

ICF International (ICFI)

\$73.11 (As of 08/12/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: C

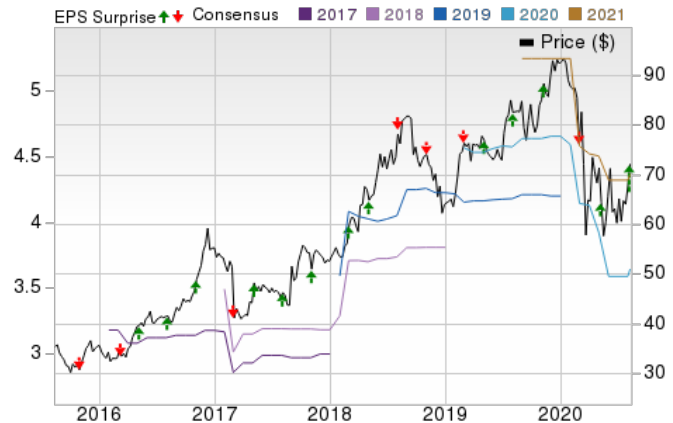
Growth: F

Momentum: F

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.

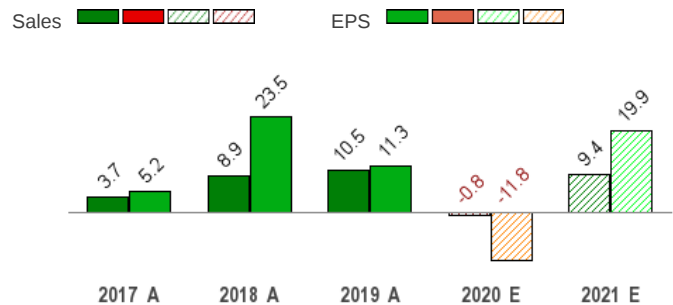
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.24 - \$47.75
20 Day Average Volume (sh)	106,415
Market Cap	\$1.4 B
YTD Price Change	-20.2%
Beta	0.57
Dividend / Div Yld	\$0.56 / 0.8%
Industry	Government Services
Zacks Industry Rank	Top 23% (59 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.0%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	2.0%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	18.2
P/E F1	20.0
PEG F1	2.0
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	380 E	393 E	394 E	438 E	1,605 E
2020	358 A	354 A	362 E	393 E	1,467 E
2019	341 A	367 A	374 A	397 A	1,479 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.91 E	\$0.98 E	\$1.20 E	\$1.40 E	\$4.39 E
2020	\$0.83 A	\$0.89 A	\$0.86 E	\$1.08 E	\$3.66 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 08/12/2020. The reports text is as of 08/13/2020.

Overview

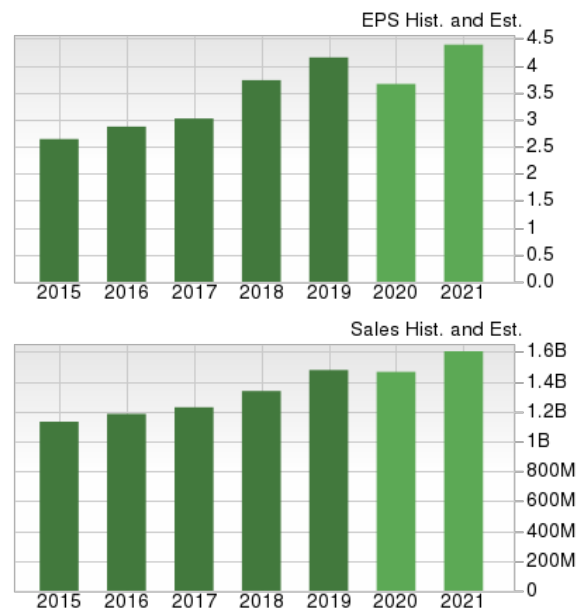
Headquartered in Fairfax, VA, ICF International, Inc. is a provider of professional services and technology-based solutions to government and commercial clients. The company's primary services include advisory, analytics, digital, engagement and program implementation services. These services are offered 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 billion, \$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 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 January 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 strengthened 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.

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

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 and 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.
- ▼ 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 10.8% in the past year.
- ▼ ICF International has a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$679 million, up from \$317 million at the end of the prior quarter. The total debt to total capital ratio of 0.49 is higher than the previous quarter's 0.30. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$59 million at the end of the first quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$43 million.
- ▼ 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.

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

Last Earnings Report

ICF International Surpasses Q2 Earnings and Revenues Estimates

ICF International reported impressive second-quarter 2020 numbers, with both earnings and revenues beating the Zacks Consensus Estimate.

Non-GAAP EPS of 89 cents surpassed the consensus mark by 29% but declined 8.2% on a year-over-year basis. Revenues of \$354 million beat the consensus mark by 2.1% but decreased 3.5% year over year mainly due to lower pass-through revenues.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	2.14%
EPS Surprise	28.99%
Quarterly EPS	0.89
Annual EPS (TTM)	4.02

Revenues in Detail

Revenues from government clients came in at \$246.8 million, flat year over year. The U.S. federal government revenues of \$170.7 million increased 20.8% year over year and contributed 48% to total revenues. The U.S. state and local government revenues of \$58 million decreased 20.7% year over year and contributed 17% of total revenues. International government revenues of \$23.1 million were down 42.7% year over year, contributing 5% of total revenues.

Commercial revenues totaled \$107.2 million, down 11.2% from the year-ago quarter's figure and contributed 33% of total revenues. Energy markets and marketing services contributed 54% and 35%, respectively, to commercial revenues.

Backlog and Value of Contracts

Total backlog and funded backlog amounted to \$2.4 billion and \$1.3 billion at the end of the second quarter, respectively. The total value of contracts awarded in the quarter came in at \$282million.

Operational Results

Adjusted EBITDA of \$32.5 million declined marginally from the year-ago quarter's figure. Adjusted EBITDA margin of 9.2% increased 30 basis points (bps) year over year. Adjusted EBITDA margin on service revenues was 12.4%, down 60 bps year over year.

Balance Sheet

ICF exited the quarter with cash and cash equivalent balance of \$9.1 million compared with the \$58.7 million recorded at the end of the previous quarter. The company had a long-term debt of \$441 million compared with \$507 million witnessed at the end of the prior quarter.

The company used \$26 million of cash from operating activities, and capex was \$4.3 million. ICF paid out dividends of \$2.6 million in the reported quarter.

2020 Guidance

Management reiterated its guidance for 2020. Revenue expectation continues to be \$1.45-\$1.51 billion. Non-GAAP EPS is expected in the range of \$3.50 to \$3.80. EBITDA is expected to be \$126-\$136 million. Operating cash flow is anticipated to be around \$110 million.

Recent News

On **Jul 9, 2020**, ICF announced that it has been honored with 18 major advertising awards for its marketing and engagement campaigns for utility clients.

On **May 27, 2020**, ICF International announced its participation at the Baird 2020 Virtual Global Consumer, Technology & Services Conference, scheduled to be held on Jun 2.

On **Apr 30, 2020**, ICF International announced that it has been awarded a \$70 million re-compete blanket purchase agreement (BPA) by the Federal Communications Commission (FCC). The duration of the agreement is five years which includes a 12-month base and four 12-month option periods. The deal is aimed at offering tailored platform support services.

Valuation

ICF International shares are down 20.2% in the year-to-date period and 10.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 11.2% and 1.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the Zacks Business Services sector are up 10.4% and 3.5%, respectively.

The S&P 500 index is up 3.4% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 17.89X price to forward 12 months' earnings, which compares to 21.77X for the Zacks sub-industry, 29.94X for the Zacks sector and 22.60X 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 16.43X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78.00 price target reflects 19.08X 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	17.89	21.77	29.94	22.6
	5-Year High	22.09	21.77	29.94	22.62
	5-Year Low	9.97	15.94	18.68	15.25
	5-Year Median	16.43	18.55	20.96	17.58
P/S F 12M	Current	0.88	1.37	4.18	3.65
	5-Year High	1.17	1.43	4.18	3.65
	5-Year Low	0.48	0.93	3.07	2.53
	5-Year Median	0.81	1.11	3.6	3.05
P/B TTM	Current	1.99	8.88	4.78	4.64
	5-Year High	2.55	12.16	6.72	4.68
	5-Year Low	1.13	6.03	3.28	2.83
	5-Year Median	1.77	8.28	5.22	3.74

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Top 23% (59 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
CBIZ, Inc. (CBZ)	Outperform	2
FTI Consulting, Inc. (FCN)	Outperform	2
Huron Consulting Group Inc. (HURN)	Outperform	3
Booz Allen Hamilton Holding Corporation (BAH)	Neutral	3
IHS Markit Ltd. (INFO)	Neutral	3
Gartner, Inc. (IT)	Neutral	3
Maximus, Inc. (MMS)	Neutral	3
Charles River Associates (CRAI)	Underperform	3

Industry Comparison Industry: Government Services				Industry Peers		
	ICFI	X Industry	S&P 500	INFO	IT	MMS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	F	-	-	D	B	B
Market Cap	1.38 B	4.68 B	23.75 B	35.13 B	11.66 B	4.68 B
# of Analysts	3	3	14	9	5	3
Dividend Yield	0.77%	1.45%	1.68%	0.82%	0.00%	1.47%
Value Score	C	-	-	D	C	B
Cash/Price	0.04	0.04	0.07	0.01	0.03	0.02
EV/EBITDA	14.53	14.53	13.35	25.43	23.53	11.70
PEG Ratio	2.00	2.12	2.98	2.50	4.09	NA
Price/Book (P/B)	1.95	3.92	3.20	4.33	11.77	3.92
Price/Cash Flow (P/CF)	12.69	14.94	12.97	23.39	20.34	14.94
P/E (F1)	19.98	23.36	22.17	30.05	40.92	23.36
Price/Sales (P/S)	0.93	1.42	2.54	8.10	2.78	1.42
Earnings Yield	5.01%	4.28%	4.31%	3.33%	2.45%	4.28%
Debt/Equity	0.80	0.80	0.77	0.63	2.76	0.12
Cash Flow (\$/share)	5.76	5.11	6.94	3.56	6.43	5.11
Growth Score	F	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	11.95%	11.95%	10.41%	14.04%	14.24%	11.01%
Proj. EPS Growth (F1/F0)	-11.81%	-12.33%	-6.32%	5.32%	-18.05%	-12.10%
Curr. Cash Flow Growth	8.66%	13.32%	5.22%	5.92%	-7.30%	13.97%
Hist. Cash Flow Growth (3-5 yrs)	9.89%	10.95%	8.55%	24.83%	18.55%	10.95%
Current Ratio	1.56	1.81	1.33	0.73	0.70	1.95
Debt/Capital	44.39%	44.39%	44.59%	38.84%	73.43%	10.83%
Net Margin	4.27%	6.41%	10.13%	18.43%	5.70%	6.41%
Return on Equity	11.02%	17.29%	14.59%	10.73%	41.19%	17.29%
Sales/Assets	0.97	1.62	0.51	0.27	0.61	1.70
Proj. Sales Growth (F1/F0)	-0.81%	8.22%	-1.40%	-2.81%	-7.98%	17.91%
Momentum Score	F	-	-	C	C	A
Daily Price Chg	-3.20%	-0.37%	0.67%	0.54%	-0.60%	0.28%
1 Week Price Chg	6.55%	4.54%	2.30%	4.00%	5.54%	4.54%
4 Week Price Chg	14.32%	14.32%	4.87%	6.53%	3.20%	5.69%
12 Week Price Chg	23.79%	14.92%	13.54%	22.07%	10.64%	9.41%
52 Week Price Chg	-9.77%	0.79%	6.06%	31.70%	2.98%	0.79%
20 Day Average Volume	106,415	280,548	2,006,991	1,588,537	442,729	280,548
(F1) EPS Est 1 week change	0.46%	0.46%	0.00%	0.00%	0.00%	5.71%
(F1) EPS Est 4 week change	2.04%	2.04%	1.95%	0.00%	3.50%	5.71%
(F1) EPS Est 12 week change	2.04%	4.49%	2.72%	0.45%	4.62%	8.76%
(Q1) EPS Est Mthly Chg	-10.11%	-0.36%	0.84%	0.00%	-8.98%	-0.36%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	F
Momentum Score	F
VGM Score	F

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.

Disclosures

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