S&P Global
Market Intelligence

Gartner, Inc. NYSE:IT

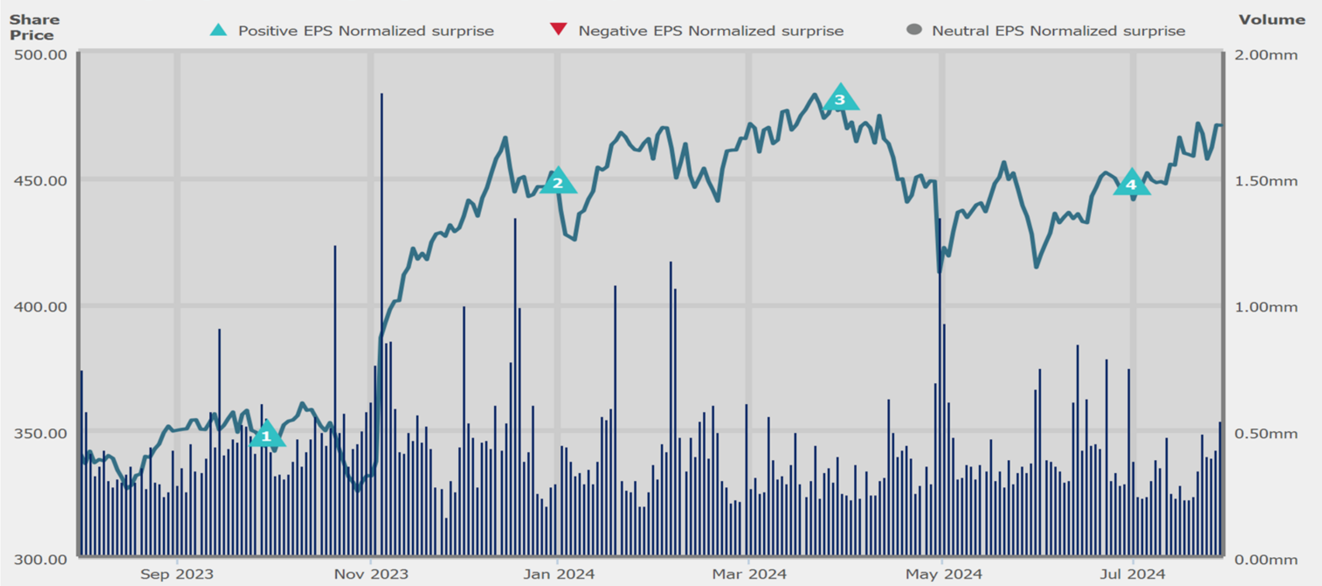
FQ2 2024 Earnings Call Transcripts

Tuesday, July 30, 2024 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.03	3.22	6.27	2.50	11.63	12.96
Revenue (mm)	1584.65	1595.10	0.66	1475.71	6234.77	6780.87

Currency: USD
Consensus as of Jul-24-2024 5:43 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2023	1.96	2.56	30.61 %
FQ4 2023	2.83	3.04	7.42 %
FQ1 2024	2.54	2.93	15.35 %
FQ2 2024	3.03	3.22	6.27 %

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David Cohen
Group Vice President of Investor Relations

Eugene A. Hall
CEO & Chairman

ANALYSTS

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William Blair & Company L.L.C., Research Division

Brendan J. Popson
Barclays Bank PLC, Research Division

Heather Nicole Balsky
BofA Securities, Research Division

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Jeffrey P. Meuler
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Joshua K. Chan
UBS Investment Bank, Research Division

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

Surinder Singh Thind
Jefferies LLC, Research Division

Toni Michele Kaplan
Morgan Stanley, Research Division

Presentation

David Cohen
Group Vice President of Investor Relations

Good morning, everyone. Welcome to Gartner's Second Quarter 2024 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 second quarter 2024 financial results, and Gartner's outlook for 2024 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 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 2024 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 2023 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 Q2, contract value grew high single digits. Financial results for the second quarter were ahead of expectations, and we delivered strong profitability and free cash flow.

The external environment remains volatile and uncertain, complex and ambiguous. Leaders across every enterprise face more simultaneous challenges than ever before. For example, small technology companies continue to face funding challenges; supply chain shifts are impacting many industries; the banking industry continues to deal with higher interest rates; there are budget challenges in the public sector; persistent cybersecurity threats; the potential impacts of generative AI. The list goes on.

Enterprise leaders and their teams know they need help. And they know Gartner is the best source for the actionable objective insight they need to drive smarter decisions and achieve stronger performance on their mission-critical priorities. Our value proposition helps our clients to save time, save money, gain confidence, manage risk, develop leadership skills, enhance their teams and achieve success.

Research continues to be our largest and most profitable segment. Our Research business serves leaders across all of enterprise functions in every industry and in every geography. Our market opportunity is vast. Within our Research business, contract value with enterprise function leaders grew 10%, and our tech vendor clients returned to growth. We continue to guide clients through a wide range of topics, including generative AI, supply chain optimization, leader and manager development, cost optimization, cybersecurity and the recent CrowdStrike outage.

Through relentless execution of proven practices, we deliver unparalleled value, whether our clients are thriving, struggling or anywhere in between. Our Research business serves executives and their teams through our distinct sales channels.

Global Technology Sales, or GTS, serves leaders and their teams within IT. GTS new business grew 8%. Contract value grew 6%. Contract value with GTS enterprise function leaders grew high single digits. Global Business Sales, or GBS, serves leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, legal, sales and more. GBS new business grew 16%. GBS contract value grew 12%.

Gartner Conferences deliver extraordinarily valuable insights to an engaged and qualified audience. Revenue grew 11% in the second quarter, and the outlook for conferences remains strong. 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 15%.

People are at the heart of everything we do. We get better, faster, stronger every year because we work effectively as one team to deliver unparalleled value to our clients. And our teams are committed to driving relentless execution of the best practices that will fuel long-term sustained double-digit growth.

In closing, Gartner delivered financial results ahead of expectations. We delivered 10% contract value growth with enterprise function leaders. Our client value proposition and addressable market opportunity will allow us to drive long-term sustained double-digit revenue growth. We'll continue to create value for our shareholders by providing actionable objective insight to our clients, prudently investing for future growth and returning capital to our shareholders through our share repurchase program.

We expect to deliver modest margin expansion over time, and we'll continue to generate significant free cash flow well in excess of net income. All of this and more positions us to continue our sustained 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. Second quarter contract value grew 7% year-over-year, accelerating about 50 basis points from Q1. We believe the first quarter marked the bottom for CV growth this cycle, barring a meaningful shift in the macro or geopolitical environment. Growth may vary from quarter-to-quarter, but we expect the overall trend will be higher from the 6.9% we delivered in the first quarter. Over the medium term, we expect both GTS and GBS to grow 12% to 16%.

Second quarter revenue EBITDA and EPS all came in ahead of our expectations. We are updating our guidance based on the Q2 results, FX and a change in non-subscription Research revenue. We have repurchased $565 million of stock through June and remain eager to buy back stock opportunistically.

Second quarter revenue was $1.6 billion, up 6% year-over-year as reported and 7% FX neutral. In addition, total contribution margin was 68%, about in line with last year. EBITDA was $416 million, up 8% as reported and 10% FX neutral versus second quarter 2023. Adjusted EPS was $3.22, up 13% from Q2 of last year, and free cash flow was $341 million.

Research revenue in the second quarter grew 5% year-over-year as reported and 6% on an FX-neutral basis. Subscription revenue grew 7% FX neutral. The year-over-year change in non-subscription revenue was similar to Q1 2024. Second quarter Research contribution margin was 74%, consistent with last year.

Contract value was $4.9 billion at the end of the second quarter, up 7% versus the prior year and up about $67 million from the first quarter. CV from enterprise function leaders across GTS and GBS grew 10%. Contract value and CV growth are FX neutral.

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

Global Technology Sales contract value was $3.8 billion at the end of the second quarter, up 6% versus the prior year. GTS enterprise leader CV increased high single digits. Tech vendor CV returned to growth in the quarter. GTS CV increased $40 million from the first quarter.

While retention for GTS was 101% for the quarter, up from Q1, enterprise leader wallet retention was consistent with historical levels. GTS new business was up 8% compared to last year. GTS quota-bearing head count was down 2% year-over-year as we managed tech vendor-focused sales territories in response to near-term industry dynamics.

Across GTS, we continue to aggressively optimize our territories to align with where we have the best growth opportunities, and we are investing for future growth. We continue to expect mid-single-digit QBH growth by the end of the year. We have the headcount we need to meet our commitments for this year. Our regular full set of GTS metrics can be found in our earnings supplement.

Global Business Sales contract value was $1.1 billion at the end of the second quarter, up 12% year-over-year. All of our GBS practices grew at double-digit or high single-digit rates other than marketing, which grew mid-single digits. Growth was led by the finance, legal and supply chain practices. GBS CV increased $27 million from the first quarter.

Wallet retention for GBS was 106% for the quarter, which compares to 109% in the prior year. GBS new business was up 16% compared to last year. GBS quota-bearing head count was up 6% year-over-year, and we continue to target high single-digit growth for 2024. As with GTS, our regular full set of GBS metrics can be found in our earnings supplement.

Conferences revenue for the second quarter was $186 million, increasing 10% as reported and 11% FX neutral compared to Q2 of 2023. Adjusting for the movement of conferences across the year, revenue increased about 15% in the quarter. Contribution margin was 58%. Q2 is our seasonally strongest margin quarter of the year. We held 16 destination conferences.

Second quarter consulting revenue increased by 13% year-over-year to $143 million. On an FX-neutral basis, revenue was up 15%. Consulting contribution margin was 38% in the second quarter. Labor-based revenue was $107 million, up 3% versus Q2 of last year's reported and 5% on an FX-neutral basis. Backlog at June 30 was $199 million, increasing 16% year-over-year on an FX-neutral basis with continued booking strength.

In contract optimization, we delivered $36 million of revenue in the quarter, up 62% versus the prior year. Our contract optimization business is highly variable. Consolidated cost of services increased 5% year-over-year in the second quarter as reported and 6% on an FX-neutral basis. The biggest driver of the increase was higher compensation costs.

SG&A increased 5% year-over-year in the second quarter as reported and on an FX-neutral basis. SG&A increased in the quarter as a result of headcount growth, which contributed to higher compensation costs. EBITDA for the second quarter was $416 million, up 8% from last year's reported and up 10% FX neutral. We outperformed in the second quarter through effective expense management and a prudent approach to guidance.

Depreciation in the quarter of $28 million was up 16% compared to 2023. Net interest expense, excluding deferred financing costs in the quarter, was $19 million. This is favorable by $4 million versus second quarter of 2023 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.

The Q2 adjusted tax rate, which we use for the calculation of adjusted net income was 24% for the quarter. The tax rate for the items used to adjust net income was 25% for the quarter. Adjusted EPS in Q2 was $3.22, up 13% compared with last year. We had 78 million shares outstanding in the second quarter. This is a reduction of more than 1.5 million shares or about 2% year-over-year. We exited the second quarter with about 78 million shares on an unweighted basis.

Operating cash flow for the quarter was $370 million compared with $436 million in Q2 of 2023. The change reflects working capital timing, which we expect to reverse in the second half. CapEx for the quarter was $29 million, in line with our expectations.

Free cash flow for the quarter was $341 million. Free cash flow on a rolling 4-quarter basis was 17% of revenue and 66% of EBITDA. Free cash flow conversion from GAAP net income was 121%. Our free cash flow conversion is generally higher when CV growth is accelerating.

At the end of the second quarter, we had about $1.2 billion of cash. Our June 30 debt balance was about $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was under 2x. Our expected free cash flow generation, available revolver and excess cash remaining on the balance sheet provide ample liquidity to deliver on our capital allocation strategy of share repurchases and strategic tuck-in M&A. Our balance sheet is very strong with $1.9 billion of liquidity, low levels of leverage and effectively fixed interest rates.

We repurchased $340 million of our stock during the second quarter. We have more than $1 billion of repurchase capacity after the Board recently increased our share buyback authorization by $600 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. The outlook for subscription research is higher based on the latest FX rates. We increased the outlook for Conferences and Consulting, and our EBITDA guidance primarily reflects Q2 upside, partially offset by our updated non-subscription research outlook.

For subscription research, which was about 76% of revenue in 2023, we continue to innovate and provide a very compelling value proposition for clients and prospects. The executive and their teams face uncertainty and challenges, and they recognize how Gartner can help regardless of the economic environment.

For subscription research revenue, based on Q2 results and our outlook for the balance of the year, our FX-neutral guidance is unchanged. We have very high visibility into the subscription research revenue at this point in the year. For non-subscription research, which was about 6% of 2023 revenue, we helped small businesses find the right software. We've updated our outlook for this portion of the segment given the most recent trends. We now expect non-subscription revenue of about $305 million for 2024.

As a reminder, about 1/3 of our revenue and operating expenses are denominated in currencies other than the U.S. dollar. Based on recent FX rates, we expect currency to be roughly neutral in the back half of the year with a modest benefit in Q4.

Our updated 2024 guidance is as follows: we expect research revenue of at least $5.105 billion, which is FX-neutral growth of about 5%. This reflects subscription Research revenue growth of about 7%. We expect Conferences revenue of at least $565 million, which is FX-neutral growth of about 12%. We expect Consulting revenue of at least $530 million, which is growth of about 4% FX neutral. The result is an outlook for consolidated revenue of at least $6.2 billion, which is FX-neutral growth of 5%.

We now expect full year EBITDA of at least $1.460 billion, up $5 million from our prior guidance. We expect 2024 adjusted EPS of at least $11.05. For 2024, we expect free cash flow of at least $1.08 billion, consistent with our prior guidance. This reflects the conversion from GAAP net income of 138%.

After the second quarter ended, we reached the settlement related to pandemic or event cancellation insurance. We expect pretax proceeds of $300 million during the third quarter. This is not yet included in the cash flow or GAAP EPS guidance. Our guidance is based on 78 million fully diluted weighted average shares outstanding, which reflects the repurchases made through the end of June. And finally, for the third quarter, we expect adjusted EBITDA of at least $295 million.

Our financial results through the first half have been ahead of our plan despite continuing global macro uncertainty. CV grew high single digits in the quarter, and we believe Q1 was the bottom for CV growth in this cycle. We repurchased $565 million in stock year-to-date through June, and remain eager to return excess capital to our shareholders. We will continue to be price sensitive, opportunistic and disciplined.

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

Question and Answer

Operator

[Operator Instructions] And it's from the line of Jeff Meuler with Baird.

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

When you kind of reiterated that you think Q1 marked the bottom for CV growth with the macro and geopolitical caveats, you said growth may vary quarter-to-quarter. I just want to, I guess, zoom in on what you're trying to signal there. Is that just an acknowledgment of, I guess, the volatile end market environment? Or are you expecting that you expect deceleration at some point in the near future because of a -- like a known year-over-year comp issue or anything else that you're seeing?

Craig W. Safian
Executive VP & CFO

So I'd say it's definitely more about the fact that we're operating in a very volatile operating environment. And 10 basis points up or down is a relatively small amount of CV in any given quarter. I think the core message is 6.9% marks the bottom, and we should be above that in every quarter moving forward, it could bounce around a little bit, and then ultimately, our medium-term objective is to get both GTS and GBS back to 12% to 16% annual growth rates.

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

Got it. And then on the building headcount from here, I guess the tech vendor territory, I don't know exactly the phrase you use, but I don't know if it's just dynamic territory planning. But was that something that you recently kind of like kicked into gear? Or was that an ongoing dynamic? Just not sure what you're trying to signal there. And is it reassigning salespeople or just managing those territories through attrition?

Eugene A. Hall
CEO & Chairman

Jeff, it's Gene. So we do, do what we call dynamic territory planning, which is we look at every territory, literally every territory each week to see what the productivity has been and what the kind of trend is. And then what we do is as we have turnover, as one sales person leaves -- and of course, we have -- even with low turnover, we do have people leave every quarter, we look at where is the most productive place with those territories.

So I'll give you just an extreme example. And we used to have salespeople in Russia. We decided, obviously, we weren't going to sell in Russia back when the invasion happened. So we don't fill those territories anymore, but we have other territories that are most productive.

In a more recent example, if you look at the small tech vendor market, there are sets of small tech vendors that used to be able to get funding and in today's environment can't get funding versus others, like for especially those in AI that can. And so what we do is literally on a weekly basis, say, okay, when these people leave, we're selling to tech companies that are not going to get funding. Let's take those territories and move them over to places where in fact like AI basically are big in funding.

So we're doing this on a constant basis to make sure our salespeople are always deployed in the most productive territories. We do it with turnover. And again, we have cases where it's clear that it's not going to recover in the short term, we'll do it more proactively than that, too, where we'll say, we'll actually close those territories down and move like either those people or that headcount to more productive areas.

Craig W. Safian
Executive VP & CFO

And then just sort of pulling the thread all the way through, we are targeting, even with all that dynamic territory planning, mid-single-digit QBH growth for GTS by the end of the year and high single-digit QBH growth for GBS by the end of the year.

And again, implicit in all that are all the things Gene talked about. That's been our normal operating procedure for the last 4 or 5 years now. It's an innovation we put in place in 2019. And again, it doesn't allow us to perfectly match, but it gives us a better chance of making sure that the resources that we're investing in are actually going against the best short-term, medium-term and long-term opportunities.

Operator

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

Toni Michele Kaplan
Morgan Stanley, Research Division

I wanted to focus on the research revenue guide. It seems like you lowered it because of the non-subs business. I know tech vendor actually returned to growth on the subscription side, but the non-subs piece, I think still is -- seems to be declining. I guess, was it because -- your guide down, was it because non-subs was worse than you originally thought? Or is just the trajectory not going to be as quick as you were thinking? Just maybe help us through the trajectory on the non-subs piece.

Craig W. Safian
Executive VP & CFO

Yes, sure, Toni. I mean, the first thing I'd say is that the entire operational change relates to the non-sub piece. The subscription revenue piece of the overall research revenue, I mean, it's up a little bit from foreign exchange. But from an operational perspective, the guidance is essentially unchanged from last quarter.

And again, as we talked about last quarter, we believe that the bottom was going to be either Q1 or Q2. And so we had a strong, solid Q2 of NCVI and CV growth dialed into our outlook. And so everything, all the change relates to non-subscription business.

Toni Michele Kaplan
Morgan Stanley, Research Division

Great. And then the cash balance is pretty high, you're below leverage. You added capacity to the buyback program. Maybe just give us an update on like what conditions could we look for to sort of -- for you to be buying back more stock? I know you already do, but just sort of elevate that level.

Craig W. Safian
Executive VP & CFO

Yes, sure. So our basic philosophy on buybacks is to be price sensitive, opportunistic and disciplined. And I'd underscore each of those -- they're all sort of important in influencing our philosophy on buybacks.

What I'd also say, obviously, you know this, and most people on the call know this, we've returned a lot of capital since 2021 back to our shareholders. We're close to what we did full year '23 through the first half of '24. And in fact, our free cash flow or operating cash flow and buybacks are pretty close on top of each other through the first 6 months of the year. And so we're going to continue to be price sensitive, opportunistic and disciplined, but we want to make sure that we are driving incremental shareholder value by leveraging our free cash flow and our balance sheet.

And so we look at strategic value-enhancing tuck-in M&A, and in absence of that, buybacks. The bias over the last several years has been buybacks. And I would presume that moving forward, we would be more focused on buybacks going forward. So you're right, we have cash. We have capacity. We did a pretty good job through the first 6 months of the year, and we'll continue to make sure that we're driving incremental shareholder value by leveraging our balance sheet and free cash flow.

Operator

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

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

I wanted to first focus on new business growth, seemingly stepped up pretty nicely relative to the first quarter. Can you unpack that a little bit? I know at least in GTS, some of that might be some easier comps. But are you seeing better productivity from your sales force? Is there any change to the selling environment? Any color there would be great.

Eugene A. Hall
CEO & Chairman

Drew, it's Gene. So what I'd say is the selling environment is running pretty much the same. But I do think we're focused on improving the productivity of our teams. And as you know, we're always taking actions to be agile and respond to changes in the world. I think that's really the impact you're seeing. It's not that the environment got better in any way, really.

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

Understood. And then I'm looking at the contract value per client enterprise, and it continues to tick up nicely. Just wanted to confirm my hunch that that's the result of maybe losing some smaller tech vendor clients more so than selling a bunch more seats into the larger enterprises. But any confirmation there or color on that metric and how you'd expect it to evolve as you have now seen the trough of CV growth?

Eugene A. Hall
CEO & Chairman

So Andrew, I'll get started, Craig can finish. Basically, the -- our basic strategy with clients is when we sell to a client, that's not the end. There's plenty of opportunity to sell more seats to those clients over time. And so one core part of our selling strategy is to keep selling additional business, additional licensed users to clients and sell them.

The other part of our strategy is, of course, to sell new logos as well. And so -- because that's one factor that you see there is that actually -- and we've always had this as a core part of our strategy, which is always keep growing existing clients as well as new clients.

Craig W. Safian
Executive VP & CFO

And Andrew, I would just add. If you look at wallet retention being over 100%, that is baked in, what Gene just talked about in terms of once we have a client, we then expand our relationship with them each and every year. And we've been doing that for years, and we intend to continue to do that going forward. And there is a little bit of increased churn on the small end that you highlighted, which is also helping modestly, but helping that overall CV per enterprise figure as well.

Operator

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

Heather Nicole Balsky
BofA Securities, Research Division

I was hoping to talk about your medium-term outlook and your getting back to that low teens growth number. In the context of the environment right now, the selling environment, how are you thinking about the time it could take you to get back there? And also going back to your comments on the third quarter call '23 where you expected tech vendors to return to normal growth in 12 to 18 months, is that still on the table right now? Or do you think things have changed?

Craig W. Safian

Executive VP & CFO

Heather, thank you. In terms of the medium-term outlook, it is our goal. And again, we do need a stable -- I won't say a great operating environment, but a stable operating environment. I'd argue we're doing really well in a very volatile operating environment globally, probably more volatile than we'd all like to see, quite honestly, but we're continuing to do well.

GBS is growing in that medium-term guidance range today. The end-user portion or the enterprise leader portion of GTS is growing at high single-digit growth rates, and obviously, we want to get that back up into the 12% to 16% range. And then on the tech vendor side, what I would say is small tech continues to be a super challenging operating environment. We were pleased to see the overall tech vendor business return to growth in this quarter from last quarter, but it is still super challenging, particularly on the lower end of the tech vendor market.

Heather Nicole Balsky
BofA Securities, Research Division

Okay. That's helpful. And as a follow-up, the business tends to see consistent sequential trends in terms of CVs, just if you look back historically. When you think about the back half of the year, is there any reason that you would deviate in any way from the sort of sequential cadence that you typically see, generally, not like the exact number, but the trend?

Craig W. Safian
Executive VP & CFO

Generally, no. So our selling motion, our conference calendar, things like that, which are a big piece of what drives the typical phasing, are pretty stable. So no, I would expect us to follow the similar trends to what we've seen. Obviously, we called out Q1 of this year earlier because it was a little off trend. But I think back half of the year should look like a normal back half of the year for us from that perspective.

Operator

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

Joshua K. Chan
UBS Investment Bank, Research Division

If I look at the CV growth, so GTS obviously reaccelerated nicely as you had predicted. How do you think about the shape of GBS as that's been kind of moderating slowly perhaps because of the macro? How do you envision GBS trending from here?

Eugene A. Hall
CEO & Chairman

So GBS, first, we grew 12% in the quarter, which we think is really good. The second thing is GBS has a tremendous market opportunity. We are aligned to go capture that opportunity over time. CV is going to bounce around a little bit quarter-to-quarter, but the huge market opportunity is there, and we're prepared to go get it.

Craig W. Safian
Executive VP & CFO

And again, the medium-term objective for that business is 12% to 16% growth, and we continue to believe that the GBS business and the GTS business can both deliver 12% to 16% CV growth.

Joshua K. Chan
UBS Investment Bank, Research Division

Okay. Great. And then if I can ask a question on margin. I guess the ingredients that led to the slight year-over-year EBITDA margin expansion in Q2, is there any reason that those ingredients wouldn't also hold into the second half?

Craig W. Safian
Executive VP & CFO

Thank you, Josh. Great question. So the way to think about the second half again, is sort of back to Heather's question a little bit, too, normal phasing from both a revenue perspective and from an operating expense perspective, coupled with continuing to make sure that we are investing for future growth. And again, we talked about mid-single-digit QBH growth for GTS and high single-digit QBH growth for GBS, so making sure that those investments are dialed into the second half operating expense forecast and plans.

The other thing I would note is that Q2 is our highest margin quarter for conferences. So despite Q4 being the largest revenue quarter, Q2 is actually the highest margin quarter, which drives some of that benefit that you saw in the second quarter. But if you kind of run the math on revenue, normal OpEx phasing, given our conference calendar and also dialing in that incremental investment for the QBH growth, which again, as you know, doesn't really benefit the results or top line results this year, those are really investments for the future. That's how you can sort of reconcile from the Q2 EBITDA margins down to the second half EBITDA margins, which then give you that full year outlook of around 23.5%.

Operator

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

Brendan J. Popson
Barclays Bank PLC, Research Division

This is Brendan on for Manav. I just want to ask, there's been some, I guess, just reports on companies facing kind of like a GenAI tax on their IT budgets just with the expense of some of the new technology. I was just curious of what you guys have seen related to that and kind of what your customers are saying and any -- if there's any impacts from that. Obviously, it's also an opportunity as well, but just what you're seeing near term.

Eugene A. Hall
CEO & Chairman

Yes, it's a great question, Brendan. So GenAI continues to be a topic of very, very high interest with all of our clients. If you look at kind of our enterprise function leaders as opposed to the tech companies, they're easing into the investments. The tech companies are investing heavily. The enterprise function leader businesses are basically starting to invest and looking for the best use cases where they can get the highest return on GenAI.

I think people are still wrestling with what the right formula is there. And it's great for us because it's a topic of very high interest. They're spending money on it, and it's important to them. And so it's a place where we can really add a lot of value.

Brendan J. Popson
Barclays Bank PLC, Research Division

Okay. And then just following up. With the cash and leverage, you mentioned -- you always mentioned tuck-in M&A as a possibility. Just kind of give us an idea what, I guess, what kinds of tuck-in M&A you would consider.

Craig W. Safian
Executive VP & CFO

Brendan, it's Craig. So generally, we think about M&A from kind of 3 angles. One would be enhancing our research coverage in some area. So it could be where we need more in marketing or we need more in finance or something like that. So that would be one flavor of acquisition, looking for assets that could enhance the insights to which we provide the operating executives that are our target audience.

Second would be sort of a geographic fill-in. So sort of the same tone and tenor there, but going after geographies where we're not as strong or don't have as much critical mass. And then third and perhaps fourth would be sort of assets or technology-type acquisitions that would help us catalyze getting to market faster or buying some capability that is really valuable to us that we can then leverage across the enterprise.

And again, if you look at the -- there's a handful of small acquisitions we've done over the last 5, 6 years. We kind of have at least one in each of those categories, and that's sort of what the M&A radar screen looks like today.

Operator

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

Surinder Singh Thind
Jefferies LLC, Research Division

Can you maybe talk about just the thought behind the cadence for your hiring plans at this point? It sounds like it's going to be quite back-half loaded. Is that just looking for additional data points? Any color there would be helpful.

Eugene A. Hall
CEO & Chairman

Surinder, sorry. So if you look at our takes for our hiring, if you look at the market overall, it's been very, I'd say, uneven over the last few years. There was the pandemic where we slowed down our hiring dramatically. There was the tech bubble afterwards where it was hard to even hire people because the tech companies were so aggressively hiring. Then the year after that, the tech companies were laying people off, and so it was very easy to hire people.

And so we've stepped up a couple of years ago very well, and we had a lot of junior people. And so we wanted to make sure that those people mature, we got full productivity out of them, and also to see kind of what the macroeconomic and geopolitical world looks like. That seems to be more stable now, and we feel like that the tenure of that group we hired 2 years ago now is at a stable point. And so it makes sense to ramp our hiring up.

And the people we hire at the beginning in the second half of the year are going to position us for '25, '26 and '27 because their productivity will improve over the first 3 years we hire them. And so this additional hiring we're planning to do in the second half is really getting back to what we've done traditionally before the rockiness of the last few roads -- in the last few years, and we would expect that kind of hiring trend to continue, which is more even going forward. And this is kind of just getting back to strategy after the last few years of a lot of tumultuous economic times.

Craig W. Safian
Executive VP & CFO

And Surinder, the other thing I'd just add there is from where we are today, it's another few hundred net people on staff by the end of the year. So it may sound like a big sort of move, it's actually not, given the trending. And so again, if we target that mid-single-digit QBH growth for GTS and high single digit for GBS, it's a few hundred more people between -- net between now and the end of the year.

Surinder Singh Thind
Jefferies LLC, Research Division

That's helpful. And then you mentioned CrowdStrike in the prepared remarks. How does something like that impact the business? Is it just more engagement with existing clients just wanting to access more resources? Or does this drive incremental demand at the top of the funnel that maybe you can convert in the back half of this year?

Eugene A. Hall
CEO & Chairman

So our whole strategy is to help our clients with their most important priorities. CrowdStrike on that Friday was certainly one of a big priority. And so we did see a big uptick in demand for our clients. It helps with engagement. We did a bunch of things in media to help them. We had a panel webinar that day. We had a document that we published that day. We had a webinar live stream, and we did a whole series of things to help our clients.

And so really, we're helping them in a moment of need, which is great for our demand. It's great for particularly, existing clients. But for new clients, it gives them a reason why they should buy. So CrowdStrike -- the counts into CrowdStrike are why we exist, is to help our clients through these difficult times.

Operator

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

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

Enterprise functional leader CV growth was 10% in the quarter, which is pretty similar compared to 1Q. Can you elaborate on some of the trends you're seeing here and if the momentum exiting the quarter was stable or improved?

Eugene A. Hall
CEO & Chairman

So I would say the selling environment was pretty consistent between Q1 and Q2. There's not a lot of change there. I do think our execution was better, which is why we had a little bit of pickup in parts of our business. But the overall macroeconomic and geopolitical environment didn't change much between Q1 and Q2.

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

Okay. Got it. That's helpful. And then research subscription revenue growth outperformed in the quarter, but you're holding your outlook for research subscription revenue unchanged for the full year. What factors are holding you back from raising your research subscription outlook for the full year?

Craig W. Safian
Executive VP & CFO

George, the way I would characterize it is we came in roughly where we thought we were going to land from a research subscription revenue perspective in the second quarter. CV growth did accelerate 50 basis points from Q1 to Q2. That was pretty much baked into our full year outlook.

And so from where we stand today, we feel really good about the research subscription revenue line, as we mentioned in the prepared remarks. That's obviously the revenue line that we have the greatest visibility on, but it's also modest changes in CV don't have a huge impact from now until the end of the year. It's really the CV growth we deliver for this year will really determine 2025 revenue.

So I think our perspective is sort of on target or on expectation for Q2. No change to the research subscription revenue line for the balance of the year other than the modest uptick that we dialed in for foreign exchange.

Operator

And our next question is from Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I wanted to focus on retention. The retention metrics, still going down. I know the declines seem to be getting less worse, which is good to see. But what do you think it will take to get the retention metrics starting to move in a positive direction again? Is there anything you can do from your end?

Craig W. Safian
Executive VP & CFO

So I'd say, focusing on GTS first. So while retention, as I think I mentioned in the prepared remarks, for the enterprise function leader part of business is at historical levels and continues to be pretty strong there. And so I think all you're seeing is the continued tech vendor challenging market. And again, in particular, the small tech vendor part of the market, diluting the retention metrics a little bit.

We will eventually wash through this. It will take some time because it's not as simple as thinking about, well, business you sold 24 months ago, you're already through that now and so there are no more issues. It's really client specific in terms of when they got funding, when their funding runs out, when they have cash flow problems, et cetera. And so I think what you're still seeing is just a drag down from, in particular, small technology companies that is driving the retention stuff.

On the GBS side, I think we had really, really strong wallet retention there, particularly coming out of the pandemic. The wallet retention numbers are still significantly higher than what we report on the GTS side. And so I'd argue the GBS wallet retention metrics and client retention metrics are relatively strong as well.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. Great. And if I could shift over to the contract length for Research. If I remember correctly, at one point in time, you were selling more 3-year contracts. I might be wrong, but I think more recently, probably shifting a little bit more towards 2 years. If you could just remind me if that's correct. And are a lot of those 2-year terms coming up for renewal over the next few months or so?

Craig W. Safian
Executive VP & CFO

Yes. Jeff, our standard contract length, I would say, is 24 months. We do write some that are 12 months, and we do write some that are 36 months, but the vast majority are 24 months. And so we always have a significant amount of contracts coming up for renewal in basically every quarter, because our sellers and our clients consume predominantly 24-month contracts.

I think our average contract length is somewhere in the 1.7 to 1.8 year range. More than 70% of our contract value is multiyear in nature. And so again, we're always going to have 2-year deals and 3-year deals coming up for renewal pretty consistently quarter-to-quarter to quarter-to-quarter.

Operator

Thank you. And as I see no further questions in the queue, I will pass the call back to the Chairman and CEO, Gene Hall, for his final comments.

Eugene A. Hall
CEO & Chairman

Here's what I'd like you take away from today's call. Gartner delivered financial results ahead of expectations. We delivered 10% contract value growth with enterprise function leaders. 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 will continue to create value for our shareholders by providing actual objective insight to our clients, prudently investing for future growth, generating free cash flow well in excess of net income and returning capital to our shareholders through our share repurchase program.

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

Operator
And thank you all for participating in today's conference, you may now disconnect.