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Gartner, Inc. (IT)

Q1 2022 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to Gartner’s First Quarter 2022 Earnings Conference Call. At this time, all participants are on a listen-only mode. After the speakers’ presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, David Cohen, Gartner’s SVP of Investor Relations. Please go ahead.

David Cohen  
Senior Vice President-Investor Relations, Gartner, Inc.

Good morning, everyone. We appreciate your joining us today for Gartner's first quarter 2022 earnings call and hope you are well. With me in the call today are Gene Hall, Chief Executive Officer; and Craig Safian, Chief Financial Officer.

This call will include a discussion of first quarter 2022 financial results and Gartner’s updated outlook for 2022 as disclosed in today’s earnings release and earnings supplement, both posted to our website investor.gartner.com. Following comments by Gene and Craig, we will open up the call for your questions. We ask that you limit your questions to one and a follow-up.

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. All growth rates in Gene’s comments are FX-neutral unless stated otherwise. Reconciliations for all non-GAAP numbers we use are available in the Investor Relations section...
of the gartner.com website. Finally, all contract values and associated growth rates we discuss are based on 2022 foreign exchange rates unless stated otherwise.

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 2021 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**
*Chief Executive Officer & Director, Gartner, Inc.*

Good morning and thanks for joining us. Gartner had a great start to 2022. In the first quarter, performance was strong across the business. We delivered growth in revenue, EBITDA, EPS, and free cash flow. We drove acceleration in contract value and our significant share repurchase program has lowered our share count. With a strong Q1 results, we're increasing our 2022 guidance.

Research continues to be our largest and most profitable segment. Gartner Research provides actionable objective insight to executives and their teams across all major enterprise functions in every industry around the world. We continue to have a vast market opportunity across all sectors, sizes, and geographies, and we're delivering more value to our clients than ever before.

There's a high degree of volatility and uncertainty in the world. Our clients are facing more challenging decisions than ever before. We've been incredibly agile in supporting them through these trying times. We're delivering more relevant and timely content on current pressing issues, such as successfully operating in a hybrid work environment, developing strategies to attract and retain talent, and managing supply chain disruptions.

Beyond these issues, we continue to provide unparalleled insight and advice on top priorities, including transitioning to digital business, building diverse, equitable, inclusive organizations, managing cybersecurity threats and much more. Whether our clients are experiencing good times or bad, and regardless of role, we deliver incredible value to enterprise leaders and their teams and we have strong demand for our services.

Research revenue grew 18% in Q1. Total contract value growth was 16% at the top end of our medium-term outlook. Within our Research segment, we serve executives and their teams through distinct sales channels. Global Technology Sales or GTS serves leaders and their teams within IT. GTS contract value grew 14%. 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 24%.

Turning now to our Conferences business. Gartner Conferences delivered extraordinary value to an engaged and highly-qualified audience. Q1 is a seasonally small quarter for our Conferences business, which performed as expected in the first quarter. We ran five virtual conferences in Q1. We pushed several conferences that traditionally occurred in Q1 to later in the year to facilitate running them in-person. We continue to see strong demand for in-person conferences from our clients and prospects. We're taking a deliberate, phased approach as we return to in-person experiences.

Next week, we will be hosting our first in-person conference since our pivot to virtual in 2020. The Gartner Data & Analytics Summit will run next week in London. Attendee tickets and exhibitor space has sold out for this summit.
Our clients, prospects, analysts and sales teams are eager to come together. As we return to in-person conferences, we'll continue to leverage our profitable virtual conferences as a complement to our in-person conferences.

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 very strong 20% in the first quarter. So, we had a great start to the year. To sustain our success over the long-term, we made targeted investments in hiring and retaining top talent that are paying off.

Across the company, turnover has stabilized. We expanded our recruiting capacity last year and are adding new associates at a strong pace. In Q1, we had our highest number of new hires ever. We grew head count 4% sequentially, achieving our quarterly hiring target. We're on pace to achieve our hiring goals for 2022. The world continues to face significant challenges. Beyond the unrelenting COVID-19 pandemic, Russia's invasion of Ukraine is a terrible humanitarian crisis. Our thoughts are with all those who continue to be impacted.

Gartner is exiting the Russian market. In addition, we have established a free resource center to help leaders address a range of business issues that have emerged as a result of this crisis.

In closing, we started 2022 with strong performances, we have great momentum across the business, whether our clients are experiencing good times or bad, and regardless of role, we deliver incredible value to enterprise leaders and their teams, and we have strong demand for our services.

We have a vast untapped market opportunity. We generate significant free cash flow in excess of net income. Looking ahead, we're well-positioned to drive strong top-line growth with modest margin expansion.

As we invest for future growth, we'll continue to return significant levels of excess capital to our shareholders. This reduces our shares outstanding and increases returns on capital over time. With our strong Q1 results, we're increasing our 2022 guidance.

With that, I'll hand the call over to our Chief Financial Officer, Craig Safian, who will give you more detail. Craig?

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Craig Warren Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Thank you, Gene, and good morning. The first quarter results were strong, with acceleration in contract value growth and strength in revenue, EBITDA, and free cash flow. EPS was particularly strong as the benefit of share buybacks reduced our share count.

With results above our expectations, we are increasing our 2022 guidance. The improved outlook reflects the better-than-expected first quarter top-line results and increased revenue from conferences, we now expect to hold in-person.

First quarter revenue was $1.3 billion, up 14% year-over-year as reported and 16% FX-neutral. In addition, total contribution margin was 70%, up 44 basis points versus the prior year. EBITDA was $329 million, up 3% year-over-year and up 5% FX-neutral. Adjusted EPS was $2.33, up 17%, and free cash flow in the quarter was $150 million, up 4% year-over-year.
Adjusting for insurance proceeds received last year, free cash flow was up 17% on a rolling four-quarter basis. Research revenue in the first quarter grew 16% year-over-year as reported and 18% on an FX-neutral basis. Retention was very strong again and new business continued to increase.

First quarter Research contribution margin was 75%, up 81 basis points versus 2021. Higher-than-normal contribution margins reflect improved operational effectiveness, increased scale, and continued temporary avoidance of travel expenses. We've been increasing our head count, which we expect to continue as we move through the year.

Contract value or CV was $4.2 billion at the end of the first quarter, up 16% versus the prior year. This includes our decision to exit the Russian market, which reduced CV by about $14 million. Quarterly net contract value increase or NCVI was $80 million net of the impact of Russia CV just noted. Quarterly NCVI is a helpful way to measure contract value performance in the quarter, even though there is notable seasonality in this metric. We saw broad base CV growth across all of our practices. Our technology practice grew 14% and all of our other business practices grew at double-digit growth rates with the majority of them growing more than 20% year-over-year.

From an industry perspective, retail, manufacturing and services led our CV growth. Global Technology Sales contract value was $3.3 billion at the end of the first quarter, up 14% versus the prior year. GTS had quarterly NCVI of $46 million in the quarter, again, net of the impact of exiting Russia. While retention for GTS was 107% for the quarter, up about 900 basis points year-over-year.

GTS new business was up 6% versus last year when very strong new business benefited from a post-pandemic bounce, including modestly higher-than-normal win-backs. GTS quota-bearing head count was up slightly year-over-year. In the first quarter, we promoted a higher-than-normal level of frontline sellers to sales manager roles. This reflected our strong CV performance and sets us up for future growth.

This March was our best hiring month since the start of the pandemic. Our net hiring is in line with our plan, turnover is improving, and we remain on track to achieve double-digit QBH growth this year. Our regular full set of GTS metrics can be found in the appendix of our earnings supplement.

Global Business Sales contract value was $899 million at the end of the first quarter, up 24% year-over-year, which is above the high-end of our medium-term outlook of 12% to 16%. GBS CV increased $34 million from the fourth quarter, while retention for GBS was 115% for the quarter, up about 11 percentage points year-over-year.

GBS new business was up 18% compared to last year, reflecting robust growth across the full portfolio and against a strong compare. GBS quota-bearing head count increased sequentially and is up 15% year-over-year. We remain on track to grow GBS head count at double-digit rates in 2022. 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 $10 million, in line with our expectations. The first quarter is always a seasonally small quarter and we pushed several conferences to later in the year to increase the likelihood of running them in-person.

Contribution margin in the quarter was negative 28% given the seasonality in revenue and normal quarterly costs. We held five virtual conferences in the quarter. We held Evanta meetings in both virtual and in-person formats.
As we look to the rest of the year, we plan to run 24 in-person conferences. We will continue to run a mix of in-person and virtual conferences as a part of our go-forward strategy for the business. I will detail our updated annual outlook for Conferences shortly.

First quarter Consulting revenues increased by 17% year-over-year to $116 million. On an FX-neutral basis, revenues were up 20%. Consulting contribution margin was 44% in the first quarter, up almost 5 percentage points versus the prior year, with better-than-expected revenue and a mixed benefit from strong growth in contract optimization.

Labor-based revenues were $96 million, up 14% versus Q1 of last year and up 18% on an FX-neutral basis. Backlog at March 31 was $147 million, increasing 30% year-over-year on an FX-neutral basis with another strong bookings quarter. We revised our backlog methodology to include the expected revenue from the out-years of multiyear agreements. This change contributed about 7 percentage points to the backlog growth rate in the quarter.

Our contract optimization business was up 29% as reported and 30% 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 13% year-over-year in the first quarter as reported and 14% on an FX-neutral basis. The biggest driver of the increase was higher head count to support our continued strong growth.

SG&A increased 27% year-over-year in the first quarter as reported and 29% on an FX-neutral basis. SG&A increased in the quarter as a result of a $24 million non-recurring real estate charge, higher commission expense following strong CV growth in 2021, and increased hiring and sales and G&A functions. SG&A without the facilities-related charge would have increased 22% year-over-year and would have been 47% of revenue in the quarter. We expect SG&A expenses to increase over time as our hiring continues.

EBITDA for the first quarter was $329 million, up 3% year-over-year on a reported basis and up 5% FX-neutral. First quarter EBITDA upside to our guidance primarily reflected revenue exceeding our forecasts.

Depreciation in the quarter of $23 million was down modestly versus 2021. Net interest expense excluding deferred financing costs in the quarter was $30 million, up $5 million versus the first quarter of 2021 due to an increase in total debt balances.

The Q1 adjusted tax rate, which we use for the calculation of adjusted net income, was 20.3% for the quarter. The tax rate for the items used to adjust net income was 24% for the quarter. Adjusted EPS in Q1 was $2.33, growth of 17% year-over-year. The weighted average fully diluted share count for the first quarter was 83 million. This is a reduction of more than 6 million shares or about 7% year-over-year. We exited the first quarter with about $82 million fully diluted shares.

Operating cash flow for the quarter was $168 million, up 7% compared to last year. CapEx for the quarter was $17 million, up 38% year-over-year as a result of an increase in capitalized software. Free cash flow for the quarter was $150 million. Free cash flow growth continues to be an important part of our business model, with modest CapEx needs and upfront client payments. As many of you know, we generate free cash flow well in excess of net income.

Our conversion from EBITDA is very strong, with the differences being cash interest, cash taxes and modest CapEx, partially offset by strong working capital cash inflows. Adjusting for the insurance proceeds we received
last year, free cash flow as a percent of revenue or free cash flow margin was 22% on a rolling four-quarter basis. On the same basis, free cash flow was 84% of EBITDA and 159% of GAAP net income.

At the end of the first quarter, we had $456 million of cash. Our March 31 debt balance was $2.5 billion. Our reported gross debt-to-trailing 12-month EBITDA was under 2 times. Our expected free cash flow generation, unused revolver, and excess cash remaining on the balance sheet provide ample liquidity to deliver on our capital allocation strategy of share repurchases and strategic tuck-in M&A.

We repurchased around $450 million of stock during the first quarter and about $630 million through the end of April. Last week, the board increased the repurchase authorization by $500 million, bringing us to a total of about $1 billion available for open-market buybacks. We expect the board to continue to refresh the repurchase authorization as needed going forward.

Since the end of 2020 through the end of this April, we have reduced our shares outstanding by 8 million shares. This is a reduction of 9% from the end of 2020. As we continue to repurchase shares, we expect 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 strong Q1 performance and the return of in-person conferences. We also updated guidance to reflect the stronger US dollar. We now expect an FX impact to our revenue growth rates of about 260 basis points for the full year. This is up from 150 basis points based on rates when we guided in February.

As we detailed last quarter, 2021 Research performance benefited from several factors including QBH tenure mix, NCVI phasing within the quarters and the year, record retention rates and strong non-subscription growth. We continue to assume that those benefits do not persist at the same levels through 2022. The growth compares also get harder as we move through the year. We are taking a balanced approach based on historical trends and patterns, which we've reflected in the updated guidance.

We are updating our guidance for the incremental revenue from 24 planned in-person conferences, with significantly more visibility into the second quarter. We will continue to update our outlook as we have more visibility.

For our local one-day Evanta events, we expect to run most of them in-person while continuing to run some virtually. We expect about one-third of our full year Conferences revenue in the second quarter this year.

Consistent with our commentary last quarter, our base level assumptions for consolidated expenses continue to reflect significant head count increases during the year to support current and future growth. We have modeled higher labor costs and T&E well above 2021 levels, as we've previously indicated. We will also have higher commissions during 2022 due to the very good selling performance we delivered in 2021.

Finally, we continue to invest in our tech, both client-facing and internal applications, as part of our innovation and continuous improvement programs.

Our updated guidance for 2022 is as follows. We expect Research revenue of at least $4.575 billion, which is FX-neutral growth of about 14%. The FX-neutral growth is up about 160 basis points from our prior guidance due to strong NCVI performance in the first quarter.
We expect Conferences revenue of at least $270 million, which is growth of about 30% FX-neutral. We expect Consulting revenue of at least $430 million, which is growth of about 7% FX-neutral. The result is an outlook for consolidated revenue of at least $5.275 billion, which is FX-neutral growth of 14%. The FX-neutral growth is up about 330 basis points from our prior guidance due to strong performance in the first quarter and the shift to in-person conferences.

Without the strengthening US dollar since February, our revenue guidance would have been about $155 million higher than previous guidance. We now expect full-year EBITDA of at least $1.135 billion, up $100 million from our prior guidance and an increase in our margin outlook as well. Without the strengthening US dollar since February, our EBITDA guidance would have been about $110 million higher than previous guidance.

We now expect 2022 adjusted EPS of at least $7.80. For 2022, we now expect free cash flow of at least $930 million. Our guidance is based on 82 million fully diluted weighted average shares outstanding, which reflects the repurchases made through the end of April. All the details of our full year guidance are included on our Investor Relations site.

Finally, for the second quarter of 2022, we expect to deliver at least $300 million of EBITDA. We had strong start to the year with momentum across the business, contract value continued to accelerate. EPS grew mid-teens, fueled by the significant reduction of shares over the past year. We repurchased roughly $630 million in stock this year through April and remain committed to returning excess capital to our shareholders.

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 growth over time and G&A leverage, we can modestly expand margins from a normalized 2021 level. 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 will 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 SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Jeff Meuler with Baird. Your line is open.

Jeffrey P. Meuler  
Analyst, Robert W. Baird & Co., Inc.

Yeah. Thank you, and great quarter. So, you already gave me a 15 talking points on this, but I'm going to ask about it anyway. Just the quota-bearing sales head count being flat. So, just so I understand, reconciling what you gave us to that metric. So the turnover is seasonally higher in Q1, but turnover for quota-bearing head count is actually getting better year-over-year. And then, Q1 is also seasonally high for promotions and given the planned growth, there's more promotions this year than there were last year, but hiring is performing to plan and is actually the best since before the pandemic. Are those the right reconciliation points to explain while QBH is still flat sequentially?

Eugene A. Hall  
Chief Executive Officer & Director, Gartner, Inc.

Yeah. Hey, Jeff. This is Gene. So, [indiscernible] (23:00) is going according to plan. And we're on track for the year to achieve double-digit head count [indiscernible] (23:07) our quota-bearing head count. The [indiscernible] (23:10) we have more cushions at the [indiscernible] (23:17) than we were [indiscernible] (23:19) for the rest of the year. We've done this for long period of [indiscernible] (23:22) a core part of our ongoing strategy.

And so, we [indiscernible] (23:27) in January. And, to your point, [indiscernible] (23:28) because of the pandemic than we'd had in the – you know, during [indiscernible] (23:39). So, that's what [indiscernible] (23:44) bigger drain on our quota-bearing head count.

Jeffrey P. Meuler  
Analyst, Robert W. Baird & Co., Inc.

Okay. I don't if you can hear me well...

Craig Warren Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Yeah. Jeff, let me just repeat what Gene said. We're just having a little bit of trouble with his microphone. So, the talking points are [indiscernible] (24:06)

Jeffrey P. Meuler  
Analyst, Robert W. Baird & Co., Inc.

Sorry. I don't know if it's just me. I'm also having trouble hearing you.

David Cohen  
Senior Vice President-Investor Relations, Gartner, Inc.

Try again.
Craig Warren Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

All right. So, hopefully now you can hear me.

Jeffrey P. Meuler  
Analyst, Robert W. Baird & Co., Inc.

Yes.

Craig Warren Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Okay. Great. So...

Jeffrey P. Meuler  
Analyst, Robert W. Baird & Co., Inc.

Yeah.

Craig Warren Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

We'll work through the problem [indiscernible] (24:31). But what he was saying is, we've seen improving attrition, really starting in the second half of last year and continuing through this year, which is very, very positive. We do almost all of our promotions in the beginning of the year in January. And so, because of the really strong growth and bounce back in GTS, we had more promotions than we normally have in the first quarter. And obviously, we fill that in generally with our best-performing frontline associates, it's the next step in the promotional ladder that our frontline sellers take.

As Gene and I both mentioned in our prepared remarks, very strong recruitment and hiring across the organization and in particular, in GTS. And then the one other thing I would add and it had a modest impact but, was also the exiting of Russia had a small impact on the sequential QBH reported number as well.

Jeffrey P. Meuler  
Analyst, Robert W. Baird & Co., Inc.

Got it. Very helpful. And then on Conferences, so I can understand kind of the business performance and the assumptions. For the Q2 Conferences that you have better line of sight to, I heard that at least some of them look like record attendance or sold out attendance. Are those conferences, are you monetizing them above the pre-pandemic level at this point and the full year guidance being below the pre-pandemic level is about the risk-adjusting the Conference's assumptions for later in the year plus fewer conferences? Just wondering conference monetization of those that are happening with good line of sight relative to pre-pandemic.

Craig Warren Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Yeah. Jeff, It's a great question. And, Gene, follow on here as well. So, a few thoughts there. So, as we noted, we're transitioning 24 that had previously been planned as virtual to run in-person over the balance of the year.
And, clearly, we have more visibility into ones that are running next week, as Gene noted, than ones that are running in the fourth quarter.

From a monetization perspective, just a couple of thoughts there. So, one is, we’re planning on having fewer, in some cases, fewer attendees at each of the conferences than we had historically, to be mindful of being able to social distance and not feel like we are packing everyone in shoulder to shoulder, given the environment. And so, in some cases, we will have fewer attendees than we had in pre-pandemic. In some cases, as the conferences have been building, we’ll have more attendees than we had pre-pandemic.

And so, the revenues will not bounce back immediately to pre-pandemic levels, predominantly because we want to make sure that we can keep people safe, healthy, and feeling safe and healthy at the conferences by just moderating the attendance.

Jeffrey P. Meuler  
**Analyst, Robert W. Baird & Co., Inc.**

Got it. Thank you.

Operator: Thank you. Our next question comes from Toni Kaplan with Morgan Stanley. Your line is open.

Toni Kaplan  
**Analyst, Morgan Stanley & Co. LLC**

Thanks so much. Wanted to ask about pricing. Are you able to increase prices more this year compared to prior years just given the inflationary environment and have customers been generally understanding about it, if that’s the case?

Craig Warren Safian  
**Executive Vice President & Chief Financial Officer, Gartner, Inc.**

Hey, Toni, thanks for the question. So, we are being a little more aggressive on pricing this year, and the way we’re basically thinking about it is as we’re dealing with and have modeled in more wage inflation, our cost inflation on our people, we are making sure that we at least match that from a pricing perspective, so that we can protect our margins.

And I think generally speaking, so far this year, our clients are understanding of the price increases. Again, as we’ve talked about in the past, are the spending with us and most of our clients represent a pretty small ticket item. And modest price increase, our clients are generally understanding. And, of course, we’ve been significantly improving our products and insights along the way as well.

Toni Kaplan  
**Analyst, Morgan Stanley & Co. LLC**

Great. I wanted to also ask about the EBITDA margin guidance, you raised the margin to 21.5% for the year from 20%. And I think the results in the quarter and the FX impact, based on my estimates, that drove, sort of, about half the raise. But maybe you could have had different forecast than I did. But anything else outside of the first quarter be and the FX that really drove, sort of, the higher margin for the year, that’d be helpful? Thanks.

Craig Warren Safian  
**Executive Vice President & Chief Financial Officer, Gartner, Inc.**
Yeah. Of course. That's a great question. The way to think about it is it's probably two or three things. So, number one, the NCVI performance in the first quarter exceeded our expectations, and obviously that benefited Q1 but it also flows through into the balance of the year and generally flows through pretty nicely from an incremental margin perspective.

Second thing is obviously the pivot to in-person conferences, and that incremental $70 million of revenue does flow through with some decent incremental margins there. And then third, there are some SG&A savings, predominantly G&A savings, that we're able to dial through the P&L as well. Most notably, we did take, as you would note, a charge for real estate in the quarter and we've dialed in the 2022 expense benefit from that facility charge. So, it's really a combination of those three things that are driving, both the revenue and EBITDA upside and translating it to modestly higher EBITDA margins for the full year.

**Toni Kaplan**
*Analyst, Goldman Sachs & Co. LLC*

Terrific. Thanks again. Congrats on the quarter.

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**Operator**: Thank you. Our next question comes from George Tong with Goldman Sachs. Your line is open.

**George K. Tong**
*Analyst, Goldman Sachs & Co. LLC*

Hi. Thanks. Good morning. GTS and GBS productivity both increased pretty significantly in the quarter. Can you elaborate on the factors driving improvement in productivity and how much further improvement you see in both of the segments?

**Eugene A. Hall**
*Chief Executive Officer & Director, Gartner, Inc.*

Hey. It's Gene. I'll try again. Hopefully, my line works this time. So basically, we're very focused on improving productivity for both GTS and GBS. It's been [indiscernible] (31:50) for one period of time, and we have a lot of programs we've talked about from time to time on improvement productivity. It includes things like our recruiting programs or training programs, the tools we give our salespeople and our processes.

And what you're seeing, I think, it also includes our content to make it sure on the most important issues. And I think all those things are coming together, driving great productivity. In addition to that, because of our slower growth in head count last year, we have a higher average tenure than we would have in kind of a normal time to, call it, pre-pandemic times. So, those are key factors that drive productivity. The operational changes we're making and modestly higher tenure compared with pre-pandemic times.

**George K. Tong**
*Analyst, Goldman Sachs & Co. LLC*

Got it. That's helpful. And then, you're guiding to double-digit growth in head count this year. Can you elaborate on how much head count growth you're expecting in GTS compared to GBS over the remainder of this year?

**Eugene A. Hall**
*Chief Executive Officer & Director, Gartner, Inc.*

Yeah. Yeah. We're expecting both to grow at double-digit rates. Because of the faster contract value growth we've seen from GBS, we'd expect that double-digit head count to be modestly higher than GTS.
George K. Tong  
Analyst, Goldman Sachs & Co. LLC

Very helpful. Thank you.

Operator: Thank you. Our next question comes from Andrew Nicholas with William Blair. Your line is open.

Trevor Romeo  
Analyst, William Blair & Co. LLC

Hi. Good morning. This is actually Trevor Romeo in for Andrew. Thanks so much for taking the questions. First, I was kind of just wondering if you could call out any drivers of the consulting strength, at 20% FX-neutral growth and what look like record backlog? Any new kind of service offerings or changes that clients have been particularly receptive, too, there?

Eugene A. Hall  
Chief Executive Officer & Director, Gartner, Inc.

Hey, Trevor. We always make improvements to our processes and we’ve been making substantial improvements to our consulting processes. But it’s fundamentally the strategy we have, which is consulting is an extension of our Research business, and we’re helping clients with the same difficult issues that we do in our Research business. But it lets us work with clients in a more in-depth way for those clients that prefer that. And so, it’s really a combination of operational changes with fundamental demand.

Trevor Romeo  
Analyst, William Blair & Co. LLC

Okay. Great.

Craig Warren Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Trevor, I was just – Sorry, Trevor, I would just add, the growth in the quarter was both across labor base and contract optimization. So, 14% year-over-year reported growth on our labor-based revenue and 29% reported growth on the contract optimization business.

Trevor Romeo  
Analyst, William Blair & Co. LLC

Yeah. Understood. Thank you. And then just kind of a follow-up on the margin outlook. Looks like now 2022, the guide implies about 21%, 22% margins. Has your thinking around kind of the normalized margin run rate for the business going forward kind of also increased? Is this kind of a good baseline to build on?

Craig Warren Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Hey, Trevor. Great question. So, the implied margin of the outlook right now is about 21.5%. The way we continue to think about it is our normalized margin is around 20%, as we think about it. We are still seeing some benefits and we are still catching up to some extent on a number of items, whether it be head count, travel and a few other things. And so, the way to think about the normalized margins moving forward is around 20%.
Operator: Thank you. Our next question comes from Jeff Silber with BMO Capital Markets. Your line is open.

Ryan Griffin
Analyst, BMO Capital Markets Corp. (Broker)

Hey. Good morning. This is Ryan on for Jeff. I just had a follow-up question on the Conferences. Given the move to in-person conferences this year, how does that affect the financial model from both the margin percentage and margin dollar basis?

Craig Warren Safian
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Hey. Good morning. So, as you saw, we're -- we flow through an incremental $70 million of revenues. And you guys, it's important remember that we're pivoting from virtual, where there was a revenue expectation to in-person where there's just a higher revenue expectation. So, it's not going from zero to something. It's going from a smaller number based on a virtual conference to a larger number based on an in-person conference.

As I mentioned earlier, and I forget whose question it was about – oh, it was Jeff's question about the scale of the conferences. We are running them at a little bit lower scale than we had pre-pandemic. And so, our expectation on the margin flow-through is not as high as it would have been pre-pandemic. That said, the margin dollar flow-through is obviously more than it would be had we been running virtual.

So, the way to think about it is we're probably in the 20% to 30% incremental margin flow-through on the shift from virtual to in-person conferences. That hurts the margin percentage but is obviously helpful in terms of generating nicely more margin dollars for us flowing through to the bottom line.

Ryan Griffin
Analyst, BMO Capital Markets Corp. (Broker)

Got it. Thank you. And then just a modeling question. When should we think about a normalized T&E expense base returning this year?

Craig Warren Safian
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Yeah. It's slowly building. Q1, given the environment and given the fact that we weren't running too many conferences or anything -- or any in-person conferences, was very light. We would expect second half of the year to look more like "normal." That said, though, we are still rebuilding our conferences portfolio. As we roll into years beyond 2022, there may be more travel associated with delivering those. But second half of the year, we expect to be back at a semi-normal rate of travel. But, again, I think we won't get back to true normal travel levels until our conference portfolio has fully come back.

Heather Balsky  
**Analyst, BofA Securities, Inc.**

Hi. Thank you. First, just a follow-up question on the normalized margin outlook. You talked about you still think it's 20%. I guess, given that you exceeded plan thus far this year and raised your guidance, I'm curious then when you think about the 150 basis points of margin improvement in your guide, how much of that kind of is a go-forward, sustainable benefit or boost? And how much of it – I guess, how much shifted into next year? I'm just curious, given that you'd be planning why your margin outlook would stay at 20%?

Craig Warren Safian  
**Executive Vice President & Chief Financial Officer, Gartner, Inc.**

Hey. Good morning, Heather. I think it's a few things. So, one, given the really strong growth that we delivered last year, we are still, to an extent, catching up on all the people we need on staff to, to really deliver to our clients and drive future growth. And so, while we're hiring at a furious pace, as Gene highlighted, and we are on our operational plan, we are still playing catch up in some areas. And so, that will be a little bit of, some of the bridge between the 21.5% and the normalized level of 20%.

We just talked about one of the other levers, which is travel, which again has not fully come back yet. We actually were under planned in travel – travel expense in the first quarter. We do expect it to build. But as I just discussed, it's not back to full "normalized" levels yet and we'll get there over time. Those are probably the two biggest ones.

And then, obviously also making sure that we are making all the right investments so that we can drive repeatable, sustained top line double-digit growth. Again, that means growing GTS and GBS at those double-digit growth rates and continuing to do that. And I think those are the three big factors as we think about the current guide and the normalized level of margins.

Heather Balsky  
**Analyst, BofA Securities, Inc.**

Got it. And your second comment, I guess brings me to my follow-up question, which is, as we think of the rest of the year, if you were to exceed on your sales plan, I think you've talked in the past about what your flow-through on the gross margin side is. I'm curious how much – how should we think about incremental investment for kind of any [ph] sales beat (41:26) that you might see as the year progresses?

Craig Warren Safian  
**Executive Vice President & Chief Financial Officer, Gartner, Inc.**

Yeah. I mean, I think we are – we've built a real solid operational plan at the beginning of the year that had the sales hiring and expert hiring and service hiring that we need to deliver on 2022, and also to make sure that we're set up to continue to drive really strong growth rates into 2023 and beyond.

If CV growth is a little faster than we had expected, there would probably be incremental sellers, incremental experts, and incremental service people, again, to make sure that we keep our clients really, really happy and keep delivering great value and can continue to grow.

So, as we move through the year, I'd say right now we feel good about our investment plans and hiring plans. If the performance is starting to look higher or lower than our current expectations, we will obviously adjust as necessary. So if we see stronger growth, we would probably do more hiring. If we see softer growth, we would potentially slow down a little bit. But from where we sit today, we feel like we've got a really strong hiring plan that will allow us to deliver on 2022 and also set us up for continuing to grow into the future.
Great. Thank you for your help.

Operator: Thank you. And I'm currently showing no further questions at this time. I'd like to turn the call back over to Gene Hall for closing remarks.

Eugene A. Hall
Chief Executive Officer & Director, Gartner, Inc.

So summarizing today's call, we started 2022 with strong performances. We have great momentum across the business. Whether our clients are experiencing good times or bad and regardless of role, we can deliver incredible value to enterprise leaders and their teams. We have strong demand for our services, and we have a vast untapped market opportunity. We generate significant free cash flow in excess of net income.

Looking ahead, we're well-positioned to drive strong top-line growth with modest margin expansion. As we invest for future growth, we'll continue to return significant levels of excess capital to our shareholders. This reduces our shares outstanding and increases returns on capital over time. And with our strong results, we're increasing our 2022 guidance. 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.