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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Gartner's earnings conference call for the fourth-quarter and full-year 2015. A replay of this call will be available through March 8, 2016. The replay can be accessed by dialing 888-286-8010 for domestic calls and 617-801-6888 for international calls by entering the pass code 61045168.

This call is being simultaneously webcast and will be archived on Gartner's website at www.Gartner.com for approximately 90 days. I will now turn the call over to Sherief Bakr, Gartner's Group Vice President of Investor Relations, for opening remarks and introductions. Please go ahead, sir.

Sherief Bakr - *Gartner, Inc. - Group VP of IR*

Thank you and good morning everyone. Welcome to Gartner's fourth-quarter and full-year 2015 earnings call. With me today in Stanford is our Chief Executive Officer Gene Hall and our Chief Financial Officer Craig Safian.

This call will include a discussion of Q4 and full-year 2015 financial results as disclosed in today's press release. We will also discuss our preliminary outlook for 2016.

After our prepared remarks, you will have an opportunity to ask questions. I'd like to remind everyone that the press release is available on our website, www.Investor.Gartner.com.

Before we begin, I'd like to remind you 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 other filings with the SEC. I would encourage all of you to review the risk factors listed in these documents.

Finally, before I turn the call over to Gene, I'd like to remind everyone that we will be hosting our annual investor day in New York next Thursday, February 11. It will be a great opportunity to hear from Gene and other senior leaders of the Company. For those of you who are yet to register and would like to attend, please send an email to investor.relations@Gartner.com, and we would be happy to send you an invitation.

With that, I'd like to hand the call over to Gartner's Chief Executive Officer Gene Hall.



Gene Hall - Gartner, Inc. - CEO

Thanks Sherief. Good morning everyone and thanks for joining us on our Q4 and full-year earnings call.

As you might have seen from our press release earlier today, we continue to perform well in 2015. We delivered against all our key metrics for the year, including double-digit growth in contract value, revenue and earnings per share.

I remain bullish about our business. We're getting better, stronger, faster every year, and our results reflect it. We drove another year of double-digit contract value growth in every geography across all client sizes in every industry except energy and utilities, where we had single-digit growth.

Because of ongoing currency fluctuations, I will review our results in FX-neutral terms so you have an easier basis for comparison. For the full-year 2015, contract value growth was up 14%. Total Company revenues grew 13%, and EBITDA was up 13%. This performance was driven by robust quarter-over-quarter results, and demand for our services remains strong.

Research, the core of our business and our largest and most profitable segment, grew revenues 18% in the fourth quarter 2015, and contract value grew 14%. These results represent 24 quarters of consecutive double-digit contract value growth. Enterprise client-level retention was at 84%, and enterprise-level wallet retention was at 105%, both down 1 point from Q4 2014.

Our consulting business represents an opportunity for us to deepen our research relationships with our largest clients. Our consulting business revenue increased 5% in Q4 2015. We also grew backlog 19% in Q4, representing our biggest backlog ever. One of our core strategies in consulting is to increase the number of managing partners, and we ended the year with 109 managing partners, up 18% over last year.

Our events business drove another quarter of double-digit growth in Q4, with revenues up 17%. We hosted more than 24,000 attendees across 15 events in the quarter, including our flagship conference series, Symposium/ITxpo. Finally, our supply chain and digital marketing business has continued to grow significantly faster than our average.

These results reflect the tremendous value we deliver to our clients, and all of this occurred against the challenging economic backdrop. Current estimates predict revenues and earnings for the top 500 companies in the US declined during 2015. Many major economic countries and regions around the world experienced slowing economic growth or outright declines.

Our clients in the oil and gas industry suffered from a 60% decline in oil prices, which also impacted entire countries and regions. Unemployment rates in many European countries remained high, and virtually all currencies continued to weaken relative to the US dollar. In this environment, we achieved double-digit contract value growth and once again delivered on our key metrics for the year.

Whether enterprises are leveraging technology to disrupt entire industries, are being disrupted by technology, or are leveraging technology to drive operational efficiencies, technology remains a key component of their solutions. This makes technology a necessity for virtually every enterprise.

Gartner is at the heart of technology. Our clients rely on us for independent, objective and fact-based insights when making critical technology decisions. For most of our clients, we represent substantially less than 1% of their IT budgets while delivering tremendous value at a very high return on their investments.

In addition, our business is highly diversified by industry, geography and size of client. That's why, despite the economic distractions I just mentioned, we achieved double-digit growth in every geography across all client sizes in every industry except energy and utilities, where we had single-digit growth.

Because Gartner's a people business, we continue to make significant investments in our talent. In 2015, we added more depth to our global analyst community, we invested in recruiting and in training, we continually improved our customer service processes.

In addition to our core IT businesses, we continued to accelerate our growth in supply chain and digital marketing. We augmented our offerings in the small business space with two strategic acquisitions, Nubera and Capterra.

Finally, for the full year, we repurchased more than \$0.5 billion of our shares. With that, I will now turn the call over to Craig, who will provide more detail on our position results.

Craig Safian - *Gartner, Inc. - CFO*

Thank you Gene and good morning everyone. 2015 was yet another strong year for Gartner. We delivered on our financial goals while continuing to make significant investments to support our key strategic objectives and drive long-term value for our shareholders.

We continue to see robust demand for our services across the globe, and the midpoint of our 2016 outlook, which I will discuss in a moment, is consistent with our focus on delivering consistent double-digit revenue and earnings growth, strong free cash flow generation, as well as maintaining a healthy balance sheet and liquidity profile. During the fourth quarter, we delivered double-digit constant currency growth in contract value, revenue and earnings. Our exceptional business model and focus on cash flow created a consistently high level of free cash flow conversion with a rolling fourth-quarter free cash flow conversion of 156% of normalized net income.

On an FX-neutral basis, our year-over-year financial performance for the quarter included contract value growth of 14% and research revenue growth of 18%. Events revenue growth to 15% on a same-event basis. Consulting revenue growth of 5% with backlog growth of 19%, and normalized EBITDA growth of 19%.

As Gene mentioned, the demand for our services remains strong across all of our business segments. We're continuing to execute on our strategy to capture the market opportunity ahead of us, winning new enterprise accounts and extending our penetration within existing clients.

We delivered these results despite some of the specific challenges that Gene just discussed. As we all know, the energy sector is extremely challenging globally, and our business selling to clients in this sector impacted our contract value growth and sales force productivity. I will come back to this later in my remarks.

Before taking your questions, I will discuss our fourth-quarter business segment performance in depth, provide some comments on balance sheet and cash flow dynamics before closing with remarks on our 2016 guidance. Beginning with research, research revenue grew at 13% on an as-reported basis and 18% on an FX-neutral basis in the fourth quarter. Our newest acquisitions had a roughly 4 point positive impact on research revenue growth for the quarter.

The gross contribution margin for research was 68%, a 90 basis point decline compared to the fourth quarter of 2014. On a full-year basis, the gross contribution margin for research was 69% in 2015, flat when compared to the full-year 2014. For both Q4 and the full year, our newly acquired businesses had a slightly negative impact on the gross contribution margin and research.

All of our other research business metrics remain very strong. Contract value grew to \$1.761 billion, a growth rate of 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 with the exception of energy and utilities growing at double-digit rates. The energy and utility sector actually grew for us in 2015. However, the growth rate in that sector slowed when compared to the performance from 2014.

As we discussed in the past, our business is highly diversified, with our contract value mix roughly reflecting the GDP in each country that we do business in. For Gartner, the energy and utility sector represents less than 5% of our contract value.

From a regional perspective, it is worth noting that although contract value grew at double-digit rates across all major regions, our contract value growth continued to be impacted by a few countries where growth has slowed -- for example, Brazil. We have a few markets where the macroeconomic

and/or local currency situation is extremely challenging for many of our clients. Despite these macro challenges, we delivered 14% global CV growth.

We continue to drive CV growth through strong retention rates and consistent growth in new business. Client retention was 84%, down slightly from the fourth quarter 2014.

Wallet retention ended at 105% for the quarter, also down slightly but once again impacted by the macro challenges I just mentioned. 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 discussed in the past, our retention metrics are reported on a rolling four-quarter basis in order to eliminate any seasonality.

New business increased 9% year over year in Q4. 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 every year since 2005, and as mentioned last quarter, we 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. We ended the fourth quarter with 10,796 enterprise clients, up 8% compared to Q4 2014. 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.

Turning to sales productivity, 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 \$211 million in FX-neutral terms.

Using our Q4 2014 ending sales headcount of 1881 as our beginning of period denominator yields NCVI per AE of \$112,000 on a rolling four-quarter basis or a 5% decline over fourth quarter last year when the comparable figure was \$118,000 for account executives at constant currency rates. The modest year-over-year decline in productivity was driven primarily by the deceleration in the energy and utility sector and a small number of markets, many that had energy as a large portion of their economy.

To sum up, we delivered another strong quarter in research. Despite challenges in the energy and utility sector as well as a tougher overall operating environment, we delivered contract value growth of 14% with retention rates near historical highs. Although we saw a slight decline in productivity in Q4, we are confident that the productivity initiatives we have in place and have recently introduced will positively impact contract value growth in 2016 and ultimately research revenue growth over the longer term.

Moving to events, our events segment had a great Q4 to end the great 2015. On an FX-neutral basis, events revenues increased 17% year over year in the quarter. We held two more events in Q4 than the same quarter last year.

As I noted earlier, on a same-event basis, revenues were up 15% year over year. During the quarter, we held 15 events with 24,280 attendees compared to 13 events with 23,453 attendees in the fourth quarter of 2014.

During the quarter, we held most of our Symposium events. Gartner Symposium is our flagship conference series specifically designed for CIOs and senior IT leaders. Symposium revenue growth was in line with our total events revenue growth for the quarter.

Events Q4 gross contribution margin was 57%, up a point compared to the year-ago quarter. On a full-year basis, events revenue increased by 18% in 2015 with 65 events versus 61 events in 2014, and its gross contribution margin increased by 250 basis points to 52%.



Turning to consulting, on an as-reported basis, consulting revenues were approximately flat year on year but increased by 5% on an FX-neutral basis. The labor-based business was up 2% versus Q4 of last year at constant currency. We also saw strong year-on-year growth in Q4 for 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. This can significantly impact the results of this segment either positively or negatively.

Our ongoing investment in managing partners is driving demand for our services. We now have 109 managing partners, an 18% increase over fourth quarter 2014.

The underlying operating metrics of our consulting business also remain strong. On the labor-based side, billable headcount of 606 was up 13% from the year-ago quarter, and fourth-quarter annualized revenue for billable headcount ended at \$389,000. The decline in revenue for billable head was driven by a combination of FX, lower utilization and a richer mix of more junior consultants who bill at lower rates.

Backlog, the key leading indicator of future revenue growth for our consulting business, ended the quarter at \$118 million, up 19% over this time last year on an FX-neutral basis. This equates to the highest-ever backlog in our consulting business and represents over four months of solid backlog, a great way to enter 2016. When combined with the visibility we have into the pipeline, we believe the consulting business is well-positioned to meet our targets for the year.

Moving down the income statement, SG&A increased by \$20 million year over year in the fourth quarter, primarily driven by the growth in our sales force. As of the end of 2015, we had 2171 direct quota-bearing sales associates, an increase of 290 or 15% from a year ago and consistent with our previous guidance. In the fourth quarter, SG&A was 70 basis points lower as a percentage of revenues than the year-ago quarter, primarily due to better G&A leverage which more than offset the continued investments in our sales capacity, recruiting and training capabilities.

Moving on to EBITDA and earnings, we delivered another solid quarter of earnings growth. Normalized EBITDA was \$137 million in the fourth quarter, up 13% year over year on a reported basis and up 19% on an FX-neutral basis. For the full year, normalized EBITDA was \$408 million, representing 5% growth for 2015 or a 13% increase on an FX-neutral basis.

Moving down the income statement, depreciation, amortization and acquisition and integration charges were all up year over year in the fourth quarter, reflecting higher capital spending to support our growth as well as the impact of our recent acquisitions. Interest expense was \$6 million in Q4, reflecting our increased borrowing, which I will cover in more detail in a few moments.

Our tax rate for the quarter was 32%, and our tax rate for the full year was 35.5%. The tax rate was lower than projected for the quarter and the year for two primary reasons.

First in December, the US government enacted the PATH Act, which included the retroactive extension of several favorable tax provisions. Second, our mix of earnings was more favorable than we had originally forecasted with a modestly higher proportion of our pretax earnings in lower tax jurisdictions. Adjusting for acquisition charges, our normalized tax rate for the full year 2015 was 34.8%.

GAAP diluted earnings per share was \$0.78 in the fourth quarter 2015. Our GAAP EPS includes roughly \$0.14 worth of acquisition and integration charges. EPS excluding acquisition and integration charges was \$0.92 per share in Q4, up 28% versus Q4 of 2014.

For the full year 2015, our fully diluted GAAP EPS was \$2.06. GAAP EPS includes \$0.33 of acquisition and integration charges. EPS excluding acquisition and integration charges was \$2.39 per share for the full year, an increase of 7% on a reported basis and approximately 12% on an FX-neutral basis.

Turning now to cash, for the full year 2015, operating cash flow of \$346 million was essentially flat compared the full-year 2014. This was driven by the adverse impact of a stronger US dollar, higher acquisition-related incentive payments and higher cash taxes, which offset higher year-on-year EBITDA and cash inflows from working capital. On an FX-neutral basis, operating cash flow increased by approximately 7% in 2015.

Consistent with the negative working capital dynamics that are a key characteristic of our subscription-based business model, we generated free cash flow well in excess of net income in 2015. We define free cash flow as operating cash flow less capital expenditures with cash acquisition and integration payments added back. This equated to \$316 million in 2015 or \$3.72 per share on a fully diluted basis. When compared to our 2015 EPS excluding acquisition and integration charges of \$2.39, this represents a net income to free cash flow conversion of 156%, consistent with our free cash flow conversion of 153% from 2014.

Share repurchases and strategic acquisitions continue to be our primary uses of our free cash flow and available capital. During 2015, we took significant steps to deliver value to our shareholders, utilizing more than \$700 million of cash on share repurchases and strategic acquisitions.

First on share repurchases, in 2015, we repurchased \$509 million worth of shares, including \$56 million in the fourth quarter, and repurchased an aggregate of 6.2 million shares for the year. Second on acquisitions, which total \$196 million in 2015, the addition of Captterra and Nubera fit squarely within our strategy, allowing us to meet the different needs of smaller-sized enterprises with different business models. Both assets have attractive economics and accelerate our ability to capture the market opportunity ahead of us.

We ended the year with a strong balance sheet and cash position including the acquisitions and share repurchases I just mentioned. As of December 31, we had gross debt of \$825 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 December 31 was \$373 million, with 94% of our cash located outside of the US. The combination of our debt and cash positions represents a net debt position of \$452 million or about 1.1 times normalized EBITDA.

Our current credit facility runs through 2019. That and our ongoing free cash flow generation gives us ample liquidity to continue to grow our business and execute initiatives that drive shareholder value. As of December 31, we had an additional \$656 million of revolver capacity.

We continue to look for other value-creating acquisition opportunities as a potential use of cash. We also believe that repurchasing our shares remains a compelling use of our capital. As of December 31, we had \$1.13 billion available under our share repurchase authorization.

Turning now to guidance, as always, we will be providing you with guidance for revenue at a total company and segment level normalized EBITDA, free cash flow and EPS. Our EPS guidance is on both a GAAP and adjusted basis with the latter excluding acquisition and integration charges. We will also provide you with insight into the larger line items below EBITDA that get us to our EPS guidance range.

The midpoints of our guidance are consistent with our performance over the last several years as we are again projecting double-digit growth to revenues, EBITDA, EPS and free cash flow on an FX-neutral basis. Our 2016 plan also includes investments that support our key strategic objectives and drive long-term value for our shareholders.

The details of our 2016 outlook are also included in today's press release, but to summarize, our base-level assumptions for our guidance are as follows. Our sales force grows approximately 15%, sales productivity remains roughly flat from 2015 levels on an FX-neutral basis, and we have used foreign-exchange rates from this week in setting our guidance and outlook for the year. As is our practice, we will provide updates on our quarterly earnings calls should there be any changes to any of these assumptions.

For 2016, we are expecting total revenues of \$2.39 billion to \$2.45 billion or 12% to 15% growth on an FX-neutral basis. A little less than 2 points of that growth can be attributed to the impact and timing of our recent acquisitions.

Turning to our three business segments, first, revenues for the research segment are expected to be \$1.785 billion to \$1.815 billion in 2016, FX-neutral growth of 14% to 16%. Again, continuing our trend of mid teens growth for our largest, most profitable and most cash-generative segment.

Second, we expect consulting revenues of \$330 million to \$345 million or 2% to 7% FX-neutral growth compared to 2015. And third, we expect to deliver events revenues of \$275 million to \$290 million, 10% to 16% growth on an FX-neutral basis. This continues our five-year trend of high growth for this segment.

We currently expect to hold approximately 63 events in 2016. We expect normalized EBITDA for the full-year 2016 to be between \$440 million and \$470 million or 9% to 17% growth over 2015 on an FX-neutral basis.

Below EBITDA, we expect the cost associated with stock-based compensation expense in 2016 to be approximately \$51 million to \$52 million. Total depreciation expense should be approximately \$38 million, and we expect amortization to be around \$24 million. We expect acquisition and integration charges of \$22 million and interest expense between \$27 million and \$28 million.

We are projecting an annual effective tax rate for GAAP of approximately 36% and approximately 35% for earnings excluding acquisition and integration charges. Please note that our tax rate may vary from quarter to quarter due to the geographic mix of earnings as well as the timing of certain items.

Our GAAP net EPS guidance for 2016 is to be between \$2.15 and \$2.37 per share, this includes \$0.40 per share of acquisition-related charges. Excluding acquisition and integration charges, our guidance for EPS is to be between \$2.55 and \$2.77 per share in 2016. This represents FX-neutral growth of approximately 8% to 18% compared to full-year 2015 or approximately 13% at the midpoint of our guidance range. Please note that our guidance is based on average fully diluted shares outstanding of approximately 82 million to 83 million shares for the full year 2016.

In 2016, we expect cash from operations of \$350 million to \$375 million, gross capital expenditures of approximately \$47 million and cash acquisition and integration payments of \$42 million. This yields a free cash flow range of \$345 million to \$370 million or free cash flow per share of \$4.18 to \$4.48 in 2016. This equates to 12% to 20% growth when compared to full-year 2015.

As in prior years, our free cash flow is expected to again be well in excess of our normalized net income in 2016. Specifically, our guidance implies that we will deliver free cash flow conversion of 150% or greater, in line with our historical range.

Now I'd like to provide some additional information to allow for an understanding of the seasonality and other factors that will impact our revenue and earnings on a quarterly basis. The first quarter of 2016 has a number of larger events that we're moving in from Q2. This is a significant change to our phasing from 2015 and results in more revenue and earnings in Q1 than we have historically delivered and less in Q2.

As a result, we expect GAAP EPS to be between \$0.32 and \$0.35 per share in the first quarter of 2016. We expect approximately \$0.12 per share of acquisition and integration charges in Q1.

Q1 and Q3 still represent our smaller quarters for the year due to seasonality. As in years past, the fourth quarter is expected to be our largest with more than 50% of the full-year events revenue occurring in Q4.

Finally, I'd like to spend a moment on the impact of foreign exchange as it relates to our reported contract value. As we communicated to you in the past, research contract value is reported on an FX-neutral basis throughout each year. We do this so you can understand the true organic growth in our research segment.

In early January of each year, we restate the opening contract value at current foreign-exchange rates. As a result of changes in FX rates since January 2015, contract value at January 1, 2016 is approximately \$71 million lower than the \$1.761 billion reported on December 31. As a result, \$1.69 billion is the baseline figure you should use for comparison purposes when judging contract value growth in 2016 on an FX-neutral basis.

So before taking your questions, let me summarize. We delivered another very strong quarter in Q4, capping off another strong year. Demand for our services is robust, and we continue to provide value to our clients regardless of the economic environment. In 2015, we delivered 14% contract value growth, and we grew to the number enterprises we serve by 8% in 2015 to almost 11,000.

Looking ahead, we are in a very strong position as a company, and we continue to invest to capture the market opportunity ahead of us. We have almost 2200 salespeople, and our new hires are of the highest quality they've ever been.



Our initiatives to improve operational effectiveness coupled with the positive operating leverage in working capital dynamics inherent in our business model delivered solid earnings and cash flow growth for the full year 2015. And we continue to expect to achieve high free cash flow conversion consistent with our historical range of approximately 1.5 times our normalized net income. Going forward, we will continue to invest in our business organically and through acquisitions and return capital to shareholders through our share repurchase program.

Finally, our strong close to 2015 positions us well to continue to deliver double-digit growth in revenue, earnings and cash flow into the future. The midpoints of our 2016 guidance reflect those continued trends.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Manav Patnaik, Barclays.

Unidentified Participant -- Analyst

This is Ryan filling in for Manav. Just wondering if you could flesh out some of the commentary on the energy markets and how that's affecting productivity. Just give us a sense of -- I don't think that's getting any better. So just your assumption of flat productivity next year with that commentary on the headwinds you saw in the fourth quarter.

Gene Hall - Gartner, Inc. - CEO

Hello Ryan, this is Gene. So the energy sector for us, energy and utilities, first is a small portion of our business. As Craig mentioned, it's less than 5% of our business.

In that sector, despite the -- oil prices went from \$100 per barrel to \$30 a barrel, so it's a pretty tough environment there. In that environment, we -- as I mentioned in my comments, still had single-digit growth. In many of the countries that are in the oil segment like Brazil, our growth decelerated, but again in Brazil, we had double-digit growth.

And so we're aware of what's going on in the industry, and technology is important in oil and gas in every industry in the world. Even when they have cost problems, often -- in fact almost always, technology's part of the solution, not the problem.

So the reason we're able to grow even in very tough environments like that is because technology helps them achieve their cost objectives as well as other parts of their business like looking at how to grow with their clients as well. And so we're pretty confident even in tough economic situations with our individual clients or in countries that when we focus on the right issues, which is helping them save cost or helping them grow their revenues, we will have great growth there.

Unidentified Participant -- Analyst

Great, thanks. And I guess what I was trying to get at is, if productivity is assumed to be flat in the guidance and there's some headwinds, just is there a risk to that, if energy continues to persist like that? So more on the -- how should we think of productivity being impacted by these energy and utility headwinds?

Gene Hall - *Gartner, Inc. - CEO*

So we've assumed -- as Craig mentioned, we've assumed productivity is flat going forward at the rate that we achieved last year. We have a lot of programs to improve productivity. So we're not happy with the flat productivity.

We've assumed that in the plan because we want to assume what we've actually achieved. We've got improved recruiting, we've got improved training, we've got improved tools for sales force that we introduced -- that we developed last year and are coming into fruition this year. And all those leading indicators say that our sales productivity should go up.

So for example, if you look at leading indicators of the people recruited throughout 2015, that class of new recruits, their leading indicators are that they're going to have greater sales productivity than the ones in the previous couple of classes. Similarly, our training we continue to enhance, and we've got some really innovative tools we think have potential to increase sales productivity a lot. We haven't baked that in because we want to actually see it happen, and so we actually are looking for sales productivity to be -- we're aiming for and working hard to get sales productivity to grow during 2016.

Unidentified Participant - *Analyst*

Got it, thanks. And just on the M&A commentary, is there anything particularly industry-wise geography that you're focused on? Obviously the small and medium-sized markets were a focus this year. Is that something we should expect to continue, or is there anywhere else you're looking?

Craig Safian - *Gartner, Inc. - CFO*

We track approximately 100 or more companies at any given point in time, so there's all different kinds of situations. So I can't really characterize it as being one particular area we are looking at.

Unidentified Participant - *Analyst*

Got it, thank you.

Operator

Jeff Meuler, Baird.

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

Thank you. Another one on productivity, and recognize it doesn't impact this year's financial results all that much. But it was down in Q4, and this may be parsing it a bit too thin looking at one word. But I think you said primarily due to energy utilities and other markets.

Are there offsetting factors that are offsetting some of these programs and initiatives that you have in place? Because it sounds like it was down in Q4, you are assuming flat in 2016 and I know you have initiatives.

But just -- you did insert the word primarily, so I'm guessing it's flat to down even outside of energy utilities and other markets. If you can just help us reconcile that.

Craig Safian - *Gartner, Inc. - CFO*

Yes sure, Jeff. It's Craig, good morning. So the comment was really around the impact from energy utilities and then some selected markets, most of which are very reliant on the energy and utility sector.

That said, as Gene just alluded to in the answer to the last question, we are very -- have been very focused on improving sales productivity, and we see great signs. And we have great examples of large complements or large teams where we've seen significant improvements in productivity on a year-over-year basis.

That was muted by some of these macro economic challenges that we are seeing. But as Gene said, we remain very confident that we are doing all the right things from a recruiting perspective, from a training perspective and from a tools perspective that will continue to improve productivity into the future.

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

Okay, and then just a comment maybe on how you're managing sales force headcount growth, there's a pretty big spread between constant currency revenue growth and in consulting and -- I'm sorry, consultant headcount growth. And that's despite I think a good contract optimization quarter.

I know you said there's more lower bill rate junior consultants, but still a fairly sizable spread. So how should we think about how you're planning to manage consultant headcount growth in 2016?

Gene Hall - *Gartner, Inc. - CEO*

Yes, it's a great question, Jeff. A big portion of that growth is actually the investment and managing partners. So that's been a strategic priority for us.

And the business is starting to bear the fruit of those investments, and that's really reflected in that really strong backlog position we see as we're heading into 2016. We've been adding the bottom of the pyramid, if you will, from more junior consultants to actually fulfill all that backlog. And as always, we will manage and match our backlog growth, our revenue growth and our headcount growth so we ensure we deliver to roughly our target margins in that segment.

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

Okay, thank you.

Operator

Anjaneya Singh, Credit Suisse.

Anjaneya Singh - *Credit Suisse - Analyst*

Hello, good morning. Thanks for taking my questions. I just wanted to ask on oil and gas first off, could you characterize what your exposure is to oil and gas clients?

I realize you have some country exposure there also, so it might not be cut and dry. But if you could help us with that.



And then if you could just perhaps also just talk about what is actually happening there. Is it the larger end of the spectrum of clients that's cutting back?

Is it the smaller end, are they cutting the numbers of seats, canceling subscriptions? And what are the price increases that you're able to put in for the O&G clients that you are retaining?

Craig Safian - *Gartner, Inc. - CFO*

Hello Anj, this is Craig. We wrap up oil and gas in our energy and utility sector. That's the way characterize it here internally.

And as we mentioned earlier, it's less than 5% of our total CV, specifically, companies in that sector. And then Gene will take your second part of your question.

Gene Hall - *Gartner, Inc. - CEO*

Here's what's going on at an operational level, which is -- companies in distress in the oil and gas sectors displayed today with the big bowl in prices, they are having budgets that are smaller. So instead of budgets that were growing last year, they're saying -- okay, our exploration budget is lower, our HR budget is lower, our IT budget may be lower. And so of course, they are looking to say -- okay, how do we save money?

And so your question comes up to where does Gartner fit in this? We are a teeny portion of the cost for these companies.

To give you a flavor, for a large oil company, we'd typically be less than 0.2% of their IT spending if they were a great client of ours, if they were a big client. And so they're not going to save any money by cutting Gartner services.

On the other hand, we're very good at helping our clients to first save money within their IT organization, and secondly to actually use IT to save money more broadly in the entire company through things like automation. And so value proposition we have to companies in distress is you can't make your budget. Cutting our 0.2% or less is not going to help you at all, but we can help you cut 10% or 20% of your IT budget. And more importantly, we can help you use IT in the rest of the organization to save cost through automation.

At any given point in time in the world, some substantial portion of our clients, like 30%, have budget problems. They're going through bankruptcy, they have problems. This is something we feel every day; it's not just in the last year.

So we're actually very good at dealing with this problem. And it does affect -- just a harder selling environment, which is why our growth slowed to a single digits instead of double-digit in energy and utilities. But we thrive in that kind of environment.

Again, I just want to highlight an example I gave earlier where Brazil is a country where it's very dependent upon oil. The economy is not doing that great there.

And our growth slowed from higher double-digit growth to lower double-digit growth even in that environment. And it's because of the things I just talked about, which is that we can help clients tremendously and have a great return on investment when they're financially distressed.

We just have to make sure they understand we can help them actually in managing their costs. We're not -- we're a big part of their solution to their problems, and we don't cost very much.

Anjaneya Singh - *Credit Suisse - Analyst*

Got it, that's helpful. Appreciate the color there. And then I guess on the acquisitions in 2015, would you call out any difference in their outlook in this choppy environment versus your core businesses levered to larger enterprises?



It seems that they added a little bit more to the growth profile than you originally anticipated for Q4. But then your outlook is for only 2% in 2016, so if you could just help us parse those.

Gene Hall - *Gartner, Inc. - CEO*

Let me get the first part of that, which is just --we brought these companies last year. They are performing at or above our expectations so far. As we look forward to 2016, we're quite optimistic that they will perform at or above our expectations. Craig, I will let you --

Craig Safian - *Gartner, Inc. - CFO*

Yes, on the 2016 piece, it's hard to piece together from your perspective around looking at the growth rates, on the different pieces of the business. We expect those businesses to grow nicely into 2016. They still represent a teeny, teeny portion of the overall research revenue and the total Gartner revenue, but we do expect them to continue to grow.

Anjaneya Singh - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Thank you, good morning. Just wanted to ask about the research contribution margins. They're a little bit lower than what we were modeling.

So you mentioned that these were impacted by acquisitions, but just wanted to find out if there was anything else to call out there. If you could just size how much acquisitions impacted those research margins. Thanks.

Gene Hall - *Gartner, Inc. - CEO*

Sure Toni, good morning. Q4 is typically our lowest contribution margin quarter for research. If you look back historically, it's typically always the lowest quarter we have because of a lot of travel and other things related to Symposium season.

That said, there are two primary impacts of the gross contribution margin decline on a year-over-year basis. One, modest impact from the acquisitions. They run at modestly lower gross margins. Net margins are good overall, but the gross margins are a little bit lower.

And then the second thing, there was an impact, and we saw this across the full year but impacted us in Q4 as well a little bit from foreign exchange as well. And so while we are nicely naturally hedged, it isn't always perfect when you get down to research, revenue research, expense, et cetera.

So if you look out, we were down 90 bps. I think about half was FX, a little bit -- probably about one third was due to the acquisitions, and a third due to some other stuff.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay great. And then just in the events business, really strong guidance there. So just wanted to see if you could help us understand a little bit of the growth drivers that are -- I know historically you have talked about adding about five events or so a year, and then have annual price increases.

Is there anything else in terms of specific initiatives that you're working on to increase revenue per attendee or anything else that we should be thinking about?

Gene Hall - *Gartner, Inc. - CEO*

I will take the first part of that, which is --our events growth is fundamentally driven by the fact that -- the stuff I talked about before, which is every company is facing opportunities to use technology and is trying to figure out how best to use technology. And so their senior technology leaders come to our events to help do that. And it could be that they're figuring out how to be disrupters, how to deal with disrupters if you're the disruptee or how to use it in their business to drive revenue or cut cost.

And so that's fundamentally what's driving it. We have lots of capacity at our existing events, so we do add events on a regular basis. But we have lots of capacity at our existing events to keep growing attendees at those events. In addition, as you point out, we have price and I will let Craig talk about that.

Craig Safian - *Gartner, Inc. - CFO*

Because of all of the dynamics that Gene just described, that does give us a significant amount of pricing power in our events business. And as we shift the mix in terms of getting the right people to the right events, so CIOs and senior IT leaders to Symposium, heads of [VI] to the VI event, et cetera, as we do a better job of targeting people and getting them to the right events, we are actually able to exercise even greater pricing power.

So the fact that we do have capacity, the fact that we have a great value and a great product for our attendees and the fact that we do have pricing power allows us to have confidence around continuing to grow that business at double-digit rates.

Toni Kaplan - *Morgan Stanley - Analyst*

Great, thank you.

Operator

Gary Bisbee, RBC Capital Management.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hello guys, good morning. First question, the new business growth or bookings, I think it was sub 10% the second quarter in a row and a sharp slow down from the first half. I guess if that continues at that level, that would likely point to further deceleration in contract value.

But I know you haven't given that metric consistently till the second half of last year. So is part of this that comps got more difficult, or how do we think about that trending from here and what that might mean for CV going forward? Thanks.

Craig Safian - *Gartner, Inc. - CFO*

Hello Gary, how are you? So CV growth is determined primarily by two things: the amount we retain and the amount of new business we put on top of that. I think your characterization of the tougher compare particularly in Q4 is accurate.

We had an amazingly strong Q4 of 2014. It's fueled us and gave us great incremental research revenue growth as we headed into 2015.

We had a strong Q4 as Gene mentioned, as we went through in our remarks. New business was a little bit lighter than we expected, again, impacted also by some of the macro challenges that we described.

So as Gene mentioned, energy utility was a double-digit grower for us, and now it's dropped down to single-digit. Brazil was a double-digit -- strong double-digit grower for us, dropped down to modest double-digit growth.

All those things also had an impact on the new business growth. But again, we remain confident that we can continue to grow our new business growth at strong rates, manage really strong retention that will equate to strong productivity into the future.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay, it doesn't seem to me that the energy or the weakness in some geographic regions is something that will change quickly. So what allows that new business to accelerate from here?

Gene Hall - *Gartner, Inc. - CEO*

So it's basically -- the fundamental piece is as I talked earlier, which is there's this fundamental demand for help in addressing technology issues across the business. The thing that's going to drive the growth is we grew our sales force by 15%. If you look at our pipeline going into the year, our pipeline is very strong, and that's what drives the new business growth, which is what gives us confidence.

Combination of we have great capacity, all the leading indicators on the count we've been hiring is that they are going to get off to a faster start than we've had in the past. And a leading indicator in terms of our actual pipeline looks great as well. So we're pretty confident we will have a great new business year in 2016.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay, and just one last one. As you think about the next few years, are there any gating factors to continuing the strategy you've used in recent years of debt financing a good portion of your buy-backs?

Did the level of interest rates, and if they rise, does that matter to you? I don't know --do you look at your leverage ratio based on your US profits since I think all your debt is here?

And is that a factor as that's clearly been rising more than your total leverage ratio? Or are you very comfortable that total leverage remains low and that you can continue do this sustainably in the future? Thank you.

Craig Safian - *Gartner, Inc. - CFO*

Great question Gary. So we do look at a total leverage basis. We have gross debt just over \$800 million, net debt of about 1.1 times leverage. And again, we also have this great benefit an amazing free cash flow generation.



And so we are generating significant amounts of free cash flow year after year after year. And again, roughly 60% of that free cash flow gets generated here in North America. So we have that at our disposal.

The other comment I'd make on the interest rate comment, we have locked in \$700 million of our \$800 million or \$825 million worth of debt with interest rate swap. So we're not -- we don't have exposure on continued interest rate rises on that one. And we will continue to look at our capital structure, look at our free cash flow generation, and look at other shareholder enhancing activities, whether they be share repurchases, acquisitions or both as we manage our capital structure on a go forward basis.

Gary Bisbee - *RBC Capital Markets - Analyst*

Great, thank you.

Operator

Stephen Sheldon, William Blair.

Stephen Sheldon - *William Blair & Company - Analyst*

In for Tim McHugh, good morning. First in the consulting business, the gross margin has continued to trend down. I think it peaked 40% back in 2010. But it's continued to move down since then.

I'm guessing a lot of that's the strong growth that you've seen in managing partner and consultant headcount. But was just curious if you think that could reverse at some point and trend back up or if you view a lower gross margin as more of a permanent structural change in the business.

Craig Safian - *Gartner, Inc. - CFO*

Hey Stephen, good morning. It's Craig. You're right, the primary driver of those reductions in gross contribution margin have been the investment in managing partners. We've been growing that very aggressively, well faster than revenue.

The goal of making those investments, though, is so we can drive deeper relationships with our largest clients where we are doing longer engagements and repeating engagements. And inherently those have better economics over the long term.

So we continue to believe that this can be a 35% to 40% margin business for us. And we manage it so that we -- or we plan for it so we do see modest margin improvements on a year-over-year basis. But again, the investment in NPs we think is the real lever there for us to drive better, more consistent results for us and better, more valuable relationships for our clients.

Stephen Sheldon - *William Blair & Company - Analyst*

Okay. That's helpful. And then just on the pace of share repurchases, it's a little slower in the second half of the year. So just wanting to know how you're thinking about share repurchases as you move into 2016.

Craig Safian - *Gartner, Inc. - CFO*

Yes, we did over \$0.5 billion of repurchasing in the year. Yes, it was heavily weighted toward the first half of the year, but we still did well over \$500 million for the year.



As we talked about, share repurchases remain a strategic use of our cash flow and our balance sheet. And we will continue to look at both share repurchases and acquisitions as the two primary uses.

As we talked about when we put the current authorization in place, we talked about it being a roughly 2.5, 3-year program. That's the way we still think about it.

Stephen Sheldon - *William Blair & Company - Analyst*

Okay great, thank you.

Operator

Jeff Silber, BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much. Sorry to go back to the sales force productivity issue. I just want to clarify something -- if we somehow or if you can take out the impact of the energy and utility sector, would your NCVI per AE have gone up in 2015?

Craig Safian - *Gartner, Inc. - CFO*

So we probably would have seen a very, very modest decline on a year-over-year basis.

Jeff Silber - *BMO Capital Markets - Analyst*

But that's not something you expect to continue going forward correct?

Gene Hall - *Gartner, Inc. - CEO*

Just to follow on that, which is the energy and utility sector is just the companies. If you look again, like I will use Brazil since I've already talked about Brazil as an example.

So in Brazil, because the whole economy has a lot of reliance on oil and gas, if the oil price goes down from \$100 to \$30, it directly affects the oil companies, but it affects government revenues so the government has less to spend. It affects all of companies that supply the oil companies. And so part of the factor we had was directly driven by the oil and gas sector itself.

The other thing is if you're in a country like Brazil, it affects more than that. And to put it in perspective again, I want to drive home that we didn't see shrinkage or anything. In fact, Brazil was growing a bit above our average double-digit growth in 2014.

In 2015, it had double-digit growth a little below our average growth. So even in that tough environment, we had great growth there. But again, if you go from higher double-digit growth to a little lower double-digit growth, that has an impact on productivity.

So it's not that we have things that are going from like great growth to negative. It's the double-digit just isn't quite as good as it was. So that's the other small piece of it.



Jeff Silber - *BMO Capital Markets - Analyst*

Okay that's fair enough, I got that. And just to shift gears to the events segment for a second, was there an issue in terms of the size of the events this quarter?

Your average attendee per event went down a bit. I know you had two more events, but was there a mix shift or a timing issue? Thanks.

Craig Safian - *Gartner, Inc. - CFO*

Our attendee growth in the quarter, Jeff, was 3%. I don't think you were in Orlando, but as you know, Orlando is our largest event where we actually sold out for two years in a row. So you don't see big attendee growth when we have a sellout.

We do see revenue growth because again, we are attracting and targeting a higher quality of attendee, and then we're able to get a higher price out of that. But no, no issue or no risk from the math you are doing. Q4 was a very strong quarter for us, from an events perspective and particularly from an attendee revenue growth perspective.

Jeff Silber - *BMO Capital Markets - Analyst*

All right, appreciate the color. Thanks so much.

Operator

At this time, I will turn the call back over to Gene Hall, Chief Executive Officer of Gartner. Please proceed, sir.

Gene Hall - *Gartner, Inc. - CEO*

I just returned from our annual kickoff meeting with our sales managers from around the world. Our sales leaders are excited about our prospects for growth and feel well equipped for success in any economic condition.

As a company, we're in a very strong position. We have more impact on end users and technology providers than any other company in the world, and we know how to be successful. The macroeconomic environment affects all companies, but Gartner is better prepared than ever to deal with these disruptions.

We're entering the year with the highest number of salespeople than ever before. Our recruiting processes are better than ever.

All the leading indicators on our people suggest that talent we have in our organization today is better than it's ever been. We're getting better, stronger, faster day after day, year after year. We have a vast market opportunity, a powerful value proposition, a winning strategy and an exceptional business model.

Looking ahead, we're prepared for ongoing macro economic challenges in 2016, and I remain confident we will deliver another great year. We're well positioned for accelerated, sustained growth for years to come.

I look forward to giving you a more detailed update across our business at our upcoming investor day. Thanks for joining us today.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a wonderful day.

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