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IT - Q3 2015 Gartner Inc Earnings Call

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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to Gartner's earnings conference call for the 3rd quarter 2015.

(Operator Instructions)

This call is being simultaneously webcast and will be archived on Gartner's website 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 10K and quarterly reports on Form 10Q, as well in than 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 conference over to Gene Hall. Please go ahead sir.

Gene Hall - *Gartner, Inc. - CEO*

Thank you and good morning everyone. Welcome to our Q3 2015 earnings call.

While our business continues to deliver robust results with demand for our services being driven by the digital industrial economy. Having completed the 3rd quarter a year, our underlying metrics are strong. We continue to capture the opportunity ahead of us with the successful execution of our primitive strategy for growth. As I have done in the past, I will review our key operative metrics on an FX-neutral basis, since that's the best way to understand the overall health of our business.

For the 3rd quarter of 2015, we delivered double-digit growth in contract value, revenues, and earnings per share. Total Company revenues were up 13% and EBITDA was 17% higher than this time last year. Research our largest and most profitable segment delivered our 23rd consecutive quarter of double-digit CD growth. For Q3 2015 we drove double-digit contract value growth in every region across every client size, and in every industry segment. During the quarter we achieved another new milestone in research with more than 10,000 enterprises as our clients.



We continue to invest in improved recruiting capabilities, training and tools, which in turn allows us to drive sales productivity over time. Growing sales capability and capacity is a mission-critical priority for us. For Q3 2015, we grew sales headcount by 16% and sales productivity improved compared to this time last year.

In consulting, one of our core strategies was to increase the number of managing partners. We entered the quarter with 105 managing partners up 22% over last year and we maintain a healthy four-month backlog.

Our event business continues to deliver robust double-digit growth. On a same event basis, we drove a revenue increase of 22% year-over-year. We continue to grow our capital strategically with acquisitions and share repurchases as our priority as capital.

We announced two acquisitions last quarter, Nubera and Captterra. Both businesses strengthen our offerings in the small business base. Year-to-date we have purchased \$453 million of our shares. Greg will give you more detail on all our business results in a moment.

We are currently in the middle of our flagship conference series Symposium IT Expo. Gartner Symposium is the world's most important gathering of CIOs and senior IT executives. We host this series in eight locations around the world including South Africa, Brazil, Dubai, India, Japan, Australia, Spain, and Orlando, Florida.

This event series can bring thousands of CIOs who share experiences and gain valuable insight that help them achieve their mission-critical priorities. In addition to being the most gathering of CIOs, it is also the largest gathering of technology leaders in the world. There's truly nothing else like it on the planet.

I just returned from the events we held in Florida and Australia. While on site at both events, I met with a number of CIOs and enterprise leaders from a diverse array of industries. These leaders are experiencing firsthand the effect of digital business. They're looking to Gartner for answers to tough challenges, cyber security, disruption, business transformation, and Gartner delivers.

The CIOs I met with said they felt inspired and better equipped to succeed in digital business as a result from our insights. Symposium IT Expo is one of the best ways clients and prospects alike can experience the breadth and depth of what Gartner has to offer.

While at these events I also have the opportunity to speak with a large number of our sales people from all around the world. Whether new or experienced, all of them had credible excitement and enthusiasm about the event. The value we deliver to our clients, and our incredible market opportunity.

One of the primary reasons our events business and our overall business has been so successful is our people. Gartner is a people business. Over the past several years we've made significant investments in our people. We added analyst around the world. We invested in recruiting and in training. We improved our customer service processes. We invested heavily in improving sales productivity and these investments are paying off. The insights we create, the advice we deliver and the overall experience for our customers has never been better and we're not slowing down. We'll continue to improve and innovate across every area of our business. We know how to be successful in any economic environment.

We are relevant whether an institution is growing or facing economic challenges. And we continue to deliver double-digit results due to the tremendous due to the value we deliver to our clients. I remain confident and excited about Gartner. Technology continues to change the world and Gartner is the heart of technology. Gartner is the single best source for enterprises to get the insight they need to understand where and how to successfully harness technology to achieve their mission critical priorities. We have more impact on end users and technology providers than any other company in the world. We are getting better, stronger, faster every day.

We have a vast market opportunity, a powerful value proposition, a winning strategy and an exceptional business model. Gartner is a stellar growth Company with outstanding prospects for accelerated and sustained growth for years to come. With that I will hand the call over to Craig.

Craig Safian - *Gartner, Inc. - SVP & CFO*

Thank you Gene and good morning, everyone.

Gartner continued its strong operational and financial performance in the third quarter delivering double-digit growth in contract value, revenue, and EBITDA on an FX-neutral basis and remains poised to do the same for the full year 2015.

I will discuss each business segment's performance in depth shortly but for the quarter, our year-over-year performance on an FX-neutral basis was as follows: Contract value increased 14% with research revenue growing 16%. Events revenues increased 22% on a same event basis. Consulting revenues declined by 3%. Normalized EBITDA increased 17%.

We continue to see robust demand for our services across all of our business segments and our business has delivered consistent double-digit growth quarter after quarter, year after year. We are engaged on our client's most important initiatives and projects. Our strong retention metrics demonstrate the value our clients receive from our products and services.

We are making great progress in capturing our market opportunity, finding new IT supply chain and digital marketing professionals to sell to every day. We are further penetrating existing accounts and winning new enterprise accounts. We remain confident that we will continue to deliver consistent revenue growth and strong financial performance over the near and long term.

I will first discuss the performance of each of our three business segments for the third quarter, give color around our P&L and balance sheet, discuss our recent acquisitions and finally share our outlook for the 4th quarter and the full year 2015. Then we will open up the call for questions.

As a global business it is worth noting that the strengthening US dollar has continued to impact our reported results. Just about every currency we operate in is weaker against the US dollar when compared to last year. While the decline in the euro has leveled off, a few additional currencies most notably Brazilian real, Canadian dollar and Australian dollar, have recently seen further weakness against the US dollar. I will comment on the impact of foreign exchange on each of our business segments as I discuss that.

Beginning with research. Research revenue grew 8% on an as reported basis and 16% on an FX-neutral basis in the third quarter. Our recently announced acquisitions had a less than one point impact on our revenue growth for the quarter. The gross contribution margin for research was 69% up 70 basis points compared to 3rd quarter 2014. On a year-to-date basis the gross contribution margin remained at 70% matching our target for this segment. All of our other research business metrics remain very strong.

Contract value grew to \$1.643 billion a growth rate of 11% year-over-year on a reported basis and 14% on an FX-neutral basis. As Gene previously mentioned, our growth in contract value was broad-based with every region, every client size, and every industry segment growing at double-digit rates. We continue to drive contract value growth through strong retention rates and consistent growth in new business.

Client retention was 84%. Roughly the same as third quarter 2014. While retention ended at 106% for the quarter maintaining its historical high and representing a one point improvement over the third quarter of last year. While 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.

New business increased year-over-year up 8% from last year's third 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 benefits from our discipline of annual price increases and no discounting. We have increased our prices by at least 3% every year since 2005. We recently implemented a price increase on October 1 that averaged just north of 3%.

Our new business growth reflects our success in penetrating our vast market opportunity with both new and existing client enterprises. As a result for the first time, we crossed the 10,000 enterprise mark ending the quarter with 10,093 client enterprises up 9% over last year's 3rd quarter and the average spend per enterprise continues to grow on an FX-neutral basis, again reflecting our ability to increase our contract value by driving growth in both new and existing enterprises.

Sales productivity improved once again. We were up 5% 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 per account executive. 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 million in FX-neutral terms. Using our Q3 2014 ending sales headcount of 1,820 as the beginning of period denominator, yields NCVI per AE of \$113,000 on a rolling four quarter basis. Again, that is a 5% improvement over third quarter last year and a comparable figure was \$107,000 for account executives at constant currency rates.

To sum up our research business, we delivered another strong quarter with retention rates at or near historical highs and contract value growth of 14%. Most importantly, we continue to see very strong demand for our research products and services.

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

Moving to events. For the quarter, our events segment delivered exceptional results. On an FX-neutral basis events revenues increased 38% year-over-year. We held three more events in this quarter than in the same quarter last year. As I noted earlier, on a same event basis, revenues were up 22% year-over-year.

During the quarter, we held 15 events with 7,215 attendees compared to 12 events with 5,606 attendees in the third quarter of 2014. Q3 is a seasonally light quarter for events as symposium season begins early in Q4. On a same event and FX-neutral basis, events revenues grew 22% with 6,451 attendees, a 9% increase compared to 3rd quarter last year. On a year-to-date basis, events revenue is up 19% over the prior year with 49 events versus 47 events in the same period last year.

The gross contribution margin for events increased roughly 9 percentage points from the third quarter a year ago to 39%. On a year-to-date basis, we improved gross contribution margin by approximately 4 points to 46%.

Turning now to consulting. On an as reported basis, revenues and consulting decreased 9% in the third quarter and decreased 3% FX-neutral. In the quarter, on an FX-neutral basis, our labor-based business was up slightly over last year. Consulting was largely impacted in the quarter by our contract optimization practice.

As we have discussed in the past, our contract optimization practice has a higher degree of variability than the other parts of our consulting business which can significantly impact results of the segment either positively or negatively. Across the entire consulting business we continue to see strong demand for our services and our ongoing investment in managing partners is allowing us to capture that demand. We now have 105 managing partners, a 22% increase over third quarter 2014.

The underlying operating metrics of our consulting business also remains strong. On the labor-based side, billable headcount of 588 was up 10% from this point in 2014. Third quarter annualized revenue per billable headcount ended at \$371,000. The decline in revenue per billable head was driven mostly by FX with the balance split between modestly lower utilization and a richer mix of less senior consultants who bill at lower rates.

Backlog, the key leading indicator of future revenue growth for our consulting business ended the quarter at \$110 million, up 5% over this time last year on an FX-neutral basis. With the current backlog and visibility we have into the pipeline, we believe the consulting business will finish 2015 solid results.

Moving down the income statement. SG&A increased by \$19 million year-over-year during the third quarter primarily driven by the growth in our sales force. As of September 30 we had 2,111 direct quota bearing sales associates an increase of 291 or 16% from a year ago. For the full year we expect to grow the sales force by 15% to 16%. In the third quarter SG&A was higher as a percentage of revenues due to continued investments in our sales capacity and recruiting and training capabilities.

Moving on to EBITDA and earnings. We delivered another solid quarter of earnings growth. Normalized EBITDA was \$80 million in the third quarter up 7% year-over-year on a reported basis, and up 17% on an FX-neutral basis. Our Q3 EPS results include a \$0.04 benefit from the sale of tax credits. The benefit arose out of a favorable state tax audit settlement.

This result meant we had tax credits that would have been unutilized. So we were able to sell the credits and record the benefit to our P&L on the other income line. We do not expect this to be a recurring event.

Our effective tax rate for the third quarter was 41.4%. On a year-to-date basis the effective tax rate is 37.4%.

These rates are trending higher than our guidance for 2 primary reasons. First, a significant amount of the expenses we are incurring related to our recent acquisitions are not tax-deductible and second, our mix of earnings continues to shift towards higher tax jurisdictions primarily due to the stronger US dollar.

When we look at a normalized tax rate or the tax rate that corresponds with our EPS excluding acquisition and integration charges we see that the rate for Q3 and Q3 year-to-date was 38.2% and 36.5% respectively. These are the tax rates to apply to our pretax income excluding acquisition and integration charges to model out earnings per share. These rates are modestly higher than our initial guidance due to mix of earnings.

On a year-over-year basis the increase in our tax rate is driven by foreign tax credit benefits that occurred in 2014 that are not repeating in 2015. As I said earlier, the year-over-year rate is also impacted by the non-deductibility of acquisition charges and mix of earnings which again is driven by the stronger US dollar.

GAAP diluted earnings per share was \$0.36 in the third quarter 2015. GAAP EPS includes the \$0.04 benefit from the sales tax credits I just mentioned. Our GAAP EPS also includes roughly \$0.09 worth of acquisition and integration charges. \$0.05 of which related to the two acquisitions we closed in the third quarter.

EPS excluding acquisition and integration charges was \$0.45 per share in Q3. This figure also includes the \$0.04 benefit related to the sale of expiring credits.

If you recall our third-quarter EPS guidance excluding acquisition and integration charges was to be between \$0.40 and \$0.42 per share. If we exclude the \$0.04 benefit from the sale of credits, our EPS excluding acquisition and integration charges was \$0.41 share for the 3rd quarter.

Turning now to cash. Year-to-date operating cash flow decreased by 4% to \$266 million compared to this point last year largely due to a stronger US dollar, higher acquisition related incentive payments and higher cash taxes. We still expect to deliver free cash flow well in excess of that income yet again in 2015.

Share repurchases and strategic acquisitions are our primary uses of our free cash flow and available capital. First let's cover acquisitions. In the third quarter we spent \$196 million net of cash acquired on two strategic acquisitions. US-based Captterra, in Barcelona based Nubera whose primary asset is GetApp. While the companies acquired are both small relative to our core business, they serve an important market need and are right in our sweet spot in terms of their value propositions helping users of IT make better technology decisions.

The two transactions also complement the Software Advice deal from last year. I would also note that we utilized overseas cash for the Nubera acquisition.

These two deals were structured with additional cash consideration payable related to the ongoing employment of certain key executives and company bonus programs that will potentially be paid over next three years. We will recognize these additional cash payments as acquisition expense and they will be amortized over the next two to three years. As with prior deals, these expenses will be excluded from our normalized EPS.

During the third quarter we also utilized our cash to return value back to our shareholders through share repurchases. In the quarter, we had share repurchases of \$12 million. Year-to-date we have repurchased \$453 million of our shares.

We ended the quarter with a strong balance sheet and cash position including the acquisitions and share repurchases. As of September 30 we had gross debt of \$840 million. We have \$700 million of interest rate swaps in place which effectively lock in our interest rates through September 2019 on this portion of our debt. Our cash balance as of September 30 was \$371 million with 94% of our cash balance located outside of the US. The combination of our debt and cash positions represents a net debt position of \$469 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 September 30, we had an additional \$646 million of revolver capacity. We continue to look for other attractive acquisition opportunities as a potential use of cash.

We also believe that repurchasing our shares remains a compelling use of our capital. As of June 30, we had \$1.18 billion available under our share repurchase authorization.

Turning now to guidance. Based upon our year-to-date results, the impact of recent acquisitions, our outlook for Q4, and current foreign exchange rates, we are adjusting our outlook and also tightening the ranges of our previously issued guidance. As you know, our normal business trends do show seasonality. Our fourth-quarter is typically our largest events quarter, a large consulting quarter and our largest contract value growth quarter. All of the figures that I'm going to go through are contained in our press release but I wanted to provide color around the guidance ranges.

First, from a revenue perspective, we now expect the following annual revenue figures and corresponding FX-neutral growth rates.

Research revenues of 1.580 billion to \$1.595 billion 15% to 16% annual growth. We modestly tightened the top end of guidance due to the stronger US dollar against our major currencies. The impact of the stronger dollar was partially offset by the inclusion of our recently announced acquisitions.

Consulting revenues of \$325 million to \$340 million, negative 1% to positive 3% year-over-year growth. We have reduce the bottom end of guidance by \$5 million and the top end by \$10 million. Consulting guidance was impacted by foreign exchange and modestly by operational performance.

Events revenues of \$245 million to \$255 million, 14% to 18% year-over-year growth. We are raising the bottom end of guidance by \$5 million due to our over performance in this segment which is offsetting the drag for (coughing which make is inaudible). On total revenues, there was no change to the bottom end and the \$15 million tightening to the top end of prior guidance. Again, the tightening (technical difficulties) [is primarily due to FX we now expect total revenue of] \$2.190 billion (sic-see press release \$2.150b to \$2.190b) or 12% to 14% annual growth on an FX-neutral basis.

For EBITDA we now expect to deliver between \$405 million and \$420 million for 2015, 11% to 15% growth on an FX-neutral basis. This reflects a \$10 million tightening of the top end of our guidance. The stronger US dollar was offset partially by the inclusion of our newly acquired businesses.

Like any multinational Corporation, the continued strengthening of the US dollar continues to negatively impact the results and outlook on a reported basis. However, the FX-neutral growth rates are in line with our original guidance.

We are updating our GAAP EPS guidance to reflect the impacts from our Q3 acquisitions. We now expect GAAP EPS of between \$1.97 to \$2.07 per share. GAAP EPS now includes \$0.32 per share of acquisition and integration charges representing an increase of \$0.16 per share for our two most recent acquisitions. Earnings per share excluding acquisition and integration charges is expected to be \$2.29 to \$2.39 per share for 2015. (technical difficulties) This represents 9% to 13% FX-neutral growth.

We have raised the bottom end of this guidance by \$0.02 and tightened the top end down by \$0.07. These adjustments reflect the impact of the tax credit sale and the inclusion of the acquired businesses offset by the stronger US dollar.

For cash flow we are updating our guidance to reflect the impact of the stronger US dollar, higher acquisition charges, and higher levels of capital spending to support our growth. We now expect cash flow from operations of \$337 million to \$352 million. Cash acquisition related charges of \$16 million and gross capital expenditures of roughly \$48 million. That yields a new free cash flow range of \$305 million to \$320 million or \$3.60 to \$3.78 of free cash flow per share.



Again the updates to our guidance are predominantly to reflect the impact of a strengthened US dollar. Additionally, we've updated to account for the impacts for our two recent acquisitions. The FX-neutral growth rates for our business are in line with our previous guidance ranges.

In summary, we delivered another strong quarter in Q3. Demand for our services is robust and as a result our research contract value grew 14% and total revenue grew 13% at constant currency rates. Our key business matrix remain strong and 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.

We move into Q4 with significant momentum and remain well-positioned to deliver another solid year of revenue and earnings growth for the full year 2015.

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

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Jeff Meuler of Baird & Company, Inc. Please go ahead.

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

Thank you. On the research contract value growth, obviously it continues to be broad-based growth, but there was a little bit of deceleration. Any pockets of weakness to call out or what drove that?

Gene Hall - Gartner, Inc. - CEO

Hi, Jeff, it is Gene. I wouldn't say it is pockets of weakness. I would put it more in the category of noise. We had one two country -- We had one country that -- I will give you an example of that drove it. One of our countries was growing in the mid 30% year-over-year CV growth and it slowed to 20. Another region -- and both of these are large for us, was growing 40% and slowed to 23%. And, again, I took those more as noise, as opposed to there's some dramatic slowing.

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

Got it. That's helpful. And then on consulting, is the weakness relative to plan all concentrated in CO, or was labor based also blow plan?

Craig Safian - Gartner, Inc. - SVP & CFO

Hey, Jeff, it is Craig. In the quarter, it was predominantly contract optimization. That said, we were a little bit below our forecast on labor-based. And essentially our strategy around adding managing partners is to drive deep long-lasting large consulting relationships with our clients.

In the third quarter, we actually had two very large programs come to an end and normally we're able to reassign all those consultants that are working those long tense engagements. We had a little bit of a disruption here, which impacted the labor-based revenue in the third quarter.



That said, rolling forward, we had a really strong bookings quarter and our backlog looks very strong for the labor-based business as well. So, broadly speaking, contract optimization was the primary culprit, a little bit of softness on labor-based, but labor base was more of a timing thing and we feel good looking forward.

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

Got it. Thank you guys.

Operator

Thank you. Our next question comes from the line of Tim McHugh of William Blair & Co. Please proceed.

Tim McHugh - *William Blair & Company - Analyst*

Thanks. First, just on the margins. You talked about productivity continuing to be strong on the research side. But the updated guidance for this year at a midpoint, we're basically looking at margins down 10 basis points. And so one is, when should we start to see the productivity flow-through to the margin line? And then secondarily can you -- I know you said it is seasonally stronger in the 4th quarter for margins, but the year-over-year improvement required is much better than you saw early in the year, so any timing factors that are -- give us reason to expect better margin improvement in the 4th quarter?

Gene Hall - *Gartner, Inc. - CEO*

Sure, Tim. Good morning.

On the first part of the question, the way that we look at it and the way to think about it and model it through, we've seen a nice year-over-year improvements in productivity consistently for the last few quarters. That said, we're still growing headcount at a faster rate than the productivity is turning into contract-value growth. The reason we're doing that is because of that \$58 billion market opportunity that we're going after, and so we are continuing to add headcount to go after that market opportunity.

That said, when we bring on lots of new people and more people in their first year, et cetera, and we have had discussions are around first year of productivity is significantly lower than second year productivity, which is lower than what it looks like once they are fully tenured, that's essentially what's causing that drag, if you will, on the margins. That said, if you look at our guidance, you know again the mid point may be 10 basis points down. The message from us is the guidance outlook calls for roughly flat margins, maybe 10 basis points down, maybe flat, maybe 10 basis points up, depending on how the quarter transpires from a reporting perspective. Which has been consistent with what we have delivered over the last three or four years.

Tim McHugh - *William Blair & Company - Analyst*

And then does that comment on Q4 versus what we've seen so far this year? Is there a reason?

Gene Hall - *Gartner, Inc. - CEO*

Yes, it's a great question. As you recall the first two quarters were really impacted by the grow over related to our contract optimization business, which, because of the size of the grow over, actually caused a fairly big drag on the margins in the first half of the year. And subsequently on the year-to-date numbers for the third quarter, as well. In the 4th quarter we don't have that grow over problem. And we typically have a very strong



events quarter, really strong contract value growth quarter, et cetera. That's why we're confident with the levels of growth required and the margin expansion required for the 4th quarter.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then just one for the model -- the acquisitions you made -- I know you said less than a point of contribution this quarter, but I think that was probably a partial quarter. How should we think about the revenue and margin impact of those?

Gene Hall - *Gartner, Inc. - CEO*

So it will have a less than two point impact on the fourth-quarter total revenue. So again, these are small acquisitions. And, you know, an even less impact on EBITDA margins. Again, when we baked in the guidance -- baked it into the guidance, it is baked in there. It was offset by the stronger dollar, both on the revenue lines and on EBITDA lines but the way to think about it is less than 2% impact on total revenue in the 4th quarter.

Tim McHugh - *William Blair & Company - Analyst*

Okay. Thank you.

Operator

Thank you for your question. Your next question comes from the line of Anjaneya Singh, Credit Suisse. Please go ahead.

Mark Walegin - *Credit Suisse - Analyst*

This is actually Mark [Walegin] for Anj. Thanks for taking my question. So diving a little deeper into an earlier question on the sales force productivity growth decelerating slightly, though off a tougher comp. So just looking at a year ago headcount growth was a little slower than usual. So I think that that would be a tailwind to productivity growth this quarter. Just wondering if you could give us some of the -- put some takes there and along those lines how should we think about the potential headwind on productivity going forward from accelerating headcount growth.

Craig Safian - *Gartner, Inc. - SVP & CFO*

Hey Mark. On the productivity trend, again, down a little bit sequentially but up nicely -- up 5% on a year-over-year basis. Again, we look at it both ways. We actually think the year-over-year is a good way to look at it, because it does take out some of the noise of movement and headcount growth from quarter to quarter. So we're pleased with the continued and consistent year-over-year improvements in sales productivity the way we measure it.

In terms of the growovers and the tailwind or headwind or however you want to describe it, the way to kind of think about it is, as we tick up or tick down -- and again we are within two points, so we are talking about 14% growth and 16% growth. On a 2,000 person basis you're talking about the difference of roughly 40 people one way or the other, so it is not a huge swing even though it looks that way from a percentage basis. But as we tick up we do have a slightly richer mix of new hires which are inherently less productive.

So we're delivering 5% year-over-year productivity growth while having a richer mix of first year AEs. And again the way it works with us is the first year AEs, it really is an investment because they are lower productivity. But then as they rise in tenure, they really start to drive significant growth, and as it rolls through the system. So that's the way we think about the productivity and the growth.

The second question was around future headwinds. I don't know if, Gene, if you want to tackle that one.

Gene Hall - *Gartner, Inc. - CEO*

Yes. Basically, Mark, we are committed to continually improve our recruiting, continually improving our training, giving ourselves some new tools as we've talked about. We think over time those things will enhance sales productivity, which is why we are doing it. So we are on a strong drive to improve our sales productivity over time. So instead of headwinds I think the opposite, which is that because of the changes we're making we expect that sales productivity will improve over time.

Mark Walegin - *Credit Suisse - Analyst*

Got it. That's helpful. And then just another quick one. In consulting we saw the decline in average annualized revenue per billable headcount accelerate slightly. Can you just help us understand what's happening there and how we should think about that going forward? Is that just a function of additional MPs versus the RAM time et cetera, or is there something more there?

Gene Hall - *Gartner, Inc. - CEO*

The way to look at that one, Mark, is more than half of the decline is actually foreign exchange. We do have a very healthy business, particularly over in Europe with our consulting. And so with the euro and the pound doing what it's done, that's obviously having the most significant impact. Beyond that there are really two primary factors. One is a slight downturn in utilization. We were at 63% on the quarter down about 2 points from last year. That obviously impacts the annualized revenue per billable; and again that's more related to what I described earlier around some of those larger projects coming to an end and us not getting those consultants reassigned on new projects right away, which they are now.

The second biggest factor, which has actually been a strategic focus for us as well, is while we're accelerating the growth of our managing partners at the top of the pyramid, we've actually been very aggressive about filling in the bottom of the pyramid, as well. So the more junior level consultants that actually are on the ground delivering the hunk of the value.

If you look at roughly 60% of the decline from foreign exchange, another 20% from the lower utilization rate, the balance is actually from a shift in mix. So we've got significantly more lower level consultants we actually make great margins on out there billing, which drags down the bill rate a little bit, but is actually very healthy for margins.

Mark Walegin - *Credit Suisse - Analyst*

Got it. That is helpful. Thank you.

Operator

Thank you. Your next question comes from Manav Patnaik of Barclays.

Manav Patnaik - *Barclays Capital - Analyst*

Yes, good morning guys. I want to touch on the acquisitions a bit. It sounds like minimal impact to revenue and EBITDA, but \$196 million net of cash acquired price seems a little high. So I was just wondering if you could give us some color on the size of those assets individually, and also I think you mentioned that the incentive payments to the management of those over the years would be recognized as an acquisition expense and excludes amortization. Just wonder why if that is paying the team?



Gene Hall - *Gartner, Inc. - CEO*

Manav, as you know, we have traditionally targeted companies that had at least \$10 million in IT spending. We've estimated 110,000 of those companies. There are tens of millions of smaller businesses, and these three businesses, two of which we acquired this quarter, in addition to Software Advice, those three businesses provide the same services that we provide in larger companies to these tens of millions of small companies.

The reason we did these acquisitions obviously wasn't for this quarter or even next year, but we think over the next five years this will be a great growth business for us. And that it fits very well with what we do as a business which is we've always -- our specialty is advising clients on how to get -- what products and services to buy and how to get the most out of their technology investments.

Craig do you want to --

Craig Safian - *Gartner, Inc. - SVP & CFO*

Yes. And Manav just on the accounting side of it, we had the same accounting related to Software Advice deal, where there were what we will call holdbacks for the management team that they have to earn by being on board and contributing to the business over a couple-year period. When we structured the deals, they are akin to consideration, however, from a GAAP accounting perspective, we treat them as operating expense. And because it is really in our mind, more like consideration for the acquisition, that's why we normalize it out from an expense perspective on a go forward basis.

Manav Patnaik - *Barclays Capital - Analyst*

Okay and then just to touch on, since most of your cash is now overseas, is there any inherent limitation then in terms of either buying domestic companies, or you just have to use your revolver to do buybacks. Just wondering if we should think of that as a limitation, by any means?

Gene Hall - *Gartner, Inc. - CEO*

Yes, the overseas cash balance obviously cannot be utilized for every business initiative or shareholder-enhancing initiative we want to undertake. That said, with the Nubera acquisition as an example we were actually able to use that foreign cash to do the acquisition.

On a go forward basis, the combination of that cash overseas, the great free cash flow generation we have both here and overseas, plus the \$646 million available on our current revolver, and on top of that we actually have a \$500 million expansion feature in our credit facility. We feel like the combination of those three or four things allow us to be well-positioned to pursue whatever shareholder enhancing initiatives we want to.

Manav Patnaik - *Barclays Capital - Analyst*

Thank you.

Operator

Thank you. Your next question comes from the line of Tony Kaplan of Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Hi, good morning. How are your discussions going with clients as they plan their 2016 budgets, and have you seen any change in tone as the year has gone on?



Gene Hall - *Gartner, Inc. - CEO*

This is Gene, no. I would say basically as clients are planning 2016 budgets they have been focused on the same issues. They have been focused on what we are calling Bimodal IT, which is building up things for the digital economy at the same time keeping their existing business running. They are worried about cyber security and having to deal with cyber security. Those are the kinds of things that they are focused on and it has not changed through the year.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay great. And just given the two new acquisitions in the small and medium-sized space, just wondering if you could talk about the initial receptivity among clients in that area? Especially, you have had Software Advice for a little while now, just wanted to get your sense of how big the opportunity could be and just how the reaction is going to your bulking up in that area.

Craig Safian - *Gartner, Inc. - SVP & CFO*

Good morning.

Gene Hall - *Gartner, Inc. - CEO*

The small companies have the same problems with IT that big companies do. These companies that we are targeting actually in general do not have an IT department. It's things like -- think about a small funeral home, or an electrician -- an electrician who has four or five electricians that work for them or something like that. There's huge opportunities for them to use IT in their business and the changes in technology have made it so that there is more and more opportunities every day. Things like Amazon Web services and all the -- all of the software tools that are available now. Particularly open-source tools.

So there's an explosion of innovation in software, particularly hosted software, that applies to these small businesses. These small businesses are not experts in IT and they need help figuring out what is best for their particular business and your particular situation. And so, the receptivity to -- and that's what these three businesses we bought do. The clients love them, because they need the help to kind of figure out these tough IT decisions. Just like a large company, except they don't have an IT department.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay and just lastly, is this more of -- are these businesses more transactional than like a typical research subscription model that you have in the larger business?

Gene Hall - *Gartner, Inc. - CEO*

Yes, they are more transactional, as opposed to a subscription model.

Toni Kaplan - *Morgan Stanley - Analyst*

Thank you.



Operator

Thank you for your questions. Your next question comes from the line of Peter Appert, Piper Jaffray & Company. Please go ahead.

Unidentified Participant - - *Analyst*

Hi. Good morning. This is actually Stephen filling in for Peter Appert. I have a question in regards to the event segment. The event business has been a very strong performer in Q3 and for the past quarter. How big is the opportunity here, and what drives the continuing growth?

Gene Hall - *Gartner, Inc. - CEO*

Hey, it is Gene. Our events business has the same enormous opportunity that we have in all of our research business. Basically, we have opportunities on two dimensions with our events business. The first is to grow -- the existing event portfolio we have has lots of room for growth. There is no -- we don't see any of the event types that we have today having any growth restrictions. In addition to that, there will be new events we can add, as well.

For example, over time I expect we're going to add more symposium events around the world. As we have got both growth from our existing events, which we think is unconstrained for the foreseeable future and then adding in whole new events, particularly in geographies where we don't have all the events today.

Unidentified Participant - - *Analyst*

I see. And in terms of the macro economic in Europe it remains challenging. Can you elaborate what you're seeing in major markets?

Gene Hall - *Gartner, Inc. - CEO*

So, as I mentioned before. In every geography and every industry we've had double-digit growth again. And so, even when the economic situation is tough, people have IT problems. IT is often one of the solutions to those problems. And we are the best source to go to. We see robust growth in every geography and every industry around the world.

Unidentified Participant - - *Analyst*

Okay. Great. That's all I have. Thank you.

Operator

Thank you very much. Your next question comes from the line of Gary PC of RBC Capital Markets.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hey. Good morning. A couple of questions. Craig, I will start with something you said. I think I heard you say new business was up 8%. Is that a bookings number? I don't remember -- .

And if so I don't remember you consistently providing that in the past. What's the context we should put around that -- that is quite a bit below contract value growth. Is there something that that's indicative of?

Craig Safian - *Gartner, Inc. - SVP & CFO*

Hey Gary no. It's actually something that we do provide generally each quarter. It's not the bookings number. It is actually exclusive of the renewal activity. It's essentially the growth bookings that we have each quarter. Again, can vary from quarter to quarter a little bit in terms of how much we are actually renewing and how much we are actually selling in terms of growth. As you'd imagine Q4 tends to be by far our largest growth quarter. And we feel good where we are from a new business perspective both for the quarter and on a year-to-date basis.

Gary Bisbee - *RBC Capital Markets - Analyst*

So way to think about that is 8% is the new bookings and then you've got on the renewal base some pricing and likely some people buying more than they did a year ago. You add that all up and you get the 14%? Is that the right way to think about it?

Craig Safian - *Gartner, Inc. - SVP & CFO*

Well, no. The 8% is actually -- it's a year-over-year growth measure. It's not a -- it's not a proportion of the current year bookings. It's the year-over-year growth.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay. All right. And then just, on events, having recently been at your event in Florida, it seems to be bigger and grander every year. Is there a risk with events like that that just get too big for their own good? I ask from the perspective of if you had 9% growth in same event attendees, but 22% revenue, I realize there is some pricing but it seems like you are also getting outsized growth from the exhibitors. Is there some point at which the benefit to them declines as you jam more of them in there or raise the price? Or do you think we're not anywhere near that given the value you're providing for them?

Craig Safian - *Gartner, Inc. - SVP & CFO*

There's another factor going on, Gary, which is that we are shifting the mix to sell to more senior people. And so if you look at like the event you went to, the proportion of people that are CIOs there has been growing at a very high rate and that is purposeful, that is by design. Symposium is targeted at CIOs and that level of leaders, and so we are increasing the mix of senior people, and as we target more senior people, the pricing is higher as well.

We change the event to be targeted to senior people, we invite more of them, and the pricing goes along with it. So it's not just sort of the exhibitor piece, there is actually a mix shift going on where we have been targeting the more senior people who, frankly, it's part of a broader strategy, which, as you know they have decision-making -- more decision-making authority in their organizations and so they come to our event to understand Gartner. It is good for our entire business.

Gary Bisbee - *RBC Capital Markets - Analyst*

Got you. Thanks and then just a clean up one on the FX. I know you have talked about 40% or 50% of revenue being overseas. Can you give us an update, what's the general mix of euro and pound, which after next quarter are a lot less of a drag but versus the Canadian dollar, EM, and Aussie dollar, which really weakened quite a bit and probably remain a drag for several quarters into next year?



Craig Safian - *Gartner, Inc. - SVP & CFO*

Yes, Gary, we haven't got into real great detail there. What I will tell you is euro and pound are by far the two largest exposures we have globally. But, that said, we've got a great business in Canada, a great business in Australia and a great business in Brazil that have been growing consistently and rapidly over the last several years. And so, while they are not nearly as big as the euro or pound, they are in that top 5 or 6 currency exposures for us.

So they do have an impact, as you mentioned, I mean the euro and the pound, and maybe this is a little bit of a hopeful comment, have mostly stabilized for the most part. The euro is still down 3%ish from when we gave our initial guidance. But the Brazilian real is down 50% since we gave our initial guidance.

The good news is the two larger currencies have mostly stabilized, but these other currencies are big enough businesses for us that they do move the needle a little bit. We will continue to focus in on how we are doing from an FX-neutral perspective and provide all the transparency possible so that you can see what's actually happening underneath the covers. But you're right on the euro and pound perspective. It should look a little bit better on a reported basis going forward.

Gary Bisbee - *RBC Capital Markets - Analyst*

But the right assumption probably at this point, given what you've told us, is there's likely to be a noticeable if not material drag in the first half of 2016, just based on these ones that have really started weakening recently.

Craig Safian - *Gartner, Inc. - SVP & CFO*

On a reported basis that is true on an FX-neutral basis we would expect to continue where we have been going.

Gary Bisbee - *RBC Capital Markets - Analyst*

Understood. Thank you.

Operator

Thank you for your question. Your next question comes from the line of Jeff Silber of BMO. Please go ahead.

Henry Chen - *BMO Capital Markets - Analyst*

Hey, good morning. It is Henry Chen calling in for Jeff. I just had a question on the planned sales force increase. I don't know if you would be able to quantify this at all. But I was curious to know how long, given the trends in sales force productivity and the gains that you are seeing in enterprise contract value. I'm just wondering if you might be able to give us a sense of when sales force trends we should see an impact on revenue growth?

Craig Safian - *Gartner, Inc. - SVP & CFO*

Henry, the way we think about it, again the contract value growth, the revenue growth. With our sales productivity gains we are in that 14% to 15% revenue growth range. If you recall -- you know go back several quarters, we had lower productivity and we were delivering 12%, 13% contract value growth. The gains we had last year and into this year, have allowed us to be delivering 14% to 15% CV growth and 14% to 15% research revenue growth. On a go forward basis, as we stated we are very focused on continuing to improve productivity and continuing to grow the sales force. The combination of those two things will convert into higher levels of contract value growth, and then subsequently higher levels of research revenue growth.

Henry Chen - *BMO Capital Markets - Analyst*

Okay. Got it. Is there a lag time that is different from that we've seen in prior quarters?

Craig Safian - *Gartner, Inc. - SVP & CFO*

The historical lag, if you will between contract value conversions to revenue conversions is consistent with what we've always seen.

Henry Chen - *BMO Capital Markets - Analyst*

Got it. Okay. That is helpful. And how much of your sales force growth is related to growing the small to medium size opportunity that you are seeing?

Craig Safian - *Gartner, Inc. - SVP & CFO*

Henry, the businesses that we just acquired and Software Advice, we would not include in that group. And so -- we have handle those separately because they're handled in a different way. And so the sales force increase is -- that we talk about -- is in our traditional business where we are targeting those 110,000 companies.

Within that there are large, medium and smaller businesses, but they're all about the size of the acquisitions. And directionally it is the same split. We have -- we are still investing in large companies, we are still investing in small companies, and medium size companies in that original 110,000 base.

Henry Chen - *BMO Capital Markets - Analyst*

Got it. Great, thank you.

Operator

Thank you very much indeed for your questions ladies and gentlemen. I would now like to turn the call over to Mr. Gene Hall for the closing remarks.

Gene Hall - *Gartner, Inc. - CEO*

I want to thank all of you for joining us today. To summarize the key points for today's call, we are doing great as a company and our underlying metrics are strong. We continue to invest, improve recruiting capabilities, training tools that drive sales productivity over time. We once again delivered double-digit growth in every region, across every client size and in every industry segment. We remain committed to enhancing shareholder value through investment 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 will forward to updating you again on our next quarterly earnings call.

Thanks for joining us today.

Operator

Thank you for joining in today's conference. Ladies and gentlemen, this concludes the presentation you may now disconnect. Good day.

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