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Q2 2019 ICF International Inc Earnings Call

EVENT DATE/TIME: AUGUST 01, 2019 / 8:30PM GMT

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PRESENTATION

Operator

Welcome to the Second Quarter 2019 ICF Earnings Conference Call. My name is Vanessa, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded on Thursday, August 1, 2019, and cannot be reproduced or rebroadcast without permission from the company.

I would now turn the call over to your host, Lynn Morgen of AdvisIRy Partners.

Lynn Morgen ***AdvisIRy Partners***

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's second quarter 2019 performance. With us today from ICF are Sudhakar Kesavan, Chairman and CEO; John Wasson, President and COO; and James Morgan, CFO.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our August 1, 2019 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, Sudhakar Kesavan, to discuss second quarter 2019 performance. Sudhakar?

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

Thank you, Lynn, and thank you for joining us to review the second quarter results and our business outlook for the remainder of 2019. We continued to execute well in the second quarter, posting 13% year-on-year revenue growth that converted into even higher growth in adjusted EBITDA and non-GAAP EPS. At the same time, key forward-looking metrics such as backlog and the business development pipeline are robust, supporting our expectations for strong performance in the second half of this year and beyond.

The catalysts that we have identified in key government and commercial markets continue to provide ICF with significant growth opportunities.

First, in the federal government market, we are encouraged that there is basic agreement on a 2-year budget that will take us through fiscal 2021. The agreement boosts funding across defense and civilian agencies, with an approximately 4% increase in discretionary spending in 2020. We believe this will provide significant opportunities for ICF, particularly in high-priority areas such as the opioid emergency, IT modernization, cybersecurity and citizen engagement, all areas in which we have been awarded substantial contracts over the last several years. Additionally, we think that by coming to an early agreement, federal agency clients will have the time they need to efficiently formulate their spending plans and issue RFPs.

Second, in our state and local government market, our substantial disaster recovery qualifications have resulted in important contract wins for ICF this year in Puerto Rico and Texas, which John Wasson will discuss in detail a little later. From a strategic standpoint, we see disaster recovery as becoming an ongoing long-term, let me emphasize, long-term revenue contributor to ICF for several reasons: First, extreme weather events are on the rise. Year-to-date, there have been more than 30 major disaster declarations and the severity of storm events has increased considerably in the last several years. At the same time, federal disaster response and recovery agencies are strapped for experienced personnel to manage the response. As a result, we see a strong market need for disaster management services, and last year's acquisition of DMS has given us additional bandwidth to pursue new opportunities in this arena.

Additionally, ICF's expertise in resiliency planning gives us the qualification to bid on the expected increase in mitigation- and prevention-related work as government agencies seek to prevent the storm-related devastation that we have seen in the past several years.

Third, in our commercial work, there are catalysts in both marketing services and energy markets that provide ICF with considerable growth opportunities.

In commercial marketing, our services have been built around an integrated model that fits well with the changing nature of marketing spend, specifically current trends towards end-to-end buying that play to our strengths from advisory services through technology platform implementation.

In energy markets, we continue to see expansion opportunities in energy efficiency program implementation, especially in California, but also in other states that are increasing their energy efficiency targets. The trends toward further penetration of distributed energy resources and greater electrification provide significant growth potential for us, both in our advisory and program implementation services. Energy infrastructure security and energy resiliency initiatives are additional growth opportunities aligned with ICF's core competencies.

In summary, the growth catalysts across these key markets have contributed to our strong year-to-date performance, but importantly, there's enough runway in each area to drive meaningful growth for the foreseeable future.

Additionally, we continue to explore opportunities in our areas of expertise that have the potential to deepen our capabilities, I mean, acquisition opportunities, broaden our reach and strengthen our current competitive positioning.

Finally, we issued a release today simultaneously with our earnings announcement that John Wasson is to be named CEO, effective October 1 when I will move to the role of Executive Chairman. I could not be happier with the Board's decision in appointing John, as it reflects a seamless transition for ICF. John and I have worked closely for over 30 years, and he has been a key contributor to ICF's significant growth—and this is a well-deserved recognition. In my new role, I will remain closely involved in company strategy and operations.

At this point, I would now like to turn the call over to John to review our second quarter operating performance. John?

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

Thank you, Sudhakar, and good afternoon, everyone. I appreciate those kind words. And I look forward to continuing our partnership as I move into this new position working together to drive ICF's continued growth.

This was another quarter of strong operating performance for ICF that reflected the positive momentum we are experiencing in our government and commercial markets. Consistent with the first quarter, second quarter revenue growth was led by our government work, which increased 18% year-on-year and represented 67% of total revenues.

Second quarter revenues from federal government clients increased 1.2% from the similar period, which represented almost 7% sequential improvement over first quarter levels. We continued to experience a delay in getting projects back on track and new contracts awarded to certain agencies that were affected by the government shutdown, particularly at USAID and EPA, but we did see progressive improvement as we moved through the quarter. As a result, we continue to expect low to mid-single-digit growth in our federal business for full year of 2019.

ICF was awarded 2 strategically important IDIQs in the second quarter that should provide growth opportunities for 2020 and beyond as task orders are put out for bid and begin to be awarded later this year. The first, which we announced in June, was an award by the U.S. General Services Administration that strengthens our positioning in IT modernization. The 3-year blanket purchase agreement is a partial re-compete of a contract we hold but with a broader scope. ICF is only 1 of 2 companies selected to compete for work in 6 of the 7 areas covered under the BPA, which include change management, cloud adoption, contact center services, customer experience, information security and IT infrastructure optimization.

The second was a cybersecurity award by the U.S. Navy. With this win, ICF now holds cyber services contracts with 3 of the 5 armed services branches of U.S. Department of Defense: Army, where we have a track record over 20 years of cyber support to the Army Research Laboratory; Air Force, with our 2018 contract award with Air Combat Command; and now with the Navy.

At the end of the first half, the business development pipeline for our federal markets was at record levels and included substantial opportunities in public health, cybersecurity and communications services.

The major contributor to the second quarter year-on-year increase in government revenues was the significant growth in state and local government, which accounted for 20% of total second quarter revenues. This growth was driven by our disaster recovery work in Puerto Rico, Texas and the U.S. Virgin Islands as we executed on contracts we were awarded in 2018 to assist with the recovery efforts following the 2017 hurricanes. In early June, we announced $150 million modification to our FEMA-funded contract in Puerto Rico that significantly expanded the scope of services we are providing. In today's release, we included a brief description of our most recent award, a $25 million, 3-year contract with the government of Puerto Rico to assist with Community Development Block Grant housing recovery programs, funded by the U.S. Housing and Urban Development agency.

I am pleased to report that out of the 4 award recipients, ICF received a score of 99.5 out of 100 points on its proposal, which was at least 20 points higher than that received by any of the other 3 firms that also received an award. As a result, ICF was awarded a heavily impacted region that includes San Juan and the surrounding areas.

This award is in keeping with our assessment that the government is being judicious in the award process, with a view towards expanding contracts with those firms that are effectively executing on the ground. We believe that this contract can grow substantially and has the potential to be an order of magnitude greater. This latest award brings the total value of the post-2017 hurricane-related disaster recovery contracts to almost $450 million over 3 years.

In addition to the material opportunities for contract expansions, ICF is well positioned for further disaster recovery awards related to the 2018 hurricanes that affected the Carolinas and the Florida Panhandle. In early June, Congress appropriated $2 billion for housing recovery in those states. Also, the appropriations for Puerto Rico recovery include approximately $8 billion for mitigation work. HUD is expected to provide a detailed definition of the activities covered under its mitigation designation by early September, and we believe that there will be additional opportunities for us to bid in that area as well. This speaks to what Sudhakar mentioned earlier in terms of disaster recovery, developing into an ongoing, long-term revenue contributor for ICF.

After several years of exceptional year-on-year growth, revenues from international clients took a pause in the second quarter, declined by 8.5% year-on-year or by 2.6% on a constant currency basis. Keep in mind that this was a very difficult comp; In last year's second quarter, international government revenues were up 65.3%. Based on the solid pipeline, we expect to achieve mid-single-digit growth for the year for our international government business on a constant currency basis.

Moving to our commercial clients, the 4.6% increase in revenues was led by strong results from marketing services, specifically from our brand engagement and technology and channel solutions businesses in North America and from our expanded strategic marketing capabilities in Europe.

Commercial marketing service -- services had its best quarter ever for integrated sales in the second quarter, which is further evidence of the benefits of positioning our service offerings and delivering -- delivery under the ICF Next brand.

Also, we continue to win awards and recognitions that lead to business development opportunities. In April, we received accolades from Forrester, where we maintained our position as a leader in their Loyalty Technology Wave report. In May, we were honored to be named the Holmes Report's Digital Agency of the Year for our work combining marketing and technology to deliver creative services and client results.

Overall, qualified inbound opportunities and cross-sell opportunities have continued to steadily increase as we bring our capabilities into closer alignment. This and other lead generation activities have helped to considerably increase our pipeline of commercial opportunities.

Revenues from energy market clients were steady year-on-year in the second quarter, reflecting mid-single-digit growth in energy efficiency programs that was offset by lower revenues from our energy advisory business. The quarter-to-quarter results tend to be uneven due to the project nature of that work.

There is significant potential upside for ICF in energy efficiency in California in 2020 and beyond where the Public Service Commission has mandated utilities to increase the number of programs they outsource to 60% from 20%. There are also opportunities to expand our programs in other states that are increasing their energy efficiency goals, and we have invested in several new offerings for new and existing clients, including midstream programs, smart thermostat and electric vehicle programs in off-road beneficial electrification. We ended the first half with a large pipeline of energy efficiency opportunities.

Additionally, we continue to work with our utility clients in the areas of distributed generation, which is transforming the industry. On the demand side, distributed energy resources such as rooftop solar, storage and microgrids continue to challenge the regulated utility business model.

Electric vehicles are poised for significant market expansion, which has direct effects on the management of the power grid. Resulting uncertainties have caused utility clients to bring in ICF experts to assist them in analyzing these changes and work with them on solutions, which we believe will lead to both advisory work and potentially implementation programs. We're also supporting state public utility commissions on regulatory and policy issues related to distributed energy resources.

Taken as a whole, we continue to expect revenues from commercial clients to increase by at least mid-single digits in 2019.

In summary, we are well positioned for 2019 to be another year of substantial revenue growth and margin expansion and are confident that we can carry that momentum into 2020 and beyond.

At the end of the second quarter, our business development pipeline was over $6.3 billion. There were 57 opportunities larger than $25 million and 101 opportunities between $10 million and $25 million. Our annual personnel turnover rate was 14%.

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

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

Thank you, John. Good afternoon, everyone. I'm pleased to report on ICF's solid performance in the second quarter, which positions us well for a strong second half of 2019.

Total revenue for the second quarter of 2019 was $366.7 million, representing a 13.1% increase over last year's $324.3 million. This is primarily driven by 17.8% revenue growth from our government clients and supported by 4.6% revenue growth from our commercial clients.

Service revenue was $252.3 million, up 9.2% from the $231 million reported in the year ago quarter. Pass-throughs increased to 31.2% of total revenue during this quarter as compared to 28.8% in the second quarter of last year. As we have mentioned previously, this is more representative of the level of pass-throughs we expect this year. The step-up in pass-throughs was related to our disaster recovery work where we hired a large number of subcontractors to assist with recovery programs.

Gross profit was $131.7 million in the second quarter of 2019, representing 11.8% increase from the $117.8 million in the year ago quarter. However, as a result of the higher pass-throughs, our gross margin declined 40 basis points year-on-year to 35.9%. Conversely, our gross margin on service revenue, which is more indicative of our business trends, expanded 120 basis points to 52.2% in this year's second quarter.

Indirect and selling expenses increased 12.2% in the second quarter of this year to $101.5 million from $90.4 million a year ago, reflective of our revenue growth and inclusive of $2.5 million of special charges that were included in indirect and selling expenses, which I will describe momentarily. As a percentage of total revenue, indirect and selling expenses declined by 20 basis points to 27.7%.

Operating income was $22.5 million compared to $21 million in the comparable quarter in 2018. EBITDA for the second quarter was $30.2 million, 10.5% above last year's $27.3 million. The growth is mainly attributable to favorable revenue mix as well as higher service revenue and improved utilization.

The $2.5 million in special charges that I previously mentioned and which negatively impacted EBITDA included an intangible write-off of $1.7 million before tax related to the acquisition of The Future Customer or TFC as related -- as well as special charges related to severance for staff realignment and office closures.

Exclusive of these charges, adjusted EBITDA was $32.7 million in this year's second quarter, up 19.5% from the $27.4 million a year ago. The impairment charge for TFC relates to a portion of the purchase value we assigned to a limited number of existing client relationships that are less active than initially anticipated. TFC has a strong loyalty strategy and CRM qualifications, and subsequent to the acquisition, we have focused TFC staff on, one, winning large loyalty deals in Europe and Asia where the revenue opportunities are larger and have lengthy sales cycles; and two, on working with other ICF Next clients on CRM projects.

Adjusted EBITDA margin on service revenue expanded by 110 basis points to 13% from 11.9% in the second quarter of last year.

Net income for the quarter was $14.6 million or $0.76 per diluted share, up 7% year-over-year from the $0.71 per diluted share reported in the second quarter of 2018. Note that these results benefited from a slightly lower tax rate of 26.2% compared to 26.6% in the year ago quarter. We expect our average quarterly tax rate for the remainder of the year will be no more than 26%, bringing the full year tax rate to no more than 25%.

Exclusive of charges related to amortization of intangibles and special charges which totaled $3.3 million, non-GAAP diluted EPS of $0.97 increased 21.3% from the $0.80 reported in the second quarter of 2018.

Turning to cash flow: The first half of the year, we used $47.9 million of cash for operations compared to $21.7 million used in the first half of 2018. Operating cash flow was below our expectations mainly due to the slow pace of collecting receivables associated with the large federally funded contract we won in Puerto Rico in 2018. We continue to work with our client and believe that the payment cycle on this contract will normalize before year-end. Our operating cash flow was impacted further by roughly $20 million of client receivables for which we received payment in the first week of July. As mentioned, we expect collections to normalize over the next few months and still anticipate operating cash flow to be in the range of $100 million to $120 million for the full year of 2019.

Days sales outstanding for the second quarter was 95 days compared to 77 days in the year ago quarter. Excluding the 2 items I just called out, days sales outstanding would have been 78 days this quarter. We continue to anticipate days sales outstanding to range from 72 to 77 days at 2019 year end, including the impact of deferred revenue.

Our capital expenditures amounted to $16.1 million, compared to $12.5 million in the comparable period in 2018, mainly related to the timing of IT investments and facility consolidations. We continue to expect our full year capital expenditures to be in the range of $25 million to $28 million.

Debt outstanding on our credit facility at the end of the second quarter of 2019 increased by $88.1 million from the end of 2018, mainly due to the slower pace of collection activity of the receivables that I just mentioned. As a result of that, we now expect interest expense to be roughly $2.5 million more than what we initially expected at the beginning of the year.

Going forward, our capital allocation priorities remain the same: Grow our business organically, make acquisitions and de-lever. And we will continue to ensure that enough shares are repurchased under our current share repurchase authorization to neutralize the dilutive effect of our employee incentive programs.

In the second quarter of 2019, we repurchased 126,000 shares at an average price of approximately $74.98 per share for a total outlay of $9.4 million.

Lastly, we are pleased to declare our seventh quarterly dividend of $0.14 per share, payable on October 15, 2019 to shareholders on record as of September 13, 2019.

To help you with updating your models, please note the following: we continue to expect our depreciation and amortization expense to be in the range of $20.5 million to $21.5 million for 2019; the amortization of intangibles is anticipated to be approximately $8 million to $8.5 million; our full year interest expense is now expected to range from $10 million to $11 million; as previously mentioned, we expect our effective tax rate for the full year to be no more than 25%; and we expect the number of fully diluted weighted average shares to be around 19.2 million for 2019.

With that, I'd like to turn the call back to Sudhakar for his closing remarks.

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

Thank you, James. As you know, ICF was founded in 1969, and we are celebrating our 50th anniversary year. We have built our subject matter knowledge over these last 50 years and have substantial credentials in energy, environment, public health, disaster recovery, cybersecurity, technology and marketing services. We are quite pleased with ICF's execution in the first half of this year and our ability to leverage our domain expertise to take advantage of growth opportunities across our government and commercial client sets. We expect to see this growth continuing in the remainder of this year and in future years.

Year-to-date operating results, recent wins and pipeline activity support our expectations for substantial growth in 2019 and beyond. As a result, we have raised the midpoints of our guidance ranges for revenue and earnings. We now expect 2019 revenues to range from $1.475 billion to $1.5 billion, GAAP EPS to be between $3.80 and $3.95, exclusive of special charges, and non-GAAP EPS to be in the range of $4.10 to $4.25. At the midpoints, this represents year-on-year revenue growth of over 11%, GAAP EPS growth of almost 16% on a comparable basis, and non-GAAP EPS growth of close to 12%.

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

QUESTIONS AND ANSWERS

Operator

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

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

First, congratulations to you, John, and you, Sudhakar, for the new role.

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

Thank you.

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

And I wanted to start by asking about the disaster recovery work. You cited that it's sort of a geographic allocation around San Juan. In terms of the damage that the storm inflected, is there an outsized proportion of damage in that geography because of the population density?

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

Yes. That's right. There's a more significant damage in that population geography in the San Juan area.

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

And then so far, these contracts have been cited as 3 years. What do you think the opportunity is for the work to extend for a longer duration?

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

I think it's highly likely the work will extend for a longer duration. I mean, there's so many precedent for that if you look at the programs in Louisiana. The Road Home programs extended for many years, the New Jersey programs went on. I think we're in our seventh year of those programs. I think as we've talked in the past, I think the recovery in Puerto Rico is a 5- to 10-year recovery. And I think this would certainly be longer-term opportunities beyond the initial 3-year period and in Texas.

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

Okay. Could you give us a little bit more color about, again, with the disaster recovery, the opportunity in between natural disasters to help create a more of an ongoing business. Give us a sense for what that market is like, and what it could mean for the company as you develop your inroads?

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

Yes. I think that as I had mentioned, Tobey, we basically think that in addition to responding to disaster that we -- as we have over many years, as you are familiar with, I think there's a whole focus now on mitigation and prevention. And so this whole issue of mitigation options, resiliency, et cetera, there is significant amounts of money even in the allocations currently for disaster recovery, where there will be a lot of money spent on mitigation work, which we are also likely -- which is likely to be bid out in the near future in all of these affected states. So we think that there'll always be areas where we have these possibilities. And I think that, that will mean that we will continue to work in disaster recovery, so to speak, even when there are no significant events. We, obviously, anticipate, and as we have seen over the last few years, the frequency of events has increased. But even if there isn't an event, we think that there will be lots of mitigation work. And in fact, the -- there's almost $8.3 billion, which has been allocated to Puerto Rico for mitigation and those contracts are going to be bid also some time in the fall of this year. So I think that these mitigation contracts and other things across all the geographies are also likely to continue, and we think that, that will allow us to have a steady stream of work on disaster management going forward.

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

Is -- are the skills required to compete for and then fulfill that work in [resident] within the firm already?

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

Yes. I mean, we've done resiliency planning, mitigation planning and all these sort of stuff for many, many years. We have -- we think that the scope and the size of the projects are likely to increase going forward. And DMS, our acquisition, was obviously an entity which worked on these areas across many states. So we think leveraging those skills with leveraging our resiliency planning skills, et cetera, are things which we could do quite effectively going forward.

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

I think it's become a core aspect of our climate practice -- climate change practice, the whole resiliency and mitigation set of capabilities and expertise. And we're undertaking projects unrelated to specific storms that have brought in state and the local government settings now using that expertise, Tobey, so I would actually think -- I would say that we have a market leadership position in terms of the planning and development and implementation of mitigation-type programs.

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

Great. Last question for me on the energy efficiency front in utility work. How would you describe the pipeline of opportunities in terms of either existing programs being recompleted or consolidated and [saying that] your strength and scale versus new programs because of new state-level mandates that you took (inaudible) trying to respond to.

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

I mean I think our energy efficiency pipeline remains quite robust. We continue to see significant opportunity in many states. We talked quite a bit about California. We're quite intentionally involved in the bid process there for this year, and we sort of expect that to be material for next year. So there's a lot of activity in California. And we've talked about New York, we've talked about Illinois. I mean so we're certainly seeing opportunities in certain states where budgets are increasing. And we've also continued to see the trend of more bundled programs, which I think plays well to us. And so there's still robust opportunities and quite a significant pipeline. I don't know, James, do we have the...

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

Yes. It's -- I mean in the energy or energy market area commercial, it's in the $1 billion range from a pipeline perspective.

Operator

We have our next question from Gautam Khanna with Cowen and Company.

Gautam J. Khanna ***Cowen and Company, LLC, Research Division - MD and Senior Analyst***

Yes. I was wondering if you could just give us some flavor for what you anticipate for bookings, book to bill, if you will, in Q3 -- calendar Q3, calendar Q4, based on where the adjudication schedule lies?

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

I think generally, the -- typically, Q3 is our strongest quarter for sales, certainly, in the government businesses. I think that's been a pretty consistent trend for us or aspect of our business. So I would expect quite robust sales in Q3 and quite a strong book to bill. Q4 generally comes down across the company. Although I think we do have some energy efficiency opportunities that could materialize by the end of the year that could help there. And so I expect our book to bill, I think it's been in the 1.15 to 1.2 trailing 12 months on a -- for some period, and I would expect it to remain there or even increase as we go forward the next several quarters.

Gautam J. Khanna ***Cowen and Company, LLC, Research Division - MD and Senior Analyst***

Okay. And just as a follow-up, given the recent expansion of work in Puerto Rico, how do we frame that out over the next year? Is it -- do we have, like, a surge for the next 4 quarters and then it steps back down? If you can give us any help on shaping the revenue profile of it?

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

I would say generally with Puerto Rico and Texas, given the variety of contracts we've won, the potential to kind of get out on work on those contracts, and then the additional opportunities that exist, for example, the mid-$8 billion in mitigation funding in Puerto Rico that we'll be putting bids out to help them run that program. I expect that our disaster recovery efforts -- we're still in early phase of that work, and I think we'll continue to ramp that up for this foreseeable future. I don't think we're at the point yet where we're anywhere close to peaking or hitting a peak. And so I don't know. Sudhakar, do you (inaudible)?

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

Gautam, I think what we can do is we certainly think that there will be robust revenues next year or 2, and we can give you a better sense of how to model the revenues in the next few months as we understand how quickly they ramp up, et cetera. So we think that with the CDBG contract, for example, it's going to slowly wrap up this year. And then as we said, the potential for that will expand and increase. So we'll have -- we'll get a better sense and give you more guidance towards the end of the year.

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

And I would just reiterate, I guess, the answer to the question Tobey asked that a variety of these contracts are 3-year contracts, but I think the reality is the recovery in these geography is going to go beyond 3 years. And so this is going to a longer-term effort. It certainly will impact how we think about the future for this work.

And the only thing I like to point out is obviously, we have the [work-ins] for 2018. All the contracts we've won are from the 2017 storms. Congress has appropriated funds from the Community Development Block Grant programs, $2 billion for the Carolinas, the Florida Panhandle. I think that's a down payment on what will be required under the Community Development Block Grant program. We're already in capture positioning for those bids. I know we've been recruiting, we're looking for contingent hires in North Carolina to support opportunities we have in our pipeline. So there are additional pipeline opportunities that will play out as we get later in the year to next year, which will layer on top of the contracts we've won from the 2017 storms.

Operator

We have our next question from Tim McHugh with William Blair & Company.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

I just want to ask, I guess, when you talk about the incremental opportunities, I think on some of the prior calls as it relates to the hurricane work from 2017, is the -- to grow the hurricane or disaster recovery type of revenue, is it more about now looking at the 2018 type of awards or could the revenue stream from the 2017? Are there still opportunity, I guess, that you haven't captured that we're building, I guess, on?

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

Yes. I think there's still significant opportunities from the 2017 storms that could drive further expansion here. I mean, we've talked in the script about the housing recovery program we just won, which is a $25 million, 3-year contract, which I think there is significant upside potential there, particularly for those firms that perform well. I think we indicated it could be as much as an order of magnitude greater. We're just beginning that work. In fact, we just opened our housing recovery, first housing recovery center in San Juan yesterday, which was, I think, quite a successful opening. And so we're just beginning that 3-year contract, which I think will involve a longer recovery. So there's upside there. We talked about the $8 billion of additional mitigation funding under the Community Development Block Grant program for Puerto Rico. Puerto Rico government will be putting out RFPs to help administer that program in the fall, and that will certainly create 3- to 5-year opportunities there. And then I have to say, I think that our existing FEMA contract in Puerto Rico and the 3 contracts we have in Texas, with the Texas land -- general land office, the City of Houston, Harris County, which surrounds Houston, there's significant potential additional work there. We're in the early stages of those programs. I think we're generally doing quite well there. It's going to be a long-term recovery. And so I think there's -- I guess, it's a long-winded way to say I think there's significant potential expansion from the 2017 storms here as we look forward. And then as you know, the 2018 storms haven't even played out yet, other than the funding -- there's the funding from Congress that's been appropriated.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

And I guess, I was trying to, I guess, dissect the ability for that additional work to, I guess, extend or lengthen the stream of revenue versus continue to build it and make it bigger and bigger, but it sounds like you still think there's room for it to grow in absolute size, I guess, beyond just extending the life of the revenue stream from that? Is that the right...

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

Yes. I think it's both. I think we could increase the current run rate in size over the next -- in 2020 and beyond, and then extend it for a lengthier period beyond the 3-year contract. I think we're -- given the opportunities in front of us, we're certainly not, as I said, we're -- there's room -- there's opportunity to grow here before we, I think, even can begin to have a conversation of what's the peak here.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

Okay. And then it just -- is the issue with them paying the accounts receivable administrative on their end, I mean, what do you hear back from the client in terms of why it's been slow, I guess, to pay the bill to you guys?

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

This is James. I mean it's -- it really is been more about administrative activities. As you can imagine, this FEMA contract is a very large contract for a customer that had to kind of basically stand up almost on new infrastructure to help support it. As part of that effort, you could expect that there's a lot of normal challenges that an organization has to deal with to be able to handle it. And certainly, we've been working with our customer to help them mature their processes. And we continue to believe that their payment processes will normalize by the end of the year. They seem to certainly be doing so. I will say though that with the political disruption in Puerto Rico, FEMA has recently instituted an [inwards] review and approval process for our contract given that this is a federally-funded contract. And the FEMA review and approval process, it was in place through April this year. We had several invoices paid through that process, reviewed and approved by FEMA and paid without exception. So I don't believe that the institutional process will cause any issues for us at all. It's just a matter of it does that sometimes to the payment cycle. So certainly, based on our current discussions with the client, we believe that our outstanding invoices will start to flow in the coming weeks, and we still do believe we'll get to a more normalized pay out cycle by the end of the year.

Operator

We have our next question from Sam England with Berenberg Capital.

Samuel England ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Just looking at the business development pipeline. I just wondered if there's any particular areas within that, that stand out in terms of size of opportunities, particularly on the commercial side? I think you've, obviously, covered all the disaster recovery side?

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

Sure. I mean, this is John Wasson. I think we've talked about the kind of 4 key growth catalysts for the business. I mean I think our Federal pipeline remains robust. The funding environment there is good so I could talk about the 2-year budget. Plus, I think we continue to see sizable opportunities in cybersecurity, in the public health, IT modernization arena and larger opportunity that's driving the Federal business. Obviously, we talked a lot about disaster recovery. On the commercial side, I mean, I think we answered the question on the commercial energy efficiency pipeline. That's quite robust. We're writing -- the California energy efficiency proposals are a two-step process. First, you submit a proposed set of program designs. And once those are approved, you submit a more detailed proposal. We've submitted, I think, we're in the teens in terms of the number of proposal designs we've submitted. We began writing proposals based on those. So significant pipeline and opportunity in the energy efficiency arena. I think the marketing services, we said in our comments, I mean, I think one of the really great things that's happened here is we're seeing a lot more integrated opportunities to cross ICF Next. And so the pipeline of those integrated opportunities is quite robust and we're winning more work there that's driving the growth.

And then there's certain parts of that business where there are large longer-term contracts. The loyalty contracts, a larger longer-term technology platform contracts, and we have good pipeline there. The pipeline on our technology -- working technology implementation business is good. And so these are the 4 catalysts, I think, the pipeline is quite strong, we have a record pipeline and I feel very positive about it.

Samuel England ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Okay. Great. And then the second one was just on margins. You obviously had quite a nice bump up in margins this quarter. I just wondered how you're thinking about margins heading into the second quarter and whether you think it will follow the usual sort of cadence that we've seen over the last few years based in the second half?

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

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This is James. Yes. We do expect that, you may recall, beginning of the year, we talked about the fact that we thought we would have 20 to 30 basis points of margin improvement year-over-year when you define margin being as EBITDA over service revenues. We still expect that to be the case. And so certainly as we go forward, until the back half of the year, we delivered 13% in Q2. We expect that to be closer to certainly increase at the back half of the year. I'll leave it at that so that we can achieve what our target is. And our target would be then, on average for the year, is closer to that 13.5%, 13.6% [EPA] range.

Operator

Our next question comes from Kevin Steinke with Barrington Research.

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

So on the Puerto Rico FEMA-funded contract that was significantly expanded, can we just maybe step back and talk about how your performance maybe led to that being expended? And if your execution was a -- kind of a key component of you winning more of that work?

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

Sure. I mean I think there's no question that our performance on that contract, on that work, was the key driver of getting that increase. I mean I think our clients have been very pleased with our ability to stand up that program quickly, hire 350, 400 people and make significant process -- progress in helping the government of Puerto Rico tap the FEMA funds to rebuild their infrastructure. I personally met with our clients. They're very pleased, very happy with our work, and it absolutely played a key role in our -- on winning that work, and I think we continue to execute quite well on that contract.

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

I would also just add, even though you didn't ask the question, but we are the first of the firms on the CDBG contract to open a center, too. So we had hundreds of people come through our center yesterday. We were the first one to open.

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

Okay. And then on that new CDB -- CDBG contract in Puerto Rico, it sounds like is it that they're going to be rolled out in a kind of a regional basis given that this was just for one area and that maybe it's going to be geography by geography across Puerto Rico, that's how they're going to be awarded?

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

Right. So basically, there were 4 contracts awarded, they were divided by geography and essentially, they scored each of the companies' proposals, and I think they gave the most favorable geography to the firm who scored the highest, which was us, and they went down the list. And so yes, it is by geography. And I would expect over time -- this is -- obviously, the ceilings in these contracts are initial amounts to get started but there's certainly significantly more work to do. And I think as we said in our conference call remarks, it's those firms who do well will, I think, do more of the work over time.

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

Okay. Good. And just the turmoil in Puerto Rico and in terms of political landscape, has that impacted the rate at which the pipeline is moving along? Or do you expect it to? Or is that not really a factor?

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

Well, I mean, we did open our center there yesterday. So we obviously are going along steadily and doing that. But obviously, with the demonstrations and when millions of people are out in the street, so their offices have been closed for 1 or 2 or 3 days on those. So it's disruptive, but I think in terms of us moving forward, we'll continue to do our work and I think that we believe that things will settle in and settled down in the next few days and things will continue to keep going forward. So it is disruptive, but I don't think it'll deter us from going forward, especially on this (inaudible) FEMA contract.

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

On the CDBG and the FEMA contract. I mean just that -- I think we could view it as a short-term distraction.

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

Okay. And then lastly, the large pipeline and energy efficiency that you referenced, you talked about some of the California opportunities that you're bidding on. Are all the California opportunities now included in the pipeline? I kind of remember that you talked about some of the larger opportunities in California where they actually start coming in the second half of '19. So is there more to come that you're going to bid on in California that could build the pipeline further?

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

Yes. I think there's more to come. I think as we -- I mean, part of the effort in California is they're looking for you to design your programs, recommend programs. We talked about the large bundled programs that would be statewide. I think that's -- exactly what those are will come into better clarity, those will add to the pipeline as we get into later this year and certainly be material for next year.

Operator

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

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

Just first, John, congratulations. It's nice announcement to see. And congratulations, of course, to you as well, Sudhakar. I wanted to touch base on sort of the -- some of the thoughts around use of cash given the things that you kind of have going on at the moment. I was wondering if you could sort of touch on maybe what -- maybe some of the acquisition opportunities might look like or any particular pipeline opportunities where scale and scope might come into play that sort of help with the growth profile? And then I have a quick follow-up after that.

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

Sure, Marc. I think as we have said before, we have these 4 areas. We're looking for acquisitions in each of the 4 areas. I think that we basically think that there is certainly targets out there. So we're talking to a bunch of folks. And as I've said before, sometimes if you have 10 balls in the air and they are strategic and you're talking to a whole bunch of people, 1 or 2 of them come down, and we do the deal. So I think we are quite intensively having conversations and in the areas of our domain expertise and adjacencies where we think that we can do more. We obviously have to contend with the fact that in certain of areas, evaluations are a little crazy. In other areas, we've generally been successful where we don't go to places where everybody else is looking. So I think if you look back in the last 12 years of our acquisition history of over 20 acquisitions, some of the acquisitions we've done a few years ago, perhaps we wouldn't have gotten. In this, the valuation will be almost twice what we paid for 10 years ago. So I think just 1 of the things where we just have to be patient, be strategic and be active in our areas, which we are comfortable with, where we can mitigate risk and make sure that 2 plus 2 will equal 22, perhaps. So -- and I think we're continuing to look and we are -- we will do what we think is right and when we think it's right.

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

Okay. Great. That's helpful. And then wanted to -- I mean, I know it might -- as we're sure you're going through the process with getting to the Senate and sort of moving forward, but I was wondering if you could put a little more color around sort of what we're looking at with the budget. I'm wondering if you were getting any sort of early initial kind of feedback from clients who may get a sense of whether or not folks are kind of ready to act maybe a little quicker with this sort of being out there and either for quite some time, I guess, or whether or not it might take a little while for the benefits of this to sort of play out?

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

Marc, as you know, one of the big - we are relieved that the budget process is not going to go to the edge this time. It's the summer. I don't know when last I can recall when we had a 2-year budget in the summer, even the prior 2-year budget, I think, was done pretty late in the year. So I think we are -- we are just relieved at the moment. And in fact, today, the Senate -- I think Senate is the precedent today. So we are looking forward to the President signing it. And as we move forward, I'm sure we will get some feedback from our clients but at the moment, we just think that given the process and given what we understand about the funding process, I think all the agencies, OMB and the agencies will be able to distribute the money, et cetera, and allocate them in a much more systematic way so as to start off, perhaps the beginning of the fiscal year, in a much more organized place than they have been in the past. So if that happens then we'll be very pleased and I think things will move forward in a much more "normal" way than they have in the past 2 years.

Operator

We have a follow-up question from Tobey Sommer with SunTrust.

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

With respect to the CDBG Puerto Rico contract, is there an opportunity to gain share from other providers if they underperform? Or it's just a function of new money that's being applied to your geography?

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

No. I would say that there's certainly the potential to gain share if others don't perform. I think that's -- I think that's the intent of having multiple awards and seeing who does well. And it's one of the reasons we are working real hard to get our center up and running and get out of the gate here.

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

Got it. And, John, does this mean you're going to have to relocate for a period of time to San Juan? Or given the new role, are going to send someone else to (inaudible) that?

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

He is looking forward to it. He's looking forward in his new role, that's what he is going to be doing, move to San Juan.

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

I think I'll be committing to San Juan. Yes, right.

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

(inaudible) But just -- we are all spending time in San Juan, and we're quite focused on our disaster recovery work, for sure.

Operator

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

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

Well, thanks very much for participating in today's call. We look forward to seeing you at our upcoming meetings and conferences and obviously, at the next call. Thank you, again.

Operator

And thank you, ladies and gentlemen. This concludes today's conference. We thank you for your participation. You may now disconnect.