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PRESENTATION

Operator

Welcome to the second quarter 2024 ICF earnings conference call. My name is Stephen, and I will be your operator for today's call. (Operator Instructions)

I will now turn the call over to David Gold of AdvisIRy Partners. David, you may begin.

David Gold *AdvisIRy Partners - Investor Relations*

Thank you, Stephen. Good afternoon, everyone, and thank you for joining us to review ICF's second 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'll 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 August 1, 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'll now turn the call over to ICF's CEO, John Wasson, to discuss second quarter 2024 performance. John?

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

Thank you, David, and thank you all for participating in today's call to review our second quarter results and discuss our business outlook. As you've seen from our release, this was another excellent quarter for ICF in which we executed well on existing contracts and continue to lay the foundation for future growth.

With respect to key takeaways from the quarter: First, our Energy Environment, Infrastructure and Disaster Recovery client market continued to be a standout performer, reflecting an array of very strong secular growth trends in these areas.

Second, our profitability metrics increased considerably again this quarter, leading us to increase our EPS and EBITDA guidance for the full year.

Third, this was an outstanding quarter for new contract wins, bringing our trailing 12 month book-to-bill ratio to 1.4.

And lastly, our new business development pipeline increased sequentially by 8.3% to a record $10.5 billion, even after record Q2 sales, providing us with substantial growth opportunities across our government and commercial client sets.

Taking a closer look at second quarter performance, our work in the Energy, Environment, Infrastructure, and Disaster Recovery client market continued to increase significantly, with revenue growing by 14% to account for 45% of our total second quarter revenues, up from 41% in last year's second quarter.

All areas of ICF's commercial energy work posted substantial revenue growth in both the second quarter and first half of 2024, again reflecting positive secular trends in our markets.

We continue to see strong demand for energy efficiency programs, which remain the most cost-effective means for utilities to increase their capacity. ICF has built an excellent track record in this arena, consistently reaching and exceeding program goals, and we continue to win new clients. At the same time, the size and scope of our programs have increased as our utility clients expand their energy efficiency, electrification, and consumer marketing programs.

Also, we are very pleased with the performance and revenue synergies associated with last year's CMY acquisition. Their grid engineering and analytics capabilities are a natural extension of ICF's work in electrification, utility planning and renewables, enabling us to provide a broader set of services to utility and developer clients.

Additionally, there are important synergies with our climate and resilience advisory work as we build in more detailed climate analytics into our grid engineering studies.

Similarly, our energy advisory work continues to show strong growth, particularly in the area of power and technical advisory, reflecting increasing demand from developers of renewable energy resources. And growth in our environment and planning business line is benefiting from increasing resilience work for utilities undergrounding power lines for wildfire restoration, work for renewable developers, as well as providing ongoing licensing, permitting and compliance services.

As you know, we perform our climate services across all our client categories. This area continued to achieve significant growth in the second quarter, reflecting the expansion of climate programs at DOE and EPA as well as [at] an increasing number of utilities, state agencies and additional federal entities. We're also seeing an uptick in RFPs for state and local climate planning to be funded independently of the IIJA and IRA, and we're benefiting from client demand for ICF's CO2Sight system, our proprietary strategic planning platform that helps utilities and government agencies achieve their clean energy and greenhouse gas emission goals.

Our disaster management area also continues to do well. The Government of Puerto Rico's Public-Private Partnership Authority recently awarded ICF an $84 million recompete contract to provide professional grant management services over the next three years, and we're awaiting final word on other opportunities in the territory. ICF is currently executing nearly 50 disaster recovery programs in 16 states and 2 territories, and we're supporting over 30 clients' mitigation efforts in 10 states and 1 territory.

As a whole, we see double-digit growth ahead for our Energy, Environment, Infrastructure and Disaster Recovery client market over the next several years. Increasing physical impacts, improving economic fundamentals, public commitments by corporations, and legislative and regulatory actions regarding clean energy are driving policy and funding support for decarbonization programs, including energy efficiency, flexible load management, electrification. Increasing load growth from new data centers and transportation electrification is forcing utilities and regulators to quickly assess and deploy additions to the utility resource mix including supply, demand management, and resilience options. Renewable development is proceeding at a rapid pace, and we continue to see electric utility clients increase spending to replace aging infrastructure, to underground power lines, to improve resilience, and to expand the power grid, creating demand for ICF's grid engineering, environmental, and disaster management teams.

In our judgment, there's no company better positioned to benefit from these trends than ICF. We have long-standing relationships with utility, developer, and government clients, multidisciplinary expertise across energy, climate, transportation and health, plus industry leading analytical tools that support our advisory services as well as technology platform solutions that underpin our implementation work.

And we continue to see IIJA and IRA grant funding being released to applicants for a variety of approved infrastructure needs. Examples include formula grants to states, territories, and tribes for energy infrastructure and grid reliability upgrades, and award of competitive grants for clean energy manufacturing infrastructure.

ICF's IIJA and IRA related wins to date have reached almost $140 million, and our active pipeline of IIJA / IRA opportunities is now at $275 million. These metrics represent work primarily for government clients, As it is difficult to tie commercial projects to specific legislation.

Moving to our Health and Social Programs client market. As expected, this market had lower year-on-year gross revenue comparisons, primarily reflecting three factors: the impact of last year's divestitures, anticipated fall-off in small business contracts that were held by the acquisitions we made over the last couple of years in IT modernization, and lower pass-through revenues primarily in public health. The reduction in pass-through revenues alone in this client market was approximately $7.5 million in the second quarter. We should see improved gross revenue comparisons from federal government clients in the second half of the year, but the increase will not be of the magnitude we had originally anticipated. We are confident that the strong growth in our Energy Environment, Infrastructure, and Disaster Management client market will continue to more than offset the impact of lower than expected revenue growth in Health and Social Programs.

We continue to execute effectively across our federal government climate-- client base and remain well positioned and have a healthy pipeline of opportunities in our two key areas, public health and IT modernization.

In public health, we expanded our support for CDC's BioSense program in the second quarter and we'll begin developing additional functionality to include hospital admission data and hospital discharge and transfer data to the platform. As you may recall, BioSense was front and center during the pandemic as it tracks data from more than 75% of hospital emergency room visits nationwide, providing CDC and public health officials with insights into factors impacting the health of Americans at both the national and local level.

And we won our $237 million recompete contract with the US Agency for International Development Bureau for Global Health to continue to deliver the Demographic and Health Surveys program. ICF has long-standing relationships at six key agencies within the Department of Health and Human Services, and we have deep subject-matter expertise in areas that have bipartisan support, including cancer research, mental health, diabetes prevention, overdose prevention, and education on the impact of prescription opioids.

IT modernization also remains a bipartisan priority, and ICF is now a recognized leader in the most widely used low-code, no-code, and open-source platforms in the federal government. The US federal IT services market is growing at a CAGR of 8.5% and is expected to reach $95 billion by 2027, and ICF's targeted areas, consulting and application services, are growing at CAGRs of 14% and 9%, respectively. We had two important contract wins in the second quarter at the Centers for Medicare & Medicaid Services and are seeing increased traction on opportunities where we'll be able to combine our technology and domain expertise, particularly when the scope includes a data or AI focus.

We recently completed work with a federal agency client to leverage GenAI solutions for regulatory development support and public comment analysis. This was a very exciting project for our teams as within three months from inception to delivery we proved the viability of using GenAI to produce faster insights into numerous regulatory comments.

Also, FEMA awarded us a new $17 million contract to build a cloud-based data exchange platform to improve the efficiency and cost -effectiveness of their disaster recovery and response efforts. Here we will leverage our leading disaster management expertise along with cloud computing, Generative AI, and other forms of AI and advanced analytic capabilities, an excellent example of how ICF's multi-disciplinary approach is winning new business.

On the topic of new business, as I mentioned already, this was a record second quarter for us in terms of contract awards, which reached $810 million, representing a book-to-bill ratio of 1.58 for the quarter. New business wins accounted for approximately 55% of our first half awards, demonstrating how well ICF's capabilities are aligned with client spending priorities.

Additionally, an increased percentage of the value of our year-to-date awards represented contracts that included an AI component, a good indication of our recognized expertise in this high-demand area.

In summary, this was a very strong quarter for ICF in terms of execution, profitability, and metrics that set us up for future growth.

I'll now turn over the call 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 second quarter financial performance.

Total revenues increased 2.4% to $512 million or 6.2% compared to the second quarter of 2023 after adjusting for the divestiture of our commercial marketing business last year. Our second quarter revenue growth reflected many of the same business drivers as this year's first quarter and was led by revenue growth of 24.8% from our commercial energy clients and by a combined 5.9% growth in revenues from our state and local and international government clients.

Gross revenues from our federal government clients were flat in the second quarter. This was mainly due to a reduction in pass-through revenues of approximately $9 million, which unfavorably impacted our year-on-year revenue growth by approximately 450 basis points.

As we look towards the future of our federal government business, the increases in our federal contract awards, along with an expanding new business pipeline, bodes well for future sustained growth in our federal business. ICF had $625 million in contract wins in this client category year to date, far outpacing our 2023 and 2022 first half awards, which averaged about $350 million. In addition, our federal new business pipeline has grown to over $7.5 billion, which is a 13% increase since the start of 2024.

Subcontractor and other direct costs declined in the second quarter to $132.8 million, representing 25.9% of total revenues, down from 27.5% in the prior year.

Second quarter gross margin was 35.7% of total revenues, up 80 basis points year over year. This improvement was primarily driven-- due to a favorable revenue and direct cost mix, as we saw strong revenue growth from our higher margin commercial marketing-- commercial energy clients and less subcontractor revenues.

Indirect and selling expenses increased 0.4% year over year to $127.1 million, considerably less than our year-over-year revenue growth. As a percentage of total revenue, indirect and selling expenses were 24.8%, 50 basis points lower than the 25.3% reported in the prior year. We remain focused on driving efficiencies throughout the organization and continue to realize benefits from higher utilization, managing our indirect costs, and our increased scale.

The favorable revenue mix I mentioned earlier, combined with these factors, drove EBITDA growth of 17.2% year over year to $55.6 million. Adjusted EBITDA grew 9.9% to $56 million, substantially outpacing our revenue growth. Additionally, our adjusted EBITDA margins expanded to 10.9% of total revenue, an increase of 80 basis points as compared to the second quarter of last year.

Interest expense of $7.7 million decreased $2.4 million from the same period last year due to a lower average debt balance. Our tax rate was 26.3% compared to 4.4% in the prior year period. The lower tax rate in the prior year second quarter reflected tax optimization strategies we were able to employ at that time. Our tax rate in the second quarter of 2024 was in line with our expectations, and we continue to expect a full year tax rate of 23.5%.

Net income was $25.6 million and diluted EPS of $1.36 per diluted share increased 26.1% and 27.1% respectively, versus the comparable period last year. Last year's second quarter net income included $3.5 million or $0.13 per share of tax-effected special charges. Our non-GAAP EPS grew 7.6% year over year to $1.69 per share.

Now turning to our cash flow. Our operating cash flow in the first half of this year was $50.6 million, more than double the $19.9 million reported in the first half of 2023, reflecting higher net income and the execution of our cash management initiatives. Our days sales outstanding were 72 days compared to 73 days last year. Year to date, capital expenditures were $10.4 million, down from $13.1 million last year due to timing and the divestiture of our commercial marketing business.

At the end of June, our debt was $433.9 million compared to $601.8 million at the end of June 2023, which reflects $168 million of debt reduction. Approximately 63% of our debt is currently set at a fixed rate. Our adjusted net leverage ratio was 2.01 times at quarter end compared to 3.11 times at the end of last year's second quarter, demonstrating the company's ability to utilize our favorable cash flow from operations to quickly delever.

As for our capital allocation priorities, our strong financial position enables us to fund organic growth initiatives, consider strategic acquisitions, paying down debt, repurchasing shares to avoid dilution from our employee incentive plans, and paying quarterly dividends. Today, we announced a quarterly cash dividend of $0.14 per share payable on October 11, 2024, to shareholders of record on September 6, 2024.

Now to help you with your financial models, please note the following. We are reducing our guidance for depreciation and amortization expense, interest expense, and CapEx. Our depreciation and amortization guidance has been reduced and is now expected to range from $22 million to $24 million. Guidance for interest expense has been lowered and we now expect a range from $30 million to $32 million. Our capital expenditures are anticipated to be between $22 million and $25 million. We are maintaining our guidance for all other metrics. As a reminder, amortization of intangible guidance will remain at approximately $32 million to $33 million; our full year tax rate expectations remain at approximately 23.5%; we continue to expect a fully diluted weighted average share count of approximately 19 million share;, 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. Our first half results have put us on track to achieve our full year revenue guidance for 2024 and have enabled us to substantially increase our EPS and EBITDA guidance. We're pleased to increase our guidance for GAAP EPS to $5.60 to $5.90 and for non-GAAP EPS to $6.95 to $7.25, up $0.35 from prior guidance, representing year on year-on-year growth of 32.2% and 9.2%, respectively at the midpoint. Adjusted EBITDA is now expected to range between $225 million and $235 million up from our prior guidance of $220 million to $230 million.

Further, we're also very pleased to note that reaching the midpoint of our increased EBITDA guidance range will result in ICF achieving the three-year EBITDA objective we provided in our 2022 Investor Day, adjusted for the 2023 divestitures, and we expect to accomplish this with substantially fewer acquisitions than originally contemplated.

A growing multi-year backlog and our record business development pipeline of $10.5 billion at the end of the second quarter support our expectations for continued strong growth in 2024 and give us confidence in ICF's ability to continue to grow at a high single digit rate over the next several years.

We are experiencing strong demand from commercial clients for our energy and environment expertise and implementation skills. We have excellent credentials to assist state and local government clients in their planning, resilience, and mitigation objectives, and have expanded our capabilities in areas in the federal government that have bipartisan support, particularly IT modernization, which remains an area of priority spending. And we have a "secret sauce", the passion and commitment of our people, which supports our confidence in ICF's future success.

With that, operator, I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joseph Vafi, Canaccord Genuity.

Joseph Vafi *Canaccord Genuity LLC - Analyst*

Hey, guys, good afternoon, and nice to see the EPS revision higher. So congrats on that. I thought we'd just maybe just drill down first into maybe the federal business. I know in your commentary, John, you're talking about some of the health sectors being a bit weaker and for right now.

Just wondering how you're expecting to see maybe some of that health business over the next year or so in terms of what you're seeing, in terms of your bids submitted, and stuff that's in the pipeline? And then if you could compare and contrast that to maybe some of your other areas, I would imagine IT modernization is doing pretty well. And so it would be useful to get a flavor of maybe how they're doing relative to some of your other parts of the federal business and then I'll follow up.

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

Sure. No, well, thanks for the question, Joe. I'll start at the highest level. I mean, I think if you look at the forward focus metrics, our sales, our trailing 12-month book-to-bill ratio, the pipeline, those were obviously very strong in the quarter and have been very strong for this year.

Certainly the federal component of that pipeline and those sales has been very strong. I think Barry mentioned some of the specifics on the federal market. And so when we look at those results, they give us confidence that we'll see strong growth in federal over the next year and beyond.

We continue to see significant proposal activity and significant opportunities in the federal arena. We continue to see awards occurring. And so I wouldn't say we've seen any change there. And obviously, as you know, the two key growth drivers are public health and IT modernization. And the proposals, the wins, and the book-to-bills are strong, and we're obviously strong in the quarter.

With that said, I think in the quarter, and I think we talked about this last quarter, I think our federal business, I mean, I'll just review the numbers again, our federal business was essentially flat for the quarter. I think -- And as we said, I think a big part of that was pass-throughs in the federal arena were down materially year on year, at $9.1 million.

If you look at our revenue, if you look at our total revenue less the pass-throughs, the growth was about 5%. So total revenues less pass-throughs, that's subcontractors and other direct costs, is the work done by ICF.

And so on that metric, we're at mid-single digit growth for Q2, and I think for the first quarter and for the first half of the year. There's a few things that are specifically impacting our federal business here. So in the first half of the year, I think it will continue into the second half of the year. But I don't think they're long-term issues. These are contract-specific issues.

We've been -- the ramp-up of work under a recompete contract we won this quarter, one of the largest contracts, our large USAID Demographic and Health Surveys, we're rolling off of the prior contract, we've won the recompete for the new contract. There's always a couple of quarters when you make a transition with that contract where pass throughs and the work slows down a bit. So we're seeing that. We have another contract with USAID that ended at the end of the year where we've been awaiting award on that. We'll thought we'd have it in the first half of the year, it looks like we're not going to have it--a-- We'll have a decision until Q3. So that's impacting us. And then we also talked about rolling off some small business contracts from our acquisitions and the IT modernization front in 2022, again, which we anticipated and were part of our guidance and explanation when we did those deals.

And so those three issues are really what's impacting our federal business here for a few quarters. I think as we look at the longer term and look down the road, given the opportunity, given the lens, given the book-to-bill, given the sales, we feel, I'm quite confident in it.

And to your point, I think we're-- certainly the IT modernization, we're continue to see significant opportunity. As you know, that's been a bipartisan issue for some time. I think that remains bipartisan. It's one of the few things that the Trump administration put a real emphasis on, and the Biden administration has continued it. And so I think certainly that will continue to be a significant source of growth for us as we look forward.

Joseph Vafi *Canaccord Genuity LLC - Analyst*

Great. Thanks. Thanks for all that extra color, John, that's helpful. And then, I guess just on that IT modernization front again, I just -- I did see you win a pretty large contract recently with DOD in IT modernization.

I was wondering if you could kind of drill down into that a little bit. And if there's any kind of appetite to kind of continue to try to grow the DOD business and IT modernization, given the massive size of the budgets that there are over there? Thanks a lot, guys.

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

Sure. No. So I think we did just recently announce that we've won a large DOD data -- applications in data services modernization BPA, a $1.4 billion BPA. I had 10 award winners to support DOD on IT modernization, particularly with an HR and data analytics focus.

And so certainly we have significant HR, human capital capabilities that we will look to marry with our IT modernization capabilities. So we're excited about this. I think there's opportunity for us down the road. We expect that the task orders will start to flow later this year.

And I think there was -- I think it was 10 winners -- 10 companies won a position on this BPA. And so I think there'll be opportunity for us there. And I think it's certainly an area we'll look to grow the business as we look forward.

Joseph Vafi *Canaccord Genuity LLC - Analyst*

Great. All right. Thanks very much, John. Nice results.

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

Thanks Joe. You take care.

Operator

Tim Mulrooney, William Blair.

Tim Mulrooney *William Blair & Company, L.L.C. - Analyst*

Yeah, good afternoon. Nice quarter, guys. I think

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

Thank you.

Tim Mulrooney *William Blair & Company, L.L.C. - Analyst*

I think this question is probably for Barry. Can you just give a little more detail on the primary factors behind the EPS guidance raise on a consolidated basis? Is this primarily due to the higher profitability outlook? Or is it also related to higher top line expectations relative to your prior expectations?

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

Hey Tim, thanks for the question. Yeah, if you look at the guidance increase on EPS and adjusted EBITDA, that really has to do with the mix that we have. We talked about that during the remarks, especially in our commercial energy marketplace and the mix, not just from a standpoint of margins, which are significant in that market sector. It's the cost mix as well.

So we're more reliant on our direct labor versus subcontractor. So that's boosting. So we can keep our revenues -- the guidance in that hasn't changed. But you know because of the higher margin profile of that business and the throughput of that, we're able to increase the guidance for our EPS and both on the GAAP and non-GAAP basis and our adjusted EBITDA.

Tim Mulrooney *William Blair & Company, L.L.C. - Analyst*

Okay. That's helpful. Thanks. So no change there still about a 10% increase in revenue on the top line, more of a mix. Okay, that's helpful. The other question I had maybe for, well for anyone really, I know it's early but I'm getting this question a lot. I think most investors are curious how you all think about the Supreme Court's recent overturning of Chevron and how that might or might not have an impact on your business.

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

Yeah, thanks for the question, Tim. I think -- well I would say the punch line for us is that overall, given the Chevron decision and related Supreme Court decisions on the regulatory front, we don't really see any significant material impact to our business from that decision.

And honestly, I think if anything, it has the potential to create new opportunity, and new business potential for us just because given that decision, the regulatory agencies, when they do their rule making so that they will have to do much more detail than--more fact-intensive work.

And as they do that, I think they'll need support with that. And so I think our regulatory support practices actually, -- I think there's a view that there could be a more work for us on that front. I would say just to put the context here, only about 1% to 2% of our total revenues are what I would consider regulatory-related work either doing regulatory support or implementing programs or doing implementation to comply with rules of regulations. It's really a small percentage of our work.

We really -- we only do that work really at EPA and FDA and I think on DOT And so it's about 1% to 2% of revenue, but it's -- of that 1% to 2% less than half of it is what I would consider regulatory or regulatory analysis or regulatory implementation. So it's not material. And ultimately, I think it has as much likelihood to create opportunity for us, as you know, in having an adverse impact, but any impact will not be material to our business and to our results.

Tim Mulrooney *William Blair & Company, L.L.C. - Analyst*

Okay. I appreciate you framing that - for me, John, again, congrats on a nice quarter and we'll talk to you all soon.

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

Okay. Take care, thanks Tim.

Operator

Kevin Steinke, Barrington Research Associates.

Kevin Steinke *Barrington Research Associates, Inc. - Analyst*

Yes, good afternoon. Thank you. So in circling back there on the increase to the profitability guidance metrics, you talked there about favorable utilization metrics. And in response to one of Tim's questions, you talked about more use of your own labor versus subcontractors on some of the commercial energy efficiency side. Is that just -- is that the just the sole driver of the federal utilization metrics? Or is it kind of more across the board for your entire company, just better utilization of consultants, I guess.

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

Thanks for the question, Kevin. Yeah. So with that particular-- the services that we provide in the commercial energy business, that is more related to our staff as well as the contract, not just the mix of cost, but also it's more fixed price work than some of our other clients, especially like in the government clients.

So that enables us to manage the cost and improve margins. So not only is the type of work that we're doing more conducive to having more direct labor, less contracts, subcontractors, but also the type of contracts that we deploy also help with being able to manage the higher margins.

In addition, on the profit increases, one thing I would like to mention is that as I noted in my remarks, we are lowering our interest expense guidance as well as our depreciation and amortization expense guidance. And so that's also helping boost our EPS as we go for the rest of the year.

Kevin Steinke *Barrington Research Associates, Inc. - Analyst*

Okay.

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

Actually, (multiple speakers) I think Barry did a nice job of summarizing. I mean, I do, historically and for a long time, I mean, our energy business, of course our energy businesses is just ultimately more profitable than our government business. So that's growing more rapidly, and then as Barry says there's not as many pass throughs to other firms that those are both driving the margin up, Kevin.

Kevin Steinke *Barrington Research Associates, Inc. - Analyst*

Okay, great. And obviously, commercial energy has been a nicely growing business for the last few years, but there almost seems to be an acceleration going on here the last couple of quarters in terms of the growth. I don't know if there are any specific catalyst or trends in the utility market that is driving faster growth that you want to highlight. And what seems to be kind of an acceleration in growth going on there?

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

Yeah. I mean, I guess what I'd say, Kevin, is I mean, I would just say that energy markets in the United States right now are undergoing a once-in-a-century transformation right now. I mean, just to you know we're seeing, and it's multipronged. I mean, we're seeing a significant reduction in the cost of carbon free energy due to technology innovation. And in that arena, we're seeing state level regulatory activities around renewable portfolio standards and climate planning and mandating energy efficiency programs that's helping to drive this.

We're seeing the electrification of transportation with EVs and buildings driving change. We're seeing -- I mean, I'm sure you've been reading, I mean, the rapid rise in the load from data centers supporting AI is just unprecedented. Then you have the public commitments on from both citizens and corporations around how carbon neutrality, including the hyperscalers, the Googles and the Metas and the Amazons.

And so that's going to create a lot of extreme demand given what's going on with data centers. And so I think it's a unique time in the energy industry. I think the challenges around how we're going to meet electric demand and we're going to address in -- make progress on clean energy and reducing carbon footprints, there's just tremendous opportunity there.

And I think as I said in my remarks, we've been in these businesses for 30 to 40 years and we can look at it from every angle, we can look at it from the energy, from the environmental, from the health, from the technology, from the regulatory.

And so I mean, it's just a long winded way. I think it's a unique time and it is accelerating. It is accelerating and I think that's what's giving us confidence that we're going to see strong double digit growth here for some time, and there's just tremendous opportunity.

Kevin Steinke *Barrington Research Associates, Inc. - Analyst*

That's great. That's really helpful color. And lastly, I just wanted to ask about one of the comments you made about an increasing percentage of the value of your year-to-date contract awards, including an AI component and your expertise there. Maybe if you kind of elaborate on the AI component of the awards you're seeing, and how you can apply your expertise to those contracts?

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

Yeah. So I think -- I mean, I would say certainly in our federal business, we're seeing increased interest in new business opportunities on that AI front, and from our federal clients. I think we're well positioned to benefit from that.

And honestly, I think we're finding that our programmatic clients who are carrying out their missions are increasingly interested in how they can leverage AI to achieve their goals and achieve their missions. And as part of that, I think what we -- given that we have both domain experts working with those clients and those programmatic folks as they carry out their work plus we have a deep technology bench who can bring the technology capability around AI.

We're finding that with many of these opportunities, we need to have both sides of the house. We need to have the domain people and the technology people working side-by-side with our clients on AI to really maximize the benefit and figure out the most innovative solution.

And so a lot of these opportunities are coming from the federal agencies and the programmatic people. So the energy policy people or the public health experts, the epidemiologists, the toxicologists, sort of public health experts who are talking to our domain people, want to figure out how to leverage AI and then we can bring our technology people to bear on it.

So I think that's something we can do particularly well. And so we have a tiger team of AI experts in Corporate that can work with our domain people to take advantage of these opportunities quickly. I think there's several buckets that we're looking at where we think they have the potential, the use cases could potentially be material to our business, I mean grants management, training and technical assistance, research and evaluation. On the commercial side, perhaps rebate processing area. Anyway we're looking at a set of use cases that we think would be particularly relevant, but we're seeing a lot of interest. Obviously, we also have 1,800 people who do the IT modernization work and the key platforms are working with ServiceNow, Salesforce, Appian, who are all building AI capabilities in their platforms and so our technologists are (inaudible) supporting clients on that. And obviously, we're using it to improve the productivity of our technologists. We're also finding that AI can help us create content for our marketing activities for clients.

And so yeah, a number of quite a different and a wide array of things we're looking at, as I say, I think kind of trying to leverage our domain expertise and our technology expertise. And I think it's also, we're really trying to figure out what are the use cases that could be most impactful for our clients and impactful for our business.

Kevin Steinke *Barrington Research Associates, Inc. - Analyst*

Okay. That's great. I appreciate all the insights. I will turn it back over. Thanks.

Operator

Marc Riddick, Sidoti.

Marc Riddick *Sidoti & Company, LLC - Analyst*

Very good afternoon. So I wanted to touch a little bit on the, one of the comments in the prepared remarks and the press release talked about the disaster recovery client market and the growth that you're expecting in the second half of the year.

So why don't you talk a little bit about maybe, we've certainly seen some of the announcements, but maybe talk a little bit about what you've seen open up on the disaster recovery front and sort of what's driving that?

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

Yeah. I think on the disaster recovery front, I mean, obviously, as you know, we've talked about, over the last several years, I mean, we've continued to be quite active in Puerto Rico. We have just announced a recompete contract there, to support FEMA related disaster recovery.

We also are still quite engaged and quite busy on the housing side in Puerto Rico, and continue to win follow-on work and we have several new contract opportunities in the pipeline we're waiting award on and so I think we're still, though they are significant client, there's material opportunity in front of us there.

We're still very busy in Texas supporting Texas disaster recovery, particularly our mitigation related work. And that continues to be significant long-term opportunity for us in Texas, including potentially in both Puerto Rico and Texas, the potential for us to introduce and play a larger role on the technology side around disaster recovery, which we're excited about.

I know we've discussed in the past, we're doing our first major wildfire disaster recovery effort for the state of Oregon, that's going well and that's a great qualification for us. In my remarks, I noted the number of disaster recovery clients we have and, you know, and the number of mitigation plans.

I mean, it's an impressive number and an impressive list. But I would say, we continue to be busy in Louisiana. I think that as you know also, Mark, you know it's the frequency and severity of these events is only, as you know, is certainly increasing.

I'm sure you saw the story, you know what put out there, 2024 Atlantic hurricane, predictions, they were saying 17 to 25 tropical storms, including 4 to 7 major hurricanes, which is a significant increase. And we're seeing more wildfires and we're also seeing the potential that heat events are going to become -- be considered eligible for disaster recovery funding and well, I don't know, I think if you live anywhere in the United States, you are experiencing some heat events this summer.

So I think that business, we're growing, we're doing well, and I think there's going to be significant opportunity there as we look down the road and we really are an industry leader in that arena.

Marc Riddick *Sidoti & Company, LLC - Analyst*

Great. And then the one other thing I wanted to sort of touch on, you certainly covered a lot already. I was wondering if you could touch on or give us maybe an update on what your thoughts are around potential acquisitions and maybe what the acquisition pipeline looks like currently as far as I know what you think may be available out there, quality and quantity wise, and maybe thoughts on valuation and that maybe the chances of some of those things maybe shaking loose, should we get some interest rate cuts? Thanks.

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

Yeah, no, good question. Well, I would say that it was currently -- first of all, I think as Barry noted, our balance sheet is in a strong, strong position. I mean, our leverage ratio's down to 2, we're generating significant cash.

We'll certainly continue to do that. We have high confidence to that. I think and as you know, acquisitions have been a key part of our strategy over the last several, two decades. I think there's been three or four times where we placed a strategic bet whether in, you know, federal markets or IT modernization or digital engagement, levered up, acquired key strategic resources capabilities, and then paid the debt down the next two or three years and levered up again.

But I think that remains a key component of our strategy, and I think we discussed this before. I think sort of in the energy area, given all the opportunity and the breadth of that opportunity in terms of the wide array of skills and capabilities required to support it, we're certainly looking carefully at opportunities in that market and that would be of interest.

I think we've continued to look at opportunities in the Federal market more around data and analytics and perhaps smaller tuck-in technology acquisitions. But I think we're going to do the and then disaster recovery, I think if something came along that gave us greater geographic reach or broad tools and systems that we thought were complementary to our business, we'd look at those.

And so I would say the deal flow is improving. We're seeing more potential opportunities. I think the valuations are improving a bit. And (laughter) And I think to your note, interest rates, you know, perhaps those will come down.

And so I mean we're in the market we're looking I think we're as you know, we're quite disciplined, we're not going to -- we have a very clear set of criteria, and we'll stick to that. But I mean, it remains part of our strategy and we're certainly out in the market, taking a look at potential opportunities. I don't think -- if we were to do anything before the end of the year, it could be more of a small tuck-in.

Marc Riddick *Sidoti & Company, LLC - Analyst*

(multiple speakers) I really appreciate it. Thanks.

Operator

Tobey Sommer, Truist Securities.

Tobey Sommer *Truist Securities, Inc. - Analyst*

Thanks. I was wondering if you could talk about your, in billable employee headcount growth, and maybe comment about what attrition has been like year to date. A lot of the companies that have reported before you have talked about that rebounding to pre-pandemic or maybe even better than that levels, do you see continued opportunity for even better retention? Thanks.

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

Yeah, thanks for the question. You know, our retention rate has certainly improved, certainly year over year and quarter over quarter. We ended in a little bit less than the 12% from a turnover perspective. So we're happy about that, and we're seeing a little bit of ease from a talent perspective and our head count from a year-over-year perspective has been growing. And we feel good that we've got that -- able to get the talent to execute on the programs that we have and retain the talent.

James Morgan *ICF International Inc - Chief Operating Officer*

Yeah. Maybe to give you a little bit more color on that. Tobey, this is James Morgan. From a billable headcount perspective, year over year, we're up like mid-single digit ranges, squared basically as and certainly as Barry mentioned, retention is significantly down a little bit under 12% from an attrition perspective, which is the lowest it's been in years.

Tobey Sommer *Truist Securities, Inc. - Analyst*

I appreciate that. From a contract award and pipeline perspective, are there any discernible trends that you could call out in terms of the margin of the bids that you're submitting or plan to in winning and or any sort of mix shift that may be implied by the composition of those bids towards, and I'm thinking primarily of like any kind of change in type of firm fixed price, et cetera. Thanks.

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

You know, I think from a pricing perspective, I don't see our view across the key markets. I don't think we've -- I think the pricing has been pretty stable and I don't think, we're not saying -- we're not under significant pressure to lower our margins. I think the margins have been pretty stable. I do think that we're -- we continue to see, I would say, fixed price contracts. Yeah I would say that if you look at our percentage.

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

Yeah if you look at our fixed price contract percentage of all of our contracts, it's going up significantly. And that's replacing our cost reimbursable contracts, which is certainly helping with the margins. So that's good. I would say that as far as the mix of our direct labor versus subcontractor labor, that really hasn't changed significantly. And we haven't seen big shifts in any of that.

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

I'd say the other thing is the size of our deals has been going up, I mean, our proposals, and given the opportunities and focus in IT modernization and honestly in the energy area, particularly energy implementation side with energy efficiency and some of the programs there, which you know tend to be fixed price and very beneficial to us. So, the size of the deals that we're bidding is certainly on the uptick.

Tobey Sommer *Truist Securities, Inc. - Analyst*

Thank you very much.

Operator

All right, thank you. I am showing no further questions at this time. I would now like to turn it back to John Wasson for closing remarks.

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

Okay. Well, thanks for participating in today's call. We look forward to connecting at upcoming conferences and events. Have a good rest of summer.

Operator

All right. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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