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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Gartner's earnings conference call for the second quarter 2014. A replay of this call will be available through August 12, 2014. The replay can be accessed by dialing 888-286-8010 for domestic calls, and 617-801-6888 for international calls and by entering the pass code 67989072.

This call is being simultaneously webcast and will be archived on Gartner's website at www.Gartner.com for approximately 90 days. I will now turn the conference over to Brian Shipman, Gartner's Group Vice President of Investor Relations for opening remarks and introductions. Please go ahead, sir.

Brian Shipman - Gartner, Inc. - Group VP of IR

Thank you, and good morning everyone. Welcome to Gartner's second quarter 2014 earnings call. With me today is our Chief Executive Officer, Gene Hall; and our Chief Financial Officer, Craig Safian. This call will include a discussion of Q2 2014 financial results as disclosed in today's press release.

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 and that URL is Gartner.com.

Before we begin, we need 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 2013 annual report on Form 10-K and quarterly reports on Form 10-Q, as well as in other filings with the SEC.



I would encourage all of you to review the risk factors listed in these documents. The Company undertakes no obligation to update any of its forward-looking statements.

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, Brian, and good morning everyone. Welcome to our Q2 2014 earnings call. We had a very strong Q2 with robust performance across all of our businesses. The continued successful execution of our proven strategy grew another quarter of double-digit growth in revenue, EBITDA, earnings per share, and contract value.

Research is our largest and most profitable segment and our research contract value grew at 13% FX neutral, continuing an accelerated pace compared to 2013. As we've done consistently for the past few years, we drove double-digit contract value growth in every region, every client size, in every industry segment.

We also achieved strong retention rates. The second quarter 2014 enterprise client retention was at 84%, up from 2013. Enterprise wallet retention was up 105%, also up from Q2 2013.

In consulting, we drove terrific performance for the quarter led by our contract optimization business. Consulting revenues increased 9% compared to Q1 2013 and backlog was up 11%.

Our events business also delivered great performance with revenues up 39% compared to Q2 last year. On a same events basis, revenue growth was strong with a revenue increase of 21% year over year. These results illustrate the sustained success of our strategy and the tremendous value we bring to our clients.

As we discussed with you last quarter, we're deploying our capital strategically. This year, we repurchased more than 300 million of our shares and expect to spend a total of at least \$400 million in 2014.

Looking forward, our sales pipeline is robust. We have a solid backlog in our consulting business and advanced events bookings are strong. I couldn't be more excited about our future.

The successful execution of our strategy drives our consistent performance. The fundamentals of our strategy are to create extraordinary research insight, develop strong sales capability to deliver high-value differentiated offerings, to provide world class service, and to continually improve our operational effectiveness. We believe this strategy will allow us to sustain double-digit growth into the future.

We're living in remarkable times. Technology is transforming the world and driving change in every industry and enterprise in the world on a scale seldom seen. IT is transforming how we work and what we do, and Gartner is at the heart of it.

Every company, whether for profit or not for profit, large, medium, or small, and any government agency in the world is a potential client, giving us a vast untapped market opportunity for our services. Gartner is the best source of help for enterprise leaders watching critical initiatives within this technology revolution. Our systems often make the difference between success and failure for our clients, and we're relevant whether their institution is growing or facing economic challenges.

I recently met with more than 100 of our top sales leaders from around the world. They see the impact technology is having on our clients first hand.

They are proud of the incredible insights generated by our analysts and inspired by the tremendous value we provide. We've always had an incredibly energized sales team, but I've never seen them so engaged and excited about our market position and opportunity as they are today.



Outstanding operational execution is a core part of our growth strategy and to our people who drive our execution. We've put a lot of energy in investment into hiring the right people and developing great talent.

As a result, sales productivity of our new hires has been growing and our overall sales force turnover has improved for the third year in a row. Of course, our sales associates are just as excited about Gartner as their leaders.

Our focus on developing great people extends beyond sales. Earlier this year, we launched a company-wide upward feedback survey that helped our managers become even more effective.

Coincidentally, the leading third-party company that administered the survey, found that Gartner ranked in the top 5% for associate engagement among hundreds of companies in their database. As you can see, the excitement about our market position and impact we have on our clients is pervasive throughout our Company.

In summary, I would like to leave you with three takeaways from today's call. First, we consistently delivered double-digit growth in contract value, revenue, EPS, EBITDA, and cash flow.

Second, the technology revolution is providing enormous future opportunities for Gartner. Finally, we believe that we have the strategy, the leadership team, and the operational capabilities to take advantage of these opportunities and deliver sustained attractive double-digit growth over the long term. I'm extremely excited about the impact we have on our clients and our growth prospects over the next several years.

I will now turn the call over to Craig Safian, who took over as CFO on June 3. Craig and I have been working together since my first day at Gartner. I'm excited to continue working with him in this role.

Craig Safian - *Gartner, Inc. - CFO*

Thank you, Gene, and good morning everyone. I am very excited to be here with you on my first earnings call since becoming Gartner's CFO two months ago. Over my 12 years at Gartner, I have worked very closely with Gene and the entire leadership team overseeing global finance, strategic and business planning, and corporate development. I've had the opportunity to meet many of you and look forward to meeting all of you in the near future.

Turning to today's call. During the second quarter, Gartner continued its strong start to the year with double-digit growth in contract value, revenue, and earnings. Year-over-year contract value growth was 13%, consistent with our Q1 2014 performance and an acceleration from Q4 2013. Retention rates ended at or near all-time highs.

Our consulting business grew 8% on an FX neutral basis for the second quarter on the strength of both our labor base consulting business and our contract optimization practice. Our events business increased by 21% year over year on a same events and FX neutral basis.

We saw robust demand for our services across all of our business segments in the second quarter. Our strong topline performance and effective execution in capitalizing on the operating leverage in our business allowed us to once again expand our gross contribution margin.

Even as companies around the world face the uncertainties of the current macroeconomic environment, our business continues to grow at double-digit rates, quarter after quarter, year after year. This is because our products and services provide great value to the IT supply chain and marketing professionals we work with.

We are engaged on their most important initiatives and projects. Our strong and improving retention metrics clearly demonstrate the value and importance of our products and services.

We are finding new IT supply chain and marketing professionals to sell to every day in both our existing accounts and new prospect accounts as well. This is why we are confident that we will continue to deliver consistent revenue growth and strong financial performance over the long term.



I'll now provide a review of our three business segments for the second quarter and will end with the details of our revised outlook for the remainder of 2014 before taking your questions.

Starting with research. Research revenue was up 15% on an as reported basis in the second quarter and grew 13% excluding the impact of foreign exchange and acquisitions. The contribution margin in this segment increased almost 70 basis points over the last year to 69%.

All of our key research business metrics remained strong. Contract value grew to a record level of \$1.436 billion, a growth rate of 11% year over year on a reported basis and 13% on an FX neutral basis.

Our growth in contract value in Q2 was extremely broad-based with every region, every client size, and every industry segment growing at double-digit rates. This has been the case for the past several years.

We'll next cover retention rates and new business. As we discussed last quarter, historically, we have reported our retention metrics at the organization level. Organization is our internally defined metric that identifies individual buying centers within the enterprises we sell to.

We have found that the number of organizations can fluctuate due to both internal and external factors. This makes the metric less indicative of true business performance. Going forward, we are reporting our retention metrics at the more indicative enterprise level.

Our client retention rate at the enterprise level ended the quarter at 84%, up 1 point versus last year and we've maintained client retention at the enterprise level of roughly 84% for the past two years, while retention at the enterprise level ended at 105% in the second quarter, an uptick of 1 point from both the prior quarter and last year. Wallet retention is higher than client retention due to a combination of increased spending by retained clients and the fact that we retain a higher percentage of our 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 again increased year over year. 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. Our contract value growth also continues to benefit from our discipline of annual price increases and no discounting.

We have increased our prices by 3% to 6% per year since 2005. We implemented a price increase during the fourth quarter of 2013 and we expect to do so again this year during the fourth quarter.

We also continue to see strong volume growth in our new business. This reflects our success in continuing to grow the business by penetrating our vast market opportunity with both new and existing client enterprises. As a result, we ended the quarter with 9,115 client enterprises, up 7% over last year's second quarter. Additionally, our average spend for enterprise continues to increase as well.

To sum up, we delivered another strong quarter in research. Our contract value growth accelerated from 2013 as we expected.

We grew contract value by \$162 million on an FX neutral basis year over year. We continue to see strong demand from clients, our retention rates remain at or near all-time highs, and we continue to expect acceleration in contract value and revenue growth over the long term.

Turning now to events. For the quarter, our event segment continued a four-year trend of extremely strong year-over-year revenue growth. On a reported basis, the move of four events out of the first quarter and into the second quarter affected the year-over-year comparison of our operating results. In the second quarter, events revenue increased 39% year over year on a reported basis and grew 38% on an FX neutral basis.

During the second quarter we held 28 events with 16,594 attendees compared to 25 events with 12,098 attendees in the second quarter of 2013. On a same events basis, events revenue was up 21% year over year in the second quarter. For the first half, events revenue was up 13% over the prior year from 36 events versus 37 events in the same period last year.

The gross contribution margin for events of 50% for Q2 increased roughly 3 percentage points from the second quarter a year ago, again reflecting the move of four events out of the first quarter and into the second quarter. On a year-to-date basis, we've also improved gross contribution margin by approximately 3 points to 45%.

Moving on to consulting. Revenues in consulting increased 9% on a reported basis and grew 8% on an FX neutral basis in the second quarter. Our contract optimization practice was the primary driver of the strength in consulting because, as occurred during the first quarter, certain deals transacted earlier in the year than we had anticipated. Our labor base consulting business was also solid with 6% revenue growth in the second quarter.

As we have discussed in the past, our contract optimization practice has more variability than the other parts of our consulting business. We have seen a number of deals that we expected to occur in the second half of the year transact in the first half of the year.

The business is performing very well and our expectations for the full year remain unchanged. We believe the first half upside was predominately related to timing.

Billable headcount of 505 was down 3% from the second quarter of 2013. Second quarter utilization was 70% and revenue per billable headcount ended the quarter at \$454,000.

We continue to see strong demand for our consulting services and our strategy of investing in managing partners is allowing us to capture that demand. We now have 87 managing partners, an increase of 7% from last year.

Backlog, the key leading indicator of future revenue growth for our consulting business, ended the quarter at \$105 million. This represents 11% growth year over year and a healthy four months of backlog, which is an appropriate level for this business. With the current backlog and visibility we have into the pipeline, the consulting business is positioned to continue to deliver solid results in 2014.

Moving down the income statement. SG&A increased by \$33 million year over year during the second quarter, primarily driven by the growth in our sales force. As of June 30, we had 1,787 quota-bearing sales associates, an increase of 238 or 15% from a year ago.

We continue to tightly control G&A costs across the entire Company. This expense item provides a source of operating leverage as G&A as a percent of revenue declined again in Q2.

Moving on to earnings. We delivered another quarter of strong earnings growth. Normalized EBITDA was \$105 million in the second quarter, up 17% year over year, and GAAP diluted earnings per share was \$0.58, up 18% year over year.

Our Q2 2014 GAAP diluted earnings per share includes \$0.06 in amortization and other costs associated with our acquisitions. Excluding acquisition related charges, our normalized EPS grew 28% to \$0.64 in the second quarter.

Turning now to cash. First half operating cash flow increased by 9% to \$153 million from the first half of 2013, largely due to a higher earnings in the second quarter of 2014 as compared to 2013. We continue to expect to hit the full-year guidance we set back in February for cash flow.

During the second quarter, we continue to utilize our cash to return capital to shareholders through our share repurchase authorization. During the second quarter, we repurchased over 1.5 million shares and we used approximately \$112 million of cash per share repurchases. As of June 30, we had \$527 million remaining on our \$800 million authorization.

We ended the quarter with a strong balance sheet and cash position despite the more aggressive pace of share repurchases and acquisitions this year. As of June 30, we had net debt of \$57 million. We also deployed another \$6 million in Q2, net of cash acquired on two very small acquisitions, Marketvisio and Senexx.

Our credit facility runs through March 2018 and at this time provides us with about \$366 million of remaining borrowing capacity. We have ample cash flow and liquidity to continue to grow our business and execute initiatives that drive shareholder value.

We continue to look for attractive acquisition opportunities as a potential use of cash. We also continue to believe that repurchasing our shares remains a compelling use of our capital. Absent other significant opportunities to deploy cash, we still expect to repurchase a total of at least \$400 million of our own shares this year.

Turning now to guidance. We are maintaining guidance for most items from our previously issued guidance in May, and our expectations are at the midpoint or modestly above the midpoint of our ranges. As you know, our normal business trends do show seasonality. Our fourth quarter is typically our largest events quarter, a large consulting quarter, and our largest contract value growth quarter.

While we are generally at or modestly above where we targeted to be at this point in the year, we still have our largest revenue and earnings quarter in front of us. We are making a modest change to our EPS guidance to account for three adjustments.

First, GAAP EPS is impacted by our two additional acquisitions and their related charges. Second, we are now projecting lower equity compensation expense for the full year, and third, we are projecting a lower average share count for the year as well.

Our EPS, excluding acquisition and integration charges, are impacted positively by the equity compensation and share count changes just mentioned. We now expect acquisition and integration charges of approximately \$29 million to \$30 million.

We expect equity compensation expense of between \$36 million and \$38 million and a share count of approximately 91 million shares for the full year of 2014. Our normalized EPS guidance of \$2.18 to \$2.35 per share is \$0.03 higher than EPS guidance we gave you in many.

Additionally, we now expect GAAP EPS to be between \$1.97 and \$2.14 per share, a \$0.01 improvement from our previous guidance, again reflecting the three adjustments just discussed. We still expect that on December 31, 2014, we will have fewer than 90 million fully diluted shares outstanding.

All other items related to our guidance remain unchanged. For further information and details, you can always consult our press release and most recent 10-Q.

Based on what we see today, we expect EPS excluding acquisition and integration charges to range between \$0.37 and \$0.39 per share for the seasonally light third quarter of 2014. Acquisition and integration charges are expected to be approximately \$0.06 per share in Q3.

The third quarter is historically one of our smaller revenue and earnings quarters. That will again be true in 2014. We are also planning three fewer events for Q3 2014 than Q3 2013, which further impacts our projected results. And the timing issue we already highlighted with respect to contract optimization will also further impact the seasonality of our third-quarter results.

So before taking your questions, let me summarize. We delivered another strong quarter in Q2. Demand for our services is robust and as a result, we generated double-digit revenue growth. Our key business metrics remained strong and in fact many improved in the second quarter.

Our initiatives to improve operational effectiveness, coupled with positive operating leverage inherent in our businesses, delivered solid earnings and cash flow growth for the first six months of the year. We continue to actively explore strategic alternatives for deploying our cash.

We will continue to invest in our business organically and through acquisitions and return capital to shareholders through our share repurchase program going forward. Finally, with double-digit growth in contract value in the second quarter of 2014, we remained well positioned to deliver another solid year of revenue and earnings growth for the full-year 2014.

Now I'll turn the call back to the operator and we'll be happy to take your questions. Operator?



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Meuler, Baird.

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

Thank you. Could you maybe talk about the research contract margin? It continues to drift higher. It seems like it's approaching your targets. Any planned investments that we should be thinking about in that segment or maybe if you just comment relative to your longer-term targets?

Gene Hall - *Gartner, Inc. - CEO*

Hey, Jeff. Thanks. Great question. As you've noted appropriately, we are approaching that 70% incremental gross margin target that we have for research. We believe it's really important that we continue to invest in the right analysts, the right executive partners, and other service delivery people, and that is reflected in that target of 70%.

There's nothing new that I would discuss in terms of that 70%. But we just believe to continue to maintain the right level of retention rates, the right level of client engagement, and the right level of support for our growth, that 70% is still that appropriate target.

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

Okay. And then just wanted to make sure. I didn't see it in the press release or hear it. Is 13% to 14% constant currency contract value growth still what we should be thinking about for this year?

And Gene, you, I think, closed out your comments by talking about sales force productivity of new hires continuing to improve, turnover continuing to improve, and you guys have been I think at 15% to 16% sales force growth in the last two quarters. Just wondering when you be hoping to close the gap between the sales force growth and the contract value growth.

Craig Safian - *Gartner, Inc. - CFO*

Hey, Jeff. As we said at the beginning of the year, with our headcount growth and flat productivity to 2013, we expected our CV growth to accelerate from what we deliver in 2012 up into the 13% to 14% range. We still believe that is absolutely what is going to happen in 2014. In fact, you've seen that in the first two quarters of the year. We accelerated from the 12% we delivered in Q4 of 2013 up to 13% in both Q1 and Q2.

Gene Hall - *Gartner, Inc. - CEO*

It's Gene. On the second part of your question, we expect if our sales growth -- sales force headcount growth stays in the 15% to 20% range, which is what we expect, and our productivity is flat or higher, we expect will start to see our CV growth accelerate over time.

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

Okay. And then just one final housekeeping one. The three fewer events in Q3, are those moved into Q4?



Gene Hall - *Gartner, Inc. - CEO*

As always, Jeff, we are constantly looking at our portfolio and moving stuff around based on the calendar, adding events, trimming events, moving events. We're three lower in Q3 than what we did last year. Some of them moved into Q2 -- one of them moved into Q2. A couple of them moved out into Q4. We've added a few, we trimmed a few. It is our general trimming practice -- or general portfolio management practice around the event portfolio.

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

Okay. Thanks. Good quarter, and Craig welcome to active participation in the calls.

Craig Safian - *Gartner, Inc. - CFO*

Thanks Jeff.

Operator

Thank you. Peter Appert, Piper Jaffray.

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

So Craig, if I've done this calculation correctly, it looks like the normalized EBITDA margin is down just a fraction on a year-to-year basis. Is that just a function of mix with consulting faster? Is there anything else you'd would call out?

Craig Safian - *Gartner, Inc. - CFO*

No. I think you've got it right, Peter. I think it's just driven largely by mix. We've had stronger consulting performance than we've had in the past. The margins have been roughly flattish for the last several quarters. Pretty consistent with that.

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

Got it. As you've gotten deeper into your new role, how are you thinking about the prospect for margins over the next several years?

Craig Safian - *Gartner, Inc. - CFO*

As we have thought about it and looked at it, the key to continuing to improve margins is improving sales productivity and getting contract value growth in the 14%, 15%, 16% range. As we continue to drive our productivity, we do believe that margin expansion will follow that.

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

Okay. And the pace of buyback activity, obviously you're running above \$400 million level through the first half of the year. Any thought in terms of acceleration of the \$800 million program?



Craig Safian - *Gartner, Inc. - CFO*

Yes, Peter, as we talked about at the beginning of the year when we put the \$800 million program in place, we would look to run through that in a two-year period which is about 2X the rate of what we had done previously. We're still comfortable maintaining doing at least \$400 million this year and that would leave another \$400 million for next year. We're committed to running through that \$800 million program over the next two years.

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

Okay. So don't read anything into the fact that you did significantly more than \$100 million a quarter in the first half?

Craig Safian - *Gartner, Inc. - CFO*

Think of it in the context of a two-year program that we're going to run through.

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

Got it. Okay, good. Thanks so much.

Operator

Thank you. Timothy McHugh, William Blair.

Timothy McHugh - *William Blair & Company - Analyst*

Yes, thanks. I guess just on the contract value growth, I know you said it was fairly broad-based, but I think the last 6 to 12 months, the government channel has been a bit of a drag for you guys. Have you seen a change there? Has that turned around at all?

Gene Hall - *Gartner, Inc. - CEO*

Hey, Tim. It's Gene. There is no change in the public sector globally. It's exactly the same as it's been for the last 18 months or so.

Timothy McHugh - *William Blair & Company - Analyst*

Okay. And then events, could you talk about what you're seeing or what you're doing that is driving the strength? I know it's been a couple of years, but is there anything different that you're doing this year or any changes you made that's helping drive the growth?

Gene Hall - *Gartner, Inc. - CEO*

It's two things. First, the content developed by our analysts, we aim to have it better every year. It is particularly engaging to our clients and prospects and so we've got great content. The second piece is that we have great operational execution with our events team. They are doing just a tremendous job ranging from the event marketing, meaning marketing the content to prospects to actually great execution on-site.

It's a combination of both, terrific fundamental research by our analysts and great execution by our events team is what's -- and again, we've seen fabulous execution on these two fronts reflected in our events performance. We had great double-digit growth over the last three years or so. And it's a modest acceleration but I think it's -- you can think about it as being those two things.



Timothy McHugh - *William Blair & Company - Analyst*

Okay. Craig, the impact or the acquisition related charges, what was the number you said you expect now for the full year?

Craig Safian - *Gartner, Inc. - CFO*

For the full-year, Tim, we're looking at \$29 million to \$30 million. That's a combination of the amortization of the acquisition intangibles, professional fees associated with doing each of those acquisitions, and the ratable expensing of the holdback on the Software Advice transaction.

Timothy McHugh - *William Blair & Company - Analyst*

You mean the holdback meaning the deferred revenue?

Craig Safian - *Gartner, Inc. - CFO*

The deferred consideration.

Timothy McHugh - *William Blair & Company - Analyst*

Okay. All right. Thank you very much.

Operator

Thank you. Hamzah Mazari, Credit Suisse.

Hamzah Mazari - *Credit Suisse - Analyst*

Good morning. Thank you. A question on sales force productivity. Maybe if you could just update us on your numbers, how Q2 looked like on a standalone basis, and whether you believe your mix of net new business versus existing business accounting for about half each of your growth, whether that changes as you grow the sales force and productivity begins to improve. Did you see that mix changing longer term?

Craig Safian - *Gartner, Inc. - CFO*

Good morning. How are you? On the sales force productivity, the way I characterize it is, if you look at both Q2 standalone, in Q2 standalone we were roughly flat to last year from a productivity perspective. If you look at the first half standalone, we are actually up nicely compared to first half of last year. And if you look at the rolling 12-quarter -- rolling 4-quarter metric, we're roughly flat to where we were when we ended the year last year. We're pretty pleased with where we are on a productivity perspective, particularly when looking at the first half performance compared to first half of last year.

In terms of your question on the mix, our belief when you look at that market opportunity is that it is enormous and it is in both existing enterprises and enterprises that currently don't do business with us. As we deploy our new salespeople and create new sales territory, we're going after both of those opportunities with gusto and with force. I don't expect the mix to change significantly over time because the opportunity is just so enormous in both pockets.



Hamzah Mazari - *Credit Suisse - Analyst*

Got it. Thank you. And just a follow-up question, on the balance sheet could you give us a sense of what you believe optimal leverage should look like on your balance sheet given double-digit growth in your business most of the acquisition pipeline looking like a smaller to mid-sized deals, and then given what you said on the buyback with \$400 million annually. Could you help us understand how you think about leverage? Thank you.

Craig Safian - *Gartner, Inc. - CFO*

Sure. In terms of leverage, you laid out the case for why we can take on leverage. We're growing well. Great cash flow generation, predictable revenues, free cash flow well in excess of net income. And so we have the profile where we can take on more leverage. Obviously, taking on 2 to 3 times leverage is not something that we would be too afraid about doing. Actually is fairly comfortable and given our cash flow profile, we could, if need be, pay that down relatively quickly.

As we continue to look at the future in terms of capital deployment, we are still focused on acquisitions as a great strategic way to deploy capital and in fact, our acquisition pipeline is as robust as it's ever been since I've been at Gartner. We continue to look at lots of opportunities there both small, medium, and large sized type acquisitions. Additionally, we believe we can continue to do that and also look at returning capital to shareholders through our share repurchase program. The net is from an optimal leverage perspective, probably 2 to 3 times is optimal. Again, as we continue to look at the acquisition pipeline and acquisition opportunity market and the combination of share repurchases, we may move to that over time. For now, we continue to look for acquisitions and we continue to return capital to shareholders.

Hamzah Mazari - *Credit Suisse - Analyst*

Great. Thanks a lot.

Operator

Thank you. Joseph Foresi, Janney Montgomery Scott

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. I think you mentioned in your prepared remarks and you talked about the new sales hires productivity. Can you give us some color on what changes you've made there and any metrics associated with it so we can maybe track the progress there?

Gene Hall - *Gartner, Inc. - CEO*

Hey, it's Gene. There is two changes we've made. First is we have done a number of improvements to our recruiting process to make sure that we are identifying people that are most likely to be successful at Gartner. And that's the first piece. So if we are better at hiring people that are a really good fit, then obviously they will do better, will have better sales productivity. The second thing we've done is we've completely revamped our training programs for our new sales hires. Those training programs also -- you have the right people and then you give them great development and they're going to be very successful. Those are the two pieces of it.

As we look to the forward-looking metrics like time to first sale and stuff like that, we see that the people we've been hiring under these new programs are doing measurably better than we've done in the past.



Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. How should we think -- you mentioned that as you add these new sales hires and they become more productive you expect the contract value to increase. How should we think about the pace of acceleration in contract value just so we don't get ahead of ourselves? Is there a formula that we can combine that with a percentage of new sales hires to come up with what might happen in any particular year?

Craig Safian - *Gartner, Inc. - CFO*

Yes, Joseph, the simple way if you go back to what we showed at Investor Day, I think that was simplest way to kind of model it which is looking at average productivity and the growth in the number of sales people. When we are growing at roughly call it 15% or 16% per year on the sales force headcount growth, and we're doing that consistently, the mix of new hires looks roughly the same year-over-year from a proportional perspective.

I think the way to think about modeling CV growth is what is the pace of sales force capacity growth and then what is your assumption on average productivity and then the math should be relatively simple. But baked into that, obviously, it's more complicated than that with new hires and new hire productivity but again, proportionally we're roughly the same. I would just try and look at it from an average perspective.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

That is helpful. And then last one from me. Can you just give us a quick lay of the land? Is anything tweaking up or down that is helping or hurting the business on the margin globally? And I'm thinking about Europe versus North America. I know you already talked about the public sector. I just want to get a sense if anything is really moving within the demand base that is affecting the numbers.

Gene Hall - *Gartner, Inc. - CEO*

Yes, it's Gene. I don't think there's a material movement. The global economy, different parts are marginally better or marginally worse. I think our demand is really being driven by what is going on in the technology world where technology is having accelerating impact on businesses.

And that's really what's driving it. If you look at it across the world, first is that the aggregate macro economic situation hasn't changed materially. But we do really well in some economies where the GDP shrinking. And it's because the companies and public sector institutions see how technology is affecting them.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Got it. Thank you.

Operator

Thank you. Gary Bisbee, RBC Capital Markets.

Gunnar Hansen - *RBC Capital Markets - Analyst*

Good morning, guys. This is Gunnar Hansen in for Gary Bisbee. Just a quick question with the acquisitions. How much did they contribute to research revenue and what impact did they have on gross margin?

Craig Safian - *Gartner, Inc. - CFO*

Sure. From a research revenue perspective for the quarter, it was less than a 2 point impact on the growth rate related to Software Advice and the other two were immaterial on the quarter. From a total revenue perspective, it was around a 1 point impact on total revenue for the quarter. From an earnings perspective, roughly immaterial.

Gunnar Hansen - *RBC Capital Markets - Analyst*

Great. Okay. And then just going back to the contract optimization business, obviously that's been strong in the first half and you guys kind of noted that before. Is it really just the timing or was there anything else driving the increased demand for the service?

Gene Hall - *Gartner, Inc. - CEO*

It's a great business and we expect it to perform at the rate annually that we have built into our guidance there. As Craig, mentioned some of deals came in earlier in the year. We expected a great year but some of them came in earlier in the year than we expected. It's kind of simple as that.

Gunnar Hansen - *RBC Capital Markets - Analyst*

Fair enough. And lastly, are you guys still guiding toward the low end of the 15%, 20% sales headcount for the year?

Craig Safian - *Gartner, Inc. - CFO*

As we have stated, our goal is to grow 15% to 20%. We were at 16% first quarter, 15% second quarter, so we'll probably be to the lower to middle point of the range for the full year.

Gunnar Hansen - *RBC Capital Markets - Analyst*

Great. Thanks so much.

Operator

Thank you. Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

Hi, good morning. I was just wondering if you can maybe give a little color on how your sales force is spread around the globe and maybe where you're adding faster if that's perfectly mirroring the contract value growth globally or are there particular areas that you are looking to add ahead of maybe some acceleration next year?

Gene Hall - *Gartner, Inc. - CEO*

Hey, Andre. It's Gene. Our sales force is split. If you look at between -- I don't have the exact numbers but you can think about it as the Americas is a little less than half, Europe is something like a third, and the rest is in Asia.

We're growing -- there's pockets we're growing a little faster, a little slower, but all of them are growing at pretty good double-digit rates. There is no kind of distinguishing factor there. The thing that really distinguishes more is at a more micro level where we think we've got a manager, who

is at the point in their career where they can handle faster growth or slower growth as opposed to it's based on the big geographies. It's really based on the tactics of where individual managers are in their career development.

Andre Benjamin - *Goldman Sachs - Analyst*

Thanks. And a similar question, is there any particular level of [seat] that you're seeing more growth in the last quarter or two relative to say a few years ago? For example, are the mid-level manager seats potentially growing faster than CIOs? I'm wondering where your customers are seeing more demand for your service these days.

Gene Hall - *Gartner, Inc. - CEO*

As you may recall, we have products from in the IT world, everyone from a CIO all the way down the front line. We've had those for a few years. The mix really is very consistent. We're selling to CIOs. We're selling to the guys that report to them. We're selling to the guys that report to them. And then we're selling to the front line IT folks, as well. There's no material change in the last two years in terms of that mix.

Andre Benjamin - *Goldman Sachs - Analyst*

Thank you.

Operator

Thank you. Bill Warmington, Wells Fargo.

Bill Warmington - *Wells Fargo Securities - Analyst*

Good morning, everyone. A question for you on the guidance. You beat consensus on the bottom line by \$0.06 but you raised the full-year guidance by \$0.03. Based on what you said about the \$0.03 coming from the shift in the consulting side, should we think about the other \$0.03 as coming from the core business? Is that a fair way to look at that?

Craig Safian - *Gartner, Inc. - CFO*

Hey, Bill. I think in terms of the guidance, what we said in the prepared remarks is it's premature to really look at raising significantly. We're halfway through the year. As I mentioned, we have fourth quarter is historically our largest quarter. Where we sit today, everything looks pretty good as we discussed. But we're still early in the year and not ready to raise anything.

On the contract optimization side, as Gene discussed, it really is a timing thing. We have the same expectation that we had entering the year for the revenues that will be generated by contract optimization for the full year. We just have seen more transactions or transactions that we had expected in the second half of the year coming in the first half of the year. That's driving the timing there.

Bill Warmington - *Wells Fargo Securities - Analyst*

Got you. And then it's early, but I wanted to ask how Software Advice is performing versus what your expectations were.



Gene Hall - *Gartner, Inc. - CEO*

Hey, it's Gene. So Software Advice is a great business and it's performing so far according to our expectations. It's been in the kind of right in line with what we expected which is terrific.

Bill Warmington - *Wells Fargo Securities - Analyst*

Then one housekeeping question. You've been buying back a lot of shares and I just wanted to ask for fully diluted share count exiting Q2.

Craig Safian - *Gartner, Inc. - CFO*

Sure thing. That would be 90.1 million shares.

Bill Warmington - *Wells Fargo Securities - Analyst*

Great. All right. Thank you very much.

Operator

Thank you. Jerry Herman, Stifel.

Jerry Herman - *Stifel Nicolaus - Analyst*

Good morning, everybody. Just a question on the sales force growth. You've had a sequential decline there. I know it's a very small decline but I'm wondering if there's anything that you are seeing in the ability to hire folks given what appears to be a strengthening economy.

Gene Hall - *Gartner, Inc. - CEO*

This is Gene. I would take it as noise as opposed to anything meaningful. We have certain classes -- when we hire people in some situations we hire classes of people and that could make for a little bit of a swing from time to time. It's really noise.

In terms of our ability to hire people actually, it's great. We are a place that professional sales people want to be at. It's a very hot -- we're a well-owned company, hot area and we don't have any trouble finding people. As I mentioned, despite the fact that the economy is growing, as you are saying, in the hiring -- the job market is hotter, our actual -- the amount we're retaining sales people is actually getting better. So our average retention of our salespeople is improving even in an environment where the job market is increasingly hot. We don't have any trouble hiring great sales people.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay. And then Craig, you mentioned the contribution from acquisitions in the quarter. Those numbers are probably a pretty good representation for the full-year, i.e., research about 2%, in total about 1%. Is that fair?

Craig Safian - *Gartner, Inc. - CFO*

Yes, the only thing I'd caution a little bit is we've only had -- we did not have Software Advice for the full first quarter. It was only on stream for about three weeks in Q1 and then a full Q2. Last quarter when we updated our guidance, we did update it on the research side by about \$20 million on the low and high end. That was done to account for having Software Advice for 9 2/3 months of the year.



Jerry Herman - *Stifel Nicolaus - Analyst*

Okay, great. And just a follow-up question on the guidance. With regard to the third quarter, you guys have guided towards a down year-over-year comparison. I want to make sure I understand that that's predominantly relating to the timing in the events business.

Gene Hall - *Gartner, Inc. - CEO*

Yes. It's predominantly timing of events and also timing of contract optimization. Those two trends that we're seeing, coupled with the fact that it is historically a very small quarter, is causing that swing.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great. Thanks, guys. I'll turn it over.

Operator

Thank you. Manav Patnaik, Barclays.

Ryan Leonard - *Barclays Capital - Analyst*

Hi. Good morning, guys. This is Ryan Leonard filling in for Manav. I just wanted to hit on the contract optimization again. We obviously had another solid quarter but also the backlog is still up pretty solidly. So I was just wondering if you could comment on the relationship between the two and whether or not that speaks to a better second half.

Craig Safian - *Gartner, Inc. - CFO*

That's a good question, Ryan. Two things I'd tell you. One is that the contract optimization business, very little of it actually ends up in backlog and so the transactions on contract optimization typically book and recognize revenue when those deals that we advise on are actually closed. The point on backlog though is underlying our labor base consulting business has performed pretty strongly.

As I mentioned up 6% year-over-year in the second quarter and based on the backlog and based on the number of managing partners and based on the pipeline, we believe that trend will roughly continue on the labor base business for the balance of the year. We've got some nice strength on labor base. Contract optimization, as Gene mentioned, is performing really, really well. We just saw more of the revenue in deals happen in the first half of the year.

Ryan Leonard - *Barclays Capital - Analyst*

Got it. Perfect. And Craig, given your background in business development and some of your comments on a robust M&A pipeline, I was just wondering if you had any commentary on either a change in M&A strategy or just a change in the overall market that makes you more open to deals or at least you're seeing more opportunity out there.



Craig Safian - *Gartner, Inc. - CFO*

No change in the strategy. No change in the overall environment. I just think that as a Company, we've got a much more honed approach to what we're looking at, and therefore we are looking at and seeing more things than we have seen in the past. And there are a lot more exciting opportunities out there than we've seen at any time in the past several years.

Ryan Leonard - *Barclays Capital - Analyst*

Great. Thanks.

Operator

Thank you. Jeff Silber, BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

Thank you so much. In just looking at the number of consultants, it seems to have been a trending down a little bit over the past 1.5 years. Is that because of the move to the managing partner model or is there something else going on?

Gene Hall - *Gartner, Inc. - CEO*

Hey, Jeff. It's Gene. I would take it again, that is noise as opposed to -- there is no strategy to reduce the number of consultants or anything like that. Over time, as the demand for consulting shifts, you have to shift the mix of people a little bit. It just has to do with the mix of specific skills. We're quite, as Craig said earlier, we're quite optimistic about the business and do not aim to have fewer people. It just where we wound up with the change in mix we talked about.

Craig Safian - *Gartner, Inc. - CFO*

And Jeff, the good news there also is that the billable headcount actually includes the managing partners in it, so that's an all-in number. And then the other thing I mentioned is what it implies, or actually more than implies, is that those 505 people, billable heads, were much more productive than what we've seen in the past as well. We're driving utilization up as well.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay. That's great to hear. And then a just of couple quick number questions. In prior quarters, you've actually given us the number for the average NCVI per account [exec]. I was wondering if we can get that again. And then the guidance you gave for EPS was \$0.37 to \$0.39 this quarter. That was a GAAP number, is that correct?

Craig Safian - *Gartner, Inc. - CFO*

No, the -- I'll tackle the second one first. The \$0.37 to \$0.39 is a excluding acquisition integration charges number. And we expect about \$0.06 of acquisition integration charges in the quarter. On the productivity side, again, what I'd say is what I mentioned earlier in the call during the Q&A, on a first half standalone, we're up nicely year-over-year in terms of productivity. On a Q2 standalone, we're roughly flat to last year on productivity. On a rolling four-quarter basis, we're roughly flat to where we were at the end of year.



Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much.

Operator

All right. Thanks so much. Ladies and gentlemen, that concludes your Q&A for today. I'd like to hand back to Brian Shipman for any closing remarks. Please proceed.

Brian Shipman - *Gartner, Inc. - Group VP of IR*

Thank everyone for being with us on today's Q2 2014 earnings call. If you have any further questions, please don't hesitate to contact us. We'll speak with you again on our 3Q conference call in early November. Have a great day.

Operator

Thank you, ladies and gentlemen. That concludes your conference call for today. Thank for joining us, and you may now all disconnect.

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