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PRESENTATION

Operator

Welcome to the fourth quarter and full-year ICF earnings conference call. My name is Eric, and I'll be your operator for today's call.

(Operator Instructions)

Please note that this conference is being recorded on Monday, February 27, 2017, and cannot be reproduced or rebroadcast without permission from the company. I will now turn the call over to Lynn Morgen of MBS Value Partners. Please go ahead.

Lynn Morgen - *MBS Value Partners - IR*

Thank you Eric. Good afternoon everyone, and thank you for joining us to review ICF's fourth-quarter and full-year 2016 performance. With us today from ICF are Sudhakar Kesavan, Chairman and CEO; John Wasson, President and COO; and James Morgan, CFO.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our February 27, 2017 press release and our SEC filings for discussions of those risks.

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

I will now turn the call over to ICF's CEO, Sudhakar Kesavan to discuss fourth-quarter and full-year 2016 performance. Sudhakar?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thank you Lynn, and thank you all for joining us today to review our fourth-quarter and full-year 2016 results and to discuss our business outlook for 2017. This was a year of significant organic revenue growth for ICF. The 5% revenue increase we reported was entirely organic and was consistent with the mid-single-digit rate that we had expected.

Each of our vertical markets and each of our three largest client categories, federal, commercial, and state and local government, posted year-on-year revenue growth, benefiting from the significant volume of new business that ICF has been awarded over the last two years and our high percentage of recompete wins.

Highlights from the year included: revenues from federal government clients, which were up 4.1% compared to 2015, the highest year on year increase since 2010; the positive momentum in our commercial energy markets group, which achieved double digit year-on-year revenue growth; the steady revenue performance of our commercial marketing services business, which came in modesty ahead of last year; and a 20% increase in diluted EPS to $2.40.

In the fourth quarter, we experienced some revenue slippage on the part of certain federal government clients and transaction postponements in our commercial energy advisory group. Strong performance from energy efficiency programs and our work on infrastructure projects for state and local government clients were compensating factors. The impact on service revenues, however, resulted in fourth quarter diluted EPS coming in at $0.65, which put us below our recent guidance range for the year. Since the beginning of 2017, our work with federal government clients and on commercial energy transactions has returned to normalized levels.

With another year of record contract wins for ICF, we have a strong foundation for growth in 2017 and beyond. ICF had a record year-end backlog of $2.1 billion, representing a book-to-bill ratio of 1.26 and a record pipeline of $4.2 billion. Based on what we know today, over 80% of our 2017 revenue guidance is already in backlog, which supports our expectations for another year of solid growth for ICF.

In addition to the backlog and pipeline, an important factor in assessing our future performance is how the new administration is likely to affect our federal government business. It is early to be precise, but let me give you our current thinking.

As you know, we have a diversified client base in our federal government business. The Department of Health and Human Services is our largest federal agency client, accounting for 19% of 2016 revenues. At HHS, we believe that ICF is well positioned, as the bulk of our contracts are with the U.S. Centers for Disease Control and the National Institute of Health, and involve public health and biomedical issues that have bipartisan support. Much of our work is collecting and analyzing data, changing behaviors, and dealing with front burner issues such as widespread opioid addiction and smoking cessation.

On the other hand, there has been a lot of discussion about the new administration's priorities with respect to the Environmental Protection Agency, which represented 3% of 2016 revenues. At the EPA, ICF supports a variety of clean air, clean water, and voluntary programs such as Energy Star. Budget reductions at the EPA would most likely affect our climate-related programs, which accounted for about $15 million in revenue in 2016.

The rules under the federal Clean Power Plan are likely to change, but we do not know the alternate framework that the new administration will put forward to support the EPA in its statutory obligation to regulate greenhouse gas emissions. Any activity, whether it be a repeal or a replacement of the Plan, can be seen as an opportunity for ICF.

Also, we're encouraged by the new administration's focus on rebuilding the country's infrastructure. ICF achieved double-digit organic growth from 2009 to 2011, driven in large part by the infrastructure investments under the Obama stimulus package, where we were involved in the planning and implementation phases of a broad range of projects.

As you can see, therefore, there are some puts and takes with respect to how the new administration's policies may impact our federal business, but we will know more once additional federal agency positions are filled and the 2018 fiscal budget is finalized, hopefully in the next six months.

Looking at the outlook more broadly, our experience has been that freezes in government personnel headcount, which have been promised by the new administration, usually result in increased work for government services consultants and contractors. And, with both a President and Congress from the same political party, we should be able to avoid the bottlenecks and roadblocks to action that have caused budget crises in the past.

We believe that our commercial utility-focused energy efficiency business will be largely unaffected by the new administration's policies, as they are under state, not federal, jurisdictions. Also, utilities generally are supportive of energy efficiency programs as they enhance customer satisfaction, and utilities often earn a shareholder return for successful delivery of these programs. We are expecting robust growth in our energy markets business in 2017.

The marketing services business is growing steadily, albeit at a slower pace than we would like. We continue to be optimistic about this business and our demonstrated ability to sell marketing services to ICF's legacy clients. This business is highly correlated with economic growth and as growth accelerates, we should see a more positive impact here.

I would now like to turn the call over to ICF's President, John Wasson, who will provide an operational update. John?

John Wasson - *ICF International - President, COO*

Thanks, Sudhakar. 2016 was a record-setting year for ICF. Revenues, net income, year-end backlog, contract awards and our new business pipeline were all at the highest levels in our history.

Our 3.1% revenue increase in the fourth quarter was led by 10.8% growth in revenues from commercial clients and 16.4% growth in revenues from state and local government clients. This performance more than offset the expected decline in international government revenues and a decline in federal government revenues that we did not expect.

The slowdown of federal government workflow in the fourth quarter was primarily due to delays in setting priorities and on the startup of new projects at certain of our federal clients. Also, we experienced a postponement in pass-through revenues that we were expecting in the fourth quarter. As a result, federal government revenues declined 3.1% in the fourth quarter, in sharp contrast to the 4.1% growth in federal revenues that we reported for the full year. We have seen a return to a more normalized pattern of task orders and contract ramp-ups in our federal markets since the beginning of the year.

Our federal government work remains well diversified with no single contract accounting for more than 3.5% of total revenues. Our confidence in ICF's growth potential is supported by recent contract wins for projects that involve our domain expertise and implementation skills. A good example of this is our recent award from the U.S. Centers for Disease Control and Prevention, the CDC, where we won nine contracts with a combined value of up to $34.4 million. Here we are combining our deep subject matter knowledge in public health with our marketing and communications services around traditional and social media and engagement to assist the CDC in its campaigns against opioid abuse, smoking, and to raise awareness of antibiotics resistance and travel-related diseases.

The double-digit increase in revenues from commercial clients in the fourth quarter was driven by the excellent performance of our energy markets group, comprised of energy efficiency programs and consulting to industry and financial institutions on a range of energy-related business, regulatory, and transactional issues.

As Sudhakar noted earlier, in the fourth quarter, certain of the energy advisory clients we serve postponed transactions in order to assess likely deregulation initiatives from the new administration. In recent weeks, our work on these projects has resumed.

Even with this headwind, the fourth-quarter performance of our commercial energy markets group was excellent, with revenues up 17.8% compared to last year's fourth quarter. We are currently working on 150 energy efficiency programs, all of which are driven by state-level policies and initiatives.

In the fourth quarter, we continued to ramp up previously announced new energy efficiency programs, with significant new work with Midwestern utilities, including Kansas City Power and Light and Ameren-Missouri, as well as expanded programs with current clients. In November, we officially announced the major contract win that we had spoken about earlier in the year to operate all of the common commercial and industrial energy efficiency programs for the operating utilities owned by Exelon Corporation. This $110 million contract award represents a convergence of a family of utilities coming together to carry their best practices in energy efficiency program design and delivery across their entire multistate portfolio. This is a new direction that we believe many large and geographically diverse utilities will be watching closely.

Exelon's bundling of its portfolio allows ICF to apply deeper analytics in how we target, market and engage customers, thereby delivering greater energy savings and doing so more quickly and more cost-effectively.

In addition, we were awarded several contracts with both new and existing clients that we expect will continue to provide growth in our energy efficiency implementation business in 2017 and beyond, and our pipeline remains robust. ICF is unique in that we combine advisory work, and intellectual property needed to support that advice, with the capability to implement these programs. This gives us significant competitive advantages, which were further enhanced by the ICF Olson acquisition.

The second major component of our commercial business is marketing services, which operates under the ICF Olson brand. ICF Olson's commercial revenues in the fourth quarter were up 4.7% year on year, representing a strong finish to a challenging year, when even the world's largest marketing services agencies experienced no or slow growth. We won a number of new accounts in the fourth quarter across a broad range of industries, including financial services, hospitality, retail and gaming, and succeeded in increasing revenues from existing clients. Additionally, we're encouraged by the many new projects won in the fourth quarter that represented cross sells of the various services within ICF Olson and between ICF Olson and ICF, and their new business pipeline of integrated service opportunities looks good. Specifically, ICF Olson is collaborating closely with ICF's commercial energy teams on several business development initiatives, and we have an active pipeline of state lottery opportunities.

We continue to make changes to the organization to present an integrated customer experience service offering to our diversified client roster. The combination of ICF Olson's marketing services with ICF's traditional areas of domain expertise such as energy, health, and transportation, is a natural fit that we expect to be a long-term growth driver for our company.

We were very pleased today to see that Adweek named ICF Olson as one of the twelve agencies in the country that has, quote, masterfully adapted, unquote, in an increasingly digital marketplace.

International government revenues were down 11.5% and accounted for 7% of fourth-quarter revenues. The issues here are the same, namely delays in activating programs at our largest client, the European Commission. As I mentioned last quarter, we've been successful in winning new contracts in Europe and have a trailing 12 month book-to-bill ratio that is substantially above 1. We are not counting on this market improving in 2017, but we are positive on the longer-term prospects for this business and are willing to wait it out.

Revenues from state and local government clients accounted for 11% of fourth-quarter revenues. This primarily reflects work on infrastructure projects and includes work that ICF Olson performs for state lotteries as well as pass-through revenues, which have been higher than usual for most of this year. Our guidance for flat revenue performance assumes that pass-through revenues on state and local work return to more normalized levels in 2017.

For full-year 2016, we had year-over-year growth in all of our vertical markets. Our two key market groups, Energy, Environment, and Infrastructure, and Health and Social Programs, accounted for 82% of total revenues, with Safety and Security and Consumer and Financial representing approximately 8% and 10%, respectively.

Looking ahead, we believe that our diversified business model positions ICF for continued growth in 2017. Our business development pipeline was a record $4.2 billion, even after 2016's record contract wins of $1.5 billion. The pipeline includes 35 opportunities greater than $25 million and 69 opportunities between $10 million and $25 million. Similar to last year, our turnover rate for the year was 16.4%.

I will now turn over the call to James Morgan, our CFO. James?

James Morgan - *ICF International - EVP and CFO*

Thanks, John. Good afternoon, everyone. We reported solid year-on-year comparisons in the fourth quarter, executing well across key operating metrics, which I will highlight as I walk through the major elements of the income statement.

Total revenue for the fourth quarter of 2016 was $289.6 million, compared to $280.8 million in 2015, an increase of $8.8 million or 3.1%. Even though there was one less working day in the fourth quarter of 2016, service revenue remained essentially flat at $206.8 million as compared to $207 million in 2015.

Indirect and selling expenses for the fourth quarter were $77.7 million, or 26.8% from revenue, compared to $79.5 million, or 28.3% of revenue, in the prior year.

Reported EBITDA was $29.5 million for the quarter, $2 million or 7.1% higher than the $27.5 million reported in last year's fourth quarter. The higher year-over-year EBITDA was due to lower indirect expenses and slightly higher gross profits. EBITDA margin was 10.2% for the fourth quarter of 2016, as compared to 9.8% in the fourth quarter of last year.

Adjusted EBITDA for the fourth quarter, which excludes special charges related to acquisitions, severance for staff realignment, and international office closures, was $29.9 million, or 10.3% of revenue, as compared to 10.1% of revenue in the fourth quarter of 2015.

Depreciation and amortization expense was $4.4 million, up from $4.2 million in 2015's fourth quarter. Amortization of intangibles was $3.1 million in the fourth quarter of 2016, down from $4.3 million in 2015's fourth quarter. The decrease is due to intangibles from prior acquisitions becoming fully amortized.

Lower indirect and selling expenses and lower amortization of intangibles were the primary drivers that resulted in 2016 fourth quarter operating income increasing by 15.4% to $22 million, as compared to $19 million in the fourth quarter of 2015.

The effective tax rate was 36.8% for the quarter, as compared 35.3% reported in the fourth quarter of 2015. The 2015 fourth quarter effective tax rate was slightly more positively impacted by favorable return to provision adjustments. For the 2016 full year, the effective tax rate was 37.5%, compared to 38.1% for 2015.

Net income was $12.7 million, or $0.65 per diluted share for the fourth quarter of 2016, which included $0.01 per share impact for special charges previously mentioned. Non-GAAP diluted EPS, which excludes amortization of intangibles and the special charges, was $0.76 for the fourth quarter of 2016, as compared to $0.73 in the prior year.

Now we turn to the full-year 2016 results. For the full year of 2016, we had record revenue and net income. Revenue was $1.185 billion compared to $1.132 billion for 2015, an increase of 4.7%. While service revenue was up year over year by 1.8%, the increase in revenue from subcontractor and other direct costs, which were up 13.1%, outpaced the increase in service revenue.

EBITDA increased 3% to $111.9 million, or 9.4% of revenue. Adjusted EBITDA, which as I mentioned previously excludes special charges related to acquisition-related expenses, severance for staff realignment, and office closures, increased to $113.9 million, or 9.6% of revenue, compared to $110.7 million, or 9.8% of revenue, for 2015. It should be noted that excluding the impact of higher year-over-year pass-through revenue, our 2016 adjusted EBITDA margin would've been an estimated 9.8%, similar to 2015.

Operating income increased $7.6 million or 10.1% to $82.8 million, primarily due to lower amortization of intangibles and indirect and selling expenses, as well as higher revenues. Net income increased to $46.6 million in 2016 compared to $39.4 million in 2015, an increase of 18.3%.

Reported diluted earnings per share was $2.40 for 2016 compared to $2.00 for 2015, an increase of 20%. Non-GAAP diluted EPS, which excludes amortization of intangibles and special charges, was $2.87 per diluted share for 2016, as compared to $2.64 in the prior year, an increase of $0.23 per share or 8.7%.

In December 2016, the Company sold its interest rate hedge agreement, which was entered into in late Q3 of 2016, for $3.6 million. As a result of the sale, the gain on the sale of the interest rate hedge was recorded in other comprehensive income and will be recognized into earnings over the original life of the hedge, which was January 31, 2018 to January 31, 2023.

Cash provided by operating activities in 2016 was $79.6 million, slightly improved as compared to 2015 operating cash flow of $76.3 million, but below our guidance range, primarily due to temporary timing differences with our billings and collections. As a result of those timing differences, the Company collected almost $10 million more in cash during the first week of 2017 as compared to the first week of 2016. The timing differences resulted in days sales outstanding for the fourth quarter of 2016 of 78 days, as compared to 73 days in the fourth quarter of 2015. We anticipate our DSOs to be in the 72- to 77-day range during 2017, including the impact of deferred revenues.

With regard to capital allocation, capital expenditures in 2016 were $17.8 million. We utilized $21.8 million of cash during the fourth quarter and $52.1 million during the full year of 2016 to pay down debt under our credit facility, which totaled $259.4 million at year end. Additionally, we made stock repurchases under our share repurchase plan totaling $11.9 million during the full year of 2016 and achieved our goal of offsetting the dilution caused by our employee incentive programs to maintain fully diluted weighted-average shares of no more than 19.5 million for the year. In fact, for 2016 the fully diluted weighted-average shares were 19.4 million. As of 2016 year-end, the remaining value of stock that can be repurchased under our share repurchase plan is $37.7 million.

Now I will provide some details regarding our expectations for the full year of 2017. We're currently forecasting full-year depreciation and amortization expense to be in the range of $17.7 million to $18.7 million for 2017. We are forecasting the amortization of intangibles to be approximately $10.8 million, or a tax-affected impact of $0.34 per share. We are expecting full-year interest expense of $7 million to $8 million, capital expenditures are anticipated be in the $20 million to $22 million range, cash flow from operating activities is expected to range from $90 million to $100 million, and lastly, we expect a full-year tax rate of no more than 38.5%, and we expect fully diluted weighted average shares of approximately 19.4 million for the year.

With that, I'd like to turn the call back over to Sudhakar.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thank you, James. To sum up, our growth strategy remains the same. First, we're going to continue to focus on what we know: sustain and grow our distinctive subject matter expertise in our core vertical markets. Second, provide our industry leading functional capabilities in technology, marketing and engagement skills to an increasingly broader range of our traditional clients. And third, seamlessly combine the distinctive core market expertise with these functional skills.

In terms of 2017, we believe that our diversified business model will lead to revenue performance in the range of $1.2 billion to $1.24 billion and diluted earnings per share of between $2.50 and $2.75, based on several revenue assumptions, the key ones being: another year of mid-single-digit commercial growth driven by our energy markets business; and federal government revenues that are flat as compared to 2016 or increase at a low-single-digit rate. We expect our cash flow from operations to be between $90 million and $100 million. And operator, now I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from Tobey Sommer from SunTrust. Tobey your line is now open.

Kwan Kim - *SunTrust Robinson Humphrey - Analyst*

Hello, this is Kwan Kin on for Tobey, thank you for taking my questions. Regarding President Trump's plans to cut back spending for EPA could you talk about the impact this may have on your customers in 2017, and how your customers have been reacting so far to developments and could there be more delays and contracts from energy customers this year? Thank you.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

So as I mentioned you know in the first quarter of this year, things have been pretty normal and I think that, as I stated in my remarks, we do want $50 million of work on climate change activities which might be affecting the revenues. I think the one nuance which I would like people to understand is that the focus on climate change is an important one and there will certainly be cutbacks there but I think from a statutory perspective, EPA has to regulate greenhouse gases. They may not do it with the Clean Power Plan but they might do it -- using something else and we don't really know what that will be, whatever that will be, that will create work for us.

I think that we are certainly expecting the EPA revenue to be affected because that's been stated multiple times and I think the amount of work we do is around $50 million. How and when and where, we don't know but we haven't seen any impact at least in the first quarter. On your question about energy clients, energy clients are primarily utility clients.

The utilities basically do all the efficiency work, I don't see any impact because they are all under the state jurisdiction and state law and the clients are primarily utilities; we think that will continue to be fine and keep growing and I think that in fact, there might be cases where certain states are even more aggressive in terms of regulating on energy efficiency issues. Therefore there might be potentially more work in that arena. I think the energy and utility clients will be fine and I think we will continue to keep going the way we are and are currently doing.

Kwan Kim - *SunTrust Robinson Humphrey - Analyst*

Thank you. On ICF Olson can you talk about the near term opportunities you are seeing and how your pipeline is looking compared to the prior quarters in terms of the mix of new versus the legacy customers and the types of industries from [the service]?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think on the ICF Olson front, one thing which is important to understand is that we've gotten some significant benefits from them when we take them into our legacy client base, which is why we acquired them. We have talked about some of the work which we have cross sold in prior earnings calls to utilities, to aviation companies, and to certain government clients. We have been quite successful there; they continue to be quite successful in their efforts to grow their business in the core retail consumer and other industries.

They have been very successful in selling to hospitality companies, large hotel chain--we are one the biggest providers of loyalty programs to some of the largest chains in the world. I think we have done a lot of work for good companies, I think that the pipeline is quite strong.

We continue to hire people at the senior levels who have helped us expand the pipeline and have grown it. I think they grew 4.1% or something, 4.7% in the fourth quarter so I think that there is some momentum going in and we hope that will continue.

Kwan Kim - *SunTrust Robinson Humphrey - Analyst*

Got it. Thank you very much.

Operator

Our next question comes from Tim McHugh from William Blair. Tim, your line is now open.

Timothy McHugh - *William Blair & Company - Analyst*

Thank you. First, can you remind us that 80% that you have in backlog in terms of visibility to 2017. I seem to recall a 70% number in the past but can you remember or remind us, sorry, how that comparison, I guess, in terms of visibility to what you are guiding to?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think it is about 4 percentage points higher than last year, we had 77% last year.

Timothy McHugh - *William Blair & Company - Analyst*

Okay and then just that mid-single digit growth in commercial, given the growth you are seeing in the utility or the energy sector especially in the first half of the year, just given the run rate from the second half of 2016, it doesn't seem like you are expecting or embedding a big growth number for the marketing services side of business. Is that wrong or how should I look at that?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think there are various components of our commercial business. It is important to understand that there's a small portion which is commercial healthcare. We do some TRTP work, which as you know, that big contract which has over the last three or four years -- we've done a lot of work just three years ago and are slowly ramping down.

I think when you include all of those elements in there, then that is what it comes to because if you use $6 million or $8 million or $9 million on a specific protractor contract with TRTP that brings the growth rate down. I think that as you point out the utility work will continue, even the momentum in the digital marketing services businesses will continue.

I think that the TRTP and some of the commercial healthcare work is very uncertain at the moment and I think that (inaudible) is going to be down and the aviation business is going to be a little bit up. I think when you include all of that you basically get to that mid-single digit number.

Timothy McHugh - *William Blair & Company - Analyst*

Okay. Then just subcontractor fees, I think you mentioned state and local, but more generally what is embedded as a percentage revenue maybe, or if you want to give a growth rate? But are you expecting that to continue to ramp up and add to the revenue outlook or are we at a level where this is going to stabilize? Just trying to think about the impact on revenue growth as well as margins for 2017?

James Morgan - *ICF International - EVP and CFO*

Hey, Tim, this is James. If you take a look at our pass-through rates for the last couple of years and 2015, we were around 25%, this past year we averaged around 27%. We're thinking that for 2017 it's going to be somewhere in the middle of that range. It's what we are anticipating. A little bit less than what we had in 2016. But kind of in the middle of those two, roughly.

Timothy McHugh - *William Blair & Company - Analyst*

Okay. Fair enough. I appreciate it, thank you.

Operator

Next question comes from Joseph Vafi from Jefferies Capital. Joseph, your line is now open.

Joseph Vafi - *Jefferies LLC - Analyst*

Hey, guys, good afternoon; thanks for taking my question. Just one more question on the energy efficiency business given how big it is now if you could give us a feel for what you think this total addressable market is? If you believe you're going to start to run into upper growth ahead because you penetrated the market pretty successfully so far.

Then secondly, I was wondering if the European business is profitable right now? Thanks.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, so just in terms of the addressable market -- Joe, welcome back first, it's good to have you back. I think we -- let me just say the number that is around $800 million of energy efficiency work is the pipeline which we have at the moment in addition to all the other work which we are currently doing.

The universal market we have done any number of exercises -- it's hard to come up with a specific number but it is $2 billion to $5 billion range would be the addressable market. I give you that broad range because sometimes we underestimate the addressable market. The California market is a large one, we think that, that will-- it's like waiting for Godot.

We have been waiting for the California market to pop up the last year or two but now we think it will happen in late 2017 early 2018. I think that, that is a very large market where we have very small share and we are focused on trying to see how we can increase that. I think if you look at all of that it's a pretty strong good market.

I think on the European business, yes, it's certainly a generous contribution margin, it's not as much as we would like but we are trying to make sure that we focus on cranking it up. And we have an excellent group lead who has been there for a year now who is a very experienced general manager, who is doing what he can to crank up the profitability of that business. And John you want to add something on that?

John Wasson - *ICF International - President, COO*

No, I think you covered the key points.

Joseph Vafi - *Jefferies LLC - Analyst*

Thanks so much for that.

Operator

Our next question comes from Edward Caso from Wells Fargo. Edward, your line is now open.

Edward Caso - *Wells Fargo Securities, LLC - Analyst*

Hello, thank you, just some clarifications on the guidance. What's the implied EBITDA margin?

James Morgan - *ICF International - EVP and CFO*

The implied EBITDA margin is in the upper 9% range. Somewhere between 9.6% to 9.8%.

Edward Caso - *Wells Fargo Securities, LLC - Analyst*

Sorry, I am fighting a cold here. The other, just have one other question, I guess that's it. I'm good, thanks.

Operator

(Operator Instructions)

Our next question comes from Ben Klieve from Noble Capital Market. Ben, your line is now open.

Ben Klieve - *Noble Capital Market - Analyst*

All right, thank you. A few questions, first of all what is your commentary for Joe's question, what are you seeing in the California market that gives you a little bit of optimism regarding that market opening up in late 2017 and early 2018?

John Wasson - *ICF International - President, COO*

Yes this is John Wasson, I think in the California market what we are seeing is the California PUC has generally required the utilities to outsource about 20% of their energy efficiency program. There's some rule making under way in California in the PUC to up that to 60% outsourcing.

It's a very significant market and obviously if they increased the amount of work that is outsourced by threefold that would be a significant opportunity for folks in the energy efficiency business. That certainly presents a potential significant driver and I think there's a reasonable chance that will become a regulation by late in 2017 or early in 2018.

Ben Klieve - *Noble Capital Market - Analyst*

Okay, perfect, thank you. One question regarding your exposure within the Department of Health and Human Services, do you have any exposure at all to the Affordable Care Act?

John Wasson - *ICF International - President, COO*

This is John Wasson again, no we have basically no exposure to the Affordable Care Act. Most of our work in HHS is in either public health related, dealing with chronic disease prevention, health informatics, and we do a lot of outreach using digital communication around public health issues.

Most of the work we've done, we continue to see a lot of opportunity, a lot of RFP activity; these tended to be bipartisan programs and so we're cautiously optimistic on the work we do within HHS.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

We don't do any work with CMS, we don't do anything for CMS. Medicare services the one which runs it, we don't do that.

Ben Klieve - *Noble Capital Market - Analyst*

Okay, got you. And then transitioning here, a couple questions regarding M&A activity. First of all, regarding future debt reduction, what debt levels are you comfortable with?

What are you looking for? Do you have a target by the end of 2017 for net debt levels?

James Morgan - *ICF International - EVP and CFO*

This is James Morgan, if you look at where we are for the end of the year 2016 we're at about 2.3 times EBITDA, certainly we're comfortable with that range. Our debt covenants allow us to go up to 3.75, we have plenty of room for acquisition fire powder. We're comfortable with the low 2s and if we don't find an appropriate opportunity that makes sense for us is coming your given our cash generation we would expect that we would get down to a leverage ratio of somewhere around 1.7 or so for this coming year, by the end of the year.

Ben Klieve - *Noble Capital Market - Analyst*

Okay, thank you and then last question, following that, what are you looking at right now broadly from an M&A perspective? Where do you see opportunity, do you see that more in commercial digital side?

Do you see any opportunity in the government side? Do you see a little bit everywhere, where is your focus?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think broadly the way I think about the businesses is we have energy infrastructure business, we have federal business and we have marketing services business, if we look at those three. I think we see opportunities for adjacencies and depth and geographical dispersion in each of those areas. I think that we are constantly looking at various opportunities, enormous opportunities in all of these areas.

I think, we have to make sure that the valuations are such that we do the deal or not. As you would've noticed we haven't done any acquisitions since the end of 2014 which is what, two years now, on the other hand we've done about two on an average every year for the last 10 years.

I think that we are always looking, we are seeing whether we can find something which we understand and which we can fold in. I'm sure we will continue to look and hopefully find something, as James said, we have the potential to do it but it's all a question of the fit and the valuation.

Ben Klieve - *Noble Capital Market - Analyst*

Okay, thank you and actually just one more question and I will hop back in queue here. Given that some of the past revenue issues and various other kind of delays that you saw in Q4, are you expecting any changes in seasonality coming up here in 2017? Is it going to be more front loaded towards the front half of the year than maybe in years past?

James Morgan - *ICF International - EVP and CFO*

No, I don't think so. I think we did see a little bit of a slowdown in Q4, as we've said, we've seen a rebound in Q1, we're back to expected levels in the federal business. I don't think that we expect any change in our seasonality.

Ben Klieve - *Noble Capital Market - Analyst*

Okay, that's all for me, thank you for taking my questions.

Operator

We have no additional questions at this time.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thanks very much then for participating in today's call and we look forward to speaking with you next quarter, thanks again.

Operator

Thank you ladies and gentlemen, this concludes today's conference. Thank you for participating, you may now disconnect.
