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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Gartner Fourth Quarter 2021 Earnings Conference Call. At this time, all participants are on a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] As a reminder, this call may be recorded.

I would now like to turn the call over to David Cohen, Gartner's GVP of Investor Relations. You may begin.

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

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

This call will include a discussion of fourth quarter 2021 financial results and Gartner's outlook for 2022 as disclosed in today's earnings release and earnings supplement both posted to our website, investor.gartner.com. Following comments by Gene and Craig, we will open up the call for your questions. We ask that you limit your questions to one and a follow-up.

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

As set forth in more detail in today's earnings release, certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties, including those contained in the company's 2020 Annual Report on Form 10-K and Quarterly Reports on Form 10-Q as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

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

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Good morning, and thanks for joining us. 2021 was a great year for Gartner. We performed well across the business. Contract value growth accelerated to 16%. We delivered strong performances in revenue, EBITDA, and free cash flow, and we repurchased almost 1.7 billion of stock.

Research continues to be our largest and most profitable segment. Our Research segment provides actionable, objective insight to executives and their teams. Our expert guidance and tools enable faster, smarter decisions and stronger performance on an organization's mission-critical priorities. We serve leaders across all major enterprise functions in every industry around the world. Our market opportunity is vast across all sectors, sizes and geographies, and we're delivering more value than ever.

In today's world, client priorities include things like transforming to a digital business, protecting cybersecurity, competing in a war for talent, building a diverse, equitable and inclusive organization, whether and how to return to offices, managing supply chain disruptions, and more. So, these are really hard problems, and our clients rely on us for insights they can't get anywhere else.

Research revenue grew 12% for the full year, total contract value growth was 16% at the top end of our medium-term outlook. We serve executives and their teams through distinct sales channels, Global Technology Sales or GTS serves leaders and their teams within IT. GTS contract value grew 14% for the full year. 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 an impressive 24% for the year.

Enterprise leaders and their teams benefit from the same Gartner value proposition regardless of role. We've demonstrated this in technology, supply chain, marketing, and now across all the other major functions. We're providing value to our clients and prospects, and our focus on relentless execution of proven practices will continue.

Our Conferences business also delivered excellent performance in 2021. Conferences revenue grew 78% for the full year. We continue to provide great value for clients through ongoing innovation of our virtual offerings, and we return to in-person Evanta events. As conditions continue to stabilize, we're operationally prepared to return to in-person conferences where and when we can. We'll continue to leverage our profitable virtual conferences as appropriate.

Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic initiatives through deeper, extended, project-based work. Consulting is an important complement to our IT Research business. Consulting revenue grew 9% for the full year with strong performances across the business in 2021.

Gartner is a growth company. We are great candidates and continue to invest in our associates in support of future growth. In 2021, we ramped up our recruiting capacity. We're seeing great success in hiring in a challenging labor market. With the rapid acceleration of our business, we have some catch-up hiring and normal growth hiring planned for this year. Getting back to our normal growth hiring will position us for long term, sustained double-digit growth. As we accelerate hiring, we plan to manage sales costs to grow roughly in line with revenue over the long term.

A core element of our strategy is to continuously innovate and improve, so we get better, faster, stronger every year. We're innovating to provide increasing value to clients through improved user experiences, interactive tools, and ever greater insights. We're also continuing to improve our internal processes, so our sales, research, and service associates can spend even more time working with clients and prospects.

In closing, we performed well in 2021. We expect to deliver a strong performance in 2022. We have a compelling value proposition and a large untapped market opportunity. Over the longer term, we're well-positioned to drive strong top-line growth with modest margin expansion from our normalized 2021 levels. We generate significant free cash flow in excess of net income. We'll deploy that cash flow to return capital to our shareholders through share repurchases and to make strategic tuck-in acquisitions.

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

Craig Warren Safian

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

Thank you, Gene, and good morning. Fourth quarter results were again excellent with acceleration in our contract value growth rate and strength in revenue, EBITDA, and free cash flow. As our 2022 guidance highlights, we expect double-digit FX-neutral revenue growth and a margin of 20%, even while increasing our hiring and restoring costs to invest for the future.

Our financial performance for the full-year 2021 included total contract value up 16%, total revenue growth of 15%, EBITDA growth of 57%, diluted adjusted EPS of $9.22, up 89%, and free cash flow of $1.3 billion, up 53% year-over-year.

Fourth quarter revenue was $1.3 billion, up 17% year-over-year as reported and 18% FX-neutral. In addition, total contribution margin was 69%, up nearly 100 basis points versus the prior year. EBITDA was $307 million, up 25% year-over-year and up 26% FX-neutral. Adjusted EPS was $2.99, up 88%, and free cash flow in the quarter was $214 million, down 10% against a very tough compare.

Research revenue in the fourth quarter grew 17% year-over-year as reported and on an FX-neutral basis. We drove both strong retention and new business in the quarter. Fourth quarter Research contribution margin was 74%, up almost 180 basis points versus 2020. Higher than normal contribution margins reflect improved operational effectiveness, continued avoidance of travel expenses, and lower than planned head count. For the full year 2021, Research revenues increased by 14% on a reported basis and 12% FX-neutral.

The gross contribution margin for the year was 74%, up more than 190 basis points from the prior year. Total contract value, or total CV, was $4.2 billion at the end of the fourth quarter, up 16% versus the prior year. CV growth outperformed our expectations throughout the year. Quarterly net contract value increase, or NCVI, was a very strong $266 million. Quarterly NCVI is a helpful way to measure contract value performance in the quarter, even though there is notable seasonality in this metric.

Looking at the quarterly NCVI across 2021, we generated more NCVI earlier in the year than we have historically. We also had a higher-than-normal level of NCVI earlier in the quarters than usual. Both of these timing factors contributed to strong subscription research revenue in 2021. Total CV growth was led by the manufacturing, services, and technology industries.

Looking at the roles we serve, technology research, which is sold by our GTS team, accelerated to 14% growth. And all of our GBS practices achieved double-digit growth rates, with the majority growing more than 20% year-over-year. Growth in the fourth quarter was led by the supply chain, HR, and sales practices.

Global Technology Sales contract value was $3.4 billion at the end of the fourth quarter, up 14% versus the prior year. GTS had quarterly NCVI of $205 million in the quarter. While retention for GTS was 106% for the quarter, up almost 790 basis points year-over-year. GTS new business was up 17% versus last year. GTS quota-bearing head count increased by over 80 salespeople sequentially to 3,072. We are seeing the positive effects of our investments to ramp up recruiting capacity, combined with moderating attrition. We continue to be successful recruiting new salespeople. We expect to see ongoing expansion of the GTS sales team into 2022 and beyond. For 2022, we are planning to grow GTS head count at double-digit rates. A regular full set of GTS metrics can be found in the appendix of our earnings supplement.

Global Business Sales contract value was $874 million at the end of the fourth quarter, up 24% year-over-year, which is above the high end of our medium-term outlook of 12% to 16%. GBS CV increased $61 million from the third quarter. While retention for GBS was 115% for the quarter, up about 14 percentage points year-over-year, GBS new business was up 16% compared to last year, reflecting strong growth across the full portfolio. GBS quota-bearing head count increased sequentially and is up 10% year-over-year. For 2022, we are planning to increase GBS head count at a double-digit growth rate. As with GTS, our regular full set of GBS metrics can be found in the appendix of our earnings supplement.

Conferences revenue for the fourth quarter was $107 million, with reported growth of 15% and 16% FX-neutral. Contribution margin in the quarter was 61%. You will recall that in 2020 we ran almost all of our conferences in the fourth quarter, while in 2021, our conferences took place throughout the year. This plus in-person conference cancellation costs recorded in the quarter resulted in a lower contribution margin year-over-year. We held 13 virtual conferences in the quarter. We held over 140 Evanta meetings, with a mix of both virtual and in-person experiences.

For the full year 2021, revenue increased 78% both on a reported and FX-neutral basis. Gross contribution margin was 62%, up more than 14 percentage points from 2020. During 2021, we incurred costs which would have allowed us to run in-person destination conferences had pandemic conditions permitted.

Fourth quarter Consulting revenues increased by 26% year-over-year to $118 million. On an FX-neutral basis, revenues were up 27%. Consulting contribution margin was 39% in the fourth quarter, up more than 12 percentage points versus the prior-year quarter with strong revenue and the mix benefit from contract optimization. Labor-based revenues were $87 million, up 19% versus Q4 of last year and up 21% on an FX-neutral basis. Backlog at December 31 was $117 million, increasing 13% year-over-year on an FX-neutral basis after another strong bookings quarter.

Our contract optimization business was up 44% on both the reported and 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 is up 11% on a reported basis and 9% on an FX-neutral basis. Gross contribution margin of 38% was up over 700 basis points from 2020. Consolidated cost of services increased 14% year-over-year in the fourth quarter, both on a reported and FX-neutral basis. The increase was in part due to higher compensation costs and conference expenses.

SG&A increased 27% year-over-year in the fourth quarter on a reported and FX-neutral basis. SG&A increased in the quarter as a result of a $50 million non-recurring real estate charge, higher variable compensation resulting from strong sales and overall business performance, increased hiring across the company, and conference cancellation costs. SG&A without the facilities-related charge would have increased 17% year-over-year and would have been 47% of revenue in the quarter. We expect SG&A expenses to increase over time as our hiring across the business continues to ramp.

The real estate charge was a result of our decision to reduce our real estate footprint as we shift to a virtual-first workplace strategy. We expect about $20 million of annual benefit beginning in 2022 as a result of the charge. The non-recurring non-cash charge is excluded from EBITDA. We continue to evaluate our real estate portfolio, which may result in additional charges in the future.

For the full year, cost of services increased 7% on a reported basis and 6% on an FX-neutral basis. SG&A increased 6% on a reported basis and 4% on an FX-neutral basis in 2021. EBITDA for the fourth quarter was $307 million, up 25% year-over-year on a reported basis and up 26% FX-neutral. EBITDA for the full year was $1.29 billion, a 57% increase over 2020 on a reported basis and up 54% FX-neutral.

Depreciation in the quarter was about flat versus 2020. Net interest expense, excluding deferred financing costs in the quarter, was $30 million, up $5 million versus the fourth quarter of 2020 due to an increase in total debt balances. The Q4 adjusted tax rate, which we use for the calculation of adjusted net income, was negative 8.3% for the quarter and included a benefit from the intercompany sale of intellectual property.

The tax rate for the items used to adjust net income was 24.1% for the quarter. The adjusted tax rate for the full year was 18.1%. Adjusted EPS in Q4 was $2.99. This excludes of non-recurring real estate charge. For the full year, adjusted EPS was $9.22. EPS growth for the year was 89%. The weighted average fully diluted share count for the fourth quarter was 83.8 million. Operating cash flow for the quarter was $235 million, down 10% compared to last year's quarter, which was very strong. On a year-over-year basis, the timing of cash taxes had a sizable impact.

Cash flow in the quarter includes $17 million of insurance proceeds from 2020 event cancellations. CapEx for the quarter was $21 million, down 8% year-over-year. Lower CapEx is largely a function of lower real estate investments.

Free cash flow for the quarter was $214 million. Free cash flow growth continues to be an important part of our business model, with modest CapEx needs and upfront client payments. Free cash flow as a percent of revenue or free cash flow margin was 23% on a rolling four-quarter basis adjusted for the $167 million of insurance proceeds received during the year. Free cash flow was well in excess of both GAAP and adjusted net income.

At the end of the fourth quarter, we had $756 million of cash. Our December 31 debt balance was $2.5 billion. Our reported gross debt to trailing-12 month EBITDA was under 2 times. Our expected free cash flow generation and excess cash remaining on the balance sheet provide ample liquidity to deliver on our capital allocation strategy of share repurchases and strategic tuck-in M&A. We repurchased around $1.7 billion in stock during 2021, including about $200 million in the fourth quarter. We repurchased over 7 million shares, reducing our net share count by around 7%.

Earlier this month, the board again increased our share repurchase authorization. We now have around $1 billion available. As we continue to repurchase shares, we expect our capital base will shrink. This is accretive to earnings per share and combined with growing profits, also delivers increasing returns on invested capital over time.

Before providing the 2022 guidance details, I want to discuss our base level assumptions and planning philosophy for 2022. 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. They recognize how Gartner can help. We have demand in good times and bad.

Our 2021 performance benefited from several factors, including [ph] QBH tenure mix (17:59), NCVI phasing within the quarters and the year, record retention rates, and strong non-subscription growth. We're not assuming all of those persist at the same levels through 2022. We've taken a balanced approach based on historical trends and patterns, which we've reflected in the guidance. If NCVI phasing, retention rates, and non-subscription growth perform closer to the way they did in 2021, there would be upside to our guidance.

In addition, our teams are focused on driving growth faster than what's embedded in the guidance. For Conferences, we are basing our guidance on being 100% virtual for destination conferences for the full year. Destination conferences involve travel, often international and overnight stays for our clients, which can be affected by pandemic conditions and rules.

As with 2021, we are operationally planning to relaunch in-person destination conferences when conditions permit. For our local one day Evanta events, we expect to run most of them in-person while continuing to run some virtually. As a reminder, we had about $10 million of extra revenue in the first quarter of 2021 related to extending the period for 2020 conference ticket use.

In addition, a smaller portion of Research contracts will be attributed to the Conferences segment in 2022. Adjusted for these two items, Conferences revenues would be increasing by about 10%. 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.

Our base level assumptions for consolidated expenses reflect significant head count increases during the year to support current and future growth. We have modeled higher labor costs and T&E well above 2021 levels, as we've previously indicated. We will also have higher commissions costs during 2022 as a result of the very strong selling performance we delivered in 2021. Finally, we continue to invest in our tech, both client facing and internal applications as part of our innovation and continuous improvement programs.

Our guidance for 2022 is as follows. We expect Research revenue of at least $4.55 billion, which is reported growth of at least 11% and FX-neutral growth of at least 12%. We expect Conferences revenue of at least $200 million, which is down about 7%, but up about 10% adjusted for the items I mentioned earlier. We expect Consulting revenue of at least $425 million, which is up 2% reported and 3% FX neutral. The result is an outlook for consolidated revenue of at least $5.175 billion, which is reported growth of at least 9% and FX-neutral growth of 11%.

Based on current foreign exchange rates and business mix, the consolidated growth includes an FX headwind of about 150 basis points. We expect full-year EBITDA of at least $1.035 billion, which is a decline of about 20%. Based on our revenue and EBITDA guidance, we expect margins of 20%. This is based on conferences running virtual-only and also includes an FX headwind of about 150 basis points.

We expect our full year 2022 adjusted net interest expense to be $115 million. We expect an adjusted tax rate of around 22% for 2022. As a reminder, the tax rate can fluctuate from quarter to quarter. Our EPS guidance is based on $83 million weighted average shares outstanding, which reflects repurchases to offset dilution of equity award issuances. We expect 2022 adjusted EPS of at least $6.74. For 2022, we expect free cash flow of at least $850 million. It's also important to note that we've revalued our contract value at current year FX rates, which had a modest overall impact.

Our 2021 ending contract value at 2022 FX rates is $3.3 billion for GTS and $865 million for GBS. Details are included in the appendix of the earnings supplement. All the details of our full-year guidance are included on our Investors Relations site. Finally, we expect to deliver at least $285 million of EBITDA in Q1 of 2022.

We had a strong year with momentum across the business, contract value growth accelerated, and we had very strong EBITDA, revenue, and free cash flow. We've been increasing hiring across the business to drive future growth. We've put our capital to work, repurchasing almost $1.7 billion worth of our stock this past year.

Looking out over the medium term, our financial model and expectations are unchanged. With 12% to 16% Research CV growth, we will deliver double-digit revenue growth. With gross margin expansion, sales cost growing in line with CV growth over time and G&A leverage, we can modestly expand margins from a normalized 2021 level. 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 SECTION

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

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

Q

Yeah. Thank you. Good morning. Would just love some additional perspective on kind of the delta between the constant currency Research growth you're assuming and the 16% contract value exit rate. And I want to recognize you have the at least methodology. You have the tougher comps. And then beyond that, I guess, I just want to see, are there any signs of the demand environment slowing or any sort of slowing because your Q4 operational metrics all look really good to me exiting the year. Or is it all about those other factors as well as the [ph] variant (23:55) sectors that you're calling out on NCVI phasing, non-subs, tenure mix, all of those factors that you referenced?

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

A

Hey, Jeff, it's Gene. I'll get started with the second part of your question, which is, in terms of demand, we're seeing what I would characterize as normal demand and it's consistent with Q4. So demand is very good overall.

And I'll turn it over to Craig to answer the more technical aspects.

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

A

Yes. Thanks, Gene, and good morning, Jeff. Sure. So, when you step back and look at the relationship between CV growth and revenue, obviously, in a steady-state environment, those two things are pretty close. But when we look at our last couple of years, in 2020, CV grew 4%, but Research revenue – or actually Research revenue in 2021 grew 13%. CV in 2021 grew 60% and we're guiding to Research revenue growth of 12% FX neutral. Again, as I mentioned, in a typical steady-state environment, CV in the following year Research growth rates will generally be similar, not necessarily right on top of each other, but relatively similar.

As we look at 2022, most, but not all of our 2022 revenue dollars are driven by our year-end 2021 contract value dollars. As we mentioned in the prepared remarks, and as you alluded to, 2021 did benefit from the tenure mix. The NCVI phasing, not only the quarterly NCVI phasing, but the NCVI phasing within the months of the quarter, we had record retention rates. And we also mentioned really, really strong non-subscription growth. And so all those things worked in our favor to get a pretty strong revenue yield in fiscal year 2021. And we're not assuming all of those persist at the same levels that we saw in 2022.

And so while CV growth in 2021 was at the high end of our medium-term guidance, we're not assuming that we stay all the way at the top of that medium-term guidance. And so essentially, what we've done is we've taken a balanced approach based on historical trends and patterns, and we've reflected that in the guidance. As we mentioned, our teams are focused on driving growth that's faster than what's embedded in the guidance. And as we also mentioned in our prepared remarks, if we do perform closer to those 2021 levels on retention rates, NCVI phasing, et cetera, there can potentially be upside to the initial guidance as well.

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

Q

Great. I appreciate all the detail. And then on margin, the assumed 20%, I guess, how normalized is that number as a baseline to grow off of? And I guess the factors that come to mind on the negative side would be is T&E expense assumed to be fully normalized and GTS sales head count growth, I think, is probably assumed to be accelerated as the year unfolds. So, is that fully normalized or an incremental headwind? On the potential for uplift, can you give us any perspective on if Conferences are in-person, what the incremental margins on that incremental revenue is since you've been planning to operationally have them and have that capacity in the expense base? Thank you.

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

A

Yes. Sure, Jeff. That's actually three questions buried in one, but I'll attempt to tackle them. In terms of the baseline margins or the normalized level of margins, the way to think about it for 2022 is a normalized level would be around 19% to 20%. And you mentioned a lot of the various puts and takes that lead into that range, T&E being one of them, facilities being one of them, the speed at which we can hire and bring people on board being one of them. But think of normalized margins in the 19% to 20% range as being the baseline from a normalized level of what 2021 should look like.

I think as we look to the future, there are really two key points as we think about that normalized level. One, we believe that moving forward, we can grow both the top line at double-digit growth rates and modestly expand margins over time. And number two, the 2021 reported margins are not the starting point. Again, the starting point should be that normalized level of 19% to 20%.

On the Conferences side, we are being extraordinarily agile as we attempt to be ready to return to in-person destination conferences when conditions permit. As we think about the incremental revenue and the incremental flow-through on that, our current planning assumption is that because we want to change the experience a bit and have more space per person, if you will, that the incremental margins will not be the same as they were pre pandemic. And so the way we are thinking about it right now is that incremental revenue for Conferences, if we're actually able to run in-person destination conferences, would be in the 20% to 25% range in 2022.

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

Q

Very helpful. Thank you.

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

Toni Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Thanks so much. You touched on this a few times in the prepared remarks, but just hoping for an update on recruiting capacity, talent pipeline and whether you've seen any impact on compensation for attracting talent. I know you talked about growing head count by double digits for both GTS and GBS. And just wondering if that contemplates that the hiring environment and attrition normalizes and if you've seen any normalization in like attrition, for example, so far? Or is it still really challenging to hire as many people as you'd like?

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

A

Hey, Toni, it's Gene. So, we are a people business. People have been the most important in our business, period. And so we pay a lot of attention to it. And obviously, as a growth company, recruiting and turnover are really important as well.

So we've been – throughout 2021, we grew our recruiting capacity so that we could get – make sure we can keep hiring associates to support our growth going forward. That's going very well. And in fact, we found that we have a very – this is purposeful, we have a very good value proposition in the market for candidates looking for jobs.

And so, our ability to hire is actually quite good, we're quite attractive and we've been very pleased with our ability to hire. We're continuing to ramp up and we'll continue to ramp recruiting capacity because we've got to both do catch-up hiring from last year for all the great business we sold, and then also hire people so that we can support growth in 2023 as well. Our pipeline looks really good. Again, our actual recruiting results are doing quite well as well.

In terms of compensation, we look very carefully at each of the markets we're in. We're in a number of – a large number of markets globally. Inflation and wage inflation varies widely among those markets. We have modeled that very carefully because we want to make sure we're competitive and build that into our operating plan and the guidance you've seen.

Toni Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. And wanted to ask a follow up on the margin pacing. So, should we be thinking about it as the early part of the year has higher EBITDA margins, because the hiring will ramp through the year, and so, the expense on that for the total pool sort of goes up as the year goes on? And I guess, T&E can probably ramp up very, very quickly. But just help us think about how margins should look through the year.

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

A

Yeah. Good morning, Toni, it's a great question. Yes, I think the way you described it is the right way to think about it. Obviously, we actually – to Gene's point, we hired a lot of people in the back half of the year, both in sales but also in Research, in service and lots of other areas as well. But I do think that will continue to ramp over the course of the year. And I think T&E will continue to ramp over the course of the year as well. And so probably a little bit higher margin in the first couple of quarters and then moderating in the back half of the year to get to that full year number of around 20%.

Toni Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Terrific. Thanks so much.

Operator: Our next question comes from George Tong with Goldman Sachs. Your line is open.

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

Q

Hi. Thanks. Good morning. I wanted to dive a little bit deeper into the head count expectations for Research. Can you describe which between GTS and GBS you're expecting to grow head count faster in 2022? And then going forward, if you would expect to grow one of the two, GBS, for example, faster in terms of head count than the other?

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

A

Yeah. Hey, George. So, the head count is going to grow in line with our contract value growth over time. And so since GBS grew faster in 2021, in order to fulfill that – all the business we sold, we're going to grow the head count a little faster in GBS than we would at GTS, just purely because of the differential growth rates. And that will continue over time.

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

Q

Great. And then I had a follow-up question on the margins. You mentioned normalized margins for 2022 are going to be 19% to 20%. Would you view 19% to 20% as the new low watermark? Or do you – are you viewing 20%, which is the guidance for 2022, as the new low watermark going forward looking beyond this year?

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

A

Yeah. I would consider, George, 19% to 20% to be the level at which we modestly expand our margins on an annual basis moving forward. Again, as I mentioned earlier, our goal, and we believe this and we are aiming towards this, is that we want to grow the business top line double-digit growth rates, modestly expand margins over time. And again, that modest expansion will come off of that 19% to 20% baseline.

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

Q

Got it. Thank you.

Operator: Our next question comes from Andrew Nicholas with William Blair. Your line is open.

Andrew Nicholas
Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Thanks for taking my questions. My first question would be just on the virtual-first approach and how hiring in that manner is affecting recruiting, your confidence in being able to hire at a double-digit pace in this labor market. And then to the extent it could be a potential offset to compensation pressures if you're able to kind of target salespeople in different areas that are potentially lower costs. Is that part of the idea here? Just your thoughts on kind of virtual-first in the recruiting side.

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

A

Hi, Andrew. So the virtual-first is a core part of our people strategy. In our talent market, we found that both our current associates as well as prospective associates like the idea of an environment where they can work remotely when it makes sense to work remotely, but there's still a great office space where they can work collaboratively as well. And so our virtual-first strategy is about having that mix where if you're – for example, if you're a software engineer and you're writing code, you might just as – you're not really interacting with other people, you may be more effective actually working at a home office than in a normal office environment. Conversely, if you're working on sort of a product development team that's very collaborative and needs to be very agile and working together across multiple functions on a daily basis, you may work more in the office then.

And so, what our virtual-first strategy is basically having kind of the best of both, which is things that make sense to do remotely, you can do remotely; things that make sense to do in the office where you collaborate or developing people, things like that, you actually do it in the office. We found that actually make – in our industry and with our talent market, that's very attractive to, as I said, both our current associates and when we talk to prospective associates as well.

And so in terms of hiring, that's been very effective. In terms of developing people, we've developed new approaches so that we can engage our associates and develop them in a remote environment.

I'll also on that point, even prior to pandemic, a large portion of our associates were remote as well. So all of our field sales people were remote. Many of our service people, remote. So this isn't new to us, actually. We just have expanded it to be broader than it was pre pandemic. So we already had experience with it.

In terms of – so, we're being very successful in hiring in that kind of environment and developing people. In terms of compensation, basically, we hire people that have the skills where we need them. And part of our strategy is to make sure we hire in attractive labor markets, but it's really more about what are the right skills to meet our clients. And that could be – include things like language skills. We try to serve all of our clients in their native languages, for example, with our service people and with our salespeople. And so we look at the mix of both the skills we need, the talent we need and the cost of hiring and balance all those things together to determine where we actually hire people.

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

And Andrew, the one other thing I'd add is over the back half of the year, we actually made a ton of progress in terms of starting to catch up and starting to make sure that we are hiring to the right levels that we need to support the business. And it's a combination of adding the recruiting capacity which we talked about and which we've been doing and are getting yield from, and also seeing moderating attrition as well. So the combination of the increase in recruiting capacity and the moderating attrition allowed us to really – really start to make great progress in getting people on board over the back half of the year.

Andrew Nicholas
Analyst, William Blair & Co. LLC
Q

Got it. Thank you. And then for my follow-up, just – and I apologize if I missed it, could you speak to what's driving the NCVI phasing intraquarter or that difference relative to prior periods, if you have any sense for what that is? Thank you.

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

Yeah. No, it's a really good question. So the dynamics we saw in 2021 were very different than what we had experienced pre-pandemic, in the 10 years leading up to pre-pandemic where we had seen pretty consistent NCVI contribution both month one, month two, month three in terms of that mix and then also Q1, Q2, Q3, Q4. And if you actually just look at even the headline results for 2021, you'll see that, in particular, Q2 and Q3 were stronger than the historical proportionality of overall annual NCVI.

And I think there are a number of factors driving that. One being, we were coming out of very pandemic-impacted year in 2020 and things started to get better from a market perspective as well. And so I think operating budgets opened up, people had visibility into what was happening and people had real problems and they knew Gartner could help, and so that certainly contributed to our ability to drive that NCVI phasing.

And I think, look, operationally, our sales teams recognize that getting deals in the door sooner is great for everybody. Locking them up in an uncertain environment is always a better thing to do because you never know what can happen or what danger is lurking around the corner, as they say. And again, the teams did great work on making that happen.

As we look at 2021 and we compare it to the decade previous, we didn't want to assume that all of a sudden we were going to revert exactly to 2021 levels across the board. And so again, just balancing that historical perspective with what we experienced in 2021 is how we built the plan for 2022.

Andrew Nicholas
Analyst, William Blair & Co. LLC
Q

Understood. Thank you.

Operator: [Operator Instructions] Our next question comes from Hamzah Mazari with Jefferies. Your line is open.

Mario Cortellacci
Analyst, Jefferies LLC
Q

Hi. This is Mario Cortellacci filling in for Hamza. Maybe you can just start with how should we think about your market share in the GBS business today and in your verticals, obviously, supply chain, marketing, finance, HR? And maybe you can compare that to where the market share sits today for the GTS business?

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

A

Yeah. Hi, Mario. So, it's – the way – I guess the best way to think about it would be if you look at like the total amount of contract value or the total amount of seats in GTS versus in GBS. So in GTS, it's a business that's growing quite rapidly, growing double-digit rates and is much larger than each of the individual practices. In many cases, it's more than 10 times larger than the biggest practices in GBS, for example, HR or finance.

And so, the opportunity in GBS for each of those practices is to be as big – HR, finance, sales, customer service, each of those practices has the potential to be as big as our IT and user business. So they can grow more than 10 times as big each one of them. And so the growth opportunity there is just enormous.

And so, if you want to think about share in some way, it's extremely small compared to GTS, which still GTS again, has a huge untapped market potential in and of itself. So the runway for each of the practices in GBS is enormous and is comparable to what we have at the end user side of GTS.

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

A

And Mario, just to put it in sort of quantitative perspective as well, just to add to that, when we look at our available market opportunity, we see a roughly $55 billion market in the markets that we sell to in GTS. And we've got $3.2 billion, $3.3 billion of that.

On the GBS side, we see a market opportunity of close to $145 billion, and we've got under $1 billion of it. So – and again, as we think about these markets, it's not like we have to steal share of wallet from someone else. We view these as very large, untapped market opportunities for us to go after. And again, that's why we really do believe that we can grow this business at consistent double-digit growth rates into the future, add salespeople, et cetera, because of that – the market dynamics and the size of the market opportunity.

Mario Cortellacci
Analyst, Jefferies LLC

Q

Great. Thank you. And then just for my follow-up, within the Consulting business, maybe you can just talk to which verticals or businesses inside of that business have performed better than others? And could you update us on what the competitive dynamic looks like there today? I don't know whether you compete with Robert Half's Protiviti business or any of the other big fours there.

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

A

So, yeah, so, Mario, in our Consulting business, we're actually highly differentiated. The role of our Consulting business is – the way to think about it as an the extension of our Research business in that there are some clients that want more in-depth and longer engagements with us than we have our Research business. In Research, we have our written research and other kinds of tools and things. In addition to that, we have the ability to talk to an analyst, typically for a half an hour at a time.

Some companies, particularly large companies, would like more in-depth help from Gartner. And so, that's the role of our Consulting business, and it's a very important role and supports our overall business. And so, there's no – it's really – think about it as supporting our overall Research business and fulfilling that need for much more in-depth help than you would get from just reading our documents and having shorter calls with analysts.

Mario Cortellacci
Analyst, Jefferies LLC

Q

Understood. Thank you very much.

Operator: There are no further questions. I'd like to turn the call back over to Gene Hall for any closing remarks.

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

So as you heard in today's call, we performed well in 2021. We also expect to deliver a strong performance in 2022. we have a compelling value proposition and a large untapped market opportunity. Over the longer term, we're well positioned to drive strong top line growth with modest margin expansion from our normalized 2021 levels. We generate significant free cash flow in excess of net income, and we'll deploy that cash flow to return capital to our shareholders through share repurchases and to make strategic tuck-in acquisitions.

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

Operator: This concludes the program. You may now disconnect. Everyone, have a great day.