

04-May-2021

Gartner, Inc. (IT)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Gartner's First Quarter 2021 Earnings Conference Call. At this time, all participant lines are in a listen-only mode. After the speaker's presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your host today, David Cohen, GVP of Investor Relations. Please go ahead.

David Cohen

Group Vice President-Investor Relations, Gartner, Inc.

Good morning, everyone. We appreciate your joining us today for Gartner's first quarter 2021 earnings call and hope you are well. With me on the call today are Gene Hall, Chief Executive Officer and Craig Safian, Chief Financial Officer. This call included discussion of first quarter 2021 financial results and Gartner's updated outlook for 2021 as disclosed in today's earnings release and earnings supplement both posted on our website investor.gartner.com.

Following comments by Gene and Craig, we will open up the call for your questions. We ask that you limit your questions to one and a follow up.

On the call unless stated otherwise, all references to EBITDA are for adjusted EBITDA with the adjustments as described in our earnings release. All growth rates in Gene's comments are FX-neutral unless stated otherwise.





Reconciliations for all non-GAAP numbers we use are available in the Investor Relations section of the gartner.com website.

Finally, all contract values and associated growth rates we discuss are based on 2021 foreign exchange rates unless stated otherwise. As set forth in more detail in today's earnings release, certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties, including those contained in the company's 2020 Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

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

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Good morning, and thanks for joining us. Gartner performance accelerated during the first quarter of 2021. We delivered strong results across contract value, revenue, EBITDA, and free cash flow. Total revenues were up 6%, with each of our business segments Research, Conferences and Consulting, exceeding our expectations. Research is our largest and most profitable segment. Our Research segment serves executives and their teams across all major enterprise functions in every industry around the world. Research has a vast market opportunity across all sectors, sizes and geographies.

Global Technology Sales, or GTS, serves leaders and their teams within IT. For Q1, GTS contract value grew 5%. First quarter new business was up 21% as a result of new logos and upsell with existing clients. Claim engagement continue to be strong, with content and analyst interaction volumes up 26% compared to Q1 2020. We saw strong performances across several regions and industries, including tech and midsize enterprises. We expect GTS contract value growth to continue to accelerate in 2021 and return to double digit growth in the future.

Global Business Sales, or GBS, serves leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, sales, legal and more. GBS achieved contract value growth of 12%. Its first quarter of double-digit growth. New business growth was a very strong 87% in the quarter. All practices with the exception of marketing, ended Q1 with double-digit contract value growth rates and all practices delivered positive quarterly NCVI. Across our entire Research business, we've practiced relentless execution of proven practices and we're seeing the results of our efforts. Our Research business is well-positioned to return to sustained double-digit growth over the medium term.

Turning to Conferences, as many of you know during 2020, our Conferences business pivoted from in-person destination conferences to virtual. Our value proposition for virtual conferences remains the same as for in-person conferences. We deliver extraordinarily valuable insights to an engaged and qualified audience. While Q1 is a small quarter for Conferences, the business exceeded our expectations. Beyond virtual conferences, we continue to prepare to return to in-person conferences in the second half of 2021.

Gartner Consulting is an extension of Gartner Research, and helps clients execute their most strategic initiatives through deeper extended project-based work. Our Consulting segment also exceeded our expectations with bookings up 26% during Q1. Our Consulting business will continue to serve as an important complement to our IT Research business. One of our objectives is to generate strong cash flow. Free cash flow for the quarter was \$145 million, up significantly versus the prior year. In addition, we use that cash flow plus cash balances to purchase more than \$600 million in stock through April of this year. With these repurchases, our board increased our share repurchase authorization by another \$500 million.



We recently launched our 2020 Corporate Responsibility Report. The report details the progress we made in accelerating positive social change and contributing to a more sustainable world. We want our associates, communities and clients to continue to thrive today and in the future. The report can be found on gartner.com, and I encourage you to take a look.

Summarizing Q1 was a strong quarter, with all three business segments exceeding our expectations. Looking ahead, we are well-positioned for sustained success. With a vast addressable market, which will allow us to achieve double-digit contract value and revenue growth over the next five years and beyond. We expect to deliver modest EBITDA margin expansion going forward from a normalized 2021. We generate significant free cash flow in excess of net income, which we'll continue to deploy for share repurchases and strategic tuck-in acquisitions.

And with that, I'll hand the call over to Craig. Craig?

Craig Warren Safian

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

Thank you, Gene. And good morning. I hope everyone remains safe and well. First quarter results were outstanding with very good momentum across the business. Revenue was well above our expectations. Despite the lower-than-planned expenses, we are well positioned to take advantage of the strong demand environment. We will continue to restore spending to support and drive long-term sustained double-digit growth.

With stronger-than-expected results in contract value, non-subscription Research and Consulting, we are increasing our revenue growth and normalized margin outlook, which results in a meaningful increase to our 2021 guidance. The improved outlook reflects the increased visibility we have following the stronger-than-expected first quarter.

First quarter revenue was \$1.1 billion, up 8% year-over-year as reported and 6% FX-neutral. In addition, total contribution margin was 70%, up more than 320 basis points versus the prior year. EBITDA was \$320 million, up 50% year-over-year, and up 44% FX-neutral, adjusted EPS was \$2 and free cash flow in the quarter was \$145 million. Research revenue in the first quarter grew 8% year-over-year as reported and 6% on an FX-neutral basis and we saw strong retention and new business throughout the quarter.

First quarter Research contribution margin was 74%, up about 200 basis points versus 2020. Higher contribution margins reflect both improved operational effectiveness and the avoidance of travel expenses. Some of the margin improvement compared to historical levels is temporary and will reverse as the world reopens and we increased spending to support growth.

We are seeing a benefit from increased scale and a mix shift to higher margin products, including from the discontinuation of certain lower-margin marketing products. Total contract value grew 6% FX-neutral to \$3.7 billion at March 31. Quarterly Net Contract Value Increase, or NCVI, was \$59 million, significantly better than the pandemic affected first quarter last year.

Quarterly NCVI is a helpful way to measure contract value performance in the quarter, even though, there is notable seasonality in this metric. Global Technology Sales contract value at the end of the first quarter was \$3 billion, up 5% versus the prior year. GTS CV increased \$34 million from the fourth quarter. The selling environment continued to improve in the first quarter, but Wallet retention isn't yet fully back to normal.



Moving forward, we expect win-backs and a return to more expansion with existing clients to contribute to growth in 2021, consistent with our experience coming out of the last downturn. By industry, CV growth was led by technology, healthcare, and services. Wallet retention for GTS was 98% for the quarter, down about 560 basis points year-over-year.

Sequentially, a majority of our industry groups, our retention improved from the fourth quarter. GTS new business was up 21% versus last year with strength in new logos and an improvement in upsell with existing clients. Our regular full set of metrics can be found in our earnings supplement.

Global Business Sales contract value was \$731 million at the end of the first quarter, up 12% year-over-year. GBS CV increased \$25 million from the fourth quarter. This was the strongest first quarter performance we've seen from GBS. CV growth was led by the health care and technology industries. All practices recorded double-digit CV growth with the exception of marketing, which was impacted by discontinued products.

However, our marketing practice saw improving retention rates and a return to year-over-year new business growth in the quarter. All of our practices, including marketing, showed sequential increases in CV from the fourth quarter. Wallet retention for GBS was 104% for the quarter, up more than 330 basis points year-over-year. GBS new business was up 87% over last year, led by very strong growth across the full portfolio. As with GTS, our regular full set of GBS metrics can be found in our earnings supplement.

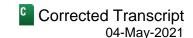
Conferences revenue for the quarter was \$25 million. We had about \$10 million of onetime revenue in the quarter. This reflected contract entitlements, which we extended beyond the end of 2020 as a result of the pandemic. Contribution margin in the quarter was 56%. We held five virtual conferences in the quarter. We also held a number of virtual Evanta meetings. First quarter Consulting revenues increased by 4% year-over-year to \$100 million. On an FX-neutral basis, revenues were flat. Consulting contribution margin was 39% in the first quarter, up 860 basis points versus the prior-year quarter.

Labor-based revenues were \$84 million, up 4% versus Q1 of last year and down 1% on an FX-neutral basis. Labor-based billable head count of 744 was down 8% due to head count actions taken in Q2 and Q3 of last year. Utilization was 68%, up about 550 basis points year-over-year.

Backlog at March 31 was \$116 million, up 3% year-over-year on an FX-neutral basis after a strong bookings quarter. Our backlog provides us with about four months of forward revenue coverage. Our contract optimization business was up 6% on a reported basis versus the prior-year quarter, and 3% FX-neutral. As we have detailed in the past, this part of the Consulting segment is highly variable.

Consolidated cost of services decreased 2% year-over-year and 4% FX-neutral in the first quarter. Cost of services declined due to lower travel and entertainment costs during the quarter, as well as the continuation of various cost avoidance initiatives. SG&A decreased 2% year-over-year and 4% FX-neutral in the first quarter as well. SG&A declined due to lower facilities, travel, entertainment and conference-related expenses, as well as the continuation of various cost avoidance initiatives.

As CV rebounds this year, our traditional sales productivity metrics will also improve. For 2021, we have ample sales capacity to drive increasing CV growth, a more tenured than usual sales force, several consecutive quarters of strong client engagement, which should drive improving retention, and the insights to help our clients address their most-critical priorities.



Going forward, in addition to the initiatives to improve sales force productivity and cost effectiveness we've been discussing the past few years, this year we are investing to upgrade many of our sales technology tools. We will be ramping up our sales force hiring later in the year to ensure we have the team in place to drive strong CV growth next year. We still anticipate high single-digit growth in both GTS and GBS head count by the end of 2021.

EBITDA for the first quarter was \$320 million, up 50% year-over-year on a reported basis and up 44% FX-neutral. First quarter EBITDA reflected revenue above the high end and costs towards the low end of our expectations for the first quarter. Depreciation in the quarter was up about \$3 million versus 2020, including real estate and software, which went into service since the first quarter of last year. Net interest expense, excluding deferred financing costs in the quarter was \$25 million, flat versus the first quarter of 2020.

The Q1 adjusted tax rate, which we use for the calculation of adjusted net income, was 23.5% for the quarter. The tax rate for the items used to adjust net income was 22.4% in the quarter. Adjusted EPS in Q1 was \$2. Recall that about \$6 million of equity compensation expense, which we normally would have incurred in the fourth quarter of 2020 shifted into the first quarter of 2021. The weighted average fully diluted share count for the first quarter was 89.1 million shares. The ending fully diluted share count at March 31, was 87.7 million shares.

Operating cash flow for the quarter was \$157 million, compared to \$56 million last year. The increase in operating cash flow was primarily driven by EBITDA growth, improved collections, and cost avoidance initiatives. CapEx for the quarter was \$13 million, down 49% year-over-year. Lower CapEx is largely a function of lower real estate investments.

Free cash flow for the quarter was \$145 million, which was up about 360% versus the prior year. Free cash flow growth continues to be an important part of our business model, with modest capital expenditure needs and upfront client payments. Free cash flow as a percent of revenue or free cash flow margin was 22% on a rolling four-quarter basis, continuing the improvement we've been making over the past few years. Free cash flow was well in excess of both GAAP and adjusted net income.

At the end of the first quarter, we had \$446 million of cash. Our March 31 debt balance was \$2 billion. At the end of the first quarter, we had about \$1 billion of revolver capacity. Our reported gross debt to trailing 12-month EBITDA was about 2.2 times. We remain very comfortable with our current gross debt level and the corresponding lower leverage multiple.

The multiple has reduced predominantly from increased EBITDA. Our expected free cash flow generation and excess cash remaining on the balance sheet provide ample liquidity and cash to deliver on our capital allocation strategy of share repurchases and strategic tuck-in M&A. During the first quarter, we repurchased \$398 million in stock at an average price of about \$180 per share.

In the month of April, we repurchased more than \$200 million of our stock. At the end of April, the board increased our share repurchase authorization for the second time this year, adding another \$500 million. As of April 30, we have around \$790 million available for open market repurchases. We expect the board will continue to refresh the repurchase authorization as needed going forward.

As we continue to repurchase shares, we expect our capital base to shrink going forward. This is accretive to earnings per share and combined with growing profits also delivers increasing returns on invested capital over time as well. We are updating our full-year guidance to reflect Q1 performance and an improved and increased outlook for the remainder of the year.



For research, the strong start to the year in CV performance and improvements to non-subscription revenue are contributing to higher-than-previously-expected Research revenue. For Conferences, our guidance is still based on being virtual for the full year. Operationally, we are planning to relaunch in-person Evanta meetings in the third quarter and in-person destination conferences starting in September.

Our guidance includes fixed costs, primarily people and marketing related to both the full year of virtual and a partial year of in-person conferences. We've excluded the variable costs, primarily venue-related associated with in-person conferences from our guidance. If we're able to run in-person conferences, we expect incremental upside to both our revenue and profitability for 2021.

For Consulting revenues, demand started the year better than we expected and the backlog improved during the first quarter. For expenses, we have reinstated benefits, which were either cancelled or deferred in 2020. This includes our annual merit increase, which took effect April 1. We also plan to increase quota-bearing head count in the high-single digits for both GTS and GBS by the end of 2021.

Additionally, we continue to invest in several other programs. The impact of most of these expense restorations or investments impact our P&L starting in the second quarter. As you know, travel expenses were close to zero from April 2020 through March 2021. Our current plans continue to assume a modest ramp-up in travel-related expenses over the course of 2021. Most of this ramp is built into the second half of the year. If travel restrictions remain in place for longer than we've assumed, we'd see expense savings.

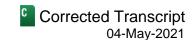
For our revenue guidance, we now expect Research revenue of at least \$3.935 billion, which is growth of at least 9.2%. We expect Conferences' revenue of at least \$170 million, which is growth of at least 42%. We now expect Consulting revenue of at least \$400 million, which is growth of at least 6.4%. The result is an outlook for consolidated revenue of at least \$4.5 billion, which is growth of 9.9%. Based on current foreign exchange rates and business mix, the consolidated growth includes an FX benefit of about 200 basis points. The year-over-year FX benefit is more pronounced in the first half of the year.

With the ongoing business momentum we are seeing, we are planning to restore growth spending as we move through the year. We now expect full-year adjusted EBITDA of at least \$1 billion, which is an increase of about 22.3% versus 2020 and reported margins of at least 22%. This is based on conferences running virtual only. The 18% to 19% expected margins in the back half of the year should provide a reasonable run rate for thinking about the margins going forward, as we will have more fully restored cost and resumed growth hiring. We expect our full year 2021 adjusted net interest expense to be \$102 million. We expect an adjusted tax rate of around 22% for 2021.

We now expect 2021 adjusted EPS of at least \$6.25. For 2021, we now expect free cash flow of at least \$850 million. This is before any insurance proceeds related to 2020 conference cancellations. All the details of our full year guidance are included on our Investor Relations site. Finally, we expect to deliver at least \$270 million of EBITDA in Q2 of 2021. We expect the second quarter tax rate in the high-20s.

Looking out over the medium term, our financial model and expectations are unchanged. With 12% to 16% Research CV growth, we will deliver double-digit revenue growth. With gross margin expansion, sales costs growing in line with CV growth over time, and G&A leverage, we can modestly expand margins from a normalized 2021 level of around 18% to 19%.

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. We will repurchase shares over time, which will lower the share count as well. We



had a strong start to the year with momentum across the business. We have meaningfully updated our outlook for 2021 to reflect a stronger demand environment and our enhanced visibility.

We are restoring certain expenses and investing to ensure we are well-positioned to rebound as the economy recovers. We repurchased more than \$600 million worth of stock this year through the end of April and remain committed to returning excess capital to our shareholders.

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

QUESTION AND ANSWER SECTION

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

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Yes, thanks. So anything further to say on the GBS metrics and how you look at the opportunity? Gene, you've obviously been really positive on it for a while and many on this call have been skeptical but beyond, I told you so answer, like, is it that there's a much richer seats per client opportunity because of all of the different verticals that you serve within GBS? Just trying to I guess better understand how the new business old for instance could be up 87%?

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Hi, Jeff. No. So, GBS has been accelerating over several quarters if you look back. And what's going on is, as you said, there's a tremendous growth opportunity, the untapped market in GBS – in GTS, it's a huge untapped market. In GBS, we're even less penetrated than that. And so, the first piece of it is, there's incredibly large market opportunity.

The second piece of it is that we had to get all of the elements that we know that are part of the Gartner formula lined up to fully realize that opportunity. And it's things like training the sales force, we introduced a whole set of products, which you know the GxL products we talked about over time. And the combination of both getting our sales force up to speed on the kind of Gartner way we sell and getting all the new products introduced and making sure the sales force understood them and how to sell them. That has resulted in us getting in – and implementing all the kind of process improvements that we've used historically and continues to improve. We put all those things together and that's resulted in GBS accelerating each of the quarters as we talked about earlier.

And so, it's a combination of all the sort of applying – the simple version is, it's applying the Gartner formula to the GBS market, where we have this incredibly huge opportunity.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Okay. And then, I guess I was, I know you said it was from Q2 and Q3 actions, but I was surprised at how much sales head count was down sequentially with the momentum that seems to be building in the business. I'm guessing there's is not an issue here, given the CV and new business' old metrics.



But can you just help us maybe understand like the sales retention of the A players or those that you want to retain, how was it around year end? And then as you think about Salesforce head count planning, I guess, how's the apparatus functioning for hiring new salespeople in a remote work and training environment? Or do you kind of need to get back to the office to really spend that up? Thanks.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

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So, in a remote environment as well as in office environment, we have a great value proposition to attract sellers to Gartner. We have over time and will continue to be, if you want to be – you know, in the selling field, Gartner is the place to be. And by the way, we've had remote salespeople for a long time. Many – probably, you know, a large proportion of our field sales people are actually deployed remotely, even before the pandemic. And so, we're used to working remotely there.

We use the opportunity of the pandemic to look at what sales territories are most productive. And our sales head count did go down a little bit as we looked at, you know, areas that we thought that were less productive that we could actually invest better. And if you look at our sales productivity, for 2021, we have plenty of capacity to continue to accelerate in terms of our growth for both GBS and GTS.

Then going forward, as Craig said, during the year, we expect to accelerate our hiring. And in the year with high single-digit growth in head count in both GBS and GTS, which positions us really well for 2022 to continue the growth as we've done in the past.

Craig Warren Safian

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

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And Gene, the other thing – Jeff, the other thing I'd add is one of the things we were very mindful of. last year is to not cut into our recruiting capacity [indiscernible] (25:43) our selling organizations. And so, we really did maintain recruiting capacity so that when we wanted to turn it back on, we have the ability to turn it back on relatively quickly. And again, we do believe and we're confident in our ability to get to those high-single-digit growth rates for both GTS and GBS this year.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Helpful. Thank you both.

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

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC



Thanks very much. I was hoping you could dive into the margin drivers a little bit more and just talk about the sustainability of the strength there. I know you talked about travel being a potential lever in terms of the delta between what your guidance could be an upside, but maybe also talk about the shift to the higher-margin products that you talked about, and the sales force ramp being faster or slower, and how to think about the drivers for the year on the margin side? Thanks.



Craig Warren Safian

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

Sure. Good morning, Toni and thanks for that. On the margins, clearly Q1 was exceptionally strong margin performance. And as we talked about earlier, it was a combination of super strong performance on the top line and underspending versus our estimates sort of, across the board, resulting in very strong EBITDA, very strong EBITDA margins. As we look out over the balance of the year, we expect margins in the 18% to 19% range for the balance of the year for the second half of the year.

And we feel like that's a good baseline because we will have fully restored or at least begin restoring all the expenses that we have been avoiding for the last several quarters that we want to put back in. We will be aggressively adding growth to our sales force and a number of other areas. And also, investing in key areas that we believe are super important for us to be able to sustain double-digit growth.

Obviously, moving forward, the business is going to look a little bit different. The P&L is going to look a little bit different than it did pre-pandemic. And clearly, our expectations around our "normal operating margins" or EBITDA margins are a lot higher than they were pre-pandemic. And that's because of some of the structural changes that you alluded to, Toni, that we're going to fully harvest moving forward. And so, those are things like having lower overall travel expenses. We've learned through the pandemic that we do want to travel and we do need to travel, but we don't need to spend nearly as much or drive as much volume in terms of travel to run our business going forward.

I think similarly with facilities, we have the ability now to reallocate and reapportion our facility footprint, which means we can really grow into what we currently have and we shouldn't need to meaningfully increase our facilities expenses as we did historically when we added lots of people, we always needed to make sure we grew our facilities. Those are the two big ones.

And then, the last thing I would mention just on your point on the margin side, we are benefiting from a few things there. One is and I'll give you the example is within the marketing practice. And as we told you several quarters ago, we discontinued several low-margin products. And the sales team has been focused on replacing them with higher-margin products. And we're seeing that happen in the marketing practice and we're also seeing that happen in several of our other practices including GTS as well, which is certainly helping the overall gross margin and overall margin profile as well.

And then lastly, clearly with GBS growing the way it is, we're adding scale to each of the practices that we serve and support as well, which is clearly helping on the economic and margin front as well.

Toni M. Kaplan

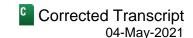
Analyst, Morgan Stanley & Co. LLC

That's helpful. And during the prepared remarks you mentioned upgrading your sales technology tools. Is this a major program or just a more modest upgrade? And can you talk about how long that might take and when we could start to see the benefits and just what kind of benefits we should expect there? Thanks.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

So, Toni, yeah, as you know, one of the important elements of growing sales productivity is the tools we provide our sales force. We've been focusing on it over time and in fact over the last couple of years specifically, we've done a program to upgrade many of the internal systems that support sales, things like billing systems, things like



that, that impact sales productivity in an indirect way. Because sales people use it, even though, it's not necessarily the tool they use every day.

In addition to that, we are currently in the process of implementing a new CRM system, which will be used by sales as well as other people throughout the business. And as we design that system, we know that there are a number of opportunities to put capabilities in that system that we believe will enhance sales productivity over time. And in fact, not just sales productivity but also help our service teams be more effective as well.

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Thanks a lot.

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

Gary E. Bisbee

Analyst, BofA Securities, Inc.

Hey, guys. Good morning and terrific result. I guess let me ask one about free cash flow. Craig, you'd introduced this concept in the last couple of quarters of a free cash flow margin. Given the higher normalized EBITDA margin commentary you just provided, is it reasonable to think that the free cash flow margin may be somewhat better beyond this year than how you've been framing that previously?

Craig Warren Safian

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

Good morning, Gary, and great question. Yeah. So, I think the way that we think about the free cash flow margin is running about three points below the EBITDA margin. And so, with an improved EBITDA margin outlook, the free cash flow margin outlook moves up in conjunction with that. And obviously, the EBITDA growth is sort of the primary fuel for the strong free cash flow. But clearly, our focus on managing that CapEx line and also our focus on making sure that our collections pacing and collections efficiency is strong as well are the things that are driving our updated outlook on that free cash flow margin.

Gary E. Bisbee

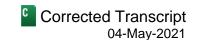
Analyst, BofA Securities, Inc.

Okay. Great. And then, just a question on the new business metric and the strength across both segments. How much of this would you attribute to just sort of catch up to what was obviously a period of time where it's very difficult to sell a couple of quarters ago versus improvement in the underlying momentum? And certainly, GBS, it feels like you've had that momentum improving regardless of the pandemic impact for a number of quarters now. But on the GTS side, is it more just catch up or has just the continued dynamic change in technology driving real underlying growth other than just catch-up from a couple of tough quarters itself? Thank you.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Yeah. Hi, Gary, great question. And I think it's actually both. I think there is clearly some pent-up demand where people wanted to buy our services but our clients were cautious in the past in terms of – which extended selling cycles and obviously, left some pent-up demand. So I think we're certainly seeing some of that.



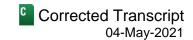
In addition, though, to your point, every business has now figured out that they want to be – that they need to be a digital business. And so, that's clearly also supporting new business growth as well. And in GBS in particular, again I think we, as I mentioned earlier, have just been getting better and better at every aspect of our business, both the products are better, the sales execution is better, sales support is great, the service support is great, and so I think we're getting better over time. So, it's a combination of those factors.

Gary E. Bisbee Analyst, BofA Securities, Inc.	Q
Thank you.	
Operator: Thank you. Our next question comes from the line of Geonow open.	orge Tong with Goldman Sachs. Your line is
George K. Tong Analyst, Goldman Sachs & Co. LLC	Q
Hi. Thanks. Good morning. GBS CV growth was 12% in the quarter. the remainder of the year, especially considering CV comps get easier.	•
Craig Warren Safian Executive Vice President & Chief Financial Officer, Gartner, Inc.	A
Hey. Good morning, George. Go ahead. Gene, do you want to take it	?
Eugene A. Hall Chief Executive Officer & Director, Gartner, Inc.	A
Go get it. Go ahead.	
Craig Warren Safian Evacutiva Vice President & Chief Financial Officer Cartner Inc.	A

Okay. Thanks. So, I think with, obviously, with the GBS CV growth, we've seen an acceleration in that metric over the last few quarters. And I agree with you that the Q1 and Q2 comps were easier. I think with the acceleration we saw in contract value growth and in new business strength in the second half of last year, the GBS comps, I wouldn't say are particularly easy. You know, we do feel really good about where we are with the GBS business and have a lot of strength there. And again, you know, logging 87% year-over-year in new business growth even on an easy compare, is still a pretty impressive number.

So, you know, we feel good about where the CV balance is at the end of the first quarter, you know, the pipeline looks strong, our sales teams, you know, feel good about the future. We don't guide on CV specifically, as you know, George. And so, you know, we're not going to provide what we think the numbers are going to be in Q3 or Q4. But we do feel very good about the pacing and the strength of the business that we've seen.

And the other thing I'd mention is, you know, the really nice thing about the GBS growth, and both Gene and I, you know, alluded to this earlier is, it's real great strength across all of the major practices. And we're starting to see marketing chip in as well, which is great. So, it's not just one practice that is driving the growth. We're seeing really strong growth in HR, in supply chain, in finance, in legal, in sales, and with marketing, starting to get an altitude as well. So, we do feel good about the strength in the GBS business right now.



George K. Tong

Analyst, Goldman Sachs & Co. LLC

Got it. That's helpful. You mentioned the underspending a bit in 1Q, and that you're now targeting 18% to 19% normalized EBITDA margins in the second half of the year, which is going to be the base of which to expand margins going forward. How should we think about margins more near-term, say in 2Q?

Craig Warren Safian

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

Yes. So, the margins in 2Q, you know, based on what we're seeing from a revenue outlook perspective, it will also be probably a little bit higher than normal, it will be a little bit higher than normal just based on the pacing of us making the investments and putting the money to work.

And so, as we talked about one of the big investments, obviously, is growing the sales forces. And that will happen and ramp over the balance of the year. And so we will have some of that hit in Q2 but then it sort of compounds as we roll into Q3 and Q4. And so I think the Q2 margins will be higher than that normalized level that we're talking about for the second half of the year for sure.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Very helpful. Thank you.

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

Andrew Nicholas

Analyst, William Blair & Co. LLC

Hi. Good morning. Given the strength in both GTS and GBS, and what certainly seems like a pretty receptive end market, just wondering how aggressive you can be on the hiring front? I know you mentioned sticking with high single-digit growth in head count in both businesses and that's certainly not a small number. But did you give any thought to accelerating that growth even further? Are there limitations to how quickly you can add values or any other considerations worth keeping in mind?

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

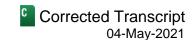
Yeah. Hi, Andrew, it's Gene. Great question. So, as we look at our sales force today, we believe we've got a lot of capacity in terms of improving our sales productivity. And so we want to make sure we capture that capacity as well and then complement that with growth, as we set our target right now, it's in the high single-digits this year to position us really well for next year in terms of double-digit growth.

And – so that's kind of our plan right now.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Got it. Thank you. And then, maybe a bigger picture question. We're over a year now from what most would consider to be the start of the pandemic. I was hoping you could spend some time kind of discussing what you



think are the biggest learnings for the management team in terms of running the business. Obviously, you spent most been the time on the cost structure already.

So, probably don't need to spend more time there. But maybe on kind of sales force training, or execution, or the optimal conference mix between hybrid and in-person, constant engagement whatever it is. Just love to hear kind of the top two or three things that you feel like you're taking away from the past year that you might not have otherwise had, had transparency into. Thanks.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Α

Yeah. It's a great question. We've talked about it a lot. There's the old adage about – the tough times make you stronger I think certainly applies to how we feel about it for us. In the sense that when this pandemic hit last year, it was pretty tough. And so, there are a lot of innovations we tried. We really were had a – the largest set of innovative things that we tried.

And I guess in the second – beginning of second quarter of last year, things like different kinds of formats were adding value remotely, things like that. And what we found is that the whole wave of innovation has resulted in some learnings on some stuff didn't work that great. Some stuff worked really really well. And we're going to continue that, those things going forward.

So, I think one learning is just that there were a bunch of specific innovations that we came up with. An example of it, kind of is very clear is virtual conferences where we didn't have any virtual conferences before. It certainly bags the question going forward, we've learned to be very successful with virtual conferences. Well, when we could go back in-person, should we continue those virtual conferences as well which we almost, certainly, will in different circumstances. Similarly, with our products we learned some ways to add value remotely that we hadn't used before that we will continue to use going forward.

We also learned that we need less travel. As Craig said earlier, we probably need less travel than we thought we did before the pandemic. We also, we've always had a relatively large share of our workforce working remotely. But for the pandemic, we had everybody working remotely. So again, we developed new work practices that will I think improve our productivity going forward for all of our remote workers even with some of our workers are back in the office. So, those are some examples of some of the learnings that we've had from this time we've gone through this pandemic time.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Thanks, Gene.

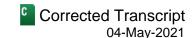
Operator: Thank you. Our next question comes from the line of Jeff Silber with BMO Capital Markets. Your line is now open.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.



Thanks so much and let me add my congratulations as well. My first question is just on the guidance for the year. It looks like you took revenue guidance up about \$140 million and adjusted EBITDA guidance up about \$240 million. I know you had that big upside in the first guarter. I don't think you provided official guidance but compare



to where we were three months ago, are you also raising expectations for the last three quarters of the year or is it just basically on the first quarter upside surprised?

Craig Warren Safian

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

Hey, good morning, Jeff. It's a combination of both. So, the strength we saw in the first quarter or the source of the deal, if you will, was a combination of revenue strength, which sticks. And also, because a lot of it was CV strength, we get the flow of that through now the balance of the year and combined with lightness in spending. And we are going to be increasing costs nicely and consistently over the next three quarters.

That said, it's a little bit lighter than what we originally baked into our forecast, just based on some of the softness we saw in Q1 and our ability to ramp up as quickly as we want to. So, it is definitely a combination of the Q1 over performance and then extending that through the balance of the year given the momentum we've seen, not only on the subscription part of the Research business, but the non-subscription part of the Research business, the strength we saw in bookings and backlog in the quarter allowed us to increase our Consulting outlook. We increased our Conferences' outlook a little bit as well. So, it was strength across the board.

And I'd say the other big thing is, obviously, getting through the first quarter gave us a lot more visibility into not only what happened in the rearview mirror during the first quarter, but the outlook as well, and the combination of all those things gave us the confidence to increase the overall outlook for the year, the way you see in our updated guidance.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Okay. I appreciate that. And if I could just switch back to Research. I know you talked about strength across all verticals. I wonder if you can give us some comments about geographies and I'm just curious how the US is doing versus the non-US, and if there's any international countries to call out either positively or negative, that would be great? Thanks.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Yeah. I mean basically, yeah, go ahead Craig.

Craig Warren Safian

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

No, please go ahead. You got it.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Yeah. So, what I'd say is we did well around the world, the US was stronger than some other markets and there are some markets like, you can imagine India, which isn't big for us, but didn't do as well. Europe didn't grow as fast as the US. So, you think about kind of it correlates pretty closely to how the pandemic is doing around the world.

Craig Warren Safian

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

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Okay. That's what I thought. Thank you so much.

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

Manay Patnaik

Analyst, Barclays Capital, Inc.

Thank you. Gene, I just wanted to ask just on GBS again. Obviously, the growth was very impressive. I just wanted to talk about the dynamic of the client count in GBS continuing to decline. I was just hoping you could just talk about that again?

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

So Manav, just to clarify, are you asking about, what's happening at the growth in the number of clients?

Manay Patnaik

Analyst, Barclays Capital, Inc.

Yeah, I mean the – you're selling, obviously – it sounds like with the Wallet retention rate you're selling more to existing clients, but that client count that you report keeps declining. So, I'm just curious what's happening there?

Craig Warren Safian

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

Hey, Gene, you want...

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

Yeah. So. Yeah, go ahead.

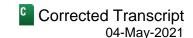
Craig Warren Safian

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

Good morning, Manav. Sorry. So, I think a couple of things. One is, it's down year-over-year but we've actually seen nice sequential improvement particularly from fourth quarter into Q1. If you'll remember, Manav, the way we go to market in GBS is essentially by functional area. And so, just because a client might be an HR client, we've got a team that goes in and then tries to convert the finance team and bring them on as clients. And so, we are able to generate really nice growth from existing enterprises because we may only have one function. As clients, we may have two, we may have three, we may have four and it varies across the board.

And so, I think the strength in GBS new business was a combination of new logo growth and expanding within existing client enterprises. But even again, to underscore that point, when we are expanding in client enterprises, it is often like a brand-new client where they've gone from zero CV in finance. They become a finance client.

And again, it won't increment up necessarily the client enterprise count. But again, we did see a nice sequential bump from 4Q into the first quarter. And a large portion of that new business strength we saw in GBS in the first quarter could be attributed to brand new logos.



Manay Patnaik

Analyst, Barclays Capital, Inc.

Got it. And Craig, just on the guidance, obviously, understandably given the COVID dynamics you've gone through this kind of at least guidance number that you give out there. And I just wanted to - have you talked a little bit more about the increased visibility you talked about. But still, perhaps what else is cloudy out there, outside of the events business, just to try and gauge how conservative you're still being with these numbers?

Craig Warren Safian

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

Sure. So, we actually converted to the at least pre-pandemic. It gets associated with it, with the pandemic. But we had actually converted to this way of guiding just prior to the pandemic. I think we want to guide in ways that we feel that we are very confident that we will be able to achieve that guidance. And the way we've been updating our guidance each quarter over the last several quarters is we analyze what happened in the most recent quarter. We utilize the enhanced visibility we have from a performance in that quarter and looking forward. And then, we flow that through both our top-line metrics and on the expense side as well.

I think in particular, we were a little cautious entering the year, particularly with thinking about the CV ramp, which drives the bulk of our revenue for the business. And we had a really strong first quarter from a CV ramp perspective. And the beauty of that is we had some benefit in the first quarter. But the reality is the bulk of that benefit flows through to the balance of the year as we recognize that revenue. And now we've got a view into Q2 pipeline and into Q3 pipeline as well.

So, we just had that enhanced visibility as well. And so again, I think from a guidance perspective, these are numbers that based on everything we're seeing, based on most recent performance, based on the visibility that we have around subsequent quarters or quarters that are coming up, this is what we believe the business is going to perform at.

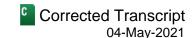
And that hasn't really changed in terms of our, I'd say, guidance philosophy or guidance methodology. So just given the volatility in the overall selling environment driven by the pandemic, driven by recessions, driven by other things. Obviously, the visibility does change or the facts that drive the visibility have been changing very rapidly quarter-to-quarter.

And we've been adjusting on that each and every quarter since. And so, from where we sit today, the updated guide, while it is significantly higher than what we had guided originally a year, those are numbers we feel very confident with.

Manay Patnaik Analyst, Barclays Capital, Inc.

All right. Thanks a lot, Craig.

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



Hi, this is [ph] John (51:07) filling in for Hamzah. Can you talk a bit about your current penetration level? I believe it sits around four to six seats across the enterprise, what do you think it go from here? Thanks.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

A

So, a great question, [ph] John (51:24). We have two levels that were underpenetrated. One is just the number of enterprises that we have, you know, as we talked about before, we have more than 100,000 enterprises that we target today. And so, we have a large number of enterprises we can go after. And then secondly then, within each enterprise, we have a lot of opportunity for additional seats. And it's a little different with GTS and GBS.

With GTS, you think about as being within the technology organizations. Those are large organizations, they're growing. And even among our existing clients, there's tremendous growth opportunities. We have products for obviously, the C-level, their direct reports, and then on down [ph] through the (52:04) organization. And then, if you look at GBS, then you have each of the functions, you know, as Craig mentioned earlier, finance, marketing, sales, legal, etcetera. And each of those functions, today, we have very, very low penetration in both enterprises. And we still have the same opportunity to add seats for each of those organizations as well.

And [ph] many of the organizations (52:30) are quite large, like you think about the sales organization for example or a financial organization, there's just enormous opportunities there. And so the – whether it's GTS or GBS, we have huge opportunities both for additional enterprises, but also for individual seats within those enterprises, both directly – you know, the C-level, reporting to C-level, and then throughout the organization.

Q

Great. Thank you. Maybe could you just walk us through how sales trends progressed throughout the quarter from January, February and March? And then if you have any thoughts on April, did we accelerate throughout the quarter? Thanks.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.

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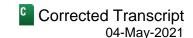
So, what I would say is the selling environment improved throughout the quarter. In particular I think selling cycles became shorter throughout the quarter. And what most client would say is that they got more visibility in terms of their own operations. And so, new better – what kind of money – budget money they had. It's sort of say the selling environment got better throughout the quarter.

Perfect. Thank you.

Operator: Thank you. There are no further questions. I will now turn the call back to Gene Hall for closing remarks.

Eugene A. Hall

Chief Executive Officer & Director, Gartner, Inc.



So, summarizing today's call, Q1 was a strong quarter. We exceeded expectations across all three of our business segments Research, Conferences, and Consulting. GBS delivered its first quarter of double-digit growth. And across GTS and GBS, we had very strong new business growth. Looking ahead, we're well positioned for success, for sustained success. And we have a vast addressable market, which will allow us to achieve double-digit contract value and revenue growth over the next five years and beyond.

We expect to deliver modest EBITDA margin expansion going forward from a normalized 2021. We generate significant free cash flow in excess of net income, which we'll continue to deploy through share repurchases and strategic tuck-in acquisitions. Thanks for joining us today and we look forward to updating you, again, next quarter.

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

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