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PRESENTATION

Operator

Welcome to the Fourth Quarter and Full Year 2022 ICF Earnings Conference Call. My name is Michelle, and I will be your operator for today's call. (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, operator. Good afternoon, everyone, and thank you for joining us to review ICF's fourth quarter and full year 2022 performance. With us today from ICF are John Wasson, Chair and CEO; and Barry Broadus, CFO. Joining them is James Morgan, Chief Operating Officer. During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. And I refer you to our February 28, 2023, press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light. We may, at some point, elect to update the forward-looking statements made today, but specifically disclaim any obligation to do so. I will now turn the call over to ICF's CEO, John Wasson, to discuss fourth quarter and full year 2022 performance. John?

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

Thank you, Lynn, and thank you all for participating today to review our fourth quarter and full year 2022 results and discuss our outlook for 2023. ICF's fourth quarter was an outstanding finish to 2022, which was a record year for the company across all key financial metrics. There are 5 key takeaways I'd like to highlight. First, our strong year-on-year increases in service revenue of 24% for the quarter and 15.8% for 2022, which reflected double-digit organic growth across our key growth markets in the aggregate, plus the impact of 2 -- of our 2 acquisitions that benefited revenues from federal government clients. Second, the substantial margin expansion we achieved, posting an adjusted EBITDA to service revenue margin of 16.3% for the fourth quarter and 14.9% for the year, up from 14.3% in 2021. Third, we had record contract awards for both the fourth quarter and full year, which resulted in a 12-month book-to-bill ratio of 1.32. Fourth, our robust operating cash flow, which supports our capital allocation priorities and fifth, our 2023 guidance for double-digit revenue growth, further margin expansion and GAAP and non-GAAP EPS of $4.90 and $6.30, respectively, at the midpoints.

These accomplishments are due in large part to the growth strategy we outlined in 2020 and the strategic decisions we've made since then to expand our investments and capabilities in markets in which we anticipated accelerated client spending and where ICF already had recognized experience and success.

These markets, namely IT modernization, public health, disaster management, utility consulting, and climate, environment and infrastructure services, accounted for approximately 55% of our service revenue at the end of 2020. Since that time, revenues from these markets have grown considerably through a combination of organic investments in people and technology, the completion of 3 sizable acquisitions over the past 3 years and the capture of initial revenue synergies. As a result, these high-growth markets represented approximately 75% of our service revenue as we exited 2022, and we expect this to increase for full year 2023.

In addition to driving service revenue growth, these investments have substantially expanded our margins together with various cost reduction actions. Adjusted EBITDA margin on service revenue increased from 13.7% in 2020 to 14.9% in 2022, and our guidance for 2023 anticipates a 15% margin, inclusive of investments to support future growth.

To fund this growth, we have taken on debt, which is in line with how we've built ICF. As in the past, after we have levered up, we have used strong cash flow to repay debt, and in the fourth quarter of 2022, we repaid approximately $145 million in debt, bringing our adjusted leverage ratio down to 2.86 at year-end.

Additionally, we were able to mitigate the impact of higher interest expense on our financial results. As expected, offsets like lower facility costs, administration efficiencies and effective tax strategies enabled us to report substantial growth in non-GAAP EPS for both the fourth quarter and full year of 2022, and the midpoint of our 2023 non-GAAP EPS guidance points to 9.2% year-on-year growth.

Looking across our client categories, there are several highlights worth noting. Revenues from federal government clients increased 45.6% year-on-year in the fourth quarter, comprised of 15.4% organic growth plus the contributions from our Creative and SemanticBits acquisitions. IT modernization and public health, 2 of our key areas of focus in the federal arena, continue to show strong growth.

One of our most notable contract awards in the fourth quarter was a new $160 million task order with the National Institute of Health National Cancer Center that demonstrates the success of combining deep health domain expertise and leading-edge technology solutions plus extensive experience supporting the client.

Further, the fiscal year '23 Omnibus appropriations included significant agency-level IT modernization investments and additional funding for the Technology Modernization Fund.

Both our IT modernization and public health work will also benefit from the $9 billion in additional 2023 discretionary appropriations to our largest client, the Department of Health and Human Services, as increased funding is going to agencies where ICF is well positioned, notably the Centers for Disease Control and Prevention, the National Institutes of Health, the Centers for Medicare and Medicaid Services, the Substance and Abuse and Mental Health Services administration, the Administration for Children and Families and the Food and Drug Administration.

In addition to the 2023 appropriations, our federal government revenues will benefit from the IIJA and later the IRA, which provide ICF with multiyear growth opportunities to capitalize on our long-standing credentials in clean energy, climate and infrastructure.

Revenues from state and local governments increased 7% in the fourth quarter, reflecting year-on-year growth in both disaster management and environmental services in support of infrastructure projects. During the year, our teams in Puerto Rico disbursed more than $1.4 billion in FEMA funding and we were the market leader in issuing CDBG grants to homeowners. As I mentioned last quarter, ICF won a $51.4 million award to continue to support the continuing household recovery on the island and we're tracking a number of procurements in 2023 where we believe that we are well positioned and competitive. We're also very active in Texas, and our position there in environmental services has been enhanced by the Blanton acquisition, which we closed in September of last year.

Revenues from commercial energy clients increased 17% in the fourth quarter, reflecting substantial growth across all services. We saw robust demand from utility clients for energy efficiency, electrification, flexible load management and distributed energy services programs. Additionally, demand for our energy advisory services related to renewables and clean energy remains strong and will increase with the significant IRA incentives, once the associated rules and guidance come out later this year.

Revenue comparisons in our international government business in the fourth quarter were impacted primarily by the completion in early 2022 of a short-term project with significant pass-through revenues and currency translations related to the euro and the British pound. We have continued to win multiyear contracts and have an active business development pipeline, leading us to expect mid-single-digit growth in this client category in 2023.

Our climate, environmental and infrastructure services, which cut across all of our client categories, continue to experience positive momentum. The IIJA and IRA have created a uniquely favorable public policy and economic environment that has increased the number and value of renewable power, electric transmission, electric vehicle and innovative fuel projects across the country. These projects can be large and take time to come to fruition, but we expect them to provide significant growth opportunities for ICF in the coming years.

After a fourth quarter of record contract awards, we ended 2022 with a business development pipeline of over $8.5 billion, 20% higher than 1 year ago, in part due to revenue synergy opportunities related to the 2 larger acquisitions that we completed in 2022. The pipeline presents a diverse set of opportunities across our government and commercial clients that includes only a modest dollar amount associated with IIJA and IRA-related projects, which we expect to increase as the year progresses.

Also, in mid-January we announced the formation of a new group focused on increasing the company's technology capabilities and maintaining our growth momentum in the federal IT modernization arena, to be led by Mark Lee as Chief Technology Executive. As part of this, Mark will also oversee a new company-wide Chief Technology Officer organization that will help drive further technology growth and innovation across all of ICF's markets.

In summary, our 2022 results demonstrate how well aligned ICF's domain expertise and expanded implementation capabilities are with the spending priorities of government and commercial clients. Additionally, our performance in 2022 and our guidance for 2023 have put us on track to achieve the long-term financial goals we outlined in our May 2022 Investor Day, namely, to achieve high single-digit organic service revenue growth through 2024, driven by our 5 key growth areas, drive double-digit total revenue growth by adding acquisitions that are a strong cultural fit and offer revenue and earnings synergies, and by the end of 2024, increase adjusted EBITDA to approximately $245 million. Operator, I'd now like to turn the call over to our CFO, Barry Broadus, for a financial review. Barry?

Barry M. Broadus ***ICF International, Inc. - Senior VP, Interim Principal Accounting Officer & CFO***

Thank you, John, and good afternoon, everyone. I will now provide an overview of our strong fourth quarter and full year performance that resulted in a record year for ICF and review our 2023 guidance. Our fourth quarter total revenue increased 22.6% to $475.6 million, and our service revenue was up 24% to $339.1 million, which [was] led by strong year-over-year revenue performance from our federal, state and local and commercial energy client categories. Pass-through revenue for the fourth quarter accounted for 28.7% of total revenue, which was in line with our expectations and slightly lower than the 29.5% in the fourth quarter of 2021.

Gross margin expanded 50 basis points year-over-year to 36.9% on total revenue and on service revenue, improved 10 basis points to 51.8%. Indirect and selling expense decreased 280 basis points as a percentage of service revenue to 34.9%, down from 37.7% in the same period last year on an adjusted basis. This improvement reflects the benefit from our work to reduce facility-related expenses and increased scale, as our indirect expenses increased by 19.4% on a year-over-year basis, which was at a slower pace than our year-on-year service revenue growth of 24%.

Our fourth quarter interest expense was $9.2 million, $6.8 million above last year's level, reflecting both our higher debt balances related to our recent acquisitions and higher interest rates. As I mentioned on our last call, we continue to successfully offset a significant portion of this higher interest expense through various cost-reduction initiatives, including lower facility costs, higher utilization, managing our other nondirect billable expenses and executing on our tax efficiency strategies.

EBITDA for the fourth quarter was $36.9 million, an increase of 38.9% from the fourth quarter of 2021. Our adjusted EBITDA was $55.2 million which is 45.1% above 2021's fourth quarter. Primarily for the same reasons I just mentioned, we delivered a fourth quarter adjusted EBITDA margin on service revenue of 16.3%, 240 basis points ahead of the comparable period last year.

Our fourth quarter 2022 net income was $8.9 million or $0.47 on a per diluted share basis. This number includes $13.6 million or $0.72 per share in tax effected charges, mainly reflecting our strategic decision to reduce the office space associated with our commercial marketing services business. In last year's fourth quarter, we reported net income of $12.1 million or $0.63 per diluted share, inclusive of $0.43 in tax-effected special charges. Conversely, this year's fourth quarter non-GAAP EPS increased 31.1% to $1.56, up from $1.19 per share in the fourth quarter of 2021.

I will now briefly review our full year 2022 results. Service revenue increased 15.8% to $1.29 billion, and total revenue was up 14.6% to $1.78 billion. On a constant currency basis, total revenue would have been approximately $14 million higher or up nearly an additional 1%. Adjusted EBITDA was $191.8 million, representing a 20.6% increase over the $159 million in 2021. The 2022 adjusted EBITDA margin on service revenue increased 60 basis points to 14.9% compared to the 14.3% in 2021.

GAAP EPS totaled $3.38 per diluted share and included $24.9 million or $1.31 per share in tax-affected special charges, which primarily consisted of facility, severance and M&A-related costs. In 2021, GAAP EPS was $3.72 per diluted share, including $0.63 of tax-affected special charges. For full year 2022, our non-GAAP EPS increased 19.7% to $5.77 per share.

We're very pleased with our success in enhancing our profitability. In addition to the actions I mentioned earlier, we're implementing multiyear tax strategies that we anticipate will allow us to maintain an annual tax rate of approximately 23.5%.

Our full year operating cash flow was $162.2 million as we benefited from approximately $30 million related to the timing of collections and disbursements. For 2023, we estimate our operating cash flow will be approximately $150 million.

Our full year capital expenditures totaled $24.5 million, in line with our expectations and reflects our investments in facilities, technology and software. Days sales outstanding for the quarter improved to 71 days as compared to 76 days in last year's fourth quarter, benefitting from the timing I previously mentioned.

We were able to utilize our robust cash flow to make significant reduction in our debt balance in the fourth quarter. We ended the year with $556.3 million of debt, a reduction of $145.4 million from our third quarter debt balance of $701.7 million. This reduction brought our adjusted leverage ratio down to 2.86 at year-end. This represents an improvement of approximately 1 turn since last quarter. Additionally, given this debt reduction and the additional hedges we've put in place since the end of the year, our fixed versus floating debt ratio equates to approximately 50% of our year-end debt balance.

ICF's capital allocation strategy remains the same. We will continue to prioritize debt repayment while maintaining our dividend policy and repurchasing shares to offset the impact of our employee incentive programs. In 2022, we repurchased 176,375 shares at an average price of $96.18 per share. As of year-end, we had $112 million remaining under our share repurchase authorization program.

Today, we also declared a quarterly cash dividend of $0.14 per share on April 13, 2023, to shareholders of record on March 24, 2023.

I will conclude my remarks with providing additional guidance metrics for 2023 to assist you with your modeling. Our depreciation and amortization is expected to range from $23 million to $25 million. Amortization of intangibles should be approximately $36 million. Interest expense will range from $32 million to $34 million. As I mentioned, our full year tax rate will be approximately 23.5%, with the first half of 2023 being approximately 28%. We expect a fully diluted weighted average share count of approximately 19.1 million, and our capital expenditures are anticipated to be between $26 million and $28 million. And with that, I will turn the call back over to John for his closing remarks.

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

Well, thank you, Barry. As noted in our earnings release, we expect 2023 to be another year of record performance for ICF supported by a backlog of $3.9 billion and a robust business development pipeline. We expect full-year service revenue to be in the range of $1.405 billion and $1.465 billion, representing year-on-year growth of 11.6% at the midpoint. And as I said earlier, we expect our key growth markets to continue to increase as a percentage of service revenue. Pass-through revenues are anticipated at approximately 27% of total revenue of 2023, implying total revenue of $1.93 billion to $2 billion. These numbers take into account the $13 million in revenue associated with the commercial marketing business we exited in the 2022 third quarter. EBITDA is estimated to range from $210 million to $220 million, and adjusted EBITDA margin on service revenue is expected to be approximately 15%. GAAP EPS is projected at $4.75 to $5.05 exclusive of special charges, and non-GAAP EPS is expected to range from $6.15 to $6.45, representing increases of 45% and 9.2%, respectively, over 2022 at the midpoints.

As we noted in our earnings release, ICF received several important recognitions in 2022, of which we're very proud. Being included in

Forbes' list of America's Best Management Consulting Firms, America's Best Employees for Diversity, and America's Best Employers for Women, reinforces ICF's culture and has helped us to attract the talent we need to effectively execute on our growth strategy. We have a highly engaged workforce, and we recognize the importance of maintaining a collegial culture and offering leadership development programs to provide growth opportunities across our diversified business disciplines. And with that, operator, I'd like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tobey Sommer with Truist.

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

I was hoping you could give us your current thoughts for the timing of the contract awards and financial impact related to the infrastructure bill, and maybe what your current expectations are related to climate-related spending activity at federal and local customers?

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

Sure. So I think as we've discussed previously, on the infrastructure bill, IIJA, we're beginning to see opportunities there. I think we've reported sales of about $40 million in 2022 on IIJA-related activities. I think we have a pipeline of -- north of $100 million to $150 million of opportunities in our pipeline. I think we expect those to ramp up in the second half of the year and certainly present material growth opportunities for ICF in '24 and '25. And so that's the IIJA set of activities. I would say on the IRA front, as we've discussed previously, I think there will be significant opportunity there. I think that's going to take a little longer for that money to flow.

And so we've begun to see some opportunities, but I really would expect that to be more material in 2024 and beyond. But obviously, we're watching that carefully and paying close attention to it. More broadly, I would say that our climate and resilience business is obviously one of our key 5 growth drivers. It cuts across all of our markets, federal, state and local, commercial work with utilities and our international business, it's been -- as we said, those 5 growth drivers in the aggregate have been growing north of 10%. And I fully expect that climate and resilience will -- we will see robust growth there, robust double-digit growth over the next several years on that front, both given what's being appropriated and when -- what clients are spending but also with the tailwinds from IIJA and IRA as we look down the road over the next couple of years.

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

With respect to IT modernization, when you look at your closest and largest customers, where would you say they are in terms of migrating their systems to the kinds of commercial systems that you could help in terms of a transition, either the baseball analogy or some sort of measure as to how far their progress is in this regard?

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

Yes, sure. So as you know, our IT modernization business is, again, 1 of our 5 growth drivers. I would say it's the first among equal to that of those 5 growth drivers. We have a $500 million business that, as you know, Tobey, has been growing 15% a year for the last couple of years. And I think we have high confidence we can maintain double-digit growth as we look forward. We're primarily focused on civilian clients, given our portfolio. And I would say we see significant opportunity across those client sets.

Obviously, HHS is our largest client, north of 20% of our total revenues. And as I mentioned in my opening remarks, I mean, we won a $160 million new task order within HHS within NCI to undertake IT modernization opportunities. So we're certainly seeing a lot of opportunity there, a lot of opportunity within CMS, particularly given the SemanticBits acquisition. And so from a baseball analogy standpoint, I would say we're in the third or fourth inning here of modernization efforts with these clients. This is going to take -- this is a multiyear effort, and I think it will drive -- continue to drive significant growth for ICF over the next 5-plus years.

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

I wanted to drill into one aspect of sort of the push in climate towards green energy. Seen some media reports of kind of queues of accumulating of new energy generation plants and sources that are having trouble connecting to the grid. Could you speak to that in broad terms and maybe what that means for the company over time?

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

Sure. So you're certainly correct. There is a significant backlog in the ability of developers to connect to the grid and a backlog on interconnection studies and approvals that are impacting developers of renewable power projects. I do think the government is trying to address this. I know the Federal Energy Regulatory Commission has taken steps to better plan and streamline the process around interconnections. There's a variety of interagency task force addressing the issue. And so it's certainly impacting developers of these types of clean energy projects.

I will say for ICF, we have not seen a slowdown in our advisory business related to renewable projects and are doing a significant amount of work on interconnection issues. I think it's more -- and so for us, even with the challenges and the queue here that developers are experiencing, there's only a limited number of players that can provide these capabilities, and we're fortune to be on those limited players. And so even as some of these projects are delayed, we still are very busy at quite a significant pipeline. And I do think over time this will get resolved but it's more of an impact for the developers as opposed to, as I say, we remain quite busy on these types of issues.

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

If I may sneak in 2 numbers questions. Cash flow from ops improved nicely, about, I think, 80%, 81% conversion from EBITDA up from 70% a year ago. Do you have any thoughts for what that will be in '23? And then conversely, at the adjustments to EBITDA were more significant this year as a percentage of the total number than the year before. Do you have an expectation for whether that trend will continue in '23?

Barry M. Broadus ***ICF International, Inc. - Senior VP, Interim Principal Accounting Officer & CFO***

Tobey, this is Barry. I think that I will answer the second question first. We did have a number of unusual onetime charges that were related to the facility closures, and that was mostly related to the commercial market services business. So I don't expect that to repeat, though. We are always looking for ways to improve our facility footprint and lower expenses. But I would say that those -- that was certainly a onetime charge. As far as the conversion on the cash, I would expect it to be a similar fashion in 2023 as we had in 2022. I don't see anything that would be a headwind on that.

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

Just to foot stomp on the facility charges, I mean, I completely agree with Barry. I mean, we've obviously taken additional charges here to get to the end of 2022, but I expect -- we certainly expect those to come down materially in 2023 and beyond as we look down the road.

Operator

Our next question comes from Joseph Vafi with Canaccord.

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

Very nice results, nice outlook. Congrats on all the great execution here in 2022. I was wondering if we could drill down following some of Tobey's questions on IT modernization. If you could perhaps walk us through this large joint win to the extent you can with an IT component and a subject matter expertise component. I guess the line of question I was thinking of is, was there an opportunity to do a consultative type sell here a little bit before the RFP was issued.

And to the extent that, that kind of opportunity exists across your client base to help the client to do their own transformations with your help even before the RFPs are issued. And then I have a couple of follow-ups.

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

I would say, in general, Joe, on the IT modernization front, I think we're at our best and can really differentiate ourselves when we are engaged with a client on both their domain-oriented efforts and kind of understand the types of questions they're answering and the issues they're addressing, leveraging our domain expertise. And then also, as they look to modernize their system can kind of bring our top-notch technology skills. So I think we found when we're supporting clients on both sides and both sides of the client's house is engaged around the IT modernization.

So the (inaudible) who are driving the mission, bringing the domain expertise. And those typically in the CIO shop, focused on the technology side, we can really differentiate ourselves and we can connect the dots between those sides of the house and work that white space to really help them make sure that the modernization efforts answer the questions that they're trying to address today as opposed to what they were trying to address 30 or 40 years ago and also bring top-notch technology. So certainly, our -- to the extent that where we can really differentiate, we can really separate ourselves from the competition in terms of how we approach the deals is opportunities where we're bringing our domain and we're bringing our leading-edge technology.

In terms of the specific National Cancer Institute, I know we're working on both sides of the house in that agency. So I'm sure it helped us. And that is kind of the unique value proposition that I think we can bring in this market, and it is certainly driving very significant synergistic pipeline opportunities and very synergistic sales wins for us, given that we can bring both of those sets of skills in a variety of civilian client arenas.

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

Sure. And then just kind of another follow-up on the IT business. If perhaps you could give us a sense there, I'd suspect that it's probably your service revenue is growing a little faster there than perhaps some of your other key focus areas. And I suspect that potentially the margins may be a little bit higher there as well, just trying to get a feel for the trajectory of that business as we look into '23.

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

I mean I think certainly -- I think we've said in the past, I mean, across our 5 growth drivers, the margins on those businesses tend to be at the higher end in each of those markets. And so certainly, in the federal arena, IT modernization tends to be at the higher end of our margin profile. That work can often be fixed price, which is very good for us. And so that is certainly the case. And it's also true that we don't have as many -- we don't use contract -- subcontractors intensely in the IT modernization as we do in some of our disaster management and infrastructure work, which are also in the growth driver.

So I agree with the -- what you said, and certainly, it is at the higher end of the margin. And it's certainly helping drive our service revenue growth given the nature of the lower level of pass-throughs.

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

Sure. That's great. And then I know -- Barry, I know you mentioned that you're focused on those offsets in infrastructure, tax, et cetera, the kind of to offset the interest expense headwind that we have. So I was just wanted to drill down on that a little bit more and how much -- how sustainable you see that being here if we're in a high interest rate environment for the whole year, which we probably will be?

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

Yes. Thanks for the question. I do think that a couple of things on the interest rate. We have put in place some additional hedges to help us manage the interest expense impact on the company. So if you look at where we were at the end of 2022 with the new hedges, we're at about 50% hedged. So that will help manage some of that. There are things that we are doing. For example, I mentioned the work on the tax strategies that can certainly help offset a good portion of that.

And I do think that based on the work that we've done that, that is sustainable for 2023, 2024. And that's -- I think that we've got a lot of visibility in that, and we feel very confident that we'll be able to remain at that tax rate through this year and next year, which will certainly help us offset some of the higher interest rate costs.

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

Sure. That's great. And then maybe just one final one, kind of on a similar subject here. You did bring debt down by a turn and you'd probably be back in a nice position to maybe go acquisition hunting again, maybe on a larger scale. But given interest costs here, just wondering how you're making the trade-off here relative to further debt paydown versus M&A.

And I'd also probably expect that the interest rate environment is perhaps helping bring target prices down as well. Any color on how you're balancing on that -- all of that? Congrats again on a nice year.

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

Okay. Great, Joe. I'll make a few comments. I'll ask Barry to -- on the acquisition front, I mean, I guess, obviously, acquisitions have been a key aspect of our long-term growth strategy. I would say that given the 3 deals we've been working on to integrate in 2022 to create the SemanticBits and Blanton, I think in our -- and the relatively high debt load we've had. And as you mentioned, the higher interest rates, I think certainly for the first half of 2023, we're going to be focused on continuing to pay down debt.

And in terms of where we might go from there, I mean, I think as you know, interest rates are high. We started to see valuations come down a bit, but I wouldn't say they've come down a lot. And for us, we want our deals to be accretive right out of the gate. So I think we remain out in the market, but I think we're primarily focused right now on debt repayment and focusing on cash flow with that. But Barry, I don't know if you...

Barry M. Broadus ***ICF International, Inc. - Senior VP, Interim Principal Accounting Officer & CFO***

I would agree. I think that we are laser focused on debt repayment and delevering and look to do that through 2023. So -- and I think that depending upon from an acquisition perspective, if there's a good deal that comes along, we certainly would look at it. But that's the focus right now.

Operator

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

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

So I was wondering -- a lot of my questions were already answered. So I want to jump into a couple of other areas. One of the things I was sort of curious about, you certainly have quite a bit on your plate and a lot going on right now. So why couldn't you talk a little bit about talent availability kind of where you are? And are there some folks that you would like to add in certain areas? And maybe sort of what we should expect to see there or whether or not that kind of where you are in that relative to historical utilization and the like? And then I have a few follow-ups after that.

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

I would say that, obviously, we're a professional services business. So it's all about the quality of the gray matter between our people's 2 ears. And if we're going to grow, we need to be adding people. And I think I've said before, if for example, we're growing organically 10%, we're going to be needing to add 9%, 9.5% headcount to meet that growth. We're always looking to reduce utilization a little bit. And continue to focus on that. I think we have a track record of doing that.

But we absolutely need to be adding the talent for us to meet our growth objectives. And I think we've been doing a good job on that. We've been investing significantly in recruiting. We have a strong culture. We obviously pay attention to the market and the compensation trends and things of that nature. And so we generally -- I would say we've generally been able to find the talent, add the talent and deliver the growth. I would say the market has gotten a little better in terms of the -- in terms of being able to identify and onboard the talent, but it's still very challenging. And you have to make the investment in recruiting and in human capital, and you have to do what you have to do to keep current on the compensation and wage front, and we're certainly doing that. As I said, the good news is we have a strong culture. We're growing. We're offering people a lot of opportunity, and we do a lot of really interesting work, which helps us to attract the talent, too. So -- and so we're certainly working hard on it.

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

Excellent. I was wondering if you could talk a little bit about -- are you beginning to see more -- I mean, it's kind of hitting this over the last few months, but are you beginning to see more face-to-face activity as far as go-to-market needs? And are we seeing? Or are you modeling a level of take up in travel and entertainment expenses or things of that nature? And maybe you could talk about where you are with...

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

Well, we'll tell a couple of things. One is I think certainly post-pandemic, we're certainly -- travel has picked up. I think we're -- but it's still below what we were spending pre-pandemic. I'd say we're probably in the 50%, 60% spend on travel relative to pre-pandemic. And I think certainly, ICF were -- we've shifted to a hybrid work environment for those who previously worked in the office or folks in the office 1 to 2 days a week.

Our clients are -- we're spending and seeing our clients face-to-face, certainly more, but I don't think we're ever going to return to the pre-pandemic level of travel and entertainment spend. I don't think we're going to ever return to fine pace. I mean we're going to be in a hybrid work environment here as we look forward. And I think we're really looking to optimize the company and lean forward on how to best maintain our competitive edge, maintain the culture, continue to grow in that environment.

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

Great. And then I know this doesn't apply to you as much as some of the -- some of your peers -- like you sort of talk about whether or not you're seeing much in the way of any changes in client behavior or client activity or project-based work or the like based off of the current recessionary environment. I mean, granted, you may not see as much as others, but just wondering if there are any pockets or areas that were [call-outs].

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

I think as we've talked in the past, I mean, in terms of impacts on ICF, whether a recession or uncertain economy, I mean, I think we generally think we're highly recession proof. 85% of our -- 85%, 90% of our revenues are in end markets that I think are -- typically don't see a significant impact from assessments. Obviously, that cuts across our government businesses. I also think it cuts across our commercial energy business, where actually a large portion of that is funded through tax on electricity, delivery of funds energy efficiency programs.

And so I really -- so we really haven't seen any material impacts across any of the business on -- in terms of recession or a slowdown or clients showing more hesitation on their spend. And I would generally expect us to be pretty -- as I say, pretty recession proof on that front. That's not been an issue for us, at least so far.

Operator

I show no further questions at this time. I would now like to turn the conference back to John for closing remarks.

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

Okay. Thank you all for your participation. We sort of look forward to staying in touch through calls and meetings at upcoming conferences. So thanks for participating.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.