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CORPORATE PARTICIPANTS

Sherief Bakr *Gartner, Inc. - Group VP of IR*

Gene Hall *Gartner, Inc. - CEO*

Craig Safian *Gartner, Inc. - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Stephen Morse *Piper Jaffray - Analyst*

Gary Bisbee *RBC Capital Markets - Analyst*

Stephen Sheldon *William Blair & Company - Analyst*

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

Rashama Satz *Credit Suisse - Analyst*

Mike Reid *Cantor Fitzgerald - Analyst*

Henry Chien *BMO Capital Markets - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Gartner third-quarter earnings conference call for Q3 2016. A replay of this call be available through November 10, 2016. The replay can be accessed by dialing 855-859-2056 for domestic calls and 404-537-3406 for international calls by entering the passcode 200-9356. This call is being simultaneously webcast and will be archived on Gartner's website at www.Gartner.com for approximately seven days. I will now turn the conference over to Sherief Bakr, Gartner's Group Vice President of Investor Relations for opening remarks and introductions. Please go ahead sir.

Sherief Bakr - *Gartner, Inc. - Group VP of IR*

Thank you Liliana and good morning everyone. Welcome to Gartner's third-quarter 2016 earnings call. With me today in Stamford is our Chief Executive Officer, Gene Hall and our Chief Financial Officer, Craig Safian. This call will include a discussion of Q3 2016 financial results as disclosed in today's press release as well as our updated outlook for 2016. After our prepared remarks you will have an opportunity to ask questions. I would like to remind everyone that the press release is available on our website investor.Gartner.com.

Before we begin I'd like to remind you that certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties including those contained in the Company's 2015 Annual Report on Form 10-K and 2016 Quarterly Reports on Form 10-Q as well as in other filings with the SEC. I would encourage all of you to review the risk factors listed in these documents. With that I'd like to hand the call over to Gartner's Chief Executive Officer, Gene Hall. Gene?

Gene Hall - *Gartner, Inc. - CEO*

Good morning everyone. Welcome to our quarterly earnings call. Thanks for joining us today. As you know the global macroeconomic environment today is challenging as it has been for the past several quarters. Exchange rates continue to be volatile; oil and other commodity prices are still suffering. In the US the S&P 500 has had its fifth consecutive quarter of weak or negative earnings growth. In Europe the S&P 350 is expected to have negative earnings growth this year.

In any of our markets we always have clients who are doing great, clients who are doing okay and clients who are in economic distress. We know how to be successful with all clients whether they are thriving or in financial distress which is why we've consistently delivered double-digit growth across regions, industries and client sizes.

We learned a lot from the great recession; operationally we are better prepared and more nimble amid macroeconomic challenges and we are doing great as a Company. I will share a few highlights from our Q3 results. As on prior calls, I'll review these metrics on a FX-neutral basis. Because we do business in more than 90 countries around the world, FX-neutral is the best way to understand the underlying health of our business.

For the third quarter of 2016, total Company revenues grew 15% and we delivered double-digit growth in our key metrics. Research which is our largest and most profitable segment achieved its second consecutive quarter of 17% revenue growth. These results continue to be driven by double-digit contract value growth and contributions from our recent acquisitions. Contract value grew at 13% year over year with double-digit growth in every region and across virtually every client size in every industry.

New business growth was very strong in the quarter with a number of enterprises up 6%. Client retention and wallet retention were 83% and 104%, near all-time highs. This led to a sequential improvement in sales productivity from Q2 to Q3 in 2016. Our consulting segment achieved 6% revenue growth over the same quarter last year. We exit Q3 with a backlog position of more than four months [forward] revenue coverage exceeding our operational target.

Our events segment continues to achieve strong growth while amplifying the Gartner brand. For the third quarter of 2016 event revenues were up 14%. We hosted about 7,500 attendees across the 15 events we held in the third quarter. Well, we are now in the fourth quarter which is when we run the majority of our symposium IT Expo conference series.

Symposium ITX was our flagship event for CIOs and Senior IT executives. This series is hosted in eight locations around the world and competes thousands of CIOs who share experiences and gain valuable insights that help them achieve their mission-critical priorities.

I just returned from our US-based event in Orlando, Florida where for the third year in a row we achieved sold-out status. Even more importantly, about 40% of our attendees were CIOs. These CIOs know that while it's an exciting time to be a technology leader, it isn't easy. There is cloud computing, mobility, the Internet of Things, algorithms, ecosystems. Technology in its many forms is affecting virtually every aspect of our society.

Enterprises know they need help and Gartner is the best and most cost-effective source for that help. Our clients use our independent, objective, fact-based insights to make critical technology decisions. The CIOs I met with were inspired and better equipped to succeed in the digital business as a result of the insights we delivered to them at symposium. And as a result, our sales organization is supercharged.

As I mentioned at the beginning of this call, the global macroeconomic environment has been challenging for the past few quarters affecting our clients. At any given point time, we have clients who are thriving, others were are distressed and everything in between. Over the past few quarters, we've seen more clients in distress.

We continuously innovate and make improvements to our business which improves service-delivery capabilities. We've strengthened how we communicate our value proposition and we've trained our teams to sell and succeed whether clients are thriving or in distress. We are better than ever at adapting to shifts in the macroeconomic environment.

We're seeing positive impact from these innovations. Here's a few examples from Q3. The Brazilian economy remains in a recession. We've doubled down at best practices in Brazil and have returned to double-digit growth there. Australia has been hard hit by commodity prices yet we achieved more than 20% year-on-year growth again by focusing on operational execution. China's another great example; the outlook for China's economic growth remains uncertain, yet we drove more than 20% year-on-year growth in China.

In the energy and utilities industry, which was hard hit by falling oil prices, our contract value growth rate improved by more than 500 basis points sequentially.

Our business gathered momentum throughout Q3 culminating in an extraordinarily robust September. In addition we saw significant strengthening in our leading indicators. For example our sales was up 20% year over year. Based on the operational performance of the innovations we've introduced, our momentum coming out of Q3 and the strengthening of our leading indicators, we expect to see contract value growth accelerate during Q4. We also expect sales productivity to improve sequentially over Q3. We see this as an inflection point in the performance of our business.

So in summary, we've introduced improvements and innovations to provide tremendous value to our clients whether they are thriving or in distress. We're seeing the positive operational impact of these changes with double-digit growth in our major metrics during Q3. Our business gathered momentum throughout Q3 culminating in an extraordinary strong September.

We entered Q4 with strong leading indicators. Based on the operational performance of the innovations we introduced, our momentum coming out of Q3 and the strengthening of our leading indicators, we expect to see contract value growth accelerate during Q4 and we also expect sales productivity to improve sequentially over Q3.

Our full-year and long-term outlook is strong; and as always, we remain committed to enhancing shareholder value through investment in our business, strategic acquisitions and share repurchases. With that, I will hand the call over to Craig.

Craig Safian - *Gartner, Inc. - SVP & CFO*

Thank you Gene and good morning everyone. Gartner's third-quarter performance continues our long-term trend of double-digit growth. Despite ongoing challenges in the economic environment we continue to see strong demand for our products and services, and as Gene mentioned, our forward-looking indicators are very strong.

The combination of the tremendous value we provide to our clients around the world, the investments we are making to capture our vast market opportunity, our focus on strong operational execution and our exceptional business model allows us to consistently deliver double-digit revenue, earnings and free cash flow growth. Our year-to-date performance and updated guidance for the full-year indicate that we remain on track to continue our trend of double-digit growth in 2016.

On an FX-neutral basis, our year-on-year financial performance for the third-quarter 2016 included: contract value growth of 13% and research revenue growth of 17%; events revenue growth of 11% on a same-event basis; consulting revenue growth of 6%; normalized EBITDA growth of 10%; and diluted EPS, excluding acquisition adjustments, of $0.58 per share. This compares to $0.45 per share in the third quarter of 2015 and our guidance range of $0.47 to $0.51.

In addition, our exceptional business model continues to create a consistently high level of free cash flow conversion. On a rolling four-quarter basis, our free cash flow conversion was 141% of normalized net income.

I will now discuss our third-quarter business segment performance and P&L in depth before turning to our balance sheet and cash flow dynamics. I'll also address our early adoption of the FASB's accounting standards update number 2016-09 for stock compensation and its impact to our financial statements. I will close with remarks on our updated outlook for the full year. We will then be happy to take your questions.

Beginning with research, research revenue grew 16% as reported and 17% on an FX-neutral basis in the third quarter. Excluding the impact of our newest acquisitions and foreign exchange, research revenues were up organically by 12%. Our recently acquired businesses continue to perform strongly.

The gross contribution margin for research was 69%, the same level compared to the third quarter of 2015. All of our other research business metrics remained strong either stabilizing or improving on a sequential basis. Total contract value was $1.815 billion as of the end of Q3, FX-neutral growth of 13% versus the prior year. For reference and comparison, our Q3 2015 total contract value at current-year FX rates was $1.604 billion.

We have a highly diversified business. We serve clients in more than 90 countries. Our clients operate in every industry vertical and we serve the largest enterprises in the world down to the smallest businesses. This diversified client base is a strength as it helps us to mitigate challenges in any one region, any one industry or any one size of client. As a result our growth in contract value continues to be broad-based. Every region and virtually every client size and industry segment grew at double-digit rates.

On last quarter's call, I mentioned that we were seeing a higher proportion of our clients experiencing financial challenges which impacted retention and productivity. The operating environment has not changed or improved. That said, the breadth of our value proposition and the ability to focus on our clients' most critical priorities means we know how to operate successfully.

We provide great value to our clients whether they are in growth mode or are facing financial challenges. For example, for those clients in the latter category, we have focused our sales force, analysts and service personnel on amplifying how we can help them leverage technology to reduce costs and meet their key business objectives.

As Gene mentioned, client retention was 83% in Q3, stable on a sequential basis and down one point from near all-time highs in the third quarter of 2015. Wallet retention ended at 104% for the quarter also stable sequentially and down two points year on year from near all-time highs.

New business growth was particularly strong in Q3 increasing by 19% year on year. Consistent with previous quarters, new business is driven by a combination of sales and new clients and sales of additional services and upgrades to existing clients. Our new business growth reflects our success in penetrating our vast market opportunity with both new and existing client enterprises.

We ended the third quarter with 10,673 enterprise clients up 6% compared to Q3 2015. And as always, we continue to benefit from our consistent price increases and discipline around pricing. We plan to implement a price increase of approximately 3% on average during the fourth quarter. The average spend for enterprise also continues to grow. It now stands at $170,000 for enterprise up 7% versus prior year on an FX-neutral basis. This increase in average spend reflects our ability to drive CV growth through both new and existing enterprises.

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

Over the last 12 months we grew our contract value by $211 million in FX-neutral terms. Using our Q3 2015 ending sales headcount of 2,111 as our beginning of period denominator, yields NCVI per AE of $100,000 on a rolling four-quarter basis or a 13% decline over the third quarter last year when the comparable figure was $115,000 per account executive at constant-currency rates.

As Gene described earlier, the strength we're seeing is translated into a sequential increase in sales productivity from Q2, our first sequential increase since the third quarter of 2015. As always, we remain highly focused on improving our sales productivity and remain confident that the initiatives we have implemented to drive productivity will positively impact the results over both the short and long term.

To sum up, we delivered a solid quarter in research with 13% contract value growth. On a sequential basis, our key metrics are stable or improving; and importantly, sales productivity improved sequentially versus Q2. And as mentioned earlier, we ended the quarter with our strongest ever sales pipeline and expect that this pipeline and our focus on execution will result in total contract value growth accelerating and sales productivity improving sequentially in Q4.

Moving to events. Total revenues increased 14% on an FX-neutral basis in Q3. On a same-event and FX-neutral basis, events revenues increased 11% year on year in the third quarter. We held 15 events in Q3. While this is the same number as last year's third quarter, we had a number of events shifts. Attendees were up 3% versus last year. On a same-events basis, we had a 7% increase in attendees. Events Q3 gross contribution margin was 43%, up by more than 300 basis points compared to the third quarter of 2015.

Turning to consulting. Consulting had another strong quarter in Q3 generating a 6% year-on-year FX-neutral increase in revenues. The labor-based business was up 5% versus Q3 of last year on an FX-neutral basis with broad-based growth. In addition, the contract optimization practice increased at double-digit rates in Q3 versus the year-ago quarter.

On the labor-based side, billable headcount of 630 was up 7% from the year-ago quarter and third-quarter annualized revenue for billable headcount ended at $362,000 which was down slightly year on year on an FX-neutral basis. Our ongoing investment in managing partners continues to drive demand for our services. We had 115 managing partners at the end of Q3, a 10% increase over the year-ago quarter. Related to this, backlog, the key leading indicator of future revenue growth for our consulting business, ended the quarter at $104 million down 2% year on year on an FX-neutral basis.

Last year's consulting backlog benefited from a very large contract booking in a non-target geography which was a significant driver of backlog improvement in the year-ago quarter. Excluding this one contract, consulting backlog increased by 5% year on year. This represents over four months of forward backlog which exceeds our operational target for this measure.

Moving down the income statement. SG&A increased by 14% year over year in the third quarter primarily driven by the growth in our sales force. As of the end of Q3, we had 2,331 direct quota-bearing sales associates an increase of 220 or 10% from a year ago. Our strategic priority continues to be on investing to capture the vast market opportunity ahead of us and to drive long-term earnings and cash flow growth for our shareholders.

As I mentioned last quarter, we continue to take a highly analytical approach to where we allocate sales resources all the way down to the team level. We do not take a one-size-fits-all approach and we'll continue to make adjustments where appropriate.

For example, if we are seeing strong CV growth and good productivity trends in a team or region, then we would plan to increase headcount faster than the average in those areas. Similarly, if we were to see decelerating CV growth and declining productivity metrics, we would slow headcount growth. Based on this bottoms-up view, we have slowed our sales headcount growth modestly. For the full year we expect sales headcount growth of roughly 11% to 12%.

Moving on to EBITDA and earnings. Normalized EBITDA was $91 million in the third quarter up 14% year on year at reported rates and up 10% on an FX-neutral basis. Through Q3 year to date, normalized EBITDA is up 15% versus the prior year on a reported basis and up 14% at FX-neutral rates.

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

During the third quarter we elected to early adopt the FASB's ASU 2016-09 which changes the accounting for stock-based awards. Among other items, the update requires companies to recognize excess tax benefits that arise from stock-based awards in the income statement. Previously these benefits were recorded in stockholder's equity.

There is also a corresponding impact to the cash flow statement as the benefit is recorded as an operating cash flow as opposed to the previous practice of recording it as a financing cash flow. ASU 2016-09 was adopted on modified retrospective basis back to the beginning of the year, and as a result, we have restated our tax expense, net income, earnings per share, operating cash flow and accumulated earnings for Q1 and Q2 of this year.

In our Q3 10-Q, on pages 7 and 8, you can find the details of these changes for Q1 and Q2. On a year-to-date basis, the early adoption of ASU 2016-09 has benefited our GAAP EPS by approximately $0.11. This benefit predominantly relates to the first half of the year with a $0.01 positive impact on our Q3 EPS. Our updated guidance has these changes baked in.

Our GAAP tax rate for the quarter was 31.9% which is lower than our previously issued full-year GAAP tax rate guidance of approximately 36%. The decrease is predominantly due to favorable Q3 period items as well as the timing of certain tax costs that are expected to be realized later this year. Adjusting for acquisition charges, our normalized tax rate for the quarter was 28.9% and is also lower than our previously issued full-year normalized tax-rate guidance of approximately 35% for similar reasons.

GAAP diluted earnings per share was $0.36 in Q3; our GAAP EPS included roughly $0.22 worth of acquisition and integration charges. Higher than the approximately $0.11 of charges we have previously expected. The higher charges primarily related to the acquisition of SCM World and charges related to the integration of an overseas sales agent. EPS excluding acquisition and integration charges was $0.58 per share in Q3, up 29% versus Q3 of 2015. The lower Q3 normalized tax rate positively benefited our EPS excluding acquisition and integration charges by approximately $0.05.

Turning now to cash. In Q3, operating cash flow was $120 million up 3% on a year-on-year basis. Year-to-date operating cash flow was $282 million up 6% versus the prior year. We define free cash flow as operating cash flow less capital expenditures with cash acquisition and integration payments added back.

In the third quarter, free cash flow was $122 million compared to $107 million in Q3 2015 an increase of 14% year over year. Year-to-date free cash flow was $270 million up 11% over the prior year.

Managing our business to generate strong cash flow is one of our top priorities. Consistent with the negative working capital dynamics that are a key characteristic of our subscription-based business model, we continue to generate free cash flow well in excess of net income on a rolling four-quarter basis. At the end of Q3, this equated to a rolling four-quarter free cash flow of $344 million. This represents a net income to free cash flow conversion of 141%.

We ended the quarter with a strong balance sheet, cash position and liquidity profile. As of September 30, we had gross debt of $745 million. When combined with our cash balance of $466 million, it represents a net debt position of $279 million or about 0.7 times normalized EBITDA. Our current $1.8 billion credit facility runs through 2021. As of September 30, we had $1.049 billion of revolver capacity; that and our ongoing free cash flow generation gives us ample liquidity to continue to grow our business and execute initiatives that drive shareholder value.

Strategic acquisitions and share repurchases continue to be the primary uses of our free cash flow and available capital. Our number-one priority remains executing on value-creating acquisition opportunities. Our M&A pipeline remains strong.

Since 2014 we have deployed approximately $350 million on strategic value-enhancing acquisitions. Most recently, we acquired SCM World which expands our capability in serving supply chain leaders. We remain disciplined in our acquisition approach and we continue to believe we can drive significant value for our shareholders by deploying our capital on strategic acquisitions.

Absent acquisition opportunities, we have consistently used our free cash flow and available capital to return capital to shareholders through share repurchase programs. During the third quarter we repurchased just under $1 million of our stock. Since 2014, we have spent $1 billion on share repurchases. We have approximately $1.1 billion remaining on our repurchase authorization.

Turning now to guidance. As we have consistently done on our Q3 earnings call, we are updating and tightening our guidance ranges. The details of our guidance are contained in our press release. I will also provide color to support the updates to our annual outlook. Also at this point our projected, reported and FX-neutral growth rates have essentially converged, but as per our usual practice, I will provide FX-neutral growth rates unless where noted.

Starting with revenues, we now expect to deliver full-year 2016 revenues of $2.435 billion to $2.465 billion. This represents growth of 13% to 15% and we have raised the lower end of our previous total revenue guidance by $30 million. The top end of our prior guidance remains unchanged.

Research revenue, which we expect to be approximately 75% of total revenues, is now projected to deliver $1.820 billion to $1.835 billion for the year; this would be 16% to 17% annual growth. We have raised both the top and bottom ends of our research revenue guidance to reflect the strength have seen in this business.

We now expect consulting revenues of $340 million to $350 million or 4% to 7% growth; we have raised the bottom end of our prior guidance by $5 million. For events revenues, we now expect $275 million to $280 million or 8% to 10% growth. We have trimmed the top end of our prior guidance by $10 million. We now expect normalized EBITDA of $455 million to $475 million for 2016 gain or 10% to 15% annual growth. We have tightened this range from both ends by $5 million each.

For GAAP and adjusted EPS calculations, we now expect the costs associated with stock-based compensation to be approximately $45 million to $46 million. In addition, we now expect acquisition charges of approximately $39 million. The increase is primarily driven by our most recent acquisition.

For tax we, now expect a 34% annual tax rate on a GAAP basis and 32% on a normalized basis. These projected rates are lower than our prior guidance reflecting our early adoption of ASU 2016-09. This implies a Q4 GAAP tax rate of approximately 40% and 38% on a normalized basis.

Putting this all together, we are updating our GAAP EPS guidance for 2016 and now expect $2.29 to $2.45 per share for the year or 11% to 19% annual growth on a reported basis, a tightening of the range by increasing $0.07 at the bottom end and increasing by $0.01 at the top.

The change is primarily due to the lower full-year tax rate outlook that I just referenced offset by higher integration and acquisition charges. Our GAAP EPS guidance now includes approximately $0.60 per share of acquisition integration charges. Excluding the $0.60, our updated EPS guidance excluding acquisition and integration charges is $2.89 to $3.05 per share or 21% to 28% annual growth, an increase of approximately $0.22 to the low end and $0.16 to the high end of our previous guidance range.

There are two primary drivers of the raise in guidance here. First the aforementioned early adoption of ASU 2016-09 contributes approximately $0.12 with the balance made up of modestly lower forecasted expenses related to equity compensation, depreciation and other expenses.

For 2016, we now expect cash from operations of $370 million to $390 million, gross capital expenditures of approximately $49 million and cash acquisition and integration payments of $31 million. This yields a free cash flow range of $352 million to $372 million; this is a $5 million tightening of the top end of the range for operating and free cash flow primarily related to the modest year-to-date deceleration in CV growth compared to 2015. Our updated free cash flow outlook equates to 11% to 16% growth when compared to full-year 2015.

In closing, Gartner delivered another strong quarter in Q3 and our updated guidance for 2016 points to a continuation of our trend of double-digit growth in revenues, earnings and cash flow. For our core research business, we see improving momentum and a number of our key metrics showed sequential stability or improvements. The initiatives we have put in place to support our growth in a challenging market environment are working and we entered Q4 with very strong forward-looking indicators.

All these factors demonstrate that we can have a strong finish to 2016 with sequential acceleration in contract value growth and sales productivity. Moreover we will continue to focus on leveraging our powerful business model and delivering long-term value to our shareholders. We now would be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Peter Appert, Piper Jaffray.

Stephen Morse - *Piper Jaffray - Analyst*

Hello good morning it's [Stephen Morse] in for Peter. I have a two-part question, one can you please talk more about the trend in the individual geographics; and secondly, can you talk more about the recent acquisition and what's your appetite for future M&A?

Craig Safian - *Gartner, Inc. - SVP & CFO*

Good morning, how are you? In terms of geographic trends, as both Gene and I mentioned, we are seeing broad-based growth. I think what's really nice for us is some of the places where we have seen challenges, we've seen that turnaround based on our doubling down on best practices and real focus on execution. And so as Gene mentioned, Brazil returned to double-digit growth the energy and utility sector improved about 500 basis points sequentially in contract value growth. And again, we continue to see broad-based growth across just about every region we deal in.

Gene Hall - *Gartner, Inc. - CEO*

It's Gene; I will take the acquisition question. We acquired a company called Slide Chain World, SCM World, and as you may know -- so we have a business where we serve IT professionals which is our largest business with syndicated research. We have two other syndicated research businesses; one is where we serve marketing professionals and the other one is where we supply chain professionals.

Both of those are great businesses for us that are much smaller than IT but are faster growing and have a huge market opportunity. The acquisition of SCM World basically is in support of that supply chain business. It's a really terrific company that serves -- is focused on serving the largest companies in supply chain and is complementary to the business we had which was more focused on middle-market. So it basically gives us an additional base for future growth.

Stephen Morse - *Piper Jaffray - Analyst*

And what about your future appetite for M&A? Any updates on that?

Gene Hall - *Gartner, Inc. - CEO*

We look at M&A through three lenses; first either deals that either augment or accelerate our core IT business. So for example in the past we bought Meta Group, Burton Group and Ideas International. Second transactions let us enter adjacent markets. We bought AMR Research more recently software by Nubera and Capterra and of course, SCM World that we just talked about. And third, we've done what we call a techquisition where we are purchasing talents and technology to improve operational capabilities. And our acquisition of sects and their natural language of processing and machine-learning expertise fill in that category. And so that's how we think about acquisitions.

Stephen Morse - *Piper Jaffray - Analyst*

All right great, thank you.

Operator

Gary Bisbee, RBC.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hey good morning guys. The first question, can you provide a little more color on what exactly has driven this improvement during the quarter? You said doubling down on best practices in some difficult markets and a couple of other one-liners describing it, but what is that really mean? Can you give us a concrete example? What is a best practice that wasn't already being done that has led to this performance? And it is especially impressive against slower headcount growth, so how do we think about that? Thank you.

Gene Hall - *Gartner, Inc. - CEO*

Yes Gary, good question. So the -- one of our core elements of our strategy is constant improvements in our operational processes and strategy and continuous innovation as well. And so we try to innovate across every part of our business. A few quarters ago when we saw that the market was getting tougher, we decided that we need to really focus on making sure we could -- we were really good at helping companies in distress. So the first thing we did is developed additional research that is focused on if you're in distress, how do you handle that? So that for companies in distress, we're part of the solution, not part of the problem.

We're helping them actually with whatever their problem -- whatever caused their distress, we're helping them solve it as opposed to part of the problem. And so the first piece is actually updating our research. We then actually trained all of our sales and service people on that research and actually certified every one of-- all of them, so that they were able to able to deal with clients. Any time a client says hey, we've got these financial problems, can you help us out? All of our sales and all of our research people knew exactly what to do and exactly how to utilize that research.

So it really gets down to the sort of usual things we do which is recruiting great salespeople, giving them great training if this was an example of the kind of training and giving them great tools. Again we had tools to help them understand what the client's mission-critical priorities are and what the right research is to apply to those particular mission-critical priorities. Those are the things that operationally improved it. We put these things in place starting third and fourth quarter of last year and then it took through -- to get people trained and certified, it took the first six months of this year. And so now we're really seeing the fruition of all that coming to bear.

And again, I see this not as kind of like just one quarter, but this is kind of -- it strengthens us on a go-forward basis. And we are going to continue innovating as well so. But this is kind of how we run our business and why we've been able have such great double-digit growth over such a sustained period of time.

Gary Bisbee - *RBC Capital Markets - Analyst*

That's really helpful, thanks. I guess one follow-up for Craig. So you outlined acquisitions and then buybacks as the priorities. Help me understand then the what's been virtually no buybacks in the last six months and you've actually paid down debt. Should we read anything into that or why have you decided to, particularly this quarter with things getting better it sounds like, to not buy back any stock and to reduce debt by $90 million? Thank you.

Craig Safian - *Gartner, Inc. - SVP & CFO*

Good morning Gary and thanks for the question. Again, I think it goes back to what Gene described a little bit earlier. So in terms of our capital structure strategy and the way we think about things, first off, we continue to believe we can grow the business organically at double-digit rates into the future. On top of that, we do believe that strategic acquisitions can drive significant value for our shareholders and so that remains our number-one priority. Absent those acquisitions, we do look to return capital to shareholders through our share repurchase program.

While the activity has been a little bit light, or lighter than historical, what I would tell you is since 2014, as I mentioned, we repurchased just about $1 billion worth of our stock. If you go back further than that, it's an even larger number and so we've been very aggressive over our history around both deploying our capital on strategic value-enhancing acquisitions as well as returning capital to shareholders through share repurchase programs. The other thing I mentioned is we do have, as I talked about, a significant amount of capacity, our cash flow, revolver capacity et cetera and a $1.1 billion authorization. So we do believe on a go-forward basis we'll continue to look at our first priority, great acquisitions that enhance shareholder value and then second priority, absent that, returning capital to shareholders.

Gary Bisbee - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

Tim McHugh, William Blair.

Stephen Sheldon - *William Blair & Company - Analyst*

Hey good morning it's Stephen Sheldon in for Tim. Thanks for taking my questions. First, I wanted to ask about a sales-force growth. It sounds like you are seeing solid underlying momentum but that you're being more strategic about where you're hiring. Can you talk some about whether or where you've either accelerated or decelerated the pace of hiring over the last few quarters?

Gene Hall - *Gartner, Inc. - CEO*

Yes, hey it's Gene. So, as we've talked about in the past, the way that we decide how many salespeople to hire is not setting that high -- a top corporate-level target and then passing it all down. It's looking at each individual sales territory, and particularly each area of management, each first level manager and assessing how that manager is doing both individually and in their market and then based on the assessing their operational capability, either accelerating or in some cases maybe slowing down the rate of growth. We are growing-- you can think about us growing virtually everywhere and some places are growing in the single-digit ranges; other places are growing at 25% or even a little bit more, even in sizable groups around the world. And s, it basically just depends on again at a manager level what we think the operational capability is to absorb additional sales headcount. And of course that's because we have this incredible market opportunity that we want to go after and what constrains us from catching that market opportunity is just the amount of sales capacity we have in aggregate.

Stephen Sheldon - *William Blair & Company - Analyst*

Okay. And then one more, you talked some about improving trends in Brazil and strong growth in Australia and China. Are there any remaining pockets of weakness that you're seeing from either a regional or an industry perspective?

Gene Hall - *Gartner, Inc. - CEO*

I wouldn't say that -- unlike we had maybe six months ago, we don't really have any areas that are broadly, like countries or geographies or industries. So again if you went back a few months ago, oil and gas was more problematic for us. As I mentioned on the call, our CV growth rate in utilities now is up 500 basis points just sequentially over the quarter. And so, if I look at both geographies and industries and size of companies, we're really seeing growth everywhere. And some is faster than others, but really, very solid great growth in each of -- all those areas.

Stephen Sheldon - *William Blair & Company - Analyst*

Great. Thank you.

Operator

Manav Patnaik, Barclays.

Unidentified Participant - - *Analyst*

Hi all, this is [Ryan] filling in for Manav. I guess just to get back to the sales force hiring, obviously it slowed a little bit in the last two quarters and now you're seeing actually a little bit of a bump in productivity and some improvement in CV. Is there any way you're kind of reexamining whether growing at more of this more 10% range is maybe a smarter way to kind of help to ramp the productivity going forward? Is there a blueprint for future growth at all embedded in what we've seen in the last two quarters?

Gene Hall - *Gartner, Inc. - CEO*

So good question. So we of course look at what's the impact of growth rate on the quality of hiring and things like that. And that's not the case, meaning that we can hire at 15% a year and have great quality people. We can hire at 10%, equally great quality people. And so the real issue is just again what's the operational capability? Because it's more the operational capability that determines how fast we're going to hire.

And again because you -- as we saw the first half of the year our CV growth rate ticked down slightly. We were being very careful. Again, like I said, at the area manager level saying where are the places we see operational challenges and slowing a little bit there. Today again we're seeing broad-based strength and so I think you could translate what that means in terms of headcount growth, but it's operational capability as opposed to does the rate of hiring affect the quality or productivity?

Unidentified Participant - - *Analyst*

Got it. And then just a follow-up on some of the best practices that you've been talking about. So it sounds like training some of the sales force to kind of recognize more financial distress, but that almost sounds more consulting based. Are there new products that are out there from the research side that are helping them, or is it just a different approach to the sales strategy on these clients?

Gene Hall - *Gartner, Inc. - CEO*

Our research -- actually every part of our business is continually changing. We introduce innovations all the time and so I gave a specific example, but if you look at our research content, it is -- we make sure -- what's most value to our clients changes all the time and we have teams of analysts that are focused on making sure our research is focused on the most important areas with analysts. Then beyond that, on the product side, we have product innovations happening all the time and so, too numerous to list on this call. And so, in each of our product areas, we have product innovations.

And in fact just, kind of as a one that we did talk about is SCM World which basically gave us a very good innovation in terms of serving the largest supply chain enterprises in the world. And then we also innovate in terms of how we recruit people so we can identify people most likely to be successful. We innovate in terms of the training. Training is not -- it's not kind of -- you shouldn't interpret this as there was just one change and it had an impact and we're done. We do this all the time and adapt to the world, the change in the world.

And then tools, we know that, of all people, we know in technology, that taking the incredible things you can do in technology today with things like machine learning, artificial intelligence, natural language processing, we're integrating those into our processes to support our associates whether it be in sales, whether be in service to make them the most effective they can be.

Craig Safian - *Gartner, Inc. - SVP & CFO*

Ryan, the one other thing I would add, is it does point to and accentuate just the breadth and depth of what we have from an offering perspective across our research portfolio. And sometimes it's just a matter of highlighting for our clients an area that they may not have focused on previously or may not have known we had. And so there's an element of that as well which is if you are running the cost reduction play, we actually have a lot of analysts and a lot of research that can help you do that. If you're running the digital play, we can help you there. If you're running the cloud play, we can help you there. And so it really points to the breadth and depth of our offerings that we can run the plays required based on what the clients need at that time or what their financial situation is.

Unidentified Participant - - *Analyst*

Got it. Helpful. Thank you.

Operator

Jeff Meuler, Baird.

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

Yes, thank you, good morning. I guess a follow-up on the sales headcount. Should we think of it as a dynamic process? You'll continue to do this bottom-up build, so if you continue to see improvement in some of the regions that were weaker and continue to see productivity improvement, it could reaccelerate from 11% to 12% as we get into 2017 not that you are planning on running the business at this level more intermediate-term. Is that the way to think about it?

Craig Safian - *Gartner, Inc. - SVP & CFO*

I think that's a very accurate way to think about it which is again, based on the operational capability we see, we expect again overall our sales force headcount is going to grow in the 10% to 15% range and it is going to be based on the operational capability at the manager level.

Gene Hall - *Gartner, Inc. - CEO*

And Jeff, the one other thing I would add is our conviction in the market opportunity has not wavered one bit and so any modulation is really around assessing things at the ground level and ensuring that we are deploying additional resources in places that can drive productivity profitably. And so, it is tweaking on the margin there; but again, we remain absolutely convicted around the market opportunity and again believe we can grow the sales force to capture that market opportunity over the mid-to long-term.

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

Okay. And then the events full-year guidance reducing the top end of the range heading into symposium season, the commentary on Orlando was positive. But just what's driving the reduction in guidance and are there any particular symposium that are more pressured and is it ad rates or is it CIO attendance? Thanks.

Gene Hall - *Gartner, Inc. - CEO*

It's Gene, first we're still expecting full-year, if you look at our guidance, we are still expecting towards double-digit growth. Our Orlando symposium I mentioned, our largest event, it was sold out for the third year in a row. We also last year had a very strong events quarter which creates a strong, kind of a tough comparison point, not to say that we don't like tough comparisons, but it does create a tough comparison point. And then the other thing that's going in Q4 is that there's three particular events, now again, remember we hold more than 60 events a year.

There's three particular events. They were on two different continents that had a little -- underperformed relative to what we would have expected for operational reasons. And so in on case of one of these events, and again they still performed well, just not as well as we would have liked. One of them we had an exhibitor sales issue where we didn't get that exactly right. In another one, we had an attendee marketing issue, we didn't get that exactly right. And then, a third one, we consolidated three events into one and one plus one plus one didn't equal three. And so we kind of had three specific events happen to all come in Q4. Normally these would be spread through the year and that affects our Q4 results.

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

Got it. Thank you.

Operator

Anjh Singh, Credit Suisse.

Rashama Satz - *Credit Suisse - Analyst*

Hello this is [Rashama Satz] for Anjh Singh. This is just a housekeeping question regarding the net contract value increase for this quarter. If I missed it, how much is it? And how much is it down year to year?

Craig Safian - *Gartner, Inc. - SVP & CFO*

The net contract value increase on a year-over-year basis FX-neutral was $211 million and we were at 13% growth which was stable from Q2.

Rashama Satz - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Joseph Frazee, Cantor Fitzgerald.

Mike Reid - *Cantor Fitzgerald - Analyst*

Hey good morning this is Mike Reid on for Joe. Thanks for taking the question. I had a question, the client additions look to improve pretty good sequentially. Should we think about it improving this way going forward or does that just kind of have a normal ebb and flow with no seasonality or how should we think about that?

Craig Safian - *Gartner, Inc. - SVP & CFO*

Hey Mike, good morning. We obviously -- we grow our contract value through a combination of driving additional penetration in our existing accounts and we gave you some color around the average spend per enterprise and our wallet-retention metrics that illustrate that on top of that, because of that enormous market opportunity, we do believe that we can consistently find net new logos to bring into the fold as well. And so it may deviate a little bit from quarter to quarter, but over time if you look back, we've typically driven between 6% and 8% growth in our enterprises each and every year and that would be our expectation rolling forward as well.

Mike Reid - *Cantor Fitzgerald - Analyst*

Okay and then just a quick question on the tax rule. So you said that had a $0.11 benefit so far this year and then the guidance was for $0.12 full-year for that?

Craig Safian - *Gartner, Inc. - SVP & CFO*

That is correct yes.

Mike Reid - *Cantor Fitzgerald - Analyst*

Okay, great. Thanks guys.

Operator

Jeff Silber, BMO.

Henry Chien - *BMO Capital Markets - Analyst*

Hello thanks it's Henry Chien calling for Jeff. Good morning. Just was curious if we could get an update on some of the new initiatives that you've rolled out over the past year or so in terms of the supply chain and digital marketing, if we could just get an update on those initiatives and how much of that if possible was contributing to some of the acceleration in growth? Thanks.

Gene Hall - *Gartner, Inc. - CEO*

It's Gene, so in supply chain, again the biggest initiative we've had is the acquisition of SCM World which as I said really gives us a great offering set for the largest companies in the world. And so you combine our sales capability with that great delivery capability, it really will help accelerate the growth of that business. The supply chain business is accretive to our growth; it has been growing faster than average and so it's driving our growth rate up. It's a huge market, we have an even -- we have a small penetration in the IT world. In the supply-chain world, we have an even smaller penetration. So it's a huge enormous growth opportunity far into the future for us there.

And we have some potential marketing, our digital marketing business also is terrific. It's, the digital marketing business is focused on helping smaller companies, we call them small and midsized companies, with their IT issues just like we've been doing in the larger enterprise space over time. And we do that through our software buys, Capterra and get at -- software device capturing and get out brands. And it's about, again just like the larger companies, it is helping them solve the IT problems they had. In particular, when they want to select pieces of software, finding the right piece of software for each of those businesses in the small and midsize business area.

Henry Chien - *BMO Capital Markets - Analyst*

Got it, okay. And just is a follow-up, so it sounds like growth has been pretty measured and has been a solid over this past quarter. Just thinking in terms of mid- to long-term high level, is this the kind of growth that you want to accelerate over the next say 2, 3 years if these type of trends continue?

Craig Safian - *Gartner, Inc. - SVP & CFO*

Hey Henry just to clarify, are you talking about sales headcount growth?

Henry Chien - *BMO Capital Markets - Analyst*

Yes, sales headcount growth in terms of how you are investing, but just in terms of high-level growth, is this kind of the level that you would hopefully expect to accelerate or are you trying to keep it at a measured type of this level for the time being? Thanks.

Craig Safian - *Gartner, Inc. - SVP & CFO*

We would like to have our salesforce growth as fast as we can to go capture our market opportunity. When we sell new clients, it is very profitable for us. And so, we want to grow as fast as we can do it operationally. And so we've kind of targeted the 10% to 15% headcount range as what we think is the -- what we could do operationally today. And so clearly we are aiming for 15% if we can do it; and again, operationally, if we figure out ways to get it even faster than that, we want to do that as well.

Henry Chien - *BMO Capital Markets - Analyst*

Got it. Okay. That's helpful thanks so much.

Operator

Toni Kaplan, Morgan Stanley.

Unidentified Participant - - *Analyst*

Good morning guys, this is Patrick in for Tony. I wanted to ask about consulting. It looks like growth was relatively in line with last quarter, but obviously off of an easier comp and it looked like utilization and backlog ticked down sequentially. Have you seen clients holding off on new projects ahead of maybe a volatile election season or is there anything else to call out there? And then I'd appreciate if you could add some color on the decline we saw in consulting margins as well.

Craig Safian - *Gartner, Inc. - SVP & CFO*

Good morning Patrick it's Craig. On the consulting business, actually the business is in a very strong position for us and we actually feel really good about where we are. There's a couple of factors that are impacting the backlog and if you -- which I discussed in my prepared remarks, but essentially Q3 of last year we had a very large booking in a non-target geography that was in our Q3 ending backlog. And we've basically almost run through that project at this point in terms of recognizing the revenue of that backlog. And we didn't have another large booking in non-target geography in Q3 of this year.

So if you strip that out, our backlog is actually up 5% year over year and the really important measure for us is looking at our forward-revenue coverage. And as I mentioned, we have over four months of backlog coverage covering our forward revenue and our internal target is around 4%, so we're actually little bit above our own internal target there. So we continue to see demand; we have not seen a slowdown in terms of the decision-making. Again, our consulting projects are really oriented around supporting and driving our clients' mission-critical priorities. And so in tough times or in good times, they still need that help, and Gartner consulting is there to help them. So, we feel very good about where the consulting business is and actually think we're entering Q4 in a position of strength.

Unidentified Participant - - *Analyst*

Thanks Greg and anything to add on margins? They look like they declined obviously year over year. Anything to call out there?

Craig Safian - *Gartner, Inc. - SVP & CFO*

Yes, the only thing I would call out Patrick is, we continue to invest in managing partners and -- which is essentially a combination of a sales and delivery resource, the consulting P&L bears our edge gross margin level, bears the full cost of those managing partners. As we mentioned, we are up about 15% on managing partners on a year-over-year basis. And again, we are making a long-term investment bet on them that they will

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continue to help us drive consistent performance, consistent backlog growth and consistent revenue burn in recurring revenue with our largest client, so that's the primary driver of that of that small margin decrease.

Unidentified Participant - - *Analyst*

Awesome. Thanks guys.

Operator

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

Gene Hall - *Gartner, Inc. - CEO*

So thank you. To summarize the key points of today's call, we've introduced improvements innovations that provide tremendous value to our clients whether they are thriving or in distress. We're seeing the positive operational impact of these changes with double-digit growth in our major metrics during Q3. Our business gathered momentum throughout Q3 culminating in an extraordinarily strong September. We entered Q4 with strong leading indicators.

And based on the operational performance of the innovations we introduced, momentum coming out of Q3 and the strengthening of our leading indicators, we expect to see contract value growth accelerate during Q4 and we also expect sales productivity to improve sequentially over Q3. As I said before, we see this is as the inflection point in the performance of our business. We are well on track to deliver another year of double-digit growth in contract value, revenue and earnings, coupled with strong cash flow conversion. Our long-term outlook remains equally strong. And as always, we remain committed to enhancing shareholder value through investment in our business, strategic acquisitions and share repurchases. Thanks for joining us today and we look forward to updating you again early next year.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, you may now disconnect. Everyone have a great day.
