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PRESENTATION

Operator

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

I will now turn the call over to Lynn Morgen of AdvisIRy Partners.

Lynn Morgen ***AdvisIRy Partners***

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's first quarter 2020 performance. Today's call is hosted by John Wasson, President and CEO. Also joining are Sudhakar Kesavan, Executive Chairman; James Morgan, Chief of Business Operations, who was CFO through the end of February; and Bettina Welsh, who took over as CFO on March 1.

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 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. 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 2020 performance. John?

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

Thank you, Lynn, and thank you all for participating in today's call to review our first quarter results, discuss the COVID-19 impacts and opportunities for ICF and share our thinking with respect to 2020.

Before reviewing results, I would like to commend ICF staff members for their ability to move seamlessly to a teleworking environment and their dedication to producing top-notch work for clients during this crisis period. With over 98% of our workforce operating under work-from-home protocols, we have been able to execute effectively on contracts and programs for government and commercial clients, which minimized the impact of COVID-19 on our first quarter financials.

In fact, first quarter revenues increased 5%, reflecting very positive performance in our government and commercial energy businesses, in line with ICF's positioning in key growth areas within those markets. Together, government and commercial energy revenues increased 6.4% compared to last year's first quarter and represented 83% of our total first quarter revenues. These results more than offset modest reductions in commercial marketing services, where several factors pressured year-on-year comparisons.

Revenues from government clients, which accounted for 67% of total first quarter revenues, increased 6.5% in the first quarter, driven by

17.6% growth in our federal business. This strong performance in our federal business represented 4.4% organic growth and a 2-month contribution from our ITG acquisition, which closed at the end of January.

ITG is an excellent fit with ICF, and we've been working closely together to engage with each other's clients on top priority areas for civilian agencies. Year-to-date, we have won IT modernization contracts valued at approximately $140 million over an average of 3.5 years, and we see substantial opportunities on the horizon. In fact, we are currently working together on more than $1.2 billion of opportunities where we believe that our combined qualifications markedly improve our chances of winning.

Our year-to-date wins in IT modernization and the strength of the combined ICF and ITG pipelines in this market give us confidence that IT modernization will be a strong growth driver for us going forward.

Our state and local government business performed in line with our expectations, reflecting the previously discussed in-sourcing impact of a portion of our FEMA-funded disaster recovery contract in Puerto Rico together with our ongoing execution of our HUD-funded contract there and a broad range of infrastructure-related work across the country.

The disaster management portion of our state and local business has had minimal impacts from COVID-19, continues to operate at scale with expected revenues of approximately $100 million in 2020, and has significant opportunities for mid- to long-term growth associated with disaster recovery mitigation funding.

With respect to mitigation, we have won several small but strategically important contracts that support our confidence that this area has the potential to be a long-term growth driver for ICF. As we noted last quarter, we have won disaster recovery mitigation contracts with the state of Missouri and the city of Columbia, South Carolina. We are currently working with state and local clients in the U.S. and Canada as well as several of the largest energy utilities across North America to increase resilience to climate change. Examples of these projects include analyzing and quantifying the benefits of storm water resilience investments in Miami Beach and working with large utilities on plans to protect their infrastructures from future natural disasters.

Additionally, we have submitted proposals on larger federally funded disaster recovery mitigation contracts in Texas and Florida, which should be awarded later this year.

International government revenue declined year-on-year in the first quarter as there were delays in events such as large conferences and citizen engagement meetings for the European Commission caused by the COVID-19 pandemic, which affected Europe before it impacted the U.S.

Our commercial energy markets business accounted for 16% of total first quarter revenues and grew 5.7% in the first quarter, with only minor COVID-19-related disruptions. All key areas in this group showed year-on-year growth. With respect to energy efficiency, the portion of field work that relates to entering people's homes to conduct energy audits has been put on hold due to COVID-19, but the vast majority of ICF's work on energy efficiency programs is desk work. This desk work involves engineering reviews, application reviews, call center responses, marketing and communications, rebate processing, IT tracking and reporting.

During the COVID-19 crisis, we have been working closely with our utility clients to virtualize portions of our field work, such as virtual audits, using photo and video inspections and transitioning to virtual account management. These responses have been well received by our utility clients who see effective continuation of their customer-facing programs as a high priority.

Our commercial marketing service business accounts for less than 15% of our total revenue, and we expect it to continue to experience lower revenue comparisons across several key verticals, including hospitality, travel and retail due to COVID-19. We have recently taken actions to considerably reduce expenses in areas that are most sensitive to these impacts. A key component of our business is our industry-leading loyalty platform. We have long-term retainer contracts and expect that our clients will continue to prioritize engagement with our most loyal customers throughout this period.

Additionally, healthcare is the single largest vertical in our commercial marketing business, and we continue to see growth in this area as clients increase budgets.

In total, we estimate that the COVID-19 impact on our first quarter revenues was approximately $4 million, primarily representing program cancellations in our commercial marketing service business and postponed events for international government clients.

Importantly, we believe the short-term revenue impact on our business from COVID-19 can be more than offset in the medium- to long-term by opportunities related to increased government spending on public health, infrastructure, disaster recovery and resilience, all areas in which ICF has deep domain expertise. ICF has experienced multiyear double-digit growth during past periods of significant federal government stimulus spending, and we believe that our subject matter knowledge and contract vehicles in key civilian agencies positions us to benefit from programs to stimulate the U.S. economy and strengthen the public health infrastructure post COVID-19.

Now I would like to provide additional insight into the multiple COVID-19-related opportunities we see ahead for ICF. We still are in the early innings of the global COVID-19 response and recovery, and the pandemic highlights ICF's unique position at the nexus of public health, analytics and disaster management.

In the public health arena, ICF has contract vehicles in all the key agencies involved in handling this crisis. Recently, we received additional funding for our syndromic surveillance activities in support of the Centers for Disease Control and Prevention's BioSense Program. This program involves tracking the spread of COVID-19, allowing CDC to better identify virus hotspots and coordinate responses.

We're also working on 2 small projects to provide public health messaging related to COVID-19. Additionally, we are continuing to support the Department of Health and Human Services with its preparedness and response activities to COVID-19 through a project for its Technical Resources, Assistance Center and Information Exchange, known as TRACIE. And we expect additional funding for this program as well.

For the National Institutes of Health, ICF designed, stood up and will maintain a website that provides COVID-19 treatment guidelines for use by physicians and healthcare providers. We believe there will be further opportunities to support CDC and other parts of HHS on these types of activities in the coming months.

The emergency declaration under the Stafford Act and the National Emergency Act made up to $50 billion in coronavirus-related funding available to support state and local governments, which includes FEMA support under its Public Assistance Program. Several states have activated ICF's on-call contracts as they seek to identify and apply for projects that would be eligible for FEMA reimbursement.

Longer term, we expect to see a considerable increase in preparedness and response activities at the federal, state and local levels through both the HHS Assistant Secretary for Preparedness and Response and through FEMA's Public Assistance Program. Also, we believe that this disease surveillance modernization, including IT systems and advanced analytics, will be a priority and that ICF is exceptionally well-qualified and experienced in this area, both domestically within HHS and internationally supporting USAID programs to reduce the incidence of infectious disease in developing countries.

In the meantime, we continue to have a robust business development pipeline that reached $6.8 billion at the end of the first quarter, representing a 4% increase over the year-end 2019 levels. First quarter contract awards were $357 million, up 23% from last year's first quarter. Also, ICF's first quarter turnover rate was 12.5%.

I will now turn the call over to our CFO, Bettina Welsh, to provide a further first quarter financial review. Bettina?

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

Thank you, John. Good afternoon, everyone. I'm pleased to join you on my first earnings call as ICF's Chief Financial Officer. I will share more details on the company's financial performance for the first quarter of 2020.

Total revenue was $358.2 million, representing 5% year-over-year increase. As John mentioned, we estimate the COVID-19 revenue impact at approximately $4 million or just over 1% of total revenue. Service revenue increased 5.8% to $255.4 million. Pass-through revenue amounted to $102.8 million or 28.7% of total revenue compared to 29.3% in last year's first quarter.

Gross profit increased 1.8% to $127.6 million in the first quarter of 2020 from the year ago quarter. Gross margin on total revenue, however, declined 110 basis points year-on-year to 35.6%. This was in line with the expectation we shared on our year-end results call in February.

Indirect and selling expenses for the first quarter increased 7% to $103.3 million and represented 28.8% of total revenue, 50 basis points above last year. The increase was primarily driven by special charges of $3.6 million related to M&A expense and severance costs.

The special charges I just mentioned and a $1.1 million increase in depreciation and amortization of intangibles due to the ITG acquisition were the major drivers of lower operating income of $16.3 million compared to $21.9 million in the year ago quarter. EBITDA for the first quarter was $24.4 million, 15.4% below last year's $28.8 million. Adjusted EBITDA, which excludes the special charges, was $28 million in this first -- in this year's first quarter compared to $28.5 million in the first quarter of 2019. Adjusted EBITDA margin on service revenue was 10.9%.

Our tax rate was 18.3% compared to 19.5% in the year ago quarter, as a result of increased tax benefit relative to 2019 from the vesting of equity compensation, which largely occurs in the first quarter of each year. Net income for the quarter was $10.6 million, or $0.55 per diluted share, inclusive $0.16 in special charges noted above. This compared to $15.3 million or $0.80 per diluted share in the first quarter of 2019.

Non-GAAP diluted EPS, which excludes the impact of the previously mentioned special charges and amortization of intangibles, was $0.83 compared to $0.87 reported in the first quarter of 2019. At the end of March, we had $184.3 million of available liquidity, providing us with a substantial financial flexibility. Our net bank leverage ratio at the end of March was 3.06 and we expect to end the year with a bank leverage ratio of approximately 2.6.

In the first quarter, we used $15.2 million of cash for operations, similar to last year and reflecting seasonal cash flow trends. Based on the expected pace of our collections, we estimate full year 2020 operating cash flow to be approximately $110 million, 20% ahead of 2019. Days sales outstanding for the first quarter were 88 days compared to 89 in the first quarter of 2019. By year-end, we anticipate DSOs to be in the range of 78 to 83 days versus 83 days at the end of 2019.

Our capital expenditures in the first quarter of 2020 were $4.7 million compared to $7.5 million in the first quarter of 2019, mainly related to investments in our infrastructure facilities and intellectual property. For the full year, we are lowering our capital expenditures forecast to a range of $25 million to $27 million, and we will continue to evaluate our capital expenditure priorities through the remainder of the year.

For modeling purposes, we anticipate depreciation and amortization expense to be in the range of $20.5 million to $21.5 million for the full year 2020. Amortization of intangibles should be approximately $13.3 million. Full year interest expense should range from $17 million to $17.5 million. And we expect the full year tax rate to be approximately 27.5% and fully diluted weighted average shares of approximately 19.2 million for 2020.

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

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

Thank you, Bettina. Given that the great majority of our revenues derived from government and utility clients under long-term contracts, we continue to view our business conditions as stable. As noted earlier, uncertain economic conditions caused by the COVID-19 pandemic will continue to impact our events and survey work for European government clients and parts of our commercial marketing services business. There are likely to be delays in decision-making across our client set.

As a result, we have revised full year 2020 guidance to reflect results similar to those of last year. The assumptions underlying our guidance align with our backlog and anticipate a progressive return to more normalized business conditions in the second half of the year.

The reduction from our initial 2020 revenue expectations of approximately 9% relate primarily to projections of lower year-on-year revenue performance in our commercial marketing and international government businesses due to COVID-19. We expect our U.S. federal, state and local and electric utility-related businesses will continue at a cadence similar to year-to-date 2020, which included minimal impacts from COVID-19.

This guidance does not assume any material new revenues in the second half of the year associated with COVID-19 pandemic opportunities or stimulus funding, our U.S. Federal-funded state disaster management mitigation opportunities in our pipeline in Texas and Puerto Rico, or energy efficiency implementation opportunities in our pipeline in California.

Specifically, revenue is now expected to range from $1.450 billion to $1.510 billion, and EBITDA to range from $126 million to $136 million. GAAP earnings per diluted share is expected to be in the range of $2.85 to $3.15, exclusive of special charges, and non-GAAP diluted EPS in the range of $3.50 to $3.80.

Operating cash flow is projected to be approximately $110 million, significantly ahead of the $91.4 million generated last year.

To sum up, ICF is navigating these unprecedented times with a substantial backlog, recession-resistant revenue mix, a strong balance sheet and a record business development pipeline. More importantly, we have a strong culture, comprised of people who are passionate about their work and dedicated to client service. This culture has been a key driver of our growth thus far and gives me confidence that ICF will not only weather the storm, but will emerge as an even stronger company in an environment where our civilian domain expertise becomes ever more relevant.

With that, we certainly wish you and your family stay safe. With that, operator, I'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

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

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

I was wondering if you could elaborate a little bit on the marketing services business. What do you assume the impact is inside your guidance since that is probably the area most likely to be impacted by the COVID and the company as such?

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

Sure, Tobey. Thanks for the question. So certainly, the commercial marketing business is seeing the most significant impacts from the COVID-19 crisis. And so I would say to you, that business, we're now planning for it to be down about north of 20% in our guidance for this year. And so that's the underlying assumption there.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

And if I could ask you to -- in terms of the contract opportunities that could drive growth that aren't included in the guidance. Could you tell us which bucket maybe have the most potential for materiality in '20 and kind of the largest and most largest potential impact longer term?

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

Sure. So I think as I said in my opening remarks, I mean, I think there are a number of areas of potential growth that we have not factored into our guidance for 2020 and were main areas for growth in 2021 and beyond. Obviously, we're in the midst of the significant public health crisis. As I laid out in my remarks, we're looking for a variety of different federal clients. We'll have key roles in responding to that prices from CDC, to NIH, to broader parts of HHS, to FEMA to USAID. I will say that through existing contracts that we have in place, we are seeing work related to COVID-19, and I think I laid that out again in my remarks. And I think over time, we expect that there could be plus ups and additional funding for that work as we get into the second half of 2020. So I think those are areas that clients can easily access. And as the emergency funding that's been put on place under the public health emergency or the declared national emergency from the pandemic and the additional stimulus funding, they can certainly reach us this year, and I think there's potential for plus ups there. So I think those are areas where in the second half of the year could provide additional potential growth.

And then as you look beyond that, I think that stimulus funding and the focus in the public health arena provides very significant growth opportunities, given the magnitude of the effort and the budget dollars that have been committed. And so then if you turn to disaster recovery, we've been talking for some time about the mitigation-related work. We have been submitting proposals on that front, both in Texas and Florida. We could see awards on those in the second half of the year that have potential upside. And again, as you know, those are very large opportunities that could certainly drive growth in 2021 and beyond. I think the California energy efficiency opportunities, which is the third bucket, we could see awards by the end of the year. I don't think they'll be that material. I really think that area is a significant growth driver for 2021 and beyond.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Can you make a broad comment, last question for me, about the pace of contract awards in time lines, particularly for the larger programs, including mitigation? You talked about Florida and Texas, but Puerto Rico, et cetera.

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

Sure. I mean, I think that we expect to see awards on the mitigation front, certainly in Texas and Florida in the second half of the year. And those opportunities will continue into early next year in terms of proposal and award decisions. As you know, Puerto Rico has significant funding for mitigation-related work. They're still waiting. Had approval on some of their programs. And so I think those awards -- those RFPs, we're still expecting to see later in the second half of the year. I think those will be more material for 2021 and beyond. And so I think that's how we see the mitigation opportunities as we look forward.

Operator

We have our next question from Joseph Vafi with Canaccord.

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

Welcome and congratulations Bettina on the new role. I was wondering just if you could kind of just go in a little more detail on guidance assumptions, kind of the trajectory of the economy that you have built into the guidance, if you're -- I mean, I think you said you're looking for a modest recovery during the year, but a little bit more color on that. And then I have a couple of follow-ups.

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

Sure. I think our guidance, obviously, we've taken a hard look at each of our core markets. And as I think I described in my opening remarks, I think we've assumed that we're going to see the primary impacts from COVID-19. I mean, the commercial marketing services and portions of our international government were focused on events and surveys. And that's where we're going to see the most significant impacts. And we've assumed that the remainder of our markets, which have continued to pace, we'll continue to see minor impacts as we go forward. And so at a high level, that's how we've seen the guidance. I would say how it plays out throughout the year, I think that we're assuming that Q2 will be generally similar to Q1, and then we'll see sequential improvements as we move through Q3 and Q4. I would just remind you, as you think about Q1 and Q2 that we closed the ITG acquisition at the end of January. So there were 2 months of ITG revenues in Q1, we'll obviously get full 3 months in Q2. And so that extra month will offset some of the impacts we'll expect in Q2 from commercial marketing services and international government. And that's why we do expect Q2 to be similar, down a bit, but similar to Q1 and the sequential improvement in Q3 and Q4.

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

Okay. That's helpful. And just kind of following up on Tobey's question on contract awards. Have you seen any change on contract fundings at this point? Just kind of due to the COVID situation or is it relatively business as usual on the funding side?

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

I would say across our federal government and our utilities business, it's business as usual, both on awards and proposal activity. We obviously had a strong Q4. Much of it was before the COVID impact. So obviously, in the commercial marketing services area, we've seen clients stretch out or cancel work particularly in the verticals that you would -- that we support that are most impacted by this crisis, including retail and hospitality, travel and tourism. But in general, across the rest of the business, the awards and RFP activity continues to pace.

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

Okay. That's helpful. And then just maybe a higher level one on ITG. It's been in house here for a little while. It sounds like there was some contract activity there that obviously was probably already in the pipe when they came on board. Any kind of incremental thoughts on that business looking forward versus kind of what you conveyed to us when the deal was signed a few months back now?

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

Sure. I would say, Joe, obviously, when we acquired ITG, and we thought that, that market was a significant growth market and that ITG was a very high-quality company that brought terrific people, terrific capabilities, strong partnerships and had a track record of pleasing their clients continuously. And I think since they've come into the firm, we continue to believe that it's a first-rate company that it's a good cultural fit, a good strategic fit. When you put it together with our deep domain expertise, our relationships across a broad suite of civilian clients and our broader contract mix that this will be a robust growth market going forward for us. ITG had enjoyed double-digit revenue growth as an independent company. And I think that we are certainly going to be able to take advantage of synergistic revenue opportunities here by bringing our pipelines together and improving our win rates, giving our collective capability, identifying new opportunities for them and our broader suite of civilian clients. And so I would say it's fully met our expectations. We believe this is going to be a key growth driver, I mean, that we have already begun to capture some of the synergistic opportunities. And so we remain quite confident that this is going to be a terrific acquisition and a real home run for us and really set us up for long-term growth in the IT modernization realm in the federal arena, which, again, as I think I've discussed when we announced the acquisition, we're still in the very early innings of IT modernization in the federal arena. And so we think there's terrific opportunity there.

Operator

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

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

I was hoping you could add a bit more color to the size and type of cost actions you've taken at this point? Also, what's embedded for those actions in terms of your revised guidance? And then any other comments you can make about optionality in your cost structure should marketing services and international take a bit longer to bounce back than you currently expect?

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

Sure. So in terms of the actions we've taken, obviously, first, we're in a people business. As revenues come down, we're looking to manage the cost carefully. Obviously, as staff become available, we look to redeploy them in our portfolio of business across the firm. So in marketing and communications, taking commercial folks and looking for opportunities in our government markets, and we'll also redeploy technology staff in broader aspects of our business. We've actually made progress in transferring and using some of our commercial technology -- marketing technology folks in our government IT modernization business. And then it's about managing the cost. And so we have taken some actions as work has slowed down to put our staff on -- they'll use their paid time off. We've also implemented furlough programs, both in North America and in Europe. Europe -- the European governments have put in place furlough programs where you can furlough staff for up to 3 months and governments will pay 80% of their salary, while they're on furlough up to some limit, which admittedly is $40,000 or $50,000 a year, but we've taken use of those in Europe. And so we've taken those types of actions. Obviously, our travel and entertainment costs are down significantly from an indirect perspective in terms of folks not traveling at the present time. We've also taken steps to limit hiring of new indirect staff. We're carefully monitoring recruiting in general. And so we've pulled a number of levers to manage the cost to date. And we certainly have additional levers that we can pull if we see additional impacts in the business. At the end of the day, we have to manage our costs, which largely are around our staff and how we deploy them. And so we're monitoring that carefully, very carefully in the key markets that are impacted and are leaning forward on that front. I don't know, Bettina, if there's anything else you would add from a cost management standpoint that I haven't touched on?

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

No. I think the only other aspect I would lean on was just evaluating the use of space in our CapEx, use of IT. I mean, we're leveraging, as you mentioned, it's a people business. So as the revenue has gone down and our needs are slowing down in that area where we're taking full advantage of flowing those and redirecting of needed. But as John mentioned, we've taken many, many actions, and we still have a few more in our back pocket as we monitor the business going forward.

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

Great. That's helpful. And then another one. I think you answered a bit of this in your response to an earlier question. But when I'm thinking about the updated guidance and how you're thinking about international and commercial marketing to ramp back up in the second half of the year, is there any other detail you can provide in terms of kind of the cadence of growth there? Just trying to, again, understand what maybe some potential downside is if the economic recovery or maybe some of the travel restrictions and lockdown measures take a little bit longer to bounce back than maybe what we currently expect?

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

Yes. I would say in the commercial marketing arena, as I say, I think we're expecting that business to be down north of 20% for the year. I mean, I think we're assuming -- we'll see those impacts as we go into Q2, and it will be -- we're assuming a very modest improvement there over time. I would say that there are verticals in that business that are growing, that have not been impacted by this crisis, particularly at our healthcare vertical. And so to the extent that we're showing modest growth in that area, it's driven by those verticals that are least impacted. And when I say modest because I mean modest growth of the bottom of the trough in terms of impacts. It will be in the verticals that are least impacted.

On the European business, I think our assumption is, again, we'll reach the trough in Q2 and see modest impacts. I don't think we're modeling impacts on the events-related business until we get later into Q4. I think it's just unlikely we'll see an improvement in those businesses in the third quarter of this year. So I think that's kind of how we're thinking about it for this year.

Operator

Our next question is from Kevin Steinke with Barrington Research.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

When you're talking about the mid- to long-term opportunities for your business emerging from the federal government's response to the COVID-19 crisis, to me, it sounds like it's almost segmented into 3 different buckets, at least in my mind, I want to make sure I have that correct. You have the stimulus funding, which you talked about potentially driving growth opportunities and then opportunities in public health to continue supporting CDC and HHS? And then third, Stafford Act preparedness and response spending and FEMA spending, also a potential driver. So am I thinking about that right way -- the right way and maybe could you talk about each of those and the potential size of the opportunities there?

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

Well, sure, I think, in general, I think you've hit the key buckets as we think about the opportunities going forward, as you think about emergency funding on public health issues, as you said, the national emergency on the Stafford Act and then the significant stimulus package. I mean, I think those opportunities, I would agree, they fall in kind of the public health arena in response to pandemic -- potential pandemics going forward. There's disaster recovery. There's resilience, both from pandemics and more broadly. Then I would also say there's potential infrastructure, and that's been a topic of conversation, certainly in potential future stimulus opportunities.

I think the opportunities can be quite significant, Kevin. As you know, there's very significant resources have been committed here. I mean, there was $8.3 billion from the initial legislation around public health, $50 billion around the national emergency under the Stafford Act, $2 trillion in stimulus funding. Admittedly, a material amount of that goes to direct support to individual Americans and to companies, but there's also going to be -- there's also significant funding in there for public health and pandemic in disaster recovery issues. And so it's a little hard for me to -- I think opportunities could be quite significant here. I mean it's hard for me to pull it kind of put bounds on the dollars involved. I think it's still very early in the game here. I just would -- I would again reiterate that in prior periods where there's been crises, financial crises, other economic events that the government has made a material impact to stimulate the economy, ICF has done, has benefited and supported programs in response to that. Obviously, in Obama Administration, there were significant stimulus around the financial crisis, and as I've discussed before, for 2 or 3 years. With that stimulus funding, ICF grew double-digit for 3 years in the federal arena. I think that was a $900 billion stimulus plan in the Obama Administration. We have $2 trillion here with more to come.

And so I guess what I would say is, I do think there is very significant opportunity here. I think it could drive significant growth for us across public health, across resilience, across disaster recovery in the medium to long term. And I think many of these areas play to our sweet spot in terms of our domain expertise and our experience in civilian markets. I also just think it's -- there's already been bills introduced in Congress. We saw after 9/11, there was a fundamental reevaluation of how to combat terrorism in response to the intelligence community and significant resources put in place to rethink and reinvent that. And I think there's a good chance that there'll be a similar response here around public health and pandemics to make sure that we're prepared to address these types of issues going forward in the future. If that becomes part of the stimulus package, I think that would be an opportunity where we could bring a lot of expertise, and we can bring our passion of our people to help make a difference for our clients on that front.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

Okay. That's helpful. And just as a follow-up to that. So it sounds like you think there could be opportunities for you related, just not to pandemic response, but just also general spending on stimulating the economy, infrastructure, et cetera that's not necessarily tied to the pandemic response, but just more stimulating the economy, is that correct?

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

Well, I think it's correct. I mean I think it's -- obviously, disaster recovery is part of pandemics too. Obviously, I think the stimulus funding will -- a portion of it will go for public health and has gone for public health-related activities. As I said, I think there is some discussion around infrastructure opportunities in Congress now. And so I think based on what's been committed and what could come in the future, I think those could align nicely with us. I don't know, Sudhakar, if you want to add any more? I mean, you might have some additional perspective on this.

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman***

Yes. I think that you've said it all, John. I think that there is, certainly, in the past, when -- if some would recall the ARRA Funding, the American Recovery and Reinvestment Act. And I think we were -- we did a lot of work in the energy sector as well as doing all the resilience work associated with that act. So I think that if there is significant movement on that front by the current administration, I think we will hopefully see similar upside there, but I think that there has been significant conversation about that. And I think that there is a back and forth between the administration and Congress on that. So we'll just have to wait and see, but I do think that there is going to be a significant amount committed as a care for program or infrastructure will be included.

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

Yes. Maybe I can just add. I mean, I guess, I just want to reiterate that, again, I also -- I have talked in the opening remarks about specific projects we have underway at CDC and NIH and more broadly at HHS. And several of those efforts are in the range of our CDC work for BioSense is in the range of $5 million to $10 million over several years. Our work on for NIH on building -- helping build websites in response to COVID-19, I think it's a $15 million contract over 2 or 3 years. And so there's -- so those are material opportunities for us that we're working on and have begun work that I do think or can be plused up. And again, I would say that there's potentially additional opportunities in those markets, also on public health messaging, in some of the other areas I talked about, USAID will certainly be involved in international monitoring and calculating disease rates in developing countries in Africa around COVID-19. And so there are -- so that should give you some perspective of the kinds of opportunities that I think are out there and could be out there in the second half of the year as we -- as our clients think about additional work they want to do. I think there are -- there certainly is upside for us here in the second half of the year, just leveraging the vehicles we have in place with these clients and the work we've done and reputation we have with those clients.

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman***

Yes. I would just add as just to what John has said. You've seen some of the discussions about the systems -- unemployment systems used by states and by the federal government, et cetera, which are written in COBOL. So the whole idea of IT modernization, I think, is going to become a very significant issue going forward because I do think that's part of the sort of IT infrastructure of federal state and local governments, which potentially also is in place. So that is why we think that the ITG acquisition puts us in good place on that infrastructure front, too.

Operator

(Operator Instructions) We have our next question from Marc Riddick with Sidoti & Company.

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

So Bettina, first of all, welcome. I guess, this is a great time. Most of the time when a CFO joins the company, it's not during a pandemic. So you have a high degree of difficulty in your favor. So congratulations, and welcome. I do want to touch a little bit on -- let me follow-up on what was just said because I was sort of curious, and this would be anecdotal, I suppose, but I was wondering if you could talk a little bit about, I guess, maybe your thoughts on IT modernization, federal state and local government now versus maybe prior to the acquisition? And I'm sort of trying to figure out if there's -- if there are learnings or things that you've experienced that have been stress tested over the last several weeks that maybe either changed where you already were or just confirm what you already thought? I was wondering if you could spend some time talking about that a little bit?

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

Maybe I'll start off and then, Sudhakar, if you want to add a few words. I mean, I just would say to what Sudhakar said. I mean, I think -- I mean, recently, obviously, the federal government has been through the stimulus program, working to provide either grants to small businesses or funding individual Americans. And I think those systems have been stressed significantly by the size and scope and speed with which this money is trying to get out there. And I think to Sudhakar's point, many of these systems are, particularly at the state and local level, but also at the federal level, given it's still in the early innings, still in ancient languages, COBOL, unfortunately and other languages that the systems really need to be modernized. And so I do think that some of the challenges that have been seen in kind of getting money out quickly, whether it's through unemployment insurance or funds to in-fill Americans to the IRS or through other small business programs. It just points to many of these systems are outdated and need a modernization. And when -- and so I think it can only be good for the potential opportunities and focus, certainly in federal IT modernization and state and local IT modernization. And so I think -- so that's how I would see it. I don't know, Sudhakar, if you'd want to add anything on that?

Sudhakar Kesavan ***ICF International, Inc. - Executive Chairman***

No, I think that -- I think I've said whatever. I do think that there's going to be significant emphasis put on that only because the federal government has been trying to modernize the bill for running legacy systems is very high. Everyone knows that the end state subsequent to amortization would mean that the cost of running the modernized systems would be 1/3 to 1/2 of what it is currently. So I think getting from State A to State B has been the issue. And I think this whole situation gives a fillet to making sure that, that happens quicker than it would have if this hadn't taken place.

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

I would also say that our ITG Group has won so many small work just in the last week or 2 at HHS working on COVID-19 issues, which had a history of working across HHS and other programs. But we were pleased to have them win their first piece of work on IT modernization. So I think those opportunities out there, and we can also take -- obviously take those capabilities into -- more deeply into CDC and NIH and other places.

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

Okay. Great. So I've only got 2 more. So this will be easy. The first one is, I wanted to just touch on -- you touched on the California, what's taking place there. And I was wondering if you can give a little bit more detail around energy efficiency update and kind of what you're seeing there in that process and whether or not maybe relative to the pace of what you thought you were going to see versus what you're seeing now has changed? Or maybe you could just touch a little bit on that? And then I have one last follow-up after that.

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

Sure. I would say that California is playing out as we expected. I think we are seeing increasingly more bids come, forthcoming. And over time, they're becoming larger and more statewide oriented, which we expected as we get later into this year. We've been very busy on the RFP front. As you know, it's a 2-stage selection process. We're quite pleased with our ability to get to the second stage. We're working hard on proposals. I think we do expect to start to see awards in the second half of the year. And so again, I would say that remains a strong growth potential driver for us. We're very busy and generally feeling good about how that's transpiring. And we really haven't -- as I said, we haven't seen any delay or slowdown in those activities in California in the last 4 to 6 weeks.

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

Okay. Great. And then the last thing for me, I just want to switch back to what you're seeing with commercial for a moment. And I understand the delay in the near term as far as -- so wondering if you can give a little bit more detail as to maybe just a general thought process of what you're seeing for those commercial customers that may be delaying maybe either programs or things that they already had in place that they're not executing on or what have you? I was wondering if you get maybe an additional, I guess, be anecdotal, but just wondering if you could get a sense of maybe what their thought process is as to how to reengage with customers and how it may differ from what they already planned on doing. Again, that may be very anecdotal, but I was wondering if you can share anything there?

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

Yes, I guess, I would come back to what I talked with you about in prior calls. I mean, again, our commercial marketing services business is about 15% of our total revenues. I would say that about half of that amount is in verticals that have been -- and I'm talking in round numbers, but about half of that business is in verticals that has been highly impacted by COVID-19. So we're talking hospitality, hotel chains, travel and tourism, retail organizations. And there, there's been significant impacts. And those clients are looking to stretch out assignments or are putting assignments on hold. I would say and so that part of the business is certainly seeing the impact, and that's primarily where the 20% overall reduction that business is coming from. I would just remind you, we do have an industry-leading loyalty platform, which is part of that. A lot of that work is done from -- for hospitality clients. They have certainly asked to stretch out and reduce level of effort. But at the end of the day, we've also had discussions with them. They recognize that loyalty platforms for their most loyal customers are absolutely essential to their long-term viability. And so I think they're working with us in partnership to make sure that we keep the core set of people and we stay engaged with them so that when we get on the other side of this, they'll have those programs and be able to leverage them. And frankly, they're leveraging them now even in these very difficult times. And so we're -- and in a similar way, across travel and tourism, retail, again, those clients are still working with us. They've cut budgets, but we do have backlog. We have core teams engaged. We've had to reduce our workload there. We've had to move staff, which has been very difficult to pay time off and furlough them. I think our clients there are trying to work and make sure we keep a core, particularly the clients we've been with us there for long term so that we can come out on the backside and maintain that core and continue to work with them. And it really is about, for us, managing -- leaning forward and managing the business where we can protect that core, so we have that capability in the company, but also recognize -- we have to manage the business effectively.

The other portion of marketing services, as I said, are in verticals that have not been as impacted. We are seeing growth in the commercial health, some of the technology clients we serve. And so we're managing the business carefully. We're trying to align it with the opportunity we see, work with our clients to maintain a core. And we'll come out of this business with a core set of capabilities that I think will, in the long run, have peer value and will return to growth someday. We're managing it very carefully.

I think it's a similar story in our European business around our events-related activities, impacts there. We're down 15% in Europe overall, associated with these events-related businesses. Again, we're managing as best we can. We're using the furlough programs. I would tell you that the European Commission clients have worked to our primary client for these events-related work on the government side and some of our commercial clients in the U.K. again, have really tried to work with us and work in partnership as they make these cuts or ask for these cuts. And then so we're managing it as best as we can. We do think in the long run, we want to try to protect the core, while also managing the business as best we can.

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

Okay. So I got one more. I was just wondering if you could give a bit of an update on headcount recruiting, things like that as far as potential new consultants, and that's the last one for me.

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

Sure. I mean, I think we -- so we are recruiting. I mean, there are parts of our business more broadly growing. I think as we demonstrated in the first quarter, I mean, our federal business has been growing. Our energy business grew quite nicely in the first quarter. And then so we have -- we continue to recruit and hire folks for IT modernization, in the public health arena, in engagement for government clients. We certainly continue to recruit in energy markets. And I think we have transitioned effectively to doing that virtually. So identifying staff, interviewing, onboarding staff virtually in this period, I think that's one of the things we've had to figure out. And I think we'll be a core competency, we'll want to maintain as we go forward.

And so to your point, I think the staffing does follow the headcount. I mean, I think, as I said, I think our guidance for this year now is essentially flat on revenue. So our recruiting is more focused on areas where we need to add staff where we're growing. We obviously have markets that are not growing and we're managing that through some of the approaches I laid out. But I think we've actually come quite a long way in terms of our ability to recruit and onboard in the 5 or 6 weeks we've been working virtually on the recruiting front.

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***

Well, thank you for participating in today's call. We look forward to engaging with you at upcoming meetings and conferences. Stay safe and be well. Thank you.

Operator

And thank you, ladies and gentlemen. This concludes today's conference. We thank you for your participation and you may now disconnect.