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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Gartner's earnings conference call for the third-quarter 2014. A replay of this call will be available through December 6, 2014. The replay can be accessed by dialing 888-286-8010 for domestic calls and 617-801-6888 for international calls and by entering the passcode 49062371. This call is 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 conference over to Brian Shipman, Gartner's Group Vice President of Investor Relations, for opening remarks and introductions. Please go ahead, Sir.

Brian Shipman - *Gartner, Inc. - Group VP of IR*

Thank you and good morning, everyone. Welcome to Gartner's third-quarter 2014 earnings call. With me today is our Chief Executive Officer, Gene Hall; and our Chief Financial Officer, Craig Safian. This call will include a discussion of Q3 2014 financial results as disclosed in today's press release. After our prepared remarks, you will have an opportunity to ask questions. I would like to remind everyone that the press release is available on our website and that URL is Gartner.com.

Before begin, we need 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 occluding those contained in the Company's 2014 annual report on Form 10-K and quarterly reports on Form 10-Q as well as in other filings with the SEC. I would encourage all of you to review the risk factors listed in these documents. The Company undertakes no obligation to update any of its forward-looking statements.

With that, I would like to hand the call over to Gartner's CEO, Gene Hall. Gene?

Gene Hall - *Gartner, Inc. - CEO*

Thanks, Brian. Good morning, everyone. Welcome to our Q3 2014 earnings call. Our business is accelerating. The continued successful execution of our proven strategy drove another strong quarter with revenue growth at 15% on a reported basis. We delivered robust performances across the business.

Research, our largest and most profitable segment, grew at 14% FX neutral, continuing our trend of double-digit contract value growth in every region across every client size and every industry segment. For the third quarter of 2014 enterprise client retention was at 84%, up 1 point over the same quarter in 2013. Enterprise wallet retention was 105%, also up 1 point over Q3 2013.

Our consulting business delivered a tremendous performance for the quarter. Consulting revenues increased to 17% compared to Q3 2013, and the backlog was up 16% over the same period. Our events business also delivered a fantastic performance. As we told you in the past, our events can shift from one quarter to another, so it is often better to evaluate our results on the same-event basis. For the 12 events we delivered in Q3, on a same-events basis, we drove a revenue increase of 18% year over year.

We continue to deploy our capital strategically. Year to date, we've repurchased more than $387 million of our shares, which is up $80 million over last quarter and puts us very close to our overall target of $400 million for 2014. Craig will give you more details in all of our business results in a moment.

I just returned from the largest of our flagship conference series, Symposium/ITxpo in Orlando, Florida. We achieved a sold-out status for this event. In addition, the caliber of our audience continues to improve. This year in Orlando we hosted 2,700 CIOs. I met with a number of these CIOs and enterprise leaders from a diverse array of industries. These leaders are incredibly excited about the impact of IT on their enterprises and the critical roll Gartner plays in achieving their enterprise's objectives. I also had the opportunity to speak with a large number of our salespeople, some of whom who have been to several symposium events and some of whom this with their first. With the newer experienced all of them had an incredible excitement and enthusiasm about the event, Gartner's brand and our market opportunity.

Our annual Symposium/ITX world conference series, is composed of eight events held in different locations around the globe. As it is to Orlando, we've already hosted the event, in Dubai; in Cape Town, South Africa; Goa, India; Tokyo, Japan; and Sao Paulo, Brazil. Over the next couple of weeks, will host the remaining two events in Barcelona, Spain and the Gold Coast of Australia. Gartner's Symposium/ITxpo is incredible demonstration of our value. We are the best source of help for enterprise leaders launching critical initiatives. It truly is the world's most important gathering of CIOs and senior IT executives. There's nothing else like on it on the planet.

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've invested in recruiting and in training. We've improved our customer service processes. In consulting, we invest in our managing partner program. We invested heavily improving sales productivity. These investments are paying off. We are seeing improvements in sales productivity. Our consulting business is showing record-breaking results. We're attracting the best talent in the industry and getting them up to speed quickly.

The insights we create, the advice we deliver, and the overall experience for our customers has never been better. We are not slowing down. We're beginning to improve and innovate across every area of our business. We know how to be successful in any economic environment. We're relevant whether an institution is growing or facing economic challenges. We continue to deliver double-digit results in our key operating metrics due to the tremendous value we deliver to our clients. I remain confident and excited about Gartner. The Gartner brand is in a class by itself. Our products, services and people are superior to the competition. We have a great business model, and we continue to be more relevant to virtually every enterprise in the world.

With that, I would like to have the call over to Craig.

Craig Safian - *Gartner, Inc. - CFO*

Thank you, Gene. Good morning, everyone. During the third quarter, Gartner continued its strong performance with double-digit growth in contract value and revenue, putting the Company in a solid position to deliver double-digit revenue and earnings growth for the full year. Year-over-year FX neutral contact value growth accelerated from 13% to 14% in the quarter. Retention rates again ended at or near all-time highs. Our events business increased revenues by 18% year over year on a same-event and FX neutral basis. Finally, our consulting business grew revenues by 17% on an FX neutral basis, for the third quarter, on the strength of both our labor-based consulting business and our contract optimization practice.

We continue to see robust demand for our services across all of our business segments in the third quarter and as a result are increasing our outlook for the full year. Our Business continues to grow at double-digit rates, quarter after quarter, year after year, and this is why we continue to be excited about our prospects for future growth. Our products and services provide great value to the IT, supply chain and marketing professionals we work with. We are engaged on their most important initiatives and projects. Our strong and improving retention metrics demonstrate the value and importance of our products and services. In both existing and prospect accounts, we are finding new IT, supply chain and marketing professionals to sell to every day. We are confident that we will continue to deliver consistent revenue growth and strong financial performance over the long term.

I'll now provide a review of our three business segments for the third quarter, and we will end with the details of our revised outlook for the remainder of 2014 before taking your questions. Starting with research. Research revenue was up 15% on an as-reported and FX neutral basis in the third quarter, and grew 13% excluding the impact of acquisitions. The contribution margin for research was 69% in the third quarter, very close to our gross contribution margin target of 70% for this segment. The other key research business metrics also remained strong.

Contract value grew to a record level of $1.486 billion, a growth rate of 12% year over year a reported basis and 14% on an FX neutral basis. Significantly, this reflects continued acceleration from the last few quarters when our FX neutral contract value growth ranged between 12% and 13%. As has been true over the past several years, our growth in contract value in Q3 was extremely broad based, with every region, every client size, and every industry segment growing at double-digit rates.

We'll next cover retention rates and new business. Our client retention rate at the enterprise level ended the quarter at 84%, up 1 point versus the same quarter last year. We've maintained client retention at roughly 84% for the past two years. Wallet retention at the enterprise level ended at 105% in the third quarter, an uptick of 1 point over last year's third quarter. Wallet retention is higher than client retention due to a combination of increased spending by retained clients and the fact that we retain a higher percentage of our larger clients. As we have discussed in the past, our retention metrics are reported on a rolling four-quarter basis in order to eliminate any seasonality.

New business again increased nicely year over year. The new business mix is consistent with prior quarters and remains balanced between sales to new clients and sales of additional services and upgrades to existing clients. Our contract value growth also continues to benefit from our discipline of annual price increases and no discounting. We have increased our prices by 3% to 6% per year since 2005 and we will do so again during the current fourth quarter.

We also continue to see strong volume growth in our new business. This reflects our success in continuing to grow the business by penetrating our vast market opportunity with both new and existing client enterprises. As a result, we ended the quarter with 9,279 client enterprises, up 9% over last year's third quarter. Additionally, our average spend per enterprise continues to increase, again reflecting our ability to grow our contract value by driving growth in both new and existing enterprises.

I also wanted to spend a moment addressing sales productivity. We provide all the inputs so that you can calculate sales productivity on your own. Today, I thought I would discuss this in more detail to ensure we are using a common language. As we have detailed in the past, we look at 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 as discussed at investor day, we use opening sales headcount as the period denominator.

Over the last 12 months we grew our contract value by $179 million in FX neutral terms. Using our Q3 2013 ending sales headcount of 1,605 as our beginning of period denominator, yields NCVI per AE of $111,000 on a rolling four-quarter basis. Up from where we ended 2013 and both Q1 and

Q2 of 2014. When we looked at Q3 year to date or the standalone third quarter, you will see that are NCVI productivity per AE is up approximately 28% on both measures as compared to the prior-year period.

To sum up, we delivered another strong quarter in our research business. Contract value growth accelerated from 2013, as we expected. We continue to see strong demand from clients. Our retention rates remain at or near all-time highs. And, we continue to expect acceleration in productivity, contract value and revenue growth over the long term.

Turning now to events. For the quarter, our events segment continued a four-year trend of extremely strong, year-over-year revenue growth on the same-event basis. On a reported basis, the fact that we had four fewer events in this year's third quarter affected the year-over-year comparison of our operating results. As you will recall, this was reflected in our discussion around Q3 expectations on our last earnings call. In the third quarter, events revenue decreased 3% year over year on a reported basis and decreased 2% on an FX neutral basis.

During the during the third quarter, we held 12 events with 5,606 attendees, compared to 16 events with 6,353 attendees in the third quarter of 2013. On the same-event FX neutral basis, events revenue was up 18% year over year in the third quarter. The gross contribution margin for events of 30% for Q3 was unchanged from the third quarter a year ago despite the move of four events out of this year's third quarter.

Q4 is typically our largest events revenue quarter and 2014 is no different. You will hear later that we have increased our outlook for the events business. This is largely by the strength we are seeing across our global symposium series of events. Symposium is our event series for CIOs and our performance this year is exceeding our initial expectations. We have now held all but two of our 2014 global symposia series, and as Gene mentioned, the remaining two are happening over the next two weeks. In each of the symposia that have occurred, we have seen healthy growth in attendees. Even more importantly, we've been able to grow the number of CIO attendees at these event at an even greater price. We will provide much more color on our next quarterly earnings call once all of these events have been completed and when the numbers are finalized.

Moving on to consulting. Revenues in consulting increased 17% on both a reported and FX neutral basis in the third quarter, We showed strength across the entire business, with our labor- based business recording 13% revenue growth in the quarter. On labor-based side, billable headcount of 534 was up 4% from the third quarter of 2013. Third-quarter utilization was 65%, a 7 point improvement over the third quarter of last year. Annualized revenue per billable headcount ended the quarter at $423,000, a 13% improvement over Q3 of last year. As we have discussed in the past, our contract optimization practice has more variability than the other parts of our consulting business. The third quarter continued the strength we saw in the first half, and we now expect the full-year results to be stronger than prior years in this part of our consulting business.

Across the entire consulting business we continue to see strong demand for our services. Our strategy of investing in managing partners is allowing us to capture that demand. We now have 86 managing partners, an increase of 8% from a year ago. Backlog, the key leading indicator of future revenue growth for our consulting business, ended the quarter at $112 million. This represents 16% growth year over year and a healthy four months of backlog. With the current backlog and visibility we have into the pipeline, the consulting business is positioned to continue to deliver solid results for 2014.

Moving down the income statement. SG& A increased by $35 million, year over year, during the third quarter, primarily driven by the growth in our sales force. As of September 30, we had 1,820 quarter-baring sales associates, an increase of 215 or 13% from a year ago. For the full year, we expect to grow the sales force by roughly 15%. ,In the third quarter, SG&A was higher as a percentage of revenues due to Q3 being one of our seasonally smaller quarters, the move of events out of the quarter in the events segment, as well as continued investments in our recruiting and training capabilities. On a year-to-date basis SG&A trends are more in line with what we have experienced historically.

Moving now to earnings. Normalized EBITDA was $75 million in the third quarter, essentially flat with last year's third quarter. GAAP diluted earnings per share was $0.38, down 5% year over year. Our Q3, 2014 GAAP diluted earnings per share includes $0.06 in amortization and other costs associated with our acquisitions. Excluding acquisition related charges, our normalized EPS grew 7% to $0.44 in the third quarter. Our third-quarter earnings reflect seasonality and the move of four events that I just mentioned a moment ago.

Turning now to cash. Operating cash flow increased by 14% to $276 million during the first nine months of 2014 compared with the same period a year ago. During the third quarter, we continued to utilize our cash to return capital to shareholders through share repurchases. In the quarter we repurchased over 1.1 million shares and we used approximately $82 million of cash for share repurchases. As of September 30, we had $454 million remaining on our $800 million authorization.

We ended the quarter with a strong balance sheet and cash position despite the more of aggressive pace of share repurchases and the acquisitions we've done through Q3. As of September 30, we had debt of $370 million and cash of $341 million, with 95% of our cash balance located outside of the US. Our credit facility runs through March 2018 and at this time provides us with about $367 million of remaining borrowing capacity. We have ample cash flow and liquidity to continue to grow our business and execute initiatives that drive shareholder value. We continue to look for attractive acquisition opportunities as a potential use of cash. We also continue to believe that repurchasing our shares remains a compelling use of our capital. Absent of other significant opportunities to deploy cash, we now expect to repurchase greater than $400 million of our own shares this year.

Turning now to guidance. Based upon our year-to-date results, our outlook for Q4 and current foreign exchange rates, we are increasing 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 the figures I'm going to give you are contained in our press release, but I did want to highlight a number of the upward adjustments we've made to our 2014 outlook.

We have increased the top end of our total revenue guidance by $25 million and the bottom end by $45 million. This makes a new total revenue range for 2014 $2.005 billion to $2.030 billion. This range represents 12% to 14% total revenue growth versus 2013. The new range for research revenue reflects an increase of the top end of guidance of $5 million and an increase to the bottom end of $15 million. The new research revenue range is $1.45 billion to $1.46 billion, or 14% to 15% growth. The upward revisions reflect the acceleration of the growth rate for contract value this year.

For event segment revenue in 2014 we are raising the bottom end by $10 million to $220 million and the top end by $5 million to $225 million. This new range yields 11% to 13% growth. The updated outlook for events is supported by our year-to-date performance as well is the positive view on our Q4 events, most notably our symposium series that was discussed earlier. Finally, for consulting segment revenue in 2014, we are raising the bottom end by $20 million and the top end by $50 million. The new range in consulting segment revenues we expect for 2014 is $335 million to $345 million or 7% to 10% growth for the full year.

Given the strength in demand across all of our businesses, we are also raising our earnings guidance. Specifically, for normalized EBITDA 2014 we are raising the bottom end of our guidance by $10 million. This makes the new range for normalized EBITDA $385 million to $400 million or 11% to 16% annual growth. We also expect free cash flow to be higher by $5 million on the lower end. The details around the components of free cash flow are in our press release.

For adjusted EPS in 2014 we have raised the bottom end of guidance by $0.08 per share. Our new guidance range is $2.26 to $2.35 per share. This yields 15% to 19% year-over-year growth. We still expect full-year acquisition and integration charges of approximately $30 million. Thus, our full-year GAAP EPS guidance has increased to $2.05 to $2.14 per share, which also reflects our approved outlook. Please note that GAAP EPS is approximately $0.21 lower than normalized EPS for the full year, due to acquisition related charges.

We also now expect that on December 31, 2014, we will have fewer than $89 million fully-diluted shares outstanding. For the full year, the weighted-average fully-diluted share count will be approximately 91.5 million shares. Given the increased full-year EPS guidance, the implied range for our fourth quarter guidance for normalized EPS is now $0.74 to $0.83 per share.

Before wrapping up, I wanted to take a moment to discuss foreign exchange and the impact of currency fluctuation on our results. We are a global company with both revenues and expenses denominated in many currencies outside of the US dollar. Our mix of revenues and expenses are roughly matched by currency around the world, creating a natural hedge from an earnings perspective. Currency fluctuations have a much lesser impact in dollar terms on earnings than they do on reported revenues. We provide transparency for our investors by the providing both reported and FX neutral results on most of our key measures.

As you have seen recently, the US dollar has strengthened against some key currencies. This happened over the back half of the third quarter and actually accelerated during October. We have reflected these impacts into our guidance, utilizing recent exchange rates. These recent exchange rates had a modest negative impact on our outlook for reported revenues and are reflected in the guidance ranges we just discussed.

Before taking your questions, let me summarize. We delivered another strong quarter in Q3. Demand for our services is robust, and as a result, our research contract value growth rate accelerated and we generated double-digit total revenue growth. Our key business metrics remain strong. In fact many, most notably retention, CV growth and sales productivity improved in the third quarter. Our initiatives to improve operational effectiveness, coupled with a positive operating leverage inherent in our businesses, delivered solid earnings and cash flow growth for the first nine months of the year.

We continue to actively explore strategic alternatives for deploying our cash. 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, with double-digit growth in contract value in the third quarter of 2014, we remain well positioned to deliver another year of double-digit revenue and earnings growth for the full-year 2014.

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)

Jeff Meuler, Robert W. Baird.

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

Thank you. I hate to be the sell-side suck-up that does this, but it's too warranted not to. So, great quarter, great start to the year.

Gene, the acceleration that you guys are seeing -- could you just talk about how broad based it is? How much of this is anniversarying the pockets of weakness that you saw a year ago? Or just anything you can say on the breath of the acceleration?

Gene Hall - *Gartner, Inc. - CEO*

Jeff, great question. What we've seen is an acceleration that is broad around the world. As I mentioned before, double-digit growth in every geography, every industry; and so, it's really very broad based. You have a good point; there is a -- at this time last year, we had some areas that were performing below our expectations, and so we do have that comparison point.

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

Okay. Then, you guys -- it sounds like you are seeing the list in sales force productivity following the changes that you made. I think the headcount was only up 13% year over year this quarter. How are you thinking about sales force headcount planning heading into 2015?

Craig Safian - *Gartner, Inc. - CFO*

Yes, our sales force headcount planning remains the same as it's been in the past, which is: We're planning to grow our sales headcount 15% to 20% a year, consistently.

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

But I guess -- you slowed it down towards the lower end of the range -- I don't know, 18, 24 months ago -- because you were seeing productivity come down. Now we're seeing productivity come up, so should we more be thinking about accelerating the headcount growth towards the top end of the range?

Gene Hall - *Gartner, Inc. - CEO*

Again, as Craig said, for this year, we are expecting approximately 15% headcount growth. Next year -- we haven't given specific guidance for next year, but again, our long-term target is 15% to 20% a year.

I wouldn't take the [13% for] this quarter as anything meaningful, other than just kind of noise. As an example, we train people in classes, and so if one class fails in one quarter, and not in another quarter, that can be enough to even swing that. And so, I would take it at -- the 13% in this particular quarter -- as just noise as opposed to indicative of something else.

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

Okay. Thanks, guys.

Operator

Tim McHugh, William Blair.

Matt Hill - *William Blair & Company - Analyst*

Good morning, this is Matt Hill in for Tim McHugh. My first question, on the consulting line -- seeing broad-based growth across all the different practice areas. Can you give an idea of the ranges -- how tightly you're seeing the growth between them? Is there one that's really driving results there?

And then, noticing the improvement in that space -- could we -- in utilization and the productivity of the consultants. Is there any area to increase headcount growth there, as well?

Gene Hall - *Gartner, Inc. - CEO*

I will do the second question first, which is that as we grow our Business, there is an opportunity for headcount growth. With the backlog up at such a -- the kind of double-digit rates it's up -- I think it will lead to headcount growth, so we can deliver all the stuff that we're selling. We see robust demand continuing.

Craig Safian - *Gartner, Inc. - CFO*

Hey, Matt. The only other thing I would add is, as Gene mentioned, with the backlog growth we are seeing, we are seeing improvements in our efficiency metrics, utilization, bill rate, annualized revenue per billable. It really all goes back, strategically, to our investment in the managing partners, with the endgame being: We've got professional sellers and deliverers of our consulting business oriented by vertical industry. We've seen growth across all of the industries. But their ability to generate large, recurring relationships will allow us to drive better efficiency metrics, and also increase headcount over time, as the backlog increases.

Matt Hill - *William Blair & Company - Analyst*

Okay. Great. On the contract optimization piece, I think in the past we had spoke about maybe some of that work pulling forward into the first half of the year, and maybe down in the second half. But it sounds like that continued into the third quarter. Just expectations in the fourth quarter, and if there's enough work out there that it keeps filling in -- whatever you think got pulled forward?

Craig Safian - *Gartner, Inc. - CFO*

Yes, the strength in that business has continued, and we expect it to stick now, which is one of the reasons why we raised the full-year outlook for the consulting business. But the other thing worth noting is that the labor-based business, as I mentioned earlier, was up 13% year over year in the quarter. We continue to see great strength in that business as well. So, it's a combination of upside on the contract optimization business, but also some real nice strength in the labor-based business.

The other thing worth mentioning is: We had a very strong Q4 last year. So, it's a little bit of a tough comp on a year-over-year basis. But I would focus in on the 7% to 10% full-year growth that we are now projecting for that segment.

Matt Hill - *William Blair & Company - Analyst*

Okay, great. Then just one quick numbers one, I think. Modest impact from currency -- is there any -- do you want to give a number around that at all on the guidance -- what you are seeing there?

Craig Safian - *Gartner, Inc. - CFO*

It is order of magnitude less than 1% of total revenues, based on what we were seeing today from an exchange-rate perspective. Obviously, if the dollar continues to strengthen, that will change. But it is not an enormous impact versus our original planning assumptions.

Matt Hill - *William Blair & Company - Analyst*

Okay. Great. Thank you.

Operator

Joseph Foresi, Janney.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

I was wondering: On the research side, we're getting closer to that 70% margin target. Can you give us an update on how high you think that margin can go, and maybe some idea on the trajectory from here going forward?

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Craig Safian - *Gartner, Inc. - CFO*

Hey, Joe, good morning. What we've said in the past, and actually the way we manage our Business, is we expect a 70% margin in that business over the long term. We feel that to continue to deliver great service and great value to our clients, and drive the kind of retention rates that we are driving, we need to continue to invest in that business to make sure we've got the right analysts covering the right topics, the right service people interacting with the clients at the right time, et cetera. From a modeling perspective, our expectation is 70%, and then ride at that level into the future.

The one thing worth mentioning, though, is: As research today is the biggest part of our Business, and is growing at the fastest pace, research will continue to be a bigger and bigger piece of the overall Gartner pie. That will drive gross margin leverage for us, even if we flatten out at the 70% incremental margin on research.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Got it. Okay. Then, on the consulting side, was there any lumpy projects in there, and should we consider that to be a sustainable uptick? I'm just wondering whether demand picked up, or what was driving that, including the backlog?

Gene Hall - *Gartner, Inc. - CEO*

Joe, it was not lumpy projects. Basically, it was broad-based demand with the same kind of projects we've seen early, which are not lumpy at all actually. As Craig mentioned, and as we've talked about before, we've had a strategy of adding managing partners over the last several years. We think the addition of those managing partners is what is driving the fundamental growth in that business.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. The last one for me: Sales productivity also seemed to take a significant uptick here. How should we think about that versus the hiring in that business? Is this a new level, or will it fluctuate and then step up gradually over time?

Craig Safian - *Gartner, Inc. - CFO*

On the sales productivity side, on a rolling four-quarter basis, it is a modest improvement. As I mentioned earlier, if you look at it Q3 year to date, or Q3 standalone, it was obviously a much more significant improvement. But Q4 is a very large quarter for us. So, rolling four quarter is probably the best way to look at it.

We are pleased, and we expected to see modest improvement. If you go back and do the math, we have achieved higher levels of productivity in the past. And it's our goal to, over time, get back to those levels. I would not expect to see any big jumps in sales productivity, but we are focused on driving continued and consistent improvements to that metric.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Anj Singh, Credit Suisse.

Anj Singh - *Credit Suisse - Analyst*

First, a little bit again on the research contribution margins: I know you guys speak to the 70% long-term target, but the contribution margin this quarter was down the lowest that we've probably seen in four or five quarters. I'm wondering if you can discuss the investments that might be driving that towards the lower end of your long-term guidance?

Craig Safian - *Gartner, Inc. - CFO*

Hey, Anj. Good question. The way we've looked at it is: Things can bump around a little bit, quarter to quarter.

And so, if you look at it on a year-to-date basis, it's a little bit of a different story. Again, our expectation for the full year, also, is to be in between 69% and 70% on the gross margin. While it looks a little wonky in the stand-alone quarter, I think, trend-wise, rolling four quarter Q3 year to date, it all looks pretty solid.

Anj Singh - *Credit Suisse - Analyst*

Got it. Then, on your events business, it looked rather strong despite having four less events year over year. I think you mentioned 18% up on a same-events basis. I'm wondering if you can help us understand the dynamics behind that trend? And if you can discuss what pricing increases you're seeing in your events business?

Craig Safian - *Gartner, Inc. - CFO*

Sure. I will start with the price increase. As we continue to drive demand at these events, we are able to take up prices. We've done that consistently over the last few years. I mean, nothing dramatic, but we have been able to increase prices, both on the attendee side and the exhibitor side, which obviously helps us from a flow-through perspective.

In terms of demand, I think it comes back to people getting great value, or continuing to create great value, out of Gartner research. The events business is really just an extension of that. Whatever the topic is or whatever role the individual is in, in an IT organization, they continue to get huge value out of carving out a few days to go to our events. We don't expect that to stop; we expect that to continue.

It's, again, why we are so focused on making sure that we make the right investments in our research business to make sure that our content and our intellectual property is consistently top notch. But because of that top-notch content, that's what drives the attendees to the events.

Anj Singh - *Credit Suisse - Analyst*

Okay, great. One final one from me: Can you discuss what the trends in retention rates look like for your sales force? Is that playing into your hiring patterns or the slight dip in the headcount increase seen this quarter?

Gene Hall - *Gartner, Inc. - CEO*

It's Gene. The trends in our retention of our salespeople is that it's been in the same trend we've had all year, which is better than last year. We have very good retention of our salespeople, and it is continuing to get even better, despite the fact that the job market, overall, in certainly some of the markets is heating up.

Anj Singh - *Credit Suisse - Analyst*

Okay. That's all. Thanks so much.

Operator

Manav Patnaik, Barclays.

Unidentified Particpant - - *Analyst*

Hi, this is Ryan filling in for Manav. Congrats on a great quarter, obviously.

I just want to talk about -- a little bit -- you mentioned a tough year-over-year comp in consulting. I mean, it's still a pretty -- just given the backlog and the strong growth, it still represents a decent deceleration at the midpoint of your guidance. Is there anything in there that we should be thinking about? Is that a level of conservatism? I'm just trying to get some color around that?

Craig Safian - *Gartner, Inc. - CFO*

That's a good question, Ryan. I think it is primarily driven around -- and I hate to keep talking about contract optimization, but tough compare last year on contract optimization. So, a little bit of a decline in that business, but we expect to see continued strength on the labor-based business. It still looks good; it still looks in trend.

You are right, at the midpoint of the guidance; it's a decline at the high end. It's roughly flattish. There is a little bit of foreign exchange in there as well that you have to account for. But the primary driver is an expectation of slightly lower contract optimization business off a tough compare from Q4 of 2013.

Unidentified Particpant - - *Analyst*

Okay. In terms of repurchases -- I mean, I know, obviously, it's been pretty strong year to date. Is that something we should see, again, a deceleration just based off the total year number? Is the year-to-date trend probably a good gauge for that?

Craig Safian - *Gartner, Inc. - CFO*

From a repurchase perspective, we're still sticking to $800 million over the two-year period. We are obviously close to $400 million through the end of the third quarter. What we said earlier is: We will do more than $400 million this year. I think the expectation should still be looked at over a two-year period.

Unidentified Particpant - - *Analyst*

Great. Thanks. And just any comment you have on M&A environment? We are obviously seeing more robust demand. Is there anything that you see -- has your pipeline changed? Are there more in there? How is pricing in that environment?

Gene Hall - *Gartner, Inc. - CEO*

There's no change. We have a robust pipeline -- a lot of very interesting potential candidates. It's the same as it's been, really, over a period of years. So, no change to the pipeline for acquisitions.

Unidentified Particpant - - *Analyst*

Thanks a lot.

Operator

Gary Bisbee, RBC Capital.

Gary Bisbee - *RBC Capital Markets - Analyst*

I know that the symposium in Orlando recently you said was sold out. I just wanted to inquire about the rest of that series, given that that's been an awful lot of the growth in the events business. If we think about some of these big events being sold out, should we think about that slowing the trajectory of the events business as we move forward over the next couple of years? Or is there enough room to grow the other ones, and to add more into the portfolio such that this would continue to be a growth engine for the Business?

Gene Hall - *Gartner, Inc. - CEO*

You shouldn't think about that as slowing the growth of our events business at all. First, we'll continue to add other events. Secondly, even within those events, as we talked about earlier, where we have capacity limits, we are actually changing the events so that we can get higher prices based on who is going to those events. We've got a price increase -- and the price is not just pure increased pricing, but actually targeting people who get more value and can pay more for those events, combined with adding more events as well. You shouldn't think about our events business growth slowing at all.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay. Just to add one more on consulting: Should we think about this business, now, outside of the fluctuations in contract optimization, maybe having better growth prospects than the pretty modest long-term rate you've talked about historically? And just anything else you can say on the demand increases? Is it that the managing partner strategy leads to more ongoing business because they are more of a relationship role? Or is there something changed about how customers are finding value from Gartner's consulting business? Thanks.

Gene Hall - *Gartner, Inc. - CEO*

We have had two strategies in our consulting business that have really driven this growth that we have been working on over a period of years. One is to add managing partners, as we talked about. So, we have the people that are leading the engagements actually selling the engagements, which is terrific. The second one, which is very important, is to align our consulting services with what is going on in our research business and the key priorities that our research clients see.

Those two things are basically driving additional demand to the Business. We see that demand to continue and be sustained over a period of time, because of those two things. It's not a one-time thing; it's systematic things we've put in place over a period of time that has fundamentally driven increased demand.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay. Then, just two quick ones: Your comment on the FX -- I think that was a full-year comment. If we backed into it and assume the rates stay, it seems to me it's a 2% or so headwind in the fourth quarter and into next year. Is that the right ballpark?

The second question: I think you said 95% of the cash is outside the US. What is the long-term strategy to reinvest that cash? Thanks.

Craig Safian - *Gartner, Inc. - CFO*

Sure. First, on the FX: You are right, the comments we made were largely centered around the fourth quarter. Again, this can be a little confusing because we have an expectation when we go into the year, which may be different than what we actually experience in the fourth quarter of last year. We, generally, are marking up or marking down from that original expectation.

Again, when we looked at FX rates compared to our original expectation, it looked to be about a 1.5% impact on total revenues. That would potentially, if exchange rates hold where they are, roll into next year. As we talked about, we do have a natural hedge. So, we do have our expenses and revenues roughly matched around the world. It will have a more muted impact from a dollar perspective on earnings.

On the overseas cash, we continue to invest pretty heavily in our Business. We are growing just about everywhere: US and outside of the US. A nice portion of our M&A pipeline also exists outside of the US. And so, as we look for uses of cash or deployment of that cash, those are the two primary things we look at.

The reason why we've got debt on our balance sheet is because we have been aggressively repurchasing shares back here in the US. That's allowed us to build up the debt balance on our balance sheet.

Gary Bisbee - *RBC Capital Markets - Analyst*

Thank you.

Operator

Peter Appert, Piper Jaffray.

John Crowther - *Piper Jaffray - Analyst*

You've got John Crowther on for Peter. I just have a couple real quick questions here. I will do them all together.

One -- talked about the margins in the research business and how that mix shift of that faster-growing business is going to continue to drive leverage on the COGS line going forward. I wonder if you could just comment about leverage opportunities on the SG&A line as well?

Second, taxes -- a nice little benefit in this quarter. But full-year tracking, I would say, in line with where it's been usual. I understand some volatility there. But just want to know if there's anything we should be thinking about that going forward?

Lastly, on FX, obviously you've addressed it a couple of times here. But to your point on natural hedging, just wanted to understand: Is the flow-through impact pretty similar to your full-in margins in terms of how your EPS would be impacted versus revenue? Thanks.

Craig Safian - *Gartner, Inc. - CFO*

Great. Okay, so, I will start at the top. The first question was on leverage beyond the gross margin line. Two comments there: One is, we have consistently gotten great leverage out of our G&A costs. As a percent of revenue, they have come down consistently year after year, and that's why we are investing in lots of areas. We are a bigger company with more people. We scaled up our recruiting capability and things like that. But even with all of that, we have continued to get nice leverage out of the G&A portion of SG&A.

On the S side, the reason why we are so focused on sales productivity is, as we drive sales productivity up, we can start to get potentially leverage from that line as well. That is more of a long-term view, but as you model out into the future, we'll get leverage on the gross margin line just based on the pure economics of our Business. We will get leverage on G&A. As we improve sales productivity, we will start to level off, and then potentially get leverage there.

On the tax comment, we did have a one-time adjustment this quarter related to the use of foreign tax credits. It had a big impact on the quarter because it's a small earnings quarter; so, call it a roughly $0.02 impact on EPS for the quarter. For a full-year perspective, we are still expecting around 32.5% rate. Again, the reason why it was so big -- it was just because the adjustment happened on a small earnings quarter.

Lastly, your question on FX and flow through -- yes, what the natural hedge implies is that whatever impact we have on revenue, roughly, flows through at our operating margin.

Operator

Bill Bird, FBR Capital.

Bill Bird - *FBR Capital Markets - Analyst*

Just to follow up on SG&A: For Q4, are you expecting to see some moderation in SG&A growth?

Craig Safian - *Gartner, Inc. - CFO*

On a full-year basis, we would expect to see what we have historically seen, which is: For the full year, SG&A as a percent of revenue will increase slightly over what we saw from 2013.

Bill Bird - *FBR Capital Markets - Analyst*

Okay. Then, for events, was wondering if you could speak to what you are seeing in advanced bookings for exhibitors and attendees?

Gene Hall - *Gartner, Inc. - CEO*

Advanced bookings for our events have been strong across the board. The kind of growth we talked about for the Q3 events -- we are seeing great strength in our advanced bookings as well.

Craig Safian - *Gartner, Inc. - CFO*

Hey, Bill. If you look at -- the reason we raised our guidance on the events is because of our confidence around the advanced bookings and advanced registrations at the events in fourth quarter, that have happened and will happen.

Bill Bird - *FBR Capital Markets - Analyst*

Great. Thank you. Just one final question: I'm curious why the free cash flow guidance was unchanged, while the earnings guidance range moved up?

Craig Safian - *Gartner, Inc. - CFO*

Actually, we took the bottom end of free cash flow up by $5 million.

Bill Bird - *FBR Capital Markets - Analyst*

Thank you.

Operator

Jerry Herman, Stifel.

Jerry Herman - *Stifel Nicolaus - Analyst*

Gene, I just wanted to revisit the sales force question again. I know you guys have talked about this 15% to 20% target. The third quarter was below that, and you recognize that as noise. I'm just wondering, in light of the tougher, let's call it, employment environment of job growth getting stronger, and also the law of large numbers getting more challenging, is it really realistic to drive towards 20%, or should we really think about the lower end of that range?

Gene Hall - *Gartner, Inc. - CEO*

Jerry, great question. Gartner is a fabulous place for salespeople to be at. Selling and technology is a great place to be. If you are selling technology, Gartner is kind of the best place, even within that.

It is an incredibly attractive place for salespeople, and you see that in the fact that we have low turnover among our sales force. With any kind of sales force like we have, if you benchmark it, we have quite low turnover. As I mentioned, despite the job market getting worse, in terms of hotter, our turnover actually has gotten better.

In terms of recruiting, because it's such an attractive place to be, we don't have a problem recruiting with people at all. If you look at the numbers of people we need to hire each year, it is just tiny compared to the total market out there. As I said, we are a tremendously attractive place for sales people. We don't see any limit in terms of the market.

The real limits are our ability to have the right recruiting, training, et cetera, as opposed to market. We think we've got that capability for the 15% to 20% range, both now and going forward.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great. That's helpful.

Craig, I just wanted to revisit the currency question again. I know it's the topic of the day, but if currency rates remained unchanged, as they are right now, could you estimate the impact in next year? Would it be that 1.5%, 2% range?

Craig Safian - *Gartner, Inc. - CFO*

Yes. I think that -- the last time we ran the calc, it was around 1.5%.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great. Very helpful, thanks, guys.

Operator

Jeff Silber, BMO Capital Markets.

Henry Chien - *BMO Capital Markets - Analyst*

It's Henry Chien calling in for Jeff. I was wondering if you could touch upon the double-digit growth rates by vertical? Are you seeing any acceleration in certain verticals? Maybe touch upon the overall macro environment -- are you seeing any acceleration or slowdown in the overall economy? Thanks.

Gene Hall - *Gartner, Inc. - CEO*

Again, we have seen great double-digit growth across all of our, as I mentioned, all of our sized clients, all of our industry segments, and all of our geographic segments. It's very broad-based demand. In terms of the macroeconomic environment, I'd say no change.

Henry Chien - *BMO Capital Markets - Analyst*

Got it. Okay. Thanks so much.

Operator

Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

I know it's small, but I was just wondering whether you could talk a little bit about software advice; we haven't heard about it in a while. I think I heard that it contributed 2% to research growth during the quarter, so that's about $6 million. I don't know if you have any updated thoughts on the growth opportunity at the very small company end of the market, both organically or via M&A?

Gene Hall - *Gartner, Inc. - CEO*

I think small end of the market -- as we've talked about, software advice serves companies that are smaller than the companies that our traditional IT business has served. We believe that there is 10s of millions of those companies that are in the software advice sweet spot. And so, we see that as being a great growth opportunity for us going forward, because that's just an enormous market we've not tapped in. Software advice has been meeting our expectations; it's been doing just terrifically well.

Andre Benjamin - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Thank you. We have no further questions.

Brian Shipman - *Gartner, Inc. - Group VP of IR*

Thanks, everyone. We are here today. You can call me at 203-316-3659 if you have any other questions. Otherwise, we will speak to you on the fourth-quarter conference call in February. Have a great day.

Operator

Thank you. Ladies and gentlemen, that concludes the call for today. You may now disconnect.
