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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Gartner's earnings conference call for the first quarter of 2015. A replay of this call will be available through May 14, 2015. 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 16886645. This call is being simultaneously web cast and will be archived on Gartner's web site at gartner.com for approximately 90 days.

On this call today is Gartner's Chief Executive Officer, Gene Hall, and Chief Financial Officer; Craig Safian. Before beginning, please be aware that certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from the actual results and are subject to a number of risks and uncertainties, including those contained in the company's 2014 annual report on form 10-K and quarterly reports on form 10-Q, as well as the 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 these forward-looking statements. I will now turn the conference over to Gene Hall. Please go ahead, sir.

Gene Hall - *Gartner, Inc. - CEO*

Thank you, and good morning, everyone. Welcome to the first earnings call for 2015. We are doing great as a company. We're where we expected to be at this point of the year and all of our underlying metrics are strong.

I will review all of the operating metrics on a FX neutral basis. For the first quarter of 2015, contract value accelerated to 15% and total company revenues grew 12%. We achieved double-digit contract value growth in every region, every industry and every company size.

The continued successful execution of our proven strategy was central to our success. The momentum we saw in 2014 continued into 2015, and we continue to get bigger, stronger, faster every year. Across our three business, research, our largest and most profitable segment, grew both revenues and contract value 15% in the first quarter of 2015, continuing our 19-quarter trend of double-digit contract value growth.

Retention was strong. For the first quarter of 2015, enterprise client retention was at 85%, up 1 point for the same quarter in 2014. Enterprise wallet retention was 106%, which is up 2 points over Q1 2014. Our retention metrics remain at all-time highs.

Sales productivity remained strong, for Q1 sales productivity was up 12% compared to Q1 2014. We continue to invest in opportunities that will drive further advancements in this area. Our labor-based consulting was up 5%, while our contract optimization returned to historic norms as expected, which was down compared to the exceptional year we had in 2014.

Our events business also delivered a strong first quarter. In Q1 2015 we drove a revenue increase of 11% year over year and a [10-D] growth of 20%. As with other global companies, the strengthen US dollar impacted our reported results, which Craig will detail in a moment.

We continue to deliver value back to our shareholders through share repurchase. Year to date, we repurchased over $400 million in outstanding shares. And with the previous authorization fully exhausted, we are excited to announce a new share repurchase authorization of $1.2 billion.

Another reason our business is so successful is our people. At the heart of it, Gartner's a people business. We are attracting the best talent in the industry in strategic locations around the world and getting them up to speed quickly.

I recently spent a few days meeting with our top-performing sales associates from around the world. And they have never been more excited about the technology revolution and our opportunity. Our sales associate consistently report that our clients value our service whether growing or facing budget cuts.

We continue to invest in our sales force to further capture our vast market opportunity, and we know how to drive improvements in sales productivity. Our industry-leading analysts coupled with the world class products and services and strong sales capabilities have driven our consistently strong results.

We ended 2014 in a great position, and we carried that momentum into 2015. I couldn't be more excited about Gartner. The insights we create, the advice we deliver, and the overall experience for our customers has never been better.

We add tremendous value to our clients whether they're growing or facing economic challenges, and we now how to be successful in any economic environment. Retention rates remain at all-time highs. We had double-digit growth in every region, every industry, every company size, and our operating metrics have never been better.

And we remain committed to enhancing shareholder value through investment in our business, strategic acquisitions, and share repurchases. We are better, stronger, faster as a company, and I expect to see robust growth for years to come.

With that, I would like to hand the call over to Craig.

Craig Safian - *Gartner, Inc. - CFO*

Thank you, Gene, and good morning, everyone. Gartner's first quarter continued the growth and momentum we experienced over the course of 2014 with accelerating growth in contract value and on-going improvements to our retention metrics. Our performance in Q1 puts us where we expected it be, and we are reiterating our previously issued full-year guidance, which I will discuss in detail in a few minutes.

Our Q1 performance highlights are as follows. FX-neutral contract value growth once again accelerated, achieving 15% growth for the quarter, and retention rates matched our all-time highs. Our events business increased revenues by 11% year over year on a FX-neutral basis.

As we expected, consulting revenues were impacted by lower contract optimization revenues and declined by 3% on a FX-neutral basis for the quarter. Demand for our services was robust across all of our business segments in the first quarter.

Our business continues to deliver strong growth, quarter after quarter, year after year. We are engaged on our clients' most important initiatives and projects. The consistency of our strong retention metrics demonstrates the value and importance our clients receive from our products and services.

In both existing and prospect accounts, we are finding new IT, supply chain, and marketing professionals to sell to everyday. We remain confident that we will continue to deliver consistent revenue growth and strong financial performance over the long term. And we continue to drive shareholder value through our share repurchase program.

In the first quarter we spent $324 million on share repurchases. And as of earlier this week, we had spent well over $400 million year to date, fully utilizing our $800 million authorization. As a result, we announced in today's earnings release that our board of directors authorized a new $1.2 billion share repurchase program.

I will now provide a review of our three business segments for the first quarter and will end with the details of our outlook for the second quarter and remainder of 2015 before taking your questions. But before doing so, I do want to note that the strengthening US dollar has continued to impact our reported results.

Just about every currency we operate in is weaker against the US dollar when compared to last year. I will address the impact of foreign exchange in each business as I speak about them, starting with our research business.

Research revenue grew 9% on an as-reported basis and 15% on an FX-neutral basis in the first quarter. Acquisitions from 2014 added approximately 2 points to our organic growth rate in Q1. The contribution margin for research was 70% in the first quarter, matching our gross contribution margin target for this segment.

The other key research business metrics also remains strong. Contract value grew to $1.562 billion, a growth rate of 11% year over year on a reported basis and 15% on an FX-neutral basis. This reflects continued acceleration from the last several quarters when our FX-neutral contract value growth ranged between 12% and 14%.

As has been true in just about every quarter over the past several years, our growth in contract value in Q1 was extremely broad based, with every region, every client size, and every industry segment growing at double digit rates. As we discussed at Investor Day, we revalue our contract value each year based upon then prevailing FX rates. We do this to provide better transparency and FX-neutral comparability for this important measure.

Our December 2014 ending-contract value at current year FX rates was $1.550 billion, and our Q1 2014 CV was $1.363 billion. The acceleration in our contract value growth was driven by improvements to both our retention rates and our new business.

Client retention ended the quarter at 85%, up a point versus the same quarter last year and maintaining the historical high we achieved in Q4 2014. Wallet retention ended at 106% in the first quarter, a 2 point up tick over last year's first quarter. This was the sixth consecutive quarter of sequential improvement in wallet retention.

Wallet retention is higher than client retention due to increased spending by retained clients and the fact that we retain a higher percentage of our larger clients. To eliminate seasonality, our retention metrics are reported on a rolling four-quarter basis.

New business, again, increased significantly year overyear up 20% over last year's first quarter. 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% every year since 2005, and we will do it again in 2015.

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 9,837 client enterprises, up 8% over last year's first quarter.

Our average spend for enterprise continues to increase on an FX-neutral basis, again, reflecting our ability to grow our contract value by driving growth in both new and existing enterprises. We have also continued to see improvements to our sales productivity.

Our year-over-year comparisons have been impacted by foreign exchange, so we will provide you with the FX-neutral results for comparability as well. 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 head count as the period denominator.

Over the last 12 months, we grew our contract value by $199 million in FX-neutral terms. Using our Q1 2014 ending sales head count of 1,698 as our beginning period denominator, yields NCVI per [AE] of $117,000 on a rolling four-quarter basis, a 12% improvement over first quarter last year when the comparable figure was $104,000.

Our Q1 2015 productivity is roughly flat to Q4 2014 on an FX-neutral basis. To sum up, we delivered another strong quarter in our research business. Contract value growth accelerated to 15% as we expected. We continue to see strong demand from clients. Our retention rates remain at all-time highs. And we anticipate continued acceleration in productivity, contract value, and revenue growth over the long term.

Turning now to events, the first quarter is a historically light quarter for our events business and the FX impact to this segment was magnified by the fact that eight of the nine events held in the quarter occurred outside of the US and generated revenues and currencies impacted by the strengthened US dollar. On an FX-neutral basis, events revenues increased 11% year over year, and the operating metrics remained very strong.

During the quarter we held 9 events with 4,065 attendees, compared to 8 events with 3,394 attendees in the first quarter of 2014. On the same event in FX-neutral basis, events revenues grew 9% with 3,805 attendees, a 12% increase compared to first quarter of last year.

The gross contribution margin for events of 18% for Q1 decreased roughly 3 percentage points from the first quarter a year ago, again reflecting the FX impact of having 8 of the 9 events outside of the US and the fact that it is a very small events quarter. The underlying metrics of our events business remain strong, and the business is well positioned to deliver another year of FX-neutral double-digit revenue growth in 2014.

Moving on to consulting. On a reported basis, revenues in consulting decreased 9% in the first quarter as we expected. This result was driven by a combination of FX impact and the return to historical norms in our contract optimization business. In the quarter on an FX-neutral basis, our labor-based business grew by 5%, while total consulting revenues decreased 3%, reflecting the impact of the return to more normal trending in our contract optimization business.

The underlying operating metrics of our consulting business are also very strong. On the labor-based side, billable head count of 547 was up 7% from the first quarter of 2014. First quarter utilization was 67%, a 3 point improvement over first quarter of last year. And annualized revenue per billable head count ended the quarter at $404,000, a 1% FX-neutral improvement over Q1 of last year.

As we have discussed in the past, our contract optimization practice has more variability than the other parts of our consulting business. In last year's first quarter, we saw exceptionally high performance from this part of the consulting business. In Q1 2015, we returned to our historical norms, which impacted the year-over-year comparison metrics on both revenues and gross contribution for consulting.

Across the entire consulting business, we continue to see strong demand for our services, and our strategy of investing in managing partners is allowing us to capture that demand. We now have 96 managing partners, an increase of 14% from a year ago.

Backlog, the key leading indicator of future revenue growth for our consulting business ended the quarter at $101 million. Backlog was also impacted by FX rates and still represents a healthy four months of coverage. With the current backlog and visibility we have into the pipeline, we believe the consulting business remains well positioned for 2015.

Moving down the income statement, SG&A increased by $25 million year over year during the first quarter, primarily driven by the growth in our sales force. As of March 31, we had 1,933 quota-bearing sales associate, an increase of 235, or 14%, from a year ago. For the full year, we expect to grow the sales force by roughly 15%. In the first quarter, SG&A was higher as a percentage of revenues due to Q1 being one of our seasonally smaller revenue quarters, as well as continued investments in our sales capacity and recruiting and training capabilities.

Moving on to earnings. Normalized EBITDA was $81 million in the first quarter, a 5% decrease year over year on a reported basis. Normalized EBITDA, excluding the impact of FX, increased 3% in the quarter. It is important to note that our Q1 EBITDA was affected by two primary items, both of which we included in our guidance. First, the roughly 8 point impact from a stronger Us dollar, and second, as I just mentioned, Q1 of 2014 was an exceptionally strong quarter for our contract optimization business. As expected, that business returned to more historical norm in the current quarter. Absent those two items, EBITDA growth would have been approximately 9% in the first quarter.

GAAP diluted earnings per share were $0.32, within the guidance range we provided to you in February. Our Q1 2015 GAAP diluted earnings per share includes $0.05 in amortization and other costs associated with our acquisitions. Excluding acquisition-related charges, our normalized EPS was $0.37 in the first quarter. As you would expect, FX and the anticipated return to historical norms in our contract optimization business impacted our EPS results as well.

Our first quarter EPS figures were impacted by foreign exchange in two primary ways, first, the impact on EBITDA that I just mentioned and second, the impact on our tax rate for the quarter. As we have discussed in the past, our tax rate is sensitive to the mix of geographic earnings.

With a strongest US dollar, the proportional mix of geographic earnings from higher-tax jurisdictions caused the effective tax rate to increase. Our tax rate for Q1 is within the guidance range we discussed last quarter.

Turning now to cash, operating cash flow decreased to $6 million during the first 3 months of 2015 versus $16 million in the same period a year ago, largely due to a stronger US dollar and higher incentives and tax payments in the first quarter. The first quarter is seasonally the lightest of the year for operating cash flow, and we still expect to achieve the guidance we set for the full year.

During the first quarter, we continued to utilize our cash to return value back to shareholders through share repurchases. In the quarter, we repurchased over 4.1 million shares, and we used approximately $324 million of cash for share repurchases. Through this week, we have spent well over $400 million, fully utilizing our $800 million authorization.

We are pleased to announce a newly approved $1.2 billion share repurchase program, which will allow us to continue to deliver value back to our shareholders in a consistent and effective way. We ended the quarter with a strong balance sheet and cash position despite the more aggressive pace of share repurchases.

As of March 31, we had gross debt of $665 million and cash of $282 million, with 96% of our cash balance located outside of the US. Importantly, this now represents a net-debt position of $383 million. As you know, we put an expanded credit facility in place in December 2014. This runs through 2019 and gives us ample liquidity to continue to grow our business and execute initiatives that drive shareholder value.

As of March 31, we had $832 million available on our resolver. 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.

Turning now to guidance, as you saw in our press release, our guidance remains unchanged from February. Q1 is a lighter quarter for us, but our performance was as expected, which allows us to reiterate our previously issued guidance. Our 2015 guidance still expects total revenge of $2.150 billion to $2.205 billion. This is FX-neutral growth of 12% to 15%.

Projected revenues by segment on an as-reported basis can be found in our press release. On an FX-neutral basis our guidance remains as follows. Research revenue to be up 14% to 16% versus the prior year. Consulting revenue to be flat to up 6% over 2014. This guidance, again, assumes that the contract optimization practice within consulting returns to its historical levels of revenue, which is negatively impacting the consulting guidance.

We expect the labor-based portion of consulting to grow in the mid single digits and events revenue be up 11% to 18% over 2014. We still expect EBITDA growth of 10% to 17% over 2014 on an FX-neutral business. Our GAAP EPS guidance remains $2.11 to $2.30 per share.

Wile we now anticipate a lower share count from our accelerated repurchase activity in Q1 and Q2, we also expect higher interest and other costs. While, the accelerated pace of repurchases, including incremental interest expense benefits our 2015 outlook, our projected EPS remains within our original guidance range, which is why we have reiterated our EPS guidance as well.

As a reminder, GAAP EPS includes $0.16 to $0.17 per share of acquisition-related charges for the full year of 2015. Our guidance for EPS excluding acquisition and integration charges is to be between $2.27 and $2.46 per share, FX-neutral growth of approximately 7% to 16% over 2014.

For the upcoming second quarter, we expect GAAP EPS of $0.56 to $0.60, including $0.04 of acquisition and integration charges. Our Q2 guidance is impacted by foreign exchange rates, a higher projected tax rate, and the return to trend for our contract optimization business.

Since we gave our original guidance in early February, the US dollar has continued to strengthen. Our current guidance takes into account the most recent foreign exchange rates. So before taking your questions let me summarize.

We delivered strong results for the seasonally light first quarter of 2015. Demand for services is robust, and as a result, our research contract value growth rate accelerated again, up to the 15%. Our key business metrics remain strong. And in fact, many, most notably retention, CV growth, and sales productivity, continue to improve or are at or near all-time highs. And we continue to actively explore strategic alternatives for deploying our cash.

Going forward, we will continue to invest in our business organically and through acquisitions and returning capital to shareholders through our newly authorized $1.2 billion share repurchase program. Finally, with double-digit growth in contract value in the first quarter of 2015, we remain well positioned to deliver another strong year of revenue and earnings growth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tim McHugh, William Blair.

Tim McHugh - *William Blair & Company - Analyst*

Yes, thank you. First, on sale force productivity. I think your original guidance had assumed kind of flat to, I think you said, marginally up. You seem to be off, obviously, to a good start in Q1.

Can you update how it's trending relative to your annual expectations? And is that still how you're thinking about the year? And maybe dive into where you saw productivity improve or what the driver was of that?

Gene Hall - *Gartner, Inc. - CEO*

On the productivity front, we are up 12% on an FX-neutral basis versus Q1 of last year. We're essentially flat to where we ended the year, ended 2014. And so it's consistent with what we had laid out at investigator day in terms of an expectation of roughly flat productivity. That being said, as you can imagine, we're working very hard to make sure that we can continue to improve that productivity on a go-forward basis.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then the buy back, you have been aggressive the last few years, but you have stepped up the pace certainly to a much bigger level early this year. Can you talk -- what changed? What made you get that much more aggressive on the buy back?

Gene Hall - *Gartner, Inc. - CEO*

Tim, we've had a strategy that we have talked about where acquisitions being first priority, buy back being second priority for us from a capital deployment perspective. We mentioned that our target for 2015 was to extinguish the share repurchase authorization, or the remaining share repurchase authorization, that we had heading in to the year.

Based on everything we were looking at, based on our cash flow generation, based on our balance sheet flexibility and capacity under the revolver, we determined that it would be good thing to accelerate over the first quarter and a half of the year. And so we have essentially hit our full-year target as of earlier this week.

Tim McHugh - *William Blair & Company - Analyst*

Do you have a -- how should we think about the rest of the year then? What's a -- do you have a new full-year target that we should have in mind?

Gene Hall - *Gartner, Inc. - CEO*

So the way we are thinking about it, Tim, is with the new $1.2 billion authorization, we believe that will last us between 2.5 to 3 years. And as always, we will look at the market in terms of what's out there from an acquisition perspective or other ways for us to deploy capital. But all other things being equal, we believe that we'll use the $1.2 billion over the next 2.5 to 3 years.

Tim McHugh - *William Blair & Company - Analyst*

Okay. Thank you.

Operator

Jeffrey Meuler, R. W. Baird.

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

Good morning. So I know sometimes us analysts think that sales force head count growth is just a cell in a model, and it's much more complicated than that in terms of bottoms-up build. But it sounds like pretty much every [KPI] is favorable right now, and sales force head count growth was 14%.

You're expecting 15% for the year, which would still be towards the lower end of the targeted long-term range. So, Gene, what is the current bottleneck to growing it even faster?

Gene Hall - *Gartner, Inc. - CEO*

Hi, Jeff. As you pointed out, our sales force, the target range for our sales force growth is 15% to 20%. We determine where we are in the range basically by looking, bottoms up, which sales managers have the capacity in their particular territories and their experience level to handle that growth. We're very confident we are going to be in that range of 15% to 20% this year.

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

Let me just -- but you're going to be towards the low end of the range. And I think your retention among your sales managers is good. And I think that you have training programs that you've been working on.

So at what point do you think that maybe you drift towards the midpoint or higher end of the range? What's the current bottleneck on the management training or capacity or recruitment or whatever it is?

Gene Hall - *Gartner, Inc. - CEO*

Like everything in our business, we aim to have continual improvement in it and acceleration. The things that determine the level of sales force is the, obviously, recruiting capacity. We think we are in good shape there. The amount of experience and tenure of our management team, which as you said, we have very low turnover among our managers.

And it's just doing an assessment individually. Their individual territories is where that adds up. And again, as we look at that and the development of our managers, we see that accelerating over time.

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

Got it. And then, Craig, just for modeling purposes. Within consulting on a quarterly basis, which quarters are the tough comps for contract optimization? Is it Q1 and Q3, which were the quarters that you had a stronger overall consulting growth in? Or any other quarters to call out for a tough [CL] comp?

Craig Safian - *Gartner, Inc. - CFO*

Yes, it's actually Q1 and Q2, Jeff, are the 2 tough quarters from a comparability perspective. Q 3 and Q4, our expectation is we'll be roughly in line with what we did last year.

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

Okay, and then the Q2 EPS guidance that you gave [56] to [60]. Just to verify, is that a GAAP number or is that an adjusted EPS number?

Craig Safian - *Gartner, Inc. - CFO*

My apologies for not being clear. That is a GAAP number, which includes roughly $0.04 of acquisition integration charges.

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

That's helpful. Thank you, guys.

Craig Safian - *Gartner, Inc. - CFO*

Thank you.

Operator

Anjaneya Singh, Credit Suisse.

Anjaneya Singh - *Credit Suisse - Analyst*

Hi, thanks for taking my questions. First off, the growth rate in the consulting billable head count. It seems to be the highest we've seen in nearly two years. Could you just help us think about that?

Are you seeing greater demand for your consulting services? And if so, when can we expect this to show up in your consulting revenue growth?

Gene Hall - *Gartner, Inc. - CEO*

Hey, [Anj]. How are you? So, yes, the growth in billable head count was a little higher than we've typically seen. Some of that is driven by the managing partner growth, which we've talked about is a strategic imperative for us. That was up 14% year over year.

What's allowed us to go a little bit faster on the billable head count growth is the combination of the quality of the backlog and the quality of the forward-looking pipeline. We generally only hire when we have visibility, and we've had better visibility in that business, which largely stems from the benefits we're getting from the managing partner investment. And so as we get better visibility, a higher quality backlog, et cetera rolling forward, that allow us to invest in growing the billable head count with more confidence.

Anjaneya Singh - *Credit Suisse - Analyst*

Got it. That's helpful. Also, you guys used to give out a clients' organization number. Is there a reason why you didn't provide that this quarter? And if you could just help us understand how much of your growth is coming from new growth versus existing client penetration. Is it still roughly 50/50? If you could just update us on that.

Gene Hall - *Gartner, Inc. - CEO*

Sure. So on your first question on that client organization number. As we talked about last year, we believe that number is client enterprises is actually a better way and more transparent way to provide what's actually happening with our client count, where a company equals an enterprise. Whereas in client organizations, it was the buying centers, where a company could have multiple buying centers.

And so over the last year, we provided both metrics, but we said on a go-forward basis, we were going to focus just on the enterprise number, which again we believe is a better number. And then, also, our retention metrics are now tied to that Enterprise number as well. Your second question again, I'm sorry, Anj?

Anjaneya Singh - *Credit Suisse - Analyst*

If you could just help us --

Gene Hall - *Gartner, Inc. - CEO*

Oh, right, the new business. So the way to think about the new business mix is, it's historically been this way, and it looked this way in the quarter as well. It falls about a third, a third, a third. A third of it comes from upgrades and new services to existing clients. A third comes from further penetration within existing clients. And a third comes from net new logos.

Anjaneya Singh - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. I was wondering, could you give us some idea of how -- I know we went through sales force training and you'd set up a facility, but how much has that been extended into other regions? Do you have a sense of what percentage of new employees are now going through the sales force training program?

Gene Hall - *Gartner, Inc. - CEO*

Yes, Joe, it's a great question. It's Gene. That sales force training forum that we talked about is important in driving sales force productivity. And to your point, we've now rolled out to where all of our new sales people globally are getting that new training program. And we're quite optimistic.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Great. So just on that question, how long do you think it takes to be having a full turnover on the sales force, so everyone has gone through the program at least once? Is that a 12 or18 month period?

Gene Hall - *Gartner, Inc. - CEO*

So we don't take our experienced sales people back through that program. And our sales force turnover is actually pretty good. We don't lose sales people. We lose sales people, probably, at a very competitive rate. And so because we're only taking new sales people through it, it'll take some time before everybody has gone through that.

And we have separate things we do with our existing sales people to improve their productivity. The whole point in the program itself is oriented towards when we hire new people, making sure they get up to speed as quickly as possible. And that they actually wind up with higher average productivity over the course of their career.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Got it, okay. And it sounds like new sales is a big contributor to contract value growth. Can we get an idea of what those new sales are, what the consistency of those new sales are? In other words, are those more geared towards some of the newer technologies that are out there? And are those clients any different than your standard clients?

Gene Hall - *Gartner, Inc. - CEO*

The new enterprises that we are selling really aren't any different than our existing enterprises. As we've talked about at Investor day, we see about 110,000 enterprises that we can target, that we do target, actually. And of those, only about 10,000 are clients today.

So our mission is every year to add a few hundred more of those enterprises. And as Craig pointed out, that's a portion of our growth. We also, then, have another portion of your growth which is selling more to our existing enterprises. And we are very successful with that as well.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, and then, the last one for me. We're talking about contract optimization again. I think you mentioned in your prepared remarks, that it returns to historical norms. Can you just remind us what those norms are and how long it would take for all of this to make its way into the numbers and what we should be expecting there?

Craig Safian - *Gartner, Inc. - CFO*

Yes, so it's really, based on last year, it's really a Q1 and Q2 phenomenon, so we will feel the impact of return to historical norms most notably in Q1 and Q2. And again, if you think about it, it is most notable in Q1, and then, a little bit more in Q2.

And then basically, Q3 and Q4 look like it has looked the last several years. As we think about what the results look like for this quarter as well as our guidance for Q2, there's an impact related to the return to historical norms. Q3, Q4 no impact really.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Manav Patnaik, Barclays.

Manav Patnaik - *Barclays Capital - Analyst*

Thank you. Good morning, gentlemen. The first question is around the M&A pipeline, in terms of can you update us, what you are seeing there? Clearly, you've been a lot more aggressive with the buy backs, which is great.

But is that a sign that there really aren't a lot of deals in the horizon? And can you just remind us what the acquisition contribution for the quarter was as well, please?

Gene Hall - *Gartner, Inc. - CEO*

Hey, Manav. So at any given time, we track 100 or more companies. We continue to do that. Our acquisition pipeline looks very robust, and it's very consistent with what we have seen in the past. And that's our number one choice for deployment of capital.

And we feel like that the repurchase -- if look at our cash flow plus our balance sheet, we feel like we can do all the acquisitions we need and still do the repurchases that you have seen and the repurchases we'll do going forward. So you shouldn't take that we see a less acquisition pipeline because of our aggressive purchases earlier this year.

Craig Safian - *Gartner, Inc. - CFO*

And then on the second part of your question, Manav. So as we said, acquisitions had a 2 point benefit on the research line, and it would be about a 1 point benefit on the total revenue line.

Manav Patnaik - *Barclays Capital - Analyst*

Okay. And then just on, back to the productivity. You pointed out that it was flat sequentially. But you're still, obviously, [gunning] for much better than flat productivity by the end of the year. Can you just help us understand the sensitivity around if that improves, obviously, better than flat, how margins should be impacted?

Gene Hall - *Gartner, Inc. - CEO*

Yes, sure. As we talked about at Investor day, flat productivity got us the roughly 14%, close to 15% CV growth. Modest improvements in overall average productivity can accelerate our CV growth a little bit more than that. From a margin perspective, you really see the margin flow through in the subsequent year.

And so we wouldn't expect margin benefit in 2015 from continued acceleration in sales productivity. You would expect to see it in 2016 and beyond.

Manav Patnaik - *Barclays Capital - Analyst*

Okay, and then in 2016, let's say you have the same initiatives. Does that offset that margin improvement with the new sales investment? Will we see it if you continue this pace, is, I guess, what I was getting at.

Gene Hall - *Gartner, Inc. - CEO*

It is a good question. The power of our model and the leverage involved in our model says if we can get research contract value growing 16%, 17% per year, that being the largest portion of our revenue and our highest margin business, the power of the economics, of the flow through on that will allow margin to flow through. And we will be able to make investments as well to continue to drive the business.

Manav Patnaik - *Barclays Capital - Analyst*

Okay. All right. Thanks a lot, guys.

Operator

Peter Appert, Piper Jaffray. Okay, we seem to have lost Peter there. I do apologize. Andre Benjamin, Goldman Sachs. There does seem to be a technical problem. I do apologize. Jason Anderson, Stifel.

Jason Anderson - *Stifel Nicolaus - Analyst*

Good morning, guys. Can you hear me okay?

Gene Hall - *Gartner, Inc. - CEO*

Yes. We can hear you fine.

Jason Anderson - *Stifel Nicolaus - Analyst*

Okay. One thing, and if I am looking at this correctly, did client enterprises decline sequentially? And if so, is there anything going on there? It wouldn't seem to jive with your retention number, but I am just curious if there's anything there?

Craig Safian - *Gartner, Inc. - CFO*

Yes, so if you look back historically, you will see often there is a modest decline in Q1. Again, it's generally our lightest new business quarter. And decline is not troubling at all. And the thing I would focus in on is the 8% year-over-year enterprise growth.

Jason Anderson - *Stifel Nicolaus - Analyst*

Great. And then when we think about your client retention, and you talk about it being at all-time highs. But you continue to improve it. Is there a theoretical ceiling here? I mean, obviously, everyone would love 100%, but that's not realistic. But is there a ceiling you might be approaching from a client, enterprise retention standpoint?

Gene Hall - *Gartner, Inc. - CEO*

It's Gene. So we think that we can get our retention several points higher than it is today. As we analyze why we have turnover, we have programs that are designed to address those. So we think have plenty of head room still left in retention, and we're working that. We expect retention to continue to improve over time.

Jason Anderson - *Stifel Nicolaus - Analyst*

Great. Thanks for that.

Operator

Peter Appert, Piper Jaffray.

John Crowther - *Piper Jaffray - Analyst*

Yes, you have got John Crowther on for Peter. Just real quick question. You guys outlined the overall impact of FX to EBITDA and margins on an overall basis. Wondering if you could highlight, maybe, the impact that was on the research segment this last quarter?

Craig Safian - *Gartner, Inc. - CFO*

Yes, on research it was a pretty modest impact. I think on a FX-neutral basis, our research margins would have been precisely flat, and we had a modest down tick for the quarter. So it was less magnified on the research line, more magnified on some other lines.

John Crowther - *Piper Jaffray - Analyst*

Okay, great. And then, you also highlighted, I think, on the guidance that the impact of the lower share count would be offset by higher interest and other expenses. Just wondering if you could give us your updated thoughts on both of those in terms of where they might end up for the full year?

Craig Safian - *Gartner, Inc. - CFO*

Yes, so on that comment, we're actually -- obviously, buying back shares is an accretive activity for us. And so with the accelerated pace of repurchases through the first quarter and a half, even including the incremental interest expense, it does benefit our EPS line.

Our view was our forecast still fell within the guidance range, which is why we haven't updated the guidance range. But the pace of share repurchase absolutely benefits EPS, in this year and even more so going forward.

John Crowther - *Piper Jaffray - Analyst*

Okay, great. Thank you.

Operator

Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

Hi, can you hear me?

Gene Hall - *Gartner, Inc. - CEO*

Yes.

Andre Benjamin - *Goldman Sachs - Analyst*

All right. Great. So I think most of my questions have actually been answered, but I had one small one. On the M&A contribution of 2%, primarily from software advice, if I run the math on that, if I did it right, it is about $7 million. So not up that much versus when you bought the asset.

I was wondering if you have any updated thoughts on what the run rate for that business could be, say, two years out? And if there are any new initiatives to accelerate growth in that channel?

Craig Safian - *Gartner, Inc. - CFO*

Andre, software advice is performing just as we expected. We expected it would be a business that was a high-growing business. It's growing quite a bit faster than our traditional IT business. And we expect that to continue for a substantial period of time. And again, we expect that growth rate to continue to be high, which means the dollar value would grow over time.

Gene Hall - *Gartner, Inc. - CEO*

The other thing worth mentioning, Andre, is just that on the year-over-year comparisons, we owned software advice for three weeks in the first quarter of last year and for the full quarter this year. And so that may be impacting your view on the year-over-year growth a little bit as well.

Andre Benjamin - *Goldman Sachs - Analyst*

I think that's it for me, thanks.

Operator

Jeff Silber, BMO.

Henry Chien - *BMO Capital Markets - Analyst*

Hi. Thanks. Good morning. It's Henry Chien. I had a question on your sales force growth for the year. I was wondering if you could provide any color on if there is any change in where any particular regions or industries where you are looking to add more sales count?

Gene Hall - *Gartner, Inc. - CEO*

So, it's Gene. We're planning to grow in every region, in every industry, in every size client. The rates are a little higher or a little lower depending on what we think the capability of the individual management teams are to absorb or little bit lower growth rates. Again, all of them we expect to grow and grow at very good rates. But some will grow a little bit faster than others.

And again it's not driven by it's in a particular industry or geography. It is driven by, when we look at the individual sales manager, what's their capacity to absorb extra growth. Just as an example, you might have a manager that's got -- if they have 10 direct reports, 10 [AEs], 10 sales people, and five of them are new, we would say that is probably as much as they can handle.

If you have somebody who has got eight sales people and seven of them are experienced, we would give them more capability. And it also depends on the experience of the sales manager, how long they have actually been working as a manager in their role.

And so it's not driven by geography or industry. It is driven by what's the tenure of the manager and what is the composition of the actual team that they have. So we do it bottoms up.

Henry Chien - *BMO Capital Markets - Analyst*

Okay. All right. And in light of the share repurchase, any updates on how we should think about your target leverage levels?

Gene Hall - *Gartner, Inc. - CEO*

So as we have talked about in the past, we know what an optimal capital structure should look like. We recognize that leverage is a part of it. As we talked about at Investor day, we recognize that optimal leverage is in the 1.5 to 2 times range. We're on a path to get there.

On a net-debt basis, we now sit at roughly 1 times, and on a gross-debt basis, obviously, closer to 1.5. And so we are effectively deploying our capital. We are putting leverage on the balance sheet, and we will continue to do that when we see things that can drive shareholder value.

Henry Chien - *BMO Capital Markets - Analyst*

Thanks a lot.

Operator

Gary Bisbee, RBC capital markets.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hi, guys. Good morning. At the Investor day, you laid out a helpful model about how changes in sales productivity flat to up a bit to up a lot would impact your financials over the next five years. But you didn't really provide us what a reasonable expectation for the trend line would be in that five years.

And I guess when I look at it, in the 10 years you've been doing this model, you've never had consistent year over year over year improvement in sales productivity. So what is a good expectation? And since you haven't done it in past, why would one believe that you would be able to do that going forward in the next few years consistently?

Gene Hall - *Gartner, Inc. - CEO*

So, It's Gene, Gary. Actually, you know our sales productivity, if you look kind of like-to-like, has been improving steadily over time. There has been countervailing forces that we have talked about at various points. So for example, there's the US Government (inaudible) that went on which affected part of our public sector business.

Obviously, there was the downturn in 2008. So there has been some things like that that have affected our business over time. If you look at like-for-like, we have seen a steady improvement in sales productivity since we got out of the recession.

And again, as we look to the future, as a company we are getting better programs in place all the time in terms of the three areas I've talked about, our recruiting sales people, as we get people that are a better fit; our training them, having better training programs; and then providing better tools. Those things, those three areas, are all getting better every year. And as we look at the impact on them, we believe those will continue to improve sales force productivity.

Craig Safian - *Gartner, Inc. - CFO*

The other thing I would mention, Gary -- and again, in the Investor day materials it's there -- is because of the sales of the size of the sales force, even modest improvements in productivity have a pretty significant impact. So a [5K] improvement in productivity spread across 2,000 sales people is meaningful.

Two years in a row of [5K] improvement, even more meaningful. And so based on what Gene described in terms of looking below the covers of what's really going on, plus what we've done over the past 12 months, or last 5 quarters in actuality, we have great confidence that sales productivity can improve into the future.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay, great. Thanks. And in the follow-up, I want to go back to the buy backs. I appreciate the comment on leverage, but you've, clearly, for two years now been debt financing the buy backs, particularly with the valuation of stock having gone up so much; it's less accretive than it was. And with the new buy back and saying 2.5 to 3 years, it seems like this pattern of having to debt finance it because you're using more than your US-based free cash flow for buy backs will continue.

Also, I think you've only hedged less than a third of the debt on interest rates. It just feels to me like it ends badly, rates go up, or something happens and the pace of this can't continue without taking more risk and potentially impacting the valuation.

How do you think about that? Are you indeed comfortable continuing to debt finance the buy backs over the next few years? And how do you think about rates rising and what that could mean? Thank you.

Gene Hall - *Gartner, Inc. - CEO*

Yes, there are two things I would say, Gary. One is the pace of share buy back is roughly in line with our corporate free cash flow on an annual basis and has been for the last several years. It's actually been below our free cash flow, and just in the last year or so -- .

Gary Bisbee - *RBC Capital Markets - Analyst*

But only [60%] of that is in the US right? Only [60%] of free cash flow is in the US.

Gene Hall - *Gartner, Inc. - CEO*

That is the correct. So, there are lots of different things we can look at here. As you know, with our new credit facility that we put in place had very attractive terms and give us room to grow into as well.

We are also locking in certain portions of that debt from an interest rate perspective so that there isn't potential slippage on the interest expense on the up side. And look, we will continue to monitor both our capital structure, whether or not buy backs, or how much buy backs are accretive to our share holders et cetera.

And we will not get out over our ski tips on this one for sure. We're watching it very closely. But it is our belief that, again, optimal capital structure is in the 1.5 times leverage range and that our 2 primary uses of our cash flow, both domestically and globally are strategic acquisitions and share repurchases.

Craig Safian - *Gartner, Inc. - CFO*

Gary, we also have great confidence that our business is going to grow at attractive double-digit rates ongoing into the future. And so if you say you are going to keep growing at double digit rates for an extended period of time -- and this has been true of the past -- any of the repurchases we've done are going to be great. That's the kind of business we have.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay, I appreciate color. Thank you.

Operator

Bill Warmington, Wells Fargo.

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

Good morning, everyone. One question for you on the sales force hiring side, just whether you are seeing improving labor markets as helping or neutral? And then if you would have any in terms of any geographies that stand out, in terms of where the hiring is getting a little easier or a little tougher?

Gene Hall - *Gartner, Inc. - CEO*

It's Gene. The labor markets are, clearly, improving around the world. We see that. However, Gartner is an incredibly attractive place to work for anybody who wants to be in the technology world. We have a premier employer, very attractive. And so even as the markets around the world have improved, it doesn't effect our ability to hire.

Because of our attraction as a company et cetera, that hasn't really affected us at all. And if you'll look by geography, the same thing is true around the world. Our ability to recruit is about the same as it has been any time over the last three or four years.

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

So you're perpetually over-subscribed, basically?

Gene Hall - *Gartner, Inc. - CEO*

(laughter) Obviously, we work hard to find the right people. But again, the improving labor market is not the issue because we are such an attractive place to be.

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

Got it. And then one question just on the acceleration in the contract value on a constant currency basis. Now that you have hit the 15% level, would it be fair for us to think about that level as being a sustainable level? Is it fair to expect that to continue to be at that level consistently?

Or should we expect some ups and downs around that? If you are going to be able to hit it sustainably, what give you comfort on that?

Gene Hall - *Gartner, Inc. - CEO*

It's Gene. We believe we can grow our sales force 15% to 20% a year, so even at the low end of that range, to grow our sales force 15% every year, over time that means our contract value is going to grow 15% a year. Again, we think we can do better than that in the sales force. I think we will.

And then secondly, we also think that we can simultaneously improve sales productivity modestly each year. And as Craig pointed out on Investor day, even if you had flat growth in the sales force being only 15% a year and improved productivity, that accelerates CV growth. We actually think we can do both. So we are quite optimistic about that, over time, our contract value growth could accelerate.

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

Excellent. Thank you very much.

Operator

Thank you. There are no further questions waiting, so I would now like to turn the call over to Gene for closing remarks.

Gene Hall - *Gartner, Inc. - CEO*

Thank you all for joining us today. To summarize the key points of today's call, first, we're doing great as a company. We're where we expected to be at this point in the year, and all of our underlying metrics are strong.

Our contract value growth rate accelerated and rolling fourth quarter sales productivity is up 12% for Q1, compared to Q1 2014. We remain committed to enhancing share holder value through investment in our business, strategic acquisitions, and share repurchases.

And we're getting better, stronger, faster all the time. I expect to see robust growth for years to come. We look forward to updating you again on our next quarterly earnings call. Thank you for joining us today.

Operator

Thank you for your participation in today's conference. This concludes today's presentation. You may now disconnect and good day.