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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Gartner’s Third Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers’ presentation, there’ll be a question-and-answer session. [Operator Instructions]

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

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

Good morning, everyone. We appreciate you joining us today for Gartner’s third quarter 2021 earnings call and hope you are well. With me on the call today are Gene Hall, Chief Executive Officer, and Craig Safian, Chief Financial Officer.

This call will include a discussion of third quarter 2021 financial results and Gartner’s updated outlook for 2021 as disclosed in today’s earnings release and earnings supplement both posted to our website, investor.gartner.com. Following comments by Gene and Craig, we will open up the call for your questions. We ask that you limit your questions to one and a follow-up.

On the call, unless stated otherwise, all references to EBITDA are for adjusted EBITDA with the adjustments as described in our earnings release and the supplement. All growth rates in Gene’s comments are FX-neutral unless stated otherwise. Reconciliations for all non-GAAP numbers we use are available in the Investor Relations...
section of the gartner.com website. Finally, all contract values and associated growth rates we discuss are based on 2021 foreign exchange rates unless stated otherwise.

As set forth in more detail in today's earnings release, certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties including those contained in the company's 2020 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**

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

Good morning and thanks for joining us. Our growth increased again in the third quarter. We're performing well across the business. We delivered strong performances in contract value, revenue, EBITDA and free cash flow.

Total company revenues were up 15% in Q3 with continued momentum across all three of our business segments. We also repurchased another $355 million of stock in the quarter, bringing our year-to-date total through October to $1.6 billion. And we're thriving in the current environment.

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

Everywhere around the world, our clients are facing more issues than ever before, challenging issues, things like the future of work, cybersecurity, carbon footprint, digital business, diversity, equity and inclusion, cloud and more. Our research is closely aligned to our clients' priorities. We recently launched a new sustainability resource center that provides clients and prospects with actionable insights on sustainable business strategy.

Total Research contract value growth increased to 14% with acceleration in both GTS and GBS driven by strong execution in both retention and new business. Global Technology Sales or GTS returned to double-digit growth. GTS contract value growth accelerated to 12%. We expect GTS to deliver long-term sustained double-digit contract value growth.

Global Business Sales or GBS delivered another outstanding quarter with contract value growth of 22%. All practices across GBS drove double-digit contract value growth. Across our entire Research business, we're driving consistent execution of proven practices and we continue to see the results of our efforts.

Our Conferences business also continues to deliver excellent performance. In 2020, we developed an entirely new Conferences business model. This model leverages virtual conferences to deliver extraordinarily valuable insights to our audiences. We delivered a strong performance in Conferences.

For the third quarter 2021, Conferences revenues were $24 million. Total attendee numbers were up in Q3 as we're increasing our reach through our valuable content. There's a large constituency of our clients and prospects who prefer in-person conferences. We've recently held some in-person Evanta events which were very well received. As conditions continue to stabilize, we are operationally prepared to return to in-person conferences where and when we can. We'll continue to leverage our profitable virtual conferences as appropriate.
Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic initiatives through deeper, extended project-based work. Consulting is an important complement to our IT research business. Consulting revenues grew 6% in Q3.

So overall, we’re performing really well as a company. We’re thriving in our current environment. We’re able to serve our clients and sell to prospects very effectively in a virtual environment. Most of our associates appreciate working virtually. They would like some in-person interactions with their colleagues when that’s the best way to engage with each other and get work done. We’ve created an operating model that supports virtual and in-person interactions. And this gives our associates flexibility while promoting activities that drive associate engagement.

We’ve also ramped up our recruiting function to support long-term sustained double-digit growth. We’re seeing great success in hiring during one of the toughest labor markets ever. Finally, we’re taking steps to make the associate experience at Gartner even better. We’re a growth company. We’re focused on ensuring our associates have clear and compelling career paths. We’re helping our managers and leaders have powerful career development conversations with their teams. We continue to improve on our proven practices. And we’re innovating processes and technology to streamline operations.

In closing, Gartner delivered another strong performance in Q3. We’re performing well across all three of our business segments. We delivered strong performances in contract value, revenue, EBITDA and free cash flow. And we repurchased another $355 million of stock in the quarter. We continue to get better, faster, stronger as a company. Gartner is a great place to be for our associates. We deliver extraordinary value to our current clients. We provide outstanding returns for our shareholders and we’re thriving in the current environment.

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

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

Thank you, Gene, and good morning. Third quarter results were again excellent with acceleration in contract value growth and strength in revenue, EBITDA and free cash flow. We are increasing our 2021 guidance to reflect our strong Q3 performance.

Third quarter revenue was $1.2 billion, up 16% year-over-year as reported and 15% FX-neutral. In addition, total contribution margin was 69%, up more than 200 basis points versus the prior year. EBITDA was $305 million, up 82% year-over-year and up 80% FX-neutral. Adjusted EPS was $2.03 and free cash flow in the quarter was $331 million.

Research revenue in the third quarter grew 16% year-over-year as reported and 15% on an FX-neutral basis. We drove both strong retention and new business in the quarter. Third quarter Research contribution margin was 74%, up over 200 basis points versus 2020. Higher than normal contribution margins reflect improved operational effectiveness, continued avoidance of travel expenses and lower than planned head count.

Total contract value grew 14% FX-neutral year-over-year to $4 billion at September 30. Quarterly net contract value increase or NCVI was a very strong $146 million. Quarterly NCVI is a helpful way to measure contract value performance in the quarter even though there is notable seasonality in this metric.

Global Technology Sales contract value was $3.2 billion at the end of the third quarter, up almost 12% versus the prior year. GTS CV increased $102 million from the second quarter. CV growth was led by the technology,
manufacturing and retail industries while retention for GTS was 104% for the quarter, up 490 basis points year-over-year. GTS new business was up 25% versus last year with strong growth in new logos and expansion with existing client enterprises.

GTS quota-bearing head count increased from the second quarter. We are beginning to see the positive effects of our investments to ramp up recruiting capacity. We continue to be successful recruiting new salespeople. Turnover among GTS frontline sellers is stable at the modestly elevated range we saw in the second quarter. With increased recruiting capacity and stable turnover, we expect to see continued expansion of the GTS sales team in Q4 and into 2022 and beyond. Our regular full set of metrics can be found in our earnings supplement.

Global Business Sales contract value was $814 million at the end of the third quarter, up 22% year-over-year, which is above the high end of our medium-term outlook of 12% to 16%. GBS CV increased $43 million from the second quarter. Broad-based CV growth included particular strength in the healthcare, technology and services industries.

All of our GBS practices achieved double-digit growth rates with the majority growing more than 20% year-over-year. Growth in the third quarter was led by the supply chain, HR and sales practices. While retention for GBS was 113% for the quarter, up more than 14 percentage points year-over-year; GBS new business was up 38% compared to last year, reflecting strong growth across the full portfolio. GBS quota-bearing head count increased sequentially and is up 8% year-over-year. As with GTS, our regular full set of GBS metrics can be found in our earnings supplement.

Conferences revenue for the third quarter was $24 million with reported growth of 92% and 93% FX-neutral. Contribution margin in the quarter was 47%. We held eight virtual conferences in the quarter. We also held a number of virtual Evanta meetings. We were able to reintroduce in-person Evanta meetings in the quarter and plan to ramp those up in Q4. Attendance is up significantly year-over-year as we’ve launched more virtual conferences to cover additional roles.

Third quarter Consulting revenues increased by 6% year-over-year to $95 million. On an FX-neutral basis, revenues were also up 6%. Consulting contribution margin was 33% in the third quarter, up more than 110 basis points versus the prior year quarter. Labor-based revenues were $78 million, up 5% versus Q3 of last year and up 4% on an FX-neutral basis. Labor-based billable head count of 749 was up 2%.

Utilization was 62%, up more than 130 basis points year-over-year. Backlog at September 30th was $126 million, increasing 27% year-over-year on an FX-neutral basis after another strong bookings quarter. Our contract optimization business was up 13% on a reported basis versus the prior year quarter and up 12% FX-neutral. As we’ve detailed in the past, this part of the Consulting segment is highly valuable.

Consolidated cost of services increased 9% year-over-year and 8% FX-neutral in the third quarter. SG&A decreased 2% year-over-year and 3% FX-neutral in the third quarter. The year-over-year decline is largely related to the timing of certain prior year expenses. We expect SG&A expenses to increase over time as our hiring across the business continues to ramp. Total operating expenses were lower than planned because conferences continue to be virtual, we are resuming business travel and reopening offices at a very deliberate pace and we are still ramping up our net growth hiring to our target levels.

EBITDA for the third quarter was $305 million, up 82% year-over-year on a reported basis and up 80% FX-neutral. Third quarter EBITDA again reflected revenue above the high end and cost towards the low end of our
expectations. Depreciation in the quarter was up about $3 million versus 2020, reflecting real estate and software which went into service since the third quarter of last year.

Net interest expense excluding deferred financing costs in the quarter was $30 million, up slightly versus the third quarter of 2020 due to an increase in total debt balances. The Q3 adjusted tax rate, which we use for the calculation of adjusted net income, was 25.2% for the quarter. The tax rate for the items used to adjust that income was 25.4% in the quarter. Adjusted EPS in Q3 was $2.03. The weighted average fully diluted share count for the third quarter was 84.8 million shares. We exited the quarter with 84.2 million fully diluted shares.

Operating cash flow for the quarter was $345 million, up 41% compared to last year. Cash flow strength continues to be driven by EBITDA growth and improved collections. CapEx for the quarter was $14 million, down 5% year-over-year. Lower CapEx is largely a function of lower real estate investments.

Free cash flow for the quarter was $331 million. Free cash flow growth continues to be an important part of our business model with modest capital expenditure needs and upfront client payments. Free cash flow as a percent of revenue or free cash margin was 25% on a rolling four-quarter basis adjusted for the $150 million of insurance proceeds received in the second quarter. Free cash flow was well in excess of both GAAP and adjusted net income.

At the end of the third quarter, we had $766 million of cash. Our September 30 debt balance was $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was about 2 times. Our expected free cash flow generation and excess cash remaining on the balance sheet provide ample liquidity to deliver on our capital allocation strategy of share repurchases and strategic tuck-in M&A.

Through the end of October, we have repurchased more than $1.6 billion in stock this year, including $355 million during the third quarter. Year-to-date, we have repurchased over 7 million shares reducing our net share count by around 7%.

As of November 1, we have around $600 million remaining on our repurchase authorization which we expect the board will refresh as needed. As we continue to repurchase shares, we expect our capital base will shrink. This is accretive to earnings per share and combined with growing profits also delivers increasing returns on invested capital over time.

We are updating our full year guidance to reflect Q3 performance and an improved and increased outlook for the remainder of the year. For revenue guidance, we now expect Research revenue of at least $4.07 billion, which is a growth of 13%. We now expect Conferences revenue of at least $190 million, which is growth of 58%. We still expect Consulting revenue of at least $400 million, which is growth of 6%.

The result is an outlook for consolidated revenue of at least $4.66 billion, which is growth of 14%. Based on current foreign exchange rates and business mix, the consolidated growth includes an FX benefit of about 190 basis points. This reflects some modest headwinds from FX in the fourth quarter.

For expenses, we are investing in expanding our recruiting capacity to drive additional higher across the entire business, including our sales teams. The additional hiring will continue into 2022 and beyond to support current and future growth. We plan to exit the year with quota-bearing head count about flat for GTS. We expect low double-digit growth for GBS by the end of 2021.
Additionally, we continue to invest in a number of programs with a focus on improving sales productivity and cost effectiveness. We are also incurring some conference cancellation fees in the fourth quarter and are in the process of reopening dozens of offices as well. We now expect full year adjusted EBITDA of at least $1.26 billion, which is an increase of about 54% versus 2020 and reflects reported margins of 27%.

Consistent with our comments last quarter, we estimate that the normalized 2021 margins would be around 19% if this had been a more typical year. About two-thirds of the adjustments are head count related with most of the rest from travel and real estate. We expect our full year 2021 adjusted net interest expense to be $113 million. Looking out to 2022, as the balance sheet stands today, we expect interest expense to be around $115 million.

We expect an adjusted tax rate of around 22% for 2021. We now expect 2021 adjusted EPS of at least $8.54. For 2021, we now expect free cash flow of at least $1.225 billion. This includes the $150 million of insurance proceeds received in the second quarter this year. All the details of our full-year guidance are included on our Investor Relations site.

We had a strong third quarter with momentum across the business. Contract value growth accelerated and we had very strong revenue, EBITDA and free cash flow in the quarter. We've put out capital to work, repurchasing more than $1.6 billion worth of our stock this year through the end of October. And we've updated our guidance to reflect continuing strength and momentum in the business.

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 cost growing in line with CV growth over time and G&A leverage; we can modestly expand margins from a normalized 2021 level of around 19%. We can grow free cash flow at least as fast as EBITDA because of our modest CapEx needs and the benefits of our clients paying us upfront. And we'll continue to deploy our capital on share repurchases, which lower the share count over time and strategic value-enhancing tuck-in M&A.

With that, I'll turn the call back over to the operator and we'll be happy to take your questions. Operator?
QUESTION AND ANSWER SECTION

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

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

Yeah, thank you. Good morning. So great to see sales head count back to growth and fully hear you on the investments you're making in recruiting capacity and the payback you're seeing on that. I guess my question is at what point does the sales head count growth in GTS need to step up meaningfully or how much capacity is remaining in the system where you can continue to drive this type of growth just—like is it quarters, is there—just trying to understand how much leeway you have before you really need to hit the gas on the sales head count.

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

Hey, Jeff. It's Gene. So first, we do have a lot of head count and head count is one of the levers we use for growth. But it's not the only lever. We also really are very focused on productivity. And we believe there's quite a bit of room for productivity improvements going forward.

In parallel with that, as I mentioned on the call and Craig did as well, we have initiatives underway to ramp up our recruiting capacity and output. And we're finding actually that we have a great value proposition and it's very attractive to the market. And so we're quite optimistic about our ability to ramp up hiring as we need to and leverage productivity in the meantime.

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

Okay. And then can you help me with some of the GTS metrics? It looks like most of the growth is coming from client enterprise growth. CV for enterprise flattish despite having 104% wallet retention. So I don't know to what extent there's sales head count mix impact, if there's post-COVID win-back. Just help me understand what's going on. And is it a good thing that most of the growth is coming from client enterprises given that you can expand after you land?

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

Yeah. Good morning, Jeff. I think there's a couple of ways to look at what's happening under the covers. I think, number one, seeing the pickup in wallet retention is certainly a very positive trend, which we anticipated. And as we've looked at the amount of upsell and expansion that we're driving within existing client enterprises, we're back to normal levels. And that wallet retention is strong. It's not quite back to historical levels, but we feel really good about the level of expansion we're driving within enterprises.

Again, some of that is win-back; some of that is organic growth activities within existing enterprises. But the wallet is pretty strong. I think on the enterprise account, the enterprise growth, we've seen now a few quarters of enterprises expanding. And as you'd expect, when a new enterprise comes in; it comes in at a lower CV level than our overall average. And so the net enterprise adds that we've been doing will suppress a little bit or mute a little bit that CV for enterprise that you see. But what you're seeing actually is both levers working really well for
the last several quarters, particularly in the third quarter, with that expansion with the existing enterprises showing up in the wallet retention number and the number of enterprises is growing nicely as well.

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

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

Gary E. Bisbee
Analyst, Bank of America Securities, Inc.
Hey. Good morning, guys. I guess if I go back to GTS head count, what's really kept you from bringing that back more quickly? I know last quarter you talked about having to ramp up recruiting capacity to deliver on that. But how much is the tight labor market impacting the pace at which you bring people back? And what's the risk in the next six months that you continue to have sort of sluggish additions? How do we think about that? And when would that impact revenue growth in the segment if you don't get that up towards high single digits or wherever you're targeting? Thank you.

Eugene A. Hall
Chief Executive Officer & Director, Gartner, Inc.
Hey, Gary. So a couple of things are going on with GTS head count. First, it is a highly competitive labor market. And turnover is up modestly. And of course, within that modestly higher turnover, there are pockets that are higher – they're higher to modest turnover. But overall, it's modestly up. And we recognize that and we have a number of programs in place which we think will actually address that. And we have a very strong employee value proposition. In fact, we don't have any trouble recruiting people into the company. And so the combination of continuing to strengthen our employee value proposition, we believe, will get this modest-to-higher turnover back to normal levels.

Then in parallel with that, we are rapidly ramping up our recruiting capacity [indiscernible] (00:23:44). We actually started ramping up recruiting capacity back in May. But obviously, what happens is you'll have to hire recruiters and take a little while to actually get them on the job. And then just like any other job, it takes recruiters some time to get up to full capacity. And so when we started ramping up recruiting capacity back in May, it takes a little time before that fully kicks in. As Craig mentioned on his prepared remarks, we're already seeing that we're back to kind of the levels of hiring that we were back in 2019. And again, we expect that to continue to go up. So we expect a combination of improved employee turnover from the programs we have in place combined with higher recruiting capacity to really address this issue.

Gary E. Bisbee
Analyst, Bank of America Securities, Inc.
Okay. That's helpful. And then on GBS, outstanding productivity there. It gets on the back of outstanding new business over the last four quarters, five quarters now. But how should we think about productivity? And I'm not asking Q4 or even next year, like over the next few years. The LTM right now is way ahead of what it's ever been in GTS. I guess one could argue you've got multiple franchises that you're selling there and so it could be higher. But there's also a lot of factors have improved it. Would it be reasonable to think that it gravitates back towards where GTS has been historically? Or do you believe you can keep this level of productivity or at least higher just because of the number of shots on goal you've got with the different practice areas you're selling? Thank you.
Eugene A. Hall  
Chief Executive Officer & Director, Gartner, Inc.

So in GBS, like GTS, we have a great value proposition. We provide actionable insights to our clients on their toughest issues. So the thing that this starts with is we have a really great value proposition. As we talked about, we invested in making sure we had the content, sales training, a number of experts, et cetera, over the last really two or three years to make sure that we had all the pieces in place to be able to deliver that incredible value proposition. And now we're seeing the benefits of that. We're going to continue to keep investing in those areas. And so I'd expect our value proposition is very strong and also that our ability to execute on sales will continue to be very strong as well.

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

The other thing I note, Gary, is in that net productivity number, you're saying is, as you called out, really strong new business growth. But we've also seen meaningful improvements in the retention rates. And that obviously flows through to the NCVI per quota-bearing head as well. So it underscores Gene's points around the value proposition being super strong. So not only are we getting lots of shots on goal, as you say, across the franchises where we're scoring those goals, I guess, if I can extend the metaphor and keeping those seat holders in the franchise with stronger retention rates.

Gary E. Bisbee  
Analyst, BofA Securities, Inc.

Great. Thank you.

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

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

Thank you. Actually, I just want to ask a follow-up on the last topic. So on GBS, you mentioned how you're seeing growth driven by supply chain and HR and sales practices. No surprise there those have been the topics really impacting many companies right now. Are these really new client subscriptions or add-ons from existing clients for the most part? And do you view any of that as temporary? So like if supply chain issues are to wane, for example, would those clients still stay on or could you see sort of a little bit of a higher turnover of those clients [indiscernible] (00:27:35)? Thanks.

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

Good morning, Toni. It's Craig. I think across all the GBS practices; as we mentioned, all of them are at double-digit growth rates on a year-over-year basis in the third quarter and more than half of them are north of 20% year-over-year growth. So we highlighted the top three, which are performing really strongly. But those aren't the only ones that are even north of 20%. And again, to underscore the point, all of them are at double-digit growth rates.

I think what we're seeing and you can see this through a combination of metrics is we are selling a lot of new functions within existing enterprises, which is why you've seen the wallet retention rate move up as nicely as it has. And so just because a client is purchasing a supply chain subscription, selling into their finance team or their HR team or their legal team is a brand new sale for us. And we're doing really, really well there in addition to
bringing on brand new enterprises into the GBS franchise as well. So it's a combination of those two factors really driving that GBS growth.

On the cyclical versus secular, I think I'd go back to Gene's points earlier. We have a really, really strong value proposition in each of these functional areas that we are selling into. We've invested a lot over the last several years to make sure that we've got the right content and the right analysts and advisors and the right service capacity and the right selling capacity. And so we feel good about each of these opportunities. Again, if you stand back, these are enormous market opportunities for us. And we're in the really, really early innings of going after that market opportunity.

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

That's great. Wanted to ask about the pace of expenses returning. I think the way that I'm sort of thinking about it is you have T&E and hiring that are going to make up probably some of the bigger buckets of returning costs. And I know you talked about hiring a lot, so I'll skip that one.

But just on T&E, I guess how far back are you at this point versus what is fully back and versus pre-COVID, like is the level sort of lower? And maybe the easier way to ask it is you talked about the 19% baseline for adjusted EBITDA margin this year. So modest growth off of that next year, is that how we should be thinking about 2022? Or could you see costs more gradually come back and we sort of are stuck in a situation like we had this year where you're a little bit over-earning on the margin next year?

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

Yeah. That's a great question. A couple of ways to think about it. So one, the biggest bucket by far is head count related. And as we've talked about, we are making progress there. We've increased recruitment capacity as Gene talked about. We're growing both sales forces now sequentially. And we intend to do that not only with sales but across the rest of the company as needed as well. And so that is by far the biggest piece of it. And I think as I mentioned in my prepared remarks, about two-thirds of the "normalizing" adjustments relate to head count.

On the travel front, we are still almost at zero. And so there is still a long way to bounce back from that. When we were sitting here in May, we thought second half of the year it would start to bounce back. When we were sitting here in August, we thought in the fourth quarter it would bounce back. It is reopening a little bit. But we are still at a tiny fraction of where we were historically. And as we roll into 2022, we do think it'll rebound to reset at a new normal level. Will that be all the way back to 2019? Perhaps, perhaps not. Perhaps there are things we can do a little more efficiently and effectively. But it's still going to be a pretty significant step up from what we spent in 2021, which is virtually nothing back to a new normal level in 2022.

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

Super helpful. Thank you.
Hi, thanks. Good morning. I wanted to stay on GBS productivity. GBS NCVI of $176,000 really has been significantly above what we're seeing in GBS even before COVID. And you mentioned strong new business growth and improved retention as drivers. Were there any unusual tailwinds to productivity or seasonality factors to consider in the quarter? And then how sustainable are current levels of productivity?

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

Good morning, George. On the productivity, it is an LTM measure. And so we're trying to even out or take out seasonality from the measure. There are some structural differences that we've talked about in the past in looking at GBS compared to GTS and again based on where we are in the journey on these two businesses.

And so on the GBS side, because we are as I mentioned earlier in the really early innings of going after this really enormous market opportunity, we have a richer mix of what we call business developers or hunters whose sole job is to go out and find new business. And they are performing really, really well. [indiscernible] (00:33:39) and we've been building to that. It wasn't just a one quarter phenomenon. It's a several quarter or multi-year phenomenon that we've been experiencing there. And so again, they are performing really well. The retention levels are helping a lot on the types of quota-bearing hires or AEs that manage CV and drive growth through account expansion. So it's really a combination of those two things.

As we look out into the future, is this the right level to think about? We will see. We do believe there was a little bit of pent-up demand out there in the market coming through the pandemic last year. But we feel like we're in a really good place with GBS achieving strong growth rates and again through a combination of really strong new business and improving retention rates as well.

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

Got it. That's helpful. You mentioned normalized EBITDA margins are running at 19%. And this is a little bit improved from – previously it was running at 18% to 19%. Can you discuss where in the business you're seeing improved cost profiles?

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

Yeah. George, it's actually a combination of improved revenue outlook and performance and some improved cost profiles as well is really driving the modest adjustment from 18% to 19% to where we are now, which is around 19%. But I guess generally the way to think about the normalized margin of around 19% is it is how our P&L would look in a more typical year with sales head count growing a few points, [indiscernible] (00:35:23), offices opened for the full year, normal travel levels as we just discussed on Toni's question and growth investments to support all of the growth that we're driving across the business. And so a modest little change. But again, I'd say a combination of the revenue performing a little bit better than expected as we've talked about each quarter and some tightening or more efficiency on the cost side as well.

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

Got it. Thank you.
Hi, good morning. And thank you for taking my questions. I'll start with Conferences. I realize that you're only in the early stages of reintroducing in-person conferences and events. But I'm wondering if you have an updated view on the long-term mix of conferences between in-person and virtual particularly as you start to plan for 2022. And then given even more experience today than the past couple of quarters with the virtual format, whether you have any additional clarity on the profitability of that model and/or the hybrid model longer term relative to pre-pandemic levels.

Hey, Andrew. Great question. So Conferences are an important part of our business. And we have, with the pandemic, developed quite good virtual conferences that add a lot of value to our clients and have been very well received. Having said that, a lot of our clients, the ones who in particular used to go to the in-person conferences, as we do our customer research, there is strong interest and desire for us to provide them with in-person conferences as well.

So as we look out into the future right now; the way we're thinking is we would – when it is safe to do so and allowed in each geographic – or each regulatory environment, we plan to hold in-person conferences because it does provide tremendous value to our clients. And having said that, we also plan to continue with virtual conferences for those clients that either don't want to travel or can't travel given – when we have our in-person conferences. And so our long-term strategy or long-term plan is to have a mix of both in-person conferences and virtual conferences, going back to kind of the great success we had with the in-person ones, combine it with what we learned during the pandemic with the virtual conferences.

Got it. Thank you. Is there anything you could say about the profitability differences between those two or what the profitability of that hybrid model looks like?

Andrew, it's hard to say right now. We've been operating a little bit in between the two models as we've – as you know, we were preparing to run a portion of our conferences this year in person. And so we had staff onboard to be able to do that. And then, obviously, we had to cancel those in-person conferences in the fourth quarter and relaunch on virtual.

And so, again, I think the way we think about it is that the contribution margin will look similar to the way it looked pre-pandemic for the overall Conferences business. I do think – and again we'll provide guidance on 2022 in February while we're working through our operational plans now. And again, we talked about this in the past. We are not going to be in a position to relaunch the 70 in-person [indiscernible] (00:39:13) conferences that we had in 2019, run them at the exact same profile, economic and otherwise, in 2022. It's going to take some time to build back into those. And so, again, as we think about it, the combined operating margin for Conferences looks pretty similar to the way it looked prior to the pandemic as it stands right now.
Andrew Nicholas  
*Analyst, William Blair & Co. LLC*  

That’s perfect. Really helpful. Thank you. And then for my follow-up. It looks like in looking at the queue that the United States and Canada are growing a little bit faster than EMEA and the rest of the international business although it is certainly a small gap. Just wondering if you could speak to the different market dynamics in the US versus internationally and if there’s anything specific whether it’s the selling motion or the receptiveness to the new products that you would call out between those regions. Thank you.

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

So let me start on that, Andrew. So the first thing is GBS is largely weighted to the US. And so most of the GBS growth, just because it is much less mature outside the US, even in the US, it’s going to be more heavily US weighted. It’s growing well outside the US as well, but it’s just our share of business and our share of salespeople are overwhelming in the US. Over time, just as we’ve done with GTS, we expect to have our international markets in GBS be just as strongly staffed as we have GTS today as we keep getting salespeople over time. And so that’s one of the factors that drives the US markets.

In terms of actual [indiscernible] (00:40:52) our value proposition is very strong in the US. It’s very strong in Europe. It’s very strong in Asia. And so it’s equally effective there. Sometimes the mix of industries affect a particular geography or a particular market where one set of industries might not be doing as well and so it’s a little tougher selling environment. But again, overall, our value proposition is strong in all of those markets. And it’s more specific things like that that would impact it. And as I said that our mix of salespeople which are in GBS.

Andrew Nicholas  
*Analyst, William Blair & Co. LLC*  

Great. Thanks so much.

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

Jeffrey M. Silber  
*Analyst, BMO Capital Markets Corp.*  

Thanks so much. Just a couple of follow-up questions. First, going back to the whole issue about labor supply. I’m just wondering what the impact of these tight labor markets have been on wage inflation both for the sales force and for your associates broadly throughout the company.

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

Hey, Jeff. Good morning. Yeah, so with the labor markets, as you’ve rightly identified everyone’s been dealing with, yes, we’ve seen a little bit of wage inflation. It’s totally within a manageable level is what we’ve basically seen. But there has been some wage inflation both from a – yeah, as we look externally and also as we want to make sure that we are retaining our associates as well. But all within manageable levels at this point.

Eugene A. Hall  
*Chief Executive Officer & Director, Gartner, Inc.*
What we found is that the biggest issue is that we have a lot of associates. And there have been pockets where we didn't realize we might not have been competitive. And now we know we weren't competitive in those pockets. And so I think that's been the biggest source of what you might call wage inflation.

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**Jeffrey M. Silber**  
Analyst, BMO Capital Markets Corp.

Okay. That's helpful. And then shifting over to Conferences, I know there's a lot of the issues in deciding whether to hold a conference remotely or hold it live. But I'm just curious and I know this may vary across your major conferences, how much lead time is needed if you decide to go – you were going to hold it remote and then decide to go live, how quickly can you ramp that up?

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

So if we were planning to be virtual, switching to live takes a long time because you have to reserve venues, you have to sell exhibitors, things like that. It's easier to go the other way around, meaning plan for live and go virtual, because you have all the pieces in place already. And so, typically, as you know this year, we planned to go live for some of our conferences and then to conclude it, it was not either allowed or was not safe to do so and so we didn't. But it's easier [indiscernible] (00:43:35) that way once you have an in-person conference plan to go virtual because you don't worry about the venue and things like that. If you haven't reserved those venues, trying to get them at the right time and then – et cetera, is pretty tough to do.

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**Jeffrey M. Silber**  
Analyst, BMO Capital Markets Corp.

Okay. So we're talking months. I wouldn't say years. But if you decide to do something for next year, you would have to start looking at it right now.

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

So yes, basically, it can take months. It can take years because if you – some of the most popular venues get booked up literally a couple of years in advance. And so if you're trying to book a – if it's a popular venue, trying to book it at the last second can be very tough. So yes, the planning actually can take years.

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**Jeffrey M. Silber**  
Analyst, BMO Capital Markets Corp.

Okay, makes sense. Thanks so much.

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

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**Manav Patnaik**  
Analyst, Barclays Capital, Inc.

Thank you. Gene, you talked about beefing up the recruiting efforts and making changes. I'm just curious. You guys were always good on that front. Just curious to know what needs to change in the new, I guess, hybrid world, I suppose.

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**Eugene A. Hall**  
Chief Executive Officer & Director, Gartner, Inc.
Hey, Manav. Great question. So one of the things in the hybrid world we need to focus on – and we've always focused on this to a degree. But we have to talk [indiscernible] (00:44:56) which is our employee value proposition and why should an associate want to come work at Gartner. The talent market we compete in is a very – it's a very, very competitive market. We're a very attractive employer. But we have to make sure that our candidates understand that and understand what's different in a virtual environment than it might have been when it was a pure office-based environment. So that's kind of a key change.

Manav Patnaik
Analyst, Barclays Capital, Inc.

Okay, got it. And just curious on – you've done one, I guess, tuck-in deal this year. And it sounds like things are going well across the [indiscernible] (00:45:31). Balance sheet is healthy. Just curious if M&A is something we should see higher up on your agenda or just more of the same.

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

Yeah. Good morning, Manav. I'd say again our capital allocation strategy remains unchanged. We're focused on returning capital to shareholders through our buyback programs; which, as you've seen, we've been very aggressive with over the course of this year and then also [ph] hunting down (00:45:56) strategic value-enhancing tuck-in M&A. That's 1A and 1B from a priority perspective. We continue to scour the market for assets that make sense for us. We are an organic grower. We don't need to do M&A to support our medium-term objectives. And so we can be very, very, very disciplined on the M&A front. We'll remain very disciplined on that front.

Manav Patnaik
Analyst, Barclays Capital, Inc.

All right. Thank you.

Operator: Thank you. Our next question comes from Hamzah Mazari with Jefferies. Your line is open.

Mario Cortellacci
Analyst, Jefferies LLC

Hi. This is Mario Cortellacci filling in for Hamzah. First question is just around conversion rate. And could you help us maybe think about how we should think about the conversion rate in Research business from those in-person conferences versus virtual? As you get more back to the in-person conferences, should we expect a larger uplift in that conversion and even better growth in Research?

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

Hey, Mario. Good morning. As you highlight, Conferences are an important piece of the overall portfolio and really support our Research business in a variety of ways. One of those is in getting prospects there and having them experience Gartner and Garner insights and then converting them. We also, obviously, have the benefit of engagement with existing clients and so there is a positive benefit on retention as well.

When we did pivot to virtual, we were very focused on making sure that we maintained those levels of engagement both in terms of engaging existing seat holders to help with retention rates and also getting lots of prospects through. So we've been very focused – and again, I think in the fourth quarter of last year when we really ran our virtual conference portfolio in earnest, we did a really good job on both fronts. And I think we're...
seeing the benefit of that from a retention rate perspective this year. It's certainly helping and it's also been contributing nicely to our overall new business growth rates on Research as well.

And as we roll forward here, and Gene talked about it, in this sort of hybrid world of running in-person where we can and where it is safe to do so; we're going to take advantage of that from a Research perspective. And when we run virtual, we intend to make sure we get the benefits of that on the Research side as well. So whatever format we run in, it's a great business. But it's really an extension of our Research business. And that's the way we'll continue to run it whether it's in person or virtual.

Mario Cortellacci  
Analyst, Jefferies LLC

Got it. And then in terms of Consulting, can you just talk about what practices are faring better than others? And maybe you can update us on which verticals or adjacencies that you may be underpenetrated in.

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

Yeah, Mario. On the Consulting side, we have continued to have relatively strong performance there. We're seeing, obviously, a lot of work with what are the major trends in technology, digital transformation, cloud optimization, cybersecurity, things of those nature. Those are really the big ones for us. As you know, we tend to focus our Consulting business on our largest, most complex clients. And they have those issues in earnest as do a lot of our other sized clients as well. But we've seen really good performance broadly geographically and spread nicely across those couple of areas. And I would throw in strategic sourcing and cost optimization into that Consulting mix as well. That is a strong practice for us.

Mario Cortellacci  
Analyst, Jefferies LLC

Great. Thank you very much.

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

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

Well, as you heard on today's call, we once again delivered strong performances in Q3. And we performed well across all three of our businesses, Research, Consulting and Conferences. We delivered strong performances in contract value, revenue, EBITDA and free cash flow. And we repurchased another $355 million of stock in the quarter.

We continue to get better, faster and stronger as a company. Gartner is a great place for our associates. We provide outstanding returns for our shareholders and we're thriving in the current environment. Thanks for joining us today and we look forward to updating you again next quarter.

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