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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Gartner Third Quarter 2019 Earnings Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

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

David Cohen

Group Vice President-Investor Relations, Gartner, Inc.

Thank you, Sarah, and good morning, everyone. We appreciate you joining us today for Gardner's third quarter 2019 earnings call. With me today are Gene Hall, Chief Executive Officer; and Craig Safian, Chief Financial Officer.

This call will include a discussion of third quarter 2019 financial results and our current outlook for 2019 as disclosed in today's press release. In addition to today's press release, we've provided a detailed review of our financials and business metrics in an earnings supplement for investors and analysts. We've posted the press release and the earnings supplement on 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 revenue and contribution margin are for adjusted revenue and adjusted contribution margin, which exclude deferred revenue purchase

accounting adjustments and the 2018 divestitures. All references to EBITDA are for adjusted EBITDA, with the adjustments as described in our earnings release and excluding the 2018 divestitures. All cash flow numbers, unless stated otherwise, are as reported with no adjustments related to the 2018 divestitures. All growth rates in Gene's comments are FX neutral unless stated otherwise. In our discussion of Global Business Sales or GBS, we will refer to the GxL products. These are the products for business leaders across the enterprise. Gartner for Marketing Leaders is GML, Gartner for Finance Leaders is GFL, and so on. In aggregate, we refer to these products for business leaders as GxL.

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 2019 foreign exchange rates.

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 2018 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. Thanks for joining us. For the third quarter of 2019, we continued to deliver strong performances across our business. Total revenues were up 11%, fueled by double-digit growth in each of our business segments: Research, Conferences and Consulting. We continued to make significant global impact through these segments. We help more than 15,000 enterprise clients in more than 100 countries around the world with their mission-critical priorities, while providing great jobs to more than 16,000 associates globally.

Research, our largest and most profitable segment, is the core of our value proposition. Our Research business was up 10% over this time last year. The Gartner Formula for sustained double-digit growth continues to drive success in our Research business. As we previously highlighted, the Gartner Formula consists of indispensable insights, exceptional talent, sales excellence, and enabling infrastructure. For each of these elements, we drive relentless globally consistent execution of best practices and consistent improvement and innovation.

Global Technology Sales, or GTS, serves leaders and their teams within IT. This group represents more than 80% of our total Research contract value. GTS contract value growth was 13% year-over-year. We delivered double-digit growth in every region across every size company and in virtually every industry.

Global Business Sales, or GBS, serves leaders and their teams beyond IT and represents about 20% of our total Research contract value. This includes supply chain and marketing, which we've addressed for several years, as well as other major enterprise roles including HR, finance, legal, sales, and more. GBS continued on a path toward double-digit growth with total GBS contract value accelerating to 3%.

Our GxL product line continued to gain momentum, with contract value increasing \$26 million sequentially. GxL products provide greater value to clients because they're tailored to the clients' individual needs. This, in turn, results in higher prices per user and a stronger retention. Beyond better pricing and retention, GxL products provide exponentially more growth opportunities because we can sell these high value products throughout our clients' organizations. For Q3, GxL contract value grew 65% year-over-year and new business was up 39%. We

expect continued acceleration in GBS contract value. In Q4, its new business growth and retention improvement is the same as it was in Q3. Contract value growth will be 9.6%.

Our Conferences segment also delivered a terrific performance in Q2 (sic) [Q3] (00:05:54), with double-digit revenue growth of 19%. Gartner Conferences combine the outstanding value of research with the immersive experience of live interactions, making every conference we produce the most important gathering for the executives we serve. I recently attended our IT Symposium Conference in Orlando, Florida. This conference is the most important gathering of CIOs and Senior IT Executives in North America. We hosted around 8,000 attendees on-site and about 3,000 of these were Chief Information Officers. This is near our all-time highs.

At our Conferences, you can see firsthand the power of Gartner in helping clients achieve their mission-critical priorities. Clients received incredible insights from our analysts. They networked with leading peers and experienced the leading-edge technology for the most important providers in the world. Our executive attendees were inspired and empowered to succeed as a result of the insights we delivered at this important event. Our associates were equally inspired and excited about the incredible value we deliver to our clients.

Our Consulting segment also achieved double-digit growth in Q2 (sic) [Q3] (00:07:05), with revenues up 20%. Gartner Consulting is an extension of Gartner Research, and provides clients a deeper level involvement through extended project-based work to help them execute their most strategic initiatives. Our growth in the quarter was a combination of our labor-based business and strength in our contract optimization business. So, we delivered another strong quarter across all three of our business segments.

We continue to have a vast market opportunity. We've made investments over the past two years that position us well to capture that market opportunity. We're preparing our 2020 business plan and expect to continue attractive double-digit growth. We plan to maintain expense growth in line with revenue growth, by leveraging investments we've made over the past three years. Specifically, we expect total expense growth to be in line with total revenue growth.

We've had a strong history of continuous improvement and continuous innovation. We're shifting the emphasis of our innovations and improvements to beyond more tightly managing expenses. Sales is one of our largest expense categories. In sales, we'll be implementing significant innovations that we expect will improve sales expenses relative to contract value.

Here are three examples. Territory design is an important factor in determining a sales person's productivity, especially in a growth company. We've developed a highly sophisticated territory planning capability over the past few years. For 2020, we're making a major advance by making the territory planning process much more dynamic.

Another important factor impacting sales expense is how quickly new sales hires get into the territory and make their first sale. Over the past few years, we developed a very strong recruiting capability. For 2020, we're implementing changes to the recruiting process which will allow us to put salespeople in territory just in time, analogous to just-in-time manufacturing.

The third factor impacting sales expense is training. Over the past few years, we developed a sales training that is broadly recognized as being outstanding. For our next evolution, we're reducing the amount of upfront training and shifting this training to be just in time as the salesperson needs it. This will enable us to be even more effective, while getting salespeople into territory even faster.

Beyond sales, we expect to get leverage from the G&A investments we've made over the past few years. We've already begun making these changes to ensure we get the full impact in our 2020 plan.

Summarizing, we're shifting to getting returns from the investments we've made over the past three years while maintaining the long-term growth that captures our enormous market opportunity. Looking ahead, we're well-positioned for sustained long-term growth. We expect continued sustained long-term growth in GTS. We expect continued acceleration in GBS. And Conferences and Consulting are on a strong path. Looking ahead to 2020, with the great strategic positioning of GTS and GBS, together with leveraging the investments we've made, we expect double-digit top line growth and EBITDA growing approximately in line with revenues.

With that, I'll hand the call over to Craig.

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

Thank you, Gene, and good morning, everyone. Global Technology Sales, the largest part of our business, continues to deliver strong double-digit growth. Global Business Sales continued to accelerate after inflecting to growth last quarter. Our strategy to deliver products and services with a compelling value proposition across all enterprise functions is working. Conferences and Consulting are having outstanding years. Third quarter revenue was \$1 billion, up 10% as reported and 11% on an FX neutral basis. Top line growth was impacted by about 100 basis points in the quarter from the product retirements we previously discussed.

In addition, contribution margin was 64%, down 10 basis points from the prior year. EBITDA was \$140 million, ahead of expectations, although down 6% year-over-year and 5% FX neutral. Adjusted EPS was \$0.70 and free cash flow in the quarter was \$190 million.

Our Research business had a strong quarter. Research revenue grew 9% year-over-year in the third quarter and 10% on an FX neutral basis. Third quarter contribution margin was 69%. Total contract value was \$3.3 billion at September 30, growth of 11% versus the prior year. We always report contract value growth in FX neutral terms.

I'll now review the details of our performance for both GTS and GBS. In the third quarter, GTS contract value increased 13% versus the prior year. GTS had contract value of \$2.6 billion on September 30, representing just over 80% of our total contract value. Client retention for GTS remained strong at 82%. Wallet retention for GTS was 105% for the quarter, down 16 basis points year-over-year. Our wallet retention rates show that our clients spend more with us each and every year because of the value we provide to them. GTS new business grew 12% versus the third quarter of last year, a strong rebound from second quarter. New business is coming from a mix of new enterprises and growth in existing enterprises through sales of additional services and upgrades.

We ended the third quarter with 12,728 GTS enterprises, up 2% compared to Q3 2018. We've added over 1,600 new enterprises so far in 2019. The majority of client losses are with our smaller and lower spending clients, which you can see in the client retention rates. Moving forward, we expect to grow the number of enterprises as well as expanding the contract value in those enterprises.

The average contract value for enterprise continues to grow. It now stands at \$208,000 per enterprise in GTS, up 11% year-over-year. Growth in CV per enterprise reflects both price increases as well as upsell and increased numbers of subscriptions. At the end of the third quarter, we had 3,355 quota-bearing associates in GTS, a growth of 14% year-over-year. We've made investments in the GTS sales force and have seen CV accelerate from 2017. Following the additions we made late last year and early this year, we are recalibrating our expense

growth to ensure we align it with GTS CV growth. These changes are consistent with our continuing commitment to strong execution and sustained long-term double-digit growth.

We expect GTS head count growth to end 2019 at approximately 10%. With the hiring we've done, the sales force has the capacity to grow GTS contract value between 12% and 16% per year, consistent with our medium-term guidance. For GTS, the year-over-year Net Contract Value Increase, or NCVI, divided by the beginning period quota-bearing head count was \$104,000 per salesperson, down 4% versus the third quarter of last year. The higher head count growth late last year and into this year brought down the average tenure as new salespeople take time to get the full productivity. One of the benefits of moderating the head count growth exiting this year and moving into 2020 is that average tenure will increase, which should improve productivity.

Turning to Global Business Sales. GBS contract value was \$620 million at the end of the third quarter or about 20% of our total contract value. The momentum we saw last quarter continued, with GBS CV increasing 3% year-over-year. The acceleration in GBS contract value was driven by strength in GxL. Total GBS new business was up 26% and retention improved as well. GxL products are an important part of our strategy and continue to gain share. Looking at total contract value from the GxL products, we drove an FX neutral increase of 65% year-over-year from \$154 million to \$254 million.

We've updated the GxL data we provided the last few quarters on page 11 of the earning supplement to highlight the trend in GxL new business and contract value. We sold \$35 million of GxL new business in Q3, up 39% versus the prior-year quarter. We continue to make great progress with our GxL products across each of the functions GBS serves. More than half of the GxL new business in the quarter came from newly launched products. GxL CV now makes up 41% of our total GBS contract value, up 15 percentage points from Q3 of last year.

We are driving increased client engagement through expanded service teams and growing adoption of individualized content and service. For the standalone quarter, we drove attrition rates down for GBS. For contracts that were up for renewal in the third quarter, attrition improved by about 500 basis points over the prior-year quarter. Again, this is a result of the increased engagement we discussed, a richer mix of GxL renewals and all of our other retention programs having an impact.

Our path to continued acceleration and double-digit growth for GBS is clear. As Gene detailed, the path to double-digit growth is based on new business growth and attrition improvements consistent with Q3.

At the end of the third quarter, we had 910 quota-bearing associates in GBS, or growth of 19%. Headcount was down sequentially as we are recalibrating our cost base. We expect GBS head count growth to moderate by the end of the year as we shift to reap the benefits of the investments we've made.

In Conferences, revenues increased by 16% year-over-year in Q3 to \$66 million. FX neutral growth was 19%. Third quarter contribution margin was 41%, down 239 basis points from an especially strong third quarter 2018. The largest impact on the year-over-year Q3 contribution margin comparison was the movement of our Europe Supply Chain Conference into Q2. On a year-to-date basis, Conferences contribution margin is flat compared to the prior year.

We had 18 destination conferences in the third quarter. On a same conference FX neutral basis, revenues were up 20%, with a 9% increase in attendees and a 100-basis-point improvement in same conference contribution margin.

Turning to Consulting. Third quarter Consulting revenues increased by 18% year-over-year to \$93 million. FX neutral growth was 20%. Consulting contribution margin was 28% in the third quarter. Labor-based revenues were \$78 million, up 11% versus Q3 of last year or 13% on an FX neutral basis. Labor-based billable head count of 809 was up 11%. Utilization was 57% as the third quarter is our seasonally lowest utilization quarter, and also when our annual MBA hires join the company.

Backlog at September 30 was \$109 million, up 3% year-over-year on an FX neutral basis. Our backlog provides us with about 4.5 months of forward revenue coverage, in line with our operating targets. Contract optimization revenues were up 74% versus the prior-year quarter. As we have detailed in the past, this part of the Consulting segment is highly variable. The compares get significantly more challenging in the fourth quarter.

SG&A increased 15% year-over-year in the third quarter and 17% on an FX neutral basis. We will continue to grow sales capacity and the enabling infrastructure to support our strategy of delivering sustained double-digit growth over the long-term. We have started the process to recalibrate the sales and infrastructure investments to align cost growth with revenue growth.

EBITDA for the third quarter was \$140 million, down 6% year-over-year on a reported basis and 5% on an FX neutral basis. In the third quarter this year, EBITDA was adversely affected by about 4 percentage points or \$5 million impact due to the product retirements we've discussed. Taking that into consideration, underlying FX neutral EBITDA was down about 2% in the quarter.

Depreciation was up about \$3 million from last year as additional office space went into service. Amortization was flat sequentially. Integration expenses were down year-over-year as we have moved past the biggest part of the integration work.

During the quarter, we recognized an unrealized gain of \$9.1 million related to a minority equity investment that we sold in October. The gain is in other income. This was a heritage CEB minority investment in a small company, which was acquired.

Net interest expense excluding deferred financing costs in the quarter was \$22 million, down from \$25 million in the third quarter of 2018. The lower net interest expense resulted from lower average debt balances of roughly \$107 million. The Q3 adjusted tax rate, which we use for the calculation of adjusted net income, was 22.8% for the quarter, lower than expected as a result of more favorable income mix and timing of reserve movements. The tax rate for the items to adjust net income was 24.2% in the quarter.

Adjusted EPS in Q3 was \$0.70, above our expectations due to operating upside and a lower tax rate. In Q3, operating cash flow was \$220 million compared to \$249 million last year. The decrease in operating cash flow was primarily driven by lower EBITDA. Q3 2019 CapEx was \$36 million and Q3 acquisition and integration payments and other non-recurring items was approximately \$7 million. This yields Q3 free cash flow of \$190 million, which is down 17% versus the prior-year quarter, normalizing 2018 for divestitures and working capital timing.

On a rolling four-quarter basis, our free cash flow conversion was 119% of adjusted net income, excluding divested operations and working capital timing. The lower conversion is due to timing and we expect to finish the year with a conversion rate in the high 120s.

Turning to the balance sheet. Our September 30 debt balance was about \$2.2 billion. Our debt is effectively 100% fixed rate. Adjusting EBITDA for the divestitures, our gross leverage ratio is now about 3.3 times EBITDA. We

repurchased \$95 million of stock in the quarter at an average price of about \$134 per share. We will continue to be price-sensitive and opportunistic as we return capital to shareholders. We have \$777 million remaining on our repurchase authorization.

Our capital allocation strategy remains the same. We deploy our free cash flow and balance sheet flexibility by returning capital to our shareholders through our buyback programs and through strategic value-enhancing M&A. Earlier this month we acquired TOPO, a provider of insight and advice for sales leaders. The overall purchase price was \$33 million, with a portion of the consideration deferred for a couple of years.

Turning to the outlook for 2019. Revenue, adjusted EBITDA, free cash flow, and adjusted EPS guidance all remain unchanged from last quarter. The top line growth outlook on an FX neutral basis remains strong and we are committed to the same second half targets we provided in July.

As you are thinking about the fourth quarter in the context of the third quarter results, there are two points to keep in mind. First, Consulting outperformed our expectations in the quarter in both labor-based and contract optimization. Most of the upside was revenue we previously forecasted for the fourth quarter. And second, as we began the process to realign our expense growth with our revenue, we shifted some costs out of Q3 and into Q4.

Our guidance reflects FX rates as of September 30. FX is causing roughly 2-point negative impact for projected 2019 full-year growth rates across revenue, EBITDA, adjusted EPS, and free cash flows.

The highlights of our full-year guidance were as follows. We expect FX neutral revenue growth of 10% to 11%. We expect adjusted EBITDA in FX neutral terms of down 1% to up 4%. We expect an adjusted tax rate of around 25.5% for 2019, that implies a mid-50% rate for the fourth quarter. Our tax planning related to our intellectual property is ongoing and we anticipate incremental tax costs in the fourth quarter. Please note that if you're adding back from GAAP net income, the rate for the tax effect on the add-backs is also about 25.5%. For 2019, we expect free cash flow of \$400 million to \$430 million, that is a projected FX neutral change of down 2% to up 5% versus our normalized 2018 free cash flow. All the details of our full-year guidance are included on our Investor Relations site.

In summary, GTS contract value growth continues to be strong and sales of our new GxL products and GBS continue to rise. Our Conferences and Consulting businesses both had great quarters. We expect to finish the year with free cash flow conversion from net income in the high-120%s. As we prepare for 2020, we are actively recalibrating our investments to ensure cost growth is in line with revenue growth. And we continue to apply the Gartner Formula across the combined business to drive sustained long-term double-digit growth to revenues, EBITDA, and free cash flow.

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 the line of Jeff Meuler with Baird. Your line is now open.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Thank you. To start, can you just give some more color on the improved GTS new business sold trend? And, I guess, what I'm wondering is, last quarter you talked about an abnormal amount of management or operational change and that had some impact. I'm just curious, does it tie back to those regions, or just anything you can say about the improved GTS new business sold trend?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Yeah. Good morning, Jeff. Thanks for the question. I think our new business performance, obviously, we want to drive consistent double-digit improvements in our new business on a year-over-year basis. We got back on track for that trend in the third quarter with strong new business growth. I think that the challenges we detailed last quarter, we are working our way through them. It takes time to work through them. So, I would definitely not attribute the rebound to those things all bounce back. But I just attribute it to, one, we have a huge market opportunity, which we continue to go after; two, we continue to grow our sales force to go after that opportunity; and three, we have an expectation that we'll drive double-digit growth in our new business to basically support or sustained double-digit growth within GTS.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then, on the way that you're managing expenses and margin, now it's being well-received from your shareholder base. But, I guess, just want to make sure that the way you're managing it doesn't ultimately impact growth. And I hear you on the GBS sales head count that you've kind of already made the investment and it's time to harvest that. But the other things that you're citing, they sound to me like kind of the continual improvements that Gartner is always making. So, am I wrong about that? Is there some reason why we should think that those productivity impacts will be bigger from this round of initiatives, or are there other areas other than kind of harvesting GBS sales head count where you're actually reducing spend or not making investments that you otherwise would have made?

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

A

Hey, Jeff. It's Gene. I put in two categories. One is – or three categories, I'm sorry, three categories. One is sort of in GBS where, again, as you correctly articulated, we made some major investments since we acquired CEB. We're seeing those returns on those investments, and now we're very focused on making sure we get those returns on the investments. We're kind of – we've got the sales force trained, we've got [indiscernible] (00:29:43) we've got the products introduced. And so, now, we want to make sure we focus on gaining returns from that as we see a big upside there.

Secondly, in GTS, similarly, we made some investments over the last – during that same period of time and we invested a little higher rate than we had invested even before the CEB acquisition. And we have a similar situation

just not as pronounced as it was on the GBS side. And some of the changes involve some innovations like, I took you through three of them that we think are material innovations that will affect in particular the expense relative to contract value, which is really important in sales.

And the last thing I also mentioned which is, we do think that there's some leverage we can get out of our G&A that we haven't gotten over the last couple years. And I'll give you an example which is, as we grew, we had some major real estate projects. Those projects are now at a point where we can start getting the benefits from those, and so we have less of a drag in G&A from those, which is part of the reason we can expect, as I said, G&A to grow slower than our overall revenues going forward.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Manav Patnaik with Barclays. Your line is now open.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Thank you. Good morning. I was wondering if you could just talk a little bit more around the client count reduction, it's been three quarters now, I know you said most of it was on the small business side, but that's usually the case. So, I was just wondering is there anything incremental and your confidence in growing that again, are you going to shift strategy to more of the larger accounts, or just if there's any change there at all?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Good morning, Manav, and thanks for the question. I think, on the enterprise count thing or the enterprise count trend, I should say, there are few things going on there. One is, as we've talked about in the past, any M&A obviously will impact that count and we have been in a period where there's been more M&A than normal, and that has a modest impact on the count.

The second piece, which we talked about last quarter, was, we're continually refreshing and updating our data sources and that does and has over the last three or four quarters impacted the enterprise count a little bit to the negative, as we've cleaned up data and consolidated certain enterprises. Again, another modest impact.

The third thing I'd say is, which I alluded to in the prepared remarks, we're continuing to add new enterprises at a very strong clip in GTS. As I mentioned, through the first three quarters, we've added over 1,600 gross new enterprises. You will note a modest uptick or downtick, I should say, in our client retention rate. And essentially, you're not seeing the increases you've historically seen in our enterprise count because of the cleanup and because of the small downtick in the client retention rate.

Going forward, I don't think there's any change in the strategy, it's not about going after larger companies. The note I'd make around the really small companies and small tech companies in particular is, we have a different strategy around how we're attacking them. The bulk of our market is really not them. And so, we want to make sure that we handle that bit of the business in a more efficient, more effective, and more profitable manner. But the market opportunity remains really, really, really vast, and we'll continue to go after that opportunity by adding new salespeople and by growing the enterprise count over the long-term.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Okay. Got it. And Gene, just to follow up on your last comment there around seeing the returns in lot of your investments and making sure you see more. I guess, how will we see it? Like, shouldn't we also see some of that with some signs of improved margins given the heavy investment, or is that maybe two years out which is why you guided to flat margins for next year?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Yeah. Hey, Manav. I'll jump in. You mentioned margins, so Gene looked over to me. So, I think the way to think about it is, I think you're right. So, two things. One is, we're not providing 2020 guidance yet. We're working our 2020 operating plan as we speak, and we'll give you and all of our investors the details of that plan in early February.

Two, I do think there is a time that takes to actually see those benefits flow through, especially given the radical nature of the bulk of our revenues. And so, what Gene stated and which I affirmed is, we believe, for 2020, revenues and expenses and EBITDA will grow roughly in line with one another. And in my mind, that's the first step towards seeing the real benefits of all the investments we put in place.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

All right. Got it. Thank you, guys.

Operator: Thank you. Our next question comes from the line of Gary Bisbee with Bank of America. Your line is now open.

Gary E. Bisbee

Analyst, Bank of America Merrill Lynch

Q

Hey, guys. Good morning. Gene, I guess, the first question for you on the sales changes that you mentioned. Can you just give us a little more color? I've always thought your sales training was a key part of your long-term success. So, reducing that upfront more, I guess, you said just in time as you go, what does that really mean? And is there any productivity risk around that, and similar concept on the recruiting process changes or even the new way you're managing territories, what's the risk to those stretches? Thank you.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

A

So, let me just – I mean, there's clearly risk in anything you do, but we think these are actually – have a lot of upside to it. And let me just take for example the training piece. So, the way we have traditionally trained is, we'll bring a new person on, and depending what role they're in and what geography they're in, the training is six to eight weeks long, and it's really good training. We have – it really gives you a lot of tools.

What we found is, after being in training for a couple weeks, the kind of retention of what they've learned isn't as high as you'd like. And so, we've come up with what we think is our big innovation there, which is, shortening the upfront training to approx – and it'll vary, they call approximately two weeks. And then delivering the others, other training as they're in throughout their first year, but when they need it. So, for example, you might have a training session on how to handle client objections for a particular product. And you get that training upfront, well, it's

much more applicable if they're about to talk to a client about that particular product to get [indiscernible] (00:36:41) how to handle objections the day before as opposed to three months beforehand where they – the retention that they're – what they remember about, what they were told is a lot lower.

And so, the way to think about it is, they're going to get the same amount of training. But this is actually a much more effective way to do it because we've given the base what they need upfront and then each week they – I think about each week they would get a booster on the specific things they need to address, the challenges they have with their client base that particular week.

And so, the total training we're not thinking of is less. It's just a smarter way to do it, where they get it, where they can really use it. Any studies that you read and our experiences are same, which is, if you get training the day – if a salesperson gets trained the day before they have to actually use it, they pay a lot higher attention than if it's the fifth week of six weeks of training for something they're going to use in nine months, if you're with me.

And so, the way to think about it is, same training, just much more effectively delivered. It also happens to help our cost structure, because then we have people into territories sooner, and so instead of going to a territory after six or eight weeks, they're going to a territory after two weeks. And so, they actually start learning their client base and get that first sale faster, which gives them a lot of confidence.

Gary E. Bisbee

Analyst, Bank of America Merrill Lynch

Q

Great. That's helpful. And then, Craig, just one for you. When you talked about free cash flow, I think I heard you say ex the divestiture is fine, but did you also say when you're talking about conversion ex working capital movements? And if so, two-parter, are you changing how you talk about cash flow conversion? Number one. Number two, is there anything about the working capital characteristic particularly now that you've got CV growing at GBS that we should think is different than what it's been in the past?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Good morning, Gary, Good question. So, the working capital timing adjustment that we've discussed relates to the catch-up where we got behind at the end of 2017, which we talked about which really impacted 2017 free cash flow. At the time, we said it was about a \$40 million impact of free cash flows, because we had challenges in the integration with getting the invoices out, about \$40 million of 2017 free cash flow slipped into 2018. And so, when we talk about the adjustment, the "adjustment" for working capital timing, that's putting that \$40 million back in 2017 when we do the year-over-year comparison to get a better view on what the true organic growth rate is in free cash flow.

And then, on the second part of your question, no, no change to the working capital characteristics of the company. We remain really focused on making sure that we leverage and get the benefits out of the negative working capital characteristics of our Research businesses. We're very, very, very focused on that, as we discussed in the past and as you alluded to, as GBS contract value accelerates, that clearly is a benefit on those net negative working capital components, because as that business is growing faster, we get to take more advantage of it.

And then, the third thing I'd say is, we remain very focused on improving the efficiency of our working capital as well. And so, I think as we roll forward, we would expect to see us continue to get the benefits, perhaps even get more benefits out of the fundamentals of our working capital model as we grow both GTS CV and GBS CV.

Gary E. Bisbee

Analyst, Bank of America Merrill Lynch

Q

Thank you.

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

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. Craig, you mentioned the two main reasons for keeping the guidance the same, the Consulting and the expenses shifting into Q4. Would you say there is some more conservatism in the guidance than last quarter? And are there any incremental factors that you're seeing that are maybe a little bit less good and that's the reason you're keeping at the same?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Yeah. Good morning, Toni. Thanks. Thanks for the question. I think the way to think about the guidance is, when we came out of Q2 and with our adjustments there, we were very focused on delivering what we committed to over the second half of 2019. And as we rolled through Q3, I'd say, again the three – the two things I mentioned on the call, most notably the timing around Consulting and deferral of certain expenses into – from Q3 into Q4 certainly were the largest impacts. You might argue we were a little conservative in the Q3 number when we came out with it. But I would not imply huge overarching conservatism over our second half target, which we remain committed to.

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. And then, wanted to ask about Conferences. I think I probably hadn't appreciated the link between Conferences and Research sales as much as I should of. And so, can you just talk about how the GBS Conferences have been going and, I guess, if there is any way to quantify how much benefit you normally get from a conference translating into research sales later on, and anything in terms of improvement with Evanta, that would be great? Thank you.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

A

So, our – Toni, our Conferences are a great business and is a great way to leverage our research. When we do research on a particular topic, obviously that's very relevant to the people that are Research clients, it's also very relevant to people that are not yet Research clients [indiscernible] (00:42:39). And so, we've introduced, as you pointed out, Conferences of GBS taking sort of the ones that we had before they were smaller and those have all done great. They've really grown very rapidly. They've been very attractive to both the existing Research clients as well as people buying their own tickets separately. And we intend to continue that whole strategy.

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

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

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Thanks for taking my questions. Just, I want to talk about GBS a little bit. When we're thinking about your ability to get to double-digit CV growth next quarter, is that entirely a function of generating new GxL business, or do you think there's still a little bit of room to go in terms of improving your legacy attrition?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Hey. Good morning, Andrew. Yeah, I think, it's absolutely both. As we've discussed throughout the year, our focus clearly has been on GxL and GxL new business, and that's been going really, really well for us, as we've described and as you can see in our disclosure information.

I would note, though, that we have also been very focused on improving the attrition rates across the entire GBS portfolio. And so, the numbers we've given over the past couple of quarters have been inclusive of both GxL and the legacy Leadership Council. And we've seen really significant and material improvements in our attrition rates, and they've improved from quarter to quarter to quarter, with our best quarter so far being Q3. And that's across both GxL and legacy Leadership Council business. And so, yeah, that is absolutely a big lever for us. The bigger lever is clearly continued momentum in GxL new business. But every dollar we save from an attrition perspective obviously helps to accrete the overall growth rate.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Great. Thank you. And then, within GxL again, I know you target a number of different verticals there: HR, sales, so on and so forth. I'm just curious, if you could speak to where you're seeing the most traction? And then, maybe on the flip side, which verticals you would like to see grow a bit faster? Thank you.

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Yeah. I'll talk to the quantitative part of that question and Gene can talk strategically. Yeah, I think the really nice thing that we've seen since we launched the GxL products is, each of the functions that we serve, we've seen really, really strong – continued strong growth and accelerating growth. And one of the things we keep mentioning is, more than half of the new business we've generate in each of the last three quarters, more than half of it has come from the new GxL products that were launched post-acquisition. So, meaning, we're doing well and we continue to do well on the marketing and supply chain of GxL offerings that we had prior to the CEB acquisition, but we're really growing rapidly across all the functions that we now have GxL products for. And again, whether you look at HR or legal or finance, they're all doing really, really well. GxL new business in each of those enterprise functions is up significantly on a year-over-year basis, and we've seen really nice progress across all the functions.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

A

Yeah. [indiscernible] (00:46:20) we don't have a place that we sort of say, hey, it's underperforming relative to the expectations.

Andrew Nicholas
Analyst, William Blair & Co. LLC

Q

Got it. Thank you.

Operator: Thank you. Our next question comes from the line of Jeff Silber with BMO Capital Markets. Your line is now open.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Thanks so much. Wanted to go back to the margin discussion. If I go back a number of years ago before you guys bought CEB, now GBS, you were generating adjusted EBITDA margins of close to 19% or so. I know GBS has a different business; you've made a lot of investments in a lot of improvements. But I think when you bought the company, you were hoping to make it a Gartner like company, which you're making a significant amount of progress already. Do you think we can get back to these adjusted EBITDA margins around 19% over time?

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

A

Good morning, Jeff. Yeah. I think we are committed, as we talk about, to getting returns on the investments we've made, and we spent a lot of time this morning talking about – and last quarter as well – talking about ensuring that we are aligning our cost structure to our revenue growth. And so, I think the way to think about it is, we are committed to that. We're going to go after that. And when we get through 2020, we can start talking about what 2021 and 2022 and 2023 look like. But for now, I think we're very focused on finishing this year, making sure that we enter 2020 in the best possible condition both from a bookings perspective and also from a cost structure perspective, and then we're going to take it from there.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Okay. Fair enough. Thanks so much.

Operator: Thank you. Our next question comes from the line of Joseph Foresi with Cantor Fitzgerald. Your line is now open.

Joseph D. Foresi
Analyst, Cantor Fitzgerald

Q

Hi. I guess, my first question here is just around – it seems like there's a shift in strategy and that maybe the investment cycle for GxL is over at this point. Is that accurate? And if so, why this quarter versus other quarters?

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

A

So – hey, it's Gene. So, there is a shift in strategy, right. And the shift in strategy over the last three years we've been investing for the future, in particular with things like getting the GxL products in place, getting the sales force trained on it, getting our sales force capacity up, moving the – all of the GTS tools and training it over into GBS, that all took a lot of investments. We've now made those investments and we feel like that there's leverage we can get out of those. So, there really is a big shift in strategy from putting those investments in place to now actually we have them in place and getting acceleration to take advantage of those investments. Obviously – and

so, we would investing ahead of our CV growth particularly in GBS, now we want to make sure that we get all the levers we can out of those investments.

Joseph D. Foresi

Analyst, Cantor Fitzgerald

Q

Okay. And then, secondly, and I guess this is for you, Craig, because you get the margin questions, or Gene will at least point to you for them. On the margin side, if GxL improves and the revenues accelerate there as you're implying with the guidance and the contract value, is it fair to say that margins will follow it up because, I mean, it's been sort of the area of dilution, or is there any reason to think that there would be a separation there? Thanks.

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Hi, good morning, Joe. Thank you. So, again, I think the way to think about it is that, as Gene just mentioned, we have invested a lot. The investments are largely in people and we continue to pay those people. And that cost base is relatively fixed, but will continue to go up with inflation and things of that nature.

We absolutely do believe that as we accelerate our – the GxL business and the GBS business in total, that, all other things equal, that is definitely a help for our overall margin profile and margin position. I would remind you that GBS only represents about 20% of our total contract value and probably only 15% of our total revenue. And so, it does have an impact, but a modest or a more muted impact than you might think, just given the size of it. The real kind of margin or profit profile or incremental profitability that we generate really comes out of our GTS business, which is again a \$2.6 billion business, that's growing at 13% per year, and again, we're really committed to making sure that we align our cost base with our – cost base growth with our revenue growth and that's how we're thinking about it as we plan for 2020. And as we roll, again, into future years, we will continue to update everyone on how we're going to manage the business going forward.

Joseph D. Foresi

Analyst, Cantor Fitzgerald

Q

Thank you.

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

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. You indicated earlier that GBS CV growth will be about 9.6% in the fourth quarter if new business and attrition improvements in the third quarter carry over to 4Q. Can you outline precisely what assumptions that involve and maybe talk about the top two or three factors that could cause the trends from 3Q not to carry over to 4Q?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Yeah. Hey. Good morning, George. So, the top line assumptions are: new business growth of 26% year-over-year, which is what we achieved in Q3; and about a 500-basis-point improvement in the attrition rates, which also is what we achieved in Q3. And so, as Gene went through the math, those are the assumptions that we've used to get to that 9.6% based on the amount of contract value we have expiring in the fourth quarter.

As you know, Q4 is a big quarter for us in total for GBS in particular, both on the new business side, where we generate a significant amount of our new business in the fourth quarter, and also with our expiring CV, it tends to be the – or it is the highest weighted quarter in terms of expiring CV. But again, if you just extend what we saw in Q3 into Q4 with the new business improvement and the attrition improvement, if you run that math, you get the 9.6%.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful. And I want to tackle the margin question a little bit differently. Last quarter, you took down the full-year margins from about 17.5% to about 16% at the midpoint for EBITDA because you were pulling forward the open territory hires and now it sounds like you're going to recalibrate your expense growth to match the top line growth, and it's going to take about a year for 2020 for that to happen, so roughly flat margins. But as you manage the margins longer-term, is there room for the margins to get back to where they were just about a quarter ago in terms of the outlook of around 17.5%, or do you see a structural change in the business that might cause 16% to be the new norm?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

A

Yeah. Hey, George. Excellent job of re-swizzling the question in a thoughtful way. So, thank you for that. So, again, I think that there's nothing structurally different in the business. We're running it in a very similar way to the way we ran it forever within Gartner. Again, we're very focused for 2020, again, as we talk about, around just making sure that our cost growth and our – is aligned with our revenue growth, that's kind of step 1 in the process. If everything works and goes well, is there a potential for some margin benefit? Yes, we would say that absolutely. How much? We'll come back to you on that as we kind of get through this first phase, which is really making sure that we are aligned for 2020.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you.

Operator: Thank you. This concludes today's question-and-answer session. I will now turn the call back to Gene Hall for closing remarks.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

As you heard today, we once again delivered strong performance across all three of our businesses: Research, Consulting, and Conferences. The Gartner Formula for sustained long-term growth continues to drive success in our Research business. Our GTS organization continues to deliver strong performance. GBS continued our path towards double-digit growth and we expect GBS contract values to continue to accelerate. We delivered incredible value to every major function in the enterprise. We have a vast market opportunity. We made investments over the past few years that positions us well to capture that market opportunity. And looking ahead to 2020, with the great strategic positioning of GTS and GBS, together with leveraging the investments we've made, we expect double-digit top line growth and EBITDA growing approximately in line with revenues.

Thanks for listening. We look forward to updating you again next quarter.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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