S&P Global
Market Intelligence

Gartner, Inc. NYSE:IT

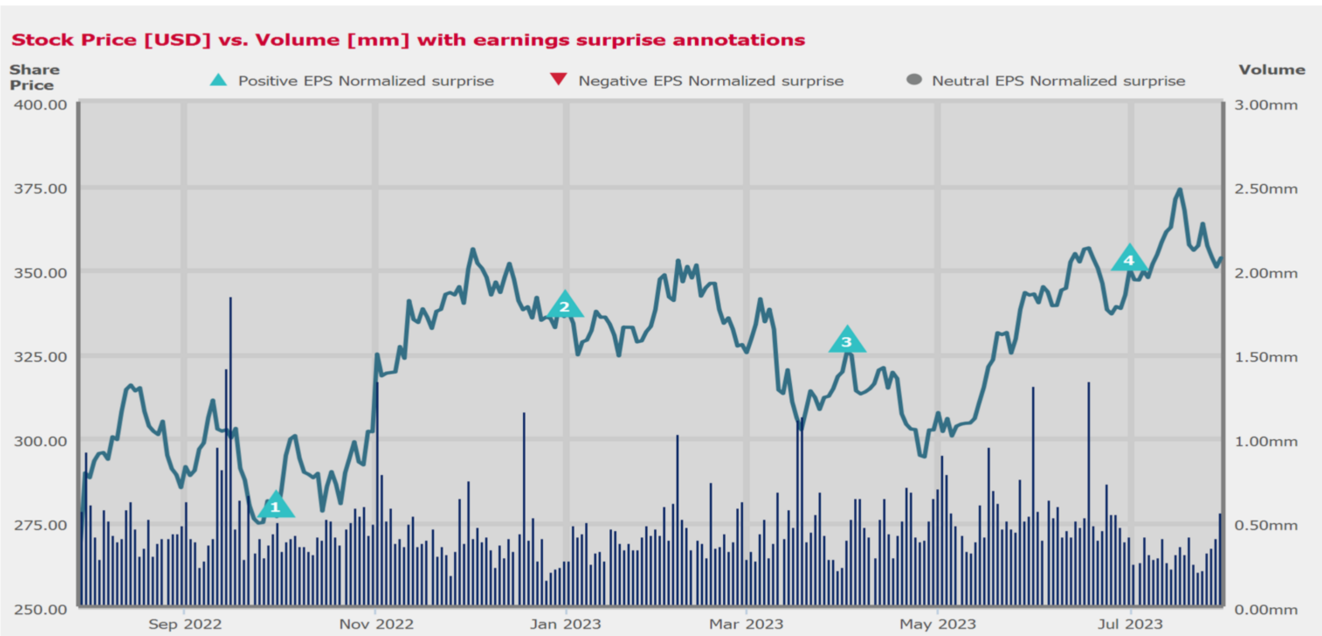
FQ2 2023 Earnings Call Transcripts

Tuesday, August 01, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.50	2.85	▲14.00	1.99	9.86	11.13
Revenue (mm)	1479.65	1503.30	▲1.60	1420.99	5927.59	6479.40

Currency: USD
Consensus as of Aug-01-2023 12:50 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2022	1.87	2.41	▲1 28.88 %
FQ4 2022	2.58	3.70	▲2 43.41 %
FQ1 2023	2.10	2.88	▲3 37.14 %
FQ2 2023	2.50	2.85	▲4 14.00 %

Table of Contents

Call Participants

EXECUTIVES

Craig W. Safian
Executive VP & CFO

David Cohen
Group Vice President of Investor Relations

Eugene A. Hall
CEO & Director

ANALYSTS

Heather Nicole Balsky
BofA Securities, Research Division

Jeffrey Marc Silber
BMO Capital Markets Equity Research

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

Joshua K. Chan
UBS Investment Bank, Research Division

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

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

Toni Michele Kaplan
Morgan Stanley, Research Division

Presentation

David Cohen
Group Vice President of Investor Relations

Good morning, everyone. Welcome to Gartner's Second Quarter 2023 Earnings Call. I'm David Cohen, SVP of Investor Relations. [Operator Instructions] After comments by Gene Hall, Gartner's Chief Executive Officer; and Craig Safian, Gartner's Chief Financial Officer, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

This call will include a discussion of second quarter 2023 financial results and Gartner's outlook for 2023 as disclosed in today's earnings release and earnings supplement, both posted to our website, investor.gartner.com. On call, unless stated otherwise, all references towards EBITDA are for adjusted EBITDA, with the adjustments as described in our earnings release and supplement. Our contract values and associated growth rates we discuss are based on 2023 foreign exchange rates and exclude contributions related to the first quarter divestiture and the 2022 Russia exit. All growth rates in Gene's comments are FX-neutral, unless stated otherwise. All references to share counts are for fully diluted weighted average share count, unless stated otherwise. Reconciliations for all non-GAAP numbers release are available in the Investor Relations section of the gartner.com website.

As set forth in more detail in today's earnings release, certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties, including those contained in the company's 2022 Annual Report on Form 10-K and quarterly reports on Form 10-Q, as well as other filings with the SEC. Encourage all of you to review the risk factors listed in these documents.

Now I will turn the call over to Gartner's Chief Executive Officer, Gene Hall.

Eugene A. Hall
CEO & Director

Good morning, and thanks for joining us today. Gartner drove another strong performance in Q2. We delivered double-digit revenue growth and high single-digit growth in contract value. EBITDA, EBITDA margins and adjusted EPS came in above expectations as a result of modest revenue upside and disciplined cost management. Free cash flow in the quarter was excellent.

The environment remains highly uncertain: The tech sector continues to adjust to post-pandemic demand, the banking industry is grappling with rising interest rates, many industries continue to be impacted by supply chain challenges, and more. Enterprise leaders and their teams need actionable, objective insight. Gartner is the best source for the insight, tools and advice that make the difference between success and failure for these leaders and the enterprises they serve. We're helping our clients make better decisions, whether they're thriving, struggling or anywhere in between. We do this through consistent execution of operational best practices.

Research continues to be our largest and most profitable segment. We guide leaders across all major enterprise functions. Our market opportunity is vast across all sectors, sizes and geographies. We estimate our opportunity at around $200 billion. 95% of our addressable market is with enterprise function leaders, like chief information officers, CFOs, heads of supply chain and more. The balance of the market opportunity is with technology vendors.

In the second quarter, we helped clients with a wide range of topics, including cybersecurity, data analytics, artificial intelligence, remote work, cost optimization and more. Research revenue grew 7% in Q2. Subscription revenue grew 9% on an organic basis. Total contract value growth was 9%. Contract value for enterprise function leaders continued to grow at double-digit rates.

We serve executives and their teams through distinct sales channels. Global Technology Sales, or GTS, serves leaders and their teams within IT. GTS also serves leaders at technology vendors, including CEOs, chief marketing officers and senior product leaders. GTS contract value grew 7%. GTS sales to enterprise function leaders performed well in the quarter. GTS sales to leaders at technology vendors were affected by technology sector dynamics and tough year-over-year comparisons. We expect sales to technology vendors will return to our target growth rates over the medium term.

Global Business Sales, or GBS, serves leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, sales, legal and more. GBS contract value grew 15%. Through relentless execution of proven practices, we're able to deliver unparalleled value to our clients. Our business remains resilient despite a persistent complicated external environment and tough compares for the technology vendor market.

Gartner Conferences deliver extraordinarily valuable insights to an engaged and qualified audience. This will be the first full year of in-person conferences since 2019, and we're off to a great start. Attendance is strong, exhibitor bookings are at record levels and feedback continues to be excellent. We had a great first half and the outlook for the year is strong.

Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic initiatives through deeper, extended project-based work. Consulting is an important complement to our IT Research business. Consulting revenue grew 6% in the second quarter.

We updated our 2023 guidance, increasing in EBITDA and free cash flow. We've revised our non-subscription Research revenue to reflect technology vendor dynamics, and our outlook for Conferences is higher. Craig will take you through the details.

In closing, Gartner achieved another strong quarter of growth. We deliver unparalleled value to enterprise leaders and their teams across every major function, whether they're thriving, struggling or anywhere in between. We're exceptionally agile and continuously adapt to the changing world. We know the right things to do to be successful in any environment.

Looking ahead, we are well positioned to continue our sustained record of success far into the future. Our client value proposition and addressable market opportunity will allow us to drive long-term, sustained double-digit revenue growth. We expect margins will expand modestly over time. And we generate significant free cash flow well in excess of net income. Even as we invest for future growth, we'll return significant levels of excess capital to our shareholders. This reduces shares outstanding and increases returns over time.

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

Craig W. Safian
Executive VP & CFO

Thank you, Gene, and good morning. Second quarter results were strong with high single-digit growth in contract value and double-digit FX-neutral revenue growth. EBITDA, EBITDA margins and adjusted EPS were better than expected as a result of modest revenue upside and disciplined cost management. Free cash flow in the quarter was excellent. With good visibility into the balance of the year, we are increasing our 2023 EBITDA and free cash flow guidance.

Second quarter revenue was $1.5 billion, up 9% year-over-year as reported and 10% FX-neutral. In addition, total contribution margin was 68% compared to 69% in the prior year as we caught up on hiring during 2022. EBITDA was $384 million, ahead of our guidance and about in line with last year. Adjusted EPS was $2.85 consistent with Q2 of last year. And free cash flow was $410 million.

We finished the quarter with 20,104 associates, up 12% from the prior year and 1% from the end of the first quarter. We remain well positioned from a talent perspective with low levels of open territories and our new associates coming up the tenure curve. We will continue to carefully calibrate headcount and operating expenses based on near-term revenue growth and opportunities to invest for the future.

Research revenue in the second quarter grew 6% year-over-year as reported and 7% on an FX-neutral basis. Subscription revenue grew 9% on an organic FX-neutral basis. Second quarter Research contribution margin was 73% compared to 74% in the prior year period as we have caught up on hiring and returned to the new expected levels of travel. Contract value, or CV, was $4.6 billion at the end of the second quarter, up 9% versus the prior year.

The second quarter last year was one of our strongest Research quarters ever, with outstanding performance on nearly every metric we provide. GP growth is FX-neutral and excludes the first quarter 2023 divestiture. CV from enterprise function leaders across GTS and GBS grew at double-digit rates. CV from tech vendors grew low single digits compared to mid-teens growth in the second quarter of 2022. Quarterly net contract value increase, or NCVI, was $41 million. As we've discussed in the past, there is notable seasonality in this metric.

CV growth was broad-based across practices, industry sectors, company sizes and geographic regions. Across our combined practices, the majority of industry sectors grew at double-digit rates, again, led by the transportation, retail and public sectors. We had high single-digit growth across all of our enterprise-sized categories, other than the small category, which grew mid-single digits. This category has the largest tech vendor mix. We also drove double-digit or high single-digit growth in the majority of our top 10 countries.

Global Technology Sales contract value was $3.5 billion at the end of the second quarter, up 7% versus the prior year. GTS had quarterly NCVI of $14 million. While retention for GTS was 102% for the quarter, which compares to 107% in the prior year, when we saw a record high for this metric. IT enterprise function leaders' wallet retention remained above historical GTS levels during the second quarter. GTS new business was down 4% versus last year. New business with IT enterprise function leaders increased high single digits compared to the prior year against the tough compare.

GTS quota-bearing headcount was up 13% year-over-year, reflecting the catch-up hiring we did in 2022. We will continue to manage hiring based on both short-term performance and the medium-term opportunity. Our regular full set of GTS metrics can be found in the appendix of our earnings supplement.

Global Business Sales contract value was $1 billion at the end of the second quarter, up 15% year-over-year, which remains towards the higher end of our medium-term outlook of 12% to 16%. All of our GBS practices grew at double-digit or high single-digit rates, again, led by supply chain and HR. GBS CV increased $27 million from the first quarter. While retention for GBS was 109% for the quarter, which compares to 115% in the prior year, when we saw one of the highest-ever results for this metric. GBS new business was up 2% compared to last year against a strong compare.

GBS quota-bearing headcount was up 15% year-over-year. This excludes headcount associated with the Q1 divestiture. As with GTS, our regular full set of GBS metrics can be found in the appendix of our earnings supplement.

Conferences revenue for the second quarter was $169 million, ahead of our expectations, as we saw strong performance with both exhibitors and attendees. Contribution margin in the quarter was 58%, consistent with typical seasonality. We held 17 destination conferences in the quarter, all in person.

Second quarter Consulting revenues increased by 5% year-over-year to $126 million. On an FX-neutral basis, revenues were up 6%. Consulting contribution margin was 37% in the second quarter. Labor-based revenues were $104 million, up 9% versus Q2 of last year and up 11% on an FX-neutral basis. Backlog at June 30 was $172 million, increasing 17% year-over-year on an FX-neutral basis with continued booking strength. Our contract optimization business is highly variable. We delivered $22 million of revenue in the quarter, and the pipeline for both contract optimization and labor-based revenues remained strong.

Consolidated cost of services increased 15% year-over-year in the second quarter as reported and on an FX-neutral basis. The biggest driver of the increase was higher headcount to support our continued strong growth. We also saw an increase in cost year-over-year with a return to in-person conferences.

SG&A increased 12% year-over-year in the second quarter as reported and 14% on an FX-neutral basis. SG&A increased in the quarter as a result of headcount growth.

EBITDA for the second quarter was $384 million compared to $389 million in the year-ago period. Second quarter EBITDA upside to our guidance reflected revenue exceeding our expectations in Conferences and prudent expense management.

Depreciation in the quarter of $24 million was up modestly compared to 2022. Net interest expense, excluding deferred financing costs in the quarter was $23 million. This was down $5 million versus the second quarter of 2022 due to higher interest income on our cash balances. The modest floating rate debt we have is fully hedged through maturity.

The Q2 adjusted tax rate, which we use for the calculation of adjusted net income, was 25% for the quarter. The tax rate for the items used to adjust net income was 27% for the quarter.

Adjusted EPS in Q2 was $2.85, in line with last year. We had 80 million shares outstanding in the second quarter. This is a reduction of close to 1 million shares or about 1% year-over-year. We exited the second quarter with about 80 million shares on an unweighted basis.

Operating cash flow for the quarter was $436 million, up 5% compared to last year. CapEx for the quarter was $26 million, up 21% year-over-year, as a result of an increase in technology investments. Free cash flow for the quarter was $410 million. Free cash flow as a percent of revenue on a rolling 4-quarter basis was 17% of revenue and 66% of EBITDA. Adjusted for the after-tax impact of the Q1 divestiture, free cash flow conversion from GAAP net income was 119%. Our free cash flow conversion is generally higher when CV growth is accelerating.

At the end of the second quarter, we had about $1.2 billion of cash. Our June 30 debt balance was about $2.5 billion. Our reported gross debt to trailing 12-month EBITDA was under 2x. Our expected free cash flow generation, available revolver and excess cash remaining on the balance sheet provide ample liquidity to deliver on our capital allocation strategy of share repurchases and strategic tuck-in M&A. Our balance sheet is very strong with $2.2 billion of liquidity, low levels of leverage and effectively fixed interest rates.

We repurchased $132 million of stock during the second quarter. We had about $830 million remaining on our share repurchase authorization at June 30. We expect the Board to continue to refresh the repurchase authorization as needed going forward. As we continue to repurchase shares, our capital base will shrink. Over time, this is accretive to earnings per share, and combined with growing profits, also delivers increasing returns on invested capital over time.

We are increasing our full year Conferences, EBITDA and free cash flow guidance to reflect the strong Q2 performance. We are updating our Research revenue guidance to reflect tech vendor market dynamics on the non-subscription part of the business.

For Research, we continue to innovate and provide a very compelling value proposition for clients and prospects. We've got tough compares across most of the segment for another quarter. We expect stronger growth from the subscription business than the non-subscription part of the segment, as we indicated last quarter. The non-subscription part of the business has direct exposure to tech vendor spending.

The outlook continues to be based on all of our 47 destination conferences for 2023 running in person. There is seasonality to the business based on the conferences calendar, which is different than the historical pattern. We still expect Q4 to be the largest quarter of the year. We expect Q3 will be the smallest-revenue quarter of the year, as I noted in May. For Consulting revenues, contract optimization remains highly valuable. We had a very strong year in 2022, especially in contract optimization in the fourth quarter. We will continue both to manage expenses prudently to support future growth and deliver strong margins.

Our updated 2023 guidance is as follows. We expect Research revenue of at least $4.855 billion, which is FX-neutral growth of about 6%, or 7% excluding the Q1 divestiture. The update to Research revenue guidance reflects the effect of tech vendor market dynamics on the non-subscription part of the business. We expect Conferences revenue of at least $490 million, which is growth of about 26%. We have increased our outlook for Conferences by $20 million. We expect Consulting revenue of at least $505 million, which is growth of about 5% FX-neutral, consistent with the outlook we gave in May.

The result is an outlook for consolidated revenue of at least $5.85 billion, which is FX-neutral growth of 7%. The guidance reflects an update to non-subscription research revenue, partially offset by an increase to Conferences.

We now expect full year EBITDA of at least $1.36 billion, up $30 million from our prior guidance, and an increase in our margin outlook as well. We will deliver on our margin guidance in most economic scenarios. If revenue is stronger than our outlook, EBITDA would be better than our guidance. We now expect 2023 adjusted EPS of at least $10.

For 2023, we now expect free cash flow of at least $975 million, up $55 million from our prior guidance. This higher free cash flow reflects a conversion from GAAP net income of about 140%, excluding the after-tax divestiture proceeds. Our guidance is based on 80 million fully diluted weighted average shares outstanding, which reflects the repurchases made through the end of June. Finally, for the third quarter of 2023, we expect EBITDA of at least $275 million.

We had a strong first half despite continuing global macro uncertainty and a dynamic tech vendor market. CV and revenue grew high single digits in the quarter. Conferences and EBITDA performance exceeded our expectations and we increased our guidance as well. Margins are strong, consistent with our prior commentary. Free cash flow was strong in the quarter, and we increased the guidance for the full year. We repurchased over $230 million in stock during the first half and remain committed to returning excess capital to our shareholders. And we have ample liquidity that we are ready to deploy on behalf of shareholders over the coming quarters.

Looking out over the medium term, our financial model and expectations are unchanged. With 12% to 16% Research CV growth, we will deliver double-digit revenue growth. With gross margin expansion, sales costs growing in line with CV growth over time and G&A leverage, we can modestly expand margins. We can grow free cash flow at least as fast as EBITDA because of our modest CapEx needs and the benefits of our clients paying us upfront. And we'll continue to deploy our capital on share repurchases, which will lower the share count over time; and on strategic, value-enhancing tuck-in M&A.
With that, I'll turn the call back over to the operator, and we'll be happy to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question coming from the line of Jeff Meuler with Baird.

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

Q2 CV and new business sold seemed solid to me, but just want to make sure, to 100% confirm, that there was no change to Research non -- or I'm sorry, Research subscription revenue expectations in the guidance that's signaling like a surprising step-down recently or incremental slowing recently in CV. And if it's all limited to just the non-subs, the $70 million reduction on a $422 million revenue base seems like a big midyear adjustment. If you could just talk through the dynamics there.

Craig W. Safian
Executive VP & CFO

Yes, Jeff, thanks for the questions. So on the first part of your question, the subscription revenue piece of our business continues to perform very well, as you noted. We do have the tech vendor dynamics impacting the business, but GBS continues to be very strong. The IT end user portion of GTS continues to be very strong. Your point on the CV growth for each of those and the new business dynamics for each of those were spot on in the quarter. And so essentially, the revision to guidance, where we thought we were going to be from a subscription perspective, it's the non-sub piece that really impacted the guidance. I think -- and Gene will hop in here, too.

The way to think about the impact. So clearly, as we've talked about, the non-sub business has direct exposure to tech vendor marketing spending, and that has become very constrained over the last few quarters and more constrained in the first half of this year. And that's essentially what's impacting that business.

We do believe that when the tech vendor market stabilizes, that this will get back to being a great growth business for us, just like it will within the GTS subscription part of the business as well. We're just dealing with a little bit of those temporary dynamics that we're talking about. And again, having 2 quarters of history, to be able then to look forward, with the facts we saw in the first half of the year, that led to that revision. But again, solely on the non-subscription part of the business.

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

Okay. And then when I hear about tech vendor marketing spend weakness, obviously, we see that in the broader landscape. So what's happening in your non-subs business and Research directionally makes sense. But the thing that I would worry about is does Conferences revenue also get hit at some point? And I get that the Conferences attendance is strong, but it seems surprising to me that the exhibitor bookings are doing as well as they are in Conferences against that landscape. And maybe if you could compare and contrast, like if there's a major client difference or if it's just the value prop is so strong. Or if -- how you think about, I guess, future risk on exhibitor bookings and conferences.

Eugene A. Hall
CEO & Director

Jeff, so our Conferences business is a great business. There's great value proposition, is doing extremely well. On the attendee side, we're seeing great growth across the board. We're expanding the number of conferences as quickly as we can do it operationally because we're seeing such great takeup.

On the exhibitor side, similarly, because we have such rate attendees, it's very attractive to exhibitors, and our exhibitor bookings have been very strong and in line with what we've seen last year, which were also extremely strong. And it's because of the great value proposition we have with both our attendees and with the exhibitors.

Operator

And our question coming from the line of Heather Balsky with Bank of America.

Heather Nicole Balsky
BofA Securities, Research Division

Yes, you just kind of talked about your enterprise business and how it's holding up strong. And you talked about it running up double digits this quarter. I'm just curious, quarter-to-quarter, I guess 2Q versus 1Q, how that business is trending. Are you -- where you see demand going in the current environment? And potentially what you think some of the catalysts are in either direction.

Craig W. Safian
Executive VP & CFO

Heather, thanks. I think the trends on the enterprise function leader part of the business were pretty consistent from Q1 to Q2. So nothing within the quarter and really nothing too much from a variability perspective from Q1 to Q2. So those businesses continue to perform very well, and our expectation is they continue to perform very well. So nothing really to see there from a monthly perspective or from a quarter-to-quarter perspective.

Heather Nicole Balsky
BofA Securities, Research Division

Okay. That's helpful. And with regards to your outlook for the tech vendors, you talked about that you see it returning to sort of your normalized run rate growth over the midterm. And then I think you just mentioned that it's probably more of a short-term trend. I'm just curious if, are you seeing any signs of potential improvement as you move through the year or even to 2024? Or just curious why you're talking more over the midterm versus the short term.

Eugene A. Hall
CEO & Director

Heather, it's Gene. So what I'd say is on a short-term basis, no change, Q1 to Q2, in terms of tech vendor demand, very similar with the exception of the non-subscription business, which as we've talked about.

It's our perspective that what happened -- what's going on in the tech industry is that demand got pulled forward during the recession, through the pandemic. And that -- so there was some demand that was already filled then, and demand will get back to trend once sort of a little time elapses. And how long that takes, we don't know. But we believe the technology business will get back to trend in the medium term.

Operator

And our next question coming from the line of Toni Kaplan with Morgan Stanley.

Toni Michele Kaplan
Morgan Stanley, Research Division

I was hoping that you could talk about the current client spending appetite, if you're seeing cost-cutting or if you're seeing just business as usual. It sounds like the subscription business is performing well, and it's just this tech vendor piece that's having a little bit of a hiccup. So I just wanted to get any color on the overall customer environment.

Eugene A. Hall
CEO & Director

Yes. So Toni, so as you pointed out, contract value for enterprise function leaders continue to grow at double-digit rates. I will say, while we're growing there, that there are more decisions are getting escalated and there's more scrutiny than there was like a year ago. So it's a tougher environment in terms of escalations. But at the end of the day, people see our value and buy, which is why we've had that great performance.

Toni Michele Kaplan
Morgan Stanley, Research Division

Terrific. Wanted to ask about whether AI could actually be a help for you with regard to adding additional seats across the enterprise. Are you thinking that corporations will start to need an AI strategy across some of the GBS lines, like finance, legal, HR? Could that lead to additional seats? And then similarly within GTS, could that lead to additional seats as well? Or do you view this as being sort of similar to prior technology trends like cloud, and so therefore, it's just a change of topic?

Eugene A. Hall
CEO & Director

I expect it's a little bit in between, actually. That it is a change of topics, but there's more kind of intense interest in the topic of AI than there was in such a short period with cloud.

To give you a flavor of it, we did more than 22,000 interactions in the first half. This is one-on-one calls with our experts in -- on the subject of AI, which is higher than any other single topic, and the rate of growth is very high. And we're seeing a lot of demand with enterprises that we hadn't seen before, where they're saying, "Hey, can you talk with us about AI?" So we expect that, that will be a positive for our business.

Craig W. Safian
Executive VP & CFO

And sorry, Toni. I mean, the other thing I'd add is just to underscore your point on the broad applicability of AI being a little bit different than some other topics. Because to your point, finance leaders care about it, legal leaders there about it, HR leaders care about it, in addition to IT leaders and their teams caring about it. So there is the potential that it is a little more broad-based, to your point, than prior technology plays.

Operator

And our next question coming from the line of Seth Weber with Wells Fargo.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

I wanted to ask just about the implied EBITDA margin raise for the year. Is that just a function of mix? Or is there something else that's supporting the stronger margin outlook for the year?

Craig W. Safian
Executive VP & CFO

Seth, on the margins, as we've talked about, the margins can pop around a little bit from quarter to quarter depending on spending trends and where the revenue is trending as well. And so our margins were a little bit higher than we had initially anticipated in the first half of the year. And I'd say it's really just a combination of revenue modestly exceeding our expectations in the first half and expenses modestly being a little bit below our expectations. Or said another way, we're just more prudently managing our OpEx as we work our way through the year.

So again, margins can pop around. There's no megatrend there, I would say, other than a little bit of modest revenue upside and us making sure that, again, we talked about in our prepared remarks, really carefully calibrating our headcount levels and our OpEx levels to ensure that we deliver consistently strong margins.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Got it. And then just on the big ramp in the quota-bearing headcount. Can you just talk to where you think you are from an efficiency perspective for the new hires? Are they kind of on track? Or any kind of metrics that you could call out as far as efficiency or productivity goes with the new hires?

Eugene A. Hall
CEO & Director

Yes. So we've -- to your point, we've ramped up our sales force with the lowest number of openings we've had in a long time. And the talent that we've been hiring, if you look at kind of how we track the quality of the talent, is very, very high. And we were ramped up hiring the most last year. So these people are starting to get a little bit of tenure under their belt. And we expect over the next 3 years, as they get up to full tenure, that actually the productivity will be very good. And we're seeing the ramp we'd expect at this point.

Operator

And our next question coming from the line of Manav Patnaik with Barclays.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

I was just -- on the margin front, Craig, I think in the call, you mentioned T&E back to normal or something of that effect. So I was just curious, are we at those normalized levels where you talked about kind of the long-term margin being in the low 20s? Or is there more normalization to occur still overall with all the different moving pieces?

Craig W. Safian
Executive VP & CFO

Manav, it's a great question. So we are back to what we believe to be roughly the new normal from both the T&E perspective. And last year in particular, we were playing catch up on hiring throughout the course of the year. And so as you look at our operating expenses now, I think we're at a pretty "normal" level of operating expenses. And so what we're looking at from Q2 through the end of this year is normal seasonality from an OpEx perspective, with our new normal levels of T&E, modest headcount growth to make sure that we're investing for the future, et cetera, kind of baked in. So I think it is a good normalized, if you will, OpEx level that we're working off of this year.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Got it. Okay. And then just on the second half a little bit more specifically, can you just talk about the -- I suppose, the hiring expectations? And maybe even just on the cost side, it just seems like it could be -- it seems a little conservative. But maybe there's some things we're missing here.

Craig W. Safian
Executive VP & CFO

Yes. I think there's a few things in there, Manav. So one is the seasonality with our Conferences business. We are performing really, really well in Conferences. And Q4 is by far our largest conference quarter, and that means you generally see expenses up in the fourth quarter just to deliver those conferences. And' then because it's the fourth quarter, because we have so many conferences, there's a lot of additional travel and marketing activity that spikes in the fourth quarter as well, which again, is sort of back to our typical seasonality that we had from an OpEx perspective pre-pandemic.

So if you think about OpEx, it's relatively flattish from 2Q to Q3. A little bit of a step down because of it's a lighter Conferences quarter. And then a pretty big step-up in OpEx from Q3 to Q4, driven by the conferences calendar, significant travel to support our conferences calendar, and marketing to support the conferences calendar and the close of our year as well.

We are running a number of scenarios, and we are planning in a very agile way in terms of the headcount that we plan to add between now and the end of this year. And there's a wide range of scenarios, and we've got a wide range of recruiting scenarios as well. I mean, one of the things that we've been very careful about is making sure that we maintain our recruitment capacity so that when supercharged growth returns, we are more than ready to turn that dial from a recruitment perspective. So we're maintaining our recruitment capacity and we're ready to tune those dials up or down, depending on what the second half of the year looks like, predominantly from a contract value growth perspective.

Operator

And our next question coming from the line of Josh Chan with UBS.

Joshua K. Chan
UBS Investment Bank, Research Division

I guess on GTS, obviously, the wallet retention is impacted by the overall environment. I was just wondering what you think the trajectory of the GTS wallet retention will be over the coming quarters. Would it surprise you if it went below 100%? Or is that too drastic of a scenario?

Craig W. Safian
Executive VP & CFO

Josh, I think important to disaggregate the enterprise function leader portion of GTS and the tech vendor portion of GTS. So overall, we are still well over 100% on wallet retention, and that's with the enterprise function portion of our GTS wallet retention being above historical averages. And so we expect that to continue.

The tech vendor side, wallet retention is a rolling 4-quarter metric, and so we'll have the more challenging quarters in the number for a little while. But I would say, we don't forecast wallet retention or -- I shouldn't say we don't forecast it, we don't guide wallet retention or contract value. But given that the enterprise function leader part of the GTS business is the predominant part of it, call it, 70-ish percent of the business, that continues to be very strong, and that should drive the wallet retention over the coming quarters.

Joshua K. Chan
UBS Investment Bank, Research Division

Okay. That's helpful. And then on your comment about headcount, I guess what indicators are you looking for in order to kind of toggle up or toggle down the recruitment in the second half?

Eugene A. Hall
CEO & Director

Yes. The main thing we look at is what our CV growth is. And so we look at what our bookings are and how sales are going because we want to make sure we match our headcount growth to the amount of the bookings that we have. And that kind of helps ensure that our performance of business going forward is in the right space from both a growth viewpoint as well as margin viewpoint.

Operator

And our next question coming from the line Stephanie Moore with Jefferies.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

I wanted to touch on the Research pricing environment. I believe you tend to increase those in the fall of the year. So just wanted to get an update on how you're thinking about price increases for this year into next.

Craig W. Safian
Executive VP & CFO

Yes, Stephanie. So I think one of our core goals with pricing is to make sure that, at a minimum, we are offsetting our projected wage inflation. And so in the past few years, when we were seeing higher wage inflation, we went a little bit stronger on the price increase. This year, again, the labor market or the type of people that we are recruiting is still relatively strong. But the wage inflation, we expect to be a little bit more muted. We're still working through all the details of the price increase, which again to your point, goes into effect in November. But I would suspect it's a little bit lighter than what we've done in the last 2 years, just given the inflationary environment, particularly wage inflationary environment, has abated a little bit.

Operator

And our next question coming from the line of George Tong with Goldman Sachs.

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

Following up on some of the tech vendor non-subscription trends. Can you talk about which products specifically are seeing reduced demand due to a slowdown in tech vendor marketing spend?

And generally, is the non-subscription demand leading, coincident or lagging with broader client IT spend?

Craig W. Safian
Executive VP & CFO

George, I just want to clarify your question. So it was which products are most impacted? Is that what the question was? The first one.

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

Yes, within your non-subscription book of products.

Craig W. Safian
Executive VP & CFO

Yes, sure. So within the non-subscription part of the business, which again represents around 8% or less than 10%, let's call it, of our overall research revenue, the predominant way we derive revenue there is through lead generation for tech vendors. And really focused on the, I call it, non-enterprise IT market. So smaller businesses, et cetera.

And so our GTS business is really focused on enterprise tech companies, whereas the non-subscription business is really focused on a combination of enterprise and really small business focused technology companies. And so that's where we've seen, on the small technology companies, the companies most focused on selling into small businesses, that's where we've seen the biggest challenge.

Again, you cover all the things that are happening in the tech market, from funding and the overall dynamics there. But as those companies are recalibrating their operating expenses, clearly, marketing and lead gen is a place that they will often look to get a big handle on. And I think that's what's happening.

That said, they are still spending and spending well in that business. And as Gene mentioned earlier, and I think I mentioned too, we fully expect, once the market is recalibrated, it will get back to growing. But it's predominantly around the lead gen stuff and the focus on lead gen in smaller businesses.

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

Okay. Got it. That's helpful. And then separately, could you talk about how the tech vendor non-subscription performance trended over the course of the quarter? Did you see a bottoming? Did you see further deterioration as you moved through the quarter? And does your updated guide assume trends stabilized from 2Q levels or worsened from the 2Q levels?

Craig W. Safian
Executive VP & CFO

Yes, it's a great question. I think it's been relatively consistent with normal levels of volatility [month-to-month], week-to-week and actually day-to-day. But trends pretty consistent Q1 to Q2. And what we've modeled into our guide is essentially stabilization from those Q2 levels for the balance of the year.

Operator

And our next question coming from the line of Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Sorry to keep on focusing on the non-subscriptions piece. Normally, can you just tell us from a breakdown perspective, what percentage comes from tech vendors and what percentage comes from enterprise customers? And if we could just focus in on the enterprise customers component of that, can you talk about how that's trending?

Craig W. Safian
Executive VP & CFO

Yes, 100% of the revenue comes from tech vendors in the non-subscription piece of part of the business. So 100% of that, less than 10% of our overall Research business, is tech vendor-focused.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. I appreciate you clarifying that. I wanted to actually circle back and talk about AI, but the potential impact on your business internally. Do you think it's going to make your analysts more efficient? Do you think you might be able to reduce headcount from an analyst perspective just to take advantage of the technology? Any thoughts would be great.

Eugene A. Hall
CEO & Director

Yes, Jeff. So we're looking at AI from a lot of perspectives. The first and most important one is what I talked about earlier, which is there is a tremendous amount of client demand, and we're the best source for clients to get help in AI, and it's of tremendous interest with them. So that's the key place that we are most focused on.

We actually use AI in our business today, we have for years in different parts of our business. And so internally, we look at are there cost-optimization opportunities to reduce internally? As I said, we've been doing that. We are increasing the amount of that over time. We're also looking at can we provide customer services using AI that would be enhanced? All those kinds of things.

All of this -- I'd say, internally, those kinds of uses are going to be normal course of business, being we always focus on improved productivity. We have a lot of tools, a lot -- technology is a big part of the toolkit. And AI is just one of those tools improving productivity over time, which we've always been focused on. So I don't see any kind of like some costs dropping by 50% or something because I see more of it as part of our ongoing continuous improvement and continuous innovation that we've been doing for years.

Operator

And I'm showing no further questions in the queue at this time. I will now turn the call back over to Mr. Gene Hall for any closing remarks.

Eugene A. Hall
CEO & Director

So here's what I'd like you take away for today's call. Gartner drove another strong performance in Q2. We deliver unparalleled value to enterprise leaders and their teams across every major function, whether they're thriving, struggling 'or anywhere in between. Were exceptionally agile and continuously adapting to the changing world, and we know the right things to do to be successful in any environment.

Looking ahead, we are well positioned to continue our sustained record of success far into the future. Our client value proposition and addressable market opportunity will allow us to drive long-term, sustained double-digit revenue growth. We expect margins will expand modestly over time, and we generate significant free cash flow well in excess of net income. Even as we invest for future growth, we'll return significant levels of excess capital to our shareholders. This reduces shares outstanding and increases returns over time.

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

Operator
Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.