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Gartner, Inc. NYSE:IT

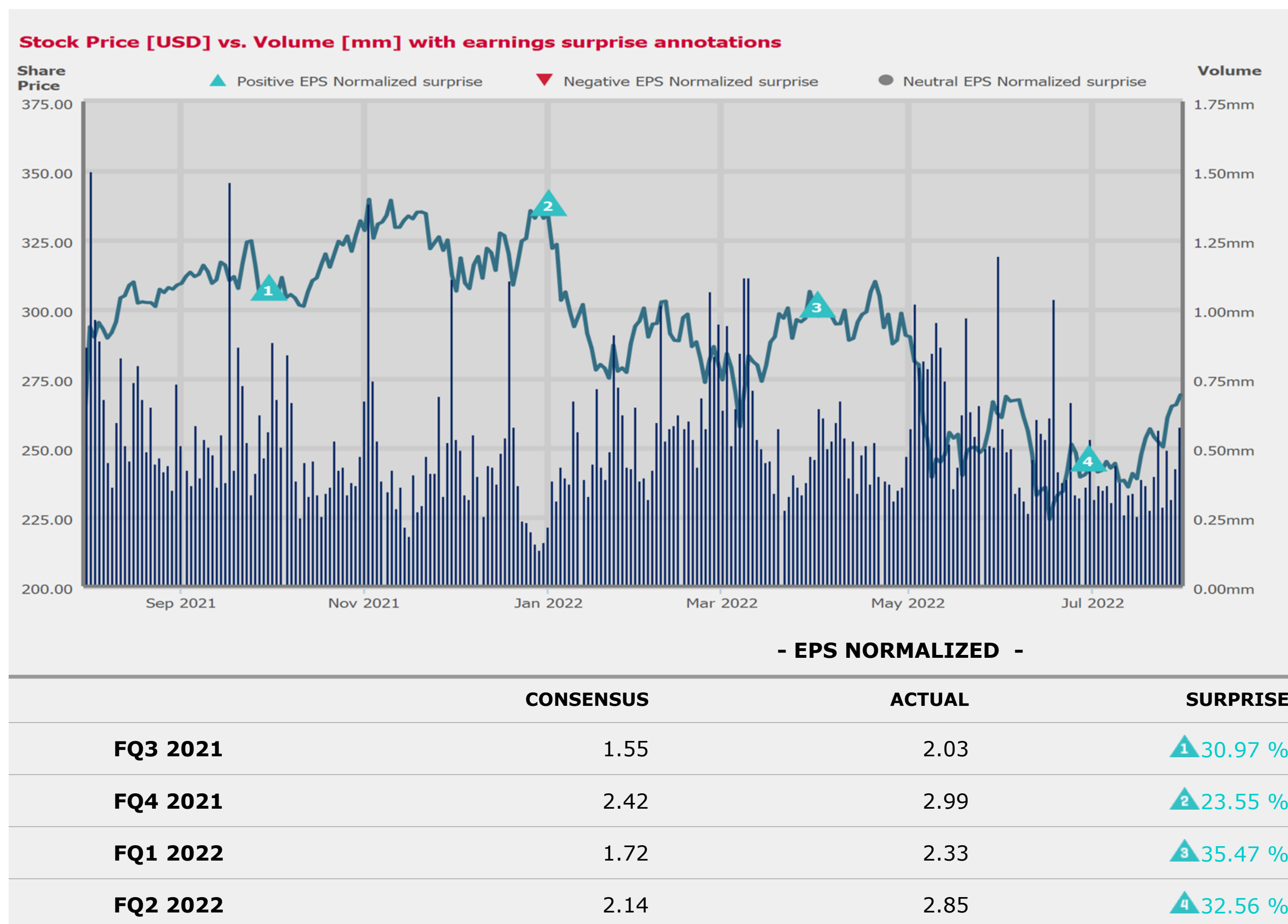
FQ2 2022 Earnings Call Transcripts

Tuesday, August 02, 2022 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.14	2.85	▲32.56	1.62	8.00	8.76
Revenue (mm)	1324.16	1376.50	▲3.95	1279.40	5302.46	5953.43

Currency: USD
Consensus as of Aug-02-2022 12:20 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	1.55	2.03	▲30.97 %
FQ4 2021	2.42	2.99	▲23.55 %
FQ1 2022	1.72	2.33	▲35.47 %
FQ2 2022	2.14	2.85	▲32.56 %

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Presentation

Operator

Good morning, everyone. Welcome to Gartner's Second Quarter 2022 Earnings Call. [Operator Instructions] After comments by Gene Hall, Gartner's Chief Executive Officer; and Craig Safian, Gartner's Chief Financial Officer, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

This call will include a discussion of second quarter 2022 financial results and Gartner's updated outlook for 2022 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. 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 count, unless stated otherwise. Reconciliations from non-GAAP numbers we use are available in the Investor Relations section of the gartner.com website.

Finally, our contract values and associated growth rates we discuss are based on '22 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 2021 annual report on Form 10-K and quarterly reports on Form 10-Q as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

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

Eugene A. Hall
CEO & Director

Good morning. Thanks for joining us. Gartner had a strong performance in the second quarter. We delivered double-digit growth in contract value, revenue, EBITDA and EPS, and we continue to return excess capital to our shareholders through our buyback programs.

Research continues to be our largest and most profitable segments. Gartner Research provides actual objective insight to executives and their teams across all major enterprise functions in every industry around the world. Our expert guidance and tools enable faster, smarter decisions and stronger performance on our clients' mission-critical priorities. We continue to have a vast market opportunity across all sectors, sizes and geographies, and we're delivering more value than ever.

The rate of change in the world is the fastest I've ever seen. Against this backdrop, Gartner continues to get even more agile. We're generating new insights to address timely and pressing issues, such as leveraging emerging technologies, optimizing costs, attracting and retaining talent in the hybrid world, managing cybersecurity risk and more. We deliver incredible value, whether our clients are thriving, struggling or somewhere in between. As a result, demand for our services remain strong.

Q2 Research revenue grew 17% in the second quarter. Total contract value growth was 15%. Retention remained very strong, and new business was near all-time highs. We're also growing our sales teams. Global Technology Sales headcount was up 9%, and Global Business Sales headcount was up 17% year-over-year. Global Technology Sales, or GTS, source leaders in their teams within IT. GTS contract value grew 14%. Global Business Sales, or GBS, serves leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, sales, legal and more. GBS contract value grew 23%.

Across every function: IT, supply chain, marketing, sales, HR, finance and more, leaders and their teams benefit from our incredible value proposition. As a result, the enterprises we support see measurable progress on their mission-critical priorities.

Leveraging the extraordinary value of our research insights. Our Conferences business brings the power of Gartner to life for an engaged and highly qualified audience. During Q2, we delivered our first in-person

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destination conferences since the start of the pandemic. This conference has covered IT, finance and supply chain in Europe, Australia and the U.S. Attendee feedback has been resoundingly positive. They deeply value the opportunities to connect, engage and learn in person.

Bookings continue at a strong pace for both exhibitors and attendees. Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic technology initiatives through deeper, extended project-based work. Consulting had a strong quarter, with revenue up 20%. Bookings were also strong, driving backlog up 45%.

In closing, we saw strong growth across the business. We continue to generate significant free cash flow well in excess of net income. We returned excess capital to shareholders, which reduced our shares outstanding. Looking ahead, we are well positioned for strong double-digit top line growth.

Our underlying margins are in the low 20s, well above pre-pandemic levels, and we expect them to modestly increase over time. And we continue to generate free cash flow well in excess of earnings, which we will deploy to further drive shareholder value.

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

Craig W. Safian
Executive VP & CFO

Thank you, Gene, and good morning. Second quarter results were strong, with double-digit growth in contract value, revenue and adjusted EPS. With results above our expectations, we are again increasing our 2022 guidance. The improved outlook reflects the better-than-expected second quarter top line results, strong demand for second half conferences and a successful balance between cost discipline and investing for future growth. .

Second quarter revenue was $1.4 billion, up 18% year-over-year as reported and 22% FX neutral. In addition, total contribution margin was 69%, down 70 basis points versus the prior year as costs return towards normal. EBITDA was $389 million, up 10% year-over-year and up 14% FX neutral. Adjusted EPS was $2.85, up 27%, and free cash flow in the quarter was $395 million.

Adjusting for insurance proceeds received last year, free cash flow was down 2% year-over-year for the quarter and up 5% on a rolling 4-quarter basis. Research revenue in the second quarter grew 14% year-over-year as reported and 17% on an FX-neutral basis, driven by our strong contract value growth. Second quarter Research contribution margin was 74%, about in line with 2021.

Higher-than-normal contribution margins reflect improved operational effectiveness, increased scale, continued temporary avoidance of travel expenses and continuing to catch up on headcount to support the Research business. Contract value, or CV, was $4.3 billion at the end of the second quarter, up 15% versus the prior year. As we discussed previously, CV reflects our decision to exit the Russian market, which contributed about $13 million in the second quarter 2021 number. This reduced the headline growth by about 40 basis points. Quarterly net contract value increase, or NCVI, was $97 million. Quarterly NCVI is a helpful way to measure contract value performance in the quarter, even though there is notable seasonality in this metric. The sequential increase in CV of $97 million was driven by the combination of continued strong retention rates and near record new business of close to $250 million.

We saw broad-based CV growth across all of our practices. Our technology practice grew 14%, and all of our business practices grew at double-digit growth rates, with many of them growing more than 20% year-over-year. From an industry perspective, retail, media and manufacturing led our CV growth. Global Technology Sales contract value was $3.4 billion at the end of the second quarter, up 14% versus the prior year. GTS had quarterly NCVI of $60 million, driven by strong retention and near record levels of new business for our second quarter. While retention for GTS was 107% for the quarter, up about 530 basis points year-over-year and near record levels. GTS new business was down 1% versus last year, up against a very tough compare.

The 2-year compound annual growth rate was about 16%. GTS quota-bearing headcount was up 9% year-over-year. We are on track to get to double-digit growth by the end of 2022 as we have successfully

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brought turnover down and our investments in recruiting are delivering results. We will continue to invest in our sales team to drive long-term sustained double-digit growth while also delivering strong margins. Our regular full set of GTS metrics can be found in the appendix of our earnings supplement.

Global Business Sales contract value was $936 million at the end of the second quarter, up 23% year-over-year, which is above the high end of our medium-term outlook of 12% to 16%. GBS CV increased $37 million from the first quarter. Wallet retention for GBS was 115% for the quarter, up about 5 percentage points year-over-year. GBS new business was up 3% compared to last year, reflecting robust growth across the full portfolio and against a very strong compare. The 2-year compound annual growth rate for new business was 35%. GBS quota-bearing headcount increased 17% year-over-year. Headcount we hire in 2022 will help to position us for sustained double-digit growth in the future. As with GTS, our regular full set of GBS metrics can be found in the appendix of our earnings supplement.

Conferences revenue for the second quarter was $114 million, ahead of our expectations as attendees and exhibitors enthusiastically return to in-person. Contribution margin in the quarter was 65%. We held 6 in-person conferences and 8 virtual conferences in the quarter. We held Evanta meetings in both virtual and in-person formats. We plan to run 19 in-person conferences for the balance of the year.

Second quarter Consulting revenues increased by 14% year-over-year to $121 million. On an FX-neutral basis, revenues were up 20%. Consulting contribution margin was 42% in the second quarter, up 120 basis points versus the prior year with better-than-expected revenue, higher utilization rates and a mix benefit from strong growth in contract optimization. Labor-based revenues were $95 million, up 11% versus Q2 of last year and up 18% on an FX-neutral basis.

Backlog at June 30 was $152 million, increasing 45% year-over-year on an FX-neutral basis with another strong bookings quarter. The inclusion of multiyear contracts, a change we described last quarter, contributed about 12 percentage points to the year-over-year growth rate.

Our contract optimization business was up 28% as reported and 31% on an FX-neutral basis versus the prior year. As we have detailed in the past, this part of the Consulting segment is highly variable. Consolidated cost of services increased 21% year-over-year in the second quarter as reported and 25% on an FX-neutral basis. The biggest driver of the increase was higher headcount to support our continued strong growth and the return to in-person destination conferences.

SG&A increased 24% year-over-year in the second quarter as reported and 27% on an FX-neutral basis. SG&A increased in the quarter as a result of increased hiring and sales and G&A functions, higher commission expense following strong CV growth in 2021 and the $12 million onetime real estate charge. We expect SG&A expenses to increase as a percentage of revenue over the near term as our catch-up hiring continues.

EBITDA for the second quarter was $389 million, up 10% year-over-year on a reported basis and up 14% FX neutral. Second quarter EBITDA upside to our guidance reflected revenue exceeding our forecast and expenses at the low end of our expectations. Depreciation in the quarter of $23 million was down modestly versus 2021.

Net interest expense, excluding deferred financing costs in the quarter, was $29 million, up $2 million versus the second quarter of 2021 due to an increase in total debt balances. The Q2 adjusted tax rate, which we use for the calculation of adjusted net income, was 25.7% for the quarter. The tax rate for the items used to adjust net income was 25% for the quarter.

Adjusted EPS in Q2 was $2.85, growth of 27% year-over-year. The average share count for the second quarter was 81 million shares. This is a reduction of about 5.6 million shares or about 6.5% year-over-year. We exited the second quarter with about 80 million shares outstanding on an unweighted basis.

Operating cash flow for the quarter was $416 million. Adjusting for the insurance proceeds we received in the second quarter of 2021, operating cash flow was down 2% compared to last year. CapEx for the quarter was $21 million, up 76% year-over-year as a result of an increase in capitalized software, laptops and other infrastructure.

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Free cash flow for the quarter was $395 million. Free cash flow growth continues to be an important part of our business model, with modest CapEx needs and upfront client payments. As many of you know, we generate free cash flow well in excess of net income. Our conversion from EBITDA is very strong with the differences being cash interest, cash taxes and modest CapEx, partially offset by strong working capital cash inflows.

Adjusting for the insurance proceeds we received last year, free cash flow as a percent of revenue or free cash flow margin was 21% on a rolling 4-quarter basis. On the same basis, free cash flow was 81% of EBITDA and 146% of GAAP net income. At the end of the second quarter, we had $360 million of cash. Our June 30 debt balance was $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was under 2x. Our expected free cash flow generation, unused revolver 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.

We repurchased around $930 million of stock through the first half of this year. We had about $700 million remaining on our authorization at the end of June. We expect the Board to continue to refresh the repurchase authorization as needed going forward.

Since the end of 2020 through the end of this June, we have reduced our shares outstanding by 9 million shares. This is a reduction of 11%. 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.

Our medium-term outlook is for double-digit revenue growth. While margins have been very strong in the past 2 years, we are continuing to catch up hiring and to resume travel spending. We estimate our underlying margins to be in the low 20s, well above pre-pandemic levels, and we expect them to increase modestly over time. We will give 2023 specific guidance in February, consistent with our usual practice.

Strong top line growth, modest margin expansion, low capital intensity and working capital as a source of cash will allow us to deliver strong free cash flow now and in the future. We are increasing our full year guidance to reflect strong Q2 performance and an improved outlook for the second half despite incremental FX headwinds. We now expect an FX impact to our revenue growth rates of about 370 basis points for the full year. This is up from 260 basis points based on rates when we guided in May.

As we discussed in the last 2 quarters, 2021 Research performance benefited from several factors, including QBH tenure mix and CVI phasing within the quarters and the year, record retention rates and strong non-subscription growth. We continue to assume that those benefits do not persist at the same levels through 2022. The growth compares will continue to be challenging as we move through the year. We continue to take a measured approach based on historical trends and patterns, which we've reflected in the updated guidance.

For Conferences, we assume we will be able to run all the in-person conferences as planned. Consistent with our commentary the past couple of quarters, our assumptions for consolidated expenses continue to reflect significant headcount increases during the year to support current and future growth. We have modeled higher labor costs and T&E well above 2021 levels, as we've previously indicated. We also have higher commission expense during 2022 due to the very good selling performance we delivered in 2021.

Finally, we continue to invest in our tech, both client-facing and internal applications, as part of our innovation and continuous improvement programs. Our updated guidance for 2022 is as follows. We expect Research revenue of at least $4.575 billion, which is FX-neutral growth of about 15%. The FX-neutral growth is up about 120 basis points from our prior guidance due to strong NCVI performance in the second quarter.

We expect Conferences revenue of at least $335 million, which is growth of about 63% FX neutral. We expect Consulting revenue of at least $440 million, which is growth of about 11% FX neutral. The result is an outlook for consolidated revenue of at least $5.35 billion, which is FX-neutral growth of almost 17%. The FX-neutral growth is up about 290 basis points from our prior guidance due to strong performance in the second quarter.

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Without the strengthening U.S. dollar since May, our revenue guidance would have been about $138 million than previous guidance. We now expect full year EBITDA of at least $1.235 billion, up $100 million from our prior guidance and an increase in our margin outlook as well. Without the strengthening U.S. dollar since May, our EBITDA guidance would have been about $120 million higher than previous guidance.

We now expect 2022 adjusted EPS of at least $8.85. For 2022, we now expect free cash flow of at least $985 million. Our guidance is based on 81 million shares outstanding, which reflects year-to-date repurchases. All of the details of our full year guidance are included on our Investor Relations site.

Finally, for the third quarter of 2022, we expect to deliver at least $255 million of EBITDA. Our strong performance in 2022 continued in the second quarter with momentum across the business. Contract value growth was very strong at 15%. Adjusted EPS grew 27%, fueled by the significant reduction in shares over the past year. We repurchased around $930 million in stock this year through June and remain committed to returning excess capital to our shareholders.

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 in line with CV growth and G&A leverage, we can modestly expand margins. 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?

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Question and Answer

Operator

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

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

Just first, a clarifying question on the underlying margin. So when you say low 20s, could that include like 21 or 22, you're not saying like low 20.x percent? And if we will have a recession at some point, would you expect to be able to at least maintain those underlying margins through a recession again as well?

Craig W. Safian
Executive VP & CFO

Jeff, thanks for the questions. In terms of the underlying margin, no, it wasn't locked in on 20.0 at low 20s. As we've looked at the business over the last few years, we've learned a lot through the pandemic, et cetera. And so we're now comfortable that the underlying margins of the business are in the low 20s.

And again, we can grow the top line double-digit growth rates into the future, and we can modestly expand margins from that point as well. In terms of the -- yes, go ahead.

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

Yes. I was just going to say, including maintain at least that margin in a recession?

Craig W. Safian
Executive VP & CFO

Yes. So that was the second part of the question. So again, the way we are thinking about running the business is, again, we believe that there still is a huge untapped market opportunity. We believe one of the ways that we go capture that untapped market opportunity is by continuing to grow the sales force and again, making sure we've got the right insights and the right number of analysts and advisers, et cetera. If there were to be a recessionary impact on the business, we would toggle the investment growth rates in each of those areas to ensure that we could deliver those underlying margins and also ensure that we could drive modest margin expansion into the future as well.

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

Got it. And then I think you're being anticipatory on the commentary around the new business giving us the 2-year CAGRs and such. But just any comments on what you're seeing in real time from a macro perspective, whether it's pipeline build and conversion in June and July or the topics of client content demand. Just any other business kind of metrics just given the "near record" when we are, I guess, use the fresh records from the growth company that Gartner is.

Eugene A. Hall
CEO & Director

Jeff, it's Gene. So the selling environment has been quite, I think, stable and good compared to Q1. Again, as you said, we had near record new business levels. We had near record retention levels. Our Conferences booking for both the exhibitors and attendees was very strong. That's been reflected in our guidance going forward.

I believe our Consulting business had one of the best quarters we've ever had with revenues up 20%, backlog up 45%. And there's kind of nothing, if we look under the covers, that lead you to believe in Q2 that anything other than selling [and perhaps was] quite robust.

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Craig W. Safian
Executive VP & CFO

And Jeff, I would just echo, having read briefly your report earlier this morning. The compares are super tough in Q2, and they remain pretty tough throughout the balance of the year. We're still growing CV at a great growth rate. You heard some of the other metrics around our underlying businesses in Conferences and Consulting as well. And so very tough compares for the balance of this year, but we still feel good about the momentum of the business.

Operator

Our next question comes from Heather Balsky with Bank of America.

Heather Nicole Balsky
BofA Securities, Research Division

I guess on the topic du jour in terms of what happens in the downturn, can you talk a little bit more about how your business today is more resilient in the downturn when you look back to, I guess, other periods of macro decline, maybe a COVID crisis or even going further back the financial crisis? And kind of how you feel about the sales line going into something potentially happening near term?

Eugene A. Hall
CEO & Director

Heather, it's Gene. So we're very cognizant always of the environment around us, and we try to make sure that we're, as a business, prepared for kind of where the world is going. And clearly, being concerned about the macroeconomic downturn is one of those things.

And first thing is, at any given point in time, we have clients that are growing, clients that are shrinking and clients in between. So we always have clients that are struggling. What we see in the macroeconomic downturn is just more of those clients, but we do it all the time.

Now as I mentioned earlier, we constantly adjust to try and make sure we are prepared for whatever economic environment comes. And we do this in a number of ways. One of them is we actually do surveys for our clients to understand kind of where their mindset is, what they're concerned about. In fact, in July, we did a survey of more than 150 Chief Financial Officers of our clients to see what was on their line and therefore, how we should respond.

We have 3 priorities. One was securing talent. They're still seeing that it's hard to hire talent and they're concerned about the wages for their talent. The second one is they want to keep accelerating digital even in a downturn. In fact, we ask the CFOs, what are they going to do in the downturn? 69% said they are going to continue to increase spending on technology in a downturn, 28% said they're going to maintain it and 3% said they're going to decrease it. So this continued investment in technology to improve the economics of the business continues on.

The third priority was to manage spending on things like operations, real estate, travel to pay to hire people and pay higher wages as well as to do these investments in digital. So what we're doing is we're taking our research content and aligning it with those kinds of priorities, help the clients making sure they can secure talent and manage wage inflation, making sure that can continue to accelerate the digital impact on their business.

And thirdly, most importantly maybe, helping them to manage spend. That's a big part of our business all the time. And we recently updated our what we call cost optimization work to make sure we can help when needed. So we've updated our research based on -- and I gave you the CFO survey. We do surveys on all 3 levels of executives to understand what their individual priorities are.

We then update our research to make sure it's on those [most contrary] topics. And then, in fact, in July, we went and trained all of our salespeople and our service people in terms of what are the most important issues today with clients, like the things I just mentioned and how has our research changed so that we can match those needs.

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And then -- and we'll continue to do that going forward. And so this wasn't kind of a onetime thing we do once, we do this on an ongoing basis. So part of our strategy is to make sure our content is always on the topics people find important. Now clearly, one of those things is going to be how to manage costs, and we will help them with that. But then making sure that all of our sales and service people are equipped to have conversations with people executives on how we can help them with those priorities. And this agility is a core part of our business.

We also do structural things in our business. Like if you -- the share of multiyear contracts we have is quite high and the strategy to grow that over time. And so it's those 2 things that's making sure our content is great, our salespeople prepared and making sure the underlying structural back to leading control are also there. That is -- if you look over time, we perform better and better each downturn. And so the -- we're certainly aware that might be downturn and are preparing.

Heather Nicole Balsky
BofA Securities, Research Division

Great. And another player, I guess, in the space recently mentioned longer contract cycles. Are you seeing anything like that in your market?

Eugene A. Hall
CEO & Director

So I think we have seen longer contracting cycles. I would say we see escalations, it's more likely that a contract will be reviewed by a CFO than it was a year ago. We train our salespeople so that's likely to happen, and you'd be prepared for it and to both prepare our media clients, [unlike you left] the Chief HR Executive and Chief Innovation Officer. But they might have to go to their CFO and review it and make sure they have what we call a CFO-ready package.

Operator

Our next question comes from George Tong with Goldman Sachs.

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

The performance in GBS was noticeably stronger than GTS. If you look at CV growth, it was 23% GBS; 14% GTS. And the headcount growth was faster at 17% of GBS compared to 9% at GTS. Does this difference in growth between the 2 businesses reflect priorities internally? Or does it reflect customer demand that might be different between GTS and GBS?

Eugene A. Hall
CEO & Director

Yes. George, I think it reflects the investments that we've made more than anything else. So if you go back 5 years ago, we began investing pretty heavily in areas outside of IT. So think marketing, supply chain, finance, HR, legal, sales, those were areas that hadn't traditionally been strong for us. We were in a couple of them that had been strong. We upped our investment significantly, both buying CEB and then after bought CEB with investments. And what we're seeing in the accelerated growth rate in GBS now is the outcome of those investments.

We kind of invested upfront. There's a lot of discussion about it at the time, and we increased sales capacity, increased research capacity, service capacity, developed a lot of content, and we're seeing the benefits of those. And so I think that's the first piece.

The second piece is one of the major factors for our business clearly, with this huge market opportunity, is growing our sales headcount. And while we increased sales productivity, we've had some good increases in productivity, growing sales headcount is essential. And so the fact that we've grown our GBS sales headcount faster over time, [not we grew] this quarter, but if you look at like over the last -- since '19, we've grown our GBS sales at a compound growth rate of about 16% a year -- I'm sorry, about 5% a year. And that has -- which is faster than GTS, which is about flat. And so that's allowed the growth to be a lot

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higher in GBS. So those 2 things, the combination of the investments and the growth in sales force, is what's really powered the faster CV growth.

Craig W. Safian
Executive VP & CFO

And the other thing I'd add, George, is just as we look out over the medium term, we believe given the market opportunity and our ability to go capture that market, that both GTS and GBS can be consistent 12% to 16% growers. And so, yes, GBS is growing a little bit ahead of that right now. But we remain very, very, very confident that both GTS and GBS can continue to grow at very strong double-digit growth rates.

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

Got it. That's helpful. Last quarter, you increased your normalized EBITDA margin target from 19% and 20% to 20%. And now you're saying underlying margins will be in the low 20s. So just going back to clarify, are you increasing your underlying margin target over the medium term? Or are you reiterating it from the prior quarter?

Craig W. Safian
Executive VP & CFO

Yes, it's a great question. So let me attempt to clarify because it's a very important question. So number one, I would say, just as context, we can grow our top line at double-digit growth rates and modestly expand margins over time. And there is operating leverage in the business, said another way, right? So those are kind of 2 key points.

When we were discussing the 20% normalized margin, we were really looking back to 2021 and attempting to give a view on if things have been "more normal," what would our operating or EBITDA margins, what would they have been in '21?

What we're now providing is more of a go-forward view around what do we believe the operating margins are that we can run the business at. And we have moved that higher over time, to your point, because we've gotten increased visibility into better ways to run our business. And so what is the new normal for travel expenses? What is the new normal for the amount of real estate we need? What would it look like when in-person conferences come back into the portfolio? And what would it look like as we catch up on headcount and then continue to grow and invest to support and sustain future growth?

And so the way to think about that low 20s number is, yes, it's an update, but it's also a view towards what do we think the underlying margins of the business are that we can modestly expand on going forward.

Operator

Our next question comes from Toni Kaplan with Morgan Stanley.

Gregory Scott Parrish
Morgan Stanley, Research Division

This is Greg Parrish on for Toni. Congrats on a strong quarter. I just wanted to talk about margin. You've ramped up hiring in the quarter a lot, but margins were not up. And understand a lot of those probably weren't in the expense base yet. But just really, Craig, if you could kind of help us bridge on how you get to the margin in the back half given the sort of implied step-down?

Craig W. Safian
Executive VP & CFO

Yes. No, absolutely. So you've hit on a number of the items that will impact the margins in the second half of the year. So we were very aggressive on hiring in the first half, and we expect to remain as aggressive in the second half as we continue to catch up from hiring from '21, and we also make sure that we're

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investing appropriately for the future. So that's a big piece that goes into the cost base for the second half of the year.

The second big thing is resumption of travel. And some of that is tied to us returning to in-person destination conferences, but a lot of it is just normal. We run global teams, and we want our leaders to be in front of those global teams, and so we'll see that ramp up in the second half of the year as well.

Third thing is our normal comp adjustment period happens April 1. So we only have 1 quarter of that in the first half of the year. We obviously have 2 quarters of that in the second half of the year. So those are the 3 biggies as you think about bridging the expenses.

And then the fourth one is with the returned in-person destination conferences, obviously, there's a lot of variable costs in delivering those in person.

Gregory Scott Parrish
Morgan Stanley, Research Division

Great. Thanks for the color there. And I guess just a quick follow-up on pricing. I think last quarter, Craig, you talked about getting more this year given the inflationary environment. I guess the broad macro is a little bit different than it was 3 months ago. Are you still expecting sort of above normal pricing this year?

Craig W. Safian
Executive VP & CFO

Yes. I mean I think, Greg, the way to think about it is we want to make sure that we are matching our price increases with our -- with wage inflation or cost inflation. The bulk of our costs are people related. So we feel good that we are matching our price increases with what we're seeing on our wages.

Operator

Our next question comes from Andrew Nicholas with William Blair.

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

Wanted to ask a question first on the headcount growth. Really, really solid quarter-over-quarter increase there. I think in your prepared remarks, you touched on it briefly, but I was hoping you could spend a bit more time on attrition trends, how that's kind of coming in relative to your expectations and the successful recruiting efforts. Just a little bit more color there because it does sound like you're still pretty happy with where that's trending and your goals for the full year.

Eugene A. Hall
CEO & Director

Andrew, great question. So the -- first, in terms of our attrition, we want to retain our great associates. With attrition, like many companies, went up over the last couple of years. We worked hard to understand the causes and then making sure we address that. And actually, our return -- associate turnover has actually gone down now to kind of what we would call normal levels. And so we're very happy with that turnover.

In addition to that, we have a very strong recruiting team. We have a truly world-class recruiting team, and that recruiting team has been doing a great job. And of course, we have a great employee value proposition as well. If you combine those 3 things: lower turnover, a great employee value proposition, a great recruiting team, that's allowed us to get our net associate headcount growth back up to where we need to support the growth in our business.

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

Great. And then for my follow-up, I wanted to ask about strength in the U.S. versus internationally. Obviously, it seems like there's pretty broad-based growth across the practices and across the industries.

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But is there any difference in CV growth or how you're kind of able to sell in EMEA, for example, given the geopolitical uncertainty? Or anything to call out there in the quarter?

Eugene A. Hall
CEO & Director

Yes. There's -- what I'd say is there's nothing systematic. If you look at Europe, Europe is proceeding along. There are some countries that are doing very well. There are some countries that aren't, and it's sort of typical of what we've seen, and that is kind of flat. And the same is true for the rest of the world. So nothing really remarkable in terms of U.S. versus different geographic reach.

Craig W. Safian
Executive VP & CFO

Yes. And Andrew, when we say broad-based growth, it is broad-based. So we look at it across our top 10 geographies, they're all growing at nice growth rates. When we look across industry cuts, they're all growing a nice growth rate. And so yes, there are always pockets where there may be a little bit of a challenge for us. But generally, those are either like super micro challenges or our own operational challenges, but the growth has remained pretty broad-based.

Eugene A. Hall
CEO & Director

Yes. The biggest indicator of where we've been growing, not growing is -- were headcount. Our sales headcount has grown faster or slower.

Operator

Our next question comes from Seth Weber with Wells Fargo.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

I wanted to just ask another question on the expense side. I appreciate that travel, T&E and stuff like that is ramping up in the second half of the year. Do you think that the run rate by the end of the second year will kind of get you back to par? Or do you think there will still be some kind of catch-up headwinds into next year?

Craig W. Safian
Executive VP & CFO

Yes. It's a good question. So I think the second half of the year will be more indicative of "normal travel" starting off the year this year, given where we were with pandemic. It was a little light in the first 3 or 4 months of the year and has started to pick back up. And so yes, second half is probably more indicative.

I think the way we're thinking about it is as compared to the last "normal year" back in 2019, where we expect to spend probably at least 50% less than we did in 2019. And again, we just think that the company and our associate base has embraced and thrived operating virtually. We still do need to travel, but we don't need to travel at the same volume that we did back in 2019.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Got it. And then just as a follow-up. I was really surprised at the strength in some of the areas like the non-subscription revenue and then the Consulting backlog up 45%. I'm just -- was there anything unusual there? Or is that just reflective of kind of what you were talking about earlier that the model is just more recession resistant or resilient than people might expect? And just any comment on those few line items.

Eugene A. Hall
CEO & Director

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Seth, I think it just reflects that our clients had challenges that they get. Our clients had challenges that they help with, and that our content -- and [when we looked], the contract was through Consulting, Conferences or Research is really helpful in helping them solve their problems.

And so I think it's indicative that we have a great value proposition just kind of what's going on.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Okay. And just the non-subscription revenue, is that -- do you feel like that's kind of a sustainable level? Or would you expect that to come off a little bit here going forward?

Craig W. Safian
Executive VP & CFO

Yes, it is. We had a really strong year on that line last year. So tough compares there, which again, we did model into our initial guidance and our updated guidance as well. But to Gene's point, the products and offerings we have there offer a very strong and compelling value proposition in good times or rougher times. And so we still expect it to be a nice strong grower for us. But again, super tough compare against the '21 performance.

Operator

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

Ryan Christopher Griffin
BMO Capital Markets Equity Research

This is Ryan on for Jeff. I just had a quick question on the labor supply side. Is it still as tight to find potential employees as it was 3 months ago?

Eugene A. Hall
CEO & Director

Great question, Ryan. What I read in the press and what I see with a lot of other companies is a lot of challenges were going to the CFO survey. One of the bigger concerns that CFOs have is their ability to hire talent. We've actually found that we've had no trouble hiring talent.

Our -- again, our employee value proposition is very strong. We have a great brand with associates. And so we've had no trouble hiring people at all, and that's reflected in the hiring results that you saw.

Ryan Christopher Griffin
BMO Capital Markets Equity Research

Got it. And then just a follow-up on the prior question. Should we look to non-subscription revenues as a leading indicator if we're heading into a downturn?

Craig W. Safian
Executive VP & CFO

No, I don't think so. I mean it's a relatively small line. It can be a little volatile. Again, I think as we look across -- I would look broadly across the business for leading indicators, not one of the smallest revenue lines that we actually have out there. So now I would guide you to look at Consulting and look at Conferences and look at our Research CV growth as the leading indicators.

Operator

Our next question comes from Manav Patnaik with Barclays.

Brendan J. Popson
Barclays Bank PLC, Research Division

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This is Brendan on for Manav. Just wanted to ask, obviously, some of your competitors for talent at least are freezing hiring and you may have an opportunity to catch up on headcount in the next few quarters as the labor market gets a bit more friendly.

So for GTS specifically, obviously, things started to improve this quarter. Is this a level where you grow 10% off of? Or are you -- do you think you can really catch up the next couple -- over the next few quarters?

Eugene A. Hall
CEO & Director

Brendan, it's a great question. I mean our business grew really rapidly last year, and we're right where we'd expected. And so we had a lot of hiring to catch up on, including in GTS. And so we want to get that catch-up hiring so that we can properly service our clients and also be prepared to sell more clients. And over time, we expect to grow our GTS sales force and GBS, by the way, I think 3 to 5 percentage points lower than our CV growth. So CV growth is 15%, you'd expect to see. Over time, our target would be headcount growth of 12% -- 10% to 12% growth.

Craig W. Safian
Executive VP & CFO

Yes. That's -- and Brendan, the way to think about that is that's sort of the normal algorithm for how we want to make sure that we are investing for both current needs and future sustained growth.

Obviously, this year, to Gene's point, we aren't doing a lot of catching up. And so you'll see those growth rates a little bit higher potentially. And obviously, with GBS up at 17%, and we're fully expecting both GTS and GBS to end the year with strong double-digit quota-bearing headcount growth.

Brendan J. Popson
Barclays Bank PLC, Research Division

Okay. And just another question here, but moving over to the conferences. Is the guidance increase really -- is it just like better attendance than you expected? Are the conferences all full? Is that what it is? Or is there something else driving that higher?

Eugene A. Hall
CEO & Director

So the first piece of it is that we're seeing very, very robust demand for conferences. Exhibitors are -- find it a great way to meet prospects for them, and the attendees find tremendous value as well. So we're finding just very strong demand for our conferences continuing on. And then I'll let Craig talk about how [difficult is the] guidance.

Craig W. Safian
Executive VP & CFO

Yes. So I think, Brendan, obviously, the second quarter were our first in-person destination conferences in a few years. And so we were pretty cautious about our expectations around the number of exhibitors and number of attendees that would want to come, would be able to come.

And as you heard in our comments, I think both groups enthusiastically returned in the second quarter. And as Gene mentioned earlier, our bookings leading through our Q3 events and even the advanced bookings on Q4 conferences look very strong as well. And so the update, the outlook is really just around some caution upfront because we hadn't delivered anything in person in essentially almost 3 years, and we saw an enthusiastic return from both revenue streams, attendees and our exhibitors.

Operator

[Operator Instructions] Our next question comes from Hamzah Mazari with Jefferies.

Unknown Analyst

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This is actually Stephanie on for Hamzah. I was hoping you could talk a little bit about the tenure of your GTS sales force today versus pre-pandemic. How much tenure can add to productivity? And right now, if you view the GTS sales force productivity is kind of back to those pre-pandemic levels?

Eugene A. Hall
CEO & Director

Stephanie, great question. So tenure is an important determinant of productivity. When we hire a new salesperson, it takes some time to fully get up to speed. And so a more senior sales force is more productive. We're very focused on both hiring people to get up to speed quickly as well as having internal training and other systems that help those salespeople get up to speed even faster.

If you look at it, because we hired fewer people during the pandemic, the average tenure in our sales force last year was pretty high, the highest it's been in recent memory. As we've ramped up our hiring, in Q2, it was towards a normal tenure level. As we keep hiring, we expect that to drop a bit as we go through the rest of the year and enter into 2023.

Unknown Analyst

Great. And then kind of switching gears, could you talk a bit about the M&A environment? How is the pipeline looking today and kind of where your focus is at?

Craig W. Safian
Executive VP & CFO

Yes, from an M&A perspective, obviously, we've got a team that is actively out there looking at opportunities and then staying in touch with a few hundred companies and actually tracking well more than that.

I think our strategy, as we've articulated, is number one, we're an organic growth company, and we believe we can achieve our medium-term objectives of the double-digit growth and modest margin expansion organically, and so it does not require M&A to get there.

That said, we do like to do M&A when it can fill a gap or catalyze us or add an asset or capability or things like that. So I think as we look at the radar screen, we are looking at things that can catalyze us for filling gaps or add assets to our portfolio that can help us over the long term. I think there -- obviously, over the last 2 or 3 quarters, just like the equity markets has been a recalibration around valuations. I'm not sure every seller has completely recalibrated yet either. But again, we'll continue to be on the lookout for strong, strategic value-enhancing tuck-in opportunities that again can either catalyze growth, fill in a gap or add an important assets for us.

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 & Director

Well, summarizing today's call. For the second quarter, we drove strong performances across the business. Across every geography, every industry and every major function, we deliver incredible value. We have strong demand for our services. We have a vast untapped market opportunity. We can drive sustained double-digit top line growth.

As we invest for the future, we'll continue to return significant levels of excess capital to our shareholders [indiscernible] increased our 2022 guidance. [indiscernible] results, we increased our 2022 guidance. 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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