S&P Global
Market Intelligence

Gartner, Inc. NYSE:IT

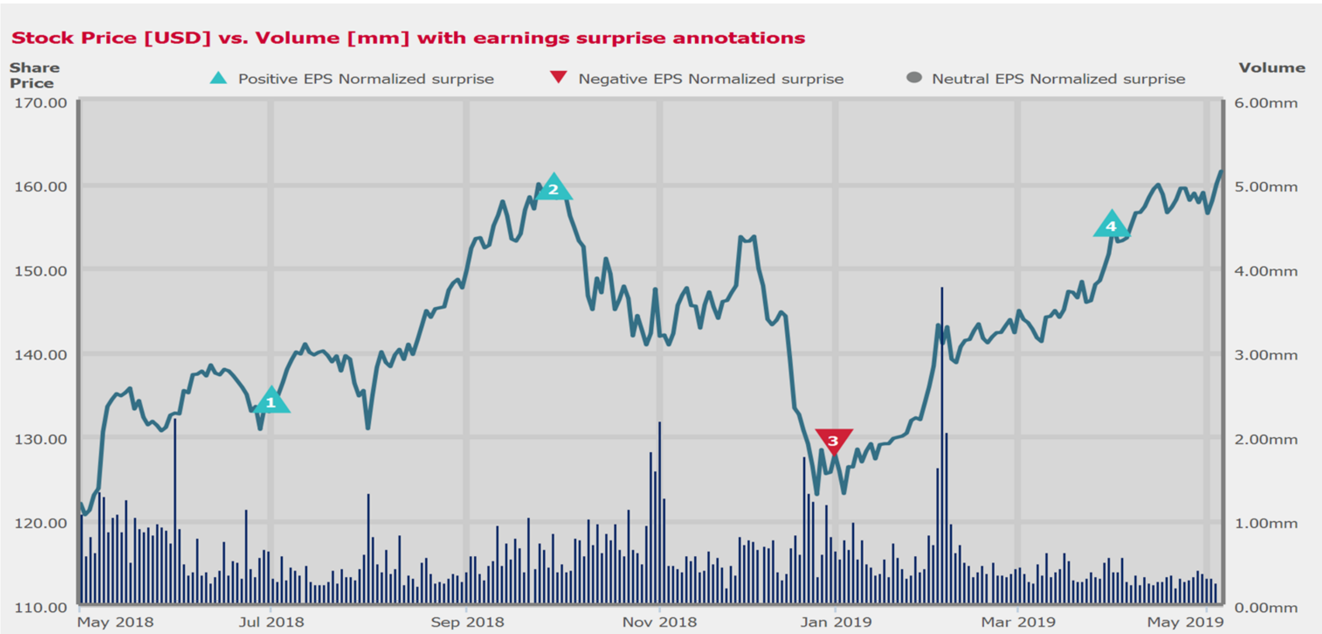
FQ1 2019 Earnings Call Transcripts

Tuesday, May 07, 2019 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.53	0.58	▲9.43	1.13	3.97	4.65
Revenue (mm)	960.72	970.44	▲1.01	1071.64	4264.74	4745.05

Currency: USD
Consensus as of May-03-2019 6:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	0.96	1.03	▲7.29 %
FQ3 2018	0.62	0.85	▲37.10 %
FQ4 2018	1.25	1.20	▼(4.00 %)
FQ1 2019	0.53	0.58	▲9.43 %

Table of Contents

Call Participants

EXECUTIVES

Craig W. Safian
Executive VP & CFO

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Eugene A. Hall
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Robert W. Baird & Co. Incorporated, Research Division

Peter Perry Appert
Piper Jaffray Companies, Research Division

Timothy John McHugh
William Blair & Company L.L.C., Research Division

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Gartner First Quarter 2019 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, David Cohen, GVP of Investor Relations. You may begin.

David Cohen
Group Vice President of Investor Relations

Thank you, GG, and good morning, everyone. We appreciate your joining us today for Gartner's First 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 first 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 have provided a detailed review of our financials and business metrics in an earnings supplement for investors and analysts. We have 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 the deferred revenue purchase accounting adjustment 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
CEO & Director

Good morning, and thanks for joining us. We delivered another robust performance in the first quarter of 2019. Total revenues were up 11%, fueled by double-digit growth in each of our business segments: Research, Conferences and Consulting. We continue to make a significant global impact. 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 15,000 associates globally.

Research, our largest and most profitable segment, is the core of our value proposition. Our Research business was up 11% over this time last year. As we described in our recent Investor Day, we have the Gartner formula for sustained double-digit growth that drives success in our Research business. It 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 continues to improve in innovation.

Global Technology Sales, or GTS, serves leaders and teams within IT. This group represents more than 80% of our total research contract value. GTS contract value growth accelerated and is more than 14% year-over-year. Sales productivity once again improved. We again delivered double-digit growth in every region across every sized 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. Each of these roles has the same need for our services as IT and demand continues to grow.

Our new GxL product line gained momentum. GxL products provide greater value to clients because they're tailored to the client's individual needs. This in turn results in higher prices per user and 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.

At our Investor Day, we shared the growth trends of the individual GxL products. Our GxL products continued to accelerate in line with these trends. For Q1 2019, GxL contract value grew 76% year-over-year and new business was up 84%. As expected, legacy products contract value declined.

Total GBS contract value improved modestly sequentially as growth in GxL just offset the decline in legacy contract value. We continue to expect double-digit contract value growth in GBS by the end of the year. Overall, our Research segment continues to deliver strong results.

Our Conferences segment also delivered a terrific performance in Q1 with a double-digit revenue growth of 17%. Gartner Conferences combine the outstanding value of our research with the immersive experience of live interactions, making every conference we produce the most important gathering for the executives we serve. And we continue to invest in our Conferences portfolio.

In GTS, we're expanding our flagship conference, Gartner IT Symposium. This year, we're holding an IT symposium conference in Canada. In GBS, we're building out our Conference portfolio to align with the GBS roles we serve. In early April, we held our Gartner marketing symposium. The program featured expanded content coverage, including a dedicated track for B2B marketers and one for emerging customer market insights. The results for this conference surpassed expectations. Total attendees were up more than 40% to about 1,700 attendees. We also plan to launch an executive summit to support the finance function within the year, and we'll continue to expand our GBS Conferences over time. In addition to that, we'll continue making investments in the Evanta business.

Our Consulting segment also achieved double-digit growth in Q1 with revenues up 16%. Gartner Consulting is an extension of Gartner Research and provides clients with deeper level of involvement through extended project-based work [indiscernible] execute their most strategic initiatives. Our growth in the quarter is a combination of strength in our labor-based business and in our contract optimization business.

I recently met with many of our top-performing sales people from around the world. This includes sales people from GTS, GBS and Conferences. I continue to be inspired by their energy and passion for serving our clients. They have best-in-class selling skills, and they continue to embrace and implement the Gartner formula for sustained double-digit growth.

Our future of Gartner remains bright. We provide incredible value by helping out more than 15,000 enterprise clients with their most important initiatives. Our business model allows us to drive a strong double-digit growth in all our key metrics, including cash flow, and we have an incredibly talented team across the business. With this foundation, we're on track to achieve sustained double-digit growth in revenues, earnings and cash flow for years to come.

With that, I'd like to hand the call over to Craig to give you an in-depth view of the quarter. Craig?

Craig W. Safian
Executive VP & CFO

Thank you, Gene, and good morning, everyone. Demand for our services remains robust around the world. And in the first quarter, we again delivered strong financial results across our 3 operating segments. As our 2019 outlook demonstrates, we continued to expect to deliver a double-digit FX-neutral revenue and EBITDA growth with strong free cash flow generation.

First quarter revenue was $970 million, up 8% on a reported basis and 11% on an FX-neutral basis. The product retirements we discussed last quarter impacted top line growth rate by about 1 full point. In addition, contribution margin was 64%, up about 100 basis points from the prior year. EBITDA was $142 million, down 2% year-over-year and up 0.5% FX-neutral, consistent with our expectations as discussed last quarter. Adjusted EPS was $0.58, and free cash flow in the quarter was $35 million.

Our Research business had another excellent quarter. Research revenue grew 8% in the first quarter and 11% on an FX-neutral basis. First quarter gross contribution margin was 70%. Total contract value was $3.1 billion at March 31, growth of 11.2% versus the prior year. We always report contract value growth in FX-neutral terms, and we have updated our historical metrics at 2019 FX rates in our earnings supplement. I'll now review the details of our performance for both GTS and GBS.

In the first quarter, GTS contract value increased 14% versus the prior year, accelerating its growth rate both sequentially and year-over-year. GTS had contract value of $2.5 billion on March 31, 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, up 130 basis points year-over-year and the highest we've reported for GTS. The combination of the client and wallet retention rates show how our clients spend more with us each and every year.

GTS new business grew 12% versus the first quarter of last year. 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 first quarter with 12,821 GTS clients, up 4% compared to Q1 2018. The average contract value for enterprise also continues to grow. It now stands at $198,000 for enterprise in GTS, up 10% year-over-year.

As we discussed at Investor Day, we continue to invest in GTS. The investments in headcount growth and improving productivity are driving the GTS acceleration you've seen over the course of 2018 and into the first quarter of 2019.

For GTS, the year-over-year net contract value increase, or NCVI, divided by the beginning period quota-bearing headcount was $115,000 for salesperson, up 9% versus the first quarter of last year. This is the sixth consecutive quarter of year-over-year productivity improvement.

Turning to Global Business Sales. GBS contract value was $595 million at the end of the first quarter or about 20% of our total contract value. CV declined 0.3% year-over-year, but slightly increased sequentially from the fourth quarter of 2018. Many of our GBS metrics are affected by the discontinuation in 2018 of sales of the largest legacy products. As we've described last quarter, the discontinuations were based on a purposeful strategy that allows our sales teams to focus on GxL products going forward.

GxL products continue to gain share and are an important part of our strategy. Looking at total contract value from the GxL products, we drove an FX-neutral increase of 76% year-over-year from $180 million to $208 million, continuing the growth we saw in the back half of 2018.

Similar to last quarter, on Page 11, we've provided a bridge from fourth quarter 2018 to first quarter 2019 CV for GBS and the corresponding bridge from the prior year. We sold $24 million of GxL products new business in Q1, a $11 million more than we did in the prior year quarter. While Q1 is generally a seasonally lighter quarter for new business, GxL new business increased by 84% over 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 35% of our total GBS contract value, up 15 percentage points from Q1 of last year. While legacy GBS CV attrition is close to 30%, GxL attrition is around 20%, almost at GTS levels. On a blended basis, that's about 27%. We will reduce attrition levels through improving client engagement.

We're driving increased client engagement through an expansion of our service teams and growing adoption of individualized content and service.

For the standalone quarter, we saw an improvement in the attrition rates for GBS. For contracts that were up for renewal in the first quarter, attrition improved by almost 200 basis points over the prior year quarter. Again, this is a result of the increased engagement we've discussed in all of our other retention programs starting to have an impact.

We continue to expect to achieve double-digit CV growth in GBS by the end of this year. As we described last quarter and at our Investor Day, there are multiple paths to achieving double-digit CV growth by the end of 2019. The combination of improving attrition and corresponding retention rates and continued ramping of GxL new business are the metrics that will get us there.

In both GTS and GBS, the first quarter is typically our seasonally lightest quarter for new business. And as we discussed last quarter, the new business compares get easier as we move through the year.

Our pipeline is building, and the team has more experience every day.

In Conferences, revenues increased by 13% year-over-year in Q1 to $52 million. FX-neutral growth was 17%. First quarter gross contribution margin was 36%, up by 120 basis points compared to the year-ago quarter.

We had 12 destination conferences in the first quarter. On a same conference FX-neutral basis, revenues were up 17% with a 6% increase in attendees. The first quarter is a seasonally small quarter, but the results were very strong.

First quarter Consulting revenues increased by 12% to $93 million. FX-neutral growth was 16%. Consulting gross contribution margin was 31% in the first quarter. Labor-based revenues were $79 million, up 7% versus Q1 of last year or 11% on an FX-neutral basis. Labor-based billable headcount of 739 was up 6%. Utilization was 69%. Backlog ended the quarter at $108 million, up 7% year-over-year on an FX-neutral basis. We have updated our reporting of backlog to be FX-neutral, consistent with our practice for research contract value. The updated historical data is in the earnings supplement.

Our 2019 pipeline remains strong. The contract optimization services revenues were up over 60% versus the prior year quarter. As we've detailed in the past, this part of the Consulting segment is highly variable.

SG&A increased 13% year-over-year in the first quarter or 17% on an FX-neutral basis. We continue to grow sales capacity and enabling infrastructure to support our strategy of delivering a sustained double-digit growth over the long term. The enabling infrastructure includes investments in human resources functions like recruiting and in real estate service to support our increased number of associates around the world.

As we discussed at Investor Day, our largest dollar investments are in GTS, where we have seen acceleration in contract value and productivity. We are investing to increase territories, to reduce open roles and to drive improvements to sales productivity.

Our continuing investments in GCS, the Conferences sales team, have been driving faster growth in that segment. We're investing to increase territories, to reduce open territories and to drive productivity.

GBS investments are also continuing, and we expect to see acceleration in this year and going forward. At the end of the first quarter, we had 3,917 quota-bearing associates in research. This includes 3,049 in GTS and 868 in GBS or growth of 11% and 21%, respectively. We expect GBS headcount growth to moderate by the end of the year to approximately 14% to 16%.

Adjusted EBITDA for the first quarter was $142 million, down 2% on a reported basis and up 0.5% on an FX-neutral basis. EBITDA was affected by about 5 percentage points or a $6 million impact due to the product retirements. Taking that into consideration, the underlying FX-neutral EBITDA growth was about 5% in the quarter. The first quarter is the smallest revenue quarter of the year, which contrasts with the expense base that is less seasonal.

Depreciation was up about $3 million from last year as additional office space went into service. Amortization was flat sequentially after taking an expected step down in the fourth quarter as some of the acquisition intangibles reached their 18-month life. Integration expenses were down year-over-year as we have moved past the biggest product of the integration work.

Interest expense in the quarter was $25 million, down from $35 million in the first quarter of 2018. Lower interest expense resulted from paying down roughly $700 million in debt over the past year.

The Q1 adjusted tax rate, which we use for the calculation of adjusted net income, was 19.8% for the quarter. First quarter is typically a seasonally low quarter for the tax rate, primarily due to equity-related excess tax benefits. The tax rate for the items used to adjust net income was 28.5% in the quarter. We still expect our adjusted tax rate to be about 25.5% for the full year, but it may have more quarterly variance this year.

As you can see in the disclosure in our 10-Q, subsequent to the end of the quarter, there was an intercompany sale of some intellectual property that will have a material favorable impact on the second quarter adjusted tax rate. Our 2Q EPS guidance includes an adjusted tax rate of 13%. Our full year EPS guidance contemplated 2Q benefit.

Adjusted EPS in Q1 was $0.58 with upside relative to our expectations from below the line items, including a lower-than-expected tax rate.

In Q1, operating cash flow was $36 million compared to $3 million last year. The increase in operating cash flow was driven by lower interest expense and lower payments for acquisition and integration and other nonrecurring items.

Q1 2019 CapEx was $20 million, and Q1 cash acquisition and integration payments and other nonrecurring items were approximately $20 million as well. This yields Q1 free cash flow of $35 million, which is up 30% versus the prior year quarter. It's worth noting that Q1 of the prior year included free cash flow associated with our divested businesses. Excluding free cash flow from divested businesses, our first quarter free cash flow would have been up over 100%. On a rolling 4-quarter basis, our free cash flow conversion was 130% of adjusted net income, excluding divested operations.

Turning to the balance sheet. We adopted the new lease accounting standard ASC 842 as of January 1, 2019. The impact of this new standard is the recognition on our balance sheet of right-of-use assets of $634 million and an operating lease liability of $836 million. $769 million of the operating lease liability is reported as a long-term liability with the balance reported as a current liability. There was no material impact on our income statement from the adoption of this standard.

Our March 31 debt balance was about $2.3 billion. Our debt remained 95% fixed rate. Adjusting EBITDA for the divestitures, our gross leverage ratio is now about 3.4x EBITDA.

We repurchased about $45 million of stock in the quarter. We will continue to be price-sensitive and opportunistic as we return capital to shareholders. We have about $870 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 buyback programs and through strategic value-enhancing M&A.

Turning to the outlook for 2019. Revenue, adjusted EBITDA, free cash flow and EPS guidance all remain the same. As I mentioned when discussing the tax rate, we expect that our tax rate for the second quarter will be around 13%. Our full year guidance already reflected a lower 2Q rate. As you think about modeling the rest of the year, we expect mostly typical seasonality for the quarterly phasing. The EBITDA compare is particularly challenging in the third quarter.

And lastly, our guidance reflects FX rates as of April 30. The dollar strengthened over the course of 2018 and FX is causing a roughly 2-point negative impact to our projected 2019 full year growth rates across revenues, adjusted EBITDA, adjusted EPS and free cash flows. The highlights of our full year 2019 guidance are as follows. We expect revenues of approximately $4.2 billion to $4.3 billion, that is FX-neutral growth of 10% to 13%.

In addition to the non-core businesses that we divested over the course of 2018, there were some additional products from the CEB acquisition that we viewed as non-core. We've retired these, which is impacting our 2019 total revenue growth rate by about 75 basis points. This is almost $30 million, about 2/3 of which drops to EBITDA.

We expect adjusted EBITDA of $720 million to $765 million, FX-neutral growth of 7% to 13%. Again, EBITDA growth this year is impacted by about 3 points from the product retirements we discussed previously. Excluding the product retirements, 2018 EBITDA would have been around $667 million.

We expect an adjusted tax rate of around 25.5% for 2019. Please note that if you are adding back from GAAP net income, the rate for the tax effect on the add backs is also about 25.5%. We expect 2019 adjusted EPS of between $3.82 and $4.19 per share, FX-neutral growth of approximately 7% to 15%.

For 2019, we expect free cash flow of $455 million to $485 million, that is projected FX-neutral growth of 11% to 19% versus our normalized 2018 free cash flow. All the details of our full year guidance are included on our Investor Relations site.

Finally, for the second quarter, we expect adjusted EPS of about $1.15 to $1.20 per share. We've had a great start to the year with strength across all of our operating segments and improvements in most of our key operating measures. Notably, GTS contract value continued to accelerate, and sales of our new GxL products and GBS continue to rise. Our Conferences and Consulting businesses both had strong quarters. Free cash flow was up versus last year and conversion was stable. 2019 is trending well so far. We are applying the Gartner formula across the combined business to drive sustained long-term double-digit growth to revenue, EBITDA and free cash flow.
With that, I'll turn the call back over to the operator and will be happy to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question is from Tim McHugh from William Blair.

Timothy John McHugh
William Blair & Company L.L.C., Research Division

Just wanted to ask on the -- I guess the productivity on the GTS -- sorry, GBS side. I guess in your comments, you said the momentum was still improving, but if you just look at overall new business, it feels like there is -- I guess it wasn't quite as strong as I would have expected. So is it, I guess, you're seeing more of a drop off on the legacy side? Or help us think about, I guess, the per-person maybe productivity of new business sales on the GBS side as the new GxL products ramp up.

Eugene A. Hall
CEO & Director

Tim, it's Gene. So first, our -- the overall strategy we have, as you know, in GBS, expand the sales force, get higher productivity as people learn -- go up the learning curve, get higher retention because GxL products are high-retaining products over time. We also want to expand on the legacy products, improve their retention as well over time, which we expect to have. In terms of Q1, Q1, in terms of new business, is always our seasonally lightest quarter. I'll give you a flavor for why that happens. We do a large share of promotions for people between Q4 and Q1. The promotions are of higher performers. And what happens is, they close out their pipeline in Q4. Knowing that they're going to have a new job in Q1, they're not building a pipeline for Q1. Someone else then comes in who has a 0 pipeline, who is also a new person and has much lower productivity between the combination of their [strong] 0 pipeline and the fact that they are new to the company. And again, they're replacing higher performers. So as a business, our Q1 is always the lightest quarter for new business across the businesses, including in GTS. And there is -- I'll take one example. There's other factors as well. That's the kind of -- it's operational stuff that's driving it.

Craig W. Safian
Executive VP & CFO

The other thing I would add, Tim, just real quickly is when you look at productivity, remember it is a -- it's a combination of the new business productivity and the retention or attrition depending on which side of the equation you're looking at. As I mentioned in my remarks, for the contracts that came up for renewal over the course of Q1 2019, we saw roughly 200 basis point improvement in retention. And again, as we talked about, with full year benefit of all retention programs and our real focus on that, we expect to continue to drive retention improvements over the balance of the year as well.

Timothy John McHugh
William Blair & Company L.L.C., Research Division

Maybe on that topic then, can you help us reconcile the client count metrics, I guess, the client retention metrics on the GBS side and I think a little bit also on the GTS side this quarter?

Craig W. Safian
Executive VP & CFO

Yes. The one thing I would say about the client count, and this is why we tend to focus more on the wallet retention numbers than the client retention numbers is, we typically do have churn or higher churn amongst our smaller, lower-spending clients. I think that is what happened with the GTS numbers for sure, but we continue to actually add a good number of new enterprises. The mix of new business from new enterprises was pretty consistent with what we've seen historically. And we're actually -- the enterprises that we keep, we're getting them to spend more and more with us each and every quarter. On the GBS side, again, we're working through the transition of getting everyone up to speed on GxL. There is a modest amount of migration going on, but the real focus for the bulk of the sales forces is really finding new client centers within both existing GBS enterprises and new GBS enterprises and selling them GxL.

Operator

Our next question is from Manav Patnaik from Barclays.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

So I guess in the Q, I think you said that you saw double-digit growth across 3 quarters of the industry segments. I was just curious what are the areas we are not seeing that? And I guess is it just close to double-digits? Or what are the headwinds there?

Craig W. Safian
Executive VP & CFO

Manav, I think what we said historically and it's really no different than what we've seen in the past several or even dozen quarters is, we saw a double -- in GTS, we saw a double-digit contract value growth in every region, in every company size and in virtually every industry. There are maybe 1 or 2 smaller industries that did not report double-digit growth, but again it's no different than what we've seen in previous quarters.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Okay. Got it. And then just on the GxL product, I mean, what is the pipeline there looks like in terms of additional GxLs or, I guess, version 2s or whatever you call it based on the client feedback and so forth you're getting?

Eugene A. Hall
CEO & Director

Yes. So it's Gene. The -- our GxL product line is building really nicely. That's why you saw the kind of new business growth we saw in Q1. And as we go forward through the year, as I mentioned earlier, we would expect that pipeline to continue to build.

Craig W. Safian
Executive VP & CFO

The other thing I would add, Manav, is just like everything we do, we're constantly iterating and evolving and improving the product set. And so even though we've launched the new GxL products, we don't stand still and just hang. We're always looking to make sure we're consistently improving the product set.

Operator

Our next question is from Gary Bisbee from Bank of America.

Gary Elizabeth Bisbee
BofA Merrill Lynch, Research Division

So I guess the first question. GTS sales productivity continues to move up. And if I just survey the last 12 years annually, it's never risen 2 years in a row. And so I guess I wonder -- I'm not suggesting it won't continue to do well, but given that history, what are you doing different today? Or what conviction do you have that there is more room to go with sales productivity and the technology business?

Eugene A. Hall
CEO & Director

It's Gene, Gary. So we're committed to continuous improvement and continuous innovation across our business. And over time, we introduced innovations in all aspects of our sales processes. It ranges from what Craig said, which is making sure that products are better every year. So obviously, the products are better, they are easier to sell and, on top of that, you get better retention. And then as you know, we've focused on tools, training, et cetera, and processes, and those things are continuously improving as well. So if you get down to it, those are the things, the combination of constant improving products, constant improving sales tools, constant improving sales training, recruiting, and also we are getting better every year at finding people that are better fit for the company as well. And so it's a combination of all that stuff. It's driving productivity. And so we're committed to continuing to drive productivity up over time.

Gary Elizabeth Bisbee
BofA Merrill Lynch, Research Division

And then just more of a macro question, when I look back over the history, there have been a few times where you've seen a little bit of softening in the CV growth when either macroeconomic or sort of end market challenges made it a little tougher to sell. There's been some slowdown in global growth and yet the business continues to fire incredibly well in the technology franchise. So do you think that's more just your execution? Or is there anything about demand in technology and how -- the velocity of change in technology that's also contributing to the performance?

Eugene A. Hall
CEO & Director

Yes. I don't think it's the velocity of change in technology. That would be sort of a more minor factor, I think. One of the things that we've learned is that at any given point in time, some of our clients are doing well and some of our clients are in distress. And we have specific programs where we go and help clients that are in distress. They're not the same programs as clients that are in growth are doing well. And again, if I look across the -- our client base, we're in 100 countries, we're in every industry, we're in every size of client, there's always some people in trouble. And I can give you specific countries where we did really, really well last year even though the economy was shrinking. And so the -- we're real focused on making sure we can do well through the actual programs we run, whether our clients individually driven well or not and whether they're in a good macroeconomic situation or not.

Operator

Our next question is from Jeff Meuler from Baird.

Nick James Nikitas
Robert W. Baird & Co. Incorporated, Research Division

This is Nick Nikitas on for Jeff. Just going back to the GBS enterprise count, I realized the wallet retention metric is more important, but just is there anything you're hearing about the product or pricing changes that maybe aren't resonating with some of the smaller legacy clients? Or is that really just kind of an outsized impact from the products team discontinued or an internal focus on some larger client opportunities? Is there anything you can add there?

Eugene A. Hall
CEO & Director

Yes. So just to build on what Craig's point earlier, the client count is really driven by small companies, and there is more volatility. With small companies, they're much more likely to get acquired, they're much more likely to go out of business. And so in any given quarter, the kind of swings that happen are more driven by how many of those companies when out of business are got acquired, et cetera. So it's -- and that's true, by the way, of GTS as well as GBS in terms of swing in client counts. If you think about like at the extreme, the S&P 500 companies that we serve, we'll likely to keep -- the likelihood that we're going to keep serving year after year after year is very high. [Gene's pizza parlor] buys Gartner services. I may get to acquire a lot of businesses a lot more frequently than S&P 500 companies. So that's really what's driving the client count.

Nick James Nikitas
Robert W. Baird & Co. Incorporated, Research Division

Okay. That's helpful. And just a follow-up on the CV trends and outlook over the rest of the year. Can you guys talk about how Q1 compared to your internal expectations? And just given its sales force growth remains above the full year target and you should have some easing comps, are you kind of confident that the Q1 should be the low watermark for the year?

Craig W. Safian
Executive VP & CFO

Nick, it's Craig. I think when we look at the Q1 performance across the board, while they were talking revenue, profit, bookings, CV, we kind of came in around where we expect it to, again, recognizing that Q1 is generally our lightest quarter from a new business perspective, from a Conferences perspective, et cetera. So I would say we came in right around our expectations. I think in terms of thinking about the balance of the year as we discussed on our last earnings call and at our Investor Day, particularly within GBS, the compares do get a little easier as we go through the year just based on the phaseout of the legacy new business that we sold over the course of 2018. And so the most -- the bulk of that was sold in the first half of the year with a real step down as we fully launched and rolled out the new GxL products in the second half of the year. So that's the one place where we could argue or I would argue that the compare gets a little bit easier. I think on the rest of the business, we performed really, really well last year, and our expectation is that we continue to keep pace and/or accelerate our performance across the rest of the businesses.

Operator

Our next question is from Toni Kaplan from Morgan Stanley.

Toni Michele Kaplan
Morgan Stanley, Research Division

Using your framework last quarter showing that 8% CV growth given the same productivity rates, I tried to calculate it for LTM this quarter and, assuming I have the inputs right, it looks a little bit closer to 6%. And so just, I guess, does that sound consistent with sort of what you're seeing? And does that make you any less confident in the double-digit target? Or is it just that you're expecting the comps get easier and so that's what makes you feel good about it?

Craig W. Safian
Executive VP & CFO

So I think your math is right. So as you look at the extrapolation of the new business productivity on an LTM basis, it did step down in the first quarter. We expect it to step back up over the next few quarters. Again, as the sales force gets more seasoning, more tenured and gets really rolling from a productivity -- new business productivity perspective, particularly around GxL, as you will remember from that chart and discussion, there are 2 levers, the attrition lever and the new business productivity lever. And again, as I mentioned, we're seeing nice improvement in -- on the attrition side. So again, there were multiple paths to get to that double-digit contract value growth. We remain as confident coming out of Q1 as we were going into Q1. And again, there are multiple ways to get there through various combinations of attrition improvement and new business productivity.

Toni Michele Kaplan
Morgan Stanley, Research Division

Okay. Terrific. And is there anything you could call out in terms of trends, in terms of tenure of salespeople? Basically, are you keeping the GBS salespeople that you want to be keeping? Is there sort of any -- like any sort of retention trends in the salespeople, that would be helpful.

Eugene A. Hall
CEO & Director

Great question. Because salespeople's productivity goes up very rapidly with tenure, we want to retain people. Actually, in GBS, we have retention that is on par with GTS. And in fact, our GBS retention is better this year than it was last year. So that would be another tailwind we'll have through the year is we'll have a richer mix of more tenured people.

Operator

Our next question is from Bill Warmington from Wells Fargo.

William Arthur Warmington
Wells Fargo Securities, LLC, Research Division

So we're a little over a third of the way through Q2 and I wanted to ask whether Q2 was actually going to be the inflection point for the GBS contract value growth. We've seen that, that would need to be the case if you're targeting double-digit by the end of the year, but I just wanted to confirm that's the way you guys are expecting it. Or was it actually going to be Q3?

Craig W. Safian
Executive VP & CFO

Bill, we don't give quarterly guidance on CV and/or inflection points, but again the way I would describe it is, as I said earlier, the Q1 compare was the toughest, the Q2 compare is the next toughest, the Q3 compare is then the next toughest and then the Q4 compare would then be the, I cringe using the word, but the easiest. So again, the way we're looking at it is really not on a quarter-by-quarter basis. As we've discussed, we're laying the foundation for future sustained and accelerated double-digit growth. We remain committed, and we firmly believe we will get there by the end of the year.

William Arthur Warmington
Wells Fargo Securities, LLC, Research Division

And as my follow-up question, the GxL new products are driving the 84% year-over-year new business growth. I know you target a number of different multiples there, HR, legal accounting, sales. In which vertical are you seeing the most traction? In which vertical are you seeing the least traction?

Eugene A. Hall
CEO & Director

Actually, we're seeing good traction across the verticals. We showed a chart on the Investor Day that showed in 6 of the verticals how we were doing. And each one continues to accelerate. So I sort of say there is not one we see as the problem child. Actually, they're all doing really well in terms of the acceleration in GxL sales.

Operator

Our next question is from Jeff Silber from BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I know you'd mentioned that this is a relatively seasonally light quarter for new business, but if I can focus just on the GBS new business, are you seeing cross-selling to existing GTS customers? Are these new customers for you? If you can give us a little bit color on it, I would appreciate it.

Eugene A. Hall
CEO & Director

So -- very good question, Jeff. So we do have cross-selling. Obviously, we have a lot of relationships. 12,000, give or take, GTS clients we can cross-sell to. We do cross-sell -- with GBS though, the opportunity is so vast and we're so underpenetrated that it's -- that's not the most important factor. So where it's helpful, our sales force is doing that, and we've facilitated -- we're tying to facilitate it internally. But it's just -- the products are attractive, and there's so much open market opportunity that that's not the kind of most important factor.

Jeffrey Marc Silber

BMO Capital Markets Equity Research

Okay. And I know your business has nothing to do with the stock market, but we saw kind of a wide swing in sentiment between what the market was expecting overall in the fourth quarter and what the market seems to be expecting in this last quarter. Did you see any change of tone in any of your customers because of that?

Eugene A. Hall
CEO & Director

You're thinking from a macroeconomic viewpoint, Jeff?

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Yes, exactly.

Eugene A. Hall
CEO & Director

Yes. So as Craig said in his remarks, I would characterize the selling environment the same as it's been all last -- Q1 is the same as it was in Q4, and those were the same as we saw all last year and, in fact, for some time actually, I'd say. There's some countries that are not doing that great, but there's always some countries that are not doing that great. And I'd say for the big economies, they're kind of moving along at, what I'd call, a normal pace.

Operator

Our next question is from Joseph Foresi from Cantor Fitzgerald.

Joseph Dean Foresi
Cantor Fitzgerald & Co., Research Division

In GBS, is this a matter of selling more the new and less of the old and some better comps? I'm just trying to get a sense there. And then also, are you selling new products to new clients or new products to old clients? I'm just trying to get a sense of how that works at all.

Eugene A. Hall
CEO & Director

So on the first -- on the second piece, if a client has legacy product and they're happy with it, we let them stay and be happy with it. We have very good margins on our products, and we want to do that. And so our real focus is not on upgrading, but on selling to new clients. It could be new clients in the same enterprise. So it could be a different division of a company, but it's really -- the focus is selling to new clients. As Craig mentioned in his remarks, there are some upgrades, but that's not our primary focus.

Craig W. Safian
Executive VP & CFO

And Joe, it's Craig. The way to think about it, again, if you look at Page 11 in the earnings supplement from this quarter or from last quarter when we reviewed the full year 2018, I'd say, there are 2 primary levers here: one is continuing to focus on driving engagement, which translates into higher retention rates or lower attrition rates; and then two is the ramp of GxL new business more than outpacing the declines in legacy new business. We are still selling some, what we call, legacy new business in certain small areas where we have not launched the corresponding GxL [seed]. That's kind of at a stable level now, and we expect that to continue into the future until we replace them potentially with GxL products, but it's kind of all about the ramp of GxL new business combined with better retention rates.

Joseph Dean Foresi
Cantor Fitzgerald & Co., Research Division

Got it. And then just as a follow-up. I understand the metrics associated with productivity and retention and the new products versus the old products, so that all makes sense on paper. But is there anything different that you could call out from a visibility standpoint in GBS that gives you added, I guess, confidence in the double digits? I'm sure the Street is curious as to why you're holding to it. So I'm just wondering if there is any difference around the visibility from a sales perspective on the process around it.

Eugene A. Hall
CEO & Director

So it's a combination of things. So first, we've added significant capacity, and we know that those sales people will gain tenure and will sell more. Secondly, we know that even if all the people that are still going up the learning curve and they will sell more, and our pipeline reflects that. So again, if you compare the pipeline from Q2 versus pipeline from Q1, it's significantly better just kind of the selling pipeline. And the second piece is like Craig said, which is we know that GxL products have significantly higher retention. And so as that mix -- as we sell more GxL, that mix continues to get richer with more GxL products. And Craig mentioned, it's about 10 points higher retention or 10 points lower attrition than the legacy products for the deals that renewed in Q1, and we expect that to continue. So as we get more and more proportion of GxL products that have significantly higher retention and we get our sales -- our larger sales force with more tenure, as we extrapolate that out, we see that it looks -- that's what we have confidence that we're on a good track.

Operator

Our next question is from Peter Appert from Piper Jaffray.

Peter Perry Appert
Piper Jaffray Companies, Research Division

So Craig, just expanding a bit on your earlier comments in terms of the evolution in the GBS product, if you stop selling or you're deemphasizing selling the legacy GBS product, does that imply then that the legacy GBS contract value continues to decline at the recent rate?

Craig W. Safian
Executive VP & CFO

Yes, it does Peter. So essentially, what we've been tracking and trying to provide some visibility around is the mix. And so as I think I mentioned in my prepared remarks, today have -- 35% of our GBS contract value is in GxL, and that's about 15 percentage points higher than it was Q1 of last year. And we expect soon, over the next several quarters, for GxL to be a bigger portion of the portfolio. That's a combination of accelerated GxL growth and continued declines in the legacy contract value.

Peter Perry Appert
Piper Jaffray Companies, Research Division

And does the legacy business then go to 0 at some point?

Craig W. Safian
Executive VP & CFO

So I don't think the legacy goes all the way to 0. There are still a handful of smaller functions that we serve with the legacy product set. And it's a valuable product and the buyers or end users in our client set really like and value these products. Over time, there is a potential that we could launch GxL-type products in those areas, but again that's not where the largest opportunity is. The other thing I'd say is our strategy, and Gene alluded to this earlier, is if clients are happy with our legacy and they want to keep renewing and keep paying us, we generally are fine with that as a strategy. And so I think it's unlikely it goes all the way to 0. But again, as I mentioned, it will continue to drift downward as we replace a lot of it with the new GxL new business.

Operator

Our next question is from George Tong from Goldman Sachs.

Keen Fai Tong
Goldman Sachs Group Inc., Research Division

I would like to dive deeper into GBS sales productivity. The productivity of your GBS segment was negative 2,000 in net contract value increase per year ago sales headcount. I know 1Q is your lightest quarter for new business and your retiring legacy products, but can you elaborate on why productivity is coming in negative given it takes 12 to 18 months for new sales hires to ramp and most of the GBS sales force was layered in a year ago?

Craig W. Safian
Executive VP & CFO

Yes. It's actually -- I mean the primary factor that drove that decline is essentially the phaseout of selling legacy new business. So in Q1 of last year, the bulk of our sales force was still selling legacy leadership councils. We phased that out to the point where as of the beginning of Q3, we were only selling legacy leadership councils in the smaller businesses I just mentioned that we don't have corresponding GxL products. And we essentially lost that strong new business quarter in the rolling 4-quarter NCVI and replaced it with this first quarter, where we had really strong GxL new business, but not enough to offset the decline as you can see again on that Slide 11 of the decline in legacy new business. And so you again -- as we look at it, again, we're not playing to one quarter gain here. As we look at it over the long term, to get to the double-digit growth we talked about, we will absolutely have to have and will deliver very positive productivity for the full year. Again, you can do the math on what that would need to be. But again, I think it's just -- it's a one quarter impact where we have the toughest compare. And as we progress through the year, as I mentioned, the compares get easier, and we expect to see the GxL new business continue to ramp.

Keen Fai Tong
Goldman Sachs Group Inc., Research Division

Got it. That's helpful. Your GxL new business activity in the quarter was $24 million, but if you compare that to legacy product attrition, that was $23 million. Can you discuss what factors over the next several quarters will help GxL new business trends outperform legacy attrition besides just easing comps?

Eugene A. Hall
CEO & Director

Well, there's 2 things. One is that we expect new business to accelerate for all the reasons we've been talking on the call. So the fact that we have more salespeople with more tenure and more used to selling GBS products. And so we expect new business to accelerate, and then secondly, we expect retention to get better or attrition to get better, less attrition, for 2 reasons: one is that -- we have a -- each quarter that goes on, we have more GxL products, and GxL products, as Craig mentioned, have a higher retention rate; and secondly, for even the legacy products, we put in place retention programs to improve that retention as well. And so it may never be as good as GxL, but we think we can still make substantial improvements in legacy product retention. So it's the combination of new business accelerating and retention getting better as well.

Operator

Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to Gene Hall, CEO, for closing remarks.

Eugene A. Hall
CEO & Director

Well, summarizing's today's call, we delivered another robust performance in the first quarter of 2019, fueled by double-digit growth in each of our business segments, Research, Conferences and Consulting. We continue to make significant global impact. 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

15,000 talented associates globally. The Gartner formula for sustained double-digit growth underpins our success of our Research business, and our business model allows us to drive strong double-digit growth in all key metrics, including cash flow. Our future of Gartner remains bright. Thanks for joining us today, and we look forward to updating you again next quarter.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.