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PRESENTATION

Operator

Welcome to the first-quarter 2025 ICF earnings conference call. My name is Karen, 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, Karen. Good afternoon, everyone, and thank you for joining us to review ICF's first-quarter 2025 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 May 1, 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 first-quarter 2025 performance. John?

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

Thank you, Lynn, and thank you all for joining us this afternoon to review our first-quarter results and discuss our business outlook. We are pleased to report that our first-quarter revenues were in line with our expectations, reflecting the strength of our diversified business model and supporting the 2025 guidance framework we discussed during our February 27 earnings call.

There are several key takeaways worth noting. First, our revenues from commercial, state and local, and international government clients in the aggregate accounted for 51% of our first-quarter revenues, up from about 45% one year ago. Second, revenues from commercial energy clients increased 21% year over year, demonstrating continued strong demand from utility clients.

Third, adjusted EBITDA margin on total revenues expanded 10 basis points to 11.3%, reflecting mix benefits and careful cost management. And lastly, our non-GAAP EPS was up almost 10%, considerably ahead of our first-quarter revenue comparisons. And we do expect non-GAAP EPS to outpace revenue performance for the full year as well.

I'll now review additional first-quarter business trends and then provide further insight into ICF's federal government business in the context of the new administration's directives and spending priorities.

To begin, revenues from commercial clients increased 22.1% to account for 29.5% of total first-quarter revenues, up from 23.9% in last year's first quarter. Commercial energy was the key driver of the strong performance, with revenues up 21% to represent 87% of the commercial client category. This growth was driven by new and expanded energy efficiency, electrification, and customer engagement programs for utility clients.

We are experiencing continued demand from utilities for energy efficiency, demand response, customer engagement, and flexible load management programs as our clients seek to accommodate rapid load growth. The vast majority of these programs are funded by ratepayers, as public service commissions in over 30 states recognize the benefits of reducing energy usage over building new power plants.

ICF is the market leader in developing and implementing residential energy efficiency programs, having earned this position by meeting or exceeding our clients' energy savings goals over the last 20 years, and we are progressively gaining share in commercial energy efficiency as well. We also saw solid demand for environment and planning services in the first quarter, with notable increases in work associated with utility infrastructure replacement after the California wildfires and work for solar and wind developers for projects that are not on federal land, which more than offset the softening in offshore wind projects.

And our Energy Advisory group won new business that included a diverse portfolio of projects that includes natural gas market analysis, transmission and wholesale price assessments, engineering and technical advisory services, and grid engineering projects, including planning for new utility substations to meet demand from data centers.

In the first quarter, we also completed the integration of AEG, the leading energy technology and advisory firm we acquired at the end of 2024. AEG provides a suite of integrated technology and solutions to electric and gas utilities, state and local governments, and state energy offices nationwide, and our teams are working together to find opportunities for synergistic growth.

ICF has deep domain expertise and experience across the energy landscape, and we are very confident in the growth prospects for our commercial energy business. Many of our utility clients are increasing budgets, resisting energy efficiency and flexible load management programs, and are seeking permission from regulators to add new programs. We're also experiencing greater demand for resource adequacy planning, renewal integration, transmission and distribution engineering, and demand-side planning, especially since generation alternatives are facing increasing supply chain and tariff concerns. And there's been an uptick in requests for transactions and due diligence services, all this pointing to the continuation of strong demand for ICF's capabilities.

Revenues from state and local government clients were stable year on year in the first quarter. Disaster management, which accounts for about 45% of this client category, experienced lower pass-through revenues in the first quarter, although revenues less pass-throughs in this market were actually up 3% year on year. We were awarded two new contracts in two additional states, bringing to 95 the number of active disaster recovery contracts we are executing in 22 states and territories. Additionally, we are responding to several competitive opportunities to support wildfire recovery efforts in California and we are currently operating and supporting Oregon's ReOregon program to help homeowners, renters, and communities recover from the wildfires.

Our climate, environment, and infrastructure services for state and local clients represents about 40% of our state and local government client category, and revenues in this area were stable with last year's first quarter following the completion of a large infrastructure project for the state of Maryland. This market area continues to be attractive as the general increase in large infrastructure projects is providing enhanced opportunities for our planning, permitting, and construction monitoring services. And we are seeing increased activity among many state and local governments in spending approval -- approved IRA, and infrastructure -- bipartisan infrastructure legislative funds and filling the gap that has been left after reductions in federal climate programs. States like California and New York are doubling down on their climate commitments, and many state and

local entities are investing in climate resilience and adaptation strategies in order to mitigate the impact and recovery costs of future potential disasters, and providing opportunities for ICF's planning and program administration services.

Also, our revenues from international government clients increased 7.2% in the first quarter. After a slower start than expected, we are beginning to execute task orders related to recent sizable contract wins with the European Union and the UK government, and we are finding opportunities to leverage our technology solutions and AI capabilities to bid on an expanded universe of task order opportunities.

To sum up, ICF's first-quarter revenues and outlook from commercial energy, state and local, and international government clients support our expectation that for the full year, revenues from these three client categories, in the aggregate, are forecasted to grow at least 15% and will account for over 55% of our 2025 total revenues.

Now to our revenues from federal clients, which declined 12.6% compared to last year's first quarter. Year-on-year comparisons were impacted by contract funding curtailments and the slower pace of new RFPs as well as a decline in subcontractor and other direct costs estimated at \$12 million.

The good news is that the government shutdown was averted in March, and we are beginning to see a flow of contract extensions and modifications and RFPs -- not at a normalized pace but still an improvement from earlier in the year. As we noted last quarter, we continue to take a hard look at all of our federal government contracts and pipeline of opportunities to determine where there is a likelihood for additional stop work orders, terminations or opportunities to be delayed or fall out of the pipeline due to the shift in priorities associated with the new administration. Our evaluation of the risk to our revenues is based on a conservative bottom-up analysis and is updated regularly based on market and client feedback. Year to date through May 1, approximately \$115 million of our estimated 2025 revenues have been affected by stop work orders and by contract terminations.

While we expect the environment to remain fluid, we reaffirm our revenue guidance for 2025 of flat to 10% down from last year. As a reminder, the 10% reduction in total revenues from 2024 levels represents the floor we foresee for our 2025 revenue performance from the loss of primarily federal government revenues.

As Barry will discuss in his remarks, we plan to maintain our adjusted EBITDA margins on 2025 revenues at levels comparable to our 2024 margins, and the caveats remain the same. This guidance framework does not contemplate an extensive governance shutdown this year, nor a prolonged period of pauses in funding modifications to existing contracts or new procurements. This estimate also does not consider any additional work that ICF may gain as a result of the changes underway. For example, ICF performs work for the federal government focused on prevention of fraud, waste, and abuse, and we have extensive public health expertise and experience in key areas such as nutrition, obesity, suicide prevention, cancer research, health risks associated with use of pesticides, chemicals and plastics, and food additives that we expect will be areas of focus under the new administration at HHS. Also, over 80% of our IT modernization digital transformation work for federal government clients is in Agile scrums and sprints, and at least half is under fixed price outcome-based contracts, which represent the administration's preferred approach for procuring services and solutions. So we are well prepared to respond to federal proposals which require fixed-price outcome-based solutions.

ICF has a proven track record of effectively managing through difficult business environments, and we believe our broad capabilities and diversified client base will serve us well in 2025 and position us for return to growth in 2026.

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

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

Thank you, John, and good afternoon, everyone. I'm pleased to provide additional details on our first-quarter financial performance. The change in our business mix, coupled with careful cost management, is evident in our first-quarter results where we delivered higher gross margin, increased our adjusted EBITDA margin, and grew non-GAAP EPS despite a modest revenue decline. Our results reflect the actions we have taken to adapt our growth and investment strategies to the current business environment and manage the cost structure of the company. First quarter of 2025 yielded a revenue decline of 1.4% year over year to \$487.6 million, firmly within our guidance range. Adjusting for one less workday than in the prior year's first quarter, 2025 revenues [would] (added by company after the call) have been flat. Revenues from commercial, state and local, and

international government clients increased 12.6% year over year and represented 51% of our first-quarter revenues, up from approximately 45% in the comparable period last year. Growth was led by continued strength in our commercial business, where revenues increased 22% year over year, led by continued significant growth in our energy efficiency business. Commercial revenues accounted for 29.5% of total revenues as we continue to expand our services and solutions amid sustained demand from our utility and other clients. Revenues, excluding subcontractor and other direct costs increased approximately 1% versus prior year.

First-quarter subcontractor and other direct costs declined 170 basis points to 22.7% of total revenues, compared to 24.4% in the first quarter of 2024, primarily related to a shift in our client portfolio and a decrease in our US federal government pass-throughs that John noted in his remarks.

The favorable mix shift, which included an increase in our higher-margin commercial business, a larger percentage of fixed price and T&M contracts, and a decrease in subcontractor revenues, led to an 80-basis-point expansion in gross margins to 38%.

Indirect and selling expenses were \$131.9 million, up 2.2% year over year, and represented 27% of total revenues, inclusive of \$3.1 million in special charges related to severance and M&A costs. Adjusting for these charges, indirect and selling expenses would have been flat year over year. We expect to see indirect expenses as a percentage of total revenues decline over the course of the year as we continue to realize benefits from higher utilization, scale, and closely managing our indirect costs. EBITDA was \$52.1 million compared to \$56.4 million in the prior-year period. Adjusted EBITDA was \$55.2 million, flat year over year, and adjusted EBITDA margin on total revenue expanded 10 basis points to 11.3%.

Interest expense declined \$7.3 million from \$8.2 million in the first quarter of 2024, which reflects a 50-basis-point decrease in our interest rate as compared to last year's first quarter. We continue to successfully execute tax optimization strategies, which yielded a tax rate of 10.5% in this year's first quarter, considerably below the 20.4% reported in the comparable period last year. The lower tax rate in the first quarter is inclusive of a one-time pickup related to tax strategies executed in connection with new IRS regulations. We now expect our full-year tax rate to be in the range of 18.5%.

Net income was \$26.9 million, slightly below the \$27.3 million reported in last year's first quarter. And GAAP EPS [of] (corrected by company after the call) \$1.44 was flat year over year. Our EPS was inclusive of \$0.12 in tax effected special charges and an offsetting tax-related benefit of \$0.13 associated with the one-time tax strategy pickup I previously noted. Non-GAAP EPS was \$1.94, increased 9.6% year on year.

Backlog at the end of the first quarter was \$3.4 billion, of which \$1.9 billion is funded, underscoring the stability and strength of our business. The backlog has been adjusted to include the impact of our federal government contracts that have been terminated as a result of the administration's executive orders or actions by DOGE, which impacted our backlog by approximately \$375 million since the beginning of the year. Similarly, we have adjusted our new business pipeline, which stood at \$10.5 billion at the end of this year's first quarter.

Moving to our cash flow and balance sheet. In the first quarter, we consumed \$33 million of operating cash, primarily due to our seasonal working capital needs. Capital expenditures were \$3.5 million, down from \$5.2 million a year ago. Days sales outstanding were 81 days compared to 75 days last year, primarily reflecting the timing of collections, including a temporary disruption of the pace of collections in our US federal government business in the first quarter. We're pleased to report that the federal government collections have now returned to historical norms and we expect to see a decline in our DSO going forward.

We ended the first quarter with a net debt of \$499 million, up from \$475 million at the end of last year's first quarter. The increase in debt reflects our typical seasonality, our share repurchase initiatives, and the acquisition of AEG, which closed in December of 2024.

At the end of the quarter, our adjusted net leverage ratio was 2.25 versus 2.29 in the prior year period. Absent any acquisition activity, we expect our leverage position to decrease by approximately three-quarters of a turn by year-end. Currently, 35% of our debt is at a fixed rate. Given the anticipated debt reduction, we expect this to increase to approximately 50% by year-end. In the first quarter, we repurchased 313,000 shares for an aggregate purchase price of \$35 million. We will continue to be active and opportunistic in the market, demonstrating our confidence in ICF's long-term outlook and our intention to deliver value to our shareholders.

In addition to share repurchases, our capital allocation strategy remains focused on reducing debt, pursuing organic growth initiatives and strategic acquisitions in targeted markets, and maintaining our quarterly dividend payments. Today, we announced a quarterly cash dividend of \$0.14 per share payable on July 11, 2025, to shareholders of record on June 6, 2025.

Now to help you with your financial models, please note the following. Given the dynamic market conditions in our federal government business, we expect the cadence of this year to vary from historical trends. Second-quarter revenues are anticipated to be similar to those of first quarter, and as we discussed on our previous call, we expect to maintain our profitability margins at similar levels to what we reported in 2024.

We are maintaining our prior expectations for the following metrics for full-year 2025. Our depreciation and amortization expense is expected to range from \$21 million to \$25 million -- to \$23 million Amortization of intangibles is expected to be \$35 million to \$37 million. We anticipate interest expense to range from \$30 million to \$32 million. We continue to expect full-year operating cash flow to be approximately \$150 million. And capital expenditures are anticipated to be approximately \$26 million to \$28 million.

Additionally, we are updating our tax rate and full-year share count estimates as follows. The full year tax rate is now expected to be approximately 18.5%. Due to our share repurchases in the first quarter, we expect a fully diluted weighted average share count to be approximately \$18.6 million.

With that, I'll turn the call back over to John.

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

Thanks, Barry. ICF's diversified business model is enabling us to manage through a dynamic federal government business environment while remaining agile to capture future business opportunities, which we expect to evolve given the substantial reduction in the federal workforce.

We are maintaining the guidance framework we provided at the time of our fourth-quarter 2024 earnings release, namely, for ICF's 2025 total revenues, GAAP EPS and non-GAAP EPS will see a range from flat to down 10% from last year's levels, with a 10% decline representing the floor we foresee from the loss of business primarily from federal government clients during this first year of the new administration.

Underpinning this framework is our projection that ICF revenues from commercial energy, state and local, and international government clients will grow at least 15% in the aggregate for the year, offsetting or partially offsetting lower revenues from our federal government clients due to potential funding curtailments and a slower pace of new RFPs.

Our first-quarter margin performance demonstrates careful expense management, supporting our expectation that we can manage expenses in 2025 to maintain adjusted EBITDA margins similar to those of 2024. Our GAAP and non-GAAP EPS framework for 2025 is exclusive of the special one-time tax benefit accrued in this year's first quarter, which benefited EPS by \$0.13.

We appreciate the support of our professional staff, who have shown a strong commitment to ICF and our clients who have helped us navigate during this period. The ICF corporate culture has been a key differentiator for us and takes on even greater importance in times of challenging business conditions.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tim Mulrooney, William Blair.

Tim Mulrooney - *William Blair - Analyst*

I've got a few here. The first is on the guidance, please do correct me if I'm wrong, but I believe when you provided your guide last quarter, it was your expectation that the second quarter would kind of be peak DOGE impact, so to speak, with the potential for that to lessen in the back half of the year. With the visibility into the business today, is that still your expectation? Or are you thinking about that a little bit differently now?

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

Tim, first, I think that the environment in the federal arena remains fluid and unsettled. I would say that I would expect to see continued activity from DOGE over the next several quarters. But I think Q2 -- I think still Q2 and Q3 will continue to see activity. I don't think they're going to be -- it's hard to say that there'll be significantly more impact or impact us more in Q2 relative to Q1. I would say that we'll see similar to Q1, but not be more impactful of DOGE.

Tim Mulrooney - *William Blair - Analyst*

Okay. That's really helpful, John. I know it's difficult to say exactly. So I just appreciate the color at all. Along those lines, I think you gave an update on stop work orders.

I noticed in your K, which I think was published on February 25, that you'd received notice for termination of convenience of approximately \$276 million. Can you update us on where that figure stands today?

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

Yes. This is Barry. The number is now about \$375 million.

Tim Mulrooney - *William Blair - Analyst*

\$375 million. okay. And Barry, did you give an estimate for how much Applied Energy Group contributed to the quarter to revenues?

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

I don't think we broke up our energy revenues out separately. I think we --

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

We don't disclose that separately, but suffice it to say, we're very pleased with the integration and the performance of AEG and they're performing very well. And I think we said at the time of the deal that they were about \$13 million of revenue and would grow about 15%. You can do the math, and I think you get to what we expect.

And Tim, I would like to clarify one point on the \$375 million, that is a number that is over a long period of time. It's not a one-year impact backlog perspective. So typically, our contracts will range anywhere from three to five years. So that number would be spread over a number of periods, not just this year.

Tim Mulrooney - *William Blair - Analyst*

Okay. That's helpful color. One more for me, and then I'll hop back in queue. I just wanted to touch on your IT modernization business. I mean, I believe your guidance called for growth for the year.

Please correct me if I'm wrong on that as well. But since you last reported, there's been news that DOGE has taken a more critical eye towards some of the more broader software and IT contracts that the government entered into. I'm wondering if you've been impacted at all by that focus. And if you could just remind me what your expectation is for that business for this year.

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

Sure. So the IT modernization business, I think absolutely -- what we said last quarter is that we expected that business to be down 5% to 10% for the year, primarily driven by delays in awards due to the fact that DOGE was obviously doing the projects reviews on the existing, existing contract base in the federal government and that, that would lead to delays in procurement.

And so I think we're thinking 5% to 10% down for this year. We really haven't seen material cuts in our IT modernization contracts to date. And so I think there is more an issue of the pace and speed of new opportunities.

Operator

Joe Vafi, Canaccord Genuities.

Joe Vafi - *Canaccord Genuity - Analyst*

Just first, I know, John, you provided some good color on what's implied in the guidance for the commercial business. I just wanted to double-click on that a bit and focus on commercial energy in there. Would you say that the guide for the year implies the kind of metrics for energy we saw in this quarter in terms of revenue and margins? Or is there anything else there that we should be aware of? And then I'll have a few follow-ups.

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

No, I think you -- it assumes that commercial energy will continue to be the outstanding performer in that as the business and the margins there are very strong. And so we certainly expect to continue that throughout the remainder of the year on the energy side. I think as we reported, we had 21%, 22% growth there in commercial energy. As you know, Joe, that's our highest margin business.

Joe Vafi - *Canaccord Genuity - Analyst*

Sure. Absolutely. And then kind of switching over. I know we kind of talked about some of the stop works and the contract terminations. It might be helpful to get your view on the stop work orders and if you believe that those stop work orders in any way, shape or form could be temporary. Or how do you kind of look at the difference between a termination and a stop work order relative to why they weren't actually terminated -- the stop works weren't terminated? And if there is an outlook for the future on those.

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

I think if you look at the number of terminations for convenience or stop work orders, I think the stop orders are a much smaller number. I'll tell you that we've had a few of those turned on and off in the last several weeks and months and some more than once. But at the end of the day, I think in our guidance, Joe, we're assuming that, that the stop work orders will ultimately result in termination and will not come back this year. If

they do, that would be great, and that would be upside. And as I say, the vast majority of the, the contract impacts are in the terminations for convenience.

Joe Vafi - *Canaccord Genuity - Analyst*

Got it. And then maybe just one other quick one. It might be interesting to get a little more insight into the pace of award activity. Obviously, I believe everyone would be, no surprise if it's down here in Q1 as well as through the month of April. I was just wondering if you could provide color on the kind of work that is actually getting awarded or renewed and kind of how is that pace of activity versus pre-DOGE.

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

Yes. I think I said in my remarks, I would say that we are pleased. We have seen pickup in activity, both in terms of modifications to existing contracts and in RFPs that are beginning to move in the federal arena. So that's a positive sign. I would say it's not where we would like it, and it's not where it was pre this administration assuming office, so there's still a way to go there.

I would say that there's more activity around modifications on existing contracts, more activity around recompetes, I would say, the newer opportunities. We've seen a little activity there. But honestly, there's still very, really many of the key, the key political figures are just getting into their agencies and settling the agenda. So I would say there's still a way to go on new opportunities certainly in the federal arena.

Joe Vafi - *Canaccord Genuity - Analyst*

Got it. Fair enough.

Operator

Tobey Sommer, Truist Securities.

Tobey Sommer - *Truist Securities - Analyst*

I wanted to start with commercial energy. Years ago, the energy efficiency projects were almost exclusively the big ones that you got, but I'm curious if some of the things that you talked about at Investor Day a number of years ago have matured and increased in size, so that your commercial energy customers are, in some cases, maybe buying multiple projects of size in different parts of their business. Maybe if you could contextualize that, that would be great.

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

I would say that certainly, the energy efficiency component of our utility programs continues to be the largest component. As you know, over the last three or four years, going back to our Investor Day, I think we've talked about the fact that utilities are looking at additional programs given the ongoing changes in their business, including the shift to distributed energy and more recently, including the significant spike in power demand.

I think that over the last three or four years, it has driven interest in additional programs. And I think we've talked about these flexible load management, electrification, battery storage programs. And so we are now implementing those increasingly for utilities, many of them have been in a pilot phase. I think we've talked about that, that we're running pilot programs. And if they're, as we demonstrate success with those, we would expect them to scale materially over time.

And so we're looking for many -- we have many utility clients where we're now supporting two or three of those types of programs in addition to, in addition to the energy efficiency programs. I think there's still, I wouldn't say they are at the scale of energy efficiency, but we're growing. It's becoming a larger component of our portfolio. I think that we believe in the long run, those will drive significant growth for us in the next three to five years.

Tobey Sommer - *Truist Securities - Analyst*

In the state and local business, you talked about lower pass-throughs. Do you still have the same growth outlook for that for the year? I know there's been some news around rejiggering the way FEMA works and perhaps even the community development block grant mechanism. So I'm curious what your perspective is for the year.

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

I mean I think that we -- I think our outlook and view of the disaster recovery business remains positive, and we think it'll certainly grow this year and grow to our expectations for the year. We do have a robust pipeline there.

I think I talked about the opportunities that lie, opportunities in California. There's opportunities in Florida, Carolinas and Georgia from the hurricanes we had recently that should play out later this year. And so I think we generally believe that will continue to be a growth area.

As you know, there is a discussion about the future role of FEMA, how these disaster recovery programs may evolve. But I think we still believe that there will be the need for disaster recovery, particularly around significant disasters and that whether FEMA plays a lead role or the states play a greater lead role, that business will be there, and there'll be opportunity for us.

So for this year, we're still counting on it to be a growth market. And given the pipeline, I think we feel, feel confident with that.

Tobey Sommer - *Truist Securities - Analyst*

Last one for me. Could you discuss the industrial logic between, that sort of ties together your federal work for the DOE and other agencies, and your commercial energy business? Just curious with the growth rate that you have in commercial energy, wondering if there's an opportunity to ever kind of separate that or spin it off and unlock value that way.

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

I think that we -- I mean, our energy business, we work across -- obviously, we work for commercial utilities. We also work for state energy agencies. We work for the federal government on energy issues; some of our energy efficiency work has been in other federal agencies. And so I would say that it's an integrated set of capabilities that we sell across federal, state and local and commercial, and commercial is the largest, but state and local is the second largest component of that business.

Federal is actually the smallest. And so I think we think there's value from that integrated portfolio. And we think there's -- certainly on the state energy side, we'll continue to see growth. So that's how we think about the business, I think.

Operator

Kevin Steinke, Barrington Research.

Kevin Steinke - *Barrington Research - Analyst*

Great. I just wanted to follow up on IT modernization. As you noted, your expectation's for a 5% to 10% decline this year. And then in response to an earlier question, you talked about maybe it's a little too early to see new awards coming out of this administration in the federal arena.

Does that also apply to IT modernization because I think you had kind of thought this is a transition year for that business and maybe you start to see some opportunities in IT modernization flow at some point in 2025 kind of setting up 2026 for that business.

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

Yes, I would say -- well, first of all, I do think with the IT modernization and technology side of the house in federal that I think -- I do think this administration is going to continue to invest in that area. It's going to be AI-led.

They're clearly looking for some efficiency. They're also focused always rotates and you're going to want to leverage technology more broadly across agencies and across the federal government to get additional efficiencies. But I think it will continue to be an area of opportunity.

I think in, my assumption, so I do assume that there will be opportunities there. I think that there'll certainly be more of a second-half opportunity. And I think to the extent that we see them and the work orders, I think they'll set us up.

It's more about what's the potential growth for 2026. I think for 2025, as I've said, we're assuming a 5% to 10% reduction. We're assuming that it's going to be due to projects not moving as quickly and so we're not counting on significant new contracts in 2025 to get there.

Operator

Marc Riddick, Sidoti.

Marc Riddick - *Sidoti & Company, LLC - Analyst*

I wanted to ask within Health and Human Services. I was wondering if you could give a sense of -- have you heard to this point, any communication as far as shifts of priorities or kind of are there any areas that may pick up in messaging or what have you, where the administration wants to go that might present upside opportunities for you there?

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

Yes. I think as I indicated in my remarks, I think that there is a potential for new opportunities for us at HHS. I think the new administration has literally indicated they'll focus on children's health. They're very interested in issues around pesticides and food, food additives, and so those types of issues are going to create a new organization within HHS around making America healthy, improving American Health.

And so I think there'll be opportunities there. I would say the same thing. I think it's -- those will -- we hope to get clarity on those in the second half of the year. But there will certainly be opportunities. We have expertise in chronic health issues for children. We have expertise in pesticides, we have expertise in food additives and so some of the things that have been discussed around those issues are areas that we could certainly support and we're watching it very carefully.

Marc Riddick - *Sidoti & Company, LLC - Analyst*

And do you get the sense of -- I think you had prepared remarks in last quarter's call around the acquisition pipeline. Do you get the sense that there may be some services or opportunity sets that might lead you to pursue inorganic talent acquisition? Or how should we think about that?

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

I mean obviously on the acquisition front. I mean it's, obviously it's been a key element of our strategy over many, many years. I think that if we were going to do anything, I think it would most likely be in the energy arena. It would be similar to an AEG-type acquisition where we do some smaller tuck-in acquisition.

I think in the federal arena, there's obviously a lot of uncertainty. I think we're unlikely to get scale or anything at all in the federal arena for the remainder of this year. So I mean, we certainly are looking at the opportunities out there. But I think we would focus on energy and it would be more of a tuck-in acquisition if we were to pull the trigger.

I don't know, Barry, if there's anything you want to add or no?

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

And I think from a capacity perspective, if something interesting does come along, we have plenty of capacity to execute an acquisition and we're comfortable from a leverage perspective as well as a debt perspective. So I think we're in good shape on that.

Marc Riddick - *Sidoti & Company, LLC - Analyst*

Do you get the sense -- Barry, as far as acquisition multiples, maybe where they are vis-a-vis six months ago. Have they changed much for some of those types of targets?

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

Well, I think it depends on the market. And I would say, from a federal market perspective, obviously, the activity has slowed, we're just not really seeing anything, you know, folks sending books around. I think that sellers are holding what they've got right now. They've got an interesting property. I would say that from the other parts of the business that we're interested in, as John said, the energy market and other parts of the energy business.

I'd say that those valuations remain similar in fashion to what they have been in the past. And so just like any acquisition, we look at what the capabilities and the contracts and customers that can, they would have. And if the culture fits and it'd be accretive to the new organization, we certainly would take a good look at it.

Operator

Thank you. This concludes the question-and-answer session. I would now like to turn it back to John Wasson for concluding remarks.

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

Thanks for participating in today's call. We appreciate everyone attending and look forward to connecting at upcoming conferences and events.

Operator

This does conclude the program. You may now disconnect.

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