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PRESENTATION

Operator

Welcome to the ICF International First Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, May 2, 2019, and cannot be reproduced or rebroadcast without permission from the company. I would now like to turn the program over to Lynn Morgen of AdvisIRy Partners.

Lynn Morgen ***AdvisIRy Partners***

Thank you, Vanessa. Good afternoon, everyone and thank you all for joining us to review ICF's first quarter 2019 performance. With us today from ICF 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 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 May 2, 2019, 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, Sudhakar Kesavan, to discuss first quarter 2019 performance. Sudhakar?

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

Thank you, Lynn, and thank you all for participating in today's call to discuss our first quarter results and our business outlook.

As you saw from our release, we achieved considerable year-on-year growth across all key financial metrics in the first quarter. The double-digit increase in first quarter government revenue was led by state and local clients, where strong year-on-year comparisons reflected work on disaster recovery contracts. As you know, the contracts are to assist with the rebuilding process following the 2017 hurricanes. Revenue from both federal and international government clients was stable year-on-year, after adjusting for the effect of the U.S. government shutdown and the impact of foreign exchange translation.

Revenues from commercial clients increased at a high single-digit rate, led by growth in commercial marketing services and supported by the steady performance of energy markets. First quarter revenue growth demonstrated the benefits of our diversified business model, which gives ICF the visibility of a multiyear backlog and the upside associated with higher margins in commercial engagements and certain state and local government projects. The underlying growth catalysts in several of our key markets drove higher year-on-year revenues and a favorable business mix that led to a significant increase in first quarter profitability.

As we look ahead, we see these growth catalysts benefiting our full year 2019 performance and setting the stage for continued growth in

2020. As a reminder, the 4 catalysts we are referring to are: one, ICF's strong position with federal government clients, where we see growth potential across multiple agencies; two, ICF's expertise and experience in disaster recovery; three, our increasing scale and body of work in marketing and digital transformation services and the ability to lever these capabilities across our client base; and four, strong demand for our energy market services, as outsourcing of energy efficiency programs continues and as the utility industry adapts to a changing business model.

Our business development pipeline was a record $6.4 billion at the end of the first quarter and was well balanced, with each of our client categories showing significant growth on a year-over-year basis.

The rebranding of all our marketing and communications services under ICF Next has been well received internally and externally, and provides us with a strong growth platform to offer integrated services in digital transformation and engagement to government and commercial clients.

Also, we see disaster recovery and resilience work as developing into an ongoing revenue source for ICF. There is increasing government focus on resiliency planning to reduce the cost of rebuilding after each event, and this is an area in which ICF has considerable expertise. While the size of potential opportunities is much greater after a major event, we believe that the increasing focus of the government on these planning efforts will allow us to leverage our recovery and response expertise even in years with no major disasters.

As we move forward in 2019, we continue to explore opportunities to deploy our financial resources in ways which we have successfully done in the past, by investing substantially in business development to generate organic growth and by considering acquisitions in our areas of domain and functional expertise. We do not anticipate any changes in areas of interest for acquisitions, namely government services businesses, firms serving the utility industry, and companies in the marketing and digital transformation sector.

We are keenly interested in the government arena broadly defined, given the specialization and scale needed to win large, multiyear contracts. In the commercial energy space, we are looking to deepen our expertise and broaden our offerings as the industry undergoes massive structural change. And in marketing and digital transformation services, we are interested in opportunities that strengthen our ability to respond to the digitization imperative of our clients in the government and commercial sectors.

With that, I will turn the call over to our President, John Wasson, who will provide further insight into our first quarter performance and outlook for the remainder of 2019. John?

John Wasson ***ICF International, Inc. - President & COO***

Thank you, Sudhakar, and good afternoon, everyone. This was another strong quarter for ICF, in which we achieved double-digit year-on-year growth, reported solid contract wins, and significantly increased our business development pipeline.

First quarter revenue growth was led by our government work, which increased 16% year-on-year and represented 66% of total revenues for the period. Revenues from federal government clients were slightly ahead of the similar year ago period when you factor in the estimated $3.4 million in delayed revenue resulting from the partial government shutdown that continued through most of January.

Additionally, and as expected, there was some lag time associated with getting projects back on track at the agencies impacted by the shutdown, and thus some work moved to the right, particularly at USAID and EPA. With a strong backlog and a pipeline that is considerably higher than it was at the end of last year's first quarter, our federal government business is positioned for low to mid-single digit revenue growth in 2019.

Revenues from international government clients were slightly up in the first quarter on a constant currency basis, which was impressive considering the difficult comparison with last year's first quarter, when revenues increased 44% year-over-year. With a solid backlog and a growing number of opportunities, we are expecting another year of positive year-over-year performance from our international government business in 2019.

A major contributor to the first quarter year-on-year increase in government revenues was significant growth in business from state and local government clients, which accounted for 19% of total first quarter revenues, up from 10% 1 year ago. As you might expect, this growth was driven by our disaster recovery work in Puerto Rico, Texas and the U.S. Virgin Islands as we executed on contracts that we were awarded in mid-2018 to assist with recovery efforts following the 2017 hurricanes. We included a mention in today's earnings relief -- release of ICF's most recent award, another contract in Texas, this one with Harris County, which encompasses metropolitan and suburban Houston, to assist with housing and infrastructure programs in the aftermath of hurricane Harvey. This is our third disaster recovery contract award in Texas, and we now count the state of Texas General Land Office, Harris County, and the city of Houston among our clients.

This latest award brings the total value of the post-2017 hurricane-related disaster recovery contracts won to roughly $270 million over 3 years. We continue to wait additional award decisions in Puerto Rico expected over the next several months that represent a significant opportunity for us. Thanks to the size and nature of the contracts we have already won, however, we are well-positioned for substantial growth this year and over the next several years. We believe that the affected jurisdictions are being judicious in the award process, with a view towards expanding contracts with those firms that are effective -- executing effectively on the ground. This bodes well for ICF. We have deep expertise as well as broad experience in handling these types of contracts, and the feedback we've gotten so far from the clients we are working with has been encouraging.

As Sudhakar mentioned earlier, we do see disaster recovery as an ongoing business opportunity for ICF. Our acquisition of DMS last year has broadened our capabilities in this area to include the development of comprehensive risk mitigation strategies and has brought us disasTRAX, a project management software that significantly improves the efficiency of disaster management programs.

Moving to our commercial clients, the 8% increase in revenues in the first quarter was driven by strong results from marketing services, which included some project-based work that was pulled forward into Q1 from Q2. Results also benefited from our expanded strategic marketing capabilities in Europe. The breadth of services we can offer from advisory through technology platform implementations is aligned with the end-to-end buying behavior that we are seeing in the marketplace.

Since launching ICF Next, our commercial marketing services team has witnessed a significant increase in qualified inbound leads. Also, we have maintained our position as a leader, the highest possible category, in the Forrester Research ranking for loyalty marketing services and technology. Their comprehensive assessment of the loyalty technology marketplace evaluated 13 provider services against 28 criteria, helping marketers understand the state of the market and select the right providers for their needs.

Energy markets had stable performance in the first quarter as growth in energy efficiency and advisory work was offset by the wind down of certain large energy infrastructure projects. New energy efficiency projects that started in Q4 2018 are expected to benefit year-over-year comparisons, beginning in the second half of 2019. Also, we had a robust pipeline of energy efficiency opportunities at the end of the first quarter.

California remains an important growth catalyst for energy efficiency work, and we expect to see larger RFPs in the second half of this year aligned with the state's mandate to have 60% of the investor-owned utility energy efficiency budgets be expended by non-utility third parties like ICF by 2022. As expected, we have already been very busy responding to smaller requests for qualifications and smaller requests for proposals in Q1 that are not statewide, but instead cover specific utility service territories that are also being driven by this 60% mandate.

We also see growth potential in the further penetration of distributed energy resources such as solar, storage and electric vehicles, especially as selected states seek to further decarbonize their energy supply chains. This trend offers both advisory and program implementation opportunities for us.

Taken as a whole, we continue to expect at least mid-single-digit growth in our revenues from commercial clients this year.

In summary, we are pleased with our first quarter performance. These results, together with our strong backlog and record pipeline, position us well for another year of substantial growth in 2019. We also continue to expand our margins, thanks to high utilization rates and our expectations that ICF's commercial business and our state and local disaster recovery work in the aggregate will account for an increasing percentage of this year's revenues.

At the end of Q1, our business development pipeline was at a record high of over $6.4 billion. There were about 55 opportunities larger than $25 million and 100 opportunities between $10 million and $25 million. Our annual personnel turnover rate was 17.4%.

Now I'll turn the call over to James Morgen, our CFO, for a financial review. James?

James C. Morgan ***ICF International, Inc. - Executive VP & CFO***

Thank you, John. Good afternoon, everyone. I'm pleased to report on ICF's strong first quarter results, which have positioned us well to achieve our full year 2019 guidance.

Total revenue for the first quarter of 2019 was $341.3 million, a 12.7% increase over last year's $302.8 million, comprised of 15.6% revenue growth from our government clients and 7.6% revenue growth from our commercial clients. In addition to absorbing the impact of the government shutdown, this strong first quarter revenue performance was achieved with one less day in the first quarter of 2019 compared to the prior year, which reduced revenue by more than $5 million, equivalent to roughly 160 basis points of year-over-year growth.

Service revenue increased 7.8% to $241.4 million, up from the $223.9 million reported in last year's first quarter. Pass-through revenue was 29.3% of total revenue, more representative of the level of pass-through revenue we would expect in 2019 and up from the 26.1% in last year's first quarter.

Gross profit increased 10% and amounted to $125.3 million in the first quarter of 2019, compared to $114 million in the year ago quarter. However, as a result of higher pass-throughs, mostly related to our disaster recovery work, our gross margin declined 90 basis points year-on-year to 36.7%. Conversely our gross margin on service revenue expanded 100 basis points to 51.9% in this year's first quarter.

While indirect and selling expenses for the first quarter of $96.5 million increased 7.6% from $89.7 million a year ago, as a percentage of total revenue, these costs declined 28.3%, representing a 130 basis-point improvement over last year.

Our higher revenue base, favorable business mix, and cost discipline drove operating income growth of 24.5% to $21.9 million, more than 3x the rate of service revenue growth.

GAAP EBITDA for the first quarter was $28.8 million, 18.5% above last year's $24.3 million. Exclusive of special charges related to severance expense for staff realignment and a positive adjustment related to a bad debt reserve, adjusted EBITDA was $28.5 million in this year's first quarter compared to $25 million in the first quarter of 2018. Adjusted EBITDA margin on service revenue expanded by 60 basis points to 11.8%, up from 11.2% in the first quarter of last year.

Net income for the quarter was $15.3 million, or $0.80 per diluted share, after absorbing an estimated $0.05 per share negative impact related to the federal government shutdown that continued for 28 days in January. This performance represents 23.4% year-over-year growth from the $12.4 million, or $0.65 per diluted share reported last year. Note that these results benefited from a lower tax rate of 19.5% in this year's first quarter versus 22.5% last year. The first quarter of 2019 tax rate was below our expectations and annual guidance, mainly driven by the deductibility of equity-based compensation expense and nontaxable gains associated with an increase in the cash surrender value of life insurance policies, which was driven by stock market gains in the first quarter of 2019. We now expect our effective tax rate to be approximately 27% for the full year 2019. Thus, based on our current expectations, our average quarterly tax rate for the remainder of the year will be nearly 29%.

Non-GAAP diluted EPS of $0.87 increased 13% from the $0.77 reported in the first quarter of 2018. Our non-GAAP calculation excludes charges related to amortization of intangibles and cost of staff realignment, which were partially offset this quarter by a positive adjustment related to a bad debt reserve.

In the first quarter, we had negative operating cash flow of $12.7 million compared to negative operating cash flow of $5.8 million in the first quarter of 2018. Operating cash flows in Q1 of this year were less than expected due to the timing of collecting receivables associated with a large contract won in 2018, for which we are receiving payments, but at a slower pace than anticipated. We're working internally and with the client to compress the billing and collection cycle, and we currently believe that this contract will have a more normalized billing and collection cycle before the end of the year. Therefore, we continue to expect operating cash flow to be in the range of $100 million to $120 million for 2019.

Our capital expenditures in the first quarter of 2019 were $7.5 million, compared to $4 million in the first quarter of 2018, mainly related to investments in back office systems and the timing of normal IT investments that were weighted more heavily in Q1 of this year as compared to last year, but should even out for the full year. We continue to expect the -- that full year capital expenditures will be in the range of $25 million to $28 million.

Debt outstanding on our credit facility at the end of the first quarter of 2019 increased by $31.9 million from the end of 2018, in line with historical seasonal trends. Day sales outstanding for the first quarter of 89 days was up 11 days from the first quarter of 2018 due to the collection and timing issue mentioned previously. By year-end, we currently anticipate DSOs to be in the range of 72 to 77 days, including the impact of deferred revenues.

For financial modeling purposes, please note the following: we continue to expect our depreciation and amortization expense to be in the range of $20.5 million to $21.5 million for 2019; amortization of intangibles is anticipated to be approximately $8 million to $8.5 million; our full year interest expense is expected to range from $9 million to $10 million with second quarter levels remaining similar to the $2.5 million we experienced in the first quarter. This is higher than our original estimate due to the time required to achieve a more normalized billing and collection cycle with the one large contract previously mentioned. Capital expenditures are anticipated to be in the $25 million to $28 million range. As previously mentioned, we now expect our effective tax rate for the full year to be approximately 27%; and we continue to expect fully diluted weighted average shares of approximately $19.3 million for 2019.

Our capital allocation priorities remain the same: investing in organic growth, acquisitions, and debt repayment. We expect to continue repurchasing shares under our share repurchase program to minimize the dilutive effect of our employee incentive programs. In the first quarter of 2019, we repurchased 122,000 shares at an average price of approximately $70.53 per share for a total outlay of $8.6 million.

Lastly, we are pleased to declare our sixth quarterly dividend of $0.14 per share, payable on July 16, 2019, to shareholders on record as of June 14, 2019.

With that, I'd like to turn the call back to Sudhakar for his closing remarks.

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

Thank you, James. First quarter results were a strong start to the year, putting us on track to deliver strong growth in 2019. We reaffirm our revenue guidance for the full year of $1.45 billion to $1.5 billion; and our guidance for diluted EPS range of $3.75 to $3.95, exclusive of any special charges; and for non-GAAP EPS range of $4.05 to $4.25. This guidance does not include any material new disaster recovery contract wins or contract modifications that might occur, nor does it include any potential acquisitions. Vanessa, now I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

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

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Sudhakar, there's a lot of news related to Puerto Rico accessing already appropriated funds. Are business opportunities fulfilling normally in Puerto Rico? Or is it, at this point, here in May, taking longer than you had expected?

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

Well, I think that there's a lot of news. I think the -- we think that we have seen some slowness in the awards, which we were expecting. But I think that generally, we feel that at least from a work perspective things are working well. And I think there are significant business opportunities there. It's hard to predict exactly when and how they manifest themselves. It's a little slower than we thought, but we are quite confident that it will happen, maybe gradually. But we think that things will move in due course.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Okay. What areas of the business were the principal drivers of the surge in your pipeline? If I look at February of last year, so just 15 months ago, you're up $1.2 billion and then a big $600 million sequential change compared to the last time you updated us. Which areas of your business have fed the pipeline the most?

John Wasson ***ICF International, Inc. - President & COO***

Sure, Tobey. This is John Wasson. I think if you look at those substantial change, I think federal is a big portion of that. Assuming we're seeing opportunities there, cyber, public health, various other civilian agencies. Commericial's actually up quite a bit, similar to federal, they're both up roughly $250 million to $300 million sequentially. And so those are a big part of the drivers. And state and local's up, even disaster recovery. And so I think those are the 3 areas that are driving the sequential and actually, the full year increase.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Okay. Of the disaster recovery projects that you've already won, how would you characterize the profitability at this point of that work? Is it at a normal rate or sort of a depressed ramping rate right now?

John Wasson ***ICF International, Inc. - President & COO***

Well I would say that the disaster recovery is consistent with our expectations for that type of work and is right where we'd like it to be. I don't think it's -- certainly not depressed or there's no profitability issues with that work.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Okay. Could you talk about the prospects for you to leverage your Tally systems into areas of your business that you haven't historically sold that to? Is there an opportunity for you to help customers in other areas? Interact with their own constituencies and leverage that platform and skills and knowledge that you have in that area?

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

Yes. I think that there are -- I'll give you 2 sort of broad examples, Tobey. I think we are trying to see how we can leverage Tally as a customer engagement tool with a lot of the utilities, which are facing -- which are trying to become much more customer friendly and trying to see what we can do with them. And so we've had some discussions with them. And then also in the public health arena, where we basically -- when their last clinical trial was done over 20 years, where you need to keep a cohort together because you keep visiting them again and again. I think keeping that cohort together for 20 years, the technology -- such as loyalty technologies could be helpful in keeping that kind of group engaged. Now to apply that technology to that specific arena will take some time and effort and some demonstration, and we're in the process of doing that. But I think we are encouraged by the fact that it is a very -- it is a different way of doing things, and we think that we will be able to convince folks in due course that, that would be something which will help make it much more efficient and effective in keeping track of cohorts over large -- long periods of time.

Operator

Our next question is from Joseph Vafi with Loop Capital.

Joseph Anthony Vafi ***Loop Capital Markets LLC, Research Division - Analyst***

Great results here. Nice to see the acceleration in the business. Just on the hurricane business, it feels like Puerto Rico definitely has some multiyear legs to it, given the state of infrastructure down there and it becomes kind of a greater rebuilding effort. I was wondering if you've got a feel on the Texas business on -- at this point, duration of that business? And I mean, do we think it kind of peaks and then trails off? Or what do you think that trajectory is on Texas hurricane-related business over the next few years?

John Wasson ***ICF International, Inc. - President & COO***

I mean I think it's a -- I think we've generally viewed it as a 3- to 5-year recovery effort for Texas. And so that's kind of the time frame we're thinking about. So that's been our baseline. I mean I think as you know, Joe, certainly from the housing side of the equation, Puerto Rico got a quite a significant assistance, $20 billion of Community Development Block Grant program funding. But Texas also got about $10 billion, and so they've gotten very significant resources. And so I think that's a 3- to 5-year effort, at least.

Joseph Anthony Vafi ***Loop Capital Markets LLC, Research Division - Analyst***

Sure. And would it be -- do you see it kind of flattish or do you see it kind of peaking in 2 years and then a slow trail off or is it too early to tell how that...

John Wasson ***ICF International, Inc. - President & COO***

I think it's a little too early to tell. I mean I think we're still on the period where it's ramping up. I mean we're -- we've been ramping up our contract wins there in Q4 and certainly with the new win in Harris County in Q1 this year. I think there will be more opportunity there. And so the ramp will continue for the next several years I think. But it's a little too early to say when it will peak and will hit the back side. I don't -- but I think it's too soon to talk about that.

Joseph Anthony Vafi ***Loop Capital Markets LLC, Research Division - Analyst***

Got it. And then on the Harris, was there anything interesting or notable there in terms of services, competitors, kind of competitive landscape or anything there in terms of what Harris County was looking at or how they chose you as their winner on that business?

John Wasson ***ICF International, Inc. - President & COO***

No. I don't -- I wouldn't say it was anything unusual there. I mean it's community development block-oriented work. We saw the typical array of competitors. And so there was nothing out of the unusual there, I don't think from our perspective.

Joseph Anthony Vafi ***Loop Capital Markets LLC, Research Division - Analyst***

Okay. And then on the federal business, it does sound like we're going to expect some acceleration here as we move through the year. How should we think about acceleration in the federal business? Is it going to be steady or is it going to be a little more back-end loaded towards the second half of the year?

John Wasson ***ICF International, Inc. - President & COO***

I would expect it to accelerate throughout the year but you'll see -- I would expect the strongest performance to be in the second half of the year, I mean given the government shutdown, given some of the push to the right. I would expect it to ramp up, but the second half will be stronger.

Joseph Anthony Vafi ***Loop Capital Markets LLC, Research Division - Analyst***

Great. And then, if you look at your pipeline at this point and in the next couple of quarters, and actually into the next fiscal year, I mean we're hearing some positive things about DoD spending up in government fiscal 2020. I was wondering if you had a view at this point in time on how you see some of the civilian budgets shaping up for fiscal 2020?

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

I think that based on what we have heard from the industry associations which are the ones who perhaps have some sense of what's likely to happen, you know, the -- from a budget control act perspective, et cetera, we think that if there is significant increases in the defense budgets, I'd live with concomitant increase in civilian budgets especially given that all the bills, appropriation bills start in the House. So we think that it's going to be a similar pattern to what it was in '18 and '19.

Operator

Our next question is from Lucy Guo with Cowen and Company.

Lucy Guo ***Cowen and Company, LLC, Research Division - VP***

First, just pressing up maybe a little bit on the disaster recovery. I understand the timeframe is tough to pin down at the moment. But let's say, if you may have been expecting to see adjudications of $200 million to $500 million of awards this year, is the time frame shifting to some extent into next year or just trying to see if a few months or more than 6 months kind of uncertainty?

John Wasson ***ICF International, Inc. - President & COO***

Yes. I don't think we expected timeframe to shift 6 months or more, significantly. I mean, frankly, we continue to expect these awards in the near term. I don't think we have any new insights onto why these awards have not been determined or made yet. But we continue to expect them in the near term. And so I don't think there'll be a significant delay in these awards. That's not our baseline assumption.

Lucy Guo ***Cowen and Company, LLC, Research Division - VP***

Got it. That's helpful. And would there be any opportunity in terms of longer-term recovery as in sort of planning and preventative work as you look out?

John Wasson ***ICF International, Inc. - President & COO***

Well, sure. I mean I think one of the things that occurred under the Community Development Block Grant funding is certainly, a significant portion of the majority of that spending is going to help rebuild on a housing and existing infrastructure viewpoint. But there is funding also, what -- under CDBG for mitigation which is actually taking a longer-term view of how you kind of increase resilience, and you strengthen housing, rental property, infrastructure, so that it isn't as damaged and can withstand these storms more effectively. So I think that's an area where we have expertise. And so I think in the long run, the whole issue of resilience is going to get more focus and more funding and that will be good for us.

Lucy Guo ***Cowen and Company, LLC, Research Division - VP***

Would you say that's kind of for incremental to what you referenced as your baseline assumptions?

John Wasson ***ICF International, Inc. - President & COO***

Sure, that could be incremental. That could be incremental to our baseline assumptions.

Lucy Guo ***Cowen and Company, LLC, Research Division - VP***

Okay, got it. And then, back on the federal side of the business. Federal civilian, you mentioned USAID and EPA certain contracts/revenues pushed to the right, would you be able to give a little bit more frame in terms of how much?

John Wasson ***ICF International, Inc. - President & COO***

I mean, I think -- I don't have estimates of the size of the contracts that pushed to the right. I think, frankly, we're talking here is for the period that these clients were out, AS -- AID and EPA, one of the issues they were not able to start new work and, particularly on the USAID front, kind of help -- give us the green light to start surveys in particularly new countries. And so that got delayed. But we still think this work will be done this year and most of this will be done this year. It's just being pushed to the latter half of the year.

Lucy Guo ***Cowen and Company, LLC, Research Division - VP***

Got you. And maybe one for James on the collections issue. I believe you have been referenced in Q4, that you are $10 million delayed postponed to Q1, that was -- had been collected or maybe that wasn't the case. Interest expense correspondingly was also increased back in Q4 in terms of your expectations. Just wondering if this is going to be an ongoing situation where there could be some headwinds right to your 2019 guidance related to this issue.

James C. Morgan ***ICF International, Inc. - Executive VP & CFO***

Yes. No, I think as I mentioned earlier, this is one where if you look at this one particular contract, it's a very large complex contract. It's one where not only -- and it's complicated with regard to how the billing requirements work, that's one that not only do we have to be very diligent but the customer is getting up to speed to some degree on how they need to handle the billing process. So we believe and we've certainly -- we're receiving payments, we received the one that I spoke about since the -- during the last call. And we've received payments subsequent to then, and that happened in Q2. But it's a matter of getting this on a more regular cycle and working with the customer to have a regular cycle. We think we can -- currently, we believe we'll be able to do that sometime by getting into the Q3 type timeframe. But -- and that's what we're expecting. That's -- so right now, I guess I would say, we believe we'll get those billing cycle issues resolved by Q3 time frame -- or in the Q3 timeframe.

Lucy Guo ***Cowen and Company, LLC, Research Division - VP***

Got you. And finally, just wanted to see if, for your tracking purposes, whether labor, direct labor utilization, that's -- how that's changed quarter-over-quarter and how do you expect that to improve for the rest of the year.

James C. Morgan ***ICF International, Inc. - Executive VP & CFO***

Yes, it's, certainly, utilization as we ramp off on the new jobs and the work that we have, it's been running well. I would say, it's been running similar to what we have had in Q4 of last year. But we will continue as we go forward. We'll end up staffing up to some degree to get to a more normalized rate. As we win new work, that will be the pressure to drive utilization up so my anticipation is that we'll have a utilization rate throughout the year that will continue to be somewhat hot.

Operator

Our next question comes from Tim McHugh with William Blair & Company.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

I just hate to ask another hurricane question. But help us understand relative to the contracts you've won, I guess, the 270, so $90 million a year run rate, how much of that is ramped up, I guess, when we think about the revenue stream at either for the quarter or what you would expect for 2019? I guess I'm trying to understand where we are in just of the ramp of existing stuff that you won?

John Wasson ***ICF International, Inc. - President & COO***

I would say that we're largely ramped up on the Puerto Rico FEMA content. That's a large contract we won last June. And then in Texas, we'll have the Texas General Land Office opportunity, the City of Houston opportunity, you know we're the majority of the way, they're ramping that up, maybe 60%, 70%. The Harris County work we're just starting right now.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

And that was in -- the Harris County was included in the $270 million? Correct?

James C. Morgan ***ICF International, Inc. - Executive VP & CFO***

Yes.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

And then, can you elaborate a little bit on energy? I know you alluded to there's kind of one-off projects. But I guess that just had stuck out as a slower growth than we've seen in a while for that piece of the business. So the puts and takes that are impacting the growth in the near term? And I didn't understand why contracts won and that you started implementing in 2018 wouldn't help the growth rate until second half of 2019 if you've kind of already started those up.

John Wasson ***ICF International, Inc. - President & COO***

So sure. So I mean, I guess I would start off by saying that, we continue to expect the energy business to be at least mid-single-digit growth for the year. And so our guidance on that hasn't changed. I think our -- and as I said in my remarks, both the energy efficiency and advisory energy business showed respectable growth in Q1. I think the downward pressure was in our energy infrastructure business and our one or two large projects, they were rolling off. I would also say that we did have -- our comps in Q1 energy efficiency last year we booked a number of incentive fees that we did not expect to book here in Q1 this year. And so the timing of incentive fees on our energy efficiency contracts is different and impacting that comparable. And so really, I think it is just the wind down of these couple of projects and really the energy efficiency fees that are largely driving this.

Operator

(Operator Instructions) We will take our next question from Samuel England with Berenberg.

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

Just a couple for me. The first one, just looking at the strong growth and contract wins you had in Q1 I just wondered how you're thinking about hiring and headcount for the rest of the year. I know you touched on the ramping up the utilization in the business, but I just wanted when you think you get to the point you might need to add people. And I suppose linked to that, I wonder what you're seeing on employee churn as well.

John Wasson ***ICF International, Inc. - President & COO***

Well, certainly, as we continue to grow and obviously our revenue growth was north of 10% in the first quarter. Look, we need to continue to hire people to drive that growth. We have a very robust recruiting effort. I think we've generally been able to find the people we need to do the work in the areas where we're growing, sort of the federal, commercial, disaster recovery. Part of that also is we will, as you said, look to squeeze -- to manage utilization carefully and raise that over time. And so it's a competitive marketplace but we're finding the talent we need. I think we're generally able to get that talent. I think we reported our turnover rates, I think they remain fairly consistent. And so we obviously manage that carefully, too.

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

Okay. And I suppose linked to that as well, what are seeing on this wage inflation side as well? Is it getting more expensive when you're out hiring people or just internally or are wages just sort of flat at the moment?

James C. Morgan ***ICF International, Inc. - Executive VP & CFO***

I would say -- this is James, I would say that certainly this year, we went through and did reviews and raises for employees. We budgeted more than what we've had in past years. So there's a little bit associated with that. And yes, that's a -- we price those increases in our bids as we move forward. So -- but it's nothing significantly unusual than we've had in the past, but there has been some upward pressure as far as the rate of increase per year a little bit higher than what was in the past.

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

And then, just looking at the client market revenue mix you disclosed, you've seen obviously a bit of a swing out the health education, social programs side and into the energy, environment and the infrastructure side. I just wondered if that's the usual ebb and flow that'll swing around later in the year whether you are expecting that mix shift to continue in the direction that it's going over the rest of the year?

James C. Morgan ***ICF International, Inc. - Executive VP & CFO***

Yes. I think where you see that is that -- where we have tremendous growth in the disaster recovery business. It's in the -- that energy market space, so therefore, environmental energy space. So it then drives a faster growth rate in that one particular area. It's not that the health area is not growing at its kind of historical norms, it's just that the one area because of disaster recovery is growing faster and therefore, driving a larger percentage of that business.

Operator

Our next question comes from Marc Riddick with Sidoti & Company.

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

I wanted to touch on state and local for a moment if we could. And outside of disaster recovery related also, I was wondering if you could sort of give us an idea of the kind of trends you're seeing, state and local government-wise, and if you see any shift of demand be it general infrastructure related or the like?

John Wasson ***ICF International, Inc. - President & COO***

I don't think we've seen any significant shifts in that market recently outside of disaster recovery. I mean as you pointed out, we do infrastructure related work there. That's generally been a low- to mid-single-digit growth market outside of disaster recovery. And we really haven't seen any material shifts in it over the last several quarters.

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

Okay. And then, one of the things I wanted to touch on, and you had -- if we go back to the acquisition, the disaster recovery -- the DMS -- DSM -- I'm sorry, I'm away from my computer at the moment but -- thank you. I wanted to double check or sort of revisit that and see if there was some opportunities and how that's sort of playing out and whether that has an impact on some of the potential acquisition targets that you have going forward from the standpoint of complementary services.

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

Yes. I think that DMS. It strengthened our efforts at FEMA. We basically have a whole set of skills there where we can do more at FEMA. As you know, we've traditionally done a lot of CDBG work, but FEMA was something which were not as strong at. But that has certainly improved our position there. And I think that the good news there is that we've -- all the contracts they have, we've -- if they were recompetes we won them and we are expanding that skill and applying it to different contracts which potentially, we could now sort of focus on. In addition, DMS also has done a lot of resiliency work for utilities, which is a natural for us. So I think that given their experience in doing resiliency for utilities, we certainly intend to talk to other utilities to see whether we can help them on that front. So I think that it's a very complementary set of services and they have certainly strengthened our brand and our positioning in a sector where we were -- where we could have done more, and we did with acquisitions.

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

And then you had made commentary around some of the progress from the -- on the commercial side following the rebranding and of Next. I was wondering if you could sort of give us a little bit more color on that, maybe if there are certain areas or verticals, client verticals, what have you that you're making greater progress with and sort of how they're receiving that and what they can do for you going forward.

John Wasson ***ICF International, Inc. - President & COO***

This is John. I would say that through the creation of ICF Next, we can kind of -- we fully can present the full suite of capabilities that we have within the firm, and we really do have a fully integrated set of capabilities. I think we've been able to go to our clients in a much more integrated end-to-end way and explain clearly all that we do. And so as part of that, that's a strong way to expand the size of accounts and leverage more of the client spend with that integrated viewpoint. We also just have more scale so we can present ourselves as a much larger player in these markets. I think we had a recent ranking that showed us moving up significantly in terms of our size and scale frankly because we put all the capabilities of ICF Next together. I think we've talked a lot on this call that by being able to go to market with that full set of capabilities, we are able to take it into our core clients, that's energy, aviation, federal government and finding health care and finding that those verticals where we have very deep relationships on the subject matter expertise side, we can pull the ICF Next capabilities through. I don't know, Sudhakar if you want to...?

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

And I think that, Mark, we've seen some immediate results where we had a pharmaceutical company come to us, because they're excited about the ICF Next capabilities. They were a client, and now we have a bigger assignment with them. We're working with a large payer insurance company where that I think that skills there have expanded significantly. We think that as we move forward, the capabilities which we can present in this integrated way makes us much more of a player. The industry tends to look at these rankings to send out invitations to bid, et cetera so the quicker we move up, the more likely you're going to get invited, and therefore, that adds to the leads. So I think that the rollout has gone well. We've transitioned from all the different brands we have to one and I think we can see ICF Next pop up in all kinds of places, which would have had different brands. So I think that, in itself, adds to a certain momentum. So we are pleased with what this has done and a lot of effort was put into it by our folks. And I think it's coming, it's turning out to be quite successful. So I think we look forward to continued growth in that area going forward.

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

Is that an area where you would see some potential personnel additions in the near future then?

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

Sure. I mean, I think that we tend to -- we want to make sure the utilization goes up first before we hire anyone. So I think if the utilization goes up to an unsustainable level, then we start hiring people. And so we continuously look at that, as you know, in a time, materials, billing business, it's all about utilization.

Operator

(Operator Instructions) Our next question comes from Kevin Steinke with Barrington Research.

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

Sudhakar, in your prepared comments, you seem to spend a little more time than usual talking about the areas that you're interested in terms of potential acquisitions. I may be misreading that, but does that signal in any way that you want to become a little more active on the acquisition front or the number of opportunities that you're evaluating currently and that are in the pipeline?

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

I think, Kevin, we have always sort of been active. As you know, we have done 22 or 23 acquisitions over the last 12 years we've been a public company. We're always looking at these acquisitions. I just wanted to emphasize the fact that given our current balance sheet and the -- where we are and how -- as we sort of become less leveraged, I think our optimal leverage points are such that we would like to make sure that we stay at around 2, just for efficiency of capital structure. So I think that as that situation arises, we want to make sure that we are constantly looking and seeing what we can do and we -- the last go around where we grew rapidly, we also did a series of acquisitions, which helped us sustain the growth and keep growing and get more scale. So I think that -- I just want to emphasize that our strategic direction of the acquisitions hasn't changed. We're constantly looking at those acquisitions. And now, we have a little more room in our balance sheet and perhaps, we can -- we are looking that much more intensively. So I'm sure if we find the right one, we will do it. But if we don't find it -- sometimes, we've done three a year and sometimes, none. So we are quite -- we are talking to a bunch of folks. We don't necessarily want to acquire the company which wants to sell itself, but we'll see it when and how we can do something.

Operator

We have no further questions at this time. I will now turn the call over to management for closing remarks.

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman & CEO***

Thank you for participating in today's call. We look forward to seeing you at upcoming meetings conferences and certainly in the 2Q call. Thank you.

Operator

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