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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Q4 and Full Year 2023 ICF Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Lynn Morgen of Advisory Partners. Please go ahead.

Lynn Morgen ***AdvisIRy Partners***

Thank you, operator. Good afternoon, everyone, and thank you for joining us to review ICF's fourth quarter and full year 2023 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 February 27, 2024, 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 fourth quarter and full year 2023 performance. John?

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

Thank you, Lynn, and thank you all for joining us this afternoon to review our fourth quarter results and discuss our outlook for 2024. Our solid fourth quarter results capped another record year for ICF. Key takeaways from 2023 include full year growth in revenues from continuing operations of 12%; further margin expansion driven by higher utilization, lower facility costs and the overall benefits of ICF's increased scale; ICF's considerable contract wins, reaching over $2.3 billion for the year, of which 70% represented new business, indicating how well positioned we are in areas of increased spending; and lastly, the substantial runway ahead for ICF, as we ended the year with a $3.8 billion backlog, a book-to-bill ratio of 1.2 and a $9.7 billion business development pipeline, pointing to considerable growth opportunities for ICF over the next several years.

Our investments in key growth markets continued to yield positive results and returns in 2023. These markets, namely utility consulting, disaster management, climate, environmental and infrastructure services; together with public health and IT modernization/ digital transformation accounted for approximately 80% of our revenues from continuing operations in 2023, up from 75% on the same basis last year, and approximately 55% in 2020--a clear indication of the successful implementation of our strategic intent with which we have built out our capabilities over the past several years.

ICF's performance in these growth areas is primarily captured in our 2 major market categories: energy, environment, infrastructure and disaster management; and health and social programs.

Revenues from continuing operations in our energy, environment, infrastructure and disaster management market increased 10.3% in the fourth quarter and were up 13.4% for the full year, reflecting positive momentum across our portfolio of programs and services.

Highlights included: double-digit revenue growth in energy efficiency program revenue in 2023, thanks to continued expansion of existing programs and the capture of several new utility clients. As you can see from our earnings release, contract awards in this area were quite strong in the fourth quarter, with 45% of the dollar amount awarded to us representing new clients or expanded scopes of work; our energy advisory work, which saw very strong growth in the fourth quarter and for the full year, benefiting from the addition of power engineering firm CMY in May last year, which compromises the core of our Grid Engineering and Analytics capability, or GEA team, as well as increased demand for our power and technical advisory services around renewable development and the impact of the IRA and the IIJA.

Also, we are pleased to note that we were recently selected as Engineer of Choice for a large East Coast utility, and we are seeing a significant number of revenue synergy opportunities with our GEA team and our disaster management, environmental and electrification teams. And our environmental and planning work for commercial clients also was a strong performer in the fourth quarter and full year, driven by ongoing work for renewable developers, as well as increasing resilience work for utilities in undergrounding power lines. IRA tax credits are supporting private development of renewables, and despite a few cancellations, we are seeing strong demand for our services in these areas, mostly for projects offshore in New York, New Jersey and Northern California, and future lease options in additional geographies are scheduled for this year.

In disaster management, we continue to execute on our large multiyear contracts in Puerto Rico and Texas and are working on mitigation projects in over 15 states. We recently were awarded a small but strategic project in Virginia, and in the County of Maui, where we are providing technical and training assistance for HUD compliance.

Lastly, our climate, environmental and infrastructure services, which cut across all of our client categories, continued to show significant year-on-year growth in both the fourth quarter and full year. We saw expansion of climate programs for federal government agencies and increasing urgency at the federal level to disburse IRA and IIJA funding. ICF is currently working with a number of applicants on climate priority plans, which should provide additional opportunities for us as the year progresses.

To date, ICF has been awarded just north of $110 million in contracts related to the IIJA and IRA, primarily from federal and state government clients, and our current pipeline is over $215 million. This does not include all the related work that we are doing for commercial clients, where it's more difficult to associate our engagements with specific legislation.

Turning to our health and social programs market. Revenues from continuing operations were up 2.4% in the fourth quarter and 15.9% for the full year. Fourth quarter comparisons were impacted by the anticipated roll-off of certain small business contracts held by companies we acquired, as well as a significant reduction in pass-through revenues associated with a large international development public health contract. As you know, we had substantial federal government contract awards in the third quarter, followed by additional wins in the fourth quarter, and our federal government pipeline was over $6.6 billion at the end of the year. Thus, we are confident that our federal government revenue comparisons will improve substantially in the second half of this year, as new contracts ramp up, and we expect our federal government revenues to grow at a high single-digit rate for full year 2024.

Notable in the fourth quarter was the receipt of the Excellence in Frontline Public Health award given to the BioSense project, which we support at the Centers for Disease Control. This project was recognized for its efforts to collect data from more than 75% of the nation's emergency rooms.

Additionally, we expanded our conventional AI capabilities in our federal health work to introduce new strategies for data collection and processing that enhance the speed and accuracy of health information monitoring and response systems.

Also, we won several awards for new or expanded work in the fourth quarter, including at the Environmental Protection Agency to assess the risk of chemical exposure to human health, at the Substance Abuse and Mental Health Services Administration to support mental health programs and at the Centers for Disease Control to support overdose prevention programs.

In the IT modernization/ digital transformation arena, we followed strong third quarter contract awards of over $150 million with another $150 million of awards in the fourth quarter, including a $33 million recompete win from the Centers for Medicare and Medicaid Services to continue our modernization of their system for kidney dialysis data, a $58 million expanded recompete with a Western U.S. State lottery to support the operation of its cloud-based website and new contracts from the FDIC and the Department of Treasury. Additionally, we continue to pursue new opportunities to drive synergies between SemanticBits' strong footprint at CMS and ICS platform capabilities with ServiceNow. And we are increasingly showcasing SemanticBits' open source and cloud-native capabilities to our longstanding clients at the CDC, the NIH and the FDA.

Both public Health and IT modernization are areas of bipartisan support, and we believe ICF's deep domain expertise in health and our broad technology capabilities across the key platforms of choice in the federal government position us for growth in 2024.

Before ending my review of the 2023 business highlights, I want to mention a unique item. As you may know, we have an aviation consulting business that works with airlines, airports and other aviation entities, and we have particular expertise in the sustainable aviation fuels area. In fact, ICF proudly supported Virgin Atlantic Flight 100, the first commercial aircraft flown on 100% sustainable aviation fuel from London Heathrow, landing at New York's JFK on November 29, 2023, and we had several team members on board that flight.

With that, I'll now turn the call over to our CFO, Barry Broadus, for his financial review. Barry?

Barry M. Broadus ***ICF International, Inc. - Senior VP & CFO***

Thank you, John. Good afternoon, everyone. I'm pleased to provide you with additional details on our 2023 fourth quarter and full year financial performance.

Total revenues in the quarter were $478.4 million comparable to the reported revenues for the fourth quarter of 2022. Adjusting for the divestiture of our commercial marketing business in 2023, total revenues increased 4.9%, led by a strong 8.8% growth from our commercial energy clients and 16.9% growth from our state and local and international government clients.

Subcontractor and other direct costs totaled $129 million or 27% of total revenue, as compared to 28.7% of total revenue in the fourth quarter of 2022. Excluding subcontractor and other direct costs, revenue from continuing operations increased 7.9% in the fourth quarter.

Gross margin for the fourth quarter was 36.5% of total revenues, up 100 basis points from the third quarter of this year. Our fourth quarter indirect and selling expenses decreased 9.8% year-over-year to $123.4 million. On an adjusted basis, indirect and selling expenses were 24.4% of total revenues for the fourth quarter and 24.6% for the full year, representing a year-over-year decrease of 50 and 80 basis points respectively, as we continue to benefit from reduced facility-related expenses, the increased efficiency and scale of the business and the sale of the commercial marketing business.

Fourth quarter EBITDA was $53.9 million, an increase of 46% from the fourth quarter of 2022, due in part to nonrecurring expenses incurred during the fourth quarter of last year. Our adjusted EBITDA was $57 million, a 3.3% increase from the fourth quarter of 2022, as our year-over-year growth was impacted by the CMG divestiture, which occurred in the third quarter of 2023.

Interest rate -- interest expense of $9.5 million increased from $9.2 million in the fourth quarter of 2022, reflecting higher interest rates and the impact of noncash accounting charges. As we mentioned throughout 2023, we continue to successfully offset a significant portion of the bottom-line impact of our higher interest expense through various cost-reduction initiatives and tax efficiency strategies.

Net income was $22.2 million or $1.16 per diluted share in the fourth quarter, compared to net income of $8.9 million or $0.47 per diluted share in the comparable period last year. Fourth quarter net income included $4.4 million or $0.18 per share in net tax-effected special charges related to facility reduction and severance costs, partially offset by the net gain on the sale of a remaining portion of the commercial marketing business.

Moving forward, we will continue to evaluate facilities as appropriate. But we would expect any facility-related charges to be considerably less than what we incurred in 2023.

Fourth quarter non-GAAP EPS was $1.68, an increase of 7.7% compared to the $1.56 per share recorded in last year's fourth quarter. Our fourth quarter non-GAAP EPS was also impacted by the divestiture of the commercial marketing business.

I will now briefly review our 2023 results. Total revenue was $1.96 billion, representing an increase of 10.3% from the prior year and 12.3% from continuing operations. Our strong top line performance for the full year was led by our growth markets, which drove double-digit revenue growth from both government and commercial client, highlighted by a 15.7% growth in our commercial energy business and a 10.5% increase in our U.S. government revenues.

Subcontractor and other direct costs were $534.7 million or 27.2% of total revenue compared to 27.8% of total revenue in 2022. Adjusted EBITDA increased 11.2% to $213 million, compared to $192 million reported in 2022.

Full year GAAP EPS was $4.35 per diluted share, including $17.6 million or $0.71 per share in net tax effective special charges, which primarily consisted of facility-related severance and M&A costs, which were partially offset by the gain on the sale of CMG. In 2022, GAAP EPS was $3.38 per diluted share, including $1.31 of tax-affected special charges. For the full year, our non-GAAP EPS was $6.50, representing a 12.7% increase year-over-year.

We're very pleased with our success in optimizing profitability. In addition to the actions I mentioned earlier, we have implemented multiyear tax strategies that enabled us to realize a 14.4% tax rate in 2023. Going forward, we anticipate our tax strategies will allow us to maintain an annual tax rate of approximately 23.5% in 2024 and 2025.

Shifting to cash flows and our balance sheet. Our full year operating cash flow totaled $152.4 million. This compares to $162.2 million in the prior year, which benefited from approximately $30 million related to the timing of collections and disbursements. Our day sales outstanding was 72 days as compared to 71 days in last year's fourth quarter. Capital expenditures for 2023 totaled $22.3 million, down from $24.5 million in the prior year.

We made significant progress on our debt reduction, paying down $104 million in debt during the fourth quarter. The paydown was primarily driven by our cash flow from operations. We reduced our total debt by nearly $130 million since the end of last year, inclusive of the acquisition of CMY Solutions.

Our adjusted net leverage ratio was 2.16x at quarter end, compared to 2.7x at the end of the third quarter, ahead of the guidance we provided on our previous call. In 2024, we will continue to focus on debt reduction. Absent an acquisition, we expect to delever in a similar manner as we did in 2023. Our fixed debt was approximately 60% of our total debt at year-end, which is consistent with our target. Our average interest rate for 2023 was 5.6%.

We remain committed to our balanced approach for capital allocation, which includes organic growth initiatives, acquisitions, debt reductions and share repurchases to offset the dilution of our employee incentive programs and quarterly dividends. Today, we announced a quarterly cash dividend of $0.14 per share, payable on April 12, 2024, to shareholders of record on March 22, 2024.

I will conclude my remarks by providing additional guidance metrics for 2024, to assist you with your modeling. Looking at the cadence of 2024, we expect to generate approximately 48% of our revenue guidance in the first half of the year with the balance in the second half. Depreciation and amortization expense is expected to range from $24 million to $26 million. Amortization of intangibles should be approximately $32 million to $33 million. Interest expense will range from $32 million to $34 million. And as I mentioned, our full year tax rate will be approximately 23.5%.

We expect a fully diluted weighted average share count of approximately 19 million. Operating cash flow is expected to be $155 million, and our capital expenditures are anticipated to be between $25 million and $28 million. And with that, I will turn the call back over to John for his closing remarks.

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

Thanks, Barry. In 2023, we took several strategic actions to streamline ICF's business and strengthen our positioning in the key growth markets we have identified. These included the integration of the SemanticBits acquisition, providing us with critical open-source capability, the divestiture of our commercial marketing business lines and the addition of CMY, which brought us new competencies in the fast-growing areas of grid modernization and electrical engineering.

In doing so, we further focused our portfolio towards high-growth verticals. This served us well in 2023 and will continue to drive ICF's profitable growth in 2024 and beyond. And as Barry noted, we substantially reduced our net leverage ratio in 2023, providing ICF with additional financial flexibility to execute on our acquisition growth strategy, which has been a key element of our success to date.

Based on our current strong backlog and visibility, together with the ongoing positive trends in our key growth markets, we expect 2024 organic revenues from continuing operations to range from $2.03 billion to $2.1 billion, representing year-on-year growth of 8.5% at the midpoint and 5.2% growth at the midpoint when compared to reported 2023 results.

EBITDA is expected to range from $220 million to $230 million, reflecting year-on-year growth of 14.2% at the midpoint. Our guidance range for GAAP EPS is $5.25 to $5.55 excluding special charges, and for non-GAAP EPS of $6.60 to $6.90. As a reminder, assuming similar margins to the rest of the business, our commercial marketing business lines are estimated to have contributed $0.20 of non-GAAP EPS in 2023, which will not recur in 2024. Thus, on a continuing operations basis, estimated non-GAAP EPS growth in 2024 will be 7% at the midpoint.

In addition to this very positive outlook, we're also encouraged by the many recognitions that ICF received in 2023, highlighting our commitment to a corporate culture predicated on investing in our people, minimizing our environmental footprint, supporting our communities and serving clients with integrity. And with that, operator, I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes to the line of Joe Vafi with Canaccord.

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

Just, if we could kind of drill down on the organic federal outlook for this year. It sounds like there were a couple of moving parts here with some SBA business that is going away and then pass-throughs. Just, any of your thought process here on the cadence of that federal organic moving forward here through 2024? And then I have a follow-up.

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

Well, sure. I mean, I think as we noted in our remarks, and I think you did nice job of summarizing, Joe. I mean, I think we are rolling off a few of the small business contracts that we acquired in 2022. And I think when we made those acquisitions, we indicated that we would roll off certain contracts towards the end of 2023. And so we did that, we've done that certainly in the third and fourth quarter here at the end of the year. And so that has occurred.

And then as we also noted, we had some reduction in pass-through of some USAID work. I will say that as we go into next year, I don't think that we'll see as material roll-off on small business contracts. We're also winning synergistic work from those acquisitions on IT Modernization. And so with the synergies that we're seeing, the strong pipeline and strong awards, I mentioned, we've -- I think we've discussed the last 2 quarters, we've had very strong awards in the federal vein, a very strong pipeline in IT Modernization. We won $150 million in Q3, $150 million in Q4.

And so with that visibility and the momentum from that, I think we're looking at, I would say, low to mid-single-digit government growth in the first half of the year and low double-digit growth in the second half of the year, which gets us to high single-digit growth for the year. And I think we have clear visibility to that from a bottom-up buildup of that. And so we feel quite comfortable, quite confident in it.

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

Okay. That's helpful. And then I know you mentioned a few puts and takes on IRA and IIJA opportunities. So is this -- at a high level, do you see some of this work kind of rolling out as you thought? Or is it -- at a high level, is it a little slower? Or a little faster? Or it's kind of the normal kind of puts and takes as this stuff evolves?

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

Yes. I would say it's rolling out as we expected. I think we continue to see progress, and we continue to see more opportunities on that front. As I said in the remarks, we've won $110 million worth of work to date. The pipeline is $250 million. And I would say both on the IIJA and the IRA, we continue to see acceleration in the opportunities and additional awards. As I mentioned in the remarks, we're seeing a lot of activity on the commercial side from the IRA driven by tax credits around renewables and the clean energy transition. So I think that -- those are key drivers for the growth we expect to see in 2024 in the Energy and Climate arena.

And I think that -- as I've talked about before, I think they continue to provide potentially additional upside, particularly as we get into 2025. As I said before, we're guiding to high single-digit organic growth here for all-in, for 2024. I think if the IRA and IIJA continue to accelerate, that's a path for us to potentially get to double-digit organic growth in 2025 and beyond. And, so as you can imagine, we're quite focused on identifying every single opportunity and pursuing everything that's out there, and that's a major focus for ICF right now.

Operator

This question comes from the line of Tobey Sommer with Truist.

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

With respect to the IIJA and IRA, investors recently have been asking if those could be defunded or somehow capitated as opportunities in a different political climate. How do you assess the risk and to what degree, has state and local funds, as well as private capital already been spent in anticipation of either federal funds or the tax credits of IRA?

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

It's a good question, and we're hearing those same questions, Tobey. I would say that -- first of all, I would say on the federal and state and local side, the money is certainly flowing and that we are seeing -- we have visibility to opportunities from IIJA and IRA on the federal state in local fronts. And I think clients are quite focused on leveraging those funds and pushing forward with their efforts on climate and renewable energy and clean energy transition. And so it's full speed ahead there.

And I think the tax credits are certainly, on the IRA side, on the commercial side, have shifted the cost curves and are driving very significant investment in renewables and clean energy, and we're seeing that on the commercial side of the house. And so, there's a lot of focus on leveraging those funds and taking advantage of them both in the government and the private sector.

The risk of the funds being impacted by a new administration, I mean, I'm obviously not a political prognosticator. I do think, on the IRA, the vast majority the funds will flow through the tax credits. I think it's less likely you're going to see those tax credits cut in -- politically, I think -- I haven't seen -- I mean, it would be a way of kind of potentially raising taxes. In any event, I think that -- I guess I will -- I won't predict the political future.

I will say that the IIJA funding is certainly moving and moving well and moving strongly, and that was a bipartisan bill, so my own personal opinion is that's unlikely to be pulled back. In the IRA, as I say, I think the funding is State and federal business. Federal businesses are focused on leveraging those funds and are making significant progress spending that money. And I think that the tax credits are driving a lot of change, too.

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

The -- if I heard you right, it sounds like your federal business, the cadence in '24 will be more like mid-single digit in the first half and then double digit in the back half. Is that right? I just want to verify that. And then are there specific contracts or agencies that are driving that acceleration in the back half, that you could kind of call out?

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

Well, I think the growth in the back half of the year, I think, is going to be -- it'll be driven primarily by our 2 major growth drivers in the federal arena. It will be driven by our IT modernization contract wins, where we won $150 million in the third quarter. We won $150 million in the fourth quarter. We continue to have a significant pipeline there. I think we have pretty significant visibility where that's going to come from. That -- our largest client is HHS. So a key portion of that will come from HHS clients and then other key civilian clients that we support on the IT modernization front.

And in a similar way, I think on the public health front, again, between CDC, NIH, Administration for Children and Families, we have a good pipeline of opportunities and have had awards here at the end of the year that give us visibility for how that will play out and will drive that growth.

And so I think we're just in this period where we are rolling off some of these small business contracts here in the third or fourth quarter, which was expected, and we talked about when we acquired SemanticBits and gave guidance for it.

So we're rolling off of those and then also continuing to win and ramp up other federal programs, particularly in IT modernization and public health. And so we're just in that transition, but I think we have very clear visibility on how this will play out.

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

As far as the pipeline, the $215 million, I think you said, could you describe what, like, the upper bounds of what a big project looks like in that pipeline? Just trying to juxtapose what we're used to seeing in federal and your existing commercial work with what may come from some of these other catalysts?

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

Yes. I would say, I mean a big contract -- big state and local contract in the IIJA and IRA front would be, I don't know, $5 million to $10 million -- $5 million a year of revenue, so 15, 20 total opportunities. I mean, you have to understand. Like the rest of our business, I mean, there are significant opportunities that are more advisory, doing planning studies, doing market studies, which are going to be smaller opportunities.

And then there's a handful of larger implementation opportunities. Whether it's implementing energy efficiency, electrification, decarbonization of going into 2024 implementation. And those would be at the upper bound. So $10 million to $20 million contracts over 3 to 4 years. But again, I think it's going to break out between advisory implementation, like all of our business. And over time, as you get more, deeper into the spend on that money, it'll be more, larger implementation.

Operator

This question comes from the line of Tim Mulrooney with William Blair.

Timothy Michael Mulrooney ***William Blair & Company L.L.C., Research Division - Group Head of Global Services & Analyst***

The first one is, I appreciate the color you gave on expected organic growth in the federal business in 2024. I was hoping you can give us an idea of your expectations in the commercial business as well. There's a little noise here with the divestiture, so was just hoping to get a little more color on how you're thinking about that business performing on a continuing operations basis in 2024.

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

Yes. I think -- I would say the commercial business on a continuing operation standpoint will be in the neighborhood of 14% to 15% growth.

Timothy Michael Mulrooney ***William Blair & Company L.L.C., Research Division - Group Head of Global Services & Analyst***

Okay. And then pivoting to your disaster management, I was just hoping to dig into that business in a little more detail. I mean, are you seeing a notable increase in demand or additional opportunities in this business lately? I'm thinking about the contract you won in Oregon recently, the issues we're seeing in Hawaii or the recent flooding that we've seen across certain parts of the country. Curious how that -- how you're thinking about that business.

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

Well, I'll start at the highest level, then I'll drop down and answer your question that way, Tim. So first, at a high level, obviously, disaster management is one of our key growth drivers over the last several years. Across all the -- across those 5 growth drivers we've been stating we've been growing north of 10%, I would say, disaster recovery, over the last many years, has certainly achieved that level of growth.

I think as we look forward, generally, I think we're thinking high single-digit for disaster recovery based on the book of business we have today. We're doing significant work in Texas and Puerto Rico. I do think, to your point, there are material opportunities out there, that potentially could play out here in 2024 or going into 2025.

Typically, when there's significant hurricanes or significant natural disasters, the work we do is not -- typically not the immediate response. It's more the recovery work, rebuilding the public infrastructure, rebuilding homes, which typically begins about a year after the storm occurs once Congress has got the funding in place. And so some of the opportunities you mentioned, Hawaii, others, I think, are opportunities later this year, probably more materially play out for us as we go into 2025.

But certainly, the Oregon wildfires is a nice contract win for us and will drive some growth. We're still very busy in Puerto Rico and busy in Texas. So I think we remain bullish on disaster recovery and continue to see this as an important growth area.

Operator

This question comes to the line of Marc Riddick with Sidoti.

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

So I wanted to go over just sort of -- maybe a few of the sort of cash flow type questions. I was sort of curious as you had a debt pay down a little faster with the pay down toward the end of the year, getting [used]. So can you maybe give us a little reminder as to comfort level as to leverage range and whether -- any thoughts around timing of interest rates has been an impact on that?

Barry M. Broadus ***ICF International, Inc. - Senior VP & CFO***

Marc, thanks for the question. As we've done in the past, we do have a lot of seasonality in the pace where we pay down debt. Most of the debt reduction happens in the second half of the year. We saw that happen in stage this particular year, with $68 million of debt reduction in Q3 and the $104 million in Q4.

So we expect that on a go-forward basis. We did see some pickup on the debt reduction, which related to the sale of the commercial marketing business. That was offset and helped pay for the acquisition of our CMY Solutions deal that we did earlier in the year. So -- and we think that we baked in for 2024, some reductions of our interest rates, given what we've been hearing from our friends at the Fed. We'll see how that plays out.

But we've been, I would say, more conservative on some of that and just to provide a good runway for what we think from a debt reduction perspective. But we feel like we can continue to produce the cash flows like we've done in the past and pay down debt and improve the leverage position even further in 2024, of course, barring any acquisitions.

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

Yes, I just would add that from my perspective, as you know, I mean, over the years, there's been periods where ICF's levered up to do acquisitions and then pay down the debt. We obviously levered up given the ITG acquisition in 2020 and SemanticBits and Creative in 2022. I think we've done a good job over the last 1.5 years, 2 years paying down that debt, really focusing on that.

Our leverage ratio is back down to 2.2% here, net leverage ratio. And so here, we're in a position now where I think we have capacity in the balance sheet. If the right acquisition opportunities come along, we can certainly take advantage of them. Obviously, we're quite disciplined on that.

As you know, I mean, we certainly want to find opportunities in our key growth markets, good cultural fit, good strategic fit that is accretive in year 1, which is -- which gets to kind of what's the state of valuations right now. But I think we are in a position where we have paid down the debt and we have a strong balance sheet and acquisitions have been part of our strategy, so it's -- I think we've done a good job of paying down the debt and getting ourselves in a position where we can leverage the balance sheet again going forward.

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

Great. And then I was wondering if you could talk a little bit about the pricing environment and maybe what you're thinking about, as far as rate increases during the course of the year. Are there any particular areas of concern as far as pushback? Or how are we thinking about the pricing environment generally?

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

I would say from a -- when you say -- well, I guess I would say from a pricing perspective for acquisitions, I would say that it's still a bit of a frothy market. I don't think pricing on acquisitions has fully, fully come down given the ongoing interest rate environment. But having said that, we're starting to see some interesting deals and some interesting deal flow. And Barry, I don't -- you want to talk about interest rates and those types of issues?

Barry M. Broadus ***ICF International, Inc. - Senior VP & CFO***

Second that, I'm not sure that we've seen the real balance come through from a valuation perspective just yet with the interest rates at the levels that they are. But we are starting to see a little bit more deal flow, which is good. And -- but we'll see how the fed reacts to the economic data that we've seen. And hopefully, we'll see some rate reductions coming soon.

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

Great. And then I would be remiss if I didn't sort of ask if -- how we should be thinking about any changes or what you're seeing from customers, as they sort of make their adjustments or evolve their thoughts around AI and what they want to do? Can you give a little bit of a color as to maybe the progress that -- or any changes that you've seen really over the last few months that might drive near-term and longer-term demand as far as AI-driven opportunities?

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

I mean I would say that we're certainly seeing increased interest on AI from our clients. And we have a number of clients who have reached out and are interested in doing pilot projects or exploring various use cases with an AI focus to help support the mission of our federal agencies or our commercial clients. And so we're certainly seeing more interest there and doing more work, our domain experts, our technology experts in partnership with the client on the AI front.

As we've talked about before, certainly within ICF, we continue to take a hard look at approaches to use AI to improve the efficiency of our business development, our marketing, our proposal preparation to improve the productivity of our coders in the IT modernization and our IT business. I think there are some real opportunities for productivity improvement there.

And so I think in the long run, certainly, I think it's going to be a net positive for ICF. I think it's still very early, but we're pleased to see our clients reaching out and looking for help and assistance from us. And so we're watching it carefully and undertaking activities both for clients and internal -- evaluating internal approaches to leverage AI to improve productivity and add value for our clients. So it's certainly an area of focus for us.

Operator

I'm showing no further questions at this time. I would now like to turn the call back to John Wasson for closing remarks.

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

Well, thank you for participating in today's call. We look forward to connecting with you at upcoming conferences and events. Take care.

Operator

Again, thank you. This does conclude the program, and you may now disconnect.