S&P Global
Market Intelligence

Gartner, Inc. NYSE:IT

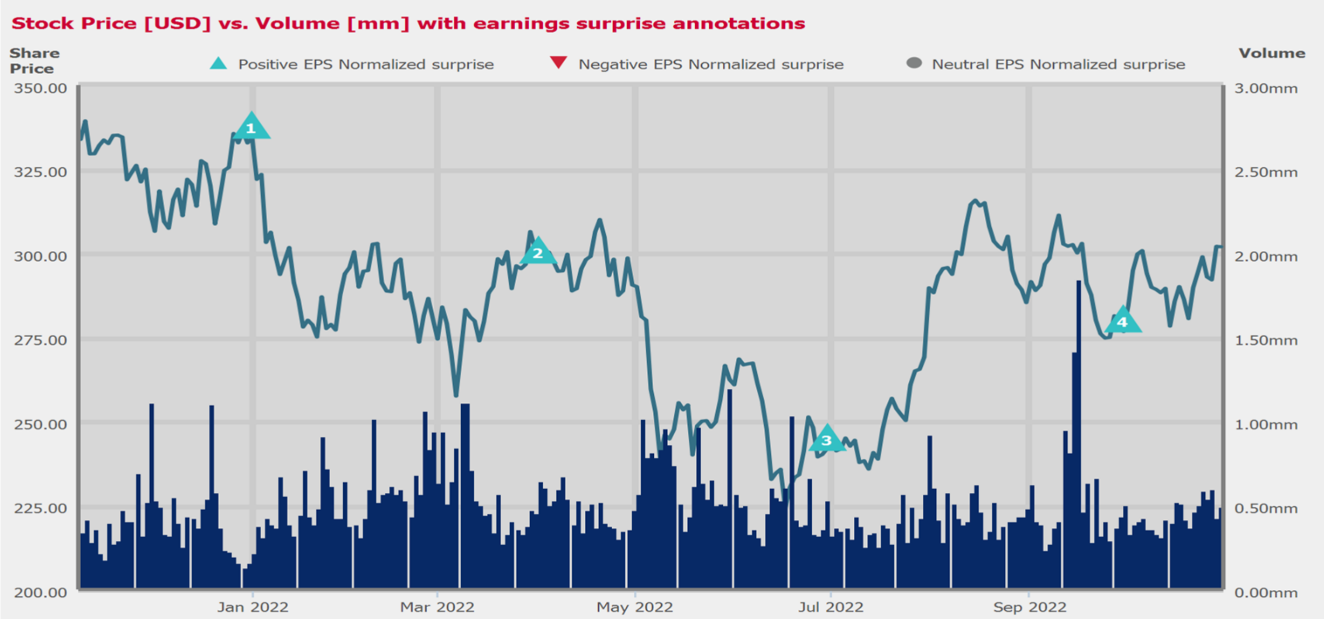
FQ3 2022 Earnings Call Transcripts

Tuesday, November 01, 2022 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.87	2.41	▲28.88	2.07	9.19	9.20
Revenue (mm)	1295.82	1331.80	▲2.78	1453.60	5378.01	5754.41

Currency: USD
Consensus as of Nov-01-2022 11:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	2.42	2.99	▲23.55 %
FQ1 2022	1.72	2.33	▲35.47 %
FQ2 2022	2.14	2.85	▲33.18 %
FQ3 2022	1.87	2.41	▲28.88 %

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Executive VP & CFO

David Cohen
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Eugene A. Hall
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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 Third Quarter 2022 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 third quarter 2022 financial results and Gartner's updated outlook for 2022 as disclosed in today's earnings release and earnings supplement, both posted to our website, investor.gartner.com.

On the call, unless stated otherwise, all references to EBITDA are for adjusted EBITDA with the adjustments as described in our earnings release and supplement. 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 counts, unless stated otherwise.

Reconciliations for all non-GAAP numbers we use are available in the Investor Relations section of the gartner.com website.

Finally, all contract values and associated growth rates we discuss are based on 2022 foreign exchange rates unless stated otherwise.

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 2021 annual report on Form 10-K and quarterly reports on Form 10-Q as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

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

Eugene A. Hall
CEO & Director

Good morning. Thanks for joining us. We continue to deliver incredible value to more than 15,000 enterprises around the world. This led to another strong performance in the third quarter. We achieved double-digit growth in contract value, revenue, EBITDA and EPS. We had strong growth in all practices, all industry sectors, across every size client and in every region. In addition, through Q3, we repurchased over $1 billion of stock.

Our clients continue to face a rapidly changing world, things like digital transformation, future of work, high inflation, shifting customer needs, supply chain disruptions and more. Our clients know they need help on these issues, and they know Gartner is the best source of help.

Through our actionable, objective insights, we help executives and their teams across all major enterprise functions achieve their mission-critical priorities. We know how to help whether our clients are thriving, struggling or somewhere in between. With all of this, demand for our services remain strong.

Research continues to be our largest and most profitable segment. Total Research revenue grew 15%. Contract value growth was 14%.

We serve executives and their teams through distinct sales channels. Global Technology Sales or GTS, serves leaders and their teams within IT. We help chief information officers achieve mission-critical priorities such as leading digital transformations, managing talent in a challenging labor market and fueling innovation. GTS contract value grew 13%.

Global Business Sales, or GBS, serves leaders and their teams beyond IT. This includes HR, supply chain, finance, marketing, sales, legal and more. We help leaders across these functions achieve their mission-critical priorities. For example, we help HR leaders engage employees in a hybrid world, evolve organizational design with the transition to digital business, manage compensation in an inflationary environment, manage employee expectations on divisive social issues and reimagine the future of work. GBS contract value grew 21%.

Across GTS and GBS, we're driving relentless execution of proven practices, which in turn is driving our sustained results. Gartner Conferences deliver valuable insights to an engaged and qualified audience.

We continued our return to in-person conferences. In October, we hosted 2 of our flagship conferences, IT Symposium and ReimagineHR, both in Orlando, Florida. Compared to 2019, attendance of IT Symposium was up 12% and ReimagineHR attendance doubled. The feedback from our in-person conferences has been resoundingly positive.

Gartner Consulting is an extension of Gartner Research. Consulting helps clients execute their most strategic initiatives through deeper extended project-based work. Consulting revenue grew 21% in the third quarter.

Over the past few quarters, the rapid growth of our business outpaced hiring. This quarter, our associate base grew 18% year-over-year. This provides the capacity we need to serve our rapidly growing base of licensed users and positions us for sustained future growth.

In closing, Gartner delivered another strong performance. We've caught up on hiring and are positioned to deliver sustained future growth. Our underlying margins are in the low 20s, comfortably above pre-pandemic levels. We expect them to modestly increase over time. We'll continue to generate significant free cash flow in excess of net income. And we'll continue to return significant levels of capital to our shareholders.

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

Craig W. Safian
Executive VP & CFO

Thank you, Gene, and good morning. Third quarter results were strong with double-digit growth in contract value, revenue and adjusted EPS. FX-neutral growth was even stronger than our reported results. We also delivered better-than-planned EBITDA margins.

Reflecting the strong third quarter, enthusiastic demand for our in-person conferences and continued success in balancing cost discipline with investing for future growth, we are again increasing our 2022 guidance.

Third quarter revenue was $1.3 billion, up 15% year-over-year as reported and 20% FX-neutral. In addition, total contribution margin was 69%, down 20 basis points versus the prior year. EBITDA was $332 million, up 9% year-over-year and up 15% FX-neutral. Adjusted EPS was $2.41, up 19%. And free cash flow in the quarter was $283 million.

Research revenue in the third quarter grew 11% year-over-year as reported and 15% on an FX-neutral basis, driven by our strong contract value growth. Third quarter Research contribution margin was 74%, modestly below last year. The continued higher-than-normal contribution margin reflects improved operational effectiveness, increased scale, travel expenses still modestly below our post-pandemic expectations and research-related head count with a bit more catch-up still to go.

Contract value or CV was $4.5 billion at the end of the third quarter, up 14.5% versus the prior year. CV growth is always FX-neutral. Excluding the impact of exiting Russia, growth for Q3 would have been 14.9%.

Quarterly net contract value increase, or NCVI, was $128 million. Quarterly NCVI is a helpful way to measure contract value performance in the quarter even though there is notable seasonality in this metric.

The sequential increase in CV of $128 million was driven by the combination of continued strong retention rates and near record new business of almost $250 million, similar to the second quarter of this year and the third quarter of 2021. The 14.9% contract value growth was broad-based across practices, industry sectors, company sizes and geographic regions.

Our technology practice grew 13%, and all of our business practices led by HR and supply chain grew at double-digit growth rates. All industry sectors, including technology, grew at double-digit rates with the fastest growth in transportation, retail and manufacturing. We had double-digit growth across all of our enterprise-sized categories with our medium category growing the fastest. In the small category, the technology sector continued to grow at double-digit rates.

We also drove double-digit growth across all of our top 10 countries other than China, where we saw continued single-digit growth. Across our North America and Europe, Middle East and Africa regions, all industry sectors had double-digit growth rates.

Global Technology Sales contract value was $3.5 billion at the end of the third quarter, up 13% versus the prior year. GTS had quarterly NCVI of $88 million, driven by strong retention and near record levels of new business for a third quarter while retention for GTS was again strong at 107% for the quarter, up about 310 basis points year-over-year.

GTS new business was down 5% versus last year, up against another tough compare. The 2-year compound annual growth rate was about 9%. GTS quota-bearing head count was up 16% compared to September of last year. Our continued investments in our sales teams will drive long-term sustained double-digit growth.

Our regular full set of GTS metrics can be found in the appendix of our earnings supplement.

Global Business Sales contract value was $977 million at the end of the third quarter, up 21% year-over-year, which is above the high end of our medium-term outlook of 12% to 16%. GBS CV increased $40 million from the second quarter while retention for GBS was 114% for the quarter, up about 120 basis points year-over-year. GBS new business was up 1% compared to last year against a strong compare. The 2-year compound annual growth rate for new business was 18%. GBS quota-bearing head count increased 19% year-over-year. Head count we hire in 2022 will help to position us for sustained double-digit growth in the future.

As with GTS, our regular full set of GBS metrics can be found in the appendix of our earnings supplement.

Conferences revenue for the third quarter was $77 million, ahead of our expectations as attendees and exhibitors were excited to get back to the in-person experience. Contribution margin in the quarter was 52%. We held 10 in-person conferences and 3 virtual conferences in the quarter. We held Evanta meetings in both virtual and in-person formats.

We plan to run 9 in-person destination conferences in the fourth quarter and have updated our guidance to reflect the strong demand we are seeing.

Third quarter Consulting revenues increased by 13% year-over-year to $107 million. On an FX-neutral basis, revenues were up 21%. Consulting contribution margin was 35% in the third quarter, up 210 basis points versus the prior year with better-than-expected revenue and higher utilization rates.

Labor-based revenues were $90 million, up 16% versus Q3 of last year and up 26% on an FX-neutral basis. Backlog at September 30 was $162 million, increasing 33% year-over-year on an FX-neutral basis with another strong bookings quarter. The inclusion of multiyear contracts in our backlog calculation, a change we described earlier in the year, contributed about 11 percentage points to the year-over-year growth rate.

Our contract optimization business declined 3% as reported and 1% on an FX-neutral basis versus the prior year. As we have detailed in the past, this part of the Consulting segment is highly variable.

Consolidated cost of services increased 16% year-over-year in the third quarter as reported and 21% on an FX-neutral basis. The biggest drivers of the increase were higher head count to support our continued strong growth and the return to in-person destination conferences.

SG&A increased 20% year-over-year in the third quarter as reported and 24% on an FX-neutral basis. SG&A increased in the quarter as a result of added head count for sales and G&A functions and higher commissions following a strong CV growth in 2021. We expect SG&A expenses to increase as a percentage of revenue over the near term as our catch-up hiring continues.

EBITDA for the third quarter was $332 million, up 9% year-over-year on a reported basis and up 15% FX-neutral. Third quarter EBITDA upside to our guidance reflected revenue exceeding our forecast and expenses at the low end of our expectations.

Depreciation in the third quarter of $23 million was down modestly versus 2021.

Net interest expense, excluding deferred financing costs in the quarter, was $29 million, down a little over $1 million versus the third quarter of 2021, mainly due to lower interest rate swap costs. The modest floating rate debt we have is fully hedged through maturity.

The Q3 adjusted tax rate, which we use for the calculation of adjusted net income, was 24.7% for the quarter. The tax rate for the items used to adjust net income was 20.2% for the quarter.

Adjusted EPS in Q3 was $2.41, growth of 19% year-over-year. The average share count for the third quarter was 80 million shares. This is a reduction of about 4.7 million shares or about 5.6% year-over-year. We exited the third quarter with about 80 million shares outstanding on an unweighted basis.

Operating cash flow for the quarter was $315 million, down 9% compared to last year.

CapEx for the quarter was $32 million, up about $18 million year-over-year, led by increases in capitalized technology, labor costs and catch-up laptop spends.

Free cash flow for the quarter was $283 million. Free cash flow growth continues to be an important part of our business model with modest CapEx needs and upfront client payments.

As many of you know, we generate free cash flow well in excess of net income. Our conversion from EBITDA is very strong with the differences being cash interest, cash taxes and modest CapEx partially offset by strong working capital cash inflows. Adjusting for the insurance proceeds we received last year, free cash flow as a percent of revenue or free cash flow margin was 19% on a rolling 4-quarter basis. On the same basis, free cash flow was 76% of EBITDA and 137% of GAAP net income.

At the end of the third quarter, we had $529 million of cash.

On September 30, debt balance was $2.5 billion.

Our reported gross debt to trailing 12-month EBITDA was under 2x. Our expected free cash flow generation, unused 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 $1.5 billion of liquidity, low levels of leverage and effectively fixed interest rates.

We repurchased more than $1 billion worth of stock through the end of the third quarter. We had about $600 million remaining on our authorization at the end of September, which we expect the Board will continue to refresh as needed going forward.

Since the end of the end of 2020 through the end of this September, we've reduced our shares outstanding by 10 million shares. This is a reduction of 11%. As we continue to repurchase shares, we expect our capital base will shrink. 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 guidance to reflect strong Q3 performance and an improved outlook for the fourth quarter despite incremental FX headwinds. We now expect an FX impact to our full year revenue growth rate of about 420 basis points for the full year. This is up from 370 basis points based on rates when we guided in August.

As we discussed the last 3 quarters, 2021 Research performance benefited from several factors, including QBH tenure mix, NCVI phasing within the quarters and year, record retention rates and strong nonsubscription growth. The growth compares will continue to be challenging for a few more quarters. We continue to take a measured approach based on historical trends and patterns, which we reflected in the updated guidance.

For Conferences, we assume we will be able to run all 9 in-person conferences as planned.

Consistent with our commentary in the past couple of quarters, our assumptions for consolidated expenses continue to reflect significant head count increases during the fourth quarter to support current and future growth. We continue to model higher labor costs and T&E well above 2021 levels as we've previously indicated. We also have higher commission expense during 2022 due to the exceptional performance we delivered in 2021. Finally, we continue to invest in our tech, both client-facing and internal applications as part of our innovation and continuous improvement programs.

Our updated guidance for 2022 is as follows: we expect Research revenue of at least $4.58 billion, which is FX-neutral growth of about 16%. The FX-neutral growth is up about 60 basis points from our prior guidance due to strong NCVI performance in the third quarter.

We expect Conferences revenue of at least $375 million, which is growth of about 84% FX-neutral.

We expect Consulting revenue of at least $450 million, which is growth of about 14% FX-neutral.

The result is an outlook for consolidated revenue of at least $5.40 billion, which is FX-neutral growth of almost 19%. The FX-neutral growth is up about 180 basis points from our prior guidance due to strong performance in the third quarter and an improved outlook for Q4. Without the strengthening U.S. dollar since August, our revenue outlook would have been about $85 million higher than previous guidance.

We now expect full year EBITDA of at least $1.36 billion, up $125 million from our prior guidance and an increase in our margin outlook as well. Without the strengthening U.S. dollar since August, our EBITDA guidance would have been about $136 million higher than previous guidance.

We now expect 2022 adjusted EPS of at least $10.06 per share. For 2022, we now expect free cash flow of at least $1.025 billion.

Our EPS guidance is based on 81 million shares, which reflects year-to-date repurchases.

As a result, we expect to deliver at least $310 million of EBITDA in the fourth quarter of 2022.

All the details of our full year guidance are included on our Investor Relations site.

Our strong performance in 2022 continued in the third quarter with momentum across the business. Contract value grew 14%. Adjusted EPS increased 19%, fueled in part by the significant reduction of shares over the past year. We are adding associates across the business to keep up with our growth and to position us well heading into 2023. Our continued investments in our teams will drive long-term sustained double-digit growth. We repurchased more than $1 billion in stock this year through September and remain committed to returning excess capital to our shareholders over time.

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 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] Our first question comes from Jeffrey Meuler with Baird.

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

Just maybe If I could better understand the messaging on where you are in terms of catch-up hiring. I thought from Gene's comments you talked about 18% associate growth and having the capacity you needed being caught up on hiring. But then it seemed like in Craig's comments, you're still calling out some areas where you're still in the process of doing catch-up hiring and you're maintaining the low 20s underlying margin target despite seemingly run rating above that on a seasonally adjusted basis. So just if I could better understand where you are in that process.

Eugene A. Hall
CEO & Director

Hey, Jeff, it's Gene. So the 18% associate growth that we talked about on the call is largely catch-up hiring. If you look over the last 3 years or so, we had very robust growth in our business and our hiring lagged behind that.

To give you flavor for it, the compound growth rate of contract value was about 11% and the compound growth rate of head count was about 5.5%. And so it lagged a lot. We got behind.

The good news is that we're, as of Q3, end of Q3, we're almost fully caught up. And so we expect to see not the same rate of hiring as we go into Q4 next year. We expect to normalize more -- which we've done traditionally, which is to have our head count growth -- have CV grow about 5 or 6 points higher than actual head count growth going forward.

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

Okay. And then obviously notable the big step-up in GTS quota bearers. I guess just to what extent are you seeing signs of unmet demand that you're fulfilling? And I don't know if that's showing up in the new business sold metric within GTS, which also has the tough comp. Just trying to understand to what extent maybe the 12% or 12.5%, whatever it was, CV growth in GTS has been governed down because of some sales capacity constraints that you're addressing versus to what extent this is about getting out ahead of demand and build the capacity into what's still a good demand momentum environment.

Craig W. Safian
Executive VP & CFO

Jeff, it's Craig. Just a couple of points and then Gene will fill in any blanks. So as Gene mentioned, we did fall behind in terms of our head count hiring across the business, but probably most notably in GTS over the course of 2021, especially as that segment's CV really accelerated. And so a lot of what we were doing starting in the first and second quarter of '21 and through the first 3 quarters of this year is catching up and filling open territories.

And the open territory challenge and opportunity was a little exacerbated by the accelerated growth. And we had to promote more people than we normally do, as we've talked about in previous quarters, at the beginning of the year, which put even more of an emphasis on making sure that we were recruiting and growing our quota-bearing hire base.

And so if you think about it, and again, we talked about this when we did our initial guide for the year as well, which was last year we had the benefit of the highest proportion of tenured sellers that we've ever had. Obviously, this year, it reversed. And as we roll into next year, we expect it to be more "normal" like we've seen historically.

And so all those dynamics are at play as well. And again, as you think about Gene's comment earlier on, we're catching up, but we're also making sure that we are seeding the ground with investments so that we can sustain our double-digit growth into the future.

Operator

Our next question comes from the line of Toni Kaplan with Morgan Stanley.

Toni Michele Kaplan
Morgan Stanley, Research Division

I wanted to ask on the Conferences side. Symposium had better attendance than pre-pandemic. Are there any gating factors that should lead 2023 to not be fully back to 2019 levels or higher just assuming that current travel restrictions stay as they are now?

Craig W. Safian
Executive VP & CFO

Thanks for the question. So it's been great to return to in-person conferences. And as we've said in the past few quarters and Gene referenced some large October conferences as well, we've had exhibitors and attendees really enthusiastically return, which is awesome. And the conferences are hugely valuable to everyone who goes and it's just -- it's super valuable to the entire Gartner franchise.

As we look towards 2023, and again, we'll give guidance in February around the full calendar of '23 conferences, et cetera, we're not going to be anywhere near the 70 conferences, destination conferences, that we delivered in 2019. We are carefully building back up. Our goal over the long term is to have a conference for every major function that we cover in every major geography in which we do business, but we can't just snap our fingers and be there. It takes time to build those up and to relaunch them.

And so we're taking a measured approach in doing that. We're going to be as aggressive as we can, but we're going to be nowhere near the 70 conferences that we ran in 2019 pre-pandemic.

Toni Michele Kaplan
Morgan Stanley, Research Division

Okay. Great. And I actually wanted to ask about that, the new business growth as well. So you mentioned the GTS of down 5% and GBS up 1%. I know the comp was very tough and the 2-year CAGRs are good. I guess I always thought with the sales hiring that those would be higher, I know you said you still have catch-up that you're doing. But I guess, like what are your thoughts on the level of like those new business levels.

And I guess I'm only asking because everything else seemed like -- is going really, really strong. And so that's sort of the one area that I think maybe you could pick at. So just what are your thoughts on the new business.

Eugene A. Hall
CEO & Director

Toni, it's Gene. So our new business was at an all-time high. So just keeping it clear, it wasn't like it was not a good [indiscernible] from dollars was at an all-time -- it was near an all-time high.

Secondly, the fact that it's impacted new business the most is what Craig talked about in terms of the proportion of our sales force is tenured versus not tenured. Last year, we had, as Craig mentioned, the highest proportion of tenured salespeople that we have on record. This year, because of promotions and growth hiring, we had among the lowest proportion of tenured salespeople on record. And a tenured salesperson sells whole number multiples higher more in new business than a non-tenured salesperson. The productivity accelerates rapidly during the salesperson's first 3 years. And that's the primary factor that impacted our new business in Q3.

Operator

Our next question comes from the line of Andrew Nicholas with William Blair.

Andrew Owen Nicholas
William Blair & Company L.L.C., Research Division

I wanted to start just with a question on kind of sales activity levels as the quarter progressed and maybe into October. Did notice any -- I mean it seems like double-digit growth across every practice, every industry, every region, every client size. But was there any kind of distinguishing change over the course of the quarter? Or are those conversations and the length of contract cycles relatively consistent with what you've seen year-to-date?

Eugene A. Hall
CEO & Director

So during the quarter, I would say it was typical with September being slightly stronger than with a little bit more acceleration during the quarter than you might normally see. But within a small range, call it, overall, a pretty normal quarter.

Andrew Owen Nicholas
William Blair & Company L.L.C., Research Division

All right. Great. And then you talked quite a bit about the catch-up hiring in the sales force growth. What about on the kind of T&E side, where do you sit relative to kind of pre-pandemic levels and where you would ultimately expect those expenses to level off? I think last quarter, you talked about the second half of the year being more indicative of normal travel. So just wondering if that's in the third quarter number, if there's still some more increases to expect there as well.

Craig W. Safian
Executive VP & CFO

Andrew, it's Craig. Yes, so we're obviously orders of magnitude lower than 2019 by design, and that's the way we're going to run it going forward. I would say Q3 is almost back to where we think the new normal should be. So Q3 and Q4 will be pretty close to the new normal, but also recognizing that as we roll out more conferences, as we travel to see our global teams, et cetera, there might be a little bit more lift in the travel number, but not order of magnitude lift, we feel pretty good about where we are.

Again, there's probably a little bit more uplift that we'll see in travel rolling into next year. But Q3 and Q4 are roughly indicative of what we expect moving forward.

Operator

Our next question comes from the line of Seth Weber with Wells Fargo.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

Wanted to touch on the -- if you could give us any thoughts on the pricing environment. I think last quarter, you've talked about pricing is kind of running a little bit above sort of normal levels. Can you just talk about what you're seeing there and customer appetite for multiyear contracts kind of just given the uncertain environment.

Craig W. Safian
Executive VP & CFO

Seth, it's Craig. So agree with your assertion on the pricing. So we -- rolling into this year, we were a little bit more aggressive than we normally have been. So we've typically been in the 3% to 4% range. This year, I think in the 5-ish to 6% range in terms of overall price increase. Similar rolling into next year.

Price increase actually went effective today for most of our clients and sellers around the world. And we haven't seen much friction or pushback from clients on that. Obviously, it is a more inflationary environment. Our costs are going up roughly in that range, and we're roughly pricing to offset that.

In terms of the multiyear comment, I think our sales teams do a fantastic job of articulating the value that we can deliver over the short term, over the medium term and over the long term. And they've done a fantastic job of continuing to get our clients to sign up for multiyear contracts. So we haven't really seen a step back in that from clients, either.

Seth Robert Weber
Wells Fargo Securities, LLC, Research Division

And then maybe just on the share repurchase in the quarter, it stepped down from where it's been trending for the last, I don't know, the last year, 1.5 years or so. Was that just you kind of front end-loaded some of the spending in the first half of the year? Or just -- are you just trying to save some powder for M&A? Or just anything that we should read into the tick down here in the third quarter in share repurchase?

Craig W. Safian
Executive VP & CFO

No, I wouldn't read anything into it. I'd say on a year-to-date basis, we're over $1 billion in share repurchases. Over the last 7 quarters, it's $2.6-ish billion of share repurchases. It remains our primary use of capital going forward, and we'll bump up or bump down from time to time, from quarter-to-quarter.

But over the long -- over the last 7 quarters, we've obviously returned a lot of capital to shareholders through our repurchase programs. And moving forward, we expect to return a lot of capital to our shareholders through our repurchase programs.

Operator

Our next question comes from George Tong with Goldman Sachs.

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

You had a big step-up in sales head count in 3Q, notably in GTS. Was there any pull forward in hiring from 4Q? Or do you expect to continue to see healthy increases in head count in 4Q on a quarter-over-quarter basis?

Craig W. Safian
Executive VP & CFO

Yes, George. So we're focused on ending the year up double digit in quota-bearing head count, again, really making sure that we're set up to roll into 2023 with full territories and a more tenured sales force, et cetera. There can obviously be a lot of puts and takes. But what I'd say is we expect to end the year for both GTS and GBS with strong double-digit quota-bearing hire growth on a year-over-year basis.

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

Okay. Got it. And then with respect to EBITDA margins, your outlook continues to move higher. Can you just, at a high level, frame for us your evolving views around normalized EBITDA margins and how your investment activity so far this year are on pace to get you back to what normalized spending should be?

Craig W. Safian
Executive VP & CFO

Yes, absolutely. And Gene, feel free to fill in any blanks here as well. So as Gene mentioned in his prepared remarks and as we have been saying for the last couple of quarters, we now believe the underlying metrics, the underlying margin of the business, is in the low 20s, which is obviously comfortably and well above pre-pandemic levels of EBITDA margins.

I think there are a number of factors that have allowed us to increase that outlook as we've gotten comfortable with the way the business is running and the way we're running the business. Most notably, I would say is, one, as Gene mentioned, we're going to grow our CV base about 4 to 5 or 5 to 6 points faster than we grow our quota-bearing hires. That allows us to essentially fix our cost of sale, if you will, or not dilute our margins through cost of sales. We can get gross margin leverage just by virtue of research being our biggest and most profitable segment. And we can get a little G&A leverage as well going forward.

On top of that, with GBS we're starting to see or we're seeing returns on the investments that we made in 2017 and 2018, and we now have much more scale in that business. There's still a lot of scale to be gained in GBS. But obviously, we're orders of magnitude higher in our contract value than we were pre-pandemic.

And so again, we -- and then there are other things like real estate and travel where we've just gotten smarter around the way we run our business, which have also helped us to raise our expectation on what the underlying margins of the business are.

Clearly, we've done a lot of hiring through the course of 2022. As Gene mentioned and we said multiple times, most of that was catch-up hiring from all the growth we delivered in 2021 and in 2022. Obviously, those costs roll into '23, which is why we're stating and sticking to the fact that our underlying margins are in the low 20s and that we can grow our business at double-digit growth rates moving forward, and we can modestly improve those margins over time as well.

Operator

Our next question comes from the line of Jeffrey Silber with BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Wanted to go back to the earlier pricing question. I know this segment or this industry that you're in is very broad, but some of the other info services companies that we talk to have started to be a little bit more aggressive in terms of giving price concessions in exchange for multiyear contracts. Are you doing any of that? Are you seeing that in the market as well?

Craig W. Safian
Executive VP & CFO

Jeff, no, not really. I think we lead with multiyear contracts as sort of the de facto standard. That's generally what our clients want because their mission-critical priorities are not bounded by a 12-month contract term or something like that. And so we've seen no change in the selling environment or the selling motion around the price increase we've talked about earlier as well as our contracted [indiscernible].

Eugene A. Hall
CEO & Director

We haven't changed our pricing on multiyear -- on multiyear contracts, the pricing approach has remained the same.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. That's helpful. And I know in your prepared comments, you talked about the strength in your research business being broad-based. I just was wondering if you can parse down a little bit if there are specific end markets that are doing better or worse than others. And I'm specifically interested in Europe versus the U.S.

Eugene A. Hall
CEO & Director

So as Craig mentioned, both North America and Europe had double-digit growth in the third quarter.

Craig W. Safian
Executive VP & CFO

And we saw -- and it was broad based across Europe and North America from an industry and size perspective. So there's really nothing to point to in terms of softness. The average growth for GTS and overall -- for GTS is around 13% and overall around 14%.

And when you peel back the onion, it's pretty close to that at lower levels, whether you look regionally, industry, by size, et cetera.

Operator

Our next question comes from the line of Manav Patnaik with Barclays.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Gene and Craig, and I guess, historically, I think you guys just talk about how CV growth will be 2 to 3 points about sales force growth. And now on the call, I've heard you say 4, 5 and 6. So in that context, I guess, should we still expect Gartner to keep growing the sales force 10% to 15% year-over-year like you used to message in the past?

Craig W. Safian
Executive VP & CFO

I think the way to think about it is that we want to make sure that our cost of sale, if you will, so sales cost as a percent of CV or percent of revenue, remain roughly fixed. And we believe we can do that by having CV growth at whatever that is or whatever we deliver and toggling the amount of head count growth so that we keep our cost of sale roughly fixed.

If CV is growing 20%, then yes, we would grow head count close to 15%. If CV were growing 10%, we would probably -- we would toggle down the growth investment to again lock in -- roughly lock in that overall cost of sale.

And so this is a pivot we made in the second half of 2019 as we shifted to really want to make sure that we got returns on the investments we were making and manage the sales portion of our overall margin.

I think the one difference that you point to, which is the gap between CV growth and head count growth, is really just driven by what we're seeing from a wage inflation perspective. And so when it was a 3- to 4-point gap, that's because that's what we were seeing from wage inflation perspective. Now we're obviously seeing a little bit greater. And so we're just dialing that into our growth algorithm to make sure that we account for it.

Manav Shiv Patnaik
Barclays Bank PLC, Research Division

Got it. And then in the call, Craig, you made comments around SG&A as a percentage revenues being elevated. Was that a fourth quarter specific comment or more longer term? And also just to clarify, you talked about the Q3 and Q4 run rate kind of being where you want it to be, but that was specific to T&E, I believe. Can you just talk about from an overall margin perspective how we should think about today's number versus the low 20s you talked about?

Craig W. Safian
Executive VP & CFO

Yes, absolutely. So the SG&A comment is more of a near-term comment. So as we are catching up on the hiring and you think about high teens growth we're seeing in both GTS and GBS, obviously that rolls into next year because we -- the hiring was really concentrated in the back half of the year. And so that will put pressure on the cost of sale and margin as designed into 2023. So it's more of a near-term comment.

In terms of the other things we're seeing, again, when we talk about the growing sales force, a little bit -- or growing CV a little bit faster than we're growing the sales force, T&E trends, et cetera, that is more in a steady-state. Obviously, 2022, as we indicated at the beginning of the year and have indicated each quarter as we've moved through the year, there was a lot of catch-up happening in 2022, and that obviously impacts 2023.

We believe again that the underlying margins for the business are in the low 20s in that through the combination of the investments we're making, the size of the market opportunity, opportunities in productivity, et cetera, that we can grow the business, the top line at double-digit growth rates and modestly expand margins from that underlying margin in the low 20s.

Operator

Our next question comes from the line of Stephanie Moore with Jefferies.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

I wanted to touch a bit on hiring. Maybe it'll be helpful if you could provide color just on where wage inflation stands, kind of the aggressive hiring that we've seen this year.

Craig W. Safian
Executive VP & CFO

Stephanie, we had a little trouble hearing you. I think what you asked was just provide a little bit more color around our hiring trends and where we may be seeing more pronounced wage inflation, is that what the question was?

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

Yes, I apologize. That is correct.

Craig W. Safian
Executive VP & CFO

Okay. So I think, and Gene will hop in here, too. I think we have a great associate brand out in the market, especially for sellers, but broadly as well. Sellers know the Gartner brand. Sellers know that Gartner is a very sales-focused organization. And so we're able to really recruit pretty well -- or very well, I should say, in the market. And we have no problems meeting our needs, and the supply is there for us to be able to keep hiring.

I think the wage inflation is just what we're seeing when we look at our competitors for talent. And we do lots of surveys and we have a lot of market data, and we're basically just keeping track with the market -- or keeping pace with the market to make sure that in addition to the great associated value proposition that we have that we're actually paying our people at market as well. I don't know, if you want to add anything.

Eugene A. Hall
CEO & Director

But again, if you look at where the highest wage inflation is, it's in countries where inflation is very high like Turkey, for example. We have a small sales force in Turkey and the wage inflation is higher there than it is in like the U.S., for example, and there's other countries around the world. But the places where it's the highest are in the countries where overall inflation rates are higher.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

Understood. And I guess if we take that further, given kind of the step-up in hiring, certainly this year, does that mean that we should expect potentially a step-up in kind of pricing as you look at your contracts over the next coming years, understand if they are a multiyear, just to make up for kind of the investments made this year? Or am I thinking about it incorrectly?

Craig W. Safian
Executive VP & CFO

No, Stephanie, I wouldn't think about it that way. I would think about the catch-up hiring we're doing is basically really to fulfill all the growth that we sold in 2021 and 2022 and make sure that we can serve and grow that going forward. The pricing is really there as an offset or partial -- as an offset to the wage inflation.

So we, as Gene mentioned earlier, we fell behind in hiring. He talked about the fact that our CV over the last 3 years has grown at a compound annual growth rate of 11% and our head count has only grown at a compound annual growth rate of 5%. And we had some catching up to do, again to make sure that we can really provide amazing service to our clients and then grow them over time as well.

And so that's the way we're thinking about the catch-up hiring. The price increase is really just to offset wage inflation.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

Understood. And then maybe taking more of a medium-term and long-term -- or longer-term question here. And I appreciate the color that you gave on the underlying EBITDA margin improving over time, efficiency of -- or leverage of the hiring. Could you maybe talk about other investments you might see from just an overall sales force productivity standpoint as we kind of look over the next several years?

Eugene A. Hall
CEO & Director

Stephanie, so we invest across our business and the economics and the margin stuff we talked about includes those investments. We do a lot of investment in the business. We have invested in new internal systems, things like billing so that we can bill up faster and collect faster, so our cash flow is higher and it's also easier for our sales force to generate orders and bills and things like that.

We have -- we constantly invest in new product features. We have a wide variety of products that are tailored for specific roles and we constantly improve those product offerings to provide continuously more value to our clients, which can help strengthen retention rates and growth in new business over time.

And so we're continuing to invest in those kinds of areas in our business to make sure we support future growth. All those investments are embedded in the normalized margins that Craig and I referred to.

Operator

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

Eugene A. Hall
CEO & Director

So summarizing today's call, for the third quarter, we drove another strong performance across the business. We achieved double-digit growth in contract value, revenue, EBITDA and EPS with strong growth in all practices, all industry sectors across every size client and in every region.

We've caught up on hiring and are positioned to deliver sustained future growth. Our underlying margins are in the low 20s, comfortably above pre-pandemic levels, and we expect them to modestly increase over time.

We'll continue to generate significant free cash flow in excess of net income. We'll continue to return significant levels of capital to our shareholders. And we once again -- thanks for joining us today, and I look forward to updating you again in the new year.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.