S&P Global
Market Intelligence

Gartner, Inc. NYSE:IT

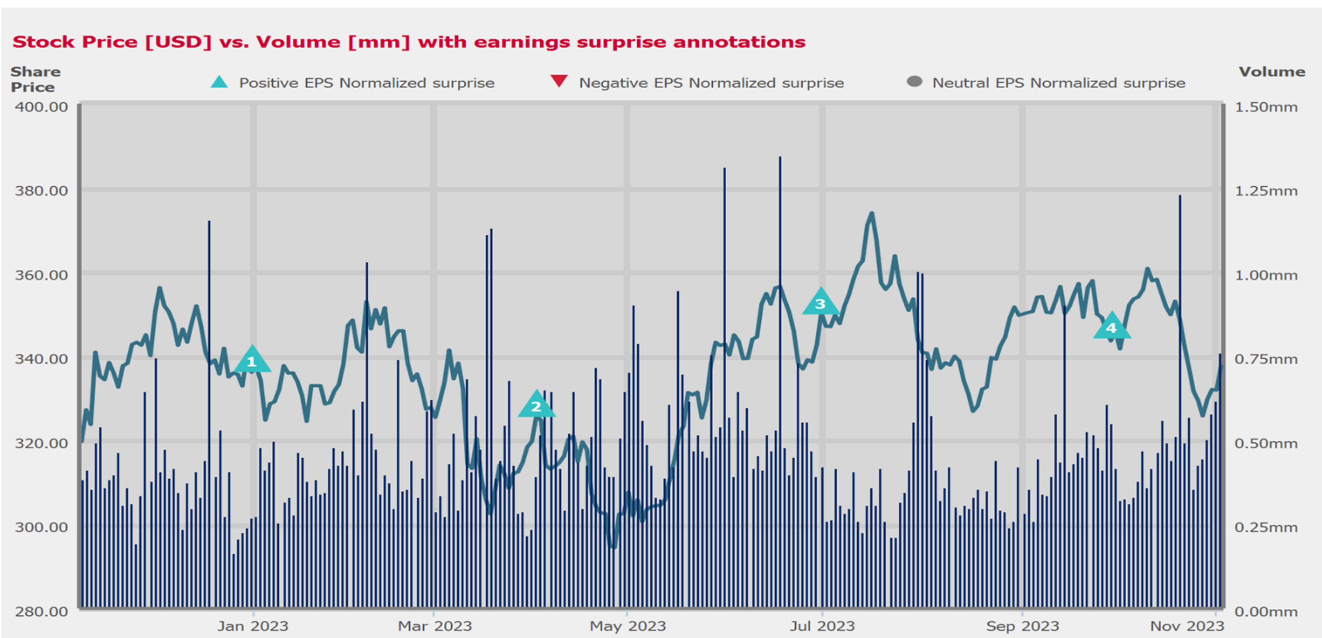
FQ3 2023 Earnings Call Transcripts

Friday, November 03, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.96	2.56	▲30.61	2.57	10.29	11.34
Revenue (mm)	1391.12	1408.80	▲1.27	1578.42	5877.89	6350.78

Currency: USD
Consensus as of Oct-17-2023 10:06 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2022	2.58	3.70	▲1 43.41 %
FQ1 2023	2.06	2.88	▲2 39.81 %
FQ2 2023	2.50	2.85	▲3 14.00 %
FQ3 2023	1.96	2.56	▲4 30.61 %

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William Blair & Company L.L.C., Research Division

Heather Nicole Balsky
BofA Securities, Research Division

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Jeffrey Meuler

Joshua K. Chan
UBS Investment Bank, Research Division

Keen Fai Tong
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Presentation

David Cohen
Group Vice President of Investor Relations

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

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

On the call, unless stated otherwise, all references to EBITDA are for adjusted EBITDA, with the adjustments as described in our earnings release and supplement, while contract values and associated growth rates we discuss are based on 2023 foreign exchange rates and exclude contributions related to the first quarter divestiture and the 2022 Russia exit. Our growth rates in Gene's comments are FX-neutral unless stated otherwise. All references to share counts are for fully diluted weighted average share counts unless stated otherwise. Reconciliations for all non-GAAP numbers we use are available in the Investor Relations section of the gartner.com website.

As set forth in more detail in today's earnings release, certain statements made on this call may issue forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties, including those contained in the company's 2022 annual report on Form 10-K and quarterly reports on Form 10-Q as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

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

Eugene A. Hall
CEO & Director

Good morning, and thanks for joining us today. Gartner drove another strong performance in Q3. We delivered high single-digit growth in contract value. Revenue, EBITDA and adjusted EPS came in above expectations. Free cash flow in the quarter was excellent.

The external environment remains volatile and uncertain. The tech sector is still adjusting to post-pandemic demand. The banking industry continues to grapple with rising interest rates. Supply chain challenges are still in many industries. There's heightened geopolitical volatility, and more. Leaders know they need help, and they know Gartner is the best source for that help.

Gartner delivers actionable, objective insight to drive smarter decisions and stronger performance on our clients' mission-critical priorities. Whether they're thriving, struggling or anywhere in between, our insights, tools and advice often mean the different success and failure for leaders and the enterprises they serve.

We continue to be agile and adapted to the changing environment. Research continues to be our largest and most profitable segment. We got leaders across all major enterprise functions in every industry around the world. Our market opportunity is vast across all sectors, sizes and geographies. We estimate our opportunity at around $200 billion.

In the third quarter, we continue to help clients with a wide range of topics, such as cybersecurity, data analytics, artificial intelligence, remote work, cost optimization and more. In the third quarter, Research revenue grew 5%. Subscription revenue grew 8% on an organic basis. Total contract value growth was 8%. Contract value for enterprise function leaders continued to grow at double-digit rates.

We serve executives and their teams through distinct sales channels. Global Technology Sales, or GTS, serves leaders and their teams within IT. GTS also serves leaders at technology vendors, including CEOs, Chief Marketing officers and senior product leaders. GTS contract value grew 7%. GTS sales to enterprise function leaders performed well in the quarter. GTS sales to leaders at technology vendors were affected by technology sector dynamics and tough year-over-year comparisons. We expect sales to technology vendors will return to normal growth rates over the next 12 to 18 months.

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 14%.

Through a relentless execution of proven practices, we're able to deliver unparalleled value to our clients. Our business remains resilient despite a persistent, complicated, external environment and top compares for the technology vendor market.

Gartner Conferences deliver extraordinarily valuable insights to an engaged and qualified audience. This will be the first full year of in-person conferences since 2019. We're having a great year. In-person attendance and advanced bookings are at record levels. The fourth quarter is off to a great start, and our outlook for the year remains strong.

IT Symposium/Xpo is our flagship conference in series. I recently attended this conference in Orlando. Attendance was strong. Our sales teams were highly engaged with clients and prospects, and feedback from the conference continues to be excellent.

Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic initiatives through a deeper extended project-based work. Consulting is an important complement to our IT research business. Consulting revenue grew 23% of the quarter, with record results in contract optimization.

Given the strong performance across business, we've increased our 2023 guidance for revenue, EBITDA and free cash flow. Craig will take you to the details. We're well positioned to strong close to the year and get off to a fast start in 2024.

In closing, Gartner achieved another strong growth. We deliver unparalleled value to enterprise leaders and their teams across every major function, whether they're thriving, struggling or anywhere in between. We're exceptionally agile and continuously adapt to the changing world. We know the right things to do to be successful in any environment. Looking ahead, we are well positioned to continue our strong record of success far into the future.

Our client value proposition and addressable market opportunity will allow us to drive long-term, sustained double-digit revenue growth. We expect margins will expand modestly over time, and we generate significant free cash flow well in excess of net income. Even as we invest for future growth, we'll return significant levels of excess capital to our shareholders. This reduces shares outstanding and increases returns over time.

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

Craig W. Safian
Executive VP & CFO

Thank you, Gene, and good morning. Third quarter results were strong with high single-digit growth in contract value. Revenue, EBITDA, adjusted EPS and free cash flow were better than expected with outstanding performance in consulting and disciplined cost management. With strong results in the quarter and good visibility into Q4, we are increasing our 2023 guidance. Third quarter revenue was $1.4 billion, up 6% year-over-year as reported and 5% FX-neutral.

In addition, total contribution margin was 68% compared to 69% in the prior year as the 2022 hiring catch-up continued to flow through the P&L as expected. EBITDA was $333 million, ahead of our guidance and about in line with last year. Adjusted EPS was $2.56, up 6% from Q3 of last year. And free cash flow was $302 million.

We finished the quarter with 20,253 associates, up 6% from the prior year and 1% from the end of the second quarter. We remain well positioned from a talent perspective as our associates continue to move up the 10-year curve.

Research revenue in the third quarter grew 6% year-over-year as reported and 5% on an FX-neutral basis. Subscription revenue grew 8% on an organic FX-neutral basis. Non-subscription revenue performance was similar to Q2. Third quarter Research contribution was 73% compared to 74% in the prior year period as we have caught up on hiring and returned to the new expected levels of travel.

Contract value, or CV, was $4.7 billion at the end of the third quarter, up 8% versus the prior year. The third quarter last year was a very strong research quarter with outstanding performance across most key metrics. CV growth is FX-neutral and excludes the first quarter 2023 divestiture.

CV from enterprise function leaders across GTS and GBS grew at double-digit rates. New business with enterprise function leaders increased double digits as well. CV from tech vendors grew low single digits compared to mid-teens growth in the third quarter of 2022. Quarterly net contract value increase, or NCVI, was $101 million. As we've discussed in the past, there is notable seasonality in this metric.

CV growth was broad-based across practices, industry sectors, company sizes and geographic regions. Across our combined practices, the majority of the industry sectors grew at double-digit rates, led by the transportation, services and public sectors. We had high single-digit growth across all of our enterprise size categories other than the small category, which has the largest tech vendor mix, and grew low single digits. We also drove double-digit or high single-digit growth in the majority of our top 10 countries.

Global Technology Sales contract value was $3.6 billion at the end of the third quarter, up 7% versus the prior year. GTS CV $65 million from the second quarter. While retention for GTS was 102% for the quarter, which compares to 107% in the prior year, when we saw a near-record high for this metric. IT enterprise function leaders wallet retention remained above historical GTS levels during the third quarter.

GTS new business was up 7% versus last year. New business with IT enterprise function leaders increased mid-teens compared to the prior year. GTS quota-bearing headcount was up 5% year-over-year. With the dynamic territory planning we introduced a few years ago, the catch-up hiring we did last year and our teams moving up the tenure curve, we're well positioned for growth moving into 2024. Our regular full set of GTS metrics can be found in the appendix of our earnings supplement.

Global Business Sales contract value was $1 billion at the end of the third quarter, up 14% year-over-year. All of our GBS practices grew at double-digit or high single-digit rates, other than sales, which grew mid-single digits. Growth was again led by supply chain and HR. GBS CV increased $36 million from the second quarter.

While retention for GBS was 108% for the quarter, which compares to 114% in the prior year when we saw one of the highest-ever results for this metric. GBS new business was up 10% compared to last year. GBS quota-bearing headcount was up 10% year-over-year. This excludes headcount associated with the Q1 divestiture. As with GTS, our regular full set of GBS metrics can be found in the appendix of our earnings supplement.

Conferences revenue for the third quarter was $57 million, ahead of our expectations during a seasonally small period. We delivered strong growth for the conferences we held in Q3 compared to the same conferences in 2022. The calendar shifted significantly from 2022 to 2023 with the return to in-person. Contribution margin in the quarter was 36%, consistent with typical seasonality and reflecting investments for future growth. We held 9 destination conferences in the quarter, all in-person.

Third quarter Consulting revenues increased by 24% year-over-year to $133 million. On an FX-neutral basis, revenues were up 23%. Consulting contribution margin was 37% in the third quarter. Labor-based revenues were $100 million, up 10% versus Q3 of last year as reported and on an FX-neutral basis. Backlog at June 30 was $180 million, increasing 15% year-over-year on an FX-neutral basis with continued booking strength. Our contract optimization business is highly variable. We delivered $33 million of revenue in the quarter with some of the revenue pulled forward from the fourth quarter relative to our prior outlook.

Consolidated cost of services increased 8% year-over-year in the third quarter as reported and 7% on an FX-neutral basis. The biggest driver of the increase was higher headcount to support our future growth. SG&A increased 8% year-over-year in the third quarter as reported and 7% on an FX-neutral basis. SG&A increased in the quarter as a result of headcount growth.

EBITDA for the third quarter was $333 million, about in line with last year. Third quarter EBITDA upside to our guidance primarily reflected revenue exceeding our expectations in consulting and prudent expense management.

Depreciation in the quarter of $25 million was up modestly compared to 2022. Net interest expense excluding deferred financing costs in the quarter was $21 million. This was down $8 million versus the third quarter of 2022 due to higher interest income on our cash balances. The modest floating rate debt we have is fully hedged through maturity.

The Q3 adjusted tax rate, which we use for the calculation of adjusted net income, was 22% for the quarter. The tax rate for the items used to adjust net income was 35% for the quarter.

Adjusted EPS in Q3 was $2.56, up 6% compared with last year. We had 80 million shares outstanding in the third quarter. This is a reduction of close to 1 million shares or about 1% year-over-year. We exited the third quarter with about 79 million shares on an unweighted basis.

Operating cash flow for the quarter was $331 million, up 5% compared to last year. CapEx for the quarter was $28 million, down 11% year-over-year as a result of catch-up spend on technology investments in 2022 which normalize this year. Free cash flow for the quarter was $302 million. Free cash flow as a percent of revenue on a rolling 4-quarter basis was 18% of revenue and 67% of EBITDA, adjusted for the after-tax impact of the Q1 divestiture, free cash flow conversion from GAAP net income was 122%. Our free cash flow conversion is generally higher when CV growth is accelerating.

At the end of the third quarter, we had about $1.2 billion of cash. Our September 30 debt balance was about $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was under 2x. Our expected free cash flow generation, available revolver and excess cash remaining on the balance sheet provide ample liquidity to deliver on our capital allocation strategy, our share repurchases and strategic tuck-in M&A. Our balance sheet is very strong with $2.2 billion of liquidity, low levels of leverage and effectively fixed interest rates.

We repurchased $209 million of stock during the third quarter and about $100 million in October. The Board increased authorization by $500 million earlier this week, and we expect they will continue to refresh the repurchase authorization as needed going forward. At the end of October, following the increased authorization, we had about $1 billion available for repurchases. As we continue to repurchase shares, our capital base will shrink. Over time, this is accretive to earnings per share, and combined with growing profits, also delivers increasing returns on invested capital.

We are raising our full year guidance to reflect the better-than-expected Q3 performance and good visibility into the fourth quarter.

For Research, we continue to innovate and provide a very compelling value proposition for clients and prospects. Subscription research growth will reflect recent trends in contract value. We continue to expect stronger growth in the subscription business than in the non-subscription part of the segment, consistent with the third quarter.

For Conferences, we still expect Q4 to be the largest quarter of the year. For Consulting revenues, the labor business continues to perform well. We have very tough contract optimization compares in Q4 and pulled some revenue into Q3 relative to our prior expectations. We will continue both to manage expenses prudently to support future growth and deliver strong margins.

Our updated 2023 guidance is as follows: We expect research revenue of at least $4.875 billion, which is FX-neutral growth of about 6%, or 7% excluding the Q1 divestiture. The update to the Research revenue guidance reflects better-than-planned NCVI performance in Q3. With continued stability in the non-subscription part of the business, there is modest incremental upside relative to the expectations we built into the guidance last quarter.

We expect Conferences revenue of at least $500 million, which is FX-neutral growth of about 27%. We have increased our outlook for Conferences by $10 million to reflect a good start to the fourth quarter.

We expect Consulting revenue of at least $515 million, which is growth of about 8% FX-neutral, reflecting the very strong performance in Q3 and timing in the contract optimization business.

The result is an outlook for consolidated revenue of at least $5.89 billion, which is FX-neutral growth of 8%. We now expect full year EBITDA of at least $1.44 billion, up $80 million from our prior guidance. With the strong performance in Q3, we have increased confidence in the margin forecast for the fourth quarter. We expect typical operating expense seasonality from Q3 to Q4. We now expect 2023 adjusted EPS of at least $10.90 per share.

For 2023, we now expect free cash flow of at least $1.025 billion, up $50 million from our prior guidance. Higher free cash flow reflects a conversion from GAAP net income of 136%, excluding the after-tax divestiture proceeds. Our guidance is based on 80 million fully diluted weighted average shares outstanding, which reflects the repurchases made through the end of October.

We are performing well this year despite continuing global macro uncertainty and a dynamic tech vendor market. CV grew high single digits in the quarter. Revenue and EBITDA performance exceeded our expectations, and we increased our guidance. Free cash flow was strong in the quarter, and we increased the guidance for the full year.

We repurchased about $550 million of stock year-to-date through October and remain eager to return excess capital to our shareholders. We will continue to be disciplined, opportunistic and price-sensitive.

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 about in line with CV growth and G&A leverage, we will expand EBITDA margins modestly over time. 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

Operator

[Operator Instructions] Our question is from Jeff Mueller with Baird.

Sir, can we continue with the next question? [Operator Instructions] Next question is from Heather Balsky with Bank of America.

Heather Nicole Balsky
BofA Securities, Research Division

I was hoping to ask a question about expense management. As you look into next year, you -- assuming that tech vendor spending potentially starts to lap with easier comparisons, there's an opportunity to win back those sales. Do you think you need to invest behind that? Or do you think you have an opportunity with your existing sales force? And then also just your thoughts around expense management as you head into 2024 more broadly.

Eugene A. Hall
CEO & Director

Heather, it's Gene. So as we look at our market opportunity, as you know, our market opportunity is very vast. Over time, we intend to grow our sales force in line with capturing that market opportunity. Over the last couple of years, we've grown our sales group dramatically, and we feel like we're in a really good position as we go into the end of '23 and '24 with the capacity we have. Again, over time, we will continue to grow that capacity.

Heather Nicole Balsky
BofA Securities, Research Division

And so -- just to clarify then. When you think about the tech vendor opportunity, do you think you can win back those sales with the sales force you have? That's the fair assumption?

Eugene A. Hall
CEO & Director

Yes. Over time, Heather, we think that the tech vendor market will return to the kind of growth we've seen historically. Again, as we -- our perspective on it, there's a lot of the business they had was pulled forward, their own sales, as a result -- they kind of overhired and have been having some retrenchment which is impacting our business. we think, again, that the tech business is going to grow over time. Their revenues will grow, and our business will get back to normal growth over time as well.

Craig W. Safian
Executive VP & CFO

And Heather, it's Craig. The other thing I would add is, as our tech business, as the contract value accelerated over the last 2 years, we also increased the number of territories we have serving that market. And so we did a lot of hiring across all of both GTS and GBS, as Gene mentioned, over the last couple of years, tech vendor market included.

And so a lot of new people joined the company in 2022 in selling positions and they are coming up for tenure curve. And so as we think about our territory coverage, if you will, heading into 2024 and beyond as well as the maturation of our sales force heading into 2024, we feel like we're in a really good position to return to the kind of target growth that we want to over the medium term.

Operator

[Operator Instructions] Next question comes from the line of Toni Kaplan.

Toni Michele Kaplan

Morgan Stanley, Research Division

I was hoping you could give us some metrics around the current average tenure of your salespeople compared to sort of a reference point, maybe it's year-over-year or pre-pandemic or versus a historical average. Just want to get a sense of where we are now versus some historical point.

Craig W. Safian
Executive VP & CFO

Toni, thanks for the question. So the way to think about it is, if you look at all of the net and gross adds we did in 2022, effectively, when we entered this year, we had the least tenured or least experienced sales force that we've ever had. Sort of order of magnitude, we're typically -- Gene and I have both talked about this in the past. Like in normal times, call it, 35% to 40% of our sales force is on the new-ish side. We were in the 50-plus percent range being brand new to Gartner.

As we've made our way through this year, obviously, all those people we hired in 2022 have gained experience and tenure. We did -- we were very back-end loaded last year in terms of the hiring. And so those people we hired in the third and fourth quarter of last year are now approaching or have just crossed over their 1-year anniversary.

And again, that's sort of getting back to Heather's question, Gene, around do we have enough capacity, et cetera. We have enough capacity, and the tenuring will look more "normal" as we roll into 2024, but significantly better than what we experienced -- or more tenured than we experienced over the course of 2023.

Toni Michele Kaplan
Morgan Stanley, Research Division

Yes. That makes sense. I wanted to ask about client retention, sort of a step down in both GTS and GBS. The levels, I think, are still pretty within historical range. But like, I guess, is there anything you're doing to put in place initiatives to address retention? Or do you feel like you're at sort of more normal levels? And I guess, what's driving that? And any concern to call out?

Craig W. Safian
Executive VP & CFO

No. So on the GBS side, while we're still at or above historical levels, it's really tech vendor drag, and it's really small tech vendor drag there. If you actually broke apart our enterprise function leader in GTS, those client retention rates are at or above historical levels for GTS. And so it's really just the tech vendor market impacting that client retention rate.

On the GBS side, yes, it's down a little, but it's still 400, 500 basis points higher than GTS. And so we feel really good about that. That said, we're never done on retention. So I'll let Gene talk a little bit about that.

Eugene A. Hall
CEO & Director

Yes. Toni, as Craig said, even with the rates we have now, we are never satisfied. And so have a whole set of programs designed to improve those retention rates over time. And it includes things like how we use our conferences, the ads, the tools, the support tools we give to our service delivery associates, as well as the training we have with people first come on board and then current training throughout their careers, et cetera. So we are never satisfied with the -- no matter how good it is, we always want to be better.

Operator

[Operator Instructions] Next question comes from the line of Seth Weber with Wells Fargo.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

I wanted to go back to the expense question just for a second. I mean, your margin guidance for this year is pretty well ahead of the initial framework that you guys were talking about earlier in the year or last year. I'm just trying to think through, are there any big cost buckets that could come back next year? I think, Craig, you mentioned travel is kind of back, T&E. So I'm just trying to think through the margin leverage going forward in a higher revenue -- in a revenue growth rate environment, if there's anything we should be considering.

Craig W. Safian
Executive VP & CFO

Seth, great question. So I think there's a couple of things going on within your question. So from an operating expense perspective, we are, I guess, relatively back to sort of normalized level of expenses. There are obviously always going to be puts and takes, but a relatively normalized level of expenses.

I would note, and this is obviously embedded in the guidance, that there's a pretty significant step-up in OpEx sequentially from Q3 to Q4 just given our conference schedule, our travel related to conferences, in the fourth quarter and other client activity, marketing related to conferences and Q4 activity, et cetera. So it reflects sort of normal Q3 to Q4 step-up, but just make sure you kind of bake that into the OpEx.

I think the only thing just to keep in mind is that, obviously, our largest revenue line is our Research, and there is a lag between when contract value does start accelerating and then the revenue flows through. And so we're just mindful of watching that, and that can have a pretty significant impact on margins on both a sequential and year-over-year basis.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then just following on that. Is there any reason to think that pricing would be softer next year than it was in 2023?

Eugene A. Hall
CEO & Director

Seth, it's Gene. What I'd say we're seeing in the marketplace is clients value our products greatly, and we expect pricing, the pricing environment will be the same next year as it is this year.

Operator

[Operator Instructions] Next question, please, comes from the line of Jeffrey Meuler with [Wells Fargo].

Jeffrey Meuler

Can you hear me now?

Operator

Yes.

Jeffrey Meuler

Okay. Sorry to drag you back to it. I know you said you have sufficient sales capacity. I just want to make sure I'm understanding the management of sales headcount appropriately. So is this that you've already seen a slowing environment and you've already rebuilt your sales capacity. So with those dynamics, you're well calibrated? Or should we be reading into it that there's any sort of like incremental weakening you're seeing? Because we're not seeing that in any of your externally reported metrics.

Eugene A. Hall
CEO & Director

Yes, Jeff. So you should not read into it in any way that we're seeing any kind of weakening. It's what we talked about earlier, which is that we expanded our sales force a lot over the last 2 years. For GTS, it's up about 18% since the end of 2021. That's a lot of capacity. So we've added a lot of capacity. On top of that, as Craig mentioned, A lot of those people now coming into tenure.

And so as we look, especially for '24, we feel like we're really well situated in terms of actual capacity between the large number of additions we've made in the last 2 years and the fact that those people we got up the tenure curve and kind of being at the really -- a really good spot at the tenure growth during '24, and by the way, in '25 as well.

Jeffrey Meuler

Okay. And then, Craig, you just alluded to this, but I guess I was surprised to see subscription revenue perform as well as it did in Research. And I'm not sure if there's some FX impact or divestiture impact or something. But to see it on Slide 7 actually accelerate while CVs still been decelerating, if you can just address why Research subscription revenue would be accelerating with those dynamics.

Craig W. Safian
Executive VP & CFO

Yes, Jeff. So I think there's a little bit of FX in there. Obviously, I do think over the course of Q3, and this is part of the reason why we're able to increase the Research guide a little bit, too, is NCVI or growth came in earlier in the quarter than we had originally anticipated.

And so again, the combination of -- if it books in July, we get to take 2 months of it. If it books at the end of September, it's all in Q4. And so we got a little bit of that benefit flowing through into Q3. And then obviously, we were able to raise the full year guide for the Research segment as well because of the -- beating our expectations for the third quarter in NCVI.

Operator

[Operator Instructions] Comes from the line of Andrew Nicholas with William Blair.

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

I wanted to again, ask on the headcount question and maybe ask it a different way, which is, given where you feel you are with headcount and territory coverage and the ramp for what was previously a lower-tenured sales force. Is it fair for us to expect, next year, for a bigger gap between CV growth and headcount growth? And maybe the 4% to 5% that you've talked about historically as all those dynamics going to come together?

Craig W. Safian
Executive VP & CFO

Andrew, it's Craig. I think the way we're thinking about it, again, we'll provide full guidance in February. But we're -- as we've mentioned throughout the course of this year, we are constantly recalibrating based on the external situation and how our business is performing.

Looking at the headcount sort of quarter-to-quarter, there can obviously be a little bit of noise in those numbers. And so as Gene and I both alluded to, there's really nothing to see there. And as we roll into next year and beyond, the algorithm that we continue to think about is we're going to grow our territories and our headcount in that kind of within 4 points -- 4 or 5 points of contract value growth. And the 4 to 5 points is really dependent on what we're seeing from a wage inflation perspective. And so wage of inflation is abating a little bit, we'll be closer to CV minus 4. If wage inflation is higher, it will be CV minus 5 or whatever. But that's the algorithm over the long term or medium term.

Quarter-to-quarter, it may shift a little bit just given what's going on. But over the long term, given the huge addressable market opportunity, that's the algorithm we're going to go after.

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

Makes sense. And then for my follow-up, I just wanted to [Audio Gap] curious how the last year or so, given all the macro uncertainty, geopolitical dynamics, tech vendor weakness, all these different kind of noisy items, that performance and that growth has remained very strong and within your medium-term target.

So I'm just wondering if, having been through that in the past couple of years, if you have any kind of updated views on kind of the cyclicality of that business specifically. Because it does seem to have been more resilient than I would have expected, particularly off difficult comps last year.

Craig W. Safian
Executive VP & CFO

Andrew, sorry, you cut out the beginning. Are you talking about consulting?

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

Sorry. No, I was asking about GBS CV growth, just kind of the resilience of the CV growth there.

Craig W. Safian
Executive VP & CFO

Yes. I mean, I think it's just consistent with the story and the facts we've been telling for a while, which is business leaders outside of IT and HR and finance and legal and sales on their mission-critical priorities, and we have great products that offer tremendous value in that space. That's really the headline there.

We've gotten better at the insights we create. We've gotten better with our selling motions. We've gotten better in everything we do. But the net of it is, is that business leaders have problems, and we have great products to help them solve those problems. And again, we believe that, that won't change moving forward.

Operator

Does that answer your question, Andrew?

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

Yes.

Operator

[Operator Instructions] From the line of Josh Chan with UBS.

Joshua K. Chan
UBS Investment Bank, Research Division

You mentioned that NCVI was better this quarter than you expected. So is there any themes in terms of types of clients to call out? And do you think that the strength is more a function of the market turning? Or is it your sales force gaining traction there?

Eugene A. Hall
CEO & Director

Yes. I guess, Josh, I'd say that we saw a pretty consistent market environment between Q2, Q3. If we get something that Craig said a minute ago, which is that our experts look at what are the most important issues facing executives in each of their functional areas? And we have -- we give them advice on how to address those things. That's through all kind of environments, whether it's a really robust or not as robust for the individual enterprise. And so I think what you see is just that clients get a lot of value out of our research, and it's true over time.

Joshua K. Chan

UBS Investment Bank, Research Division

Right. Okay. And I guess on the consulting side, I appreciate that you mentioned there was some timing pull-forward there. But do you think the contract optimization strength, is it's more a function of where we are in the cycle and clients looking to, I guess, optimize their spend? Or is that more of a kind of a onetime type of event for you? Do you expect kind of sustained strength in the contract optimization business for the next couple of quarters, I guess?

Eugene A. Hall
CEO & Director

Yes. The contract optimization business, we've talked about in the past, is a very lumpy business. And so you can't really take one quarter and sort of say -- and extrapolate, is something different in the market? Whatever. It's really just a matter of when deals happen to come in and what clients happen to be looking for at that point of time. And so the other way we're looking at that business is kind of like over a year-long period or something. From quarter to quarter, you can't really draw any conclusions.

Craig W. Safian
Executive VP & CFO

I do think, Josh, the one other thing I'd add is that clients like saving money in any operating environment. So again, I think it's obviously a really strong value proposition, even in a not-choppy economic environment.

Operator

[Operator Instructions] From the line of Manav Patnaik with Barclays.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Craig, just to ask the expense question a little differently. I mean, obviously, there's the seasonal tick up going into 4Q. But if you look at the full year thus far, like has that expense base being more normal? Or are there any other puts and takes we need to consider as we go into next year?

Craig W. Safian
Executive VP & CFO

I think it's -- I would characterize it as roughly normal. I do think that as we pivot into next year, we are likely to get back to a little bit faster headcount and territory growth, and so we need to model that in. But that's probably the biggest lever on that operating expense base other than timing of conferences and things like that.

It's just -- as Gene mentioned earlier, we grew a lot, particularly in 2022. And so this year, we have been sort of operationalizing, maturing and digesting a lot of that growth. And so there was -- there has not been a huge amount of net headcount growth baked into the 2023 numbers. There is some, but not as much as we've had historically. I think we get back to a more normal level of that next year. So that would have to be modeled in, our normal wage inflation and merit increase and things like that. But that -- the other stuff is generally normal course.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Got it. Okay. And then my second question was just around the new sales environment. Obviously, fourth quarter is big quarter. Any color on that? Plus, just I think the new sales numbers you gave with GTS and GBS were positive mid- to high single digits. Like how much of that was comps versus any -- just talk about the momentum there, I guess.

Eugene A. Hall
CEO & Director

So in terms of the selling environment, again, I think it's unchanged. We see the same selling environment sort of Q2, Q3, and we're expecting the same environment in Q4.

In terms of the comp, I'll let Craig...

Craig W. Safian
Executive VP & CFO

Yes, I mean I think for instance the headcount numbers. And so yes, I mean, GBS Headcount was up 10% year-over-year. GTS up 4.5%. Again, we are constantly, as we've talked about, you're probably tired of hearing me say it, recalibrating those numbers around a variety of different scenarios for the end of the year. Obviously, there's only another 2 months that's in the year.

But yes, we expect to end the year sort of aligned from a headcount perspective and CV perspective so that we roll into next year with the right size sales force. And then we'll continue to grow that sales force moving forward to go after that huge market opportunity.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Apologies, Craig. I was referring to the new business number, but I appreciate the headcount color as well.

Craig W. Safian
Executive VP & CFO

Yes. So -- okay, great. Sorry about that. So yes, on the new business side, I think it's a combination of a little bit easier comps and the maturation of the sales force coming up the tenure curve.

Operator

[Operator Instructions] Comes from the line of George Tong with Goldman Sachs.

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

Going back to tech vendor trends, you mentioned that Research non-subscription revenues were similar in terms of performance to 2Q and tech vendor CV growth was in the low single digits. Can you elaborate a little bit more on what you're seeing with tech vendors? And if your updated 2023 guide assume stabilization or improvement in performance?

Eugene A. Hall
CEO & Director

So I'd say for Q3, we didn't see any change in the tech vendor environment, just the same as we've seen in Q2.

In terms of the guidance, I'll let Craig...

Craig W. Safian
Executive VP & CFO

Yes. I mean, I think it's stabilization, George. So we haven't yet seen signs that, that market has shifted yet. We do believe, again, over the medium term or the next year, 1.5 years, that we will get back to more normal growth trends there. But I'd say what we saw in Q3 and what's embedded in the guidance.

And again, I mean, the reality, just also remember that contract value or growth we sell in Q4 really has almost a de minimis impact on the full year Research revenue numbers from a subscription revenue perspective. And so stabilization baked in there. And similarly, on the non-sub line, we have not assumed any crazy rebound. Sort of what we're seeing is stabilization, and that's what we've modeled into the guidance.

Keen Fai Tong

Goldman Sachs Group, Inc., Research Division

Got it. That's helpful. And then perhaps to ask the margin question a little bit differently. You raised your full year guidance for EBITDA margins once again this quarter. Can you provide your latest views on what structural EBITDA margins are? And if the factors that led to your improved full year outlook for EBITDA margins can also lead to an improved view on structural margins?

Craig W. Safian
Executive VP & CFO

Sure. Happy to. So I think the view is really not changed from prior quarters and prior discussions. So what I'd say is our view on our margin profile today is that the base or foundational margins are in the low 20s. Obviously, that is significantly higher than they were before the pandemic and before the CEB acquisition.

In addition to that, as always, we believe there is operating leverage in the business and that our margins will go higher over time. We'll give guidance in February as we always do. As we talked about on some of the other OpEx questions, this year's operating expense is a reasonable starting point to think about the margins and the overall P&L for next year.

But just, obviously, keep in mind that there are other things beyond just the OpEx level and the level of investment we've put into the business next year that will impact the margins, most notably, where we end this year from a contract value perspective. Because as we've talked about, there is a lag in terms of the revenue and the CV relationship, both when CV is decelerating but also when CV begins to accelerate as well. So it does take a quarter or 2 for -- lag for the sub revenue to kind of catch up the CV. And so again, just be mindful of that as you think about of 2024 as well. We'll provide all those details in February when we come out with our initial guidance [for 2024].

Operator

[Operator Instructions] From the line of Jeffrey Silber with BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I'm not going to ask a margin question. Actually, I wanted to talk about pricing. If I remember correctly, this is the time of the year where you start instituting price increases. And I'm just wondering, how has that been? If you've seen any pushback in terms of client may be pushing back on what they're buying.

Eugene A. Hall
CEO & Director

Jeff, I'll get started, which is, as I mentioned earlier, we haven't seen -- it is the time we increase prices. It rolls through, obviously, as clients renew. And I'd say it's a normal environment, we haven't seen any pushback.

Craig W. Safian
Executive VP & CFO

Yes. I mean, Jeff, so the major price increase for us goes -- it went into place 2 days ago on November 1. So we're obviously very, very, very early in that cycle.

But again, if you think about it, the average client is spending, order of magnitude, $250,000 or $260,000 a year with us. So the difference between 4% and 5% is not a lot of money in the grand scheme of things. And again, we're very focused on making sure that we're delivering value well in excess of that $250,000 or $260,000. So we're generally able to sell the price increase, again, sort of as a normal course of business for us.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. That's helpful. I appreciate it. Let me shift over to Conferences. I know the numbers have been strong. But typically, when we're in an environment of economic uncertainty, that area of the business might tend to be a little bit weaker. Do you think we're just seeing kind of a bounce-back from the pandemic and the fact that nobody was traveling and nobody was mangling? And maybe as we go into next year, you might see some softness in that business?

Eugene A. Hall
CEO & Director

So Jeff, I think the key thing driving the business is that our clients, our enterprise functional leaders, have a lot of challenges and we've done a good job at laying out what those challenges are and how they should address them. As we market our conferences to potential attendees, we focused on, here are the issues you're facing, here's how we're going to help you with that in the conference. .

And so I think the biggest single thing that's driving our Conferences performance is that we're on the issues people care -- our attendees have a lot of issues, and we are on the -- our experts have a lot of solutions to those issues that they get a lot of value for it. I think that's kind of the biggest thing.

In addition to that, obviously, we've been adding conferences back. And so we're getting, I think, some people that couldn't go to conference in the past now can go. And so you sort of see that in terms of comparison points. But it's really having to do more about the value, I think, most of all.

Operator

Thank you. And this concludes the Q&A session. I would like to turn the call over to Eugene Hall for his closing comments.

Eugene A. Hall
CEO & Director

Well, here what I'd like you to take away from today's call. Gartner drove another strong performance in Q3. We deliver unparalleled value to enterprise leaders and their teams across every major function, whether they're thriving, struggling or anywhere in between. We're exceptionally agile and continuously adapt to the changing world, and we know the right things to do to be successful in any environment.

Looking ahead, we're well positioned to continue our sustained record of success far into the future. Our client value proposition and addressable market opportunity will allow us to drive long-term sustained double-digit growth. We expect margins will expand modestly over time. We generate significant free cash flow well in excess of net income. Even as we invest for future growth, we'll return significant levels of excess capital to our shareholders. This reduces shares outstanding and increases the returns over time.

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

Operator
And thank you all for participating, and you may now disconnect.