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Q3 2025 ICF INTERNATIONAL INC EARNINGS CALL

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- **John Wasson** *ICF International Inc - Chairman of the Board, President, Chief Executive Officer*
- **Barry Broadus** *ICF International Inc - Chief Financial Officer, Executive Vice President*

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- **Operator**
- **Tim Mulrooney** *William Blair Capital Partners - Equity Analyst*
- **Tobey Sommer** *Truist Securities - Analyst*
- **Marc Riddick** *Sidoti & Company LLC - Analyst*
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PRESENTATION

Operator

Welcome to the third-quarter 2025 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. - Moderator*

Thank you, operator. Good afternoon, everyone, and thank you for joining us to review ICF's third quarter 2025 performance. With us today from ICF are John Wasson, Chair and CEO; and Barry Broadus, CFO. Joining them is James Morgan, Chief Operating Officer. During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance.

These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our October 30, 2025, press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light. We may, at some point, elect to update the forward-looking statements made today, but specifically disclaim any obligation to do so.

I will now turn over the call to ICF's CEO, John Wasson, to discuss third quarter 2025 performance. John?

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

Thank you, Lynn, and thank you all for joining us to review our third quarter 2025 results and discuss our business outlook. This was another quarter of resilient performance for ICF, demonstrating the importance of our diversified business model, our agility in managing costs within a dynamic business environment and the strength of our business development activities.

Key takeaways from our third quarter results are: first, the continuing shift in our business mix, with revenues from commercial clients, state and local and international government clients increasing by 13.8% and accounting for 57% of the quarter's revenues, up from 46% at the same time last year.

Second, the continued robust performance in commercial energy, where revenues increased 24%, reflecting the sustained strong demand for ICF's advisory and implementation services. Third is the strong growth in our higher-margin commercial revenues, which together with our careful cost management resulted in a 10 basis point improvement in adjusted EBITDA margin, in line with our plan to maintain margins despite reduced revenue. And lastly, the value of our contract awards, which surpassed year-ago levels, resulted in a book-to-bill ratio of 1.53 for the third quarter. Our year-to-date contract awards of $1.8 billion, together with our $8.4 billion pipeline, supports our outlook for a return to growth in 2026. We had expected third quarter revenues to be approximately $15 million higher than reported. This variance was primarily due to delays in the ramp-up of our recently won international government contracts, although that situation is getting progressively better. And another factor was the slowdown in federal government procurement and project activities, particularly in our programmatic public health and human services areas, in the latter half of Q3, leading up to the government shutdown.

With the federal government on everyone's mind, I will begin my business review with our results in that area and how the government shutdown has affected ICF to date. In the third quarter, our federal government revenues declined 3% sequentially, representing a 29.8% decline from last year's third quarter. The dollar amount of our total 2025 federal revenues impacted by contract cancellations did not change in Q3, as we have not experienced any material new cancellations since our last report on July 31. However, expectations for Q3 federal revenues, as I just mentioned, were affected by the slower pace of program and procurement activity this quarter as things slowed down considerably in advance of the shutdown. There are several good news items to report in our federal government work for Q3.

Approximately one-half of our third quarter contract awards represented work for federal government clients and about one-half of these wins represented new business, including broadening of scope on current contracts. This new award activity, combined with our high recompete win rates, is a good indication of how well ICF's capabilities are aligned with the needs of our federal agency clients. In particular, you can see from today's release that we are winning both our recompetes and new work in IT modernization. Our differentiated approach to building agile, flexible and lean engineering and product teams is allowing us to deliver value quicker and more efficiently than competitors. Approximately 80% of the work we currently perform in this area is in agile scrums and sprints and more than half is under fixed price or outcome-based contracts, which is aligned with the shift in federal contract procurement parameters.

And we're also seeing growing client interest in ICF Fathom, a new suite of tailored artificial intelligence solutions and services designed specifically for federal agencies. This is a production-ready solution that can integrate seamlessly into existing systems at scale to unlock the full potential of AI to support mission outcomes. We have won a few initial contracts and have seen very positive response to this launch from several of our federal agency clients interested in areas such as citizen engagement, technical assistance, program evaluation and policy modeling.

Now to the financial impact of the government shutdown. In the month of October, we estimate that ICF's revenue will be reduced by approximately $8 million and gross profit by approximately $2.5 million as a result of the current government shutdown. Our IT modernization practice has seen relatively few stop work orders. The majority of stop work orders have been related to our public health and human services work. Also, proposal activities have continued in IT modernization, although there has been some slowdown.

All in all, the impact on ICF to date has been painful, but manageable, and we view this as a temporary situation. While we have taken steps to reduce costs associated with work that has been curtailed, we currently plan to retain key staff, which will position us to quickly recoup the majority of these revenues in future periods.

You will see that we filed an 8-K this afternoon, noting that our named executive officers will take a 20% salary reduction for the length of the shutdown in consideration of the impact of the shutdown and in support of our employees and clients.

Now I'll move on to our nonfederal government work, which accounted for 57% of our third quarter revenues and is making a positive difference for us as we navigate dynamic market conditions in the federal space. Revenues from our commercial, state and local and international government clients increased 13.8% year-on-year in the third quarter, led by a 24% increase in revenues from commercial energy clients. Our consolidated third quarter margins benefited from the increased contributions from our fast-growing commercial energy work, which represented 30% of our third quarter revenues, up from 22% in last year's third quarter.

Additionally, our long-standing work for commercial clients has given ICF the experience and infrastructure to effectively work in this milieu, a competitive advantage in today's federal market as federal agencies are being encouraged to adopt a more commercial business model.

Third quarter revenue growth from commercial energy clients was led by strong demand from our utility clients for ICF's industry-leading energy efficiency programs and expertise in flexible load management, electrification, grid resilience and affordability, expertise that is closely aligned with the needs of our utility clients as they respond to increased demand for electricity. We are executing on new and expanded programs as well as gaining market share in both residential and commercial energy efficiency program development and implementation. Additionally, in energy advisory, we saw higher demand for our grid engineering, renewable development and transaction services, and in environment and planning, we benefited from increased renewable and transmission permitting, construction monitoring and wildfire restoration projects. We continue to see evidence that our commercial energy business will sustain its strong growth. Despite the lack of support for renewables by the new administration, we believe that renewable and storage development by the private sector on nonfederal lands will continue due to the advanced economics of these technologies and the need to meet the demands of rapid load growth.

Additionally, we work across a full suite of resources supported by this administration, including natural gas, nuclear and coal that will also be important in optimally serving emerging needs for power, and we have seen an uptick in development and M&A activities in these areas.

We continue to benefit from the rapid increase in electricity demand associated with AI, data centers and other large loads by providing a broad range of services necessary to plan, site, permit, connect and manage such facilities. ICF is currently working with utility clients, hyperscalers and independent power and renewable energy firms, providing services ranging from locational analysis, transmission planning, distribution engineering and construction permitting through community engagement and workforce development. The major load growth challenge, the range of complex technical issues involved and the diversity of stakeholders make ICF well positioned for continued growth in this area.

Moving on to state and local government clients. Our revenues increased 3.8% in the third quarter, primarily reflecting year-on-year growth in our technology work in the disaster recovery arena. ICF is currently supporting 95 active disaster recovery projects in 22 states and territories. This includes new contracts in California, Oregon, Virginia and Michigan, which were awarded during Q3.

We continue to see HUD-funded procurement opportunities resulting from the nearly $12 billion appropriation to enable long-term recovery from disaster declarations in 2023 and 2024 and are actively positioning to compete for these procurements.

Additionally, in response to uncertainty with respect to the future role of FEMA, state governments are showing additional interest in disaster case management, individual assistance as they consider the potential implications of taking on additional responsibility for initial disaster response and recovery efforts. ICF is actively engaged with state emergency management agencies, and we are broadening our partnerships in emergency response, disaster survivor assistance arena as the states prepare for the possibility of additional responsibilities.

Our climate, environment and infrastructure services represent the other major component of our work for state and local government clients, and revenues in this market have remained relatively stable. As federal emphasis on environmental protection declines, we are seeing many states increase their efforts to fill the gap, creating opportunities for ICF in state planning, rulemaking, stakeholder engagement, permitting and compliance. We're also experiencing increased demand for sectors with strong economic activity, including data centers, fiber networks, minerals extraction and transportation. And we're working on synergies with our disaster management teams in supporting states with recovery efforts, including Florida, New Jersey and others. We continued to benefit from solid revenue growth from international clients in the third quarter. Revenues increased 8% year-on-year. We have won key recompetes and new business.

As I mentioned earlier, the ramp-up of the new contracts we've won with the European Commission and the UK government late in 2024 and earlier this year has been slower than we originally anticipated as we expected double-digit revenue growth in the second half of this year. We have seen sequential acceleration in the number of task orders being issued under these contracts over the last two quarters, but we now do not expect the full benefit of these contracts until 2026. To sum up, our third quarter performance demonstrated the benefits of ICF's diversified client base, our agility in adapting to challenging market conditions in the federal government and our success in winning recompetes and new business.

I'm sure that many of you have seen the release we issued today simultaneous with our earnings announcing that Barry Broadus, our CFO, is retiring, and we have named two of our senior executives to new roles. First, let me say that Barry has been a tremendous asset to ICF. He has strengthened our financial capabilities, built a strong finance team and positioned ICF to take advantage of future growth opportunities. We certainly wish him all the best in his retirement.

We are fortunate to have a strong group of talented leaders like James Morgan and Anne Choate to help drive our future growth. We have tapped James Morgan, currently COO, to take on the additional role of CFO following the publication of ICF's full year 2025 financial results. In addition, Anne Choate, currently Executive Vice President, will take on the role of President of ICF early in 2026. I look forward to working closely with both of them to drive organic growth and acquisition growth and to implement financial strategies to build our future growth and profitability. So with that, I'll now turn the call over to Barry for a financial review.

Barry?

Barry Broadus *ICF International Inc - Chief Financial Officer, Executive Vice President*

Thank you, John. Let me say that it's been a pleasure to work at ICF over these past 4 years. ICF is truly an amazing organization with an outstanding team of dedicated and passionate professionals. Serving as the ICF CFO has certainly been the pinnacle of my career. I could not end my career working with a better team of people. That said, I am now pleased to provide you with some additional details on our third quarter financial performance.

Third quarter revenues totaled $465.4 million compared to $517 million in the third quarter of 2024 and relatively stable with the $476.2 million reported in this year's second quarter. The year-over-year revenue comparisons reflect ongoing headwinds in our federal government business, partially offset by the continued strength across our commercial, state and local and international client base. On a year-to-date basis, revenues decreased 6.2% and revenues, excluding subcontractor and other direct costs declined 4.3%. Revenues from commercial, state and local and international clients increased 13.8% in the quarter, led by the robust growth in our commercial energy business, which posted a 24.3% year-over-year increase. On a year-to-date basis, our energy business grew approximately 25% and represented 28% of our total year-to-date revenues. The strength in this client category underscores the ongoing demand from our utility clients for ICF's expertise in energy efficiency, flexible load management and grid resilience solutions, capabilities that are increasingly critical as they address our country's growing demands for electricity.

The continued strong growth in revenues from our nonfederal government clients offset a significant portion of the 29.8% year-on-year decline in federal revenues in the third quarter, reflecting the continued impact of the contract funding reductions and the procurement delays that John mentioned in his remarks.

On a sequential basis, federal revenues declined only 3%, as the impact of contract cancellations has remained stable following our second quarter earnings call. To date, we have seen an impact on 2025 revenues of approximately $117 million and a total backlog impact of approximately $420 million from contract cancellations and stop work orders, with no material increases since our last call on July 31.

Third quarter subcontractor and other direct costs declined 11.8% year-over-year and represented 24.2% of total revenues, down 50 basis points from the 24.7% in the third quarter of 2024. The decline was primarily tied to lower pass-through revenues in the federal business. As a result, a higher percentage of our revenue was tied to ICF direct labor, which generates higher margins.

Third quarter gross margin expanded 50 basis points to 37.6%, primarily driven by a continued shift in our business mix towards higher-margin commercial revenues, including the uptick in our energy business. Gross margin also continues to benefit from a higher proportion of ICF direct labor that I mentioned as well as a more favorable contract mix, as fixed price and T&M contracts represented 93% of our third quarter revenue, up from 88% in the year ago quarter, while our cost reimbursable contracts accounted for only 7% of third quarter revenues.

Indirect costs declined 7.9% to $122.3 million and represented 26.3% of total revenues. As we have discussed on recent calls, we remain focused on managing our indirect costs while continuing to invest in growth areas, expand our capabilities in AI and other technologies and implement systems and tools that increase our efficiency and will support our future growth.

As we navigate the current government shutdown, we will continue to be mindful of tightly managing our costs while balancing short-term results with our plans for a return to growth in 2026. Thus, if the shutdown continues, it will impact our fourth quarter margins, as we need to maintain a certain level of staffing and core capabilities in order to ramp up quickly once the shutdown is lifted. Third quarter EBITDA totaled $52.8 million, down from $58.2 million in the third quarter of 2024. And adjusted EBITDA was $53.2 million compared to $58.5 million in last year's third quarter. As a percentage of total revenue, adjusted EBITDA margins expanded 10 basis points to 11.4%, reflecting our gross margin expansion as well as our success in executing cost management initiatives. Net interest expense in the third quarter amounted to $7.9 million compared to $7.2 million in last year's third quarter, due to a higher average debt balance related to the AEG acquisition in December of last year as well as our repurchase of ICF stock. Our tax rate was 22.7%, above the 13.8% in the prior year quarter. In this year's third quarter, we incurred a onetime negative tax adjustment related in part to certain tax provisions and the new legislation signed into law this past July. As a reminder, last year's third quarter tax rate benefited from tax optimization strategies and several onetime tax benefits the company enjoyed at that time. Additionally, as we discussed in our last call, our full year 2025 tax rate is expected to be approximately 18.5%, and we also estimate that our tax rate for 2026 will be in the range of 21%. From a cash tax perspective, we expect to realize approximately $30 million in cash savings in 2025 and additional $40 million in 2026, resulting from provisions of the new tax legislation I mentioned.

Net income totaled $23.8 million or $1.28 per diluted share compared to net income of $32.7 million or $1.73 per diluted share in the third quarter of 2024. Non-GAAP EPS was $1.67, inclusive of a $0.04 per share impact related to the negative tax adjustment I just noted. Last year's third quarter non-GAAP EPS was $2.13.

Our backlog stood at $3.5 billion at quarter end, up approximately $180 million as compared to the second quarter of this year due to the robust book-to-bill total of 1.53 that John previously noted. 52% of our backlog is funded. Our third quarter new business development pipeline stood at $8.4 billion and is approximately 4.3 times our trailing 12 month revenues. Third quarter operating cash flow was $47.3 million, up from $25.5 million in the comparable quarter last year. Year-to-date operating cash flow totaled $66.2 million.

Days sales outstanding were 82 compared to 80 days in the prior sequential quarter, and third quarter capital expenditures were $5.5 million as compared to $5.2 million in last year's third quarter. We ended the quarter with debt of $449 million, down from $462 million at the end of the second quarter. The third quarter debt reduction was in line with the debt reduction in the same period last year. 39% of our debt carries a fixed rate, and we are tracking to have approximately 45% of our debt at a fixed rate by year-end.

Our adjusted leverage ratio was 2.13 times at quarter end. And absent any acquisitions, we expect our leverage position to decrease by about 0.25 of a turn by year-end. Our approach to capital allocation remains consistent and disciplined. We are focusing on investing in organic growth, pursuing strategic acquisitions in attractive markets, paying down debt, sustaining our quarterly dividend payments and executing an opportunistic share buybacks. As we noted last quarter, we have been prioritizing debt repayments to position ICF for acquisition activities in 2026.

Today, we announced a quarterly cash dividend of $0.14 per share payable on January 9, 2026, to shareholders of record on December 5, 2025. For modeling purposes, for the fourth quarter, we estimate the year-on-year percentage decline in revenues and non-GAAP EPS to be similar to what we experienced in the third quarter. This assumes the impact of the government shutdown remains consistent with the estimated reduction of approximately $8 million in revenue and $2.5 million of gross profit for the month of October and the government shutdown extends through the end of the year.

We have also revised our cash flow guidance to a range of $125 million to $150 million from approximately $150 million to reflect the potential collection delays related to the shutdown. In addition, other full year guidance metrics include the following: Our depreciation and amortization expense is now expected to range from $20 million to $22 million, down from $21 million to $23 million. Amortization of intangibles is expected to remain between $35 million and $37 million. We anticipate interest expense to range from $30 million to $32 million. Capital expenditures are now anticipated to be between $23 million and $25 million, down from the prior range of $26 million to $28 million. As we previously noted, our full year tax rate is expected to be approximately 18.5%. And finally, we expect the fully diluted weighted average share count to be approximately $18.6 million.

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

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

Thanks, Barry. Our year-to-date results have put us squarely within the guidance framework we provided for 2025 at the beginning of this year, when we stated that a 10% decline in revenues, GAAP EPS and non-GAAP EPS from 2024 levels was the maximum downside risk we foresaw from the loss of business primarily from federal government clients during this transition year. At that time, we also noted that our guidance framework did not consider the potential impact of an extended government shutdown.

As I previously mentioned, in the month of October, we estimate that the shutdown will reduce ICF's revenues and gross profit by approximately $8 million and $2.5 million, respectively. Based on this monthly impact continuing, we are pleased to be able to maintain our original guidance framework for revenues and non-GAAP EPS even if the government shutdown extends through the end of the year. Looking ahead, we continue to be confident in our ability to return to revenue and earnings growth in 2026.This outlook is supported by the continued growth from our nonfederal government clients, improvement from portions of our federal government business, recent contract wins and the large pipeline of opportunities.

Also, as Barry mentioned, we are keeping our powder dry as we consider potential acquisitions in 2026 that will provide additional growth momentum, and we have substantial authorized capacity for share repurchases. Our professional staff across all markets and geographies have been instrumental in helping us navigate difficult business conditions and their ongoing commitment to ICF and our clients underpins our ability to drive long-term growth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tim Mulrooney, William Blair.

Tim Mulrooney *William Blair Capital Partners - Equity Analyst*

Yeah, good afternoon. Thanks for taking my questions. I wanted to start off by saying congratulations to Barry on a well-earned retirement and to Anne and James on the promotions.

Barry Broadus *ICF International Inc - Chief Financial Officer, Executive Vice President*

Thank you, Jim.

Tim Mulrooney *William Blair Capital Partners - Equity Analyst*

You bet. So sorry, I've been hopping around calls here, so apologies if I missed it. But did you give an indication for how much you expect your federal business to be down in the fourth quarter?

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

I don't -- no, we did not give a Q4 estimate for what the government business would be down. And in the fourth quarter, obviously, year-to-date, we've reported those numbers, we're down about 22.7% at the end of the third quarter. Obviously, the government shutdown will be down further in the fourth quarter. Barry, I don't know if --

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Barry Broadus *ICF International Inc - Chief Financial Officer, Executive Vice President*

And I mean -- I would say that absent of the government shutdown, we expect that our fourth quarter federal revenues will be down more than what we had in the third quarter. But if you include the government shutdown and the impact that we mentioned, it would be more than -- substantially more than the third quarter decline.

Tim Mulrooney *William Blair Capital Partners - Equity Analyst*

Yeah. That makes sense. And you did give the full -- your total revenue assumption, so we can -- trying to back into it. In your guidance assumptions, you said that you're expecting an $8 million revenue hit per month from the shutdown, which on the surface, I think, is less than what we were expecting. Is it just that many of these projects are still progressing along just without government interaction? Is there something that we're just not fully appreciating here, the dynamics around this business?

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

Well, I think it's a mix. I mean, we certainly have had a set of projects that were placed in stop work. And based on the activity on those projects, that's -- and that occurred early in October. So we saw those impacts quite quickly, and that amounts to $8 million of impact for October. And I think -- so for the quarter, we would expect a $25 million impact on revenues and a $7.5 million impact on gross profit, just extrapolating on those numbers.

And so we think that's a good number. And given that we saw those impacts early in the month and really haven't seen material increase since early October, and we feel pretty good about that number. It is certainly the case that a portion of our government business continues to operate and has not been impacted by the government shutdown. There's a portion that has been impacted by the shutdown. In certain cases, we can continue to work it's fixed price and we have funding and we have the appropriate technical direction.

And then we've seen the process of shut down. And so I think that number, the $8 million a month, $25 million for the quarter in revenues, we think it's a good number. And there's obviously uncertainty around it. As you know, with this administration, there's been a lot of change. But I think we feel pretty good about that number and I think that is likely to be the impact we'll see from the government shutdown if it goes all the way to the end of the year.

Tim Mulrooney *William Blair Capital Partners - Equity Analyst*

Got it. That's helpful color. And just lastly, as I'm still sticking on this federal government, I wanted to ask about your commercial energy business, which is a very exciting area, but I'll leave that to others. Just sticking with the federal government or the federal business. As we think about you moving into 2026, we were all thinking about a return to growth.

But I'm wondering, does this shutdown impact things that you were expecting to come in early 2026 that may be pushed out now because of the shutdown? Does it cause delays and how the contracting works or anything like that? How should we think about the impact on future work, not necessarily how it's impacting you during the shutdown, but after the shutdown is over? Is there any knock-on effects?

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

No, it's a good question. I mean I would say a couple of things. One is, for the work that's been impacted by the shutdown, the $25 million -- typically, in prior shutdowns, once the work comes back, we will do that work.

So it's a push to the right. If history is any guide at that foregone revenue, we would recoup it over the remaining life of the contract in future years. And so we would expect for that to happen again. And so I do see it as a shift to the right with the impacts we've seen.

I would say also if the shutdown goes at the end of the year for those clients that we're seeing these impacts, it's certainly going to impact awards and potential modifications. And so it could have some impact early next year in terms of the level of business if the awards get delayed or the modifications don't come quickly. But I think that's how we think about it. I think ultimately, I would expect that most of the revenue from the shutdown will be pushed to right, and we'll get it back over the life of the contracts.

Tim Mulrooney *William Blair Capital Partners - Equity Analyst*

Understood. Thanks for taking my questions.

Operator

Tobey Sommer, Truist.

Tobey Sommer *Truist Securities - Analyst*

I wanted to start with just a follow-up on that shutdown. You had a pretty good book-to-bill in the quarter. We have been kind of expecting lower than that. I'm curious how those new wins are ramping and if the shutdown is pushing that process off to the right, in particular, of course, for new or takeaway work rather than recompete wins?

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

Yeah. I would say, as you know, Tobey, our federal business, we kind of break it into two components. One of the -- roughly half of it is kind of in the IT modernization technology arena. There, I would say that we've -- the procurement environment and the work we're doing has continued. We haven't seen as significant impact as we've seen in the portion that's programmatic.

And so -- and I think some of the awards you see in Q4 certainly are in the IT modernization area and we would expect those to ramp, and we expect the modifications to continue.

So I'm less concerned or would not expect a slowdown or disruption in the ramp-up of those efforts. Where we see most of the impacts of the government shutdown is in our programmatic work at Health and Human Services.

Many of those agencies are impacted by the shutdown. That's also impacted the procurements there. So that portion of the business, I think, will take longer to rebound post shutdown in terms of procurements and plus that's certainly reflected in our -- in how we're thinking about Q4 and the guidance we've given.

And as we think about returning to growth for next year, I think our view right now is we've clearly indicated we expect to grow in 2026, and I would think at least a low single-digit level. Obviously, 58%, 59% of our business is growing quite robustly. We expect that to continue. In terms of the federal business, I think we would expect our IT modernization business, so roughly half to return to growth next year. And then the half that is programmatic, will not return to growth until 2027.

We'll have tough comps there, and it will take more time. But with that mix, we're confident we can get back to growth for next year.

Tobey Sommer *Truist Securities - Analyst*

Okay, thank you. Let's switch gears a bit and maybe we can talk commercial and -- commercial energy. Which service lines and offerings within your portfolio are experiencing the best demand and sort of superior growth? And what, if any, areas are lagging and understand with such a rapid rate of growth for the collection of them lagging doesn't necessarily mean you're not achieving fairly good growth?

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

Well, I think -- no, it's a good question, Tobey. I think as you know, our commercial energy business, through three quarters, 70%, 75% of that business is designing and implementing utility programs, energy efficiency, electrification, load management, doing the marketing for those programs. We're seeing tremendous growth there, tremendous opportunity. We've been winning new contracts. We've been taking away market share.

We've been winning our recompetes. And I think with the increased significant demand for electricity, those programs will continue to be a key component. And so certainly the utility program implementation is extraordinarily strong.

I would say our kind of the energy advisory business, so where we really do more front-end advisory work for utilities on a range of issues from generation to transmission to demand forecasting, demand load management, grid modernization, many aspects of that business are enjoying very robust growth given, again, the strong demand for energy. We do expect our energy advisory business to have double-digit growth next year.

I think the only area that's been challenging is in the renewables area, certain components of the work we do around certainly offshore wind or implementation of renewals on federal lands. This administration is not supportive of that.

So there has been some impacts on projects in that area. But I have to tell you that in the scheme of our overall energy business, it's pretty de minimis. I think on an annualized basis, the entirety of that business might be up to $10 million a year.

We certainly are losing a significant portion of it, but that is the one area where this administration is not as supportive. Having said that, as I said in my remarks, we also do have capabilities around key generation assets that this administration does support natural gas, nuclear and coal. And so we're seeing opportunities there.

Tobey Sommer *Truist Securities - Analyst*

Thanks and then specifically within energy, and this is probably somewhere in between commercial and your government energy business. But when the shutdown began, there was news around Department of Energy canceling some clean energy and infrastructure awards. Is ICF impacted at all by those kinds of actions that have been happening more recently?

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

No, we haven't -- I don't believe we -- I'm not aware of any material -- I'm not actually aware of any shutdowns on our DOE contracts. Honestly, Tobey, I think the extent that we saw impacts in DOE was due to contract cancellations around DOGE and GSA earlier in the year. And so the work that remains, I think, is generally continuing, and we haven't seen impacts from a stop work perspective.

Operator

(Operator Instructions)

Marc Riddick, Sidoti.

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

Hi, good evening, everyone.

Marc Riddick *Sidoti & Company LLC - Analyst*

So I just wanted to add my congratulations to Barry and James. And certainly, Barry, it's been a pleasure working with you and all the best for your retirement and certainly looking forward to continue to working with the team going forward. So I just wanted to express my gratitude there.

Barry Broadus *ICF International Inc - Chief Financial Officer, Executive Vice President*

Thank you Mark.

Marc Riddick *Sidoti & Company LLC - Analyst*

I wanted to touch a little bit on -- so the growth areas that we're looking at that as we go into next year, and I know you're going into planning and the like. But I was wondering, as we look at the non-federal are the areas that are actually growing and doing really well right now, can we sort of maybe talk a little bit about how you feel about your bandwidth there, given the growth that you've seen, the growth that you could potentially see in the near term there and the type of bandwidth where you are now and maybe other investments in personnel, technology or the like to sort of be able to extract those opportunities?

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

I would say that we're certainly investing materially in the key growth markets to take full advantage of that includes recruiting new talent to help us win and develop the work and bring new skills, investing in technology, software and leveraging AI to grow those businesses.

And so we're certainly making some appropriate investments, and that's where the investment focus is right now. The primary focus of the investments in ICF are in those markets. In terms of recruiting the talent, I think that we're investing a lot in recruiting, and we're able to recruit the talent to be able to stay in front of that.

I think as we look to next year, we certainly expect double-digit growth across commercial -- the combination of commercial, state and local and international. We can do it quite robustly in commercial energy. We have a strong recruiting engine there. We're a market leader in these markets, and -- and the talent inside the firm helps us find the best talent outside the firm. And so I think we'll -- so I think we can -- we'll be able to retain and recruit the talent.

I do think we expect as these international projects ramp -- continue to ramp up for next year, we'd expect very strong double-digit growth in our international business. And again, we've been working the recruiting for that quite well. And I would say the same in the state and local. So I think we're making the appropriate investments. We'll ensure we have the talent. We have a pipeline of candidates.

And so as the work comes in, we will not have backlog that we're not able to translate into revenue quickly, we will let that happen. So I think we feel quite good about our ability to translate contract wins into revenue quickly.

Marc Riddick *Sidoti & Company LLC - Analyst*

Okay. Okay. That's helpful. And then there were on a couple of occasions, I guess, within prepared remarks, some commentary around potential for inorganic investments and cash usage prioritization and the like. And I know certainly, you're going to be addressing that and looking that over again as we go through your planning process.

But I was wondering maybe if you could take us through what you're seeing out there right now from the acquisition pipeline potential front. I mean, are you seeing much in the way of -- like what does the pipeline look like as far as volume? We're seeing more and more M&A activity generally, but maybe you can sort of share your thoughts of what you're seeing as to attractive opportunities and valuation levels currently?

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

And I long I know that very -- I'll speak to M&A and Barry can speak to cash flow. I think in terms of our M&A strategy, I think M&A remains an important component of our overall strategy. As you know, if you look at the history of ICF, we've certainly been acquisitive and it's been an important part of our overall growth story. I think right now, we're quite focused on looking at opportunities in the energy arena that could add scale or add geography or add key capabilities in the core markets we serve across both the advisory business and the program implementation business.

And so we're certainly out in the market looking at those and -- and I think that would be -- if we could find the appropriate opportunity with the right strategic fit and the right cultural fit, we would certainly take a hard look at that. I mean I think with everything going on in the energy arena, the valuations are certainly fulsome, but we're looking there. I think we've also looked at opportunities around fast recovery and infrastructure-related work in state and local markets. And I think there are opportunities out there in those markets.

In the federal market, we've -- I think we're less likely to do something. I mean I think it remains a challenging market. The valuations are challenging. I think we certainly are looking at opportunities in IT. And so I wouldn't rule that out, but I think the federal market brings obviously, challenges given the state of that market and the uncertainty in it.

And so I think our primary focus is around energy and around asset management and infrastructure. And I guess, Barry, I'll let you -- do you want to talk about the broader investment.

Barry Broadus *ICF International Inc - Chief Financial Officer, Executive Vice President*

I would say, as I noted in my remarks that we continue to focus on paying down debt. Expectations is that from a leverage position, we'll be below 2 times levered at year end. And that would provide us with capacity to go after various assets that we think are appropriate. So we'll continue to stay focused on that and pay down the debt as we've done in the past and be looking at to see we can put some of that dry powder to use.

Marc Riddick *Sidoti & Company LLC - Analyst*

Okay. Excellent. And thank you and congratulations again.

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

Thank you.

Operator

Kevin Steinke, Barrington Research Associates.

Kevin Steinke *Barrington Research Associates Inc - Analyst*

Great, thank you. So you mentioned when talking about the commercial energy business, obviously, you're winning new business there and you're taking market share. I was wondering if there's any way you could kind of frame the size or the extent of the market opportunity there, maybe in terms of the continued opportunity to win new business and take market share, maybe just either in terms of the utilities you might not be working with or states you haven't penetrated or the opportunity to continue penetrating and winning additional business with existing clients?

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

And I think that -- I think we still think there's material opportunities for us to -- there will be new opportunities. There will be opportunities for takeaways and takeaway businesses from competitors. And obviously, as we win recompetes, we hope we can expand the scope of those. I think it's -- I mean, in terms of the size of the market, then this market is north of $2 billion.

I don't think we're constrained by the size of the market. I think we're strongest in residential and commercial energy efficiency. I think our market share is perhaps in the 15% -- 10% to 15% range. I don't think we're constrained by that. And so -- and I think our track record is quite strong on being able to compete effectively for this work and deliver integrated solutions.

And so I don't think we're -- I don't think we're constrained by the size of the market or our market share. I think there's certainly a material additional opportunity for us.

Kevin Steinke *Barrington Research Associates Inc - Analyst*

Okay. Great. Thanks, and on your second quarter call, you had also -- when talking about the guidance framework for 2025, you had mentioned given the slowdown now in the pace of contract cancellations with the federal government that you probably wouldn't be at the low end of that guidance framework. Is that still the case given that you haven't seen any more cancellations in the federal arena? Or kind of does the shutdown make that kind of full range still within the realm of possibility?

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

I would say that -- obviously, when we gave -- as I said in my remarks, when we gave that range at the beginning of the year, it did not assume a federal government shutdown. And I think -- and certainly in our second quarter call, we indicated the 10% on revenues.

I think -- let me say it this way. I think prior to the government shutting down and -- prior to the government shutdown, I think our expectation and our expectation was, and I think we had confidence that from a revenue perspective, we'd be down 6% on the year in that range without a government shutdown.

And we were progressing on that and felt that confidence through a good part of Q3 until we hit the point where it became clear that the government shutdown was quite likely, and we began to see impacts prior to the shutdown in terms of the level of procurement and certainly in our Health and Human services arena. I think -- with the shutdown now, I think we will be towards the lower end of the range. And we've given you -- I think Barry gave you guidance on how to do that.

But certainly, the federal government shutdown and the magnitude of the revenue and profit impacts will move us towards the lower end of the range. I just do want to say we are quite proud of the fact that we -- with our kind of range we gave, which was without a government shutdown, we've been able to manage the business through the first nine months of the year, stay firmly within that range, maintain our profitability at levels prior to this administration. And then now with the government shutdown, we can maintain that range.

Obviously, we'll move -- it will have an impact, but we'll stay in that range. And I think that's quite -- something that I feel quite good about and quite proud of. I mean I think it's -- when we gave that, we gave that range, our initial range very early in February.

There's a lot of interest in people for us to kind of quantify what was the maximum downside risk of the new administration of those activities, GSA activities, changes in procurement, federal employees leaving the government. So we gave that guidance very early, and it stood the test of time, and we've managed to it.

And so I think that -- so I'm proud of that. And then I think now we have this government shutdown. We're managing that very carefully. We have a playbook to do it.

And we'll deliver results and we'll stay in the range -- that range will hold with a government shutdown. And we'll manage our profitability and part of the business outside of federal will continue to grow double digit. And so -- so I know that's a long-winded answer to your question, Kevin, but we'll certainly be in the range now with this government shutdown. It will have some impact, temporary impact. I do think that the revenues will come back in over the life of the contracts, whether that's in the next year or 18 months.

And we -- so that's -- I guess that's kind of how I see the guidance. And we do feel good about how we've managed through all this.

Kevin Steinke *Barrington Research Associates Inc - Analyst*

Yes. I appreciate that. Very helpful. And yes, a nice job on forecasting that out with so much uncertainty. But I guess just my last question.

With James taking on the CFO role, is that how you see that going forward as kind of a more a permanent arrangement with both a dual COO, CFO role? Or would you eventually

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

I would say that -- I'd say a couple of things. One is, I mean, I think as you know, James was CFO for eight or nine years in his first eight or nine years at ICF. He then transitioned into the COO role for the last five years -- five or six years. And so he's done both those roles. I think he is, in some ways, uniquely qualified to do both those roles.

And I think given where we are and the size and scale of the firm and the maturity of the firm and the strength of the team behind Barry, I think it makes sense to combine this. So James' new title will be Chief Operating and Financial Officer. And whether that remains or we change it down the road, I haven't got that far. I'm just pleased James can take on this role.

At the same time, we're also asking Anne Choate, who's done a phenomenal job growing our energy business, has been at ICF for 30 years. She's going to take on the role of managing our operating groups and our business development function, who has been reporting to me. But I think she'll bring a tremendous focus on translating our strategy into growth, driving growth managing -- making sure we -- our clients are delighted with our work and driving business development.

And so I think it's great opportunities for both of them, and it will allow me to focus on strategy in a time of significant change, M&A, developing the next generation of leaders and representing ICF externally. And so I think that's how I see it. I think we're -- I think it's -- I'm just pleased we have the bench here to do this. And I think one of the things we've done really well over here is to provide opportunities for folks to grow their career at ICF. I think this is another indication.

And Anne's promotion has a ripple effect in our energy business, which will give a number of key leaders there additional responsibilities, which I'm really pleased to do, and we'll certainly continue to do that as we go forward as we grow.

Operator

Excuse me, go ahead.

Kevin Steinke *Barrington Research Associates Inc - Analyst*

Yeah, I just wanted to add, it's been a pleasure working with you, Barry, and best wishes for your retirement.

Barry Broadus *ICF International Inc - Chief Financial Officer, Executive Vice President*

Thank you, Kevin. Likewise.

Operator

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, President, Chief Executive Officer*

Okay. Well, thanks, everybody, for participating in today's call, and we look forward to connecting at upcoming conferences with you. Thank you.

Operator

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

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