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IT - Q2 2015 Gartner Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2015 / 12:30PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Gartner's earnings conference call for the second quarter 2015.

(Operator Instructions)

This call is being simultaneously web cast and will be archived on Gartner's web site at www.Gartner.com for approximately 90 days. On the call today is Gartner's Chief Executive Officer, Gene Hall and Chief Financial Officer, Craig Safian.

Before beginning please be aware that certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties, including those contained in the company's 2014 annual report on form 10-K and quarterly reports on form 10-Q, as well as in other filings with the SEC. I would encourage all of you to review the risk factors listed in these documents. The Company undertakes no obligation to update any of its forward-looking statements.

I will now turn the call over to Gene Hall. Please go ahead, sir.

Gene Hall - *Gartner Inc - CEO*

Thank you and good morning, everyone. Welcome to our Q2 2015 earnings call.

The technology revolution continues to drive demand for our services. We have the right strategy in place to capture the opportunity ahead of us and our business is doing great. We are where we expected to be at this point in the year and all of our underlying metrics are strong.

As on prior calls, I will review I will review our key operating metrics on an FX-neutral basis, since that's the best way to understand the underlying health of our Business. For the second quarter of 2015, contract value again grew 15% and total company revenues grew 12%. We consistently delivered double-digit contract-value growth in every region, every industry and every company size.

In this quarter, it was no exception. The continued successful execution of our proven strategy was central to our success. We continue to get bigger, stronger, faster every quarter, year after year. Across our three businesses, research, our largest and most profitable segment, accelerated FX-neutral CD growth for the sixth consecutive quarter to 15% and revenues grew 14% in the second quarter of 2015.

Retention was strong. For the second quarter of 2015, client retention remained at our all-time high of 85%, which is up one point for the same quarter in 2014. Wallet retention also remained at an all-time high of 106% which is up a point over Q2 of 2014.

For the second quarter, sales productivity was up 13% compared to Q2 2014. We continued to invest and improved recruiting capabilities, training and tools. And this in turn allows us to drive sales productivity improvements over time. In addition during Q2, 2015, sales head-count growth accelerated to 16%.

Our consulting business was up 2% as a result of solid performances from our labor-based practice and our contract optimization practice. We continue to maintain a healthy four months of backlog.

Our events business also did very strong performance during the second quarter. We held 26 events in Q2 and across those events we hosted more 17,000 attendees. For Q2 2015, on a same-event basis, revenue was up 19% year-over-year.

Strategic acquisitions remain a priority use of capital. On July 1, we announced the acquisition of Nubera, which strengthens our offerings in the small-company space. We also continue to deliver value back to our shareholders' purchase. In the first six months of the year, we repurchased $441 million of our shares.

The primary reason our business is so successful is our people. At the heart of it, Gartner is a people business. We are attracting the best talent in the industry in strategic locations around the world and getting them up to speed quickly. We recently gathered our global sales leadership team together. They remain incredibly excited about the technology revolution. They see the huge opportunity we have before us and they know the value we deliver to our clients. The insights created by our industry leading analysts, the advice we deliver and the overall client experience with Gartner has never been better.

We're continuing our great momentum as we progress through 2015. We have tremendous faith in our clients whether they're growing or facing economic challenges. We know how to be successful in any economic environment.

Retention rates remain at all-time highs and we have double-digit growth in every region, every industry and every company size. We remain committed to enhancing shareholder value through investing in our business, strategic acquisitions and share repurchases. We are better, stronger, faster as a company and I expect to see robust growth for years to come.

With that, I will hand the call over to Craig.

Craig Safian - *Gartner Inc - CFO*

Thank you, Gene and good morning, everyone.

As Gene just discussed, Gartner carried the strong start to 2015 into the second quarter, delivering 15% growth in contract value and maintaining all-time highs in retention metrics. Our performance in the first half of the year puts us right where we expected to be, and accordingly we are reiterating our full-year guidance.

Our financial highlights for the second quarter on an FX-neutral basis include contract value growth of 15% for the second straight quarter. This is the sixth consecutive quarter of contract-value growth improvement. Events revenue increased by 19% year-over-year on a same-event basis. Year-over-year consulting revenues increased by 2%, and normalized EBITDA was up 12% versus the prior year.

We continue to see robust demand for our services across all of our business segments. Our strong top-line performance and effective execution in capitalizing on the operating leverage in our business allowed us to once again expand our gross-contribution margin.

Our Business continues to deliver double-digit growth, quarter after quarter, year after year. We are engaged on our client's most important initiatives and projects. The consistency of our strong retention metrics demonstrates the value and importance our clients receive from our products and services. In both existing and prospect accounts, we are finding new IT, supply chain and digital marketing professionals to sell to every day.

We are confident we will continue to deliver consistent revenue growth and strong financial performance over the near and long term. I will first provide a review of our business results for the second quarter and end with the details of our outlook for the third quarter and remainder of 2015 before taking your questions.

As a global business, it is worth noting the continued strength of the US dollar once again impacted our reported results. Just about every currency we operate in is weaker against the US dollar when compared to last year. I will comment on the impact of foreign exchange in each business segment as I speak about them.

Starting with our research business, research revenue grew 8% on an as reported basis and 14% on an FX-neutral basis in the second quarter. The gross contribution margin for research was 70%, up one point compared to second quarter 2014 and matching our gross contribution margin target for the research segment.

All of our other research business metrics remain very strong. Contract value grew to $1.595 billion, a growth rate of 11% year-over-year on a reported basis and 15% on an FX-neutral basis. Our growth in contract value was extremely broad based, with every region, every client size and every industry segment growing at double-digit rates. The acceleration in our contract-value growth was driven by improvements to both our retention rates and our new business.

Client retention was 85%, the third quarter in a row of this historical high. This is up one point versus the second quarter last year. Wallet retention is also at an all-time high ending at 106% in the quarter, a one-point uptick over last year's second quarter. This was the seventh consecutive quarter of sequential improvement in wallet retention.

Wallet retention is higher than client retention due to a combination of increased spending by retained clients and the fact that we retain a higher percentage of our larger clients. As we have discussed in the past, our retention metrics are reported on a four quarter rolling basis in order to eliminate any seasonality.

Once again, new business significantly increased year-over-year, up 17% over last year's second quarter. The new business mix is consistent with prior quarters and remains balanced between sales to new clients and sales of additional services and upgrades to existing clients.

Our contract-value growth also continues to benefit from our discipline of annual price increases and no discounting. We have increased our prices by 3% to 6% every year since 2005. We implemented a price increase during the fourth quarter of 2014 and we expect to do so again later this year.

Our new business growth reflects our success in growing the business by penetrating our vast market opportunity with both new and existing client enterprises. As a result, we ended the quarter with 9,956 client enterprises, up 9% over last year's second quarter. Our average spend for enterprise continues to increase on an FX-neutral basis, again reflecting our ability to grow our contract value by driving growth in both new and existing enterprises.

Sales productivity continues to improve as well. We are up 13% on an FX-neutral basis as compared to last year. As we have detailed in the past we calculate sales productivity as the net contract-value increase, what we call NCVI for account executives. We look at it on a rolling four-quarter basis to eliminate seasonality and we use opening sales headcount as the period denominator.

Over the last 12 months we grew our contract value by $205,000,000 in FX-neutral terms. Using our Q2 2014 ending sales headcount of 1787 as our beginning of period denominator, yields NCVI per AE of $115,000 on a rolling four-quarter basis. Again that's a 13% improvement over second quarter last year when the comparable figure was $101,000 at constant currency rates.

To sum up, we delivered another strong quarter in our research business. Contract-value growth again accelerated, achieving 15% year-over-year growth. We continue to see strong demand from clients and our retention rates remain at all-time highs.

Looking forward we have a very strong pipeline. Our headcount growth has accelerated. The programs we have in place to drive productivity around recruiting, training and tools are working. We anticipate continuing to improve sales productivity, which positively impacts CV growth and research revenue growth over the long term.

Turning now to events, for the quarter, our events segment continued to deliver strong year-over-year revenue growth. On an FX-neutral basis, events revenues increased 15% year-over-year. This was achieved despite three events being moved out of Q2 and into Q3. During the quarter we held 26 events with 17,107 attendees, compared to 28 events with 16,594 attendees in the second quarter of 2014.

In Q2 we launched new event for digital marketing leaders, which exceeded our expectations. On a same event and FX-neutral basis, events revenues grew 19%, with 16,554 attendees, a 7% increase compared to second quarter last year.

For the first half, events revenue was up 14% over the prior year with 35 events versus 36 events in the same period last year. The gross contribution margin for events increased roughly three percentage points from the second quarter a year ago to 53%. On a year-to-date basis we improved gross contribution margin by approximately three points to 48%.

Moving on to consulting, on a reported basis, revenues in consulting decreased 6% in second quarter and were up 2% FX-neutral. In the quarter on an FX-neutral basis, our labor-based business grew by 1%.

We also saw higher demands for contract optimization in the quarter than we had forecasted. As we have discussed in past, our contract optimization practice has a higher degree of variability than the other parts of our consulting business.

The underlying operating metrics of our consulting business are also strong. On the labor-based side, billable headcount of 564 was up 12% from this point in 2014. Second quarter annualized revenue for billable head count ended at $409,000 and utilization was 68%, a two-point decline over the second quarter of last year.

Across the entire consulting business, we continue to see strong demand for our services and investing and managing partners is allowing us to capture that demand. We now have 100 managing partners, a 15% increase over second quarter 2014.

Backlog, the key leading indicator of future revenue growth for our consulting business ended the quarter at $97 million. Backlog was impacted by FX rates and still represents a healthy four months of full recoveries. With the current backlog and visibility we have into the pipeline, we believe the consulting business remains well positioned for 2015.

Moving down the income statement, SG&A increased by $19 million year over year during the second quarter, primarily driven by the growth in our sales force. As of June 30 we had 2,070 direct quota-bearing sales associates, an increase of 283 or 16% from a year ago. For the full year, we expect to grow the sales force by 15% to 16%. In the second quarter, SG&A was higher as a percentage of revenues due to continuing investments in our sales capacity and recruiting and training capability.

Moving on to earnings, we delivered a solid quarter of earnings growth. Normalized EBITDA was $110 million in the second quarter, up 5% year over year on a reported basis and 12% on an FX-neutral basis. GAAP diluted earnings per share were $0.61, up 5% year over year and a penny higher than the Q2 guidance range we provided on our last earnings call.

Our Q2 2015 GAAP diluted earnings per share include $0.04 in amortization and other costs associated with our acquisitions. Excluding acquisition-related charges, our EPS grew 2% to $0.65 in the second quarter. The FX impact on our earnings and EPS was similar to the FX impact on normalized EBITDA.

Turning now to cash, first half operating cash flow decreased by 2% to $149 million from first half last year, largely due to a stronger US dollar and higher incentive and tax payments. We continue to expect to achieve the guidance we set for the full year. During the second quarter, we continued to utilize our cash to return value back to shareholders through share repurchases.

In the quarter we had share repurchases of $117 million. Year to date we have repurchased $441 million of our shares. Share repurchases and strategic acquisitions are our primary uses of capital.

We recently announced that we had purchased Barcelona based Nubera ebusiness. This small acquisition occurred in July, so it does not impact Q2 results. Nubera operates a site called getapp, which is complementary to software advice, and maps to one of our core value propositions -- helping people in businesses of all sizes make the right technology decisions.

We were able to use foreign cash to fund the purchase. The terms of the deal have not been disclosed but it should be noted that this acquisition was substantially smaller than the software advice acquisition last year.

We ended the quarter with a strong balance sheet and cash position despite the pace of share repurchases. As of June 30, we had gross debt of $715 million and cash of $358 million, with 94% of our cash balance located outside of the US. This now represents a net debt position of $357 million.

Our current credit facility runs through 2019 and gives us ample liquidity to continue to grow our business and execute initiatives that drive shareholder value. As of June 30, we had $776 million available on our revolver. We continue to look for attractive acquisition opportunities as a potential use of cash.

We also continue to believe that repurchasing our shares remains a compelling use of our capital. As of June 30, we had $1.2 billion available under our share repurchase authorization.

Turning now to guidance, given our performance on a year-to-date basis and the fact that we have performed as expected, we are reiterating our revenue, normalized EBITDA, free cash flow, GAAP EPS and normalized EPS guidance. All the details of our guidance are contained in our press release.

Highlights of our guidance include FX-neutral total revenue growth of 12% to 15%, FX-neutral research revenue growth of 14% to 16%, FX-neutral normalized EBITDA growth of 10% to 17%. Our GAAP EPS guidance also remains unchanged at $2.11 to $2.30 per share. Our guidance for EPS excluding acquisition and integration charges is to be between $2.27 and $2.46 per share, FX-neutral growth of approximately 7% to 16% over 2014.

For the third quarter, we expect GAAP EPS to be in the range of $0.36 to $0.38 per share. Acquisition and integration charges for Q3 are expected to be approximately $0.04 per share. The third quarter is historically one of our smaller revenue and earnings quarters. This will be true again in 2015.

So before taking your questions, let me summarize. We delivered another strong quarter in Q2. Demand for our services is robust and, as a result, our research contract-value growth rate again was 15%. Our key business metrics remain strong and in fact many -- most notably retention, CD growth and sales productivity continued to improve, or are at or near all-time highs.

We will continue to invest in our Business both organically and through acquisitions and return capital to shareholders through our share repurchase program going forward. Finally, with 15% growth in contract value in the second quarter of 2015, we remain well positioned to deliver another solid year of revenue and earnings growth for the full year of 2015.

Now, I will turn the call back over to the operator and we will be happy you to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Timothy McHugh from William Blair.

Timothy McHugh - *William Blair & Company - Analyst*

Thank you. I haven't had time to crunch the math given you just gave the color about Q3. But the implication of that would be that you need to see some fairly strong margin improvement in Q4, probably to get you in line with your range. I understand, all of the forward-looking metrics look great and consistent with your trends. But, can you help us? Is there something happening in terms of the phasing of expenses this year that makes that year-over-year improvement particularly significant in Q4?

Craig Safian - *Gartner Inc - CFO*

Thank, Tim, good morning. There's really two things going on. One is Q4 is historically our largest quarter both from a revenue and from an earnings perspective. And 2015 Q4 will be no different than past Q4s. I think what we are seeing is two things. One is we have got great strength as we head into the balance of the year and we do expect, to deliver to our full year guidance. The other thing is, as we have talked about in the past, the return to normal trends for our contract optimization business actually depressed margins in the first half of the year. And we expect it to return to historical trends in the second half. And so we get what looks like to be a bump from that but it is actually just a return back to normal.

Timothy McHugh - *William Blair & Company - Analyst*

Okay, that's helpful. Then, the gross margin for the research business, you had been seeing declines for a couple of quarters there and a reverse to the positive side this quarter. Is there something that changed or something more positive happening underneath there?

Craig Safian - *Gartner Inc - CFO*

Tim, I think we managed to a long term target of 70% gross contribution margin on the research business. We're in fact right at 70%. We are actually up a point year over year. I think what you see, quarter to quarter is a little bit of noise. We are managing to that 70% level and we expect to deliver roughly in that range over the long term.

Timothy McHugh - *William Blair & Company - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Jeff Meuler from Baird.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Good morning. On research productivity, I know it continues to increase or sales productivity now continues to increase year over year and you are talking about it continuing to go higher still. But if I look at the last couple of quarters, I think it has declined slightly on a sequential basis. Obviously we can only see the LTL metric. You have better visibility into quarterly trends. What gives you confidence in the increase and where are you at with rolling out some of the programs that were initially piloted more broadly?

Craig Safian - *Gartner Inc - CFO*

Thank, Jeff. I will take the first part of the question and Gene will take the second part of the question. The way we look at sales productivity -- we actually think the best way to look at progress because we do it on a rolling four-quarter basis is to look at it on a year-over-year basis. That eliminates the seasonality and also, with Q3 and Q4 generally being our larger quarters, it is harder to move the needle in the smaller quarters like Q1 and Q2. What gives us confidence is for the last three quarters, we have seen really nice year-over-year improvement on that rolling four-quarter sales productivity.

Gene Hall - *Gartner Inc - CEO*

It is Gene. The improvements, as you related to, are being given by the underlying changes we are making -- improving recruiting so we have a series of programs that are designed to make sure we really recruit people to have the perfect fit for Gartner. Those are getting better all the time. We are not standing still. The second thing we are doing is making sure we have great training programs, again those have gotten better all the time. We have continued improvements and then an improved set of tools that drive sales productivity as well. As you've noted, part of our strategy is continuous improvement and continuous innovation, all these areas. We've had things in pilot that are now being rolled out and they are doing great. We have other things in pilot now that will be rolled out next year that will continue to drive sales productivity. So as Craig said, it's the underlying changes we are making there driving sales productivity. And because of the continuing improvements that we have, and expect to have next year in recruiting, training and tools, we expect the sales productivity improvement to continue to grow over time.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Is it too early to get a read into symposiums registration in the major markets US, Europe, et cetera and especially how are CIO registrations trending if it is not too early?

Craig Safian - *Gartner Inc - CFO*

Is it not too early and what I would say is the trending is where we would expect it to be for that business. So we are trending exactly where we would expect it to be.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Okay, thank you.

Operator

Your next question is from the line of Anjaneya Singh from Credit Suisse.

Anjaneya Singh - *Credit Suisse - Analyst*

Good morning. Thanks for taking my questions. First off, I was wondering if you can talk a little bit about your Nubera acquisition. It seems you're starting to develop more of a presence here catering to smaller and mid-size businesses which is a bit of a shift from your traditional focus on larger enterprises. Now that it has been a year or over a year with software advice, you have got two acquisitions in this space, can you share any updated thoughts and views on the market opportunity here and the competitive landscape?

Gene Hall - *Gartner Inc - CEO*

Great question. So first in our traditional business, we have sold at least one seat to 10,000 out of 110,000 enterprises that we target and we think that there's a north of $58 billion opportunity. And our business today, as you know, is $1.6 billion in that market. So, there is huge incredible growth opportunities in our traditional business and we're going to continue going aggressively after that. Having said that, that's 110,000 largest companies enterprises in the 95 countries we are in. There's tens of millions of small businesses that are great opportunities as well where our traditional business is not the best way to serve them. We bought software advice last year which has very innovative and great way to serve that model. Nubera is a similar kind of business. They're slightly differentiated and we think very complementary to software advice to help serve those tens to millions of small businesses that they have the right model served which our traditional business is more tuned to serving those top 110,000.

Anjaneya Singh - *Credit Suisse - Analyst*

Got it. And then another question -- shifting gears a little bit to consulting, the head count growth in consulting at 12% it seems to be about the fastest growth we have seen in about five years. I'm wondering if you can talk about what you are seeing in your business that's driving that and when we may expect to see that translate to consulting revenue.

Craig Safian - *Gartner Inc - CFO*

Sure. It is Craig. Two prime things driving the headcount growth. One is our continued growth in investment and managing partners. As you just heard, we are now at 100 managing partners which is up 15% year over year. The second thing which is a little bit of an apples and oranges thing, is last year we acquired one of our sales agents, and we had typically treated those consultants as subcontractors. When we did the acquisition, they came on to our books so actually a significant portion of our growth on a year over year basis relates to just that acquisition. The good news when we look at the consulting business going forward is given that investment in managing partners, given the quality of our backlog and also given the way the pipeline looks, we have had some confidence in bringing in additional people to basically fulfill on that backlog. We are very pleased with where we are from a consulting perspective, backlog and revenue. We expect to hit our full-year guidance in that business.

Anjaneya Singh - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Manav Patnaik from Barclays

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Unidentified Participant - - *Analyst*

This is [Ryan] filling in for Manav. Just a question on the M&A pipeline, given you mentioned a lot of your cash sits overseas, should we be thinking that most of the deals would be focused on the international space or are there still assets in the US that you find attractive?

Craig Safian - *Gartner Inc - CFO*

There are assets in the US and there are assets outside the US as well. And we are looking in both markets. So you shouldn't take it as -- we are focused on one or the other. We are focused on both and there's great opportunities on both.

Unidentified Participant - *- Analyst*

Fair enough. And one of your peers reported yesterday kind of discussed a lot of difficulty in hiring and you are obviously talking about 15% to 16%. With the labor markets getting significantly better than they were a year ago, what gives you the confidence that you are finding the right people and could you talk attrition a little bit?

Gene Hall - *Gartner Inc - CEO*

So, Gartner is -- we are a leader in the technology industry. It is a very cool industry to be in. We are by any metric, if you look at glassdoor, et cetera, a great place to work and we have a great reputation in the marketplace. Because of this tremendous reputation we have and also because we have a world-class recruiting organization, we don't have trouble hiring people. In fact, as you saw this quarter, actually our sales hiring accelerated this quarter. In addition to that, we don't just track numbers of people. We actually have track metrics that indicate the fit of the people we hire. One might call it quality. We think about it as the fit of the quality we hire. Not only did our growth rate accelerate but the actual forward-looking metrics on the fit of the people we're hiring now that just brought in, at this accelerated pace, are the best ever. That keeps getting better over time. So, because Gartner is such a great place to work, we are in a great industry, it's a great recruiting organization, we are able to attract great people at an accelerated rate. In terms of attrition, our attrition is in the normal range in the range it has been in in the past.

Unidentified Participant - *- Analyst*

Thanks and just one quick one for Craig -- the number of events for this year, are they still around 65?

Craig Safian - *Gartner Inc - CFO*

Yes, that is correct.

Unidentified Participant - *- Analyst*

Okay, thank you.

Operator

Your next question is from the line of Andre Benjamin from Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

Thank you, good morning. First in research, I was wondering if you are seeing any new competitive threats? Any established smaller players launching new products, improving their quality or potentially paying up to try to take some associates from you. If you are, what are you doing to combat that? If you are not, why do you think that is given the size of the tam that's in front of you -- you would think more people would be trying to be competitive and go after it.

Craig Safian - *Gartner Inc - CFO*

We live in a very competitive marketplace. There are lots of competitors, there are new innovators all the time. That has been true forever. We don't stand idly by. We track competitors. We've also talked many times in the past -- part of the core element in our strategy is continuous improvement and continuous innovation. We every year introduce new products. We don't rest on our Laurels. We basically -- because innovation is central to our strategy, we are constantly improving getting better, stronger, faster every year with new products that are appealing to the most important things in the marketplace today. So while we have today a very competitive marketplace with a lot of innovators, and we always have, and we have always done very well because we are aware of this. We have respect for them. We innovate to stay ahead and we're committed to continue to do that.

Andre Benjamin - *Goldman Sachs - Analyst*

And consulting, now that you have hit the goal that you had previously laid out of 100 managing partners, should we expect the growth in that number of partners to slow? As the count has grown, are there any innovations in consulting worth calling out that you expect to drive new growth or simply a matter of blocking and tackling with more bodies to drive business?

Craig Safian - *Gartner Inc - CFO*

On the managing partners front, so we are very pleased that we have reached 100. That's actually not the long-term target for us. As our consulting business continues to grow, we will continue to bring on more managing partners to support and drive that business. And so you shouldn't think of 100 as the finish line by any stretch of the imagination. We will continue to grow the managing partner business to continue to support and drive growth on a long-term basis.

Gene Hall - *Gartner Inc - CEO*

With regard to the second part of your question, in our consulting business we have the same strategy of continuous improvement and continuous innovation as we do across the entire business. That business, the service lines we have, evolve continuously to reflect the changes in the marketplace. And one of the things that we do in consulting is they build their service lines based on what's most important for our research organization. So, by knowing what's most important to clients on things like digital best practices, the consultants can then apply that in the consulting space. So, you shouldn't think that we are just adding more managing partners. Actually our service lines are quite dynamic and innovate over time. And that's what is driving the success of that business.

Andre Benjamin - *Goldman Sachs - Analyst*

Thank you.

Operator

Your next question comes from the line of Joseph Foresi from Janney.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. I was wondering if you could talk about contract-value growth here for a second. You have obviously moved up to this 15% level which is very healthy but what should we expect going forward? Is this something that you think you can continue to build on? If you do think you can continue to build on it, what are the chief drivers from this point forward?

Gene Hall - *Gartner Inc - CEO*

It is Gene. So the two things that drive contract value are our sales productivity and the number of sales people we have. And as I have talked before, in terms of sales productivity, we have a number of programs in place and we continue to innovate on those programs and others to drive sales productivity. And in fact, as Craig mentioned, we are seeing sales productivity improve and that's because it that's the first thing that drives contract-value growth. The second one is the actual size of our sales force. As I mentioned before, as Craig mentioned, we have actually accelerated the growth rate in our sales force as well. So both of those two things are the kind of forward-looking metrics you would expect to indicate that we can continue to grow our sales force over time. We can continue to grow our contracts over time, in fact, at an ever-increasing rate.

Craig Safian - *Gartner Inc - CFO*

And Joe, if you go back no our investor day materials, there is actually a slide that lays out the way we think about it in simple terms which is modest improvements in sales productivity coupled with 15% or 15% plus headcount growth, what that equates to in terms of contract value growth. And so, that's why we have said long term our target is 15% to 20% from a research contract value growth perspective. Again it is that combination of growing sales headcount and continued improvement to sales productivity.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

I guess what I was trying to focus on was it seems like you rolled out the new training aspect of the sales force to a number of different regions and you got a nice little kick on contract-value growth. So, outside of the standard two metrics that you pointed out, I was wondering if there was anything else that you were currently working on that you thought might bring you to that next level? Is there anything else that you could point to?

Gene Hall - *Gartner Inc - CEO*

So, Joe, there's, in terms of sales productivity, we have many programs, too numerous to name right here and some have been rolled out, some are in pilot and some are being developed. And they all fall into the three categories I talked about -- either improved recruiting, meaning our ability to target the people that have the skills to be most successful at Gartner and the highest productivity. We are getting better at that time all the time. The second thing you mentioned is training. In fact, we had a major improvement to our training which we are in the process, we're not quite finished rolling it around the world. Or, I'm sorry, we just finished rolling it around the world, so you wouldn't actually have seen the full impact of that. Of course because that's rolled out, we have other improvements in training behind that and we will have training improvements behind that as well. Thirdly, again, we are continually improving our tool-sets as well. And, again, we have a major new improvement for sales tools, particularly for new sales people that we're at the beginning of the roll-out for as an example. We will continue with. Again, when that's rolled out, we will have another thing behind that. One way to think about it is we have version two, version three, version four, version five. We don't ever say -- well, we got to version two and we are done. And that's how we want to drive sales productivity over time.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. Then the last question for me, obviously we have started to max out on the margin profile and the research business. You have been taking on some acquisitions which would obviously, create some level of dilution. Maybe you could talk about you how you feel about the margin profile over a longer period of time. Is there still room for expansion, there might be just a little bit? How do you balance that versus some of the acquisitions that you are looking at?

Craig Safian - *Gartner Inc - CFO*

Thanks, Joe. What we are really, really laser-focused on is accelerating our growth rate in research which is our most profitable business, has the best flow through and really drives significant improvements to gross contribution margins. And so we are 100% laser-focused on, as we just talked about, improving and accelerating research contract-value growth which then translates into research revenue growth and total company revenue growth. As we accelerate and drive research contract value into the 16%, 17%, potentially 18%, 19% range, there is absolutely margin potential and upside there. But we are very focused on making sure that the investments we put into the business -- whether it is new sales people, new tools, better recruiting, better training are actually supporting and driving long-term sustainable real accelerated growth in research contract value.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Your next question comes from the line of Peter Appert from Piper Jaffray.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Thanks, good morning. Craig, just sticking on the margin leverage question for a second -- you had four consecutive quarters of some pretty impressive productivity gain. I am just wondering why that isn't flowing through to better margins. What's the disconnect?

Craig Safian - *Gartner Inc - CFO*

So no real disconnect, Peter. We have improved our sales productivity and we are at roughly 15% contract-value growth. As we have talked about in the past, the margin unlocks or there's more margin potential unlocking as we accelerate research contract value at an even greater rate. So that's number one. Number two there's always going to be a lag in terms of the productivity and research contract value actually converting into revenue and profit on a roll-forward basis. I think it is the combination of those two things. When we think about the business again, we reiterated, reaffirmed our guidance for the full year. There's a margin expectation built into that guidance. That is what we are managing to and that is where we are on a year-to-date basis. But again as I mentioned to Joe on the last question, we are really laser-focused on how do we continue to accelerate sales productivity so that we can accelerate research contract value growth.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Would that suggest, Craig, that you would be not put words in your mouth here but more optimistic about the potential for some margin upside in 2016 as you carry forward these productivity gains you have seen in the past year?

Craig Safian - *Gartner Inc - CFO*

So Peter, we're obviously talking about 2015. We have talked about guidance for 2015. We are not at a point where we are discussing 2016 yet.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Got it. And then this is a little bit nitpicky, but you talked about contract-value growth accelerating 15%. And the number you reported last quarter was 15. So is it just some sort of rounding thing?

Craig Safian - *Gartner Inc - CFO*

If you took it out an extra decimal point, there is acceleration.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Okay, great. Can you talk at all about how you're thinking about the pace of buyback activity? You have been, obviously, pretty aggressive here in the first half. Does it suggest you are accelerating the pace of buybacks versus what you laid out initially?

Craig Safian - *Gartner Inc - CFO*

So, on a year-to-date basis, we have repurchased $441 million of our shares this year. Last quarter when we announced that $1.2 billion authorization, what we said was we expect that to last us 2.5 to 3 years. That's basically the guidance around share repurchases.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Right. Well, you are pacing well ahead of that, obviously, in terms of completing it in two to three years. So your response is no, you are not changing your expectation around pacing which can might imply slower repurchase activity in the second half?

Craig Safian - *Gartner Inc - CFO*

So Peter, what I would say is we are not changing the statement around 2.5 to 3 years on the $1.2 billion authorization. As always, business conditions may dictate slower, faster, what have you, but what we are basically reiterating is that $1.2 billion authorization should last us, roughly 2.5 to 3 years.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Thanks.

Operator

Your next question comes from the line of Gary Bisbee from RBC Capital Markets.

Gunter Anthony - *RBC Capital Markets - Analyst*

Good morning. This is [Gunter Anthony] in for Gary. Thinking beyond this year with some of the gains in productivity and positive comments around hiring, pipeline and some of your improved training capabilities, is it safe to assume or to think that you might move to the higher end of your long-term 15% to 20% sales headcount hiring range?

Gene Hall - *Gartner Inc - CEO*

Hi, it is Gene. So, we would clearly rather be at the high end of that range than at the low end of that range. We set the range because, as we talked about, the pace of hiring depends on the readiness we have of our first-level managers to be able to absorb all the new people. And so, we would much rather be at the high end of that range. That's certainly our objective.

Gunter Anthony - *RBC Capital Markets - Analyst*

Okay great, and just to clarify the $0.36 to $0.38 Q3 EPS guidance that is for GAAP and there's a $0.04 acquisition charge. Is that the way to think about it?

Craig Safian - *Gartner Inc - CFO*

That's accurate, yes.

Gunter Anthony - *RBC Capital Markets - Analyst*

Okay. And then lastly just to follow up, the 14% constant currency research revenue growth, was there any contribution from M&A? And, if so, could you quantify that?

Craig Safian - *Gartner Inc - CFO*

We had software advice for the full quarter last year and the full quarter this year. The comp is actually accurate, so no benefit from M&A.

Gunter Anthony - *RBC Capital Markets - Analyst*

Great, thanks so much.

Operator

And your next question comes from Jeff Silber from BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

I hate to go back to the margin issue, but in looking at third quarter -- not sure if my math is right, but it looks like we're going to have another quarter of margins being down over year and that was despite the fact that you had said the contract optimization issue hopefully will be less of an issue in the quarter. And I think you shifted, or at least up from a calendar perspective we have got three more events this year shifting from Q2 to Q3. Can you just confirm that? Are you expecting margins to be down year over year again in the third quarter. And, if so, why?

Craig Safian - *Gartner Inc - CFO*

So Jeff, what I would tell you is things move around from quarter to quarter on a year-over-year basis. I would focus in on the full year where, if you take different ranges of the guidance, you can see roughly flat margins on the full-year basis is what our guidance roughly implies. Again, things are going to move around from quarter to quarter. The expectation for Q3, there's obviously more stuff going on than just two events moving or three events moving out of Q2 and into Q3. But I would focus in on that full-year margin number.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay, fair enough. If I could just go back to the second-quarter consulting results, you mentioned average analyzed revenue for billable headcount being down about 10% or so. I'm assuming FX has an impact and contract optimization, I think would have an impact, as well. Was there anything else going on in there to cause that decline?

Craig Safian - *Gartner Inc - CFO*

So Jeff, the contract optimization wouldn't be baked into that number. FX will have a pretty significant impact on that number as our consulting business is very global with a significant portion of its revenues being generated in currencies outside the US dollar. The other piece there is there was a 2 point dip in utilization rate, which we talked about, which would obviously also impact that annualized revenue for billable head count.

Jeff Silber - *BMO Capital Markets - Analyst*

So would that number have been up on a FX-neutral basis?

Craig Safian - *Gartner Inc - CFO*

That number would have been slightly down on an FX-neutral basis.

Jeff Silber - *BMO Capital Markets - Analyst*

Thank you for the color.

Craig Safian - *Gartner Inc - CFO*

You got it.

Operator

Your next question is from the line of Bill Warmington from Wells Fargo.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

Good morning, everyone. So I have got a question for you on a couple of the acquisitions that you have done in terms of software advice and Nubera. On these, I don't know if you want to call them self-service or definitely a lower labor base content model. As you look out, how large of a percentage of revenue do you think they could be? And ultimately what do you think that's going to do in terms of your potential to take the margins up above where they are now?

Gene Hall - *Gartner Inc - CEO*

So these are small businesses. They're great businesses but they're small businesses. We don't see it as having a big impact now. And, Craig, if you want to talk about it.

Craig Safian - *Gartner Inc - CFO*

We are in this business and we have bought these businesses because we think they can be meaningful businesses. But as Gene just mentioned, very small right now. Makes sense, if you will. But we will be focused on growing them. The key for us, as Gene I think mentioned earlier, is we still have this enormous market opportunity on the organic business. So even if we grow these new businesses at an accelerated rate, it is our absolute expectation that the core business will also continue to grow at an accelerated rate. And so, maybe it becomes a slightly bigger piece but of a much larger pie over the long term.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

It would seem like the opportunity there would to be to basically build a larger portfolio of these types of businesses over time. Is that part of the plan, or are you just going to keep them to a relatively small percentage of total?

Gene Hall - *Gartner Inc - CEO*

So again we think there's tens of millions of small businesses. We want to serve those businesses just like we do the larger businesses. We are going to grow it at the rate that makes sense to grow it, to serve that marketplace.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

Got it. Thank you very much.

Operator

I would now like to turn the call back over to Gene Hall for closing remarks.

Gene Hall - *Gartner Inc - CEO*

Thanks to all of you for joining us today. Let me summarize some of the key points of the call. First, we are doing great as a company. We are where we would expect to be at this point of the year and all of our underlying metrics are strong. We continue to invest and improve recruiting capability training tools that drive sales productivity.

Our FX-neutral CD growth accelerated modestly. We remain committed to enhancing shareholder value through investing in our business, strategic acquisitions and share repurchases. And we are getting better, stronger, faster all the time. I expect to see robust growth for years to come. We look forward to updating you again at our next quarterly earnings call. Thank you.

Operator

Thank you for your participation in today's conference call. This concludes the presentation. You may now disconnect. Thank you very much and have a very good day.