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ICFI - Q1 2013 ICF International Earnings Conference Call

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CORPORATE PARTICIPANTS

Douglas Beck *ICF International - SVP, Corporate Development*

Sudhakar Kesavan *ICF International - Chairman, CEO*

John Wasson *ICF International - President, COO*

James Morgan *ICF International - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Bill Loomis *Stifel Nicolaus - Analyst*

Tobey Sommer *SunTrust - Analyst*

Tim McHugh *BB&T Capital Markets - Analyst*

George Price *William Blair & Company - Analyst*

Rick Eskelsen *Wells Fargo Securities - Analyst*

PRESENTATION

Operator

Welcome to the ICF International first quarter 2013 conference call. During the presentation, all participants will be in a listen only mode. Afterward, you will be invited to participate in a question-and-answer session. (Operator instructions). As a reminder, this conference is being recorded on Friday, May 3, 2013, and cannot be reproduced or rebroadcast without permission from the Company.

And now, I would like to turn the program over to Douglas Beck, Senior Vice President, Corporate Development. Please go ahead.

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

Thank you, operator. Good morning, everyone, and thank you for joining us to review ICF's first quarter 2013 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 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 May 3, 2013, 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 first quarter 2013. Sudhakar?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thank you, Doug. Good morning and thank you for participating in today's call to review ICF's first quarter performance and discuss our outlook for the remainder of 2013.

First quarter results were in line with our expectations. Revenues increased 2.8% year over year and were flat on an organic basis. Service revenue, which represents revenues directly billed by ICF employees, was up 2.3% year on year and increased 0.5% organically.

Consistent with the last several quarters, the strong year on year growth in our commercial revenues, which were up 14% this quarter, mitigated the softness in federal government spending. Importantly, while we continue to experience positive momentum in our energy efficiency work, which increased 10% in the first quarter year on year, other elements of our commercial business also performed well.

The combination of the GHK acquisition and organic growth drove a substantial increase in revenue from our non-US government business, which were $10.3 million, up from $4 million in last year in first quarter. About three-quarters of this growth related to the full quarter benefit of our GHK acquisition, which earlier contributed to revenue from March in last year's first quarter. However, the remaining one-quarter [recognized] organic growth in areas where our greater international scale enabled us to win contracts that we could not successfully compete for before.

State and local government revenues were down 19% compared to last year's first quarter. As we mentioned in last quarter's conference call, we have a large project that was in the public comment period in the first quarter and we expect that this business will pick up in the second half of the year. In general, state and local work tends to be lumpy as it involves large projects that have variable quarterly activities which makes quarterly performance more difficult to project.

Our US federal government business accounted for 59% of first-quarter revenues, down from 62% last year's first quarter and 68% in the 2011 first quarter. The 2.8% revenue decline in this part of our business in the first quarter matched our assumptions. ICF's recognized expertise in areas that are proven to be more resilient has helped us manage through the difficult market conditions in the federal space that we have been experiencing for the last four quarters.

In terms of contract decisions and the slower RSPs however, we have seen some movement to the right, which we are expecting more RSP and award activity in the next couple of quarters. Revenue performance by market was also in line with our expectations, with low to mid-single-digit growth in our two largest markets and again environmental infrastructure grew 2.1% and (inaudible) programs in consumer financial grew 5.5%. In aggregate, these two markets accounted for 87% of first-quarter revenue.

Profitability continues to increase at a faster pace than revenue growth as our clients make changes to our high potential commercial business and we maintain control over our general and administrative spending. First quarter profitability also benefited from the effective management of certain fixed price contracts and incentives related to energy efficiency contracts.

On last quarter's conference call, I talked about how we expect ICF's commercial revenue to become an increasingly important contributor to total revenues over the next 12 to 24 months. We saw evidence of this in the first quarter, both in the fact of commercial revenues accounted for 29% of total revenues, up from 26% in the comparable period last year, and in the fact that commercial wins accounted for 53% of total contract sales for the period compared to 41% in the same period in 2012.

Now here is an update on some of the key growth areas in our commercial business. Revenues from energy efficiency work again showed strong year over year growth in this year's first quarter, and during the period we were awarded two strategically important contracts. One in the US Southwest region that positions us well in the commercial industrial part of the market, where we see a significant opportunity to gain share and increase our presence, and another in the UK that enables us to extend our energy efficiency expertise outside the United States.

Aviation was also strong, as we were awarded new engagements from three new international airline clients and a significant project with one of the largest aircraft leasing companies in the world.

Energy infrastructure projects showed solid growth and we foresee increasing demands for ICF's planning, environmental management and cyber expertise commensurate with the roll out of large construction projects. And our nascent commercial healthcare consulting work continues to gain traction and is on track to deliver another year of double-digit growth.

Our interactive practice also added new clients, including an education nonprofit and a food distributor, as we continue to explore new dimensions in this technology space.

As I mentioned earlier, we are also gaining ground in our international business, which is also expected to become an increasing (inaudible) contributor to revenues and profitability.

In summary, this was a good quarter for us. The federal business has been impacted by the sequester, but our diversified portfolio is serving us well and will provide even stronger growth when the federal business recovers. Total sales in the period were $226 million.

The overall book-to-bill ratio was almost 1. In commercial it was 1.8. And our funded backlog increased to $720 million from $695 million at the end of Q4. Our new business pipeline was $3 billion at the end of the first quarter and we continue to have an active acquisition pipeline.

Now I will turn the call over to our COO John Wasson to provide additional insight into our operating activities. John.

John Wasson - *ICF International - President, COO*

Thank you, Sudhakar, and good morning. This was a typical quarter with respect to the dollar value of contract wins, but more complex when you look at the competition of our first-quarter sales.

As Sudhakar noted, commercial sales accounted for 53% of total awards, which was a record for us, and speaks to the increasing importance of this client category as a future source of revenue.

Non-US government sales were up dramatically and state and local sales also showed solid growth. These were a great offset to what we expected might be a soft quarter for federal government sales given the continued uncertainty associated with sequestration. Therefore we are pleased with this showing.

There were several very important wins in our energy efficiency business this quarter, particularly in the commercial and industrial part of that market where we see significant growth opportunities. Here we are leveraging the strong presence and reputation that we have developed in the residential energy efficiency arena to gain share of an addressable market that is even larger than the residential space.

The C&I market is a more complex one because of the variety of structures and systems that must be addressed and it requires a wider variety of engineering skills and technology tools to be effective. We have been systematically adding these capabilities and are demonstrating the ability to unseat incumbents, given our excellent track record.

At the end of the fourth quarter, for example, we announced a $16 million two-year contract with the Energy Trust of Oregon, which is not only a significant C&I win, but it was a take away from a well-established firm in the field. Our strength in marketing and in addressing customer service issues, plus the sophistication of our new operations center in Southern Virginia, were important reasons for ICF's win.

In Q1, we followed that with a $20 million win with a large C&I component for the utility in the state where we had previously only had a small presence, and where we again unseated an entrenched incumbent. The capabilities of our Southern Virginia operations center and the addition of the SIMS software applications announced last fall for analyzing resource consumption patterns were important win the attributes.

Finally, the preferred partnership announced with C3 Energy in February, which allows us to add important software tools in both the C&I and residential markets, enhances our ability to deliver full lifecycle solutions across the entire energy efficiency marketplace.

We are also expanding in this area internationally, as I will note in a moment.

Although energy efficiency remains an important growth engine, our strong commercial sales in Q1 were spread across our other growth areas including aviation, energy infrastructure, interactive data, and commercial health.

Particularly noteworthy was our winning a re-compete contract valued at $48 million to complete our work ensuring compliance with environmental requirements for one of the nation's largest electric transmission lines. This is our largest infrastructure project to date, but we are seeing an increasing number of opportunities in gas and electric infrastructure as well as facilities for coal exports.

Another area of strength in our sales this quarter was in our non-US markets. We have just passed the first anniversary of our acquisition of GHK. As you know, we acquired GHK because of its leading expertise in areas similar to ICF, the cultural fit and the fact that it helps us build scale in international markets.

GHK was also stronger in advisory and evaluation phases of the project lifecycle, much like ICF was 10 years ago. Therefore, we saw opportunities to blend our capabilities in ways that would result in successes beyond what either company could have achieved individually.

This weeks and oust when was signed in the first quarter with the UK's Department for Environmental, Food, and Rural Affairs, known as Defra, is a perfect example of the effectiveness of this strategy. Valued at about 5 million with the ability to extend two additional years, this was the result of combining the local presence and reputation of GHK and the energy efficiency knowledge of ICF to support a nationwide program in the UK to improve energy efficiency and environmental impacts of energy-using products.

This win is also of a size that is relatively large for GHK, and is in part a result of utilizing ICF's expertise in positioning for and capturing larger projects. It also sets the stage for us getting additional energy efficiency work throughout Europe.

We also announced another equally large win in international development. Based in India, this award will help us expand our scale in South Asia as a leading firm on selected development issues such as health, or in this case, children's health and governance.

I should also note that in Q1 we won significant engagements with the European Commission in areas such as employment and immigration, where GHK's presence in Brussels and knowledge of EC procurement, combined with ICF's added domain knowledge, have given us a competitive advantage.

Turning to the US federal government business, on Wednesday we announced that we were one of five winners of a $50 million -- $50 billion (sic -- $50 million, see press release) blanket purchase agreement with the Department of the Interior. In the past most of our work in the Interior was around environmental issues. But this is new work to support a wide range of policies, planning and human capital issues which will open new avenues for us with this agency.

Also in February we announced we were one of the winners of the new $11 billion in multiple award contracts at the Department of Homeland Security for Technical, Acquisition and Business Support Services known as TABSS. TABSS is expected to be one of the most important DHS professional services contract vehicles to help with full lifecycle support of major systems procurement, including business case, alternatives and investment analysis. No potential sales under these two ID/IQs are included in our backlog or sales figures.

Finally, we announced that we won a $23 million recompete of the contract with EPA in the Clean Air markets division.

In summary, I want to update you on some metrics that we report each quarter. Our pipeline, Sudhakar noted, now stands at $3 billion; includes a greater number of large opportunities than last quarter, 52 greater than $10 million and 23 greater than $25 million. In addition, our turnover continued to be a low 2.3% for the quarter which translates into an annual rate of 9.3%.

I would like to turn the call over to our CFO James Morgan. James.

James Morgan - *ICF International - EVP and CFO*

Thanks, John. Good morning, everyone. I am pleased to report on our first quarter 2013 financial results.

Revenue for the first quarter of 2013 was $233.9 million, an increase of 2.8% compared to the prior year. Excluding revenue from GHK for both periods organic revenue growth was flat. Organic revenue from commercial clients increased by 13% which offset the decline from US federal government and state and local clients.

Gross profit margin was 38.9% for the first quarter, up from 38.4% in the 2012 first quarter due to efficient contract management and receipt of energy efficiency contract incentives. This performance is in line with our comments on last quarter's conference call that gross margin would be within the 38% to 39% range during calendar year '13.

Indirect and selling expenses as a percentage of revenues were 29.2%, slightly higher than the 28.9% in Q1 of last year. Our EBITDA margin was 9.8%, up from 9.5% in last year's first quarter, and as expected, was within our guidance range of 9.5% to 10.5%.

Depreciation and amortization was $2.8 million, similar to fourth-quarter levels and in line with our projections for the full year. The increase as compared to last year's first quarter is primarily due to a benefit from a change in the estimated useful lives of certain technology-related assets which occurred during the first quarter of 2012, as well as an increase in capital expenditures over the past year.

Amortization of purchased intangibles was $2.4 million in the first quarter of 2013, down from $3.5 million in the first quarter of last year. The decrease in year over year amortization expense is primarily due to the reduced amortization of intangible assets related to the acquisition of Ironworks and Macro.

Operating income in the first quarter was $17.6 million, an increase of 7.8% over last year's first quarter. Operating income margin increased to 7.5% in the first quarter, up from the 7.2% reported last year. The growth in operating income continues to outpace the revenue growth due to the increasing percentage of revenues being derived from higher-margin commercial clients and our ongoing ability to control cost.

The effective tax rate was 40.4% as compared to 40% reported in the first quarter of 2012. We still expect the full-year effective tax rate to be 39%.

Net income was $10.1 million in the first quarter, up 13.1% from last year's first-quarter net income of $8.9 million. The incremental growth in net income resulted from lower interest expense.

In the first quarter of this year, we paid down an additional $18.3 million of debt, resulting in long-term debt of $86.7 million at the end of the quarter.

Diluted EPS was $0.51, up from $0.45 in the first quarter of 2012, a 13.3% increase.

Cash flow from operating activities was $13.3 million for the first quarter of 2013, an increase over the $11 million reported in last year's first quarter. Days sales outstanding for the quarter including the impact of deferred revenue remained flat at 71 days compared to the end of last year. As we have stated in the past, we expect our DSOs to be within the 70- to 75-day range.

Our capital expenditures for the quarter were $3.6 million.

To sum up, we reaffirm our full-year expectations for certain 2013 line items that we provided during our last earnings call two months ago, which were amortization of intangibles of $9.5 million to $10 million; depreciation and amortization expense of $12 million to $12.5 million; capital expenditures of $15.5 million to $16.5 million; interest expense of $2.5 million to $3 million; and fully diluted weighted average shares of approximately $20 million for the year.

Likewise, we continue to expect to have cash flow from operating activities of at least $70 million.

With that, I would like to turn the call back over Sudhakar.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thank you, James. We are pleased our first quarter performance was on track with our expectations. Seasonal patterns are difficult to project within the current business environment.

Our updates on our current portfolio business reaffirm our guidance for full-year 2013 for revenues of between $935 million and $975 million, EBITDA margin of 9.5% to 10.5% and earnings per diluted share of $2.00 to $2.10.

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

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Bill Loomis, Stifel Nicolaus.

Bill Loomis - *Stifel Nicolaus - Analyst*

Good quarter. Just looking at the -- if we look at the second quarter, and I know you are not giving second quarter guidance, but you have some new wins that are ramping up and some year over year comps on the state and local side.

Can you just help us figure out the quarterly pattern when some of these new wins will really start to contribute sequentially on the commercial side, and when any upcoming drop-offs or anything unusual we should be looking for in the next one to two quarters, please?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

As I mentioned just as I was ending the talk, Bill, seasonal patterns are a little bit more difficult to project. As you will recall last year, our seasonal patterns were not exactly consistent with what we had had in the prior years.

So, what I would think is given that we have two extra days in Q2, and given that a certain amount of our uptick in the first quarter was because of certain incentives due to energy efficiency projects, we think that Q2 is going to look very similar to Q1. So we -- at least based on our general sense. Why don't I leave it at that? That's what we think it will be.

So I think that usually we would tell you that Q2 will be better than Q1, Q3 will be better than Q2, and Q4 will go down. But this year we think Q1 and Q2 will be pretty similar to each other.

Bill Loomis - *Stifel Nicolaus - Analyst*

And just finally, on international, what was -- I know you gave the contribution from GHK, but what was the international growth organically in the quarter?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

International growth, organically I thought we said -- if you look at my conference call remarks, we were up from $4 million to $10.3 million. And three-quarters of that growth related to the GHK acquisition, the acquisition growth. However, the remaining one-quarter represented organic growth in that. So three-fourths of the $6 million was acquisition and a quarter was sort of organic. That was basically what it was.

Bill Loomis - *Stifel Nicolaus - Analyst*

With these new wins you announced internationally is that going to pick up, because that didn't contribute in the first quarter, did it?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, I think -- you know, we think that it will stay consistent going forward. I don't know that it will pick up, but we think that it was reasonable mid-single-digits organic growth in the first quarter, and we think that that is what we can continue -- we hope to continue to achieve. And then as we quicken, then we will certainly let you know.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. Thank you.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust - Analyst*

My question is a broader one. Sudhakar, the international business, showing some organic growth and you're adding acquisitions as well as winning some contracts. How I think about the general trend in margins over a medium-term or longer-term, with that taking place, and at the same time commercial becoming a bigger part of the mix? Thanks.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

The commercial business is certainly much bigger than the international business. We think that those margins are going to dominate, hopefully, as the commercial business grows larger. The international business is solid, growing, but the margins are similar to what we have in the traditional government business here.

So, at the moment I'm more focused on the margin growth aspect based on the commercial business rather than the international business. International is good to have. It is a good diversification, it allows us to grow and is very similar in characteristics to our government business here.

So I think that if the diversification -- I don't think it is a margin expansion necessarily. But the commercial business certainly, both internationally and here, expands our margins. So we'll see how -- but we think that the commercial business margin expansion will dominate as we move forward.

Tobey Sommer - *SunTrust - Analyst*

Thank you. And what kind of size and opportunity does the healthcare and the payer side, with the Blues, represent relative -- and can you may be size it and compare it to the energy efficiency and utility work that you do?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think that general commercial healthcare services market and selling market is quite large, we think. Even the non-IT side of it is very large, and now we also have IT capabilities which potentially we can leverage.

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So I think it is perhaps bigger than the energy efficiency opportunity, significantly bigger, because we think that it is such a large part of our economy. And there is going to be so much change in that sector, that really it is one of the prime areas for growth which we certainly hope to capitalize on going forward.

Tobey Sommer - *SunTrust - Analyst*

My last question, I will get back in the queue, is of the commercial business how much is the energy efficiency and utility work? What does that represent of the roughly 30% you have in commercial?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

It is about a third.

Tobey Sommer - *SunTrust - Analyst*

Perfect. Thank you very much.

Operator

Tim McHugh, William Blair & Company.

Tim McHugh - *BB&T Capital Markets - Analyst*

Thank you. First just want to ask how significant were the incentive fees that you referenced this quarter?

James Morgan - *ICF International - EVP and CFO*

This is James. They were roughly about $1 million and those were incentive fees that really shifted a little bit out of Q4 of last year into Q1 of this year. So we anticipated that those would occur when we gave guidance previously. But it was roughly about $1 million.

Tim McHugh - *BB&T Capital Markets - Analyst*

Okay. And then the energy efficiency, it sounds like you won some good contracts. The growth, while 10% is still great, it is less than you had been showing the last year or two. Are you just hitting the law of large numbers that we should start to expect a slower -- a slowdown in the growth rate of that business? Or was it just timing related as well, and you can grow faster than that even?

John Wasson - *ICF International - President, COO*

This is John Wasson. I think it was more timing related. I think we still believe we can grow healthy double digits.

I think that one of the contracts we won is beginning to ramp up, but it will be larger in the second half of the year. I think there are some other contracts that we either have in the pipeline or are deep in capture that we think would be material for the second half of the year. So I think it is more of a timing issue than it is an indication of large numbers. I don't think we have hit the large number problem or challenge yet. I think we still have a ways to go.

Tim McHugh - *BB&T Capital Markets - Analyst*

Okay. And then you talked about the second half of the year, the state and local -- I believe it was the trends or the project out in California, I guess, the infrastructure project that's in comment period right now.

Do you have any visibility that that is actually going to start up in the second half? And can you give a sense of is that included in the guidance and how much of a swing factor is that?

John Wasson - *ICF International - President, COO*

It's certainly included in the guidance. I think that we are highly confident that that project will pick up, I think as we get late into the second quarter and will be strong in the second half of the year. We will certainly play a key role in responding to the comments that will come in on that, that project and then we'll do further analysis.

And so I think the increase from first half to second half is -- what is that number, James, about 40% increase?

James Morgan - *ICF International - EVP and CFO*

Yes.

John Wasson - *ICF International - President, COO*

In the second half of the year on that project. And so I think it is going to be a material increase and we have very clear visibility to it. I think that we are highly confident that will happen in the second half of the year.

Tim McHugh - *BB&T Capital Markets - Analyst*

I'm sorry, I missed that number. Did you say a 40% increase?

John Wasson - *ICF International - President, COO*

On the project.

James Morgan - *ICF International - EVP and CFO*

On the project.

Tim McHugh - *BB&T Capital Markets - Analyst*

On the project. Okay.

James Morgan - *ICF International - EVP and CFO*

H1 to H2.

Tim McHugh - *BB&T Capital Markets - Analyst*

Okay.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

And we know that there are thousands of comments, so we are pretty busy responding to those comments.

Tim McHugh - *BB&T Capital Markets - Analyst*

So it is not as much as moving past the comment period, you will do work on the comments coming in?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes.

James Morgan - *ICF International - EVP and CFO*

Yes.

Tim McHugh - *BB&T Capital Markets - Analyst*

Okay. And just to clarify, lastly, the sequester and I guess general government spending. You made the comment that you have seen some project awards move to the right.

Is that the primary impact right now in the awards of new projects? Or have you seen any impact to existing engagements getting scaled back, or the scope of existing work getting changed?

John Wasson - *ICF International - President, COO*

This is John Wasson. We really haven't seen changed in terms of additional projects getting scaled back or being de-scoped. The environment in the last quarter has been very similar to the environment over the last 3 to 4 quarters. So I would say there's been very little change in terms of the funding situation.

I think some of the contract decision awards have moved to the right, but as I said, I think we still think that Q2 and Q3 will see a pickup in activity. We also have seen some pickup on the RFP front here in the second quarter. So I think we do have confidence we will see additional RFP and award activity here in the next couple quarters.

Tim McHugh - *BB&T Capital Markets - Analyst*

Do you have any sense, in terms of the dialogue, whether we are past the agencies making decisions around sequester? Or is that still a risk that it is too soon to know if you are going to see project scopes get changed?

John Wasson - *ICF International - President, COO*

Yes I think that's a hard question to answer. I don't think we have clarity on that issue. I think our clients are still working through those issues and there's uncertainty on the client side.

And so I think there's still uncertainty out there and there is certainly the possibility we could see additional impacts, although I would say, again, the last three or four quarters we have seen a very similar environment and really no change in that environment.

Tim McHugh - *BB&T Capital Markets - Analyst*

Thank you.

Operator

George Price, BB&T Capital Markets.

George Price - *William Blair & Company - Analyst*

Good morning, everyone. Nice quarter. Wanted to follow-up just on a question on the sequester.

I know a competitor recently talked about seeing some -- I think they characterized it as freezes on the civilian side, not an official cancellation, but the client essentially not spending. It sounds like you are not seeing that. I guess have you heard of that in any areas and any of your civilian client base, and perhaps where?

John Wasson - *ICF International - President, COO*

Yes, we really haven't seen freezes. Obviously, as we have said officially, we haven't received any freezes.

I mean, we have had one or two anecdotal stories about clients concerned about budgets, but really, again I don't think we have seen any change in what we are hearing from the clients or changes in the environment vis-a-vis sequestration from the past several quarters. And so I really think there's been no change and there's been no new developments or no new commentary coming from our clients on the sequestration front in the last quarter.

George Price - *William Blair & Company - Analyst*

Okay, okay. And I guess in terms of maybe shifting over to the commercial side, can you talk about what the client demand outlook is like, particularly in your interactive business? And what did that business grow in the quarter?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

This is Sudhakar. I think we talked about some clients we've have added. What we will do is, as we did this past year, we will give you growth rates at the end of the year. But we won't give you quarterly growth rates in these sub businesses we have in commercial, other than energy efficiency. Energy efficiency is big enough that we will give you those rates.

So I think that we are positive about the outlook on interactive. We think that we are adding a bunch of clients. It is doing well. But we are not going to give you specific growth rates by quarter for those five areas we talk about in the commercial, other than energy efficiency.

George Price - *William Blair & Company - Analyst*

Okay, I guess is it still --in terms of growth through the year, it is still tracking to your expectations, sort of low to mid-teens kind of growth in general?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, I think that basically -- as you know, we have talked about this. We have established what we call a Marketing Interactive and Technology Group within our Technology and Management Solutions Group, which we have combined the Ironworks business together with all our interactive business we had, plus our Communications business. And that is nearly $140 million.

So we've just set that up. We think that they are -- they have some momentum and they will do well going forward. And it is hard to explicitly now track how one part of the business is doing versus the other, given that we have got some scale in that business and we are hoping that we can leverage that scale and grow just like we have in the other areas.

George Price - *William Blair & Company - Analyst*

But just given the -- it doesn't sound like it, but given some of the broader macro uncertainty and business spending uncertainty that's out there, we have seen that in some areas, not in others, but is it fair to say you haven't seen any demand impact from the spending in your interactive area from macro uncertainty?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

We don't see it. Now, again, we have in the older macro world we have a small business in that, even $140 million is small. But we don't see any lack of opportunity.

George Price - *William Blair & Company - Analyst*

Okay. Last question. Some companies have discussed potential impacts from the sequester on government payment timing and potential modest impacts to DSOs. Is that anything that you are seeing or hearing about? Thank you.

James Morgan - *ICF International - EVP and CFO*

This is James. We haven't seen any impacts from that and we have been able to maintain DSOs at 71, as I mentioned, which is kind of at the low end of the range that we expect between 70 and 75. And it is flat to what we had in Q4. So there's been no significant impacts at all from a payment perspective.

George Price - *William Blair & Company - Analyst*

Great. Thank you.

Operator

(Operator instructions). Edward Caso, Wells Fargo Securities.

Rick Eskelsen - *Wells Fargo Securities - Analyst*

It is Rick Eskelsen standing in for Ed. Just a question here on the civilian agencies and sequestration. Can you remind us how much of the work you do on client sites and what impact there might be from civilian agency furloughs, and if you are hearing about that from your clients?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Our percentage of work on client sites is small as compared to some of the other companies you'd generally compare us to. I think it is, what, 10% to 15% or so of our business is on client sites. I don't -- don't hold me to that number, but that sort of gives you a magnitude. And so we believe that there will be a minimal furlough impact. Jim, do you want to add something?

James Morgan - *ICF International - EVP and CFO*

Yes, I guess I would just say that so far today we haven't had any impacts with regard to our employees at client sites. There's been -- certainly there's been customers asking what-if scenarios I think we have had in a couple of situations, but to date they seem to be -- there's nothing that's been concerning. And even any of the scenarios we have done, they have been fairly immaterial.

Rick Eskelsen - *Wells Fargo Securities - Analyst*

Okay. And then on the contract award decisions, you talked about seeing a pickup in Q2 and Q3. In terms of the normal seasonality of a very strong Q3, could it be even greater than normal because of maybe more sluggish awards getting pushed to the right in Q1 or more in line with a normal year?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think it could be greater, especially because Q3 there will be some more certainty on the budget situation also, because in the summer is when Congress is going to try and decide how they are going to move forward. So I think that you're right. They could be greater in Q3 than normal.

Rick Eskelsen - *Wells Fargo Securities - Analyst*

Then just the last one, on the energy efficiency of market in the internationally, how important is the work that you do here in the US versus the bulked up scale that you have gotten from GHK? Sort of what -- talk a little bit about winning in the international space for energy efficiency. Thanks.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think GHK gave us scale, so the clients basically were confident that we have the people to do the work. Our work here in the US gave us the qualification and experience to make sure that we respond to the RFP in a very effective, creative, innovative way. So combining those two is a reason we won the work in the UK.

So I think that we also have our work internationally especially funded by on energy efficiency or climate issues which are funded by development agencies both in the UK and here in the US, leverages our experience in the US. And we have a lot of experience on energy efficiency issues in Asia. So I think that it is a combination of both.

In the UK specifically it was more are our ability to demonstrate some confidence to the clients that we have the scale and we are committed to working in the UK. Originally we had 15 or 20 people. Now we have 300 people so, now the client basically has even called us in and said that they would like us to do more work.

And there are a number of these departments that want to diversify their vendor base because they are traditionally dependent on one or two vendors which have not necessarily served -- which have not necessarily served them well. So we have had meetings with them, but they have encouraged us to be another vendor.

So we think we will win our fair share of work, and so we are optimistic about our growth in the UK even if the overall market in the UK may not be growing. We think there are good signs and we are well-positioned. And in the UK certainly our experience here helps.

I don't know, am I answering your question?

Operator

If you have muted your line, please unmute.

Rick Eskelsen - *Wells Fargo Securities - Analyst*

That was all, thank you very much.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust - Analyst*

You referenced your Virginia center a couple of times. I was curious if you can give us an update for how many people you have there now and what the capability is, at least in place, to increase the staffing levels there. Thanks.

John Wasson - *ICF International - President, COO*

Sure. This is John Wasson. The Virginia center, I think in the energy space services we provide, our call center services in support of these energy efficiency programs, and then we also do all the rebate processing for these programs.

And so those services are actually quite important, because often we are dealing directly with the utilities customer, the homeowners or the industrial clients. And so they are very sensitive and very focused on that their customers are treated well. And I think we have been able to demonstrate that we can provide very high quality call center and rebate processing capabilities out of our Virginia center.

I think at the end of 2012 we had about 227 FTEs working in that center. I think as our energy efficiency work continues to grow, and some of the other survey work that we do for the Federal government, we are hoping by the end of the year to be in the 350-person range. Ultimately I think if you look down the road two or three years, we can have 550 people in that center.

And we can work multiple shifts. We could operate that center on two or three shifts. So there is certainly additional capacity to handle more work out of that center as we go forward.

Tobey Sommer - *SunTrust - Analyst*

Thank you. And lastly, what is the interest rate you are currently paying on the debt? And is there an opportunity for you to perhaps refinance and lower that rate?

James Morgan - *ICF International - EVP and CFO*

I would just say with regard to the interest rates we are currently paying it's -- I think we have a very good credit facility in place. And I think our chances of lowering that rate from where we are, I doubt that we will be able to get a much better rate than where we currently are. So I will leave it at that.

Tobey Sommer - *SunTrust - Analyst*

Sure. Could you actually share the rate? Thank you.

James Morgan - *ICF International - EVP and CFO*

Yes it's (multiple speakers)

John Wasson - *ICF International - President, COO*

Or I can follow-up offline.

James Morgan - *ICF International - EVP and CFO*

Yes, there's different scales depending on how much you are borrowing, but -- so it is more complex than just giving a simple rate. But roughly 1.5%.

Tobey Sommer - *SunTrust - Analyst*

Thank you very much.

Operator

There are no further questions. I will now turn the call over to management for closing comments.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thank you very much for joining us for the call, and we look forward to seeing you for the second quarter call. Thank you.

Operator

And thank you ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.