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PRESENTATION

Operator

Welcome to the First Quarter 2017 ICF Earnings Conference Call. My name is Vanessa, and I will be your operator today. (Operator Instructions) Please note that this conference is being recorded on Thursday, May 4, 2017, and cannot be reproduced or rebroadcast without written permission from the company.

I will now turn the call over to Lynn Morgen of MBS ValuePartners. You may begin.

Lynn Morgen - *MBS ValuePartners, Inc. - Founding Partner*

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's first quarter 2017 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's 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 May 4, 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 first quarter 2017 performance. Sudhakar?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Well, thank you, Lynn, and good afternoon, everyone. We appreciate your participation in today's call. We know that this a busy day for earnings releases, so we moved up the call from our usual time and will be brief in our remarks to allow enough time for questions.

ICF's first quarter results were as expected, supporting the themes we discussed in our full year earnings call, which took place only 2 months ago. The pickup in business in January and February that we highlighted in the last quarter's call continued in March and for the first quarter, we reported year-on-year growth in all of our client categories.

We were pleased with the overall tenor of the government side of our business. Proposal and award activity in the federal government space increased progressively throughout the quarter. The work for state and local governments clients continued apace, and we were pleased by the positive revenue comparisons in our international government business.

In the commercial part of our business, the energy markets group was a standout performer again this quarter, reflecting in large part the leadership position that ICF has attained in developing and implementing energy efficiency programs for utilities across the country. As you know, typically, these programs are funded by public benefits charges that are approved by the various Public Service Commissions in order for the utilities to comply with state-mandated objectives to reduce energy use.

Also, the relationships that we have developed with the utility clients over the years have positioned us well to assist them in working through related issues like planning around distributed energy, for example. ICF is one of the very few firms in the country that has the breadth and capabilities needed to develop strategies and programs around the complex issues facing the utility industry and implementing them.

ICF Olson continues to differentiate ICF within our core client set. Since the acquisition, we have won over $75 million in revenue that neither firm could have won independently. ICF Olson succeeded in winning a lot of new work in this year's first quarter, and the pipeline of qualified new business opportunities is up significantly over year-end 2016 levels. This should lead to solid year-on-year comparisons in the second half of this year, and we are quite confident in the medium-term outlook for this business.

Also, PR Week's rankings came out on Monday. We are pleased to see that we are the second largest independent communications firm in the country and the 15th largest firm globally. Our first quarter earnings included a onetime charge primarily related to consolidating our office space, which will improve our cost structure. Over the last 2 years, we have been disciplined in taking steps to improve our long-term profitability such as closing international offices where ICF did not have enough scale to operate efficiently. And we will continue to adjust and shift resources to those areas within our domain expertise where we expect to see the most funding over the next several years.

Our viewpoint on how the new administration is likely to affect our federal government business is similar to what we communicated at the time of our 2016 year-end call, but I will say that we are more optimistic than we were then. This is supported by Monday's news of a budget agreement for the 2017 government fiscal year that increased funding levels for certain civilian agencies and basically maintained budgets for others in keeping with the requirements of the Budget Control Act.

From an ICF-specific standpoint, as you know, we have a diversified set of federal agency clients and contract vehicles. At the Department of Health and Human Services, which is our largest client, the bulk of our contracts are with the U.S. Centers for Disease Control and the National Institutes of Health, dealing with high-profile issues--and the new budget has actually increased funding there.

To summarize, 2017 is off to a good start. Adjusted for the net impact of both the office consolidation charges and the lower tax rate we had in the quarter, diluted EPS would have increased at a high single-digit rate, demonstrating the operating leverage associated with our business.

Now I would like to turn the call over to John Wasson, ICF's President and Chief Operating Officer, who'll review the key operating highlights of the quarter. John?

John Wasson - *ICF International, Inc. - President and COO*

Thank you, Sudhakar, and good afternoon. Our first quarter results represented a solid start to the year. We ended the quarter with a record new business pipeline of $4.7 billion and began this month with a positive outcome on the fiscal 2017 federal budget, both of which set the stage for future growth. The 4.5% revenue increase we reported for the first quarter was driven by a 9.4% increase in revenue from commercial clients and represented positive year-on-year comparisons across all our government client base as well.

We saw an uptick in activity amongst our U.S. federal government clients with a progressive return to a normalized pattern of task orders and contract ramp-ups in the first quarter, which continued into April. Revenues from federal government clients were up close to 1% in the first quarter and accounted for 47% of total revenues. In the interest of time, I will not go through all of the notable contract wins in the federal space. Rather, I will single out the contract we won to provide communication services and tools to the U.S. National Institute of Health in support of the National Institute on Alcohol Abuse and Alcoholism. This award demonstrates our bench strength in communications and engagement and our deep subject matter expertise in the public health field of alcohol-related problems, prevention and treatment. And together with other recent awards, this contract shows our ability to continue to win large, federal government contracts to engage at-risk populations on public health issues.

Turning to commercial, the strong revenue growth in the first quarter was driven by the continued excellent performance of our energy markets group, comprised of energy advisory work and the development and implementation of energy efficiency programs. In the first quarter, we continued to ramp-up new energy efficiency programs and expanded programs with current clients, including Georgia Power and the Energy Trust of Oregon, and of course, the work on the residential, commercial and industrial programs with the utilities that are owned and operated by Exelon.

At the same time, we continue to see excellent bidding opportunities, ending the quarter with an active pipeline over $750 million. In California, the largest state market for energy efficiency, the Public Utilities Commission recently directed utilities to increase outsourcing spending from 20% to 60% over a 3-year time horizon. The first wave of RFPs for outsourced programs is expected late this year or in early 2018.

Marketing services under the ICF Olson brand is a second major component of our commercial business. Although ICF Olson's revenues were modestly below last year's first quarter, we are very encouraged by the substantial number of new account wins in the first quarter, bringing on clients in a broad range of industries, including hospitality, business and financial, food and lottery. And we are pleased with the success of programs to provide additional services to existing ICF Olson clients.

Additionally, ICF Olson is working closely with our commercial aviation and energy markets teams to collaborate in areas such as digital experience management and airport customer experience and utility marketing and communications. There is substantial activity around future business at ICF Olson, and it is providing us with important cross-selling opportunities within ICF's traditional client set as well as top-notch credentials for proposals in the government space.

In the first quarter, revenues from state and local government increased 4.7%, to represent 11% of total revenues. In addition to infrastructure-related projects, the work that ICF Olson performs for state lotteries is included in this category. A key new contract award to mention is the $25 million win in the first quarter from the Los Angeles County Metropolitan Transit Authority to provide environmental impact services, which is described in today's earnings release.

This was only the second time in the last 2 years that we saw growth in international government revenue. And while it is early in the year, we are pleased with this positive showing. International government business revenues increased 6.7% year-on-year and accounted for 6% of total revenues.

Contract awards for the quarter were $250 million, representing a book-to-bill ratio of 0.85 for Q1 and trailing 12-month book-to-bill ratio of 1.19. Our sales for the quarter were in line with our expectations given that a Presidential transition historically always slows down awards in the federal arena for a quarter or two. We expect to see a significant ramp up in proposal activity in our federal markets over the next several months now that the federal budget is in place.

Our $4.7 billion pipeline at the end of the first quarter includes 35 opportunities greater than $25 million and 78 opportunities between $10 million and $25 million. Our annualized personnel turnover rate was 13.7%.

Now I'll turn the call over to our CFO, James Morgan for a detailed financial review. James?

James C. Morgan - *ICF International, Inc. - CFO and EVP*

Thanks, John. Good afternoon, everyone. We're pleased with our first quarter financial performance, which reflected increases in revenues and earnings over 2016 levels as well as continued progress on reducing infrastructure cost and opportunistic share repurchases, which reflect our positive outlook. I will now walk through the income statement to provide some color on our performance as well as the outlook for the remainder of the year.

First quarter 2017 revenue was $296.3 million, 4.5% or $12.7 million above last year's $283.6 million in Q1 of 2016. As John mentioned, the year-on-year increase in commercial revenue was driven primarily by commercial energy market revenues, which grew in excess of 20% over the first quarter of 2016. In aggregate, revenue from government clients increased 1.9% in the first quarter over the same period last year. Service revenue increased 3.5% to $219.8 million from $212.4 million last year.

Gross profit increased 5.9% to $112.7 million from $106.4 million in the first quarter of 2016. Gross margin increased to 38% in the first quarter of 2017 as compared to 37.5% in the same period of 2016. The year-over-year gross margin variance was favorably impacted by approximately 90 basis points as a result of a change in our labor cost allocation methodology, which reduced direct expenses and increased indirect selling expenses. The change in methodology did not affect operating income.

Partially offsetting the favorable impact of the labor cost allocation change was a higher mix of subcontracting revenues. After factoring in the 2 impacts, the year-over-year gross margin was essentially flat.

Indirect selling expenses for the first quarter were $88.8 million, an increase of $7.2 million compared to 2016. Of the year-over-year increase, an estimated $2.5 million was due to the previously mentioned change in our labor cost allocation methodology. Also, we recognized approximately $1.7 million in accelerated expense related to vacating underutilized portions of our Fairfax and London offices. These facility consolidation efforts enabled us to either exit a specific lease or to sublet space, which will result in a reduction of more than $3 million in future occupancy expenses over the next 5.5 years.

EBITDA was $23.9 million for the quarter, inclusive of the $1.7 million facility consolidation expense, compared to $24.8 million reported for the same period of last year. EBITDA margin was 8.1% for the quarter. Adjusted for the special charge, EBITDA margin was 8.6% for the quarter.

Depreciation and amortization expense was $4.5 million, $0.5 million up compared to Q1 of 2016, approximately $200,000 of which was due to the previously mentioned facility consolidation activities. Amortization of intangibles decreased to $2.7 million for the first quarter in 2017, compared to $3.1 million in the same period of 2016. Operating income was $16.6 million in the first quarter, down $1.1 million or 6% compared to the prior year. The variation was due primarily to the facility consolidation activities just mentioned, which totaled $1.9 million in additional indirect selling expense and depreciation expense.

The effective tax rate was 31.2% for the quarter, compared to 36.3% in the first quarter of 2016. The decrease in the tax rate was primarily due to tax benefits related to the vesting of restricted stock and the exercise of stock options in the first quarter of 2017. The lower effective tax rate for the quarter benefited diluted EPS by approximately $0.04. We expect that the effect on the tax rate due to tax benefits will be less in subsequent quarters since the large majority of our equity vesting occurs in the first quarter of each year.

Net income was $10.2 million, 2.9% above the $9.9 million in the first quarter of 2016. This translates to $0.52 per diluted share, compared to $0.51 in last year's first quarter. Non-GAAP EPS, which excludes amortization of intangibles as well as the special charges this quarter, was $0.69 per diluted share, an increase of 11.3% over $0.62 per diluted share in the first quarter of 2016.

Cash provided by operating activities for the first quarter totaled $6.7 million, compared to $13.4 million of cash used in operating activities in the first quarter of 2016, a year-over-year improvement of $20 million.

Positive cash flow benefited from strong collections over -- from our clients as well as roughly $10 million of expected Q4 2016 collections that slipped into the first week of 2017, which we noted during our last earnings call. Days sales outstanding for the first quarter decreased to 76 days as compared to 78 days at the end of 2016. We continue to anticipate the year-end DSO to be in the 72- to 77-day range, including the impact of deferred revenues.

Capital expenditures for the first quarter were $4 million.

We continue to reiterate the following guidance for 2017: Depreciation and amortization expense is expected to be in the range of $17.7 million to $18.7 million for the year--and amortization of intangibles is estimated to be approximately $10.8 million or $0.35 per share; interest expense is expected to be $7 million to $8 million; capital expenditures are expected to be within the $20 million to $22 million range; and cash flow from operations is expected to be $90 million to $100 million.

We now expect the full year tax rate to be approximately 37.5%.

Lastly, as we have stated previously, our capital allocation priorities are debt repayments, share repurchases and acquisitions. During the first quarter, we repurchased a total of 364,563 shares for a total of $16.3 million under our share repurchase program. As a result of these share repurchases, we now anticipate a weighted average diluted share count of approximately 19.2 million for the year, which is roughly 200,000 shares less than 2016. As of the start of Q2 2017, there is $27.6 million of authorized share repurchases remaining under our current share repurchase program.

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

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Thanks, James. In summary, first quarter results put us firmly on track to achieve the 2017 revenue and EPS guidance we provided at the time of our full year 2016 results announcement, namely for diluted earnings per share in the range of $2.50 to $2.75 on revenue ranging from $1.2 billion to $1.24 billion.

A final note on our government business. I have been at ICF for 5 Presidential transitions, and as I have said to some of you in the past, budgets don't change as dramatically in this business as the headlines would indicate. I expect that the fiscal 2018 federal budget will be similar to this year. Significant infrastructure spending would be another potential benefit for ICF, as we have been involved in the planning and implementation phases for a broad range of government and commercial infrastructure renewal projects. We may also see increased use of contractors as usually happens under Republican administrations. While it is still early in the year, we are cautiously optimistic, and we believe that ICF is well positioned to continue to grow.

Operator, I would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have our first question from Tim McHugh with William Blair & Company.

Timothy John McHugh - *William Blair & Company L.L.C., Research Division - Partner and Global Services Analyst*

Just wondered if you could elaborate on, you mentioned the government spending improved as the quarter went on. Is that kind of universally true? Or are you seeing any variance in different departments, I guess, in terms of how they're reacting to the environment, I guess any color there would be helpful.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

I mean, there's certainly variation, but I think that the expectation of greater variation, which was based on headlines which we read, did not pan through. I think the folks who are our clients in the government generally reacted uniformly. There are 1 or 2 agencies where there was a bit more conservatism, but otherwise, I think generally, it was pretty normal. So I think as people realized that things are perhaps not going to be exactly as the headlines said, things became more normal for the quarter.

Timothy John McHugh - *William Blair & Company L.L.C., Research Division - Partner and Global Services Analyst*

Okay. And Olson, I guess, can you -- what was the issue there this quarter? I mean, I think somewhat -- middle of last year, I felt like you guys were kind of increasingly optimistic, and I think that kind of softened a little late last year, and it seems that they struggled a bit this year. So can you elaborate on that? And then what would be a -- I know you said medium term, you feel good about the targets, but I guess at this point, what's kind of the 2017 type of growth rate that you would be hoping to see from that piece of the business?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

I think we expect to see mid-single-digit growth in that part of the business this year. I think that there's nothing -- I think we have had some sequential revenue growth in the last 2 quarters of last year. I think this year, there was some startups which were a little slower. There were some projects which came to an end. So I think there were some timing differences which impacted the revenue, but I think -- when I say medium term, I'll always think about the next 6 to 12 months. So I'm not talking years here. So I think that, that's basically our intent, but I think we're quite optimistic about it. We continue to be optimistic as we -- as you stated we were last year, and I think that they have won a fair bit of work as I said. Some of the revenues, which they have helped us win are obviously not counted in their revenues also. They're counted elsewhere within ICF. So it's sort of very hard to -- but the way we have classified the revenue, we have to give you the revenue the way we have classified it. So I think that, that also yields to some ups and downs, but I think that generally, we are very pleased with what they're doing. There were some little timing issues, but I think there should be -- they should sequentially improve through the year.

John Wasson - *ICF International, Inc. - President and COO*

I would just -- I would like to add. I think it was timing issues, Tim. And it wasn't really completely unexpected. I think that we rolled off a couple of significant projects at the end of the year, and then as we start the year, we had to get the new projects, the new retainers lined up, and that just took a little longer. So I really view this as a timing issue. I also think, as Sudhakar mentioned in his remarks, I think the good part of that business is a momentum business. And our wins in the first quarter were quite strong and up. Our pipeline continues to improve so we do feel like with the new staff we've added, the wins, the pipeline, we do have momentum there, even -- given we had some timing issues on projects stopping -- projects ending and new projects starting.

Operator

Our next question is from Joseph Vafi with Loop Capital.

Joseph Anthony Vafi - *Loop Capital Markets LLC, Research Division - Analyst*

Nice to see the guidance reiterated here. I was wondering since there was a little bit of outperformance here this quarter, and maybe a little early in the year, but I know you kind of fine-tuned down the guidance methodology entering '17, just being a little bit more conservative. And it's a little early in the year, but is the business tracking to the old guidance methodology at this point? And has the new guidance methodology ended up being conservative a little bit this year?

James C. Morgan - *ICF International, Inc. - CFO and EVP*

Yes, I guess I would -- this is James, Joe. I think that -- certainly, from an overall perspective, I'd think that things are starting off from the overall perspective, yes, it's probably more towards the old guidance methodology, but still, I would say from a high level, we're still expecting federal business to be in the low single digits, commercial to be more mid-single digits. State and local, I would say, we probably expect that to be a little bit better than what we had said before. We thought that was flat and in the future, we're looking -- or now, we're thinking that's flat to low single-digit growth. And I would say on the international side, instead of being mid-single-digit decline, that's probably more in the flat range now.

Joseph Anthony Vafi - *Loop Capital Markets LLC, Research Division - Analyst*

Okay, that's helpful. And I know in Q4, there were just a couple of project delays that I think started again. Was there any kind of budget or transition-related delays that you saw in Q1 that were kind of out of the normal course of business or delays?

John Wasson - *ICF International, Inc. - President and COO*

No, I don't think we saw any of those issues in Q1, Joe. I think we were back to kind of what we expected and how we expected the federal business to perform in Q1. So I think with those issues were -- are behind us in terms of what occurred in Q1.

Joseph Anthony Vafi - *Loop Capital Markets LLC, Research Division - Analyst*

Okay, and then just on the office consolidations, I may have missed it. But was that related to M&A and overlapping space? Or it's just the reallocation of resources and geographies and more headcount?

John Wasson - *ICF International, Inc. - President and COO*

I think we're making a real effort to kind of more efficiently use our space and kind of reflect, how our workforce goes about the business today. And so leveraging, we'll have fewer folks assigned to individual offices. We'll be sharing offices, more open space given in the digital business, other the parts of the business. So I think we're really looking at trying to more efficiently use our space, and therefore, freeing up space that we no longer need.

James C. Morgan - *ICF International, Inc. - CFO and EVP*

That's about increasing density.

John Wasson - *ICF International, Inc. - President and COO*

Yes.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

And also, I think that more than 52% of our -- the rising 52% of our population is millennials, and our office space is -- has to keep up with the times. And I think that they don't like to work in closed sort of office spaces. And they also like to work in more dense spaces, so I think that we're making the office space a little more open, more collaborative. And I think -- depending on the business, and I think that as we grow our business I think that's likely to be more of a standard going forward. So we really don't need as much office space as we have, and that helps the business, helps the people feel better and helps us, from a cost perspective. So I think that it all sort of aligns, and we certainly intend to continue to do that as we grow the business. And I think if we -- as we reduce the amount of office space, that can be either given up, if the lease is coming due or subleased. So I think that's our intent.

Operator

Our next question comes from Tobey Sommer with SunTrust.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

As the administration settles on policies and directions, maybe could you tell us, which one of your businesses, and kind of rank order them in terms of which ones are more influenced by state regulations and local initiatives that may be insulated from potential volatility associated with changes in the way federal agencies want to conduct themselves.

John Wasson - *ICF International, Inc. - President and COO*

Well, this is John Wasson, I'll start off, then I'll let my colleagues jump in. But obviously, I think in the energy arena, our energy efficiency business is driven by state public goods charges, and so I think that's quite insulated. I would say that the -- our activities on distributed energy resources are influenced by -- strongly by state regulations. And so that's largely state regulation-driven. A lot of our environmental impact-related work is driven by state environmental regulations, particularly in California. And so a good chunk of that business, I think is insulated. So I think those 3 certainly are very insulated. Sudhakar, do you want to?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Yes, I think that -- those are clearly insulated. Clearly, I mean, I'm here talking about the -- just the government business. I think the -- in terms of the rest -- and pretty much the state and local business and the utility business is pretty insulated. I think the -- obviously, the international government business is focused on different revenue sources. And I think in the federal arena, obviously, it has -- the budget has an impact on our revenue growth. So I think that's -- if I'm getting the question right, Tobey.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Yes, I think you got it. Yes, I'm curious there's been some movements, although not finalized, for some new pipelines and infrastructure projects in the country or could you comment about the company's prospects to participate if those projects are greenlighted?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Yes. I think that we are always -- but traditionally, the way it works is that there is some regulatory agency or someone will make sure that there is some sort of environmental impact assessment or something associated with these projects. And I think that we traditionally follow them quite closely. We work with the developers, who basically tend to submit these applications once they are approved. They are funded by the developers, but the contract is with the federal regulatory agency. So it's a very good contract to get because of their commercial rates, but the client is traditionally, the regulator. So I think that we have a long record of following these, so we're following a number of them. Infrastructure ones, there's one in the Midwest I can think of, which is a rail line, which is a pipeline being built around the Great Lakes, and there are others pipelines as you say. So we're following them all as they -- as those increase I think we certainly believe that we will win our fair share.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Could you expand a bit on the small international business and kind of the revival of growth there? It surprised me a little bit given some of the potential political turmoil that's been going on in Europe. What is the -- what are the principal drivers going forward of the improved outlook?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

I think primarily the stability in the European Commission in terms of all the things which were dramatic that happened last year: immigration, Brexit, all those things. I think that there's much more stability there. I think people are back to sort of focusing on their portfolios. And I think that we won a few contracts, which are starting to work, and I think the work orders are coming in like they used to about 2 years ago, in a much more considered way. So we are keeping our fingers crossed, and we're hoping that, that's a trend -- a longer-term trend. So I think that's -- as always as we indicated to you, we always had the work, it was a question of whether things were going to happen in a more orderly fashion as they used to, and now things seem to be back to be more orderly. So that's what we attribute it to.

John Wasson - *ICF International, Inc. - President and COO*

Yes, and as I think, exactly what Sudhakar said, I think we've seen more activation of work in Europe, and part of our key strategic communications business there, we will run communication, outreach events and we've seen a pickup in those types of activities in the first quarter.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Great. And then last question from me. It's been a while since you've deployed capital in acquisitions. I was wondering if you could update us on whether you've delevered enough and feel that Olson is in good enough shape that you can step out and get involved again.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Yes, I think we've always looked and as you know, we've -- we are quite particular about what we have acquired over the years. Sometimes we don't do anything for a year or 2, and at other times we do stuff, 3 -- 2 or 3 in a year. So I think it's just a question of whether you find the right fit. We certainly think that we are in a pretty good place. We have delevered. We'll continue to delever because that's something which we have done well over the years. And so it's not like we -- there's any lack of activity on that front. It's just that we need to -- a number of things need to as you know fall in place exactly right, and we are constantly looking. So there is no hesitation on our part to do something. It's just the question of whether the right -- we are in no hurry to do something, but if there something appropriate which falls in place, we will certainly go ahead and do the acquisition. So I think that the leverage of the readiness, our readiness, is not in question at the moment.

Operator

Our next question comes from Edward Caso with Wells Fargo Securities.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

It's Rick Eskelsen on for Ed. Now first question, I was just wondering if you could talk about your ability to find talent, particularly in the federal area and then also in the digital and interactive side of things?

John Wasson - *ICF International, Inc. - President and COO*

This is John Wasson. I think as we've talked about, we've made significant investments in recruiting and finding the talent. I think -- and so we're -- I think we generally have been successful in adding staff and finding the talent we need. I think it is -- we are growing, obviously in the digital, cyber, energy arenas. There's a lot of competition for that talent, but I think we have strong market positions, certainly in the digital and energy and certain aspects of cyber. And I mean, so we're able to add the talent and as we win contracts and grow.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Having said that, I would say that certain areas are more difficult -- cyber is certainly more difficult than the others. We think that in energy, we certainly have significant scale, and we are quite well known. So it's not easy, but I think to find the right people, but I think we have a good pipeline. In the digital arena, we've been actually quite successful in adding talent across the business, both in the digital business, which is focused on commercial clients as well as the digital business which focused on the federal client base. And I would just say that we've been remarkably successful for the kinds of talent we have. So I think that some of the talent likes to come to us because of the fact that we have a mission orientation in certain kinds of work we do, which they like to do. And I think that we've been quite successful there. So there hasn't been that much difficulty in the energy and the digital arena, but I think in cyber, it's a tough market, and we certainly -- we are successful but not as successful as we'd like to be.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

And just building off that in the interactive side. There's been a lot of consolidation in that space and especially you've seen some of the larger consulting companies buying a bunch of smaller different agencies. Has that created kind of a shakeout where people who liked working in a smaller, more entrepreneurial place leave? Has that created more opportunities for you guys to add good talent? And has the wave of consolidation there changed the competitive dynamics at all over the last couple of years?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

I think your point about we've been beneficiaries of some of the large consolidations, certainly last year, which happened where large holding companies acquired sort of interactive firms, which were quite well known. And subsequent to that, I think we've gotten a fair number of people from those sorts of acquisitions. So you're absolutely correct that we've been -- we've benefited there. In terms of the market dynamics, I think that is -- it's still relatively new. I think things are still shaking out. I think we are -- there is -- we've heard from clients and others that there is certainly scope for our kind of business with our scale on the digital side because of the fact that some of the more advertising-oriented businesses don't necessarily understand the digital space, and the more digital ones do not quite have an understanding of how advertising works in the digital arena. So I think if we can get -- we think we are well on our way there, but if we can get our value statement there more clear and crisp, I think that we will certainly benefit with the changed market dynamics.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Then just 2 clarifiers. The first one on the tax rate. So was the lower tax rate in the quarter due to the new accounting standard from the stock-based compensation?

James C. Morgan - *ICF International, Inc. - CFO and EVP*

Yes, that's the driver for it. It's moving that excess. Yes, right. (inaudible) to the tax rate.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Right. And you just said that the first quarter is when you typically have divesting, so this is something that could reoccur or else equal in the first quarter of next year? Or Lower tax rate that is.

James C. Morgan - *ICF International, Inc. - CFO and EVP*

Right, it could, but honestly, it's hard to predict exactly what the impact will be. I mean, honestly, that depends on what the stock price is at that point in time and what options get exercised during the quarter and so forth. And just to put it in perspective, even if you look at Q1 of last year, the benefit was only about $200,000. This year, it was $1.2 million. So it can really vary based on what factors take place. But if there's a benefit, that's when it -- the most of it would happen.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

And in terms of like a longer-term tax rate, is still sort of barring any tax reform of 38.5%, 37%, 38% in that type of range? The right number that we'd be thinking about.

James C. Morgan - *ICF International, Inc. - CFO and EVP*

Longer term beyond calendar year '17?

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Yes.

James C. Morgan - *ICF International, Inc. - CFO and EVP*

Yes. I mean, I think that from an overall perspective, it's in typically that 38%, 38.5% range.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

And then, just the last one on the guidance for this year, on the share count. Does it imply that you do more share repurchases or just reflect what you did in the first quarter?

James C. Morgan - *ICF International, Inc. - CFO and EVP*

It reflects basically what we did in the first quarter. Nothing significant beyond that.

Operator

Our next question comes from Kevin Steinke with Barrington Research.

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

So you mentioned some good proposal activity for ICF Olson in the government space. And under the new administration, I noticed that the White House created this Office of American Innovation to look to bring more commercial best practices to the government. So just wondering if you have any early indications that this is going to be a more ripe environment or an improved environment for you to bring ICF's -- ICF Olson's services to the federal government.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Kevin, we certainly hope that that's going to be the case, but I think -- I don't think there has been any further activity other than the announcement. And there is some conference which is going to happen some time in June, I think. So it's too early, and I think we will keep close tabs on it, but we certainly are -- if that happens, that will certainly be beneficial to us.

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

Okay. And the decision on the California outsourcing now 60%, it seems like that happened -- that decision happened a little faster than what you talked about last quarter. So just wondering if that's the case and how significantly that could build your pipeline in the energy efficiency space.

John Wasson - *ICF International, Inc. - President and COO*

I think we had expected it to happen this year, in the first half of the year. So I don't think it was a complete surprise or significant surprise that happened here in first quarter. And I think as we said in our remarks, we see it as we get towards the end of this year into early next year, we could see some real opportunities there. We are obviously watching it closely and -- in early stages of identifying the specific opportunities and how we'll get them into capture and position for them.

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

Okay, just lastly, it seems like the Clean Power Plan is somewhat indefinitely stalled. Do you see that having any impact on your business at all? Or do you see it as just kind of business-as-usual moving forward?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

I think if you recall, when we have talked about the Clean Power Plan, that if it had gone into effect, it could have had an impact on the business. After it had gone into effect because there's not -- it had been stopped by the Supreme Court from being implemented almost I think 1 year, 1.5 years ago or 2 years ago. So I think that it would have had more of an impact on the energy efficiency side of the business, but I think that -- my sense is the administration is going to come up with an alternative to it, so whatever they come up with, we'll have to wait and watch to see. I think we had said in the past that the Clean Power Plan wouldn't have an impact until 2021, 2022, if you -- if I remember. So I think that my sense is that it will -- we'll see what the administration comes up with. I think that the -- my sense is they'll have to -- they'll stop that. Obviously, that's not going to go into effect, but my sense is they'll go into the law there, they have to come up with an alternative regulation, and that's their intent. So we'll just have to wait and watch as to what happens.

Operator

(Operator Instructions) And our next question comes from Marc Riddick with Sidoti & Company.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

I wanted to circle back on some of the general commentary that you'd started with, and maybe get a little more sense of the increased optimism that you expressed at the beginning of the call. Perhaps maybe if you could share sort of the greater detail in some of the commentary around the Budget Control Act and perhaps -- I believe you had mentioned that coloring some of your views going into next year.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Sure. I think that the -- the Budget Control Act, which was put in place, which also -- subsequent to all the budget issues which we've had over the last 2 or 3 years, basically indicated that if defense spending went up, the percentage by which the defense spending went up the same amount would have to be done on the nondefense side. And I think if you look at the budget -- and then the headlines came out that there were all kinds of cuts which are being proposed in all kinds of federal agencies. But I think if you look at the budget which was passed on this Monday, the -- like the Department of Health and Human Services budget went up by 6.6%, Agriculture budget went up by 8.7%, State Department budget went up by 8.7%, Veterans Affairs budget went up by 8.0%, so there's a whole bunch of increases in the budget. And I think that the EPA budget, which was supposed to be cut very substantially was cut by 1% from $8.14 billion to $8.06 billion. So I think that really the -- what was thought to be the case did not turn out to be the case. In fact, exactly the opposite is true, and that a lot of these agencies got more money. So I think that the -- that is the basis of the optimism in the sense of, if the -- in one case, it would have become a market share play where you have to fight for maintaining your market share and the other case if the whole market is growing then it becomes easier for you to grow. So I think that that's -- that was the basis for my sort of optimism. And I personally think that the 2018 government fiscal year budget, which starts October 1, is going to be similarly based on a baseline even if it's a Continuing Resolution, which is higher than the government FY '17 budget.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

'17. Right. Right.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

And so I think that even '18, starting October 1, is going to be, I think higher than we've had this past year even if it's a CR. So my sense is that the budgets don't change as dramatically as the administrations would like. And while the President certainly has a lot of influence on the budget, I think Congress finally appropriates the money. And I think you have to follow what the Congressional sentiment is, rather than what the presidential sentiment is.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

Okay. Thank you for the color there. I did want to sort of circle back on the prior quarter. So you'd -- one of the things that was highlighted was the potential downside of EPA given where we were at that point. And I think the signal was somewhere around $15 million as the potential downside. As we're sitting here today, what type of updated number would we be looking at? And sort of how might that play out for the remainder of the year?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Yes. It's hard to tell but I think that certainly, we think that $15 million number is a good number. I would stick with it. I don't think that that's suddenly going to not happen. I do think that it's very clear that climate change stuff is not going to be done by this administration, I don't think we can suddenly decide that it's going to happen. Even if they have the budget, they'll spend it on something else. So my sense is that that's a good number to have. And we don't see any increase in that number, we don't see any decrease in that number.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

Okay. Okay That's good to know. Did want to touch a little bit on the infrastructure side of things, and I wanted to get a sense of whether you were -- you felt as though there was exposure to upside in infrastructure spending. I mean, one of the things that we've certainly seen a great deal of increased local funding for infrastructure needs, but more so on a reactionary basis due to maybe some of the weather events in California and things like that. So I was wondering if you could sort of maybe give an update as to -- if you're seeing anything along those lines and maybe what your thoughts about the opportunity set may be for ICF.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Yes. I think that -- if there is more infrastructure spending by the administration, we think that we will benefit because I think that -- it depends on the structure of the funding and depending on what kind of funding it is and how they do it, obviously. But I think that if it is on the pattern of the Stimulus Funding in '09, 2009 through '11, we were big beneficiaries. We grew by an average of I think, an organically 13% each of those 3 years. So I think on -- in that part of the business, so I think that it really is just a question of how they do it. We certainly have people locally. We have almost 60 offices in the U.S., in the continental U.S. So we certainly appear local in a number of large states. We certainly have folks in the community. So we can appear local if necessary, and we could -- we can certainly do national work. So I think we're well positioned to take advantage of infrastructure work, even if it's done locally. And we've benefited in the past, like for example, as you say on the extreme climate-related stuff, we're still getting a fair bit of work on Sandy, which is up in New Jersey, and we certainly are well known for disaster recovery work. Not necessarily in response but recovery work. And if that happens, I think we will certainly benefit there. So just a question of how the money is spent and where it is and how it is structured, and we certainly have the physical infrastructure as well as the people to take advantage of it and the skills.

Operator

We have no further questions at this time. I will now turn the call over to management for closing remarks.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman, CEO, Chairman of ICF Consulting Group Inc, CEO of ICF Consulting Group Inc and President of ICF Consulting Group Inc*

Thank you for participating in today's call. We look forward to seeing you at our upcoming conferences and meetings. Thanks very much.

Operator

And thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.