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PRESENTATION

Operator

Welcome to ICF's Second Quarter 2022 Earnings Conference Call. My name is Michelle Foster, and I will be your operator for today's call. Please note that this conference is being recorded on Wednesday, August 3, 2022, and cannot be reproduced or rebroadcast without permission from the company.

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

Lynn Morgen *AdvisIRy Partners*

Thank you, Michelle. Good afternoon, everyone, and thank you for joining us to review ICF's second quarter 2022 performance. With us today from ICF are John Wasson, Chairman and CEO; and Barry Broadus, CFO. Joining them is James Morgan, Chief Operating Officer.

During this conference call, we will be making forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. And I refer you to our August 3, 2022, press release and our SEC filings for the discussions of those risks.

In addition, our statements today 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 second quarter 2022 performance. John?

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

Thank you, Lynn, and thank you all for participating in today's call to review our second quarter earnings and discuss our business outlook. I'm pleased to report that this was another quarter of strong performance for ICF. First, we continue to build our position in high-growth markets, led in the second quarter by our work in digital transformation, public health and disaster management. Together, our growth markets, which also include utility consulting, as well as climate, environment and infrastructure services, now account for over 70% of our service revenue.

Second, profitability continued to improve. Adjusted EBITDA to service revenue increased by 20 basis points year-on-year while we continued with our investments in people and technology to support future growth.

Third, we ended the quarter with a 1.21 trailing 12-month book-to-bill ratio, strengthening our full year revenue visibility, and a record $8.7 billion new business pipeline, which we expect to result in considerable growth in contract awards in the second half of this year.

Last, but certainly not least, in the second quarter we announced the definitive agreement to acquire SemanticBits, which was an exceptional strategic success for ICF and is a key factor in our increased full year revenue and margin guidance. We subsequently closed this transaction on July 13, 2022.

Second quarter revenue growth was again led by federal government client work, which increased by 23.6% and reflected organic growth and the acquisition of Creative Systems and Consulting, which we completed at the end of 2021. The acquisition is performing well, in line with our expectations for mid-teens revenue growth, and we see significant opportunities for revenue synergies by bringing in Creative's substantial expertise in Salesforce and Microsoft platforms to our broad roster of civilian agency clients.

The SemanticBits acquisition represented a step change in our digital transformation capabilities. As one of the industry's leading digital service and platform providers using open source, SemanticBit's expertise across 30 technology platforms using a fully agile approach complements our existing capabilities in this fast-growing market. Their demonstrated success in executing large health IT projects, together with ICF's deep domain expertise, will enable us to support larger, more complex projects across federal civilian agencies. We are seeing a lot of large open-source opportunities across our civilian space, and adding SemanticBits increases our potential win rates.

At the same time, with the vast majority of its revenues derived from the Centers for Medicare and Medicaid Services, SemanticBits opens up a large new addressable market for us, giving ICF scale at CMS, an agency with substantial and growing budgets. With SemanticBits, our digital transformation business has an annual run rate of approximately $500 million. Additionally, as you can see by our revised guidance for the full year, this is a strongly accretive transaction for ICF on a non-GAAP EPS basis, with only 5.5 months of ownership.

In addition to digital transformation, public health remained a robust growth market for ICF, with revenue increasing at a double-digit rate, on track for an annualized run rate of approximately $350 million. Of note is our recent win as 1 of 5 awardees of a new IDIQ by the National Cancer Institute'sl Division of Cancer, Epidemiology and Genetics Research. We will be competing for up to $320 million over 10 years to provide epidemiologic and clinical operation support for studies and other research activities to discover the causes of cancer and inform future prevention.

The Department of Health and Human Services is our largest client by far, and the 11% increase they received as part of the 2022 budget provides substantial funds for programs that are squarely within our sweet spot, like this IDIQ we just won. Additionally, we are seeing an accelerated effort behind preparing for the next pandemic, both at the Centers for Disease Control and as part of the planned reorganization that would create the Administration for Strategic Preparedness and Response, or ASPR, as a separate division that will be charged with the nation's response to health emergencies. ICF is well-positioned at both the CDC and legacy ASPR to assist in this phase of the post-pandemic response.

Also, as we have discussed on past calls and our Investor Day this past May, ICF is well-positioned to gain new contracts relating to the Infrastructure and Jobs Act, or IIJA, where we've already been tasked under existing federal agency contracts to provide a range of services, including technical assistance, assistance to states and communication and management support for IIJA programs. This tasking today is valued in excess of $12 million.

Our federal government pipeline was at a record $5.9 billion at the end of the second quarter, and the backlog of pending awards in the federal government is significant, so we expect to see considerable growth in contract awards in the second half of this year.

We also saw strong growth year-on-year of 9.5% in our revenues from state and local government clients, led by our disaster management work. Late last year, the Department of Housing and Urban Development announced more than $2 billion in CDBG-DR/mitigation funding for disasters occurring during the 2020/21 cycles. Of the grant recipients for that cycle, ICF won work on more than half the awards to support those recoveries in the second quarter, including in Iowa, Colorado, New Jersey, Alaska, Kentucky and Michigan, either through competitive procurements or extensions of existing contracts.

Additionally, we continued to see government at all levels ramping up spending on mitigation, and ICF is now working on mitigation efforts for 30-plus clients in 14 states. We do have a unique set of strengths in understanding the complexity of mitigation projects across multiple federal programs, including successfully managing applications and then orchestrating execution to meet environmental, regulatory and legislative requirements to bring such projects to fruition. These capabilities give ICF a competitive advantage, which we expect to become more important as the IIJA funds flow through state and local agencies.

As expected, revenues from international government clients were lower year-on-year due to the completion of a short-term project with significant pass-through revenues that drove exceptional growth in this client category in 2021. Excluding that project, revenues were similar to the year ago second quarter levels, even though our work for the European Union has not fully recovered from pandemic impacts.

In addition to contract modification and add-ons to our existing international public sector work, ICF continued to win multiyear framework contracts in this market, including 2 large recompetes with the European Commission: 1 to provide consulting support on technical projects throughout member states; the other to promote and market EU agricultural products in countries outside the EU. Also, we have a strong active pipeline for international public sector clients comprised of opportunities to leverage ICF's capabilities, both our technical areas of subject matter expertise, as well as our cost-cutting competencies in training and technical assistance, program implementation, communications and event management.

Moving to our commercial client category. Similar to the first quarter, lower year-on-year revenue comparisons continued to reflect the softness in commercial marketing services and the exceptional growth we had in commercial energy in last year's first half, which has made for difficult comparisons this year.

We continue to closely manage commercial marketing services as they work to recover from pandemic-related impacts on key verticals. Second quarter revenues accounted for less than 7% of our total revenues and were stable on a sequential basis, an early indication that the business may be bottoming out.

We've also had some preliminary conversations with a couple of clients in the hospitality sector recently about potential increases in support for their loyalty programs if business travel demonstrates a stable improvement in the second half of this year. Lastly, our aviation consulting business continues to perform very well, growing at a double-digit rate.

Of course, the major long-term growth area within our commercial business is energy markets, which accounted for 62% of second quarter commercial revenues. Second quarter trends in energy were almost identical to those of the first quarter. Energy markets were up about 1% after having increased 11.4% in the similar period last year. Energy efficiency work was up the same 1.3% that it was in the first quarter. And energy markets advisory revenue increased at a mid-single-digit rate. The early year-on-year decline was in our environmental and infrastructure work where the timing of projects can impact quarter-to-quarter revenues. We expect higher year-on-year comparisons in the second half of this year.

As also discussed last quarter, the energy market pipeline remains strong for ICF core services and energy efficiency program implementation, beneficial electrification, utility marketing services and advisory consulting. Our utility programs and service practice has a pipeline in excess of $1 billion, and we see expansion opportunities in new states, including Connecticut, Oregon, Colorado and the District of Columbia as regulators and legislators set aggressive new goals. For beneficial electrification, our pipeline is now more than triple our pipeline in 2021, and the pipeline for our energy advisory business is the strongest it's been in the past 3 years.

Similarly, we're seeing increased demand for our climate services. In this area, we serve federal, state and local government and commercial clients, and each of these client categories is growing. The U.S. Environmental Protection Agency recently selected ICF as an awardee under the new multiple award Environmental, Analytical, Research, Technical and Hybrid or otherwise known as EARTH Support Services blanket purchase agreement to provide a broad range of environmental consulting services to the office of Air and Radiation. This 5-year BPA has a ceiling value of $5.7 billion across 5 awardees, with $700 million of the award allocated to professional services.

And of course, we're pleased to hear that the Congress appears much closer to passing climate-related legislation as part of the Inflation Reduction Act, which will provide ICF with opportunities across our government and commercial client set.

To sum up, in the first half of 2022, we have continued to build our capabilities in the key growth markets we have identified, and we are approaching the many opportunities in front of us with increased scale, deep domain expertise and substantial experience in executing on large and complex projecta. This, combined with our record pipeline of over $9 billion as of July 31 and a trailing 12-month book-to-bill at 1.21 at the end of Q2, all support our expectation for significant growth in 2022 and beyond.

Now I'll turn the call over to Barry Broadus, our CFO, for a financial review.

Barry M. Broadus ***ICF International, Inc. - Senior VP & CFO***

Thank you, John, and good afternoon, everyone. I'm pleased to provide the details of our second quarter's financial performance. In addition, I will share the updated guidance metrics for full year 2022 that reflects the impact of our SemanticBits acquisition.

Second quarter total revenue increased 7.8% to $423.1 million, and service revenue was up 8.9% to $306 million. Our second quarter revenue growth reflected many of the same business drivers as this year's first quarter, and was led by strong double-digit increases in revenue from our federal, state and local government clients. Gross margin on total revenue was 36.4%, and gross margin on our service revenue was 50.3%. These figures compared to 37.2% and 51.8%, respectively, in the second quarter of last year, which benefited from the timing of several fixed-price energy efficiency contracts.

Our indirect and selling expenses of $114.4 million were up 7.7% as we continue to invest in people and technology to support future growth. However, on an adjusted basis, these expenses declined 170 basis points as a percentage of service revenues to 35.9%, down from 37.6% for the same period last year, reflecting positive leverage. Additionally, we delayed certain infrastructure investments to 2023 to focus in on the integration of our recent acquisitions.

Our second quarter interest expense was $4.1 million, an increase of $1.5 million as compared to the same period last year, reflecting higher debt balance related to the acquisitions of Creative and ESAC, as well as an increase in our interest rates. For the full year 2022, we now expect interest expense to range from $20 million to $22 million, which is an increase of approximately $10 million from the guidance we gave at the beginning of the year and includes additional rate increases anticipated in the second half of this year. The increase reflects the impact of the SemanticBits acquisition, as well as higher interest rates. We expect to offset a large portion of this impact through additional back-office efficiency gains and cost containment initiatives.

Second quarter EBITDA was stable at $39.8 million as compared to $39.7 million in the second quarter of 2021. Excluding special charges totaling $2.4 million, largely related to M&A activity and noncash rent expense of $1.9 million, which is associated with our new Reston, Virginia headquarters, adjusted EBITDA grew at a faster pace than revenue, increasing 10.3% to $44.1 million. This compares to $40 million in the second quarter of last year.

Adjusted EBITDA to service revenue margin expanded 20 basis points to 14.4% as we benefited from a favorable mix, high utilization levels, our increased scale as well as our real estate consolidation initiatives.

Operating income was $29.8 million. This compares to $32 million we reported at last year's second quarter, which included the benefit of approximately $4 million from the fixed-price energy contracts I previously noted. Our second quarter tax rate was 28.6% compared to 30.7% in the second quarter of last year.

Net income totaled $18.4 million and diluted EPS was $0.97 per share in the second quarter, which includes $0.17 in tax-affected special charges, of which $0.16 were M&A and facility related. This compares to last year's net income of $20.3 million or $1.07 per share. On a non-GAAP basis, which excludes the impact of special charges and the amortization of intangibles, our EPS increased 11.8% or $1.33 per share.

Now shifting to our cash flow. Our first half operating cash flow was $6.4 million, which was in line with last year's historic seasonal trends. Our capital expenditures were $11 million, which included the investment in our new headquarters. Days sales outstanding for the second quarter were 82 days, which was the same as last year's second quarter.

Our debt was $450.1 million at the end of June, which compares to $421.6 million at the end of 2021. The increase in our debt reflects the historic seasonality of our collections and expenditures. Our net leverage ratio at the end of June was 3.11. Following the SemanticBits acquisition, our net leverage ratio was 3.4, and we expect to de-lever by approximately 50 basis points by the end of this year, assuming no additional acquisitions.

With respect to capital allocations, we have been an active acquirer over the last several quarters, and we continue to expand and build a significant scale in the growth markets John spoke about. Our strong financial position, including our substantial cash flow, provides us with the ability to support our organic growth initiatives and consider further strategic M&A while we continue to pay quarterly dividends, reduce our debt and repurchase shares to offset dilution resulting from our employee incentive programs.

During the 6 months ended June 30, 2022, we repurchased 176,375 shares for $17 million. In addition, today, we declared a quarterly cash dividend of $0.14 per share payable on October 13, 2022, to shareholders of record on September 9, 2022. For modeling purposes, here are our expected full year 2022 expectations, which revise -- which are revised to incorporate the SemanticBits acquisition. As a reminder, when we announced this acquisition, we noted that their annual revenue for 2022 would be $135 million. Approximately $115 million of that revenue is expected to be recurring in 2023, given the completion of several small business contracts, and its EBITDA margin is expected to be in the high teens.

Additionally, our depreciation and amortization expense is now expected to be in the range of $20 million to $22 million. Amortization of intangibles should be approximately $28 million and our full year tax rate will be approximately 28.5%. We expect a fully diluted weighted average share count of approximately 19.1 million. Capital expenditures are anticipated to be between $33 million and $37 million, including approximately $15 million of expenses related to onetime leasehold improvements associated with the new Reston headquarters. We have increased our operating cash flow estimate to $140 million from the $130 million we previously guided to.

And with that, I'll turn the call back over to John for his closing remarks.

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

Thank you, Barry. We are pleased to have increased our full year guidance across almost all of our financial metrics. The details are in our release. I would just point out that at the midpoint, we are now expecting service revenue growth of 17% and an adjusted EBITDA margin on service revenue of 14.8%. Of the 90 basis point margin increase above our prior guidance, approximately 1/2 is tied to the SemanticBits acquisition.

Also, non-GAAP EPS is expected to range from $5.50 to $5.80 million which at the midpoint represents a year-on-year increase of 17.2%, inclusive of the impact of higher interest rates in 2022.

Most of ICF revenues come from our work in areas that also positively contribute to society. This has enabled us to retain and attract like-minded people. We are passionate about their work while enhancing our profiles to prefer to acquire firms with similar cultures.

And with that, operator, let's open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Joseph Vafi with Canaccord.

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

Good afternoon. And I think a bit of a congratulations to James. I heard a new title there, so congrats on that, James. Maybe just kind of start at a high level here; I know that pipeline is pretty big. I know, John, you mentioned IIJA and all of that. But is that built into the pipeline yet? Or is that a pipeline before the Infrastructure Act at this point?

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

I think the specific opportunities we've identified to date are built into the pipeline, Joe. But I mean, I think those opportunities are still forming and we're still identifying more. So I still think we're in the early stages of building out the pipeline for IIJA.

Certainly, the growth in our pipeline is being driven by opportunities in our 5 growth markets, I'll certainly say that. And as you note, I think with the passage of the federal budget here, midyear, certainly in the second quarter we've seen this quite a significant pickup in proposal opportunities, certainly in the federal sector in the second quarter.

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

Got it. And then I guess your IT footprint now is, I'd say, pretty much critical mass, right? A lot of capability across a lot of different technologies and a lot of different agencies. And I know your camp is getting pretty big now by obviously adding more in Medicare and Medicaid and the like, but -- just kind of 2 questions on the strategy from here, and I see clearly a lot of opportunity where you sit now, does it make sense to do more M&A in IT right now?

And then secondly, with the footprint that you have now, have you considered expanding out into -- more into the DOD side at this point, given how big those budgets are? Or is there plenty to do kind of where you are in the markets you're in now?

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

Sure. So I'll answer those questions in the order you asked them. I mean I certainly agree, we're seeing tremendous opportunity in the IT modernization arena. I do think that we feel like we've built out the core of capabilities we need to tackle that market, both in the kind of low-code/no-code, and across the open source portions of that market.

And so we're always out in the market on M&A looking for opportunities. But I really see -- if we were to do anything in IT modernization, I think it would be much more of a small tuck-in acquisition focused on specific new technology we may need. But I think we really have the core of what we need to drive growth here in our federal client base.

And I would say on the potential of going into DOD, as you know, Joe, I mean, 95% of our portfolio is in civilian markets, we have very deep domain expertise. And I think we're just seeing such significant opportunity in the civilian markets where we have client relationships where we can work the white space between our domain expertise and our exceptional IT capabilities -- that really is the focus.

It's not to say, we do some work for DOD, but I think given our -- given the domain expertise and how we really differentiate ourselves is working that white space between domain and IT capabilities. I think we're primarily focused on DOD -- I mean, I'm sorry, on civilian. That doesn't mean that down the road we might not look there, but I think we remain quite focused on our civilian client base.

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

Great. And then maybe just I'll sneak in 1 or 2 for Barry here. Just -- I know we've got a little bit of margin expansion on gross margin on services revenue, which is good. There's a lot going on out there. And bidding proposal, it sounds like I'm wondering how you're looking at balancing, investing more in the bidding proposal engine versus margin expansion on operating level. And then I might have missed if you had that organic federal growth rate in services.

Barry M. Broadus ***ICF International, Inc. - Senior VP & CFO***

Thanks for the question. I think we are able to balance expanding our BD capabilities and our proposal engine with achieving the gross margin expansion that we've talked about. I think from a bidding perspective, we have a very good feel for our clients that we work with and that we have a good understanding of the pricing, and that's just reflected in the bids that we've won, and how we perform and execute on those particular contracts.

So I think we've got a good balance between investing in our growth, which includes the proposal activity, the BD engine and executing on those contracts sufficiently to have that margin expansion that we've talked about.

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

Great. And then organic federal, Barry? In the quarter?

Barry M. Broadus ***ICF International, Inc. - Senior VP & CFO***

Yes. I think the -- I don't have the number -- I mean we were in double-digit organic growth in the federal. We'll have to follow up with you if necessary.

Operator

Our next question comes from Kevin Steinke with Barrington Research.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

So you mentioned 80% of year-to-date contract wins coming from new business. Just wondering what's really driving that high level of new business? Should we think about that as mostly IT modernization work? Or is it maybe a more balanced mix?

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

Well, I think IT modernization is certainly playing a significant role there. But again, I would point back, Kevin, to the 5 growth areas. And I mean you -- I think we've talked generally about the ICF scale in each of those areas in terms of the revenue.

Certainly, within those 5 growth areas, IT modernization, we now have a $500 million business there that's going quite robustly, more than 15%. And that's obviously driven by the pipeline. Public Health is $350 million business, again, that's driving the pipeline, and then the additional areas. So -- but it's really being driven by the 5 growth drivers -- 5 growth drivers.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

Okay, great. And you mentioned the accelerated efforts by the federal government to move on to planning for responding to the next pandemic. So do you think we've kind of moved beyond the response phase here and moving into more of that recovery and reinvention phases? And if so, do you perhaps see some sizable contract opportunities coming out of those efforts?

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

Yes. I guess I would say this. I hesitate to say we're out of the immediate response. I mean, the pandemic's proven this, the ground can shift very quickly. But I do think we are seeing the clients that I mentioned, CDC as per beginning of focus, and beginning a discussion on some of the longer-term steps that could be taken to improve future responses to the pandemic.

And as we've talked about in the past, as that matures, I think there will be potentially sizable opportunities for ICF. And so we're pleased to see some of that focus and are following it very carefully and think it -- we can really help clients on that front.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

Okay, good. And you mentioned part of the increase in the adjusted EBITDA margin guidance representing the push out of planned corporate investments. I don't know if I missed it, but could you elaborate on that a bit more?

Barry M. Broadus ***ICF International, Inc. - Senior VP & CFO***

Sure. Yes. Thanks for the question. One of the things that we really decided to do was focus in on the acquisitions that we've made and make sure that the integrations of those acquisitions run very smoothly and are integrated into the company.

So with that, we wanted to really focus on that and push off some of the investments that we're looking at from a new systems perspective, and some of the processes in the back office activities that we still are actually engaging on, but just kind of slowing down the spend and activity on those initiatives.

So they're important to the company, but so is integration of these acquisitions. So we're still working on them, but just not at the same rate that we had initially planned. And so we'll continue to pick those up in the later half of this year and more so into 2023.

Kevin Mark Steinke ***Barrington Research Associates, Inc., Research Division - MD***

Okay. And just lastly, I wanted to ask about the commercial marketing services business. You mentioned it's still operating below pre-pandemic levels. But perhaps some green shoots coming in the second half of 2022 with some of your hospitality clients.

As you think about that business longer term, do you think it's one that can return to and eventually exceed pre-pandemic levels and also be a growth business for you over the long term?

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

Sure. I think that -- I think if we take a long-term view, we certainly think that commercial marketing, certainly in the hospitality sector, given the loyalty platform we have and the proprietary system that underlies it, can return to growth, and I think it remains an industry-leading product. But it's going to require, obviously, the rebound in the hospitality sector, particularly around business trial.

And as you said, we've seen some green shoots there. And so -- those are early, but positive signs. And as we've talked previously, Kevin, we have not assumed a material improvement in commercial marketing service on guidance for this year, but we're pleased to see the green shoots.

And I think -- as I said, I think we've managed it pretty carefully, and I think in a longer-term view, there will be growth opportunities there. And as we've also talked about, the skills and capabilities that have resided in that commercial market business, I just do want to emphasize, we've had challenges with some of those commercial verticals.

We do continue to leverage those capabilities into our energy work, into our federal government work. And that has allowed us to grow those businesses. So there is a synergistic benefit of having those skills and capabilities in some of our other markets.

Operator

Our next question comes from Tobey Sommer with Truist.

Jasper James Bibb ***Truist Securities, Inc., Research Division - Associate***

This is Jasper Bibb, on for Tobey. So I just wanted to ask about energy revenues. You talked about some projects maybe moving to the right there. Are you expecting those projects to restart in the second half? And more broadly, maybe you could speak to your expectations for energy over the balance of the year.

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

Yes. I think as I talked about in my remarks, I mean, I think we -- well, first of all, I think we certainly see an ongoing improvement in energy in the second half of the year. I think we have talked about, at least mid-single-digit growth there. I think we've had some tough comps. We grew 11%, 12% in the first half of last year.

And so the comps will improve. And I think we certainly see a pickup in our Energy business in the second half of the year given the pipeline and the sales we've had. So that's certainly the outlook there.

In terms of our projects moving to the right, I mean, we did have a bit of a movement of revenue -- service revenue is the right in Q2, but I think -- we have not changed our guidance on service revenue. And I'm talking about our guidance prior to the SemanticBits acquisition. That guidance remains the same. So we do expect to anything that moves right we think we'll pick up by the end of the year. And then obviously, we've layered SemanticBits on top, and that's taken our guidance from 12% service revenue growth to 17% service revenue growth for the year.

Jasper James Bibb ***Truist Securities, Inc., Research Division - Associate***

Excellent. The book-to-bill was a bit lighter in the quarter. Some of the more, I guess, defense-focused peers have talked about bottlenecks or delays in getting task orders cleared. Is that something you're seeing in the federal business? And are you expecting any improvement there in the last 2 months of the fiscal year?

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

We've -- as I said in my remarks, we've really seen -- our sense is certainly the proposal activity, post passage of the budget, the federal budget in the spring, certainly up the level of new proposals and new bids we saw coming out on the federal front, it gave us a sense that the clients, the contracting officers are focused on kind of getting the new bids, and the new contracts out, given those budget increases on the civilian side.

And what's that done is, it's kind of slowed award decisions as the new proposals all come out. I think our view is that, that backlog will clear in Q3. As you know, Q3 is usually our strongest sales quarter, and there's a lot of pent-up proposals awaiting award. And so I think we certainly expect to see a significant improvement in sales for Q3, and I would expect that would continue into Q4. So we're certainly expecting a pickup here in the second half of the year.

Jasper James Bibb ***Truist Securities, Inc., Research Division - Associate***

Last question for me. I was just hoping you could provide a bit more color on some of the opportunities you think might come out of this latest climate bill that was recently passed?

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

Sure. So I think that -- and this bill has been out for a week and it hasn't passed yet, so I don't want to count my chickens before we.... Anyway, I think the bill -- I mean it outlines about $370 billion in government spending in energy security and climate programs over the next 10 years. And that spans a variety of renewable energy-type efforts and programs and tax incentives of wind, solar, geothermal, battery and other clean energy type activities.

And so I think the -- and as we've talked about quite a bit, I mean, we have a broad way of capabilities across energy efficiency, distributed energy, electric vehicles, mitigation, adaptation. And so I think there will be potentially a material opportunity for us here, leveraging the expertise we have across energy and climate and resilience.

But it's far too early for me to provide, kind of, more specificity to that. I think we were -- we're obviously quite pleased to see the bill return and our -- follow that quite closely. And I'm sure we'll have more to say on that front in the future.

Operator

(Operator Instructions) Our next question comes from Marc Riddick with Sidoti.

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

So a lot of my questions have been answered, but I did want to touch a little bit on maybe what you're seeing and what you're expecting as far as adding of talent organically. Certainly, you've been active on the acquisition side of things.

Maybe if you could touch a little bit about what your expectations are, maybe for the remainder of the year for opportunities, as well as availability and maybe some key areas that you'd like to add to.

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

Sure. So I mean I think as we've talked about it high level, I mean I think our organic growth expectations remain high single-digit organic growth for the year. And obviously, as a consulting professional services firm, it's -- we need to have the headcount to support that growth.

And so generally, I would think that if we're in the high single digit 7% range, we're going to have to add -- our headcount will have to go up 6.5%. We always try to get a little leverage from our existing staff. And so in the first half of the year, I think our headcount is -- it's up about for 4%, 4.5% -- 4.5% to 5%.

And so I think we continue to add headcount. As we've talked about in the past, we're certainly investing, significantly recruiting and doing everything we can to retain our staff. The growth is in -- again, as we've talked about, 70% of our revenues are in our high growth markets, I think that's where most of the focus is on the recruiting front in terms of the markets.

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

Right. And then as far as pricing and your commentary about maybe shipping some of the -- some of the plans for maybe by a couple of quarters or so, does that also take into account the -- I would imagine it takes into account availability of talent. But are there any particular areas where that might be a little more difficult currently than maybe what you were expecting at the beginning of the year? Or has that changed much compared to what your expectations were?

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

No, I don't think we've seen any change in our expectations there. I mean I think the talent market remains as it has been for the last several quarters. It's a challenging market, particularly in parts of the business where high growth -- and there's a strong demand for talent plus IT modernization and energy and climate and in those types of areas, cyber.

But I mean, generally, again, I would say that we've generally been able to add the headcount we need. We are investing in some of the recruiting. And -- but it is challenging and highly competitive environment right now.

Operator

We have no further questions at this time. I would now like to turn the conference back to management for closing remarks.

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

Thank you for participating in today's call. We appreciate your participation, and look forward to seeing you at upcoming investor events. Thank you.

Operator

Thank you, ladies and ladies and gentlemen. This concludes the conference. Thank you for participating. You may now disconnect.