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PRESENTATION

Operator

Welcome to the First Quarter 2021 ICF Earnings Conference Call. My name is Vanessa, and I will be your operator for today's call. (Operator Instructions) Please note this conference is being recorded on Tuesday, May 4, 2021, 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 Advisory Partners.

Lynn Morgen ***AdvisIRy Partners - IR***

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's first quarter 2021 performance. With us today from ICF are John Wasson, President and CEO; and Bettina Welsh, CFO. Joining them is James Morgan, Chief of Business Operations.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations for our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our May 4, 2021, press release and our SEC filings for discussions of those risks.

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

I will now turn the call over to ICF's CEO, John Wasson, to discuss first quarter 2021 performance. John?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Thank you, Lynn, and thank you all for joining us today to review our 2021 first quarter results and discuss our business outlook. ICF's first quarter results represented an outstanding start to the year, setting the stage for considerable growth in 2021. Indeed, the outperformance led us to move our full year service revenue, EBITDA, and EPS expectations to the upper end of the ranges, despite it being early in the year.

There are 3 key takeaways from our first quarter performance that I would like to point out. First, our qualifications, positioning, and contract vehicles in high-growth markets in both the government and commercial arenas drove substantial growth in service revenue, which together with higher utilization and quarter-specific margin benefits resulted in year-on-year increases in EBITDA and EPS that significantly outpaced revenue growth. Second, this was the third consecutive quarter of record contract awards for ICF, resulting in trailing 12-month book-to-bill of 1.44 times, which is the highest level in recent years, and is overwhelmingly related to bids submitted prior to the Biden administration assuming office. And lastly, the greater clarity we have on the Biden administration's funding priorities, the more confident we are about ICF's additional long-term growth potential for 2022 and beyond.

First-quarter revenue growth was led by strong results from our government and commercial energy businesses, which together accounted for 88% of total revenues. Looking more closely at our first quarter results by client category, the increase in our government business was driven by a 13% increase in revenues from federal government clients, led by IT modernization, digital transformation, and public health work at key civilian agencies, including the Department of Health and Human Services, the Federal Communication Commission, the Department of State, as well as the Department of Homeland Security. This was also a strong quarter for ICF's contract wins in the federal market, particularly in IT modernization, public health, and cybersecurity. We continued to win new task orders and contract modifications to perform COVID-related response work, which brings the cumulative value of these awards to over $45 million since the onset of the pandemic.

More than the dollars however, these wins continue to strengthen our positioning for future work related to COVID-19 recovery and re-invention programs, which we expect will include the modernization of disease surveillance systems and new initiatives to improve the country's readiness in the face of future pandemics.

We are monitoring how the new administration is working to define and implement its policy and funding priorities. Just looking at the Biden administration's $1.9 trillion American Rescue Plan Act that has been passed by Congress, we see significant opportunities in our addressable market. Notably, at least $2 billion has been allocated for federal agency IT, and this includes $1 billion in new funding for the Technology Modernization Fund to help complete modernization projects at federal agencies. Additionally, $650 million is specifically designated for the Cybersecurity and Infrastructure Security Agency, which is a new client of ours.

Another $40 billion is earmarked to support childcare, childcare providers, and Head Start, where ICF currently provides services to Head Start grantees in 6 of the 12 Head Start regions across 40 states and the District of Columbia. Other funding includes $12 billion for food support to families in nutrition programs, $500 million to the CDC for data modernization and analytics, and $9 billion for central tribal and federal safety net programs that serve native communities.

These opportunities do not even include the proposed $2 trillion American Jobs Plan, where for example, our project permitting and monitoring of infrastructure projects and our expertise in resilience, mitigation, and cleantech come into play, nor the fiscal 2022 budget proposal that includes a 16% increase for civilian agencies, including a 23% increase for our largest client, HHS, a 41% increase at the Department of Education, a 21% increase at EPA, and a 15% increase at HUD.

This gives you some idea of the magnitude of proposed federal spending over the next several years in areas and agencies where ICF has strong qualifications and relevant contract vehicles. As we mentioned in our conference call last quarter, we are utilizing a portion of the savings we have gained from the optimization of our real estate footprint and reduced travel and entertainment expenses to invest in people and technologies to expand our capabilities in these high-growth markets.

State and local revenues declined by 6% in the first quarter, primarily due to lower pass-through revenues. Our disaster management business continues to track well and is expected to meet our expectations for double-digit growth in 2021. Last week, we announced a first quarter $46 million award from the government of Puerto Rico's Public-Private Partnership Authority, that includes elements of ICF's previous work to provide FEMA-funded project formulation services to support long-term disaster recovery from hurricanes Irma and Maria and hazard mitigation efforts to protect against future disasters. This contract includes an initial 4-month term through June 30th of this year, plus 2 additional 1-year options to extend. Additionally, during the first quarter, we ramped up existing mitigation contracts and added new clients in Oregon related to the wildfires in 2019 and 2020, and expanded work in Louisiana related to the winter power outages.

As noted in our earnings release, revenues from international government clients increased substantially in the first quarter, primarily reflecting a sizeable short-term project, which we expect to wind down throughout this year. The recent $11 million contract award to manage the EU Climate Pact has placed ICF at the heart of the Commission's activities and provides ICF with a high-profile role in stimulating climate action within the European Union. We expect to see a return to growth in revenue from non-U.S. government clients in 2021, but not at the magnitude we saw in the first quarter.

Moving to a review of our commercial business, commercial marketing services accounted for just under 10% of total revenues in this year's first quarter, with the year-on-year decline tied to the impact of the pandemic on a portion of this business. We have closely managed expenses in this area while continuing to do great work for clients, which we were recognized for with awards for multiple campaigns in the first quarter. I am pleased to report that we added several new clients in the first quarter across the health, consumer product, and financial sectors. Adjusting for the completion of the large media buying-related contract at the end of 2020, we expect revenues from commercial marketing clients in 2021 to be down slightly compared to last year.

Commercial energy markets had a great first quarter, up 12% year-on-year, and representing 16.5% of total revenues. Specifically, revenues from our utility programs business, which includes energy efficiency, electrification, and flexible load management programs, increased at a high single-digit rate, reflecting the start-up of new contracts, the expansion of existing contracts under extensions awarded at the end of last year, and the timing of performance-related incentive fees on several contracts. At the same time, we saw significant demand for our energy advisory service activities, which include financial and engineering due diligence services around the deployment and development of renewable resources and energy storage. Additionally, in the first quarter, our environmental services business won new contracts with utilities and renewable energy developers, including an additional contract to do an environmental study for an East Coast offshore wind project.

ICF's leadership and expertise in energy-related issues is broadly recognized in both the commercial and government markets. As long-term advisers to the U.S. Department of Energy, we were called in in real time to provide a detailed situation analysis at the time of the winter vortex that caused an energy blackout in Texas and surrounding states in February of this year. ICF also supports electric vehicle programs at the federal and state levels, and we design and run several utility EV programs. Our expertise in renewable energy and transmission issues, energy efficiency, climate science, decarbonization, infrastructure resilience, and climate adaptation aligns well with the Biden administration's priorities and creates significant long-term growth opportunity for both ICF's commercial and government energy business in a multitude of areas.

To summarize, this was an excellent quarter for ICF, continuing the positive momentum we experienced at the end of last year and supporting our expectations for strong growth in 2021. We achieved record contract sales of $596 million, up 67% year-on-year, and our business development pipeline was over $6 billion at the end of the first quarter. With that, I'm going to turn the call over to Bettina Welsh, our CFO, for a financial review. Bettina?

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

Thank you, John. Good afternoon, everyone. I will provide a more detailed look at our first quarter 2021 results, which exceeded our initial projections. First quarter 2021 total revenue was up 5.6% to $378.5 million, driven by strong performance of our government and commercial energy businesses, which increased 13 and 12% respectively. We are especially pleased with service revenue growth of 9.5% year over year, which we see as a better indicator of our trends in our business as it represents the work done by ICF employees. Pass-through revenue accounted for 26.1% of total revenue compared to 28.7% in last year's first quarter.

Gross profit increased 14.7% year-on-year to $146.4 million. Gross margin on total revenue expanded by 310 basis points to 38.7% and gross margin on service revenue grew 240 basis points to 52.4%. Gross margin benefited from strong service revenue growth and lower fringe costs. Additionally, there was a significant quarter-specific benefit, primarily from the timing of several recently awarded fixed price energy efficiency contracts on which certain program costs will be incurred in the upcoming quarters, and the timing of energy efficiency incentive fees on several contracts.

Indirect and selling expenses were $110 million compared to $103.3 million in the year-ago quarter. However, as a percentage of service revenue, indirect selling expenses declined 110 basis points to 39.3% compared to 40.4% in last year's first quarter.

EBITDA was $36.4 million, 49.5% above last year's $24.4 million, inclusive of $1.3 million in facility closure and severance costs. Excluding special charges, adjusted EBITDA was $37.7 million compared to $28 million in last year's first quarter. Adjusted EBITDA margin on service revenue expanded 260 basis points to 13.5% thanks to higher revenue, favorable mix, and the timing of contract awards and incentive fees I mentioned earlier. Operating income of $28.1 million increased 72.4% from the $16.3 million reported in the first quarter of 2020.

Our tax rate was 26.7%, in line with our expectations. This compared to 18.3% in the first quarter of 2020.

Net income for the quarter was $18.4 million or $0.96 per diluted share, inclusive of $0.05 of tax-effected special charges. This compares to $10.6 million or $0.55 per diluted share in the first quarter of 2020, inclusive of $0.16 of tax-effected special charges. On a non-GAAP basis, excluding the impact of special charges and amortization, EPS were a $1.13, up 36% from last year's $0.83.

Moving to the cash flow statement and balance sheet, we are pleased with our positive operating cash flow of $5 million compared to use of operating cash flow $15.2 million in the comparable period of 2020, which is more typical of our first quarter seasonality. The upside was a function of the higher net income and the timing of accounts payable. Capital expenditures in March were $3.6 million compared to $4.7 million in the prior year.

Days sales outstanding for the first quarter were 80 days compared to 88 days in the similar period last year. Our net leverage ratio at the end of March improved 2.38 times compared to 2.47 times at the end of 2020.

As for our capital allocation, moving forward, we will continue to prioritize organic growth, acquisitions and debt reduction, as well as funding our dividend and doing share buybacks to offset dilution. Speaking of share repurchases and dividends, in the first quarter, we repurchased 151,200 shares for $12.8 million to offset the dilution of our employee incentive programs. Also, today we declared a quarterly cash dividend of $0.14 per share, payable on July 14, 2021, to shareholders of record on June 11, 2021.

Given the very strong performance we had in Q1, we are expecting less seasonality and more evenly distributed revenue and earnings this year than in the past.

For modeling purposes, the following metrics remain our expectations for 2021. Depreciation and amortization expense is expected to be in the range of $20.5 million to $21.5 million for the full year 2021. Amortization of intangibles should be in the range of $11.8 million to $12.2 million. Full-year interest expense should range from $11 million to $12 million. Full-year tax rate will be no greater than 27%. We expect fully diluted weighted-average share count of approximately 19.1 million for 2021. And capital expenditures are anticipated to be between $20 million and $22 million. We also reaffirm our operating cash flow expectations of approximately $100 million.

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

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

As I mentioned at the outset of this call, our outstanding first-quarter performance has led us to move our expectations for full-year service revenue, EBITDA and EPS to the upper end of the initial ranges we provided at the time of our fourth quarter 2020 earnings release. And, we are reaffirming our guidance for total revenue growth and operating cash flow.

Approximately 55% of our 2020 service revenue represented ICF's work in key growth areas, namely IT modernization, public health, disaster management, utility programs, along with climate, environment and infrastructure consulting, all of which are closely aligned with the priorities of the new administration. Taken together, we expect the growth rate in these areas to be 10% or more over the next several years. We are well on our way to achieving this objective for 2021, and we are making the requisite investments to capture the organic growth opportunities on the horizon. Additionally, we have the financial resources to pursue acquisitions that can further expand our addressable market.

At ICF, much of our business is in service areas that enable us to create positive impacts. And in fact, in 2020, over 85% of our total revenues were derived from our 2 largest markets, namely energy, environment and infrastructure, and health and social programs, areas which benefit society. At the same time, ICF has prioritized being a good corporate citizen, remaining carbon neutral for the last 15 years and embracing diversity, social justice and equal pay. This has attracted like-minded people who've shown a shared commitment to environmental and social issues and have a passion for their work. We encourage you to access our most recent Corporate Citizenship Report to learn more about how ICF addresses its ESG responsibilities. And with that, Operator, now I'd like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

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

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

I was hoping to get your perspective on the growth in the sort of complement of the business, the non 55% that you say is going to grow double digits for a number of years. How should we think about the growth there? Some of those businesses were impacted cyclically, and maybe can bounce back cyclically as well. Can you give it some color?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I think our assumption, Tobey, generally, as we look forward, as you know, 55% that are in the key growth markets, I think we certainly see 10% and beyond growth there. And as we continue to look out, given the Biden administration priorities, we get excited about those opportunities over time. The other 45% of the business, I think we're generally thinking kind of flat to low single digit growth as we look forward with those businesses. And so I think that's how we're generally looking at those over the longer term.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

Okay. And in the budget that the Biden administration proposed, as well as the infrastructure related bill, if those are passed and, let's pick a day, let's say it happened today, when would the influence of those appropriations start to flow through most likely into contracts and then eventually into the income statement of the company?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I think generally once a budget's passed and infrastructure bill is passed, I would say 3 to 6 months. I mean, realistically, I don't think the infrastructure bill is going to be passed until, I mean, what I've read you, I'm sure you read the same thing I read, towards the later in the summer, the end of the summer. Obviously the budget would start on October 1st. I think it'd be unusual for the government to have a budget in place right on time. But I think if those fall into place, it's a 3 to 6 months. I think the infrastructure money could potentially move more quickly.

And so I think the way you should think about the budget and the infrastructure bill is that's really, if that plays out positively, very significant upside for us in 2022 and beyond. I think our guidance for this year obviously doesn't assume any material impacts there. I do think the stimulus bill that Biden passed provides some opportunity for us, but obviously over the last few quarters, we've had very significant sales, very strong book-to-bill, which all predated the Biden administration that set us up well already for very strong growth as we go forward.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

Could you talk about the M&A and what the pipeline looks like, your appetite and areas of interest?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. Sure. So I would say that as you know, I mean, I think M&A has been a key element of our strategy over many years, over the last 15 years since we've been public. I think our growth has been robust. About half of it's been organic. Half of it's been inorganic. We're certainly constantly out in the market looking to add skills and capabilities, either on the domain side or the implementation side that could help us grow our business. I think we've talked about the fact that we're focused particularly on the federal side, around IT modernization and digital transformation in the federal arena, public health in the federal arena, and certainly looking at opportunities in the energy, commercial energy, arena.

And I would say the market right now is active, have become quite active. We're seeing a lot of potential deal, strong deal flow, but the pricing is quite frothy. I think, obviously, interest rates are low, like there's concerns about the capital gains rate before the end of the year. And so the deal flow has certainly picked up. And so there's a lot of opportunity out there. I think we're obviously focused on finding companies in the markets I just mentioned that are a good strategic fit, a good cultural fit, we want high quality companies where we really see on the synergistic revenue.

And if we can find those companies, we have found even with strong valuations that if you can really go get that synergistic revenue, it can make the deals very attractive and very, very good for long-term growth. And I think ITG acquisition was a great example in the last year for us. So we're at the market and we're looking, we did ITG a year ago, we levered up our net leverage ratio is down to about 2.5 or 2.6. I think by year end, if we don't do a deal, it'll be under 2. And so we certainly have the capacity here on the acquisition front looking forward.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

Last question for me is what would gross margins on a normalized basis have been if there weren't some of the items that you called out?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I'm going to look at Bettina and ask her to answer that question.

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

Good question. Absolutely. No, we're real pleased with our gross margin this quarter, for sure. But I would say that there's probably the upside is approximately 200 basis points of the gross margin related to the timing of the fixed price awards on those several energy efficiency, contracts and the timing of the energy incentive award. So hopefully that gives you a good sense there.

Operator

We have our next question from Sam England with Berenberg.

Unidentified Analyst

It's [Alex] on for Sam. My first question is, so you commented previously that you're working with health agencies on pandemic response could exceed your work that you did on HIV and AIDS. Are you still confident on this?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I think there's sort of the potential for that. I think we've talked about on the HIV/AIDS front for NIH, we've run a clearing house and a website that focused on providing the latest treatment options and sharing information to healthcare providers and physicians. I think we announced several quarters ago that we had begun efforts on a similar website on the COVID front.

And so I do think as we look down the road, once we get past immediate response and we look down the road to the longer term response to recovery from COVID, there could be quite sizeable opportunities for us. And I think we're following those carefully. I think that's more of a second half of this year and then out into 2022 and beyond type opportunities, but I think there's a potential for those opportunities to be quite possible.

Unidentified Analyst

Okay, great. And given the strong performance in Q1, how are you guys thinking about hiring for the rest of the year?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I think obviously we're a people business, it's all about the grey matter between the 2 ears of our employees. And so with service revenue growing 9.5% in the first quarter, we're obviously needing to be adding staff and aggressively adding staff. So we're out in the market place, we're leaning forward on the recruiting front. I mean, I think it's going to be critical. I think, as I said in the past as our revenue grows, our revenue grows 10%, we need to be adding 8.5, 9% additional staff. We're always trying to leverage and raise the utilization over time, but it's a people business. We need to be out there recruiting and we're working quite hard on that for sure.

Operator

Our next question comes from Joseph Vafi with Canaccord.

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

Just wanted to kind of circle back on some questions I've kind of asked in the past relative to, number one, what you're seeing and average deal size now in the quarter on bookings, especially on the federal side and strength in the business, do you have some commentary on your bid and proposal pipeline? Perhaps getting larger contracts and then specifically perhaps an IT modernization what you're seeing there.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes, sure. So I think as we've talked about it in the past, Joe, and I think you hit on some of the key areas. I mean, I think generally, on the IT modernization front, I think one of the attractions for us in that market and the basis for doing the ITG acquisition is that is a market where you can see quite significant contract opportunities. And as we've talked about it, as I see it grows, we're a $1.5 billion company, if we're going to double again and become a $3 billion company down the road, we need to be winning larger size deal and certainly in the IT modernization front you can find a hundred million, $250 million deals in our client sets around IT modernization.

And so certainly part of that strategy is to identify and take down, put in capture any larger deals in IT modernization, I would say similarly in some of our program areas and in HHS around public health and education and human services, again, we are focused on larger opportunities in trying to kind of go to the next level in terms of taking down the larger deals. And as part of that we've been investing quite significantly in updating our capture capability and hiring people that have experience in taking down these kinds of deals and can kind of help us on this journey. And so that is certainly part of our strategy. And I think we continue to make progress in building that pipeline.

Both in the federal space and I will also say that we continue to see sizable deal opportunities in the commercial energy arena around the energy efficiency programs. And certainly put significant capture resources into those too. And then also in disaster recovery. I mean, there we've won quite sizeable contracts over time. We've obviously been in capture for some time on some of the mitigation opportunities, particularly in Puerto Rico, that could be quite sizeable.

And so that's a long-winded way of saying it's a key part of our strategy. And we are investing a significant amount of business development right now, capture, proposals, marketing, and just writing more proposals. I mean, I think it's a unique time for us. We have these growth drivers and my view is we have to bid everything that's in our sweet spot. And so we have to invest the resources to do this. You can't let these kinds of opportunities pass you by.

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

That's helpful, John. So it does sound like you're going to perhaps fit more. I mean, I know the company's growing and obviously you'll get more company growth, but at the margin, maybe it sounds like maybe there's a little bit of a step up in proposal activity on top of that this year. Would that (inaudible)

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

That's where we can find these much larger deals, Joe. We are working hard to put those in capture. And I mean, if you're going to take down those kinds of deals, you have to be in capture a couple of years in advance, you can't start working those deals 3 months before they're out.

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

Yes. And maybe just thinking about some of those, I know you mentioned some of the mitigation work. Would you say a lot of the newer, larger things that you're looking on, are those re-competes with incumbents or is that kind of brand new work that's emerging and kind of some of your leading edge areas? Or is it a combination?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I think it's a combination of both. I mean, I think we're obviously looking to add new opportunities to the pipeline at scale and that's really been the focus as we invest more and bring in new talent. I mean, our contracts tend to be 4 million to 5 million, 4 to 5 years in length. So, every year you've got to set up a re-compete and you've got to take those seriously and do the capture too, but again, I think as we invest more, I think you should think of it as we're investing more to pursue more newer opportunities in the growth markets that we're in.

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

Got it. And then one other question kind of going back to part of the other part of the business thought. I might've missed it if you particularly called out what you're expecting there and how that business bearing, especially perhaps in a re-opening scenario with some of those clients. Great quarter.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. Thank you. I would say on the marketing services front, the commercial marketing services, I think we generally expect it to be flat for the year. Obviously through the first quarter, a year ago, the comp was still challenging in the first quarter, given it was mostly pre-pandemic. But I think as we look forward we aren't assuming a significant rebound in the commercial marketing business this year. I think several of the verticals that have been impacted, hospitality, travel and tourism, we generally assumed a late third quarter, fourth quarter improvement. The improvement will come, those will rebound. With the end of the pandemic and the economy improving, we haven't assumed that this year in the commercial market. I would also note that when you look at the total growth in the marketing business we did have a large media buying contract last year with a client that ended.

And so I think when you take that out, we're expecting generally flat on revenue. And so that's the commercial marketing, I think in Europe in a similar way the commercial marketing services we do for the European Commission, that business generally, in Europe, we are seeing a rebound and expect growth this year, but we're generally being conservative there in terms of when Europe will open up in terms of marketing and face-to-face meetings. As you know, their vaccination rates have not been as high as other countries, so that's generally how we're thinking about it.

Operator

Our next question is from Andrew Nicholas with William Blair.

Trevor Romeo ***William Blair & Company L.L.C., Research Division - Associate***

This is actually Trevor Romeo in for Andrew. First was just a question on your expectation for kind of hitting the high end of your guidance ranges. Is that more of an increased expectation for the balance of the year, or kind of just a reflection of the outperformance in the first quarter? And kind of related to that, if you do end up outperforming guidance for the full year, would you expect that to come from more continued strength in the strong areas, like IT modernization and energy? Or more of kind of an accelerating rebound in some of the softer areas like marketing?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. I think that, the fact that we've got into the upper end of the guidance range, I think it's largely reflective of the first quarter performance. Having said that, I mean, we have very strong moments for the first quarter performance, having said that, we have very strong momentum. Obviously, it's still early in the year, but I think if in the long run we were to exceed or, for the year we were to exceed our guidance, I think it would come in the growth areas. I mean, I think we are not assuming it as significant as I just said on the marketing services front, certainly, we're not assuming a significant improvement there, but for the rest of the year. And so I think we've had a very strong first quarter with confidence and that takes the upper end of the range. It's still early in the year, but these are robust growth markets and we're hopeful to continue to execute as we go throughout the year.

Trevor Romeo ***William Blair & Company L.L.C., Research Division - Associate***

Okay, great. That's helpful. And then just, I guess, appreciate some of the detail you've provided on the new contract you're awarded in Puerto Rico. We're just kind of curious whether you see additional opportunities there for disaster recovery in that market. And then if so, the timing of any potential award decisions going forward.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Sure. So, in addition to the contract we won in the first quarter to support FEMA, FEMA funded public infrastructure work, there's several proposals we're awaiting award on in Puerto Rico on the housing front. I think there's at least 2 contracts I'm aware of that we're awaiting award on that provide upside. I've mentioned the mitigation contract, or RFPs that -- RFP that we expect to be forthcoming here, certainly in the first half of the year, of Puerto Rico, as we've discussed a number of times on these calls, got $10 billion in mitigation funding. They have received approval from HUD for their plan under that funding. So I think there are fees forthcoming and we'll certainly bid those. And so I think there's a fair amount of opportunity for us in Puerto Rico still to come. And we're going to be there for the long run.

I think we've also talked about more generally, but with disaster recovery. I mean, obviously it's partially dependent on the frequency and severity of storms each year, which I think the data shows are certainly increasing. But the mitigation funding, is a new bucket. And I think that will continue to be funded by the Biden administration and for both under HUD programs and FEMA programs, and we're a market leader there. Well, I think we've talked about we've won 4 or 5 state-level contracts on mitigation in the last year. And so again, I think we see disaster recovery as a long-term growth driver here. That said, it's certainly going to be a double-digit growth driver for us this year. We have long-term confidence in the growth of that business.

Operator

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

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

So I was wondering if you could talk a little bit about the cadence of how things developed throughout the quarter and into the more recent timeframe and talk about maybe some of the things that have given greater confidence, conviction around what you're seeing from the new administration that sort of supports your level of confidence and what should be to come.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes, well, I think I touched on many of those in the remarks, but, it's a good question. I think obviously for the last several years, we've talked about kind of 4 of the key growth drivers, IT modernization, public health, disaster recovery, and utilities. And I think those were growth drivers for us in the last couple of years of the Trump administration. I think they will remain strong growth drivers in a Biden administration. I think in addition, based on just what we've seen in terms of his prior policy priorities and his initial budget proposals, I see obviously climate change and resilience as an area of focus for the Biden administration. They recommitted to the Paris Accord the first day in office, they've put in place several executive orders.

He just had a meeting of 45 countries on climate change at the White House a week or 2 ago. I don't know if there's any question that they're going to move out and take steps to address climate change. We have one of the largest climate change consulting practices in the world. That will certainly be very beneficial for us. And then obviously, I think given the American Jobs Plan with the focus on infrastructure. I talked about in my remarks, we do environmental work on the front end of traditional infrastructure, roads, bridges, rail, and also on clean technology and some of the broader definitions of infrastructure that Biden has embraced. And then his proposed budgets for civilian agencies are up significantly for 2022. And obviously those are proposed budgets and it's a proposed infrastructure bill, but if only a portion of that becomes reality, that will be very, very good for ICF. I think that's what's giving me a lot of confidence in terms of the Biden administration.

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

And then I was wondering if you could bring us up to date on what you're seeing with, specifically with California, around that outsourcing effort and an update there, maybe. You gave an update on this at the end of the year, I'm just wondering if there's a little further information there. And as far as what we might see as far as timing, and actual work being done there, and then I have one last follow up after that.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Sure. So I think we remain quite focused on energy efficiency opportunities in California. I think in the fourth quarter call, we said, we'd won I think north of 60, but perhaps $65 million of contracts on energy efficiency last year. I think we have a robust pipeline. I would hope we'd win a similar, that those kinds of numbers could be accomplished again this year. I think there's those kinds of opportunities out there. And so we're quite focused on the California market.

I will say in the first quarter, we did win a significant number of new energy efficiency contracts, and got plus ups on our existing contracts. The work came more quickly than we expected. I think Bettina spoke to how some of those contracts raised our gross margin in Q1. I'm not willing to call it a definitive trend, but, again, energy efficiency will be a central aspect of addressing climate change going forward. And so if the Biden administration is successful or undertakes steps to address that issue, it will provide additional input to grow our energy efficiency business. So anyway, we remain quite focused on California, and remain optimistic about the energy efficiency market in general.

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

Okay, great. Then one last thing for me, I wanted to just go over where you see things as far as leverage levels, I think as far as comfort level, and then what we might see throughout the course of the year as to use of cash.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. I'll say a few words and I'll let Bettina get into all the details of leverage ratio. Generally, I think I answered Tobey's question, acquisitions are a key part of our strategy. Every 2 or 3 years historically we've levered up, we used the strong cash flow to pay that down. We're quite comfortable when we do, it leveraging up into the 3.5, 3.75 leverage ratio range, and then paying it down over the next several years. In which we've certainly done it with ITG, I think we've had very strong cash flow here. And so I think that remains a part of our strategy. Do you just want to talk about in the last year? (inaudible)

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

Absolutely. So, if you recall, when we levered up with ITG it was certainly in the over 3.5 times, but by the end of the year, we brought that down to 2.47, and we just described in the script that's down to 2.38, we project by the end of the year, and should we not purchase a company to continue to buy down our debt, and get down to about a 1.65 ratio. Clearly we're maintaining our fodder for M&A, and that's our primary objective. In the meantime, we'll continue to pay down the debt.

Operator

And thank you. We have no further questions in queue. I will now turn the call over to John Wasson for closing remarks.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Okay. Well, thank you for participating in today's call. We look forward to meeting with you at upcoming events. Thank you.

Operator

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