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PRESENTATION

Operator

Welcome to the Second Quarter 2017 ICF Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Wednesday, August 2, 2017, and cannot be reproduced or rebroadcast without permission from the company.

And I would now like to turn the program over to Lynn Morgen of MBS Value Partners. Please go ahead.

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

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's second 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 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 August 2, 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 second quarter 2017 performance.

Sudhakar?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

Thank you, Lynn, and thank you all for participating in today's call.

Second quarter results were consistent with our expectations and once again, reflected the benefits of ICF's diversified revenue sources. Our government services business was stable and we benefited from the profitability upside associated with a growing commercial business, as well as ongoing efforts to reduce indirect costs. Total revenue this quarter was slightly above last year's second quarter, and service revenue increased at a low single-digit rate.

With the fiscal 2017 budget in place since May, our federal civilian agency clients have operating budgets, are spending on existing contracts and are releasing RFPs. This was a good quarter for us in terms of contract wins. Bid and proposal activity is moving ahead at an active pace, and the dollar amount of the proposals we submitted in the first half of this year is about equal to the same period in 2016. That being said, the administration has yet to fill many key agency political positions, which has resulted in a certain reluctance at some agencies to begin new policy and programmatic activities, with the result that not all funds have been obligated into contracts.

Our commercial business continued to be a strong performer in the second quarter, with revenues increasing at a mid-single-digit rate and business for domestic clients growing even faster at 9.7%. Energy markets was a key driver, primarily reflecting the ramp-up of energy efficiency projects that we won in last year's second half. We were pleased to see that our marketing services businesses for domestic clients, primarily reflecting ICF Olson's work, increased both year-over-year and sequentially, and that sales wins were strong in the quarter.

A key takeaway from ICF's second quarter is the substantial progress we made in increasing profitability levels. Adjusted EBITDA as a percentage of total revenue increased to 9.7%. Given that commercial revenues are becoming an increasingly important part of our total business, an even more relevant metric is adjusted EBITDA as a percentage of service revenue, which reached 13.3% for the quarter. The strong performance is a result of higher utilization rates and higher margin revenues this quarter, as well as actions that we have taken to reduce our cost structure. These actions included consolidation of facilities and realigning personnel resources to reflect the nature of the work going forward.

In summary, our year-to-date results have put us on track to achieve our 2017 full year guidance and we're looking ahead to continued positive performance in the second half of this year.

Now I'll turn the call over to John Wasson, our President and Chief Operating Officer, to discuss the operating trends across our client sets that underlies our confidence.

John?

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

Thanks, Sudhakar, and good afternoon, everyone. The second quarter was a period of solid execution across ICF, resulting in improved utilization and increased efficiencies. We continued to grow service revenue and take steps to lay the foundation for additional future growth.

The federal government business environment continued to improve in the second quarter compared to the first, with a sense of stability amongst our civilian agency clients. Total revenue for this client category was down mid-single digits, primarily due to a fall off in pass-through revenues on a federal contract on which work was pushed to the right. For the first half of this year, excluding this reduction in pass-throughs, revenues from federal clients were flat with the similar period last year and accounted for 46% of total revenue.

As expected, federal contract wins also picked up in the second quarter. At our largest client, the Department of Health and Human Services, ICF's public health expertise is well aligned with bipartisan priorities. We continue to execute well on several large contracts from the National Institutes of Health, the Centers for Disease Control and Prevention, and the Substance Abuse and Mental Health Services Administration that are designed to combat major public health issues. In May, we announced that we had won a 5-year multiple award IDIQ issued by SAMHSA, which gave ICF the ability to compete for up to $1.2 billion in new contracts over the next 5 years.

Based on input from our clients, our view is that the fiscal 2017 budget will be followed by a Continuing Resolution between October 1 and the end of the year. We continue to expect civilian budgets to be of similar order of magnitude to those of the fiscal 2017 budget. For example, while it is early in the process, the latest House appropriations bills show HHS with funding that is almost identical to 2017.

In addition, we expect to see significant funding committed to dealing with pressing public health issues such as opioid abuse and suicide prevention included in fiscal 2018 budget proposals.

Revenue from state and local government clients increased 4.7% in the second quarter and for the first half of the year. For the first half, state and local represented 11% of total revenue and most of our work continued to be around infrastructure projects. California voters approved tax increases at both the state and local levels that will add substantial new funding for transportation and infrastructure spending, effective later this year. We believe that ICF is well positioned to benefit from this increased funding beginning in 2018, as we serve agencies that will be responsible for spending these dollars.

Our international government business had another quarter of positive year-on-year comparisons, growing revenues by 0.9% and growing 3.7% for the first half of 2017. We are benefiting from the large number of contracts we won last year that are now being activated. International government accounted for 7% of our total revenue for the first half of this year, and we are now expecting this area to show mid-single-digit growth in 2017. For the first half of 2017, our total government business revenue, including U.S. federal, U.S. state and local and international, was basically flat on a year-over-year basis.

Performance of our commercial business was also in line with our expectations, with revenue up 6.1% in the second quarter and 7.7% for the first 6 months of the year. We are currently executing on over 150 energy efficiency programs in more than 30 states. Our energy efficiency work is driven by state policy and legislation, and is largely unaffected by changes in federal government policies.

In the second quarter, we announced a significant new win with Consolidated Edison and recompete wins with Energy Efficiency Alberta, SMECO and a consortium of Northeast Utilities; and our active pipeline of qualified opportunities remains robust, even after these wins and more than $525 million of energy markets contracts we have won over the last 12 months.

Also, our commercial marketing services business, comprised primarily of ICF Olson, saw an uptick in its performance with U.S. clients, and business development actively picked up considerably in the second quarter. We've brought on a major hospitality company as a new loyalty program client and overall, we've been able to increase the average dollar value of our new account wins. Clients are looking for integrated marketing campaigns and help in leveraging technology to meet their objectives, and we are well positioned to take advantage of the larger opportunities associated with this trend.

Also, there has been increased collaboration across ICF. Examples include: a recent airline assignment where ICF's deep expertise in aviation was a major differentiator; work for an online education services client that included collaboration with ICF's education experts; and a contract with a European organization where we are providing communications work.

We are pleased with this quarter's progress and by the substantial recognition that ICF Olson received this quarter. We received awards at the Cannes Lyons International Festival of Creativity, the ADDYs and the North American SABRE awards.

To sum up, our year-to-date results are consistent with the expectations we set at the beginning of this year. This speaks to the visibility inherent in our business model, as well as the complementarity of our domain advisory expertise and services around program implementation, engagement and IT and research, which have resulted in high win rates for ICF.

Based on our guidance, we expect our second half results to be higher than for the first half. Within this context, Q3 and Q4 are likely to be similar, given the slow start to the year due to the presidential transition and pent-up demand on certain contracts in Q4.

Our business development pipeline stood at $4.6 billion after a quarter of strong contract awards and included 29 opportunities greater than $25 million and 88 opportunities between $10 million and $25 million. Our annualized personnel turnover rate is 14.1%.

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. ICF's second quarter results represented solid execution across our key business areas, resulting in higher profitability and a healthy backlog heading into the second half of 2017.

Second quarter total revenue was up 0.3% year-over-year to $306.4 million, and service revenue, which reflects the client work performed by ICF staff members, increased 1.2% to $224.9 million. The key contributor to the top line growth in the quarter was a 6.1% increase in revenue from commercial clients, which as previously mentioned, was driven by our energy efficiency work.

Gross profit dollars increased 3.8% to $115.5 million from $111.2 million in the second quarter of 2016, and gross margin expanded to 37.7% from 36.4%. Similar to this year's first quarter, approximately 80 basis points of the 130-basis-point expansion in gross margin reflected our change in our labor cost methodology, which reduced direct expenses and increased indirect selling expenses so there was no impact on operating income due to this change.

Indirect and selling expenses for the second quarter were $86.2 million, a year-on-year increase of $1.6 million or 1.9%. This year-on-year comparison includes the previously mentioned change in our labor cost methodology, which increased our indirect and selling expenses by approximately $2.5 million. Excluding this impact, indirect and selling expenses would have declined nearly $1 million year-on-year, reflecting our ongoing actions to reduce indirect costs.

Operating income was $22.2 million in the second quarter, up 14.7% year-on-year. EBITDA was $29.3 million for the quarter, inclusive of $600,000 in special charges for severance and facility consolidation, an increase of 10% over the $26.6 million reported for the same period of last year, which included $1.1 million of special charges. Adjusted for the special charges, our Adjusted EBITDA margin for the second quarter was 9.7% on total revenue and 13.3% on service revenue. As Sudhakar mentioned, we are increasingly looking at our profitability metrics as a percentage of service revenue as our business becomes more balanced between government and commercial clients. Additionally, by using service revenue as the denominator instead of total revenue, we eliminate the quarterly volatility associated with the timing of pass-through revenues.

Depreciation and amortization expense was $4.3 million, $200,000 higher than last year. Amortization of intangibles decreased to $2.7 million compared to $3.1 million in the same period of 2016.

The effective tax rate was 40% for the quarter compared to 37.2% in the second quarter of 2016. The increase in the tax rate was primarily due to the timing of discrete tax benefits. For the first half of 2017, the effective tax rate was 36.3%, similar to the 36.7% for the first half of 2016. We currently expect our effective tax rate for the full year to be no more than 38%.

Net income was $11.9 million, 12.8% above the $10.6 million in the second quarter of 2016. Diluted earnings per share was $0.63, a 14.5% increase over the $0.55 earned in last year's second quarter. Non-GAAP EPS, which excludes amortization of intangibles, special charges and the related income tax effects of the amortization and special charges, was $0.73 per diluted share, an increase of 5.8% over the $0.69 per diluted share in last year's second quarter.

Looking at the first half of 2017 results, both total revenue and service revenue increased 2.3% to $602.7 million and $444.7 million, respectively, and as a result, we continue to be on track to deliver total revenues for the full year that are within our original guidance range of $1.2 billion to $1.24 billion. Diluted EPS was $1.15 for the first half of 2017, up 8.5% year-on-year. Included in the year-to-date EPS of $1.15 is $0.08 in tax-effected special charges related to facility consolidation and severance. We expect to partially offset the impact of the special charges by $0.04 per share due to the lower tax rate and share count than we initially anticipated for the full year.

Cash provided by operating activities for the first half totaled $17.2 million, up 9.6% year-on-year, putting us on track to meet our guidance for the year. This was achieved despite the timing of payrolls, which negatively impacted our year-to-date operating cash flow by approximately $15 million. Days sales outstanding for the second quarter were 77 days and within our anticipated year-end DSO target range of 72 to 77 days, including the impact of deferred revenues.

Capital expenditures for the first half of 2017 were $8.4 million.

We confirm the following guidance for full year 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 for the year; interest expense is expected to be in the range of $7 million to $8 million dollars for the year; capital expenditures are expected to be within the range of $20 million to $22 million; cash flow from operations is expected to be in the range of $90 million to $100 million; and as I previously mentioned, we now expect the full-year tax rate to be no more than 38%.

Also, for modeling purposes, note that the midpoint of our diluted EPS guidance range does not take into account the $0.04 net effect of special charges incurred in the first half and the lower-than-expected effective tax rate and share count for the full year.

Lastly, I'd like to mention 2 additional items: First, in the second quarter, we signed an amendment to our credit facility that provides additional financing capacity, improvements to the pricing grid and greater covenant flexibility that will enhance ICF's ability to do acquisitions, share repurchases and other strategic investments, in line with our capital allocation priorities. The 5-year credit facility permits borrowings up to $600 million and has an accordion feature that would allow for the facility to be expanded by an additional $300 million.

Second, during the second quarter, we repurchased 150,672 shares, and for the first half we repurchased 515,235 shares for a total expenditure of $23.1 million under our share repurchase program. As a result of these year-to-date share repurchases, we anticipate a weighted average diluted share count of approximately 19.2 million for the year, or roughly 200,000 shares less than in 2016. As of the start of the third quarter of 2017, there was $33.3 million of authorized share repurchases remaining under our current share repurchase program.

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

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

Thank you, James. ICF is entering the second half of 2017 with a strong government backlog, representing work across a diversified roster of federal, state and local and international agency clients; a growing commercial client base served by our experts in energy, infrastructure and customer engagement; and a robust new business pipeline. Based on our current visibility, we reaffirm our expectations for full year 2017 total revenue in the range of $1.2 billion to $1.24 billion. We maintain our guidance range for diluted earnings per share at $2.50 to $2.75, and for non-GAAP EPS of $2.84 to $3.09.

To sum up, we are pleased with our performance for the first half of this year. We are taking advantage of opportunities to drive organic growth. We remain interested in acquisitions that add to our domain expertise and our capabilities. ICF has a solid track record of revenue and earnings growth. Achieving our guidance for 2017 will add another year to our growth pattern.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have our first question from Tobey Sommer with SunTrust.

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

I was curious about Olson and the rebound in the quarter. Is the growth, year-over-year and sequentially in the new contract wins, which appear to be up severalfold either year-over-year or sequentially, is that a reflection of the market? Or is the momentum kind of internal factors reflecting the work you've done to revive growth in the business?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

I think there are certain things which we have at Olson, which are quite unique, in terms of intellectual property. We also have a pretty forward-looking mix of skills, which we can bring to bear for our clients. So I think that not only efforts we have taken, but also the IP and the kinds of people we have I think certainly have helped us grow our domestic commercial business quite -- you know, the digital interactive business quite, the marketing services business quite -- quite nicely. I mean, we -- the sequential growth has been quite good. And I think that we won a large loyalty program with a large hospitality company, $36 million, which is the largest single win they've had. We have done a lot of work across ICF. John gave some examples of the work with aviation, the work with some European clients, the work with the utility companies. So I think generally, we have made sure that we've done as much cross-sell as we can and I think that's -- and talked -- and making sure that, that continually happens and I think that has helped us. So I think it's both. I don't know whether it's the market, but it's certainly our efforts and the uniqueness in what we provide in certain areas, which has helped us.

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

I just would add, Tobey, I think I said in last quarter's call that we felt like we were gaining momentum at Olson, and we talked about it is a momentum business, and I think we've continued to see improved momentum in Olson in the last quarter. I do think that's -- and the talent we've brought in and kind of getting the leverage out of the ICF verticals. As Sudhakar mentioned, we've cross sold over $90 million of opportunities since the acquisition. I think that's all paying off. And so I think we do really -- are seeing that momentum and it's making a difference.

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

Okay. What are you seeing in spending levels on existing contracts in new business from agencies that have been, and therefore, customers that have been targeted for budget cuts by the administration? Although it hasn't necessarily translated into the budget that was passed.

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

Right. I would say that in general in the federal market, we really have seen no change in the environment or outlook, certainly over the last quarter. We continue to see stable civilian markets, as we've talked about in prior calls and I mentioned in my remarks. The budgets that are in place for 2017 are flat to up slightly; we do expect a continuing resolution at the end of the year. We continue to see pockets of upside, Tobey, in public health, Digital, IT modernization and cyber. And so our outlook remains overall flat for total gross revenues and low single-digit growth on service revenue in the federal space. And we really haven't seen any shift in the environment over the last quarter. It's been consistent with what we've discussed all of this year.

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

Okay. You did mention in your prepared remarks some agencies that were slow to obligate funds kind of in the absence of having people occupy leadership positions. Is that broad? Or could you give us a little more color as to where you see that or where you don't?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

You know, I think you see that in the obvious places where you can see which agencies have political appointees and which don't. I think as John mentioned, the budget situation is quite stable. It's just that I think that if there are new programs to be launched, you do need some political heft to launch them. So I think that is why I think things haven't quite moved as quickly as they could have and usually they don't in a presidential transition year. So I think that every agency has people missing. In certain cases, it impacts us more than other cases because in certain cases, they have a direct impact on the work we do. So I think the good news is that in areas where we have a lot of work like in HHS, et cetera, there are folks like CDC has political appointees -- has more political appointees than other agencies. NIH has some -- I think the State Department obviously, there's a slowness there. So I think broadly speaking, I think only 20% of the political positions have been filled. And there we're hoping that they will be filled quickly in the next few months because that will certainly have an impact on how the Fed spends money going forward.

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

I would just add, I think that given the number of political appointees in place in the current situation, I think we're comfortable with the midpoint of our guidance. I think this has been an issue of if we saw an increase in the number of political appointees and new programs were launched, then that would provide us an ability to go towards the higher end of the range. But I think we're very comfortable with -- given the state of Trump political appointees, the mid-part of the guidance is -- we're very comfortable with that.

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

Does your guidance assume that you recoup the pass-through revenue? And then did I also hear that ex pass-throughs, your federal revenue, you said might be flat? Is that accurate?

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

Well, I think what I said is we expect our gross revenues, which include the pass-through revenues to be flat this year. I think when you look at our service revenue, which is our revenue that ICF does, we expect low single-digit growth for ICF service revenue. And so, really the revenue impact is around pass-throughs. And maybe I can say words on that. We do have a contract with the Department of State that we've discussed in the past, where we do health surveys in developing countries. A big part of that is going out in the field and interviewing folks and collecting samples to determine disease rates in a variety of developing countries. Historically, we've done that work working with the federal clients here in Washington, D.C. Those clients also have local missions in many of these countries. This year, they're requesting that we coordinate more closely with the local mission, as we begin that work. And so that coordination is taking more time and has pushed the work and the beginning of new surveys to the right. We've also had handful of countries where there's been either security or political issues that have slowed the work. And so -- but it's really impacting our pass-throughs on that contract and they will be pushed to the right. I think we expect we'll eventually get it. We'll get all that revenue but some of it will be pushed into 2018.

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

Okay. Last question for me was a couple of points where you're talking about the outlook. You seemed to be suggesting there were a couple of items that weren't included that might have made it look a little bit conservative. Could you just expand upon that, if I interpreted it correctly?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

I think John said that if -- I think we're comfortable with the midpoint of the guidance, if the numbers move -- if the Feds move more quickly in filling their political positions, I think we'd be more comfortable moving up. But at the moment, given the current state and given our expectations, I think we are comfortable with where we are on the guidance at the midpoint.

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

At the bottom line, didn't you talk about share count and tax rate or something like that?

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

Yes. What we're referring to is that, when we gave our guidance at the beginning of the year, Tobey, we talked about having a tax rate of no more than 38.5% and a share count of 19.4 million, our latest guidance is to have the share count at 19.2 million and a tax rate of no more than 38%. So if you take those 2 changes into account, those effectively have a $0.04 -- on the full year, they have about a $0.04 benefit to EPS. But keep in mind, if you look at GAAP EPS, you have to also take into account that we've had special charges on a tax effective basis of $0.08. So net-net, if you look at the midpoint of the GAAP EPS, it would be down $0.04. If you looked at the midpoint of non-GAAP EPS, it would be up $0.04.

Operator

Our next question comes from Joseph Vafi with Loop Capital.

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

I was wondering going back to the second and third level appointments and maybe some slowness in appropriations, do you see that the -- Omnibus spending bill appropriations have to be appropriated exiting the fiscal year with or without those appointees in place? Or could that appropriations be pushed until appointees are actually in their positions?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

I think the appropriations, as John said, the appropriations are bills we don't believe are likely to pass in time. We believe that there will be a continuing resolution for the balance part of the year starting October 1. And we don't think there is that much of relationship between the budget passage of the CR and the appointment -- and the political appointees. I think we see a relationship between the 2 when they have the monies and the rate of spending the monies, if you can see what I'm saying. So I think that the budget process is not related to the appointees but I think spending the money is related to the pace of the appointments.

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

Yes. I think I've got that piece. I was just wondering in this fiscal year which ends September 30, we still -- we have appropriations in place, which it sounds like have not been appropriated because we don't have those -- that deeper level of appointees. And so I'm kind of more focused on the budget in place through September 30, and how that gets appropriated without the appointees in place.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

Yes. I think that, Joe, you have a good point. I think usually what will happen is that the money will just get, you know, moved on to the next fiscal year depending on how they work the monies so it's hard to tell.

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

Okay. And then just maintaining the guidance, I wonder if you could go and -- I think James may have mentioned that your evening out Q3 and Q4 sounds like perhaps that's timing on appropriations. And I was wondering if there's anything specific else going on there? And then also, if commercial you think halfway through the year is trending higher and energy efficiency is trending higher than your initial forecast, for the year?

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

Yes. I would say with regard to the question about kind of flattening of performance between Q3 and Q4, I think this year, what we have is there's the continued ramp-up throughout the energy efficiency business between Q3 and Q4, which will help to benefit Q4. Also if you look at the work that we're doing with our European Commission-type work, or we're at the most for acquisition, we see more of that work happening in Q4 this year versus what you would typically see in Q3. And then the other part too, we've talked about this recent Tally win with a hospitality provider. I mean, that's a contract that will ramp-up more in Q4, too, versus with Q3. So those are some of the things probably cause more of a flattening of Q3 to Q4.

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

And is energy efficiency on track versus your original budget? Or is it tracking ahead?

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

It's on track from what we anticipated. I mean, overall we still see our -- we are on track to hit the guidance that we originally anticipated and feel very comfortable at the midpoint of that guidance.

Operator

Our next question comes from Edward Caso with Wells Fargo.

Justin Micahel Donati - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

This is Justin Donati on for Ed. So I wanted to congratulate you guys on the contract announcement yesterday with the Army. Just wondering there if that kind of signals any change in end market mix philosophy for you guys, if you're going to be targeting more DOD work versus commercial?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

Well, I think that we basically we have certain qualifications and experience. And that was a recompete of our existing contract, it just turned out to be much larger. We certainly have -- are developing certain competence in that arena, which is quite a specialized part of the cyber business. And we will go wherever the market takes us, as we have sort of always done. I think that we have to be a little careful when we compete in the cyber arena because you have to have a distinct expertise, which we think we have and we are now developing in a significant way. And I think that we think that there's significant opportunity for us there. So given that competency and given what we know about the market, we certainly expect that, that business is going to grow going forward. That aspect of the cyber business, we don't claim to be broad brush cyber folks. But I think in certain areas, we think we have great skills and we certainly look forward to doing more there. In fact let me plug, we have a CyberSci conference in the fall where we have great speakers. We had Michael Hayden last year, General Hayden last year and we have Mr. Clapper this year, former DNI. So we -- certainly -- we'll discuss the specifics of the kinds of work we do there. So we certainly expect to do more in that specific arena, cyber.

Justin Micahel Donati - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. And then one other trend, noticed that fixed price work has become a bigger portion of your overall mix. Do you see that continuing to go higher? And if so, is there kind of a percentage that you're targeting?

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

I don't think we have a specific target on that. I mean, I think it really depends on what the client, what contract type they want to use. I do think it's when you're winning sort of larger energy efficiency implementation contracts, they tend to be fixed prices. So that certainly has been driving that a little bit over time. From our perspective, we -- that's a good trend for us. We do quite well on fixed-price contracts and certainly can manage those contracts very effectively. So I would expect it to go up, continue to go up over time.

Justin Micahel Donati - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. And then just 1 housekeeping question. Can you repeat the number of opportunities you have in your pipeline right now?

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

Sure. Let me just find that. So the pipeline is at $4.6 billion and I just broke it down, in terms of some of the size of the contracts. So we have 29 opportunities greater than $25 million, 88 opportunities between $10 million and $25 million.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

Total number, right?

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

Yes.

Operator

Our next question comes from Tim McHugh with William Blair & Company.

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

First, I guess, just following up on Olson. I just wanted to make sure, it grew sequentially but I guess, my math was -- was it -- did it grow year-over-year this quarter? And I think you were trying to make a distinction. I thought I heard between the U.S. part of it and international. I guess, I didn't think of it as being big international, but maybe can you elaborate on that?

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

Sure. I think that I was focused on -- let me just step back a bit. We have a commercial and marketing services business, most of it is ICF Olson. And the ICF Olson portion is really focused on the domestic market, which is the U.S. market. We do have some work obviously in Canada. We also have work in Europe, which is a little bit of commercial work, which we've had which also can be classified as commercial marketing services. So that's why I made the distinction of domestic so that you could focus in on the Olson world, which is what I think you are -- most of you folks are interested in. So I think if you look at the last year to this year, I think it is about 1% growth in commercial year-on-year. So there is some growth there. We obviously expect it to be greater going forward and obviously, sequentially it grew by about mid-single digits. So we think there's some momentum and we certainly hope that it will continue that way.

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

Okay. And then, can I ask a little bit -- When you -- I think it was John who mentioned the -- I guess, a stable Q3 and Q4 trend. Are you referring to kind of revenue there? And what's embedded then, I think, it was the federal government piece was the weakest kind of in the year-ago. So my math was -- that was kind of implying like a mid-single digit type of growth for federal in Q4, probably. Is that in the right ballpark of what you're kind of expecting?

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

Yes. I guess, I'll answer the first question. This is James. With regard to - when we talk about sort of a flatness between Q3 and Q4, we're referring both to the top line and the bottom line, Tim. So from a revenue and EPS perspective, we're looking at that, especially from a service revenue perspective, being roughly flat quarter-to-quarter.

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

Okay. And the expectation for the -- I'm sorry, the federal government piece, am I in the right ballpark?

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

Well, I think for the federal government piece, as I said, I think for the year, we're expecting it to be flat on a gross revenue basis and low single-digit growth on a service revenue basis. I don't have a breakdown of Q3 versus Q4 in front of me and I don't think we've given guidance on that, Tim. But for the year, you have the results for the first 2 quarters now. And for the year, we expect it to be flat and slightly up on service revenue.

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

All right. Okay. And then just -- the credit facility, obviously, I get that you lowered the rates, but the sheer size of the increase. Can you -- are we wrong to look at that as a signal of the interest or the opportunity set for acquisitions?

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

I mean, certainly a key driver of this was looking to reduce our cost of interest and that was a big driver and made financial sense. But when you consider the capacity, it's -- the cost of money, the cost of debt is pretty cheap. So we had the opportunity to expand the credit facility to give us flexibility going forward. And certainly, it's something that we can have the flexibility. So we went from $500 million to $600 million, it's not a huge increase. But certainly, it gives us a little bit more capacity if we see an opportunity that makes strategic sense and we can get it at the right price.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

I would just say, Tim, that I know that it sounded great, $600 million plus $300 million and all that sort of stuff but we already had $500 million because $500 million plus $100 million, we went to $600 million plus $300 million. So I wouldn't take that as a dramatic change in our posture. As you know, we've been pretty acquisitive for the last 10 or 11 years and sometimes, we have more in certain years and less in others. And so we always looking to see if there's something which fits and which will help us keep going. And so I don't think our posture has changed anyway. I think we -- but certainly, given that we have -- our leverage is going down and that we have a slightly larger line, it makes it easier for us to do things more flexibly and also has brought down cost. So that's the way I look at it.

Operator

Our next question comes from Marc Riddick with Sidoti & Company.

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

I wanted to touch on, I think you really kind of covered a lot of the federal and commercial. I wanted to touch a little bit on the state activity, that was up nearly 5% year-over-year. I wanted to get a sense of -- if we could drill down a little bit and see sort of where those buckets are that are working for you currently. And then maybe more importantly, if you're getting a sense from -- as the states, as state budgets come up for -- come up to either June or October deadlines, what have you, wanting to get a sense if there was any type of read through that you were getting that you'd like to share for 2018 on the state level, state and local level?

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

I think as I said in my remarks, Mark, state and local for us is largely driven by funded environmental work we do around infrastructure projects. So a lot of that business is in California and on the West Coast, so we're talking about doing front-end analysis around rail projects, pipelines, electric utility lines, bridges, roads. We have seen an uptick in those kinds of opportunities in California this year. I mentioned that the new taxes coming online in 2018, which I think will drive more opportunity for us in California next year. We also did see part of the growth this year is also, we have actually gotten a plus up on our Sandy work in New Jersey, related to Superstorm Sandy. One of our new energy efficiency contracts is actually done through a state agency. But I really do think it's the infrastructure that's driving that, and I think we're actually, I'm optimistic about other opportunities in that market going forward. We're generally thinking that's going to be a mid-single-digit growth market this year. And, I think the trends are very positive as we look out into next year, given what's going on in California.

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

Okay, great. And then one is -- the next one's kind of more housekeeping than anything else. I wanted to get a sense of whether or not we should, what type of run rate we should be looking at on depreciation and amortization, as well as interest expense going forward, if 2Q is a good indication for future run rate?

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

Yes. I would just say, as I mentioned earlier in my remarks, for the full year, you should expect that depreciation and amortization expense is $17.7 million to $18.7 million for the full year. So obviously, you can look at what we've incurred to date. And see what the run rate is going forward. And from an amortization of intangibles perspective, we're expecting roughly $10.8 million for the full year.

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

Okay, great. And then one is -- my last one is, I know you'd mentioned on the commercial side some of the -- award won and [indiscernible] I wasn't familiar off the top of my head and I couldn't remember if Olson had ever won one of those awards before. If I remember correctly, those are kind of prestigious. So curious if this is the first time they've won one of those.

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

I think Olson has won the awards that I talked about in the past, I think, repeatedly. So it's always good to win them, but this is not the first time. I think they have a history of winning these awards and doing top-notch creative and digital and loyalty work.

Operator

Our next question comes from Kevin Steinke with Barrington Research.

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

So on the large loyalty program win for ICF Olson, I think in the past, you've talked about upfront implementation costs for those contracts. So just wondering if we should be factoring in any implementation costs in the second half of '17 as that contract ramps up?

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

Yes. I think that, I mean, obviously, with all of these programs there are implementation costs. I do think that with this program, this particular client and how the job was priced, I think that there probably won't be as much of a bottom line P&L impact as what we've seen in the past. But I think it was priced in a way where we're recouping our cost associated with the implementation.

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

And I would say, I mean, this will be the second or third major implementation that we've taken on in the last couple of years on this loyalty platform. And so we are a learning organization. I think we've learned a lot around how to manage this and how to price it. And so we'll certainly I think benefit from that learning and as James said, I don't think you'll see the types of impacts that we saw last year.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

I would just add that when John says second or third large hospitality company-focused implementation. So I think that they have a number of others, but I think...

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

They've done a lot but this is obviously one of the largest.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

The largest. So, I think we learned from the earlier largest ones and so, we did it. We did a better job this time.

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

Okay, good. The international business, you mentioned contracts that you'd won before starting to move forward. Just wondering what got those moving? And I believe you increased your growth outlook for international for 2017. So is that just a matter of these contracts moving forward? Or there are some new contracts also coming on?

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

I think it's largely, as we've discussed in several prior calls, we had won several, many large contracts in Europe over the last 3 or 4 quarters. And the issue was the clients were not activating the work and starting the work. As we've discussed, due to the variety of distractions in Europe around the migration crisis and Brexit, I think we're really seeing that dam start to break and the clients getting back to what they've historically focused on, and we're seeing the work beginning. So it's really I think largely work starting up under contracts we've won in the last 2 or 3 quarters. We do continue to win additional contracts, but I think this is really being driven by a broader activation across contracts we've won in the last year. And as you said, we are thinking now that the international revenues will grow 5%, mid-single-digit this year.

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

Right.

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

Okay, that's good to hear. And then just lastly, do you have a growth rate for the energy efficiency business in the quarter?

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

We don't report a growth rate, or guide to it. I mean, I think there's obviously robust growth and I think we've talked about robust double-digit growth there. There's robust growth there. And, as we look out, I mean, given -- as we've talked about on previous calls, the opportunities in California that will be coming out later in 2018, we think that will remain a growth market as we look out.

Operator

(Operator Instructions) Our next question comes from Ben Klieve with Noble Capital Markets.

Benjamin David Klieve - *NOBLE Capital Markets, Inc., Research Division - Analyst*

Just a couple of quick questions here. I'm wondering to what degree your federal pipeline is tied to new programs that are going to rely on their initial funding through next year's federal budget?

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

I don't know if I can. I mean, we certainly have -- part of our pipeline is opportunities that will be awarded after -- the government fiscal 2018, so October 1 or later of this year. But I don't have a percentage of -- what percentage will be awarded this fiscal year, what percentage would be awarded next year. I don't think there's any unusual shifts or changes there. I mean, the pipeline is very robust and there's been no shifts in the timing of awards in any unusual ways in the last 6 months or year.

Benjamin David Klieve - *NOBLE Capital Markets, Inc., Research Division - Analyst*

Okay. Okay. And then just one last quick question with regards to the credit facility and kind of your M&A philosophy. I'm wondering to what degree of leverage you are generally comfortable going to as you look for acquisitions, of either tuck-in acquisitions or more substantial ones?

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

First, from a credit facility perspective, our credit facility allows us to lever up to 3.75x and actually we can have a 12-month holiday and go up to a 4.0x leverage of debt-to-EBITDA. As far as what we're comfortable with, I mean, certainly we're looking at by the end of this year being somewhere closer to a 2x leverage,and maybe a little bit under. Where we're comfortable, we're certainly fine being at that level and as you know, from our track record when we did the acquisition of Olson, we levered up to a 3.1x. And certainly if we found the right opportunity and the right strategic fit for the right price, we would lever up again to that range. But I don't think we would want to go much higher than that, unless it was something extremely special.

Operator

Thank you. I see we have no further questions at this time. I would now turn the call over to management for closing remarks.

Sudhakar Kesavan - *ICF International, Inc. - Executive Chairman & CEO*

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

Thanks again.

Operator

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