S&P Global
Market Intelligence

Gartner, Inc. NYSE:IT

FQ4 2023 Earnings Call Transcripts

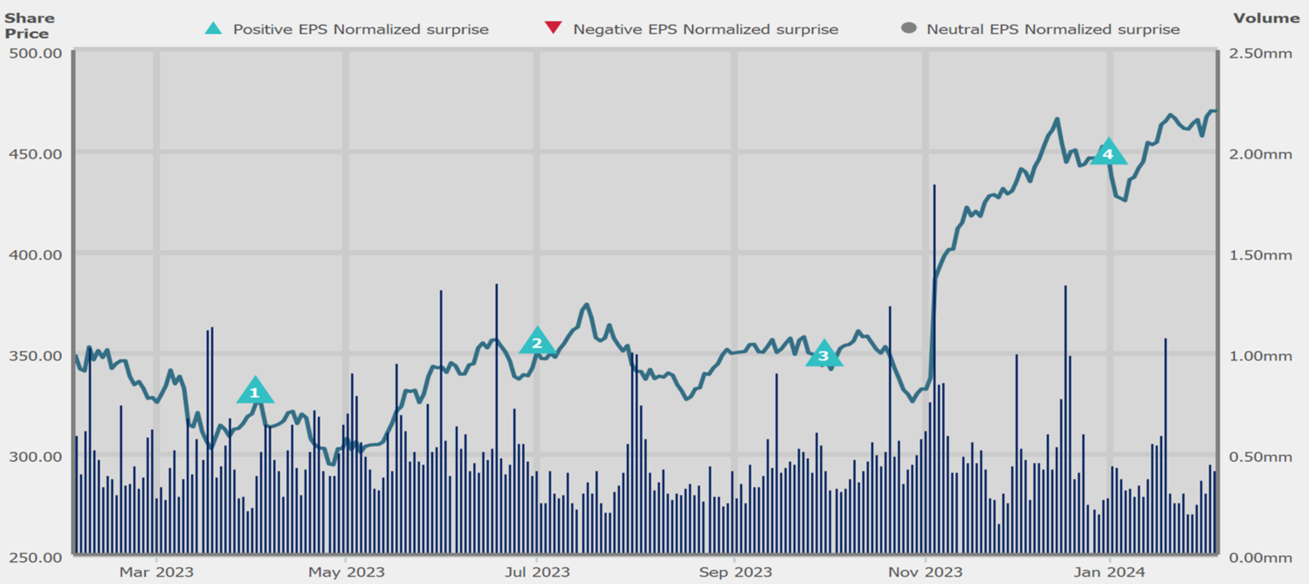
Tuesday, February 06, 2024 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.83	3.04	▲7.42	2.66	11.12	11.33	▲1.89	11.96
Revenue (mm)	1586.97	1586.10	▼(0.05 %)	1488.22	5908.34	5900.00	▼(0.14 %)	6359.16

Currency: USD
Consensus as of Jan-22-2024 10:06 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	2.06	2.88	▲39.81 %
FQ2 2023	2.50	2.85	▲14.00 %
FQ3 2023	1.96	2.56	▲30.61 %
FQ4 2023	2.83	3.04	▲7.42 %

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Executive VP & CFO

David Cohen
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Eugene A. Hall
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Presentation

David Cohen
Group Vice President of Investor Relations

Good morning, everyone. Welcome to Gartner's Fourth Quarter 2023 Earnings Call. I'm David Cohen, SVP of Investor Relations. [Operator Instructions] After comments by Gene Hall, Gartner's Chief Executive Officer; and Craig Safian, Gartner's Chief Financial Officer, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

This call will include a discussion of fourth quarter 2023 financial results and Gartner's outlook for 2024 as disclosed in today's earnings release and earnings supplement, both posted to our website, investor.gartner.com. On the call, unless stated otherwise, all references to EBITDA are for adjusted EBITDA, with the adjustments as described in our earnings release and supplement. All contract values and associated growth rates we discuss are based on 2023 foreign exchange rates and exclude contributions related to the first quarter divestiture and the 2022 Russia exit. All growth rates in Gene's comments are FX-neutral unless stated otherwise. All references to share counts are for fully diluted weighted average share counts unless stated otherwise. Reconciliations for all non-GAAP numbers we use are available in the Investor Relations section of the gartner.com website.

As set forth in more detail in today's earnings release, certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties, including those contained in the company's 2022 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
CEO & Director

Good morning, and thanks for joining us today. Gartner drove another strong performance in the fourth quarter. We delivered high single-digit growth in contract value. Revenue, EBITDA, adjusted EPS and free cash flow came in above expectations.

Gartner delivers incredible client value in any macroeconomic environment. In 2023, the world experienced multiple disruptions. They impacted enterprises in dramatically different ways. For example, high interest rates affected capital-intensive industries and financial institutions such as regional banks. High inflation rates had an outsized effect on industries such as health care. Geopolitical polarization and conflict drove increases in military and defense spending while affecting supply chains. More shifts in how and where people work affected real estate, live events and entertainment and other industries. Cybersecurity attacks became even more frequent, were getting stronger and more disruptive. And we saw a significant leap in the capabilities of artificial intelligence, or AI, which fueled even more complexity.

We serve leaders in every enterprise, across every industry and every geography. They know they need help, and they know Gartner is the best source for the help they need. Gartner delivers actionable objective insight that drive smarter decisions and stronger performance on an organization's mission-critical priorities. We guide the leaders who shape the world. Our insights often make the difference between success and failure, the leaders we work with and the enterprises they serve.

As we move into 2024, our ability to execute operational best practices consistently is the strongest it's ever been. We have the lowest proportion of open positions ever. Our recruiting capability and capacity are world-class. We have a strong associate value proposition. And our teams have higher tenure than in 2023, which will allow us to drive strong performance well into the future.

Research continues to be our largest and most profitable segment. Our market opportunity is vast across all sectors, sizes and geographies. Our business remains resilient in a complex external environment.

Through relentless execution of proven practices, we're able to deliver unparalleled value to our clients. In the fourth quarter, we helped clients with a wide range of topics, including cybersecurity, data analytics, artificial intelligence, remote work, cost optimization and more.

Research revenue grew 5% in Q4. Subscription revenue represented more than 75% of our consolidated global revenue in 2023. We delivered subscription revenue growth of 8% on an organic basis in the fourth quarter. Total contract value growth was 8%. Across GTS and GBS, contract value from enterprise function leaders grew at double-digit rates. New business with enterprise function leaders also grew at double-digit rates.

Gartner serves executives and their teams through distinct sales channels. Global Technology Sales, or GTS, serves leaders and their teams within IT. GTS also serves leaders at technology vendors, including CEOs, Chief Marketing Officers and senior product leaders. GTS contract value grew 6%, led by growth with IT and enterprise function leaders.

GTS sales to leaders and technology vendors continued to be affected by technology sector dynamics. Exiting the year, we began to see some improvement. New business with tech vendors were at high single digits. We expect new business to lead retention and contract value growth.

Global Business Sales, or GBS, serves leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, legal, sales and more. GBS contract value grew 13%. GBS new business was up double digits.

Gartner Conferences deliver extraordinarily valuable insights to an engaged and qualified audience. 2023 was the first full year of in-person conferences since 2019. We had a great year, and we drove a strong finish in the fourth quarter. In Q4, we held some of our largest destination conferences, including IT Symposium in Orlando and Barcelona, and ReimagineHR in Orlando. These conferences were spectacular. Across all our destination conferences, attendance was up year-over-year, with many at or near capacity. Looking ahead to 2024, advanced bookings continue to be very strong and feedback continues to be excellent.

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 8% for the full year. We saw growth in labor-based consulting and record results in contract optimization for the full year.

We are introducing 2024 guidance which we view as achievable across a wide range of economic and geopolitical scenarios with opportunity for upside.

In closing, Gartner achieved another strong quarter of growth. We deliver incredible client value whether our clients are struggling, thriving or anywhere in between. We're exceptionally agile and continuously adapt to the changing world, and we know the right things to do to be successful in any environment. Looking ahead, we're well positioned to continue our sustained record of success far into the future.

Our client value proposition and addressable market opportunity will allow us to drive long-term sustained double-digit revenue growth. We expect margins will expand modestly over time, and we generate significant free cash flow well in excess of net income. As we invest for future growth, we'll return significant levels of excess capital to our shareholders. This reduces shares outstanding and increases returns over time.

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

Craig W. Safian
Executive VP & CFO

Thank you, Gene, and good morning. Fourth quarter revenue, EBITDA, adjusted EPS and free cash flow were better than expected as we continue to execute very well in a complex environment.

Our financial performance for the full year 2023 included global contract value and consolidated revenue growth of 8%, EBITDA of $1.5 billion, diluted adjusted EPS of $11.33 and free cash flow of $1.1 billion.

We are introducing 2024 guidance which we view as achievable across a wide range of economic and geopolitical scenarios, with opportunity for upside.

Fourth quarter revenue was $1.6 billion, up 5% year-over-year as reported and 4% FX-neutral. In addition, total contribution margin was 67%. EBITDA was $386 million, ahead of our guidance primarily as a result of disciplined cost management. Adjusted EPS was $3.04 and free cash flow was $196 million.

We finished the quarter with 20,237 associates, up 5% excluding the 2023 divestiture and about the same as Q3. We have a great team across Gartner, driven by a very compelling associate value proposition. Moving into 2024, we are in an excellent position from a talent and tenure perspective.

Research revenue in the fourth quarter grew 6% year-over-year as reported and 5% FX-neutral. Subscription revenue grew 8% on an organic FX-neutral basis. Non-subscription revenue performance in the quarter reflects a shift to higher-quality traffic. While this action has a short-term effect on revenue, we expect it will drive higher prices and increase revenue over time.

Fourth quarter Research contribution margin was 74%, consistent with the prior year period as we have caught up on hiring and returned to the new expected levels of travel. For the full year 2023, Research revenues increased by 6%, both as-reported and FX-neutral. The gross contribution margin for the year was 74%.

Contract value, or CV, was $4.8 billion at the end of the fourth quarter, up 8% versus the prior year. CV growth is FX-neutral and excludes the first quarter 2023 divestiture. We expect new business to be a leading indicator for retention and, in turn, contract value growth. We had the highest 1 month of new business dollars ever in December 2023.

For the fourth quarter, CV from enterprise function leaders across GTS and GBS grew at double-digit rates. New business with enterprise function leaders increased double digits as well. CV from tech vendors about flat versus the prior year and up sequentially. Tech vendor CV continued the quarterly improvement we saw in Q3. Tech vendor new business was up high single digits in Q4, marking the first year-over-year increase in 2023. Quarterly net contract value increase, or NCVI, was $180 million. As we've discussed in the past, there is notable seasonality in this metric.

CV growth was broad-based across practices, industry sectors, company sizes and geographic regions. Across our combined practices, the majority of the industry sectors grew at double-digit or high single-digit rates, led by the energy, manufacturing and public sectors. We had high single-digit growth across almost all of our enterprise-size categories. The small category, which has the largest tech vendor mix, grew modestly. We also drove double-digit or high single-digit growth in the majority of our top 10 countries.

Global Technology Sales contract value was $3.7 billion at the end of the fourth quarter, up 6% versus the prior year. GTS CV increased $134 million from the third quarter. Wallet retention for GTS was 101% the quarter, reflecting net growth even before the addition of new clients. In the fourth quarter, IT enterprise function leaders' wallet retention was consistent with historical GTS levels. GTS new business increased 12% versus last year. New business with IT enterprise function leaders increased mid-teens compared to 2022. New business with tech vendors increased high single digits in the quarter.

GTS quota-bearing headcount was about flat year-over-year. With the dynamic territory planning we introduced a few years ago, the catch-up hiring we did last year and our teams moving up the tenure curve, we're well positioned for growth moving into 2024. Operationally, we are continuously allocating resources to the best near-term opportunities even as we ensure we are well positioned to capture the large addressable market opportunity over time. Our regular full set of GTS metrics can be found in the earnings supplement.

Global Business Sales contract value was $1.1 billion at the end of the fourth quarter, up 13% year-over-year. The majority of our GBS practices grew at double-digit rates. Growth was led by supply chain, legal and HR. GBS CV increased $46 million from the third quarter. Wallet retention for GBS was 107% for the quarter, reflecting strong net growth with our existing clients. GBS new business was up 13% compared to last year. GBS quota-bearing headcount was up 8% versus the fourth quarter of 2022. This excludes headcount associated with the Q1 divestiture.

As with GTS, a regular full set of GBS metrics can be found in the earnings supplement. As we do each year at this time, we've provided 2 years of quarterly historical contract value data updated to 2024 FX rates in the appendix of the earnings supplement.

Conferences revenue for the fourth quarter was $214 million, up 14% year-over-year. Contribution margin in the quarter was 50%, consistent with typical seasonality. We held 11 destination conferences in the quarter, all in-person. For the full year 2023, we delivered an all-time high revenue of $505 million, which was an increase of 30% on a reported basis and 29% FX-neutral. Gross contribution margin was 50%.

Fourth quarter Consulting revenues were $128 million compared with $138 million in 2022, when we saw a record performance in the contract optimization business. Consulting contribution margin was 27% in the fourth quarter, affected by revenue mix and growth hiring. Labor-based revenues were $99 million, up 3% versus Q4 of last year as-reported and on an FX-neutral basis.

Backlog at December 31 was $162 million, increasing 21% year-over-year on an FX-neutral basis with continued booking strength. We delivered $29 million of contract optimization revenue in the quarter. This part of our business is highly variable. For the second half of 2023, revenues were $62 million, up from the second half of 2022, when we delivered our largest-ever quarter in Q4. Full year Consulting revenue was up 7% on a reported basis and 8% FX-neutral. Gross contribution margin was 35% compared to 39% in 2022.

Consolidated cost of services increased 11% year-over-year in the fourth quarter as reported and 10% on an FX-neutral basis. The biggest driver of the increase was higher headcount to support our future growth. SG&A increased 9% year-over-year in the fourth quarter as reported and 8% FX-neutral basis. SG&A increased in the quarter as a result of headcount growth.

EBITDA for the fourth quarter was $386 million compared to $421 million last year. Fourth quarter EBITDA upside to our guidance primarily reflected disciplined expense management. EBITDA for the full year was almost $1.5 billion, a 1% increase over 2022 on a reported basis and up 2% FX-neutral. Depreciation in the quarter of $26 million was up modestly compared to 2022.

Net interest expense, excluding deferred financing costs in the quarter, was $19 million. This was down $9 million versus the fourth quarter of 2022 due to higher interest income on our cash balances. The modest floating rate debt we have is fully hedged through maturity.

The Q4 adjusted tax rate, which we use for the calculation of adjusted net income, was 24% for the quarter. The tax rate for the items used to adjust that income was 15% for the quarter. The full year tax rate for the calculation of adjusted net income was 22%.

Adjusted EPS in Q4 was $3.04 compared with $3.70 last year. We had 79 million shares outstanding in the fourth quarter. This is a reduction of about 1 million shares or about 1% year-over-year. We exited the fourth quarter with about 79 million shares on an unweighted basis. For the full year, adjusted EPS was $11.33, up modestly from 2022.

Operating cash flow for the quarter was $224 million, up 10% compared to last year. CapEx for the quarter was $28 million, down $4 million, as a result of catch-up spend on technology investments in 2022 which normalize this year.

Free cash flow for the quarter was $196 million, up 19% compared to last year. Free cash flow for the full year was almost $1.1 billion, a 6% increase versus $2.2 million. Free cash flow on a rolling 4-quarter basis was 18% of revenue and 71% of EBITDA. Adjusting for the Q1 divestiture, the full year free cash flow conversion from GAAP net income would have been 138%. Our free cash flow conversion is generally higher when CV growth is accelerating.

We have a new slide in the earnings supplement which shows the conversion from both EBITDA and GAAP net income to free cash flow on a rolling 4-quarter basis. The past 2 years have had some unusual items affecting the conversion, including insurance proceeds related to pandemic conference cancellations and the 2023 divestiture. We expect about a 4- to 6-point difference between EBITDA margin and free cash flow margins in a typical year. The normal free cash flow conversion from GAAP net income is 140% to 160%.

At the end of the fourth quarter, we had about $1.3 billion of cash. Our December 31 debt balance was about $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was under 2x. Our expected free cash flow generation, available revolver and excess cash remaining on the balance sheet provide ample liquidity to deliver on our capital allocation strategy of share repurchases and strategic tuck-in M&A. Our balance sheet is very strong with $2.3 billion of liquidity, low levels of leverage and effectively fixed interest rates.

We repurchased $158 million of stock during the fourth quarter and more than $600 million for the full year. At the end of December, we had about $1 billion of authorization for repurchases remaining, and we expect the Board will continue to refresh the repurchase authorization going forward. As we continue to repurchase shares, our capital base will shrink. Over time, this is accretive to earnings per share and, combined with growing profits, also delivers increasing returns on invested capital.

Before providing the 2024 guidance details, I want to discuss our base level assumptions and planning philosophy for 2024.

For Research, we continue to innovate and provide a very compelling value proposition for clients and prospects. Executives and their teams face uncertainty and challenges, and they recognize how Gartner can help regardless of the economic environment. The outlook for 2024 Research revenue growth is a function of 3 primary factors: First, 2023 ending contract value; second, the timing of growth bottoming and the slope of the reacceleration; and third, the performance of non-subscription revenue.

Starting with the Research subscription revenue, which was 76% of 2023 consolidated revenue. Our guidance reflects CV bottoming and reaccelerating during 2024. First quarter and first half NCVI are important inputs to calendar 2024 revenue growth. We have taken a prudent view of NCVI phasing because Q1 is a seasonally important quarter for tech vendor renewals.

With the majority of our contracts being multiyear, some haven't come up for renewal during the tech sector's recalibration, and Research subscription revenue will likely bottom about 1 quarter after the contract value growth bottoms. If new business continues to perform well and retention is better than we've incorporated into the plan, there would be upside to our guidance.

The non-subscription revenue was about 6% of consolidated revenue in 2023. In this part of the business, we help small business buyers find the best software for their needs and help sellers find customers. This adds a lot of tangible value for both groups. The outlook built into the 2024 guidance reflects a shift to higher-quality traffic sources. As I mentioned, this affects revenue in the short term, but we expect it to drive higher prices and increased revenue over time.

For Conferences, which is about 9% of 2023 revenue, we are basing our guidance on the 51 in-person destination conferences we have planned for 2024. We expect similar seasonality to what we saw in 2023, with Q4 the largest quarter, followed by Q2. We have very good visibility into 2024 revenue, with the majority of what we've guided already under contract. This is consistent with last year and ahead of historical levels.

For Consulting, which was also about 9% of 2023 revenue, we have more visibility into the first half based on the composition of our backlog and pipeline, as usual. Contract optimization has had several very strong years. It's also seasonally slower in the first quarter and remains highly variable. We've incorporated a prudent outlook for this part of the segment. We remain focused on aligning expense growth with CV growth. This is the best way for us to balance short-term margins while investing for long-term sustained double-digit growth.

Our base level assumptions for consolidated expenses reflect a more typical cadence than we've seen in a while. We are investing for future growth even as we have taken a prudent view of the timing of revenue flowing into the P&L. We recommend thinking about expenses sequentially, with notable seasonality driven by the Conferences calendar and merit increases.

Our plan for mid- to high single-digit sales headcount growth for 2024 reflects our commitment to invest for future growth while delivering on our margin targets. We have the recruiting capacity to go faster, depending on how the year plays out; and we have other levers, like increased tenure, to support CV growth in 2024. At current rates, FX will be approximately neutral to growth for the full year.

Our guidance for 2024 is as follows. We expect Research revenue of at least $5.15 billion, which is FX-neutral growth of about 5%. The Research revenue guidance reflects a prudent plan for NCVI performance and the recalibration of non-subscription part of the business. The guidance reflects subscription revenue growth in the high single digits. We expect Conferences revenue of at least $560 million, which is FX-neutral growth of about 10%. We expect Consulting revenue of at least $530 million, which is growth of about 3% FX-neutral. The result is an outlook for consolidated revenue of at least $6.24 billion, which is FX-neutral growth of 5%.

We expect full year EBITDA of at least $1.435 billion, which results in an EBITDA margin of at least 23%. We expect 2024 adjusted EPS of at least $10.55 per share. For 2024, we expect free cash flow of at least $1.065 billion. This reflects a conversion from GAAP net income of above 140%. Our guidance is based on 79 million shares, which only assumes repurchases to offset dilution. Finally, for the first quarter of 2024, we expect to deliver EBITDA of at least $335 million.

We performed well this year despite continuing global macro uncertainty and a dynamic tech vendor market. Global CV grew high single digits in the quarter, with enterprise function leaders CV growing double digits. Revenue, EBITDA and EPS performance exceeded our expectations, and we introduced achievable guidance with opportunity for upside.

We repurchased more than $600 million in stock during 2023 and more than $3 billion in the past 3 years. We remain eager to return excess capital to our shareholders. We will continue to be price-sensitive, opportunistic and disciplined.

Looking out over the medium term, our financial model and expectations are unchanged. With 12% to 16% Research CV growth, we will deliver double-digit revenue growth. With gross margin expansion, sales costs growing about in line with CV growth and G&A leverage, we will expand EBITDA margins modestly over time. We can grow 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 lower the share count over time, and on strategic value-enhancing tuck-in M&A.
With that, I'll turn the call back over to the operator, and we'll be happy to take your questions. Operator?

Question and Answer

Operator

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

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

Just want to dig in first. I know it's not a huge business, but on the Research non-subscription headwinds and need for recalibration. I know it's been weak all year, but I was interpreting that previously more as like cyclical headwinds. And now it seems like you're responding more operationally to drive higher-quality traffic. So just I guess, I don't know if there was like a business review or, I guess, the why now in terms of cyclicality of the business versus where there's an opportunity for operational improvement.

Craig W. Safian
Executive VP & CFO

Jeff, thanks for the question. I'll give it a start, and then Gene will chime in as well. I think -- just starting with the facts, the non-subscription part of the business was about 6% of 2023 revenue. Obviously, we have had tech market pressure for the full year. And the way that mostly manifested itself through our results was real pressure on pricing throughout the full year. And we saw that. We adjusted coming out of Q2 earnings.

And the good news is pricing has been roughly stable since we made that adjustment. In Q4 though, one of the things we're always focused on is making sure that we are providing the highest value to both sides of the equation. And with these offerings, we are essentially -- small business buyers are coming to our sites to learn more about what software to buy, and we actually help them with reviews and ratings and written research and things of that nature, and then we're matching them to the sellers. And again, so tangible value, as we mentioned, on both sides of the equation.

We're always focused on driving even more value for our clients. And so one of the things we've done is really shift our focus and prioritization to higher-quality forms of traffic. And again, short-term impact on revenues. But over the long term, we think this is good for clients on both sides of the equation, will drive higher pricing over time, which will drive higher revenue, which is good for everybody.

But one thing I would say just about the guidance is we've modeled in the real focus on higher-quality traffic. We have not modeled in any real uptick in the pricing. Again, over the long term, we expect that to happen. We did not want to model that in as we actually see that manifesting itself in reality.

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

Okay. And then I hear you loud and clear on the better tech vendor new business sold trends. Maybe talk through more on the retention for tech vendor. Just like how you're thinking about the tail that has not yet renewed in a more difficult environment. Or just what's the typical lag time from when you've seen prior inflections in new business? Like how long it kind of takes for the retention trend to similarly improve?

Eugene A. Hall
CEO & Director

Jeff, it's Gene. So one -- the biggest issue we have is in the small tech vendors, and a lot of small tech vendors are in markets that have changed and they have difficulty getting funding now. And for those vendors, if they signed a 2- or 3-year multiyear a year or 2 ago, when that comes up for renewal, they don't have any funding. In fact, in many cases, out of business. And so what's happening there is that, that's our biggest drag in the tech sector in terms of retention.

The larger companies, as you've seen, are still laying off tens of thousands of people, and so they haven't finished restructuring. As we mentioned, overall new business is up in the tech sector mid-single digits.

And so we're thinking that's a leading indicator that retention will follow once we work our way through these -- particularly these companies that have gone out of business since they signed the agreement and -- today.

And by the way, it's a very -- still a very robust business. It's just a different side of companies now that are getting funding. Think AI.

Operator

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

Toni Michele Kaplan
Morgan Stanley, Research Division

Actually, maybe following on a similar line to the last question. The commentary around new business in the prepared remarks. And this is beyond tech vendors, so just in general, the enterprise new business sounded very good. Even the tech vendor improvement in new business sounded good.

Just wanted to understand if there was anything that could -- that is a risk to that sort of starting to flow through contract value in the next few quarters. And how quickly you could expect to see sort of that shift in contract value. I know you mentioned in the prepared remarks that you're expecting an inflection this year.

Craig W. Safian
Executive VP & CFO

Toni, thanks for the question. Just to lay out the facts. So to your point, GTS, the [AC] vendor part of the business, new business grew at high single-digit rates. The end user or enterprise function leader part of GTS grew, new business, mid-teens year-over-year. And GBS was up 13% over prior year on new business. So we actually saw a pretty strong new business results across all of the markets we sell into in the fourth quarter.

And as we mentioned, we view new business as a real leading indicator for what's happening in the market in the moment, so to speak. And so again, we saw a modest improvement in new business from Q2 to Q3. That continued from Q3 to Q4 with tech vendor actually growing for the first time in 2023 in the fourth quarter.

As you know, NCVI and CV growth are a function of the combination of new business and retention. And as we talked about in our prepared remarks and also in response to Jeff's question, there's still a lot of pressure, and Gene alluded to this as well, still a lot of pressure on retention in the small tech vendor part of the market. And we still have a lot of renewals that haven't been touched -- or coming renewals that haven't been touched since the tech sector really started to recalibrate, call it, third, fourth quarter of 2022.

So still a little bit of retention pressure. However, new business, we definitely view as a leading indicator. And again, that's part of what gives us confidence to say that we expect CV to bottom during 2024 and start to reaccelerate during 2024 as well.

Toni Michele Kaplan
Morgan Stanley, Research Division

Makes a lot of sense. And then just for a follow-up, I wanted to ask about headcount. The -- I guess, what are your expectations for headcount growth in '24? And just wanted to understand a little bit more about -- it seems like headcount growth has been slowing the last 2 quarters to like below normal levels. I know there was a catch-up in sort of the prior year and earlier in '23.

So I guess is the slower headcount sort of helping manage margin? Or is it, I guess, an indicator that there's -- I don't think you're saying there's less opportunity. But just wanted to understand the sort of below-normal headcount growth levels that we're seeing now.

Eugene A. Hall

CEO & Director

So Toni, really look at it as there's a very enormous market opportunity. We intend to capture that market opportunity over the next many years. Part of our core strategy projected at that opportunity is growing our headcount to capture it. That headcount growth, it can be faster or slower depending on the actual kind of selling capacity of the team we have. And right now, we believe we have a lot of selling capacity embedded actually in the capacity we have today. Over time though, that's going to grow as we grow our business.

Craig W. Safian
Executive VP & CFO

And as we mentioned during our prepared remarks, we've actually got dialed into our plan, combination GTS/GBS quota-bearing headcount growth of mid- to high single digits. And as always, we're prepared to go faster. As both Gene and I mentioned, we have recruitment capacity go faster if we want to. And so we've got dialed in mid- to high single-digit growth in GTS and GBS quota-bearing headcount, and we can go faster if we see that rebound coming faster as well.

Operator

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

Heather Nicole Balsky
BofA Securities, Research Division

I was muted. Sorry about that. I wanted to go back to the renewals on the tech vendor side and just ask you, are there any -- I mean, obviously, if companies are going under, there's nothing you can control there, but what you can do on that front. And can you help us in perspective how material the wave of renewals are? I know that's something investors have been curious about.

Eugene A. Hall
CEO & Director

Again, if you look at the larger companies in the market, renewals are going kind of normally. It's a little slower than usual because, again, they're laying off tens of thousands of people. We expect that will change. There's plenty of demand. Again, we expect global IT spend in this year to grow by 7% to almost $5 trillion. So plenty of demand there. We expect over time, that will normalize.

And so the real issue on retention is these very small tech vendors, which are over time a great market for us. But there's a shift going on now from what used get funding, through now, what does funding is, as I mentioned, there's a real focus on AI. And so those companies that are in less-popular segments for funding these days can't get funding. And if they haven't been as successful commercially, the either get acquired or go out of business. In which case, our retention -- it affects our retention.

Craig W. Safian
Executive VP & CFO

And the other thing I'd add, Heather, just on the larger tech clients, typically, what we see is a combination of maybe modestly less growth than we would normally buy or normally see through renewal cycles or modest cuts or reduction to spend. But they maintain a pretty significant Gartner presence always.

And what we then do is make sure that we are there to win back that business, and it actually does help drive the growth coming out of tougher macro environment. And that's sort of what we've always seen in tough macro environments, tech vendor or otherwise, where we'll take some nicks from a retention perspective, but stay embedded, still delivering huge value to our clients, and then win back and grow that business over the long term.

Heather Nicole Balsky
BofA Securities, Research Division

And then just kind of asking another version of probably something you've already said in the same question, but you were talking about CV on the tech vendor side normalizing. Last quarter, you talked about normalizing over 12 to 18 months. Is that still your outlook? Based on what you saw in the fourth quarter, how are you thinking about that?

Craig W. Safian
Executive VP & CFO

So our long-term view on this segment of the business is unchanged. We believe it can grow in line with our medium-term objectives. We still believe that we are going to see reacceleration of this business over time. Whether it's 9 to 15 months or 12 to 18 or 24, it will be in that range that we actually see that reacceleration.

But we -- the market here is still really strong. Our offerings still drive really huge value for our clients in this segment. And over the medium term, there's no reason why this can't get back to 12% to 16% growth, consistent with our medium-term objective for this part of the business.

Operator

Our next question comes from the line of Seth Weber with Wells Fargo.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

I think maybe first, just a clarification. When you talk about your research revenue guide, I think backing into it, it kind of implies a non-subscription revenue growth of down -- like down low double digits. Is that the right way to think about what's baked into your model?

Craig W. Safian
Executive VP & CFO

Yes, that is the correct math, Seth. You got it.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Okay. And then just on the strong new business wins, can you just frame that a little bit? I mean, is that a function of comps are easier, productivity is better? Or are you actually seeing or hearing better sentiment from your customers? Is -- are the sales cycles getting shorter? It just seems like the new business wins are just really strong, and I'm just trying to tie all these things together with your guidance.

Eugene A. Hall
CEO & Director

Yes. So first I'd say is we have a strong value proposition. And so when clients see the value they get from our offerings, they want to buy. So that's what -- that's fundamentally what's driving demand. And on top of that, we're always focused on things that impact sales productivity. And there's things that -- and there's things like the tools that we have done, the process we have. And then as Craig mentioned in his remarks, tenure can affect as well. We're having modest improvement in tenure as well. And so -- but the fundamental thing that's driving it is really intrinsic demand from clients because they have to need for our services to get on the value of them.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Right. But has sentiment -- has customer sentiment changed at all over the last quarter? Has it gotten better? Or have the sales cycles changed? Or anything you'd call out for the acceleration of new business wins here?

Eugene A. Hall
CEO & Director

I'd say the sort of selling environment modestly improved throughout 2023.

Operator

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

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

I wanted to touch on artificial intelligence as a driver of new business. I realize it was one of the topics, Gene, that you outlined at the front. Just kind of curious, is there any way to kind of quantify or maybe even subjectively talk about AI as the driver of new business, cross-sell, new conversations with clients? I understand it's part of an ever-evolving tech landscape, but I'm just wondering if there's been any boost or notable boost from that topic specifically as it relates to new client wins and new business.

Eugene A. Hall
CEO & Director

Andrew, our -- we serve clients with a wide variety of areas, as you know, and they get value with all those areas. AI has had a lot of publicity over the last year. And so there is -- throughout the media, et cetera. And so the -- there is an unusually high level of interest understanding what AI is and how it could affect our clients' businesses.

I'd say it's just like the other things that we help our clients with. It's not something that's causing like an extra 20% of demand or something. It's an area that is one of the things we cover that clients have interest in. Just clients that have cost problems, they're interested on cost optimization as opposed to AI. So it kind of depends on the situation of the individual client, but it's certainly an area of robust demand.

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

Great. And then for my follow-up, I just wanted to hone in on the CV growth bottoming part of your guidance. I recognize that first quarter and first half NCVI are important inputs, and you've been conservative. Gene, I think in the press release, you said that you had an opportunity for upside and that guidance was achievable across a wide range of economic scenarios.

So just trying to putting all these pieces together. Is it fair for us to assume that CV growth is bottoming in the second half in your guidance? And then upside would be from that happening earlier? Or is there some other way for us to think about the underlying assumptions there?

Craig W. Safian
Executive VP & CFO

I think the way to think about the CV and the revenue, and obviously, our revenue guide for the Research segment and the subscription revenue piece, the revenue is always going to lag the contract value recovery. And on top of that, as you know, first half changes to NCVI are going to have a bigger impact on the 2024 revenue run-out than big step-ups in Q3 or Q4, which are great and drive great cash flow and will drive future revenue, but have minimal impact on 2024 revenue.

So we're not guiding to a revenue or CV number for the year, nor are we pointing to specifically where the bottom is, but we have baked into our outlook a bottoming of that CV and a reacceleration of that CV over the course of 2024.

Operator

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

Brendan J. Popson
Barclays Bank PLC, Research Division

This is Brendan on for Manav. I just want to ask how you guys think about getting back to double-digit CV growth. Obviously, if your QBH is mid- to high single digit, your new business is still pretty strong. So it seems like really it's just like a wallet retention, higher cancellation issue for now. Is it just that, that kind of goes away over time? Or do you actually expect even more kind of new business productivity, if you will, from QBH? Or I guess, how do you guys think about that?

Craig W. Safian
Executive VP & CFO

Brendan, I mean, the biggest thing impacting contract value and contract value growth right now is the tech vendor part of the business. And so as we mentioned, the enterprise function leader part of our business grew at double-digit growth rates in the fourth quarter and actually has been a consistent double-digit grower through the course of 2023. And so if you look at that 7.7% overall contract value growth, the reality is the enterprise function leader portion of the business, which is more than 75% of total CV, is growing at double-digit growth rates.

And the tech vendor portion of the business, as we mentioned in our prepared remarks, was essentially flat for the year. And so as we start to see a reacceleration of the tech vendor business, which again, is a little less than 25% of total CV, that obviously has an impact on the overall CV growth.

The other piece that I think is obviously super important is we caught up on our hiring quite a bit over the course of 2022. And so what that meant is, over the course of 2023, we had a lot of people very early in their Gartner sales careers. And as you know, as people come up with tenure curve, their productivity increases.

And so we feel confident that we've got enough capacity from a selling perspective heading into 2024 given the combination of tech sector rebound, and probably more importantly, our salespeople coming up the tenure curve. That should provide the right amount of fuel, if you will, to drive contract value growth in 2024. And we're growing our GTS, GBS headcount, mid- to high single digits during 2024, and that's really about accelerating and sustaining that growth as we roll into 2025 and 2026.

Brendan J. Popson
Barclays Bank PLC, Research Division

Okay. And then just any call-outs or growth rates you can give us within GBS? Obviously, it's still performing pretty well. So just anything -- any other color you can give us.

Craig W. Safian
Executive VP & CFO

Yes. I mean, it's still 12.9% or 13% year-over-year growth on a bigger base, and so getting bigger and bigger and sustaining growth within our medium-term objective for the segment. As I mentioned in my prepared remarks, supply chain, legal and HR are the 3 fastest-growing pieces of the segment. But obviously, all pieces have to be growing nicely for us to register a 13% year-over-year CV growth.

Operator

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

Joshua K. Chan
UBS Investment Bank, Research Division

I know that you don't guide to CV trajectory or NCVI. But I guess it sounds like you are emphasizing more the tech vendor renewal dynamic here. So I guess, are we to interpret that as there being more of an impact of that on Q1 than normal? Could you just kind of explain the rationale behind calling that specific dynamic out the way you did?

Craig W. Safian
Executive VP & CFO

Yes, great question. So we're always looking at the skew of contract end dates and contract value associated with that. And as we've talked about in the past, generally speaking, we're pretty evenly skewed across the year. This year, we actually have a little bit of a bubble, not a huge one, but just a little bit more than average in -- with our tech vendor clients in the first quarter.

And so you may have heard us use the word prudent several times during our prepared remarks. We just want to make sure that our guidance reflects our most recent performance and what we know about the next couple of quarters coming up. And so we've taken a prudent view on our first half NCVI to take that into account.

That said, again, I'll reiterate, we do expect CV growth overall to bottom during 2024 and begin to reaccelerate with -- even with that first quarter focus on tech vendor renewals.

Joshua K. Chan
UBS Investment Bank, Research Division

Okay. I appreciate the color there. That's really helpful. And if I can shift over to margins. Could you talk about the different drivers of margin year-over-year? I mean, you have positive revenue growth, you have reaccelerating CV, the cost structure seems to be in a good spot. So are there more margin pluses than minuses? And how does that reconcile with the guidance?

Craig W. Safian
Executive VP & CFO

Sure, Josh. The simplest way to think about it is that, with our targeted headcount growth in GTS and GBS of mid- to high single digits and think about that, not the only place that we're actually growing but growing a little bit elsewhere, combined with normal merit and wage inflation combined with a growing Conferences business, if you look at the implied operating expense in the guidance, it's up about 8% or 9% year-over-year, which aligns with the headcount growth and the conference growth that we've got dialed into the guidance.

And so as we mentioned, a much more "normal" cadence of operating expense in 2024 as compared to prior years, where we fell behind and then we're catching up, et cetera, et cetera. So a much more normal quarter-to-quarter build of our operating expense.

We are -- the biggest thing that drives our revenue for 2024 is the ending contract value for 2023. And obviously, as we talked about on Andrew's question, the revenue will lag the recovery in contract value. And so the reality is -- and again, we've been not guiding, but pointing this way for the last several quarters, that this was going to be the reality for 2024, which is we're going to get back on our normal cadence of investing for the future and growing our sales force and growing other areas.

We are dealing with the CV deceleration through 2023. And obviously, that has an impact on 2024 for revenues. Obviously, the non-subscription revenue performance also mutes the overall revenue as well; as does the Consulting growth rate, which while still within our medium-term guidance, given we had such a strong year in contract optimization, we're being thoughtful about the growth rates there.

And so it's a little bit of all of those factors impacting the top line with what I would consider "normal" operating expense growth baked into the 2024 guide.

Operator

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

Surinder Singh Thind
Jefferies LLC, Research Division

Just taking a step back, if we look at the big picture and what I would call the relative strength of the economy, why do you think the clients on the tech side aren't spending more at this point? And I guess in your conversations, what would get them to commit? Like what are they looking for at this point?

Craig W. Safian

Executive VP & CFO

So Surinder, on the tech side, I think it's really the -- so it's a combination of the recalibration of that market and also -- when I say recalibration, down to the things Gene was talking about, where we actually have a really healthy business on the small end of tech and there is funding flowing, but it's not flowing to the same places that it may have been a year or 2 or 3 ago. And so we're just dealing with that.

And again, we're going after the opportunities where the money is or we're fishing where the fish are. But as you've seen, there are still large tech sector layoffs happening a year or almost even 15 months since they began. And selling into that environment when they're in the process of cutting tens of thousands of jobs is a little more challenging than it would be if they completely recalibrated.

So I think we're still in. We're still driving huge value for those clients. They're still very important clients for us. We're going to be there to help them as they rebound and come through the recalibration. It's just going to take a little bit of time. But we're confident in the value we provide. We're confident, as I mentioned earlier, in the long-term or medium-term growth prospects for this part of the business. But the fact is they are still significantly recalibrating and we are along for that ride, so to speak.

Eugene A. Hall
CEO & Director

Just to add a little bit. When you're selling into a company that is actively making layoffs, the attention of people's focus is on who they're going to lay off or whether, in fact, they're going to get laid off. And so it takes a little while -- that's a much tougher -- that's kind of the toughest selling environment. They'll get through that and will return to normal. That's the larger end. And on the small end, Craig described very well.

Surinder Singh Thind
Jefferies LLC, Research Division

Got it. And then I guess if we think about that or advance that line of thinking, so as you kind of more broadly think about the business and all of these clients that you serve, so is there arguably more, I guess, cyclicality or potential volatility today in your business than maybe in prior cycles? Would maybe the reason being there's more PE/VC-backed firms now, that they're just got a larger part of the ecosystem, so they're just more willing to make quicker strategic pivots or spending decision changes or other things? Is there something structural perhaps that we should be aware of or at least we should be thinking about?

Eugene A. Hall
CEO & Director

So our perspective is there's nothing structural about it. What happened was, during the pandemic, there was a pull-forward of tech spending. The tech -- many of the tech companies, probably most of them, assumed that was going to last forever, it turned out it was just a pull forward. Now they're just adjusting to getting back to normal. And it's as simple as that. So unless pandemics become cyclical, I think we're in pretty good shape.

Craig W. Safian
Executive VP & CFO

Yes. I also think, Surinder, just to sort of underscore that point. When we talk about the overall business or market opportunity, I'll focus on the market opportunity. So roughly $200 billion market opportunity, $190 billion of that is outside of the tech vendor opportunity. So we remain very focused on that big prize of $190-plus billion market opportunity serving enterprise function leaders across GTS and GBS. And again, we're confident that the tech vendor market is a really strong market, but the reality is $190 billion out of that $200 billion market opportunity is the enterprise function leader opportunity.

Operator

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

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I know it's late. I'll just ask one, though it's multi-part. Can we talk about the pricing environment, can you just remind us what price increases you put in for this year? Are you getting any pushback? And others in the space have been providing some breaks for extending the length of the term, is that something you're doing as well?

Craig W. Safian
Executive VP & CFO

Jeff, thanks for a quick question. On the pricing side, we're a little over 4%. We did our price increase in November of this year, which is when we typically do it. A little bit lower than what we did in '21 and '22, largely because we've seen inflation come down a little bit, most importantly wage inflation come down a little bit. And so we're in that around 4%, a little bit more than 4%.

I think clients, by and large, are not pushing back on it. Again, remember, the average spend per client is, order of magnitude, $250,000. So the difference between a 3% or a 4% increase is pretty de minimis.

And again -- and we're very focused on making sure that our products and services have incremental value each and every year. And we're continuing to sell with our upfront invoicing and a real focus on that. We're continuing to sell more and more multiyear contracts with our focus on that.

And so I'd say, yes, the environment has been a little tougher, but we've been managing to stick to our guns on the things that we know drive huge economic value for the business, which is sticking to our pricing guns, not discounting, selling multiyear contracts and making sure we get the invoicing done upfront. And I think our teams have done a phenomenal job of sticking to our core knitting there.

Operator

Our next question comes from the line of George Tong with Goldman Sachs.

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

You mentioned 1Q tech vendor renewals are especially important because of a little bubble there. Can you help quantify that? How much concentration is there compared to other quarters in the year?

Craig W. Safian
Executive VP & CFO

Yes. I think -- I mean, again, remember, our tech vendor CV is a little less than 25% of total CV. Normally, Q1 represents a little bit more than 25% of total renewals on the overall franchise. This year, with tech vendors, it's in the low to mid-30% of overall CV. So it's not a huge bubble, it's just a little bit of an overweighting, more than normal, in the first quarter.

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

Got it. That's helpful. And then you're guiding to EBITDA margins of 23% for the year. What do you see as the major driver of potential upside to that target?

Craig W. Safian
Executive VP & CFO

I think at this point, George, it's revenue upside will drive the biggest potential for margin upside from that 23%. As we've talked about -- I can't remember whose question it was, I think it was Josh's question. The OpEx is -- again, forgive me for using this term, more normal than it has been for the last few years. We're back on our territory growth planning. We're back on our more normal merit increases kicking in on April 1. And so I feel really -- we feel really good about the OpEx plan we've got. And so I think revenue upside across the various business lines would be the place that could potentially unlock a little bit of margin upside.

That said, if we are doing better from a revenue perspective, and again, Gene and I both alluded to this, we've got recruitment capacity to go faster. And so we want to make sure that not only are we doing well in 2024, that we are setting ourselves up to continue to perform really strongly in '25 and '26. And so if we have the opportunity to go a little bit faster on GTS and GBS headcount growth, we're going to take that opportunity for sure.

Operator

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

Eugene A. Hall
CEO & Director

So here are the takeaways for today's call. Gartner drove another strong performance in Q4. We deliver incredible value whether our clients are struggling, thriving or anywhere in between. We're exceptionally agile and continuously adapt to the changing world, and we know the right things to do to be successful in any environment.

Looking ahead, we're well positioned to continue our sustained record of success for into the future. Our client value proposition and addressable market opportunity will allow us to drive long-term sustained double-digit revenue growth. We expect margins will expand modestly over time. And we generate significant free cash flow well in excess of net income. As we invest for future growth, we'll return significant levels of excess capital to our shareholders. This reduces shares outstanding and increases returns over time.

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

Operator
This concludes today's conference call. Thank you for your participation. You may now disconnect.