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PRESENTATION

Operator

Welcome to the ICF International Second Quarter 2018 Results Conference Call. My name is Vanessa, and I will be your operator for today's call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, August 2, 2018, and cannot be reproduced or rebroadcast without permission from the company.

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

Lynn Morgen *- AdvisIRy Partners*

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's second quarter 2018 performance. With us today from ICF are Sudhakar Kesavan, Chairman and CEO; John Wasson, President and CEO; 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 August 2, 2018 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 would cause our views to change. Please consider the information presented in that light. We may, at some point, elect to update 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 second quarter 2018 performance. Sudhakar.

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

Thank you, Lynn, and thank you all for participating in today's call. This was a strong quarter for ICF from several perspectives. Results for the period reflected balanced revenue growth rates from both our government and commercial clients. We experienced a substantial increase in international government work, combined with stable revenue performance from federal and state and local government clients. And in our commercial work, both energy markets and marketing services posted strong positive year-on-year comparisons.

Additionally, we had a record-setting second quarter of contract wins and exceptional growth in our business development pipeline, enabling us to increase our full year 2018 revenue and earnings guidance, and positioning the company for continued growth.

As we noted last quarter, we increased our investments in capture and proposal activity related to disaster recovery opportunities, which represent one of our key growth drivers. This led to both the large contract we were awarded in June by the government of Puerto Rico to assist with hurricane recovery efforts there, and to the significant growth in our business development pipeline, which stood at $5.7 billion at the end of the second quarter. John Wasson will speak about this in greater detail in a few minutes, but we thought it was important to provide context around the additional spending.

Simultaneous with today's earnings, we issued a news release announcing the acquisition of DMS Disaster Consultants, a 50-person disaster planning and recovery advisory firm that deepens our disaster response and resiliency planning capabilities. DMS assists public sector clients in developing comprehensive insurance, risk management and risk mitigation strategies. Its industry-leading project management software has been used in hundreds of disaster situations. We are working together with DMS on our recently awarded Puerto Rico contract, which has given us a first-hand appreciation of their outstanding capability. This acquisition enhances and augments our disaster response, recovery, and preparedness offerings, and expands our reach into the state and local government market.

While disaster recovery represented a significant portion of the growth in our business development pipeline, the additional growth catalysts in both the government and commercial markets that we discussed last quarter remain in place. First, we are well-positioned for additional contract awards in the federal government market due to the increased fiscal 2018 and 2019 civilian agency budgets that were approved earlier this year. After a slow start, we see signs that our federal clients are starting to move forward with new RFPs. Given the timing, it is unlikely that the agencies will use all of their appropriated funds by the end of this government fiscal year. That being said, we continue to expect new RFPs to be issued by civilian agency clients in the second half of this year.

Within that general opportunity set, ICF is well-positioned in the public health arena, with specific expertise in priority areas such as combating opioid abuse, suicide prevention, smoking cessation, dealing with obesity and other public health issues. Additionally, we see the potential for opportunities in the Departments of Transportation, Energy, State, Homeland Security and Defense. We have not included any significant dollars related to these potential contract wins in our 2018 guidance, as we do not expect to see the attendant revenue until sometime late in the fourth quarter at the earliest, with the ramp-up of programs to take place in 2019.

Second, our international government business revenues increased substantially in the first half of this year, and we expect to see continued growth in this area in the second half as we execute on existing contracts and expand our pipeline of new opportunities working with European Union clients.

Third, in the commercial market arena, our marketing services business is well positioned to benefit from the projected increase in overall digital marketing spend, and is gaining wallet share from existing clients through both excellent performance and successful cross-selling. We see our loyalty-related advisory and execution services as an important growth driver for ICF, as we continue to roll out these services to our commercial and government client sets.

And finally, as a leader in advising utilities, we expect our commercial energy markets group to continue to grow revenues thanks to 4 factors: one, our leadership in energy efficiency program design and implementation; two, the mandated increase in energy efficiency program outsourcing by California utilities by 2022; three, the natural extension of these programs that is aligned with technology advances; and finally, four, the advisory work we're doing that is associated with the transformation of the utility industry.

To sum up, we are pleased to have several growth catalysts as we move into the second half of 2018 and as we plan for 2019. Our backlog at the end of the first half was $2.2 billion, and the funded portion of the backlog was at 53%. Second quarter contract wins increased 74%, year-on-year, to $590 million, consisting primarily of new business. This brought our trailing 12-month contract awards to $1.6 billion, equivalent to a book-to-bill ratio of 1.28, which supports a strong second half for ICF and positive momentum heading into 2019.

I will now turn the call over to John Wasson, our President and COO, for our second quarter business review. John?

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

Thank you, Sudhakar, and good afternoon, everyone. We are very pleased by the positive trends we saw in our business in the second quarter, and are looking forward to a much stronger second half of the year.

Revenues in our government business increased 5.5% in the second quarter, and accounted for just under 65% of total year-to-date revenues. In the second quarter, U.S. Federal Government revenues were up 4% sequentially but down 1.7% year-on-year due largely to the lower pass-through revenues. This performance was in line with our expectation for generally flat revenues from federal government agency clients for much of 2018 given the time it takes for a budget agreement to move through the appropriations phase and then develop into RFPs.

Federal government revenue accounted for 43% of total revenue in the first half, and represented a large portion of our contract wins in the quarter. Notable awards in the quarter included a new $50 million contract over 3.5 years to provide cyber support at the U.S. Air Force Air Combat Command, and a new $120 million, 5-year global health contract at USAID focused on infectious disease detection and surveillance. Note that we expect this new USAID contract to begin to ramp up materially in early 2019.

State and local government revenues declined by 1% compared to last year's second quarter, primarily due to timing between the wind-down and ramp-up of several infrastructure-related projects. Revenues from this client category will pick up substantially in the second half of 2018, primarily as we ramp up our largest second quarter contract win, namely the $189 million, 3-year award by the government of Puerto Rico to assist in disaster recovery post-hurricanes Irma and Maria. Our role under this FEMA-funded contract is to review these reimbursement applications, conduct site visits, grant claims review and process the distribution of federal funds with the objective of making multifamily, residential, small business and government structures habitable.

Under this new contract, we are also tasked with assisting the government of Puerto Rico with projects to develop resilience to future catastrophic weather events. The nature of this work, and the knowledge and skills required, are consistent with the areas of expertise that we have demonstrated on HUD-funded CDBG housing recovery contracts. We see this contract as an excellent way for ICF to make a difference in an area that was devastated by last year's hurricanes, and we believe there is potential to expand the scope of work as we make progress on the initial deliverables.

In terms of an update on the HUD-funded monies, the affected areas, namely Texas, Puerto Rico, Florida and the U.S. Virgin Islands, have been allocated budgets to support housing and other infrastructure recovery that total the $36 billion appropriated by Congress to date for housing disaster recovery funding under HUD's Community Development Block Grant Program.

The majority of the increase in our pipeline to $5.7 billion at the end of Q2, from $4.4 billion at the end of Q1, was driven by disaster recovery CDBG opportunities entering the pipeline in these geographies, and we continue to expect awards to be announced later this year.

In the meantime, as we noted during last quarter's conference call, we are working on several small but strategically relevant CDBG-related projects funded by HUD grants, including one on technical assistance in the U.S. Virgin Islands, one on solar energy storage in Puerto Rico, and a third in support of a national CDBG problem-solving clinic.

Rounding out the government client category is our international government business, which reported exceptional year-on-year growth of 65% in the second quarter and represented 10% of first-half revenues. Excluding the positive impact of foreign exchange translation, international government revenues increased 45%, with approximately 1/2 of that growing -- growth representing service revenue. The primary growth driver was our European marketing and communications business, which continued to ramp up activities for clients on contracts won over the past 18 months.

Moving to commercial, revenues from commercial clients increased 6.5% in the second quarter and accounted for just under 36% of year-to-date revenues. Both energy market clients and marketing services posted substantial year-on-year growth, with revenues up 11% and 8%, respectively, while aviation continued to lag.

In commercial marketing, we were named by Holmes Report as "Midsize Agency of the Year" and "Consumer Agency of the Year", and we won a significant number of new awards in regional, national and global recognition for outstanding creative and campaign work. Typically, the more prestigious awards attract the attention of new clients and lead to pitch opportunities, which benefited sales in the second quarter. Also, we saw significant sales across our loyalty strategy and implementation programs, and we continued to leverage our broader digital service capabilities to win additional work from our loyalty clients.

Our focus on integrated sales continues to yield positive results. In the second quarter, we executed on programs combining our public health and loyalty expertise to help a major blood donor program, and brought together our aviation and customer experience expertise for concession planning for a West Coast airport. ICF and ICF Olson have achieved integrated sales for approximately $135 million since the acquisition, representing contracts that either firm could have won on their own.

Finally, the strong performance in commercial energy markets reflected growth from both the energy efficiency and energy advisory parts of the business. The quarter was characterized by solid execution on existing energy efficiency programs and expansion in our support to utility beneficial electrification programs. Several states, including Illinois, New York and Virginia, are significantly expanding their energy efficiency goals via new legislation or regulatory action. And as we have previously discussed, California also offers significant growth potential. The first RFPs associated with California's increased outsourcing are expected to be released in this year's third quarter, as the state alters its approach to energy efficiency, renewable energy, and greenhouse gas reduction. The ultimate goal by 2022 is to have 60% of the investor-owned utility energy efficiency budgets be expended by non-utility third parties, or companies like ICF.

Our energy advisory services businesses also posted a solid second quarter, thanks to their work on a number of significant restructurings in the power sector, and our distributed energy resources consulting business also performed well, as states and utilities address the impact of distributed resources on the grid. These efforts will involve utility pilot programs, testing distributed energy technologies, which we believe point the way to future utility implementation programs beyond traditional energy efficiency. We've also been assisting several utilities with resiliency planning activities, and this area appears poised for growth as federal or state regulators pay additional attention through resiliency of our key energy infrastructure.

In summary, we executed well across our client sets in the second quarter and first half of the year, and as our increased guidance implies, we expect increasingly positive momentum beginning in the third quarter, and accelerating in the fourth quarter of this year.

Of the $5.7 billion in our business development pipeline at the end of the first half of 2018, there were 39 opportunities greater than $25 million, and 83 opportunities between $10 million and $25 million.

Our annualized personnel turnover rate was 15%.

I'll now turn the call over to James Morgan, our CFO, for a financial review. James?

James C. Morgan - *ICF International, Inc. - CFO & Executive VP*

Thank you, John. Good afternoon, everyone. I'm pleased to report on our solid second quarter financial results and our expectations for a strong second half.

Revenue for the second quarter of 2018 was $324.3 million, compared to $306.4 million in the year-ago quarter. This 5.8% year-over-year improvement was driven by mid-single-digit growth and revenues from both our government and commercial clients. Pass-through revenues increased 14.6% year-on-year, mostly associated with our international government business. Service revenue increased 2.7% to $231 million, compared to $224.9 million in the second quarter of 2017.

Gross profit increased 2%, to $117.8 million in the second quarter of 2018, from $115.5 million in the year-ago quarter. However, due largely to a shift in business mix and higher pass-throughs that yield lower margins, we reported a 140 basis point decline in gross margin to 36.3%. On service revenue, this equates to only a 30 basis-point decline, mostly due to lower aviation consulting revenue.

Indirect and selling expenses for the second quarter were $90.4 million, compared to $86.2 million in the second quarter of 2017. As we mentioned last quarter, we increased our investments in key areas to support future growth, but this spending is expected to decline considerably in the second half of the year.

In the second quarter, we continued to invest in capture and proposal activity associated with disaster recovery opportunities, which accounted for approximately 30% of the increase in indirect and selling expenses for the second quarter. We expect this higher level of business development expense to decline in the third quarter and decrease even further in the fourth quarter.

Second, we accelerated our investment in upgrading some of our back-office ERP systems and processes. In fact, we recently completed the successful implementation of a new human resources and payroll system. These investments accounted for approximately 25% of the increase. And we migrated some of our infrastructure software from internally-maintained to in-the-cloud software, Software-as-a-Service, which due to the accounting rules, resulted in a change in the geography on the income statement for roughly $400,000 of expense or 10% of the increase that moved from depreciation expense to indirect and selling expense.

The remainder of the increase related to a variety of factors associated with growth in the business.

EBITDA for the second quarter was $27.3 million, 6.5% below last year's $29.3 million. Exclusive of acquisition-related expenses, adjusted EBITDA was $27.4 million compared to $29.9 million for the second quarter of 2017. Adjusted EBITDA margin on service revenue was 11.9%, compared to 13.3% in the second quarter of 2017, reflecting the reduction in gross margin and the impact of the business development infrastructure expenses -- or investments that I just mentioned. As a result of the increased second quarter spending, adjusted EBITDA margin as a percentage of service revenue for the full year of 2018 is expected to be approximately flat with the 13.3% we reported last year, with this metric improving considerably in the third quarter, and even further in the fourth as gross margins increase and expense levels decline.

Net income for the quarter was $13.6 million, up 14.1% year-over-year, and EPS was $0.71 per diluted share, up 12.7%. This positive comparison was driven by the lower tax rate of 26.6% in the second quarter, as compared to 40% in the year-ago quarter.

Non-GAAP diluted EPS was $0.80, which excludes charges related to amortization of intangibles and some acquisition expenses incurred during the quarter, increased 9.6% from the $0.73 reported in the second quarter of 2017.

As you have seen from our revised guidance, we expect the second half profitability to be markedly ahead of our first half levels, to be driven by increased revenue and higher utilization from new contract wins.

At quarter-end, operating cash flow was negative $21.7 million, compared to a positive operating cash flow of $16.6 million in the second quarter of 2017. This variance is due to timing issues as significant receivable collection activity pulled forward into the fourth quarter of 2017, while the related liabilities carried into the first half of 2018. Given our forecasted increase in funds from operations and the expected funds to be generated by working capital in the second half of the year, we maintain our operating cash flow expectation of $100 million to $110 million for 2018.

As I mentioned earlier, we continue to invest in developing our intellectual property and our infrastructure to improve our operating efficiencies. These efforts contributed to our first-half CapEx of $9.4 million, which was up $3.3 million year-over-year.

Our debt from our credit facility at the end of the first half was up $37 million from year-end, in part due to the acquisition of The Future Customer as well as cash flow seasonality. Days sales outstanding for the second quarter of a little more than 77 days was higher by 1 day than the second quarter of 2017 due to timing of collections. We continue to anticipate the days sales outstanding for 2018 to be in the range of 72 to 77 days.

Now we'll summarize our guidance on several financial line item, to help you fine-tune your models. Looking at the midpoint of our increased 2018 EPS guidance range, our expectation is that approximately 45% of our second half EPS will fall in the third quarter and 55% in the fourth. This is based on our current expectation for increased revenue flows and progressively lower bid and proposal spending associated with disaster recovery. We expect our depreciation and amortization expense to be in the range of $17 million to $18 million, for 2018. We anticipate the amortization of intangibles to amount to approximately $9.5 million. Our full-year interest expense will range from $7.5 million to $8.5 million. Our capital expenditures for 2018 are expected to range from $24 million to $26 million. We continue to expect that our effective tax rate for the full year will be close to 26%, and we anticipate fully diluted weighted average shares of approximately 19.2 million for 2018.

Our capital allocation priorities remain the same: Invest in organic growth; acquisitions; pay down debt; and the payment of the quarterly dividend. Also in the first half of 2018, we have repurchased 90,252 shares for a total outlay of $5 million to partially offset the dilution from our employee incentive programs.

Lastly, we are pleased to declare our third quarterly dividend of $0.14 per share, payable on October 16, 2018, to the shareholders on record as of September 7, 2018.

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

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

Thank you, James. As you have heard, we are pleased with our performance to date and the growth prospects that we see on the horizon. Second quarter contract wins, higher funded backlog dollars and record pipeline levels have increased our visibility heading into the second half of 2018, which has resulted in an increase in our revenue and EPS guidance for full year 2018. We now expect to report a total revenue of $1.295 billion to $1.335 billion for full year 2018. The midpoint of our updated guidance is equivalent to 7% year-over-year growth, up from 2.9% growth rate we had initially expected.

GAAP diluted EPS is expected to be in the range of $3.35 to $3.55, exclusive of any special charges. The midpoint of this guidance range represents year-on-year growth of approximately 20%, after normalizing 2017 GAAP diluted EPS for the impact of the Tax Cuts and Jobs Act of 2017.

Non-GAAP EPS is expected to range from $3.70 to $3.90.

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

QUESTIONS AND ANSWERS

Operator

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

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

With respect to the disaster recovery work, it's -- has the -- can you maybe help me block it, money started to flow? Or is that -- I'm trying to delineate between your -- the FEMA work that you've already taken in, and kind of the traditional business that we're a little bit more familiar with from prior events? Are the traditional streams still sort of in front of us at this point?

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

Hi, Tobey, it's John Wasson. I would say, on the CDBG, HUD-related opportunities, those are still in the proposal and capture phase. And so, we're not seeing any material revenues, on the CDBG front and the impacted geographies. To date, we do expect those awards, as I said in my remarks, to occur in the second half of the year. And so -- but they're not, there's -- not material, certainly today.

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

Okay. And then I'm trying to understand the acquisition that you made. Is this in part -- and it's been a desire to create a steadier stream of disaster recovery work that -- what's the long-term goal of bolstering your kind of full-time resources dedicated in this area?

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

Yes. I think that we see an opportunity. The number of projects which we see in the horizon, as we pointed out, the pipeline has increased. We think that these folks are highly skilled and will help us leverage their skills in a variety of geographies. And it also, to your point, Tobey, helps us create a steady stream of disaster recovery, or disaster planning work, even when there are no significant disaster than the -- which -- where there's a lot of spending. So it certainly helps us on that front to which we certainly intend to do going forward.

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

Okay. With respect to the combating opioid abuse, I was wondering if you could -- what does the new incremental funding by the federal government mean in terms of the addressable market, the ICFI and other consultants?

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

Yes. I would say, I'm not sure I can kind of answer numerically, kind of the size of the market and what it means, Tobey. What I would say is that, as you know, we have significant capabilities, and HHS is our largest client. I think on the opioid front, we see the largest opportunities at CDC around the things we typically do, program design, marketing and communications, training and technical assistance, evaluation. We are seeing early signs of RFPs starting to flow on the opioid front at CDC in a material way, so we're optimistic about that. SAMHSA has also received additional funding, on the opioid front. And as you know, we have a new IDIQ contract with them. I would say there -- that our sense is more of the money will go to state grants and to treatment-related activities that really are in our sweet spot, and so we are also watching SAMHSA carefully, but I really think the upside for us will play out most likely at CDC, and we think it's material and there's a lot of great opportunity there.

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

Okay. And then two other questions for me. I'll get back in the queue. On your loyalty business, how big could this be for utility customers? And maybe, if you could size it relative to traditional hospitality industry that it's focused on? And then, my last question, with respect to the California Energy RFPs. What is the expected timeline for a decision and award on those if they're slated to come out in 3Q?

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

I'll start with the California opportunities. As I said in the remarks, I think we start to see -- are starting to see those opportunities. I expect to see them through the end of the year. I think they're really -- so there will be some initial awards as we go into next -- I think we really see the more significant, larger awards and larger opportunities later in 2019. And so I think the most significant opportunities will occur, I would expect, in the second half of 2019. In terms of loyalty programs, do you want?

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

Yes. In terms of loyalty programs, Tobey, as the utility industry restructures, we think that, as the customer becomes more important, I believe certain -- some of the more progressive utilities are seeing the need for having -- because they're offering more services other than their traditional model. So as they see that, I think there is going to be more of an interest. It is a longer-term, midterm, medium-term opportunity. We have spoken to a few of the utilities -- there are 1 or 2 or 3 of them who have taken some steps on that front. But we certainly see typical opportunities there because as you know, these are large entities. They have millions of customers and the platform really works well for larger entities with billions of customers. So we are optimistic about it but it's going to be medium-term burn.

Operator

Our next question comes from Joseph Vafi with Loop Capital.

Joseph Anthony Vafi - *Loop Capital Markets LLC, Research Division - Analyst*

Nice to see the guide up. I'm wondering, when actually the last time, you were able to guide up your outlook, I think it's been a little while. But along that line of questioning, to what extent is perhaps, that kind of acceleration that you are talking about here in the second half, maybe perhaps, releasing some conservatism from the guidance versus the business actually able to kind of pivot and accelerate this quickly. Just trying to get a feel for the business model and how it can inflect up, and then I have a couple of follow-ups.

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

Yes. I think -- Joe, let me start here. I'm sure John and James will add. I think that we basically, have been, I think, reasonable in our guidance. We have good visibility in after winning the contracts and understanding exactly the schema, which is going to be used by the clients to ramp up the work. We have a good sense on the disaster recovery front. We also, as we've disclosed, won some additional contracts, other federal contracts, which will -- we have full, and we're also hoping for some of the state and local work to ramp up in the second half of the year, which will help. So I think that across a broad-based sense, we are getting more certainty associated with the way the revenues are going to accrue over the next 2 quarters, which is why we have up the guidance. I don't think that we were -- there was no -- we were not trying to be super conservative. I think we just now know more, and that's why we have decided to up the guidance.

James C. Morgan - *ICF International, Inc. - CFO & Executive VP*

Yes. I would add to that, too. As far as the ability of the company to quickly pivot and be able to support those, the revenue growth, I would say that, for the contract wins that we have, the cyber win that we've announced, I mean certainly, we've staffed up quickly, and that job is fully staffed and up and running, full-bore. And the staffing within Puerto Rico has gone quite well, and we're running fast there, too. So as far as the company being able to support the increased revenues, we're off and running.

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

And I would just add. This is John Wasson. I mean, I think also on the energy front, there's -- part of the growth in the second half here will be driven by energy efficiency and a new contract around water infrastructure on the West Coast. And so as James and Sudhakar said, it's a broad base of contracts, where we have pretty clear visibility, and we're pretty clear we're going to be able to staff them up, and get them up and running fully and effectively here in the second half of the year.

Joseph Vafi - *Loop Capital Markets - Analyst*

Great. Well then I don't have to answer -- I don't have to ask one follow-up on staffing because it sounds like you've got pretty good line of sight on that to support the growth. And then just kind of going back to this acquisition. Would it be fair to say -- I mean it's not the biggest group of people you've ever acquired, but it sounds like you've got good project management software. Is it part of the strategy there to inject them in on some of the bids here because it could be a piece of the puzzle that could make your bids a little bit more compelling?

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

Yes -- no. Absolutely. I mean, I think, I would say 2 things. They do bring a set of capabilities that are complementary to us and will certainly add value across the work we've historically done around risk management, risk mitigation and comprehensive insurance solutions. They also have significant expertise and capability around grant analysis, grant calculation, more of a FEMA focus, but that can certainly be leveraged on the -- into the more traditional housing work we do. One of the things that they are quite experienced at is helping local communities maximize their capability to tap FEMA dollars to help them rebuild infrastructure, schools, hospitals, electric resources. And I think that's a part of the business that we certainly want to play in. So I think they bring both specific expertise and will allow us to kind of expand the suite of capabilities we can bring, both the federal, and state, and local clients.

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

Yes. I would just add to that, that they have some software, which is called disasTRAX, which speaks for itself, which tracks disaster recovery grants as you hand them out, which is a good intellectual property which we can certainly leverage. And they also help utilities do resiliency planning. And they're helping one utility in a well do resiliency planning. So we think that, that ability, obviously, is replicable across multiple utilities and we certainly have a large number of utilities clients. So it adds one more additional service offering to our utility service offerings, which is quite easily sort of leveraged by our...

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

We can swing doors open for them on the utility front that I think will be quite helpful over time.

Joseph Anthony Vafi - *Loop Capital Markets LLC, Research Division - Analyst*

Okay. Great. And then just one little housekeeping one. I'm just kind of curious that large international pass-through, is that subcontractors, or is that actual materials of some sort?

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

I think it's a mix of both. I mean our European marketing and communication business -- we do use subcontractors but they also do a lot of events around communication and marketing activities, and so those can be significant material costs. So it's both.

Joseph Anthony Vafi - *Loop Capital Markets LLC, Research Division - Analyst*

Great. Glad to see the kind of breakout here for the second half.

Operator

We have our next question from Lucy Guo with Cowen & Company.

Lucy Guo - *Cowen and Company, LLC, Research Division - VP*

I want to just understand -- a follow-up on the second half outlook. So I just run rather numbers quickly. It looks like you need, on average, $25 million incremental revenues per quarter, but in terms of costs using a similar run rate on SG&A, around $90 million or so. You can eventually sort of get to over $1.10 of earnings, adjusted EPS per quarter in order to get to your midpoint. Is that fair or -- I'm just wondering, especially on the SG&A number, how much decrease of a -- all the items that you listed on business developments and ERP spending there is in the second half?

James C. Morgan - *ICF International, Inc. - CFO & Executive VP*

Yes. This is James, Lucy. Certainly, we expect our total indirects to end up being a little bit less than the back half of the year than what we had in the front half of the year. That's going to be driven by a combination of -- yes, we'll be able to slow down, as we mentioned, some of the investments and the disaster recovery as we put those bids in the first half of the year in Q3. The other part of it, too, is just as we are ramping up on these jobs, the new contract wins, and our biggest cost is labor costs, and we have the ability to increase utilization, which then reduces our indirect expenses. So that's a big driver. So at the end of the day, that's -- we're expecting that our indirects will come down a little bit. And if you kind of think about it on the first half of the year, if you just look at indirects as a percentage of service revenues, we are running somewhere just under 40% or so. And going forward, I'd say for the back half, you would expect that to be, probably a couple of points for a little bit more -- less.

Lucy Guo - *Cowen and Company, LLC, Research Division - VP*

Got it. And that was my next question -- is on pass-through. I believe you had previously that percentage of total should be around 26%, 27%, if I'm not mistaken. Is that also a good number or is it going to be more like 28%, 29%?

James C. Morgan - *ICF International, Inc. - CFO & Executive VP*

It's going to be -- it will be more like the latter, 28% to 29%.

Lucy Guo - *Cowen and Company, LLC, Research Division - VP*

Okay. Okay. So we can elaborate calibrate that.

James C. Morgan - *ICF International, Inc. - CFO & Executive VP*

Right.

Lucy Guo - *Cowen and Company, LLC, Research Division - VP*

Yes, for the new numbers. And one more clarification on the business development spend increase, I thought the previous expectation was around $3 million, $4 million, $5 million for the year. You may have just spent more in Q2, so less in the second half? Or is that number -- did that number increase? The $3 million to $5 million...

James C. Morgan - *ICF International, Inc. - CFO & Executive VP*

I don't remember providing that number, but no, the number did not increase. There was -- but it was more we spent on -- some in Q2, and then also we increased some of our investments for internal activities in Q2.

Lucy Guo - *Cowen and Company, LLC, Research Division - VP*

Got it. Got it. I'm kind of jumping all over the place. International revenue in Q2, was there something onetime? Or is that run rate good to use for the second half as well just in terms of the projects?

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

I mean as James said, it wasn't a onetime project. I mean, I think we've had a number of projects ramping up that we've won over the last 12 to 18 that are really driving that. I think we expect for the second half of the year is we'll still -- we'll certainly be north of 25%.

James C. Morgan - *ICF International, Inc. - CFO & Executive VP*

For the full year.

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

Revenue growth -- I'm sorry. For the full year, we'll be north of 25% total growth. I don't think it's going to maintain kind of 40%, 45% kind of currency-adjusted like we reported this quarter, but it's going to be quite robust.

Lucy Guo - *Cowen and Company, LLC, Research Division - VP*

Got it. Last question, before I pass it on, is -- just curious, after seeing a -- I think there was a -- sorry, a FEMA bid for potentially, a multi-award contract for emergency services. Residential property damage north of $800 million? There are 2 incumbents, so [VSP Global and Vanguard]. This is all publicly information available information, right? So it looks like they are bidding this thing, potentially, late this year, into early next year? Or sorry -- the RFP, maybe in September, and then the award, maybe late this year. So just wondering, if you guys would be interested in something like this.

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

Yes. I think I'm familiar with the 2 bids you've talked about, I think, focused on FEMA, looking to get assistance, on having inspectors who can go out in the field and inspect a variety of different facilities for damage immediately after the storms, whether it's residential, commercial or even potentially, energy-related facilities. Those contracts tend to -- the first, they do those have large, very large teams of, kind of stringers and consultants that they tap, to send down in the field on an as-needed basis. And so that's on an area -- and that's all they do. And so it's -- that's a major component. So that's not something that's not going to be our sweet spot. I would tell you, we do tap firms like those. There's a variety of players out there who can be subcontractors to us for our more integrated programs. So when we go out and implement a housing program, we're the program manager. We know all the rules. We're doing all of the financial calculation, but we need teams of people to go out and inspect the homes. We'll tap a firm like that as a subcontractor, similarly under FEMA. So our sweet spot is really implementing the integrated programs, not going really deep on field and inspectors. And so that's how we look at that, those contracts. So I don't think those will be something we prime and see as our sweet spot.

Lucy Guo - *Cowen and Company, LLC, Research Division - VP*

Okay, that makes sense. And lastly I just wanted to make sure, is it correct to interpret the guidance increase in the second half -- is mostly reflecting the award you've already booked, so anything incremental would be upside?

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

Yes. I think that -- as we said in earlier questions I mean, I think we're upping the guidance based on the awards and the -- that we've had across the disaster recovery, the federal space we see and then in the energy arena. We're not assuming any new material disaster recovery-related awards related to this guidance. Obviously, if were to win something material later in the year, then we'd have to take a look into our guidance. But for right now, it's based on contracts we've won, the visibility we have from those.

Operator

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

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

Quick question. I just want to go back to the acquisition for a moment. I was wondering if you'd made mention that you're working together in Puerto Rico. I was wondering have you had experience working with them in the past and do you have a sense of any overlap of customers or jobs? And then I have a follow-up after that.

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

I think -- this is John, Marc. I think this is the -- I think the first time we've worked with them intensely. I think we've -- certainly, we're aware of this firm, know their reputation. And have folks in the firm who know the senior leadership of this company based on the -- our long-standing history of working on aspects of FEMA-related work. And so we're certainly familiar with them, we know them well. I think the Puerto Rico opportunities to present working with them this intensely. In terms of the client sets for these folks, I think they are largely complementary to what we do. They bring state-level relationships. They do disaster-resilience-related work for utilities, which we don't do but we know a lot of -- obviously, have some client relationships. And then they're much more on the FEMA side than the CDBG side. So I think it's largely complementary across state and local utility and the federal given the FEMA-CDBG split.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

Okay. Great. And then I just wanted to shift gears going to the commercial side of things for a moment. You made mentioned some of the digital marketing activity. I'm just wondering if you could dive a little deeper into that, into what you're seeing in that marketplace as far as spending growth and opportunities, and maybe what that pipeline looks like over the next many -- in the coming months?

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

Yes. Well, I would say that -- what's really been driving our growth here in the last quarter or two, certainly our loyalty business is having a very robust growth. We see significant opportunity there. We have obviously, a market leadership position and a robust pipeline. We've also been quite successful, in the last couple of quarters, on the health care front, commercial healthcare, both for payers and health care delivery, working -- doing marketing and engagement work there, across our portfolio, across portfolio of services and capabilities we can bring. And so that's actually turned into a quite nice growth area for us, the healthcare arena and our marketing sources business. So I'd say that those are the kind of the 2 most significant growth areas. I would say that we generally expect it to be in the mid- to potentially high single-digits. We were at 8% this quarter. I wouldn't call 1% at a quarter a long-term trend, but i think we're comfortable that we are in a growth mode here, and certainly comfortable with mid-single-digit growth on the market services. Energy efficiency, obviously. Energy remains robust even a stronger growth market.

Operator

I see we have no further questions at this time. I will now turn the call over to management for closing remarks.

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

Thank you all for participating on today's call. We look forward in keeping you up to date on the development at ICF. Thank you.

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

Thank you.

Operator

And thank you, ladies and gentlemen, this concludes our conference for today. We thank you for participating. You may now disconnect.
