S&P Global
Market Intelligence

Gartner, Inc. NYSE:IT

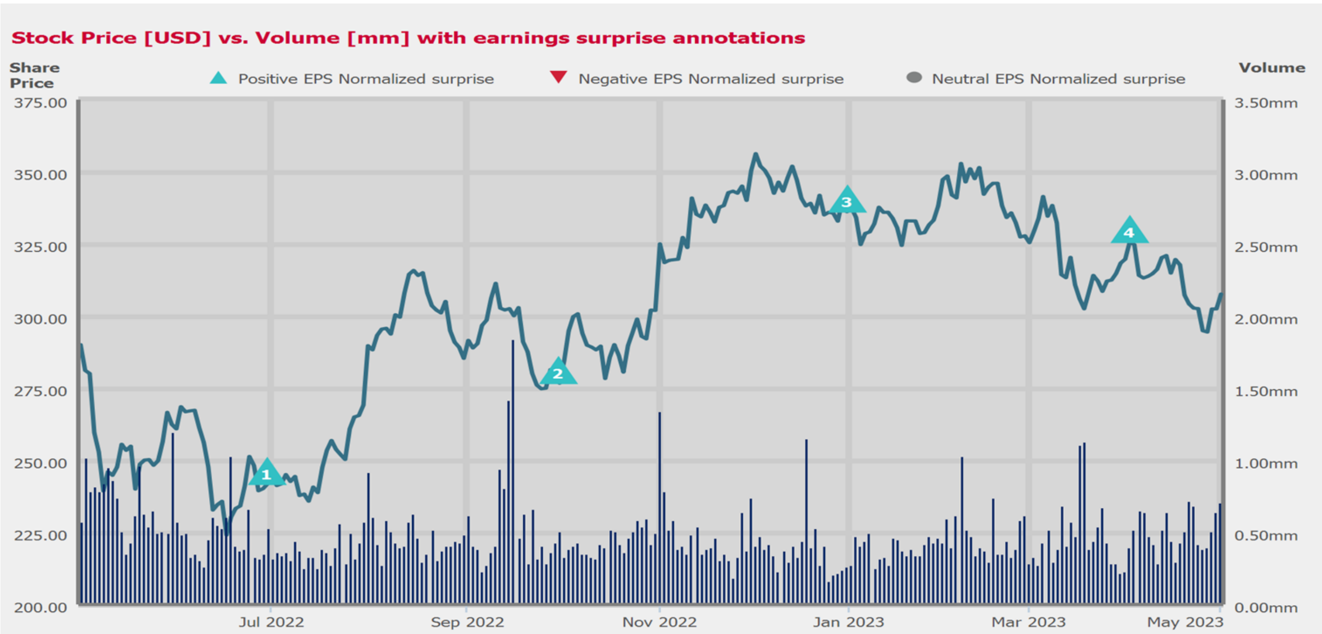
FQ1 2023 Earnings Call Transcripts

Tuesday, May 02, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.10	2.88	▲37.14	2.52	9.07	10.89
Revenue (mm)	1374.93	1408.90	▲2.47	1476.35	5867.74	6511.72

Currency: USD
Consensus as of May-02-2023 12:55 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	2.14	2.85	▲1 33.18 %
FQ3 2022	1.87	2.41	▲2 28.88 %
FQ4 2022	2.58	3.70	▲3 43.41 %
FQ1 2023	2.10	2.88	▲4 37.14 %

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Executive VP & CFO

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Barclays Bank PLC, Research Division

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

Toni Michele Kaplan
Morgan Stanley, Research Division

Presentation

David Cohen
Group Vice President of Investor Relations

Good morning, everyone. Welcome to Gartner's First Quarter 2023 Earnings Call. I'm David Cohen, SVP of Investor Relations. [Operator Instructions] After comments by Gene Hall, Gartner's Chief Executive Officer; and Craig Safian, Gartner's Chief Financial Officer, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

This call will include a discussion of first quarter 2023 financial results and Gartner's outlook for 2023, as disclosed in today's earnings release and earnings supplement both posted to our website, investor.gartner.com.

On the call, unless stated otherwise, all references to EBITDA are for adjusted EBITDA, with the adjustments as described in our earnings release and supplement. Our contract values and associated growth rates we discuss are based on 2023 foreign exchange rates and exclude contributions related to the recent divestiture and the Russia exit. All growth rates in Gene's comments are FX neutral, unless stated otherwise. All references to share counts are for fully diluted weighted average share counts, unless stated otherwise. Reconciliations for all non-GAAP numbers we use are available in the Investor Relations section of the gartner.com website.

As set forth in more detail in today's earnings release, 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 2022 annual report on Form 10-K and quarterly reports on Form 10-Q as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

Now I will turn the call over to Gartner's Chief Executive Officer, Gene Hall.

Eugene A. Hall
CEO & Director

Good morning, and thanks for joining us today. Gartner drove strong performance in the first quarter with double-digit growth in contract value, revenue, EBITDA and EPS.

The rate of change and uncertainty in the world continues to accelerate. The tech sector is adjusting to post-pandemic demand. The banking industry is grappling with rising interest rates. Many industries have been impacted by rising inflation and war. Enterprise leaders and their teams need actionable, objective guidance. Gartner is the best source for the insights, tools and advice that makes the difference between success and failure for these leaders and the enterprises they serve.

We continue to be agile with the changing times. We're helping our clients make better decisions and achieve their mission-critical priorities, whether they're thriving, struggling or anywhere in between. Research continues to be our largest and the most profitable segment. We guide leaders across all major enterprise functions. Our market opportunity is vast across all sectors, sizes and geographies. And we're delivering more value than ever.

In the first quarter, we helped clients with a range of topics, including cybersecurity, data analytics, artificial intelligence, remote work, cost optimization and more. Research revenue grew 9%. Total contract value growth was 10%. Contract value growth was affected by slower-than-average growth with our technology vendor clients. This also affected the non-subscription portion of our Research business. End user contract value for both GTS and GBS continue to grow at strong double-digit rates.

We serve executives and their teams through 2 distinct sales channels. Global Technology Sales, or GTS, serves leaders and their teams within IT. GTS also serves leaders and technology vendors, including CEOs and product managers. GTS contract value grew 9%.

Global Business Sales, or GBS, serves leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, sales, legal and more. GBS contract value grew 16%. Through relentless execution of proven practices, we're able to deliver unparalleled value to our clients.

Clients continue to prioritize Gartner Research. Our business remains resilient despite a volatile and complicated external environment. Gartner Conferences deliver extraordinarily valuable insights to engaged and qualified audience. This will be the first full year of in-person conferences since 2019. We're off to a great start. Attendance is strong, advanced bookings are at record levels and feedback continues to be excellent.

Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic initiatives through deeper, extended, project-based work. Consulting is an important complement to our IT research business. Consulting revenue grew 14% in the first quarter. Our business is fueled by our highly talented associates. We have carefully aligned our hiring with recent demand and our long-term opportunity. We are well positioned to drive long-term, sustained, double-digit growth.

We finished Q1 ahead of our expectations despite volatility in the global environment. We're increasing our outlook for 2023, while still allowing for a higher-than-normal level of uncertainty in the world. Craig will take you through our guidance in more detail.

In closing, Gartner achieved another strong quarter of growth. We deliver unparalleled value to enterprise leaders and their teams across every major function, whether they're thriving, struggling or anywhere in between. We're exceptionally agile and continuously adapt to the changing world. And we know the right things to do to be successful in any environment.

Looking ahead, we are well positioned to continue our sustained record of success far into the future. We expect margins to increase modestly over time. And we generate significant free cash flow well in excess of net income. Even as we invest for future growth, we'll return significant levels of excess capital to our shareholders, which reduces shares outstanding and increases returns over time.

With that, I'll hand the call over to our Chief Financial Officer, Craig Safian.

Craig W. Safian
Executive VP & CFO

Thank you, Gene, and good morning.

First quarter results were strong with double-digit growth in contract value, revenue, EBITDA and adjusted EPS. FX-neutral growth was even stronger than our reported results. We also again delivered better-than-planned EBITDA margins. The upside reflected stronger Conferences and Consulting revenue and disciplined cost management. With results ahead of our expectations, we are increasing our 2023 guidance.

First quarter revenue was $1.4 billion, up 12% year-over-year as reported and 14% FX neutral. In addition, total contribution margin was 69%, down 103 basis points versus the prior year. EBITDA was $379 million, up 15% year-over-year and up 19% FX neutral. Adjusted EPS was $2.88, up 24%. And free cash flow in the quarter was $144 million.

We finished the quarter with 19,830 associates, up 15% from the prior year and 2% from the end of the fourth quarter. We are well positioned from a talent perspective with low levels of open territories and our new associates coming up the 10-year curve. And we will continue to carefully calibrate headcount and operating expenses based on near-term revenue growth and opportunities to invest for the future.

Research revenue in the first quarter grew 7% year-over-year as reported and 9% on an FX-neutral basis. Subscription revenue grew 11%, FX neutral. First quarter Research contribution margin was 74%, down about 1 point, as we have caught up on hiring and returned to the new expected levels of travel.

Contract value or CV was $4.5 billion at the end of the first quarter, up 10% versus the prior year. The first quarter last year was one of our strongest Research quarters ever with outstanding performance on nearly every metric we provide.

CV growth is FX neutral and excludes both Russia and the recent divestiture. CV from enterprise function leaders across GTS and GBS grew at double-digit rates. CV from tech vendors grew mid-single digits compared to high-teens growth in the first quarter of 2022. Quarterly net contract value increase, or NCVI, was $26 million. As we've discussed in the past, there is notable seasonality in this metric.

CV growth was broad-based across practices, industry sectors, company sizes and geographic regions. Across our combined practices, all industry sectors grew at double-digit rates other than technology and media, which both grew at mid-single-digit rates. The fastest growth was in the transportation, retail and public sectors. We had high single-digit growth across all of our enterprise-size categories. We also drove double-digit or high single-digit growth in all of our top 10 countries.

Global Technology Sales contract value was $3.5 billion at the end of the first quarter, up 9% versus the prior year. GTS had quarterly NCVI of $10 million. Wallet retention for GTS was 104% for the quarter, which compares to 107% in the prior year when we saw a record high for this metric.

While tech vendor wallet retention remained under pressure, on a net basis, our clients spent more with us compared to the prior year. GTS new business was down 1% versus last year. New business with IT function leaders increased compared to the prior year against a tough compare. New business with tech vendors declined versus very strong performance last year.

GTS quota-bearing headcount was up 22% year-over-year and 11% on a 2-year compound annual growth rate basis. We will continue to manage hiring based on both short-term performance and the medium-term opportunity. Our regular full set of GTS metrics can be found in the appendix of our earnings supplement.

Global Business Sales contract value was $983 million at the end of the first quarter, up 16% year-over-year, which is at the high end of our medium-term outlook of 12% to 16%. All of our GBS practices, other than sales and marketing, grew at double-digit rates. Supply chain and HR both continued to grow faster than 20%. GBS CV increased $16 million from the fourth quarter.

Wallet retention for GBS was 110% for the quarter, which compares to 115% in the prior year when we saw the highest-ever result for this metric. In addition to continued strong client retention, our clients spent significantly more with us than they did a year ago.

GBS new business was down 4% compared to last year against a very strong compare. The 2-year compound annual growth rate for new business was 6%. GBS quota-bearing headcount was up 18% year-over-year. This excludes headcount associated with the Q1 divestiture. As with GTS, our regular full set of GBS metrics can be found in the appendix of our earnings supplement.

Conferences revenue for the first quarter was $65 million, ahead of our expectations as we saw strong performance with both exhibitors and attendees. The first quarter is always a seasonally small quarter, but we are off to a strong start for the year. Contribution margin in the quarter was 41%, consistent with typical seasonality. We held 10 destination conferences in the quarter, all in person.

First quarter Consulting revenues increased by 10% year-over-year to $127 million. On an FX-neutral basis, revenues were up 14%. Consulting contribution margin was 40% in the first quarter, consistent with the incremental hiring and return to travel. Labor-based revenues were $97 million, up 1% versus Q1 of last year and up 5% on an FX-neutral basis. Backlog at March 31 was $161 million, increasing 14% year-over-year on an FX-neutral basis with continued booking strength.

Our contract optimization business had another very strong quarter, up 53% as reported and 56% on an FX-neutral basis versus the prior year. As we have detailed in the past, this part of the Consulting segment is highly variable.

Consolidated cost of services increased 15% year-over-year in the first quarter as reported and 17% on an FX-neutral basis. The biggest driver of the increase was higher headcount to support our continued strong growth. We also saw an increase in cost year-over-year with a return to in-person conferences.

SG&A increased 6% year-over-year in the first quarter as reported and 9% on an FX-neutral basis. SG&A increased in the quarter as a result of headcount growth. This increase was partially offset by lower charges associated with real estate rationalization.

EBITDA for the first quarter was $379 million, up 15% year-over-year on a reported basis and up 19% FX neutral. First quarter EBITDA upside to our guidance reflected revenue exceeding our expectations in Conferences and Consulting and prudent expense planning. Depreciation in the quarter of $24 million was up modestly compared to 2022.

Net interest expense, excluding deferred financing costs, in the quarter was $26 million, down $4 million versus the first quarter of 2022, resulting from higher interest income on our cash balances. The modest floating rate debt we have is fully hedged through maturity.

The Q1 adjusted tax rate, which we use for the calculation of adjusted net income, was 18% for the quarter. The tax rate for the items used to adjust net income was 35% for the quarter.

Adjusted EPS in Q1 was $2.88, up 24% year-over-year. We had 80 million shares outstanding in the first quarter. This is a reduction of close to 3 million shares or about 3% year-over-year. We exited the first quarter with about 80 million shares on an unweighted basis.

Operating cash flow for the quarter was $165 million, down 2% compared to last year. CapEx for the quarter was $21 million, up 22% year-over-year as a result of an increase in technology modernization investments and equipment for new associates.

Free cash flow for the quarter was $144 million. Free cash flow as a percent of revenue on a rolling 4-quarter basis was 18% of revenue and 65% of EBITDA. Adjusted for the after-tax impact of the divestiture and interest rate swap gains, free cash flow conversion from GAAP net income was 120%. Our free cash flow conversion is generally higher when CV growth is accelerating.

At the end of the first quarter, we had $894 million of cash. Our March 31 debt balance was $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was under 2x. Our expected free cash flow generation, available revolver and excess cash remaining on the balance sheet provides ample liquidity to deliver on our capital allocation strategy of share repurchases and strategic tuck-in M&A.

Our balance sheet is very strong with $1.9 billion of liquidity, low levels of leverage and effectively fixed interest rates. We repurchased more than $100 million of stock during the first quarter. We had about $950 million remaining on our share repurchase authorization at March 31. As we continue to repurchase shares, our capital base will shrink. This is accretive to earnings per share and, combined with growing profits, also delivers increasing returns on invested capital over time.

We are increasing our full year guidance to reflect the strong Q1 performance while still allowing for a higher-than-normal level of uncertainty in the world. As we move through the year, we have more visibility into the revenue outlook and the corresponding expenses needed to support the business and drive growth.

For Research, we continue to innovate and provide a very compelling value proposition for clients and prospects. Our plan for 2023 allows for a higher-than-normal range of outcomes, as we discussed last quarter. We've got tough compares across the business and particularly with tech vendors and in GBS for another quarter or 2. We've taken a prudent approach based on historical trends, which we've reflected in the guidance.

We expect stronger growth from the subscription business than the non-subscription part of the segment. The non-subscription part of the business faces tough compares and has more direct exposure to tech vendor spending. The outlook continues to be based on 100% of our 47 destination conferences for 2023 running in-person. There is seasonality to the business based on the conferences calendar, which is different than the historical pattern. We expect Q4 to be the largest quarter and Q3 to be the smallest of the year.

For Consulting revenues, we have more visibility into the second quarter than the second half based on the composition of our backlog and pipeline as usual. Contract optimization remains highly variable. We had a very strong year in 2022, especially in contract optimization in the fourth quarter.

With Q1 behind us, we are comfortable we can run the business successfully for this year while investing for future growth with lower consolidated expenses than we built into the original guidance. We will continue both to manage expenses prudently to support future growth and deliver strong margins.

Our updated guidance for 2023 is as follows: we expect Research revenue of at least $4.925 billion, which is FX-neutral growth of about 7% or 8% excluding the Q1 divestiture. Research revenue guidance is up modestly from February. We expect Conferences revenue of at least $470 million, which is growth of about 21%. We have increased our outlook for Conferences by $25 million.

We expect Consulting revenue of at least $505 million, which is a growth of about 5% FX neutral and a modest increase from February. The result is an outlook for consolidated revenue of at least $5.90 billion, which is FX-neutral growth of 8%. Overall, we've increased our revenue outlook by $35 million.

As I mentioned in the last quarter, we've taken a prudent approach to planning for 2023. This applies to revenue, operating expenses and free cash flow. We now expect full year EBITDA of at least $1.33 billion, up $70 million from our prior guidance and an increase in our margin outlook as well. We expect to be able to deliver on our margin guidance in most economic scenarios. If revenue is stronger than our outlook, we expect upside to EBITDA.

We now expect 2023 adjusted EPS of at least $9.50. For 2023, we still expect free cash flow of at least $920 million. This reflects the conversion from GAAP net income of almost 140% excluding the after-tax divestiture proceeds. Our guidance is based on 80 million fully diluted weighted average shares outstanding, which reflects the repurchases made through the end of March. Finally, for the second quarter of 2023, we expect EBITDA of at least $350 million.

We had a strong start to the year despite continuing global macro uncertainty with notable performance in Conferences and overall profitability. Contract value grew double digits. EPS grew more than 20%. We repurchased over $100 million of stock during the first quarter and remain committed to returning excess capital to our shareholders. Combining our expected free cash flow generation with the after-tax proceeds of our recent divestiture, we have more than $1 billion available to deploy on behalf of our shareholders in 2023.

Looking out over the medium term, our financial model and expectations are unchanged. With 12% to 16% Research CV growth, we will deliver double-digit revenue growth. With gross margin expansion, sales costs growing in line with CV over time and G&A leverage, we can modestly expand margins. We can grow free cash flow at least as fast as EBITDA because of our modest CapEx needs and the benefits of our clients paying us upfront. And we'll continue to deploy our capital on share repurchases, which lower the share count over time and on strategic value-enhancing tuck-in M&A.
With that, I'll turn the call back over to the operator, and we'll be happy to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jeffrey Meuler from Baird.

Jeffrey P. Meuler
Robert W. Baird & Co. Incorporated, Research Division

So I thought CV was good considering the macro and the comp. I know that you said comps are still tough another quarter or 2. I don't know what macro is going to do later in the year. But it sounds like the relative weakness is still just concentrated in the tech vendor channel.

So I guess, as you look at retention trends on business that's coming up for renewal on a quarterly basis or new business sold trends in a quarter on a seasonally adjusted sequential basis, I guess the question is, have those metrics kind of stabilized after stepping down concentrated in the tech vendor channel last year? Or have you seen any sort of incremental weakening, including with the recent banking sector challenges and any derivative effects from it?

Eugene A. Hall
CEO & Director

Jeff, it's Gene. I think you characterized it right, which is the 2 biggest factors going on are the year-over-year comparison is very tough because it's such a strong quarter a year ago; and then the whole tech industry is realigning, and that's impacting the business, just as you described. And there are smaller things going on, but those are the big things that are going on impacting our business.

Jeffrey P. Meuler
Robert W. Baird & Co. Incorporated, Research Division

Okay. But are those smaller things including like the banking challenges? Are they causing incremental deterioration? Or is that not a meaningful factor for you?

Eugene A. Hall
CEO & Director

Yes, I don't think it's -- I'd characterize it as small as opposed to meaningful. So clearly, we're selling less to Silicon Valley Bank or Republic, but that's pretty isolated. And so we have isolated things like that, that are going on at the regional banks, some countries like China, but there's always things like that going on. There's always things in particular [areas] or segments that are not perfect.

Jeffrey P. Meuler
Robert W. Baird & Co. Incorporated, Research Division

Got it. Good to hear. And then I just love the -- your perspective, Gene on, I guess, the opportunities and risks from generative AI, including anything on how far along you are with implementing it. And to me, I could see potential benefits on a number of fronts, sales productivity, research productivity, I guess improving the client experience on your platform given the high-quality content library, as well as you mentioned among the hot topic areas that could drive demand and client engagement. Also curious just on how you think about any potential risks that publicly available content becomes a lot easier to curate via generative AI.

Eugene A. Hall
CEO & Director

Yes. So we see generative AI as being really helpful for our business. As you said, there are a lot of internal efficiencies where we've had, 5 years ago, we had teams of humans combing through publicly available information. Now we actually, today, use generative AI to improve our efficiency on those kinds of things, and we'll continue to.

The second area is that we are testing, and I'm sure we'll get to at some point, is having more of a natural language interface for our clients. And we're testing now just to make sure it all works correctly and it doesn't have any surprises as you've seen in some of the public situations.

And so I'd say, first of all, it's great for internal efficiencies in every part of our business. Even like, you mentioned, if a salesperson wants to get synthesized publicly available information, it's a great tool to help with that. It's going to be -- so it will help our internal efficiencies. It will provide a better interface over time with our clients. And then, frankly, it's an area where clients seek help on as well. And so that's an area that helps with our basic client demand as well.

You asked about kind of our situation competitively there. I'd say we're highly differentiated from kind of the public information you get because we have a lot of proprietary information, proprietary insights. We have a research process, which is quite important in generating these proprietary insights. And of course, we're independent and objective. So we say generative AI has really been a lot of help both with internal efficiencies with probably a better interface with our clients, helping clients with it, et cetera.

Jeffrey P. Meuler
Robert W. Baird & Co. Incorporated, Research Division

Appreciate the comprehensive answer.

Operator

We have a question from Heather Balsky from Bank of America.

Heather Nicole Balsky
BofA Securities, Research Division

Can you help us think about the cadence of CV as we move through the year, both taking into account the sort of environment right now, especially with your tech vendors as well as just sort of comparisons year-over-year? Just curious kind of do you expect that to kind of soften as the year progresses? An improvement to the fourth quarter? Just what's baked into your sales outlook?

Craig W. Safian
Executive VP & CFO

Heather, this is Craig. Great question. So as we think about the way the business rolls, I guess just zooming back a little bit, a couple of points just around historically how things look. So we typically generate a least amount of new business dollars in the first quarter of the year and our most amount of new business dollars in the fourth quarter of the year.

And there's a lot of reasons for that. We work through our pipeline in the fourth quarter. We've got a lot of conferences that we leverage in the fourth quarter. We make a lot of promotions and changes to positions in the first quarter. But first quarter, generally, lowest amount of new business; fourth quarter, a lot more new business, and that sort of builds over the quarters.

In terms of the way the CV flows, first quarter and fourth quarter tend to be a little bit more heavily weighted in terms of the amount of CV that is expiring. It can vary a lot. Our sales teams will also often pull forward business as they see opportunities. But Q1 and Q4 are typically our highest expiration quarters.

In terms of the comps and the comparisons, I think if you look back, Q1 of 2022, on just about every measure you can look at, was the peak and/or the toughest comparison for us, whether it's overall contract value growth, wallet retention, productivity, you name it. The comparisons are still pretty tough through Q2 and Q3, most notably with our tech vendor clients and with GBS.

So Q1, I'd say, was a tough comparison across the board, across the entire Research business, again, most notably with tech vendors and with GBS. Q2 is still, again, if you go back and look at the metrics in CV growth, et cetera, still a very tough comparison there as well. The comparisons do ease a little bit, but it's still a pretty high comparison point even as we get into the second half of the year.

Again, if you think about our normal cadence, we'll be building our new business pipelines and building our new business dollars over the course of the year. We've got a full slate of in-person conferences as well. And as Gene mentioned, our clients and potential clients really need our help as well. So we're focused on making sure we deliver great value to our clients, to drive those renewal rates and also work all our opportunities through the pipeline as well, so we can deliver the new business that we need to deliver as well.

Heather Nicole Balsky
BofA Securities, Research Division

I appreciate that. And as my follow-up, in an environment like we're seeing right now, whether it's the tech industry realigning, what's going on at banks, from both a GBS and GTS perspective, what are you doing on the Research side to stay engaged with customers, keeping them active Gartner customers, hopefully keeping that retention strong?

Eugene A. Hall
CEO & Director

Yes, it's a great question. So we're always focused on research on the things that are most important to our clients. If you think about today, it would be things like cybersecurity. There are a few enterprises today that can't let their guard down with cybersecurity. We're the only help they can get. So that's an area that we're really focused on.

The other one is using data analytics in their business. The other one is cost optimization, making sure they understand how to optimize the cost that they do have in a little tough environment perhaps. We still see a lot of demand on conversion digital business. We also see a lot of demand on things like optimizing cloud computing. So those are some examples.

But the way we're focusing on research is making sure our research is focused on the really tough issues that senior leaders and our clients have to wrestle with, which these are some of the examples. And those issues are really important. Even for organizations that are struggling, you're still going to deal with things like cybersecurity and data analytics, optimizing cloud computing. And so it's something that applies whether clients are struggling or whether they're thriving.

Operator

We have a question from Toni Kaplan with Morgan Stanley.

Toni Michele Kaplan
Morgan Stanley, Research Division

Wanted to ask about GBS. I know you mentioned in the prepared remarks that all of the areas grew double digits, except for sales and marketing. Can you just give maybe a little bit of color on what slowed there, anything you're seeing? Or is that just a -- maybe it's a tough comp? Or I'm sure each quarter, some are more positive and some are more negative. So is it sort of normal or anything to call out there?

Eugene A. Hall
CEO & Director

Yes. Toni, it's a great question. So if you look at in any business, there's always some units that are doing very well because they have all the pieces that are working well together. There's other units that aren't working quite as well. And that's what's gone in sales and marketing is it's more operational, and kind of our own operational effectiveness isn't as good as in some of the other GBS functions.

But there's nothing sort of intrinsic. There's nothing in the marketplace or something like that. It's all about making sure that we have all the pieces really working together well. It still had great growth, but it's not as great. The GBS growth is really extremely strong, and they were just kind of not as strong as the strongest parts of GBS.

Toni Michele Kaplan

Morgan Stanley, Research Division

Great. I wanted to also ask about the retention of salespeople. I imagine it's a lot better now than it was in recent history when we had the sort of tighter labor market. I guess, how are you thinking about that with regard to maturity of salespeople? Could that have upside potential for the guide this year? And maybe talk about sort of if we should see productivity improvement as a result?

Eugene A. Hall
CEO & Director

Yes, Toni, it's a great question. And salespeople are critical to our business to both current business and future growth. We got behind in hiring over the last couple of years. We're now fully caught up, which is fantastic. We have very low number of open positions, and our turnover is among the lowest we've ever seen with our salespeople.

It takes our salespeople about 3 years to get to full productivity. So all these salespeople that we've added recently, if you think about it, are really going to be powering the growth of business in 2024 and 2025 when they get up to full productivity as we see this lower retention rate -- I'm sorry, higher retention, lower turnover rate as being really advantageous to the business.

The other thing is that as we do have hiring needs, either from turnover or from growth, the market for us hiring salespeople is fantastic. We can get really fantastic salespeople. And we always see great salespeople, but it's one of the best markets for hiring for us we've ever seen.

Operator

And our next question will come from Seth Weber with Wells Fargo.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

I wanted to ask you about the raised EBITDA margin outlook for the year. Is that just a function of higher revenue flowing through? Or is there something else that you feel like has changed there relative to how you were thinking about the business last quarter?

Craig W. Safian
Executive VP & CFO

Seth, so the -- if you look at the outlook raise based on the Q1 performance and based on the -- our outlook for the balance of the year, we took revenue up by $35 million, most notably in Conferences, and we reduced our OpEx expense outlook by about $35 million. And that's what drove the $70 million increase in the overall EBITDA outlook.

I'd say we are still dealing with a pretty uncertain macro environment, as we've all talked about. We took a pretty prudent approach to, in particular, planning our operating expenses as we entered the year. And now that we've got 3 or 4 months behind us and have a better outlook for what the top line is going to look like for the full year, we were able to refine the expenses a bit.

And so again, that's why we're able to raise the revenue by $35 million and reduce the OpEx outlook by $35 million as well. And again, the math on that yielded margins a little bit higher than we had initially guided to.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Right. That makes sense. And then maybe just on the maintained free cash flow outlook, anything you'd call out there? I seem to remember, over the last couple of quarters, there were some pickups with collections and things like that. Is there anything notable that you'd cite for not raising the free cash flow guide?

Craig W. Safian

Executive VP & CFO

Yes, it's a good call-out. So I think stepping back for a second, the free cash flow is still a very large number. The conversion numbers look very strong as well, both on a rolling 4-quarter basis and as we extrapolated out of the forecast. The main thing there, though, is we would have been able to raise our free cash outlook if not for an additional cash tax burden that we calculated associated with the divestiture.

So we had a very strong profit year last year, which results in more cash taxes this year, which was baked into the initial guidance. We sold a small noncore business in February and got proceeds from that. Our initial guide didn't dial in enough cash taxes associated with the divestiture. And so the main thing here is free cash flow, still really, really strong, would have raised, but for an additional cash tax burden associated with our recent divestiture.

Operator

Andrew Nicholas from William Blair.

Andrew Owen Nicholas
William Blair & Company L.L.C., Research Division

I wanted to follow up on a few of the earlier questions to start. First, I guess, Craig, on the margins, could you spend a bit of time talking on first quarter upside or where some of that upside came from on the cost side?

And then understanding the EBITDA guidance bridge or the change versus last quarter, it still seems like there's a pretty significant ramp-up in implied expenses through the remainder of the year. If you could just give a little bit more color on that. I was under the impression that second half hiring activity was now in the run rate. So just trying to figure out where else the increased expense comes from over the next couple of quarters.

Craig W. Safian
Executive VP & CFO

Yes, absolutely, Andrew. Thanks for the question. In terms of Q1, I'd say it's a combination of modest revenue be -- most notably in Conferences, but a little bit in Consulting as well, and prudent expense planning in the quarter. So I think that's the way I would describe the Q1 margin performance.

In terms of looking forward, if you think about the composition of our expenses and the phasing of our business, if you use the Q1 adjusted operating expense number as sort of a baseline, remember that like 3/4 of our expenses are people-related, and our merit increase goes into effect on April 1. And so that causes a step-up in the OpEx rolling out in Q2, Q3, Q4.

Our conference calendar also picks up, most notably Q2 and Q4, and so there's a step-up in operating expenses associated with that. Our travel tends to pick up, and we spend more seasonally Q2 and Q4. And so that's a pickup in the OpEx as well. And so again, I think we're -- we planned our revenue outlook pretty carefully and, again, keeping in mind the pretty volatile macro environment.

And the OpEx, to your point, we've already got a lot of the hiring from last year. That is now in the Q1 run rate, for sure. We've got a modest amount of growth hiring set for the balance of this year just to continue and support the growth. And then you've got those dynamics I just listed out earlier, the biggest 2 probably being the merit increase going into effect and the conference calendar impacting OpEx Q2 through Q4.

Andrew Owen Nicholas
William Blair & Company L.L.C., Research Division

Very helpful. And then for my follow-up, I just wanted to ask a little bit more on headcount growth and kind of talent environment. I guess, Gene, you mentioned it being fantastic. I guess, one, can you talk a little bit about why you think the environment for hiring sales talent is so good today versus a year ago maybe?

And then also, how much does that impact your ability to be nimble on the headcount front? It would seem like if there's a bunch of supply, you can be a little bit more careful and not feel like you need to hoard all the best people right away. Or is it a different dynamic where you decide to take advantage of all that's out there and potentially have a little bit narrower gap between headcount growth and CV growth? Just how you're thinking about those dynamics?

Eugene A. Hall
CEO & Director

Yes, Andrew, so the reason the market is so good is, first, I mean we're an employer of choice. We have a great brand in the marketplace, and we have great recruiting teams. So there's a lot of operational reasons why things are going well. On top of that then, the whole tech realignment, the talent market that we compete most in for our people is with technology companies. And so when they're laying people off and not as aggressive about hiring, obviously, it helps us if that's the primary talent market.

So it's a combination of we're a great place to work, we have a great reputation, we have great recruiting teams, combined with the fact that our traditional talent competitors are just really scaled -- have really scaled back hiring a lot. And so we're using that as an opportunity to make sure we hire really great people.

As we look forward, as Craig and I both said in our remarks, we want to make sure our net hiring incorporates the turnover we have as well as our CV growth so that we are hiring a bit behind our CV growth so that we -- it doesn't impact our margins negatively.

Operator

Our next question comes from George Tong with Goldman Sachs.

Keen Fai Tong
Goldman Sachs Group, Inc., Research Division

You talked about Research CV being relatively stable in end markets outside of tech vendors. Just going back to that topic, can you elaborate on what you're seeing in other verticals? How would you characterize the selling environment? How are client budgets performing? And what are you seeing with sales cycles?

Eugene A. Hall
CEO & Director

George, so what I'd say is that it's kind of what we -- normal in the sense that there are some companies that are thriving, there are some companies that are more challenged. And we have to tailor the problems that we're working on with what the company's situation is. And again, it gets back to the strategy I talked about earlier, which is let's make sure our research is focused on the most important issues for our clients. And then let's also make sure that our salespeople, our service delivery people know what those topics are, it can be right up front and helping clients.

And so as I mentioned before, it's things like cybersecurity, data analytics, cost optimization, building a digital business, optimizing cloud computing. And not every company has all of those, but the -- if you look at each kind of the company, depending on where they are, we help them with the issues that are most important for them.

Keen Fai Tong
Goldman Sachs Group, Inc., Research Division

Got it. And then as it relates to your research sales headcount expectations, can you outline what the cadence of hiring should look like in GBS and GTS over the remainder of this year now that the bulk of hiring is behind you?

Craig W. Safian

Executive VP & CFO

Yes, George, especially -- and again, as Gene and I both mentioned in prepared remarks, we are, with a lot of agility, making sure that we are calibrating appropriately where we exit this year from an overall headcount perspective across all of Gartner and, in particular, in terms of frontline sellers in both GTS and GBS.

And so there's a range of outcomes for the full year from both a contract value growth perspective, but also from a headcount perspective. And given all the dynamics we talked about in the labor markets and the fact that we've got world-class recruiting, our talent acquisition organization and we've got a great associate hiring proposition as well, we feel like we can be pretty agile on this and just make sure that we are appropriately calibrated so that we enter next year with enough investment to make sure that we can sustain growth, but also deliver really strong margin performance as well.

Operator

Our next question comes from Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I wanted to focus on the research pricing environment. If you can remind us what price increases you've been pushing through so far this year, what your expectations are for the rest of the year? And I know others in the space may not necessarily be direct competitors, but we're seeing some companies extending terms of their contract renewals but taking lower price. Is that something that you're doing or considering?

Craig W. Safian
Executive VP & CFO

Jeff, in terms of our pricing, the bulk of our pricing goes into effect on November 1, and so -- which impacts this current year. And so if you recall back to November-ish of 2021, we were increasing prices in the 5% to 6% range. This past cycle, it was more closer to 5%, again, given a little bit of a less inflationary environment. And again, we want to make sure that at the minimum, we are pricing to offset the wage inflation that we are seeing. And in '21, we were seeing much more pressure on wage inflation. And so we went a little bit harder on the price increases then; this year, a little less, and so roughly around 5%.

In terms of the environment and giving on terms or anything like that, generally, I'd say we're -- we've managed to hold to our terms. And so we're not giving away extra days or months in terms of when we could get paid. We're still pushing very hard on getting paid upfront, which is obviously a core part of our free cash flow machine.

As Gene and I have all talked about in the past, generally, our contracts are relatively small or small-ish ticket items for our clients, representing a pretty teeny portion of their overall budgets. And so we're generally able to -- again, not without negotiations and not without conversations, but hold to our pricing structure, so no discounting and holding strong on our terms as well.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. That's helpful. If I switch to the Consulting segment, I know it can be choppy, but utilization was down pretty significantly in the first quarter. Can we talk about what's going on there or what your expectations are for the rest of the year on that metric?

Craig W. Safian
Executive VP & CFO

Yes, great question. On the Consulting side, we -- like in a lot of our business, we're playing catch-up on headcount and hiring over the course of last year. And so we did grow the team based on the demand we were seeing fairly aggressively over the back half of last year.

We're still seeing really good demand. We're in a really good backlog position exiting Q1. And I'd say we ran a little bit hotter than normal in utilization last year, particularly in the first half of the year, but overall last year. So it's a tough comp from that perspective.

And again, just like the rest of the business, we are making sure that we are appropriately calibrated from a headcount perspective and a demand perspective. And we feel like we're in that situation right now with Consulting. We've got strong demand, we've got good backlog and we'll continue to monitor it to make sure that we can both deliver on the top line, but also make sure we're delivering strong margins there as well.

Operator

Our next question comes from Manav Patnaik with Barclays.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Craig, I was just hoping on the expense side, specific to SG&A, you could help us with just the cadence through the quarters there. And is the S part still like 2/3 of that mix right now?

Craig W. Safian
Executive VP & CFO

Manav, yes, so the -- so if you look at the SG&A line, again, think of it running mid-40s to high 40s as a percent of revenue on a rolling 4-quarter basis. About 2/3 of it is the S or the selling portion, most notably GTS and GBS selling, although we do have our conference sales organizations and a few other sales organizations in the S line as well.

And the cadence of spending is similar to what I outlined with Andrew's question a few questions ago, look at the Q1 rough OpEx run rate and SG&A -- adjusted SG&A run rate. Merit goes into effect on April 1, and so that impacts that run rate for Q2, Q3, Q4. As I mentioned, travel, we do travel more in Q2 and Q4, and so you bake that in. And if you bake those things in, you should have a pretty good view on how SG&A expense should look Q2, Q3, Q4 of this year.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Got it. Okay. That's helpful. And then just my second question was more, can you remind us what your multiyear contract -- like how much of your business is now multiyear contract, what that average duration is? Because that should help you be obviously more resilient here.

Craig W. Safian
Executive VP & CFO

Yes, absolutely. So our overall multiyear contracts as a percent of the Research business is around 70%. So about 70% of the contracts that we have in force are multiyear in nature. The bulk of them are 2-year contracts, although we do have a growing but small segment of more than 2-year contracts. Important to note that some multiyear contracts will come due this year, obviously.

But you're right, in terms of the resiliency of the business, clearly having a large portion of our contract value tied up in multiyear contracts that are not up for renewal over the course of 2023 is clearly a good thing for us. And we recognize the strategic importance and value of focusing on multiyear contracts. Our salespeople do as well. Our clients do as well. Quite frankly, it's good for them, too. But it's clearly a strong element of the business that we have so much tied up in multiyear contracts, but again, most of them are 2-year contracts.

Operator

We have a question from Stephanie Moore with Jefferies.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

I just wanted to touch on the Conference side of the business, clearly really strong growth. Would love to get more color on what you're hearing in regards to maybe advanced bookings and other demand, if that demand has changed at all versus maybe pre-COVID levels to still [healthy levels]?

Eugene A. Hall
CEO & Director

Yes, Stephanie, it's a great question. So conferences are a really important part of our business, and we're seeing very robust demand for conferences, both from attendees and from exhibitors. My own take on it is that there's a lot of pent-up demand to do in-person events, of which our Conferences are part of that. And so we're seeing very strong demand on all parts of the business.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

Great. And then just for a follow-up, I'm curious what you're seeing in general on the Consulting side from just an overall upselling and cross-selling standpoint. Maybe any customers or clients in part that are pulling back at all on just number of fees just given the uncertain macro? Or you're still kind of seeing the same level of activity?

Craig W. Safian
Executive VP & CFO

Stephanie, it's Craig. So just to clarify your question because I'm not sure I heard it completely. I heard Consulting at the beginning, but then I heard Research. So could you just repeat the question? Would you mind?

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

No, I'm sorry. I apologize. I was just curious on what you're seeing from an upsell and cross-sell standpoint. And if you've seen any change in activity as of late, maybe clients pulling back at all?

Craig W. Safian
Executive VP & CFO

Yes. So I think, clearly, with our tech vendor clients, as we've described in detail, the upsell is certainly more challenging in this environment given the recalibration and sort of the tumult in that space.

We're still upselling wherever we can. I do think in the particularly challenged areas like tech vendors, what we are seeing, our clients really get huge value out of Gartner, and so they don't want to fully cancel their relationships. And so they may reduce a license or 2 here or there. We're seeing that in some of the more challenged end-user industries as well, like as Gene mentioned, regional banking or things like that.

But overall, I think it all comes back to we're offering a really strong value proposition, and our clients really, really need help. And as long as we're doing that, we'll be able to maintain our -- the investment level within clients. And in fact, if you look at the wallet retention numbers increased, on average, the amount of spend each and every year. And then when things in those impacted markets stabilize, we should get right back to the kind of growth that we've historically delivered.

Operator

And there are no other questions in the queue. I'd like to turn it back to Gene Hall for closing remarks.

Eugene A. Hall
CEO & Director

Well, here's what I'd like you to take away from today's call. In the first quarter of '23, we again saw strong growth across the business. Gartner delivers incredible value to enterprises that are thriving, struggling or anywhere in between. Our insights address today's mission-critical priorities. And by being exceptionally agile and adapting to the changing world, we've delivered a sustained record of success. We've covered and aligned our hiring with recent demand and our long-term opportunity. We know the right things to do to be successful in any environment.

Looking ahead, we are well positioned to drive growth far into the future. We expect margins to increase modestly over time, and we generate significant free cash flow well in excess of net income. Even as we invest for future growth, we'll return significant levels of excess capital to our shareholders, which reduces shares outstanding and increases returns over time.

Thanks for joining us today, and we look forward to updating you again next quarter.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.