S&P Global
Market Intelligence

# Gartner, Inc. NYSE:IT

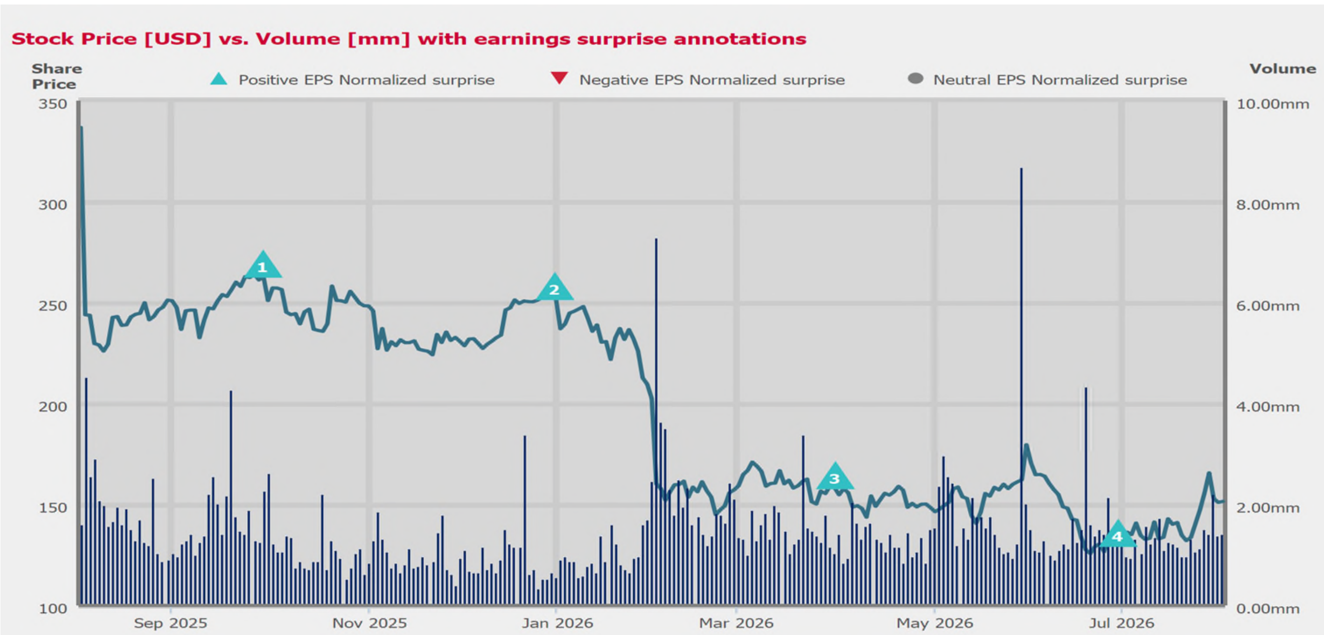
# FQ2 2026 Earnings Call Transcripts

## Tuesday, August 4, 2026 12:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ2 2026- | | | -FQ3 2026- | -FY 2026- | -FY 2027- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 3.73 | 4.37 | ▲17.16 | 2.69 | 13.90 | NA |
| **Revenue (mm)** | 1649.34 | 1675.90 | ▲1.61 | 1500.64 | 6427.22 | NA |

Currency: USD
Consensus as of Aug-04-2026 1:00 PM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2025** | 2.43 | 2.76 | ▲1 13.58 % |
| **FQ4 2025** | 3.51 | 3.94 | ▲2 12.25 % |
| **FQ1 2026** | 2.92 | 3.32 | ▲3 13.70 % |
| **FQ2 2026** | 3.73 | 4.37 | ▲4 17.16 % |

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## EXECUTIVES

**Craig W. Safian**
*Executive VP & CFO*

**David Cohen**
*Senior Vice President of Investor Relations*

**Eugene A. Hall**
*CEO & Chairman*

## ANALYSTS

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*RBC Capital Markets, Research Division*

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*Wells Fargo Securities, LLC, Research Division*

**Jasper James Bibb**
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*BMO Capital Markets Equity Research*

**Jeffrey P. Meuler**
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**Joshua K. Chan**
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**Keen Fai Tong**
*Goldman Sachs Group, Inc., Research Division*

**Manav Shiv Patnaik**
*Barclays Bank PLC, Research Division*

**Scott Darren Wurtzel**
*Wolfe Research, LLC*

**Surinder Singh Thind**
*Jefferies LLC, Research Division*

**Thomas Colton Roesch**
*William Blair & Company L.L.C., Research Division*

**Toni Michele Kaplan**
*Morgan Stanley, Research Division*

# Presentation

**David Cohen**
*Senior Vice President of Investor Relations*

Good morning, everyone. Welcome to Gartner's Second Quarter 2026 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. [Operator Instructions] Please be advised that today's conference is being recorded.

This call will include a discussion of second quarter 2026 financial results and Gartner's outlook for 2026, as disclosed in today's earnings release and earnings supplement, both posted to our website, investor.gartner.com. On the call, unless stated otherwise, all references to revenue are for adjusted revenue and all references to EBITDA are for adjusted EBITDA, in each case excluding the divested operation and with the adjustments as described in our earnings release and supplement. All contract values and associated growth rates we discuss are FX neutral. 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 2025 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. Thanks for joining us today. Second quarter revenue, EBITDA, adjusted EPS and free cash flow were ahead of expectations. Return on invested capital was 31%. Client engagement improved again, up 140 basis points compared to last year. Contract value growth accelerated compared to the first quarter. Midsized enterprise clients across both GTS and GBS grew mid-single digits year-over-year. We saw positive NCVI with our government clients. Wallet retention across both GTS and GBS improved sequentially. We delivered above-average growth in several of our end markets, and we remained agile in managing expenses.

We have a strong and enduring value proposition. Gartner proactively guides C-level executives and their teams across every major enterprise function, in every major geography, industry and market sector on their journeys to achieve their mission-critical priorities. Our insights help clients in 4 critical areas. We identify blind spots, see around corners, fill critical information gaps and prepare for the future.

First, we leverage our vantage point across about 13,000 diverse enterprises to help leaders identify blind spots and avoid common pitfalls. Second, we help leaders see around proverbial corners, which is to say we guide leaders to understand how today's decisions can impact future performance. Third, we help clients fill critical information gaps. For example, most clients have data on their own performance but lack comparative data that helps them understand how their performance compares to others. Gartner provides access to highly detailed proprietary information, such as vast pricing databases, maturity models and cost benchmarks that are not available through public sources.

Finally, using our extensive knowledge of end user needs and vendor capabilities, we help our clients determine what the future might look like and how best to prepare. There is no other alternative where clients can get this kind of value on the full breadth and depth of their mission-critical priorities. AI remains the single most requested topic, including with Chief Information Officers, Chief HR Officers, Chief Sales Officers, Chief Marketing Officers and more. Demand for support on AI continues to grow.

Gartner proactively covers the full range of AI technologies and priorities: AI strategy, domain and multimodal models, AI cybersecurity, physical AI and robotics. AI cloud-to-edge processing, AI adoption cases and best practices and more. Gartner is at the center of the 3 critical constituencies. We connect more than 80,000 business leaders looking to get value from AI, more than 10,000 CIOs and IT organizations implementing AI, and about 5,000 technology providers building out their AI strategies.

In today's world, it's difficult for executives to know which sources they can trust for critical decisions. Our analysts have deep expertise. They're independent and objective. Clients trust Gartner. We're seeing strong demand for help with AI. We also have strong demand for support on other essential priorities, such as cybersecurity, cost optimization, data and analytics, and more.

However, in today's environment, persistent macroeconomic and geopolitical challenges are creating new and shifting budget pressures. As a result, executives are scrutinizing expenses, escalating approval processes and delaying decisions. We're taking steps to further strengthen our value proposition to thrive in persistently challenging environments and return to historical growth rates. As we've discussed before, the heart of this change is our Business and Technology Insights transformation. We continue to make progress on this transformation in 4 key areas: volume, impact, timeliness, and user experience.

The number of documents in our Insights library is up 18%, which allows us to cover a broader range of mission-critical priorities. The number of higher-impact documents is also up double digits. With the rapid pace of change in AI and other areas, it's essential for clients to stay current. To meet this need, the insights we produce immediately after important events are up significantly. Making it easier for clients to access our insights increases the value they receive from us. To address this, we continue to enhance the Gartner digital experience. And we're improving our sales, services and analyst capabilities to deliver value to our clients.

With the strong demand we're seeing for help on mission-critical priorities, such as AI, a vast and growing library of high-impact timely insights and the transformational improvements we're making in our ability to deliver unparalleled client value, we remain optimistic about our future. We expect contract value growth to continue to accelerate. We will continue to drive strong free cash flow that we can put to use to drive incremental shareholder value, and we expect to deliver adjusted EPS on a compound annual basis above 12% over the next 3 years.

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

**Craig W. Safian**
*Executive VP & CFO*

Good morning. Before updating you on the results of the quarter, I'm going to follow up on several points Gene just made. We are making significant progress on our BTI transformation with a focus on delivering even more value to our clients. Macro dynamics and AI are driving uncertainty and affecting enterprises around the world. The data we see across engagement, retention and growth in multiple end markets reinforces the enduring value of Gartner's expert-led insights. This gives us confidence that this cycle will normalize and CV growth will continue to reaccelerate.

Client engagement continues to improve meaningfully, increasing 140 basis points versus last year across both digital and human interactions, underscoring the relevance and the value of our expert insights. Digital engagement improved by more than 110 basis points year-over-year. Human interactions increased more than 150 basis points year-over-year, including through improvements in the usage of analyst consultations. Wallet retention continues to improve as downsell activity stabilizes and overall retention rates improve. In-quarter retention rates increased in Q2, providing another important leading indicator of future growth.

We continue to win new business with both existing clients and new enterprises. Our clients have conviction in the value we can deliver for them. We are seeing multiple areas of above-average growth, reinforcing the value our clients place on expert insights and guidance. Core GBS subscription products grew 7% in the quarter. The sales practice grew double digits. Finance and Legal grew mid-single digits and conferences revenue increased 12% year-over-year on an organic FX-neutral basis.

Midsized enterprise delivered mid-single-digit CV growth in the quarter. Government CV returned to positive NCVI in the quarter and was an important contributor to overall acceleration. We see this as a leading indicator for the broader client base navigating different but analogous spending constraints. Tech vendors, which are among the organizations closest to AI-related advancements, continue to rely on Gartner for timely and actionable insights. Software and services were again our strongest performing tech vendor subsectors. While some parts of this market are reprioritizing spending as they adapt to a rapidly evolving landscape, demand for our expertise remains healthy. Taken together, these trends demonstrate the resilience of our business model.

Even as clients navigate budget pressures and evaluate AI-related investments, total company CV growth accelerated in the quarter. Second quarter contract value or CV grew 2% year-over-year. This was the second consecutive quarter of acceleration. Revenue, EBITDA, adjusted EPS and free cash flow in the second quarter were better than expected. We are increasing our EBITDA, adjusted EPS and free cash flow guidance for the full year. In the second quarter, we reduced our share count by another 5%, buying back $547 million of stock. Rolling 4-quarter return on invested capital was 31%, and we expect to generate significant free cash flow and have fewer shares outstanding over the course of the next several years.

Second quarter revenue was $1.7 billion, up 3% year-over-year as reported and 2% FX neutral. In addition, total contribution margin was strong at 71%. EBITDA was $466 million, up 6% reported and 4% FX neutral. Adjusted EPS was $4.37, up 24% from Q2 of last year. And free cash flow was $378 million, up 9% year-over-year. Insights revenue in the quarter grew 2% year-over-year as reported and 1% FX neutral. Second quarter Insights contribution margin was 77%, up about 140 basis points versus last year.

Contract value was $5.3 billion at the end of the second quarter, a sequential increase of 30 basis points from Q1. Year-over-year, CV was up 2%, which is a 70-basis-point acceleration from last quarter. Excluding the U.S. federal government, CV growth was 3.3%. At June 30, we had approximately $125 million of U.S. federal CV. We had about $240 million of new business in the second quarter as there continues to be considerable interest in Gartner's proprietary unbiased insights. Across GTS and GBS, we saw new business dollars increase by about 10% from Q1. As you may have seen in the earnings supplement, we implemented a minor update to how we present FX-neutral KPIs. The details are in the supplement, and our Investor Relations team can answer any questions you may have.

Global Technology sales contract value was $4 billion at the end of the second quarter, about flat sequentially and up 1% versus the prior year, a 70-basis-point acceleration from Q1. Excluding the U.S. Federal business, CV grew 3%. Tech vendor year-over-year growth accelerated from Q1, while retention for GTS was 97%, an improvement from the first quarter. Ex-Fed wallet retention was 99%. GTS new business was up 2% compared to last year and up sequentially from Q1 of this year.

Global business sales contract value was $1.3 billion at the end of the second quarter, up 1% from Q1 and up 3% year-over-year. Ex-Fed, GBS CV grew 4%. Growth was led by the Sales, Legal and Finance practices. Within GBS, about 90% of the CV is from core subscription products. CV from these products grew about 7% year-over-year in the quarter with even faster growth from our offerings for C-level leaders. Wallet retention for GBS was 99% for the quarter. GBS new business was down 5% compared to last year. Q2 new business was around 20% higher than Q1.

The Conferences business continues to perform well. We're seeing strong demand for our insights as clients and prospects want to hear from our experts and interact with one another. Conferences revenue for the second quarter was $244 million. On a same-conference basis, revenue growth was around 12% FX neutral. Contribution margin was 59%. We held 18 destination conferences in the second quarter as planned.

Q2 Consulting revenue was $142 million compared to $156 million in the year-ago period. Consulting contribution margin was 38% in Q2. Labor-based revenue was $96 million. This was about in line with our expectation. Second quarter bookings increased 17% over the prior year. Backlog at June 30 was $214 million, up about 9% year-over-year. This was the first year-over-year backlog increase since Q1 of 2025. In contract optimization, we had $148 million of revenue on an LTM basis, consistent with Q1 of this year. The 2-year revenue CAGR was up about 9%. As you know, our contract optimization revenue is highly variable. The performance in Q2 was better than we had expected.

EBITDA for the second quarter was $466 million, up 6% from last year's reported and 4% FX neutral. We outperformed expectations in the second quarter through revenue upside, effective expense management and a prudent approach to guidance. Adjusted EPS in Q2 was $4.37, up 24% compared to Q2 last year. We had 67 million shares outstanding in the second quarter. This is an improvement of about 11 million shares or approximately 14% year-over-year. We exited the second quarter with 64 million shares on an unweighted basis.

Free cash flow remained strong in the second quarter, up 9% year-over-year. Free cash flow on a rolling 4-quarter basis was $1.3 billion. Adjusting for several items detailed in the earnings supplement, free cash flow was 20% of reported revenue, 78% of adjusted EBITDA and 140% of GAAP net income. At the end of the second quarter, we had about $1.5 billion of cash. This includes about $500 million for running the business and around $1 billion available to deploy on behalf of shareholders. Our June 30 debt balance was about $3 billion. Our reported gross debt to trailing 12-month EBITDA was under 2x. We repurchased $547 million of stock during the second quarter, reducing our share count by more than 5% sequentially. Last week, the Board increased the buyback authorization to about $1.2 billion. We expect the Board will continue to evaluate and refresh the amount as needed.

We are updating our full year guidance to reflect recent performance and trends. The update includes the effect of foreign exchange rates, reflecting a stronger U.S. dollar compared with our prior guidance from 3 months ago. For Insights revenue in 2026, our guidance is operationally unchanged. We revised the outlook to account for the stronger dollar. For Conferences, we are basing our guidance on the 55 in-person destination conferences we have planned for 2026. We have good visibility into current year revenue with the majority of what we've guided already under contract. For Consulting, we have maintained the outlook for the full year. Contract optimization has had several very strong years, and the business remains highly variable.

For 2026, we expect revenue at or above $6.375 billion, which is updated from last quarter and is FX-neutral growth of 1%. With positive NCVI in Q2, we expect Insights revenue in Q3 to be up sequentially on an FX-neutral basis. Reported results will reflect the effect of the stronger dollar. We now expect full year EBITDA at or above $1.57 billion. Compared with our prior guidance, this is up $40 million on an operational basis and up $25 million net of the effect of the stronger dollar. This reflects full year margins at or above 24.6%, also up from last quarter. We expect 2026 adjusted EPS at or above $14, an increase from last quarter that primarily reflects the increase in the EBITDA outlook and a lower share count.

For 2026, we expect free cash flow at or above $1.185 billion, also an increase from the prior guidance. This reflects a conversion from GAAP net income of 136%. Our guidance is based on 66 million fully diluted weighted average shares outstanding, which incorporates the repurchases made through the end of the second quarter. We exited Q2 with about 64 million fully diluted shares. For Q3, we expect EBITDA at or above $315 million. Our revenue, profit, and cash flow results in Q2 were ahead of expectations. We've increased the EBITDA, adjusted EPS, and free cash flow guidance for 2026. Contract value ex-Fed grew 3.3% in the quarter and total CV year-over-year growth improved by 70 basis points from Q1 of 2026.

We are making progress on our BTI transformation with a focus on delivering even more value to our clients. Macro dynamics and AI are driving uncertainty and affecting enterprises around the world. The data we see across engagement, retention and growth in multiple end markets reinforces the enduring value of Gartner's expert-led insights. This gives us confidence that this cycle will normalize and CV growth will continue to reaccelerate.

Gartner's return on invested capital was strong at 31% on a rolling 4-quarter basis. We continue to generate significant amounts of free cash flow. We expect the conversion of GAAP net income will improve as CV accelerates. We believe this offers a durable and compelling value proposition for our shareholders. We are positioned to accelerate CV growth in 2026, and we expect to deliver adjusted EPS on a compound basis above 12% over the next 3 years. Over time, we'll opportunistically deploy our capital on stock repurchases, which will lower the share count and on strategic value-enhancing tuck-in M&A.
With that, I'll turn the call back over to the operator, and we'll be happy to take your questions. Operator?

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from Faiza Alwy with Deutsche Bank.

**Faiza Alwy**
*Deutsche Bank AG, Research Division*

I wanted to ask about how your thoughts have evolved around the role of macro and AI kind of impacting your business? Because I feel like this is the first time that you've mentioned sort of AI as a factor. Historically, we've been talking more about the macro factors like tariffs. So just curious kind of what's kind of driven the change in messaging around there?

**Eugene A. Hall**
*CEO & Chairman*

Yes, Faiza. What I'd say is that during Q2, the selling environment improved. And I'd say many of the factors that we've talked about were modestly better. The most notable one obviously being part of the public sector, but other sectors as well. AI actually for us is something we get a lot of demand for. It's the single biggest demand from our clients. And so it's actually quite valuable to our clients. And again, we see the single biggest driver of demand from helping clients with AI.

**Operator**

Our next question comes from Andrew Nicholas with William Blair.

**Thomas Colton Roesch**
*William Blair & Company L.L.C., Research Division*

This is Tom Roesch on for Andrew Nicholas. I wanted to ask about the AskGartner solution. And I was wondering if you could provide some color on how renewal rates for users of AskGartner compared to those who don't? And also any type of benefits you're seeing like in revenue renewals, retention, any type of those numbers at this point?

**Craig W. Safian**
*Executive VP & CFO*

So I think the way to think about AskGartner, and Gene referenced this in the BTI transformation, it's just a piece of all the things we're doing to enhance the user experience, both from a digital user experience perspective and also the experience when people do interact with our analysts and our experts. And AskGartner for us is table stakes, because that's the way a lot of people are now, when they're behind the firewall or working through information, they are leveraging a large language model.

Our core value is really driving people there to our site proactively, because we know what their mission-critical priorities are. We know what their interests are, and we know what they should be thinking about many times before they even know what they should be thinking about. And they really put a huge premium on that proactivity. And then when they do come, they are proactively brought in behind the firewall, then AskGartner is one of our many digital tools that they can utilize to further enhance their experience, their insights, their intelligence moving forward on their MCPs.

It's all positive. But again, I would highlight the broader digital experience as being the more important thing, and actually the broader overall engagement experience across all of the elements that Gartner delivers value is really what we're focused on. AskGartner is obviously a piece of that, but not the biggest piece of it. It's an important piece, but more broadly, we're enhancing the overall experience, making it more effective and more efficient for our clients to connect with the insights they need to accomplish their mission-critical priorities.

**Operator**

Our next question comes from Jason Haas with Wells Fargo.

**Jason Daniel Haas**
*Wells Fargo Securities, LLC, Research Division*

I'm curious if you're still expecting the ex-federal government CV growth to accelerate to 4% plus by the end of this year?

**Craig W. Safian**
*Executive VP & CFO*

Yes. So along with overall CV growth continuing to accelerate this year, it is our expectation that the ex-Fed CV growth will be a part of that. So short answer is yes. We do expect the entire business to continue to accelerate, ex-Fed being a piece of that reacceleration as well.

**Operator**

Our next question comes from Jeff Meuler with Baird.

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

Could you go into more detail, I guess, on your takeaway from the midsized client base growing mid-single and what's different relative to large enterprise? One thing that would come to my mind that I'd be curious on your thoughts on is like if large enterprise just has more downselling of number of seats, but I don't know if there's any other takeaways from you because I would think the initiatives that you've been implementing would benefit both client sizes generally.

**Eugene A. Hall**
*CEO & Chairman*

Jeff, it's Gene. Great question. I think what's going on with midsized enterprises is, these are enterprises that are -- again, there are typically revenues of $100 million or more. So these are not small enterprises, but they're smaller than the very large enterprises. And so the level of complexity in their environment is lower. And so when they're tackling things like AI, it's easier for them to actually get to what are the big areas that they can get a good return on, how they track the costs. All that stuff is much easier to control with the midsized enterprise.

I think large enterprises, these very large enterprises, they're extremely complicated. And I think it's very hard for leaders to sort out all of the puts and takes in terms of both where the value is and in terms of how you manage cost. I think that's the big difference is, in the smaller enterprises, actually, it's easier to manage all the stuff they're making more progress. In the larger enterprises, it's a much more complex problem that they're still wrestling with how you actually get that ROI and control cost and risk and things like that.

**Craig W. Safian**
*Executive VP & CFO*

And I think, Jeff, the other thing I would add is, in the larger enterprises, they tend to be more global in nature and so more impacted by all of the uncertainty that exists out there. The one thing I would say is, and again, I would echo your point, all the things we're doing from BTI transformation and across the board will benefit all clients of all sizes, across GTS, the end user piece, the tech vendor piece, and across GBS. We did note that we are seeing downsell stabilize in the second quarter, which, again, is largely a larger company phenomenon. So we're actually seeing some improvement there.

We noted also that we are seeing in-quarter retention rates improve. That's a phenomenon across the entire portfolio as well. And so back to Jason's question a little bit, with ex-Fed accelerating, we need the entire portfolio to accelerate, and that would be inclusive of midsized enterprises, large enterprises and our largest clients across the board as well.

**Operator**

Our next question comes from Josh Chan with UBS.

**Joshua K. Chan**
*UBS Investment Bank, Research Division*

I guess on Gene's comment about the selling environment improving, I was wondering if you could make a comment about the ex-Fed selling environment. Do you see that improving as well through the quarter? And for you to get to the target of acceleration for the year, what kind of needs to happen on an ex-Fed environment basis, I suppose?

**Eugene A. Hall**
*CEO & Chairman*

So I'd say on the ex-Fed selling environment, there are areas where it's gotten better and there's areas where it's gotten worse. And so I'd sort of say there's a mix of that. And so the areas where the macro has gotten better, I think that's performed very well. And the areas where it's gotten worse has been a little bit more challenging. And so I sort of say that's what's going on kind of under the covers. And again, as Craig said, we expect that to accelerate over time.

**Craig W. Safian**
*Executive VP & CFO*

And again, Josh, I think what it comes down to is, our belief, and I think a lot of people believe this, that this kind of environment is sort of the new normal to some extent. And so all of the transformations we're doing and all the ways we are improving the business and focusing on execution and all of those things are meant to be able to accelerate the business in the current environment. And so again, we don't need a radical shift in the environment for the CV to continue to accelerate. We don't need a radical shift in the environment for the ex-Fed CV to accelerate. We just need to execute better, and we've got all the things in line. And again, as I mentioned and Gene mentioned in our prepared remarks, as we look under the covers at a lot of our KPIs, they are definitely trending positively. And when we see those things trend positively, generally results in improved performance over time.

**Operator**

Our next question comes from Manav Patnaik with Barclays.

**Manav Shiv Patnaik**
*Barclays Bank PLC, Research Division*

I was just hoping you could help understand the new business number. I think you said it was plus 2% in GTS and down 5% in GBS, and kind of square that off with your commentary around increased engagement in new sales and so forth. And I guess, within that, and maybe overall, just how is price tracking?

**Craig W. Safian**
*Executive VP & CFO*

Manav, I'll start off, and Gene can fill in any blanks. So I think there's a few things I'd highlight on the new business. So one is, as you know, and many of those who follow us for a while, we generally see new business dollars build from Q1 to Q2 to Q3 to Q4. So each quarter, we generally generate more new business dollars than the previous quarter. And as I noted in my prepared remarks and highlighted for both GTS and GBS, we did see a nice progression from Q1 to Q2 in new business dollars, which we view as very positive.

When we look under the covers at sales pipelines and new business pipelines, they are also trending positively. And as you know, having new business pipelines doesn't immediately translate into growing new business, but certainly it gives us a much better shot of continuing to drive that build from Q2 to Q3 and then Q3 to Q4 from a new business perspective and drive gains in new business as well.

When we look under the covers at things like engagement and things of that nature, that's really about future retention rates. But what I would say is, obviously, future retention is also a good predictor of future new business. If you're not driving strong retention rates, it's really hard to grow those clients. And so the more that we can drive higher retention rates within our existing clients, the more new business opportunities we have as well. And again, you saw wallet retention increased sequentially, that you should see build as well over time as we both drive stronger retention rates with our existing clients.

And then with more clients retaining, we have more at bats, if you will, to drive new business with existing clients as well. And so I think it's a combination of all those things. And so primarily, the engagement gives us confidence about the retention rates. The retention rates give us confidence about being able to drive new business from existing clients and then you flip over to the new business pipelines, which remain very strong and positive, that gives us confidence around the new logo contribution moving forward as well.

**Operator**

Our next question comes from Surinder Thind with Jefferies.

**Surinder Singh Thind**
*Jefferies LLC, Research Division*

I was hoping maybe you can provide a bit more color on the wallet retention. Obviously, things got a little bit better quarter-over-quarter. But I think there was also commentary around continued downsell pressure within the large enterprises. Maybe just how you think about where downsell pressure is versus maybe where you would like it to be? And just some of the things that are the factors that you think are driving it in the near term versus structurally where we think we are longer term on that, that would be helpful.

**Craig W. Safian**
*Executive VP & CFO*

Surinder, so I think the commentary is really that we're seeing downsell stabilize. And so it didn't get worse Q1 to Q2. It is stabilizing. And if you think about when a contract comes up for renewal, there are 1 of 3 or 4 things that could happen. And so when there is downsell, it means we lose the upsell opportunity. And while our retention is really a function of the combination of renewing the base, obviously, there are a small amount of clients that will cancel, but you see client retention rates are improving and are at or near sort of historical highs. And so that's really not a challenge for us. But when a client decides to either hold spend or reduce spend, that is a missed opportunity for us to increase the spend, which generally translates into those higher wallet retention rates.

We believe that over time, with better engagement levels, all the improvements we're making that Gene highlighted on BTI that, that will lead to stronger retention rates. That stabilizes the wallet retention and gives us more opportunities to grow that going forward. It could be just growth through price. It could be growth through upgrading people to higher-level services, or it could be growth from finding new license users or finding new buying centers within those existing enterprises. But we view wallet getting more back to normal over time as we drive all these improvements in BTI and engagement, which stabilizes the retention base and then just gives us more opportunity to grow that existing client base.

**Operator**

Our next question comes from Jasper Bibb with Truist Securities.

**Jasper James Bibb**
*Truist Securities, Inc., Research Division*

I just wanted to ask how you're thinking about managing quota-bearing head count in the context of this reacceleration in the second half and then into '27. Like do you expect to add more salespeople in the second half to support that CV reacceleration? Or do you think you get there on productivity gains?

**Eugene A. Hall**
*CEO & Chairman*

Jasper, so we basically want to add sales headcount when we have great productivity. And right now, we look at it as we have a lot of capacity that is underutilized, and that with the changes we're making like the BTI transformation I talked about, the increased engagement that Craig talked about, we think that will actually drive our productivity up. We'll get a nice lift there. As that comes up, we will expect to accelerate our headcount growth. And so it really depends on kind of how we see this improvement in productivity developing over time.

**Craig W. Safian**
*Executive VP & CFO*

And Jasper, I would just add, we're actively managing our operating expense base, so that we can remain agile and ensure we can deliver on our profit expectations, free cash flow expectations, et cetera. And then just I would reiterate what Gene said, which is we have plenty of capacity to significantly reaccelerate CV, even getting to half or 3/4 of our historical productivity levels, that would provide a significant uplift to the CV growth. And again, that return to productivity would give us the confidence that Gene highlighted to reignite investment in QBH. But again, it's all about balanced managing of our OpEx base, making sure we're getting productivity out of our existing cost base. And then when we see that, that's the signal to go faster on the QBH side.

**Operator**

Our next question comes from George Tong with Goldman Sachs.

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

You talked about CV growth continuing to accelerate from current levels and highlighted several drivers. Can you rank order the key drivers you expect to fuel CV growth acceleration and what you see as a reasonable medium-term target for CV growth?

**Eugene A. Hall**
*CEO & Chairman*

So what I'd say, George, is the thing that's going to drive CV growth the most are 2 factors. The first is as engagement with our clients increases, that strengthens retention. And then as our client retention increases, obviously, if we retain a client, just as Craig explained earlier, our opportunity to grow on that client increases. And so I think the first thing we'll see is increased engagement leads to higher retention. Now high retention actually leads to more new business with our existing clients. Then on top of that, as we make the changes and get higher engagement, that also makes it easier to sell new clients, too. It makes the value proposition more transparent to new opportunities as well. And so then that will kick as well. So I think those are the 3 key factors that impact it.

**Craig W. Safian**
*Executive VP & CFO*

And George, I would just add, obviously, in the near term, the biggest impact is a combo of lapping the U.S. Fed and that business actually getting back to growth as well. And so again, I know that's baked into a lot of the way people are thinking already. And so that's fine. But mathematically, that will provide a nice lift this year. And then again, we believe that, that business -- and again, both Gene and I noted in our prepared remarks that we actually drove NCVI in that space in the second quarter. So that's another piece of it as well that sort of gets rolled into the total and will behave exactly the way Gene highlighted. But obviously, we won't have the same challenges we had in 2025 from the U.S. Fed business going forward.

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

And a reasonable medium-term target for CV growth?

**Craig W. Safian**
*Executive VP & CFO*

George, you should know us better than that, that we do not provide CV guidance or medium-term growth. I think the short answer is we expect CV growth to continue to reaccelerate. We've got to go through -- continue through the low single digits to get to mid-single digits and then get through mid-single digits and beyond. And we look forward to updating everyone each quarter, but we're not going to provide a medium-term target on the CV growth as is our normal practice.

**Operator**

Our next question comes from Toni Kaplan with Morgan Stanley.

**Toni Michele Kaplan**
*Morgan Stanley, Research Division*

You mentioned in the prepared remarks, clients are reprioritizing their tech budgets. I imagine a lot of them are putting sort of more expense dollars towards utilizing large LLMs and related expenses. Is that largely what you were referring to? And are you seeing any impact in the amount that they're willing to spend with you as a result of the reprioritization?

**Eugene A. Hall**
*CEO & Chairman*

Toni, so you're correct in that clients are reprioritizing their IT spending to shift more towards AI. LLM is one piece of it, but more towards AI. What I'd say is that doesn't impact us in a negative way directly, because if you look at the amount they spend with us relative to their IT budgets, we're very, very small. I think 0.1% or less for typical clients. And so as they reprioritize -- actually, as I mentioned before, the biggest single driver of demand for us for our clients, including IT, is help with AI. So we're actually helping them figure out how do they reprioritize. And so in that sense, it's actually driving demand for our products as we help them reprioritize. And again, across both within IT and across the business, typically, companies are trying to reprioritize to free up more money for AI, and we're helping them with that.

**Operator**

Our next question comes from Scott Wurtzel with Wolfe Research.

**Scott Darren Wurtzel**
*Wolfe Research, LLC*

Craig, just wondering if you can talk a little bit more about some of the OpEx efficiencies that you're recognizing in the context of you're excluding FX, you're raising your revenue outlook by $5 million, EBITDA by $40 million. So just wondering if you could talk a little bit more about the OpEx efficiencies.

**Craig W. Safian**
*Executive VP & CFO*

Yes, Scott, thanks for the question. I think it's ongoing best practice around making sure that our in-quarter OpEx rates align with the revenue, but more importantly, that our run rates align with our revenue CV expectations rolling forward. So we continue to manage the business to ensure that we are delivering on our profit targets and also delivering on our free cash flow targets. What I would say is a lot of the reprioritization is to make sure that we are investing in key areas that we know will drive short-term, medium-term and long-term growth. And so there's a lot of reprioritization happening on a quarterly basis. It's not always in the name of driving profitability. It is often in the name of making sure that we're able to double and triple down in the places that we think are most important for delivering value for our clients and that we think are most important for delivering long-term value for the company and our stakeholders as well.

**Operator**

Our next question comes from Daniel Zako with BMO Capital Markets.

**Jeffrey Marc Silber**
*BMO Capital Markets Equity Research*

This is actually Jeff Silber with BMO. Other companies in the space have talked about potentially changing economics, maybe a faster move to enterprise pricing or a consumption-based model. Is that something you're contemplating? And if not, why not?

**Eugene A. Hall**
*CEO & Chairman*

So we talk to our clients and do market research on a pretty much continual basis to understand how they want to work with us and how they feel about our pricing. And what I'd say is if you look at who we're targeting with our research, it's typically the C-level, like the CIO, CFO, their direct reports and maybe one level down. And so an organization that might have 1,000 people or 10,000 people or 50,000 people, we're targeting a handful of those people. And when we go back to talk to clients about how they want to pay for it, how they want to structure their contracts, they like the way we do it today as seat-based because they don't see a need to have it with all 10,000 of their associates.

And if I can contrast that, there's some like software purchases where they sort of say, like if you buy a lot of packaged software sort of say, well, I need it for each of my associates. We're not in that kind of a business. It's really focused on the top really 3 levels in the organization are our core clients. And when we ask them how they want to pay, they don't say we want enterprise licenses. They actually like the way that we're working today.

**Craig W. Safian**
*Executive VP & CFO*

And Jeff, just to add to that. I mean, again, if you look at the average spend on the GTS side, it's probably about 6 licenses per enterprise. On the GBS side, it's a little bit lower than that. And so again, we are really targeting, to echo Gene's point, the top of the org chart, that person's direct reports, and in large organizations, a level or 2 down from that. We are not targeting the enterprise. We are targeting the C-level, because those are the people that have significant enterprise-wide mission-critical priorities that we can drive the most value for, and that's where we're going to continue to focus and drive a lot of our growth and value.

**Operator**

Our next question comes from Ashish Sabadra with RBC Capital Markets.

**Ashish Sabadra**
*RBC Capital Markets, Research Division*

Maybe a quick clarifying question. Can we know what the ex-Fed NCVI was in the quarter? We get around $11 million from Fed and $3 million from ex-Fed NCVI. Just wanted to confirm that. And then just a follow-up on prior responses. I was just wondering, can you talk about which areas are you seeing continued pressure? Are there certain industries or -- for example, tariff impacted industries were impacted last year? Do you see easy comps going into this year?

**Craig W. Safian**
*Executive VP & CFO*

Ashish, I'll start with the computational stuff, and then we can dive into the more macro question. So ex-Fed NCVI in the quarter was about positive $4 million. So that's the math on that. In terms of -- do you want to cover the tariff impact?

**Eugene A. Hall**
*CEO & Chairman*

Yes. In terms of industries, again, companies that have tariffs imposed have much tighter cost constraints for that company than ones that don't. And so that's clearly a macro factor that continues to impact us for those companies, that tariffs. As I mentioned before, and Craig mentioned this as well, we're assuming that the world is going to be like that for the go-forward basis. And so we're restructuring our business, especially with the BTI transformation, so that our value goes up, so that even in industries where there's a big macro dislocation, that actually they see the value in our products and are going to want to buy and grow with us.

**Craig W. Safian**
*Executive VP & CFO*

And Ashish, just the one thing I'd also just highlight is, it's really the uncertainty. There are lots of different macro factors that are popping up on a daily, weekly, monthly basis. They ebb and flow, but it's causing just lots of uncertainty around the enterprises that we serve globally, and we're adapting and transforming, so that we can perform better given all that uncertainty.

**Operator**

Our next question comes from Curtis Nagle with Bank of America.

**Curtis Smyser Nagle**
*BofA Securities, Research Division*

Just switching gears a little bit just on consulting. I think you said the backlog is $214 million or so, first increase in about a year or so. I guess where are you seeing incremental demand? What's driving that improvement?

**Craig W. Safian**
*Executive VP & CFO*

Yes. Curtis, I think it's a little bit better execution across the board, a little bit of just driving better focus with our core anchor clients. There's no like one thematic around we sold a lot of this kind of project or this kind of engagement. I think the team has just been laser-focused on, one, delivering on the backlog that we have; and two, generating the pipeline and turning that into bookings so that we've got more backlog to burn in the future.

Obviously, in Q2, we had a very strong bookings quarter. Again, no uber trend among the type of business that we did end up selling, but it's just a matter of staying close to our clients, understanding where they have needs, and then our consulting team diving in to meet those demands and meet those needs. And so we feel good now about the full year outlook, particularly on the labor-based side, given the strong bookings quarter, and we need to follow it up with another strong bookings quarter, so that we can keep the backlog growing, so that we can return that business to growth over the medium term.

**Operator**

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

**Eugene A. Hall**
*CEO & Chairman*

So in closing, with the strong demand we're seeing for help on mission-critical priorities such as AI, our vast and growing library of high-impact timely insights and the transformational improvements we're making in our ability to deliver unparalleled client value, we remain optimistic about our future. We expect contract value growth to continue to accelerate. We will continue to drive strong free cash flow that we put to use to drive incremental shareholder value, and we expect to deliver adjusted EPS on a compound annual basis above 12% over the next 3 years.

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

**Operator**
Thank you for your participation. This does conclude the program. You may now disconnect. Everyone, have a great day.