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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2016 earnings conference call. My name is Latoya and I will be your operator for today.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. Without further ado, I would like to turn the call over to the Group Vice President and Head of Investor Relations, Sherief Bakr. Please proceed.

Sherief Bakr - *Gartner Inc - Group VP and Head of IR*

Thank you, Latoya, and good morning, everyone. Welcome to Gartner's first-quarter 2016 earnings call. With me today in Stanford is our Chief Executive Officer, Gene Hall, and our Chief Financial Officer, Craig Safian.

This call will include a discussion of Q1 2016 financial results as disclosed in today's press release, as well our updated outlook for 2016. After our prepared remarks, you will have an opportunity to ask questions

I would like to remind everyone that the press release is available on our website investor.Gartner.com Before we begin, I'd like to remind you that 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 2015 annual report on form 10-K and quarterly report on form 10-Q as well as other filings with the SEC. I would encourage all of you to review the risk factors listed in these documents. With that, I'd like to hand the call over to Gartner's Chief Executive Officer Gene Hall. Gene?

Gene Hall - *Gartner Inc - CEO*

Thank you, Sherief, and good morning, everyone. Thanks for joining us on our Q1 2016 earnings call. Starting strong in the first quarter of the year is the best way to have a great full year, and we had a great start to 2016.

First quarter we delivered against all of our key metrics, including double-digit growth in contract value, revenue, and earnings per share. In addition, we continued to drive strong free cash flow conversion.

As many of you know, we do business in more than 90 countries around the world. Because of ongoing currency fluctuations globally, I'm going to talk about our results in FX-neutral terms to give a clear understanding of how we're doing.

For the first quarter of 2016, total. Company revenues increased by 21% and EBITDA increased by 31%. These results were driven by robust performance in all three of our business segments, and demand for our services remains strong.

Research is the core of our business and our largest and most profitable segment. Research revenues accelerated to 18% growth in the first quarter, exceeding our expectations. These results were driven by strong contract value growth and contributions from our recent acquisitions.

Contract value growth for the first quarter of 2016 was 14%. We achieved double-digit contract value growth in every region in almost every industry and across every size company.

Technology is changing everything, and the rate of technology-driven change is accelerating. Client retention was at 84% and well retention was at 105%, which are near our all-time highs. Our consulting business enables us to deepen our research relationships with our largest clients.

For Q1 2016, our consulting business had one of the strongest quarters it's ever had, with revenue growth of 12%. Backlog, which is a leading indicator of future revenue growth for this business segment, grew 17% over this time last year.

And these results were a result of broad contributions from all consulting practice areas and regions. Our events business also achieved another strong quarter of double-digit growth in the first quarter of 2016, with revenues up 10% on a same-event basis.

We hosted more than 7,600 attendees across 12 events we held a quarter, and advanced bookings for our events are growing at strong double-digit rates. Our results continue to reflect the tremendous value we deliver to our clients.

Technology is critical to every company in the world. Every enterprise is concerned about cyber security. Every enterprise is worried about technology disruption, and technology is the key to fueling cost reduction, whether enterprises are looking to fund new growth initiatives or cut costs.

It will never be this slow again. Enterprises know they need help.

Gartner is at the heart of technology. Our clients rely on us for making independent, objective, and fact-based insights when making critical technology decisions.

Our services deliver tremendous value at very high ROI, more than paying for themselves. Whether an enterprise is thriving or facing economic challenges, Gartner is the insight and advice our clients need to achieve success with their mission-critical priorities.

As you may have heard me say in the past, Gartner is a people business. We continue to make significant investments in attracting top talent, and they're paying off. We often get recognized externally. Here's a couple of examples.

Forbes named us one of their most innovative growth companies for 2015. And we were also named one of Fortune Magazine's world's most admired companies for 2016. And there are many more.

A few weeks ago I was with a number of our top-performing salespeople. These were salespeople from all around the world who had previously worked in other leading technology companies. One manager I spoke with told me he describes a sale role at Gartner as a destination job.

He said Gartner delivers tremendous value to our clients, with incredible training, tools, products and services. And the Gartner name gets you access to C level clients anywhere in the world. You don't come to Gartner on your way to somewhere else, Gartner is the place you're trying to get to.

It's not about a job, this is a place where you build a career. Now I get this feedback from across our sales organization and throughout our business, including research, events, consulting, and more.

Gartner is a growth company, and we continue to invest in the development of our people along with the products and services that add the most value to our clients. I remain excited for our continued double-digit growth well into the future. And with that, I will now turn the call over to Craig will provide more detail on our business results.

Craig Safian - *Gartner Inc - CFO*

Thank you, Gene, and good morning, everyone. At a high level Gartner's first-quarter performance reflects a continuation of the robust demand for our products and services in what remains a challenging macroeconomic environment for virtually every global business.

The combination of the great value we provide to our clients around the world, the investments we are making to capture our vast market opportunity, and our exceptional business model allows us to consistently deliver double-digit revenue and earnings growth as well as exceptional free cash flow generation. Our strong Q1 results and updated full-year guidance underscores our expectation to continue this trend in 2016.

On an FX-neutral basis, our year-on-year financial performance for the quarter included contract value growth of 14% and research revenue growth of 18%, events revenue growth of 10% on a same event basis, consulting revenue growth of 12% with backlog growth of 17%, normalized EBITDA growth of 31%, and diluted EPS excluding acquisition adjustments of $0.61 per share. This compares to $0.37 per share in the first quarter of 2015 and our guidance range of $0.44 to $0.47.

Our stronger-than-expected Q1 EPS results were driven in roughly equal amounts by the combination of improved operational performance and lower expenses below EBITDA, such as stock-based compensation and tax. I will come back to this in more detail in a few moments.

As I emphasized at our recent investor day, our exceptional business model and focus on cash flow creates a consistently high level of free cash flow conversion. On a rolling four quarter basis, our free cash flow conversion was 147% of normalized net income at the end of Q1.

I'll now discuss our first-quarter business segment performance in depth, provide some comments on balance sheet and cash flow dynamics, and then close with remarks on our guidance for Q2 and our updated outlook for the full year. We will then be happy to take your questions.

Beginning with research. Research revenue grew at 16% on an as reported basis and 18% on an FX-neutral basis in the first quarter. Excluding the impact of our newest acquisitions and foreign exchange, research revenues were up organically by 14%.

The new businesses, Capterra and Nubera, both performed strongly in Q1. The gross contribution margin for research was 70%, or the same level compared to the first quarter of 2015.

All of our other research business metrics remained very strong. Total contract value was $1.721 billion as of the end of Q1, FX-neutral growth of 14% versus the prior year.

As a reminder, we've made a modest adjustment to our calculation of contract value which we believe provides better transparency and visibility into our performance. For reference and comparison, our Q1 2015 total contract value at current year FX rates was $1.514 billion, while our Q4 2015 total contract value was $1.697 billion.

You can also find this historical information in our investor day materials from February. We have provided our historical research contract value measure in our press release, and will continue to provide that figure for the balance of 2016 after which we will phase it out. At the end of Q1, that figure was $1.704 billion, also 14% year-over-year growth on an FX neutral basis.

We have a highly diversified business, which largely reflects the GDP composition in each country that we do business in. We sell to clients in over 90 countries around the world.

We have clients in every vertical, from finance to public sector to healthcare. We have clients that are huge multinationals down to very small businesses.

This diversity is a strength, particularly given the challenging macroeconomic conditions all global businesses continue to operate in as it helps us to mitigate against challenges in any one region, any one industry, or any one size of client. Consistent with this, our growth in contract value continues to be broad-based, with every region, every client size, and virtually every industry segment growing at double-digit rates.

We continue to drive CV growth through strong retention rates and consistent growth in new business. As Gene mentioned, client retention was 84%, down slightly from the first quarter of 2015 and flat to the end of 2015.

Wallet retention ended at 105% for the quarter, down modestly year on year but also flat on a sequential basis. Both of our retention figures are close to our historical highs.

Wallet retention is higher than client retention due to a combination of increased spending by retained clients and the fact that we retained a higher percentage of our larger clients. As we have discussed in the past, our retention metrics are reported on a four-quarter rolling basis in order to eliminate any seasonality.

New business increased 16% year on year in Q1. The new business mix is consistent with prior quarters, and remains balanced between sales to new clients and sales of additional services and upgrades to existing clients.

And as always, we also benefit from our consistent price increases. Our new business growth reflects our success in penetrating our vast market opportunity, with both new and existing client enterprises. We ended the first quarter with 10,474 enterprise clients, up 6% compared to Q1 2015.

Additionally, the average spend per enterprise continues to grow, reflecting our ability to increase our contract value by driving growth in both new and existing enterprises. Turning to sales productivity.

As we have detailed in the past, we calculate sales productivity as the net contract value increase, what we call NCVI, per account executive. We look at it on a rolling four-quarter basis to eliminate seasonality, and we use opening sales headcount as the period denominator.

Over the last 12 months we grew our contract value by $207 million in FX-neutral terms. Using our Q1 2015 ending sales headcount of 1,933 as our beginning of period denominator, yields NCVI per AE of $107,000 on a rolling four-quarter basis, or a 7.5% decline over the first quarter of last year when the comparable figure was $116,000 per account executive at constant currency rates.

The year-over-year decline in productivity was driven primarily by the deceleration of CV growth in industries and regions that continue to be most challenged. On a sequential and a standalone quarter basis, sales productivity was essentially flat, as underlying improvements to productivity were offset by the tougher overall operating environment.

To sum up, we delivered another robust quarter in research, with 14% contract value growth and better than expected performance from our most recent acquisitions. Given this strong performance, we have increased our outlook for the research business for the full year as I will discuss in a moment.

Looking forward, we are confident that the productivity initiatives we have in place and continue to introduce will positively impact contract value growth in 2016 and ultimately research revenue growth over the longer term. Moving to events.

On a same event and FX-neutral basis, events revenues increased 10% year on year, consistent with our full-year growth expectations. As noted last quarter, we moved three larger events into Q1 2016 that occurred in Q2 last year.

In the quarter, we held 12 events with 7,640 attendees, compared to nine events and 4,065 attendees in the first quarter of 2015. Events Q1 gross contribution margin was 41%, up significantly compared to a lighter year ago quarter, but approximately flat when compared on a same events basis.

Our outlook for events remains unchanged. We still expect double-digit revenue growth on a constant currency basis for the full year. Consulting began the year with one of its best ever quarters.

As Gene detailed, this performance was broad-based across regions and practice areas. On an as reported basis, consulting revenues increased 11% year on year and 12% on an FX-neutral basis, exceeding our own expectations for the quarter.

The labor-based business was up 9% versus Q1 of last year at constant currency. We also saw very strong year-on-year growth in Q1 for our contract optimization practice. The underlying operating metrics of our consulting business also remain strong.

On the labor-based side, billable headcount of 618 was up 13% from the year ago quarter, and first-quarter annualized revenue per billable headcount ended at $386,000, which was flat year on year on an FX-neutral basis. Our ongoing investment in managing partners continues to drive demand for our services, and we had 110 managing partners at the end of Q1, a 15% increase over the year ago quarter.

Related to this, backlog, the key leading indicator of future revenue growth for our consulting business, ended the quarter at $114 million up, 17% year on year on an FX-neutral basis. This represents over four months of forward backlog.

Given the strong Q1 performance and the visibility we have into the pipeline, we have increased our outlook for the consulting business for the full year as I will discuss in a moment. Moving down the income statement.

SG&A increased by 12% year over year in the first quarter, primarily driven by the growth in our sales force. As of the end of Q1, we had 2,237 direct quota bearing sales associates, an increase of 304, or 16%, from a year ago, consistent with our plans for the year.

In the first quarter, SG&A was 250 basis points lower as a percentage of revenues than the year ago quarter. This was primarily due to better G&A leverage and higher revenues, which more than offset the continued investments in our sales capacity, recruiting and training capabilities.

Moving on to EBITDA and earnings. Normalized EBITDA was $103 million in the first quarter, up 28% year on year on a reported basis and up 31% on an FX-neutral basis. This growth can be largely attributed to our strong operating performance.

Excluding the shift in events, normalized EBITDA was up approximately 19% in the quarter. In addition, our first-quarter earnings benefited from lower than expected stock-based compensation expense, which also positively impacts our full-year outlook for EPS.

Moving down the income statement. Depreciation and amortization and acquisition and integration charges all increased year over year, reflecting higher capital spending to support our growth as well as the impact of our recent acquisitions.

Net interest expense was $6 million in Q1, reflecting our increased borrowing. Our GAAP tax rate for the quarter was 33.4%. This lower Q1 rate was primarily due to favorable Q1 period items, as well as the timing of certain tax costs that are expected to be realized in the remainder of the year.

We expect our full-year GAAP tax rate to be approximately 36%. Adjusting for acquisition charges, our normalized tax rate for the quarter was approximately 32%, and we expect our full year normalized tax rate to be approximately 35%.

GAAP diluted earnings per share was $0.48 in Q1. Our GAAP EPS includes roughly $0.13 worth of acquisition and integration charges. EPS, excluding acquisition and integration charges, was $0.61 per share in Q1, up 65% versus Q1 of 2015.

As mentioned earlier, the largest portion of our EPS overperformance in the quarter was due to stronger operational performance in research and consulting. This was complemented by lower equity compensation expense and a lower than expected tax rate in the quarter. Turning now to cash.

The first quarter is seasonally the lightest quarter for the year in terms of cash flow, given the combination of seasonality in our operations as well as the timing of incentive payments. For Q1, operating cash flow was $9 million compared to $6 million in the year-ago quarter.

We define free cash flow as operating cash flow less capital expenditures, with cash acquisition and integration payments added back. In the first quarter, free cash flow was $13 million compared to $4 million in Q1 2015.

This increase was driven by a combination of higher operating cash flow and lower CapEx. Consistent with the negative working capital dynamics that are a key characteristic of our subscription-based business model, we continue to generate free cash flow well in excess of net income on a rolling four-quarter basis.

At the end of Q1, this equated to rolling four-quarter free cash flow of $325 million, or $3.71 per share on a fully diluted basis. This represents a net income to free cash flow conversion of 147%.

Strategic acquisitions and share repurchases continued to be our primary uses of our free cash flow and available capital. Our M&A pipeline remains active, and as I have commented in the past, we continue to look for additional value-creating acquisition opportunities.

We also believe that repurchasing our shares remains a compelling use of our capital. During the first quarter, we repurchased $46 million worth of shares. And as of March 31, we had approximately $1.1 billion available under our share repurchase authorization.

We ended the quarter with a strong balance sheet, cash position, and liquidity profile. As of March 31, we had gross debt of $890 million. We have $700 million of interest rate swaps in place, which effectively lock in our interest rates through September 2019 on this portion of our debt.

Our cash balance as of March 31 was $404 million, with 93% of our cash located outside of the US. The combination of our debt and cash positions represents a net debt position of $486 million, or about 1.1 times normalized EBITDA.

As of March 31 we have an additional $586 million of revolver capacity. That, and our ongoing free cash flow generation, gives us ample liquidity to continue to grow our business and execute initiatives that drive shareholder value. Turning now to guidance.

Given our stronger-than-expected Q1 operational performance, we have increased our outlook for 2016. Our updated 2016 guidance is for total revenues of $2.405 billion to $2.465 billion. This is FX-neutral growth of 13% to 15%, and an increase of $15 million to both the low and high end of our previous outlook.

Further details of our updated guidance are as follows; research revenue of $1.7 billion to $1.825 billion, or 15% to 17% FX-neutral growth. We've added $10 million to the low and high end of the guidance range to reflect the stronger Q1 performance, consulting revenues of $335 million to $350 million, or 3% to 8% FX-neutral growth.

We have also added $5 million to the low and high end of the range to reflect the better than expected Q1 and outlook for the rest of the year. Events revenues of $275 million to $290 million, or 10% to 60% growth. This guidance is unchanged from last quarter.

For normalized EBITDA, we now expect to deliver between $450 million and $480 million, or 11% to 19% growth on an FX-neutral basis. This reflects a $10 million increase to the low and high end of the range due to our Q1 performance.

For GAAP and adjusted EPS calculations, we now expect the costs associated with stock-based compensation expense in 2016 to be approximately $47 million to $48 million, compared to our previous expectation of $51 million to $52 million. As result of the changes I just mentioned, we're also updating our GAAP EPS guidance, and now expect to $2.27 to $2.49 per share in 2016.

This includes $0.40 per share of acquisition related charges. Excluding acquisition and integration charges, our guidance for EPS is now expected to be between $2.67 and $2.89 per share in 2016.

This represents FX neutral growth of approximately 13% to 22%. Please note that our guidance is based on an average fully diluted shares outstanding of approximately 82 million to 83 million shares for the full year 2016, in line with our previous guidance.

Turning to our cash flow guidance. The headline for cash flow is that we are increasing our free cash flow guidance by $7 million on both the lower and upper ends of our range, which yields free cash flow guidance of $352 million to $377 million.

This new free cash flow guidance yields free cash flow per share of $4.27 to $4.57 in 2016. This equates to 15% to 23% growth when compared to the full year 2015.

In terms of the inputs that calculate free cash flow, we now expect full year 2016 operating cash flow of $370 million to $395 million, a $20 million increase from our previous guidance range. This increase is driven by our updated EBITDA outlook and lower expected cash acquisition and integration payments.

Our gross capital expenditure outlook continues to be approximately $47 million. As I just mentioned, we now expect lower cash acquisition and integration payments in 2016, a total of $29 million compared to our previous guidance of $42 million.

As in prior years, our free cash flow is expected to again be well in excess of our normalized net income in 2016. Specifically, our guidance implies that we will deliver free cash flow conversion of approximately 150% or greater in line with our historical range and our previous guidance.

For the second quarter of 2016, we expect GAAP EPS of $0.56 to $0.60, including $0.10 per share of acquisition and integration charges. Our Q2 guidance is impacted by the lower number of events that we expect to hold as a consequence of the shift in events that benefited the first quarter.

Before taking your questions, let me summarize. Getting off to a great start in 2016 as we demonstrated in Q1, is the best way to ensure we can deliver a strong year of growth.

In Q1 we delivered 14% contract value growth. Research revenues exceed our expectations for the quarter, and our consulting business had a great start to the year. The strong start to the year also allowed us to increased our full-year outlook, which again positions us to deliver another year of double-digit revenue and earnings growth with strong cash flow conversions.

We also continue to operate in a difficult global macroeconomic environment, but as you heard from Gene, and as our Q1 results show, we continue to deliver tremendous value to our clients, whether they are thriving or are under economic stress. This gives us confidence that we can continue to grow our business in virtually any macroeconomic environment.

Demand for our services remains robust, and we remain confident that the initiatives we have in place will continue to positively impact our sales force productivity. Furthermore, we continue to invest organically and through value enhancing initiatives to capture the market opportunity ahead of us while also returning capital to shareholders.

Our recent acquisitions and execution of our ongoing share repurchase program is consistent with this. Now, I will turn the call back over to the operator, and we'll be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tim McHugh, William Blair.

Tim McHugh - *William Blair & Company - Analyst*

Thanks. I guess I just want to follow up. The bookings growth of 16% is --or new business growth is up from high single digits in the prior two quarters.

So even against a tough comparison I guess do you feel better about -- you had talked on prior calls about some challenged sectors. Or what would you point to that drove a pick up again in that new business growth?

Gene Hall - *Gartner Inc - CEO*

Hello, Tim, it's Gene. First, of course is our sales capacity. We've continued to expand our sales capacity, and obviously the more sales that we had the faster we grow.

And if you look at the new business growth, it's in line with the increase in our sales headcount. Now as you also know in addition to that, we have other things that are working at improving our new business growth.

Things like making sure we recruit the best people, things like making sure we give people the best tools to make them productive, and of course great training. So that's kind of what's behind the new business growth.

Tim McHugh - *William Blair & Company - Analyst*

Maybe just push. On the guidance as well, given the visibility of it at the end of the calendar year to increase guidance for the research business one quarter in I think is a little unusual.

I guess something there had to have trended better than you thought. What part of bookings or the underlying activity maybe came in better than you would have thought a couple of months ago when you started the year?

Craig Safian - *Gartner Inc - CFO*

Hello, Tim, it's Craig. On the raise, it's a $10 million raise on a $1.8 billion number. So a pretty modest increase. That said, two prime things.

One is the acquired businesses, as I mentioned, performed better than we had anticipated. And we're flowing that benefit through.

And then there's a little bit of a new business upside. Again, most of our subscription-based revenue is locked, as you say, but we made a modest adjustment upwards to reflect the strength we had in Q1.

Operator

Jeff Meuler, Baird.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

This may be similar to the recruiting tools training that you called out, but when you're talking about improved operational performance I know it's a continuous improvement gain, but Gene, are there two or three KPIs worth calling out where you especially sought notable improvement relative to a couple of quarters ago. Can you just remind us when you are focused on getting back to margin expansion, internally what's the metric that you're most focused on? Is it adjusted EBITDA margins?

Gene Hall - *Gartner Inc - CEO*

Hello, Jeff, it's Gene. First again, the thing that drives new business growth is going to be just what you said. It's recruiting, it's training, and it's tools.

And as you know, every quarter we make improvements in that recruiting, training, and tools. We're seeing the payoff from that kind of work. In terms of margin expansion --

Craig Safian - *Gartner Inc - CFO*

On the margin side, Jeff, we're focused obviously on the gross margin and continuing to drive improvements there. But ultimately the measure is on normalized EBITDA margin, as you said.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

I don't think that you think of this as a negative impact, I think it may actually have a positive impact, but the question seems to be coming up more with investors. How does the secular shift towards cloud and potentially less internal IT resources impact Gartner? I was just hoping you could address that in this forum.

Gene Hall - *Gartner Inc - CEO*

That's a great question, Jeff. The shift to cloud is great for us. Any time our clients are making changes that are important to their business, it obviously drives -- they want help figuring out what the right thing to do is -- we are the authoritative source globally for figuring these kind of problems out.

And our clients are the people that are the CIO, the head of security, the head of application development. They are senior-level clients.

And so even if an organization has fewer, for example, operations people because they've outsourced some of their data centers to the cloud, or whatever, doesn't affect our key client base. And so you have first the demand being driven by the change is good for us, the cloud, because people need help, and secondly our clients are not the ones if there are job changes our clients are not the ones who were affected, because we sell to the senior-level clients.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Finally Craig, I think you broke the record for saying US dollar on the last call. If I could verify, is the current guidance using recent spot rates? And is there at all a meaningful change on the guidance as a result of the changes in FX since the last quarter?

Gene Hall - *Gartner Inc - CEO*

The changes since last quarter are really minimal. The way to think about foreign exchange going forward is we're beginning to lap the big increases in the US dollar that we experienced last year.

This quarter if you looked at it line by line as we talked about the difference between reported and FX-neutral, it was a 1 to 3 point impact, whereas last year it was a 6 to 8 point impact. And so we would expect that to actually close a little bit as we go through the year. That said, our guidance based on recent spot rates, is really no different than what we gave as original guidance at the beginning of the year.

Operator

Anjaneya Singh, Credit Suisse.

Anjaneya Singh - *Credit Suisse - Analyst*

A couple on margins. Could you talk about the better G&A leverage you mentioned?

Craig, I believe when you first came into the CFO role you talked about how most of the low hanging fruit had been picked on that side. Interested to hear what drove the improvement this quarter and whether you've identified other areas of G&A efficiencies since you last test upon that.

Gene Hall - *Gartner Inc - CEO*

Good morning, Anj, thanks for the question. On the G&A leverage point, I think we've consistently -- so your first question around harvesting the low hanging fruit yes, we did that over the last several years.

That said, all the G&A functions within the Company are insanely focused on being more productive and more efficient each and every year. By virtue of that even with the growth we have, we are growing those functions at a significantly lower rate than we're growing revenue.

That's where the G&A leverage comes from. We believe we can continue to drive G&A leverage into the future.

Anjaneya Singh - *Credit Suisse - Analyst*

I realize it's splitting hairs to some degree, but could you help us parse out the higher research contribution margin this quarter, despite the impact of acquisitions, which I believe you've called out as having a lower margin profile?

Gene Hall - *Gartner Inc - CEO*

Anj, on a year-over-year basis the research contribution margins were roughly flat at 70%. The acquired businesses are still small enough that they don't have significant impact on the margins. And what I would say is the margins came in right around where we expected them to comment for the quarter.

Anjaneya Singh - *Credit Suisse - Analyst*

Last quick one from me. With regards to sales force productivity, last quarter you had mentioned and adjusted figure, if you could, for the energy and utility sector impact. Could you give us that metric again?

I think you had said it was modestly down, even adjusting for that. Interested to hear what that what was on that same basis.

Gene Hall - *Gartner Inc - CEO*

If we look at the areas that were most challenging that we have talked about over the last two quarters, if you strip those out, productivity is roughly flattish on a rolling four-quarter basis.

Operator

Manav Patnaik, Barclays.

Ryan Leonard - *Barclays Capital - Analyst*

This is Ryan filling in for Manav. Just to touch on the margin impact of what you're seeing in the slowdown in productivity in some of the challenged areas, you've talked a lot about how as productivity ramps you will be able to get that margin expansion.

You obviously have margin expansion baked in here, but there's some commentary on productivity being difficult in this environment. So I'm trying to parse out how much of the productivity is baked into the current guidance.

Gene Hall - *Gartner Inc - CEO*

Good morning, Ryan. When we guided for the year, we talked about roughly flat productivity compared to what we delivered in 2015 on an FX-neutral basis.

Our Q1 results are essentially that. And so while we're a little down on a year-over-year basis, coming out of Q4 where roughly flat to what we did last year.

And that's obviously the biggest lever, or one of the largest levers in terms of margin, but there are obviously other levers that can work in our benefit as well. If you look at the guidance and you extrapolate the EBITDA margins, they are roughly flat to modestly up on a full-year basis, and that's consistent with what we talked about last quarter, our previous guidance, and our current guidance obviously.

Ryan Leonard - *Barclays Capital - Analyst*

Just on the hiring side, obviously a little bit of an acceleration in the quarter. And we're hearing across our space a lot of comments on the difficulty of hiring and just kind of a full employment picture.

I know you have talked in the past about some of the tools that you use to identify people who fit with Gartner, but are you seeing any challenges at all in filling the demand for salespeople, just given that especially in the US at least the employment picture looks so strong?

Gene Hall - *Gartner Inc - CEO*

It's a great question. As I mentioned in my little story about some of salespeople I met recently, Gartner really is a very attractive place for any of our associates, but particularly in sales. And so when we go to prospective salespeople and talk to them about again the selling environment, the training that they have, the ability to get access using our brand name, we don't have any trouble recruiting great salespeople.

Ryan Leonard - *Barclays Capital - Analyst*

On the M&A environment, I know you consistently say it's pretty broad based. Are there any interesting new verticals, or are you seeing conversations with potential targets changing?

Or are there more willing sellers? Anything on that front?

Gene Hall - *Gartner Inc - CEO*

I'm going to give you our usual answer, which is we track on the order of 100 companies at any one point in time. When we see targets that look like they have great opportunities for us, we go after them. Obviously I can't talk any more specifically than that.

Operator

Toni Kaplan, Morgan Stanley.

Patrick Halfmann - *Morgan Stanley - Analyst*

This is actually Patrick in for Toni. You've talked a lot about in the past getting into supply chain and marketing. I'm wondering if you gave us an update on your progress within those verticals?

Gene Hall - *Gartner Inc - CEO*

Great question. As you know, our largest business is selling to IT professionals, CIOs, chiefs of security, et cetera. We a few years ago entered the supply chain business, and we have a business there that sells to chief supply chain officers, heads of manufacturing, heads of distribution.

So the analogous functional leaders there are in supply chain. And we have a research team that does just supply chain research. There's some minor overlap with IT, but it's really about how do you -- if you're one of these either chief supply chain officers or head of manufacturer, head of distributional logistics, how do you run that as an organization?

The whole concept of syndicated research is just as valuable for supply chain leaders as it is for IT leaders. And so that business has been a great business for us. Is growing even faster than our IT business, doing great.

It has similar economics. Marketing, we entered a similar marketing product selling again to chief marketing officers and people that are in charge of the digital marketing, et cetera. Most all organizations these days, even government entities often have people in charge of things like digital marketing.

And there's the similar kind of change going on in marketing as there is in IT. So we entered that business organically a few years ago. Again, the clients there get just as much value off syndicated research.

They have their own kinds of problems in terms of how do I optimize my search engine marketing, how do I -- all that kind of stuff. That's another business again growing faster than -- even faster than IT business, and doing great.

Patrick Halfmann - *Morgan Stanley - Analyst*

A quick modeling question if I could. I think last quarter you were expecting about 63 events for the year.

I'm just wondering first, is that true? And second, given that a number of the events that were pulled in the first quarter appear to have been a little bit of higher margin, how we should think about margins for the events business in the second quarter.

Gene Hall - *Gartner Inc - CEO*

The expectation, Patrick, is still for the same roughly 63 events for the full-year. Obviously as you saw, we did move three large and the larger events tend to be more profitable events, in two Q1 out of Q2.

Our expectation around Q2 events is obviously without those large events that were actually nice growers as well will see declining events revenue on a reported basis in Q2. We still expect roughly double-digit growth on a same events basis.

That's obviously going to impact the margin. We don't give specific margin guidance on a quarter-by-quarter basis, but obviously, with those three large events not in Q2 will have an impact on the event's margins, and quite frankly the overall Company margins for the second quarter.

Patrick Halfmann - *Morgan Stanley - Analyst*

Got it. That's very helpful. Thanks.

Operator

Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

I was hoping to talk a bit about the latest on the revenue contribution of business developments for sales to small businesses, and the evolution and how we should be thinking about your strategy and growth trajectory for those businesses that you've put together by acquisition? And now that you've bought a few of them that serve that space, are you thinking about potentially adding more?

Gene Hall - *Gartner Inc - CEO*

Andre, great question. We have traditionally served a target market of the larger companies, and this universe of more than 100,000 of these companies that you think about spend at least $10 million a year on IT.

That's our traditional target market of which we serve about 11,000 out of the more than 100,000 there are today. Maybe there is actually, by the way, considerably more than 100,000.

Having said that, small businesses have the same kind of needs for what are the best practices in IT, what are the best products and services for the small businesses to buy, et cetera. And so there are literally tens of millions of those businesses that spend less than $10 million a year in IT.

And so we've entered -- we weren't really in that space until about two years ago. We've entered that space with these three acquisitions, and it's a great market for us, growing nicely, and contributes great to the research business, and provides great value to those clients that didn't really have that opportunity before.

Andre Benjamin - *Goldman Sachs - Analyst*

On the consulting side, you've been pushing growth in the number of partners pretty aggressively in line with the strategy you laid out a few years ago. Maybe provide a bit more detail on where you've seen the most success with that significant ramp versus the greatest challenges and should we expect you to maintain that pace of double-digit increase in the future years, or could you maybe slow that now that you're above the 100,000 you pegged a few years ago?

Gene Hall - *Gartner Inc - CEO*

As you pointed out, in our consulting business building a strong cadre of managing partners is a core part of the strategy for that business. We've been doing it over several years. We've gotten now to where we actually have a critical mass of managing partners, and we're finding that it's working if anything better than we even expected, exceeding our expectations.

It's doing great. We not only have -- there's two factors there.

One is that we have more of them, but also their individual call it productivity has exceeded our expectations. And we think that there's room to continue to add managing partners on a go-forward basis at a similar rate to what we have done in the past.

Operator

Gary Bisbee, RBC Capital Markets

Gary Bisbee - *RBC Capital Markets - Analyst*

Three really clean up questions. Why did the acquisition integration cash charges go down so much?

Is that a difference in the earn out payments? What created that? Thanks.

Craig Safian - *Gartner Inc - CFO*

Hello, Gary, it Craig. Great question. The truth is no change really in the payments that were going out the door.

It was actually a balance sheet classification change. And so in effect, we had funded this year's outflow at time of acquisition.

It was still sitting on our balance sheet and the cash had already gone out in effect, and all we've done is reflect the fact that we had actually funded that out of cash flow two years ago when we did the deal, and we had mistakenly assumed it would actually flow out of our cash flow balance. So really no change in the economics, no change in the contractual terms just the balance sheet classification.

And the effect was there was no impact on free cash flow. So the reason why we took Op cash flow up in part was because there was no going out from that payment since it had already gone out, and then there was no add backs since it hadn't gone out. So I apologize if that was a circular convoluted complex answer, but that's the best way I can explain it.

Gary Bisbee - *RBC Capital Markets - Analyst*

Basically you had underrepresented what the true cash flow was when you initially gave the guidance because of that -- because of what you just explained?

Gene Hall - *Gartner Inc - CEO*

No. Again, Gary, the free cash flow was unchanged. It was really a balance sheet classification thing.

Gary Bisbee - *RBC Capital Markets - Analyst*

Fair enough. I want to pushback on the FX a little bit. Obviously you've never disclosed exactly what the bucket, is but you say 90 countries.

If I look at the trade weighted dollar, it's moved hard since you last reported and gave the first 2016 guidance. And it would imply just year over year, assuming rates stayed where they are now, FX benefits the third quarter call it 0.5 point, I think fourth quarter more than 1 point. And so is there -- is it just given the volatility there, you're not willing to flow that through, or is there something going, or is your mix very different from the trade weighted dollar?

Gene Hall - *Gartner Inc - CEO*

I'm not completely familiar with the trade weighted dollar, so I can't really talk to that. All I can tell you is obviously we know the mix of our business and we run it through all of our models, assuming the foreign exchange rates prevailing at the end of the quarter.

The one thing I'd also say is the initial guidance we gave was actually based on foreign-exchange rates at the beginning of February, not the end of December. So there may be a little bit of a dislocation between end of year and when we gave our initial guidance.

Gary Bisbee - *RBC Capital Markets - Analyst*

Fair enough. And then just the last one. The pace of buybacks slowed pretty materially the last three quarters.

Is that just because of the acquisitions last summer, or is there anything else changing relative to -- and I guess on an LTM basis it's roughly half the $400 million or so a year that you have been targeting. Is that just M&A spend instead of buybacks for a little while, or is something else going on?

Gene Hall - *Gartner Inc - CEO*

Gary, the way we think about it, obviously the amount of buyback on a quarter-by-quarter basis does bounce around, and there's not nor is there by design consistency around the pace of repurchasing. I guess what I'd tell you is when we look at capital deployment, it's the same story.

We continue to have two priorities; strategic acquisitions that drive value for our shareholders and that followed by share repurchases. Over the last two years we've deployed over $1.2 billion on the combination of strategic value enhancing acquisitions and return of capital to shareholders through share repurchases.

We are still very, very focused on deploying our capital to drive value for shareholders. And again, it's going to be through that combination of strategic acquisitions and share repurchases.

Gary Bisbee - *RBC Capital Markets - Analyst*

That's great. Thank you. I appreciate it.

Operator

Peter Appert, Piper Jaffray.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Craig, this margin performance I thought was really impressive. And I'm sorry if I missed this, but can you quantify what portion of the year-to-year improvement is the timing issue versus underlying fundamental improvement in business dynamics?

Craig Safian - *Gartner Inc - CFO*

Good morning, Peter. I think the way to think about the margin expansion on the quarter is the bulk of it is actually due to the moving of events.

So obviously not having them in the quarter last year compared to having those three large profitable events in the quarter this year, moves the needle on EBITDA margin. I think the way to think about the business is look at the full-year outlook and look at the assumed EBITDA margins based on the low, mid and high point of our guidance, and that's the way were thinking about the margin expansion.

Peter Appert - *Piper Jaffray & Co. - Analyst*

I think at the midpoint of the range, if I'm doing this right, it looks like about 30 basis points of year-to-year margin improvement. Is that just rounding error, or is that fundamental improvement in business dynamics?

Craig Safian - *Gartner Inc - CFO*

Your math is correct. The midpoint is 19.1%. As we've said, Peter, we are very, very focused on continuing to invest to drive growth in the business. We're going to continue to do that.

We do expect to drive gross margin leverage over the long term just based on the continued shift in mix to our more profitable research business. That's really the prime focus.

We're delivering great profitability and great profit growth. But again, we are primarily laser focused on continuing to invest to drive super organic growth to the top line.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Understood. Last thing. The 16% increase in first-quarter sales organization, should we think about that in terms of the pace for the balance of the year? Do you dial that up or down in the context of trying to drive the productivity numbers?

Gene Hall - *Gartner Inc - CEO*

Peter, it's Gene. We've given you our aspirations through our sales headcount 15% to 20% a year. We absolutely as you say drive it up or down based on what we see in sales productivity.

So if we see an area, for example, where we have some operational issues to address or whatever, we're not going to -- we're going to hold the sales force growth there until we get those operational issues addressed. Conversely we have places that are doing really well. We will be accelerating the growth there.

If you look at our sales teams, we have large sales teams that are growing on the order of 25% a year. And then where things are really doing operationally great, with other sales teams that are growing low single digits because we have work to do operationally. And so that's -- again, we expect it to be in the range of 15% to 20%, and it's based on what operational impacts we are seeing.

Operator

Joseph Foresi, Cantor Fitzgerald.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

My first question here is on the consulting business. I was wondering, is there any larger projects driving the opportunity there? And anything we should read into the sustainability of a pick up in demand in consulting?

Gene Hall - *Gartner Inc - CEO*

Hello, it's Gene. In consulting, part of our consulting strategy has been over time, and this has been over a period of years, to drive into larger projects. But it's not like four times larger, it's basically make the projects a little larger each year, the average project size.

And we do that because it's a better way to advise our client and it helps with our economics as well. There is nothing this quarter that -- there is nothing out of trend with that this quarter in terms of did we get like three large projects that accounted for something like that.

It's actually part of a steady change over time of getting larger projects. And we said that the projects are still pretty small compared to what you might think about as a consulting organization. In terms of -- go ahead.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

No, I thought you were going to answer it. I cut you off, go ahead.

Gene Hall - *Gartner Inc - CEO*

Go ahead, Joe, your second question?

Joseph Foresi - *Cantor Fitzgerald - Analyst*

I was wondering how is the sustainability of the momentum there?

Gene Hall - *Gartner Inc - CEO*

Our strategy has been -- we have a very clear strategy in the consulting business, which is to make sure it's an extension of research for those clients that want to have more in-depth help than they get either reading documents or with a half hour phone call with an analyst. Obviously that is very valuable to -- there's a segment of clients for whom this is very valuable.

And so we've been adding -- that's part of our strategy. In addition to that, having a little larger engagement each year in terms of supporting that strategy, and then having -- grown our cadre of managing partners so that we have an ability to have managing partners that can directly work with those clients.

All those things are -- I think bode well for the long-term growth of the business. I think it's part of the reason we've seen this uptick in the last couple of quarters in the bookings, the backlog growth as well as the revenue growth.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

It looked like the research revenue per enterprise went up, but the client growth might have slowed a little bit. How do you reconcile those two metrics? It looked like it picked up obviously significantly, so I'm just wondering if you could provide a little bit more color on that.

Gene Hall - *Gartner Inc - CEO*

First, one of our strategies is clearly to sell more to our existing clients. For our growth, we grow through two ways, one is selling new enterprises and the second one is selling more to our existing clients.

If we sell more to our existing enterprises then obviously that's going to grow, and we've had a very good track record in doing -- it's the same track record of doing that over many years, which continued into Q1. We saw one thing that was a little unusual in Q1 for us, which is we had more of our smaller clients being -- significantly more being a part of mergers and acquisitions in Q1 than we have seen if you compare it to any -- actually any time that [Sugugun] recording this data.

And so part of -- if you saw the number of enterprises went down, I'm sorry didn't grow as fast as you might expect, it was primarily driven by the fact that there was more M&A activity out of trend that we've seen in the past, which obviously that drives the number of enterprises growth rate not as fast.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

Got it. Then the last one for me just on the events business, I know three got pulled forward and you've talked a little bit about the margins in that business. How should we think about, and I think you also gave the aggregate amount of events, but how should we think about the events themselves and how they fall I guess in the next three quarters?

Craig Safian - *Gartner Inc - CFO*

Hi, Joe, good morning it's Craig. The outlook for the business is unchanged from the beginning of the year.

We still expect 10% to 16% FX-neutral growth for the full year. Obviously Q2 will look a little wonky due to the pull forward of events.

But as Gene mentioned in his opening remarks, advanced bookings on Q2 and Q3 and Q4 events all look very positive and support this trend. And so again, this is a great business, it's grown really, really well over the last several years, and we expect it to continue to contribute double-digit growth rates for 2016.

Operator

Bill Warmington, Wells Fargo.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

A question for you on sales force productivity. You mentioned it being flat sequentially, which I think is impressive given the growth and the headcount. I was going to ask what needs to happen for us to see that increase again?

Is it really a question of timing in terms of cycling against some of the weakness we saw earlier? And then along those lines I was going to ask if you had seen any improvement in some of the softer verticals, specifically energy given the relative improvement in the oil prices?

Gene Hall - *Gartner Inc - CEO*

We are very focused on sales productivity. As you've heard me talk about before and as I talked even earlier today about it's driven by making sure we hire people that have the right fit to sell Gartner's product line, making sure we have -- give them great training, and making sure we give them world-class tools.

And those -- all of those aspects are improving. All three of those we improve every single quarter. And I think on all other things being equal they would -- in fact if you look internally all other things being equal our sales productivity would grow out.

On the other side of that is, as Craig pointed out earlier, the macroeconomic situation in the world isn't that great. We're having -- if we look at the internal metrics, all other things being equal our productivity would've gone up, but there are a lot of places in the world today that are challenging. And that is sort of compensating for that, which has given us that flat productivity.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

I had a question about M&A. Historically, what's happened when you've had two customers combine?

Does it really matter in terms of how they view spending on your product? Do you end up potentially with less or even potentially with more, or does it not factor in at all?

Gene Hall - *Gartner Inc - CEO*

You hit the nail on the head there, which is what happens -- different things happen depending on the circumstances. If a company is buying another company because they are buying a new product area they want to invest in, then actually we might end up with an accelerated growth rate from a contract value from that company.

By the way, the client count would go down one, the enterprise count would go down one, but our CD growth -- so it actually happened that our CD growth would go up in that circumstance. Unfortunately there are other circumstances where one company buys another.

They layoff half the people, and in some cases those half people -- the people that get laid off are our clients. I will give you an example; if one company buys another and they don't hold it as a separate unit, they may have just one CIO.

So we used to have two CIOs as clients, now we only have one CIO as a client. That works for all the other functions as well.

When we have M&A it definitely puts our number of enterprises client counts, our contract value can go up or go down depending on the type of acquisition it is. Again, we see a good mix of both of those. It's not like 90% one or the other, there's a good mix of both growth and shrinkage.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

Last question for you on the consulting business, the utilization has been running in the high 60%s. Should we think about that as the cap on that going forward, or do you think that you can raise that over time, and how would you do it?

THOMSON REUTERS

Gene Hall - *Gartner Inc - CEO*

We are very happy with the level of utilization we have in consulting. Having said that, we think we can continue to make operation improvements that will over time drive that up by modest amounts each year.

Again we've got great economics with the utilization we have, but again we think there are modest improve -- there are changes we need in the business that will give us modest improvement to utilization each year. And it has to do with things like we talked earlier about deal size.

The larger a deal is the higher your utilization -- all other things being equal, the higher the utilization. The more we have constant client relationships which are driven by our managing partner strategy, the higher the utilization is, even for the same size, average contract size.

Those are an idea of some of the levers that you get that we think over time will drive modest improvements in our consulting utilization. Again, we're happy with utilization today though as well.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

Thank you very much for the insight.

Operator

That concludes the Q&A session. I will now turn the call over to Gene Hall for closing remarks.

Gene Hall - *Gartner Inc - CEO*

Thanks again for joining us on today's call. As you heard, we had very strong Q1, and our updated guidance for 2016 demonstrates that we're very bullish about our ability to continue delivery double-digit earnings growth and strong cash flow conversion over the long term.

We're in an enviable position as an organization. We have more impact on IT end users and technology providers than any other company in the world. Cyber security, disruption, operational efficiencies, technology is affecting every single enterprise.

We provide similar value, as we discussed on the call, to our clients in supply chain digital marketing. This gives us a vast market opportunity. We have a powerful value proposition and a winning strategy.

We operate in varying macroeconomic climates around the world, and we know how to deliver trends value whether our clients are in distress or they're thriving. We know the right things to do to be successful and we're doing them.

As I mentioned at the beginning of the call and as you heard from Craig, having a strong first quarter is the best way to deliver a strong performance for the full year. And with our strong Q1 performance and increased guidance, we're off to a great start.

I look forward to updating you on our next earnings call. Thanks for joining us today.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now disconnect. Have a wonderful day.
