Thank you, Lynn. Good afternoon, everyone, and thank you for joining us to review ICF's third quarter 2022 performance.

With us today from ICF are John Wasson, Chair and CEO; and Barry Broadus, CFO. Joining them is James Morgan, Chief Operating Officer.

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 November 3, 2022, press release and the 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 from that light. We may at some point will have to update these 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 third quarter of 2022 performance. John?

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

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

This was another strong quarter for ICF. Key takeaways include our 22% year-on-year growth in service revenue, comprised of 7% organic growth and the contribution from our recent acquisitions, 15.5% year-on-year growth in revenues from commercial energy clients, a 14.8% adjusted EBITDA-to-service revenue margin and record third quarter contract wins totaling $865 million, resulting in a book-to-bill of 1.85x for the quarter.

These metrics clearly demonstrate ICF's enhanced growth trajectory, which together with our significantly increased backlog and robust business development pipeline support our confidence in continued strong growth in 2023 and beyond.

Our year-to-date results also underscore our ability to reach the long-term financial goals we laid out in our May 2022 Investor Day, namely to achieve high single-digit organic service revenue growth through 2024, driven by our 5 key growth areas, drive double-digit total revenue growth by adding acquisitions that are a strong cultural fit and offer revenue and earnings synergies, and by the end of 2024, increase EBITDA by roughly $100 million from the $143 million we reported in 2021, which implies a CAGR of approximately 19%.

ICF's third quarter revenue growth was led by our federal and state and local government clients and our commercial energy work, which taken together accounted for over 87% of the company's total revenues for the period.

Within those client categories, we continued to see positive year-on-year comparisons in all of our key growth areas, including IT
modernization and digital transformation, public health, disaster management, utility consulting and our climate, environment and infrastructure work, which together accounted for over 70% of our year-to-date revenues.

The fastest-growing client category by far was the federal government, where revenues increased 39% in the third quarter and are up over 29% year-to-date.

Civilian agency contract spending continues to grow in line with an 8.9% increase in federal civilian agency appropriations for fiscal year 2022. And according to Bloomberg data, IT modernization and cloud migration initiatives have been among the fastest-growing spending areas. Our recent organic investments and acquisitions have positioned us well to capitalize on these trends.

In addition, the SemanticBits acquisition, which we completed in July of this year, is going very well. They've already contributed to several ICF-led bids, also winning new work and growing existing contracts at CMS. With an annual revenue run rate of approximately $500 million, ICF's IT modernization business inclusive of SemanticBits has a leadership position in providing low-code, open-source and cloud-native solutions, and we are thus well positioned to continue to grow our IT modernization revenue at a double-digit rate over the coming years.

This was also a strong quarter for our public health business, which is growing at a double-digit rate. We were pleased to have been selected for a $1.2 billion IDIQ by the Substance Abuse and Mental Health Services Administration. ICF is eligible to compete as a prime contractor in 4 of the 5 large contractor domains to support the agency's mission of reducing the impact of substance use and mental illness on Americas communities.

Additionally, SAMHSA recently awarded ICF multiple new and recompete contracts and subcontracts valued over $30 million to provide a wide range of services to support suicide prevention, substance use disorder and other behavioral health programs. We believe there will be additional funding in Federal Health markets where ICF can deploy its recognized domain expertise and cross-cutting IT skills, specifically in mental health and at the intersection of climate and health.

Federal government agencies are also currently very active in developing the detailed formulas and procedures for implementing the Infrastructure and Jobs Act or IIJA. ICF has already been tasked under existing federal agency contracts to support these IIJA activities, and this tasking to date is valued at approximately $40 million.

We are providing a range of support to agencies including technical assistance, assistance to states, and communications and management support for IIJA programs. In addition, we are seeing initial interest from states and other potential IIJA funding recipients for a range of planning, analytical and environmental support services.

At the end of the third quarter, our federal government business development pipeline was close to $6 billion, representing a diversified set of increasingly larger opportunities primarily in our key growth areas.

Revenues from state and local government clients increased 11.6% in the third quarter and were up 12.2% year-to-date. Disaster management represents approximately 1/2 of our state and local revenues, and we continue to execute effectively on key recovery contracts in Puerto Rico and Texas.

In Puerto Rico, the recovery from the 2017 hurricanes, Irma and Maria, has been complicated by the follow-on earthquakes, COVID pandemic and now Hurricane Fiona. We are proud of our success there, as ICF has been responsible for the rebuilding and repair of more houses on the island than any other service provider, but much more work remains to be done.

Our Puerto Rican Department of Housing contract has been expanded by another $10 million, and we expect additional add-ons and other opportunities in the periods ahead. Collections from Puerto Rico have been slow and delayed further by the effect of Hurricane Fiona in September, which caused major blackouts and damage from flooding. Barry will cover this in his remarks. But from a business perspective, we are confident in our ability to manage this situation appropriately.
We continue to also see governments at all levels increase spending on mitigation. Currently, ICF is working on the mitigation efforts for over 30 clients in 14 states, with recent wins in Florida, Texas, New York, Virginia and Washington State further expanding our footprint. This area is expected to become a more meaningful contributor to revenue growth over the next several years, given how well our capabilities are aligned with significant opportunities stemming from the IIJA to address the consequences of climate change, including extreme weather events and rising sea levels throughout the U.S.

The third quarter and year-to-date revenue comparisons in our international government business have been impacted by several factors. First, there was the completion of a large special project, which we called out as a major contributor to 2021 revenue growth in this client category.

Second, currency translations especially related to the euro and British pound have negatively impacted third quarter revenues. If you normalize for the impact of foreign currency translation and the wind down of the large special project in the U.K., the quarter-over-quarter revenue decline from international clients was roughly 5% compared to the 29% reported decline. Growth in this client category has also been hampered by the difficult political and economic situation in Europe and the U.K., which has caused several of our programs to move to the right.

The good news is that we continue to win multiyear contracts across a variety of subject matters, including energy, climate, sustainable investment, resilience and education, and we have a substantial business development pipeline. It is a similar situation to the one that we experienced in 2016, when our activity on awarded contracts was postponed due to the migrant crisis in Europe and Brexit. Thus, we are cautiously optimistic that business trends will improve in 2023.

Moving to commercial. We took steps in the third quarter to streamline commercial marketing services. Specifically, we exited our traditional advertising and platform technology business lines, which have not seen a material pickup in client demand post-pandemic and in which we lack sufficient scale. By focusing on the core services of business transformation, loyalty and integrated communications across several key verticals, we will be able to better serve clients and leverage the positive momentum that we've experienced in new account wins this year.

Aviation consulting revenues continued to grow, increasing at a high single-digit rate in the third quarter and up more than 25% year-to-date, driven in large part by our sustainable aviation offerings. New airline and investor clients are seeking out ICF’s unique market insights around the policies, technologies and finances required to drive meaningful decarbonization in this sector.

Energy markets, by far and largest area in our commercial business, performed very well in the third quarter, with revenue up 15.5% year-on-year. We saw strong demand across all key parts of this business, including energy efficiency, energy markets advisory, and our environmental and infrastructure services, which rebounded considerably in the period. These metrics reflect strong demand for our services before any material benefits from recently enacted legislation, which we believe will be substantial in the future years.

For example, the IIJA increases available funding to support utilities in developing and implementing flexible load management programs that deploy technologies to enhance grid flexibility. This will boost demand for ICF expertise in flexible load management, behind-the-meter storage, managed EV charging, and other programs.

Also, demand for our energy advisory services, which already is strong, will increase with the significant Inflation Reduction Act incentives for renewables and clean energy, and our environmental services are positioned to benefit from increased need for project-related services tied to new infrastructure development.

We further strengthened our capabilities in this area with the acquisition of Blanton & Associates in the third quarter. We have worked with Blanton’s highly specialized and experienced staff on several projects and have been impressed by their domain expertise in environmental regulatory compliance and permitting in the transportation, renewable energy, water and resource management sectors.
Also, as one of the most trusted partners to Texas state and local agencies, Blanton & Associates strengthens our presence in the state that is set to receive significant federal investment dollars under the IIJA.

Our commercial energy business development pipeline was nearly $1.3 billion at the end of the third quarter, a strong indication of the substantial opportunities on the horizon.

Lastly, we are seeing continued growth in our climate services, an area in which we are a market leader with the ability to leverage the knowledge and experience of over 2,000 in-house climate, energy and environment experts. The IIJA and the Inflation Reduction Act will drive significant demand for our climate-related services across our federal and state and local government clients as well as from utilities, developers, banks and other market participants in 2023 and beyond.

As we noted at our Investor Day this past May, we believe that the IIJA has expanded ICF’s addressable market by approximately $1 billion to $2 billion a year beginning in 2023. While it’s still early to assess the potential of the IRA, it will certainly be a boost for us as about 25% of our business is in climate and clean energy-related areas that will gain considerable funding from this legislation.

In summary, our year-to-date results demonstrate how well aligned ICF’s domain expertise and expanded implementation capabilities are with market trends. After a record quarter of contract wins, our business development pipeline stood at $9 billion, comprised of increasingly larger opportunities in keeping with our greater scale.

Now I’ll turn the call over to Barry Broadus, our CFO, for financial review. Barry.

**Barry M. Broadus ICF International, Inc. - Senior VP, Interim Principal Accounting Officer & CFO**

Thank you, John, and good afternoon, everyone. Our third quarter total revenue increased 18.7% to $467.8 million. And service revenue was up 21.7% to $335.4 million, inclusive of foreign currency exchange impacts, which reduced our gross revenues by approximately $4.2 million. These positive comparisons were led by double-digit growth in our government and commercial energy client categories.

Pass-through revenue for the third quarter accounted for 28.3% of total revenue, which is within the range we expect for the full year 2022.

Gross margin on total revenue was 34.3% as compared to 35.5% in the third quarter last year. Gross margin on our service revenue was 47.8% compared to 50.8% in the third quarter of last year. Both metrics primarily reflect the impact of acquisitions that have lower gross margins but higher EBITDA margins and the timing of award fees and revenue recognition on fixed-price contracts. We expect our gross margins to increase to about 50% in this year’s fourth quarter.

As we have discussed on previous calls, we are seeing the benefit of our increased scale. We achieved 190 basis point improvement in indirect expenses as a percentage of service revenue, which on an adjusted basis, were 33%, which is down from 34.9% in the same period last year. In absolute dollars, indirect and selling expenses increased 18.4% year-over-year to $118.3 million.

Our third quarter interest expense was $7.5 million, an increase of $4.9 million as compared to the same period last year, reflecting higher debt balances related to our recent acquisitions and higher interest rates. Approximately 30% of our debt is hedged against higher rates. And as I mentioned in our last call, we were able to offset a significant portion of our higher interest expense through various cost efficiency initiatives.

Third quarter EBITDA was $42.2 million, 5.6% above the $39.9 million in the third quarter of 2021. Excluding special charges, adjusted EBITDA was $49.8 million, 13.6% above the comparable quarter last year. Adjusted EBITDA margin on service revenue was 14.8%, in line with our expectations for full year 2022, and reflects continued high utilization, our favorable business mix and the benefit of increased scale. This compares to 15.9% reported in the third quarter of 2021.

Net income totaled $19.1 million, and diluted EPS was $1.01 per share, inclusive of $0.28 and tax-effected staff realignment, facility-related and M&A special charges. Third quarter 2020 net income and diluted EPS included a onetime tax benefit of...
approximately $3.8 million or $0.20 per share. Net income in last year's third quarter was $20.4 million and EPS was $1.07 per share. Now non-GAAP EPS of $1.61 per share reflects a 22% increase from $1.32 per share in the third quarter of 2021 and is inclusive of the onetime $0.20 per share tax benefit.

Now turning to cash flow. Our year-to-date operating cash flow was $6.6 million and reflects the impact of various timing factors, which occurred during the third quarter. More specifically, our third quarter cash flow was reduced by an additional payroll cycle equating to approximately $25 million that occurred in the third quarter of 2022, which will benefit us in the fourth quarter, as well as temporary delays in billing and collections associated with recent acquisitions due to the timing of integration activities which equated to about approximately $28 million in additional unbilled AR, which has since been billed and collected in Q4.

We have revised our full year cash flow guidance from a point estimate of $140 million to a range of $120 million to $140 million due to temporary billing and collection items, which include potential payment delays from our Puerto Rico customer and the impact of contracts with milestone billing terms associated with our recent acquisitions.

Days sales outstanding for the third quarter were 87 days compared to 76 days in last year's third quarter. We expect our DSOs to return to the mid- to high 70s by year-end. Our expected year-to-date capital expenditures, our corrected, our year-to-date capital expenditures totaled $17.3 million, which includes capital expenses associated with our recent acquisition activities.

Our net debt was $701.7 million at the end of September, which reflects our recent acquisitions and the temporary impacts to third quarter operating cash flow that I previously mentioned. Our net leverage ratio at the end of September was 3.81 on a pro forma basis. Based on our revised cash flow guidance, we expect to delever by approximately 70 basis points by the end of 2022.

As for our capital allocation priorities, we will pay down debt while returning value to shareholders by repurchasing shares and issuing quarterly dividends. During the 9 months ended September 30, 2022, we repurchased 176,375 shares at an average price of $96.18 per share.

As of September 30, 2022, $111.9 million remained available for share repurchases under our approved share plan.

In addition, today, we declared a quarterly cash dividend of $0.14 per share payable on January 12, 2023, to shareholders on record on December 9, 2022.

For modeling purposes, here are our full year 2022 expectations.

Our depreciation and amortization expense is now expected to be in the range of $20 million to $21 million. Amortization of intangibles should be approximately $28 million. For the full year 2022, we expect interest expense to now range from $22 million to $23 million. Our full year tax rate will be approximately 24%. We expect a fully diluted weighted average share count of approximately 19.1 million. And our capital expenditures are now anticipated to be between $24 million and $26 million, $10 million below the midpoint of our previous guidance.

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

John M. Wasson  ICF International, Inc. - Chairman of the Board & CEO
Thank you, Barry. As you'll have noted from our earnings release, we have made revisions to our full year guidance that reflect our current expectations as well as the special charges we have incurred year-to-date.

We narrowed our service revenue guidance and brought down the midpoint by $12.5 million to reflect the year-to-date currency impact and the postponement of several projects in our international government business as well as the exiting of certain commercial marketing service lines of business in Q3.

We've reaffirmed our guidance for 2022 adjusted EBITDA to service revenue margin of 14.8%, trued up the GAAP EPS range to include
the severance, M&A and facility-related charges incurred to date and the impact of this quarter’s tax benefit, and increased the midpoint of our non-GAAP EPS guidance.

Based on these midpoints, we’re now expecting 2022 service revenue growth of 16%, adjusted EBITDA growth of 19.4%, and non-GAAP EPS growth of 20.3%, metrics that we believe are at the top end of sector performance.

And with a backlog of $3.7 billion that is approximately 50% funded, expectations for significant new awards in the fourth quarter and with a robust business development pipeline, we are confident that 2023 will be another year of strong performance for ICF.

As we noted in our earnings release, ICF was ranked by Forbes in 2022 as one of the Best Management Consulting Firms, one of the Best Employers for Diversity and one of the Best Employers for Women. We appreciate this recognition as ICF, like most companies, is facing challenges in attracting the talent we need to effectively execute on our growth strategy.

I’m pleased to report that our head count increased over 8% in the third quarter with about 40% of new hires added organically and the remainder coming through acquisitions. We are experiencing a record-setting hiring pace, and the results of our recent employee survey indicated deep connection tied to our strong values-based culture and flexibility.

On our part, we continue to make sure that communication is flowing through the organization at all levels, that our benefits are aligned with employee priorities, and that our leadership development programs provide growth opportunities across our diversified business disciplines.

Operator, with that, I'll now open the call over to questions.

QUESTIONS AND ANSWERS

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

What do you think the impact on growth over the next 3 or 4 years will be of the climate bill also known as IRA?

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

Sure. So I'll start off by saying, Tobey, that, as you know, as part of our Investor Day in May, we did lay out our long-term financial goals based on the 5 key growth drivers in front of us, and as I noted in my remarks that would -- those included high single-digit organic growth, the expectation of double-digit total revenue growth with acquisitions and higher EBITDA growth than the level of our revenue growth.

And so I think that with that as background. I think as you also know, the Inflation Reduction Act passed after our Investor Day, I think, does provide, as I said in my remarks, a potential significant opportunity for us on the clean energy and climate fronts, and I think those opportunities will develop in 2023 and should become material in 2024 and beyond. And so it's hard to fully characterize those opportunities, but I think that has -- certainly can provide upside on top of the high single-digit growth we indicated at our Investor Day. It has the potential to -- potentially take us to double-digit organic revenue, but we'll have to see how it plays out over time. As I also note, it does impact directly about 25% of our business, the Inflation Reduction Act, the funding within it. So it's certainly a material opportunity for ICF.

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

How much of the contract awards in the quarter represented new work to the company? And do you have an expectation or any color on what you expect for ramps of that business?
John M. Wasson  
**ICF International, Inc. - Chairman of the Board & CEO**

I don't have the breakdown of numbers, recompete wins in front of me. I would expect the majority, significant majority would be new contract wins. Obviously, the growth in the pipeline, the growth in our (inaudible) side is being driven by the opportunities in our 5 growth areas. And so I think certainly in the majority, I would expect about 65% to 70% of the contract wins are new business.

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

And what's the outlook for the low-growth parts of the company, including commercial marketing, international aerospace? And could you also, in the context of that answer once you talk about the outlook, talk about what changed to cause you to lower and narrow the top line guidance range?

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

Yes. I think what caused us to lower and narrow the guidance range for the remainder of this year was, as I said in my remarks, I mean, it was the impact of the European business, the currency issues and related to the movement to the right of projects given what's going on in Europe with the war in Ukraine and the overall economy. So we reduced our guidance by about $12.5 million. I think about $10 million of that was related to reductions in our European business and about $2.5 million was related to revenues associated with shutting down the specific service lines in commercial marketing services. And so I think that's what drove the specific reductions.

I think in terms of your question on the remainder of the business, generally, I think we've discussed the remainder of the business. We see it as low single-digit growth. Obviously, we haven't been achieving that in commercial marketing services, it has not rebounded from pre-pandemic levels. But setting that aside, I think the rest of the business we generally see as low to mid-single digit, low single-digit growth opportunities as we go forward.

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

Okay. I'll sneak one more in if I could. How are you thinking about interest expense as a headwind into '23? And are there steps that you can take to mitigate that kind of expense growth beyond simply paying down debt?

Barry M. Broadus  
**ICF International, Inc. - Senior VP, Interim Principal Accounting Officer & CFO**

Yes. Thanks for the question. Well, there's a number of things that we'd like to look at. One would be hedging more of the debt and when the timing is best for the company, then we'll execute on that. And then I think paying down the debt is a critical component of that. So we'll look and continue to improve our cash flows and use those cash flows to delever and reduce that debt amount.

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

Yes. I'll just add to that. I think as we've talked about, I mean, we've been using -- we've been leaning forward and managing our facilities footprint, reducing our spending there given that we'll be operating in a hybrid environment rather than working full time in the office.

And that has -- in doing so, we've reduced the investment spend there, and we've been using those savings both to invest back in the business and to offset some of the interest-related increases we've seen.

And I expect we'll continue to do that to be able to do that going forward. I just would also -- as Barry said, I mean we do hedge, I think, about 30% -- as Barry said in his remarks, it's hedged at less than a 4% interest rate. So we have -- we've also leaned in on the hedging front, too.

Operator

And our next question comes from Mr. Marc Riddick of Sidoti and your line is open. Go ahead, please.

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

So I wanted to just sort of touch on the state and local spend and so the activity that we're seeing there and maybe some of the levers involved. I wonder if you could talk a little bit about the, given the strength that we're seeing in federal and certainly, there's infrastructure spend to be done on the state and local level eventually.
I was wondering if you could talk a little bit about the time frame that you're looking at for some of those projects, if you're getting sort of any sort of feedback from state and local customers to the timing of putting projects to work and moving forward there as well as maybe if you could give us a bit of an update on maybe some of the disaster work that you're doing.

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

So I think, as you know, our state and local business has essentially 2 major components that split down the middle, our environmental monitoring and permitting work around large infrastructure projects and then our disaster management work. I think that -- and as we noted in our remarks, that scalable business, I think it's been growing double digit, we achieved double-digit growth in the third quarter.

I think the IIJA funding, as we said, is going to provide $1 billion to $2 billion addressable market a year for ICF. I think a lot of that opportunity will be at the state and local level, and will be around traditional infrastructure projects from bridges and roads and rail to energy and water-related infrastructure. And so I think that is an important source of future opportunity for us.

And so that's certainly an important opportunity. I would look to it to really become material and for the company in the second half of 2023. We are seeing -- we do have a robust pipeline on the IIJA front and our overall state and local pipeline is at $1.1 billion.

On the disaster recovery front, again, I think we have a very strong book of business and are executing well in both Puerto Rico and Texas. I think there will be additional opportunities for us over time on Hurricane Fiona in Puerto Rico. As I said in my remarks, we've already won -- received a $10 million plus up to support Puerto Rico with some of the immediate response activities underway down there. And I expect there will be opportunities from the Hurricane Ian that will play out here in the next 6 to 9 months that we will be tracking very carefully and could potentially be material in the second half of 2023 and beyond.

So we remain quite bullish on both of those markets. They're part of our key growth drivers, and we certainly expect to have strong growth in the state and local markets as we move forward.

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

Great. And then if I could just add one more question. I just wanted to touch maybe if you could bring us up to speed on your thoughts or views on acquisition pipeline and following SemanticBits, the year acquisition appetite seems to be healthy still. But just wonder if you could sort of talk a little bit about maybe what the pipeline might look like now and maybe if it's changed over the last 6 months given the recessionary concerns that are out there.

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

Yes. I think the -- I think our focus right now is on integration and integrating the acquisitions we've completed here in the third quarter. SemanticBits was a significant acquisition for us and certainly helped greatly improve our positioning in the IT modernization front; Blanton & Associates was a small tuck-in on the environmental front.

My expectation is we're going to be laser focused on integration of those acquisitions here through the first half of next year. And associated with that, we're going to be laser focused on paying down debt and carefully managing our cash flow.

So I don't see us leaning in or making any significant investments on the M&A front. At least through the end of this year and in the first half of next year, I think we'll be quite focused on successfully integrating the deals we've done and paying down our debt.

In terms of the market, I mean, I would say that there's still opportunities in the federal government services market. There's still activity in energy markets. I think there's still quality companies out there.
And so we obviously are out in the market. We have a pipeline, we'll stay close to the market. Honestly, we haven't seen a significant change in valuations in the market. But as I say, I think our focus, Peter, for the next -- through the first half of next year will be on integrating the deals we've done and focus on paying down our debt here through the first half of next year.

Operator

That was our last call. I would now like to turn it back to John Wasson for closing remarks.

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

Well, thanks for all of your participation today. We certainly look forward to meeting you at upcoming events. Thank you.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.