

ICF International (ICFI)

\$86.53 (As of 02/18/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

ICF International's government business remains strong, courtesy of improvement in business development pipeline and win rate. The company is banking on opportunities emerging from the bipartisan budget agreement. Global presence and diversity of markets ensures diversified and consistent revenue growth. Acquisitions help 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 the company's operating costs and expenses. Also, ICF International remains embroiled with various legal matters and proceedings. Partly due to these headwinds, the company's shares have underperformed the industry in a year's time.

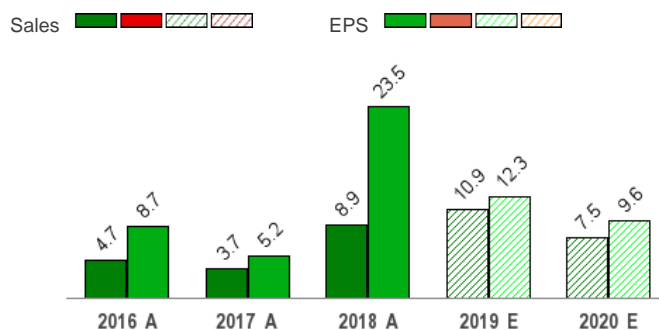
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|------------------------------------|
| 52 Week High-Low | \$95.24 - \$70.00 |
| 20 Day Average Volume (sh) | 105,304 |
| Market Cap | \$1.6 B |
| YTD Price Change | -5.6% |
| Beta | 0.56 |
| Dividend / Div Yld | \$0.56 / 0.6% |
| Industry | <u>Government Services</u> |
| Zacks Industry Rank | Bottom 18% (208 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 3.7% |
| Last Sales Surprise | 0.6% |
| EPS F1 Est- 4 week change | 0.0% |
| Expected Report Date | 02/27/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 21.0 |
| P/E F1 | 18.9 |
| PEG F1 | 1.9 |
| P/S TTM | 1.1 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2020 | 357 E | 385 E | 391 E | 428 E | 1,595 E |
| 2019 | 341 A | 367 A | 374 A | 402 E | 1,484 E |
| 2018 | 303 A | 324 A | 333 A | 378 A | 1,338 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.92 E | \$1.10 E | \$1.20 E | \$1.46 E | \$4.59 E |
| 2019 | \$0.87 A | \$0.97 A | \$1.12 A | \$1.24 E | \$4.19 E |
| 2018 | \$0.77 A | \$0.80 A | \$1.01 A | \$1.17 A | \$3.73 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 02/18/2020. The reports text is as of 02/19/2020.

Overview

Headquartered in Fairfax, VA, ICF International, Inc. is a provider of professional services and technology-based solutions to government and commercial clients.

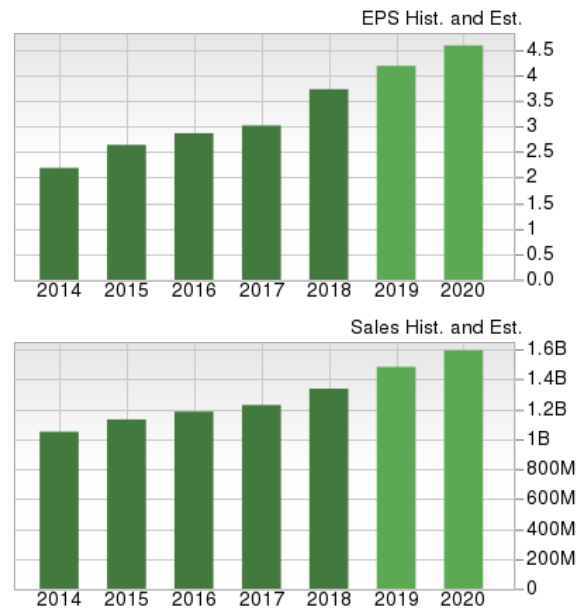
The company's primary services include advisory, analytics, digital, engagement and program implementation services. These services are offered in four markets namely, energy, environment and infrastructure; health, education, and social programs; safety and security, and consumer and financial.

The company has strong intellectual capital that provides it with a deep understanding of policies, processes, and programs across markets. As of Dec 31, 2018, roughly 34% 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. Its biggest clients are U.S. federal government departments and agencies. Federal government clients generated roughly 41%, 45%, and 48% of revenues in 2018, 2017, and 2016, respectively. State and local government clients recorded 14%, 10%, and 11% of revenues in the respective years. International government clients contributed 9%, 7%, and 6% to revenues in 2018, 2017, and 2016 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 36%, 38%, and 35% of revenues in 2018, 2017, and 2016, respectively.

ICF International has only one reportable segment — **professional services for government and commercial clients**. Revenues from this segment came in at \$1.34 billion, \$1.23 billion and \$1.19 billion in 2018, 2017, and 2016 each. As of Dec 31, 2018, the company had more than 7,000 employees across the world.



Reasons To Buy:

- ▲ ICF International has a **strong global presence** with more than 69 regional offices across the United States and more than 23 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. 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. 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 is expected to strength the company's global marketing, technology, communications and digital services portfolio, DMS should improve 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.
- ▲ Currently, the company is banking on opportunities emerging from the **bipartisan budget agreement**. The 2018 budget by the Department of Health and Human Services — ICF International's largest federal client — has increased 14%. Both the Centers for Disease Control and the National Institutes of Health, where ICF International has significant exposure, have received increased funding. Moreover, considerable amount of funding is being allocated for initiatives to prevent opioid abuse, an area in which ICF International has significant expertise. Additionally, it sees a lot of opportunities at the Department of Transportation, Energy, Homeland, Security and Defense. In the coming months, ICF International expects RFPs to be issued in connection to these increased budget dollars.
- ▲ 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. In the first nine months of 2019, the company's total operating costs and expenses increased 10.7% year over year. 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 underperformed the industry in the past year, gaining 16.3% compared with the industry's growth of 25.1%.
- ▼ 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 Tops Q3 Earnings and Revenues Estimates

ICF International reported solid third-quarter 2019 results, with earnings and revenues beating the Zacks Consensus Estimate.

Non-GAAP EPS of \$1.12 beat the consensus mark by 3.7% and improved 10.8% on a year-over-year basis driven by strong operating performance. Revenues of \$373.9 million outpaced the consensus mark by 0.6% and increased 12.3% year over year.

Quarter Ending 09/2019

| Report Date | Nov 06, 2019 |
|------------------|--------------|
| Sales Surprise | 0.60% |
| EPS Surprise | 3.70% |
| Quarterly EPS | 1.12 |
| Annual EPS (TTM) | 4.13 |

Revenues in Detail

Revenues from government clients came in at \$247.7 million and improved 11.4% year over year. U.S. federal government revenues of \$148.2 million increased 5.6% year over year and contributed 40% to total revenues. U.S. state and local government revenues of \$71.5 million rose 28.8% year over year and contributed 19% to total revenues. International government revenues of \$28 million, up 5.5% year over year, contributed 7% to total revenues.

Commercial revenues totaled \$126.2 million, up 14.1% from the year-ago quarter's figure and contributed 34% to total revenues. Energy markets contributed 47% to commercial revenues and Marketing services contributed 45% to the same.

Backlog and Value of Contracts

Total backlog and funded backlog amounted to \$2.5 billion and \$1.3 billion at the end of the quarter, respectively. The total value of contracts awarded was \$477.2 million, representing a third quarter book-to-bill ratio of 1.3, and a trailing 12-month (TTM) book-to-bill ratio of 1.0.

Operational Results

Adjusted EBITDA was \$35.9 million, up 12.8% from the year-ago quarter's figure. Adjusted EBITDA margin of 9.6% was flat year over year. Adjusted EBITDA margin on service revenues was 14%, up 20 basis points (bps) year over year.

Balance Sheet

ICF International exited third-quarter 2019 with cash and cash equivalent balance of \$7.45 million compared with \$6.30 million at the end of the previous quarter. The company had a long-term debt of \$245 million compared with \$288.54 million at the end of the prior quarter.

The company generated \$54.3 million of cash from operating activities and capex was \$6.17 million. The company paid out dividends of \$2.6 million in the reported quarter.

2019 Outlook

ICF International reaffirmed its guidance for the year. Management continues to expect total revenues between \$1.48 billion and \$1.50 billion. Non-GAAP EPS is expected in the range of \$4.10 to \$4.25.

Recent News

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 up 16.3% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 25.1%, 24.7% and 20.8%, respectively in the same time frame.

The stock is currently trading at 18.51X price to forward 12 months' earnings, which compares to 20.44X for the Zacks sub-industry, 26.62X for the Zacks sector and 19.34X 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 15.98X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$91.00 price target reflects 19.49X 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 | 18.51 | 20.44 | 26.62 | 19.34 |
| | 5-Year High | 22.09 | 21.55 | 26.62 | 19.34 |
| | 5-Year Low | 9.97 | 15.94 | 18.78 | 15.18 |
| | 5-Year Median | 15.98 | 18.52 | 20.59 | 17.47 |
| P/S F12M | Current | 1.02 | 1.43 | 4.26 | 3.58 |
| | 5-Year High | 1.17 | 1.45 | 5.14 | 3.58 |
| | 5-Year Low | 0.48 | 0.93 | 3.1 | 2.54 |
| | 5-Year Median | 0.79 | 1.1 | 3.64 | 3 |
| P/B TTM | Current | 2.37 | 7.99 | 5.23 | 4.68 |
| | 5-Year High | 2.59 | 14.57 | 6.72 | 4.68 |
| | 5-Year Low | 1.13 | 6.96 | 4.13 | 2.85 |
| | 5-Year Median | 1.7 | 8.34 | 5.27 | 3.62 |

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 255)



Top Peers

| | |
|---|--------------|
| Booz Allen Hamilton Holding Corporation (BAH) | Neutral |
| CBIZ, Inc. (CBZ) | Neutral |
| Charles River Associates (CRAI) | Neutral |
| FTI Consulting, Inc. (FCN) | Neutral |
| IHS Markit Ltd. (INFO) | Neutral |
| Gartner, Inc. (IT) | Neutral |
| Maximus, Inc. (MMS) | Neutral |
| Resources Connection, Inc. (RECN) | Underperform |

| Industry Comparison Industry: Government Services | | | | Industry Peers | | |
|---|--------------|------------|-----------|----------------|------------|-------------|
| | ICFI Neutral | X Industry | S&P 500 | INFO Neutral | IT Neutral | MMS Neutral |
| VGM Score | A | - | - | B | B | B |
| Market Cap | 1.63 B | 4.67 B | 24.50 B | 31.55 B | 13.66 B | 4.67 B |
| # of Analysts | 3 | 3 | 13 | 10 | 6 | 3 |
| Dividend Yield | 0.65% | 1.53% | 1.78% | 0.85% | 0.00% | 1.53% |
| Value Score | B | - | - | D | D | B |
| Cash/Price | 0.00 | 0.03 | 0.04 | 0.00 | 0.02 | 0.03 |
| EV/EBITDA | 16.69 | 16.69 | 14.25 | 23.05 | 28.15 | 11.15 |
| PEG Ratio | 1.89 | 1.89 | 2.08 | 2.34 | 2.93 | 1.82 |
| Price/Book (P/B) | 2.37 | 3.60 | 3.28 | 3.83 | 14.55 | 3.60 |
| Price/Cash Flow (P/CF) | 16.35 | 16.35 | 13.68 | 22.55 | 22.14 | 14.30 |
| P/E (F1) | 18.93 | 18.87 | 19.12 | 28.06 | 37.51 | 18.22 |
| Price/Sales (P/S) | 1.12 | 1.49 | 2.67 | 7.15 | 3.22 | 1.54 |
| Earnings Yield | 5.30% | 5.30% | 5.23% | 3.56% | 2.67% | 5.48% |
| Debt/Equity | 0.54 | 0.54 | 0.70 | 0.58 | 3.06 | 0.00 |
| Cash Flow (\$/share) | 5.29 | 5.11 | 6.93 | 3.56 | 6.89 | 5.11 |
| Growth Score | B | - | - | A | A | A |
| Hist. EPS Growth (3-5 yrs) | 13.00% | 13.33% | 10.84% | 15.68% | 14.89% | 13.33% |
| Proj. EPS Growth (F1/F0) | 9.55% | 9.55% | 7.11% | 8.78% | 4.36% | 7.88% |
| Curr. Cash Flow Growth | 14.24% | 14.24% | 7.81% | 5.92% | 11.86% | 13.97% |
| Hist. Cash Flow Growth (3-5 yrs) | 10.36% | 10.36% | 8.25% | 24.83% | 22.55% | 10.95% |
| Current Ratio | 1.51 | 1.93 | 1.24 | 0.66 | 0.71 | 1.95 |
| Debt/Capital | 35.05% | 35.05% | 42.37% | 36.75% | 75.40% | 0.00% |
| Net Margin | 4.68% | 5.96% | 11.76% | 11.39% | 5.50% | 8.01% |
| Return on Equity | 11.87% | 20.54% | 16.86% | 10.95% | 38.63% | 20.54% |
| Sales/Assets | 1.08 | 1.66 | 0.55 | 0.27 | 0.62 | 1.71 |
| Proj. Sales Growth (F1/F0) | 7.45% | 10.98% | 4.05% | 3.46% | 9.08% | 12.24% |
| Momentum Score | B | - | - | A | B | F |
| Daily Price Chg | -0.89% | 0.00% | -0.38% | -0.58% | 0.16% | 0.00% |
| 1 Week Price Chg | 0.18% | -1.01% | 1.65% | 0.42% | -0.11% | -1.93% |
| 4 Week Price Chg | -4.64% | -1.67% | 0.39% | 0.19% | -5.32% | -1.67% |
| 12 Week Price Chg | -2.87% | -2.87% | 4.84% | 10.27% | -5.88% | -3.38% |
| 52 Week Price Chg | 16.24% | 16.24% | 14.99% | 51.12% | 7.79% | 0.12% |
| 20 Day Average Volume | 105,304 | 310,994 | 1,996,897 | 1,806,740 | 707,532 | 310,994 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.17% |
| (F1) EPS Est 4 week change | 0.00% | 0.00% | -0.01% | 0.00% | 0.83% | -0.25% |
| (F1) EPS Est 12 week change | -1.36% | -0.97% | -0.21% | 0.48% | 1.04% | -0.97% |
| (Q1) EPS Est Mthly Chg | 0.00% | -1.88% | -0.26% | 0.00% | -0.87% | -10.82% |

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 | B |
| 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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