CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

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

Toni M. Kaplan  
Analyst, Morgan Stanley & Co. LLC

Gary E. Bisbee  
Analyst, BofA Securities, Inc.

William A. Warmington  
Analyst, Wells Fargo Securities LLC

Andrew Nicholas  
Analyst, William Blair & Co. LLC

Jeffrey M. Silber  
Analyst, BMO Capital Markets Corp.

Manav Patnaik  
Analyst, Barclays Capital, Inc.

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

Mario Cortellacci  
Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Gartner’s Second Quarter 2020 Earnings Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers’ presentation, there will 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 speaker today, David Cohen, GVP of Investor Relations. Thank you. Please go ahead, sir.

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

Good morning, everyone. We appreciate you joining us today for Gartner’s second quarter 2020 earnings call and hope you are well. Joining me today on the call are Gene Hall, Chief Executive Officer; and Craig Safian, Chief Financial Officer. This call will include a discussion of second quarter 2020 financial results and our updated outlook for 2020, as disclosed in today’s earnings release. In addition to today’s earnings release, we have provided a detailed review of our financials and business metrics in an earnings supplement for investors and analysts. We have posted the press release and the earnings supplement 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 2020 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 2019 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, everyone. Thanks for joining us. The COVID-19 pandemic will have a permanent and dramatic impact on business, leadership and society. Leaders face more simultaneous challenges than ever before. Health and safety risks, sustained macroeconomic dislocations, shifting customer expectations, regulatory changes, combating racism and strengthening social justice, cybersecurity risks and more, Gartner is the best source of timely and relevant insights, advice and tools that empower leaders across every major enterprise function to achieve success with their mission-critical priorities.

With our forward-looking research and our ability to be agile in supporting our clients through ongoing uncertainty, demand for analyst interactions is up almost 30% year-over-year. Clients and non-clients alike continue to leverage our coronavirus resource center, as we plan for the reset. With the challenging macroeconomic conditions, we're seeing an uptick in leaders accessing our cost optimization content, and with the ongoing fight for social justice, we're seeing significant engagement with our Diversity, Equity and Inclusion Resource Center. This resource center aggregates much of our broadly relevant HR insights on diversity, inclusion and engagement along with critical tools and webinars and makes them publicly accessible.

We recently reinforced our own commitment to diversity, inclusion and social equity. Consistent with our research advice to clients, we increased the level of programming and engagement of our employee resource groups; Women, Pride, Mosaic and Veterans at Gartner. We reinstated our Charity Match Program to empower our associates to have even greater impact to the organizations they choose. We established a cross-functional executive council on diversity and inclusion, and we published our Corporate Social Responsibility report, outlining actions we've taken to improve our operations and support our clients.

Gartner remains strong as we continue navigating global uncertainties. Our second quarter results reflect our unique value proposition across all major functions of the enterprise. I'll share a few highlights and Craig will give you the full details in a moment. For the second quarter of 2020, total revenues were down 8% year-over-year. However, excluding the impact of our Conferences business, revenues were up 6% year-over-year, and we drove improvements in EBITDA and free cash flow was up 71%.

We continue to calibrate our cost reduction programs. We strategically paused spending in March to protect profitability and conserve cash. We restored some of the spend in targeted areas. We remain committed to full year margins of at least 16.1%.
Research, our largest and most profitable segment, is the core of our value proposition. We continue to make a significant global impact through our Research business. Total Research revenues were up 8% over this time last year. And while the selling part remains challenging, we did see modestly better trends in June than in the first two months of the quarter.

Global Technology Sales or GTS serves leaders and their teams within IT. GTS represents more than 80% of our total Research contract value. Global Business Sales or GBS serves leaders and their teams beyond IT, including HR, finance, legal, sales, supply chain, marketing and more. GBS represents about 20% of our total Research contract value.

In the second quarter 2020, both GTS and GBS drove similar contract value growth performances of around 7%. In GTS, we saw strong performances across many regions and sectors, including countries in Asia, Latin America and Europe, and industries including retail, services and technology. In GBS, year-over-year contract value is up across every practice area, except marketing.

As I mentioned last quarter, our Conferences segment was significantly impacted by COVID-19. Because of government mandates and health concerns, we were unable to hold any destination conferences during Q2. To prioritize the health and safety of our attendees, partners and associates, we have decided to cancel our in-person conferences for the remainder of 2020 and pivot a subset of these conferences to a virtual format. Gartner virtual conferences will provide attendees a flexible way to gain unparalleled insights and advice and accelerate their learning without the need to travel. We'll monetize these conferences as we perfect the virtual format. Looking to the long term, we expect the future is a combination of in-person and virtual conferences. We continue to expect conferences will be an important contributor to our overall business.

Gartner Consulting is an extension of Gartner Research and provides clients with its deeper level of involvement through extended project-based work to help them execute their most strategic initiatives. Consulting revenues were down year-over-year in Q2. But we had strong result in contract optimization. In summary, we continue to have a strong value proposition across all major enterprise functions. Our clients are facing more disruptive change than ever before, and Gartner is the best source with the cost-effective relevant insights that will empower leaders to succeed amid ongoing uncertainty.

We continue to have a vast untapped market opportunity. We know the right things to do to capture that opportunity in thriving or uncertain times. Looking ahead, we expect to come out of this recession strong and well positioned to drive long-term, sustained double-digit growth in revenues, earnings, and free cash flow for years to come.

With that, I'll hand the call over to our CFO, Craig Safian.

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

Thank you, Gene, and good morning, everyone. I hope everyone remains safe and well. Second quarter results were ahead of our expectations due to a modestly better demand environment and strong cost management execution. We had a successful bond offering during the quarter, which allowed us to reduce maturity risk without increasing our annual cash interest cost this year.

As we have gotten more clarity on the economy and gauged our business performance over the past several months, we have resumed backfilling roles and making selective growth hires. While we continue to manage our costs carefully, we remain focused on positioning ourselves to rebound strongly when the economy recovers.
Second quarter revenue was $973 million, down 9% as reported and down 8% FX neutral. Excluding Conferences, our revenues were up 6% year-over-year FX neutral. In addition, contribution margin was 67%, up more than 300 basis points versus the prior year. EBITDA was $192 million, up 4% year-over-year and up 6% FX neutral. Adjusted EPS was $1.20. And free cash flow in the quarter was a very strong $322 million.

Research revenue in the second quarter grew 6% year-over-year on a reported basis and 8% on an FX neutral basis. Second quarter Research contribution margin was 72%, benefiting in part from the temporary cost avoidance initiatives we put in place last quarter. As the macro environment improves, we will take a balanced approach to resuming growth spending and incenting our associates who are the core of our business. Total contract value was $3.4 billion at June 30, representing FX neutral growth of 7% versus the prior year.

Global Technology Sales contract value at the end of the second quarter was $2.8 billion, up 7% versus the prior year. The more challenging selling environment that began in March continued in the second quarter and had an impact on most of our reported metrics.

Client retention for GTS was 80%, down about 260 basis points year-over-year. Wallet retention for GTS was 100% for the quarter, down about 470 basis points year-over-year. GTS new business declined 14% versus last year. We ended the second quarter with 12,381 GTS enterprises, down slightly from last year. The average contract value per enterprise continues to grow. It now stands at $223,000 per enterprise in GTS, up 10% year-over-year. Growth in CV per enterprise reflects the combination of upsell, increased number of subscriptions, and price.

At the end of the second quarter, we had 3,089 quota-bearing associates in GTS, or a decline of 4% year-over-year. We expect to end 2020 with more than 3,100 quota-bearing associates, a slight decline from the end of 2019. We entered this year with a large bench which we have now fully deployed. For GTS, the year-over-year net contract value increase or NCVI, divided by the beginning period quota-bearing head count, was $58,000 per salesperson, down 48% versus the second quarter of last year.

Despite the challenging macro environment, GTS CV grew in nearly all of our 10 largest countries and was up double digits in Brazil, Japan, France, and the Netherlands. CV grew across all sectors, except for transportation, which was down modestly. The smallest enterprises we serve saw double-digit CV growth through the strong efforts of our midsize enterprise sales teams. Across our entire GTS sales team, we sold significant amounts of new business across both existing and new clients. New logos continue to be a significant contributor to our CV growth.

Finally, despite some net churn in clients, we continued to see increased spending by retained clients on average. This speaks to the compelling client value proposition we offer in both strong and challenging economic environments.

Global Business Sales contract value was $643 million at the end of the second quarter. That's about 20% of our total contract value. CV growth was 7% year-over-year as reported and 6% on an organic basis. CV growth in the quarter was led by supply chain and the human resources practice. All practices positively contributed to the 7% CV growth rate for GBS, with the exception of marketing.

GxL CV grew 40% to $319 million and legacy CV declined 14% year-over-year to $324 million. Total GBS new business was $36 million in the quarter, down 8%. However, we saw strong new business in our finance and sales practices. As we've discussed the last two quarters, in the marketing practice, we are transitioning away
from some lower-margin products. This has created short-term headwinds, but is expected to improve profitability in a normal environment.

Because GxL will comprise the majority of GBS CV, starting next quarter we will be reporting total GBS only. In the second quarter, total GxL new business was $31 million, while legacy new business was $5 million. Also, in the second quarter, GxL attrition was $19 million and legacy attrition was $20 million. GxL retention performance year-over-year was consistent with GTS.

Client retention for GBS was 83%, up about 170 basis points year-over-year. Wallet retention for GBS was 100% for the quarter, up about 520 basis points year-over-year. We ended the second quarter with 4,789 GBS enterprises, down about 7% from last year. The average contract value per enterprise continues to grow. It now stands at $134,000 per enterprise in GBS, up 15% year-over-year. Growth in CV per enterprise reflects upsell, an increased number of subscriptions, and price. Despite the pandemic, our retained clients are continuing to spend more with us every year.

At the end of the second quarter, we had 834 quota-bearing associates at GBS, down 9% year-over-year. Headcount was down sequentially and year-over-year, as we optimized our territories and then temporarily froze hiring as part of our cost avoidance program. We now expect to end 2020 with roughly flat head count to the end of 2019 in GBS.

For GBS, the year-over-year net contract value increase, or NCVI, divided by the beginning period quota-bearing head count, was $43,000 per salesperson, up from last year. As you know, the Conferences segment has been materially impacted by the global pandemic. We have cancelled all destination conferences for the remainder of 2020.

We are pivoting to producing virtual conferences with a focus on maximizing the value we deliver for our clients. We held three virtual conferences in the second quarter which were used as pilots for the rest of the year. We also held a number of our one-day local conferences with a virtual format. We expect our local conferences business to rebound faster than the destination conferences, given the smaller size of the gatherings, no need for travel, and strong relationships and sense of community among the participants.

With the cancellation of the fourth quarter destination conferences, unfortunately, we had to reduce the number of associates in the business. We continue to incur costs both in cost of services and SG&A to support the virtual conferences and to be in a position to resume in-person conferences when it is safe and permitted. The second quarter is a reasonable run rate for how to think about conferences costs for the rest of the year.

I also want to provide you with an update on potential termination or sunk costs on cancelled conferences as well as the situation with our event cancellation insurance. We expect to recover the majority of sunk and potential termination costs for future conferences through either force majeure clauses in our vendor contracts, other arrangements with vendors or event cancellation insurance claims. Timing of receiving insurance claims is uncertain. So, we will not record any recoveries in excess of expenses incurred until the receipt of the insurance proceeds. Our guidance for 2020 continues to assume no conferences will be held for the remainder of the year.

Second quarter Consulting revenues decreased by 6% year-over-year to $97 million. On an FX neutral basis, revenues declined 5%. Consulting contribution margin was 34% in the second quarter, up over 130 basis points versus the prior year quarter. Margins were up due to favorable mix and cost reduction actions. Labor-based revenues were $69 million, down 13% versus Q2 of last year or 12% on an FX neutral basis. Labor-based billable
head count of 796 was up 3%. Utilization was 59%. Backlog at June 30 was $99 million, down 10% year-over-year on an FX neutral basis.

Our backlog provides us with about 4.5 months of forward revenue coverage. We had a small workforce action in the Consulting business in the second quarter to better align our billable head count with our revenue outlook for the balance of the year. Our Consulting business is seeing demand in three broad areas; digital, cost optimization, and data and analytics. Demand in digital spans several areas, including digital strategy, digital talent, and digital workplace. Cost optimization also spans several areas such as sourcing and vendor management, infrastructure and operations, and application rationalization.

Our contract optimization business, which is a part of our broader cost optimization offerings, had a strong quarter. Revenues were up 17% on a reported basis versus the prior year quarter. As we have detailed in the past, this part of the Consulting segment is highly variable and we face continuing tough compares as we move through the year. SG&A decreased 4% year-over-year in the second quarter and 2% on an FX neutral basis, as the cost avoidance initiatives we put in place last quarter continue to generate savings. SG&A as a percentage of revenue increased in the quarter, driven by recognition of commissions from cancelled conferences and severance.

EBITDA for the second quarter was $192 million, up 4% year-over-year on a reported basis and up 6% FX neutral, as we offset lost conference margins with significant cost avoidance and cost reductions. Depreciation in the quarter was up approximately $3 million from last year, although about flat with the first quarter as a result of additional office space that had gone into service before the pandemic hit. Amortization was about flat sequentially.

Net interest expense, excluding deferred financing costs, in the quarter was $27 million, up from $23 million in the second quarter of 2019. Net interest expense is up because we had higher debt balances in the quarter and our interest rate swaps had higher fixed rates than the ones which expired last year. The Q2 adjusted tax rate, which we use for the calculation of adjusted net income, was 15.3% for the quarter. The tax rate for the items used to adjust net income was 22.8% in the quarter.

The adjusted tax rate for the quarter was affected positively as expected by an intercompany sale of intellectual property, which resulted in a material favorable impact on the adjusted tax rate. This benefit was already reflected in our full year guidance. Adjusted EPS in Q2 was $1.20.

As a reminder, last quarter, we updated the definition we use for free cash flow to be cash provided by operating activities, less capital expenditures and we will no longer be adding back adjustments or non-recurring items. This free cash flow definition provides a measure that reflects cash available for capital allocation like debt repayment and share repurchases.

Operating cash flow for the quarter was $343 million compared to $227 million last year. The increase in operating cash flow was primarily driven by cost avoidance initiatives and lower tax payments. CapEx for the quarter was $21 million, down 46% year-over-year. Free cash flow for the quarter was $322 million, which is up 71% versus the prior year. This includes outflows of about $10 million of acquisition, integration, and other non-recurring items.

Free cash flow as a percent of revenue or free cash flow margin was 13% on a rolling four-quarter basis, continuing the improvement we’ve been making over the past few years. Free cash flow as a percent of GAAP net income was about 230%. During the quarter, we issued $800 million of new senior unsecured notes with a 4.5%
coupon. We used the proceeds from the notes along with $200 million of balance sheet cash to repay $1 billion of debt on a revolver and Term Loan A due in March 2022. We reduced maturity risk, while providing more financial flexibility at a relatively low cost.

Our June 30 debt balance was $2 billion. Our total debt covenant leverage ratio was 2.8 times at the end of the second quarter, well within the 5 times covenant limit. Our other financial covenants are also well within compliance levels.

At the end of the second quarter, we had $357 million of cash. As we discussed last quarter, we paused our share repurchase activity. As we get increased clarity on how the pandemic and economic downturn will play out, we will deploy excess cash for debt repayment, share repurchases and strategic acquisitions. We also have about $1.2 billion of revolver capacity.

In addition to our strong cash position, balance sheet flexibility and access to capital, we have taken steps to align our costs with our revenue, allowing us to continue to generate positive free cash flow. Going into the current situation, we'd already built a plan for 2020 that align cost growth with revenue growth.

As we outlined last quarter, we took additional steps to ensure our long-term financial health and operational excellence through a number of cost avoidance initiatives. These decisive actions helped ensure our ongoing financial flexibility in this challenging and uncertain environment without compromising on the quality of the insight, advice, and service we provide to our clients. We remain well positioned to reaccelerate and drive future growth once the timing of the economic recovery from this pandemic becomes more evident.

Before I go through the outlook assumptions for each segment, I'll review the overall approach we have taken to developing the updated outlook for 2020. First, we've analyzed our experience and results from March through June to drive forecast for the balance of the year. Second, our guidance does not assume a recovery for 2020. Third, our overall outlook assumes that we will not be able to run conferences for the balance of the year. We are operationally planning to deliver one-day conferences in the fourth quarter in geographies where it is safe and possible. And fourth, we will continue to calibrate our cost reduction programs with our top line results. Given the second quarter business performance, we have already restored some of the spending we deferred starting in March.

We are updating our full year outlook to reflect Q2 performance, cost restoration considerations and, finally, a weaker US dollar compared to when we gave guidance in May. We now forecast Research revenue, including the FX update of at least $3.48 billion for the full year. This is growth of about 3% versus 2019, and reflects the continuation of late March and second quarter new business and retention trends through the rest of the year.

While the full second quarter was modestly better than what we saw in late March and April, there is still macro risk to the second half, largely for the non-subscription portion of the segment. We continue to expect total CV to decelerate through the year. CV changes earlier in the year have a larger impact to full year Research revenue growth. There is a lag effect on Research revenues, so slower CV growth exiting this year will lead to slower Research revenue growth in 2021.

As we ramp our spending back up to position ourselves for long-term success, there will be a short-term headwind to margins next year due to a lag between CV and revenue growth. We expect that in a normal 2022, we will see margins of at least the 16.1% we delivered in 2019.
For the Conferences segment, our guidance is based on not running any conferences for the duration of 2020. This will result in revenue of about $35 million for the full year. We will continue to incur costs in the Conferences business, both cost of services as well as SG&A. Within the business, we have direct expenses that relate to specific conferences and other expenses that don’t. We won’t be incurring the direct costs related to the specific conferences that are cancelled. Wherever possible, we expect to roll forward conference participation by exhibitors and attendees to future conferences.

We now forecast Consulting revenue, including the FX update of at least $365 million for the full year or a decline of about 7%. The Consulting outlook continues to contemplate a slowdown in labor-based demand and reflects very challenging compares for the contract optimization business through most of the year. The timing of revenue in the contract optimization business can be highly variable, as you know. Overall, we expect consolidated revenue, including the FX update of at least $3.88 billion. That's a reported decline of about 9% versus 2019.

Excluding Conferences, we expect revenue growth of 2% versus 2019 on a reported basis. The cost avoidance programs we’ve put in place in March have allowed us to protect profitability and conserve cash. We have started to resume certain spending as the operating environment appears to at least stabilize and we want to ensure we are well positioned for an economic recovery.

The implied operating costs in our outlook are not a new run rate, but reflect planning assumptions for a cautious view of the revenue outlook. We expect adjusted EBITDA of at least $635 million, which includes $10 million of projected FX benefit. While we are raising our revenue outlook for the full year, we are leaving the EBITDA outlook unchanged before the FX benefit, consistent with our comments last quarter.

The full year margin before updating for FX are about 16.3%, up from the 16.1% margins we had in 2019. We remain committed to full year margins of at least 16.1%. We also want to maintain the flexibility to be able to resume growth hiring and to restore certain expenses we deferred starting in March. These are important for us to accelerate out of the recession and position us to drive CV growth in 2021 and beyond.

As we have discussed, 2021 margins are likely to be down versus 2020, as CV reaccelerates because of the lag between CV and revenue. There may be upside to 2020 EBITDA depending on top line results and the timing and magnitude of our cost restorations.

Our weighted average interest rate will increase as we continue to have the run out of our interest rate swaps through the respective maturities. We continue to expect an adjusted tax rate of around 22% for 2020. We expect 2020 adjusted EPS of at least $3.08, including an $0.08 benefit from FX. The lower Q2 tax rate benefit was due to timing.

For 2020, we expect free cash flow of at least $425 million. Our free cash flow guidance reflects both the P&L outlook we just discussed, strong CapEx management, and better than previously forecasted collections. All of the details of our full year guidance are included on our Investor Relations site.

Finally, for the third quarter of 2020, we expect adjusted EBITDA of about $130 million to $135 million. While we expect revenues to decline sequentially, we expect operating expenses to increase significantly as we begin to restore some of the costs we deferred starting in March.

In summary, we delivered strong financial results in the second quarter despite a very uncertain economic environment. Cash flow is outstanding and we have taken a number of measures to increase our financial flexibility, reduce maturity risk, and ensure we have ample liquidity. We will continue to balance cost avoidance
programs with targeted investments and restoration of certain expenses to ensure we are well-positioned to rebound when the economy recovers.

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 from Baird. Your line is now open.

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

Yes. Thank you. Good morning. I guess the short version of the question is to quantify modestly better, the longer version is – CV looks pretty good to me, the commentary sounds positive, lots of pockets of good growth. So, just any help kind of reconciling that language with a fairly modest increase to the full year revenue guidance at a point in the year where I would think it’s early enough in the year where you'd see the benefits. So, would love any quantification on what modestly better in June means and any other considerations that could be a headwind, other than just the generally uncertain environments and I guess the point in time revenue decline.

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

Hey, Jeff, it’s Gene. So, we can't really quantify the difference, but what I'll tell you is if we look at kind of the performance during the quarter, June was definitely a trend, it was a better selling environment than the previous couple months. And so, that's kind of what we said in our remarks and I think we can’t quantify it any more than that.

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

Any just other kind of reconciliation factors you would provide or just something I might not be considering on why the revenue guidance increase looks fairly modest and maybe it's just the methodology of assuming the late March into Q2 kind of trends continue for the balance of the year.

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

Well, let me start...

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

Yeah. Hey, Jeff. Yeah, absolutely. Thanks, Gene. Good morning, Jeff. The way I think about it is, obviously, we have the experience from March and April, which we talked about on the last earnings call. You saw the Q2 experience and so what I’d say overall is, from a new business perspective, I think we were modestly better than what we experienced in March and April when we talked about new business being down in the 20s, down year-over-year around 20%. As you saw, GTS was down 14% and GBS was down 8%. So, new business definitely outperformed our expectations from that perspective.
Retention was a little more challenging than we had seen in March and April. And so, again, we’ve sort of dialed those two new updates through our expiration SKU and normal trending of bookings and new business for the balance of the year.

The one thing I would add though is, I think I made this comment in the prepared remarks, there's certainly more risk on the non-subscription pieces of the Research business. Obviously, we’ve got great forward visibility on the subscription run-out and feel really good about those numbers. But because of the macro environment, there’s definitely more uncertainty on the non-subscription pieces.

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

Okay. And then last, just GBS, just if you'll permit a favorable question about GBS. It's been a while. I guess I was surprised at how resilient it’s been and how little it decelerated year-over-year. And I know you’ve been saying forever that it's a bigger, bigger opportunity than GTS. But I was thinking there’s less cost optimization research in the library, less tenured staff, the marketing challenges you're working through. So, I don't know if you were equally surprised by that, but would love any additional color on, I guess, the relative GBS performance.

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

Yeah. Jeff, so basically we've been saying all along, as you mentioned, that the value proposition in GBS is really the same value proposition that's in GTS, meaning that we identify clients' mission-critical priorities and we help them with those mission-critical priorities. And every function has priorities that are just as important. They're different by function. Again – and you're not worried about cybersecurity in HR, but you're maybe worried about building a more effective diversity and inclusion program. And it's just as important to the HR leaders.

And so, our research is focused on what are the mission-critical priorities that these leaders are going to face and helping them to address those mission-critical priorities in the best and most cost-effective way you can. That's been kind of what we've been saying all along, and I guess you kind of see it there in terms of what's going on with GBS.

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

Okay. Thank you.

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

**Toni M. Kaplan**
*Analyst, Morgan Stanley & Co. LLC*

Thanks very much. Craig, you beat the 2Q EBITDA guide by $30 million and raised the full year by the $10 million FX benefit. And I know you sort of look at things on a full year basis and maybe spending was just a little bit later than you had thought in 2Q. Is that the reason for why the full year guide wasn't raised by the $30 million? And I guess just in conjunction with that, the ramp-down in margin guidance in the second half of the year seems like a lot. So, just help us understand the big ramp-down in margins in the second half.
Craig W. Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Yeah. Sure. Happy to. Thanks and good morning, Toni. The way to sort of read the phasing and what's been going on, obviously in March and April when we really didn't know how bad or how deep or how broad the macro impact was going to be from the pandemic, we very quickly put the brakes on lots of spending across the board and it was the right thing to do. We had to make sure that we were taking a balanced approach towards the balance of the year, that we were maintaining liquidity, maintaining flexibility, all that stuff.

And so, you really saw that start to flow through, primarily in Q2. And some of the Q2 performance or over-performance was driven by revenue being modestly better than expected. And a lot of it was driven by us avoiding more costs than we had initially dialed in.

Where we sit today is trying to find that balance between making sure that we're delivering on our financial commitments and delivering on our EBITDA and other targets. But also making sure that we are investing in the business and restoring expenses that we think are extraordinarily important for us to get through this year and more importantly serve as sort of a jumping-off point when there is a recovery.

And so, the way to think about the balance of the year is as an example in Q2, we weren't immediately backfilling open roles even in certain research or service positions. We've now stabilized ourselves and have a good line of sight for the balance of the year. And so, we're backfilling those roles and we're actually making selective growth hires where we think there's a high possibility for return and payback on that.

And also starting to restore certain expenses. And so, we are looking at it on a full year basis, not necessarily on a Q2 versus Q3 basis, but it's largely about we've stabilized the business and we want to make sure that we are putting back into the business the right costs and targeted spends so that when there is a macro recovery, we're poised to leap off of that.

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

Gary E. Bisbee  
Analyst, BofA Securities, Inc.

Hey, guys. Good morning. Craig, maybe I'll follow up on that last point. So, can you just — and correct me, Gene, both I guess, I should say. Can you help us think about what determines when you bring the cost back on? Is it really demand driven and seeing the near-term opportunity for that?

And I ask from this perspective, it's commendable given the margin performance of the last few years to maintain the margin target for this year. But I think one might argue given that a lot of investors are looking at this as sort of a throwaway year that if there are opportunities to bring that back this year even if you were to have margins below that target. But that improved the pace of recovery into next year that that might be a wise decision. So, how are you thinking about what's the factor that determines when you bring the investment back in the business? Thank you.

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

Yeah. So, great question, Gary. So, if you think about the way that we have — Craig described just a bit earlier which is we didn't know how bad or how deep the downturn was going to be. So, we put on a pretty hard hiring
freeze, very, very selective hiring, everything else frozen. That included research analysts, that included salespeople, product development, et cetera.

And so, as we've seen kind of how our performance is and how the market is, we want to make sure we maintain to your point the right number of analysts, the right sales capacity, the ability to develop and introduce new products, et cetera. So, we're basically bringing back that capacity. So, we're very well positioned, especially beginning in 2021, to reaccelerate growth.

There are some expenses that we don't need to bring back and that would be like travel expenses. Today, we're lucky in that as an information services company, we can work with our clients. We're doing very, very well working with our clients remotely. And so, our travel expenses have dropped dramatically this year. That doesn't hurt our future growth or anything like that. It sort of goes with the environment.

And so, for the things that really affect future growth, like research, sales, product development, that's the places that we are making sure we have the investments in place and that's reflected in the forecast. For the things that kind of go with the environment like travel or the reductions in our Conferences business, that's the other category.

---

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

And, Gary, I guess the one thing I'd add is, I think we can do both which is manage for profitability and great free cash flow performance now and also make sure that we're making those targeted spend so that when there is a recovery, as Gene and I both mentioned, we're ready to rebound very quickly with it. So, it's not an either/or for us. We think in this environment we can do both.

---

**Gary E. Bisbee**  
*Analyst, BofA Securities, Inc.*

Okay, great. And then just to follow up on the Conferences business, I think Gene you said, this remains an important part of Gartner or something to that effect. How are the digital pilots going? Any sort of learnings on how you might monetize that if we look beyond this year, do you have the ability for a while to get back to the prior conference, whether it's attendance levels or exhibitor performance? Or is that still a work in progress for how to monetize digital? Thank you.

---

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

So, it's clearly a work in progress, but we have had – we've done some pilots as we've mentioned before. Those went very well in terms of understanding how clients feel about it. And what we found is that attendees still want to go to conferences and in this environment, virtual, they're very happy to go to. And so, we think we can get really good attendance at conferences.

With exhibitors, one of their best sources of clients is conferences. So, they're very interested in working with us to find ways that work for them as well as the attendees. And I feel very good that we will find some of those things as we experiment throughout the remaining months of the year. Looking to the future, actually, this whole move to virtual will be good for us because we're kind of seeing that in the future, there's probably going to be a mix of both in-person and virtual conferences and we'll develop those virtual conference skills during this period.
Gary E. Bisbee
Analyst, BofA Securities, Inc.

Thank you.

Operator: Thank you. Our next question comes from the line of Bill Warmington for Wells Fargo. Your line is now open.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Good morning, everyone. So, you've mentioned a couple of times the spending to position for a recovery. I wanted to ask functionally from a planning standpoint, what's the timing you're assuming for a recovery. Are we thinking third quarter 2021?

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

Hey. Good morning, Bill. I'll start, and then Gene can follow up. So, we're not pegging any sort of timing for a recovery as it stands right now. We're obviously watching the markets and watching everything going on just like you and everyone else on this call is doing. And so, there's no pinpointed time for recovery that we're planning around.

I think what we want to make sure we do is number one, continue to have a great value to our clients who do really need us. And so, we don't want to do anything that degrades our ability to do that now. At the same time, we also don't want to make short-term decisions around reducing expenses that impinge upon our ability to actually rebound when there is a recovery.

And so, again, what we're talking about now is not specifically when we pivot and when there is a rebound, but really about making sure that we have ample capacity from a selling perspective, from a servicing perspective, from a research analyst perspective, et cetera, so that when there is a rebound, we are poised to take advantage of it.

William A. Warmington
Analyst, Wells Fargo Securities LLC

I see. Okay. And then the 6% to 7% growth that you're seeing in Research on a combined basis GTS and GBS for CV, is that a good way to think about the type of CV growth that we can continue to see in this type of an environment until we see the recovery?

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

Bill, as we talked about a little bit earlier, we do expect based on the running out or extrapolating the math that we have seen in the second quarter that CV will continue to decelerate. As we talked about last quarter, based on everything we see today, we don't think it will be anywhere near what we experienced in the last Great Recession back a little over a decade ago.

But with these sort of trends, we will continue to see, until there is stabilization or recovery some glide down on the CV growth. As we talked about, the CV is holding up really, really nicely both on the GTS and GBS side both
being around 7% for the quarter. But we would expect some continued modest degradation of CV growth rates if current trends continue.

William A. Warmington  
*Analyst, Wells Fargo Securities LLC*

Got it. Thank you. Helpful color.

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

Andrew Nicholas  
*Analyst, William Blair & Co. LLC*

Hi. Good morning. I was hoping just to follow up quickly on the conferences questioning a bit earlier. Specifically, as it relates to virtual versus in-person conferences, is there anything you can say about how you're thinking about profitability differences between those two types and whether or not in 2021 or 2022 to the extent that you get to a situation where you're holding more hybrid type conferences, if those could potentially be as profitable or even more profitable than what you've historically done in the years prior.

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

Yeah, Andrew. Like I said, we've done some – we're kind of at the early stage with virtual conferences. We've done pilots. The pilots have been successful in the sense that we know that clients will come to them. We know clients in the same kind of numbers are larger even than with in-person conferences because you don't have to travel.

And we know clients rate them very highly and we know they are less expensive to hold the destination conferences. In terms of the whole financial equation, we're still figuring that out. And I think it would be premature to kind of say we've got that figured out yet. I don't know, Craig, if you want to add to that.

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

No. I would have said the same exact thing.

Andrew Nicholas  
*Analyst, William Blair & Co. LLC*

Got it. And then in terms of the contract optimization business, obviously really strong quarter. Just curious how you're thinking about the runway for that business. I know you mentioned that it's highly variable and that makes sense. But just wondering if, at a high level, you'd expect that to be something that's more of a near-term spike or something that can have a runway kind of heading out into next year. Thank you.

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

Well, as you know, our contract optimization business helps our clients save money. And in this kind of environment, there's a lot of interest in being able to save money. So, I think that we're getting – we're at a very good selling environment to that kind of product. Having said that, at any point in time even when the economy is booming, there's always companies that are troubled who want to save money and well-run companies want to
save money as well. And so, I'd say I'd see that business as — so relatively small business in Gartner. It's going to stay a relatively small business in Gartner. But I do think it will grow along with the rest of the company.

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

I would just — I would add one point. We do have — that business performed very well last year. So, there are tough compares in the back half of the year. But I would echo everything Gene said about the great value that it provides to clients in any sort of economic situation, but particularly in this one, there is definitely real value there for clients. But again, tough comparison in the second half of the year for that business.

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

Jeffrey M. Silber  
Analyst, BMO Capital Markets Corp.

Thanks so much. I know it's tough to give guidance in this environment, but you did give us some color for the rest of the year. So, we do appreciate it. But if we keep ongoing at current trends and assume you hit the guidance for the year, when do you think you'd hit the bottom in terms of CV growth and roughly what rate would that be?

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

So, Jeff, good morning. You're right, it is tough to guide in this environment. So, thanks for the prelude there. So, we don't guide on contract value. And we're not changing that policy now. I think the way to sort of think about it is, we're obviously now comparing our business trends to what was a normal year a year ago, first half of 2019 and second half of 2019.

So, I think if the economy doesn't recover or we don't see broad-based recoveries around the world, when we get into 2021, we're now comparing to pandemic impacted results. And so, you would expect at that point, if we continue at current course and speed with sort of this sort of retention result and this sort of new business phasing, or pacing I should say, that the contract value growth would stabilize. I'm not going to peg a number where we think that is, as we've talked about. We do believe that based on everything we're seeing, the trough is a lot higher than it was during the last downturn for us. But that's as close as you're going to get to us, sort of pegging a number on it.

But again, I think the thing that — as we look at the business and it is tough out there — but our teams are doing a really fantastic job of sort of cutting through the tougher selling environment and the sheer volume of new business that we're writing is really great. Yes, it's less than what we did a year ago, but we're bringing on new logos. We're growing accounts. We're adding new seats. We're adding new subscriptions, doing that across the board. And so, again, I think as we — if we have another 12 months of this — you would see the CV growth stabilize because we'd be comparing to a similarly impacted period when we get 12 months from now.

Jeffrey M. Silber  
Analyst, BMO Capital Markets Corp.

Okay. Fair enough. I'm going to stick out a little further and talk about 2021 since you kind of opened up the discussion. You had mentioned given the rate of CV growth and the lagged impact that we'd see some sort of margin decline in 2021. Again, just assuming you kind of hit your guidance at the end of the year, what kind of magnitude are we talking about? What would the impact be next year?
Craig W. Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.

Yeah. So, Jeff, we're not going to guide for next year. All we're saying is we would expect when there is an economic recovery for our CV to rebound. And as you know, there’s a lag between when that revenue comes. And so, we're going to make sure that we scale our business and invest in core things in relation to the contract value, not necessarily the accounting revenue run-out. And so, in doing that that can create some gross margin headwinds. That's what we’re really saying about 2021. We fully expect to recover. We fully expect to return to growth. But because of the lag in the revenue recognition on the subscription-based business, we could see some modest margin headwinds.

Jeffrey M. Silber  
Analyst, BMO Capital Markets Corp.

Okay. Fair enough. Thanks so much.

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

Manav Patnaik  
Analyst, Barclays Capital, Inc.

Thank you. Good morning, guys. I just wanted to ask if you could help us just break down GTS productively a bit more. It's obviously been getting incrementally worse by the quarter and this quarter, obviously, was down quite a bit as you reported. But just curious, how much of that was more one-time type roadblocks versus improvements? Gene, you talked about client activity is good and so forth. So, can you just help how we should assume that should start trending now?

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

So, Manav, let me give you a little color around that. So, if I think about GTS, the kind of deceleration that's going on, there’s different components of it. One is that we sell to new enterprises. There's clients that have never been a client of Gartner. That amount of business actually is about the same year-over-year. So, we're not just seeing a deceleration in our ability to sell to new enterprises who've never been with Gartner.

We saw about a third of the deceleration is from enterprises that left Gartner. They used to be with us and they left us. Another third is from enterprises that stay with us, but historically have grown, but they didn't grow. So, it looks like deceleration because instead of buying another seat or two, they actually stayed flat, whereas in past years that's a significant part of growth. And the last third is clients who might have core seats and they go to a less expensive — still keep core seats — but use a less expensive seat, so downgrade; so, going from one seat that had a higher service level to a lower service level.

And so, what we're really seeing is new business with clients — with new enterprises flat year-over-year. A little uptick in lost enterprises which is about a third of the difference if you look at CV growth. And then the other two-thirds from existing clients not growing that would have grown before or from clients that are still with us, same number of seats, but choose for one of the seats, a lower service level which obviously looks like a reduction in CV.
And what I — my interpretation of it is — people see a lot of value. Most of the deceleration is not due to clients leaving us. In a tough environment, people make tough choices and sort of say, hey, I have four seats. I want to keep my four seats, but let’s take one to a little lower service level, et cetera. And so that kind of gives a little color in terms of what’s going on under the covers.

So, it would be wrong to think that our — like clients are leaving us more than they did before. There’s some of that, but that’s not the biggest piece. And the biggest piece is, we’re not getting the upgrades, the growth we would have gotten from additional seats with existing clients. And secondly, some clients are, rather than giving up seats, downgrading to service level, but keeping the seats because of the value they see.

---

**Manav Patnaik**
*Analyst, Barclays Capital, Inc.*

Got it. And I guess that one-third/two-thirds mix, that’s more on the new business side, right? I guess, maybe if I could just ask, the down 47% productivity, like how should that start picking back up, like was there just one-time distraction because of the April-May time period?

---

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

Yeah. So, Manav, the numbers I was giving you were not about new business, per se. It was totally about the net — it was about the change in CV growth. So, it incorporates both retention and new business.

---

**Manav Patnaik**
*Analyst, Barclays Capital, Inc.*

Got it.

---

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

So, if you look like dollar retention, if somebody chooses a lower priced seat, that’s a lower dollar retention.

---

**Manav Patnaik**
*Analyst, Barclays Capital, Inc.*

Okay. Got it. And then so maybe if I can just ask, Craig, in the Research business, the non-subscription revenue, can you just remind us how much of that is and what that decline has been so far?

---

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

Yes. So, within the Research segment, about 10% of the Research revenue roughly falls into the non-subscription category. And that is made up of a couple of different revenue lines. One is our online businesses, Capterra, Software Advice and GetApp. And then there’s some other non-subscription type research services that fall into that category as well.

Last quarter, we talked about an expectation that that would be down about 10% to 15% year-over-year. That sort of what the implied guide reflects as well for the balance of the year for those businesses. And so, about 10% of Research revenue and down about 10% to 15% for the balance of the year.
Manav Patnaik  
Analyst, Barclays Capital, Inc.

Got it. Thank you.

Operator: Thank you. Our next question comes from the line of George Tong from Goldman Sachs. Your line is now open.

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

Hi. Thanks. Good morning. Your GTS sales force head count declined 3.7% and your GBS sales force head count declined 9.2%. Can you provide more detail around your outlook for sales force hiring between these two segments and where you see head count growth coming back faster?

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

Hey, George. Let me cover the numbers and then Gene can talk about the strategy and how we’re thinking about head count growth. So, a couple points. I’ll cover first GTS and then GBS. So, with GTS, as you mentioned, head count growth is down about 4% year-over-year. Our intention for the balance of the year is to get that number back up well over 3,100 frontline quota-bearing people. So, we expect to exit the year over 3,100 people, which would put us down a little bit on a year-over-year basis.

And part of the reason why it’s not up necessarily or I would say optically is down is we actually exited 2019 with a pretty significant bench, so people on our payroll who were either in training or had just graduated from training, who weren’t yet in territory. And over the first six months of the year, team did a really good job of making sure we got all those people deployed.

And so, our selling capacity is actually in pretty good shape because we’ve now deployed that bench and have them out there on the frontline selling. And so, we’d expect our year-over-year head count growth to be down modestly year-over-year as we exit 2020. But from a selling capacity perspective, we feel in pretty good shape.

From a GBS perspective, we hit the brakes there hard. We did a lot of work around territory optimization and we also froze hiring there when we were doing our cost avoidance and cost reduction programs. Our expectation is to get back to about flat for the full year for GBS. And so, while down 9% year-over-year now, we would expect to end 2020 in roughly where we ended 2019, which was we ended 2019 with 869. So, thinking that in that neighborhood is our target for where we want to end from a GBS head count perspective. Gene, I don’t know if there’s anything you wanted to add to that.

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

Hope that hit it well.

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

Great. That’s very helpful. And then to follow up, on GBS you mentioned a little bit of softness on the marketing side. Can you elaborate on any other one-time factors that could have impacted performance on the GBS CV performance either to the positive or to the negative?
Craig W. Safian  
Executive Vice President & Chief Financial Officer, Gartner, Inc.  

Yeah, George. So, the marketing is something obviously we knew about and told everyone as we were exiting 2019 to expect it. So, that's sort of the one-time headwind that we knew about and are dealing with. And again, the goal of it is to improve the profitability of that business in a normal environment. And we're well on the way to being able to do that.

I wouldn't call out any one-time benefits. I think that the teams have done a really, really good job of again fighting through the tougher selling environment with GBS new business only being down 8% year-over-year, I think, was really strong relative performance for that business. We called out the fact that every major function is contributing to the overall CV growth with the exception of marketing, which we just talked about. And so, the business is performing pretty well. And again as Gene elaborated, I think, with the first question, it's because the value proposition is consistent with what we've done forever from a GTS perspective.

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

Got it. Very helpful. Thank you.

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

Mario Cortellacci  
Analyst, Jefferies LLC  

Hi. This is Mario Cortellacci filling in for Hamzah. Just within the Consulting business, I just wanted to know what lines of work you think are seeing better demand versus others and how do you think COVID is impacting the sales cycle? As you get into July, are you seeing customer decision making getting pulled forward due to need for your service or are they still delaying out of caution?

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

So, first, I'd say that in this environment, decision cycles are definitely longer than they were a year ago and we're definitely seeing that. So, I wouldn't say there's less demand, but I'd say there are longer decision cycles because there's often another review like, for example, maybe the CIO made the decision before and now it's going to go to CFO and that may take another two weeks or 30 days to actually get a decision done. And we're seeing demand in the areas you'd expect, so it's things like cost optimization, building the digital business, things like that.

Mario Cortellacci  
Analyst, Jefferies LLC  

Got it. And then looking at sales force productivity, could you give us a sense of what the productivity looks like regionally? Are you seeing any variations with lockdowns or has it been pretty consistent across the country as many businesses have still been operating in more of this work-from-home environment?
Yeah. So, there’s clearly been both an industry and geography aspect of this. Craig went through some of the numbers earlier in terms of our overall business. We’re seeing good overall demand, but as you can expect, there’s tougher selling environments. If you’re selling into some aspect of the travel business, so many of those companies are hit very hard and they’re still buying from us, but it’s a tougher selling environment than it was a year ago.

Mario Cortellacci
Analyst, Jefferies LLC

Got it. Thank you.

Operator: Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to Gene Hall for closing remarks.

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

So, as you heard today, excluding the impact of conferences, our company revenues were strong. We have an unparalleled value proposition across all major enterprise functions. Our clients are facing more disruptive change than ever before and Gartner is the best source for the cost-effective relevant insights that empower leaders to succeed amid ongoing uncertainty. We continue to have a vast untapped market opportunity and we know the right things to do to capture that opportunity in thriving or uncertain times.

Looking ahead, we expect to come out of this recession strong and well positioned to drive long-term, sustained double-digit growth in revenues, earnings and free cash flow for years to come. Thanks again for joining us, and I look forward to updating you again next quarter.

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