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PRESENTATION

Operator

Welcome to the fourth quarter and full year 2024 ICF earnings conference call. My name is Lauren Cannon, and I will be your operator for today's call. (Operator Instructions)

Please be advised that today's conference is being recorded. I will now turn the call over to Lynn Morgen of AdvisIRy Partners. Lynn, you may begin.

Lynn Morgen - AdvisIRy Partners - Investor Relations

Thank you, operator. Good afternoon, everyone. Thank you for joining us to review ICF's fourth quarter and full year 2024 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, 2025, 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 2024. John?

John Wasson - ICF International Inc - Chairman of the Board, President, Chief Executive Officer

Thank you, Lynn, and thank you all for participating in today's call to discuss ICF's fourth quarter and full year 2024 performance and our business outlook. 2024 was a year of solid growth, substantial profitability and robust cash flow.

Key highlights are: the continued strong demand for our broad-based energy advisory and program implementation for commercial clients, which was an important contributor to our revenue growth and favorable business mix; the 30 basis point expansion of adjusted EBITDA margin to 11.2%, which together with lower interest and tax expense, drove a 15% increase in non-GAAP EPS to \$7.45; our trailing 12-month book-to-bill ratio of 1.24; our year-end acquisition of Applied Energy Group, a leading energy technology and advisory services company with a substantial growth

prospects for 2025; and between mid-November 2024 and today, we have repurchased 395,000 shares in the open market, demonstrating our confidence in ICF's long-term outlook. I will provide a closer look at our 2024 business performance and then share our views on ICF's federal government business in light of the new administration's spending priorities.

To start, commercial energy had another standout year in 2024. Revenues increased 26%, driven by new wins and contract expansions for energy efficiency program delivery and new utility marketing, customer care, electrification and flexible load management programs. ICF's innovative program design and technology innovations, together with our track record of meeting or exceeding clients' energy efficiency objectives, have resulted in meaningful share gains for us in this arena. And our competitive position will be further strengthened this year by our acquisition of Applied Energy Group.

AEG brings us a trusted energy technology platform that offers real-time business intelligence to utilities, state and local governments and state energy offices, and its more than 100 utility management and demand-side energy experts add strength to ICF's market planning, demand response, electrification, and program evaluation skill, as well as to our expertise in gas utility planning and program implementation. The integration of AEG has been proceeding as planned, and we are identifying business synergies.

As an example, we have been able to bring work in-house that AEG was formerly outsourcing. Our commercial energy advisory work showed solid year-on-year growth, reflecting increased development activities in both the distributed energy and utility markets supported by accelerated electricity demand and state policies. These drivers have resulted in increased demand for our technical and power market analysis services in support of client M&A activities, as well as ICF system planning services and substation design and protection work tied to grid modernization needs. And our environment and planning services for commercial clients have seen significant growth driven by many of these same factors. There is especially strong demand for our transmission- and distribution-related services that relate to disaster and wildfire recovery, including undergrounding and aboveground infrastructure replacement.

This is a fine segue to our disaster recovery work, which, together with environmental services, comprised the majority of our state and local government revenues. ICF has 85 active disaster recovery contracts in 20 states and territories and is supporting mitigation on more than 40 contracts in 16 states and territories. While each recovery effort is unique to the specific needs of those impacted, this broad-based experience gives ICF lessons learned that we can share with state agencies supporting near- and long-term recovery efforts. That is exactly what we are currently doing in California, where we have a long history of working on state projects, from environmental planning to high-speed rail. We are in conversations with a variety of local agencies and other entities in the fire-impacted communities of Los Angeles, and we were just awarded a task order by a utility to provide construction monitoring services associated with recovery efforts in the aftermath of the Palisades fire. Also, we recently were authorized by Los Angeles County to develop a website to aggregate recovery resources to support those impacted by the wildfires. The large-scale recovery work, however, will require federal appropriations, and we would not expect RFPs until later in the second half of this year.

In Oregon, we are currently supporting the state's ReOregon program to help homeowners, renters, and communities recover from the wildfires by providing financial assistance to rebuild housing, repair infrastructure, and revitalize local economies. We're also supporting projects to upgrade critical infrastructure to be more resilient against future damage as part of the rebuilding efforts.

Also, our work for international government clients picked up considerably in 2024 thanks to new contracts won, and in the fourth quarter and first quarter of 2025, we were awarded two significant contracts with a combined ceiling value of over \$210 million by the European Commission and the government of the United Kingdom that span research and innovation, climate and the environment, and reflect our ability to deliver cutting-edge solutions that address complex challenges facing clients.

Taken together, we expect our revenues from commercial, state and local and international government clients to grow by at least 15% in 2025 and account for over 55% of our total revenues.

2025, however, will be a transitional year for our business with federal government clients as the new administration determines which programs align with its funding priorities. As of right now, approximately \$90 million of our estimated 2025 revenues have been affected by stop work orders and by contract terminations. While cuts have taken place across a broad universe of federal agencies, the majority of the revenue impact relates to our USAID contracts. The largest of these contracts involves the delivery of global demographic and health surveys.

We have taken a very hard look at all of our federal government contracts and pipeline of opportunities to determine where there is potential for additional stop work orders or terminations and/or the likelihood for opportunities to fall out of the pipeline due to the shift in priorities associated with the new administration. While we do not want to enumerate the specific programs, contracts and pipeline opportunities, we do want to convey that we've undertaken a conservative bottoms-up approach in our assessment. What we have identified as at risk mostly involves our programmatic work, which accounts for about half of our federal government revenues, rather than our IT modernization/digital transformation services, which account for the other half and are closely aligned with the administration's mandate for greater efficiency and increased utilization of AI. After careful review, we estimate that the maximum risk to ICF's revenues in 2025 from the new administration's actions is approximately a 10% reduction in total revenues from 2024 levels. As Barry will discuss in his remarks, we plan to maintain our adjusted EBITDA margins on '25 revenues at levels comparable to our 2024 margins. As we noted in today's earnings release, this reduction level does not contemplate an extensive government shutdown this year, nor a prolonged period of pauses in funding modifications to existing contracts or new procurements.

Conversely, this estimate also does not consider any additional work that ICF may gain as a result of the changes underway. For example, ICF has performed work for the federal government focused on prevention of fraud, waste and abuse, and we are well positioned to help the new administration with these priorities. Also, we have extensive public health expertise and experience in key areas such as nutrition, obesity, suicide prevention, cancer risk [research], health risks associated with use of pesticides and food additives that we expect will be areas of focus under the new administration at HHS.

Additionally, approximately half of ICF's federal government client revenues come from our IT modernization/digital transformation services. While there may be a temporary slowdown in spending and potential delays in procurements as the new administration installs its vision, we believe this will be buffered in the medium term by increases in AI, core IT systems and advancing innovative techniques to reduce cost, improve data transparency, and increase reusability. These trends play to our strengths, enabling ICF to leverage our expertise in technology and AI, automation, and advanced analytics, and our extensive ecosystem of digital platforms, as key differentiators to remain competitive in this space.

And there are few offsets to the opportunities we see on the horizon, as ICF is not a supporter of legacy IT systems that are likely to be replaced by the new administration. Also, we've had initial success in leveraging our substantial and innovative IT capabilities in the state and local government market as a complement to our disaster management expertise. This resulted in a new contract that we announced in the third quarter, and we continue to pursue these types of opportunities in state and territories where we are working on disaster management contracts. We are also mindful of the opportunity to leverage our institutional knowledge to support key civilian agency programs in a shrinking federal workforce environment.

To recap, there is a lot of uncertainty in the federal government right now. The name of the game is agility plus diversification. ICF has a proven track record of effectively managing through dynamic business environments by conservatively assessing challenges and remaining agile to capture opportunities. We have a diversified business model that will serve us well in 2025 and beyond, with over 55% of this year's revenues expected to be derived from our commercial, state and local and international government clients.

And lastly, we have provided a conservative guidance range with a maximum downside risk to 2025 total revenues of 10% below 2024 levels. When you consider a 15% growth projection for our nonfederal government work, we can absorb a \$350 million reduction in our federal government revenues under our maximum risk scenario, which equates to more than 60% of our federal programmatic revenues.

As I noted earlier, we already experienced a \$90 million revenue reduction from contracts that have been paused or terminated. This leaves us with \$260 million of additional cushion to absorb any further revenue impacts.

Now I'll turn the call over to our CFO, Barry Broadus, to provide a financial review and to share additional expectations for 2025. Barry?

Barry Broadus - *ICF International Inc - Chief Financial Officer, Senior Vice President*

Thank you, John, and good afternoon, everyone. I'm pleased to provide you with additional details on our fourth quarter and full year 2024 financial performance. Revenue in the fourth quarter increased 3.8% year over year to \$496.3 million. As John mentioned, our fourth quarter revenue growth was led by sustained demand from our commercial energy clients, which drove a 22% increase in our commercial revenues to \$133.2 million. In

the 2024 fourth quarter, commercial revenues accounted for 26.8% of our total revenue, up from 22.9% from last year's fourth quarter. Fourth quarter revenue comparisons were impacted by a decrease in our federal government business, which declined 2.4%. The decrease in federal revenues was driven by lower pass-through costs of approximately \$14 million. Excluding subcontractor and other direct expenses, our federal revenues generated by our labor base increased approximately 4% as compared to the same period last year. This part of our business continued to be impacted by ramp-up delays on certain public health-related contracts and the anticipated falloff of small business set aside contracts that were held by the IT modernization firms we acquired in 2022.

US state and local government revenue was \$75.5 million, slightly below last year's \$76.3 million, with the decline attributed to the completion of a contract with the state of Maryland. International government revenue was \$30 million, which was up 4.2% year on year, reflecting the ramp-up of our recently awarded new contract wins, primarily with the UK government. Subcontractor and other direct costs represented 25.4% of total revenues in this year's fourth quarter compared to 27% in the comparable period last year.

Gross margin was 36.1% compared to 36.5% in the prior year period. On a full year basis, gross margins increased 100 basis points due to our favorable revenue mix. Indirect and selling expenses increased 4.9% to \$129.5 million in the fourth quarter, representing a 26.1% of total revenue, reflecting ongoing investments in our workforce and digital capabilities to advance our growth and efficiency initiatives throughout the organization. We remain focused on managing our indirect costs, leveraging our scale and continuing to improve our utilization rates. Our successful track record of managing our cost structure becomes even more important given the current environment in our federal market.

Our fourth quarter EBITDA was \$50.8 million compared to \$53.9 million in the prior year quarter. Adjusted EBITDA was \$56.3 million, with an adjusted EBITDA margin of 11.3% compared to \$57 million and 11.9%, respectively, in the fourth quarter of 2023. Interest expense in the quarter was \$6.5 million, well below the \$9.5 million in last year's fourth quarter, reflecting a lower year-over-year average debt balance and lower interest rates as our debt reduction remains a priority. We continue to execute our tax optimization efforts, which yielded a tax rate of 20.9%, down from 25.6% in last year's fourth quarter. As a reminder, we expect to maintain a tax rate of approximately 21% over the next several years.

Moving to the bottom line. Our lower interest and tax expense contributed to a 10.8% increase in net income to \$24.6 million, outpacing our revenue growth. Diluted EPS rose 12.1% to \$1.30, inclusive of \$0.23 in tax effected special charges, while non-GAAP EPS rose 11.3% to \$1.87 per share in the fourth quarter.

Now turning to a summary of our full year results. Revenue was \$2.02 billion, up 2.9% from the prior year and up 6.1% from continuing operations. These positive comparisons were driven by the strength of our energy, environmental infrastructure and disaster recovery client market, which represents 46% of total revenue and grew 15.4% year on year. This growth was led by continued robust demand from our commercial energy clients, which increased 25.8% as compared to the same period last year.

Our federal government revenues were flat year over year as a result of decrease in pass-through costs, which reduced our full year revenue growth by 350 basis points. Our federal government revenues generated by our ICF staff grew 5% year over year. Total company subcontractor and other direct costs represented 25.1% of total revenue in 2024, down from 27.2% in 2023. The decrease was driven by a shift in our business mix. Adjusted EBITDA was \$226 million, an increase of 6% year over year. On a full year basis, our adjusted EBITDA margin increased 30 basis points, ahead of our historical guidance increases in the 10 to 20 basis point range.

GAAP EPS rose 33.8% to \$5.82 per diluted share. GAAP EPS included \$5.7 million or \$0.24 per share in net tax effected special charges, which primarily consisted of facility-related, severance and M&A-related costs, which were partially offset by the gain on the sale of the commercial marketing business in the third quarter of 2023. 2023 GAAP EPS was \$4.35 per diluted share, including \$0.71 of tax-effected special charges. Our non-GAAP EPS increased 14.6% year-over-year to \$7.45.

Now shifting to our cash flows and our balance sheet. Our full year operating cash flow was \$171.5 million, exceeding our guidance of \$155 million, reflecting the bottom line of our performance and the impact of our cash management initiatives.

Days sales outstanding were 75 days compared to 72 days last year. Full year capital expenditures were \$21.4 million, down from \$22.3 million in 2023.

At year-end, our debt was \$411.7 million, which was down from \$430.4 million at the end of 2023. Our debt reduction was inclusive of approximately \$44 million in share repurchases and \$62 million related to the acquisition of AEG. Approximately 66% of our debt is set at a fixed rate. Our adjusted net leverage ratio was 1.8x at year-end, a significant improvement over the 2.16x at the end of 2023.

As a part of our capital allocation strategy, we have been actively repurchasing our shares, reflecting our confidence in ICF's business outlook and our commitment to delivering value to our shareholders. From mid-November 2024 to date, we have repurchased approximately 395,000 shares for \$48 million, which is more than 3x the amount required to offset the dilution of our employee stock plan for 2025.

Our capital deployment strategy is focused on several priorities: organic growth, pursuing strategic acquisitions, paying down debt, maintaining our quarterly dividend payments and conducting opportunistic share buybacks in addition to our standard program to offset dilution from employee stock programs. Today, we announced a quarterly cash dividend of \$0.14 per share payable on April 14, 2025 to shareholders of record on March 28, 2025.

Before discussing our guidance, I wanted to note our backlog as of December 31, 2024, was \$3.8 billion, of which \$1.9 billion is funded, underscoring the stability and strength of our business. Our year-end backlog does not include the impact of any contracts that have been terminated as a result of the administration's executive orders or the actions by DOGE, which is approximately \$275 million.

While the administration continues to implement its vision to reshape the federal government, as John noted, we continue to manage our business appropriately. Our intent is to maintain margins consistent with those of 2024 as we face decreases in revenues from our federal business. Our management team has a firm grasp on the current environment and has a cost containment plan in place that we will execute as warranted to maintain our current level of profitability. We will proactively manage our business to achieve this target.

Now to help you with your financial models, please note the following expectations for full year 2025. Our depreciation and amortization expense is expected to range from \$21 million to \$23 million. Amortization of intangibles is expected to be \$35 million to \$37 million. We anticipate interest expense will range from \$30 million to \$32 million. Capital expenditures are expected to range from \$26 million to \$28 million. Full year tax rate is expected to be approximately 20.5%. Due to our share repurchases, we expect a fully diluted weighted average share count of approximately 18.6 million, down from 19.1 million, and we expect full year operating cash flow to be in the range of \$150 million.

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

John Wasson - ICF International Inc - Chairman of the Board, President, Chief Executive Officer

Thank you, Barry. Looking ahead, we expect ICF's 2025 revenue, GAAP EPS and non-GAAP EPS to range from flat with 2024 levels to down 10% from 2024 levels, a 10% decline representing the maximum downside risk we foresee from the loss of business, primarily from the federal government clients and the slower pace of our RFPs during this transition year. Within this environment, we plan to manage expenditures to maintain similar adjusted EBITDA margins to those of 2024.

Underpinning our 2025 revenue expectations is our projection that ICF's revenues from commercial energy, state and local and international government clients will grow at least 15% in the aggregate. The framework does not contemplate an extensive government shutdown this year or a prolonged period of pauses and funding modifications to existing contracts or new procurements. And again, it does not anticipate any potential upside from additional work we may be awarded given our strength in several areas of priority spending.

For this year's first quarter, we anticipate revenues of \$480 million to \$500 million, GAAP EPS in the range of \$1.35 to \$1.45 and non-GAAP EPS of \$1.70 to \$1.80, similar to last year's first quarter results for all those metrics. As Barry noted, we ended 2024 in a strong financial position. This gives us substantial flexibility to effectively manage through the current dynamic business environment in the federal government arena. We will remain opportunistic with respect to capital allocation--considering additional share buybacks, purchasing contracts and making accretive acquisitions--or a combination thereof.

With that, operator, I would like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joseph Vafi, Canaccord Genuity.

Joseph Vafi - Canaccord Genuity Group Inc - Analyst

Thanks for all the additional color on the guide. Maybe we just drill down on that a little bit first, John and Barry. I know you provided some color there, John, on kind of maximum downside focused on how much extra programmatic revenue may kind of potentially be at risk. It does seem like a lot. I was wondering if you could kind of go into a little more detail there of kind of -- I know you said it's maximum downside risk, but is that much -- really truly at risk do you see at this point? And then I'll have a quick follow-up.

John Wasson - ICF International Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. Thanks for the question, Joe. And I think we intended to give a range here from flat, relative to the '24 levels for '25 to maximum downside of minus 10% for the year. And we were really trying at the maximum downside to establish the floor and put a marker on the ground of a level of revenue reduction, the maximum level of revenue net reduction we would expect this year.

But certainly, we've provided a range. I will say that we've -- in coming up with that range, we did do a detailed project by project risk analysis of our federal business based on the priorities of the new administration. So we went through a project by project, pipeline by pipeline opportunity, certainly considered all the statements and documents in the public domain, and also factored in a significant input from our clients on potential project impacts. And so with that, that kind of led us to expect that our IT modern digital transformation work, which is about half of our business, could see revenue shrinkage of mid- to high single digits, given the level of change occurring in 2025 and a slowdown in procurements.

Although overall, I think we see a recovery in that business in the medium term, given it is aligned with the administration's goals around leveraging code and technology solutions across the entire federal government. And then the other half is on the programmatic side. So that's seen the most significant impact to date. I think as we said, we've seen \$50 million of impact at USAID.

And I think when we look at the downside on the programmatic side, we'd expect future reductions to generally occur in proportion with our programmatic levels in those civilian clients. But the minus 10% is really meant to be the maximum level of risk that we foresee in a conservative estimate to the potential -- as I said, the maximum risk we'd expect in our federal business with the new administration for this year.

Joseph Vafi - Canaccord Genuity Group Inc - Analyst

Sure. Thanks for that color, John. And then it sounds like, obviously, the utility and energy business is still really strong. Do you see any kind of ripple-through effect from slowdown in federal initiatives to affect any of the utilities at this early stage?

John Wasson - ICF International Inc - Chairman of the Board, President, Chief Executive Officer

Sure. No, I don't think we expect any material changes in the growth in our utility business or commercial utility business from changes at the federal level. I think we continue to see very robust growth on the demand for energy. We have a very strong backlog, very strong pipeline. And so I think we're quite confident that we'll see robust growth there.

As we noted, we grew 25% in that business. Last year, I think we would expect to see robust growth going forward. And we don't think any impacts from federal policy will be material in our commercial energy business this year.

Operator

Sam Kusswurm, William Blair.

Sam Kusswurm - *William Blair & Co LLC - Analyst*

Great. I guess I'll start. I want to ask a bit more about your full year guidance, maybe on the other piece of this year. I think you shared you expect your business outside of federal to grow at least 15%. That would be a pickup from your historical average.

And I was wondering how much of that is organic and what is giving you that level of confidence?

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

Well, I would say that first of all, I think this year, last year, 2024, those businesses grew 13.7% in the aggregate, led by our commercial energy business, which was up 26%. And as I said, I think the secular growth drivers remain quite robust. I think we believe we can maintain those kinds of level of growth in our commercial energy business. Also noted in our release that we won several very large international contracts at the end of the fourth quarter and here in the first quarter, which will certainly accelerate our growth in our international business.

And I also mentioned in my remarks, we're ramping up IT work in our state and local markets related to [sit] with that win. And then the last thing I'd emphasize is, again, we acquired AEG, which I think, as we said in that release, would add something in the neighborhood of [\$35 million] of commercial work for 2025. And so I think there's three or four key factors in our confidence in accelerating the growth and being north of 50% across commercial and state and local and international for 2025.

Sam Kusswurm - *William Blair & Co LLC - Analyst*

Okay. Got it. That's helpful. And then switching gears here. With regards to your IT motorization business, in recent weeks, it does sound like DOGE may be announcing some contract cancellations or some enterprise IT service contracts over the next few months here.

So I guess my question is really twofold. First, do you think anything currently in your backlog sticks out as being at risk of cancellation? And then second, do you expect any type of slowdown in new awards announced over the next several years? This is for IT modernization specifically.

Barry Broadus - *ICF International Inc - Chief Financial Officer, Senior Vice President*

Sam, this is Barry. Thus far, we haven't seen any issues with any of the contracts that we have in the IT mod business. I think we're obviously well positioned, given the capabilities that we have to expand our presence in the space and utilize some of the things that that you're seeing and hearing from those and the administration on IT mod, efficiencies, cost reductions. And we have a good deal of experience on detecting fraud in some of our contracts, CMS. So we can leverage those capabilities across the industry, and I think we can provide a great benefit to our government customers.

Operator

Tobey Sommer, Truist.

Tobey Sommer - *Truist Securities Inc - Analyst*

Thank you. I would like to ask, within the programmatic work, what sort of agencies constitute the 40% that is not at risk?

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

Within the programmatic area, I mean, I would say that we -- as I said, I think across our civilian client base, we would expect that we would see programmatic impacts across our set of clients, generally proportional with the revenue mix we have. I would say that, obviously, USAID, we've seen significant impacts there. I think that revenue is-- obviously the contracts have been terminated at this point.

And so there's been very significant impacts there. Across the rest of the portfolio, I generally think it will be consistent with the percentage makeup of that portfolio. I think we do see programmatic impacts in each of our clients across the portfolio.

Barry Broadus - *ICF International Inc - Chief Financial Officer, Senior Vice President*

I might add that I think there are a number of client groups that we don't feel are all right, significant risk. We have a lot of work at DHS, Treasury, DOD.

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

That's more technology. The technology or -- again, I guess when I answer the question, they'll be obviously focused on the programmatic work within each of our clients. But it's certainly the case that for all clients, we do have different mix of technology versus programmatic. For higher-end technology, we're not going to see as much of a reduction because we don't think we're -- we'll see it on the technology side.

Tobey Sommer - *Truist Securities Inc - Analyst*

Right. When I think of your federal government business and just split it simplistically into IT modernization on one side and programmatic on the other, to what extent is that IT modernization directly overlapping with those same customers as opposed to maybe being involved in different areas of the government outside of your core several agency focus?

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

Well, I think that -- I mean, I guess it depends on when you say client, like do you mean all the BPA or all of HHS? I mean I think the technology work tends to be more heavily engaged in the CIO office, there's not as much overlap. I would say some as much overlap between our domain clients and our technology clients within our major -- the same specific offices.

And so -- but I mean, if you go up to the EPA or for example, at HHS, half our work is technology, half our work is domain. But the overlap in clients between who are the clients that are leading the technology versus who the are the clients leading domain, as you move down those organizations, it's not the same client. But again, it depends when you're talking about HHS, CDC, offices within CDC and what's the overlap. But -- so that's how I think about it.

Tobey Sommer - *Truist Securities Inc - Analyst*

Okay. My last question -- well, I have two more, actually, if I could. Could you comment on FEMA and community development block grant expertise as applied either to the disaster recovery or potentially on the supply side -- on the demand side of IRA projects? That's been in the news as sort of maybe a bureaucratic process, certainly requires a lot of compliance by design. I'm curious about your thoughts there.

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, I would say that, certainly, you're right, there's been a lot of discussion in the news about potential cutbacks in the workforce or reorganization, sort of cutbacks in the workforce related to the community development block grants, related to the work including -- and that's the vehicle that's used for housing disaster recovery, the community development block grant program. There's been discussions about reductions in FEMA and reorganizations in FEMA for the public infrastructure-related disaster recovery.

I would say that in the disaster recovery context, generally, we don't believe the cutbacks in the step at the federal level and how in FEMA would necessarily adversely impact our state and local disaster recovery business. Those federal staff are obviously providing training and technical assistance and federal monitoring and oversight. The state and local disaster recoveries, those programs have to follow the CDBG and FEMA rules.

So if they're cut back, maybe there'll be less oversight of the state programs from the federal level. I think our expectation would be that Congress would still continue to authorize federal funds to support disaster recovery by states under CDBG. And the rules and the states would have to comply with those rules, it would just be done with less support from the federal government on training and technical assistance and oversight and monitoring of those programs under those rules.

But I would expect that the core of our disaster recovery work will continue and the opportunities would be there. And so I don't think we foresee a significant impact on that front.

Tobey Sommer - *Truist Securities Inc - Analyst*

Last question for me. The worst-case scenario was down 10%. How do you keep the esprit de corps of the firm alive, so you've got to put sort of plans in place to try to do that?

And then, Barry, what sort of cash outlays would you have to reduce the staff at those kind of levels?

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. I guess, I mean, in terms of the esprit de corps of the staff, I mean, I think we, as you know, I think we have people who are deeply committed to having an impact on the leading social and economic and technology issues that we support. I think we're -- the good news is we do have a portfolio of business, as we discussed, 55% of our revenue is in commercial and state, international.

And so we're certainly going to look for every opportunity to leverage that staff and the capabilities across the full portfolio of work and -- as we always have. And -- no. Obviously, there's a potential for impact here, but we're going to be transparent and fair and manage that as effectively as we can over many, many years and certainly try to leverage the portfolio and find ways to leverage staff across other projects if we can do so. Barry, do you want to comment on --?

Barry Broadus - *ICF International Inc - Chief Financial Officer, Senior Vice President*

So as far as the second part of the question, Tobey, obviously, that depends a lot on the degree in which contracts and work goes away. We've had a really good history of being able to deploy staff from one contract to another contract if one particular contract ends. So it depends on the mix and the timing of that.

And so it's kind of hard to quantify that because that's obviously with the people, it's a big driver of the cost. But as we stated, the goal that we've set forth with this is that we're going to maintain our margins. And we'll be able to do that by aggressively managing the cost structure as there are changes with our revenue flow periods.

Operator

Kevin Steinke, Barrington Research Associates.

Kevin Steinke - *Barrington Research Associates - Analyst*

I wanted to ask about in commercial energy, some of the work you do for renewable energy developers. I know that's a smaller part of the business, but do you see any risk there in terms of funding for those projects, et cetera?

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

I think that -- well, I mean, I think, first, in terms of renewable developers and renewable projects, I think largely, the renewable development market is driven by economics. And the economics, I think, remain attractive. I think certainly, in solar and onshore wind.

Obviously, I think tax incentives, such as those included in the IRA have been a benefit, but I think that market is largely driven by the economics. And I think we believe that even if the new administration limits or stops the tax incentives, stops leasing out federal lands for offshore wind, the majority of renewable projects will continue due to strong demand as I say, the economics of the technology and honestly, supportive state policies.

And so I think we think that on solar, onshore wind will generally proceed. Obviously, offshore wind development would be more impacted, given some of the policies of the new administration. But for us, that revenue is \$5 million, \$5 million to \$7 million per year of commercial energy business. So it's really not that -- it's not material if curtailed in 2025.

Kevin Steinke - *Barrington Research Associates - Analyst*

Okay. That's helpful. And I think you've referred to a number of times to 2025 as a transition year. I just want to dig into that a little bit. Is that -- are you kind of thinking about the IT modernization business there and some of the pauses and maybe a bit of decline there and that coming back in 2026? Or what other things would you characterize as kind of putting 2025 as more of a transition year? And what might it look like beyond 2025?

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

I think -- that's a great question. I think it's -- certainly, on the IT modernization, digital transformation front. I think we will -- I think as the administration puts its new technology strategy in place and finalizes that and continues to review the existing process, I think that will slow down IT modernization efforts here for a few quarters, it will slow down some of the procurements. But I think -- we do believe as we get to the second half of the year and we go forward, there will be new opportunities with this administration on the technology front.

I think it's committed to efficiency, to innovation, to leveraging AI, deleveraging software across all the federal government, reducing waste fraud to be solid areas that we can play in on the technology front. So I think we would expect to see growth opportunities as we go forward into 2026 and beyond in that market.

I will also say that I think there will be opportunities with this administration for us on the public health front as the new administration settles in and focuses on chronic children's health, pesticides, food additives, obesity, abating opioids, and that, all those are all areas we work in, and I think could be very helpful. I also think that given the magnitude of potential reduction in the federal workforce here, there may be more outsourcing of opportunities or more assistance needed in specific domain areas or program areas that could offer opportunities.

So I do think that '25 is -- there is a transition year, and there's reset of the priorities and where the focus is going to be with this administration. But I think once we get beyond '25, there will be opportunities. And our goal is to manage the business very carefully. And we see a shift in revenues in the business in '25. We've maintained our profitability, we maintained our financial strength so that we can come out on the backside and continue to invest, continue to deleverage the balance sheet and return to growth.

That's what-- we're very focused on that right now.

Kevin Steinke - *Barrington Research Associates - Analyst*

Okay. Can I sneak in 1 more, please? Yes, I just wanted to ask about the -- you talked about the ramped-up repurchase activity from November on. And if that's something you're contemplating continuing in 2025?

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

Barry, do you want --

Barry Broadus - *ICF International Inc - Chief Financial Officer, Senior Vice President*

Yes, yes. I think that's something that we definitely will be keeping a close eye on. We do have capacity to do that, from a balance sheet perspective, and we'll continue to repurchase shares as we believe that the stock price is undervalued. So we've been able to take advantage of that and continue that into 2025.

Operator

(Operator Instructions) Marc Riddick, Sidoti.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Good afternoon. So I want to sort of just continue on that -- I want to continue on that thread, I guess, a little bit as far as cash usage and prioritization. Maybe you could talk a little bit about -- granted, you've got quite a bit on your plate at the moment. I was sort of curious as to how you're looking at the current acquisition pipeline, if you have -- you feel as though there'll be an opportunity to act on anything out there, maybe what you're seeing out there or what valuations are looking like and if those have changed given the uncertainties we've seen over the last few months? And then I have a follow-up after that.

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

Now look on the acquisition front, there's tremendous uncertainty in the federal arena. There's tremendous change going on. I think the -- it's highly unlikely we'll do an acquisition of the federal arena this year, given the uncertainty and the change. And I think the activity has certainly slowed materially there. I do think with the one area we continue to look at, and we're active in the markets in the energy area, we're seeing tremendous growth opportunity there.

If the right opportunity came along, I could potentially see us do a tuck-in acquisition. Like something like AEG, perhaps this year, the second half of this year. I don't think we're going to do a transformational acquisition at scale in 2025, I think we're quite focused on matching the firm carefully through the next couple of quarters.

And we'll certainly continue to look at buying back stock. I think we -- the Board increased our capacity last quarter. I think we still have about \$120 million of capacity to potentially buy back more stock. We'll certainly look at that, and we think it's undervalued. We'll think hard about that.

I think that -- I think that's how we're looking at the balance sheet right now. To the extent that we don't do a tuck-in acquisition, we'll look to continue to delever. I mean, we're down to 1.8 leverage ratio, and we have very strong cash flow, we'll delever if we don't see the right kind of opportunities on the M&A front.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Okay. And then I guess the second point I sort of wanted to touch on -- everything else was sort of covered, but I was sort of curious, and I just want to sort of note that the guide that was provided not only included the full year, but also commentary for 1Q. I was wondering if you could sort of give some thoughts into not just specifically what the numbers are, but just providing the quarter and whether given the level of uncertainty that's out there, is that something that you think you guys will be doing for the foreseeable future, at least until we sort of bridge the current level of uncertainty?

Barry Broadus - *ICF International Inc - Chief Financial Officer, Senior Vice President*

Well, I mean, traditionally, we haven't given quarterly guidance, but that's something that we can certainly consider given the volatility that we're seeing in the marketplace. And we'll take that as we move forward. And we thought that it was important. And to give guidance for the first quarter just to give everybody some direction on where we're headed. So hopefully, we think that that was valuable.

Marc Riddick - *Sidoti & Company LLC - Analyst*

No, absolutely.

Operator

Tobey Sommer, Truist.

Tobey Sommer - *Truist Securities Inc - Analyst*

And I just wanted to ask a follow-up on the acquisitions, and in particular, the recent one. Is there an ample set of sort of captive utility-owned energy efficiency businesses that over time maybe could be better optimized outside of your utility customers? Is that a fertile ground for you to look at over time?

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

I would say that the core the business is largely our energy efficiency [program] implementation business. I think that that's largely -- I mean it's a utility-oriented business, Tobey. I'm not sure -- we do occasionally see state and local clients and states are more involved in energy efficiency. The newer program ideas that have provided additional growth there around electrification, flexible load management are all utility-oriented programs. So I'm -- I don't think we -- it's not obvious to me that there's a play to take those set of skills and leverage them outside of the utility industry.

I think it's -- I don't --

Tobey Sommer - *Truist Securities Inc - Analyst*

Let me rephrase the question. I was kind of asking, are there internal businesses at other utilities that would make attractive acquisition targets for ICF? That's what I was going for, not sort of applying your skills to other customer sets.

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. I don't think we've identified that. We see those to date in our core markets, utilities, the types of programs we're running, utility [tell] aren't running internally. I mean they don't have energy efficiency, aren't competing with us or providing programs that they are looking to outsource or divest. And so I know there's other players in other parts of the utility markets that have done those kind of deals, but I don't think we see it in our (inaudible).

Operator

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

John Wasson - *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*

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

Operator

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

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