S&P Global
Market Intelligence

# Gartner, Inc. NYSE:IT

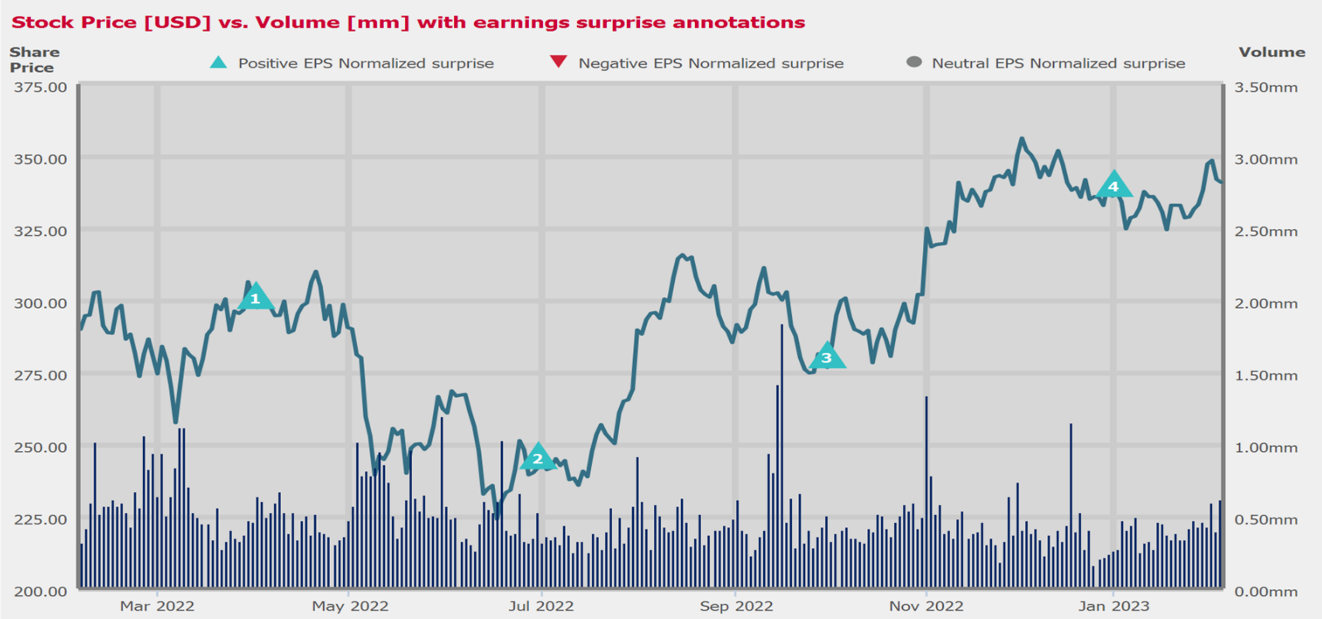
# FQ4 2022 Earnings Call Transcripts

## Tuesday, February 07, 2023 1:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ4 2022- | | | -FQ1 2023- | -FY 2022- | | | -FY 2023- |
|---|---|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS |
| **EPS Normalized** | 2.58 | 3.70 | ▲43.41 | 2.01 | 10.15 | 11.27 | ▲11.03 | 9.56 |
| **Revenue (mm)** | 1453.32 | 1505.00 | ▲3.56 | 1371.01 | 5426.89 | 5500.00 | ▲1.35 | 5774.81 |

Currency: USD
Consensus as of Jan-24-2023 6:11 AM GMT




| - EPS NORMALIZED - | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ1 2022** | 1.72 | 2.33 | ▲35.47 % |
| **FQ2 2022** | 2.14 | 2.85 | ▲33.18 % |
| **FQ3 2022** | 1.87 | 2.41 | ▲28.88 % |
| **FQ4 2022** | 2.58 | 3.70 | ▲43.41 % |

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**EXECUTIVES**

**Craig W. Safian**
*Executive VP & CFO*

**David Cohen**
*Group Vice President of Investor Relations*

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# Presentation

**David Cohen**
*Group Vice President of Investor Relations*

Good morning, everyone. Welcome to Gartner's Fourth Quarter 2022 Earnings Call. I'm David Cohen, SVP of Investor Relations. [Operator Instructions] After comments by Gene Hall, Gartner's Chief Executive Officer; and Craig Safian, Gartner's Chief Financial Officer, there'll be a question-and-answer session. Please be advised that today's conference is being recorded.

This call will include a discussion of fourth quarter 2022 financial results and Gartner's outlook for 2023 as disclosed in today's earnings release and earnings supplement, both posted to our website, investor.gartner.com.

On the call, unless stated otherwise, all references to EBITDA are for adjusted EBITDA, with the adjustments as described in our earnings release and supplement. All growth rates in Gene's comments are FX neutral, unless stated otherwise, and his contract value comments exclude Russia from 2021. 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. Finally, all contract values and associated growth rates we discuss are based on 2022 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, quarterly reports on Form 10-Q as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

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

**Eugene A. Hall**
*CEO & Director*

Good morning, and thanks for joining us today. Gartner drove a strong performance in the fourth quarter with double-digit growth in contract value, revenue, EBITDA and EPS. We generated nearly $1 billion in free cash flow, and we returned even more than that to shareholders through our ongoing share repurchase program.

Enterprise leaders are dealing with high volatility and uncertainty. Inflation accelerated to the highest level in 40 years. The dollar was the strongest it's been in 20 years, and it remains extremely volatile. There are ongoing supply chain issues. Energy prices have been volatile. The labor market has been volatile. Enterprises are assessing the impact of remote versus hybrid versus in-person work. There are widespread concerns of a recession. All of these factors and more impact enterprises around the world.

Leaders need help navigating this turbulent time, and they know Gartner is the best source for that help. Our services often make the difference between success and failure for executives and their enterprises. We help clients succeed with their mission-critical clarities, whether they're in growth mode or cutting costs.

With all this volatility, our most recent research shows that Chief Financial Officers are more carefully scrutinizing the expenses but at the same time are increasing investment in mission-critical priorities. Even in enterprises, they are under extreme financial pressure.

Our research business continues to be our largest and most profitable segment. We help leaders across all major enterprise functions in every industry around the world. Our market opportunity is fast across all sectors, sizes and geographies. And we're delivering more value than ever. Research revenue grew 13% in the fourth quarter. Total contract value growth was 12%. Contract value growth was broad-based across practices, industry sectors, company sizes and geographic regions.

We serve executives and their teams through two distinct sales channels. Global Technology Sales, or GTS is our largest sales force. GTS contract value grew 11%. The large majority of GTS serves IT leaders and their teams, and we saw double-digit growth with this client segment despite tough compares. GTS also serves leaders at technology vendors, including CEOs and product managers. In this segment, growth moderated but still grew at high single digits despite even tougher compares.

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 19% in 2022. In the 5 years since we launched our GXL products within GBS, we have seen exceptional compound annual growth rates.

Gartner Conferences deliver extraordinarily valuable insights to an engaged and qualified audience. In the first half of 2022, we delivered most of our conferences virtually. In the second half, we pivoted back to in-person for nearly all our conferences. Feedback has been excellent. Most in-person conferences were sold out in 2022, and we've sold significantly more than half of our exhibitor space for 2023.

Gartner Consulting is an extension of Gartner Research. Consultant helps clients execute their most strategic initiatives through deeper, extended project-based work. Consulting is an important complement to our IT research business. Consulting revenue grew 24% in the fourth quarter.

We exited the year with a strong backlog and pipeline. Our business is fueled by our highly talented associates. During 2022, we grew our team by about 2,900 associates. With this growth, we ended 2022 with the lowest percentage of open positions ever. When we're fully staffed, we provide our clients better service, which results in better retention. We also sell more in territories that are fully staffed. We have carefully aligned our hiring with recent demand and the long-term opportunity we have for growth.

Our 2023 outlook reflects our most recent experiences from Q4. We've also been prudent in considering the potential impact of volatility from the global environment. We expect to deliver at least 21.5% margins across a wide range of economic scenarios and our guidance has opportunity for upside if the business performs in line with historical trends. Craig will take you through our guidance in more detail.

One of the unique things about Gartner is that we provide value to enterprises that are thriving, struggling or anywhere in between. By being exceptionally agile and adapting to the changing world, we have sustained record of success. We're well prepared as we enter 2023. We've carefully aligned staffing levels with demand and we have the lowest percentage of open positions ever.

Our content addresses today's mission-critical priorities, and we know the right things to do to be successful in any environment.

In closing, we again saw strong growth across the business. Looking ahead, we are well-positioned to drive growth far into the future. Even as we invest for future growth, we expect margins to increase modestly over time, and we generate significant free cash flow well in excess of net income. We'll return capital to our shareholders through buybacks, which reduces shares outstanding and increases returns over time.

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

**Craig W. Safian**
*Executive VP & CFO*

Thank you, Gene, and good morning. Fourth quarter results were strong with double-digit growth in contract value, revenue, EBITDA and adjusted EPS. FX-neutral growth was even stronger than our reported results. We also delivered better-than-planned EBITDA margins.

During 2022, we generated almost $1 billion of free cash flow, and we returned more than that to shareholders through stock repurchases. Our financial performance for the full year 2022 included total contract value growth of 12%, total revenue growth of 16%, EBITDA growth of 14%, diluted adjusted EPS of $11.27 and free cash flow of $993 million.

We are introducing 2023 guidance, which reflects higher-than-normal variability in the set of reasonably likely outcomes. The guidance accounts for the tough compares at the start of the year and the opportunity for upside if near-term demand is stronger than we built into the outlook.

With the catch-up hiring we did last year, we are very well-positioned to add value to enterprise function leaders and their teams across all industries and around the world.

Fourth quarter revenue was $1.5 billion, up 15% year-over-year as reported and 20% FX neutral. In addition, total contribution margin was 68%, down 100 basis points versus the prior year. EBITDA was $421 million, up 37% year-over-year and up 44% FX neutral. Adjusted EPS was $3.70, up 24% and free cash flow in the quarter was $166 million.

We finished the year with 19,505 associates, up 18% from the end of 2021. About 40% of the headcount growth was catch-up from prior years. Our hiring has been carefully calibrated to revenue growth and future demand, and we are well positioned from a talent perspective heading into 2023.

Research revenue in the fourth quarter grew 9% year-over-year as reported and 13% on an FX-neutral basis, driven by our strong contract value growth. Fourth quarter Research contribution margin was 74%, consistent with 2021. The contribution margin had a benefit during the quarter from somewhat lower headcount levels and travel expenses still modestly below our post-pandemic expectations. For the full year 2022, Research revenues increased by 12% on a reported basis and 16% FX neutral. The gross contribution margin for the year was 74%, in line with 2021.

Contract value, or CV, represents the annualized revenue under contract at a point in time. And looking at our global contract value across both GTS and GBS, more than 75% of our CV is from enterprise function leaders and their teams with the bulk of the balance coming from leaders at tech vendors. Our enterprise function leaders business includes IT leaders who are end users of technology and who we serve through our GTS sales force, and leaders of other business functions who we serve through our GBS sales force. In both cases, we serve leaders around the world and across all industries. We're helping these enterprise function leaders address their most important mission-critical priorities.

CV was $4.7 billion at the end of the fourth quarter, up 11.9% versus the prior year and up 12.3% adjusted for the impact of exiting Russia. CV from enterprise function leaders across GTS and GBS grew at strong double-digit rates. CV from tech vendors grew high single digits compared to a high teens growth rate in the fourth quarter of '21. Quarterly net contract value increase, or NCVI, was $189 million [indiscernible] of almost $400 million.

CV growth was broad-based across practices, industry sectors, company sizes and geographic regions. Across our combined practices, all industry sectors grew at double-digit rates other than technology and media, which grew at high single-digit rates. The fastest growth was in the transportation, retail and manufacturing sectors. We had double-digit growth across all of our enterprise-size categories. We also drove double-digit growth in 9 of our top 10 countries with high single-digit growth in the 10th.

Global Technology Sales CV was $3.6 billion at the end of the fourth quarter, up 10% versus the prior year and up 10.5% adjusted for the exit of Russia. GTS had quarterly NCVI of $138 million, while retention for GTS was 105% for the quarter. GTS new business was down 8.5% versus last year. New business with IT function leaders was up modestly year-over-year against the tough compare. New business with tech vendors facing tougher compare against Q4 of 2021, which was its strongest quarter ever. GTS quota-bearing headcount was up 18% compared to December of last year. About 40% of the growth was catch-up hiring from 2021. Our continued investments in our sales teams will drive long-term sustained double-digit growth. Our regular full set of GTS metrics can be found in the appendix of our earnings supplement.

Global Business Sales CV was over $1 billion at the end of the fourth quarter, up 19% year-over-year, which is above the high end of our medium-term outlook of 12% to 16%. All of our GBS practices, other than marketing, grew at double-digit growth rates led by supply chain and HR, which both continued to grow faster than 20%. GBS CV increased $52 million from the third quarter while retention for GBS was 112%. GBS new business was up 3% versus last year against a very strong compare. The 2-year compound annual growth rate for new business was 9%. GBS quota-bearing headcount increased 22%

year-over-year with a little more than 50% of the growth being catch up from 2021. Headcount we hired in 2022 will help to position us for sustained double-digit growth in the future. As with GTS, a regular full set of GBS metrics can be found in the appendix of our earnings supplement.

Conferences revenue for the fourth quarter was $188 million. Contribution margin in the quarter was 53%. We held nine in-person conferences in quarter. It has been very exciting for our business to return to in-person conferences. For the full year 2022, revenue increased 82% on a reported basis and 90% FX neutral. Gross contribution margin was 54%.

Fourth quarter Consulting revenues increased by 17% year-over-year to $138 million. On an FX-neutral basis, revenues were up 24%. Consulting contribution margin was 37% in the fourth quarter.

Labor-based revenues were $96 million, up 11% versus Q4 of last year and up 19% on an FX-neutral basis. Backlog at December 31 was $140 million, increasing 24% year-over-year on an FX-neutral basis with another strong bookings quarter. The inclusion of multiyear contracts in our backlog calculation, a change we described earlier last year, contributed about 13 percentage points to the year-over-year growth rate.

Our contract optimization business had a very strong quarter, increasing 36% as reported and 39% 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.

Full year Consulting revenue was up 15% on a reported basis and 22% on an FX-neutral basis. Gross contribution margin of 39% was up 140 basis points from 2021. Consolidated cost of services increased 19% year-over-year in the fourth quarter as reported and 24% on an FX-neutral basis. The biggest drivers of the increase were higher headcount to support our continued strong growth and the return to in-person destination conferences.

SG&A decreased 3% year-over-year in the fourth quarter as reported and increased 1% on an FX-neutral basis. We had lower noncash nonrecurring charges in 2022 compared to 2021. On a comparable basis, SG&A was up due to additional headcount for sales and G&A functions. For the full year, cost of services increased 17% on a reported basis and 21% on an FX-neutral basis. SG&A increased 15% on a reported basis and 19% on an FX-neutral basis in 2022.

EBITDA for the fourth quarter was $421 million, up 37% year-over-year on a reported basis and up 44% FX neutral. Fourth quarter EBITDA upside to our guidance reflected revenue exceeding our forecast, most notably in consulting and expenses at the low end of our expectations. EBITDA for the full year was $1.47 billion, a 14% increase over 2021 on a reported basis and up 19% FX neutral.

Depreciation was $24 million in the fourth quarter, down modestly versus 2021. Net interest expense, excluding deferred financing costs in the quarter was $29 million, about flat with the prior year. The modest floating rate debt we have is fully hedged through maturity.

The Q4 adjusted tax rate, which we use for the calculation of adjusted net income, was 16.7% for the quarter. The tax rate for the items used to adjust net income was 23.2% for the quarter. The full year tax rate was 21.6% on the same basis.

Adjusted EPS in Q4 was $3.70, up 19% year-over-year. The average share count for the fourth quarter was 80 million shares. This is a reduction of about 3.7 million shares or about 4% year-over-year. We exited the fourth quarter with about 80 million shares outstanding on an unweighted basis. For the full year, adjusted EPS was $11.27. EPS growth for the year was 22%.

Operating cash flow for the quarter was $203 million. Excluding insurance proceeds in Q4 of 2021, operating cash flow is down about 7%. Q4 cash flow was impacted by Hurricane Ian, which hit our Center of Excellence in Fort Myers extremely hard in late September. While we were able to sell and service our clients from Fort Myers, we did have some delays in getting invoices out as quickly as we normally would. Elections for some of these delayed invoices slipped into January, but we are now caught up.

CapEx for the quarter was $38 million, up about $16 million year-over-year, led by increases in capitalized technology labor costs and catch-up laptop spend. Free cash flow for the quarter was $166 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 also very strong with the differences being cash interest, cash taxes and modest CapEx, partially offset by strong working capital cash inflows.

Free cash flow as a percent of revenue or free cash flow margin was 18% on a rolling 4-quarter basis. On the same basis, free cash flow was 68% of EBITDA and 123% of GAAP net income. At the end of the fourth quarter, we had almost $700 million of cash. Our December 31 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.

Our balance sheet is very strong with $1.7 billion of liquidity, low levels of leverage and effectively fixed interest rates. We repurchased more than $1 billion of stock throughout 2022. We expect the Board will refresh our share repurchase authorization as needed, which they did earlier this month. We now have about $1 billion authorized for share repurchases.

Across the past 2 years, we have returned $2.7 billion to shareholders by repurchasing more than 11 million shares. Over that time frame, we have reduced our shares outstanding by 11%. As we continue to repurchase shares, 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.

Before providing the 2023 guidance details, I want to discuss our base-level assumptions and planning philosophy for 2023. For research, we continue to innovate and provide a very compelling value proposition for clients and prospects. Executives and their teams face uncertainty and challenges, and they recognize how Gartner can help regardless of the economic environment. Our plan allows for a higher-than-normal level of uncertainty in the world, as Gene discussed. We've got tough compares across the business and particularly with tech vendors for another quarter or two. We've taken a prudent approach based on historical trends as well as more normal patterns, which we've reflected in the guidance.

If near-term demand is stronger than we've built into the outlook, and NCVI phasing, retention rates and nonsubscription growth performed closer to the way they have historically, there would be upside to our guidance. In addition, our teams are focused on driving greater growth than what's embedded in the guidance.

Finally, as you think about GBS, overall CV and revenue growth for 2023, please keep in mind that we closed on the divestiture of a small noncore asset last week. We sold TalentNeuron, which we acquired as part of the CEB transaction for $164 million. In the earnings supplement appendix, we've provided historical contract value updated for 2023 FX rates as well as the removal of TalentNeuron from prior years.

For conferences, we are basing our guidance on being 100% in-person for the 47 destination conferences we have planned for 2023. We expect to return to more typical seasonality for the business with fourth quarter the largest, followed by the second quarter.

For Consulting revenues, we have more visibility into the first half based on the composition of our backlog and pipeline as usual. Contract optimization is seasonally slower in the first quarter and remains highly variable. We had a very strong year in 2022, especially in contract optimization in the fourth quarter.

Our base-level assumptions for consolidated expenses reflect significant headcount increases from 2022 annualizing into 2023. Our plan for headcount for 2023 is more in line with our normal model as we caught up on hiring last year. If demand is stronger than what's in the initial plan, we will have the opportunity to add even more great talent to our teams. We also expect T&E costs to more fully normalize this year.

Finally, we continue to invest in our systems and process automation, both client-facing and internal applications as part of our innovation and continuous improvement programs. We will continue both to manage expenses prudently to support future growth and deliver strong margins. At current rates, FX will be a modest tailwind to growth for the full year with the benefit in the second half.

Our guidance for 2023 is as follows: We expect Research revenue of at least $4.92 billion, which is growth of about 7%. Excluding the effect of the divestiture, adds 1 percentage point to the year-over-year growth rate. We expect Conferences revenue of at least $445 million, which is growth of about 14%. We expect Consulting revenue of at least $500 million, which is growth of about 4%. The result is an outlook for consolidated revenue of at least $5.865 billion, which is growth of about 7%. Excluding the divested business from 2022, would add about 80 basis points to the growth rate.

As I've mentioned, we've taken a prudent approach to planning for 2023. This applies to revenue, operating expenses and free cash flow. We expect full year EBITDA of at least $1.26 billion. We expect to be able to deliver at least 21.5% margins in most economic scenarios. If revenue is stronger than our guidance, we expect upside to EBITDA and margins. Included in the guidance is equity comp of $132 million, up from 2022. We expect 2023 adjusted EPS of at least $8.80 per share. For 2023, we expect free cash flow of at least $920 million. Our EPS guidance is based on 80 million shares, which only assumes repurchases to offset dilution. Finally, for the first quarter of 2023, we expect to deliver at least $310 million of EBITDA. All the details of our full year guidance are included on our Investor Relations site.

Our strong performance in 2022 continued in the fourth quarter. Contract value grew 12%, adjusted EPS increased 19%, fueled in part by the significant reduction of shares in 2021 and 2022. Over the past few years, our hiring has been carefully calibrated to demand, and we are well-positioned from a talent perspective heading into 2023. Our continued investments in our teams will drive long-term sustained double-digit growth. We repurchased more than $1 billion in stock last year and remain committed to returning excess capital to our shareholders over time. As I mentioned, we expect to generate at least $920 million in free cash flow in 2023. In addition, we have ample liquidity and the net proceeds from last week's divestiture for capital deployment initiatives.

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?

# Question and Answer

**Operator**

[Operator Instructions] And our first question comes from Jeff Meuler from Baird.

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

Maybe if you could talk through what you think for the outlook for the tech vendor channel just given the more recent risks and the need to cycle through kind of renewals on annual and multiyear contracts? And related to that, is there an opportunity or a plan to reallocate some of those sales resources into kind of the functional leader channels?

**Eugene A. Hall**
*CEO & Director*

Jeff, it's Gene. I'll get started. So as we think about the tech vendor channel, I'm going to start with the tech industry itself, the technology companies. And we think about those as being in two different segments. One is sort of enterprise IT and the other is consumer and devices, things like that.

On the enterprise IT, we're expecting the technology vendors to grow about 7.8% globally during '23. And the reason they're growing pretty robustly is that enterprise IT spending, that's the ones that are not certainly consumers is selling to large complex B2B sales and they tend to be multiyear contracts with annual increases, et cetera. So that's the technology vendors that are selling to enterprise IT. They're also seeing continued demand for cloud, security, digital monetization and so all those things are growing at a much higher rate than the general tech industry.

And when we surveyed CEOs, this is an end user, they're customers, they're buying this B2B equipment. They basically said they believe digital modernization is still really important to meet the economic situation as well as staffing situations they face as well as consumer requirements for more technology in the services they offer.

So on the enterprise IT -- to summarize, in the enterprise IT tech vendors, we have seen that growing about 7.8% globally in '23. On the consumer device side, that's going to be a lot worse in the sense that we expect demand to be lower there. And that's because a lot of demand was pulled forward during the recession and during the pandemic. And so, they're sort of the tale of two cities in the tech industry.

So that's the tech vendors themselves. Our business is predominantly on the enterprise IT side. We disproportionately serve those. So looking forward, we expect actually the tech vendors that we serve to be doing okay, as opposed to the consumer and device manufacturers, which we expect to actually just shrink during 2023. And so that translates into our own business. We expect -- we had a -- as Craig mentioned in results, our vendor -- our sales force that sells to technology vendors actually went from very high teens growth -- I'm sorry, high-teens growth to low single-digit growth. So they actually got to a high single-digit growth. So they actually performed pretty well in the fourth quarter. Going forward, again, because our major business is selling to the enterprise IT technology vendors, we expect that business to do pretty well on a go-forward basis.

**Craig W. Safian**
*Executive VP & CFO*

And Jeff, the last part of your question on the territory assignment and where we're putting our growth. We've got a pretty robust territory optimization and analytics team that is always looking at this. And we have the ability to very quickly and with a lot of agility, flex up or down on where we're putting those territories. And so, obviously, as we're looking at our selling environment and the growth of the business, we're continuing to allocate those resources accordingly.

And then the last thing I'd mentioned and you sort of had this buried in your question, but I'll pull it out is our business selling to the enterprise functions, both in IT and outside of IT through GBS performed very, very well in Q4 and for the full year. And it was really the tech vendors that had, as Gene said, a very tough compare going from high-teens growth to high single-digit growth in the quarter.

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

Appreciate that. And maybe just a follow-up, given that comment on the strength selling to the functional leader channel. Productivity metrics, I understand kind of the way the metric works and the year-over-year acceleration in sales headcount growth. But productivity was down and quarterly productivity was also quite a bit down year-over-year. Can you just kind of, like tease out 10-year mix impacts? I don't know if there's anything on -- anything further to say on the tech vendor channel, but just kind of like help us bridge that because it does look pretty soft.

**Craig W. Safian**
*Executive VP & CFO*

Yes. So Jeff, I mean, again, the way to kind of think about the results in quarter, and if you look at it on a rolling 4-quarter basis, is again that the end user side of the GTS business held up really, really well and performed really well in -- throughout the year and in the fourth quarter, including the productivity. And again, just we saw that deceleration and again, from high teens to high single digits, obviously impacting the productivity as well.

I think as we have brought in more and more new associates in the sales force, last year, we talked about -- in 2021, rather, we had the best tenure mix we've ever had. In 2022, we had really the highest proportion of new people we've ever had. That's obviously going to impact productivity. We'll start to see the benefits of the tenuring over the course of 2023 as all of those people we hired over the course of 2022 start getting up the productivity curves.

**Operator**

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

**Heather Nicole Balsky**
*BofA Securities, Research Division*

I guess, first off, you've communicated a fair amount during the call that you're taking a prudent approach to guidance. And I know you just addressed the tech vendor piece of the business, but I'm curious if you can elaborate a little bit in terms of how you're thinking about the overall macro environment in your guide, especially on the Research side and then as well for Conferences and Consulting because it seems like the guide for those parts of the business imply the economy holds up pretty well. So just want to kind of get your deeper into your train of thought.

**Craig W. Safian**
*Executive VP & CFO*

Sure. Heather, and thanks for the questions. So I think a couple of thoughts there. So I'll start with Conferences and Consulting first. And so, as we look at those two businesses, again, coming off of a very strong 2022s, if you look at the backlog position in Consulting, we actually entered the year in really good shape. We had a very strong delivery quarter in the fourth quarter, but also a very strong bookings quarter. And again, based on the visibility that we have, roughly through the first half of the year, we feel really good about the Consulting business and the trending looks there.

And again, I think our client base, to Gene's earlier comments about the tech sector, are still embarking on a lot -- or embarking -- or continuing on a lot of digital transformation and major tech projects and programs where our consulting team really can help them get the most value out of that.

On the Conferences side, again, we had a great year of returning to in-person conferences in 2022, and the team has done a fantastic job of driving, what we call, forward bookings but basically locking up the revenue from the exhibitor side into 2023. And so as Gene mentioned, we've got significantly more than 50% of our pre-bookings already under contract as we head into 2023. And so we feel very, very good about the Conferences business as well.

On the Research side, again, our enterprise function leader business is performing very well, and we expect that to continue to perform well. We do have -- continue to have tough compares there. But we do -- we're driving great value for our clients and we expect that to continue.

We have been thoughtful and prudent about our experience in the fourth quarter with our tech vendor clients and making sure that we don't assume just some magical return to high-teens growth right out of the gate. And so, we're trying to be prudent by making sure we use our most recent experience and rolling that through the 4 quarters from a Research perspective. But again, end-user enterprise function leader business, again, performing very strong, nice double-digit growth rates. The tech vendor business still at high single digits, just down from where we were a year ago.

**Heather Nicole Balsky**
*BofA Securities, Research Division*

And as a follow-up question, sort of a follow-up on the last -- the earlier question with regards to the new associates, the hiring you've done. You're going into a potentially tougher environment in 2023 and you have kind of a relatively young sales force. How are you preparing your teams for this environment? And thoughts around ability to attract new customers in this environment with sort of associates who are, say, 1 year in?

**Eugene A. Hall**
*CEO & Director*

Heather, it's Gene. So the -- we always train our associates on what are the most important mission-critical priorities with our clients and prospects today. One of the issues that's going to be on people's minds in some industries is going to be cost reduction. And so, we train our salespeople on, among other things, how to help clients with cost reduction. We're a very small proportion of cost for any client. They can't -- they're not going to save a lot of money by cutting our services. On the other hand, we can help them save a whole number of multiples of what they pay for us in their actual ongoing business.

In addition to that, as I mentioned earlier, most companies, even in a tough environment, still they want to invest in technology and it's on things like automation that helps with their own labor situation, their own labor costs, other kinds of costs. And again, the continuing transition to more and more digital services that are often in just about every single industry. So we train our new salespeople on both how to sell to clients that value proposition, which is the continuing transition to digital, but also how to save money on their IT purchases so that they actually get -- they could be more efficient over time.

So the combination of those things, and of course, our traditional selling skills where we, I think, are quite good at training new salespeople in terms of how to sell effectively, you put those things together and it lets new salespeople -- they're not as productive as experienced salespeople, but they're actually quite good in the broad context.

**Operator**

Our next question comes from Toni Kaplan from Morgan Stanley.

**Toni Michele Kaplan**
*Morgan Stanley, Research Division*

Wanted to start out on the margins. Margins in the quarter, really exceptionally strong again. And obviously, the guide being 21.5% next year. You've had about 2.5 quarters, let's say, of this sort of higher sales headcount level. I guess, are you fully back on T&E? What's really going to drive the margins to that sort of low 20s level?

**Craig W. Safian**
*Executive VP & CFO*

Toni, yes, I mean, the way to think about the bridge from 2022 to 2023 is consistent with the way we've been talking about it for the last several quarters. And so, the biggest piece of it is the annualization of all the hiring we did in 2022 and obviously, paying the full load for all those new associates over the course of 2023. So that's by far the biggest piece of it. A lot of our hiring was back-end loaded or second-half loaded, I should say. And so obviously, there's a pretty significant uplift in the annual cost as we annualize all of those individuals.

There's an element of T&E, to your point. And so, we're -- fourth quarter was kind of in line with where we expected to be. But obviously, the first part of 2022, we were still mostly in lockdown and not traveling. And so, there are incremental T&E expense that we expect in 2023 as we get to kind of the new normal of travel post-pandemic. And there's a few other nits here and there, but the two primary ones are really the annualization of the headcount and a little bit more on the T&E side.

**Toni Michele Kaplan**
*Morgan Stanley, Research Division*

Okay. Great. And wanted to ask about free cash flow. I know you mentioned a couple of things in the prepared remarks, but maybe just talk about why the free cash flow came in below the guidance and then the '23 guidance also looked a little bit lighter than I was thinking? So any puts and takes on free cash flow would be helpful.

**Craig W. Safian**
*Executive VP & CFO*

Yes, absolutely. So in 2022, the bulk of the story is what I discussed in my prepared remarks, which is just some invoicing delays coming out as a result of the hurricane. And we thought we would be able to get all caught up on that in 2022 and a bunch of it did slip into 2023. And actually, through the end of January, we actually are all caught up on that. So we feel good about both the '22 finish and getting that all behind us.

In terms of 2023, obviously, there can be a lot of variability to the free cash flow numbers. If you look at it on the surface from the guidance, free cash flow margin is in line with what we'd expect free cash flow as a percent of EBITDA is roughly where we'd expect and the free cash flow conversion as a percent of GAAP net income is in the range as well. And so, I think the free cash flow guidance and the free cash flow expectation is sort of in line with the business performance.

I do think there are a couple of things impacting '23 that potentially put it a little bit below your expectations, probably, most notably cash taxes. So because of all that extra earnings in 2022, we have more to pay in taxes, and that's obviously reflected into 2023 free cash flow guidance as well.

**Operator**

Our next question will come from Andrew Nicholas from William Blair.

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

First one I wanted to ask was just on conferences. I think you said in your prepared remarks that there would be 47 conferences in '23, or at least that's what's planned at this point, and all in-person. Obviously, a decent bit lower than where you were running pre-pandemic. So just looking for an update in terms of strategy there. I know you've talked about adding conferences to different functional lines over the course of the next couple of years. Where does kind of '23 sit relative to your ultimate goal on conferences? And is there the potential for additional destination conferences to be added as we move through the year?

**Eugene A. Hall**
*CEO & Director*

So the -- our strategy is to have conferences for all the major functional areas in our businesses, in IT, HR, finance, et cetera, as well as within something like cybersecurity applications and so forth. And we're far from that now -- and sorry, and also each of those conferences in each of our major geographies. And so there's a -- it will take us a long time to get to the point where we have the aspiration I just said, which is to have a conference for every major functional areas in every major geographic region. And we're at -- because these conferences add so much value to our -- the attendees, our seat holders that actually go and attend these conferences, we really want to expand those as quickly as we can.

We're limited by what we do operationally, like how fast we can actually hire people and build these conferences. And so, we're going to continue on that path. We did that -- we've had as many as we think we can handle operationally in 2023. If we find during the year we can add more, we will do that. And certainly, in '24, '25, '26, we expect to have a continuing expansion of these conferences, again, because of the very high value they provide to our attendees, our seat holders and also our prospects.

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

Great. And then for my follow-up, switching gears a little bit. I just wanted to ask more specifically about growth in GBS. You talked about some of the things that have kind of evolved outside of the functional leader channel in GTS. But can you speak to the different businesses within GBS, how conversations with clients have evolved over the past couple of months there? And if there's any individual businesses there to call out either positively or negatively relative to last quarter?

**Eugene A. Hall**
*CEO & Director*

Yes. We had great performance in GBS during 2022, including the fourth quarter. There's tremendous opportunity in GBS, as with the rest of our business, to really grow GBS as quickly as we can to capture that enormous opportunity. We had growth in -- across all the functional areas, very robust growth, actually.

And the areas that we're slower, it was more internal operational things that we had. So for example, we might have had one area where we were a little slow in hiring than another area. And so the places that GBS was a little slower, we believe are more due to more internal operational things that we're working on. But again, the overall performance was very strong. We're very happy with that.

**Craig W. Safian**
*Executive VP & CFO*

Yes. And Andrew, just to underscore that, I mean, 18.9% growth for the full year coming off of a 24% full year growth in 2021 is really, really strong, continued consistent growth. And as I mentioned in my prepared remarks, both supply chain and HR were well above 20% year-over-year growth, again, coming off of really strong years in 2021 as well. And so really strong demand there. It's indicative of the fact that across all of GBS, we are providing enormous value to the functional leaders that we serve in finance, HR, supply chain, marketing, sales, legal and so on.

**Operator**

Our next question comes from Seth Weber from Wells Fargo.

**Seth Robert Weber**
*Wells Fargo Securities, LLC, Research Division*

Gene, in an answer to one of the prior questions, you mentioned customers looking to manage costs better. I'm wondering if you're getting any pushback on pricing, less appetite for multiyear contracts. Or can you just talk about the pricing environment and how perceptive customers are? And what you think that might look like in an environment where inflation starts to come down?

**Eugene A. Hall**
*CEO & Director*

Yes. So we've had larger-than-usual price increases over the recent past because of accelerated inflation. And we've had, I'd say, essentially zero pushback from our clients on it. And if you look at the cost of

Gartner for an individual user or for even a contract for the company, it's a small ticket item. And whether it increases 3% or 7% isn't a swing factor. The swing factor is the value we provide. And we provide a tremendous amount of value to these clients for the costs that they have to pay. It is better than any alternative and can provide some credible value. So we have had, I'd say, kind of no measurable pushback on our price increases, even though they're at higher rates.

**Seth Robert Weber**
*Wells Fargo Securities, LLC, Research Division*

Okay. And is there still appetite for multiyear contracts? Or is that...

**Eugene A. Hall**
*CEO & Director*

Absolutely. In fact, again, the -- many of our clients prefer multi-year contracts. It's a small ticket item and they have administrative costs in dealing with it. And so many, if not most of our clients actually prefer multi-years because the procurement people don't want to waste their time doing this over and over again. And so we actually see demand from our clients for multi-years as opposed to the other way around.

**Craig W. Safian**
*Executive VP & CFO*

Yes. And on top of that, obviously, their mission-critical priorities are not bounded by a contractual term. So they want to make sure that they have support and insight to support their mission-critical priorities. And so we've seen no pushback at all on our ability to sell multiyear contracts.

**Seth Robert Weber**
*Wells Fargo Securities, LLC, Research Division*

Okay. And then Craig, you mentioned the 50% sign-up prebooking for the conference business. Can you just -- how does that compare to pre-COVID levels for this time of the year?

**Craig W. Safian**
*Executive VP & CFO*

Yes, it's a great question. So actually, significantly greater than 50% is actually the -- what both Gene and I said. We're actually comparable or perhaps even a little bit stronger than we were pre-pandemic on that metric.

**Operator**

Our next question comes from George Tong from Goldman Sachs.

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

You mentioned headcount growth in 2023 for Research will be more in line with the normal model. Can you discuss how hiring is progressing in GTS and GBS given the tight labor market? And what level of headcount growth do you think will be achievable this year?

**Eugene A. Hall**
*CEO & Director*

George, so the -- we are a very attractive employer. In the marketplace when we go for talent, we're a place that people want to work. And we -- it's -- we're actually a tough place to get a job and we're very selective as well. And so we've had no trouble hiring at all, which is why our growth rate in our associate body has accelerated so much as I talked about in my remarks. So again, we're an attractive place to work, people want to work here. And so we have a great associate value proposition. So we don't have any trouble hiring people.

**Craig W. Safian**

*Executive VP & CFO*

And I think, George, the way to think about just building on Gene's comments, we've -- in '21 and '22, we invested to rebuild our recruiting function and recruiting capacity. And we have that now available rolling forward. As Gene mentioned, we have a great selling brand and associate brand more broadly for those recruiters to go out and attract people.

As we think about the headcount growth for this year, it is more in line with our kind of "normal algorithm" where we expect to grow headcount 4 to 5 points slower than CV growth. That being said, given the recruitment capacity we have and given our standing in the market,if we see our CV growth accelerating, it gives us the opportunity to potentially go a little bit faster there. And if we see challenges with the business, we can easily tap the breaks and slow down.

So we've built a plan that we feel real comfortable with, that is in line with our normal -- or our go-forward model but also allows us the flexibility to flex up or flex down given what we're seeing from a demand perspective.

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

Got it. That's helpful. And then as a follow-up, you're guiding to at least 21.5% EBITDA margins in 2023. Under what conditions could you outperform the 21.5% target?

**Craig W. Safian**
*Executive VP & CFO*

Yes. I mean I think that the major way would be from revenue upside. And as we mentioned in the prepared remarks, we've taken a prudent approach on the revenue, on the expenses and on the free cash flow. And if revenue does come in stronger, we would anticipate potential upside to the margins. That's probably the primary way that we see it.

We are, again, making sure that we are calibrating all of our expenses, most notably headcount, but all of our expenses with what we're seeing from a revenue perspective. And we're making sure that we're also seeing the right investments so that we can sustain growth into the future and also deliver really, really strong margins.

And so, we feel like we've got the balance right now. We're obviously -- our structural margins are significantly higher than they were pre-pandemic. And as we talk about, we believe we could modestly expand margins on a year-over-year-over-year basis moving forward.

**Operator**

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

**Jeffrey Marc Silber**
*BMO Capital Markets Equity Research*

You mentioned the divestiture of the TalentNeutron (sic) [TalentNeuron] business. Can we get a little bit more color on that? It looks like you owned that business for about 5 or 6 years. What did it do? Why sell it now? And should we expect any other kind of divestitures?

**Eugene A. Hall**
*CEO & Director*

Jeff. So TalentNeuron is a business that provides data -- labor market data, principally to people that -- in companies that are doing long-term planning for where companies should have their workforce. And we've got the business when we bought CEB. It was an acquisition CEB had done. When we bought CEB, therefore, we acquired that business.

As we looked at it, we've been looking at the business to see does it really fit with our business on a go-forward basis, and it is strategic to us. We've looked at it in a lot of depth. We've looked for innovative ways we could use it. And at the other day, we decided that it was not a strategic bet and there were better owners for that business than us, which is why we divested it.

Let's just focus on the -- our core business in HR, which that was not really related to. In terms of other divestitures, again, if we see things that don't fit our core business, we would divest them. We'll discuss those when it's appropriate.

**Jeffrey Marc Silber**
*BMO Capital Markets Equity Research*

All right. Great. Sorry, I got the name mixed up with Jimmy Neutron. In terms of my follow-up, not to mistake here, you provided a tremendous amount of data. But in looking at wallet retention, it did decline slightly year-over-year. Is there anything to read into it? Are you giving pricing concessions or people pushing back on reordering, et cetera?

**Craig W. Safian**
*Executive VP & CFO*

Jeff, I won't comment on your Jimmy Neutron comment. We'll save that for later. In terms of wallet retention, again, I think it's consistent with the way we talked about all of the GTS business earlier and the overall Research business as well. Our enterprise function leader business performed very, very well across GBS and GTS. And essentially, what you're seeing in the wallet is just that deceleration of the tech vendor business from high-teens growth to high single-digit growth.

Even with that, it's still really strong at 105%, obviously, well above 100% and significantly in excess of client retention. And so the core value is still there. But the slight deceleration or variance on a year-over-year basis can be completely attributed to the tech vendor business. And again, I underscore the enterprise function business and both GTS and GBS performed very well in the fourth quarter.

**Operator**

Our next question comes from Manav Patnaik from Barclays.

**Manav Shiv Patnaik**
*Barclays Bank PLC, Research Division*

I just wanted to clarify on the tech vendor side again. I think you said it was a quarter of your business. It grew high single digits. And did I hear you say that even for '23, you assume it's going to be growing high single digits? I was just curious if that decel was due to churn or new business, then how that's going to trend basically?

**Craig W. Safian**
*Executive VP & CFO*

So we didn't talk about the expectation from a CV growth perspective. For any part of the business, we don't provide CV guidance or anything like that. I think, again, it's -- as we built the plan and our guidance for 2023, we've utilized what we saw in the fourth quarter in terms of retention metrics, new business metrics and productivity metrics and things of that nature as some of the inputs to extrapolate out our expectation for 2023.

I think on the tech vendor side, in particular, obviously, there's a lot going on in that industry right now. We're still selling through it. High single-digit growth is still pretty nice growth, just not high teens growth. And so, we believe that given the value proposition that we have for even leaders in that space, that we've got a great value proposition and a great set of products, and we'll continue to serve those clients and help them with their mission-critical priorities in the same way that we help the enterprise function leaders across GTS and GBS.

**Manav Shiv Patnaik**
*Barclays Bank PLC, Research Division*

Okay. Got it. And then just on the sales -- the question around the sales force growth. You said 4 to 5 points below CV. I guess -- and I think you said lowest level of open position. So does that mean this year's growth is going to be less than the kind of -- maybe even much less than the kind of 10% to 15% we're used to historically?

**Craig W. Safian**
*Executive VP & CFO*

Yes. So we recalibrated the way that we were going to grow the sales force back in 2019. And essentially, the model -- obviously, 2022 is different because we had to do a lot of catch-up. But our model moving forward is we want to essentially not dilute our overall cost of sale. And the way we do that is grow the sales headcount, call it, 4 to 5 points, depending on wage inflation, slower than CV growth. That's our stated model moving forward. And so, that's what we've got in place for 2023.

And so -- yes, it will not be 10% to 15% headcount growth unless we see 15% to 20% CV growth. And again, as I mentioned, during George's question, we believe we are set up to speed up or slow down accordingly as needed. And so if we see CV growth start to accelerate, we have the recruitment capacity to be able to increase that. And if we see CV growth slowing, we obviously can tap the brakes as well.

So we feel like we're in a really, really good place from a talent perspective. We are, as we both mentioned, Gene and I are carefully calibrating headcount growth and expenses. And we feel like we've struck the right balance between making sure we're investing for future growth and delivering strong margin performance.

**Operator**

And I am showing no further questions from our phone lines. I'd now like to turn the conference back over to Gene Hall for any closing remarks.

**Eugene A. Hall**
*CEO & Director*

Here's what I'd like you to take away from today's call. In the fourth quarter of 2022, we again saw strong growth across the business. Gartner delivers incredible value to enterprises that are thriving, struggling or anywhere in between. By being exceptionally agile and adaptive to changing world, we've delivered a sustained record of success.

We're well prepared as we enter 2023. We've carefully aligned staffing levels with demand with the lowest percentage of open positions ever. Our content addresses today's mission-critical priorities. And we know the right things to do to be successful in any environment.

Looking ahead, we're well-positioned to drive growth far into the future. And even as we invest for future growth, we expect margins to increase modestly over time. We generate significant free cash flow well in excess of net income. We'll return capital to our shareholders through buybacks, which reduced shares outstanding and increases returns over time.

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

**Operator**
Thank you. This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.