03-Nov-2020

Gartner, Inc. (IT)

Q3 2020 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Gartner's Third Quarter 2020 Earnings Results Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers’ presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, David Cohen, Gartner's GVP of Investor Relations. Thank you. Please go ahead, sir.

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

Good morning, everyone. We appreciate you joining us today for Gartner's third quarter 2020 earnings call and hope you're well. With me on the call today are Gene Hall, Chief Executive Officer; and Craig Safian, Chief Financial Officer. This call will include a discussion of third quarter 2020 financial results and our updated outlook for 2020 as disclosed in today's earnings release. In addition to today's earnings release, we have provided a detailed review of our financials and business metrics and earnings supplement for investors and analysts. We have posted the press release and the earnings supplement on our website, investor.gartner.com.

Following comments by Gene and Craig, we will open up the call for your questions. We ask that you limit your questions to one and a follow-up. On the call, unless stated otherwise, all references to EBITDA are for adjusted
EBITDA with the adjustments as described in our earnings release. All growth rates in Gene’s comments are FX neutral, unless stated otherwise. Reconciliation’s 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 2020 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 2019 Annual Report on Form 10-K and quarterly reports on Form 10-Q, as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

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

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

Good morning. Welcome to our quarterly earnings call. Thanks for joining us. Business leaders need help in all times. But during highly uncertain times like today, they need help more than ever. Those that know Gartner know we are the best source for how to survive and thrive in these difficult times. Beginning in Q1, we made significant changes in response to the pandemic and economic downturn. Our strategy is to ensure our research content, addresses the most critical priorities of our clients at any point in time.

When the pandemic hit, the rate of change in the world increased dramatically. We responded with agility. We accelerated the creation of new, highly relevant content for our clients across every function. Topics included adapting to COVID-19, shifting to remote work, accelerating the transition to digital business, strengthening diversity, equity, and inclusion across the enterprise and more. Clients have highly valued this content addressing their mission critical priorities. Client engagement with our experts rose significantly.

During Q3, client interactions increased more than 20% year-over-year to over 120,000 interactions. Gartner conferences deliver the same unparalleled insight and advice to those who want an immersive experience. Seat holders who attend our conferences receive great value, which results in higher retention. Non-seat holders equally receive great value and are a great source of highly qualified leads for our research sales force.

Once the pandemic hit, we pivoted to virtual conferences to replace our traditional, in-person destination conferences. So far, we've delivered seven virtual conferences through October and the performance of these conferences has exceeded our expectations.

IT Symposium/Xpo is our flagship conference series for senior IT executives. We recently held our IT Symposium Americas virtually. It was a resounding success. More than 15,000 executives attended. And that's about double the number that attended Orlando Symposium in person last year. Attendees were highly engaged and participated in an average of 11 live sessions.

More than 80% of IT Symposium Americas’ attendees rated the conference as meeting or exceeding their expectations. Attendee scores for the keynotes were on par with the in-person conferences from last year. Exhibitors are also an important element of our conferences. We’ve been working with them to create a great experience for both attendees and themselves. While exhibitor revenues were lower when compared to our in-person conferences from last year, they exceeded our expectations.
Early on, there was great uncertainty as to whether virtual conferences would be viable. The results of the seven virtual conferences we've held to-date demonstrate we can achieve attendance while delivering high value to both attendees and exhibitors. We're early in the virtual conference journey, and each one we've held has been better than the last. We're learning organization. We'll continue to get even better by taking the experience from each conference and improving on the next. We have eight more virtual conferences planned for 2020, and have already had more than 21,000 attendees registered.

So, we were extremely agile in serving the needs of our clients by adapting our content and pivoting to virtual conferences. We were just as agile in adapting our operations for the new environment. We went from an in-office to completely remote and we now have achieved the same level of operational effectiveness as we had in the office. We acted early and decisively at the beginning of the pandemic to optimize our costs and prepare for a wide range of scenarios.

We've achieved strong cost savings by working smarter, not just by getting by with less. For example, we've established specialized teams to handle some tasks such as background research. Previously this was done individually by all our experts rather than specialized teams. The specialized teams do this research in fewer hours and often with higher quality because of the specialization. In addition, we have automated some of this work through technologies such as web mining which further lowers the cost and increases the overall quality. But these changes didn't begin during the pandemic but because of the pandemic we've accelerated the pace.

In addition to cost savings and operational efficiencies, we also took several steps to preserve liquidity and maintain financial strength. We now have the capital structure with less maturity risk and more flexibility to accelerate the creation of new, highly relevant content for our clients across every function.

We successfully pivoted to virtual conferences which were well attended and delivered high value to our clients. Our clients are more engaged than ever. Beyond client engagement, we adapted our operations to work remotely just as effectively as we do from our offices. And we combine this with early and decisive actions to optimize our cost structure and our balance sheet.

The combination of these factors has resulted in improvements across most of our operational metrics compared to Q2. The improvement in our operational metrics in turn has resulted in improvement in our Q3 financial metrics and guidance compared to Q2. Revenue and EBITDA are performing better than we expected and free cash flow generation is very strong.

To provide more details on our financial performance and increased guidance, I'll now turn the call over to our CFO, Craig Safian.

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

Thank you, Gene, and good morning. I hope everyone remains safe and well. Third quarter results were ahead of our expectations and we raised our full year guidance to reflect the modestly better demand environment and strong cost management. We had another successful bond offering during the quarter and amended and extended our credit facility through 2025. As of September 30, we have a stronger balance sheet than we did at the start of the year. We have significant liquidity, which gives us financial flexibility. We reduced our maturity risk and our annual interest expense will be lower starting in 2021.
As we have gotten more clarity on the economy and gauged our business performance over the past several months, we have resumed targeted spending. While we continue to manage our costs carefully, we remain focused on positioning ourselves to rebound strongly as the economy recovers.

Third quarter revenue was $995 million, down 1% both as reported and FX neutral. Excluding conferences, our revenues were up 5% year-over-year FX neutral. In addition, contribution margin was 67%, up more than 300 basis points versus the prior year. EBITDA was $168 million, up 20% year-over-year and up 19% FX neutral. Adjusted EPS was $0.91, and free cash flow in the quarter was a very strong $229 million.

Research revenue in the third quarter grew 6% year-over-year on a reported and FX neutral basis. Third quarter research contribution margin was 72%, benefiting in part from the temporary cost avoidance initiatives we put in place starting in the first quarter. As we have seen improvements in the macro environment, we have resumed growth spending and started to restore some of the compensation and benefit programs, which we had put on hold when the pandemic first hit.

Total contract value was $3.4 billion at September 30, representing FX neutral growth of 5% versus the prior year. Global technology sales contract value at the end of the third quarter was $2.8 billion, up 5% versus the prior year. The more challenging selling environment that began in March continued through the third quarter and had an impact on most of our reported metrics. Client retention for GTS was 80%, down about 160 basis points year-over-year but up modestly from last quarter. Wallet retention for GTS was 99% for the quarter, down about 600 basis points year-over-year. GTS new business declined 7% versus last year.

We ended the third quarter with enterprises down about 3% from last year. The average contract value per enterprise continues to grow. It now stands at $227,000 per enterprise in GTS, up 9% year-over-year. Growth in CV for enterprise reflects the combination of upsell, increased number of subscriptions and price. In addition, we continue to see higher churn among lower spending clients.

At the end of the third quarter, the number of quota-bearing associates in GTS was down about 8% year-over-year. We expect to end 2020 with more than 3,100 quota-bearing associates, a slight decline from the end of 2019. We entered this year with a large bench which we have now fully deployed. For GTS, the year-over-year net contract value increase or NCVI divided by the beginning period quota-bearing head count was $41,000 per salesperson, down about 60% versus the third quarter of last year. Despite the challenging macro environment, GTS CV grew in nearly all of our 10 largest countries. And similar to last quarter, was up double-digits in Brazil, Japan, France and the Netherlands.

CV grew across all sectors except for transportation and media. Across our entire GTS sales team, we sold significant amounts of new business in the quarter to both existing and new clients. New logos continue to be a significant contributor to our CV growth.

Finally, despite some net churn in clients, we continue to see increased spending by retained clients on average, although not quite enough to offset dollar attrition. This speaks to the compelling client value proposition we offer in both strong and challenging economic environments. Overall, GTS retention and new business improved in the third quarter as compared to the second quarter.

Global business sales contract value was $656 million at the end of the third quarter. That’s about 20% of our total contract value. CV growth was 6% year-over-year as reported and 5% on an organic basis. CV growth in the quarter was led by our supply chain and human resources teams. All practices positively contributed to the 6% CV growth rate for GBS, with the exception of marketing. GBS new business was strong, up 14% over last year.
As we've discussed the last three quarters in the marketing practice, we are transitioning away from some lower margin products. This has created short-term headwinds but is expected to improve profitability in a normal environment. GxL is now more than 50% of GBS total contract value, an important milestone on the path to long-term sustained double-digit growth in GBS.

Client retention for GBS was 82%, up 117 basis points year-over-year. Wallet retention for GBS was 99% for the quarter, up 220 basis points year-over-year. We ended the third quarter with GBS enterprises down about 9% from last year as we continue to see churn of legacy clients. The average contract value for enterprise continues to grow. It now stands at $140,000 per enterprise in GBS, up 16% year-over-year. Growth in CV per enterprise reflects upsell, an increased number of subscriptions, penetration of new functional areas, and price.

Despite the pandemic, our retained clients are continuing to spend more with us every year, although not quite enough to offset dollar attrition. At the end of the third quarter, the number of quota-bearing associates in GBS was down 7% year-over-year. We expect to end 2020 with roughly flat head count to the end of 2019 in GBS.

For GBS, the year-over-year net contract value increase or NCVI divided by the beginning period quota-bearing head count was $38,000 per salesperson, up from last year. Overall, GBS had a good third quarter, driven by a strong double-digit year-over-year improvement in new business.

As you know, the conferences segment has been materially impacted by the global pandemic. We cancelled all in-person destination conferences for the remainder of 2020. We pivoted to producing virtual conferences with a focus on maximizing the value we deliver for our clients. We held two virtual conferences in the third quarter after producing pilots in the second quarter. We also held a number of virtual Evanta meetings, shifting these one day local conferences online due to the pandemic.

Conferences revenue for the quarter was $13 million, a combination of the two virtual conferences and a number of virtual Evanta meetings. We are still in the early stages of all forms of virtual conferences and will continue to leverage customer feedback as we develop, refine and grow our virtual conference offerings. The revenue mix of our virtual conferences is different from the mix from in-person conferences.

First, in Q3, our revenues were split between virtual conferences and virtual Evanta meetings with a higher mix from Evanta meetings than last year. Attendee revenue at virtual conferences is from two sources. Tickets that are purchased as a standalone item either online or through our sales teams or an entitlement associated with a broader research contract.

As we've detailed in the past, a small portion of many research contracts gets attributed to the conferences segment. The vast majority of the Q3 and expected Q4 attendee revenue is from subscription contract entitlements. These are entitlements which would have been applied to in-person conferences in 2020 or, in some cases, in 2021. We continue to refine our exhibitor offerings for virtual conferences. We expect Q4 exhibitor revenue to be a much smaller part of overall conferences revenue than in the past.

We continue to incur costs both in cost of services and SG&A to support virtual conferences and to be in a position to resume in-person conferences when it is safe and permitted. Lastly, the timing of receiving conference cancellation insurance claims remains uncertain, so we will not record any [ph] recoveries (00:15:32) in expenses incurred until the receipt of the insurance proceeds.

Third quarter consulting revenues decreased by 4% year-over-year to $89 million. On an FX neutral basis, revenues declined 6%. Consulting contribution margin was 32% in the third quarter, up over 300 basis points
versus the prior year quarter. Margins were up primarily due to cost reduction actions. Labor-based revenues
were $74 million, down 5% versus Q3 of last year or 6% on an FX-neutral basis.

Labor-based billable head count of 737 was down 9%. Utilization was 60%, up 300 basis points year-over-year.
Backlog at September 30 was $96 million, down 12% year-over-year on an FX-neutral basis. Our backlog
provides us with about four months of forward-revenue coverage. As we discussed last quarter, we had a small
workforce action in the consulting business to align our billable head count with our revenue outlook for the
balance of the year.

Our contract optimization business was down 3% on a reported basis versus the prior year quarter. This
compares to a 74% growth rate in the third quarter last year. As we have detailed in the past, this part of the
consulting segment is highly variable. SG&A increased 2% year-over-year in the third quarter and 1% on an FX-
neutral basis. SG&A as a percentage of revenue increased in the quarter as we restored certain compensation
and benefits costs. EBITDA for the third quarter was $168 million, up 20% year-over-year on a reported basis and
up 19% FX-neutral.

As I mentioned earlier, we had stronger than expected top-line performance and continue our disciplined focus on
expenses. We also continue to see a meaningful benefit from significantly lower than normal travel costs. Depreciation in the quarter was up approximately $2 million from last year, although flat with the second quarter
as a result of additional office space that had gone into service before the pandemic hit. Amortization was about
flat sequentially.

Net interest expense excluding deferred financing costs in the quarter was $29 million, up from $22 million in the
third quarter of 2019. Net interest expense is up because our interest rate swaps had higher fixed rates than the
[ph] warrants (00:17:40) which expired last year. The Q3 adjusted tax rate which we use for the calculation of
adjusted net income was 20% for the quarter. The tax rate for the items used to adjust net income was 26.4% in
the quarter. Adjusted EPS in Q3 was $0.91.

Operating cash flow for the quarter was $244 million compared to $220 million last year. The increase in
operating cash flow was primarily driven by cost avoidance initiatives, partially offset by an earlier interest
payment due to the refinancing. CapEx for the quarter was $15 million, down 59% year-over-year. Lower CapEx
is largely a function of lower real estate expansion needs due to the pandemic.

We define free cash flow as cash provided by operating activities, less capital expenditures. Free cash flow for the
quarter was $229 million, which is up 25% versus the prior year. This includes outflows of about $10 million of
acquisition, integration and other non-recurring items. Free cash flow as a percent of revenue or free cash flow
margin was 15% on a rolling four-quarter basis, continuing the improvement we've been making over the past few
years. Free cash flow as a percent of GAAP net income was about 285%.

Free cash flow benefited from continued strong collections combined with reductions in outflows from our cost
avoidance initiatives, lower capital expenditures, and lower cash taxes and deferrals of certain tax payments.
While we've seen timing benefits to our free cash flow margin from significantly lower CapEx and our ability to
defer certain tax payments, even excluding these LTM free cash flow margin is still up about 200 basis points
versus the prior year.

During the quarter, we took advantage of historically attractive high-yield bond pricing and issued $800 million of
new 10-year senior unsecured notes with a 3.75% coupon. We used the proceeds from this new issuance to
 extinguish our 2025 bonds which carry a 5.125% coupon. We also amended and extended our credit facility to
September 2025 with attractive financial terms, increased flexibility and fewer less restrictive covenants. The overall impact of the financing activities resulted in a 50 basis point reduction to total cost of borrowing. The combination of the capital markets activities in the past six months has extended our debt maturity profile to nearly eight years versus less than three years pre-pandemic.

Our September 30 debt balance was $2 billion. Our reported gross debt-to-trailing 12-month EBITDA is about 2.5 times. Our total modified net debt covenant leverage ratio was 2.3 times at the end of the third quarter, well within the 5 times covenant limit.

At the end of the third quarter, we had $554 million of cash. After pausing share repurchases at the start of the pandemic, we are in a position to resume our normal capital allocation programs. Going forward, we will deploy excess cash for share repurchases and strategic tuck-in acquisitions. At the end of the quarter, we had about $1 billion of revolver capacity and have around $680 million remaining on our share repurchase authorization.

We are updating our full-year outlook to reflect Q3 performance, a modestly better demand environment, including the successful launch of virtual conferences and cost restoration plans. Last quarter when updating guidance, we were cautious because we had only been through one full quarter of the pandemic and we had two quarters remaining in the year. With more experience, better performance and more visibility, we have updated our guidance accordingly.

We now forecast research revenue of at least $3.57 billion for the full year. This is growth of almost 6% versus 2019 and reflects a continuation of third quarter new business and retention trends. For the conferences segment, we are generating revenue from our virtual conferences. We now expect revenue of $110 million for the full year. This reflects our initial success in launching virtual conferences and virtual Evanta meetings. The majority of the incremental revenue we expect from conferences is from entitlements included in some of our subscription contracts as we discussed earlier.

We now forecast consulting revenue of at least $370 million for the full year or decline of about 6%. The consulting outlook continues to contemplate a slowdown in labor-based demand. The timing of revenue in the contract optimization business can be highly variable as you know.

Overall, we expect consolidated revenue of at least $4.05 billion. That's a reported decline of about 5% versus 2019. Excluding conferences, we expect revenue growth of at least 4.5% versus 2019 on a reported basis. The cost avoidance programs we put in place in March have allowed us to protect profitability and conserve cash. We started to resume certain spending late in the second quarter as the operating environment appears to have at least stabilized. We want to ensure we are well-positioned for an economic normalization.

We expect full year adjusted EBITDA of at least $740 million. That's full-year margins of about 18.3%, up from the 16.1% margins we had in 2019. We expect our full year 2020 net interest expense to be $106 million. We continue to expect an adjusted tax rate of around 22% for 2020. This does imply a higher fourth quarter rate than we've seen throughout 2020, consistent with our experience in recent years.

We expect 2020 adjusted EPS of at least $4.07. For 2020, we expect free cash flow of at least $625 million. Our free cash flow guidance reflects both the P&L outlook we just discussed, strong CapEx management, and better than previously forecasted collections. All the details of our full year guidance are included on our Investor Relations site.
In summary, despite a very uncertain economic environment, we delivered better than planned financial results in the third quarter, which has allowed us to update our full year outlook favorably. Most of our key operating metrics improved in the quarter, and we were able to successfully launch and monetize virtual conferences and virtual Evanta meetings.

Cash flow was outstanding and we have taken a number of measures to increase our financial flexibility, reduce maturity risk and ensure we have ample liquidity. We will continue to balance cost-avoidance programs with targeted investments and restoration of certain expenses to ensure we are well-positioned to rebound when the economy recovers.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Jeff Meuler from Baird. Your line is now open.

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

Yeah. Thank you. Good morning. So, I always find your sales productivity metric NCVI per beginning AE a little bit challenging during periods of a lot of acceleration or deceleration. One of the things that jumped out to me today was the year-over-year trends in new business sold relative to the year-over-year trends in sales head count for each of the segments. Curious if you use that as an internal metric. And then what you'd kind of say about that trend and anything in how you're managing sales head count between the zero-CV folks and the people that have a book of existing business that are looking to expand it. Thanks.

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

Hey, Jeff. It's Gene. The first – we definitely look at new business per salesperson as one of our key metrics. At the end of the day, the reason we look at NCVI per salesperson is because that's what net results in growth. But we manage the pieces of it, which are retention of our clients in the new business. And so we absolutely manage new business per salesperson. And the trend there has been – has improved significantly between Q2 and Q3 as the numbers you saw from Craig.

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

And anything you'd say in terms of how you're managing head count in terms of the zero contract value associates and those that have a book of business. Like, are there any big shifts occurring among those?

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

So, it varies depending on the specific market and we tailor it to the market. And so, in markets where we have not that much contract value because it's relatively immature market, we have more business developers, people that have zero contract value accounts than in a much more mature market like the United States, especially for GTS. For GBS, across the board, we have a lot more business developers because those markets are so
relatively underpenetrated so you don't need as many people that are, what we call, account managers that have existing clients just because the business is so much smaller in each of the disciplines.

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

Okay. And then, anything else you can say about what avoided cost are still left to be brought back? And in the past you made some comments about expecting 2021 margins to be down year-over-year. Do you still expect them to be down relative to the implied margins from the prior guidance or are we now using the baseline of this 18.1% or 18.3% margin this year to be down from – and similar question on free cash flow, obviously, as you said, outstanding this year. Should that step back next year? Thanks.

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

So, let me get started and Craig can fill in. So, prior to 2020, we were going through an investment period. We were investing really to position GBS to have a great future growth. And we ended that investment period in 2019. We came in to 2020 before the pandemic even hit focused on improving our margins over time. And part of the reason the margins are better in 2020 compared to 2019 is that we were already focusing on how do we get the return on the investments that we've put in place over the previous three years.

We're still going to be focused on that going into the future. Having said that, there are some expenses in 2020 that are lower than you might get in a normal year and the biggest example in my mind is travel expenses where we basically have very low travel expenses compared to a normal year and I can imagine, and once the pandemic is over, we can travel again. Our travel expenses will be, I wouldn't say go back to where it was before. I think we've learned how to work more efficiently. But certainly, it'll be larger than it would be in a year like 2020. And Craig, I don't know, if you want to fill in.

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

Yeah. Good morning, Jeff. The only few things I would add are that in terms of the cost avoidance, we were very aggressive in the early days of the pandemic when we really didn't know what the outcome was going to look like. As we stabilized, we obviously started turning certain expenses back on particularly related to compensation and benefits, expenses for our associates, as well as backfilling open roles and actually sprinkling in a little bit of head count growth in the GTS and GBS salesforces. And so, we were first focused on just making sure that we could preserve profitability and then once we had eye line to that or eyesight to that, we started selectively turning certain expenses back on.

To Gene's point, 2020 is hardly a normal year by any definition. And so, the way we've been managing the business and again, we have been restoring a lot of costs in the back half of the year and we were able to get virtual conferences launched and monetized. That's obviously playing a large role in the margin profile for 2020.

As we look forward, the way we sort of think about it from a medium-term perspective is that we can absolutely drive double-digit top line growth and modestly expand margins. Over at least the medium term, we will expand margins from the 2019 levels, which is our last normal year benchmark, if you will. And to the points he made, we are very committed to maintaining tight cost controls like you've seen from us this year. We will have to turn certain things back on. But things like travel, we will have to travel more. We will have more expense there, but it'll probably not run all the way back up to what we did in 2019.
Similarly with facilities, we've obviously had a lot of operational benefits this year from not having to heat and cool and run facilities as we've been working from home. Hopefully, we will be back in facilities at some point and those expenses will come back. Although, I will say that as we look forward, we probably won't need to expand our facilities' footprint at the same pace that we did in the past. And so, there's a lot of moving parts there. But I think the key point is that over the medium term, we believe that we can drive double-digit top line growth and modestly expand our margins.

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

Thank you both.

**Operator:** Thank you. Our next question comes from the line of Toni Kaplan from Morgan Stanley. Your line is now open.

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

That's great. Thank you. Gene, you mentioned higher demand that you're seeing from clients. Can you just dive a little bit more into that within research? Which regions have been strong? And basically, when regions have either somewhat recovered from COVID and start to open up, I'm thinking maybe China or even in the US over the summer when things were a little bit better. How quickly can the business rebound, or should we be viewing this more as a slow recovery? I just wanted to get some color on the strengthening demand that you mentioned. Thanks.

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

Yeah. Hi, Toni. I don't know how fast the pace of recovery will be. But we certainly saw meaningful improvements between Q2 and Q3 in terms of demand as the numbers that Craig went through in terms of like new business and so forth.

If you look at China, China is interesting because they have recovered relatively quickly, like the new business growth in -- I might have said Japan; I meant China. In China has been quite good. Japan, same thing actually. And so if the rest of the world kind of goes the way of China and Japan, then we'll have a relatively quick recovery for us.

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

That's great. And wanted to ask also about the GTS hiring strategy. I think Craig mentioned the 3,100 expected by year-end. In general, I guess, are you thinking about hiring ahead of CV growth turning around or are you in a little bit more of a wait-and-see kind of pattern? Just trying to understand on the strategy of hiring through the rest of the year and maybe through next year in terms of how you're thinking about it. Thanks.

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

Yeah. Growing our sales force is an important part of our growth strategy. And so, over time, we expect to grow our sales force in kind of in line with our contract value growth. And so that's kind of the long-term strategy. We came into this year -- so at the end of last year, we added a substantial amount of head count as we came into
this year for to allow our growth during 2020. Now, obviously, the pandemic hit and we hadn't realized that growth. So we actually have a lot of sales capacity that we think as the market improves will give us good uplift. And then – so we're going to use that and leverage that. We'll also then grow our sales head count and you think about in line with CV as we go forward to support future growth.

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

The one other thing I'd add. Toni, is if you just think about the capacity we've invested in building over the last several years in both GTS and GBS is pretty substantial. And so with that selling capacity, again, if we can approach 2019 productivity levels or claw back half the gap between where we are today and 2019 productivity levels, we can actually drive really nice CV growth just from that capacity.

And as Gene mentioned, our strategy because of the market opportunity we have is to continue to grow the sales force which we will do to go capture that opportunity. But again, we always look at really two levers to drive the CV growth over the medium term or long term. It's growing sales head count to capture the market opportunity and driving productivity improvements at the same time.

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

Thanks so much.

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

Gary Bisbee
Analyst, Bank of America Merrill Lynch

Hey, guys. Good morning. I guess I wanted to start by asking about the GBS contract value growth and new bookings, really no deceleration sequentially and the bookings were strong. Can you give us any more color on sort of what the key drivers are, where you're really succeeding? And I know you didn't give the GxL breakout anymore as you said you wouldn't, but when you look at those metrics, are you sort of past that inflection point where the GxL is meaningfully enough bigger that that's really the key driver from here? Any color would be great. Thanks.

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

Yeah. Hey, it's Gene. The GxL's clearly the key driver in GBS going forward. In fact, we crossed the threshold 10,000 seats in GBS which internally was a major milestone. The [indiscernible] (00:35:43) business is being driven by the fact that – what we've talked about all along. Basically, in each of the functions around the business, the executives have mission critical priorities they need help with. And they see Gartner as being able to help them. And our sales force has been extremely effective at reaching out to prospects and explaining how we can help and the prospects have responded. And that's fundamentally what's driving the new business growth.

And in fact, the – it's really – we're seeing the benefit of it now even during the pandemic. But we talked about earlier the investments we've made over the last two or three years before 2020. It's really starting to get the payoff from all those investments in GBS.
Craig W. Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

And Gary, good morning. I would just add, as I mentioned in my remarks, GxL now represents more than 50% of the contract value within GBS. So it really is a GxL story going forward. That is the predominant amount of contract value within the portfolio. And then, the other nice thing I would add is that we’re seeing really good contribution across the GBS practice portfolio. So it’s not just supply chain or it’s not just HR, we’re seeing really good contribution in finance, in HR, in supply chain, in sales et cetera. And so, it’s not just one story there, it’s across the portfolio.

Gary Bisbee  
Analyst, Bank of America Merrill Lynch

And just as a follow up, if I could dig into that a tiny bit more. Do you have – is there any way to tell how much of the improvement there in the CV holding up quite well is sort of easy comps because you’ve pushed so much change over the last couple of years, so it’s sort of – the maturity of the sales force and improved productivity as they’re more used to selling GxL versus end market dynamics? And really what I’m trying to get at is, are those two factors strong enough to continue to drive outperformance if the economic environment does remain weak and choppy in the near term? Thank you.

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

Yeah. I’ll start then and then, Gene, if I missed anything, you can fill in the blanks. I think that if you look back at the GBS performance, we really started to see a nice acceleration in the business in Q3 of last year. And so, it’s not the easiest compare we’ve had for sure. I think there’s definitely a benefit to having a more tenured sales force and having them have significant experience with selling the standard set of products we have and so that is absolutely a benefit. But I really do believe and I’d echo what Gene said earlier, it’s really about the value we’re providing to the end users in each of these markets as opposed to an easy comp or more experience, and so those things help. But I think ultimately it’s because we provide a great value and help business leaders across each of those enterprise functions really solve and win on their mission critical priorities.

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

And the only thing I’d add, Gary, is that the – we also – it took a while to roll out all the GxL products and then the sales teams had to learn how to sell those products. And so, I think they’re now getting to the good part of that curve.

Gary Bisbee  
Analyst, Bank of America Merrill Lynch

Great. Glad to see it. Thanks.

Operator: Thank you. Our next question comes from the line of Andrew Nicholas from William Blair. Your line is now open.

Andrew Nicholas  
Analyst, William Blair & Co. LLC

Hi. Good morning. With a few more months under your belt and what I thought was a solid third quarter results, do you feel like you have a better sense for how CV might trend over the next couple of quarters? And is there
any change to how you're thinking about the potential trough in CV growth across both GTS and GBS, both in terms of timing and magnitude?

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

Yeah. Good morning, Andrew. With CV being a rolling four-quarter metric, we do still expect some deceleration in the contract value growth rate probably over the next quarter or two predominantly because it's going up against a tough compare quarter and fourth quarter of last year. And so, if you look back to fourth quarter of last year, we drove significant growth in NCVI in both GTS and GBS. And given the environment, and extrapolating what we've seen in Q3 and March through the end of Q2 as well, we do not expect as much new business or similar renewal rates.

And so, we do expect some continued deceleration. The trough, if you think about it, just based on looking at it that way is probably Q1 of next year. Again, we could outrun that if the economy improves significantly, or if there is a vaccine and people go back to the office, and everything like that. But we still remain cautious and are using really our last three months performance as a guide as we think about what CV can do and how we're building our operational plans for the end of this year and for next year.

Andrew Nicholas  
Analyst, William Blair & Co. LLC

Great. That's helpful. Thank you. And then just wanted to switch over to conferences, if I look at guidance or implied guidance for Q4, it looks like you're guiding to about $80 million, $85 million of conference revenue versus about $218 million or somewhere around there last year. If I do the math there, it looks like about 40% or so. I know there's two less conferences versus last year. But I guess I'm just wondering, is that 40% number a reasonable ratio for us to use and we're thinking about revenue for 2021 in the instance that in-person conferences haven't returned, or are there other factors that I'm not thinking about that I should?

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

Yeah. It's hard to say, Andrew, predominantly, because we have moved a number of conferences that we would have produced in-person earlier in the year into the fourth quarter. And so we've obviously trimmed the portfolio and we've gone with a series of very important, very impactful conferences globally. And in addition, if you look at the Q4 implied guide, you have to also keep in mind that there's a hunk of Evanta virtual meetings in there as well, which are a pretty nice contributor to the overall number.

I think that as we roll into – we're in the process of building out 2021 plans under a number of scenarios for next year. As Gene mentioned and I mentioned as well, we're getting better and smarter with each virtual conference that we actually deliver. And the next one gets better and better and better. And we're still really working on that exhibitor value proposition as well.

As I mentioned, we expect the exhibitor contribution in the fourth quarter to be significantly lower than what you would see historically. And obviously, we want to work really hard to improve that and deliver value to both our attendees, who get value from being exposed to the exhibitors and the exhibitors who we get the corresponding value. So, I wouldn't plug in a formulaic 40% yet. We're still working through all those scenarios. And again, there are a number of different scenarios, where we could be in-person later in the year; virtual for beginning of the year, could be virtual all year long. When we guide for 2021 in February, we'll be very clear about what our assumptions include and will really be driven by what the environment allows us to do.
Andrew Nicholas
Analyst, William Blair & Co. LLC

Makes sense. Thank you.

Operator: Thank you. Our next question comes from the line of Jeff Silber from BMO Capital Markets. Your line is now open.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Thanks so much. In your prepared remarks, you talked about some of the portion of the growth that both GBS and GTS was pricing related. I’m just curious what kind of price increases you have been able to put through in terms of renewals and if there’s been pressure or pushback from clients on that? Thanks.

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

Yeah. Hey. Good morning, Jeff. So, we – for most of our – most of the world, we do our price increase in November, actually, yesterday, the first day of November. As we went through the renewal cycle leading up to this November, obviously we were dealing with our standard price increase. In this environment, there was probably – there’s definitely a little bit more pushback than we historically see. Our price increase, as you know, ranges – has ranged in the 3% to 4% range historically. And it’s typically not big dollars for the client and we are always improving our products and our experience. This year, given the environment, we were a little more modest on the price increase. I think around between 2.5% and 3% price increase. Again, it just went into effect now.

We generally – our clients understand that we are improving the product each and every year. The people that deliver the service, their cost go up every year. And so, generally speaking, we haven’t seen the kind of pushback on the pricing. But definitely in this environment, it’s a little more challenging than what we normally see. But generally speaking, it’s modest dollars that we’re pushing through.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Okay, great. That’s helpful. And if I could shift over to conferences. In terms of the shift to virtual, I’m just also wondering from a price perspective, what do you charge attendees relative to the in-person conference? I know there’s some entitlements there. And the same thing on the exhibitor side, I’m just curious on a relative basis what the delta is? Thanks.

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

Yeah. If you take a look at the – you can see list pricing online. The attendee pricing is about 40% of what we would get from an in-person conference ticket. So think about in roughly that range, in terms of the – if you’re buying a cash ticket as a standalone item, again, either online or through one of our sales teams.

On the exhibitor side, as we’ve mentioned, it’s still really early days and we’re working through all that. And so, there’s really not an apples-to-apples comparison from an exhibitor perspective.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.
Okay. Thanks for the color.

Operator: Thank you. Our next question comes from the line of Manav Patnaik from Barclays. Your line is now open.

Manav Patnaik

Thank you. Good morning. I was just hoping you could give me some color, maybe sticking to GTS in terms of the client reaction with the wallet retention and the client retention coming down. Just some color there around how much of that is in the number of seats being cut for those that are still your clients and in this new wave of lockdowns in fourth quarter, I know it's an important quarter for you, if you anticipate any problems there.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Yeah. Hey, Manav. I'll just start with it. So, first, the biggest change in the wallet retention was that our existing clients are buying fewer additional seats. And so it's actually less that people are reducing seats than it is, in normal times, a substantial portion of our growth comes from existing clients adding more seats. We see existing clients in GTS particularly adding fewer seats than they – they're still adding seats but adding fewer seats that they would do in a normal year. And that's kind of the biggest piece of the wallet retention. Craig, do you want to add anything to that?

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

No. I think that's right. Again, and it's a combination and Gene went into detail of this last quarter in Q2. And actually as we rolled into Q3, each of these measures actually improved. And so the point on fewer clients increasing or increasing at lower rate, that trend continued into Q3, but it was definitely better than what we experienced in Q2. And the same could be said around clients that were reducing their spend. So we still saw that trend happen in Q3, but it was much less pronounced than what we experienced in Q2.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Got it. And, Craig, just on the Evanta side, would you be willing to share what the Evanta year-to-date revenues were, and your expectation? I know you called that a big chunk of revenues in the fourth quarter.

Craig W. Safian

Executive Vice President & Chief Financial Officer, Gartner, Inc.

Yeah. I mean, historically, if you go back to last normal year we had, Evanta revenues were in the roughly 15% of total revenue range. This year, given what's happening, they're running closer to around a quarter of the conference revenue, just to put it in rough perspective.

Manav Patnaik

Analyst, Barclays Capital, Inc.

All right. Thank you, guys.

Operator: Thank you. Our next question comes from the line of George Tong from Goldman Sachs. Your line is now open.
Hi. Thanks. Good morning. I wanted to drill into the demand environment which you noted is stronger than you previously expected. Can you elaborate on which specific client segments you're seeing the upside in GTS and GBS? And what specific macro or shut down assumptions are embedded in your full year guidance?

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

So let me get started on it. As Craig mentioned in his remarks, that in GTS CV grew in nearly all of our 10 largest countries and is up double-digits in Brazil, Japan, France and the Netherlands. And CV grew across all sectors except for transportation and media. And it grew across every size enterprise. And so, that kind of gives you a flavor for GTS.

In GBS, we found we had growth basically – contributions from all the practice areas meaning like HR, supply chain, sales, et cetera except marketing. And as Craig mentioned in his remarks, the marketing piece, we have some products that we're discontinuing which pulled that piece down. But the rest was quite strong.

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

And George, in terms of the outlook, it's been choppy all along, and it varies by region and geography in terms of lockdowns and re-lockdowns and things of that nature. And so, the good news for a business like ours is the hunk of the revenue on the research line is baked based on where we finish Q3. And so, the guide doesn't really have – doesn't get impacted all that significantly from whether there are new lockdowns or otherwise. Obviously, it could have an impact on next year. But I think our sales teams are really focused on working through this. They've proven they can work through it in a lockdown or non-lockdown environment. And we'll just continue working through the selling cycles and renewal cycles as we close the year to book as much NCVI and as much contract value growth as possible.

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

George, actually, with regard to lockdowns, with our sales teams, we've had a discussion on what impact does it have, like in certain European countries now they're going back to stronger lockdowns. And at least our sales team's perspective on it is that both we and our clients have learned to work in a lockdown environment, and they don't anticipate the increased lockdowns you're seeing like in Europe having an impact on our bookings. Time will tell but that's the sales team's perspective.

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

Got it. That's helpful. You've guided to full year EBITDA margins of slightly over 18%. That's up from 16% last year. Can you discuss how incremental margins may trend over the next two to four quarters as some of your costs like T&E and sales force hiring come back?

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

Yeah, George. A lot of it will be dependent on where we finish this year from a contract value growth perspective as that has a pretty material or very material impact on the revenue runout for next year. We have started
restore a lot of expenses related to compensation and benefits, which continue to run consistently. And so there won't be a hurt or should be significant one-time hurt when we flip those back on. I think we'll obviously provide full color on 2021 guidance in February when we get there. But for now, we're just really focused on making sure that we finish the year strong. Obviously, we have been able to take up our guidance on just about every count pretty nicely. And the teams are just focused on making sure we finish the year strong. And we'll address what the incremental margins look like and what the overall outlook looks like in February.

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

And, George, I'd add that we made a bunch of investments coming into 2020, in sort of the 2017, 2018, 2019 period. And the 2019 margins reflected that. We came into 2020 focused on getting return on those investments and having tight cost controls. And we expect to keep getting return on those investments over the next few years, as I mentioned earlier. And we intend to keep tight cost controls as well. And so we're very focused on managing our margins in future years as well.

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

Very helpful. Thank you.

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

Hamzah Mazari
Analyst, Jefferies LLC

Hey. Good morning. My first question is just on sales force productivity. Maybe if you could just talk about getting back to 2019 levels on productivity, what's sort of under your control, what's not under your control and what kind of timeframe is realistic to get there? I know you talked about CV troughing in Q1, so maybe you could just give your best guess on when sales force productivity troughs.

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

So it's hard to forecast exactly when sales force productivity is going to trough. As we mentioned couple of times on the call, we've certainly seen this year between Q2 and Q3 an improvement in all the kind of underlying – in virtually all the underlying operational metrics that drive sales productivity. I talked about one of them, like client engagement which ultimately drives retention and new business performed better in Q3 than in Q2.

And so, those are the things that are going to kind of drive it over time. I think we are learning how to sell in the pandemic has a factor. And so, that will continue to get better. I think also obviously, the more companies that go out of business and can't buy our products because they're out of business, that has an impact on our productivity as well. So it's those kinds of factors.

Hamzah Mazari
Analyst, Jefferies LLC

Got it.
Craig W. Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

And Hamzah, I would just add that it's going to really correlate very, very tightly to CV growth. And so, again, it's sort of an output of CV growth or if you're running the math the other way, an input into the overall CV growth. But given that we have gotten much more disciplined around the head count growth and head count investments and to Gene's point, getting yield on those investments and that we'll start having 'easier compares' in Q2, the CV growth trough and the productivity trough should be aligned.

Hamzah Mazari  
Analyst, Jefferies LLC

Got it. Very helpful. And just my follow up question is just two quick ones. One, is the territory optimization kind of behind you or is that sort of an ongoing process? And then just on the research side, anything to call out on the non-subscription piece, how that trended? I know it's small, at 10% or so of research, but just on those two points, anything to add? Thanks so much.

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

Yeah. The territory optimization is really important to us because different territories have different structural characteristics that make them better or worse and it varies over time. A simple example is a territory selling to restaurants in this day – today doesn't have as much upside potential as the territories selling to tech companies.

And so, we real-time shift our territories around to the territories that are away from the ones that have less potential to ones that have a lot of more potential. So, it's not a one-time thing. We just implemented kind of the most sophisticated versions of our territory planning this year. And it's something we're going to do on an ongoing basis as the economy around us changes. And it's an important driver of sales productivity.

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

And then on the non-subscription piece, it's actually holding up pretty well. It was down 3% year-over-year in the quarter, which is better than we had initially forecasted. So, the non-sub piece, to your point, relatively small piece, but it's holding up better than we had initially thought, down 3% year-over-year.

Hamzah Mazari  
Analyst, Jefferies LLC

Great. Thank you.

Operator: Thank you. Our next question comes from the line of Jake Williams from Wells Fargo. Your line is now open.

Jake Williams  
Analyst, Wells Fargo Securities LLC

Thank you and good morning, everyone. Can you share some of the lessons that you've learned from hosting virtual conferences so far? And if you think there are any opportunities to expand the reach or the breadth of future conferences through a hybrid in-person virtual model?
Eugene A. Hall  
*Chief Executive Officer & Director, Gartner, Inc.*

Yeah. Hey, Jake. It's Gene. So, we've learned a lot of lessons in virtual conferences. As Craig mentioned, we've started with some pilots in Q2 and then have held our virtual equivalents of our larger conferences this year. Same thing is true actually of the Evanta conferences where in the past were in person and now are all virtual. And we've learned things about like what technologies to use. Some technologies work better than others. And each time we have things didn't work as well as we planned, we fix those technology problems.

We've been experimenting with things like how long each session should be because in a virtual environment, people may want different session lengths. We experimented with how long the conference itself should be. Should it be two days, four days for the longer conferences and getting customer feedback or tweaking the length of the conferences. The content is pretty much the same and production values are very similar if you go to any of our conferences and that has worked pretty well. So those are kind of the key learnings, I'd say.

And in terms of opportunity to expand, the way we're looking at it is if there's demand going forward when in-person conferences return, if there’s still demand for virtual conferences, we're going to be really well-positioned to do that. And we will certainly do it if demand is there. And my – what I believe is demand will be there, but we're going to be flexible based on what the market says.

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Jake Williams  
*Analyst, Wells Fargo Securities LLC*

Got it. Thank you very much.

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**Operator:** Thank you. At this time, I'm showing no further question. I would like to turn the call back over to Mr. Hall for closing remarks.

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

So summarizing what you heard in today's call, we accelerated the creation of new, highly relevant content for our clients across every function. We successfully pivoted to virtual conferences which were well attended and delivered high value to our clients. Our clients are more engaged than ever. Beyond client engagement, we adapted our operations to work remotely just effectively as we do from our offices. And we combined this with early and decisive actions to optimize our cost structure.

The combination of these factors has resulted in improvements across most of our operational metrics compared to Q2. The improvement in our operational metrics in turn has resulted in improvement in our Q3 financial metrics and guidance compared to Q2 revenue. Revenue and EBITDA performed better than we expected and free cash flow generation is very strong.

Thanks for joining us, and I look forward to updating you again in the new year.

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**Operator:** Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.