ICF International (ICFI)

$73.38 (As of 04/10/20)

Price Target (6-12 Months): **$76.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/11/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: B | Momentum: A	

Summary

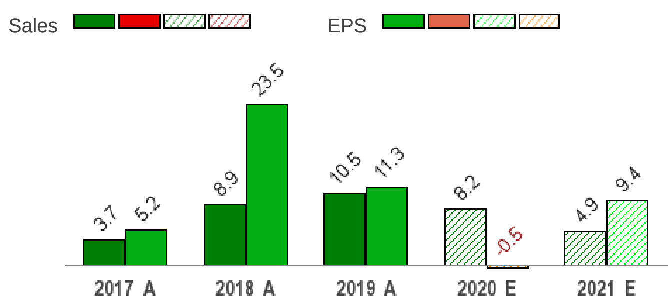
ICF International's government business remains strong, courtesy of improvement in business development pipeline and win rate. The company has multi-year relationships with several other government and commercial clients. Global presence and diversity of markets ensures diversified and consistent revenue growth for the company. Acquisitions are helping ICF International enhance its subject matter knowledge, expand offerings and provide scale in particular geographies. On the flip side, investments in capture and proposal activities, infrastructure and intellectual property development, loyalty program and acquisitions have increased ICF International's operating costs and expenses. Hence, the company's bottom line is likely to remain under pressure going forward. This may weigh on its share price which has declined over the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$95.24 - $47.75**
20 Day Average Volume (sh)	**152,376**
Market Cap	**$1.4 B**
YTD Price Change	**-19.9%**
Beta	**0.66**
Dividend / Div Yld	**$0.56 / 0.8%**
Industry	**Government Services**
Zacks Industry Rank	**Top 37% (94 out of 253)**
Last EPS Surprise	**-4.8%**
Last Sales Surprise	**-1.4%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**05/05/2020**
Earnings ESP	**0.0%**
P/E TTM	**17.7**
P/E F1	**17.8**
PEG F1	**1.8**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					1,679 E
2020	364 E	392 E	407 E	438 E	1,601 E
2019	341 A	367 A	374 A	397 A	1,479 A

EPS Estimates

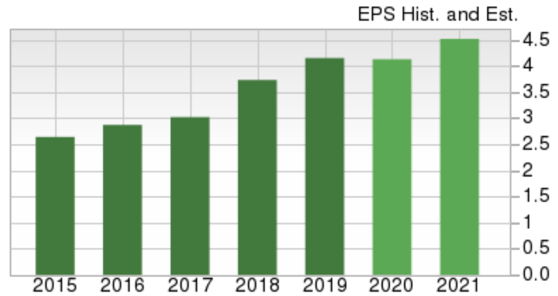
	Q1	Q2	Q3	Q4	Annual*
2021	$0.94 E	$1.11 E	$1.22 E	$1.31 E	$4.52 E
2020	$0.79 E	$0.97 E	$1.12 E	$1.26 E	$4.13 E
2019	$0.87 A	$0.97 A	$1.12 A	$1.18 A	$4.15 A

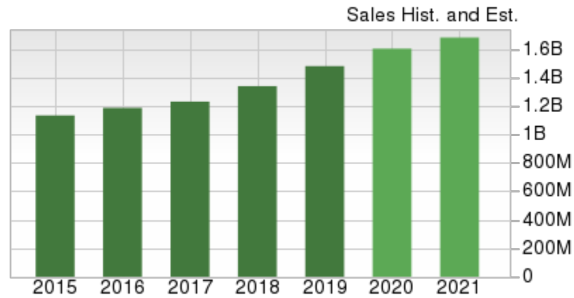
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

Overview

Headquartered in Fairfax, VA, ICF International, Inc. is a provider of professional services and technology-based solutions to government and commercial clients. The company's primary services include advisory, analytics, digital, engagement and program implementation services. These services are offered in four markets namely, energy, environment and infrastructure; health, education, and social programs; safety and security, and consumer and financial.





The company has strong intellectual capital that provides it with a deep understanding of policies, processes, and programs across markets. As of Dec 31, 2019, roughly 38% of ICF International's benefits-eligible staff held post-graduate degrees in different fields like the social sciences, physical sciences, public policy, business and management, human capital, information technology, engineering, planning, economics, mathematics, life sciences, and law.

ICF International's government clients include U.S. federal clients, state and local clients, and governments outside the United States. The company's biggest clients are U.S. federal government departments and agencies. Federal government clients generated roughly 38%, 41% and 45% of revenues in 2019, 2018, and 2017, respectively. State and local government clients recorded 27%, 23%, and 17% of revenues in the respective years. International government clients contributed 8%, 9% and 7% to revenues in 2019, 2018, and 2017 each.

Commercial clients of the company include clients from different sectors around the world such as airlines, airports, oil companies, electric and gas utilities, transportation, travel and hospitality firms, banks and other financial services companies, hospitals, health insurers and other health-related companies, manufacturing firms, retail chains, distribution companies, law firms as well as nonprofits/associations. These clients generated approximately 35%, 36% and 38% of revenues in 2019, 2018, and 2017, respectively.

ICF International has only one reportable segment — **professional services for government and commercial clients**. Revenues from this segment came in at $1.48 million, $1.34 billion and $1.23 billion in 2019, 2018, and 2017 each. As of Dec 31, 2019, the company had more than 7,000 employees across the world.

Reasons To Buy:

ICF continues to strengthen backed by strong global presence and strategic acquisitions.

- ICF International has a **strong global presence** with more than 75 regional offices across the United States and more than 15 offices outside the country. It serves a diverse set of markets including energy, environment, infrastructure; health, education, safety and security, consumer, technology, e-commerce, transport and financial markets. This, in turn, has helped the company to improve its knowledge base and functional expertise over time. Also, ICF International has been successful in establishing and maintaining strong, long-term relationship with its clients. In fact, it has advised the U.S. Environmental Protection Agency ("EPA") and HHS for more than 30 years, the U.S. Department of Energy ("DOE") for more than 25 years, DoD for more than 20 years, the European Commission for more than 15 years and certain commercial clients in energy markets for more than 20 years. The company has multi-year relationships with several other government and commercial clients as well. Global presence and diversity of markets ensures diversified and consistent revenue growth for ICF International.

- **Acquisition** is an important element of ICF International's growth strategy. In Jan, 2020, ICF International acquired Incentive Technology Group, a provider of cloud-based platform services to the U.S. federal government for $255 million. The deal is expected to be accretive to ICF International's 2020 EPS. In 2018, the company has acquired We are Vista, a U.K.-based creative communications agency; DMS Disaster Consultants, a disaster planning and recovery services firm; and The Future Customer, a boutique loyalty strategy and marketing company. While the acquisition of We are Vista strengthed the company's global marketing, technology, communications and digital services portfolio, DMS improved its disaster response, recovery and preparedness offerings. Acquisition of The Future Customer has extended ICF International's loyalty business to Europe. Overall, strategic acquisitions helped ICF International to enhance its subject matter knowledge, expand offerings and provide scale in particular geographies. ICF International continues to explore acquisition opportunities to gain new clients, increase presence in potential markets and strengthen its portfolio of services.

- The company's **international government business** remains strong, courtesy of improvement in business development pipeline and win rates. Within the commercial business, marketing service is benefiting from increased focus on digital commerce and social media as well as loyalty marketing. Also, ICF's commercial energy markets group looks well poised to benefit from advisory work connected to transformations in the utility industry and increase in mandated energy efficiency programs across the United States.

Reasons To Sell:

- A considerable portion of ICF International's business comes from commercial work that is highly concentrated in **cyclical industries** like financial services, energy, air transportation, retail, health an environmental. Therefore, demand for the company's services declines when these industries experience downfall, which is likely to continue in the future as well. As the company has expanded its work with commercial clients, considerable variations in revenues and profits are expected from time to time with ups and downs in the global economy.

Considerable variations in revenues and profits are expected from time to time in accordance with ups and downs in the global economy.

- ICF International sees **escalation in costs**. The company is making significant investments in capture and proposal activities, infrastructure and intellectual property development, loyalty program and acquisitions. The company's operating costs and expenses increased 9.2% in 2019. These expenses rose 3.5% year over year in 2018 and 4.9% in 2017. Hence, the company's bottom line is likely to remain under pressure going forward. This may weigh on its share price which has declined 4% in the past year.

- Additionally, it is **embroiled with various legal matters** and proceedings including the one associated with, the Road Home contract. Apart from being a huge drain on resources, this must have earned the company a bad name.

Last Earnings Report

ICF International Misses Q4 Earnings

Quarter Ending	12/2019
Report Date	Feb 27, 2020
Sales Surprise	-1.37%
EPS Surprise	-4.84%
Quarterly EPS	1.18
Annual EPS (TTM)	4.14

ICF InternationalNon-GAAP EPS of $1.18 lagged the consensus mark by 4.8% but improved 0.9% on a year-over-year basis. Revenues of $396.6 million missed the consensus mark by 1.4% but increased 4.9% year over year.

Revenues in Detail

Revenues from government clients came in at $244.3 million and improved 7.6% year over year. U.S. federal government revenues of $139.7 million increased 5.5% year over year and contributed 35% to total revenues. U.S. state and local government revenues of $69 million rose 10.9% year over year and contributed 18% to total revenues. International government revenues of $35.6 million, up 10% year over year, contributed 9% to total revenues. Commercial revenues totaled $152.4 million, up 1% from the year-ago quarter's figure and contributed 38% to total revenues. Energy markets contributed 39% to commercial revenues and Marketing services contributed 54% to the same.

Backlog and Value of Contracts

Total backlog and funded backlog amounted to $2.4 billion and $1.3 billion at the end of the quarter, respectively. The total value of contracts awarded was $353.3 million.

Operational Results

Adjusted EBITDA was $37.4 million, down 5.1% from the year-ago quarter's figure. Adjusted EBITDA margin of 9.4% was down 100 basis points (bps) year over year. Adjusted EBITDA margin on service revenues was 14.9%, down 160 bps year over year.

Balance Sheet

ICF International exited fourth-quarter 2019 with cash and cash equivalent balance of $6.48 million compared with $7.45 million at the end of the previous quarter. The company had a long-term debt of $165.44 million compared with $245 million at the end of the prior quarter. The company generated $85.1 million of cash from operating activities and capex was $6.2 million. The company paid out dividends of $2.6 million in the reported quarter. On Feb 27, 2020, the company declared a quarterly dividend of 14 cents per share, payable on Apr 13, 2020 to shareholders of record on Mar 27, 2020.

2020 Outlook

Management expects total revenues between $1.60 billion and $1.65 billion. Non-GAAP EPS is expected in the range of $4.00 to $4.30. EBITDA is expected to be $145-$155 million. Operating cash flow is anticipated to be around $120 million.

Recent News

On **Feb 24, 2020,** ICF International announced that it has been awarded a three-year contract by the City of Columbia, South Carolina, to develop disaster management Community Development Block Grant Mitigation Action Plan (CDBG-Mitigation).

On **Jan 13, 2020**, ICF International announced that it has inked a deal to acquire Incentive Technology Group, a provider of cloud-based platform services to the U.S. federal government for $255 million. Subject to regulatory approval and customary closing conditions, the deal is expected to close in the first quarter of 2020.

Valuation

ICF International shares are down 19.9% in the year-to-date period and 4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 3.5% and 14.4% in the year-to-date period, respectively. While stocks in the Zacks sub-industry are up 12.2%, those in the Zacks Business Services sector are down 8.6% over the past year.

The S&P 500 index is down 13.6% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 17.32X price to forward 12 months' earnings, which compares to 19.35X for the Zacks sub-industry, 23.19X for the Zacks sector and 18.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.09X and as low as 9.97X, with a 5-year median of 16.16X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $76.00 price target reflects 18.32X price to forward 12 months' earnings.

The table below shows summary valuation data for ICFI

Valuation Multiples - ICFI

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	17.32	19.35	23.19	18.11
	5-Year High	22.09	21.55	25.13	19.34
	5-Year Low	9.97	15.94	18.67	15.19
	5-Year Median	16.16	18.42	20.52	17.45
P/S F 12M	Current	0.85	1.26	3.45	3.07
	5-Year High	1.17	1.45	3.94	3.44
	5-Year Low	0.48	0.93	3.05	2.54
	5-Year Median	0.8	1.1	3.56	3.01
P/B TTM	Current	1.94	7.63	3.94	3.69
	5-Year High	2.55	14.17	6.68	4.55
	5-Year Low	1.13	6.03	3.16	2.84
	5-Year Median	1.72	8.32	5.18	3.63

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Top 37% (94 out of 253)

Top Peers

Booz Allen Hamilton Holding Corporation **(BAH)**	Outperform
CBIZ, Inc. **(CBZ)**	Outperform
Charles River Associates **(CRAI)**	Outperform
FTI Consulting, Inc. **(FCN)**	Outperform
Huron Consulting Group Inc. **(HURN)**	Neutral
IHS Markit Ltd. **(INFO)**	Neutral
Gartner, Inc. **(IT)**	Neutral
Maximus, Inc. **(MMS)**	Neutral

Industry Comparison Industry: Government Services

Industry Peers

	ICFI Neutral	X Industry	S&P 500	INFO Neutral	IT Neutral	MMS Neutral
VGM Score	A	-	-	F	F	A
Market Cap	1.38 B	4.08 B	19.66 B	27.82 B	9.52 B	4.08 B
# of Analysts	3	3	13	10	6	3
Dividend Yield	0.76%	1.67%	2.18%	1.04%	0.00%	1.75%
Value Score	B	-	-	D	D	B
Cash/Price	0.01	0.04	0.06	0.01	0.03	0.04
EV/EBITDA	12.82	12.82	11.72	20.72	20.31	9.69
PEG Ratio	1.71	1.77	2.04	1.98	4.83	NA
Price/Book (P/B)	1.93	3.14	2.66	3.32	10.15	3.14
Price/Cash Flow (P/CF)	12.73	12.73	10.44	18.39	16.62	12.49
P/E (F1)	17.15	17.78	17.51	23.72	32.10	17.40
Price/Sales (P/S)	0.94	1.34	2.12	6.25	2.24	1.34
Earnings Yield	5.63%	5.63%	5.65%	4.22%	3.12%	5.75%
Debt/Equity	0.40	0.40	0.70	0.59	3.06	0.00
Cash Flow ($/share)	5.76	5.11	7.01	3.56	6.43	5.11
Growth Score	B	-	-	D	C	A
Hist. EPS Growth (3-5 yrs)	13.01%	13.33%	10.92%	15.20%	14.89%	13.33%
Proj. EPS Growth (F1/F0)	-0.56%	-1.43%	-1.14%	4.94%	-14.62%	-1.34%
Curr. Cash Flow Growth	8.66%	13.97%	5.93%	5.92%	-7.30%	13.97%
Hist. Cash Flow Growth (3-5 yrs)	9.89%	9.89%	8.55%	24.83%	18.55%	10.95%
Current Ratio	1.29	1.93	1.24	0.70	0.71	1.95
Debt/Capital	28.49%	28.49%	42.36%	37.28%	75.40%	0.00%
Net Margin	4.66%	5.96%	11.64%	19.74%	5.50%	8.01%
Return on Equity	11.65%	20.54%	16.74%	10.94%	38.63%	20.54%
Sales/Assets	1.06	1.66	0.54	0.28	0.62	1.71
Proj. Sales Growth (F1/F0)	8.30%	7.26%	0.45%	-2.52%	3.70%	5.94%
Momentum Score	A	-	-	C	F	D
Daily Price Chg	2.53%	3.31%	2.48%	1.71%	1.83%	4.21%
1 Week Price Chg	-0.35%	2.53%	-4.40%	4.28%	-12.38%	2.58%
4 Week Price Chg	6.26%	11.84%	11.26%	23.78%	4.45%	20.88%
12 Week Price Chg	-20.80%	-15.91%	-20.02%	-16.15%	-33.58%	-15.91%
52 Week Price Chg	-3.24%	-3.24%	-11.31%	19.01%	-32.54%	-9.20%
20 Day Average Volume	152,376	715,866	3,931,994	4,224,046	1,278,171	715,866
(F1) EPS Est 1 week change	0.00%	0.00%	-0.12%	0.00%	-5.71%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-5.78%	-5.75%	-14.87%	-8.55%
(F1) EPS Est 12 week change	-11.25%	-8.78%	-7.64%	-6.93%	-17.51%	-8.78%
(Q1) EPS Est Mthly Chg	0.00%	-0.29%	-10.13%	-11.05%	-35.07%	-13.41%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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