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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 2014. A replay of this call will be available through March 8, 2015. The replay can be accessed by dialing 888-286-8010 for domestic calls, and 617-801-6888 for international calls, by entering the passcode 18018496. 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 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 fourth-quarter and full-year 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 Q4 and full-year 2014 financial results as disclosed in today's press release. We will also discuss our preliminary outlook for 2015. 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, at www.gartner.com.

Before we 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, including those contained in the Company's 2013 annual report on form 10-K and our 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 Chief Executive Officer, Gene Hall. Gene?

Gene Hall - *Gartner Inc - CEO*

Thank you, Brian. Good morning, everyone. Welcome to our Q4 and full-year 2014 earnings call.

In 2014, we drove double-digit growth. All [our team met] key financial metrics, and our business is accelerating. For the full year 2014, on an FX-neutral basis, contract value increased 14%, total Company revenues grew 14%, and EBITDA grew 13%. We achieved double-digit contract value growth in every region, every industry, and every company size. The continued successful execution of our proven strategy was central to our success. The health of our underlying business has never been stronger. We are getting bigger, stronger, faster, every year. And are well-positioned for success in 2015.

For the fourth quarter 2014, we again delivered robust performances across all three businesses. Research, our largest and most profitable segment, grew revenues 15%, FX-neutral, in the fourth quarter of 2014, continuing our 18-quarter trend of double-digit contract value growth. Retention metrics improved to all-time highs. For the fourth quarter 2014, enterprise client retention was 85%, up 2 points over the same quarter of 2013. Enterprise wallet retention was 106%, also up 2 points over Q4 2013. Sales productivity, again, improved. And we continue to invest in areas that will drive further advancements in this area.

Our consulting business delivered a strong performance for Q4 2014. Consulting revenues increased 7% for the quarter and were up 12% for the full year, FX-neutral. We ended the year with 92 managing partners, up 15% from the start of the year. Our events business also delivered a fantastic performance. On a same-event basis, for the 13 events we held in Q4, we drove a revenue increase of 19% year over year, FX-neutral.

Additionally, in 2014, we deployed capital in three strategic acquisitions. And finally, for the full year, we repurchased more than $400 million of our shares, which exceeded our original plan. We just had our worldwide sales kickoff, where I spent time with more than 400 of our sales leaders. They are as enthusiastic about our prospects for growth as I've ever seen. They know technology is driving massive change in every industry around the world and that we could make a real difference in our clients' success.

One of the primary reasons our business is so successful is our people. At the heart of it, Gartner is a people business. Over the past several years and throughout 2014, we made significant investments in our people. We've also added great teams as a result of our acquisitions. We are attracting the best talent in the industry, in strategic locations around the world, and getting them up to speed quickly. These investments continue to pay off, as illustrated by our sales productivity gains and overall 2014 results.

We're starting 2015 in a great position. The insights we create, the advice we deliver, and the overall experience for our customers has never been better. We'll continue 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, which is a tremendous value we deliver to our clients.

The Gartner brand is in a class by itself. Our products, services, and people are superior to the competition, with a great business model. And we continue to be more relevant to virtually every enterprise in the world. I remain confident and excited about Gartner. With that, I'd like to hand the call over to Craig.

Craig Safian - *Gartner Inc - CFO*

Thank you, Gene. And good morning, everyone.

2014 was a very strong year. During the fourth quarter, Gartner continued its accelerated performance with double-digit growth in contract value, revenue, and normalized EBITDA, putting the Company in a great position as we enter 2015.

Year-over-year FX-neutral contract value growth accelerated for the fourth consecutive quarter and finished the year up 14%. Retention rates also ended the year at all-time highs. Our events business increased revenues by 19% year-over-year, on a same-event and FX-neutral basis, in the fourth quarter; and 16% for the full year. And our consulting business grew revenues by 7% on an FX-neutral basis for the fourth quarter and 12% for the full year, on the strength of both our labor-based consulting business and our contract optimization practice.

We continued to see robust demand for our services across all of our business segments in the fourth quarter. Our business continues to grow at double-digit rates, quarter after quarter, year after year, which is why we remain very excited about our prospects for future growth. Our products and services provide unparalleled value to IT, supply chain, and digital marketing professionals. We are engaged on their most important projects and initiatives, and we make a difference to the success of their enterprises. Our strong and improving retention metrics further demonstrate the value and importance of our products and services. In both existing and prospect accounts, we continue to find new IT, supply chain, and digital 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 fourth quarter and full year. And then we'll end with the details of our outlook for 2015 before taking your questions.

Since we area global Company, with operations and clients in 90-plus countries, the strengthening US dollar had an impact on our fourth-quarter results. I will address the impact in each area, but roughly speaking, our reported growth rates were impacted negatively by three to four points in the quarter by foreign exchange.

Starting with our research business: research revenue was up 12% on an as-reported basis and grew 15% on an FX-neutral business in the fourth quarter. Acquisitions added approximately 2 points to our organic growth rate in Q4. The contribution margin for research was 69% in the fourth quarter and for the full year. All other key research business metrics also remain strong. Contract value grew to a record level of $1.603 billion, a year-over-year growth rate of 14% on an FX-neutral basis. This reflects continued acceleration from late 2013.

As has been true over the past several years, our growth in contract value in Q4 was extremely broad-based, with every region, every client size, and every industry segment growing at double-digit rates. The acceleration in our contract value growth was driven by improvements in both retention and new business. Our client retention rate at the enterprise level ended the quarter at 85%, up 2 points versus the same quarter last year -- the fourth consecutive quarter of sequential improvement in this metric.

Wallet retention at the enterprise level ended at 106% in the fourth quarter, an improvement of 2 points over last year's fourth quarter. This was the fifth consecutive quarter of sequential improvement in wallet retention. Wallet retention is higher than client retention due to a combination of increased spending by retained clients, and because 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 to eliminate any seasonality.

New business, again, increased year over year, up 15% over last year's fourth quarter and up 13% on a full-year basis. 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 not discounting and of consistent annual price increases. We have increased our prices by 3% to 6% per year since 2005, and our price increase from this past fourth quarter averaged 3%.

We also continue see strong volume growth in our new business. This reflects our success in growing the business by penetrating our vast market opportunity with both new and existing client enterprises. As a result, we ended the quarter with 9,958 client enterprises, up 10% over last year's fourth quarter. This represents almost 2,000 net new enterprises added since Q4 of 2011, further illustrating the size and scale of our untapped market opportunity. Also, the average spend per enterprise continues to increase, 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 input so that you can calculate sales productivity on your own. As we have detailed in the past, we look at sales productivity as the net contract value increase, or NCVI, for our 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.

Let me do the math for you: over the last 12 months, we grew our contract value by $202 million in FX-neutral terms. Dividing that by our Q4 2013 ending sales headcount of 1,643, yields NCVI per AE of $123,000 on a rolling, four-quarter basis -- a 14% improvement over 2013, and up compared to any of the first three quarters of 2014.

To sum up, our research business, again, delivered great results. Contract value growth accelerated in each quarter of 2014, as we expected. We see strong demand from clients, our retention rates remain at or near all-time highs, and we expect continued acceleration in productivity, contract value, and revenue growth over the long term.

Turning now to events. For the quarter and full year, our events segment continued a five-year trend of extremely strong year-over-year revenue growth on a same-event basis. On a reported basis in the fourth quarter, events revenue increased 20% year-over-year, and increased 23% on an FX-neutral basis. For the full year 2014, events revenue increased 14% on a reported basis and grew 16% on an FX-neutral basis. During the fourth quarter we held 13 events with 23,453 attendees, compared to 11 events with 20,786 attendees in the fourth quarter of 2013. On a same-event and FX-neutral basis, events revenue was up 19% year-over-year in the fourth quarter, underscoring the strength of our events business.

During the fourth quarter, we held most of our symposium events. Gartner Symposium is our flagship conference series specifically designed for CIOs. Revenue for the symposium series grew by 20% in 2014, contributing to the overall events performance in Q4. At our symposium series, we hosted more than 6,000 CIOs, 9% more than we hosted in 2013. Q4 gross contribution margin for events of 56% was up 3 points from the fourth quarter a year ago. The gross contribution margin for the full year 2014 in the events segment was 49%, up from 46% in 2013.

Moving on to consulting. Revenues in consulting increased 3% on a reported basis and 7% on an FX-neutral basis in the fourth quarter. For the full year, consulting revenues grew 11% on a reported basis and 12% on an FX-neutral basis. We again posted solid results across the entire business, with our labor-based business reporting 7% revenue growth in the quarter. On the labor-based side, billable headcount of 535 was up 5% from the fourth quarter of 2013. Fourth-quarter utilization was 72%, a 7-point improvement over the fourth quarter of last year. And annualized revenue per billable head ended the quarter at $463,000, an 8% improvement over Q4 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. This fourth quarter was no exception, as this business contracted modestly versus the prior-year fourth quarter. Across the entire consulting business, we continue to see strong demand for our services. And our strategy of investing in managing partners is allowing us to capture that demand. We ended the year with 92 managing partners, an increase of 15% from a year ago.

Backlog, the key leading indicator of future revenue growth for our consulting business, ended the quarter at $103 million. This represents a healthy four months of forward backlog. With the current backlog and visibility we have into the pipeline, the consulting business is positioned to deliver another year of solid results in 2015.

Moving down the income statement. SG&A increased by $23 million year over year during the fourth quarter, primarily driven by the growth in our sales force. For the full year 2014, SG&A increased $116 million -- again, driven by growth in our sales force. As of December 31, we had 1,181 quota-bearing sales associates, an increase of 238, or 14%.

Moving on to earnings. Normalized EBITDA was $122 million in the fourth quarter, growth of 15% from last year's fourth quarter. Normalized EBITDA growth, excluding the impact of FX, was 18% in the quarter, or an impact of roughly $3 million. For the full year, normalized EBITDA was $386 million, representing 12% growth for 2014 and 13% on an FX-neutral basis.

GAAP diluted earnings per share was $0.66 in the fourth quarter, compared with $0.65 per share in the same period last year. Our Q4 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 9%, to $0.72 per share in the fourth quarter. Our Q4 EPS figures were impacted by foreign exchange in two primary ways. First, the impact on EBITDA that I just mentioned; and second, the impact on our tax rate for the quarter. As we have discussed in the past, our tax rate is sensitive to the mix of geographic earnings. With a stronger US dollar, the proportional mix of geographic earnings from outside of the US was lower than anticipated, causing a higher tax rate than we projected.

For the full year 2014, GAAP diluted earnings per share was $2.03, up 5% year over year. Our full-year 2014 GAAP diluted earnings per share includes $0.21 in amortization and other costs associated with our acquisitions. Excluding acquisition-related charges, our normalized EPS grew 14% to $2.24 for the full year of 2014. Excluding the impact of FX, normalized EPS grew approximately 15% over 2013.

Turning now to cash. Operating cash flow increased by 10% to $347 million for the full year 2014, compared with last year. During the fourth quarter, we continued to utilize our cash to return capital to shareholders through share repurchases. In the quarter, we repurchased 0.5 million shares, and we used approximately $42 million of cash for share repurchases. For the full year, we repurchased $432 million worth of our shares. As of December 31, we had $413 million remaining on our $800 million authorization.

Even with the more aggressive pace of share repurchases and the acquisitions we did in 2014, we ended the quarter with a strong balance sheet and cash position. As of December 31, we had debt of $405 million and cash of $365 million, with 83% of our cash balance located outside of the US. In December, we put an expanded credit facility in place that took advantage of the favorable credit markets and accomplished three primary goals. First, the new facility is right-sized for the Company. We doubled its size to $1.5 billion. This gives us ample flexibility and room for growth, as well. Second, the pricing and covenant packages are more favorable than our prior facility. And finally, we pushed out the maturity of the loan until December of 2019.

We have ample cash flow and, with the new facility, ample 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.

Now let me turn to our business outlook for 2015. Our most important underlying business metrics and trends are all strong, accelerating, and trending in the right direction. CV growth, retention rates, sales productivity, events performance, or consulting utilization -- all those key metrics improved in 2014. Our business is very strong, and our outlook fully anticipates those trends to continue.

Our reported results will be impacted by the strengthened US dollar. The dollar strengthening has been significant and has even accelerated in the month of January, with the dollar increasing against key currencies like the euro by 7% in January alone. As we have detailed in the past, our revenues and expenses are roughly matched around the globe, creating a natural hedge. Roughly 60% of both our total revenues and total expenses are transacted in the US dollar. The remaining 40% are in major currencies, such as the euro, the pound sterling, and the australian dollar, to name a few. The US dollar has strengthened dramatically against all these currencies, and our 2015 outlook is derived using spot rates from last Friday, January 30.

The underlying business metrics and FX-neutral growth rates of the Company are very strong. We will continue to run the Company and invest for the future, as we have been doing successfully over the last several years. With that, I'll review the 2015 outlook.

Our businesses are well-positioned for another year of strong FX-neutral growth in 2015. Our base-level assumptions are as follows: sales productivity remains flat or improves marginally from 2014 levels on an FX-neutral basis. Our sales force grows approximately 15%. And, as I just mentioned, we have used foreign exchange rates from January 30 in setting our guidance and outlook for the year. As always, we'll report back with updates on our quarterly earnings calls and with any changes to these assumptions.

The details of our 2015 outlook are included in today's press release, and I'll summarize them here, as well. For the full year 2015, we expect total revenues of $2.150 billion to $2.205 billion. This is FX-neutral growth of 12% to 15%. The projected revenues by segment on an as-reported basis can be found in our press release. On an FX-neutral basis, our guidance anticipates research revenue to be up 14% to 16% versus the prior year, reflecting the acceleration of our contract value growth achieved in 2014.

Our consulting outlook is for revenues to be flat to up 6% over 2014 on an FX-neutral basis. This guidance assumes that the contract optimization practice within consulting returns to its historical levels of revenue, which is negatively impacting consulting guidance. We expect the labor-based portion of consulting to grow in the mid-single digits. And our events revenue guidance is to be up 11% to 18% over 2014 on an FX-neutral basis. At this point, we plan to hold approximately 65 events in 2015, as compared to 64 in 2014.

Moving down the income statement, we expect normalized EBITDA for the full year 2015 to be between $405 million and $430 million, an increase of 10% to 17% over 2014 on an FX-neutral basis. We expect the cost associated with stock-based compensation expense in 2015 to be approximately $43 million to $44 million. Total depreciation and amortization should also be between $43 million and $44 million, inclusive of the amortization of acquired intangible assets.

We expect interest expense of between $15 million and $16 million, and other expense of $2 million. We are projecting an annual effective tax rate of approximately 35% to 36%. The tax rate is driven by the FX impact on our projected mix of earnings, and our guidance is based on an average fully diluted shares outstanding for the full year of approximately 87.5 million shares. Note that our tax rate may vary from quarter to quarter, due to the timing of certain items.

Our GAAP EPS earnings guidance for 2015 is for EPS to be between $2.11 and $2.30 per share. GAAP EPS includes $0.16 per share of acquisition-related charges for the full year 2015. Our guidance for EPS, excluding acquisition and integration charges, is to be between $2.27 and $2.46 per share -- FX-neutral growth of approximately 7% to16% over 2014.

In 2015, we expect cash from operations of $348 million to $374 million, gross capital expenditures of $45 million to $46 million, and acquisition and integration charges of $12 million. This yields a free cash flow range of $315 million to $340 million. Thus, we expect to generate free cash flow per share of $3.60 to $3.89 in 2015. As in prior years, our free cash flow should, again, be well in excess of our net earnings levels in 2015. As with our earnings, the strengthening US dollar impacts cash flow in a similar manner.

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. In 2015, our EPS phasing by quarter will reflect seasonality roughly similar to our reported results from 2014, with a few notable exceptions. The first quarter will, again, be the seasonally lightest quarter of the year. As a result, we expect GAAP EPS to be between $0.31 and $0.33 per share in the first quarter. We expect approximately $0.04 per share of acquisition and integration charges in Q1. EPS in the first quarter will be impacted primarily by lower projected contract optimization revenues and the impact of FX.

I would also like to remind you that our third quarter is also a seasonally light quarter -- again, due to our events calendar and our consulting business. As in years past, the fourth quarter is 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 have 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 of 2014, contract value at January 1, 2015 is approximately $53 million lower than the $1.603 billion reported on December 31. As a result, $1.550 billion is the baseline figure you should use for comparison purposes when judging contract value growth in 2015 on an FX-neutral basis.

So before taking your questions, let me summarize. We delivered another very strong quarter in Q4. Demand for our services is robust. And as a result, our research contract value growth accelerated again, and we generated double-digit total revenue growth. We are as strong as we've ever been as a Company.

Our key business metrics are improving significantly or are at or near all-time highs. Both client and wallet retention continue to improve, setting new records each quarter. Sales productivity improved by 14% in 2014. We grew the number of enterprises we serve by 10% to almost 10,000. And contract value growth accelerated in each quarter of 2014, ending the year at 14% growth. Our initiatives to improve operational effectiveness, coupled with the positive operating leverage inherent in our business, delivered solid earnings in cash flow growth for the full year 2014. And we continue to actively explore strategic alternatives for deploying our cash.

Going forward, we will continue to invest in our business organically and through acquisition, and return capital to shareholders through our share repurchase program. Finally, by closing out 2014 with double-digit growth in contract value, we begin the new year very well-positioned to deliver another year of strong revenue and earnings growth in 2015.

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

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Jeff Meuler, R.W. Baird.

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

I didn't catch if you articulated it explicitly, but for the guidance for 2015, what are you assuming for the research contract value and constant currency? I caught that sales force growth up 15% and productivity, I think, flat to up marginally. So are you assuming further acceleration into the 15% to 16% range?

Craig Safian - *Gartner Inc - CFO*

We don't give contract value guidance. That is been our rule, and we don't do that.

You can do the math, and the math would presume that we are in the 14% to 15% range, if you are seeing those productivity statements we made as well as the headcount growth.

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

Okay.

And then, one thing that stood out in the guidance is the delta between the normalized EBITDA guidance and the diluted EPS -- or the adjusted EPS guidance at the low end. At the top end of the range, it's just a 1% delta. At the low end, it's a 4% delta.

Is that based on the assumption of geographic mix of revenue and tax rate? Or what's the delta there?

Craig Safian - *Gartner Inc - CFO*

The delta, Jeff, is primarily around tax rate. And that is driven by foreign exchange, which is, obviously, driving up that higher projected effective tax rate.

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

Okay.

And then, I caught that contract optimization -- obviously, you've had a banner year this year, and you're assuming a bit down next year. But if I recall correctly, I think the range was something like $40 million to $50 million historic. Was that correct, and what was it this year?

Craig Safian - *Gartner Inc - CFO*

We had typically said $30 million to $40 million in revenue was the range.

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

Okay.

Craig Safian - *Gartner Inc - CFO*

We well exceeded that in 2014, and our expectation for 2015 is to go back to, roughly, the top end -- near the top end of that range.

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

Perfect. Thank you.

Operator

Timothy McHugh, William Blair.

Timothy McHugh - *William Blair & Company - Analyst*

Can I just ask about the research gross margin a little bit more? And I guess, also, the consulting gross margin, but first, the research.

I guess, it was down slightly, year-over-year, for the second quarter in a row. Can you talk a little bit more about what's driving that? I appreciate you're getting close to the 70% number you've talked about.

But are we just at a point where -- more sustainable, you're not going to see much improvement there? Or was there something else going on in the quarter?

Craig Safian - *Gartner Inc - CFO*

Good question. On a full-year basis, research gross margins were up about 10 basis points. I'd say there are two things going on there.

One is, there's a modest impact from the acquisitions -- modest. And then, over the long term, we still believe 70% is, roughly, the right target gross margin for us. So you're likely to see modest improvements over the years, as we approach 70%.

Timothy McHugh - *William Blair & Company - Analyst*

Okay.

And then, as we look forward to next year, can you talk about -- it seems like the margin guidance is for basically flattish margins. And I guess you reflected it down a little bit last year and the year before.

Can you talk about that on a multi-year basis? How are you thinking about margins at this point?

It sounds like you're starting to get some sales force productivity, but you're not getting as much lift from the research gross margin expanding as you have been in the past. So how should we think about margins the next couple years, here?

Craig Safian - *Gartner Inc - CFO*

You're exactly right, Tim. So the way we have talked about it in the past, and the way we talk about it rolling forward is, as we're approaching the 70% target gross margin for research, we'll continue to get leverage from that as research becomes a bigger and bigger piece of the overall pie. And that drives gross margin leverage, but we no longer have the -- going from 60% to 65% to 70% that we've had in the past.

The way we will drive EBITDA margins into the future is through increasing sales productivity, which will drive an acceleration to contract value growth. As we talked about, we need to see productivity get to the levels where we are driving research CV growth in the 15%, 16%, 17% range. We get there, that's when you'll see the margin flow through and the leverage on the SG&A lines.

Timothy McHugh - *William Blair & Company - Analyst*

Okay, great.

And then, the client retention rate improving -- your client growth rate also picked up. Is that mainly the retention rate, or did you also -- is the new customer additions going up, if you separated those two factors?

Gene Hall - *Gartner Inc - CEO*

Tim, it's Gene.

It's both factors. We have a big focus on making sure we retain our clients. And so the fact that the client retention went up is due to all the programs we've put in place to drive that retention.

Obviously, if we keep clients, that helps our overall client growth rate. Having said that, we also have -- we focus on growth as well. We have a lot of programs to drive growth, and those programs have been equally successful to our retention programs. So it's really both.

Craig Safian - *Gartner Inc - CFO*

And if you think about it, Tim, a 2 point improvement on client retention on a 9,000 enterprise basis gets us a little bit, but the big engine, as Gene mentioned, is our new client acquisition.

Timothy McHugh - *William Blair & Company - Analyst*

Okay, great. Thanks.

Operator

Peter Appert, Piper Jaffray.

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

Craig, just sticking with the margin topic for a second. I think you guys, in the past, have talked about a longer-term objective -- sort of mid-high-20s%, in terms of the adjusted EBITDA margin. Does that number seem maybe a little bit too optimistic at this point, given the trends you've discussed?

Craig Safian - *Gartner Inc - CFO*

Peter, as we think about it, it really -- if we are driving productivity to levels that we know we're capable of driving, and we see the acceleration in contract value growth, we believe the margins will follow that. So we're focusing on the key operating levers of the business to drive the business forward. And as those things start kicking in and picking up more acceleration, we should see margin improvement from that.

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

Got it. Okay.

And then, any granularity or color you can offer, in terms of the things you're doing to improve further the productivity? And maybe the metrics we should be looking at -- that we could think about to measure that?

Gene Hall - *Gartner Inc - CEO*

Peter, it's Gene.

The key things we're doing to drive sales productivity -- first, it's making sure that when we hire new salespeople, that we hire salespeople that are a good with Gartner and a fit with the skills needed to sell successfully to our clients. When we hire the right salespeople, they just do fantastically well. They stay with us for a long part of their career, et cetera.

So the first piece is hiring the right people. We've got a big focus on that.

Second piece, then, is when we bring them on board, we have a -- what I think is -- the best training program I've ever seen in sales. And that whole training program gets them up-to-speed, as well.

We also, then, have development programs for managers, as we have new managers; for vice presidents, as we have new vice presidents; et cetera, to help them improve their skills. And then finally, we have a whole set of programs that are designed to provide our sales people with the best possible tools to improve their productivity.

And as a Company, our big focus is on innovating in all three of those areas. Innovating in terms of how we make sure we hire people that are going to be wildly successful partner, innovating in terms of how we train and develop them so they achieve their full potential, and thirdly, innovating and making sure that we provide them the best possible tools.

And every year, we get better. And fundamentally, that's what drives our sales productivity.

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

Great. Thank you.

And then, last thing. Gene, it was either you or Craig said something specifically about how you continue to explore strategic alternatives to deploy the cash. I'm just wondering what that means?

Craig Safian - *Gartner Inc - CFO*

As you know, Peter, our number one priority in deploying cash is to do strategic acquisitions. And we have a little team that focuses on tracking a sizable number of acquisition candidates that we think all have great strategic fits for the Company.

So our number one priority continues to be [looking for] strategic acquisitions. 2014, we made some acquisitions, and we are hopeful that in the future, they'll be an important part of strategy as well.

The second is, obviously, share buybacks, which is our second strategic use of capital.

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

Got it. Okay. So the words strategic alternatives were not meant to imply some radical or dramatic change in what you've thought about, historically. That was just a little thing that jumped out to me.

Craig Safian - *Gartner Inc - CFO*

Apologies for that. No. It's consistent with our capital deployment strategy that we've been operating on for the last several years.

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

Got it. Understood. Thank you.

Operator

Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

I was wondering if you could help us better understand the relationship between currency and tax rate, just so that we can get a handle on that part of the equation, should the tax rate change again?

Craig Safian - *Gartner Inc - CFO*

Sure. Good question, Joe. I'll try and keep it as simple as I can.

Our global tax structure is essentially impacted by two streams of income -- income in the US and income from outside the US. This is important because certain jurisdictions outside the US tax income at much lower rates than the US. So as you'd imagine, the mix of those two streams can have a big impact on the effective tax rate.

What we experienced in Q4 and are projecting into 2015 is essentially the following -- that the strengthening US dollars means our overseas profits are lower, or smaller, in US dollar terms. And a smaller mix of overseas profit, as a percent of the global profit, adversely affects the effective tax rate.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. That's very helpful.

Then, on the sales force productivity and how it relates to contract value -- it seems like you're expecting the growth rates to be sustained next year. Is there anything to read into that?

I'm sure you're continuing to drive to a higher growth rate, but has there been a change in the market? Is that why you're more leaning towards stable versus acceleration again, next year -- or actually, this year?

Gene Hall - *Gartner Inc - CEO*

Joseph, it's Gene.

We are optimistic, and we believe we can continue to improve sales productivity. We're going to grow the business two ways.

One is, continue to grow the number of salespeople we have. Last year, we grew -- when you calculate it's -- 14.49%. We missed rounding to 15% by 1 salesperson. But we want to grow in the range of 15% to 20%, in terms of our headcount.

Then in addition to that, we believe, as we did last year, that the kind of changes I talked of earlier will result in improving sales productivity over time. The approach we've taken, in terms of planning, is not to assume improvements before they have been. And we're making them, and we believe they will happen, but we haven't assumed they're going to happen, in our planning.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay.

Then, last question for me. I know there's been some pockets, in prior years, of weakness on the government spending side. Or geographically, Europe, obviously, continues to be challenged. Can you give any updates on areas where you're keeping a close eye on things outside of currency, going into this year?

Craig Safian - *Gartner Inc - CFO*

Again, on a constant currency basis, we have -- as I mentioned -- we had double-digit growth in every region, in every industry, and in every company size range. So we're -- so obviously, in public sector, we had double-digit growth.

Having said that, the selling environment has not improved in the places that are difficult. You mentioned Europe -- the selling environment is just as difficult as it's always been. In the public sector, in many cases, the selling environment is just as difficult as it's always been. But we've adapted to that and are achieving great double-growth in all those areas.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Manav Patnaik, Barclays.

Unidentified Participant - - *Analyst*

This is Ryan, filling in for Manav.

Just a question on the sales force hiring. I guess, the jobs reports keep getting better, specifically in the US.

Is there any risk to finding enough high-quality people? It's clearly a focus for you guys. I'm just wondering if the competition for hiring has gotten tougher in the last year or so?

Gene Hall - *Gartner Inc - CEO*

Great question. The answer is no.

If you look at the total number of salespeople that we could hire in the US, it's in the millions. And we hire a few hundred each year.

Our issue is not, actually, that the job market has gotten worse, it's the same thing as always, which is finding those people that are actually a great fit with Gartner. And we work hard on that -- get better every year. The overall job market situation -- macro job market -- is not a factor for us.

Unidentified Participant - - *Analyst*

Okay. Great. Thanks.

On the consulting side, I know you're expecting it to come back down to historical levels. And 2014 was, obviously, great.

Was there anything that was structure, I guess -- specifically, with the contract optimization -- that maybe could continue, going forward? Or is it just a one-time pick up?

I guess, with your conversations with clients, was there anything they're leveraging at more, and they expect to see that, going forward? Or any color there?

Gene Hall - *Gartner Inc - CEO*

No. The contract optimization business -- there's nothing systematic going on there. It's a business that just depends on what the particular client's deals are, et cetera.

In some years, it's the most volatile part of our business. It's very small, but it's the most volatile part of our business.

So again, as Craig -- we based our guidance for 2015 on what Craig said earlier. But there's nothing systematic going on, there.

Unidentified Participant - - *Analyst*

Okay. Thank you.

Operator

Anjaneya Singh, Credit Suisse.

Anjaneya Singh - *Credit Suisse - Analyst*

Thanks for taking my questions.

I'm wondering if you can discuss what's driving your expectations of the 15% sales force growth. It's been towards the lower end of your 15%, 20% target and below that, slightly -- just picking it apart, I guess -- but below that for Q3 and Q4.

I'm just trying to get a sense of -- you mentioned that it's due to the hiring that you do in classes. But just trying to get a sense of how much of the lower sales force growth plays into the positive impact on sales force productivity? Or would you say, if you grew it towards the higher end, you'd still see this positive trajectory in the productivity that you mentioned?

Craig Safian - *Gartner Inc - CFO*

Anj, it's Craig.

On the productivity side, the way we're measuring it by using the beginning of period headcount -- that actually shows a 16% improvement, since we're marking off of the ending headcount of 2013. We actually haven't gotten the benefit in the productivity number of that marginally lower headcount growth that we've talked about.

Gene mentioned earlier, the 14% in Q4, if you actually do the math and extend out the decimal places you're looking at, you'll see we were within 1 or 2 additional salespeople of being at 15%. So I think it's, roughly, noise that we bounced around a little bit below the 15% mark.

We're targeting 15% to 20%. We've been achieving, roughly, 15%. And we believe we can drive the kind of productivity that we've been driving with consistent 15% plus growth.

Anjaneya Singh - *Credit Suisse - Analyst*

Got it. That's helpful.

On the consulting business, we noticed that backlog growth was negative in Q4 after double-digit growth in the first three quarters. Could you just talk about the drivers behind that? How much of that is attributable to FX drag?

And consultant utilization is the highest we've seen in a while. Can you discuss how we should think about that metric, going forward?

Craig Safian - *Gartner Inc - CFO*

Yes. It's a great question.

We actually had a great quarter, in terms of revenue burn. That's reflected in both utilization and the bill rate, as well as the annualized revenue for billable. And we were able to do that because of the strong backlog position that we were in, coming out of Q2 and Q3.

As we look forward, even though the backlog is modestly down on a year-over-year basis -- and again, there is some impact there, due to foreign exchange -- we look at the quality of the backlog, and we look at the pipeline of future deals. And the combination in the quality of the backlog, coupled with the pipeline of Q1 bookings, gives us confidence that the trend on our labor-based business will continue.

Anjaneya Singh - *Credit Suisse - Analyst*

Okay, great. Thank you.

Operator

Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

I want to follow up on the question about recruiting and the labor force. I was wondering, is the underlying churn in-line with the 15% to 20% you discussed in the past? And as we think about the growth in total SG&A versus the number of underlying salespeople, are you seeing any changes in the underlying wage pressures?

Craig Safian - *Gartner Inc - CFO*

First of all, in terms of our turnover, our turnover among our salespeople over the last few years has been trending downwards. We've been having fewer people turn over, and it's well within the range we've talked about and right where we want it to be.

And that's because we've been -- done a better job of hiring people that are likely to be successful here, over time. And then providing them with the training tools.

So the churn in our sales force, I think, is at a terrific level. As I said, over the last few years, it has been trending down, as opposed to getting worse. It's actually getting better.

Andre Benjamin - *Goldman Sachs - Analyst*

The wages -- I'm assuming that's not a pressure for you, either?

Craig Safian - *Gartner Inc - CFO*

We pay competitive wages. We always have.

Gartner is a place that, if you want -- it's a great place to work in sales. We have a great reputation for anybody that wants to be in technology sales. That reputation and people know how great the market is, the strength of the brand, the things that they get equipped when they come to Gartner -- those are all attractive things.

Having said that, we also pay competitive rates, and we've not seen a lot of pressure there.

Andre Benjamin - *Goldman Sachs - Analyst*

Thank you.

Operator

Gary Bisbee, RBC Capital Markets.

Gary Bisbee - *RBC Capital Markets - Analyst*

I just wanted to confirm -- you said that the guidance implies flat to slightly up sales productivity, I think. And given that it was much stronger in the back half and it would seem likely that you would lap at a lower level in the first half, should we think of that as, potentially, very conservative? Or are there reasons that's a good baseline assumption?

Craig Safian - *Gartner Inc - CFO*

Gary, I think -- we calculate the productivity on a rolling, four-quarter basis. So it captures all four quarters of the last year.

As we talked about, each quarter, when we looked at it on a standalone basis, was up significantly over the prior-year quarter. So I think that the rolling four for 2014 is definitely a good benchmark.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay.

And then, your comment earlier, Craig, that it would take 15% to 17% CV growth to really see SG&A leverage -- is that just the simple math of you're going to grow the sales force at least 15%? So you've got to see growth in excess of that to get margin leverage, basically?

Craig Safian - *Gartner Inc - CFO*

In its simplest terms, yes. That's exactly right.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay.

And then, just one on the cash flow -- is it right to assume that the cash flow is similar proportion overseas to the 40% that you talked about revenue and costs? And if so, I guess, it implies that you're going to have to borrow $200 million, roughly, this year, to fulfill the buyback program.

So I just wanted to confirm that is included in the $15 million to $16 million interest expense forecast you provided. Thank you.

Craig Safian - *Gartner Inc - CFO*

Yes. It's a great point.

Our cash flow generation looks just like our revenue and expense mix -- so roughly 60% in USD, 40% non-USD currency. Our guidance presumes the -- whatever borrowing activity we need to do to fulfill our business and meet the expectations that we talked about.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay. That's helpful. Thank you.

Operator

Jason Anderson, Stifel.

Jason Anderson - *Stifel Nicolaus - Analyst*

On the events business, on your guidance, is there -- could you help us out with number of events? Is it going to be flattish, or are you planning on increasing that?

And also, within those, are there any changes to the events? Or maybe you're escalating any more up to symposium level, which you, obviously, get higher revenue and margins off of?

Craig Safian - *Gartner Inc - CFO*

As we talked about, we're expecting 65 events in 2015 versus the 64 we delivered in 2014. So modest increase in number of events there, which has been consistent with what we've done over the last several years. And no major plans to convert any events in 2015.

Jason Anderson - *Stifel Nicolaus - Analyst*

Great. Also, in the Q4 2014, the attendee per event seemed to be down a bit. Is that more of a mix of events, or is there anything more to that?

Craig Safian - *Gartner Inc - CFO*

I wouldn't read too much into that. If you look at just about every metric related to the events business in the fourth quarter, they're all spectacular -- up around 20% growth.

So the attendee per event would just be a mix thing. We were able to great attendee and exhibitor growth at all of our events in the fourth quarter.

Jason Anderson - *Stifel Nicolaus - Analyst*

Great, thanks.

On the acquisition front, I was wondering if you could maybe -- I know we've asked you this before, but -- characterize how things are looking in the pipeline. And the reason I ask it again is, with the recent increase in liquidity levels and your dry powder, so to speak, I'm interested in your comments on how that environment is looking?

Gene Hall - *Gartner Inc - CEO*

It's Gene.

Our pipeline looks great. We have a very strong acquisition pipeline.

As always, it depends on the seller's interest and willingness and what the pricing is going to be. But in terms of pipeline of targets that would be great strategic fits -- be terrific for the Company -- we have a very robust pipeline.

Jason Anderson - *Stifel Nicolaus - Analyst*

And just one more little add-on to that -- has that changed from as it is now, versus maybe six months ago, 12 months ago?

Gene Hall - *Gartner Inc - CEO*

I'd say, there's no change. We've had a robust pipeline six months ago; we have a robust pipeline now.

Jason Anderson - *Stifel Nicolaus - Analyst*

Great. Thanks.

Operator

Bill Bird, FBR.

Bill Bird - *FBR & Co. - Analyst*

In consulting, could you talk about why the business showed a negative incremental margin in Q4? And as you look at overall guidance, what do you think is required to hit the upper end of your earnings guidance range for the year?

Craig Safian - *Gartner Inc - CFO*

On your first question, the real reason was a lower contract optimization revenue in fourth quarter, as compared to fourth quarter of 2013. So that's the prime driver for that -- the margin there.

In terms of your question around guidance -- as always, we take a consistent approach to how we develop our operating plans and our guidance. The high end would be, we see acceleration in productivity. We outperform our initial plans across each of our business units. And things of that nature.

Consistent with years past, we put a range that we think is attainable on both sides. And the other piece that could actually play in there, obviously, is FX. If the dollar were to weaken, obviously, the results would look a little bit different.

We are very focused on making sure we continue to drive very strong, double-digit constant currency growth around the world. We operate around the world, and we want to drive our business to grow double-digits in euros and pounds and yen and what have you. That's what we're really focused on.

But top end would be things outperform modestly and, potentially, a little bit of a benefit from foreign exchange.

Bill Bird - *FBR & Co. - Analyst*

Thanks.

Finally, could you give us a refresher on how you think about financial criteria on acquisitions?

Craig Safian - *Gartner Inc - CFO*

Before we get to the financial criteria, as you know, we've been very disciplined and diligent around writing checks on acquisitions. So we really do flex on making sure that it is a great fit strategically, both from a business perspective, from a culture perspective, from a people perspective. And those are very tough thresholds to get across, which is, again, why we've done so few acquisitions the last several years.

From a financial criteria perspective, we are looking for outsize returns on the investment so that we continue to drive shareholder value through that, as well as driving our business organically, as well as returning capital to shareholders. But we've got pretty stringent strategic criteria and then, very stringent financial criteria, as well.

Bill Bird - *FBR & Co. - Analyst*

And is there any specific criteria around whether a deal is immediately accretive or not?

Craig Safian - *Gartner Inc - CFO*

Bill, it's going to vary, based on how strong the fit is and how strong the strategic thrust of a potential target is -- or strategic fit of a potential target. So we're not going to say that every deal we do will be accretive immediately. If it's the right deal for the long term, we'll deal with whatever that short-term ramifications are. But the reality is, we look at it -- is it the right deal for the long term, not the short term.

Bill Bird - *FBR & Co. - Analyst*

Great. Thank you.

Operator

Jeff Silber, BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

You mentioned the price increase in research this year was 3% at the low end of the historical 3% to 6% range. Are you seeing pricing pressure on there, or is it just specifically because of the stronger US dollar?

Craig Safian - *Gartner Inc - CFO*

No. We've done 3% to 6%. Again, when you look at our price increase, what it implies is some products we're taking up higher than that, and some products, lower. Some markets higher than that; some markets a little bit lower, with the average being around 3%.

What we've found over the last several years is that 3%, on average, is the sweet spot for us. If there are opportunities to go higher, we go higher. But generally speaking, we've been achieving 3% per year for the last several years.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay.

Just a follow-up on the stronger US dollar. You mentioned a 60%, 40% breakdown in total revenues, US versus non-US. Does it dramatically differ by your three segments? And if so, how?

Craig Safian - *Gartner Inc - CFO*

No, it's pretty consistent, amazingly, across the board. There's a little bit of variability there, but by and large, that average roughly applies to each of our three business segments.

Jeff Silber - *BMO Capital Markets - Analyst*

And within that 40% bucket, again, any changes by different divisions?

Craig Safian - *Gartner Inc - CFO*

No. Our business, as we have it structured, is a very global business. And we have people selling and delivering each of those businesses in the local geographies where we do the business.

So you won't see a big change. The average is pretty applicable across the entire business.

Jeff Silber - *BMO Capital Markets - Analyst*

Great. Thanks so much.

Operator

(Operator Instructions)

Bill Warmington, Wells Fargo.

Bill Warmington - *Wells Fargo Securities - Analyst*

A question for you about the five-week academy training program. If you could talk a little bit about where you are in the rollout of that program across the organization?

Gene Hall - *Gartner Inc - CEO*

During 2015, it will be rolled out around the world.

Bill Warmington - *Wells Fargo Securities - Analyst*

So about -- say, on a percentage basis, about how much is currently -- what's the geographical coverage currently?

Gene Hall - *Gartner Inc - CEO*

If you can think about that, for the salespeople that we hire in 2015, all of them will be trained in the academy program.

Bill Warmington - *Wells Fargo Securities - Analyst*

Got it.

Gene Hall - *Gartner Inc - CEO*

There might be -- at some really distant area -- but in general, you can think about virtually everybody will be trained in the academy program.

Bill Warmington - *Wells Fargo Securities - Analyst*

On the sales force side -- if you could talk a little bit about what role inside sales plays in that growth of the sales force growth and also, the impact on sales force productivity?

Craig Safian - *Gartner Inc - CFO*

Yes. We have an inside sales team -- most of our sales force, actually, is in the field. They both have great productivity numbers. So they're both part of our strategy. Again, the majority of our sales force is in the field.

Bill Warmington - *Wells Fargo Securities - Analyst*

Think you very much.

Operator

At this time, we have no other questions in the queue. I'd like to turn it over to Mr. Brian Shipman for your closing remarks.

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

Thank you, everyone, for being with us on today's Q4 2014 earnings call. Before we let you go, we'd like to remind you that we'll be hosting our annual investor day in New York City next Thursday, February 12. It will be a great opportunity to hear from Gene and other senior leaders of the Company.

So if you have another question about investor day or the fourth quarter, please don't hesitate to contact us. And we'll see you next week in New York. Thanks for your interest in Gartner.

Operator

And ladies and gentlemen, this concludes your presentation. You may now disconnect and enjoy your day.
