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Q4 2020 ICF International Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 25, 2021 / 9:30PM GMT

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PRESENTATION

Operator

Welcome to the Fourth quarter and Full Year 2020 ICF Earnings Conference Call. My name is Vanessa, and I will be your operator for today's call. (Operator Instructions) Please note this conference is being recorded on Thursday, February 25, 2021, and cannot be reproduced or rebroadcast without permission from the company.

And now I would like to turn the program over to Lynn Morgen of AdvisIRy Partners.

Lynn Morgen

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's fourth quarter and full year 2020 performance. With us today from ICF are John Wasson, President and CEO; and Bettina Welsh, CFO. Joining them is James Morgan, Chief of Business Operations.

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 25, 2021, 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 view to change. Please consider the information presented in that light. We may, at some point, elect to update the forward-looking statements made today but specifically disclaim any obligation to do so.

I will now turn over the call to ICF's CEO, John Wasson, to discuss fourth quarter and full year 2020 performance. John?

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

Thank you, Lynn, and thank you all for participating in today's call to review our fourth quarter and full-year 2020 results and discuss our business outlook and guidance for 2021. First, I would like to recognize the outstanding way that ICF employees adapted to 2020's challenging business conditions. Our people immediately responded to pandemic-related limitations by staying fully engaged with clients and each other, delivering on programs and winning new business while working remotely. This is a great example of how ICF's collaborative culture enabled us to effectively deliver on existing programs and make 2020 a record year for new contract awards.

We ended 2020 with very strong fourth quarter revenue performance that drove total revenue and non-GAAP EPS above the high end of our guidance ranges and replicated the positive service revenue trends that have continued throughout the year.

To summarize a few highlights. First, revenue growth in the fourth quarter was led by our federal government and commercial energy businesses. The exceptional increase in revenues from commercial marketing clients was onetime in nature, tied to the completion of a large contract that primarily involved pass-through revenue associated with media buys.

Second, service revenue, which represents the work done by ICF employees, increased 4.1% for both the fourth quarter and full year. Approximately 55% of our total 2020 service revenue represented work in key growth areas, namely IT modernization, public health, disaster management, energy efficiency and utility consulting, along with climate, environment and infrastructure consulting, all of which are closely aligned with the priorities of the new administration. Taken together, we expect the growth rate in these areas to be 10% or more over the next several years.

Third, adjusted EBITDA to service revenue for both the fourth quarter and full year benefited from favorable business mix, higher utilization and lower SG&A and fringe benefit costs. While SG&A and fringe benefit costs will increase once we emerge from this pandemic, a portion of the cost savings that we achieved this year will become permanent.

Fourth, we used our substantial cash flow to pay down a considerable amount of debt in the fourth quarter, ending the year with a net debt-to-EBITDA ratio of just under 2.5. This is in line with our long-term pattern of levering up to make accretive acquisitions and utilizing cash flow to reduce our leverage ratios in short order.

Finally, we had record fourth quarter and full year contract wins, giving us a book-to-bill ratio of 1.3 for the year and setting the stage for continued growth in 2021 and beyond. I believe it's noteworthy that only 30% of our 2020 contract wins represented recompetes, which is a strong indication of ICF's ability to capture new opportunities in growing markets. Also, our year-end pipeline was over $6.3 billion, which we expect will build as the new administration's priorities convert into funding for civilian agency programs. Even before there is additional funding, we believe that as this year progresses, the new administration will free up funds that have already been appropriated, for example for mitigation, which presents additional upside for us.

Taking a closer look at our results, we continued to achieve strong growth in revenues from federal government clients, which were up 19% for both the fourth quarter and full year, reflecting organic growth and our ITG acquisition. U.S. government accounted for just over 44% of our total 2020 revenues, and we continue to strengthen our position in key growth markets within this client category.

In 2020, we won over $300 million in IT modernization contracts, and our pipeline in this market is over $1.5 billion. We expect the size of this pipeline to increase as the year progresses, given that the Biden administration sees IT modernization as a critical priority and has already included some additional funding for it in its COVID rescue plan. We believe the new administration will likely drive critical IT modernization efforts that can support agency efforts to respond to COVID-19 and accelerate the delivery of enhanced digital services that citizens are demanding.

In the fourth quarter, ICF continued to win new business related to the COVID-19 response, bringing our total to just under $40 million for the year. This quarter's wins represented additional awards in research, IT and communications supporting the Department of Health and Human Services and the Centers for Disease Control. This includes new work supporting the HHS Office of Minority Health on communication activities to mitigate the impact of COVID-19 within racial and ethnic minority communities. And we're also doing pandemic-related survey work for state and local government clients to help them develop health programming and messages.

With HHS as our largest client, we see significant growth opportunities for ICF in the public health arena post pandemic. As we move from the COVID-19 response phase, we expect the recovery phase to require modernization of disease surveillance systems and associated analytics, and our expanded IT modernization capability, together with our public health expertise, will be very relevant to these programs. Additionally, over the longer term, it's likely that there will be significant work undertaken to ensure that the U.S. improves its readiness in the face of future pandemics, and ICF is well positioned to play a role in supporting clients in this endeavor.

The new administration's priorities in the areas of climate change, environmental stewardship and infrastructure are directly in our sweet spots, and we have added these areas as additional ICF growth catalysts over the next several years. Funding for many of the new initiatives will require legislative action and/or regulation and, therefore, may take some time to materialize. This should, therefore, provide some upside in 2022 and beyond.

Our climate consulting practice is one of the largest in the country with over 250 professionals. We have a full-service practice encompassing climate strategy, regulation, analytics and resiliency for federal, state, local, international and private sector clients. ICF also provides adjacent services that connect closely to climate, including disaster mitigation, decarbonization, public health impacts and environmental justice. Similarly, our environmental, water and transportation practices, which employ 600 professionals, support the implementation of infrastructure with advisory planning and permitting services.

The Biden administration has an overarching goal of decarbonizing the U.S. economy. It took early action in this regard by rejoining the Paris climate accord, which could ultimately commit the U.S. to specific greenhouse gas emission targets. ICF is well positioned to support the many initiatives that will be needed to drive towards these targets. As part of this new goal, the new administration has mandated that climate be considered in every major decision across the government. In fact, the Treasury Department already has announced the establishment of a climate hub. This mandate should create significant opportunities for ICF, creating more demand for analysis, expertise, tools and coordination. And a key element of decarbonizing the U.S. economy is the promotion of noncarbon-emitting resources, such as solar wind and advanced nuclear. ICF's expertise in these areas, both with government and commercial clients, position the firm well to capture emerging opportunities.

In 2020, approximately 1/2 of ICF's $2 billion in contract wins represented work for federal government clients. Our largest contract win in the quarter was a single-award blanket purchase recompete with a ceiling of $94 million that was awarded to us by the Environmental Protection Agency to continue our work on the ENERGY STAR program. ICF has supported ENERGY STAR since its inception 30 years ago, providing strategic, technical and analytical support for ENERGY STAR-labeled products and residential, commercial and industrial programs. In 2018 alone, ENERGY STAR and its partners helped America save nearly 430 billion kilowatt hours of electricity and avoid $35 billion in energy costs, with associated emission reductions of 330 million metric tons of greenhouse gases. We're very proud of our ongoing support of this innovative program and our role in establishing one of the nation's most recognized brands.

Our state and local government business, the majority of which is either federally funded or funded by municipal bonds, accounted for 15% of our full year revenues compared to 19% last year. As projected, disaster management represented approximately 1/2 of our full year state and local revenue in 2020. We continue to effectively execute on the FEMA- and HUD-funded disaster recovery contracts we won in Puerto Rico and Texas as well as smaller contracts in North Carolina and the Gulf Coast states. We were pleased to note that the new administration has moved to reduce numerous burdensome requirements for funding of disaster recovery projects in Puerto Rico, and we are optimistic this will expedite opportunities for us in traditional disaster recovery and mitigation projects.

In the fourth quarter, ICF was awarded initial funding of over $40 million to do mitigation work for a public sector client. This award, together with our wins throughout the year, represented a large portion of the dollar amount of CDBG-funded mitigation contracts awarded by states and localities in 2020.

The other half of our state and local business, which provides environmental consulting and monitoring services around infrastructure projects, remained busy in the fourth quarter. Despite some COVID-19-related restrictions, we continue to work on a number of state and local projects, particularly in transportation, water, energy and environmental planning and development.

After 3 challenging periods, our international government business picked up sequentially in the fourth quarter, thanks to recent contract wins in the energy and climate arenas. While we expect the COVID-19 impact to continue to affect our international events business, certainly at least through the first half of this year, much of the revenue decline in 2020 was tied to pass-through revenues on which we earned very little to no margin. We do anticipate a return to growth in revenue from non-U.S. government clients in 2021.

Moving to a review of our commercial business. Commercial marketing accounted for about 16% of our total 2020 revenues. Our commercial marketing clients continue to experience the pandemic in different ways. In health and financial services, clients have seen less COVID-related downside and are taking advantage of marketing opportunities. Many of our consumer packaged goods clients had a good year, and budgets are expanding as we go into 2021.

As we work with our clients in travel and tourism, hospitality and retail, the recovery curve is considerably longer. Given this and adjusting for the completion of the large media buying-related contract, we expect revenues from commercial marketing clients to be approximately flat in 2021.

We have closely managed expenses in this area, while continuing to do great work for clients. ICF Next, our marketing services brand, received many awards and recognitions in 2020. Notable among them: Forrester Research recognized ICF Next in 2 publications in the fourth quarter, loyalty marketing and commerce services, citing us as a strong performer among customer database and engagement agencies.

Commercial energy markets accounted for 16% of total revenues in 2020 and posted over 6% revenue growth for the year. This strong performance reflected continued growth in our large energy efficiency business, which, in the fourth quarter, executed on existing programs with contract expansions in certain areas and significant new awards. At the same time, our energy advisory consulting group posted double-digit year-on-year growth, providing financial and [technical] (corrected by company after the call) advisory services on transactions involving renewables, storage and gas asset development. Our distributed energy resources consulting business also performed well, as utilities address the impact of distributed resources on the grid.

With respect to the California energy efficiency opportunities, we have been notified that ICF has been selected for over $60 million in new awards from California utilities, some of which require additional CPUC approvals and others still in the contract negotiation stage. We are pleased with this initial showing, but given the timetables, we would not expect to see material revenues from these wins until the beginning of 2022. We are continuing to bid on and track additional program opportunities in California.

We expect the Biden administration's priorities to create significant long-term growth opportunities for ICF's commercial energy business as well, specifically, our leadership in developing utility resiliency metrics and investment programs, advanced distribution planning, initiatives for utilities, transportation electrification, transmission planning, congestion analysis and environmental services for transmission projects aligned with the new administration's plan to modernize the grid, replace fossil fuels with electricity, make the energy system more resilient and expand the energy infrastructure.

To summarize, ICF ended 2020 with positive momentum, which we expect will drive a substantially higher rate of service revenue growth in 2021 and continued progress in the coming years. In 2021, we plan to utilize a portion of the savings from the optimization of our real estate footprint and reduced travel and entertainment expenses to invest in people and technologies to expand our capabilities in the high-growth markets we have identified.

Now I'll turn the call over to Bettina Welsh for a financial review. Bettina?

Bettina Garcia Welsh ***ICF International, Inc. - Senior VP & CFO***

Thank you, John. Good afternoon, everyone. I'm pleased to share more details of ICF's fourth quarter and full year 2020 financial performance and provide our expectations for certain 2021 financial metrics.

Total revenue for the fourth quarter of 2020 increased 9.5% to $434.3 million, which, as John mentioned, reflected higher revenue from federal government and commercial energy clients and a significant increase in pass-through revenue associated with media buys for a single commercial marketing client. This increased fourth quarter pass-through revenue to 39.6% of total revenue compared to 36.5% in last year's fourth quarter. Service revenue, a better indicator of our underlying performance, was up 4.1% to $262.2 million year-over-year.

Our gross profit increased 5% to $139.2 million in the fourth quarter, benefiting from a more profitable business mix and higher utilization. Gross margin on service revenue increased 50 basis points year-on-year, while gross margin on total revenue declined by 130 basis points to 32.1% due to the higher percentage of pass-through revenues, which yield lower margins.

Indirect and selling expenses of $109 million includes $13.6 million in onetime expenses associated with the retirement of our Executive Chairman, and the early termination and/or discontinued use of 16 office leases. Adjusting for these 2 items, indirect selling expenses were 36.4% of service revenue compared to 38.8% in last year's fourth quarter. We have earmarked a large portion of these cost savings for reinvestment in people and technology to support our ability to capture the substantial growth opportunities we see ahead.

Excluding all special charges, adjusted EBITDA was $44.9 million compared to $37.4 million in last year's fourth quarter. Adjusted EBITDA margin on service revenue expanded 220 basis points to 17.1% as we benefited from lower SG&A and fringe benefit-related costs, particularly lower travel, healthcare and paid leave costs.

Operating income was $21.8 million compared to $28.3 million reported in the fourth quarter of 2019. The 2020 fourth quarter includes the special charges I mentioned as well as an increase of $1.6 million in amortization of intangibles primarily related to the ITG acquisition, which was completed at the end of January 2020.

Our tax rate was 28.5% compared to 24.5% in the fourth quarter of 2019 due to certain nondeductible items in 2020.

Net income for the quarter was $12.8 million or $0.67 per diluted share, inclusive of $0.56 of tax-effected special charges, of which $0.51 represented the onetime executive retirement and lease-related charges I mentioned earlier. This compares to $19.4 million or $1.01 per diluted share in the fourth quarter of 2019, inclusive of $0.09 of tax-effected special charges primarily tied to M&A.

Non-GAAP diluted EPS, which excludes the impact of the onetime and special charges I mentioned earlier as well as amortization of goodwill, was $1.36 compared to $1.18 reported in the fourth quarter of 2019.

Now let me summarize our 2020 full year results. We had record revenue of $1.51 billion, up 1.9% year-on-year, and service revenue increased 4.1% to a record of $1.04 billion, driven by performance in the federal space. Adjusted EBITDA was $143.2 million, representing an adjusted EBITDA margin on service revenue of 13.7% for 2020, resulting from favorable gross margin and lower-than-normal medical, paid leave and travel costs. Adjusted EBITDA for 2019 was 13.4%.

Full year 2020 net income amounted to $55 million or $2.80 per diluted share, inclusive of $0.79 of tax-effected special charges, of which $0.53 represented the onetime charges mentioned earlier. Non-GAAP EPS was $4.17 per share, slightly ahead of the $4.15 per share we reported for 2019.

Moving to our cash flow statement and the balance sheet. Our operating cash flow was $173 million, significantly above the prior year's $91 million and our guidance of $120 million for the year. This year-on-year increase was mainly due to 3 factors. First, we had very strong collections. Second, we had approximately $50 million of unexpected accelerated collections related to pass-through revenue for media buys, for which the associated spend will occur in 2021. And third, under the CARES Act, we were able to defer $20 million of employer social security tax liabilities until 2021 and 2022.

The improved collection of contract receivables is evidenced by the reduction of our DSO to 67 days in this year's fourth quarter from the 83 days in the similar period last year, of which 11 days is due to the previously mentioned accelerated collection.

We significantly reduced our debt following the January acquisition of ITG. At year-end, our net leverage ratio was 2.47, which compares favorably to the 2.6 we originally forecasted and the 2.88 we reported at the end of September 2020.

Capital expenditures for 2020 were $19.4 million compared to $28.5 million in the prior year, mainly due to our efforts to manage costs in light of the ongoing COVID-19 impact. In 2020, we repurchased 278,582 shares for a total outlay of $21.9 million to offset the dilution of our employee incentive programs. As always, we take a balanced approach to capital allocation, and our priorities remain funding organic growth, acquisitions and debt reduction while repurchasing shares to minimize dilution and paying our dividend.

Speaking of the latter, today, we declared a quarterly cash dividend of $0.14 per share payable on April 13, 2021, to shareholders of record on March 26, 2021.

Looking at the anticipated cadence of 2021, we are expecting a similar quarterly seasonality for revenue and earnings to that of 2020, with the exception of a greater progressive improvement from Q1 to Q2 than last year.

For modeling purposes, we want to share our expectations for a number of 2021 financial metrics. Depreciation and amortization expense is expected to be in the range of $20.5 million to $21.5 million for the full year 2021. Amortization of intangibles should be in the range of $11.8 million to $12.2 million. Full year interest expense should range from $11 million to $12 million. Full year tax rate to be no greater than 27%. We expect fully diluted weighted average share count of approximately 19.1 million for 2021, and capital expenditures are anticipated to be between $20 million and $22 million.

Our 2021 cash flow is forecasted to be approximately $100 million after the payment for the year-end media buys previously mentioned and half of the tax liability that was deferred in 2020. It is noteworthy that over the past 5 years, we have had very strong cash conversion despite the unevenness resulting from year-to-year timing differences.

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

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

Thank you, Bettina. Based on our year-end backlog and robust business development pipeline, we are looking ahead to considerable organic growth and service revenue for 2021, guiding to a range of $1.095 billion to $1.13 billion, which represents year-on-year growth of 6.6% at the midpoint compared to the 4.1% growth we achieved in 2020. Pass-through revenues are anticipated at approximately 28% of total revenue in 2021 compared to 31% in 2020. This implies total revenue of $1.525 billion to $1.575 billion. EBITDA is expected to range from $145 million to $155 million, equivalent to an EBITDA margin on service revenue of 13.5% at the midpoint of the range. GAAP EPS is projected to be $3.90 to $4.20, and non-GAAP EPS is expected to range from $4.35 to $4.65. Operating cash flow for 2021 is expected to be approximately $100 million.

As we look ahead, we see significant organic growth opportunities on the horizon beyond 2021, and we are making the requisite investments to capture that growth. Additionally, we have the financial resources to pursue acquisitions that can further expand our addressable market.

Finally, ICF has prioritized being a good corporate citizen. And as such, we have attracted like-minded people who are passionate about their work. In the fourth quarter, our annualized personal turnover rate was 11.7%, remaining below the industry average and reflecting the relevance of our work and its positive impact on society. Please be sure to access our 2020 corporate citizen report, which is available on our website, to learn more about how we address our ESG responsibilities.

With that, operator, I'd like to now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have our first question from Joseph Vafi with Canaccord.

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

John, Bettina, James, great way to end the year, congratulations. Maybe kind of talk about the bookings strength here. I mean, I think, John, you noted that for the year, only 20% was renewal, and I see we've got some acceleration to the business coming here in 2021, which is great to see. I was wondering, is there any kind of change in kind of duration in the kind of bookings that you've seen this year versus other years that may reflect perhaps more or less acceleration in backlog conversion versus other years? And then second, just with the Biden administration coming in, I was wondering if that at all changes your kind of strategic view on potential areas where you could do some acquisitions.

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

Sure. So I think, as you know, Joe, we had quite robust awards for the quarter and for the year. We ended with a trailing 12-month book-to-bill ratio of 1.3. We're quite pleased with that. I think it's been driven certainly across the key growth drivers we've been emphasizing.

In terms of the translation of that into backlog, I think we'd expect it to be consistent with what we've seen in the past. I'm not sure I would assume there'll be a great acceleration there. I would also note that in some of these markets, there is a trend to winning larger and longer-term contracts, so 5- to 7-year contracts in IT modernization and some in the disaster recovery world. But I think given the strong awards and actually, the record awards, it certainly sets us up quite nicely for growth as for 2021 and beyond, given the length of those contracts.

In terms of the Biden administration, what I would say to you is we've been talking in the last several years about the 4 key growth drivers in front of us: IT modernization, public health, disaster recovery and utilities. And I think those growth drivers, I think, will remain strong in a Biden administration. I think, as I said in my opening remarks, certainly, I think we see additional growth catalysts opening up here in the areas of climate, environment and infrastructure. And so I think several new growth catalysts have been added to the list. So I think it gives us greater confidence for growth as we go forward.

I think as we talked at the end of our third quarter call, I think we had indicated at that time, given the 4 growth drivers, we saw at least mid-single digit service revenue growth going forward. Obviously, we've now guided to at the midpoint, 6.6% or 6.7% service revenue growth. And I think given some of these priorities that I just mentioned with the Biden administration, there's certainly upside for growth as we look down the road and for 2021 and beyond, certainly.

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

Sure. That's great. And then just maybe one quick follow-up on kind of current stimulus bill out there. Is there anything notable to call out there that could be an opportunity for you? It's a quite large and broad bill, I believe.

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

I think that to the extent that there's public health funding, I think that's a potential area of upside for us. I think -- so I think that would be the primary area. I think there's also some funding in there for some amount of IT modernization. And so I think there's potential upside there. There's also talk about a second stimulus bill at some point that would focus on infrastructure. Obviously, if that came along, that would be probably positive for us, too.

Operator

And we have our next question from Tobey Sommer with Truist Securities.

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

I'd like to build on the last question. Within an infrastructure bill, what sort of composition or focus would -- could we read about in a bill like that one that eventually comes that would make it more or less favorable for the company?

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

Yes. I mean I think that from an infrastructure perspective, I mean, to the extent that it's focused on clean energy technology, I think that's a source of strength for us. I think, as you know, we've done a lot of front-end planning for energy projects, transmission lines, moving electricity generated from renewable assets out West we've done work on. And so I think that the clean set technology is also an area we have significant expertise in distributed energy, as I say, around the front end environmental permitting and monitoring of clean tech -- clean energy projects. So that would be positive.

And then I think more traditional high-speed rail, sustainable infrastructure, again, another area where we have significant environmental capabilities that would be beneficial for us. And then, obviously, electrification, again, I think just given the capabilities in our energy business and our environmental practices, would be quite good. And obviously, we do a significant amount of transportation work, so the activities around electric vehicles, things of that nature, would be quite positive, too.

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

And then kind of stepping back from thinking about newly appropriated funds but thinking about what the -- just simply a change in administration can bureaucratically and administratively the new administration implement changes and pursue policies that are constructive for revenue growth at the firm. So I'm trying to get a sense for it like ex new dollars entering the marketplace, does the change manifest itself in a change in the outlook for growth of the company?

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

I would say a couple of things in response to that, Tobey. I mean, first of all, I think there are things the administration has done and can do quickly to accelerate spending of already appropriated dollars in areas that we work in that are in some of our key growth drivers. I mean think around disaster recovery, as I said in my operating remarks, I think the new administration could certainly -- and I would expect would accelerate the spending of mitigation funding to address in the disaster recovery area, which we've talked about. There's significant funding there to be $15 billion to $20 billion that the prior administration had not spent in any significant way.

I would also say on the public health front that some of the stimulus bills that occurred when the pandemic first happened, I think there's still funding there potentially for some of the public health agencies that could be spent quickly. And so I don't think there's any question if there's opportunities for this administration given their policy focus, assuming the public health focus on having a plan following the science, that there could be opportunities there.

And I do think, as the -- obviously, we -- as the new administration looks at putting new policies in place, putting new rules in place, I mean, that's our bread and butter. We've done policy and regulatory analysis in the environmental and energy and transportation and arenas for decades. And so I think to the extent that there's a shift and a focus to go there, we could certainly see a pickup in our advisory work here pretty quickly in those areas, for sure.

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

I'd like to touch on the commercial energy and energy efficiency side of the business. You mentioned a nice contract win that you're still negotiating. Can you discuss your win rates in pursuing the new work emanating out of California and where we sit today relative to the total opportunity? Is it still early innings? Or are we kind of midway through this opportunity?

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

I think as we said, I mean, I think we've been informed we've won $60 million of California energy efficiency opportunities to date, which we're quite pleased on. I think it's -- they do require -- it's a mix of CPUC approval and finish negotiating the contract. I would say we're halfway through. I think there is still material opportunity for us out there to be awarded. We remain busy on proposals. And so I think we feel pretty good about the initial set of awards, and the opportunity is still in front of us. And I think it can be a material growth driver for us here over the next 12 to 24 months. And so I think we generally feel good. I guess I'd better not get into the win rates and the details of that. But I think we feel pretty good about where we are with what we've accomplished.

Operator

We have our next question from Sam England with Berenberg.

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

The first one, can you give us a sense of how strong the bid or RFP pipeline looking at the moment on the government side? And particularly, are you seeing any variation between the strength of the pipeline on the federal, state and local sides?

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

I think the pipeline is certainly quite robust on the -- in the federal government market. I think we continue to see significant opportunities in the areas we've talked about, IT modernization, public health and across our key civilian clients. We really haven't seen a significant slowdown or a pause here with the new administration coming in, in the federal space.

State and local, I think our disaster recovery pipeline remains robust. We're waiting on some awards there, Board decisions. And in Puerto Rico, as I said in my remarks, we've won contracts last year. At the Gulf states, we won a significant mitigation contract for us in the fourth quarter, $40 million contract. And so I think we're -- and we're still awaiting the release of the very significant Puerto Rican mitigation opportunity, which I think will come in the first quarter here for bid. So we feel good about that market.

And so generally, I mean, our commercial pipeline remains robust. And so I think -- generally, I think we feel good about the pipeline. We really haven't felt -- we haven't seen an -- as I said, we haven't seen a pause or any falloff in our -- the opportunities in front of us in our key markets.

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

Okay. Great. And you touched on the freeing up of some of the disaster mitigation dollars. Is that something you're expecting to happen in the first half of this year? Can you just give us an idea of the sort of scale of dollars that you're talking about?

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

I mean I think we'd expect it to happen. I think from my perspective, I mean, it could benefit on some of our traditional disaster recovery work. We haven't assumed a significant pickup in that this year from that. I think where I would be more optimistic on with the change in administration and the change in policy is that, as I said, the mitigation opportunities will -- that, that money will be spent, and those opportunities that we're -- certainly, the opportunities we were waiting on, I think, will play out here in the first half of the year.

I would also note, one of the early things the Biden administration has done is, with FEMA, they have -- they did make a decision that FEMA mitigation dollars under the BRIC program can support climate-related projects. And so that's another example where the Biden administration is connecting dots, using a FEMA mitigation bucket of money that's available to 50 states to bring a climate focus to those activities. And that's an example where we benefit from the administration connecting those dots, using a new bucket that -- a bucket of money of FEMA to address mitigation to climate.

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

Okay. Great. And then maybe just one more before I pass it over. I just wondered with the margin improvement, how much of it is coming from pandemic-related cost savings, that travel and entertainment and things like that? And how much will reverse next year or over the next year as we return to normal?

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

I think it's a mix. I mean I think -- I mean, as you saw, we delivered 13.7% adjusted EBITDA to service revenue. We're guiding to 13.5% for this year. And so I think part of the reason that's come down is because there was onetime benefits related to COVID that we won't be able to sustain going into next year. But -- so it's a mix of both savings that are not sustainable in the long run. And then part of the margin improvement is also the mix of our business.

In terms of kind of how much of the savings we're not -- I don't know, Bettina, do you want to add anything on that?

Bettina Garcia Welsh ***ICF International, Inc. - Senior VP & CFO***

Sure. So we've seen a lot of reduction in travel and meals and entertainment. And when we look ahead in the future, we see that maybe the $10 million year-over-year savings in travel-related savings this year, we see a large portion of it is not sustainable, but we think maybe about 25% of it going forward makes sense. We've learned how to work remotely and how to interact with our customers remotely as well. I mean I think that there's an acknowledgment, though, that there's also on the medical and the leave savings that we experienced this year that, that will return to normal at some point in time. So that's not something that we see -- we'll continue to see on a sustainable savings perspective. We have also, though, appreciated some -- taken some measures for our facility expenses. And so we'll take some of that on an ongoing basis in the future, too.

Operator

Our next question is from Andrew Nicholas with William Blair.

Trevor Romeo ***William Blair & Company L.L.C., Research Division - Associate***

It's actually Trevor Romeo in for Andrew. First, just wondering if I could ask another one on the energy efficiency market. I was just wondering if you could give us an update on the competitive landscape there, kind of given that energy and climate are obviously increasingly important topics, in addition to the tailwinds from the new administration. Just curious if you're seeing any sort of new entrants there or changes in the competitive dynamics, either on the public or the commercial side?

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

I wouldn't say we haven't seen any significant changes in the competitive landscape in energy efficiency to climate. I mean I think there's the same handful of firms at scale that we compete with on the energy efficiency side. On climate, it tends to be a much more diversified market. I mean we're certainly a market leader there. And we've done our fair share of climate rate of work in California. And so, I mean, it's a competitive market. There's a lot of interest in those markets, climate, energy efficiency. I mean those are 2 markets where we have significant scale, significant capabilities, and so it is competitive. But I wouldn't say there's been a significant shift, that there's a lot more interest in those markets, but I'd say there's been a significant shift in the competitive landscape.

Trevor Romeo ***William Blair & Company L.L.C., Research Division - Associate***

Okay. Great. Understood. And then just given the change in administration, I was wondering if you could talk about how the staffing levels at your key agency customers are kind of trending. If I remember correctly, I think you guys had talked about some delays during the last administration change 4 years ago. I know it hasn't been all that long since the change this time. But just curious if you'd expect to see anything like that this time around.

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

I would expect that the Biden administration will fill the key political positions quickly, much more quickly than the Trump administration did. And I think -- and they'll work to get people confirmed. I mean I think -- I just think that will be done more quickly and more efficiently. And so -- which will be positive to the extent that, that transition can happen quickly and efficiently, and we can get people confirmed in those roles permanently. So I don't -- I think it should be an improvement from the prior administration.

Operator

We have our next question from Kevin Steinke with Barrington Research.

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

I wanted to ask about some of the COVID-related contract wins. You mentioned a total of about $40 million in 2020. Do you see any larger opportunities coming up in the pipeline here? As you mentioned, maybe moving to the next phase, the recovery phase, what's in the pipeline that might be larger that you could specifically tie to the pandemic?

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

I would say, Kevin, as we've talked about, I think the federal government I think is still in the response phase here and very focused on kind of the prices in front of them from the -- everything you read in the headlines, obviously, very focused on vaccine at the moment. So I would say our clients, by and large, the opportunities we're seeing are shorter-term kind of immediate response under existing contracts. So we're winning work under existing contracts, getting new task orders under existing contracts. And so I think, by and large, I still think it's a bit early to point to significant COVID opportunities that are kind of with the recovery phase focus. I think we do expect those to materialize. But I think it's still a bit early for that.

I mean, obviously, HHS is our largest client. I think it's 16% or 17% of our revenues. We have a robust pipeline of opportunities there. I think we've talked in prior quarters about contracts we've won in IT modernization apart from with ITG and HHS. But I think in some of the broader areas around disease surveillance, analytics and broader issues around how to better prepare for future pandemics, I think it's still a little early. We have seen some opportunities, some larger opportunities on the survey front around COVID response and -- but I think it's still a little early to -- still early for those opportunities to materialize and become RFPs and bids.

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

Of course. No, that makes a lot of sense. Now in the earnings release, you mentioned approximately 55% of your 2020 service revenue coming from work in key growth areas where you expect growth rates in aggregate of approximately 10% over the next several years. I just -- I think I have all the buckets here, but I just want to make sure everything that you're including in there, just so we have that as clear as possible in our minds.

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

Yes. Sure. So I think it's -- we had climate consulting. We had disaster management. We had our environmental water and transportation business, IT modernization, public health and our utility and energy efficiency business.

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

Okay. Perfect. And I believe it was mentioned when you talked about the cadence in 2021, a similar cadence except for a larger sequential increase in the second quarter. Can you talk about what would drive that second quarter bump?

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

I mean I think, typically, it's -- typically, our quarterly phasing in our business and the seasonality is Q1 tends to be the weakest quarter of the year as we come into the new year, takes a little bit longer to ramp up, particularly on the commercial business side. And then we go into the second quarter, and we're building certainly in commercial land, I would say, in the government business. And the third quarter is just the busiest quarter of the year. So I think it's typical seasonality. I think the only point we wanted to make is as folks looked at the year, I think it's a similar kind of results from 1H to 2H as prior year. But we would expect Q1 to -- a ramp-up from Q1 to Q2 this year when you look at 1H.

Operator

(Operator Instructions) We have our next question from Marc Riddick with Sidoti & Company.

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

Wanted to touch a little bit on the office situation. And I guess, maybe -- I'm just maybe looking for something maybe just generally speaking in broad how we should be thinking about the -- with the leases and how that might continue to play through and if there's sort of a bigger, broader message around post-pandemic thoughts of office space needs. Or how should we kind of think about that particular part of the process and the journey that we're going through right now?

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

Right. So I think as we said in our remarks and our release, I think we -- we're -- it's early termination or discontinuing use of 16 offices, office-to-office leases. Generally, the offices that we took the step on had remaining leases of 2 to 3 years remaining. And they're also often areas where we had more than 1 lease in the city. I think with the pandemic, we certainly learned some lessons around how folks will work remotely. And I think given that, I think we -- while, certainly, we expect people to return to the office, and that will be an important part of the future of the business in terms of ensuring collaboration and brainstorming and those types of things. I think given what we've learned in the pandemic, we felt we could shut these offices down, manage the use of the space. And in doing so, we've -- I think we save about $2.5 million a year going forward. And I think our intent with that is to largely reinvest that in business development, given all the opportunities in front of us in terms of growth to take full advantage of them.

But I would expect, as future leases expire, that we're going to take a hard look at our footprint. And I would expect that over time, the footprint is certainly going to come down, given I think we'll end up in some kind of hybrid people who work from the office and also -- but also continue to work remotely on -- at some level. And so you won't need it. You'll need collaborative space where people can sign up for an office for a day or work in a collaborative environment. But we'll be able to use the space much more efficiently.

So I think we're -- so I would hope we could -- 20%, 25% savings on our facilities footprint going forward. I mean it's not a bad goal. I think Bettina mentioned that we -- as we look at travel and entertainment going forward that I think we'll need to return to that, and we'll begin to at some point this year. But again, I would hope we could save 20% to 25% on that. And again, I think we'll look to either reinvest that or have it help drive our profitability. I think those are the -- but certainly, we're taking a hard look at the facilities as we go forward. And that will be an ongoing thing. I mean as the leases come up for renewal, so will take a hard look.

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

Okay. Great. And it was nice to hear about the wins in California. I just wanted to touch a little bit. You made mention as to -- I think that's more of a -- expecting that to be more of 2022 contributor, which makes perfect sense. Is it reasonable to say that that's probably more back half '22 related, given the sort of the timing expectation?

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

No, I think we'll begin work on that. That work will begin in the second half of this year, but it will take a bit to ramp up. There's also -- so no, I think it'll -- it's going to be at '22 -- it would begin -- I think it will be ramping up and ramped up, I think, by -- as we go into 2022. I think it's just going to take some -- it's not going to be a quick burn here in 2021, partly because we still need PUC approval. We have to negotiate the contracts. There's also -- some of the work we are doing in California, the utilities are -- have pushed it back to late in the year because it -- we're going to be leveraging their IT systems, and several of these utilities are upgrading their IT systems, so they don't want us coming in and doing our work until they've got their system upgrades done. But it certainly will be a 2022 opportunity. It's not going to be the second half of the year.

Operator

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

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

Okay. Well, thank you for participating in today's call. We look forward to engaging with you at upcoming virtual conferences and meetings. Thanks again.

Operator

And thank you. Ladies and gentlemen, this concludes our conference. Thank you for your participation. You may now disconnect.