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ICFI - Q1 2016 ICF International Inc Earnings Call

EVENT DATE/TIME: MAY 05, 2016 / 9:00PM GMT

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PRESENTATION

Operator

Welcome to the ICF International first-quarter 2016 results conference call. During the presentation, all participants will be in a listen-only mode. Afterward, you will be invited to participate in a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded on Thursday, May 5, 2016 and cannot be reproduced or rebroadcast without permission from the Company. Now I would like to turn the program over to Lynn Morgen of MBS Value Partners. Please go ahead.

Lynn Morgen - *MBS Value Partners - IR*

Thank you, operator. Good afternoon, everyone and thank you for joining us to review ICF's first-quarter 2016 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO; John Wasson, President and COO; and James Morgan, CFO.

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, 2016 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 time 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, Sudhakar Kesavan, to discuss first-quarter 2016 performance. Sudhakar.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you, Lynn and thank you all for joining us today to review our first-quarter 2016 results and our business outlook.

First-quarter results were in line with our expectations and represented a solid start to 2016. Earnings growth of 25% on a 3.7% organic growth in revenues sets the stage for significantly improved performance this year.

Revenue growth was led by the strong performance of our federal government business, which increased 6.6% organically over last year's first quarter. As we noted in the last two quarters, we have begun to see a return to a more normalized pattern of revenue flow following the awarding of federal contracts. ICF's strong showing in the federal market is the result of our focus on key areas in which we have deep domain expertise such as energy and health, broadly defined, and the scale we have developed to win implementation contracts involving IT solutions and digital services in these markets.

I'm pleased to report that the two major pillars of our higher-margin commercial business, energy markets and digital marketing services, performed as expected in the first quarter. Energy markets showed solid year-on-year growth, and digital services showed good sequential growth. This quarter, we began providing data on revenue generated for work done at commercial rates for state and local government clients in these two areas. We believe this commercially priced work will become an increasingly important contributor to our state and local business.

As expected, commercial revenues declined from Q1 2015 levels for two primary reasons. First, the expected reduced activity on the large California utility environmental services contract, and second, the fact that we had the entire Midwest utility energy efficiency contract last year at this time before it was split into two contracts, as we have discussed previously. However, over the next three quarters, we expect to see significant sequential improvement in revenues from commercial clients, which will accelerate in the second half of the year leading to high single-digit growth for the full year.

We continue to be pleased with the revenue synergies we have gained since the acquisition of Olson and its integration with our legacy digital operations. ICF Olson won many new client projects in the first quarter over a broad range of markets, including utilities, aviation, technology, hospitality and food service and distribution and retail. The average dollar value of these integrated wins continue to increase compared to wins in Q4 2015. I'm also pleased to report that the brand business grew substantially in Q1 compared to Q4, consistent with our forecast.

We ended the quarter with a record number of intercompany commercial opportunities for digital work in the pipeline, particularly involving projects for our existing utility, aviation and government clients, which is what we had envisioned when we completed the Olson acquisition. Two good examples of wins since the last time we spoke to you are worth discussing.

First, a large multimillion dollar contract with a utility where we will work with them on marketing, education and outreach and communications issues to encourage conservation efforts in the utility service territory. The marketing and communications campaign will be led by ICF Olson in collaboration with our utilities group.

Second, ICF Olson has just won two engagements with an airport management company, which manages a dozen airports in Mexico. This is work to brand the Company's proprietary lounge network and create a loyalty program. This company is a longtime client of our aviation business.

We are also quite pleased with the talent we have been able to attract to ICF Olson to complement our existing executive leadership. About six months ago we brought on a chief creative officer, and in December last year we added a leader of the Brand Division. This year, we have completed the senior management team by recruiting a Group Lead for ICF Olson. Louise Clements brings 26 years of experience in marketing, advertising and engagement and was most recently the president of a large New York-based digital agency.

ICF Olson was also included in Advertising Age's latest list of 50 largest agencies in the world, strengthening our competitive position in marketing services.

All of this progress underpins the confidence we have in our ability to scale the ICF Olson business while continuing to leverage its qualifications in bidding for government contracts.

Energy markets, the second major pillar of our commercial services business, performed strongly this quarter. We have won a number of new assignments in this market. Some have been announced and the others will be announced as we complete the paperwork formalities. Taken together, we have won over $200 million of work year-to-date, which bodes well for the rest of the year.

We are pleased to announce that Colette LaForce has joined us as our first chief marketing officer responsible for ICF's global integrated branding and marketing. Colette comes to ICF with over 20 years of experience leading marketing and communications teams across technology and professional service industries.

As noted in today's earnings release, this was an excellent quarter for ICF in terms of contract wins. In addition to setting the stage for continued growth, the awards were broad-based as we achieved double-digit growth in the dollar value of contracts won in each of our client categories -- federal, commercial, state and local and international government. This diversified business model is a key differentiator for ICF, providing resilience in times of difficult market conditions and significant growth momentum in times of improving market conditions. This positive momentum in contract awards continued to the second quarter, which John Wasson will discuss in a moment.

To sum up, this quarter was a period of solid execution on our organic growth plan and a good start to the year. After over three years of speaking about federal government headwinds, we are pleased to be talking about tailwinds across our business portfolio, particularly in federal and the two pillars of our commercial business -- energy markets and digital marketing services.

Now I will turn the call over to our President and Chief Operating Officer, John Wasson, for a closer look at our operating results and recent awards.

John Wasson - *ICF International, Inc. - President & COO*

Thank you, Sudhakar and good afternoon.

As Sudhakar noted, we executed well in the first quarter of the year. We also had an excellent quarter in terms of contract wins, which has continued into the current quarter, and we continue to have a very robust pipeline of new business opportunities.

US government business, which showed strong year-on-year revenue growth of 6.6% in the first quarter, involved work on a broad range of contracts across multiple civilian agencies. We were also awarded more than 100 US federal contracts and task orders in the quarter.

We had a number of wins with US Centers for Disease Control and Prevention, including our largest win, which was a $34.7 million contract to provide data management support to the Division of HIV-AIDS Prevention. We were also awarded two task orders with a combined value of $14.4 million to provide health informatics and IT support for the Laboratory Response Network.

Other notable federal contract wins in Q1 included a $19.8 million contract with the US Environmental Protection Agency to provide technical, economic and public policy analysis to support ozone and greenhouse gas initiatives, a $5.9 million contract with the US Department of State to provide enterprise strategy and management support to the Bureau of Consular Affairs and a $3.6 million contract with the Department of Defense to support the global rollout of its web-based childcare portal for the military.

US state and local government revenues grew 20.5% in the first quarter, reflecting the startup of a number of new awards in environment, transportation and digital for state and local clients. It is also important to note that the pace of activities on our California state lottery contract to provide digital services increased during this period. For the full year, we still expect state and local revenues to be flat to slightly up as we complete work on several large environmental impact assessment contracts and wrap up work on Superstorm Sandy recovery efforts discussed on previous calls.

We had several significant state and local wins in the first quarter. The first was two contract awards with a combined value of $16.1 million with the California Department of Transportation. Specific tasks under these awards included assisting Caltrans with the preparation and processing of documents and supporting technical studies to ensure compliance with the National Environmental Policy Act, the California Environmental Quality Act and other environmental requirements, providing regulatory permitting and project mitigation planning services and conducting construction phase monitoring for projects. The other large win was a $12.4 million subcontract to support clean energy and energy efficiency programs for a major public utility board in the eastern US.

Again this quarter, we experienced an increased level of international government award activity, specifically with the European Commission. ICF was awarded a new EUR32.5 million contract for four years with the EC Executive Agency for small and medium-sized enterprises. As part of this contract, ICF will assist a number of directorates conceptualize, organize and implement small- to large-scale events, including conferences, workshops, training sessions and awards ceremonies.

Turning to our commercial business, digital services and energy markets together accounted for 77% of first-quarter commercial revenue. As we have discussed previously, our current system for classifying revenue per market is based on the origin of the client rather than the nature of the work we perform. If you include the commercially priced work in energy and digital services that we perform for our state and local clients, that number would increase to approximately 80% of commercial revenues.

Sudhakar covered ICF Olson, so I will give you an update on our domestic commercial energy business where revenues increased 2.3% over the first quarter of 2015. Year-to-date recent contract wins and additional awards yet to be announced exceed $200 million and set the stage for a much stronger year for our energy markets business. Some of the contracts announced in Q1 include: a $15.7 million contract with a major utility in the Midwest to support residential, commercial and industrial programs; a $9.2 million contract with Wisconsin's Focus on Energy, which is Wisconsin Utilities' statewide energy efficiency and renewable resource program; an $8.6 million contract with a consortium of utilities in the Northeast; three contracts with a combined value of $6 million with a utility in the Midwest; and a $3.2 million contract with a major utility in the West.

Since the end of the first quarter, we have been advised that we have won an additional $150 million of energy efficiency business, which should ramp up in the second half of the year. Of note, we were recently informed that we won one of the largest energy efficiency contracts ever awarded in the US and certainly the largest contract that ICF has ever won in the energy efficiency arena. Thus, we are confident that our energy business will grow substantially in 2016 and look forward to updating you further on these contracts.

Our commercial energy advisory business also grew rapidly in Q1 led by a strong increase in both transactional and distributed energy utility work. We have established ourselves as the leading provider of market due diligence for North America power transactions and restructuring. We expect this business to be robust in 2016 and to continue taking market share. In our integrated demand side resource practice, we are seeing fast adoption of our regulatory support, network planning and grid modernization offerings to utilities. As more states look to encourage the deployment of photovoltaic solar, storage and other distributed energy technologies, ICF is well-positioned to help utilities and developers plan and execute new business strategies.

Overall, at the end of the first quarter, our energy markets pipeline had over $500 million of proposals, up 50% from where it was a year ago at the end of the first quarter.

Moving to our Companywide sales performance this quarter, we had contract awards of $318 million, up 19.5% over the prior year. All of our markets had double-digit sales growth. With $1.4 billion of contract awards for the trailing 12 months and a book-to-bill ratio of 1.21, we are off to a solid start in 2016.

Our pipeline is strong at $3.7 billion after winning $318 million of awards in the first quarter of the year. The pipeline includes 29 opportunities greater than $25 million, and 64 opportunities greater than $10 million.

Finally, our domestic turnover rate for the first quarter was 3.6%. This translates into an annualized rate of 14.5%.

Now, James Morgan, our CFO, will continue with the financial review. James.

James Morgan - *ICF International, Inc. - EVP & CFO*

Thanks, John. Good afternoon, everyone.

We are pleased to report solid year-on-year comparisons to the first quarter. Total revenue was $283.6 million, or organic growth of 3.7% above last year's first quarter, driven primarily by a significant pickup in federal government revenues. On a constant currency basis, the overall company organic growth was 4.2%. Service revenue increased 1% to $212.4 million.

Overall staff utilization was higher year-over-year, but gross margins decreased 2.3% from 39.8% in the first quarter of 2015 to 37.5% in the first quarter of 2016. As expected, this year's Q1 margins were negatively impacted by the startup and implementation phases of certain large contracts and weather-related federal government office closures in January. In addition, this year's Q1 revenues included a higher mix of pass-through revenues. In aggregate, these factors reduced gross margins by approximately 150 basis points. We expect that the startup and implementation phases of certain contracts will continue to have some impact on gross margin in Q2, but to a lesser extent than in Q1.

Indirect selling expenses for the first quarter were $81.6 million, a $3.3 million year-over-year decrease resulting mainly from higher labor utilization and lower overhead expenses. For the full year of 2016, we expect to continue effectively managing our indirect costs and selling expenses. Operating income was $17.7 million for this year's first quarter, up 10.9% year-over-year.

Reported EBITDA was $24.8 million for the quarter, 3% higher than the $24.1 million reported in last year's first quarter. EBITDA margin was 8.8% for the first quarter of 2016, consistent with the first quarter of last year. There was a 90 basis point impact to the EBITDA margin in Q1 of this year as a result of the previously mentioned startup and implementation phases of certain large contracts and the weather-related federal government office closures. We expect our EBITDA margin to increase throughout the year expanding at an accelerated pace in the second half.

Depreciation and amortization expense was $4 million, up from $3.8 million in 2015's first quarter. As anticipated, amortization of intangibles decreased from $4.3 million reported in 2015's first quarter to $3.1 million in the first quarter of 2016. The $1.2 million decrease was due to certain intangibles from acquisitions that were fully amortized.

The effective tax rate was 37.6% for the quarter as compared to 40% reported in the first quarter of 2015. This year's first-quarter effective tax rate was favorably impacted by a true-up of our deferred state tax position. We continue to expect a full-year tax rate of no more than 38.5%.

Reported net income was $9.7 million, or $0.50 per diluted share for the first quarter of 2016, which was a 25% increase compared to the prior-year quarter. Non-GAAP EPS, which excludes amortization of intangibles, as well as costs related to office closures and acquisitions, was $0.60 for the first quarter of 2016 as compared to $0.54 in the prior year, an increase of 11%.

This quarter, we reported a favorable year-over-year comparison in cash used in operating activities of $13.6 million compared to cash used in the first quarter of 2015 of $23.3 million. The change was primarily due to positive comparisons for cash flows related to accrued salaries and benefits. As mentioned during our prior earnings call, we continue to expect that our operating cash flow for the first half of 2016 will be considerably higher than the first half of 2015, and we continue to expect that our full-year cash flow from operating activities to be in the range of $85 million to $95 million.

Days sales outstanding for the quarter were 78 days as compared to 79 days at the end of the first quarter of 2015. We continue to anticipate the year-end DSO to be in the 72 to 77 day range, including the impact of deferred revenues. Capital expenditures for the first quarter were $4.2 million.

We repurchased 128,780 shares in the first quarter at an average price of $33.29 per share. As stated previously, we intend, at a minimum, to make share repurchases in 2016 at a level to offset the dilution caused by our employee incentive programs. Per share guidance for 2016 assumes weighted average diluted shares outstanding of approximately 19.4 million compared to approximately 19.7 million for 2015.

Our other guidance metrics for 2016 remain the same.

We expect 2016 EBITDA margin to range from 10% to 10.3%. This is the average rate we anticipate for the full year of 2016. We expect depreciation and amortization expense in the range of $18 million to $19 million for 2016; amortization of intangibles between $12.3 million to $12.8 million, or a tax-effected impact of approximately $0.40 per share. Full-year interest expense is expected to be in the range of $8.5 million to $9.5 million, and as I mentioned earlier, we expect the full-year tax rate to be no more than 38.5% and full-year cash flow from operations is projected to be in the range of $85 million to $95 million for 2016.

With that, I'd like to turn the call back over to Sudhakar.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you, James.

First-quarter performance supports our full-year 2016 guidance, which calls for substantial double-digit earnings growth on mid-single digit revenue growth. Federal revenues are expected to show low single digit year-on-year improvement. Our commercial business will grow at a high single-digit rate for this year, showing sequentially improved performance in the second quarter followed by double-digit growth in both the third and fourth quarters.

We expect improved gross margin in subsequent quarters of this year and progressive improvement in utilization rates to drive substantial earnings growth enabling us to report non-GAAP EPS in the range of $2.79 to $2.94 and diluted EPS of $2.40 to $2.55 on revenues of between $1.15 billion and $1.19 billion.

Operator, I would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Tim McHugh, William Blair & Company.

Tim McHugh - *William Blair & Co. - Analyst*

Thanks. Just wanted to ask if you could follow up on the comment about the energy efficiency contracts. One, I guess when you talk about $200 million of wins, including $150 million since the quarter-end, what's the timeline for that? Should we think about that revenue spread out over three, four years, five years? Help us think about that. And then also just, I guess, of the $150 million since the quarter-end, roughly how much is that one large contract that you talked about, as well as maybe any details on the timing of that as well?

John Wasson - *ICF International, Inc. - President & COO*

I would think about the length of the contracts of the $150 million of wins since the end of the first quarter, about three-year contracts, so look at it from that perspective. In terms of the $150 million, how much of it is the largest contract? 60%.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

It's about $100 million.

John Wasson - *ICF International, Inc. - President & COO*

The largest contract. I would expect these contracts to begin to ramp up at some point in Q2, then really ramp up into full pace of activities in Q3 and Q4.

Tim McHugh - *William Blair & Co. - Analyst*

Okay. So just the simple math there implies that that would add $50 million annually to revenue versus -- I think your energy efficiency in the past was -- it was kind of $100 million and the total energy group was $125 million. Is that wrong or --?

John Wasson - *ICF International, Inc. - President & COO*

Well, I think you have to -- several of these contracts -- some of them are with existing clients and so a portion of the revenues in the contracts are essentially recompete work that will continue and then there's portions of the contracts that are new work that will lead to additional new organic growth. I think you have to be a little careful about assuming the full $115 million is all new contracts and new organic growth over the three-year period.

Tim McHugh - *William Blair & Co. - Analyst*

Is the large contract you mentioned new or a recompete?

John Wasson - *ICF International, Inc. - President & COO*

It's a mix of both. I would say it's -- I don't have the percentage, but there's a material portion of new work in the contract, and there is some recompete work there. I think we'll give more color when we announce it.

Tim McHugh - *William Blair & Co. - Analyst*

Okay. Obviously, you talked positively about some of the directional trends you are starting to see in Olson in the digital interactive space, but I guess how much visibility do you have to making I guess your statement or expectation for high single digit growth for the full year?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think we have pretty good visibility in the sense -- I mentioned the large multi-million dollar contract we one with the utility and marketing communications. That's a reasonably long-term contract, so that will crank away, so that gives us some visibility. Some of the contracts they win are traditionally around 12 months, so it's not like they just announced that they became today the amounts that they won two more agency of record clients, Hisense, which is a large Chinese electronics retailer who now owns the Sharp brand in the United States. They are the agency of record for them, they just announced, and they are an agency of record for a healthcare technology company called Higi, which is Chicago-based.

So they have -- once they become an agency of record, they get work for at least the next 12 months, if not longer. So there is reasonable visibility. Not as long as say the energy efficiency contracts, which are three-year contracts, etc., but they certainly have reasonable visibility on their contracts.

John Wasson - *ICF International, Inc. - President & COO*

And I would just add, I think in other parts of Olson, certainly the 1 to 1 loyalty business tends to be larger, longer-term contracts with a multi-year tail on them, and so I think we have quite good visibility on that business. It's been a major driver of our growth.

I would just add to what Sudhakar said, I also do think and I think we've talked about this on prior calls, on the brand business in particular, there is kind of a momentum aspect to that, that it's about what are the most creative efforts you've done and what impact have you had for your clients. And so I think the good thing for us is we are feeling like we are seeing some momentum here. We are seeing the quarterly sequential growth. We are winning some new additional agency of records, and so getting our mojo back is an important aspect here. So I think that's giving us some confidence that we are well on our way with the new hires, the new creative director, to doing that.

Tim McHugh - *William Blair & Co. - Analyst*

Okay, great. Thank you.

Operator

David Gold, Sidoti & Company.

David Gold - *Sidoti & Co. - Analyst*

Good afternoon. Just was curious -- interesting to see the government business growing presumably at the commercial rates. And was just curious if you could comment there on sustainability of getting let's say commercial rates on those projects from the government contracts at Olson and how one -- basically how one makes sure that we can maintain those margins as we go forward when we bid on these contracts. In other words, internally.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, I think that what is interesting is that if you look at the digital business, traditionally, the government has acquired services and this is true for state and local governments and to a large extent true for the federal government too where they are willing to pay higher rates for these kinds of services. And it's been historically true.

So when we look at some of the rates, which we get on the state and local work for certain specific kinds of work, for digital business, for the energy efficiency business, it is very different from the work which we've gotten say in the environmental impact assessment business, etc., or the transportation business, which is a different rate base.

So the agencies we sell to are different, and they have different procurement processes, so -- and the people who bid this work within ICF are different parts of the business. So I think there is no -- there will be no confusion in what rates we put in for a specific kind of job, for a specific kind of client. So I think that they are quite sustainable and they are traditionally used to paying those rates and I think that they will -- it is historically true that the industry will not bid on some of this stuff unless they get those rates.

So I think that it's generally -- when we compete against other companies, which are in this space, they certainly will charge these rates. They don't go in and do what we traditionally call government rates, so they will get no one to take the work if they pay those low rates.

David Gold - *Sidoti & Co. - Analyst*

Got you. Okay, that's helpful. And then, just a little bit of follow-up if you can on the overhead reduction relative to years past cost cuts there essentially. I don't know, James, if you mentioned the run rate on that -- I think you did. You did it too quick for me, so if you can just go over that and just the potential sustainability and where else we might see lower costs?

James Morgan - *ICF International, Inc. - EVP & CFO*

Yes, and I think maybe the way to think about it is that if you look at last year, if you looked at our indirect costs for the full year on average, we ran at somewhere around 29.1% of revenues was our indirect expense. And for this first quarter of this year, we are running around 28.8%.

As we move forward, we think that we will continue, especially with the rampup of these new programs, we will continue to run in the, I would say, the lower 28% range, and so that's what we are expecting as we move forward. We will certainly be 50 to 100 bps lower this year than what we were last year on indirect expenses.

David Gold - *Sidoti & Co. - Analyst*

Perfect. That's helpful. Thank you both.

Operator

Bill Loomis, Stifel.

Bill Loomis - *Stifel Nicolaus - Analyst*

Thank you. Good quarter. Just looking at the federal guidance, Sudhakar, I think you said federal is expected for the year to be low single digits. You reported 7% in the first quarter. Are you looking for declines in federal in the second half of the year?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think, Bill, we knew this question would be asked, so we are entirely prepared for it. We think that there is -- the federal business will be at this rate at least for the second quarter and then we think that it will decline in Q3 primarily because of the fact that one of our contracts is ending, has moved to a small business data side, so I think that the decline will be significant in Q3.

And I think that it is hard for us to -- when we average it all out and we look at all the math, we think it is useful to understand that that decline will have an impact on the overall growth of the business. And then after that, it will be at those low single digit rates going forward. So I think that that's the reason we said it, yes. So --.

Bill Loomis - *Stifel Nicolaus - Analyst*

Anymore insight into that contract you won in small biz, which one it was, if possible?

James Morgan - *ICF International, Inc. - EVP & CFO*

I would say it's a large program management contract for a civilian agency, but beyond that, I don't think we want to get into any more detail on it.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. And then on commercial, what was the overall organic growth in commercial? And then if you could just -- anything you can do to break it out for us? I know you talked about digital and energy were 80%. Maybe give that growth number and somehow give us a better understanding of what the (technical difficulty).

If you could just help us out, organic growth on commercial overall and then anyway you can parse out the segment to show what the organic growth is in some of your faster areas and where the real weakness is and how weak it is.

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Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, I think that if you look at the organic growth rate Q-on-Q commercial, it was minus 3.5%. What I was trying to indicate was that, going forward, as we move forward through the year, we will grow the business and -- primarily the minus 3.5% was because of foreign exchange adjustments, the [PRTP] contract, which -- or one of those, the California Environmental Services contract, which ended and the Midwest Utility Energy Efficiency contract, which we had, which was split into two. So that basically accounted for that. Otherwise, if you take those things out, we were flat Q-on-Q in terms of commercial.

What you will see going forward is a plus-up on these commercial contracts in the commercial business in Q2, but then really a big plus-up in Q3 and Q4, which we are getting double-digit rates in terms of commercial revenue growth in Q3 and Q4 because of some of the contracts we've won in energy, which we described, as well as in the digital business.

So I think those two will really ramp up in Q3 and Q4 and you will see double-digit growth in Q3 and Q4 for commercial; and in Q2, you will see an improvement from what we have currently, but not quite at the level which you'll see in Q3 and Q4.

James Morgan - *ICF International, Inc. - EVP & CFO*

But for the year, we will end up in the high single digits all in.

Bill Loomis - *Stifel Nicolaus - Analyst*

And that's organic -- you would have come up over and over on Olson, so that's an organic number obviously?

James Morgan - *ICF International, Inc. - EVP & CFO*

Everything is organic.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Everything's organic this year, Bill.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. And then just one clarification and I will drop is you said ForEx impact. I thought most of the ForEx was the international government contracts you get overseas. Do you have a lot of that commercial work that's impacted by ForEx?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, we do a fair bit of aviation work overseas, as well as some work, which is done even by our US entities overseas, which we get paid in euros and pounds.

James Morgan - *ICF International, Inc. - EVP & CFO*

Right. It's primarily aviation.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. Great. Thank you.

Operator

Kevin Steinke, Barrington Research.

Kevin Steinke - *Barrington Research - Analyst*

Good afternoon, everyone. In the international business, is your expectation still flattish for the year? You talked about some business wins there. So just wondering if there's been any change in the trajectory or the momentum of that business overall?

John Wasson - *ICF International, Inc. - President & COO*

I think we are still expecting flat trajectory for the international business. We have won a few contracts but, as we have talked on prior calls, there's still uncertainty there in the European Commission, political uncertainty, and so we are assuming it's flat for the year.

Kevin Steinke - *Barrington Research - Analyst*

Okay. Fair enough. And you talked about on your last call your efforts to build up your sales resources in the commercial business and just wondering how those efforts are going, if you are continuing to hire, if you are having success in that regard. Any color on that front would be helpful.

John Wasson - *ICF International, Inc. - President & COO*

Yes, we certainly continue to invest and hire for the commercial business both in marketing and sales. I think Sudhakar mentioned a few of the hires. We've obviously hired a new head of our digital agency, ICF Olson, who will obviously play a key role in the sales and driving the sales and marketing. We've hired at the corporate level a new CMO who brings tremendous relationships and experience on the sales and marketing front. And so maybe, Sudhakar, you want to add a little more color on --?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

And we've also hired some additional salespeople to set up the whole inside sales function and also the outside sales function, so we are basically quite focused on building up the whole inside sales function, which will obviously focus on lead generation, which will then be taken over by the outside sales function. We've also hired a senior person who's going to run one of our large offices, which we will announce in the next few weeks, who is also very sales-oriented, who comes from a lot of experience in this business. So we are continuing to strengthen that part of the business, and we are also focused on the nitty-gritty and the mechanics of making sure that the whole process is set up so as to work in a machinelike way as does our federal business. So we are not quite there yet, but we are certainly surely and steadily getting there.

Kevin Steinke - *Barrington Research - Analyst*

Okay, good. And as a follow-up on that, if you could talk about your decision to bring on a chief marketing officer for the first time. What sort of opportunity do you see there with that hire and just kind of the overall strategy on marketing going forward?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think that she's got enormous experience. Her background is a very strong one. She used to be the chief marketing officer of cars.com, before that for AMD, the big chip company in Northern California and before that for Dell Services. So she has a very strong background. She's very well-connected across the potential client universe we want to focus in on. So we are certainly hoping that she will help us generate more leads as we move forward, but also take care of the general visibility of the firm going forward because I think we are focused on making sure the brand and the firm has transformed itself.

The brand has to represent more than what people perhaps might think it represents, so we are focused on making sure that the whole branding arena and making the firm much more visible and ensuring that it builds some recognition across our more brand-sensitive markets is done in a very systematic way. So she's been here maybe 10 days and she already is I guess changing things. So I think that we look forward to having a very positive impact on our overall business and our overall visibility across all our markets.

Kevin Steinke - *Barrington Research - Analyst*

Okay. That's good to hear. Just lastly, the three loyalty programs on the digital side, are those all rolling out according to plan and expectations?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, I think that the loyalty programs are rolling out according to plan, expectations. The loyalty business had a tremendous first quarter this past quarter. They are all -- one of them will get done by the end of Q2, and the third one will get done by the end of Q3 in terms of setting it all up. And the first one was done and is rolling along, the biggest one we have. So I think that the performance for the business has been spectacular is the best way to put it.

Kevin Steinke - *Barrington Research - Analyst*

Okay. Great. Thanks for taking my questions.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. Wanted to start out by a follow-up on the new sales hires, internal and external sales staff, you said. Is that impacting things already, or is that the kind of initiative and effort that is on the come and something that will be influential in coming quarters or maybe next year?

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

It's certainly impacting the pipeline. I think that we have seen -- we monitor that thing quite carefully and we have seen certainly a growth in the pipeline of work, which potentially folks are going after. It has been in place. We have a number of these folks who have been in place and being managed actively over the last six weeks or so and I think we are going to watch and see how -- what comes out the other end of the pipe.

But we are certainly filling the pipe and we are -- so it's not something which is going to -- which is pie in the sky, which we are hoping to do. We are certainly doing it. It is having an impact, and we hope that in Q3 and Q4 it will have a very significant impact on our sales.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

In the energy business, you talked about a double-digit growth trajectory -- or a double-digit growth trajectory in commercial in the second half driven by energy and digital. If we look at the pipeline and what your customers are telling you and prospective customers are telling you over more of a medium term, does the outlook for the second half of this year seem consistent with what might be more of a medium-term outlook as well?

John Wasson - *ICF International, Inc. - President & COO*

Yes, I think that what we are seeing in the marketplace both on the energy efficiency and the broader energy markets around distributed generation and grid modernization and those types of things -- the energy efficiency and the distributed resource grid modernization are two strong trends that are certainly going to drive significant double-digit growth for us here in the energy business for 2016, and given the pipeline and the momentum we have, I have to say we are quite optimistic about 2017.

Certainly the -- and we will see further rampup as we go into 2017 around the latter issue, grid modernization, distributed resources, while we continue to grow the energy efficiency business.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

And I think on digital, I would just add that I think that the market itself is growing there, and with our focus on sales and with all the qualifications we have and the visibility, which we are getting, I think that we certainly have seen some results of the integration of the business with our legacy businesses, and we are certainly pursuing some very large contracts, which potentially could lead to very significant growth in the medium term. So, yes, I think in both those two areas, I think we are quite optimistic.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

And I'm curious, when you look at larger projects either in energy efficiency or digital, does the competitive set narrow significantly, so are you in a better competitive position if the project being discussed with a customer is a large one, or any differences there as you look at smaller projects versus large?

John Wasson - *ICF International, Inc. - President & COO*

I will address the energy and I will let Sudhakar speak to digital. On the energy front, I think certainly as we see the largest implementation projects, whether it's on energy efficiency or the more classic grid modernization, renewable resources, we have a stronger competitive position on these very large implementation opportunities because we can bring a full suite of integrated solutions to the client under one roof, and frankly, we have a track record of doing these projects and doing them successfully and very efficiently.

And so I think -- so there is certainly -- on the energy side, the competitive set narrows and we can make a pretty compelling case that we have a unique set of integrated capabilities, a long history of doing this and can really do it very efficiently and very cost-effectively.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Yes, and I think certainly you have to have some scale to get the larger contracts in the digital marketing arena. No one is going to give you a $15 million contract unless they can see the financial wherewithal. And I think having put together this business and getting some visibility by being in some top-50 list, etc. in terms of global agencies, and it's only relevant to the extent you get visible, I think that that makes a difference.

You are large -- there's a certain comfort factor, so (inaudible) giving you a large job, and so I think that it certainly makes a difference. I would add that in areas where we have a legacy business, I think there is a significant competitive advantage we have because I think there are possibilities of getting work almost on a sole-source basis. The one which I described, the contract we got on the energy -- on marketing communication with the energy conservation effort -- was almost like a sole-source (inaudible).

And I don't think it's going to happen too often, but we certainly are in a position where people know us well enough and trust us enough to give us the work, especially when we can demonstrate that we know it's a certain kind of business and we have the right people to do it.

So I think that in both areas the size makes a difference in terms of making the client comfortable. You also need to have the qualifications both in the technology, as well as in the creative, as well as in the whole strategy arena for that specific job and I think that, in our legacy businesses, it makes a huge difference because the trust and relationship aspects do make a difference. So I think that, in both cases, I think we have an advantage, and we have a good size and -- which makes people feel quite comfortable.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. I had a last question. On contract awards and backlog, over time, as you've transitioned the business more towards commercial and more recently digital, how should we utilize the contract awards and backlog and maybe how has the utility of using that as a guide for revenue growth over the next year or two changed as a result of the revenue mix change? Thanks.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

I think it's a very good question, Tobey. I think that we have -- obviously the backlog business gives you great visibility in revenue and earnings for government businesses. I think it also gives you great visibility of revenue and earnings for regulated industries. They tend to procure in similar ways. So if you look at the utility industry, etc., you'll see that they have the three or four (inaudible) procurements. So I think for regulated industries and for the government, it's a very useful way to look at it.

I think it's -- we think that pipeline becomes quite important and win rates become quite important for the non-regulated industries because backlog perhaps is -- we still track it, but it's not perhaps as good an indicator. But I think pipeline with steady win rates I think is a good visibility factor for I think the non-regulated industries.

So it will still be quite relevant because our business, if you add the two, is quite significant for backlog. But I think that it's certainly more relevant for regulated industries and government than it is for the non-regulated industries.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

So if we were to sort of couple government, as well as regulated business, what kind of percentage of revenue may that represent for the Company at this point?

James Morgan - *ICF International, Inc. - EVP & CFO*

I think if you think about the regulated business, the US and then the state and local, and then I would also include the energy efficiency business and even the international, and I think I would consider the 1 to 1 business too, which is also long-term contracts. So when you add all of that up, you are getting close to 80% of the businesses you have pretty good visibility in.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you very much.

Operator

Thank you. We have no further questions in queue. I will now turn the call back to management for closing comments.

Sudhakar Kesavan - *ICF International, Inc. - Chairman & CEO*

Thank you very much for participating in today's call. We look forward to speaking with you at the upcoming conferences and our next call to review second-quarter 2016 results. Thank you very much.

Operator

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