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Gartner, Inc. NYSE:IT

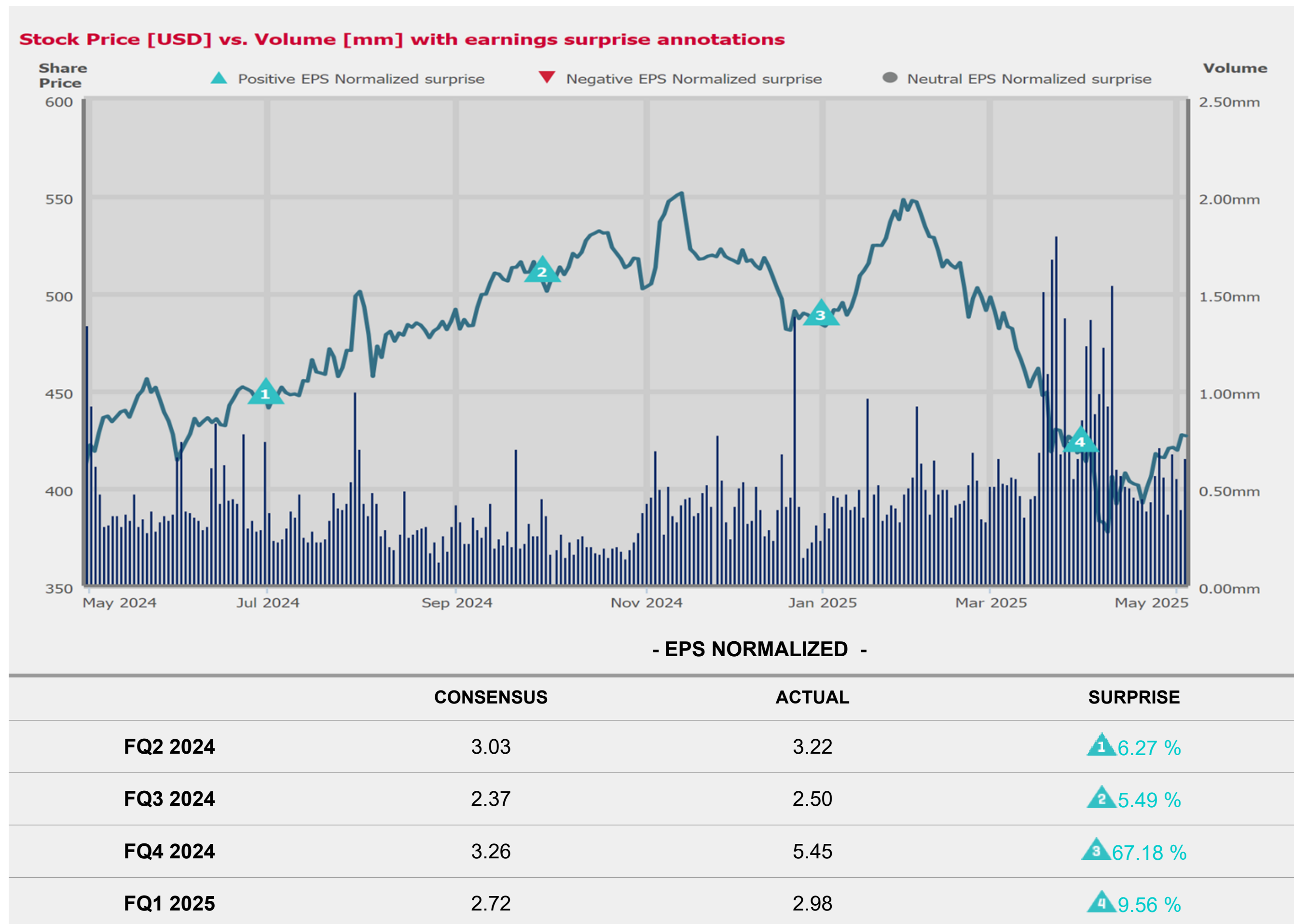
FQ1 2025 Earnings Call Transcripts

Tuesday, May 6, 2025 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.72	2.98	▲9.56	3.30	11.73	NA
Revenue (mm)	1534.83	1534.10	▼(0.05 %)	1680.45	6556.35	NA

Currency: USD
Consensus as of May-06-2025 2:15 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2024	3.03	3.22	▲ 6.27 %
FQ3 2024	2.37	2.50	▲ 5.49 %
FQ4 2024	3.26	5.45	▲ 67.18 %
FQ1 2025	2.72	2.98	▲ 9.56 %

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Presentation

David Cohen
Senior Vice President of Investor Relations

Good morning, everyone. Welcome to Gartner's First Quarter 2025 Earnings Call. I'm David Cohen, SVP of Investor Relations. [Operator Instructions] After comments by Gene Hall, Gartner's Chairman and 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 first quarter 2025 financial results and Gartner's outlook for 2025 is 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. Our contract values and associated growth rates we discuss are based on 2025 foreign exchange rates. 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 2024 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 Chairman and Chief Executive Officer, Gene Hall.

Eugene A. Hall
CEO & Chairman

Good morning, and thanks for joining us today. Gartner remains resilient in a complex environment. In Q1, contract value grew 7%. First quarter revenue, EBITDA, EPS and free cash flow were ahead of our expectations. We increased head count across our sales organizations by 4%. As we navigate another year of volatility, uncertainty, complexity and ambiguity, we will continue to be agile and we'll target our investments to support long-term sustained double-digit growth.

Research continues to be our largest and most profitable segment. Research contract value grew 7%. Excluding the U.S. federal business, contract value grew 8%. Within research, 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 6%. Excluding the U.S. federal business, contract value grew 7%. Contract value with tech vendor clients improved for the fourth consecutive quarter. Global Business Sales, or GBS, source leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, legal, sales and more.

GBS contract value increased 11%. Gartner Conferences deliver extraordinarily valuable insights to an engaged and qualified audience. On a same conference basis, revenue grew 12%. Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic initiatives through deeper project-based work. Consulting is an important complement to our IT research business. Consulting revenue grew 5% against a strong compare from Q1 2024.

Revenue from contract optimization grew a robust 38% and consulting backlog grew 16%. Overall, our Q1 financial results were ahead of expectations. Gartner has a unique client value proposition. We deliver actionable objective insight, guidance and tools that help our clients succeed with their mission-critical priorities. We practiced disciplined cost management while remaining agile and prudently investing for future growth. We generate free cash flow well in excess of net income. And we returned capital to our shareholders through our repurchase program.

Over the past 5 years, we've seen persistent elevated levels of volatility in the macroeconomic environment. The COVID-19 pandemic, the bursting of a tech spending bubble, the highest inflation in 40 years, a sharp rise in interest rates, the first ground war in Europe in 80 years. Now government policy and tariff changes are affecting enterprises across the U.S. and around the world in different and complex ways.

There's a high level of macroeconomic uncertainty. Executives know they need help. Gartner is the best, most cost-effective source for the insight, guidance and tools they need to succeed. We help our clients make smarter decisions that address mission-critical

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priorities, such as cost optimization, managing through public policy changes, leveraging AI innovation, cybersecurity and more. And we do this while helping them manage risk, save time, save money and build confidence.

Gartner helps senior executives make smarter decisions to achieve their mission-critical priorities. Today, one urgent priority for the majority of our clients is harnessing the potential of artificial intelligence. Of course, Gartner is one of the world's leading experts in AI. We helped thousands of end-user enterprises determine the best uses and business cases for AI. With our in-depth understanding of end-user business cases, we also advised thousands of technology vendors on how to compete in the AI marketplace.

And finally, we use AI internally to support our business. We've developed proprietary insight, guidance and tools to help senior executives make smarter decisions on their mission-critical priorities. Our 2,500 experts developed these proprietary insights, guidance and tools by analyzing our more than 500,000 one-on-one conversations that we hold with clients every year. In addition, we conduct proprietary primary research which is only available through Gartner to supplement these conversations. All of this creates a valuable data set that is massive, proprietary and constantly updated.

Finally, we incorporate publicly available data where helpful, often using AI. The combination of our 2,500 experts, hundreds of thousands of conversations with end users and technology vendors and proprietary data methodologies and process, makes our insights, guidance and tools, highly valuable, highly unique and highly differentiated from any other source. A core element of our strategy is continuous improvement in innovation, which we will apply to further increase our value and differentiation over time.

Our powerful client value proposition gives us a vast untapped market opportunity. And we know the right things to do to capture that opportunity. Gartner has proven best practices that address how we serve our clients, recruit, hire, train and deploy our salespeople, create our insights, guidance and tools, host attendees at our conferences and support our largest technology clients through consulting. We also have best practices that address how we approach expense management to optimize flexibility while increasing selling capacity.

For the remainder of 2025, we plan to grow sales head count in the mid-single digits, excluding directly impacted areas. This reflects our commitment to invest for future growth while delivering strong margins and free cash flow. Our plan is to exit the current environment better, faster and stronger than before with continued sales head count growth and a return to historically strong productivity we're well positioned to accelerate growth as the external environment evolves. We expect to reaccelerate CV growth to our target of 12% to 16% when the macroeconomic environment returns to normal and we expect EBITDA margins to expand through the natural operating leverage in the business.

Gartner has a highly diversified client base. The U.S. federal government represents approximately 4% of our total contract value. Our U.S. federal business has been impacted by the recent policy changes. Nearly all of our U.S. federal contracts are up for renewal in 2025. Roughly 40% of these were transaction in Q1, the largest quarter of the year and we renewed roughly half that business. We remain laser focused on creating and delivering value for our U.S. federal clients. As the U.S. federal government modifies and refines their priorities, we believe that we will be a core part of helping them achieve critical priorities such as cybersecurity, cost optimization, digital transformation and more.

Stock buybacks are an important way we return value to shareholders. We remain eager to repurchase shares aggressively. Our approach is designed to optimize returns by being price sensitive, opportunistic and disciplined. In closing, Gartner delivered financial results ahead of expectations. Tech vendor CV growth continued to accelerate. We have a powerful client value proposition and a vast addressable market opportunity. We will continue to create value for our shareholders by providing actionable objective insight, guidance and tools to our clients, prudently investing for future growth, remaining agile and disciplined in our approach to expenses and returning capital to our shareholders through our share repurchase program.

We expect to deliver modest margin expansion over time, alongside double-digit top line growth, and we'll continue to generate significant free cash flow well in excess of net income. All of this and more positions us to drive long-term double-digit growth and sustain our track record of success far into the future. 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. First quarter contract value or CV grew 7% year-over-year. Revenue, EBITDA, adjusted EPS and free cash flow were better than expected as we continue to execute well in an increasingly complex environment. We were resilient in the quarter affected by macro factors. Since we reported Q4 2024 results in early February, there were notable changes in the U.S. federal government end market. The broader selling environment also shifted during the quarter as many company decision makers started to adjust to the evolving global macro economy.

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We are updating our guidance to reflect Q1 performance, the new macro landscape, the benefit from the move in FX rates and our own expense agility. We repurchased $163 million of stock in the quarter, maintaining flexibility as the market digests the changes in the macro landscape. We remain eager to repurchase shares, which we will do opportunistically.

First quarter revenue was $1.5 billion, up 4% year-over-year as reported and 6% FX-neutral. In addition, total contribution margin was 69%, up 20 basis points from last year. EBITDA was $385 million, up 1% as reported and 3% FX neutral versus the first quarter of 2024. Adjusted EPS was $2.98, up 2% from Q1 of last year. And free cash flow was $288 million, a very strong performance for our first quarter. Research revenue in the quarter grew 4% year-over-year as reported and 6% FX-neutral. Subscription revenue grew 8% FX-neutral.

Nonsubscription research revenue was in line with our expectations. First quarter research contribution margin was 74%, consistent with last year. Contract value was $5.1 billion at the end of the first quarter, up 7% versus the prior year. Contract value and CV growth are FX-neutral. Excluding the U.S. federal government, CV grew 8%. Contract value growth with tech vendors continued to improve. Global CV was $63 million lower than Q4 2024 with around 80% of the change attributable to the U.S. federal government end market. CV growth was broad-based across practices, industry sectors, company sizes and geographic regions. Across our combined practices, all of the industry sectors, except 2 grew at high single-digit rates led by the energy, health care and manufacturing sectors.

CV grew at high single-digit rates across all enterprise sizes except small, which grew low single digits. We also drove double-digit or high single-digit growth in the majority of our top 10 countries. Canada, which represents about 3% of total CV, had a more challenging selling environment in the quarter. Nearly all of our U.S. federal contracts will come up for renewal during 2025, with about 40% having transacted in Q1, the largest quarter of this calendar year.

In the first quarter, the dollar retention was almost 50%. At March 31, we had $225 million of U.S. Federal CV. Global Technology Sales contract value was $3.9 billion at the end of the first quarter, up 6% versus the prior year. Excluding the U.S. federal government from both periods, GTS CV grew 7% in the quarter as the tech vendor market continued to improve. $44 million of the $58 million change in GTS CV from Q4 was due to the U.S. federal government. While retention for GTS was 101% for the quarter. GTS new business was down 4% compared to last year. CTS quota-bearing head count was up 3% year-over-year. Our regular full set of GTS metrics can be found in our earnings supplement. Global Business Sales contract value was $1.2 billion at the end of the first quarter, up 11% year-over-year.

All of our major GBS practices grew at double-digit or high single-digit rates. Growth was led by the sales, finance and legal practices. GBS CV was $5 million below the fourth quarter. Excluding the U.S. federal government, GBS CV was largely unchanged from Q4. Wallet retention for GBS was 105% for the quarter. GBS new business was down 3% compared to last year. GBS quota-bearing head count was up 9% year-over-year. As with GTS, our regular full set of GBS metrics can be found in our earnings supplement. Conferences revenue for the first quarter was $73 million, increasing 4% as reported and 5% FX neutral compared to Q1 of 2024.

Adjusting for the 2 conferences we moved to Q2 this year, revenue increased around 12% FX neutral. Contribution margin was 38%, consistent with typical Q1 seasonality. We held 10 destination conferences in the first quarter as planned. Q1 consulting revenue was $140 million compared with $135 million in the year-ago period, of about 4% as reported and 5% FX neutral. Consulting contribution margin was 38% in the first quarter. Labor-based revenue was $104 million. This part of the segment was down 4% versus Q1 of last year's reported and 2% FX neutral against the tough compare.

Backlog at March 31 was $214 million, increasing 16% year-over-year FX-neutral. This was driven by strength in multiyear contracts. In Contract Optimization, we delivered $36 million of revenue in the quarter, up 36% versus Q1 of last year and 38% FX neutral. The quarter was ahead of our expectations. Our contract optimization revenue is highly variable. Consolidated cost of services increased 3% year-over-year in the first quarter as reported and 4% FX neutral. The biggest driver of the increase was higher compensation costs. SG&A increased 6% year-over-year in the first quarter as reported and about 7% on an FX-neutral basis.

SG&A increased in the quarter as a result of head count growth. EBITDA for the first quarter was $385 million, up 1% from last year's reported and up 3% FX neutral. We outperformed in the first quarter through modest revenue upside, effective expense management and a prudent approach to guidance. Depreciation in the quarter of $29 million was up 10% compared to 2024. Net interest expense, excluding deferred financing costs in the quarter was $12 million. This is favorable by $5 million versus the first quarter of 2024 due to higher interest income on our cash balances. The modest floating rate debt we have is fully hedged through the third quarter of 2025.

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The Q1 adjusted tax rate, which we used for the calculation of adjusted net income, was 21% for the quarter. This compares to last year's rate of 19%. The tax rate for the items used to adjust net income was 26% for the quarter. Adjusted EPS in Q1 was $2.98, up 2% compared to Q1 last year. We had 78 million shares outstanding in the first quarter. This is an improvement of over 1 million shares or about 1% year-over-year. We exited the first quarter with just under 78 million shares on an unweighted basis.

Operating cash flow for the quarter was $314 million, up 66% compared with last year. CapEx was $26 million, up about $3 million year-over-year. This was primarily due to real estate related costs and in line with our expectations. First quarter free cash flow was $288 million, up 73% compared with Q1 in 2024. Free cash flow on a rolling 4-quarter basis was 120% of GAAP net income and 97% of EBITDA. As we noted last quarter, there were several items in 2024 that affect rolling fourth quarter net income and free cash flow, including after-tax insurance proceeds or real estate lease termination payment and tax planning benefits.

Adjusting for these items, free cash flow on a rolling 4-quarter basis was 20% of revenue, 82% of EBITDA and 155% of GAAP net income. At the end of the first quarter, we had about $2.1 billion of cash. Our March 31 debt balance was about $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was well 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 disciplined share repurchases and strategic tuck-in M&A.

Our balance sheet is very strong with $2.8 billion of liquidity, low levels of leverage and effectively fixed interest rates. We repurchased $163 million of stock during the first quarter. At the end of Q1, our share repurchase authorization was approximately $870 million. 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. We are updating our full year guidance to reflect recent performance and trends.

Since we reported Q4 results in early February, the world has become significantly more dynamic. We are applying all the lessons we've learned from prior challenging environments. We are shifting our focus to the things our clients need the most in an extraordinarily uncertain operating environment. We're also remaining agile in managing our cost structure while also investing for future growth.

In particular, we are preserving and growing our selling capacity outside of directly impacted areas, which is a key input into our algorithm for future sustained double-digit growth. The U.S. dollar weakened significantly during Q1. We now expect FX to benefit revenue growth by about 50 basis points and EBITDA growth by about 130 basis points in 2025. We've provided both the FX-driven and operational changes to guidance in our earnings supplement.

As a reminder, about 1/3 of our revenue and operating expenses are denominated in currencies other than the U.S. dollar. For research subscription revenue in 2025, our guidance reflects an expectation that Q1 trends for new business and retention continue for the balance of the year. We've also incorporated the information we have about U.S. federal spending decisions to date. In addition, we've taken a prudent view of the outlook as the current environment remains very dynamic.

For the nonsubscription part of the research segment, we've built a continuation of recent traffic and pricing trends into the guidance. For conferences, we are basing our guidance on the 53 in-person destination conferences we have planned for 2025. We have good visibility into current year revenue with the majority of what we've guided already under contract.

For consulting, we have more visibility into the next quarter or two based on the composition of our backlog and pipeline as usual. Given the shifts in the macro environment, we have been thoughtful about the outlook for the labor-based part of the business. Contract optimization has had several very strong years and the business remains highly variable. We've incorporated a prudent outlook for this part of the segment. Our base level assumptions for consolidated expenses have changed to reflect the revenue outlook.

We have demonstrated our ability to manage costs prudently in any market environment, and we will remain agile. We will do this while also investing for future growth. Our plan is to exit the current environment better, faster and stronger than before. We can both deliver on our EBITDA margin commitments for this year while investing for future growth.

Our plan for both GTS and GBS is for mid-single-digit sales head count growth outside of directly impacted areas. This reflects our commitment to invest for future growth while delivering strong margins and free cash flow. We're maintaining recruiting capacity and are prepared to go faster on the hiring based on the macro driven demand.

And as the selling environment gets back to normal, we expect significant benefits from QBH productivity. Our updated 2025 guidance is as follows: we expect research revenue of at least $5.34 billion, which is FX-neutral growth of about 4%. This reflects subscription research revenue growth of about 5%. We expect conferences revenue of at least $625 million, which is FX-neutral

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growth of about 6%. We expect consulting revenue of at least $575 million, which is growth of about 2% FX neutral. The result is an outlook for consolidated revenue of at least $6.535 billion, which is FX-neutral growth of 4%.

We now expect full year EBITDA of at least $1.535 billion, up $25 million from our prior guidance. We expect 2025 adjusted EPS of at least $11.70, up about $0.25 from last quarter. For 2025, we expect free cash flow of at least $1.145 billion. This reflects a conversion from GAAP net income of 137%. Our guidance is based on 78 million fully diluted weighted average shares outstanding, which reflects the repurchases made through the end of the first quarter.

For Q2, we expect adjusted EBITDA of at least $400 million. Our financial results through March were ahead of expectations, underscoring the resilience of our business model. While we updated the revenue guidance to reflect the macro landscape, we will also benefit from the latest FX rates. Our EBITDA margin outlook is now higher than it was in February. We have successfully navigated challenging macro environments before and know the right things to do. We are running our operational best practices, including delivering exceptional value for our clients, running our sales and services best practices playbooks, investing in sales capacity, which is a key ingredient for future sustained double-digit top line growth, managing our expenses aggressively and thoughtfully to protect profitability and cash flow and using our strong balance sheet and cash flow to buy our stock and for tuck-in M&A.

Looking out over the medium term in a normal macro environment, our financial model and expectations are unchanged. With 12% to 16% research CV growth, we will deliver double-digit revenue growth. There is operating leverage in the business, which allows us to expand margins. With gross margin expansion, sales costs growing about in line with CV growth and G&A leverage, we will deliver modest EBITDA margin expansion.
We can grow free cash flow at least as fast as EBITDA because of our modest CapEx needs and the benefits of our clients paying us upfront. And we'll continue to deploy our capital on share repurchases, which will lower the share count over time and on strategic value-enhancing tuck-in M&A. With that, I'll turn the call back over to the operator, and we'll be happy to take your questions. Operator?

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Question and Answer

Operator

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

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

So what percentage of the contract value base are you following the directly impacted areas? And how are you managing sales headcount, I guess, for U.S. federal government agency prospects or the more meaningfully other directly impacted areas in terms of are you reassigning it to other opportunities? Or are you kind of preserving some of that capacity, including to position for like win-back opportunities?

Craig W. Safian
Executive VP & CFO

Jeff, thanks for the question. I'll start, and then Gene will finish up on your question. So from a directly impacted area perspective, it is largely U.S. federal that we're talking about now. And so obviously, we're not looking to grow our QBH there, but we wanted to make sure it was really clear that outside of that directly impacted area, we were actually targeting to continue to grow the number of headcount, number of territories for both GTS and GBS in the mid-single digits.

Eugene A. Hall
CEO & Chairman

Yes. Basically, Jeff, as Craig said, the largest impacted area is by far is the U.S. federal government. And there, what we're planning to do is we're not backfilling and we're basically making sure we're controlling our headcount there very carefully. The rest of the business, the non impact areas, as I said, were continue to grow in mid-single digits this year.

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

But you're not reassigning the U.S. federal government headcount, you're keeping them there for now.

Eugene A. Hall
CEO & Chairman

Yes, great question. So basically, we have some very strong public sector salespeople. We want to make sure we retain them, and those really strong salespeople, where we can reassign them, we are absolutely resigned because we have plenty of sales opportunities. In some cases, it makes sense in other cases, it doesn't. And wherever we can, we, of course, are retaining our great sales people.

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

Got it. And then what is -- where there's early cancels for convenience among U.S. federal government agency contracts, what is the rev rec treatment? And what is the contract value treatment? And can you just give us any sense of if that's a meaningful percentage of the attrition versus just nonrenewal as a contract naturally comes due?

Craig W. Safian
Executive VP & CFO

Yes, Jeff, it's a great question. So actually, we've got details on that in the Q, but let me just summarize for the benefit of everyone on the call. So as it stands right now, we've got about $30 million worth of termination notices related to contracts that are set to expire later in the year. One way to think about it is it's sort of just normal course. We've just been notified ahead that those things will not be renewing or they will -- or we have the termination notice in hand.

That $30 million remains in contract value because we are continuing to recognize the revenue on it. But in the grand scheme of not only the U.S. federal business, but actually on total CV, it's a relatively small amount, but that's how we're handling it. And there's a little bit more detail in the Q, I think, on Page 25, if you want to search it out.

Operator

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

Toni Michele Kaplan
Morgan Stanley, Research Division

I was hoping to get just maybe a little bit more color on the guidance. I know you talked about on the slide and in the remarks that the guidance reflects 1Q new business and retention trends. I know you mentioned that there was a little bit of a change during the quarter, maybe a slower like back half of the quarter. So I wanted to sort of understand, does the guidance reflect like the complete 1Q, which was maybe a little bit better or more weighted towards like the more recent, like slower experience that you've seen?

Craig W. Safian
Executive VP & CFO

Yes. Toni, it's great question. So when we were together in early February, talking about Q4 commentary at that point through the month of January is we hadn't really seen a change in the selling environment and that was the case. Clearly, things started to change mid-February into early March. I would say, from a metric perspective, though, since we are so dominated by the third month of every quarter, what we saw in the back half of February and March, in particular, in March, is reflective of the quarter. And again, we've taken that experience and rolled it forward across Q2, Q3 and Q4 to drive that update on the revenue guidance. So while January was normal, it's really small, and the bulk of the volume in Q1 actually happened during the month of March.

Toni Michele Kaplan
Morgan Stanley, Research Division

Got it. And then wanted to ask, I know U.S. federal government was sort of the big impact for what has changed on the government side. I wanted to, though broaden it out to are you seeing anything at the state and local level or international government level that is similar to U.S. Federal and also maybe just opportunity for win-back would be, as Jeff sort of alluded to as well, is there an opportunity there this year, too?

Eugene A. Hall
CEO & Chairman

So Toni, first on the win-back side. So we believe we provide a lot of value to our clients, including our U.S. federal government clients on helping -- we help things like having strong cybersecurity capabilities, cost optimization, use of AI, which are priorities for every enterprise, including public sector enterprises. And so we believe we provide a lot of value there and will, over time, continue to provide a lot of value to the federal governments. If you look at the state and local governments in the United States, there wasn't much change in Q1 compared to what we've seen in previous quarters. The same is true for governments around the world outside of the U.S., whether it's at the federal level or at the provincial or state and government level.

Operator

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

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

Your business outlook for 2025 research revenue was downwardly revised by $135 million. Can you elaborate on how much of this reflects updated views on federal contract renewals versus updated views on other customer segments like tech vendors and enterprise functional leaders.

Craig W. Safian
Executive VP & CFO

Yes. George, I would say that the guidance is reflective of everything we've seen and everything we know. And so obviously, the biggest thing or the largest impact that we saw that was sort of off trend in Q1 was related to the U.S. federal government, which we just talked about with Jeff and Toni. But in terms of what we're seeing more broadly, macroeconomically, that has been factored into the updated guidance.

So I think what I'd say is from an update on the guidance perspective, and this applies to all the revenue lines, but research, in particular, is we took our Q1 experience and we flowed that through across our contract expirations for the balance of the year. We took what we knew specifically about U.S. federal government. We modeled in the new FX rates. And as always, we try and take a

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prudent approach to how we approach our guidance for the full year. So I'd say those are the 4 things that factored into the update of all the guidance lines and the research line in particular.

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

Got it. And can you talk a little bit more about what you're seeing with tech vendors and enterprise functional leaders. Would you say that those trends are holding up better than what you're seeing with federal contract renewals.

Eugene A. Hall
CEO & Chairman

So what I'd say with tech vendors, the market continues to improve. Our business there is accelerating, particularly larger vendors. The smaller vendors are accelerating just at a slower pace than the larger vendors. That business is, I think, quite healthy. With enterprise functional leaders, again, sort of you can separate into the federal government, which we talked about and then all the other enterprise functional leader business that we have, which I think is more in trend with historical patterns.

Operator

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

Joshua K. Chan
UBS Investment Bank, Research Division

I was wondering if you could talk about the selling environment outside of federal. It seems like you're saying that the environment became more volatile. But I guess if I add back your the [NIV] impact that you gave for the federal government. It seems like the CV ex federal was fairly similar to what you had in Q4. So just trying to triangulate the comment about volatility and then the relatively good ex federal CV growth?

Eugene A. Hall
CEO & Chairman

Josh, so the selling environment because of the federal government we talked about, and that was the main thing that impacted our results in Q1. Outside of the federal government, it's not completely uniform in terms of the impact. So there are some companies that are more impacted, for example, by tariffs than others. By the way, both U.S. as well as non-U.S. companies. And so the companies that don't have a lot of tariff impact or other kinds of impact for policy changes, it's kind of business as usual in terms of decision-making.

The ones that are more directly impacted, decision-making has slowed. They're still buying. They're still renewing, but decision cycles have extended compared to what they were, say, Q4 of last year. So we still see the value. Our pipeline is actually very robust, but decisions are taking longer to get than they would get in Q4 or all of last year basically.

Joshua K. Chan
UBS Investment Bank, Research Division

Okay. That's great color. And then I guess, how are you thinking about your cost structure going forward because you clearly raised the guidance despite lowering the revenues. So could you kind of talk to, I guess, how the lower revenue, but then offset by your more prudent cost management is factoring into your increased margin guidance for the year?

Craig W. Safian
Executive VP & CFO

Yes, Josh. So I mean, the way to think about that is we've proven over the last several years given all the things Gene outlined in his prepared remarks about the craziness in the macro and geopolitical environment and just how challenging it has been that we've been very agile in managing our expenses. And what I'd say now is given the U.S. Fed results and the impact that's having on the contract value growth and then some of the things Gene just outlined as well in terms of longer selling cycles and things like that, we're taking the opportunity to make sure that we are managing our operating expense base super prudently and super carefully.

But also making sure that we're investing in areas that we know support and drive future growth. We're in a period right now where our CV is growing, call it, mid- to high single digits. Obviously, we firmly believe that we can be a 12% to 16% grower on the

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research business at a double-digit grower on the overall top line, and we want to make sure that we don't do anything that damages or impedes our ability to get back there when the economic situation is more "normal."

And so what we're doing is, I'd call it like a slight belt tightening across the board as we're seeing a little bit of pressure in some areas, but also making sure that we're growing our selling capacity because we know that's a key ingredient going forward. So we're not chopping anything. We're not slamming on the brakes on anything. We're just being thoughtful and prudent and careful and also making sure that we're investing in areas that we know drive and support future growth.

Operator

Our next question comes from the line of Faiza Alwy with Deutsche Bank.

Faiza Alwy
Deutsche Bank AG, Research Division

I wanted to talk about the clients that you mentioned are anticipated or impacted by tariffs, for example, where you've seen slower decision-making, how have you seen that play out historically? Because I would think that, as you mentioned in your script, like these clients can certainly benefit from Gartner Insights during this time. And so is there this initial sort of period where folks are evaluating the situation? And are you sort of leaning in harder with these clients to explain your value proposition? And so how should we think about those clients going forward?

Eugene A. Hall
CEO & Chairman

Faiza, great question. So basically, what we've seen historically is when there's a lot of uncertainty, clients slow their decision-making. And then after a few months, they then say, well, we're in this world, we upside what to do, Gartner's big help and then we actually have a burst of business from that. We continue to maintain relationships and continue to build pipeline and clients know the value. But when there's this kind of sort of shock of uncertainty, the first reaction from some companies is to sort of say, let's slow or stop decision making for a period of time. And then -- but that period of time goes by and then they know they need help with cybersecurity.

They need help with AI, can you help the cost optimization, all the things that are software selection. So all those things that are our sweet spots are things that they know they need. And so there's a slowdown that picks up over time is the historical pattern.

Faiza Alwy
Deutsche Bank AG, Research Division

Understood. And then just on capital allocation and share buyback, I know you mentioned sort of your eagerness to buy back shares a couple of times. Is there any other perspective around that, just given what's happened with the stock and the market overall? How are you viewing the opportunity to buy back stock? And could we expect a more elevated level of share repurchases this year just given the amount of cash that you have on the balance sheet?

Craig W. Safian
Executive VP & CFO

Faiza, I think our long-term capital allocation strategy is using our balance sheet or cash flow and excess cash, return capital to shareholders through our buyback programs and also to look for strategic value-enhancing, tuck-in M&A. And we continue to believe that we can do both of those things with our balance sheet and our capital allocation.

From a buyback perspective, as we've talked about historically, our strategy is to be price sensitive, opportunistic and disciplined. And we're looking to optimize returns on our buybacks not in a quarter or two, but over the long term. And so we are always looking at combinations of what's happening with the price of the stock, what's happening with overall multiples, what's happening with the market, what's happening with our stock individually, what is intrinsic value. All of those things are inputs into how we look to be price-sensitive, opportunistic and disciplined.

You rightly point out that we have $2.1 billion of cash on our balance sheet. We expect to generate another order of magnitude $800 million of free cash flow over the course of this year. And then we'd expect to generate well over $1 billion of free cash flow each and every year. So what that means is we have a lot of capital that we can put to use on behalf of our shareholders behind either buybacks or strategic tuck-in M&A. And we continue to monitor the situation very closely but we're going to stick to our guns and our sort of approach of being price-sensitive, opportunistic and disciplined with a real focus on optimizing returns over the long term.

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Operator

Our next question comes from the line of Jason Haas with Wells Fargo.

Jason Daniel Haas
Wells Fargo Securities, LLC, Research Division

I believe previously, you were guiding the GBS quarter earned head count to grow double digits this year. And I believe you said that you're now expecting it to grow mid-single digits. Can you just talk about what's the reason for the reduction in that segment specifically?

Craig W. Safian
Executive VP & CFO

Yes, I think it's part of our sort of normal agile planning around the business. Obviously, we do have U.S. federal footprint with our GBS business as well, and that has been impacted in the first quarter, as we described in our prepared remarks. We're also dealing with a more challenging macro environment, Gene referenced, longer sales cycles, things of that nature. And so we're always tweaking what we want and expect from a quota-bearing headcount growth perspective over the course of the year. What I would say is we've got dialed into our outlook right now is mid-single-digit growth in both GTS and GBS.

But if the end market improves or the demand environment improves or sales cycles reduce, we have plenty of recruiting capacity to be able to go faster if we want to. But essentially, right now, just a reflection of what we're seeing in the market and modest tapping of the brakes there just to make sure that we keep our cost structure in line with our CV growth expectations and our revenue and CV growth expectations rolling forward in '26 and '27.

Jason Daniel Haas
Wells Fargo Securities, LLC, Research Division

Got it. That's helpful. And then as a follow-up, I appreciate the commentary on how you're leveraging AI. I'm curious if you put any thought to rolling out any sort of like chat functionality driven by AI, if that's something that your customers are asking for? Or if there's any potential to use that to maybe make it a little bit easier for your customers to access and utilize all the primary insights from your research?

Eugene A. Hall
CEO & Chairman

Jason, as I mentioned in my remarks, we're really experts on AI. We know it really well. We use AI internally. So we have an application much like you described, where internally, our associates can use AI to help navigate through our very large content base. We're planning to release that to clients. But because of the problems like hallucinations and things like that, we want to make sure that we get the bugs worked out because our clients tell us not to have any hallucinations and things like that, that can happen with AI. So we've developed it. We're using it internally. You can think about it as piloting it, but it's very broad among thousands of our associates. And it's working very well, but we want to make sure that it is bulletproof before we roll it out to clients. And our clients understand that. They know we understand that they want it bulletproof.

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

First on the government side, just curious if you could provide any additional color on the timing of renewals throughout the remainder of this year. I believe I caught 40% in the first quarter, but just curious if there's anything unique about kind of cadence throughout the rest of the year. And relatedly, I think you said half or roughly half of those contracts were renewed. Is there any reason for us to think that renewal rates will get better or worse from that level as the year goes on, maybe as you get more comfortable selling back into that group or anything like that, that I'm not thinking of?

Craig W. Safian
Executive VP & CFO

Yes, Andrew, thanks. So over the next 3 quarters, Q1 was the largest, as we mentioned and you referenced. Q2 is less than half of what we saw in Q1. In Q3, which aligns with the U.S. Fed fiscal is our next largest quarter, but it's probably 3/4 the size of what we

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saw in Q1. And so -- and then Q4 is really small in terms of the expirations there. So bulk is actually in Q3, which again, aligns with the U.S. Federal fiscal.

In terms of what we've modeled in is what you highlighted essentially, what we experienced during the first quarter, which is nearly half dollar retention around 50%. We've modeled that forward. I do think, and Gene made this point earlier as well, we're intent on making sure and really helping our U.S. federal clients achieve their most important mission-critical priorities. And so we're not just abandoning our clients if the contract doesn't renew, we are there, and we want to make sure that we are there when they already to buy again, which we have a high degree of confidence that if they are still there, they will want to buy our services because we provide so much value.

That's not baked in because again, we haven't seen it yet. And so our philosophy generally is not to build forecasts, plans and outlooks based on what we hope is going to happen, but more along what we've seen but that is certainly a possibility. And again, we're organizing our teams to make sure we take advantage of that, probably more of a '26 and '27 dynamic than a '25 dynamic. But if we are able to get people back and turned on during 2025, great, and that would be that upside to what we're looking at.

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

Understood. And then kind of changing gears for my follow-up. I just wanted to ask about the conservatism of the OpEx guide. I understand and you gave some great reminders on the flexibility of the cost base and how you're kind of thinking about the cost structure. But you've also, over the past several years, given a pretty prudent outlook in terms of spend. So just wondering if some of the cost actions that you've started to take and tightening of the belt over the past month plus maybe lower some of the conservatism on that front? Or if we should think about it being relatively consistent with previous approaches.

Craig W. Safian
Executive VP & CFO

Yes, it's a great question. I mean the environment is dynamic, as we discussed. And so we are rolling with that dynamism and attempting to have as much agility around our operating expense base as possible. The reality is, we're obviously managing the '25 P&L to make sure that we're investing for the future and protecting profitability and free cash flow -- but in reality, as you know, we run this business for the long term, and we're making sure that our OpEx base is rightsized for '26 that we're investing in the right areas during 2025, so that we can reaccelerate CV into the future.

And so I wouldn't characterize the guidance as sort of the OpEx guidance as any more prudent or conservative than normal. I would say it's sort of our normal approach to how we build our outlook and how we build our guidance. And as we mentioned earlier, we're prepared to invest more if we see positive changes in the environment, and we're prepared to tighten the belt maybe 1 more notch if we have to as well. And so we're very focused on making sure we're doing the right things for the business over the long term. But we're also going to make the right decisions in the short term as well to make sure that we are, again, making the right investments, but also protecting profitability and free cash flow.

Operator

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

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I just wanted to go back to some of the mechanics regarding cancellation of contracts. I know on the federal government side, most of your contracts, if not all of them are one year, but I think you have a number of multiyear contracts outside of that. Can a client -- let's say I have a 2-year contract, can we, as a client cancel ahead of that? How much notice do I have to give you? Does it have to be around the anniversary date? Some of the specifics around that, if you can provide would be great.

Craig W. Safian
Executive VP & CFO

Yes. Generally, Jeff, a multiyear contract is a multiyear commitment with no out clauses or term for convenience rights within that contract. And so our multiyear contracts are true multiyear contracts. They can be 2, 3 or even 5 years at some point, but the bulk of them are actually 2-year contracts. And so when a client -- and again, your point is right, the U.S. federal contracts are almost exclusively 1-year contracts. But our multiyear contracts are multiyear with no true out clauses in them.

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And again, we've been very focused on continuing to increase the proportion of multiyear contracts in our contract value base specifically for challenging macroeconomic times. And again, that's part of the resilience we baked into our business or engineered into our business so that short-term challenges from a macro perspective have a more muted impact on our overall results because of a focus on operational best practices like selling multiyear contracts.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. That's helpful. And then you were kind enough to give us kind of the seasonality on renewals for the federal government. Can we get some similarity for the nonfederal government contracts? I know they vary, but any help would be great.

Craig W. Safian
Executive VP & CFO

So I'd say, again, you can kind of see this in the external metrics as well. So Client retention is holding up really well and looks pretty good. And will look even better or modestly better if we excluded U.S. Federal from it. So retention rates broadly continue to look pretty good. I think the challenge and Gene alluded to this earlier, is our sales cycles from both a new logo perspective and also from an upsell perspective, have lengthened and that impacts the wallet retention numbers. And so you're seeing a little bit of that new business velocity impacting the lot retention numbers, but overall, the retention numbers are holding up pretty well. And again, you can see that in both the GTS and GBS client and wallet retention numbers.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

And is there a specific quarter where most of these contracts renewed.

Craig W. Safian
Executive VP & CFO

Our 2 biggest quarters are Q1 and Q4 from an exploration perspective, Q2 and Q3 tend to be lighter quarters. But one of our practices is to when we have the opportunity to early renew things. And so that can move things around. But if you just look at the pure contract term dates or end dates, overweighted to Q1 and Q4, think like 26% or 27% and then a little underweighted in Q2 and Q3, think in the 22% to 23% of total range.

Operator

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

Eugene A. Hall
CEO & Chairman

Well, here's what would like to take away from today's call. Gartner delivered financial results ahead of expectations. Our tech vendor CV growth continues to accelerate. We have a vast addressable market opportunity. We have a strong and compelling client value proposition. Looking ahead, we're well positioned to drive sustained double-digit revenue growth over the long term. We'll continue to create value for our shareholders by providing actual objective insight guidance and tools to our clients, by prudently investing for future growth, by generating free cash flow well in excess of net income, and by returning capital to our shareholders through our repurchase program.

Thanks for joining us today. 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.

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