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PRESENTATION

Operator

Welcome to the Third Quarter 2020 ICF Earnings Conference Call. My name is Vanessa, and I will be your operator for today's call. (Operator Instructions) Please note, this conference is being recorded on Thursday, November 5, 2020, and cannot be reproduced or rebroadcast without permission from the company.

And now I would like to turn the program over to Lynn Morgen of AdvisIRy Partners.

Lynn Morgen ***AdvisIRy Partners - Founding Partner***

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's third quarter 2020 performance. With us today from ICF are John Wasson, President and Chief Executive Officer; Bettina Welsh, Chief Financial Officer; and joining them are Sudhakar Kesavan, Executive Chairman; and James Morgan, Chief of Business Operations.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our November 5, 2020, 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 third quarter 2020 performance. John?

John Wasson ***ICF International, Inc. - President, CEO & Director***

Thank you, Lynn, and thank you all for joining us this afternoon to review our third quarter performance and discuss our business outlook.

There are several key takeaways from our third quarter results that I would like to highlight. First, our diversified business model continues to provide ICF with substantial resilience, enabling us to benefit from broad trends across our government and commercial clients.

Second, we continue to see considerable year-on-year growth in service revenue, which represents the work performed by ICF employees. In the third quarter, service revenue increased 3% and is up 4.1% year-to-date, reflecting increased demand for our services and excellent execution on client programs by our professional staff.

Third, the growth catalysts that we have identified across our markets are driving these higher service revenue comparisons and our exceptional business development momentum. ICF had record third quarter contract awards of $792 million for a book-to-bill of 2.2. Our trailing 12-month book-to-bill ratio improved to 1.2 at the end of the quarter, which has set the stage for our continued growth in 2021.

Fourth, we succeeded in generating record year-to-date operating cash flow, which enabled us to pay down debt and reduce our leverage ratio to a level that we had not expected to achieve until the end of the fourth quarter. This performance is aligned with our historical track record of levering up to make strategic acquisitions and then utilizing our strong cash flow to pay down debt in short order.

Year-on-year increase in service revenue we achieved in the third quarter was led by programs for federal government clients and our energy advisory and implementation work for commercial clients, primarily utilities. The decline in total revenue for the period was primarily attributable to a $21 million reduction in pass-through revenues on which we generally earn little or no margin.

We were pleased to report even higher growth in adjusted EBITDA, thanks to a combination of favorable business mix, higher utilization and lower SG&A costs. And while SG&A costs will increase once we emerge from this pandemic, a portion of the cost savings that we have achieved in the last 2 quarters will become permanent. And we continue to work towards optimizing our facility costs. This will help us return to expanding our adjusted EBITDA to service revenue margins in 2021 and beyond.

Our third quarter revenue performance was led by strong growth in our federal government business, which was up 18% year-on-year, reflecting both organic growth and the ITG acquisition. ITG is proving to be an excellent fit, and the combination of their broad IT modernization capabilities with our deep domain expertise and client relationships has provided significant growth opportunities to us.

In the third quarter, we were awarded approximately $100 million in IT modernization work, including a $35 million plus-up on our recompete with the Department of Health and Human Services Children's Bureau that expands the scope of our work to include operating and modernizing its child welfare IT systems. Additionally, we received a new single-award blanket purchase agreement with a $49 million ceiling from the U.S. Food and Drug Administration to provide IT platform advisory and development services for its digital services center and a new $24.4 million contract with HHS' Children's Bureau for engineering and architecture services to develop a new cloud-based National Child Welfare Data Management System. At the end of the third quarter, our business development pipeline and IT modernization alone was a robust $1.5 billion.

The Department of Health and Human Services is ICF's largest client and, including the IT modernization contracts I just mentioned, represented almost 60% of our $792 million in third quarter contract wins. The large recompete contracts, new contracts and BPAs that we were awarded in the third quarter are noted in today's release. Additionally, ICF was chosen for another $12 million in COVID-related work by several government agencies.

As we have mentioned on past calls, we see significant growth opportunities for ICF in the public health arena. We are still in the Response phase with respect to COVID-19 and are active in information dissemination and surveillance and analytics work to better understand how the virus spreads. The Recovery phase, which will come next, is expected to require monetization of disease surveillance systems and associated analytics, and our expanded IT modernization capabilities, together with our public health expertise, will be very relevant to these programs.

Revenues from state and local clients were consistent with our expectations. The great majority of the work we do for state and local clients is either federally funded or funded by municipal bonds to support infrastructure projects, which makes our work more resilient to the vagaries of state budgets.

Disaster management represents approximately 1/2 of the revenues in this client category and remains on track to contribute approximately $110 million in revenues this year. Since the beginning of this year, we have won small but strategic mitigation contracts in 4 states: Missouri, West Virginia, Florida and South Carolina, which represent many of the mitigation contracts that have been let to date, and we are awaiting award decisions on larger contracts in other jurisdictions.

ICF is very competitive when it comes to HUD-funded mitigation opportunities. The combination of our 30-plus years of climate resilience work, our 30-plus years of HUD technical assistance and experience with large-scale mitigation projects has given us key qualifications in this emerging market.

Also, we've already been very active in the very early stages of the response to the weather events of 2020. We have contracts in the Gulf

States that have been expanded recently to incorporate initial response and recovery activities for Hurricanes Laura and Delta, for which our innovative drone technology and data management tools have been in high demand.

Revenue from international government clients came in as expected and consistent with the prior quarter. Approximately 2/3 of the negative year-on-year comparison reflected the falloff in pass-through revenues on which we earn minimal profit. Our strategy is to keep costs in check and pivot towards those areas of the business that remain resilient in these challenging times. For example, in the third quarter, we secured a significant contract to support the implementation of a European government energy efficiency program.

Our commercial energy business, which mainly serves utility clients, performed well in the third quarter, led by the continued strength of our energy markets advisory business. This was largely due to strong demand for ICF's financial and technical advisory services to support considerable transaction activity driven by renewables, storage and gas asset development. Work on energy efficiency programs for utilities continued apace, and we are awaiting decisions on multiple submitted proposals in California, with contract awards expected by early in 2021 and start-up in 2021 or 2022. We're also awaiting additional RFPs for which we have been down-selected.

Our distributed energy resources consulting practice also performed well in the third quarter as we advised utility clients on how to address the impact of distributed resources on the grid and developed and implemented pilot testing programs related to distributed energy technology.

Lastly, our commercial marketing services clients are experiencing the pandemic in different ways. Clients in certain verticals are expecting the recovery curve to be longer and deep into 2021, while others are executing on their budgets. We are effectively managing costs in our commercial marketing services business and continue to deploy our resources in growth areas while ensuring that we're ready to scale programs when business conditions improve.

After a record third quarter of contract awards, I am pleased to report that our business development pipeline was a robust $6.8 billion at the end of the third quarter, representing a diversified set of opportunities across our client set. This pipeline, together with a very strong backlog of $2.9 billion, support our confidence in ICF's future prospects. I also would like to highlight the strong improvement in cash flow that we achieved in the third quarter. Our ability to generate substantial operating cash helps us fund acquisitions to support our growth strategy.

Now I'll turn the call over to our CFO, Bettina Welsh, for a review of our third quarter results. Bettina?

Bettina Garcia Welsh ***ICF International, Inc. - Senior VP & CFO***

Thank you, John. Good afternoon, everyone. I'm pleased to provide additional color on the company's strong financial performance and cash flow in the third quarter of 2020, which led to an increase in our full year guidance for both earnings and operating cash flow.

Total revenue for the third quarter of 2020 was $360.3 million, 3.6% below last year's level, primarily as a result of lower pass-through revenues, which accounted for 26.5% of total revenue this quarter compared to 31.2% in last year's third quarter. Like the prior sequential quarter, we saw an increase in service revenue, which was up 2.9% in the third quarter to $264.7 million. On a year-to-date basis, it was up 4.1% compared to last year.

Our gross profit was $137 million, an increase of 0.9% from $135.8 million in the year ago quarter. Gross profit margin on total revenue expanded by 170 basis points to 38% due to lower pass-through revenues year-to-year on which we earned lower margins.

Indirect and selling expenses of $100 million were flat year-to-year, inclusive of the ITG acquisition. As a percentage of service revenue, indirect and selling expenses declined to 37.8% from 38.9% in last year's third quarter, which is due to lower SG&A expenses such as travel.

EBITDA increased 3.6% to $36.9 million from $35.6 million last year. Adjusted EBITDA, which excludes special charges related to severance for staff alignment as well as acquisition-related charges, was up 4.9% to $37.8 million during the third quarter of this year compared to $36 million last year. Adjusted EBITDA margin on service revenue was 14.3% compared to 14% last year.

Operating income was $28.3 million compared to $28.7 million reported in the third quarter of 2019 and includes an increase of $1.6 million in amortization of intangibles primarily related to the ITG acquisition, which was completed on January 31 of this year.

Our tax rate was 27.2% compared to 23.6% in the third quarter of 2019, primarily reflecting a benefit last year due to higher deductibility of employee compensation programs.

Net income for the quarter was $17.9 million or $0.94 per diluted share. This compares to $19.6 million or $1.02 per diluted share in the third quarter of 2019. This year's third quarter results reflected increased interest and amortization expense related to the ITG acquisition and the higher tax rate.

Non-GAAP diluted EPS, which excludes the impact of amortization of intangibles and special charges related to severance for staff realignment, was $1.10 compared to $1.12 reported in the third quarter of 2019.

We were very pleased with our cash flow generation in the third quarter, primarily as a result of continued strong collection activity. Year-to-date, operating cash flow was $95.2 million compared to $6.4 million for the comparable period a year ago. Consequently, we now expect full year 2020 operating cash flow of approximately $120 million, 31% ahead of 2019 and ahead of the $110 million we originally anticipated.

Days sales outstanding were 83 days, or 71 days excluding the slower-paying Puerto Rico contract, compared to 94 days and 77 days, respectively, in the third quarter of 2019. By year-end, we anticipate DSOs to be in the range of 78 to 83 days.

Our net leverage ratio at the end of September was 2.88 compared to 3.52 at the end of June 2020, reflecting our use of cash flow to pay down $79 million of our long-term debt associated with the January acquisition of ITG. We expect our net leverage ratio to be approximately 2.6 at year-end 2020.

Year-to-date capital expenditures were $14.6 million compared to $22.3 million a year ago. As we continue to manage our costs due to the ongoing COVID-19 health crisis, we now anticipate our full year capital expenditures to range from $21 million to $23 million, down $2 million from our previous guidance.

As for our capital allocation strategy, our priorities remain the same: grow our business organically, fund acquisitions and pay down debt. And we will continue to pay our dividend and will repurchase shares under our current authorization to minimize dilution from our employee incentive programs. Today, we declared a quarterly cash dividend of $0.14 per share payable on January 12, 2021, to shareholders of record on December 11, 2020.

For modeling purposes, our expectations for full year 2020 are as follows: depreciation and amortization expense in the range of $20.5 million to $21.5 million; amortization of intangibles of $13.3 million; interest expense between $14 million to $14.5 million, $1 million below our previous guidance given debt reduction; tax rate of no more than 27%; and fully diluted weighted average shares of approximately 19.1 million.

With that, I will turn the call back to John for his closing remarks.

John Wasson ***ICF International, Inc. - President, CEO & Director***

Thanks, Bettina. Thanks to better-than-anticipated year-to-date performance, we are raising our guidance for full year 2020 EPS and cash flow. Specifically, we now expect GAAP diluted EPS to range from $3.15 to $3.30, exclusive special charges, up from the previous guidance midpoint of $3; and non-GAAP diluted EPS of $3.90 to $4.05, up from the previous guidance midpoint of $3.65. Revenues are now expected to range from $1.46 billion to $1.5 billion. Additionally, we are now guiding to operating cash flow of approximately $120 million for 2020, up from our previous guidance of $110 million, and representing a 31% increase from 2019 levels.

Looking ahead, we are confident in ICF's growth prospects heading into 2021. We have managed well through the COVID-19 health crisis, driving considerable service revenue growth, winning substantial contract awards, and building a robust business development pipeline. These metrics, which reflect the underlying growth catalysts in our market, position ICF for mid-single-digit organic growth in service revenue in the coming years.

In the third quarter, our personnel turnover rate was 11.2%, remaining below the industry average. I would like to take a moment to commend ICF employees, who have pivoted so well to address the needs of our clients while working remotely. They have been and will continue to be a key driver of our success.

Finally, ICF has prioritized being a good corporate citizen. In addition to the mission-related work we do for our clients, we have been focused on managing to the highest standards with respect to environmental and social issues, including being the first professional services firm to go carbon neutral and embracing social justice, diversity and equal pay. We are proud of these accomplishments, which have had a positive impact on society.

Operator, I'd now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

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

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

Wondering if you could maybe characterize the contract awards as the sort of the proportion that was new. If you mentioned that, I didn't catch it, I apologize. Just trying to see -- it is a big number, but I want to see how it may flow through into organic growth sort of next year and the year after.

John Wasson ***ICF International, Inc. - President, CEO & Director***

Sure, Tobey. I think in round numbers, about 40 -- 45% was recompetes and 55% was new contract awards in terms of the awards in the third quarter.

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

Okay. And you -- it looks like you had some fairly sizable recent awards for IT modernization. Is it -- were those a function of ITG being resident within the firm? Or would you say that those bids and ultimate contract awards are still maybe a function of independent ITG prior to ICF's ownership?

John Wasson ***ICF International, Inc. - President, CEO & Director***

I think as we've talked about last quarter, Tobey, we have fully integrated ITG into -- with the legacy IT modernization skills. And so I think certainly a portion of it was synergies associated with ITG's capabilities and our client relationships and domain expertise. And a portion of it was opportunities that ITG had in its pipeline prior to joining ICF and really based on their capability. So I would say it's a mix. Although I would say that we're having more and more success and seeing more and more synergies associated with our efforts on the IT modernization from leveraging both ITG's capabilities and our client relationships and our domain expertise.

So there were several examples in the remarks I made. We had the Child Welfare Information Gateway, which has been a long-term contract for us, where we plussed that contract up as part of the recompete, that added significant revenues from -- on IT modernization. That's an example of where we would not have plussed that contract up without ITG and their capabilities.

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

Perfect. And then it still may be early but with respect to the fiscal and federal response to the pandemic over the more medium and long term, do you have any more refined way to think about the size of what that could look like early in the pandemic? There were some funds. But over the longer term, those may look more like down payments than the net effort on the part of Congress to really address the issue.

John Wasson ***ICF International, Inc. - President, CEO & Director***

Yes. I think it's hard for me to, I think, put a dollar value on that, Tobey. As you note, there was significant funding for the public health agency in the stimulus bill, as I recall, $500 billion for CDC and close to, I think, $900 billion for NIH. And so certainly, part of that has gone to the immediate response. Some of that will be for the longer recovery. I think those funds are still there and can potentially drive future contract awards. I talked about some of those opportunities in my remarks, potential types of opportunities.

Frankly, I think these public health agencies are still in the immediate response phase and totally focused on that. And so how those larger, longer-term opportunities play out, I think, is still to be seen, and it's hard to put a dollar value on them. You can rest assured that we're watching it carefully and in those discussions with our clients constantly. But they're still focused on the immediate COVID response for obvious reasons.

Operator

We have our next question from Sam England with Berenberg.

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

The first one was just could you talk a bit about what you're seeing in terms of RFP volumes at the moment on the government side of the business. And have you seen any slowdown particularly on the state and local side in terms of the number of RFPs you're seeing?

John Wasson ***ICF International, Inc. - President, CEO & Director***

I would say on the RFP front, we really haven't seen any slowdown on the federal or state and local side. I mean I think we're seeing typical flow of opportunities. Our pipeline remains quite robust. We're writing a lot of proposals. We were quite pleased to see the awards here in the third quarter, which was important for us to get our book-to-bill ratio back to 1.2 for the trailing 12 months. And so the award and proposal activity in the federal arena, I think, continues apace. In state and local, we continue to be busy on opportunities on the disaster recovery front. We continue to see new opportunities and are waiting on several awards there. As I said, our pipeline is quite robust, $6.5 billion. And so across both those markets, I think the proposal activity and business development opportunities continue apace.

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

Great. And then the second one, you talked about some permanent cost savings that you've made. Can you just give a bit more detail around that? And is there anything else you can do on the marketing services side of the business around cost?

John Wasson ***ICF International, Inc. - President, CEO & Director***

I think as we've discussed in prior calls, I think, obviously, given the COVID crisis, our spend on indirect travel and indirect consultants is down significantly. And obviously, as the pandemic lifts, our consultants will have to begin to travel again. We won't be at this level of reduced travel expenditure, but we do think that we can save -- that we can lock in a portion of those savings for the long run and structurally improve our margins and improve our ability to invest further in the business, both on the travel and indirect consultant front. And then we're obviously looking hard at our facilities and the potential savings there. Obviously, we've moved to working 100% remote. I think, again, we'll, with time, want folks to return to the office, but I think we'll be able to also reduce our office footprint and lock in long-term savings there.

I'm going to look at James Morgan here, our Chief of Business Operations. I don't know if there's anything else you would add on that front, James.

James C. Morgan ***ICF International, Inc. - Executive VP & Chief of Business Operations***

I think you've covered the key points. I mean, at the end of the day, I think we've learned quite well how to work in this virtual environment. And I think that will -- we will continue to do that to some degree as we move forward, and that will drive savings in the areas that you talked about from a travel perspective as well as from a facility perspective. So those are 2 key areas.

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

Okay. Great. And then maybe just one more. I just wondered what you're seeing on the commercial side of the business in terms of actual project cancellations versus just lower levels of revenues on existing sort of contracts that you're working on.

John Wasson ***ICF International, Inc. - President, CEO & Director***

Yes. So I mean, again, on the commercial energy side, I mean our businesses continues apace. We haven't seen any cancellations. We're growing there. And so that business really does continue to pace. On the commercial marketing services, I would say that the market remains consistent with how we've described it in the past. We've seen no further deterioration or no additional challenges in that business from where we've been in the last quarter. We obviously saw reductions at the end of Q1 into Q2. I think we've addressed that, by properly sizing the business, and we're managing it to the backlog we have. And so I think it's -- I think we've got our arms around that.

And to be honest, the utilization and the profit out of that business is generally where we'd like it. So I think we have done a good job of managing through this. And as I said, we aren't seeing any further deterioration. I think really, the issue now going forward, given where we are, is just when will those businesses improve and when will they -- we see them ramp back up. And I think that depends on the verticals. But in terms of how we're managing the business, I think we're where we need to be.

Operator

We have our next question from Joseph Vafi with Canaccord.

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

Just a couple of quick ones on the bookings number being pretty strong here this quarter. Is there -- I think I've asked this in the past, John, but I think it's something that, I think, is important on deal sizes and deal pipeline and IT mix. I may be a little bit late to the call today. I apologize if some of that was covered. But as ICF gets bigger, I'd love to see bigger-sized deals and pursuits of larger deals, so an update there would be appreciated, and then a quick follow-up after that.

John Wasson ***ICF International, Inc. - President, CEO & Director***

Sure, Joe. So I think, obviously, on the IT modernization front, as you could see in our third quarter sales results described in our press release, I mean, we're winning sizable contracts that are $50 million to $100 million contracts, which, as we've discussed in the past, one of the great attractions of the IT modernization area is that these are larger, longer-term contracts that really have the potential to move the needle for us. And so I think the sales in the third quarter and some of those larger contracts described certainly show that there are large opportunities, and we can win these larger contracts. And that's certainly -- IT modernization and the opportunities we see there are certainly driving our pipeline and driving our sales in addition to the significant opportunities we're seeing across HHS, as I said in my remarks, over -- the majority of our contract wins in the quarter were in HHS.

And so yes, Joe, we are seeing those larger opportunities, and we are winning them and it is driving up our pipeline. And some of these contracts are also longer period. I mean they can be 5 to 7, 8 years. And so that obviously drives up the sales as the contract period becomes longer.

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

Sure. And then sometimes -- on change of administration, I mean I think ICF has always kind of been seen more as kind of a social, more favorable under Democrats, although I don't think the financial results really ever play out like that. But when you do have a change of administration, there are some transitions relative to initiatives and things, no matter what's going on. Is there -- if there is a change in the White House, are there any things that we maybe want to look at or flag at this point as positives or negatives in terms of policy shifts that could -- may be beneficial long term but short term could kind of put the brakes on work?

John Wasson ***ICF International, Inc. - President, CEO & Director***

Yes. I guess, first of all, I will come back to the original part. I mean, as you said, I think at times, we've been -- given the nature of our social work that it would be stronger under one party than another. And I guess I would just emphasize, I think the point you were making, which is that really has not been the case. I think, as you know, Sudhakar and I've been here at ICF for quite some time, 30-plus years. I think we've been through 7 or 8 changes in administrations in that time.

So I guess I would just emphasize a few high-level points. First, changes in administrations tend to have less impact on our business. And one might think -- I just want to remind folks, the U.S. government is like a huge aircraft carrier, it doesn't change direction quickly. And we've generally been able to grow our business and find opportunities in both Republican and in Democratic administrations. Obviously, the policy focus changes, whether that's in energy or public health, from one administration to another. But we have diverse capabilities, so we can shift and support changing policies in our areas of expertise. And so I really think we've shown ourselves to be resilient and just fine in both Democratic and Republican administrations. I'd also say it's our experience that budgets tend to hold up and don't change radically when there's divided government. And I think with this election, it's pretty clear we're going to continue to have a divided government.

I'd just also note that the growth catalysts we have, I think, have -- right now, have generally proved to be purely bipartisan. IT modernization has been a significant priority in the Obama administration. It's remained that way in the Trump administration. Public health and health and human services has generally been a bipartisan agency. I think that's generally held up well. Obviously, our commercial energy business is driven by factors outside of the federal budget. Disaster recovery, I mean, I think it's -- I think we could all agree that storms are becoming more severe and more frequent. And again, I'd say it's been bipartisan that when significant damage occurs in communities that the federal government will help people.

And so I do see our growth catalyst as pretty bipartisan here. I mean, to your point, what could be stronger, what could be weaker administration? I mean, obviously, some of the environment, climate-type opportunities would be more robust in a Democratic administration. And so that's an example of an area that I think could be an upside for us if we end up with a Democratic president. But generally, I see the growth drivers as pretty robust, and I think we'll be in good shape regardless of which, Democrat or Republican.

Operator

We have our next question from Andrew Nicholas with William Blair.

Andrew Owen Nicholas ***William Blair & Company L.L.C., Research Division - Analyst***

If we see a return to more stringent business restrictions in the winter, alongside higher COVID case counts, how would you expect the business to react differently a second time through compared to how it performed and reacted in March and April? Just trying to get a sense or think through the puts and takes to a second wave, both in terms of your ability to convert on the pipeline and also generate new business.

John Wasson ***ICF International, Inc. - President, CEO & Director***

Yes. I mean I would generally come back to 90% of our business has seen no impact, and it's continued apace with COVID. And so I wouldn't expect to see material impacts with additional lockdowns. I mean I think we continue apace. We worked through the prior lockdowns. In the areas that have been impacted, I mean I think we've -- I think it's difficult to predict. I mean I think it really -- it's difficult to predict how that would play out. I think we have managed what we've seen to date well. The business is aligned with the backlog we have. We're not expecting new awards and new opportunities. But it's just very difficult for me to predict what the future would be depending on the nature and extent of the lockdowns.

Andrew Owen Nicholas ***William Blair & Company L.L.C., Research Division - Analyst***

Got it. That's fair. And then just a housekeeping item for me. Given the decline in pass-through revenue you've experienced of late, I was wondering if you could speak to how the amount of pass-through revenue typically varies across the segments. I'm just trying to get a better sense of growth rates at the net service level, net service revenue level, given the gross revenue growth metrics are being negatively impacted by pass-through.

John Wasson ***ICF International, Inc. - President, CEO & Director***

I think, in general, our pass-through ratio across the entire company has been in the 25% to 30% range on average. I would say that given that there are certain components of the business where there's a higher pass-through ratio, disaster recovery can be as much as 40%, 45% pass-throughs, we haven't experienced any material impacts from COVID in the disaster recovery business. I think the other part of the business that has a higher pass-through ratio is our marketing and communications business in Europe, which does a lot of face-to-face events. And so the pass-through ratio there can be, again, 40%, 45%. And that is an area where, given the impacts of COVID, we've seen a disproportionate -- as revenues have come down, 2/3 of those revenues have been due to pass-throughs. And so I think that is an area where there's a much higher pass-through ratio.

I don't know, Bettina, do you want to add anything on that?

Bettina Garcia Welsh ***ICF International, Inc. - Senior VP & CFO***

Sure, John. I think the other part of the business that might have been impacted was certainly on our loyalty program arena where the programs that we support with regard to hospitality and the travel industry has had some of the pass-through activity as well. But other than that, I think it's largely been represented by the Europe and Asia events type of business.

Operator

(Operator Instructions) And we have our next question from Marc Riddick with Sidoti.

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

So I wanted to touch a little bit on a couple of questions. One, on the energy efficiency side, I was wondering if you could sort of give an update as to maybe what you're seeing as to market opportunities there, particularly sort of where things stand with California. And then I have a follow-up on the IT side of house.

John Wasson ***ICF International, Inc. - President, CEO & Director***

Sure. So I think as I said in my remarks, I think California, we remain busy on proposals. I think we've discussed in the past there's a 2 step process in California. First, round one, you bid your ideas, and they do a cutdown. And if they like your ideas, then you submit a round 2 proposal, which is a down-select to a formal proposal. And so we've been active in both those phases. We are waiting awards on several proposals that we've submitted through round 2, and we expect awards as we go into next year. And so we've been active on that front.

I think we're also expecting to continue to -- as we go into next year, continue to see additional opportunities to really -- we'll be at the front end of that 2-step process. So California is very busy. We're very busy writing proposals. We -- again, we expect to see awards beginning in 2021, and I think we'll be busy on proposals throughout the year. As we've talked about, California has historically outsourced 20% of their energy efficiency spend. Their goal is to get to 60% by 2022. And so I think over the next -- so in 2021 and 2022, we'll certainly be busy on proposals and expect to see awards in that period.

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

Okay, great. And then shifting gears over to ITG. So we're closing in on close to a year now, and it was great that you feel very comfortable as far as the integration there. And clearly, new business wins have been announced there. So certainly, things look pretty good. I was wondering if you could give a bit of an update as to how you feel about that overall marketplace now relative to when you made the acquisition initially at the beginning of the year, maybe what that specific pipeline, is it -- does it look about the same as you expected, better, worse? And then maybe with the long-term growth look, is it about similar to what you initially thought or how your views maybe evolved since you've had ITG in-house?

John Wasson ***ICF International, Inc. - President, CEO & Director***

Yes. I think that -- I mean I don't think we could be happier with how the ITG acquisition has played out. I think we saw this as an important market for our civilian clients with -- there was a significant focus for the federal government with very large opportunities. Our thesis going in was that if we could marry first-rate IT modernization skills with -- from ITG and their past performance with our civilian client relationships and the domain expertise that we could uniquely position ourselves and help accelerate their pipeline and accelerate growth and achieve significant synergistic wins and revenues. And I think our feeling is that we're executing quite well on that. We've -- as we reported, over the -- since that acquisition closed at the end of January, we've won north of $200 million of IT modernization contracts. We have a robust pipeline, $1.5 billion. I think we're highly confident we can grow this business north of 15%.

In the long run and given its priority and how the federal government is in modernizing these systems, this is going to be a growth driver for the next many years. And so frankly, I don't think it could have gone better, and I don't think we could be any happier about where we are with ITG and what the opportunities are there.

Operator

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

John Wasson ***ICF International, Inc. - President, CEO & Director***

Thank you for participating with us today. We look forward to seeing you virtually at upcoming conferences and meetings. Thanks for attending and stay safe.

Operator

And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.