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PRESENTATION

Operator

Welcome to the Second Quarter 2021 ICF Earnings Conference Call. My name is Vanessa, and I will be your operator for today's call. (Operator Instructions) Please note this conference is being recorded on Tuesday, August 3, 2021, and cannot be reproduced or rebroadcast without permission from the company. And now I would like to turn the program over to Lynn Morgen of AdvisIRy Partners. Please go ahead.

Lynn Morgen ***AdvisIRy Partners***

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's second quarter 2021 performance. With us today from ICF are John Wasson, President and CEO; and Bettina Welsh, CFO. Joining them is James Morgan, Chief of Business Operations.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our August 3, 2021 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 ICF's CEO, John Wasson, to discuss second quarter 2021 performance. John?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Thank you, Lynn, and thank you all for joining us on today's call to review ICF's second quarter 2021 results and discuss our business outlook. First, let me say that I'm very pleased with ICF's strong second quarter performance and how well we are tracking against the long-term growth catalysts that we have identified.

We continue to report strong revenue growth across our markets and client categories and even stronger growth in EBITDA and earnings metrics. At the same time, we are maintaining our backlog with solid awards, the majority of which represent new business, and we ended the quarter with a record business development pipeline of $7.2 billion, representing a $1 billion sequential increase in diversified opportunities across our government and commercial client sets. This reflects funding trends in our markets and supports our confidence in reaching the higher end of our guidance ranges on service revenue, EBITDA and EPS in 2021, and underscores our strong positioning heading into 2022.

ICF's second quarter revenue growth was led by a double-digit increase in revenues from both government clients and commercial energy clients, which together accounted for 87% of our total revenues for the quarter. While commercial marketing services revenues were stable with last year, and our aviation consulting practice saw a pickup in business.

Looking more closely at our client categories, federal government revenues increased 6.7% year-on-year, in large part representing our continued work in the areas of IT modernization, digital transformation, climate change and resilience, and public health and social programs at key civilian agencies.

This was also a strong quarter for contract awards in the federal arena, which increased 54% year-on-year and included an important recompete with the U.S. National Cancer Institute to provide digital communication services for its behavioral health programs, with the U.S. National Aeronautical Space Administration, or NASA, to assist with climate change research, and with the Social Security Administration to continue our IT modernization work to automate its physical security processes. In IT modernization, we were also awarded a new project to help modernize the U.S. Federal Transit Administration's oversight tracking system, and we received additional funding to continue modernization efforts for the U.S. General Services Administration.

In the first half of this year, our IT modernization revenue is up over 15% year-on-year, in large part reflecting the revenue synergies we have generated since we acquired ITG in January of last year. By combining ICF's domain expertise, robust business development platform and contract vehicles with ITG's best-in-class qualifications, track record, deep technology partnerships and leading platform expertise, we have been able to win contracts that neither firm could have won on its own. Additionally, our business development pipeline in IT modernization remains over $1.5 billion.

We continued to build our public health presence in the third quarter with our largest client, the Department of Health and Human Services, accounting for 27% of first half 2021 government revenues. We remain in the response phase with respect to the pandemic, and since the onset of COVID-19, ICF has received contract modifications and awards totaling approximately $55 million to provide policy and scientific analysis, research, communications and project management services to government clients.

We are writing a tremendous number of proposals in the federal government arena, where our business development pipeline was at a record $4.5 billion, including a large number of public health, health IT, social program, and as I just mentioned, IT modernization opportunities.

We're also closely monitoring developments with respect to the infrastructure bill, which is where our environmental impact analysis, project permitting and construction monitoring of infrastructure projects, and our expertise in resilience, mitigation and clean tech, also come into play.

Also, President Biden's fiscal 2022 budget proposal includes double-digit increases for many of the civilian agencies that we serve, most notably a 24% increase for HHS. While it is too soon to say how this will all play out, I do think it's safe to say that ICF will see a significant amount of additional spending in many areas of our addressable market in the coming years, and we are investing in the talent and technology to enable us to capture those opportunities.

Revenues from state and local clients increased modestly in the second quarter, reflecting both a robust market for disaster management, resilience and mitigation, advisory and implementation services and opportunities to provide technical assistance and implementation services to state and local governments to help them manage and distribute more efficiently federal dollars received through stimulus and relief programs.

We extended and expanded our work in Puerto Rico during the second quarter. ICF was awarded an additional $13.7 million to extend our FEMA-funded grants management work and another $13.1 million to expand the implementation of their housing authority's rehabilitation, reconstruction and relocation program for single-family homes damaged by Hurricanes Irma and Maria.

Also in the second quarter, ICF was awarded a new $9 million contract by the government of the U.S. Virgin Islands Department of Labor to implement a new workforce development program that will train local workers to support the territory's recovery from the 2017 hurricanes.

Additionally, in state and local, we continue to support our environmental services clients, particularly in transportation, water, energy and planning and development. We are busy on a broad range of projects that include high-speed rail, conservation planning, new reservoir planning and permitting and renewable energy projects.

As noted in our earnings release, revenues from international government clients increased substantially in the second quarter, primarily reflecting a sizable short-term project that includes substantial pass-through revenues, which we expect to wind down throughout this year. ICF continues to make good progress on climate-related work internationally with extensions being secured for many of our existing wins, plus a number of new opportunities where we are recognized for expertise in climate advisory and implementation services.

Additionally, the European Green Deal is yielding many opportunities in policy design and green finance, with a strong pipeline of work on clean energy transition in the European Union. We continue to expect our international government revenues in 2021 to show considerable growth compared to 2020 levels, but not at the magnitude we saw in the first half of the year.

Moving to a review of our commercial businesses, commercial marketing services revenue was steady in the second quarter, up just under 1% year-on-year. The health care and consumer packaged goods market continued to show strength, while those markets that have been hardest hit by the pandemic are in an early recovery phase.

Our commercial marketing group continues to win awards and recognitions for their work, including being recognized as a strong performer among loyalty solution providers in the Forrester Wave. I'm also pleased to report that our commercial marketing group has been engaged by large brand clients, including Skittles and Miller Lite, on campaigns that promote social inclusion and acceptance during Pride month.

Our commercial energy markets business had another great quarter, with revenues up 11.4% year-on-year. This represented very strong performance across the group, led by the startup of new energy efficiency programs and the expansion of existing contracts.

We continue to win energy efficiency work in California with multiple new awards this quarter and anticipate additional opportunities as the state makes progress towards its goal of 60% or greater outsourcing. We're also monitoring developments in several other states as energy efficiency-related programs are instituted or expanded to address state climate targets. For example, in New York, ICF implements the Clean Heat program for all the New York investor utilities. This innovative program is designed to replace fossil fuel heating systems with electric heat pumps. We expect similar electrification programs, including expansion of state electric vehicle programs, in several other jurisdictions.

Commercial energy advisory service business, which now includes distributed grid services, also had a strong quarter. A main driver of this growth was our power and technical advisory business, which is associated with continued high demand for financial and [engineering] (corrected by company after the call) due diligence services around the development and deployment of renewable resources and energy storage.

And our environmental services work for commercial energy companies remained steady, with new contract wins with utilities and renewable energy developers. We also continue to pursue construction and compliance monitoring contracts for new or rebuilding energy infrastructure, including environmental studies for large offshore wind projects.

Key trends affecting the energy sector include decarbonization, electrification, distributed energy resources, resiliency, energy equity and the change in utility business models. And all of these are closely aligned with the current administration's priorities, and all represent growth opportunities for ICF.

To summarize, this was another quarter of very strong performance for ICF, building on the positive momentum we experienced at the end of 2020 as well as in this year's first quarter. Following 3 consecutive quarters of record contract sales, in the second quarter we were awarded $398 million in contracts, 41% ahead of the prior year, and our trailing 12-month book-to-bill was at 1.48x, the highest in recent memory.

Also, we have replenished our business development pipeline to a record $7.2 billion, adding $1 billion since the end of the year's first quarter. These are strong indications of the growth potential we have on the horizon. At the same time, we are prioritizing greater engagement with our employees and increasing our investments in people, recruiting and technology to ensure that ICF is well positioned for future growth and success.

And with that, I'll turn the call over to Bettina Welsh for a financial review. Bettina?

Bettina Garcia Welsh ***ICF International, Inc. - Senior VP & CFO***

Thank you, John. Good afternoon, everyone. I'm pleased to share a more detailed view of our strong second quarter 2021 financial performance that puts us on track to achieve the upper end of the full year guidance for service revenue, EBITDA and EPS that we provided at the start of the year.

Second quarter 2021 total revenue was up 10.9% to $392.5 million year-on-year driven by strong performance in both government and commercial markets, which increased 13% and 6% year-over-year, respectively. Service revenue grew 7.7% year-over-year to $281.4 million. Pass-through revenue increased this quarter and accounted for 28.3% of total revenue, in line with our expectation that pass-through revenues for the full year will be approximately 28% of the total revenue. Keep in mind that in the fourth quarter of last year, we had an exceptional increase in pass-through revenues that was onetime in nature and related to the completion of a large contract.

Gross profit increased 11.7% on a year-on-year to $145.9 million. Gross margin on total revenue expanded 30 basis points to 37.2%, while gross margin on service revenue grew 180 basis points to 51.8%.

Indirect and selling expenses were $106.2 million compared to $99.3 million in the year ago quarter. As a percentage of service revenue, indirect selling expenses were 37.7%, down 30 basis points from last year's second quarter.

We had significant growth in EBITDA and adjusted EBITDA in the second quarter with EBITDA up 26.7% to $39.7 million and adjusted EBITDA, which excludes special charges, up 23% to $40 million. Adjusted EBITDA margin on service revenue expanded 180 basis points to 14.2%. This strong performance reflected several factors, including service revenue growth, favorable business mix, high utilization, lower indirect costs as a percent of service revenue and the pull forward of energy efficiency project work and energy incentive fees from the second half of this year. We are very pleased with these results as they were achieved while we continued to invest in our business in anticipation of increased activity in our high-growth markets.

Operating income of $32 million was up 40.3% from the $22.8 million reported in the second quarter of 2020. Our tax rate was 30.7% compared to 29% in the second quarter of 2020.

Net income for the quarter was $20.3 million or $1.07 per diluted share, up 48.7% from the [$13.7 million] (corrected by company after the call) or $0.72 per diluted share in the second quarter of 2020. On a non-GAAP basis, excluding the impact of amortization of intangibles and severance/staff realignment charges, earnings per share increased 33.7% to $1.19 year-over-year. As you can tell from our reaffirmed full year guidance at the upper end of our initial ranges, we are expecting EPS performance in the second half of this year to be similar to that of the first half as the contracts we won late in 2020 and early this year continue to ramp up.

Shifting to the cash flow statement, our operating cash flow of $6.3 million was in line with our expectations, and we continue to anticipate operating cash flow for the full year of approximately $100 million. Capital expenditures for the first half of the year were $7.5 million compared to $9 million in the prior year. Days sales outstanding for the second quarter were 82 days compared to 88 days in the similar period last year. Our capital allocation strategy remains a balanced approach. We will continue to invest in organic growth and acquisitions, pay down debt, as well as return capital to shareholders in the form of dividends and share repurchases.

In the second quarter, we repurchased 21,800 shares for $2 million to offset the dilution of our employee incentive programs. Also, today we declared a quarterly cash dividend of $0.14 per share payable on October 13, 2021, to shareholders of record on September 10, 2021.

For modeling purposes, here are updated metrics for 2021. Depreciation and amortization expense is now expected to be in the range of

$19 million to $20 million, slightly below our initial expectations. Amortization of intangibles should be in the range of $11.8 million to $12.2 million. Full year interest expense should range from $11 million to $12 million. Full year tax rate will be no greater than 28%, whereas we previously noted no greater than 27%. We expect fully diluted weighted average share count of approximately 19.1 million for 2021. And capital expenditures are anticipated to be approximately $20 million. As I mentioned earlier, our expectation for cash flow is approximately $100 million.

With that, I'll turn the call back to John for his closing remarks.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Our first half performance has firmly positioned ICF to report full year 2021 service revenue, EBITDA and EPS that are at the upper end of the guidance ranges we provided at the time of our fourth quarter 2020 earnings release. Also, I am pleased to report that in the first half of this year, over 60% of ICF's service revenue represented work in key areas in which we expect growth rates in the aggregate to be at least 10% over the next several years. This universe accounted for 55% of annual revenues in 2020. These high-growth areas include IT modernization, public health, disaster management and utility consulting as well as climate, environment and infrastructure, which align well with the current administration's priorities. This positioning, together with our robust backlog and pipeline, support our confidence in ICF's organic growth prospects over the next several years.

Additionally, we have the financial resources to pursue acquisitions that can further expand our addressable market.

The problem-solving nature of our work has enabled ICF to attract an exceptional group of people who are dedicated to making a positive difference and who share our commitment to carbon neutrality, diversity, social justice and equality. We appreciate their contributions to our success and encourage you to visit our website to learn more about how ICF addresses its ESG responsibilities. Operator, I'd now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have our first question from Tobey Sommer with Truist Securities.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

I was wondering if you're able to parse out these strong contract awards, the extent to which the influence of the change in administration is, a, driver or if this is still representative of bids and momentum that may, in fact, have sort of predated the election and change in administration.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. No, sure, Tobey. That's a good question. I would say, generally, I think the award drivers remain -- opportunities that predated the administration that we've had in capture and subsequent proposals over the last several quarters. They are in the key growth areas that we've emphasized prior to this administration and that certainly those growth drivers continue, IT modernization, public health, disaster recovery utility programs.

But the things -- the awards we're seeing today and have had year-to-date, really predated the administration in terms of the capture and the proposal efforts and now getting to awards. So I think that's how -- certainly how we see it.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

Okay. Great. Now you cite a lot of sort of key markets as having good outlooks, and that's terrific. Is there -- if asked to sort of rank order the areas where you think you're going to have the fastest growth over some sort of time period, doesn't have to be near term, it can be over some sort of medium or long term; how would you answer that question?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I would say, first, we're pleased with the bounty of growth drivers in our markets right now. I mean -- I think as I just said, I mean, We've had 4. We've talked about for the last year or 2 IT, public health, disaster recovery, utility programs. Including with this administration, we've also that discussed climate, I think, will -- kind of moves up to a key growth driver and infrastructure has the potential too.

I would -- I think what I would say, Tobey, is we see all of those as double-digit growth markets. As I said, we're -- 60% of our revenues in the last quarter were in those markets, and they're growing north of 10%. I think we've emphasized that IT modernization has been growing north of 15% for the year for the last 5 or 6 quarters, if not more, since we completed the ITG acquisition.

So I would put them all in a north of 10% bucket. I would hesitate to try to rank order them from there. I think they're all strong growth drivers. So -- and we're quite excited about them. I think we're confident they'll remain growth drivers for the next several years.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

Okay. That's work left for us to do then. If -- you did the ITG acquisition not long ago and just cited the superior growth you've generated since then. How would you describe your enthusiasm to do more acquisitions? And if you could share areas of interest, that would be helpful.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Sure. So I mean I think as you know, over the 15 years we've been a publicly traded company, I mean we've -- acquisitions and M&A has been a key aspect of our strategy. I think we've talked about that our average compound growth has been around 15% and half of it has been organic, half has been inorganic.

And so I do think M&A remains a key part of our strategy. I think we're primarily focused on companies in the key growth markets that I just mentioned. And I would say that -- and I think I've said this many times, I mean, we -- we're looking for quality companies, high-quality companies that are a good cultural and strategic fit where we really see a path to significant synergistic revenues when we put their capabilities together with ours like we've achieved for ITG.

And so I think we're -- so we're certainly -- I mean it's an active time in the M&A market. There's a lot of activity. I would say the valuations are frothy. But even with that, if you can find a high-quality company where you can really have confidence in the strategic and cultural fit, and you can see the synergistic revenues, it can be transformational.

I mean ITG has certainly opened up in a much more significant way the IT modernization market for us over the last, whatever, 16, 17 months. And so we're focused on the federal side in health, health IT, IT modernization, certainly in commercial energy markets. If the right opportunity came in disaster recovery, we take a look at that. But I think that's how we're currently looking at M&A.

Operator

We'll have our next question from Joseph Vafi with Canaccord.

Joseph Anthony Vafi ***Canaccord Genuity Corp., Research Division - Analyst***

Great results and great to see the broad-based strength in the business. Just to start, I know in some of your prepared comments, John, you talked about -- it's clearly a good bookings quarter, but you also discussed the fact that the pipeline was actually pretty strong, and we're kind of in the middle of the federal budget cycle.

So just wondering where you're seeing extra kind of pipeline strength at this point in the federal budget cycle. And then just one for Bettina also. I know you mentioned that there was some pull forward on some of the energy business. Just wondering what the second half may have in store or the next few quarters may have in store with that pull forward? And then I'll have a quick follow-up after that.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. I think on the IT question, Joe, on the federal side, I think we're -- certainly, the -- I mean, again, I keep going back to the same key growth drivers. I mean I think IT modernization is certainly driving our -- significant driver of our pipeline. Public health and social programs at HHS. I mean I said that that's like -- I said, 27% of our federal revenues. We are seeing significant opportunities there. We are seeing more opportunities also on the -- we're starting to see more opportunities on the energy and environmental front. So I would say those are the areas of focus in federal.

It's also -- we're seeing a significant -- you didn't ask about commercial, but I would say that the commercial energy markets, we've really had a strong first half year in terms of the awards and the pipeline and the revenue growth in that business. And I think that they're -- we're just seeing very significant opportunities across our commercial energy business with utilities, energy efficiency and then all the other kinds of programs that we've talked about, decarbonization, electrification, renewable energy, utility of the future resilience. We're seeing very strong opportunities there.

So that's -- and disaster recovery. I have to say, we announced several awards in Puerto Rico and that -- again, I think we are expecting double-digit growth in the disaster recovery this year. And so I think that's -- I know it sounds like a broken record with those markets, but that's -- I think that is really driving a lot of our business. Do you want to answer this question on the pull forward?

Bettina Garcia Welsh ***ICF International, Inc. - Senior VP & CFO***

Sure. And just to remind folks, we have recently begun with regard to the energy pull forwards and the incentive fees that we had begun several of these fixed-price energy contracts where the revenues are being recognized on a straight-line basis through the year, but the costs will ramp up as the program progresses, right? So this, combined with the timing of the energy incentive fees on several contracts really benefited the second quarter gross margin by about 70 basis points.

So -- and just a reminder, we experienced this last quarter, but at a higher rate. Having said that, we don't expect continued material pull forward going forward. In fact, I think last time we expected -- we stated that we expected gross margin to be around 37% for the full year. And we continue to expect the same going forward.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I just would add -- I mean I would just add. I mean I think I agree with everything Bettina said. I think the net-net of this pull forward is our plan for the year, I think initially it was more of a bit of a hockey stick that we'd -- it was more back end -- back half loaded in terms of the higher growth and we kind of have a bit of a hockey stick as we went throughout the year.

What's happened here is as we've pulled forward this energy work into the first quarter. I think we're now expecting pretty consistent revenue and earnings growth quarter-by-quarter for the year. And you can see we're -- I mean we're guiding to the upper end of our guidance range, which I think puts us in a 7.5%, 7.6% service revenue growth and double-digit earnings growth. But we -- I think that will be pretty consistent growth here as opposed to kind of more of a hockey stick we initially expected.

Joseph Anthony Vafi ***Canaccord Genuity Corp., Research Division - Analyst***

Sure. That makes sense given the nature of the contract structure. And then just one follow-up, maybe more of a strategic question. ITG acquisition, clearly looks like it's working out pretty well. The combination of the technology capability and the subject matter expertise coming together for some synergies. And I know you're really not that focused on DoD, but just across the civilian government, do you think you have a big enough footprint now kind of from a strategic level with what you have now? Or is there room for more potentially M&A on the IT side?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. I would say that -- well, there's certainly more M&A potential in the IT modernization and IT side. I mean I think -- I mean we've significantly added scale on the IT modernization front. But I think as I've said before, we're always looking to add additional platforms. I mean, I think we have scale on ServiceNow and Appian, but there's other platforms out there that we'd certainly be looking to add scale.

And I mean it's a business world, where you need to have the scale, you need to have the people or the bodies to demonstrate you can deliver the larger programs. I would say, Joe, that we still see significant opportunity on the civilian side on the IT modernization and broader IT fronts. And given that's where 95% of our revenues are and we really have deep relationships in those agencies, I mean I just think there remains significant growth for us on the civilian side and given our focus on our domain expertise.

On the defense side, we just don't have that level of domain expertise, and we don't have that market presence. And so I guess I think we -- I would say we continue to remain primarily focused on our civilian markets.

But having said that, I don't want to -- I mean, our second largest client in the firm, I think it's 5% or 6% of our revenues is DoD. And so we certainly will work there where we think we can compete and we can bring unique services. But I just will leave you with the thought that I think there's still a lot of headroom and growth opportunity for us in our core civilian markets on the IT front.

Operator

We have our next question from Sam England with Berenberg.

Samuel England ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

The first one, I was just wondering how you're viewing the opportunity from future pandemic-related health projects now. I know you've mentioned in the past that you thought it could be comparable or greater to the work you did around HIV and AIDS. So I just wondered what your latest view is there.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I think we're still optimistic about the longer-term opportunities around the pandemic. I think we still are in the immediate response phase. I think that the pandemic continues. There's a lot of focus on the Delta variant. We continue to support the immediate response phase. But I do think once we move beyond that, I mean there have been bills in Congress to look at how the government can be better prepared for future pandemics and what programs and governance might look like.

We still have conversations with our clients around those types of issues. But I would say that everybody is still in this immediate response phase. And so I think we're still optimistic about those opportunities. But I think it's still -- clients aren't ready to have those conversations and -- given that the focus is still on the immediate response phase.

Samuel England ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Okay. Great. And then the next one, it's been a pretty busy labor environment so far this year. I just wondered what you're seeing in terms of wage inflation in 2021 and also what you've been seeing in terms of head count churn. And then I suppose linked to that, how do you see your hiring plans developing over the second half of 2021?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Well, sure. I mean I think you've touched on several issues there. So let me take them one at a time, and please remind me if I forget one of them. I would say in terms of the kind of labor availability and recruiting, I mean there's no question the current labor market is certainly tight. And as you know, every company is, including, I believe every company in our comp group and more broadly in the economy, is experiencing recruiting challenges in a tight labor market.

It's not entirely a new problem. I mean, in certain areas, even prior to the pandemic, IT modernization, energy, cyber, certainly we saw it in components. But certainly, it's more broad now. I would say, in the last several quarters, we have increased our investment in recruiting significantly to really make sure we're doing everything we can to bring the talent in, in a timely way. So we've hired more ICF recruiters. We're investing more in contract recruiters to find the staff.

I would say that with that investment and our market leadership position in the kind of the core markets we serve, which helps from a brand standpoint, we've been able to generally continue to meet our recruiting needs. I mean, 1 metric we track is time to start, which is the time between when we post a job description and then the candidate starts with ICF. So pre-pandemic, our time to start was averaging in 2019, 51.1 days. So far in 2021, we're at 53.3 days on average across the firm. And so I mean, it's up a couple of days, but all things considered, I'm pretty happy with that metric.

Now there are some very hot markets that those numbers would be higher, and there are more challenges. But to be honest, some of that was pre-pandemic. So I feel like we're -- it is a tight market. I think we're doing well on the recruiting front, and we'll continue to invest a lot. The inflationary pressures. I think like everybody, we've certainly experienced some upward pressure on wages. I think we're -- and we're certainly carefully monitoring wage pressure and what's going on in our markets and making sure that we're at market and we're doing what we need to continue to incentivize, to address any issues on the wage front.

I would say we've talked a lot about we do have a strong culture. This is a mission-driven place, you can do impactful work. I think that helps us maintain the talent. But we are seeing inflationary pressures. I do think many of our -- most of our contracts have some form of escalation clauses that can help us manage that. And I think we've talked about from -- there will be -- there are savings we're incurring from the pandemic, reduced travel and entertainment expenses, which some of that will lock into the long run, reduce facilities footprint. So even with the wage pressure, I don't think we're going to see a material impact on our profitability from that. I guess you -- I don't want to drone on here too long.

You asked about turnover. I mean, again, I think much like recruiting, I mean we have seen some higher turnover, but I think we're managing it. I think pre-pandemic, our kind of core ICF turnover was about 14.6%. We're up to about 15.5% in the first 2 quarters of 2021. We're watching that carefully. We're managing it. We put in programs to stay engaged with our frontline employees. I mean one of the things we hear is, manage -- people are leaving -- the #1 reason people leave during the pandemic is they don't feel like they're engaged with their frontline manager. So we're managing that. I've talked about what we're doing on the compensation front and the culture. So generally, I think we're -- across all those topics, we're doing everything we can.

Operator

We have our next question from Andrew Nicholas with William Blair.

Andrew Owen Nicholas ***William Blair & Company L.L.C., Research Division - Analyst***

First one, I wanted to just kind of follow up on commercial marketing. Just wondering if you could add some color to what you're hearing from customers in that business? Are they giving you any indications on timing of ramping up project activity there? And how are you kind of expecting the rest of the year to play out in that business?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Well, I think as I said in the quarter, for Q2, our business flattened out. We were, I think, up less than 1%, which obviously, the prior quarters, we have been down, given we were doing with -- obviously, during the first year of the pandemic, the business was down. We're now past the 1-year mark. So the business is essentially flat. As I said in my remarks, I think there are health care and the consumer packaged goods, we're seeing stronger opportunities there.

I would say that the client verticals that have been most severely impacted, hospitality, travel and tourism are still in the early stages of recovery. I wouldn't say that there's been a significant recovery there. I mean they're flattening out, they're not getting worse. But I think -- as I think we said when we did our guidance, we really didn't assume a material improvement for 2021. And I think with -- I think that is a good assumption.

I think it's a similar story with the European marketing services business, the event business we do in Europe for the European Commission. I mean, I think that's, again, been significantly impacted, and we -- it's flattened out, but we're not assuming a rebound there in 2021.

Andrew Owen Nicholas ***William Blair & Company L.L.C., Research Division - Analyst***

Got it. And then for my follow-up, I was hoping to touch on margins quickly. Another really strong quarter there. Just wondering how you're thinking about the medium-term opportunity on that front given recent performance. And maybe if it's possible to quantify how much cost you'd expect to come back into the cost structure as things like travel and entertainment start to come back online, whether it's later this year or early next, that would be great.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I would say that generally on the margin front, I mean, I think we've guided for some time to adjusted EBITDA to service revenue. And I think our guidance this year is 13.5%, which is down slightly from last year, but I think we were at 13.7%, but still prior to that year, it's the highest -- taking -- setting aside the 13.7%, I think 13.5% would be the highest we've had since the time I've been here. So it has been trending up. I think we've said that generally, we're committed to delivering 10 to 20 bps improvement on that year-on-year based on mix, based on leveraging our back office, managing utilization.

I think as you -- on the travel and entertainment front, I think we've -- I mean, obviously, the travel entertainment is still significantly down through the first half of the year. I would expect generally that to trend upwards as we begin and then do more face-to-face business with our clients. I think we said in the long run that we'd expect capture at least a 25% savings in those -- in our travel and entertainment. And I think we expect to capture material savings on the facility and space front.

Now some of that will be invested back in business development and our people, which we're certainly doing right now given all the growth opportunities in front of us. So I guess what I would say is if we remain committed to 10 to 20 bps. And then depending on the mix and kind of how we invest back the savings in travel and entertainment, there's more room there, but I think I would stick with -- I'm sticking with my 10 to 20 bps for now, yes.

Operator

Our next question comes from Kevin Steinke with Barrington.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

You specifically called out aviation consulting is having a good quarter. So I don't know if there's anything behind that or to read into that in terms of a recovering economy and recovering travel or maybe it's kind of more one-off? Any color on that would be helpful.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. Well, first, I just want to remind folks, our aviation consulting practice is a small practice. I mean I think it's a small practice, what's the change $25 million, $30 million of revenue in aviation. It's a small practice. I think they are seeing opportunity in a couple of areas. I think it's -- first of all, they do aircraft leasing arrangements with investment banks and leasing companies. We have seen some pickup in that work. We're also doing work for more international, European and Middle Eastern airlines. I think there's been some pick up in our strategy. And we actually do some environmental oriented work around greenhouse gases and that type of stuff. So yes, we're certainly seeing signs of improvement here, I think, in the last 2 quarters. And we're generally optimistic on that business. It is a small business, although it can also be highly profitable.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

Okay. Understood. That's helpful. When we think about IT modernization in the pipeline there, what does the pipeline specifically look like for some of the larger deals, $100 million plus as that pipeline continues to build and develop?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Well, the pipeline has certainly been ramping up and has been quite robust. I don't have a breakdown in front of me, Kevin, on the breakdown. I mean $100 million deal, north of the $100 million deal on IT modernization is quite a large opportunity for us. I mean I think our sweet spot is more in the $25 million to $50 million range. I think we have been trending up in larger deals. But I don't have those figures in front of me. But I think they're trending up.

And we certainly -- as I said before, I think there are $100 million plus, $250 million deals out there. I think that does come down at the scale that you have to be able to demonstrate that you have the talent on board to deliver those scale of problems, which -- the scale of deals, which is us just -- can you demonstrate that you have the talent and depth on ServiceNow or Appian on some of the platforms to deliver contracts of that size.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

All right. That makes sense. I also lastly wanted to ask just about the California energy efficiency pipeline. I think you mentioned you continue to win some new deals there. But should we still think about maybe 2022 as when some of the larger opportunities come through and just the pipeline with regard to California energy efficiency.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. I think the pipeline in California remains good. I do think that -- we are -- I mean there's a set of awards we've discussed that I think we're ramping up this year. There are a set of awards that we think will be later this year that would be more 2022 related. The other development or aspect of the California situation is, I think we talked about them outsourcing 60% of the work by 2022 or 2023. There is now a discussion around that number could go higher that the outsourcing in California could go as much as 100% by 2025 or for a year or 2 after that.

And so there is -- I think that -- what I would say there is I think there's certainly an increasing likelihood that the addressable market there will continue to increase beyond 2022, '23. And so I guess we'll be talking about California for over the next 4 or 5 years instead of just a couple of years.

Operator

(Operator Instructions) And our next question is from Marc Riddick with Sidoti & Company.

Marc Frye Riddick ***Sidoti & Company, LLC - Business and Consumer Services Analyst***

I was wondering, you covered quite a bit already, but I was wondering if you could go back and talk a little bit about the strong pickup in activity with health and human services. And maybe you could walk us through sort of how that played into whether it was the messaging or the various needs around the pandemic in sort of how we should think about that, that would develop as the messages may need to change or be altered as we go forward with new challenges/discoveries?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I would say that our pipeline at HHS is pretty broad-based. I mean I think part of the story there is we are winning IT modernization work on the IT front within HHS and we're leveraging our relationships. That is our largest client. And so a significant portion of what we've been talking about in terms of ITG and we've been doing there is IT modernization related.

I would say the other thing that's certainly in the last 3 or 4 quarters, as you look to our book to bill and our awards, the -- we've won significant contracts, some of them recompetes, but recompete with plus ups on the human services side. And so for example, I mean, I think we've announced quite a long history of supporting the Head Start program in HHS and on recompetes where 4 or 5 regions where we had long-term contracts. We did want a new region in the last 6 to 9 months. We won a recompete for our child welfare information gateway, which had increased in funding. And we've won work on the social services side of the pandemic around -- broadly around education, homelessness, child abuse and school lunch programs.

So I would say the social services side of HHS, including some of the work we've done around the pandemic has been a net positive for us. And I think we obviously have been reporting the specific pandemic-related work we've been winning and kind of what our outlook is more -- be into immediate response phase.

But I think the other thing just to say there is the budget at HHS. I mean, in the Trump administration, the budgets in HHS went up nicely. And Biden's office, they're looking at even greater increases. So as the budgets go up, that -- I mean that has the potential to kind of lift all boats within HHS. I don't know, James, if there's anything I missed or?

James C. Morgan ***ICF International, Inc. - Executive VP & Chief of Business Operations***

No, you covered key points.

Marc Frye Riddick ***Sidoti & Company, LLC - Business and Consumer Services Analyst***

Okay. Great. And then I was wondering -- I wanted to shift over to the commercial side and certainly seeing as though that was encouraging with commercial activity. I was wondering if there's a -- is there any particular read through from the mix of client activity as to maybe some groups or clients or are there any particular verticals that have been more aggressive and active ahead of others? Are we starting to see some of the benefits of leisure, things like that?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I don't think there's been any significant. I mean I would say that energy efficiency remains the most significant part of that business. We've seen very positive trends there. We've won a lot of energy efficiency work, recompetes, add-ons, new contracts in the first half of this year. We are seeing some initial indications that states that haven't paid as much attention or haven't spent as much on energy efficiency are relooking at it given the climate issue.

I mean, I would say that we are -- our advisory business has been very busy around electrification, decarbonization, distributed energy, which is very positive. I mean that advisory business tends to be very high margin. And so I think it's -- certainly on the energy side, the trends in terms of the pipeline and the opportunities is pretty broad-based.

Operator

And thank you. We have no further questions. I will now turn the call over to John Wasson for closing remarks.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

All right. Well, thank you for participating in today's call. We look forward to meeting with you at upcoming events and seeing you all soon. Thanks for participating.

Operator

And thank you, ladies and gentlemen. This concludes our conference. We thank you for your participation. You may now disconnect.