integrated marketing solutions, extends ICF's current commercial digital services business and enhances digital stakeholder engagement capabilities for our government clients.

Earlier in the year we acquired CITYTECH, a digital interactive consultancy specializing in enterprise applications and a leading partner of Adobe to further add to the breadth of both our commercial and government digital services. Finally Mostra, a fully integrated strategic communications firm, has added significant scale with our European Commission clients and provided a strong platform for extending our digital marketing capabilities in Europe. In sum, the scale that we have gained from these acquisitions and the organic growth of our commercial business when combined with the strength of our legacy government and international businesses has positioned us for growth in 2015 and beyond.

Strategically we have several broad objectives. First, continue to build scale in our commercial businesses. Our vastly increased digital services and strategic communications capabilities address what commercial, and in fact certain government clients, increasingly demand enhanced abilities to engage customers and stakeholders.

Second, keep our strong commitment to our government business which has the advantage of long-term contracts and future revenue visibility. And finally, further expand the scope and profitability of our international operations by building scale in certain geographies so we can replicate the ICF full lifecycle business model in these locations.

In terms of building our commercial businesses, we have entered 2015 with over 1,000 commercial clients, up from 800 just a year ago. In addition to pursuing growth opportunities in our traditional energy environment markets and infrastructure consulting businesses, we are focused on three specific initiatives to increase our business from new and existing commercial clients that include: one, building a business development program around ICF's comprehensive digital service capabilities where we can use our scale and proven success in consumer engagement as a competitive differentiator; two, introducing our end-to-end service digital services offering to existing commercial clients. For example, these solutions are tailor-made for our utility clients' needs to drive consumer behavior in order to increase energy efficiency. In fact, we recently signed a significant project expansion to create a common digital platform for a major investor-owned utility.

And many of our commercial healthcare clients are payers and providers who are seeking ways to influence consumer decision-making. And we now have the capability to offer our transportation clients the technology and analytics to both affect transactions and manage robust loyalty programs.

Three, establishing ICF in the social, mobile, analytics and cloud technology space referred to normally by the acronym SMAC. SMAC is a reflection of the fact that these four technologies are currently driving business innovation. We believe we are in the right place at the right time to offer services in this growing space where we can provide our clients the strategies and tools to increase revenue opportunities through greater customer interaction, acquisition and loyalty while enabling them to reduce both cost and time to market.

We remain committed to keeping the government business as a key part of our portfolio with the advantage of long-term contracts which provide scale and visibility along with reliable cash flow. Government work adds greatly to our domain knowledge in areas such as health, energy and the environment that strengthens our leadership in these areas for all types of clients globally.

We see significant opportunity to leverage further our digital and client engagement capabilities across our government client base. We believe that we have the essential qualification today to be a leading force in working with civilian agencies to help them find cost-effective ways of creating and improving stakeholder engagement.

Of course this will take time and currently we are fighting some headwinds in the federal space resulting from budget issues, the extended time between winning contract awards and recognizing revenue and small business set-asides, not to mention the impending shutdown at DHS. But beyond these timing issues we are quite confident of the returns we will see from our investments in digital services in the government market.

With respect to our international business, we started 2015 with more than 600 staff and with excellent long-term contracts with the UK government and the European Commission including most of the 33 European Commission's Directorate Generals. The Mostra acquisition which we completed in February of last year added strategic communications capabilities greatly complement ICF's policy work, enabling us to leverage our advisory capabilities to provide implementation services similar to the way in which we expanded our business model in North America.

Now with our expanded digital services capabilities we see knowledge transfer opportunities within ICF to assist our international colleagues in offering a broad range of stakeholder engagement tools to their clients. We expect to improve the profitability of our international operation in 2015 by increasing utilization as we continue to grow and by closing offices that were either unprofitable or in challenging geographies.

To sum up 2014 was a year of solid progress for ICF in which we have laid the foundation for future growth. At this point I'd like to ask John Wasson to provide additional detail on our fourth-quarter performance.

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

Thank you, Sudhakar, and good afternoon. It was another good quarter for ICF with continued strength in two of our key markets.

Energy, environment and infrastructure and health, social programs, consumer and financial increased 12% and 35% respectively over the comparable quarter last year, a period when revenues were affected by the 16-day federal government shutdown. Together these markets accounted for 92% of total revenues for the fourth quarter of 2014. Revenues in our third market, public safety and defense, declined 11% in the fourth quarter as we lost contracts at DoD and DHS to set-asides and also due to the fact that we have a disciplined approach to pricing.

In our commercial business we achieved a 46% increase in revenues thanks to recent acquisitions, particularly the Olson transaction and 6% organic growth. Commercial revenues accounted for a record 36% of total revenues in the fourth quarter of 2014 which represents a significant transformation for ICF. One year ago commercial accounted for 30% of fourth-quarter revenues.

The composition of our commercial revenues in the fourth quarter is likely representative of what we will see going forward. Digital services and strategic communications accounted for 37% of commercial revenues and energy markets which encompass ICF's energy efficiency and energy advisory work represented another 38%.

We achieved record contract wins for 2014. The value of awarded contracts was $1.3 billion, up from what was a record year last year when we reported $1.2 billion of new sales.

In the fourth quarter we had sales of $262 million, up 17% from the comparable year-ago period. We won a number of strategically important contracts from commercial and government clients that reflect our leadership position as subject matter experts and our increased scale in IT and digital services.

In our commercial business we had several big wins in the energy efficiency area including a $16 million contract with the Southern Maryland Electric Cooperative and a $6 million contract with another major utility. We also received a contract extension of more than $9 million with an additional major utility to provide energy efficiency services for existing buildings program.

We continue to monitor EPA's proposed Clean Power Plan as this could provide a major boost to our energy efficiency business. Indeed our analysis shows that overall energy efficiency could have a gross economic value of $5 billion as utilities comply with the Clean Power Plan.

Also our energy advisory business has benefited from numerous engagements to assist asset owners in better understanding the business implications of the Clean Power Plan. Other policy issues including oil and gas infrastructure, methane emissions and regulatory policies have also helped drive our advisory work.

In federal we had several key wins in the fourth quarter. Included is a $27 million subcontract we signed to support the US Department of Defense's cyber security efforts making it the third program of this nature that ICF supports at DoD. We regard the cyber security market as robust and growing with solid and emerging opportunities in both the public and commercial sectors ICF serves.

Also in federal we have won several key contracts including a $12.7 million grant from the Department of Housing and Urban Development to provide technical assistance across a range of programs and two contracts with the Department of Health and Human Services totaling more than $13 million. These two contracts support the Responsible Fatherhood Clearinghouse which helps encourage and strengthen fathers and families and the Underage Drinking Initiative which helps adults talk to children about the dangers of alcohol. Both of these programs show that ICF continues to perform innovative work in the growing healthcare marketplace.

Our state and local business turned in one of the strongest sales quarters in three years led by a $14.5 million recompete contract with the Commonwealth of Pennsylvania to administer reimbursement claims regarding environmental damage caused by underground storage tanks. Other wins included environmental work in California, Florida, New York and Washington state and education work in Maryland, West Virginia and New Hampshire.

Despite record sales in 2014, our pipeline at year-end was a robust $3.5 billion and included 25 opportunities greater than $25 million and 68 opportunities from $10 million to $25 million. An important contributor to our positive revenue performance is ICF's better-than-average industry retention rate. Voluntary turnover was 2.5% for the fourth quarter excluding Olson and averaged 11.7% for the year.

Our strong sales for 2014 and robust pipeline at year-end give us confidence regarding continued growth for our business for 2015 and beyond. Sudhakar will talk further about the broad assumptions underlying our guidance for 2015.

Before I close I do want to note a few short-term headwinds that will impact us in the near-term. First, as Sudhakar has already mentioned we continue to experience challenges in our federal markets due to budget uncertainty including the potential shutdown of DHS in the next few days and from clients being cautious about moving out on new programs. While we believe our record federal sales will lead to growth in certain civilian sectors we do not expect growth in federal markets in the near-term.

Second, our international revenues have been impacted by the strengthening of the US dollar against the British pound and the euro over the past several quarters. On a constant currency basis we expect our Europe and Asia business to grow by high single digits in 2015. However, given the recent strengthening of the US dollar against foreign currencies we expect our international revenues will decline in the mid single digits on a US dollar basis for 2015 relative to 2014.

Third, in an effort to improve international profitability we have taken steps to significantly scale back our operations in Brazil and China. This will result in a revenue decrease of $3.5 million in 2015.

Finally, from a seasonality perspective we expect the second and third quarters to be our strongest followed by Q4. Q1 is typically a slow quarter for both commercial and government businesses.

With that I'll now turn the call over to our CFO James Morgan for his financial review. James?

James Morgan - *ICF International, Inc. - EVP & CFO*

Thanks, John, and good afternoon everyone. As mentioned previously we reported solid year-on-year comparisons in the fourth quarter.

Total revenue was $276.4 million, or 20.3% above last year's fourth quarter. Organic revenue growth, which is total revenue excluding acquisitions completed in the last 12 months, was up 3.5%.

Fourth-quarter 2014 gross profit margin was 39%, an increase over the 37.7% reported in the fourth quarter of last year. The year-over-year increase was primarily driven by the greater mix of higher margin commercial business as a result of the Olson acquisition.

Indirect and selling expenses for the fourth quarter were $83.4 million. The $14.6 million year-over-year increase in indirect and selling expenses was primarily due to the additions of Mostra, CITYTECH and Olson and included approximately $800,000 in acquisition cost related to the Olson transaction.

We achieved strong year-on-year profit growth thanks to the increased contribution of higher margin commercial business in this year's fourth quarter and the impact of the 16-day federal government shutdown during the comparable period last year. Operating income was $16.6 million for this year's fourth quarter, up 32% year over year. Adjusted to exclude acquisition-related expenses in both periods and special charges related to the international office closures, operating income was $18.7 million, 42.4% above a similar period last year and significantly ahead of our revenue growth rate for the fourth quarter.

Reported EBITDA was $24.5 million for the quarter, 38.1% higher than the $17.7 million reported in last year's fourth quarter. Adjusted EBITDA, which excludes acquisition-related expenses and special charges related to office closures, was $26.6 million for the quarter, or 45.4% higher than the $18.3 million adjusted EBITDA reported in last year's fourth quarter. Adjusted EBITDA margin increased to 9.6% from 8% in the fourth quarter of 2013.

Depreciation and amortization expense was $3.9 million, up from $2.9 million in 2013's fourth quarter. Amortization of intangibles was $4 million in the fourth quarter of 2014, up from $2.3 million in 2013's fourth quarter. Both the year-over-year increase in depreciation and amortization and the increase in amortization of intangible assets was driven by the acquisitions of Mostra, CITYTECH and Olson.

The effective tax rate was 40.3% for the quarter as compared to 34.2% reported in the fourth quarter of 2013. The Q4 2013 effective tax rate was positively impacted by favorable return to provision adjustments, state tax credits and settlements of certain state income tax audits.

Reported net income was $8.8 million, or $0.44 per diluted share for the fourth quarter of 2014. Adjusted EPS, which excludes acquisition- and office closure-related cost was $0.51 for the fourth quarter, an increase of 27.5% over the prior year.

Looking briefly at the full year of 2014 revenue was $1.051 billion, up 10.6% and organic revenue growth was 1.8%. On a reported basis, EBITDA increased 9.1% to $93.2 million. On an adjusted basis EBITDA increased 14.3% to $98.6 million and adjusted EBITDA margin increased to 9.4% as compared to 9.1% last year.

Adjusted earnings per share for the full year of 2014 was $2.19, up from $1.98 last year. Reported earnings per share was $2 compared to $1.95 for the 12 months of last year.

We had a strong quarter in cash flow generation resulting from our diligent billing and collection efforts and benefiting from better timing of payrolls compared to last year's fourth quarter. As a result, ICF produced cash from operating activities of $59.6 million in the fourth quarter and generated full-year cash flow from operating activities of $79.2 million.

We utilized $61 million to paydown debt which was $350 million at year-end. And as we projected last quarter our pro forma net debt to EBITDA ratio was below 3 at year-end.

Days sales outstanding as of the end of the fourth quarter were 74 days which is within our expected range. As a reminder we anticipate the DSO to be in the 72 to 77 day range including the impact of deferred revenue.

Capital expenditures for the full year of 2014 were $13 million. We did not repurchase any shares under our share repurchase program in the fourth quarter as we have repurchased enough shares earlier in the year to achieve our goal of offsetting the dilution caused by our employee incentive programs. As a result we maintained a fairly flat year-over-year diluted share count.

Now I will provide additional detail on certain of our expectations for the full-year 2015. We are currently forecasting full year depreciation and amortization expense to be in the range of $18.5 million to $19.5 million. We are forecasting amortization of intangibles to be $17.2 million for 2015 or tax affected impact of $0.53 per share.

We are expecting full-year interest expense of $9 million to $10 million, capital expenditures are anticipated to be in the $18 million to $20 million range and cash flow from operating activities is expected to range from $90 million to $100 million. We expect a full-year tax rate of no more than 38% and we expect fully diluted weighted average shares of approximately 20 million for the year.

I do want to follow up on a comment John made regarding the impact of foreign exchange rates on our 2015 revenues. As John mentioned, we are expecting that the devaluation of foreign currencies against the dollar, the most significant being the British pound and the euro, will have an impact on our reported revenues.

To put this in perspective, the exchange rate for the euro as of January 31, 2015 as compared to the average foreign exchange rate during 2014 was down 14.8% and the exchange rate for the British pound was down 8.6% for the similar measurement period. As a result of the strengthening of the US dollar we are currently estimating a year-over-year negative impact to our revenues of more than $15 million based on recent exchange rates.

Lastly I wanted to mention that going forward in 2015 we will be breaking out our revenues into four major markets instead of three by separating consumer financial from broader health category and we will be providing historical comparative data on this new market category as well. In addition, given the increased importance of digital services to our commercial business we will be disclosing its contribution to quarterly commercial revenues each quarter along with the contribution from energy markets which encompasses energy efficiency and energy markets advisory work.

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

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you, James. In summary we expect to continue to grow profitably in 2015. Our assumptions include low double-digit growth in our commercial business, continued growth in our international government business and constant currency terms, a decline in our state and local revenue as a result of the wind down of Superstorm Sandy recovery work that will begin in the second quarter and despite a higher backlog we're assuming a slight decline in federal government revenues.

In today's release we included our full-year 2015 guidance across several metrics. We expect revenues to range from $1.175 billion to $1.225 billion representing year-on-year growth of 14.3% at the midpoint. Keep in mind that roughly $20 million in revenue that we had in 2014 will not recur in 2015 due to foreign exchange translations and office closures.

EBITDA margins are estimated at between 10% and 10.5%. Non-GAAP EPS which excludes amortization of intangibles is expected to range from $2.78 to $2.93. The GAAP diluted EPS range is $2.25 to $2.40.

Operator, we would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bill Loomis, Stifel.

Bill Loomis - *Stifel, Nicolaus & Company - Analyst*

Hi, good evening. Sudhakar, just on your margin goal, 10% to 10.5% EBITDA, that's pretty close to what the goal was prior to Olson. Olson had much higher margins.

What are some of the incremental costs on that? Why aren't we looking at say 10.5% to 11%?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Bill, we took the Olson margin and weighted average them with our margin. And we basically said in the Olson guidance that we will -- our margins will increase by 80 to 100 basis points which is what we did. We added 80 basis points to the 9.4% and that's how we came up with the 10.2%, 10.25% midpoint for the EBITDA range.

Bill Loomis - *Stifel, Nicolaus & Company - Analyst*

And the margin improvement from international closing those unprofitable offices, does that help in 2015?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, we certainly hope it helps which is why there is a range which we have given you from so hopefully that will help. And we certainly are quite focused on profitability especially making sure as I said that we want to make sure that we have scale in certain locations and obviously those locations are in Europe and the ones which are sort of marginally scaled we want to -- we don't want to necessarily continue to commit to. So we certainly hope that that will happen.

Bill Loomis - *Stifel, Nicolaus & Company - Analyst*

Okay. And just on in terms of negative impacts on profitability in 2015 can you go over that? You talked about the revenue but for example obviously exchange rate won't impact margins just dollars, right?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes. I mean margins -- James, why don't you --

James Morgan - *ICF International, Inc. - EVP & CFO*

Yes, there could be a little bit of impact. We think that's going to be fairly small.

It certainly from an EPS perspective you have an impact, Bill, with the translation of the income statement and balance sheet but it should be fairly small. We're talking a penny or two.

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Bill Loomis - *Stifel, Nicolaus & Company - Analyst*

And then just the margin on federal that you're looking for in 2015, how do you see that versus 2014? Improving or the same or worse?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think we believe it's going to be the same but we are striving to see how we can improve it. But our assumption for the purposes of going forward is that it's going to be the same.

Bill Loomis - *Stifel, Nicolaus & Company - Analyst*

Okay, thank you.

Operator

Tim McHugh, William Blair.

Matt Hill - *William Blair & Company - Analyst*

Hi, this is Matt Hill in for Tim this afternoon. One of the questions I had was in relation to the federal government. You talked a lot about some headwinds for spending there. Is this a change from what you had seen before with the strong awards in previous quarters?

Was there anything unique in the fourth quarter? I think with the easy comparison with the shutdown I think I think we were looking for a little bit more there.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I understand your sentiments. I think our awards have been pretty good for the last two years if you recall.

We had $1.2 billion of sales in the prior year. We had $1.3 billion this past year. I think that we are still trying to figure out the rate at which the government will come back to normal in terms of the awards translating into revenues.

We certainly thought that with the budget passage this past year things would improve and perhaps the normality would return. We found over the last month or two that it hasn't quite gotten back to normal the way we would expect it to. So we're assuming that the patterns which have existed over the last year, two years or so will continue and with this DHS thing has not helped our overall feelings about the federal business.

So we think it's a reasonable, pragmatic assumption to make that things will remain the same in terms of translation of awards to revenues. We were a little more optimistic at the beginning of last year if you recall but we didn't quite hit those numbers. So we thought that we should learn and we should assume that the pattern will remain the same going forward.

Matt Hill - *William Blair & Company - Analyst*

Okay. And then a question do you have any, are you willing to give any commentary around organic growth in the digital interactive or energy efficiency business? And then maybe what are you expecting Olson in 2015 revenue wise for Olson?

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

This is John Wasson. I think on the energy efficiency and the digital front I think generally we've guided in our commercial markets to low double-digit growth, organic growth and I would think that's a reasonable number for both the digital and the energy efficiency in our commercial markets. I know when we did the Olson acquisition we had indicated 12% growth and so I think growth rates in that range would be appropriate for those markets.

Matt Hill - *William Blair & Company - Analyst*

Okay, great. Then one final one, any commentary on the size of impact from the rolloff of the Superstorm Sandy work?

James Morgan - *ICF International, Inc. - EVP & CFO*

In total it's somewhere in the neighborhood of $5 million to $7 million.

Matt Hill - *William Blair & Company - Analyst*

So $5 million to $7 million that won't be repeating in 2015?

James Morgan - *ICF International, Inc. - EVP & CFO*

Yes. Year over year a decrease in revenues associated with that (multiple speakers)

Matt Hill - *William Blair & Company - Analyst*

Okay, great. All right, thank you very much.

Operator

Edward Caso, Wells Fargo Securities.

Tyler Scott - *Wells Fargo Securities, LLC - Analyst*

Hi, guys, it's actually Tyler Scott on for Ed. I was just hoping you might be able to give us some color on how the integration is going with Olson so far and maybe any early success in the cross-sell or is that still a little too early?

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

This is John Wasson. I think the integration is going quite well. I think as we talked about on the last call as of the first of the year we created a new digital services group that brings together both the creative capabilities in Olson and the technology capabilities on the legacy ICF side.

So we're quite pleased to be able to sell across the entire value chain. We have begun looking at specific clients and going in and telling the full story. So for clients that we're working more on the creative side we're helping them understand our new technology capabilities and in the same vein our technology clients we're certainly sharing the Olson story so we're certainly out making those, having those meetings and having those discussions.

There has been one or two bids that we've bid together that I don't think either firm would have bid independently. I know we bid to an energy company in Canada an opportunity.

We've also I think won some work at Fannie Mae, had some small projects success at Fannie Mae. And so there is good signs that we're actually finding clients where we can sell the integrated story by bringing Olson and the legacy ICF capabilities together.

Tyler Scott - *Wells Fargo Securities, LLC - Analyst*

That good. And that goes for both on the commercial and the government side you're -- that applies to both sides of the business?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think in the government business we have a very strong group. I think we talked about the $100 million smoking cessation contract we won last year, the whole thing about how you can get to segmented populations through social media, etc., which we won for the Health and Human Services Department.

I think we certainly want to take Olson into the government but I think right now our priority is to make sure that we take them into all our commercial clients first, the utility clients, the healthcare clients, etc., where we see enormous opportunity. It's not like we won't take them to the government but the government group at the moment is quite large and is doing really well in the digital arena and now combined with some of the intellectual property which Olson has like the loyalty platform, etc., we are finding ways in which we can use those loyalty platforms for specific government clients.

We've had one or two meetings where there is some interest in seeing how those could be used in a way which is actually quite interesting for stakeholder engagement. So we certainly see a lot of potential going forward but our focus right now is on our commercial clients which is utility and healthcare clients where we take Olson in.

Tyler Scott - *Wells Fargo Securities, LLC - Analyst*

Great, thank you. That was great.

Then I don't know if I missed it or if it's not been provided but for what exactly -- has there been any change to what we're expecting in Olson from 2015 from the guidance call? Or what's the organic growth rate assumption for the total Company for 2015?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think that for Olson there has been no change. I think we said around 12% as John mentioned that that should certainly we are quite we believe that that will happen going forward for Olson.

Tyler Scott - *Wells Fargo Securities, LLC - Analyst*

Okay, great. And in terms of I knew you got down to you got the leverage down a little bit. Do you have any longer-term plans maybe where you want to exit 2015 in terms of how much debt you have on the balance sheet or any color around that?

James Morgan - *ICF International, Inc. - EVP & CFO*

I would just say that certainly I don't think there is a specific target but certainly as we generate $90 million to $100 million of operating cash flow the primary use of that will be to pay down the debt that we have during the year. And that would be a focus and obviously as I mentioned we had about -- we're expecting some capital expenditures in the year of about $18 million to $19 million. But primary purpose will be using that cash flow to pay down debt as of today unless we identify some good acquisition targets between now and the end of the year.

Tyler Scott - *Wells Fargo Securities, LLC - Analyst*

And then do you have maybe how high you are willing to bring the leverage or is that it would all depend on the acquisition?

James Morgan - *ICF International, Inc. - EVP & CFO*

Currently our credit facility we are capped at a leverage rate of 3.5 of bank EBITDA to debt so that would be the cap.

Tyler Scott - *Wells Fargo Securities, LLC - Analyst*

Great, thank you very much for that color.

Operator

(Operator Instructions) Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey, Inc. - Analyst*

Thanks, I just wanted to follow up on the slightly down federal government guidance. Is there something in the market that has changed recently or is it the function of maybe a year ago thinking that things were going to heal a little bit and not seeing that come to fruition and therefore just trying to be cautious again, because you have had a decent amount of contract awards? Thanks.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think the latter is a good summary, Tobey. I think that last year as I just said in answer to another question we had record contract awards and we therefore expected a 2% increase in our government business which was a reasonable assumption we thought. But it was like a 2% decline in our government business which we ended up with.

So we think that we have had great awards. We're quite focused on getting the awards and making sure that we have all the contract vehicles and all the stuff which we need. But until such time as we see those awards translating more quickly into revenue -- I'm confident that they will, it's just that if stuff doesn't translate as quickly you start thinking about the assumptions you have made at the pace of translation. So I think your latter assumption is a good one.

Tobey Sommer - *SunTrust Robinson Humphrey, Inc. - Analyst*

Okay. And so there isn't any particular a single contract or some sort of protest of something you previously won that colors your outlook?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

No.

Tobey Sommer - *SunTrust Robinson Humphrey, Inc. - Analyst*

Okay. I wanted to ask a question about the energy efficiency work. Where do we sit as far as the big catalyst this year, the EPA in its rulemaking process in the California projects that are coming to market, any kind of update you can give us on those two?

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

Yes, this is John Wasson. So we still have a robust pipeline in energy efficiency. I think as I mentioned we certainly see it as a growth market, continue to see it is a growth market as we go forward.

I think we are still working hard on the opportunities in California. I think those will play out in the second half of the year in terms of the timing of those opportunities. And I think the Clean Power Plan has the potential to take the energy efficiency to the next level or step up that market.

I think that that rulemaking has been delayed a little bit within EPA so I think the EPA is not talking about trying to finalize it by mid to late summer. So frankly I think the Clean Power Plan is probably a play for 2016 and beyond. So really our focus in the latter half of the year is in California and then I think there's a real strong potential that the Clean Power and regulatory activities around carbon will step up that market as we go into 2016 and beyond.

Tobey Sommer - *SunTrust Robinson Humphrey, Inc. - Analyst*

Thanks, John. Do you think that any utilities will -- are they all going to wait for the EPA or will some see the writing developing on the wall and start to move either coincident with it or maybe even prior?

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

There's always utilities who are out front and early adopters so I think there is some potential of that. But I think frankly to really see a step up in that market you're going to have to see these rules implemented and you'll really see the movement in the market once the rules go final and the states put in place their implementation under the federal umbrella and then the utilities have to comply with it. So I really think it's going to take the implementation of final rules to really take us to the next level.

Tobey Sommer - *SunTrust Robinson Humphrey, Inc. - Analyst*

Okay, my last question is just from a competitive standpoint are you well-positioned in your from your perspective to capture your fair share of the opportunities either in California or that would result from the EPA rule?

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

Yes, yes, we feel like we're a market leader, we have a strong position and I think we obviously it's a competitive environment and you have to work hard to win the work but we think we're in a good position and as I said we're bullish on the market.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I would add that we have hired some very senior people who have lots of utility experience, especially in the energy efficiency area, on the West Coast over the last year so we and we also have many more people on the West Coast. So we certainly think that we are well-positioned to have a knowledge of the market which will help us in getting our fair share.

Tobey Sommer - *SunTrust Robinson Humphrey, Inc. - Analyst*

Thank you very much.

Operator

Stefan Mykytiuk, ACK Asset Management.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Good evening. Just wanted to follow-up on a couple of things and I'm sorry if I might have missed this. What was the federal book-to-bill in Q4 and what was it a year ago?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

In Q4 or for the whole year? Q4.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Well, I'd take both if you have them.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

We have them.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

While you're looking for that I'm just curious how much stock comp is built into your guidance and can you give us how much of that there's obviously an incremental piece for Olson for a period of time as almost like an earnout if you will for some key people.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Let me give you the first the book-to-bill. The federal book-to-bill for the year was 1.33 -- for the quarter four was 1.33.

Sorry, year to date. Sorry. 1.33 for the year was the federal book-to-bill and for the quarter was 0.74.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Usually, Stefan, most of a lot of the federal revenues come in in Q3.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Q3 was huge, right?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

It was huge, right. So usually that's what happens and the fourth quarter is usually not that high. So 1.33 to 0.74.

And the prior year, do we have the prior year? I don't think we have the prior year handy but we certainly provided it in -- we can certainly provide that. We will get back to you on those numbers.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Great, and the stock comp built into your guidance?

James Morgan - *ICF International, Inc. - EVP & CFO*

We typically don't give that level of granularity with regard to what our stock compensation expense is.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay. But for the year for 2014 it was what 13 and change? And I think on your last call you did say that there was I want to say it was a few million dollars of step-up from the Olson acquisition because of those awards given to some key people or am I right on --

James Morgan - *ICF International, Inc. - EVP & CFO*

I guess the way I would look at it is that for the compensation what we gave to the Olson folks was roughly $15 million that is vesting over a four-year period. So you can straight-line that and add that to the numbers you have.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay. But there's no reason why -- is there any reason why 2015 it would be on the base business dramatically different from 2014 other than if you guys happened to hit the ball out of the park somehow?

James Morgan - *ICF International, Inc. - EVP & CFO*

No, there's no major change from what the historical has been.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay. And that's not built into your adjusted EPS, correct?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

No.

James Morgan - *ICF International, Inc. - EVP & CFO*

No, it's not. That's in our baseline EPS, factored in.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Right. It's coming out of GAAP but you're not adding it back -- you're only adding back --

James Morgan - *ICF International, Inc. - EVP & CFO*

Yes, we're not adding it back for adjusted. No.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay. And just lastly on the CapEx side the $18 million you said $18 million to $20 million or $18 million to $19 million. Is there any CapEx related to the Olson deal specifically or the integrations or is this $18 million to $20 million our new baseline spend?

James Morgan - *ICF International, Inc. - EVP & CFO*

So if you look at historically the core Company has run somewhere between $13 million to $14.5 million or so. Olson typically runs around $4 million or so of CapEx so adding those two together gets you to the range that we're guiding to for next year.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay, all right. Just going back to the federal one more time, sorry to beat this to a dead horse, but you did have very strong federal awards and so many of your competitors so to speak or public comps have said that they feel like the environment is getting better and looking for perhaps an improvement in the back half of the year. Again is there anything really different in your business or is it more just how you want to view the world or how you'd like to start off the year in terms of our expectations?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

As I said to I think someone's question prior Stefan I think we view the world in a similar way as some of our competitors as you pointed out, perhaps our view of the world at the moment. But we have learned, we want to be a learning organization, we have learned that perhaps hopefully things will improve in the second half of the year but we aren't willing to go out and say that in so many ways in explicit terms.

But we certainly hope -- I don't think our business is any different from the civilian business which anybody else has but most of our business is civilian agencies and maybe most of our comps are DoD and Intel and maybe there's some difference in the nature of what they do versus what we do. But I think that we just -- I would put it down to our view of the world is colored by our experience over the last year.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay. And then lastly I'm sorry to take up so much time, just on the Olson I think when you bought Olson on on the last call there was a discussion about the potential to reinvest a bit in that business and accelerate the growth. Have you built any of that -- it sounds like you haven't built any of that into your guidance in terms of you taking the growth rate at face value rather than assuming some potential for acceleration.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, we've taken that growth rate at face value. What we've learned is over the many acquisitions we've done the investments start yielding fruit but they take about 12 months to yield fruit, 12 to 18 months. So it's not like we instantly make it and then the guy goes out and sells a big job sort of thing.

It's just one of these things which takes at least 12 months to get in gear. So we certainly hope that in 2016 that acceleration will perhaps come about based on the investments we make this year.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay. And since you've owned it now for a few months is there anything you've seen in the business that makes you think you're not going to be able to accelerate that?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

No, I think the six weeks or something we've had or two months we've had it, two and half months I think we are quite bullish about it. I think it's an excellent business and we certainly think that combining them with some of our clients, etc., doing the things which we are trying to do which I outlined in my remarks I think we can certainly accelerate it.

Stefan Mykytiuk - *ACK Asset Management - Analyst*

Okay, terrific. Thanks very much. Sorry for taking so much time up.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Not at all. Thank you.

Operator

We have no further questions at this time. I will now turn the call back over to management for closing comments.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you for participating in today's call. We look forward to keeping you up to date and we will see you in May some time for Q1. Thank you.

Operator

Thank you ladies and gentlemen. This concludes today's conference.

Thank you for participating. You may now disconnect.