S&P Global
Market Intelligence

Gartner, Inc. NYSE:IT

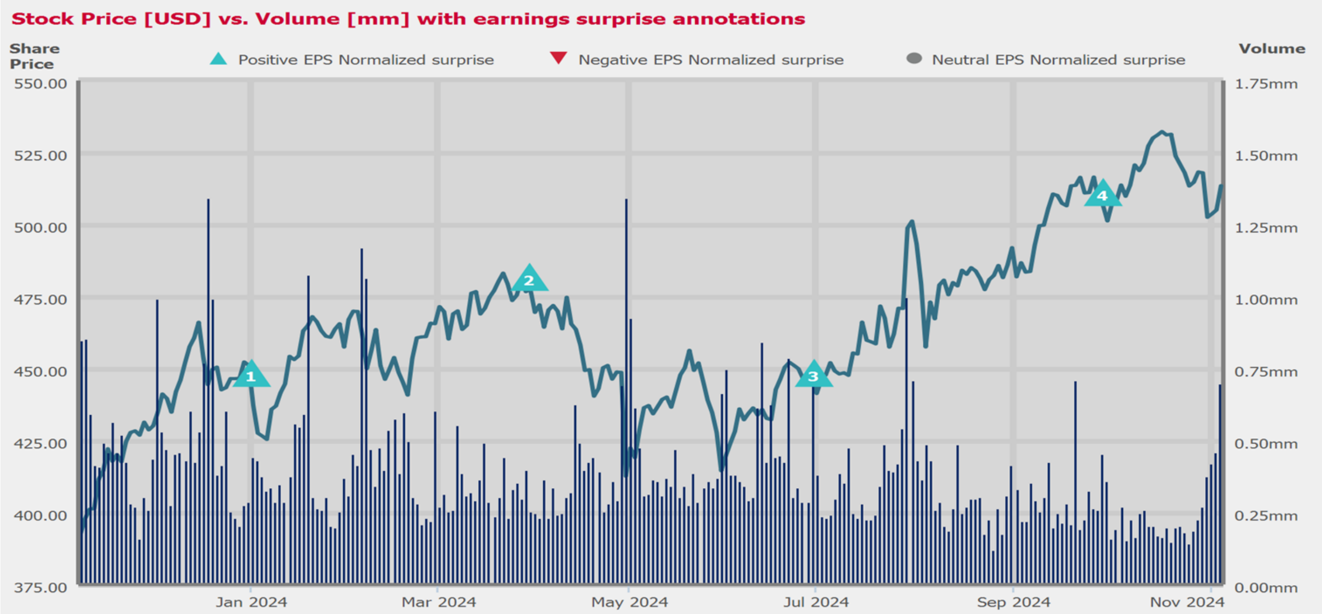
FQ3 2024 Earnings Call Transcripts

Tuesday, November 05, 2024 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.37	2.50	▲5.49	3.01	11.35	13.03
Revenue (mm)	1475.16	1484.30	▲0.62	1682.38	6215.70	6750.77

Currency: USD
Consensus as of Nov-05-2024 12:55 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2023	2.83	3.04	▲1 7.42 %
FQ1 2024	2.54	2.93	▲2 15.35 %
FQ2 2024	3.03	3.22	▲3 6.27 %
FQ3 2024	2.37	2.50	▲4 5.49 %

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EXECUTIVES

Craig W. Safian
Executive VP & CFO

Eugene A. Hall
CEO & Chairman

ANALYSTS

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Deutsche Bank AG, Research Division

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UBS Investment Bank, Research Division

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

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Surinder Singh Thind
Jefferies LLC, Research Division

Thomas Ross
William Blair & Company, L.L.C.

Toni Michele Kaplan
Morgan Stanley, Research Division

Presentation

Operator

Good morning, everyone. Welcome to Gartner's Third Quarter 2024 Earnings Call. I'm David Cohen, SVP of Investor Relations. [Operator Instructions] After comments by Gene Hall, Gartner's Chairman and Chief Executive Officer; and Craig Safian, Gartner's Financial Officer, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

This call will include a discussion of third quarter 2024 financial results and Gartner's outlook for 2024 as disclosed in today's earnings release and earnings supplement, both posted to our website, investor.gartner.com.

On the call, unless stated otherwise, all references to EBITDA are for adjusted EBITDA, with the adjustments as described in our earnings release and supplement. Our contract values and associated growth rates we discuss are based on 2024 foreign exchange rates. All growth rates in Gene's comments are FX neutral, unless stated otherwise. All references to share counts are for fully diluted weighted average share counts, unless stated otherwise. Reconciliations for all non-GAAP numbers we use are available in the Investor Relations section of the gartner.com website.

As set forth in more detail in today's earnings release, certain statements made on this call may 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 2023 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 Chairman and Chief Executive Officer, Gene Hall.

Eugene A. Hall
CEO & Chairman

Good morning and thanks for joining us today. Gartner continues to remain resilient in a complex environment. In Q3, contract value grew high single digits. Financial results for the third quarter were ahead of expectations. We raised our 2024 guidance for revenue, EBITDA, EPS and free cash flow.

Leaders in every enterprise continue to face more simultaneous disruptions than ever before. Gartner is the best source for actionable objective insight that drives smart decisions and stronger performance on an organization's mission-critical priorities. A powerful way to experience our research insights is to attend a Gartner Conference. At the start of every conference, our analysts deliver a thought-provoking keynote on a critically important topic. I recently attended Gartner's IT Symposium/Xpo in Orlando, Florida. In the opening keynote, our analysts inspired thousands of CIOs and IT executives. They showed these leaders how to implement AI in the right places and at the right pace for their environments. The keynote received among the highest ratings ever.

Gartner delivers unparalleled value at the intersection of business and technology. We help our clients manage risk, save time, save money and build confidence. We guide clients through a wide range of topics. For example, cybersecurity, strategic workforce planning, cost optimization and leveraging generative AI across multiple disciplines, including procurement, brand management and sales enablement.

Research continues to be our largest and most profitable segment. Our research business source leaders across all major enterprise functions in every industry and every geography and our market opportunity is vast. Within our research business, contract value with enterprise function leaders grew 9%. And contract value with tech vendor clients continued the improvement we saw last quarter. We serve executives and their teams through distinct sales channels. Global Technology Sales, or GTS, serves leaders and their teams within IT. Contract value grew 6%, GTS new business growth was 8%. Global Business Sales, or

GBS, serves leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, legal, sales and more. GBS new business growth was 10% and contract value grew 12%.

Gartner Conferences deliver extraordinarily valuable insights to an engaged and qualified audience. Revenue grew 30% in the third quarter and we're off to a great start in Q4. Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic initiatives through deeper project-based work. Consulting is an important complement to our IT research business. Labor-based consulting revenue grew 2%. Contract optimization revenue met our expectations. Our long-term success has been driven by relentless execution of Gartner best practices. We continuously improve and innovate across our business. I'll share a few examples.

First, we deployed a state-of-the-art CRM system across most of our business. Now our teams have greater visibility to better serve our clients. We also added innovations to our phased approach to sales training, which positively impact sales productivity for new hires. One way we capture our large untapped market opportunity is by growing sales headcount. We accelerated hiring in the second half of 2024 and expect to continue growing our sales force into 2025 and beyond.

Another example of improvement is with early career salespeople. We're growing and refining our apprentice type program that lets early career salespeople gain valuable experience before they take on direct quota-bearing roles. And we're leveraging AI internally. We've built prototypes that associates are using to match our vast library of powerful insights to each client situation. And those are just a few examples. Developing creates great best practices and executing them consistently is a core part of our strategy.

In closing, Gartner delivered financial results ahead of expectations. We delivered 9% contract value growth with enterprise function leaders. Tech vendor CV growth has turned the corner and continues to accelerate. Our client value proposition and addressable market opportunity will allow us to drive long-term sustained double-digit revenue growth. We'll continue to create value for our shareholders by providing actionable objective insight to our clients, prudently investing for future growth and returning capital to our shareholders through our share repurchase program.

We expect to deliver modest margin expansion over time and we'll continue to generate significant free cash flow well in excess of net income. All of this and more positions us to continue our sustained track record of success far in the future.

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

Craig W. Safian
Executive VP & CFO

Thank you, Gene and good morning. Third quarter contract value grew 7% year-over-year, another good performance in a still complex environment. Third quarter revenue, EBITDA and EPS, all came in ahead of our expectations. We are updating our guidance based on the Q3 results and an improved outlook for the fourth quarter.

Also during the third quarter, we received $300 million before taxes related to conference cancellation insurance for the conferences affected by the pandemic. We have repurchased more than $630 million of stock through September and remain eager to repurchase shares opportunistically. Third quarter revenue was $1.5 billion, up 5% year-over-year as reported and 6% FX neutral. In addition, total contribution margin was 68%, consistent with last year. EBITDA was $340 million, up 2% as reported and 3% FX neutral versus the third quarter of 2023. Adjusted EPS was $2.50 compared with $2.56 in Q3 of last year. And free cash flow, including the insurance-related proceeds, was $565 million.

Research revenue in the third quarter grew 5% year-over-year as reported and FX neutral. Subscription revenue grew 7% FX neutral. Nonsubscription research revenue was in line with our expectations. Third quarter research contribution margin was 74%, consistent with last year. Contract value was $5 billion at the end of the third quarter, up 7% versus the prior year and up about $104 million from the second quarter. CV from enterprise function leaders across GTS and GBS grew 9%. Contract value and CV growth are FX neutral.

CV growth was broad-based across practices, industry sectors, company sizes and geographic regions. Tech vendor contract value has turned the corner with strong new business and continued contract value acceleration in Q3. Across our combined practices, half of the industry sectors grew at double-digit or high single-digit rates, led by the energy, health care and manufacturing sectors. CV grew at high single-digit rates across all enterprise sizes except small, which grew low single digits and has the largest tech vendor mix. We also drove double-digit or high single-digit growth in the majority of our top 10 countries.

Global Technology Sales contract value was $3.9 billion at the end of the third quarter, up 6% versus the prior year. GTS enterprise leader CV increased high single digits. Tech vendor CV growth improved from Q2 as the positive shift, which began last quarter, continued. GTS CV increased $67 million from the second quarter, while retention for GTS was 101% for the quarter, similar to Q2. Enterprise leader wallet retention was consistent with historical levels. GTS new business was up 8% compared to last year. GTS quota-bearing headcount was up 1% year-over-year. We added more than 90 sellers in the quarter, the largest sequential increase since Q4 of 2022. This sets us up to deliver on mid-single-digit QBH growth for GTS by the end of the year. Our regular full set of GTS metrics can be found in our earnings supplement.

Global Business Sales contract value was $1.2 billion at the end of the third quarter, up 12% year-over-year. All of our GBS practices grew at double-digit rates other than marketing and sales, which grew mid-single digits. Growth was led by the finance, legal and supply chain practices.

GBS CV increased $37 million from the second quarter. While retention for GBS was 106% for the quarter, which compares to 108% in the prior year, GBS new business was up 10% compared to last year. GBS quota-bearing headcount was up 8% year-over-year and we continue to target high single-digit growth for 2024. As with GTS, our regular full set of GBS metrics can be found in our earnings supplement.

Conferences revenue for the third quarter was $76 million, increasing 32% as reported and 30% FX neutral compared to Q3 of 2023. Contribution margin was 40%, consistent with typical Q3 seasonality. We held 10 destination conferences in the third quarter. Third quarter consulting revenue was $128 million compared with $133 million in the year ago period. Consulting contribution margin was 33% in the third quarter. Labor-based revenue was $101 million, up 2% versus Q3 of last year as reported and FX neutral. Backlog at September 30 was $218 million, increasing 21% year-over-year on an FX-neutral basis with continued booking strength.

In contract optimization, we delivered $26 million of revenue in the quarter with a very tough compare from Q3 of last year. Our contract optimization revenue is highly variable. Consolidated cost of services increased 5% year-over-year in the third quarter as reported and FX neutral. The biggest driver of the increase was higher compensation costs. SG&A increased 8% year-over-year in the third quarter as reported and on an FX-neutral basis. SG&A increased in the quarter as a result of headcount growth, which contributed to higher compensation costs.

EBITDA for the third quarter was $340 million, up 2% from last year's reported and up 3% FX neutral. We outperformed in the third quarter through revenue upside, effective expense management and a prudent approach to guidance. Depreciation in the quarter of $29 million was up 18% compared to 2023. Net interest expense, excluding deferred financing costs in the quarter, was $17 million. This is favorable by $4 million versus the third quarter of 2023 due to higher interest income on our cash balances. The modest floating rate debt we have is fully hedged through the third quarter of 2025. The Q3 adjusted tax rate, which we use for the calculation of adjusted net income, was 26% for the quarter. This compares to last year's rate of 22%. The tax rate for the items used to adjust net income was 17% for the quarter.

Adjusted EPS in Q3 was $2.50 compared with $2.56 last year. We had 78 million shares outstanding in the third quarter. This is an improvement of close to 1.6 million shares or about 2% year-over-year. We exited the third quarter with about 78 million shares on an unweighted basis. Operating cash flow for the quarter was $591 million compared with $331 million in Q3 of 2023. This includes $300 million of insurance-related proceeds we received in the quarter. We expect to pay the associated taxes during Q4. CapEx for the quarter was $26 million, in line with our expectations.

Free cash flow for the quarter was $565 million, including the insurance-related proceeds. Free cash flow on a rolling 4-quarter basis was 119% of GAAP net income. Excluding the insurance-related proceeds, free cash flow was 16% of revenue and 63% of EBITDA. Our free cash flow conversion is generally higher when CV growth is accelerating. At the end of the third quarter, we had about $1.8 billion of cash. Our September 30 debt balance was about $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was under 2x. Our expected free cash flow generation, available revolver and excess cash remaining on the balance sheet provide ample liquidity to deliver on our capital allocation strategy of disciplined share repurchases and strategic tuck-in M&A.

Our balance sheet is very strong with $2.5 billion of liquidity, low levels of leverage and effectively fixed interest rates. We repurchased $69 million of stock during the third quarter. As of the end of Q3, our share repurchase authorization is more than $1 billion. As we continue to repurchase shares, our capital base will shrink. Over time, this is accretive to earnings per share and combined with growing profits, also delivers increasing returns on invested capital. We are updating our full year guidance to reflect recent performance and trends. We increased the outlook for all 3 segments: Research, Conferences and Consulting. And our EBITDA guidance reflects Q3 upside and an increased outlook for Q4. As a reminder, about 1/3 of our revenue and operating expenses are denominated in currencies other than the U.S. dollar. Based on recent FX rates, we expect currency to be a modest benefit in Q4.

Our updated 2024 guidance is as follows. We expect research revenue of at least $5.11 billion, which is FX-neutral growth of about 5%. This reflects subscription research revenue growth of about 7%. We expect Conferences revenue of at least $580 million, which is FX-neutral growth of about 15%. We expect Consulting revenue of at least $535 million, which is a growth of about 5% FX-neutral. The result is an outlook for consolidated revenue of at least $6.225 billion, which is FX-neutral growth of 6%.

We now expect full year EBITDA of at least $1.52 billion, up $60 million from our prior guidance. We expect 2024 adjusted EPS of at least $11.75. For 2024, we expect free cash flow of at least $1.35 billion. The increase from prior guidance reflects several items. First, improved operating performance; second, the insurance-related proceeds we received in August, net of estimated taxes; and third, a nonrecurring payment related to our ongoing real estate planning. The guidance reflects a conversion from GAAP net income of 126%. Our guidance is based on 78 million fully diluted weighted average shares outstanding, which reflects the repurchases made through the end of the third quarter.

Our financial results through September have been ahead of our plan despite continuing global macro uncertainty. CV grew high single digits in the quarter and we believe the first quarter of 2024 was the bottom for CV growth in this cycle. We repurchased more than $630 million of stock year-to-date through September and remain eager to return excess capital to our shareholders. We will continue to be price sensitive, opportunistic and disciplined.

Looking out over the medium term, our financial model and expectations are unchanged. With 12% to 16% research CV growth, we will deliver double-digit revenue growth. With gross margin expansion, sales costs growing about in line with CV growth and G&A leverage, we will deliver modest EBITDA margin expansion over time. We can grow free cash flow at least as fast as EBITDA because of our modest CapEx needs and the benefits of our clients paying us upfront. And we'll continue to deploy our capital on share repurchases, which will lower the share count over time and on strategic value-enhancing tuck-in M&A. With that, I'll turn the call back over to the operator and we'll be happy to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Jeff Meuler with Robert W. Baird.

Jeffrey P. Meuler
Robert W. Baird & Co. Incorporated, Research Division

Can you just comment on GTS enterprise leader, I guess, end market conditions or pipeline? Just trying to triangulate from what you're giving us on tech vendor getting better as well as the 9% enterprise function with GBS growing 11.6%. It looks like it might have decelerated a little bit. So just any help on pipeline and anything beyond macro sales capacity, et cetera.

Eugene A. Hall
CEO & Chairman

Jeff, it's Gene. So in terms of pipeline, we have a robust pipeline for GTS enterprise leaders. We have a very strong value proposition. We're on the issues that people really care about. And so our pipeline looks very strong. There's -- from time to time, there's some reconfiguration that goes on in terms of our sales force and any results in a particular quarter are influenced by the particular SKU of renewals that quarter and other things but we're kind of on track to where we expected. And again, we have just a great pipeline for GTS users.

Jeffrey P. Meuler
Robert W. Baird & Co. Incorporated, Research Division

Okay. And then on expenses, is 2024 expected to be a good baseline to expand modestly from over time for adjusted EBITDA margins? Or could there be, I guess, more of a headwind as growth investment gets fully reinstated with you reaccelerating sales headcount?

Craig W. Safian
Executive VP & CFO

So I think a couple of thoughts there. So one, '24 is a relatively good baseline from an operating expense perspective rolling forward. The only thing I would highlight is the growth in both GTS and GBS headcount that we're building into 2024 has been back-end loaded. And so obviously, we'll pay for that from a full year perspective next year.

And then, as Gene mentioned in his prepared remarks, we intend to continue to grow our sales force to go after that huge untapped market opportunity into the future. So I think the way we sort of think about the OpEx base is, we're -- '24 is a relatively good baseline, say, for the back-end loading of our GTS and GBS headcount. And as we roll into 2025, we want to make sure that we continue to make those investments in GTS and GBS headcount and other key areas of the business to make sure that we drive strong retention rates, we drive productivity and we drive sustained growth to the top line over time.

Operator

Our next question comes from the line of Toni Kaplan with Morgan Stanley.

Toni Michele Kaplan
Morgan Stanley, Research Division

I guess, at this point in the year, you're probably talking to a lot of clients on renewals. And so just wanted to hear if there's anything interesting that you're hearing from them about their '25 budgets and what your expectations are for the selling environment for next year?

Eugene A. Hall
CEO & Chairman

Toni, we have renewals all year long. But if I look at what's going on right now and our clients and '25 budgets, they're expecting a better year in '25 than in '24 right now, which, if that proceeds will actually be good for all of us. But right now, that's what we hear, is that they're expecting '25 budgets modestly better than '24.

Toni Michele Kaplan
Morgan Stanley, Research Division

Great. And I was hoping you could give us an update on your sales force tenure. I know you've been working on a number of initiatives to retain and attract the best salespeople. Just wanted to hear how those initiatives are going and your retention relative to history? And are you where you want to be with regard to sales headcount? I know it's a continuous process but just anything around the tenure and sales force attraction.

Eugene A. Hall
CEO & Chairman

Yes. We have a fantastic value proposition for prospective salespeople as well as other associates for Gartner. So we have a very -- and if you think about -- when we hire people, we have on the order of 200 people apply for every job. And so we kind of get to pick from the best of the best in terms of who we hire, also because we have a very strong associate value proposition. Our associate turnover is very low. And so our turnover has been lower but the reason it's not [any low] is because we're managing the bottom group to make sure that we're always upgrading our talent.

And so again, we have a great associate value proposition that allows us to really attract great people. Our turnover is very low. It's in the range that we would like it to be in exactly. Any lower would be too low because we wouldn't be [indiscernible] performance management. And in terms of tenure, what that's left us is, our tenure has been slowly rising over time. Now again, as Craig mentioned in his remarks, we accelerated hiring and I mentioned as well, we've accelerated our hiring, again, so that puts some newer people in the sales force. But overall tenure has been rising.

Operator

Our next question comes from the line of Alex Lakritz with Goldman Sachs.

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

This is George Tong with Goldman. I guess with respect to tech vendor contract value, you mentioned that it's turned the corner and continues to accelerate. Can you talk about where the growth is currently now? And when you would expect the CV growth with tech vendors to more meaningfully improve in performance given prevailing trends?

Eugene A. Hall
CEO & Chairman

So George, with tech vendor, what's going on is that with our new business and in fact, Craig and I mentioned this, new business to tech vendors actually has rebounded pretty nicely. But we still have some tech vendors that are particularly small tech vendors that are financially challenged. They aren't doing that well and they can't get funding. They may have a contract that's still in force. They may actually renew but they're renewing at lower rates. And so what's dragging our growth down in our tech business right now is the fact that we have particularly very small vendors that can't get funding but have contracts with us, could be 1-, 2- or even a 3-year contract that's coming up for renewal. And those are renewing at lower rates than we've seen historically. Eventually, that will go through. But again, I think, a very positive sign is that our new business, our sales, both to existing clients and new logos for tech vendors has rebounded nicely and it's more in the range of historical levels.

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

Got it. That's helpful. And then with the consulting business, you mentioned the contract optimization piece at tough comps and growth can sometimes be variable. Can you talk a little bit more about the trends that drive this business and what you're seeing with the trends there or overall trends improving? And what would you expect going forward to be the key driver of performance with this part of the consulting business?

Eugene A. Hall
CEO & Chairman

So in that business, we have a very strong value proposition, which is, we help clients get better deals in terms of both pricing and terms on very large contracts. So if we have a client that's going to a very large CRM system or something like that and they're spending -- the contracts there could be $50 million, $100 million, $500 million in terms of that we're helping clients get better deals on. So it's very strong value proposition. And our track record helping the clients is very strong there. And so that's kind of the fundamentals of the business. Having said that, the business you can imagine, if you're doing $100 million deals, it's lumpy. It's not -- they don't all come in exactly 1 a week or something like that. It depends on what the clients' needs are and also negotiations could take time.

The actual client's budget could change, they could decide they want to accelerate or push it off for 6 months. But it's more -- what drives that business is, first, our very strong value proposition. But then when we realize that value is very variable depending on -- we get paid when the clients actually sign the deal. And so depending on the SKU or how big the deals are and when they get signed is why our -- we have the variability in that business. So last year, it happened that there were an unusually large -- an extremely large number of those kinds of deals in Q3. We had a great Q3 but it wasn't quite as strong as it was last year in that business. And it's just a matter of the kind of variability that I just went through.

Craig W. Safian
Executive VP & CFO

And George, as order of magnitude, last year, reported growth rate in Q3 was 98%. So it was -- definitely meets the definition in my mind of very tough compare. And I think over the short term, medium term and long term, we expect this business to grow in line with our consulting medium-term objective as well. But from a quarter-to-quarter basis, as Gene outlined and for all the reasons Gene outlined, it can be very variable quarter to quarter to quarter. But it's a great business because it delivers a very strong value proposition for our clients.

Operator

Our next question comes from the line of Andrew Nicholas with William Blair.

Thomas Ross
William Blair & Company, L.L.C.

This is Tom Ross, on for Andrew Nicolas. I wanted to focus on new business growth in the quarter across GTS and GBS. And was wondering if you could unpack the underlying drivers there?

Craig W. Safian
Executive VP & CFO

Yes. So Tom, as we stated, GBS new business growth was 10% year-over-year. So really good solid double-digit growth. And as we mentioned in our prepared remarks, pretty broad-based performance across all the GBS practices. On the GTS side, year-over-year new business growth was 8%. Again, strong high single-digit year-over-year growth. And again, it's sort of broad-based across the bulk of GTS.

I think when we think about the drivers, it sort of goes back to the strength of the value proposition of our research offerings and making sure that our sellers are generating enough opportunities within the pipeline and then are leveraging all of our best practices to work those things through the pipeline and convert into sales. And we -- that's sort of the strategy and we continue to turn the crank on that. I wouldn't say there's any big external driver or a demand driver or anything like that other than the value proposition continues to remain incredibly strong in the end markets that we serve.

Thomas Ross
William Blair & Company, L.L.C.

Great. And then for my follow-up, I wanted to drill down on client spending more broadly in the quarter and just see how it trended relative to your expectations. And then any color you can add thus far into the fourth quarter?

Craig W. Safian
Executive VP & CFO

Again, I wouldn't say we saw anything different from a client spending or an end market perspective. As both Gene and I mentioned earlier, the world continues to be a pretty complex and dynamic place and we are working our way through that. Gene highlighted some of the big topics that a lot of our clients are very focused on but it's not exclusively those. The clients we serve have lots and lots and lots of challenges. And obviously, Gartner is a great way to address those challenges and improve operational performance for the executives that we support. So I'd say there's no big change from a client spending perspective or any external trend like that, more of the same. We're just focused on making sure that we're delivering value and continuing to execute.

Operator

Our next question comes from the line of Josh Chan with UBS.

Joshua K. Chan
UBS Investment Bank, Research Division

So last quarter, you suggested that the Q1 CV would be the bottom but that the path of recovery may be uneven. I guess maybe taking a step back, what did you see that caused you to make that uneven comment? And as we stand here in Q3, what do you think about the pace going into Q4 in terms of CV?

Eugene A. Hall
CEO & Chairman

So Josh, the -- if you look at our contract value, in any given quarter, there are certain set of renewals that come up. It varies from quarter-to-quarter. And if there's more renewals in one quarter than another or one slips a quarter, that's kind of what's responsible for kind of the quarter-to-quarter variation, which is why we had said the path to accelerate our growth isn't going to be necessarily an exact straight line. And so you're just seeing the normal variation in terms of what [indiscernible] renewals, a new business deal may get pushed to another quarter.

Again, if you add these up, the big deals, it actually is what is responsible for that. But overall, again, we have a very strong value proposition. We see great demand from our clients on the issues you'd expect. So like cybersecurity, how do they use artificial intelligence, data and analytics, cost optimization is always popular and again, it's a rocky macroeconomic situation right now. And so cost optimization continues to be something very important to many of our clients. And so the kind of strong value proposition is the same. It's just kind of the specifics of what happens each quarter, causes a little variability.

Craig W. Safian
Executive VP & CFO

And Josh, just to put it in sort of quick quant terms, with a roughly $5 billion base, a $3.5 million change in a quarter could be a 10 basis point or at least reported around the 10 basis point change. And so again, recognizing that the world is a very complex and dynamic place, deals may push, may come in early, et cetera, et cetera and all the things Gene just highlighted, that's why we guided that it may not be a straight line from a trend perspective, it can be a little bit rocky. But again, we're talking about potentially as small swings as $3.5 million could drive a 10 basis point bump one way or the other.

Joshua K. Chan
UBS Investment Bank, Research Division

That's right. That's definitely understandable. And then maybe on GBS CV, I guess, that's still a very healthy level but it continues to step down a little bit sequentially. Could you talk about what you expect there? Or what's going on in terms of GBS CV? And I don't know if sales and marketing practices have anything to do with that but some comment on the trajectory there would be helpful.

Eugene A. Hall
CEO & Chairman

Let me spend just a bit on GBS CV. GBS CV, you can think about it at a very high level, there's 2 groups. There's kind of new products that we've introduced that we refer to as GxL and then some of our legacy products that we inherited primarily from CEB. And we still have a lot -- still a lot of CV there. And if you look at the new products that we've introduced, the GxL products, they're actually growing above our 12% to 16%. They continue to grow above our 12% to 16% medium-term growth range.

And so deceleration is really in some of the legacy products. As the economy has gotten a little rougher, those that renew -- are renewing at somewhat lower rates than they've done historically. And that's kind of the biggest factor that's impacting the GBS growth rate. So the GBS kind of new business is extremely healthy, doing extremely well. And of course, we're managing the legacy products but they're less attractive than they were. Each year, they get a little less attractive. And so that's kind of the biggest drag that we have on GBS.

Operator

Our next question comes from the line of Faiza Alwy with Deutsche Bank.

Faiza Alwy
Deutsche Bank AG, Research Division

So you mentioned a few times that you're helping clients implement AI in the right places. I know historically, you've talked about AI sort of not being a big driver of CV growth generally. I'm curious if now that we're further along the AI journey, if you think that could be a more significant contributor to overall new business as we look ahead to '25 and beyond?

Eugene A. Hall
CEO & Chairman

Great question. So we -- our clients always expect us to be helping with the most important issues they have. And so at one point in time, a few years ago, it might have been cloud computing. And so if you look today, the issues that are really -- that people focus are the ones I mentioned earlier, which is, clients are wrestling how do we use AI. They're wrestling with how do we maintain tight cybersecurity. They're wrestling with, how do we maintain and access all of our data, all the data and analytics that every business needs to use today and like I said, cost optimization. And that's true across all the functions in the business.

In addition, there's kind of the geopolitical factors that are making organizational changes that we help people with. And so the way to think about our business is, we're always on kind of the issues that are most important to clients. Those issues change over time. So it doesn't mean, for example, if there's a new issue that -- now AI is more important than cloud. It means that all of a sudden, we get this huge demand. We've been helping them all along with the most important issues. And so on the margin, it helps, of course but it's a whole range of issues. And we always are on the most important issues at the time.

Faiza Alwy
Deutsche Bank AG, Research Division

Great. That's helpful. And then I was curious, as we think about revenues into 2025, I know we're still waiting on 4Q CV and that will be a big driver. But curious if there's any sort of early read on 2025, maybe you can share some thoughts on research, nonsubscription revenue, where we saw some declines. Do you expect that business to grow? And maybe just additional color on -- in response to Toni's question around acceleration in CV next year?

Craig W. Safian
Executive VP & CFO

So I think we'll obviously provide a full view on 2025 guidance in February as is our normal practice. You're right in highlighting that the biggest driver of 2025 revenue is where CV and CV growth finishes in 2024. And we've got -- we're 1 month through the fourth quarter and there's still a lot of deals that we are working. It's a very, very, very large quarter for us. And so where the dust settles on that will be the biggest driver around 2025 and then -- around 2025 revenue, I should say, more specifically.

And then as we think about the business, we continue to believe and have great conviction behind the fact that we will get both GTS and GBS back to 12% to 16% growth over the medium term and we expect to accelerate to those points over time. 2025 is a part of that time for sure but we'll provide full guidance around 2025 as we normally do in February.

Operator

Our next question comes from the line of Manav Patnaik with Barclays.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Craig, maybe just a follow up on that. Can you just remind us how big the fourth quarter is in terms of the percentage of renewals and maybe sales that are typically weighted towards that quarter?

Craig W. Safian
Executive VP & CFO

The way to think about it and kind of -- sort of look back at historical numbers, we generate order of magnitude around half of our NCVI, which is the numerator for overall CV growth in the fourth quarter and we generate order of magnitude about 40% of our annual new business in the fourth quarter. The one thing I would say is that we're not generally overloaded with renewals in the fourth quarter. Our teams do a really good job of when there's an opportunity to pull forward, we do that. And again, remember, we're also writing lots of multiyear deals when we sell them as well. But roughly 50% of NCVI happens in the fourth quarter, again, roughly and about 40% of new business.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Got it. That's helpful. And Gene, just on the hiring, the quota-bearing headcount strategy, you talked about better budget expectations in talking to your customers. The pipeline is robust. I think you said 200 applicants per job posting. Historically, I think you've always been in the camp of hiring aggressively even when things are tough, so you're ready for the rebound. So just curious why mid-single digits by year-end is the strategy today versus a bigger number to be ready for the rebound.

Eugene A. Hall
CEO & Chairman

Manav, the reason that -- our hiring plans are based on what we think is where the market is, which we think is in a good place. That's why we're starting accelerating our hiring. But also it's based on our operational capability to make sure we bring on really good people and we train and develop those people. And so it makes more sense for us to kind of accelerate that hiring as opposed to make a step change where I'm concerned about our operational ability to be as effective as we would be as compared to a kind of more streamlined acceleration.

Operator

Out next question comes from the line of Surinder Thind with Jefferies LLC.

Surinder Singh Thind
Jefferies LLC, Research Division

Gene, just following up on the last question there. As you structurally think about the sales force and the size of the sales force, just any color on the potential impacts on longer-term metrics, maybe around how you're viewing productivity, the number of clients that maybe each salesperson can handle? Does AI change any of that? Or do you have any data points as you think about structurally, not this year or next year but as we maybe think a little bit longer term about the sales force?

Eugene A. Hall
CEO & Chairman

Yes. I mentioned in my comments that we have some prototypes that we're using that are very promising. I think it's too early to say what the long-term productivity impact will be. I think it will be positive but whether it's 2% or 5% or whatever, I couldn't really say right now. I know our associates like it and it's working really well. We'll see over time as we realize what the real benefits will be. But it's not going to be like a 50 -- I don't expect it's going to be like a 50% improvement in productivity or something like that. It will be modest improvements over a period of time.

Surinder Singh Thind
Jefferies LLC, Research Division

Got it. And then in terms of the -- on the GBS side, I think you mentioned there are some areas where you're seeing some strength, such as finance, legal, HR, those kinds of areas. But then you also talked about maybe some more tepid demand on the sales and marketing side. Just any additional color there? Is that just kind of the maladies that we're seeing in terms of end client demand and the hiring in that area at the clients themselves? Or how should we think about the headwinds that we're seeing there in the near term?

Eugene A. Hall
CEO & Chairman

So in marketing and sales, there's a couple of things you asked. First, there's an overweight for tech. And so while most of GBS is split kind of with [GDP], it turns out that in marketing and sales, we're a little overweighted on the tech side. And so they're being impacted by the tech piece in a way that the overall GBS isn't. Second piece is, there's actually -- relative to the amount of CV, there's a relatively high amount of legacy CV that I talked about earlier, where the new products are doing much -- doing quite well but the legacy CV isn't doing as well. There's a higher proportion of legacy CV in the marketing and sales piece.

And the last piece is that, with marketing in particular but sales to an extent, when economic times are tough, there's a lot more scrutiny on hiring and marketing and marketing spending than there is in some other areas of the business. So all those things are coming together and make it more challenging in that segment. It's still doing very well. So I wouldn't take away that it's shrinking or not doing well. We're actually happy with where it's going but it does have those challenges that some of the other practices don't have as much of.

Operator

Our next question comes from the line of Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Wonder if we can get some comments on the renewal process in terms of pricing, what types of price increases you've been able to get through and what we should be expecting for next year as well?

Craig W. Safian
Executive VP & CFO

Jeff, thanks for that question. From a renewal perspective and from a pricing perspective, as you know, our #1 strategy there is to make sure that, at a minimum, we are offsetting our projected wage inflation with our price increases. And our -- the majority of our price action actually happens on November 1. And again, we took up our pricing a little less than 4% this year to sort of match how we were thinking about wage inflation rolling into 2025.

Generally speaking, we've ranged between 3% and 4% price increases for 15-plus years, save for a few exceptional years where there was higher wage inflation or lower. But most recently, higher weight inflation when we had to be a little bit more aggressive on pricing. But things have settled down a bit now. And so rolling into 2025, we're shade under 4% in terms of the structural price increase.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. That's really helpful. If I could shift gears to consulting, you saw a decrease in gross margins on a year-over-year basis. Does that have anything to do with the mix shift away from the big contract optimization quarter you had last year? Or is there something else going on that we should be aware of?

Craig W. Safian
Executive VP & CFO

Yes. The biggest thing there is what you highlighted, Jeff. Those deals are profitable for us. And we had a huge quarter -- in the year ago quarter, as we talked about. We had a very strong quarter this quarter but down. And that's the biggest driver on the consulting contribution margins in the quarter.

Operator

Our next question comes from the line of Jason Haas with Wells Fargo.

Jason Daniel Haas
Wells Fargo Securities, LLC, Research Division

I'm curious if you could talk about what you're expecting for nonsubscription revenue this year. In the last call, you talked about $305 million. And I think there were some comments on this call that it would be similar. So I was curious if that's still the expectation. And the reason I ask is because it does seem to imply pretty substantial decline in 4Q but the compares do get a lot easier. So I'm just curious if I have that right. And then maybe how you're thinking about that nonsubscription revenue going forward?

Craig W. Safian
Executive VP & CFO

Jason, thank you for that question. On the nonsub side, we are still expecting about $305 million for that revenue for 2024. So unchanged from our perspective last quarter. You're right, the math does imply a pretty significant year-over-year decrease, a little bit more than what we've been seeing. But again, we delivered on roughly our expectation in the third quarter and so the full year was basically unchanged.

Jason Daniel Haas
Wells Fargo Securities, LLC, Research Division

Got it. That's helpful. And then I'm not sure if you could talk about expectations if that -- if we'll continue to see declines into next year. And I also want to have a follow-up question on, just the time it takes for your sales force to ramp up. So I recognize you'll be growing quota-bearing headcount by year-end, mid- to high single digits. How long does it take those folks to get ramped up to a more normal level of productivity?

Craig W. Safian
Executive VP & CFO

Yes, sure. I'll cover the 2025 expectations, which will be very short. And Gene can talk about the sales force ramp up. So again, as is our practice, we'll provide full guidance on everything in February. And so we're not in a position where we're talking about 2025 yet. There's still a lot to go in 2024, which obviously influences how we're going to set our plans and targets for 2025. And then, Gene, on sales force ramp.

Eugene A. Hall
CEO & Chairman

Yes. In terms of sales force productivity ramp, it takes 3 years for a salesperson to get from -- to full productivity. So the people we're hiring now will get to full productivity 3 years from now. So this is an investment not just for 2025 but for '26 and '27 as well. And we've seen that pretty consistently over time. We're very focused on moving that productivity earlier so that it doesn't take 3 years or at least we get more of that productivity early on. And so a bunch of things I talked about like the apprenticeship program, the training, et cetera, the tools that we're giving our -- equipping our sales force with are designed to get our new salespeople up that ramp faster. But currently it takes about 3 years to get to full productivity.

Operator

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

Eugene A. Hall
CEO & Chairman

So here's what I'd like you take away from today's call. Gartner delivered financial results ahead of expectations. We delivered 9% contract value growth with enterprise function leaders. Tech vendor CV growth has turned the corner and continues to accelerate. We have a vast addressable market opportunity with a strong and compelling client value proposition. Looking ahead, we're well positioned to drive sustained double-digit revenue growth over the long term. We'll continue to create value for our shareholders by providing actual objective insights for our clients, prudently investing for future growth, generating free cash flow well in excess of net income and returning capital to our shareholders through our share repurchase program. 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 your participation. You may now disconnect.