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Q3 2024 ICF INTERNATIONAL INC EARNINGS CALL

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CORPORATE PARTICIPANTS

- **Lynn Morgen** *AdvisIRy Partners - Investor Relations*
- **John Wasson** *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*
- **Barry Broadus** *ICF International Inc - Chief Financial Officer, Senior Vice President*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Joseph Vafi** *Canaccord Genuity - Analyst*
- **Sam Kusswurm** *William Blair & Co. LLC - Analyst*
- **Tobey Sommer** *Truist Securities - Analyst*
- **Marc Riddick** *Sidoti & Company - Analyst*

PRESENTATION

Operator

Good day, everyone. And thank you for standing by. Welcome to the third-quarter 2024 ICF earnings conference call (Operator Instructions)

Please be advised that today's conference is being recorded. Now, it's my pleasure to turn the call to Lynn Morgen with AdvisIRy Partners.

Lynn Morgen *AdvisIRy Partners - Investor Relations*

Thank you, operator. Good afternoon, everyone and Happy Halloween. Thank you for joining us to review ICFs' third quarter 2024 performance. With us today from ICF are John Wasson, Chair and CEO; and Barry Broadus, CFO. Joining them is James Morgan, Chief Operating Officer.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. And I refer you to our October 31, 2024, press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light. We may at some point elect to update the forward-looking statements made today but specifically disclaim any obligation to do so.

I will now turn the call over to ICF CEO John Wasson to discuss third-quarter 2024 performance. John?

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

Thank you, Lynn, and thank you all for participating in today's call to review our third quarter results and discuss our business outlook. I want to echo Lynn's Happy Halloween wishes.

And I'm pleased to say, we have no tricks and lots of treats in our Q3 results. So with that said, I'll move this along so those of you who are going out trick or treating tonight can get there in a timely way. So this was another strong quarter for ICF. Our staff executed very well on existing contracts, and our forward-looking metrics indicate that we are well positioned for continued growth.

Looking at the key takeaways from the quarter. First, revenue from continuing operations increased 6% year on year. Additionally, revenues from continuing operations less pass-throughs increased 10% year on year. This is representative of the work done by ICF employees.

Second, we outperformed across all profitability metrics, reflecting favorable business mix and tax benefits, enabling us to increase our EPS guidance by $0.35 for the full year. Third, we had solid third quarter contract wins, resulting in a healthy trailing 12-month book-to-bill ratio of 1.31.

And lastly, we ended the quarter -- the third quarter with a record new business development pipeline of $10.6 billion, providing substantial growth potential for ICF across our government and commercial client sets over the coming years.

Third quarter revenue growth again was led by our Energy, Environment, Infrastructure and Disaster Recovery client market, Where accelerating demand for ICF's multidisciplinary solutions, our analytics, and our program management expertise drove a 15.3% increase in revenue.

Robust growth in our higher-margin revenues from commercial energy clients continue to be a key contributor to our strong performance. Year-on-year growth reflected both the addition of new clients and the increasing scope of work we're performing for existing clients.

ICF is a market leader in developing and implementing the latest generation of residential energy efficiency programs, and we're also gaining share in the commercial and industrial energy efficiency markets. We have a long track record of consistently reaching and exceeding performance goals on our energy efficiency programs and have invested organically and through tuck-in acquisitions to significantly expand our capabilities in adjacent areas.

As a result, we have earned the trust of our utility clients and have a broad range of very timely and relevant offerings that bring together our expertise in energy, climate, grid engineering, and disaster recovery, which is a unique set of capabilities that ICF has.

This has led to consistent growing demand for our program development and implementation services beyond energy efficiency programs, to include pilot programs on flexible load management, developing programs on electrification, and advising on grid resilience. And this demand has accelerated given the rapid pace of load growth from new data centers and transportation electrification.

In the third quarter, we also continued to work for utilities in support of undergrounding power lines and advising on wildfire restoration and resilience. Additionally, third quarter commercial energy market revenues growth reflected ongoing work for renewable developers across solar, storage, and wind, where we have seen recent wins to provide the full breadth of ICF's licensing, permitting, compliance, and habitat conservation services.

We continued to see opportunities from the IIJA and IRA. To date, ICF has won about $185 million in work related to the IIJA and IRA, primarily from federal and state government clients, and our pipeline is over $250 million. This does not include all the related work that we're doing for commercial clients where it's more difficult to tie the engagements to specific legislation.

RFPs from state and local governments for IIJA and IRA related grant management support are being released, with many more expected in Q4 and early 2025. These RFPs for programs such as Climate Pollution Reduction, Solar for All, Home Efficiency Rebates, and Grid Resilience and Innovation provide significant opportunities for ICF, building on our existing work across the country for utilities and for state and local clients on climate and clean energy topics.

In fact, we continued to see strong demand for our climate-related services across our client set in the third quarter, with revenues up substantially year-on-year and solid growth in new contract wins. Indicative of the breadth and depth of our climate work with state governments are third quarter wins with the State of Hawaii for sea-level rise vulnerability assessments, the California Air Resources Board for a refinery infrastructure study, and carbon reduction strategies for the Texas Capital Area Metropolitan Planning Organization.

And our disaster recovery work continues to be in high demand. As you know, we generally are not involved in the initial response to disasters, but we have won numerous small contracts from clients in Florida, North Carolina, South Carolina and Virginia to provide immediate disaster assessment support post Hurricane Helene and Milton. Later in 2025, we will respond to competitive solicitations to address their longer-term recovery needs, and these small initial assignments will raise ICF's profile and allow us to develop key client relationships now. ICF is currently delivering on roughly 50 disaster recovery programs in 16 states and two territories, and we're currently supporting more than 30 clients mitigation efforts in 10 states and 1 territory. And our programs are expanding, as evidenced by a recent $38 million contract extension from an existing client to continue supporting their disaster recovery and mitigation efforts, and a new contract with another existing client to provide services to support compliance with federal and local disaster management regulations related to its hurricane recovery efforts.

Moving to our Health and Social Programs client market. Reported revenues from continuing operations declined 5.2% year-on-year, but that includes a reduction in pass-through revenues of approximately $12 million in the third quarter. Adjusting for the lower pass-through revenues, revenues from continuing operations in this client market were slightly ahead of last year.

As we discussed last quarter, we have faced difficult comparisons in this client market in 2024 for two major reasons: the anticipated falloff in revenues from small business set-aside contracts that were held by the IT modernization firms we acquired in 2022, and ramp-up delays on certain USAID health-related contracts. Please also keep in mind that several of our large international government contracts are included in this client market.

We won several new contracts in the public health and social programs arena in the third quarter, including a new task order with $40 million to deliver strategic and digital communication and engagement campaigns to combat human trafficking. And we continue to see growth opportunities related to capacity building, training, and technical assistance for federal grantees. Currently, we support about $200 million per year of this work across the federal government, including at ACF, NIH, CDC, DOJ and EPA.

Also in the third quarter, we were awarded a new $70 million contract by the government of a US territory to design, build, and implement a new geospatial data management system. This is an excellent example of the increased traction we're seeing on opportunities that combine our technology and domain expertise, particularly where the scope of work includes a data or AI focus.

Other examples of recent wins where we're combining our technology and domain expertise within the Public Health and Social Programs area include a new project for the Advanced Research Projects Agency for Health or ARPA-H, in which we'll develop and apply methods to make genomic and other complex scientific data AI ready. The biomedical research data from NIH institutes and centers will then be included in ARPA-H's biomedical data fabric toolbox and be more easily accessible by researchers.

Also, we executed on our expanded contract to modernize the data infrastructure that supports CDC's Youth Risk Behavior Survey, which is the largest public health surveillance system in the US, monitoring health-related behaviors among high school students like alcohol and drug abuse, physical activity, and unintentional injuries and violence.

As we end the year and move into 2025, we believe that the federal digital modernization efforts will continue to remain a bipartisan spending priority and that this market will continue to grow at a high single-digit rate. Further, we're pleased to see an increase in the number of procurements being released with expected awards in the first half of 2025.

On the topic of new business, as I mentioned earlier, we ended the third quarter with a healthy trailing 12-month book-to-bill ratio of 1.31, which is a positive indication of future growth. New business accounted for 63% of our year-to-date contract wins, demonstrating how well our capabilities are aligned with client spending priorities. In summary, this was a quarter of significant progress for ICF in terms of execution, profitability, and forward-looking metrics. I'll now turn the call over to our CFO, Barry Broadus, for a 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 you with additional details on our 2024 third-quarter financial performance. Our third-quarter revenue was $517 million, representing an increase of 3.1% year over year or 6% after adjusting for the divestiture of the commercial marketing business last year. These positive comparisons were primarily driven by a 15% growth in our Energy, Environmental, Infrastructure, and Disaster Recovery client market, which benefited from continued strong demand from our commercial energy clients.

Revenues from continuing operations less subcontractor and other direct costs yielded a 10% increase year over year. While our federal business delivered revenue growth of 1% in the third quarter, excluding the impact of lower subcontractor and other direct costs, federal revenue grew an estimated amount of 6% year-over-year. Comparisons continue to be impacted by lower pass-through expenses associated with international development programs with USAID, as discussed in our prior calls. Subcontractor and other direct costs of $127.6 million represented 24.7% of total revenues, down from 27.1% in the third quarter of 2023. The 250-

basis point decline in passthrough costs resulted in a shift in our revenue mix towards ICF direct labor, which is more profitable than revenues generated from subcontractor and other direct costs.

This favorable mix, higher utilization, and a migration toward more fixed price and T&M contracts, along with higher margin revenue growth with our commercial energy clients, led to a 160 basis point improvement in gross margin to 37.1%. Indirect and selling expenses of $132.8 million were up 1% year over year, well below our revenue growth, reflecting considerable operational efficiencies. As a percentage of revenue, indirect and selling expenses declined 50 basis points to 25.7% due to our continued emphasis on driving higher utilization rates, maintaining disciplined cost controls, and leveraging our scale, while at the same time ensuring that we are adequately investing in various initiatives to drive long-term growth across our markets.

Our third quarter EBITDA grew at 18.4% year over year to $58.2 million, while adjusted EBITDA grew at 7.8% to $58.5 million. Adjusted EBITDA margin of 11.3% was 50 basis points above the prior year's quarter, reflecting our improved gross margins I previously mentioned as well as actions to manage our indirect costs.

Interest expense for the quarter was $7.2 million compared to $10.6 million in last year's third quarter. The decrease in interest expense was driven by our lower year-over-year average debt balance of approximately $160 million. Our tax rate was 13.8% versus 1.4% last year, which was impacted by a onetime tax benefit associated with business divestitures in 2023. Our tax rate in this year's third quarter reflects various ongoing tax optimization strategies. As a result of these efforts, it is our expectation that we will continue to have an estimated tax rate of roughly 21% over the course of the next several years. Net income totaled $32.7 million, and diluted EPS was $1.73 per share in the third quarter. This compares with last year's net income of $23.7 million or $1.25 per diluted share, which included $5.2 million or $0.20 per share of tax-effected special charges.

Non-GAAP EPS of $2.13 per share increased 17.7% year over year. As we noted in the release, we increased our EPS forecast for 2024 by $0.35 at the midpoint. The increase in our EPS estimates reflect our strong operational performance and the benefit of our lower tax rate.

Shifting to cash flows and our balance sheet. Our year-to-date operating cash flow totaled $76.2 million, well ahead of the $45.6 million reported in 2023, reflecting improved cash management, yielding a more favorable net working capital position. Days sales outstanding were 75 days compared to 73 last year.

Year-to-date capital expenditures declined to $15.6 million from $17.9 million in last year's third quarter, due primarily to the timing of certain projects and the divestiture of the commercial marketing business. At the end of the quarter, our debt was $419.1 million, down from $533.9 million at the end of the prior year quarter, reflecting the use of our favorable cash flows to pay down debt. Approximately 65% of our debt is set at a fixed rate.

Our adjusted net leverage ratio was 1.85 times at quarter end compared to 2.7 times at the end of last year's third quarter. Turning to capital allocation, we continue to expect to deploy capital across a few key areas. These include organic growth investments, strategic M&A opportunities, debt reduction, quarterly dividends, and targeted share repurchases to offset the dilution from our employee incentive plans.

Today, we announced a quarterly cash dividend of $0.14 per share payable on January 10, 2025, to shareholders of record on December 6, 2024. Now to help you with your financial models, please note the following expectations for our full year 2024. Our depreciation and amortization expense is now expected to range from $20 million to $22 million. Amortization of intangibles is expected to be $32 million to $33 million. We anticipate interest expense to range from $30 million to $31 million. Capital expenditures are expected to be between $23 million and $24 million. Our full year tax rate expectation is now 20.5%, down from the 23.5% we previously guided to. We continue to expect a fully diluted weighted average share count of approximately 19 million shares, and we continue to expect a full year operating cash flow of $155 million.

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

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

Thank you, Barry. Continued favorable business mix and utilization metrics together with an estimated full year tax benefit of approximately $0.25 per share have led us to increase the midpoint of our earnings per share guidance for full year 2024 by $0.35. Our revised guidance range for GAAP EPS is $6.05 to $6.15, excluding special charges, and non-GAAP EPS is expected to range from $7.40 to $7.50, representing year-on-year growth of 14.6% at the midpoint.

We have adjusted our full-year 2024 revenue guidance range to reflect an estimated $50 million reduction in pass-throughs that reflect the slower-than-anticipated ramp-up of work on recently awarded contracts and delays in a few key award decisions. We are confident that these new business awards will be forthcoming in the near term and the ramp-up on these programs will begin to accelerate in the upcoming months. The reduction primarily affects gross revenue comparisons in our Health and Social Programs client market with no meaningful impact on margins. We are now expecting gross revenues of $2 billion to $2.03 billion compared to our previous guidance of $2.03 billion to $2.1 billion.

Our forward-looking metrics point to continued growth for ICF as we enter 2025. We have a strong multiyear backlog, a record business development pipeline, and a solid track record of new business wins. We are experiencing consistent robust demand from commercial clients for energy and environment expertise and related implementation and technology capabilities. We have excellent credentials in disaster management, resilience, and mitigation work to assist state and local governments with recovery after storms, flooding, and wildfires, as well as with their future resilience planning. The large majority of our federal work is in areas that have bipartisan support, particularly IT modernization, which remains an area of priority spending.

And importantly, our people are fully engaged in achieving the objectives and missions of our clients, which underpins our confidence in ICF's future growth potential. With that, operator, I'd like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joseph Vafi, Canaccord Genuity.

Joseph Vafi *Canaccord Genuity - Analyst*

Hey guys, good afternoon. Nice to see the strong margins. Maybe we'll ask a question on margins. Clearly, you've got some favorable mix shift going on, I think, probably especially out of your utility and energy practice.

Just wondering how you see the next few quarters. Perhaps do you still think that, you think a favorable mix shift continues to play out from here? Or do you think that perhaps some of the other practice areas' growth may accelerate a little bit, and we don't see as much of a mix shift moving forward in the next few quarters? And then I'll have a quick follow-up.

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

I think, Joe, we certainly expect the commercial energy business to continue to a strong -- quite strong growth. And we also expect that other components of business will also pick up their growth as we look into 2025. But I think, given that the energy group will, certainly is experiencing the highest growth and has the highest margin, I think there's some more room for margin improvement even as other parts of the business also increase their growth.

So I think you should -- we would expect that to constitute into next year. I think as you can see from the results, our margin, our adjusted EBITDA to revenue is up 50 -- we expect it to be at 50 basis points for the year. We've generally been guiding 10 to 20 bps. And so I think you can see the power of the commercial energy business and our margins.

Joseph Vafi *Canaccord Genuity - Analyst*

Sure. That's great to hear, John. And then anything notable coming out of these last set of storms, I guess, here in the month of October. Is there anything we should read through on disaster recovery this year that might be different than previous years? Thanks a lot, guys.

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

Well, I think as I said in my remarks, I think we still continue to do significant work in Texas and Puerto Rico, and those remain important clients -- long-term clients for us. We've had the recent hurricanes, Helene and Milton. We have picked up, as I said, numerous small opportunities to do disaster assessment, to do quick analysis of the potential damage in areas.

It is allowing us to develop relationships and get people on the ground. I expect there will be significant opportunities. As we've talked about in the past, it usually takes 12 months for those opportunities to develop and get to the RFP stage. So I would see it, say, in the second half of next year, we would expect to see opportunities in Florida and the Carolinas related to disaster recovery.

Joseph Vafi *Canaccord Genuity - Analyst*

Great. Thanks very much John.

Operator

Tim Mulrooney, William Blair.

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

This is Sam Kusswurm on for Tim Mulrooney. Thanks for taking our questions here. I guess regarding first, your climate services, we've been receiving more questions just around some of the work being done, particularly with respect to your federal clients. I believe this business has been growing in the double digits. And I think investors would like to understand a bit better, just how much of that growth is coming from federal clients versus more your state and commercial clients.

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

I would say that the climate business has certainly been growing double digits here in total and sees robust demand. As you know, we do have a business there that spans our commercial client set, our state and local clients, our federal government client set, and our international government client set. So we truly have a diversified portfolio and are a market leader in that market.

I think all in, if you look at that business, the federal component is, I would say, 15% to 20% of the business. The remainder is primarily in commercial and state and local. And so federal is an important component, but it's 15%. And so we are seeing strong growth, and we have scale in commercial markets and in state and local in that area.

And so it's a diversified business. And I think I'll -- I'm not sure if your question is trying to direct here. But I would say that we would expect that we'll continue to see strong growth opportunities. Regardless of kind of what happens with the presidential election in the federal market, I think we have confidence that we can grow that business and grow robustly on the back of our state, and local, and commercial, and international clients.

And honestly, in prior administrations, to the extent that federal focus shifted on climate state and local governments step forward. And so I think we would look for and focus on that possibility as we look forward if needed.

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

No, it's very helpful color and kind of the angle I was approaching that with. I appreciate that. Maybe pivoting a little bit to the federal IT side. We noticed you announced another large contract on the federal IT side. And I know a piece of your IT strategy is to really increase the share of some of these larger contracts compared to maybe more of your historical average of $10 million to $25 million a project, let's say.

Can you help us understand if there's a mix shift occurring here in your average contract size? And then how you think your project mix might look like a few years from now?

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

Well, I think we're certainly focused on trying to expand the size of contracts we're bidding on and move up in terms of the average size of our IT modernization contracts. I would say, our sweet spot historically in the last couple of years is in the $10 million to $25 million range. We are winning contracts north of $50 million. I think we're certainly bidding contracts north of $100 million.

And so you're absolutely right, that is part of our strategy. I think we're focused. I think that it doesn't happen overnight. I mean, I'm sure, as you know, when you bid these large IT modernization contracts in the federal government, you have to get them in capture and spend 18, 24 months positioning to win them.

And so the pipeline, I think, is showing good progress. We did win a very nice contract. We just talked about in our commentary with the US territory. And so we're seeing positive signs, positive developments, but that's exactly the strategy.

We do believe we have reached a size and a scale where we can bid larger IT modernization contracts, and that certainly where we can combine our domain expertise with technology capabilities, we can also differentiate ourselves, at least in civilian markets. And so I think we're making good progress. We've had some early wins. And the pipeline is looking good, and we feel pretty good about it.

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

Awesome. Well, appreciate the answers here.

Operator

Tobey Sommer, Truist Securities.

Tobey Sommer *Truist Securities - Analyst*

Thanks. In the commercial and energy space, the press release and your comments talk about the elevated demand growth that utilities are now forecasting for a host of reasons. What do you expect the impact to be on ICF with respect to maybe the rate of growth of that business as well as the length of period of time that you expect to have kind of good growth?

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

Yeah. Well, I think, there's no question that these utilities are seeing significantly increased potential load growth as they look down the road, given five or six different broad trends, certainly including the latest with AI data centers. And our clients are certainly seeing that.

And so that impacts our business in multiple ways. I mean we do front-end advisory work for utilities. We help them on their load forecast, their lower demand growth. And we help them think about their portfolio of generation assets to meet that growth, how they can manage it with programs like energy efficiency and electrification.

So it moves into the program side of the business, and we can help them with resilience. And so I think that significant future long-term growth, load growth, will create long-term opportunity for us to help our clients. On the advisory side, come up with their strategies and their approaches to meet that growth, or manage that growth, or support that growth. And it's not just -- it's utilities, but it's also governments, Department of Energy and other federal agencies that are part of this, and state PUCs and state energy agencies.

And so we're seeing a lift and a focus both on our advisory work and our energy implementation work. And I think it's a long-term trend. I mean, I think I've said before that it's like a once in 100-year trend. This is going to take decades to work through and come up with solutions. So I think it's a long-term opportunity for us, Tobey.

You can just look at our growth in commercial energy, we grew 15% in 2022 and '23. We're growing most of 25% in '24. And I think that's in part due to some of the ramp up of opportunity here. And so I think there's very significant long-term growth potential in this market.

Now, I mean there's a law of large numbers. It's hard to kind of have 25%, 35% growth forever as you get larger. But I mean, I think there's significant opportunity for us here. We're working it across many parts of this market at scale. And so I think we're excited about it.

Tobey Sommer *Truist Securities - Analyst*

Thanks. A couple of things helped profitability in the quarter and for the balance of the year. This uplift in direct cost percentage, is that episodic or sustainable? And then is the annual rate down closer to 20%, a good proxy for future tax rates? Or will we lap this next year?

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

Tobey, this is Barry. I'll touch on the tax rate. As I said in my remarks, we believe that the tax rate of approximately 21% is something that we'll be able to achieve next year in 2025 and certainly, I think, maybe in 2026. So we're comfortable that the things that we're doing right now from an optimization perspective will stick, is for the fourth quarter, right in the next couple of years

And from a direct labor perspective, if you think about kind of the shift in the business towards more ICF labor directed revenues, that certainly is pushing the improved margins. And we think that that's going to continue as our advisory services continue to expand, especially in the energy sector, in that client market.

So we think that obviously -- we're pleased with that. We're pleased with the growth from a revenue perspective that is derived from our labor. So I think that that certainly is positive.

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

Perfect. Yes, I agree with everything Barry said. I mean I think in our energy business, the pass-through ratio is generally not as high. I see us doing more of the business. It's a very profitable business. It drives more profit.

I do think we're in a period where our pass-through rates have been down in the Health and Social Program area the last couple of quarters. You can look at our pass-through ratio last year to this year for the company, and I think it's down 250 basis points.

It's in our federal health and international health businesses. But I think we do expect that pass-through, to see more pass-throughs next year as we ramp up the handful of contracts that we're focused on. But with that, I still expect that there will be longer-term improved profit with the rapid growth in our energy business.

And that's -- I mean we've been guiding to 10 to 20 bps of EBITDA margin improvement for many years. I think, obviously, again, I would say you see the power when the commercial business is really growing. We're 40, 50 bps higher right now.

Tobey Sommer *Truist Securities - Analyst*

What parts of the business, the government business specifically are declining? And how large are they?

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

Well, I think -- I mean we're seeing the decline. You can see the decline in the Health and Social Programs market area. That market area was down 5.2% in the quarter. On total revenues, I think on, it would be higher on service revenue, on work done by ICF.

I think the -- and so we're generally flat to low single digit, I think, in that market on the work done by ICF. I think that we're seeing -- I think our USAID business right now, we're not seeing the pass-throughs for a variety of reasons. We expect those to ramp back up. But certainly, the USAID business has been down this year. I think that's the biggest driver. Barry or James, is there anything else you'd add?

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

I would agree with that. Yeah. I would say if you look at the client market segments, the Energy, Environmental, Infrastructure and Disaster Recovery area for the US government on a year-to-date basis is growing quite nicely. We're getting new contracts with a variety of federal agencies. And so that market is continuing to grow.

I would say, in the Health and Social Programs, I think that the issue that we've seen there is with the contracts that we've talked about where some of the programs just haven't been ramping up as quickly as we thought. We're waiting for some key awards that we think are forthcoming. And we think that, that business is going to turn around.

And if you look at the Security and Other Civilian Commercial areas, that business is growing as well. And so we're pleased with that. So all standing, I think there's a lot of potential on the federal government arena. I think that once we get some of the ramp-up and some of these awards pushed through that, you'll see the turnaround in the federal market space in that one client market area. But the other client market, there's real solid growth there, and we're pleased with that.

Tobey Sommer *Truist Securities - Analyst*

Thank you very much.

Operator

Marc Riddick, Sidoti.

Marc Riddick *Sidoti & Company - Analyst*

Hi, good evening. So I wanted to touch on -- and thank you for the commentary on the tax rate and the efforts there to sort of -- to bring that to the levels that you're looking at for the current period in the next couple of years there.

I wanted to shift gears a little bit as far as there's been a significant amount of debt reduction. And I did want to sort of touch on maybe kind of where you were looking at as far as comfort levels. And then it seems as though that would position you well for any potential acquisition activity.

So I was wondering if maybe you could bring us up to speed on your views on the current pipeline, availability, quality of assets that might be out there that would be a good fit for the company.

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

Yeah. Thanks for the question. As far as the debt reduction is concerned, I think, as I said in my remarks, our favorable cash flow that we've had this year certainly are contributing to the debt reduction. We'll continue to do that.

And I see that we can turn -- have our leverage -- net leverage ratios continue to be reduced throughout the end of this year. We are -- we have plenty of capacity to look at different M&A opportunities. We are considering a number of things. And as those come through and they meet the various attributes that we're looking for from a capabilities perspective, a culture perspective, the customer sets, contracts that they have, we'll take a good look at that.

But I think that our ability to de-lever, and we're certainly comfortable where we are right now, for sure, gives us plenty of flexibility to pursue different acquisition opportunities as they present themselves. So we'll continue to pay down debt, give us plenty of headroom from a capacity perspective to go out and acquire companies. So we'll continue to go on that route.

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

Yeah. I just would agree with everything Barry said. I would just say from a market perspective, I think, obviously, we're focused on -- it's been a key part of our strategy. I think we've obviously been paying down debt here over the last couple of years. But I think within our growth drivers, I think if there was an interesting asset in energy or around federal health IT. We would sort of look at them.

And so we're out in the market, we're looking, but we have very clear criteria. And we're disciplined. And so we'll stay out of the market. And -- but I think those are the areas where we're focused from a strategic.

Marc Riddick *Sidoti & Company - Analyst*

Great. And then I was wondering you -- and this might be a bit of a squishy question, so I apologize in advance. But do you feel as though the valuations -- that folks are -- are they a little more reasonable or about the same as they were maybe a year ago? How do we feel about that spread at this point?

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

I mean I think the valuations generally have been lofty. I think there's been some movement that they've made some progress in coming back into alignment. I mean it really depends on the market. I mean, look, in the energy area right now and the types of work we do, there's tremendous opportunity, and there's a lot of interest.

I mean we're seeing all kinds of new and different entrants looking at these markets. And so the valuations are going to be challenging there. In federal, I think it really depends on what the focus of the business is. I think in the high interest, high value-added areas, the valuations are still rich.

But I think they're workable for the right asset. And really, it comes down to, do you see the synergistic value, can you find the synergies, at least for us on the revenue side to justify the opportunity.

Marc Riddick *Sidoti & Company - Analyst*

Thank you very much.

Operator

Thank you. And with that, I will close the Q&A session for today and turn the call over to John Wasson for final remarks.

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

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

Operator

Thank you all for participating in today's conference. You may now disconnect.

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