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PRESENTATION

Operator

Welcome to the Q1 2026 ICF earnings conference call. My name is Lauren Cannon, and I will be your operator for today's call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

Lynn Morgen - *AdvisIRy Partners - Investor Relations*

Thank you, Lauren. Good afternoon, everyone, and thank you for joining us to review ICF's first quarter 2026 performance. With us today from ICF are John Wasson, Chair and CEO; Anne Choate, President; and James Morgan, Chief Operating and Financial Officer.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future plan. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our May 7, 2026, press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our reviews as of today. We anticipate that future developments will cause our reviews 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 CEO, John Wasson, to discuss first quarter 2026 performance. John?

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

Thank you, Lynn, and thank you all for joining us this afternoon to review our first quarter results and discuss our business outlook. The first quarter represented a solid start to the year. We executed well across our client set, reflecting successful strategic initiatives to diversify our business model and our track record of delivering positive outcomes for our clients.

This track record is a function of ICF's domain expertise, paired with cross-cutting capabilities and technology, digital transformation, complex program management, and engagement. By going to market with this unique combination of capabilities and experience, we continue to maintain healthy win rates, report industry-leading book-to-bill ratios, and build our business development pipeline, all metrics that underpin ICF's future growth potential.

Key takeaways from the first quarter of 2026 include: First, an 8.6% sequential increase in our revenues from federal government clients, representing a strong indication that this part of the business has stabilized and is on the upswing. As we noted last quarter, we expect to see sequential improvement in our revenues from federal government clients through the third quarter of this year, with year-on-year growth in this client category anticipated for the 2026 fourth quarter.

Second, a 17% year-on-year increase in revenues from international government clients, which was a strong showing tied directly to recent contract wins, many of which are single award contracts.

Third, of the total of $12 million in revenues that shifted out of the first quarter due to timing of project work for commercial and international government clients, we expect one half to be recognized in the second quarter, and the remainder to come through the second half of this year, supporting our full-year guidance for company-wide revenue growth of 3% at the midpoint.

And lastly, we continue to win north of 90% of our recompetes. New business, including modifications, represented 65% of this quarter's awards, a strong indication of how well our qualifications are aligned with client demand.

ICF was awarded $450 million in contracts in the first quarter, maintaining our [trailing] 12-month book-to-bill ratio at a healthy 1.21. And after this quarter's awards, our business development pipeline stood at $8.5 billion.

Also, we were pleased with our strong margin performance in the first quarter, which we achieved while continuing to invest organically in areas where we have identified as drivers of long-term growth for ICF, namely commercial energy, disaster recovery, and federal technology modernization.

There are several important secular trends supporting our growth expectations for these areas, including: rapidly growing demand for electricity in North America, highlighting the importance of energy efficiency and grid modernization programs; increased frequency and severity of natural disasters, including hurricanes, wildfires, and other extreme weather events, which often result in major damage to homes, businesses, and critical infrastructure; and the tremendous need for digital and AI-driven technology modernization to improve mission delivery across federal civilian agencies.

ICF is well-positioned to capture more than our fair share of growth in these markets, which supports our confidence that ICF will return to mid to high single-digit organic growth in 2027 and continued growth beyond.

And when you layer on the potential for accretive acquisitions, we see a clear path to return to double-digit growth. Given our expectations for continued favorable business mix and our ongoing internal efficiencies, many of which are coming from AI and other tools, we expect our earnings growth to continue to outpace revenue growth as we look forward.

I know that investors are concerned about the impact of agentic AI tools on the technology modernization work that is being done in federal government agencies. While we understand the concerns, we are doing work in this market every day, and over the last two years, we have adjusted our offerings to strengthen our resilience to just that concern.

For example, we focus on longer-term demand drivers, including AI-augmented application development, foundational modernization, and AI governance and orchestration.

Here are several insights that are relevant to ICF. First, 80% of our technology modernization work for federal clients is fixed-price or outcome-based, and our civilian agency clients require a lot of support in this area. As AI-augmented methods enable us to complete projects in less time and at a lower cost, we will simply move on to the next project more quickly than in the past. While technology is moving quickly, there is a substantial backlog of modernization work to be done to address the existing technical debt in the federal civilian arena.

Second, as our clients move to advance AI at enterprise scale, we anticipate even greater demand for foundational data, cybersecurity, and cloud services. This is the foundation that determines whether AI deployments produce reliable, secure, and scalable outcomes, or fail in production. We are prepared to help our clients continue on their journeys to improve and modernize their data and cloud architectures in order to capitalize on the promise of AI.

And third, these AI capabilities also open up a larger technology market. We will see new opportunities for smarter workflow automation as agencies reimagine what's possible. We'll also be able to address legacy technical debt that was heretofore too expensive to address through traditional modernization.

And finally, we'll help our clients in addressing new challenges with AI governance, orchestration, and platform optimization that are all emerging as we speak. These areas require both technology and domain expertise, combined with human judgment and oversight to get it right.

The upshot is that the government technology market is expanding in scope, shifting in shape, and asking more of its partners than it did before AI. ICF is positioned to lead and grow through this evolution.

Before turning the call over to Anne Choate, our President, who will provide a more detailed business review, I did want to comment on M&A.

Last year, we were fully concentrated on building our capabilities across our non-federal client base and on tightly managing our federal government business in light of the volatility that we experienced in the first half of 2025. This year, we are taking a more aggressive stance with respect to M&A, given the substantial opportunities we see in our key growth markets, and in particular, commercial energy. We remain disciplined, but if we find an acquisition that meets our criteria for driving revenue synergies in growth areas and for being accretive soon after completion, we will move forward. Acquisitions have been an important part of ICF's growth strategy over the last 25 years, and we have a great track record of using free cash flow to pay down debt quickly.

So now I'll turn the call over to Anne to discuss first quarter business performance across our client set. Ann?

Anne Choate - *ICF International Inc - President*

Good afternoon, everyone. I'm pleased to be presenting our business review on my first official conference call as President of ICF. During my 30-year tenure, I have had the opportunity to work in many areas of the company, which makes it very exciting for me to be able to speak to you about the totality of the business.

First quarter revenues were led by commercial, state, local, and international government clients, accounting for over 58% of total first quarter revenues, and are on track to exceed 60% of our full year 2026 revenues. Taking a closer look at our client categories, I'll start with commercial energy. There continues to be strong underlying demand for our utility programs, which include energy efficiency, flexible load management, and electrification. These programs represent approximately 80% of the trailing 12-month commercial energy revenues. The addressable market for these services is large, and ICF is a market leader. We continue to gain share, receiving plus-ups on existing contracts, reflecting the results we're delivering, introducing new services, and then winning contracts from competitors.

Our commercial energy advisory work delivered mid-teens growth in the first quarter. This growth reflected considerable demand for our market assessment and due diligence work, which supports client M&A, the expansion of our grid reliability and protection work, and increasing demand from data center developers. In addition, our engineering support to utilities working to accommodate data center loads continues to accelerate as those clients expedite the development of new substations.

Many of these engagements draw on our proprietary tools like Energy Insight, Sightline DER, and ClimateSight Energy Risk Tool. We pair these model outputs with actionable decision support within the confines of the regulatory and stakeholder environment.

From a Q1 perspective, as John noted, there was a timing shift affecting our work on several fixed-price energy efficiency programs that must be completed in '26. Without this shift to the right, commercial energy revenues would have increased 8.3% in the first quarter instead of the reported 2%.

Next, I'm going to talk about our state and local portfolio. Q1 state and local government revenues were stable, and so for the full year, we expect revenues in this client category to increase at a mid-single-digit rate.

ICF is a recognized market leader in disaster management and recovery services, which continues to account for about 45% of this client category's revenues.

In February, we announced the award of a comprehensive management services contract by the State of Florida, which positions us to compete for a broad portfolio of projects extending beyond disaster management to include habitat conservation planning and agricultural land conservation.

We are also encouraged that following the confirmation of the new Secretary of the Department of Homeland Security in late March, DHS went on to approve the obligation of $730 million in Hazard Mitigation Grant Program funding, signaling the continued intent to fund rebuilding efforts that mitigate future disaster losses.

DHS also recently indicated its intent to restart the FEMA Building Resilient Infrastructure and Communities, or BRIC program, that we have historically supported on behalf of BRIC recipients. The combination of these events supports our confidence that disaster management and recovery services will continue to be a driver for ICF over the mid- and the long-term, and will expand our efforts well beyond the current 75 disaster recovery programs in 22 states and territories that we support today.

Technology has always played an important role in our work for state and local government clients, and we've expanded our offerings there to include advanced technology solutions and services as well.

As we discussed in our last call, our international portfolio is growing nicely. International government revenues increased 17.5% in the first quarter, reflecting the significant contracts that ICF has been awarded over the last 18 months by the European Union and UK clients. The additional $4 million that shifted in the second quarter -- into the second quarter and second-half of this year represented the timing of pass-through revenues that are associated with outreach and marketing events that are under fixed-price contracts, requiring the work to be completed in this year. Sales continued to be strong across our international portfolio, winning key competes and securing new contracts with international government clients that support growth for the next several years.

Finally, I'll talk about our work for US federal clients. Our federal business has stabilized, and we continue to expect consecutive revenue growth in Q2 and Q3, and then year-over-year growth in Q4, as we execute on the nearly $1 billion in federal government contracts that we've won over the last 12 months.

We are pleased to see procurement activity pick up in the first quarter. Some opportunities that were paused or canceled last year have reentered the market, and we've seen a restart of some of the work we were awarded in the past, such as support of a grant program for the Department of Energy. The procurement environment has changed in the last year, and we have pivoted, focusing more on rapid prototyping and demonstration of capabilities than ever before. Several sweet spots exist at the intersection of the administration's priorities, the agency's gaps in manpower, and our expertise. These include applying AI and advanced analytics for fraud prevention and supporting child and family services, transportation safety, grid reliability, and technology modernization.

A good example of how we combine deep domain expertise, advanced technology, and human judgment is our work modernizing the Center for Medicare and Medicaid's quality improvement and evaluation system. The program involves the transition of more than 278 million clinical assessments into a national repository, enabling real-time monitoring of care standards across skilled nursing facilities, home health agencies, and hospitals. This work advances the administration's priorities around quality of care, fiscal responsibility, and system resilience.

In summary, the trends underlying our business are aligned with our expectations. Our leaders are leaning in across the full portfolio with a winning mindset and eagerness to emerge as a partner of choice as our clients navigate what is a really fast-moving and exciting time.

Now, I'll turn the call over to our Chief Operating Officer and Financial Officer, James Morgan.

James Morgan - *ICF International Inc - Chief Operating and Financial Officer*

Thank you, Anne. Good afternoon, everyone. I'm pleased to provide additional details on our first quarter 2026 financial performance and the factors shaping our results, as well as our outlook for the remainder of the year.

At a high level, first quarter results reflect solid execution across our diversified client base. Margins remain strong, contract awards resulted in a book-to-bill above 1, we continue to have a healthy pipeline of opportunities which we are pursuing, and as Anne mentioned, procurement activity in the federal space is showing signs of improvement. In fact, in the federal space, we submitted nearly $400 million of bids in the first quarter, the majority of which were for new opportunities. While first quarter total revenue came in below our expectation, this was entirely due to timing of certain commercial energy and international government contract work. We fully expect to recover these revenues throughout the balance of the year, with half expected in the second quarter. I would also note that our first quarter tax rate came in above our expectations, which I will address in more detail shortly, but our full-year outlook for a tax rate of 20.5% remains unchanged.

Before discussing the first quarter's financial metrics, I want to highlight some of the strategies that are supporting margin improvement and helping to drive shareholder value.

First, cost optimization has been a key theme as we work to manage infrastructure costs while funding growth initiatives. We continue to invest in modernizing our ERP systems and our back-office operations while implementing AI tools. These ongoing investments have and will continue to make us more efficient, and provide us the ability to scale over time by offering both operational and financial benefits. From a strategic financial standpoint, we continue to focus closely on capital allocation. To that end organic projects, share repurchases and acquisitions are top of mind. In the first quarter, we repurchased slightly more than 217,500 shares, and we will continue to opportunistically repurchase additional shares. Further, as outlined by John, we are actively pursuing acquisitions given our strong cash flow and borrowing availability, which was expanded as part of the refinancing we completed last month.

In summary, we are executing on our strategic plan and remain on track to return to growth in 2026 and deliver on our full top and bottom line -- full-year top and bottom line guidance.

With that context, I will now review our first quarter financial results. Total revenue in the first quarter was $437.5 million, a decline of 10.3% compared to the first quarter of 2025. As we discussed on our fourth quarter call, both first quarter and second quarter of 2026 revenue comparisons will reflect the impact of federal contract cancellations that occurred between February and May of last year.

First quarter revenues were approximately $12 million below our expectations, reflecting a push to the right of roughly $8 million in project work for commercial energy clients on fixed-price contracts and $4 million in international government work. The timing of the work simply shifted later in the year. We will recover all of these revenues over the balance of the year, approximately half expected in the second quarter.

As a result, we are reiterating our expectation that revenues from commercial, state and local and international clients will grow at a double-digit rate and represent over 60% of total revenues for the full year, supported by strong underlying demand from utility clients, a continued ramp-up of international contract wins and growing state and local revenues.

In our federal government business, we were encouraged to see revenues grow 8.6% sequentially to $182.3 million, which was aligned with our expectations. The sequential improvement was supported by our technology modernization work, which we are well positioned to win and deliver in the current procurement environment.

Subcontractor and other direct costs were $102.7 million, representing 23.5% of total revenues, up from 22.7% in the prior year quarter, due to higher pass-throughs on certain non-federal contracts. Despite the year-over-year decline in revenues, gross margin rose 10 basis points to 38.1%, highlighting our favorable business mix and a contract mix that remains largely comprised of fixed price and time and material contracts.

Fixed price and T&M contracts represented approximately 93% of first quarter revenues, with cost reimbursable contracts accounting for only 7%. Indirect and selling expenses were $118.8 million, a decline of nearly 10% year-over-year and representing 27.2% of total revenues.

As I mentioned previously, as we optimize our indirect spend, we will continue to invest in high-growth areas, including energy and technology modernization, while preserving our core capabilities in the programmatic side of the federal business, ensuring ICF is well positioned when the market recovers.

First quarter EBITDA was $47.3 million, compared to $52.1 million last year. Adjusted EBITDA totaled $48.9 million, with an adjusted EBITDA margin of 11.2%, stable compared to the 11.3% reported in last year's first quarter, demonstrating the effectiveness of cost management initiatives and the structural improvement in our business mix. We continue to expect adjusted EBITDA margin expansion of 10 basis points to 20 basis points for the full year. Net interest expense in the first quarter was $6.7 million, down 8.5% year-over-year, reflecting a meaningful reduction in our average debt balance compared to the prior year period.

Our first quarter tax rate was 25.1%, above our expectations due to less-than-expected deductible equity-based compensation expense. This compares to 10.5% in the prior year quarter, which, as a reminder, included a one-time tax benefit. We continue to expect a full-year tax rate of approximately 20.5%, with each of the next three quarters expected to see a lower tax rate than the first quarter. The largest offsetting benefit is expected to be in the third quarter.

To close out on taxes, I should note that the higher-than-expected first-quarter tax rate had an unfavorable impact of $0.07 on GAAP EPS and $0.09 on non-GAAP EPS in the first quarter. But given that we still expect a full-year tax rate of approximately 20.5%, the Q1 tax rate does not change our outlook as to how taxes will impact our full-year EPS guidance.

Net income in the first quarter was $20.5 million or $1.12 per diluted share compared to $26.9 million or $1.44 per diluted share in the prior year period. Non-GAAP EPS was $1.50 compared to $1.94 per diluted share in the first quarter of 2025. As noted, both GAAP and non-GAAP EPS for the first quarter of this year reflected the unfavorable tax item that I previously described.

We remain confident in our full-year outlook, which calls for 3% revenue growth at the midpoint of our guidance range, supported by recent contract activity and the strength of our backlog and pipeline. Our backlog stood at $3.4 billion at the quarter end, approximately 51% of which is funded, and our business development pipeline remained healthy at $8.5 billion. Taken together, these metrics provide good visibility for the year.

Now turning to our balance sheet and cash flows, we used $3.1 million in operating cash flow during the first quarter, a meaningful improvement compared to the $33 million used in last year's first quarter, reflecting improved receivables collections and working capital management. Days sales outstanding were 74, compared to 81 days in last year's first quarter.

Capital expenditures totaled $2.8 million, compared to $3.5 million in the first quarter of last year. We ended the quarter with net debt of $436 million, down considerably from the $499 million at the end of last year's first quarter, and approximately 40% of our current debt is at a fixed rate.

Our adjusted leverage ratio was 2.23 turns versus 2.25 turns at the end of last year's first quarter. Subsequent to the end of the first quarter, we refinanced our credit facility and remained well-positioned to invest in organic growth, repurchase shares, and pursue strategic acquisitions in our key markets, while maintaining our dividend.

Today, we announced a quarterly cash dividend of $0.14 per share, payable on July 10, 2026, to shareholders on record as of June 5, 2026.

To wrap up, we are pleased to reaffirm our guidance for return to revenue and EPS growth in 2026, with our revenues expected to range from $1.89 billion to $1.96 billion, representing 3% growth at the midpoint, GAAP EPS from $5.95 to $6.25 and non-GAAP EPS from $6.95 to $7.25 or 5% growth at the midpoint.

To further help you with your financial models, please note the following for the full-year 2026. Both depreciation and amortization and amortization of tangibles are expected to continue to be between $22 million and $24 million. Likewise, we continue to expect full-year interest expense to be between $27 million and $29 million. As I mentioned earlier, our full-year tax rate expectation remains unchanged at approximately 20.5%, in the second quarter, the rate is estimated to be around 23%, with a significant reduction in the third quarter. We anticipate capital expenditures to total $24 million to $26 million. Given share repurchases in the first quarter, we now expect our year-end fully diluted share count to be 18.3 million shares compared to our prior expectation of 18.5 million shares. And we continue to expect operating cash flow of $135 million to $150 million for the full year.

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

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

Thank you, James. We are pleased that 2026 is shaping up as we expected, to be a year in which ICF returns to growth. In many ways, the trials of 2025 have made us a stronger company. We are more diversified, more efficient, and more agile. As we look to the future, we see a clear path to return to mid- to high-single digital growth in 2027 and continued growth beyond.

The dedication of our professional staff has been critical in helping us navigate dynamic business conditions, pivot to take advantage of new opportunities, and set the stage for ICF's future growth. We appreciate their support.

With that, operator, I'll open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jason Tilchen, Canaccord Genuity.

Jason Tilchen - *Canaccord Genuity Corp - Equity Analyst*

Good afternoon, and thanks for taking my question. I believe in the prepared remarks you talked about the advisory business for commercial energy growing mid-teens year over year in the quarter. Just wondering if you could help give us some additional color on sort of where you're seeing the most activity today as it relates to the data center opportunity, how those conversations are evolving, and sort of what exactly as it relates to your skills and capabilities is giving you an edge to continue to win business in that area. Thanks.

Anne Choate - *ICF International Inc - President*

Sure. So on the -- when I mentioned the advisory side and that growth, I think that, it's important to point out that it's been the work that we're doing, expanding our client portfolio since we -- a couple of years ago, we acquired a firm called CMY, which added some engineering capabilities. We've been able to expand our client set in that area, and so providing those engineering skills to utilities, for instance, who are trying to build out capacity to support data centers in their area.

And then our power modeling team has been benefiting from a resurgence of work from renewable developers across a suite of technologies, not wind, but really the others so battery or solar storage, et cetera, and then increased demand from data center developers as well.

Jason Tilchen - *Canaccord Genuity Corp - Equity Analyst*

Great, that's very helpful, and then one additional follow-up, just at a high level, in terms of some of the investments that you're making today in sort of the ERP system, other technology, I'm wondering if you could help frame how much of those investments today are sort of offsetting some of the benefits from recent cost optimization efforts, and how we should be thinking about the cadence of maybe some more substantial gross or operating margin expansion here over the coming quarters and years?

James Morgan - *ICF International Inc - Chief Operating and Financial Officer*

Yeah, I mean, this is James Morgan. At the -- I would say from an overall perspective, and certainly we've been -- we've had a program for the last few years where we've been going through and modernizing our ERP systems.

And that is certainly driving efficiencies and the amount of investments that were put into that. We do this in such a balanced way whereby we're receiving benefits for becoming much more efficient. We are able to process and work faster internally. In addition to ERP systems, we're also taking time to implement AI into many of our processes that we have in the back office, and that's continuing to drive additional efficiencies.

And what we're doing, we have the ability, as we've talked about in the past, and we continue to mention today, and we're looking at having 10 basis points to 20 basis points margin improvement this year, and that's what we've targeted in the past years. We have the ability to deliver more, but we're using those dollars, what we saved, to drive and invest in long-term growth initiatives in the areas that John and Anne mentioned as part of their opening comments.

So it's -- I guess I would say that we do this in such a balanced way that we -- I don't see this as detracting specifically from our ability to continue to improve margins as we move forward.

Jason Tilchen - *Canaccord Genuity Corp - Equity Analyst*

Great. Thank you very much.

Operator

Sam Kusswurm, William Blair.

Sam Kusswurm - *William Blair Capital Partners - Analyst*

Hey, everyone. Thanks for taking our questions here. I guess to start, on the commercial energy business, it grew 2%, but I think you shared it would have grown 8% if we would add back the $8 million in project work that got pushed out. At the start of the year, you shared you're expecting at least 10% organic growth for the year in this business.

So I guess I'm asking if you still expect that, and then what are you seeing in your backlog that is really supporting that? And then maybe also, can you comment on how the residential and utility energy piece of the business performed versus more of the commercial and industrial energy piece here.

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

Sure, I'll start off. This is John. I think we remain confident in 10% growth for our commercial energy business. As I think we have a strong backlog. We have a strong pipeline. I think we've talked about in those markets, we've -- markets are growing high single-digit. We've been benefiting from plus ups. We've been benefiting from takeaways that have increased our growth rate above the market average.

We remain confident that we'll continue to do that. And so we're confident in 10% of growth in the commercial energy positions for the year.

In terms of the residential versus the industrial. Annne, do you have any..? I think we've talked about we're a market leader in residential energy efficiency programs, we have about a 35% market share. We think we can continue to expand that, and we're also we play significantly on the commercial building. We have about 15% to 20% market share.

Anne Choate - *ICF International Inc - President*

Yeah, but I don't have any sort of update necessarily. I think it's progressing as we discussed in the last call in terms of the share of the residential versus commercial, which I think is what you were getting at,right.

Just one more thing I would add, just to underline what John mentioned about the long-term growth trajectory. So upstream of these programs that we run, we also provide regulatory and consulting support to some of these utilities, which gives us a good sense of kind of the programs that are coming down the pike. And so that's another indicator of where we see opportunities for our strong sales here for both recompetes and wins in the program side.

James Morgan - *ICF International Inc - Chief Operating and Financial Officer*

I think the one other thing I would mention too is that historically, if you look at our commercial energy business, we typically would recognize somewhere in the neighborhood of, call it, roughly 47% of our annual revenues in the first half or some or take half percent or so.

And it's the back half is when we typically we hit certain milestones with regard to energy incentives and so forth. And so it's that also has a natural uptick in the back half of the year versus the front half.

Sam Kusswurm - *William Blair Capital Partners - Analyst*

Got it. I appreciate the color. I think I'll ask then about the federal business next year, but there was something that caught my ear in the prepared remarks with the piece about capturing more of the federal opportunities that are aligned with the administration's priorities.

And I was hoping you could maybe expand upon that more, for instance, from an operating standpoint, what does it really mean to pivot in that direction, and then are there any recent successes that you could point to in this effort, or is it still kind of early on that front?

Anne Choate - *ICF International Inc - President*

Sure. So I may have alluded to it in the script as well, but there is definitely a different way of selling in this environment in the federal space. And so that's definitely more of a focus on show what we can do, come in with prototypes, come in with good ideas that we can demonstrate and where we can demonstrate the ability to take a client to a relatively quick win.

So I think in terms of how we think about capture, how we think about business development, that's an example of pivoting. I think in terms of new opportunities that we've seen and new agencies. So we've been successful winning opportunities in new areas. So for instance, like Department of State, Department of Labor, Department of Defense, these are agencies where we've worked, but we're finding new offices and new areas where we can help them.

So for instance, we've recently won a large BPA with the Defense Counterintelligence and Security Agency, DCSA, and that's one where we incorporate AI-driven components to modernize the -- what are very complex operational processes.

But doing that in conjunction with human oversight and deep expertise. So those are the kind of places where we are focusing more in certain of these offices and agencies than we may have in the past, and we're finding that our skills resonate.

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

I should also add that, I mean, this administration wants the work to be outcome-based or fixed price. And the vast majority of our work is in that category. We're down under, we're in the single-digits now on cost plus, and that's been declining.

In addition to what answered, and there's a real focus on AI first and as I said, we're leaning in on that. We have our ICF Fathom AI platform, which allows us to do some of the rapid prototyping and other work for federal agencies.

We also have a real capability around least fraud and abuse at CMS that came to us with the SemanticBits acquisition. It's a material part of our technology business and it's a material part of our HHS work.

And that's an area where there's a lot of focus and we're seeing the opportunity there. So yeah, we're pleased that we're seeing and increasingly seeing areas where our capabilities can align with some of the priorities in this demonstration.

Operator

Tobey Sommer, Truist.

Tobey Sommer - *Truist Securities - Analyst*

I was hoping you could give us some sketch of what your M&A could look like, given the pressures in the federal space. The valuation in your own stock and the group largely has declined. And how do you think about multiples and leverage in this context? How engaged and active do you expect to be?

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

I think as we've talked about, well, I would say, as you well know, Tobey, if you look at the. I mean, I see a strategic intent in our history over the last 20 years as a public company. M&A has been a key part of our strategy, and it's been three or four times where we've levered up, and then within a year or 18 months, paid down the debt. And it's been quite successful for us in terms of both organic and inorganic growth.

And I do think it remains a priority for us. I think we've talked at length about, generally, we're focused on opportunities in our key growth areas, I would certainly say right now that energy is the first among equals and that, the primary focus on the M&A front is on the commercial energy front. And there I think we would look for opportunities that are aligned with our core energy business but bring us additional geographies, additional scale, additional capabilities, additional clients.

And so it's bringing those types of things to the core business. And then we'll look at adjacencies, which I think would tend to have more of an engineering focus. Anne mentioned CMY, which brought grid engineering, large data center load, large load capabilities. I think that's an area that we view as an adjacency that there could be some real synergies and opportunities for us, given our core business.

I think, as we've talked about, I think at the highest level, we'll want any acquisition to be included in the creative. I mean, the first year, we'll, something that's a bit strategic, a bit of a cultural fit, we'll obviously need to see material revenue synergies, I think, to achieve those goals.

So I think at a high level, that's how we think about it, obviously, the multiples, the energy arena for our current business, routines, multiples. And so, we'd have to find the right fit with the right synergies to meet our criteria. But I think that would be -- that's the primary focus right now. I think if you look at our history in terms of our leverage ratio, I think in periods where we have levered up, we've levered up to 3.5, 3.75 maybe at the peak with SemanticBits three or four years ago and ITG a few years before that. I don't see us going higher than that. I think we certainly want to be in something that we can pay it down quickly with our strong cash flow within a year or 18 months. I don't know, James.

James Morgan - *ICF International Inc - Chief Operating and Financial Officer*

I think you've covered the key points.

Tobey Sommer - *Truist Securities - Analyst*

Thanks for that. Could I also ask you from a commercial energy perspective, how quick -- I understand some work was stretched out, pushed to the right. What kind of growth cadence do you expect this year, and how quickly will the year-over-year or sequential growth kind of resume?

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

I mean, James, do you -- I mean, I think, as I said, I think we expect 10% for the year. I think it's certainly it's going to ramp up throughout the year.

James Morgan - *ICF International Inc - Chief Operating and Financial Officer*

Yes, it is. You could expect mid to upper single-digits, I think, as you move forward in this next quarter or so, and then it's going to go beyond that and continue to ramp up as we move throughout the second half.

Especially the fourth quarter is, that's the timing of when we end up having many of the energy setups are realized during that period of time, Tobey. So that obviously Q4 continues to be like it's always been the strongest growth period.

Tobey Sommer - *Truist Securities - Analyst*

Okay. And you talked about a resurgence of renewables. Could you give us some context around that in maybe a little bit more detail, because the news flow around the politics is mixed. So I'd love to understand your experience where the rubber hits the road. Thanks.

Anne Choate - *ICF International Inc - President*

So yeah, so this is Anne. And the mention of renewables is that all of a sudden that there's a renewed interest and so that all of the above is really more of a thing. And so you have hyperscalers who may have made commitments that they're going to provide energy that is renewable to support their data centers. So all of a sudden that provides an opportunity for us to support in that analysis.

I think that the case of the hyperscalers, you're dealing with stakeholder engagement, crisis communication, but you're also supporting the siting and interconnection analysis. With developers, we're doing siting analysis. We're expanding renewable facilities, looking at brownfield repurposing, again, with an eye on potential renewables.

Gas procurement strategies are still in there, but also understanding interconnection applications and sort of what can come. It's speed to power is a real -- is a really important point. And then, obviously, battery storage is -- the conversations around battery storage are obviously way more in the forefront, and that's always been a part of the work we do anyway, but that's obviously much more of interest to the customers or to our clients.

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

Thank you very much.

Operator

Kevin Steinke, Barrington Research Associates.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

Great, thank you. Just from a housekeeping perspective, can you just expand on what resulted in the later timing of some revenue in both the commercial energy and international markets?

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

Maybe I'll start it off and you can add. I think in terms of the shift of the revenue to the right. I think it's just a confluence of events on a couple handful of projects where we just didn't ramp up the work quite as quickly as expected as we started the year both for ICF and our subcontractors. As James may have met also mentioned, I mean, this is all fixed price contracts. It's all in backlog. It all has to be recognized in 2026. But there's also we have to meet certain milestones to book the revenue, and those are pushed out a little bit.

And then there's also, our fees, our performance related when we meet specific energy reduction goals and, those are pushed out. So it was really just a conflict of events that pushed to the right. I don't know, it was not, there's no underlying challenges or problems with the projects. I think it's just a push to the right for a handful of projects.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

Yeah, got it. Understood. And so, you mentioned in the federal space that you submitted $400 million worth of bids in the first quarter, I believe. Can you just give us a little more flavor around the type of work that you are predominantly bidding on in the federal space?

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

All right. So, I think as I mentioned in some of my earlier commentary, I think we are, and Anne said it too, I mean, first of all, I would say that, certainly within HHS CMS remains an area where we're seeing opportunity and that was certainly a key part of those figures. We are bidding more opportunities to go on the technology front than the Department of War.

And so, and Anne mentioned one of the Material IDIQ contracts we've won. We actually have several IDIQ contracts we've won in the last year or 18 months that we're seeing more opportunity for the types of skills we have. I would also say the Department of Homeland Security, amazing area of opportunity that we're certainly pursuing.

We're working at [CISA] and you know we work in FEMA and other agencies within DHS. Yeah. And so those are the ones I think that community to mind to me and (inaudible). I think those, I think that gives you a flavor, CMS, Department of War, DHS, one or two other civilian clients, NASA, EPA.

James Morgan - *ICF International Inc - Chief Operating and Financial Officer*

I would just say too, even on that most recent vehicle that we, John mentioned, the Department of War, we did more recently with a task order-- win our first task order, he said too. So that was good to see.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

All right, thanks. Maybe one more here. You mentioned the target of returning the mid to high single-digit revenue growth in 2027 realizing you're not giving a detailed outlook or guidance, but can you comment on whether that contemplates a return to year-over-year growth in the federal government space?

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

I think, yes, I think it would assume of return to growth in the government space. Let me say it this way. I mean, I think as we've talked about, we have 60% of our business growing, 10% or more collectively commercial, state, and local, and international. I think we continue to believe that's a long-term trend. We've indicated that our IT modernization business will return to low single-digit growth this year. So that gets 80% of our business to growth.

As our guidance for this year for the remainder 20% of our federal business is I think down mid to high 10s, given the difficult comps we have from the impacts and dose last year. I think we think that we've bottomed out there or stabilizing there. And so you can do the math. If we're stabilized for that, and the other 80% is growing, that would certainly get us to mid-single-digit or better organic growth.

And so, I mean, that's one (inaudible) for 2027. Then the upside would be if we could do better than stabilization or low single-digit growth, and I'd say in modernization, it could go higher. Obviously, we've been higher than 10% on the other 60%, in recent years, last year or other years. And so, I think that's the kind of mental model I want to be thinking about as we think about how we get there.

And then of course, we talked about acquisitions. We've also, that's been part of our strategy. If we find the right deal, we'll do something there. I mean, I think we'll be very smart and we'll be very careful and we'll be very disciplined. I think there are opportunities out there and we'll certainly look at those too. If we did that would certainly move us to double-digit.

Operator

(Operator Instructions)

Marc Riddick, Sidoti.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Hey, good afternoon, everyone.

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

Hi.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Hey, Marc. I wanted to touch a little bit -- maybe we could talk a little bit about what you're seeing on the state, local government activity levels and maybe what you're seeing there as far as RFPs and the like and sort of their demand, as well as maybe touching a bit on the disaster side of things. And then maybe also you touch a little bit on what you're seeing internationally as far as opportunities set there.

Anne Choate - *ICF International Inc - President*

Sure. Okay, so on the state and local front, I spent a fair amount of time on disaster, so I'm going to start with the other. So environmental services, so we provide environmental services to state and local governments, and those have been buoyed recently by a focus on new broadband fiber installations, as well as opportunities in the mining sector. So where gold and critical minerals are in high demand.

And so that's been good. We've won some recent things in the broadband area, and we see more coming. For state transportation agencies and metropolitan planning organizations, we won a suite of separate but related projects that address the resilience of transportation infrastructure to extreme weather, but also focuses on safety, mobility, et cetera.

And so that work is pretty interesting. It utilizes proprietary ICF models and deep expertise and, the focus is on providing these state and local organizations with actionable, investable sort of recommendations. And then I did -- I briefly alluded to this, but we are seeing opportunities to support states with advanced technology solutions that are, akin to what we do for the federal -- in the federal modernization space. So for a major state client, for instance, we're working on a legacy modernization project where we have the opportunity to pilot the use of the genetic modernization code to speed the process. So, that's a pilot with that state agency, but that's showing some promise as well. And it's kind of an interesting and new place for us to engage in the state area.

You asked about disaster. Beyond what I mentioned, I think that we are seeing that the work in disaster management, obviously a lot of that has shifted to states and a lot of the work that we've done over the past several years has been supporting state and local governments in this sort of proactive way.

As you can imagine sort of leaning in and increasing resilience before a storm is less expensive than responding after a storm so that's already a place where we're very active, that's definitely a priority of this administration and that seems to be where this administration is going to be paying attention then.

So I think that's an area, so for instance, I mentioned BRIC, but there are other programs like it that are also in that sort of proactive resilience front.

And then last, you had asked about how things are going in our international business, is that right? I had mentioned that we are very focused on delivery, we've won a lot in Europe and the UK in the last couple of years, we're very focused on ramping up some of those large contracts, but we've also had some exciting procurement activity there, and I think we see, we continue to see very strong recognition of ICF's brand with those (inaudible) those clients, both the UK government clients and also the EU government clients.

And so that's been great. We, I think we see a lot of momentum there, but as you know -- as you saw 17.5% growth in the first quarter, there's a quick ramp up and we continue to expect that that's going to grow over the course of the year Anything I missed?

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

And I just would say at the end of the day, I agree with all the points you had made. I think our expectation is our state and local business will grow mid-single-digit this year. And international will be strong double-digit growth.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Thank you so much for all the details there, and it's really helpful. I was just curious as to, I wanted to touch on the prioritization of federal in certain areas like, and I guess I'll just keep it to the things like fraud prevention and the like.

Do you anticipate or are you beginning to see any of that type of work and pursue on the state and local level as well or any other sort of examples where states are sort of moving in the same direction as federal for certain types of opportunities? Thanks.

Anne Choate - *ICF International Inc - President*

It's interesting you ask. I think that some states are certainly more focused in areas that are a priority for the federal administration, and then other states are focused in areas that are not a priority for the federal administration. And I think in both directions, we have skills that can be supportive to those state agencies.

So for instance, we've seen some states trying to quote unquote fill gaps that they see left by administration, the administration shifting away from certain priorities and focus on others. And then, there are states that are trying to align themselves very directly with the administration priorities, and they're, obviously, we're following that queue as well.

Marc Riddick - *Sidoti & Company LLC - Analyst*

Excellent. Thank you so much.

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

Sure.

Operator

Thank you. I'm showing no further questions at this time. I would now like to turn it back to John Wasson for closing remarks.

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

Thank you for participating in today's call. We look forward to seeing you all at upcoming conferences and meetings. Thanks again for attending.

Operator

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