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ICFI.OQ - Q4 2025 ICF International Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 26, 2026 / 9:30PM GMT

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PRESENTATION

Operator

Welcome to the fourth-quarter and full-year 2025 ICF earnings conference call. My name is Lauren Cannon, and I will be your operator for today's call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

Lynn Morgen - AdvisIRy Partners - Investor Relations

Thank you, operator. Good afternoon, everyone, and thank you for joining us to review ICF's fourth-quarter and full-year 2025 performance. With us today from ICF are John Wasson, Chair and CEO; Barry Broadus, CFO. Joining them are James Morgan, Chief Operating Officer; and Anne Choate, President.

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 February 26, 2026, 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 over the call to ICF's CEO, John Wasson, to discuss fourth-quarter and full-year 2025 performance. John?

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

Well, thank you, Lynn, and thank you all for joining today's call to review our fourth-quarter and full-year 2025 results and discuss our business outlook for 2026. Let me also welcome Anne Choate to her first earnings call as President of ICF.

And with that, let me start by saying that our fourth-quarter results were firmly within our guidance ranges and capped a year in which ICF demonstrated notable resilience amid challenging conditions in our federal government business. In fact, we delivered on what we said we

would one year ago, and we are anticipating a return to revenue growth in 2026 that at the midpoint represents an over 10% year-on-year swing.

To summarize, 2025 revenues were firmly within our guidance framework despite the direct and indirect impacts of the six-week government shutdown. We maintained our full-year adjusted EBITDA margins at 2024 levels despite the 7.3% dip in revenues. Revenues from nonfederal clients increased 14% to account for 57% of full-year revenues, led by 24% growth in revenues from commercial energy clients, of which 15% represented organic growth. And ICF ended the year with a book-to-bill ratio of 1.19, a firm backlog of \$3.4 billion, and a business development pipeline of \$8.6 billion, all metrics that underpin our growth expectations for 2026.

As I just highlighted, we saw robust demand for our services to commercial, state and local, and international government clients throughout 2025, benefiting from the investments we have made over the last several years to build out key growth areas and further diversify our business. In fact, we anticipate that this client set will achieve double-digit revenue growth again this year to account for more than 60% of our total revenues in 2026.

The top performer in this grouping continued to be commercial energy, where client revenues reached just under \$550 million and grew 23% in the fourth quarter and 24% in 2025. And we are expecting another year of double-digit growth in this client category in 2026.

The primary growth driver continues to be sustained strong demand from our utility clients for our market-leading energy efficiency, flexible load management, electrification, and grid optimization programs, which accounted for approximately 80% of our 2025 commercial energy revenues. These are critical areas for utility clients as they address the tremendous projected growth in electricity demand and the need for grid resilience and affordable energy.

ICF is the market leader in developing and implementing residential energy efficiency and related programs for utilities, with a 35% market share. And we are continuing to gain market share in the commercial and industrial energy efficiency space, approaching a 20% share of this part of the market.

Our market growth is a direct result of the strong performance of our programs, which consistently meet or exceed client objectives. As a consequence, we are winning our recompetes, benefiting from expanded scopes of work, and taking away contracts from other providers.

Additionally, revenues from our commercial energy advisory work picked up in the second half as the regulatory environment became clearer to developers and investors in the energy space. We saw higher demand for our grid engineering services associated with accommodating data center loads as utilities expedite development of new substations. ICF's energy engineering capabilities expanded considerably with our acquisition of CMY in 2023, which strengthened our offerings in grid modernization, and this is an area that we expect to build out further organically and potentially through tuck-in acquisitions. We're also seeing additional demand from small modular nuclear reactor developers seeking DOE funding, market perspectives, and regulatory support, along with demand for policy work regarding SMRs from states and stakeholders. We also foresee work exploring the transmission impacts of upgrading existing nuclear facilities. Our work on renewables is expected to continue to grow in 2026, led by solar and battery storage. A significant amount of renewable development has been safe harbored for investment tax credit purposes, creating sustained demand for our services for at least the next two to three years.

Also, despite the reduced support from renewables by the new administration, we see consistent private sector interest in renewable and storage development on nonfederal lands. This trend will continue through the advanced economics of these technologies and the need to meet the near-term demands of rapid load growth.

And keep in mind that when we refer to our commercial energy revenues of \$550 million, this number does not include our energy-related work for federal, state and local, and international government clients, which amounted to approximately \$60 million in 2025. In fact, our commercial energy clients very much value ICF's public sector work as it gives us a broader perspective on emerging technologies as well as regulatory and policy issues.

Moving ahead to our state and local government clients, our revenues increased 4.3% in the fourth quarter, up 2.2% for the year. Our disaster recovery work accounted for approximately 45% of our 2025 state and local revenues and reflected our current support for over 80 active disaster recovery projects in 23 states and territories.

ICF is recognized as a market leader in the development and implementation of disaster recovery and mitigation programs. Just a few days ago, we announced that we were awarded a comprehensive management services contract by the state of Florida. This contract will enable us to compete for a wide variety of opportunities to help Florida improve and accelerate statewide program delivery and strengthen long-term infrastructure resilience, and we are very encouraged by this win.

We continue to see HUD-funded procurement opportunities, resulting from the nearly \$12 billion appropriation to enable long-term residential housing recovery from disaster declarations in '23 and '24 and are actively positioning to compete for these procurements. As has been widely reported, the future rule of FEMA is under review. FEMA provides funding for the rebuilding of public infrastructure, such as hospitals and schools following disasters. And while this review has slowed the flow of funds, we believe FEMA funding will ultimately flow to state and local governments.

Lastly, our international government revenues increased 12.8% in the fourth quarter and 7.6% for the year, reflecting the ramp-up of contracts we won in late 2024 and early 2025 with the European Commission and the UK government. We expect to see greater growth in 2026 with the full ramp-up of those contracts. Plus, in January of this year, we announced two significant new contracts to design and deliver large-scale communication campaigns across all 27 European Union member states. To sum up, we expect our revenues from nonfederal clients to increase at a double-digit rate this year and account for over 60% of our full-year 2026 revenues.

Let me now turn to the federal arena. As you know, 2025 was a challenging year, but we are looking ahead to a much improved 2026 for ICF. Our revenues from federal government clients declined 25% year on year in 2025 as a result of contracts canceled between February and May of last year, the slowdown in new procurements, and the direct and indirect impacts of the six-week government shutdown.

In terms of where we stand today, our federal business is on much surer footing than last year at this time. We were awarded approximately \$1.1 billion in federal government contracts in 2025, representing about one-half of our total contract wins for the year. And about half of that amount represented new business, including expanding the scope of current contracts. This is a good indication of ICF's strong positioning in our federal markets.

After last year's government shutdown ended, procurement activity picked up and that momentum continued into 2026. We are seeing continued emphasis on efficiency, which we are well positioned for given that the vast majority of our IT modernization work, which represents about one-half of our federal government revenues, is outcome-based and done under fixed-price and time-and-materials contracts. And we are starting to see a shift toward federal agencies outsourcing more work, which is creating additional opportunities for us.

I know investors are concerned about the potential for agentic AI tools such as Claude Code and Gemini and Codex to eliminate the need for platform and service providers to play a central role in modernizing federal IT systems. Agentic coding tools can certainly speed up development, but they cannot replace the need for federal IT modernization.

Here are three additional points to consider with respect to ICF. First, as I just noted, 90% of our IT modernization work is outcome-based and our civilian agency clients require a lot of support in this area. Thus, if we can complete certain projects in less time at lower cost, thanks to agentic AI, we will utilize available funding to move on to the next project. In other words, reducing costs increases the amount of backlog we can tackle for a client.

Second, there is funding. Federal government budgets for IT modernization are robust, and recent reports indicate that a significant majority of federal IT systems still need modernization. And third, it is all about what you're doing and not doing in this arena. ICF does not maintain legacy systems. We don't manage project management offices. We don't run federal call centers, and we have exited other areas that we expect to be commoditized due to AI. Rather, our work is in the higher-end, higher-margin areas like application development, cloud services,

AI governance, automation, data curation, and system post processing. So in summary, AI is an accelerator and a net positive for ICF, as we've already seen material improvement in our productivity, both in our client work and the internal management of our business.

Looking across our federal government work more generally, we expect continued scrutiny around spending, but the market backdrop is much more stable than it was a year ago. And we see solid opportunities aligned with our core capabilities, particularly where agencies are modernizing systems, improving efficiency, and advancing mission-critical public health and/or infrastructure priorities.

In 2026, we expect revenues from federal clients to decline at a high single-digit rate. The first half of 2026 will be a difficult comp as revenues in the first part of 2025 included federal government work that was canceled between March and May -- I'm sorry, February and May of last year. On the cost side, we generally expect sequential improvement in federal revenues from the first quarter through the third quarter of 2026, returning to year-on-year growth by the fourth quarter.

To sum up our federal work, we have a firm backlog of federal government contracts, a significant pipeline, and expect revenues from our IT modernization work to increase this year. In 2025, we did navigate difficult business conditions to emerge as a stronger company in many ways. We are more diversified, we're more efficient, and we're more agile. These advantages are positive catalysts for ICF in 2026 and beyond. We demonstrated our confidence in ICF's long-term outlook by repurchasing approximately 564,000 shares of our common stock last year, of which about 220,000 were purchased in the fourth quarter.

So with that, I'll turn it over to our CFO, Barry Broadus, for his financial review. Barry?

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

Thank you, John, and thank you, everyone, for joining today's call. I am pleased to provide you with some additional details on our fourth-quarter and full-year 2025 results. Total revenue in the fourth quarter was \$443.7 million compared to \$496.3 million in last year's fourth quarter and \$465.4 million in this year's third quarter. The 10.6% year-over-year decline was consistent with the guidance we provided on our third-quarter call. The fourth quarter capped a strong year for our nonfederal business, which continued to offset a large portion of the decline in federal revenues. Revenue from our commercial, state and local, and international clients increased 16% year-over-year and accounted for approximately 62% of our fourth quarter total revenues. Commercial energy remained a standout performer with revenues up 23.1% year over year, accounting for nearly one-third of our total revenue, reflecting the sustained demand for our energy efficiency, electrification, flexible load management, and grid optimization services.

Conversely, federal revenue declined 35.1% in the fourth quarter as year-on-year comparisons were amplified by the direct and indirect impacts of the six-week government shutdown. Fourth quarter subcontractor and other direct costs declined 5.8% year over year and represented 26.7% of total revenues compared to 25.4% in the prior year quarter, reflecting increases in our pass-through revenues with our nonfederal clients.

Fourth quarter gross margins were 35.7% compared to 36.1% a year ago. The decrease was due to a shift in our cost mix associated with a higher percentage of subcontractor costs and higher fringe expenses. Indirect and selling expenses declined at a slightly higher rate than revenues as costs decreased \$14.2 million or 11% year on year to \$115.2 million. Our indirect expenses were 26% of total revenues, which were slightly less than last year's fourth quarter and 30 basis points below the third quarter of 2025.

Fourth quarter EBITDA was \$43 million compared to \$50.8 million in the prior year. Adjusted EBITDA was \$46 million versus \$56.3 million last year, with an adjusted EBITDA margin of 10.4% compared to 11.3% a year ago. The decline in adjusted EBITDA was primarily driven by the decrease in our gross margin I previously mentioned, along with the temporary effects of the government shutdown.

Fourth quarter net interest expense totaled \$7.2 million compared to \$6.5 million in the prior year quarter due to our higher average debt balance, reflecting \$55 million in share repurchases executed during the year and the AEG acquisition completed in late 2024. Our tax rate in the quarter was 18.7% compared to 20.9% in the prior comparable quarter as we continue to execute on our tax optimization strategies.

Net income for the quarter was \$17.3 million or \$0.94 per diluted share compared to net income of \$24.6 million or \$1.30 per diluted share in the prior year. Non-GAAP EPS was \$1.47 versus \$1.87 a year ago.

Now turning to our full-year results, revenue was \$1.87 billion compared to \$2.02 billion in 2024. Our nonfederal business grew 14.2% year on year, led by the continued strength in commercial energy, which offset a significant portion of the 25.7% decline in federal revenues. Full year subcontractor and other direct costs represented 24.2% of total revenue, down 90 basis points from 25.1% in 2024, reflecting the larger proportion of revenue tied to ICF direct labor.

On a full-year basis, gross margins rose 60 basis points to 37.2%, driven by the shift in our mix toward higher-margin commercial revenues, which grew 23.2% year over year and accounted for 33.2% of total revenues, up from 25% in 2024. Full year gross margin also benefited from our favorable contract mix as fixed price and T&M contracts represented approximately 93% of total revenues, up from 89% in 2024. Cost reimbursable contracts declined to 7% of total revenues. Indirect and selling expenses declined 5% to \$492 million or 26.3% of total revenues. We remain focused on managing our cost structure in 2025, while continuing to invest in growth areas, including AI and other technology capabilities to support our long-term growth aspirations.

2025 adjusted EBITDA totaled \$207.2 million versus \$226 million a year ago. Adjusted EBITDA margin was 11.1%, stable with the 11.2% reported a year ago and consistent with the guidance we provided at the start of 2025. The full-year adjusted EBITDA margin reflected the strength of our nonfederal business and the tight management of our cost structure.

GAAP EPS was \$4.95 compared to the \$5.82 in the prior year. Non-GAAP EPS totaled \$6.77, inclusive of a noncash unfavorable FX impact of \$0.11, which was driven by the declining value of the US dollar in the first half of 2025 and associated with intercompany transactions. In the prior year, non-GAAP EPS was \$7.45.

At year end, our backlog stood at \$3.4 billion, half of which is funded, reflecting the long-term visibility we have in the business. Our full-year book-to-bill ratio was 1.19, and our business development pipeline remained healthy at \$8.6 billion.

Now turning to cash flows and the balance sheet, our fourth-quarter operating cash flow totaled \$75.6 million, bringing our full-year operating cash flow to \$141.9 million, near the upper end of our most recent guidance range. We ended the year with total debt of \$401.4 million, down from \$411.7 million at the end of 2024. During the fourth quarter, we reduced our debt by \$48 million, reflecting strong cash generation despite the government shutdown. Approximately 44% of our debt is set at a fixed interest rate.

Days sales outstanding were 77 days compared to 82 days in the prior sequential quarter. Capital expenditures for the full year were \$21.7 million, similar to \$21.4 million reported in 2024, and our adjusted leverage ratio was 1.98 times at the end of the fourth quarter, down from 2.13 times at the end of the third quarter.

Our capital allocation priorities for 2026 remain unchanged and reflect our disciplined balanced approach. We will continue to invest in organic growth initiatives, pursue strategic acquisitions in attractive markets, reduce debt, fund our quarterly dividends, and execute opportunistic share repurchases.

Consistent with these priorities, we repurchased approximately 220,000 shares of common stock in the fourth quarter, bringing our total repurchases to approximately 564,000 shares for the full year, underscoring our confidence in the strength and long-term outlook of the business. Today, we announced a quarterly cash dividend of \$0.14 per share payable on April 14, 2026, to shareholders of record on March 27, 2026.

Turning to our guidance for 2026, with respect to the cadence of the year, our first half year-over-year comparisons will be down as revenues in 2025 included federal contract work that was canceled between February and May of last year. We expect to generate roughly 48% of our total revenue in the first half of the year with the balance in the second half.

Now to help you with your financial models, I would like to note that from a sequential standpoint, our first quarter of 2026 had two fewer days – two fewer working days as compared to the fourth quarter of 2025, which equates to approximately \$14 million in revenue. We also anticipate the following: depreciation and amortization expense is expected to range from \$22 million to \$24 million. Our amortization of intangibles are now expected to range from \$22 million to \$24 million, which is \$14 million down from 2025 at our guidance midpoint. The expected decrease is due to the midyear roll-off of intangibles from acquisitions made in the 2020 and 2021 timeframe. We anticipate interest expense of approximately \$27 million to \$29 million. Capital expenditures are anticipated to be approximately \$24 million to \$26 million. Our full-year tax rate is expected to be approximately 20.5%. We expect our full – our year-end fully diluted weighted average share count to be approximately 18.5 million. And we expect full-year operating cash flow of \$135 million to \$150 million.

And with that, I'd like to say it has been a great pleasure for me to work with the incredible people of ICF. I am grateful for their steadfast support and shared commitment to our company over these past four years. I will certainly miss interacting with our analysts and investors.

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, Chief Executive Officer*

Well, thanks, Barry, and thank you for doing a great job as CFO during the last four years. Time flies when you're having fun. And all I can say is enjoy your retirement.

We are pleased to guide to a return to revenue and EPS growth in 2026, with our revenues expected to range from \$1.89 billion to \$1.96 billion, representing 3% growth at the midpoint, GAAP EPS from \$5.95 to \$6.25, and non-GAAP EPS from \$6.95 to \$7.25 or 5% growth at the midpoint. These expectations anticipate double-digit revenue growth from our nonfederal government clients, led by commercial energy, bringing nonfederal revenues to over 60% of ICF's total 2026 revenues, and also assume a return to year-on-year growth in certain parts of our federal government business.

This guidance does not anticipate any new large contract wins in the federal space nor any acquisitions. For the first quarter, we are guiding to revenues of approximately \$450 million, GAAP EPS of approximately \$1.20, and non-GAAP EPS of approximately \$1.55.

I would like to take a moment to recognize the dedication and hard work of our professional staff who have been instrumental in helping us navigate 2025 and whose dedication to ICF and our clients has had a lasting impact on this organization. And with that, operator, I'm pleased to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tim Mulrooney, William Blair.

Tim Mulrooney - *William Blair Capital Partners - Equity Analyst*

I just want to start off by saying to Barry, congrats on the retirement, and I wish you all the best on your next adventure.

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

Thank you, Tim. Appreciate it.

Tim Mulrooney - *William Blair Capital Partners - Equity Analyst*

Yes, you got it. So I just had a few here, and apologies if you addressed this already. I'm bouncing around earnings calls, but I wanted to ask about your commercial energy business.

I mean, commercial is going to be 60% of your revenue by the end of this year. I want to focus more on this. So could you just share how your commercial energy business grew in 2025 and what your expectations are for 2026?

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

Sure. I think as I indicated in my remarks, Tim, our commercial energy business grew about 24% for the year last year with 15% of that being organic. And so it certainly led the way in terms of growth within the firm.

I think our guidance for this year is at least 10% organic growth in our energy business. We continue to see very positive trends there across the business. As you know, 80% of that business is in our utility programs business that spans energy efficiency, flexibility management, electric storage, battery storage.

We are a market leader there. We have an addressable market of \$3 billion to \$5 billion. As I said in my remarks, we have about a 35% share in residential 20% share in commercial and industrial. That market is growing high single digit. We're outperforming that.

We're able to outperform because clients are plusing us up because of the high-quality work we're doing, and we are taking share from competitors. And so we think that has a long runway. We see tremendous opportunity.

And then the remainder of the business is in the advisory side with a significant increase in electricity demand and focus from utilities on affordability and reliability. Again, we see tremendous opportunity and a significant addressable market. And so we're quite positive we'll have double-digit growth there.

And so we're -- I think the commercial energy side of the business will be -- will lead the way in terms of contributing to our organic growth in 2026.

Tim Mulrooney - *William Blair Capital Partners - Equity Analyst*

Okay. Thanks, John. Do you expect -- where is more of that growth coming from? Is it coming from the utility programs or the advisory business as we think about the grid and just this insatiable thirst for more electrons, we're just not going to have enough over the next five years. How do I think about parsing that apart?

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

Yes. I think the -- well, I'll say a few words, and I'll turn it over to Anne Choate here so that her -- share her thoughts. I think that -- I think both components of the business, the utility programs and the advisory, I think we ultimately believe will grow at least 10%.

I think the advisory, I think, has the most long-term potential to grow more rapidly given it works across the entire value chain in the energy arena. And as you know, we're also investing more on the engineering side of the business. We did -- as I said in my remarks, we did the CMY acquisition, I guess, about two years ago.

And while that's a smaller part of our business, I think that has, as we continue to invest the potential for quite significant growth. That's an area where we're looking to deploy our balance sheet in addition to organic growth. Anne, do you want to --

Anne Choate - *ICF International Inc - President*

So Tim, nice to hear from you. So the -- I agree with everything that John said. All I would clarify is just that the energy efficiency part of our business is larger. The market is not growing as fast, but we have addressable market, and that's where we've been gaining.

We've been gaining market share on the commercial and industrial side. We've continued to grow on the residential side. And those are just larger numbers. But the faster growth, I would say, is in the advisory and the engineering and these other areas that John was mentioning. And so even though that's a smaller part of our business, that's an area where we see a faster pace of growth.

Tim Mulrooney - *William Blair Capital Partners - Equity Analyst*

Got it. I actually -- if you don't mind me squeezing one more in, Anne, while I have you, I've been wondering about this question. We get a lot of inquiries about this part of your business, the commercial energy business with how that compares with some of the other public companies.

I'm thinking about a company like Willdan, where we've seen a run-up in the stock and a strong valuation multiple. I'm curious what your thoughts are on that, like how your commercial energy business compares with someone like that.

Anne Choate - *ICF International Inc - President*

So that question periodically does come up. And so I'd say that I'm obviously -- I know ours much better than I know Willdan. So what I -- based on what I know, I see some similarities in terms of what ICF and Willdan provide in the energy space and then some areas that are different.

I think on the -- in terms of where we're similar, we both serve utilities in terms of how we design and deliver these energy efficiency and energy demand programs. And our business, ICF's business in that area is roughly twice theirs in that particular space with a much stronger focus in ICF on the residential, but then also a growing share in the commercial. Whereas Willdan tends to be more focused on commercial and industrial programs.

I think there's a second place where we could talk about comparing the two companies is that we both serve public sector customers. But I think that the work that we do, that ICF does for public sector entities tends more towards like the planning, the environmental aspects, imagine like a transmission line and the environmental planning around that as compared to more of the -- closer to the ground engineering and sort of construction oversight that might be more akin to their program portfolio.

And then similarly, we both work in the data center area. We work on data center-related projects, but we focus more on like planning, financing, energy integration, grid interconnection. That's sort of where our sweet spot is. We focus less on the actual construction and the risks associated with that. So most of our work is performed by professional staff and not subbed out.

I guess the last thing I would say is that for us, I think our energy business, our primary customers are utilities, where theirs includes a lot of state and local clients who are installing like energy-related infrastructure.

Operator

Tobey Sommer, Truist.

Unidentified Participant

It's Henry on for Tobey here. Thank you, Barry, for all you've done. Maybe just to start, it looks like you already achieved this in the fourth quarter, and I'm sure there was some of the shutdown and other things in there.

But just on the kind of greater than 60% nonfederal share you're projecting for 2026, is the exit rate in the fourth quarter kind of a good proxy to think about that? Or can we see that tilt even more towards nonfederal in '26? And I guess the cadence of that over the course of the year.

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

Yes. Thanks for the question. As we've discussed, we're definitely going to see more nonfederal business in 2026 as that continues to grow. So we're looking at north of 60% as we look towards '26. So that trend will continue.

Unidentified Participant

Yes. I got you. Understood. And then maybe just on -- switching to the federal side on the procurement environment. Now, it sounds like things are incrementally better obviously than they were at the start of last year. Can you just kind of speak a little more to that and kind of the variance between your major agency customers at this point?

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

Yes. I would say that -- well, first, I mean, in terms of the procurement environment, I mean, I think as we've talked about the last quarter or two, I think we have not seen any contract cancellations or anything of that nature in the last couple of quarters. So we're not seeing those kinds of disruptions.

I think as I said in my remarks, obviously, as we got to the end of the third quarter going in the fourth quarter with the government shutdown, that slowed and impacted the procurement environment. But I think since we got past the government shutdown, certainly in the IT modernization front, we've seen a pickup in that procurement environment is getting better. It's not back to where we'd like it, but it's certainly improving.

And we're seeing opportunities move in that environment. I would say more broadly on the programmatic -- broader programmatic business. There's been improvement there. I think we're seeing certainly on the recompetes are occurring in a timely way. We've been quite successful in winning our recompetes.

We're seeing additional funding on existing contracts. New opportunities there haven't been as robust as on the IT modernization side. But generally, I would say that the procurement environment is improving and is -- we're ending the year and starting the year here in a better position than we were certainly in the first half of last year.

And so with that, as I think I said in the guidance, but let me just -- for our federal business, which is about 40 -- 42% of our business, about half of it is IT modernization, and half of it is broader programmatic work. And as I said, we expect IT modernization to return to growth with the improved procurement environment for 2026, and we expect the entire federal business to return to growth in 2027.

Unidentified Participant

Got it. I appreciate that. And if I can just sneak one more in, there's been some mixed talk about this. But looking ahead to kind of the summer, maybe early fall, if there were to be another reconciliation bill on before the midterms, what are kind of the main areas that you would want to see that could benefit you the most in terms of big, big funding streams and kind of the administration is looking at?

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

Well, I mean the first thing I'd like to see is the budget passed in a timely way without kind of continuing resolutions and the risk of government shutdowns, which we've been through. So that would be a nice outcome.

I think that generally, I would say the budgets for this year, we're generally aligned with our expectations. I mean, I think for us, CMS is an area on the health side that we're quite focused on and continue to see a lot of opportunity, Department of Transportation and then generally across the IT modernization front. I mean, I think we're seeing a lot of activity and a lot of interest across our entire client set on that front.

The focus is obviously AI first, efficiency, avoiding waste fraud and abuse, doing in an agile way with commercial terms. We think we're in a really good spot to take advantage of that. And so I think those are examples. We're also seeing opportunities at DOE.

I think we're -- this administration is focused on certain technologies and certain generation, nuclear, natural gas, extending coal plants. I mean there's things -- those are areas that we can support and are interested in. So yes, as I look at the budget for 2027, yes, having it passed in a timely way and avoiding that uncertainty would be terrific.

Operator

Jason Tilden, Canaccord Genuity.

Jason Tilchen - *Canaccord Genuity LLC - Equity Analyst*

I guess to start, you noted in the prepared remarks that you're already starting to see some improvement in productivity of client work and internally from AI. I'm just hoping you could maybe provide a little more detail on some of the specific ways that this is happening. And then how much of a benefit from this sort of greater efficiency is contemplated within the guidance you provided today?

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

Yes, sure. I think, obviously, as we think about AI, I mean, one lens to look at it is how we use it internally. And there, I think we are using it and have a number of use cases we've been focused on to help us provide support to our staff in areas around human resources, also recruiting new talent into the firm, obviously, contracts and our ability to review contracts more quickly.

Business development is another area. Any area where volumes are high and the queries are predictable, we are finding we can gain efficiency to help us make more -- us more cost efficient. I mean BD is also an area where AI is really helpful with throughput. We can write more proposals, submit more high-quality bids more quickly.

And so there, those are all about efficiency gains. I think we think -- we have generally guided to 10 to 20 bps of profitability improvement per year. We're getting -- historically, we've gotten a portion of that certainly in the last several years from the mix of the business with commercial growing more rapidly. But I do think that we do think AI will allow us to continue to improve our profitability through the leverage from the technology. And we're comfortable with 10 to 20 bps with potential upside from the internal use.

Externally, I think we're -- we've really -- as I said in my conference call remarks, we've really been focused on areas where we think we can have the most impact and add the most value for our clients. And so in our business, I mean, that's -- to a large extent, we've been primarily focused around IT modernization and how to best leverage it for that.

And so that I think is -- we're quite focused on how it can improve efficiency of our coding and our coding, our technologists, how we can use it for rapid prototyping. We're using -- we've developed a Fathom, our AI -- agentic AI platform. It's allowing to do rapid prototyping for clients. We're doing AI governance.

We're doing data organization. And so there's a number of areas we're focused on leveraging it for clients. I don't know, Anne, if you want to add anything on -- from a client perspective.

Anne Choate - *ICF International Inc - President*

I think we've seen that it can speed up development. We -- I think what we try to do is pair up our understanding of the regulatory environment and the needs as you modernize these systems with the efficiency that we can gain through the AI tools.

Jason Tilchen - *Canaccord Genuity LLC - Equity Analyst*

Great. That's super helpful. And then just one other one. In terms of international growth, it's accelerated over the past three quarters. You just announced \$300 million of new European contracts in January.

Just wondering if you could just drill down a little bit more on what's been driving this momentum and more broadly, how you think about the international opportunity going forward?

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

Well, as you know, I think we have won several large contracts here several last year and one or two more as we started the year here that I think are primarily -- well, there's two areas. One is marketing and communications for the European Commission and helping them with communicate their programs and outreach to citizens in the European Commission on their policy and program efforts.

We've talked at length that those are significant contracts. The activation of those contracts was a bit slow last year. But as we ended the year and began this year, we are seeing the activation really begin to kick in. And so we're quite confident we'll have double-digit growth. That will help drive double-digit growth with our European Union clients.

We also won several contracts with the UK government last year with DEFRA, which is an agency of the UK government. Those are activating. And so those are really nice wins. I think they give us -- it gives us visibility, very clear visibility for strong double-digit growth next year. And I think those contracts will offer both for the next several years for us on the international front.

Operator

Kevin Steinke, Barrington Research Associates.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

Great. I was just wondering if you could refresh us on to the relative size of the market for the residential energy efficiency versus the commercial and industrial energy efficiency where you noted you're gaining market share and how those market share gains on the industrial and commercial side kind of expand your growth runway and your market opportunity overall for the commercial energy business.

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

I think as I said in my prepared remarks, I think we see the utility program, which includes the residential and commercial industrial but also includes electrification, I think flexible load management. I think we see the total size of that market in the \$3 billion to \$5 billion range. And I don't know if there's ability to break it down.

Anne Choate - *ICF International Inc - President*

So the demand side management programs, Kevin, I think you could think about those as being about a \$2 billion market.

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

That's residential.

Anne Choate - *ICF International Inc - President*

And that's residential and commercial, traditional demand side management programs. And then when you start to get into some of these other types of programs that we are involved in like marketing, electrification, demand response, that's when your market -- the addressable market grows up to get into this range that John has mentioned, so \$3 billion to \$5 billion. And that's -- I think those are the numbers that we're thinking about there.

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

And as I said, we have about a 35% share in the residential and about a 20% share, growing share in commercial and industrial for the traditional program. So I think we view that as significant headroom. And as we said, we've been taking share. And so we certainly believe that will be a part of our strategy going forward.

I think in the more emerging areas, electrification, flexible load management, battery storage, there's significant market -- addressable market there. Those are newer and rapidly evolving. And so those offer, I think, significant growth opportunities as we look down the road, three to five years.

They're not as material to our overall business today, but that's where we would -- on the program side, that's where we would expect to see much more rapid percentage growth as we look forward.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

Understood. That's helpful. I also just wanted to ask about how you're thinking about adjusted EBITDA margin in 2026, if you think you maintain that versus 2025 or with your expectation of a return to revenue growth, if maybe you can get back to that kind of 10 to 20 basis points of expansion that you've historically targeted?

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

Hi, Kevin, this is Barry. Yes, I think that we can go ahead and get into that 10 to 20 basis points improvement on a year-over-year basis. As we continue to see the growth and expansion in the commercial markets and the nonfederal business with higher margins, so that -- as well as the economies of scale and the efficiency we can get from the back-office side of the expense equation. So I think that that certainly is a reasonable expectation.

Operator

(Operator Instructions) Marc Riddick, Sidoti.

Marc Riddick - Sidoti & Company LLC - Analyst

Barry, I wanted to extend my congratulations and appreciation for the time that we've had the opportunity to work together and certainly wish you the very best in your retirement. And I know a lot of us are going to miss you. But congratulations, and thank you so much for all you've done with us.

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

Thank you very much, Marc. Appreciate it.

Marc Riddick - Sidoti & Company LLC - Analyst

I wanted to touch a little bit on the sort of the activity that you've seen as far as shifting of spending or pace of activity on the state and local side. And maybe you can touch a little bit on what you're seeing and what you're thinking of seeing going into '26 as far as whether there are particular services that have been a little more active on the state and local side picking up from where the federal government spending cut and whether there's any particular states or regions that have been sort of leading the way as well as practice areas that you see being a little more active than we were maybe six to nine months ago?

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

Maybe I'll say a few words, and I can -- if Anne wants to add something. I think our state and local business, I mean, largely, we have two main pillars of that. One is kind of the environmental-related work we do in front of large infrastructure projects, energy projects, roads, bridges, things of that nature.

I think generally, there, we certainly saw growth in that business last year. I think -- and certainly on the state and local side have done well with that. I think we would expect that to continue to show growth, particularly with the investments being made around the energy infrastructure.

I think the other key component of our business is disaster recovery. There, I think we have -- has been a mid-single-digit growth business for us. I think we have strong backlog. We have good visibility for that business. And so I think we certainly see that as a growth business as we look forward.

It is -- for breakout growth, it is dependent on the frequency and severity of severe weather events or wildfires. But I think generally, we view the state and local market as a growth market in those two areas. I don't know, Anne, do you want to?

Anne Choate - ICF International Inc - President

Yes. Hi, Kevin, I think I would just add that we -- it's Marc. Hi, Marc. I would add that we have been also seeing opportunities where, for instance, you might be working in a state in a disaster or another context, and they have modernization needs related to visualization or whatever.

And so our ability to opportunistically grow in those states because of an existing relationship, whether it's tied to disaster work or work that we've been doing on the environmental side, that's -- we've been able to leverage that. And that has led to some growth that you're able to see in the numbers.

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

Yes. I think one of the things we do well is we can connect the dots between different parts of our business working in a given state. And so we certainly have examples where our environmental work or our disaster management work has led to technology work in state governments and vice versa.

And so again, I think we -- across some of the things we do, we've also seen as the federal government steps back, the states have stepped forward. So like, for instance, on the climate front, obviously, this administration has not had as great a focus on climate and resilience. But we've seen state governments step forward, and that's also created opportunities for us.

Anne Choate - *ICF International Inc - President*

Yes. And the examples there are, for instance, understanding the return on investment for investing in transportation infrastructure to get ahead of vulnerabilities to extreme weather so that you're not going to have to pay more later to rebuild those roads or to deal with the consequences.

So focusing on resilience and transportation infrastructure at the state DOT level or focusing on resilience of ports from an economic activity standpoint, those are the kinds of areas where we have a lot of traction.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Okay. Great. I wanted to shift gears into maybe what you're seeing as far as the pricing dynamic. And it certainly -- and sort of, I guess, maybe in a bigger picture way, how that plays into the '26 revenue guide, maybe what your expectations are as far as pricing contribution there?

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

I mean let me say a couple of things. First of all, I think at a high level across our business, and you're seeing it in our -- the nature of the contracts we have. And we certainly -- certainly, in our federal business, and I would say with our commercial clients, but in our federal business, we're seeing much more focus on performance outcome-related contracts and/or fixed price related work.

And certainly, a lot of our energy work and our energy implementation work is also fixed price. And so I think that trend, I think, has generally been positive for us. We -- our margins tend to be higher on fixed price outcome focused work. And so I think that's positive.

Generally, obviously, we compete for everything we do. Pricing is an important consideration. But I wouldn't say that -- it's not the primary or the single most important criteria in our work. I mean our clients are generally -- the price is important, but it's the quality of the work, the impact of the work, the innovation and the work.

And so again, we try to manage our portfolio to stay at the higher end of the value chain and invest for that. And as things commoditize, we'll step back or we'll subcontract it out.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Okay. Great. And then I guess last one for me. I was sort of wondering if you can give an update as to how you feel about the acquisition pipeline currently.

Maybe can you sort of give a sense of some of the -- given the things that you're looking at, are you getting the sense that the pipeline is similar to where it was maybe six months ago or so? Or are you beginning to see more opportunities there and valuation levels, things like that?

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

I mean, I think, first, as you know, I mean, obviously, M&A inorganic growth has been a key part of our strategy. And as Barry noted, I think we haven't done a material deal in several years. And so our leverage ratio is now down under two. So we have capacity. So it is something we're focused on.

I would say we generally think about the areas where our business is growing. So first, and we see long-term growth opportunities. So obviously, energy is an area that we're looking at very carefully. And I would say there's deal flow there.

I think it's -- there's a lot of focus broadly on the energy sector and the opportunities there. I think the valuations are fulsome, let's -- I'll say it that way. But we're certainly looking at areas that would add skills and capabilities in the markets we serve with that the utility programs, the advisory work and more engineering-oriented work. We're taking a hard look and are quite interested in that.

I think in state and local, disaster recovery, is an area that certainly, we could add greater geography, greater scale of state and local clients would be something we'd be -- we'd look at. And federal technology, I mean, we're certainly looking at deals there. I think we'll be more careful there given the uncertainty in the federal market. I think the valuations have come down in federal, but we'd be pretty careful there.

I think -- but we're certainly out in the market and looking at it, particularly in energy and in state and local. And we're keeping our eyes on federal, but I think we'll be more opportunistic and market careful there.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Okay. Great. I really appreciate all the color you provided, especially as you've kind of navigated through this process and getting to the other side of it. And so I really do appreciate all the color and commentary there.

Operator

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, Chief Executive Officer*

Well, thank you for participating in today's call. We look forward to engaging and seeing hopefully all of you at upcoming conferences and at meetings. Take care.

Operator

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

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