Gartner Inc. (IT)

Please refer to Appendix - Important Disclosures and Analyst Certification.

**Operating Margin** reflects Adj. EBITDA margin

<table>
<thead>
<tr>
<th>Price ($) (5/13/20):</th>
<th>109.92</th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>172 - 77</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>10,003</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>91.0</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>86.2</td>
</tr>
<tr>
<td>Avg. Daily Vol (mil):</td>
<td>1.01</td>
</tr>
<tr>
<td>Dividend ($):</td>
<td>0.00</td>
</tr>
<tr>
<td>Yield (%):</td>
<td>0.0</td>
</tr>
<tr>
<td>Rating:</td>
<td>Outperform</td>
</tr>
<tr>
<td>Suitability:</td>
<td>Average Risk</td>
</tr>
<tr>
<td>Price Target ($) :</td>
<td>135</td>
</tr>
<tr>
<td>L-Term Rev. Gr Rate Est:</td>
<td>12%</td>
</tr>
<tr>
<td>L-Term EPS Gr Rate Est:</td>
<td>15%</td>
</tr>
<tr>
<td>Debt/Cap:</td>
<td>71.0%</td>
</tr>
<tr>
<td>ROE:</td>
<td>39.3%</td>
</tr>
<tr>
<td>Insider Holdings:</td>
<td>3.3%</td>
</tr>
<tr>
<td>FY Dec</td>
<td>2019A</td>
</tr>
<tr>
<td>Q1</td>
<td>0.58A</td>
</tr>
<tr>
<td>Q2</td>
<td>1.45A</td>
</tr>
<tr>
<td>Q3</td>
<td>0.70A</td>
</tr>
<tr>
<td>Q4</td>
<td>1.18A</td>
</tr>
<tr>
<td>Total</td>
<td>3.90A</td>
</tr>
</tbody>
</table>

**Company Description**

Gartner is a leading research and advisory company across all major business functions, with more than 15k employees worldwide serving over 15k client organizations. Gartner was founded in 1979 and is headquartered in Stamford, Connecticut, but serves clients in more than 100 countries globally. It acquired CEB on April 5, 2017, expanding its research coverage from IT, supply chain, and digital marketing, to cover all major business functions.

**Revenue Profile**

- **Research segment (~79% of revenue, ~87% of gross profit):** Gartner delivers independent, objective advice to leaders across the enterprise at 15k clients worldwide. It has two reporting sub-segments: Global Technology Sales ("GTS") delivers products and services to users and providers of technology, while Global Business Sales ("GBS") delivers products and services to all other functional leaders (primarily HR, Sales/Marketing, Finance, Legal, and Supply Chain Management). Clients sign subscription contracts (annual or multi-year) providing them access to a subscription-based digital media Research solution (reports, briefings, updates and related tools), and clients also have access to live client-analyst interactions and Gartner conferences.

- **Conferences (~11%, ~9%):** Gartner hosts ~80k professionals at 70+ destination conferences per year worldwide. Attendees experience sessions led by Gartner analysts, advisors and vendors, peer exchange workshops, one-on-one analyst and advisor meetings, consulting diagnostic workshops, keynotes, and access to an exhibit hall floor. Since the acquisition of CEB, Gartner expanded through the Evanta brand, to host 700+ smaller live meetings each year and 250+ exclusive C-level meetings targeted at professionals in a given region.

- **Consulting (~9%, ~4%):** Gartner employs ~800 consultants providing solutions for IT cost optimization, technology modernization and IT sourcing optimization initiatives.
**Competition**

Gartner competes primarily in the market for research and advisory services. Direct competitors include providers of research and digital media measurement services, such as Forrester Research, IDC, and Data Monitor.

More importantly, we believe it competes for spend with consulting organizations and in-house resources at clients, as well as free sources of information that have become increasingly available to clients through the Internet.

**Quick Summary**

We rate Gartner Outperform, but believe some patience may be required given near-term disruption. Gartner is experiencing material revenue/bookings disruptions due to coronavirus impacts, but annual and multi-year contracts in a subscription-based business provide relative stability in Research revenue. Despite the revenue headwinds, IT’s ability to manage costs to preserve EBITDA is substantial. We continue to believe Gartner's economic model is exceptional (great cash flow, capital light), believe its TAM is very large and organic growth potential is open ended, believe the business is competitively advantaged with network effects, and think highly of management. Other than Conferences, where we expect a lasting negative impact, we believe the rest of IT can return to strong growth when conditions improve, with long runway.

$135 price target reflects 40x our 2020 adj. EPS estimate. Two-year historical average NTM P/E has been 35x with a range of 21x–41x. We believe IT deserves a premium multiple given its organic growth potential and strong economic characteristics. Further, FCF regularly materially exceeds EPS. Last, we believe it currently deserves a premium to its historical average given that we believe it is "underearning" in 2020/21 and expect strong EPS growth from those levels in 2022+ assuming a period of macroeconomic growth.

**Investment Thesis**

Significant TAM despite being market leader. Gartner is centered around market-leading research that can be re-sold globally to organizations in almost any industry, and across a broad range of organizational sizes. Its scale also enables very broad research coverage, providing significant value to clients and aiding high client retention. Despite being a market leader in a network effect business, Gartner counts a small minority of organizations in its target market as current clients, and has a meaningful opportunity to increase seat penetration at existing client organizations as well. Gartner has a strong and consistent long-term track record of meaningfully increasing client count, seats per client, and pricing. The CEB acquisition expands the Gartner syndicated research offering into all major corporate functions, significantly expanding its already very large untapped TAM.

Uniquely high returns on capital. Gartner's organic unit economics are exceptional. Clients pay upfront for annual subscriptions, while Gartner's expenses are paid over time and in part in arrears (bonuses/commissions). Given its consistent growth, it generates significant cash flow from its negative working capital model, which in many years exceeds the low CapEx requirements of the business. Other attractive financial attributes of its model include a high retention recurring revenue model with significant economies of scale that serve as a further barrier to entry to potential competition.

Current unproductive spend in heritage CEB businesses. Gartner has invested substantially in the acquired heritage CEB businesses and also made considerable operational changes that have been short-term disruptive. As a result, we believe the business (especially GBS) currently has meaningful embedded unproductive expenses. We believe that the most likely outcome is that Gartner will get a return on that spend over time that is evident in materially improved GBS sales productivity and sustainably materially faster GBS contract value growth. Should it fail to materially accelerate GBS CV growth, we believe the opportunity exists to increase margins by reducing currently unproductive spend (i.e., we believe the risk of permanent impairment is extremely low).

Excellent management with skin in the game, and strong track record of execution and continuous improvement. Gartner's CEO Gene Hall has transformed the company since joining as CEO in 2004, putting it on a consistent growth path with an excellent economic model, and instilling a continuous improvement culture. Both Mr. Hall and Chairman Jim Smith own substantial personal stakes in Gartner equity.

Strong brand name and reputation for reliable research. Gartner has a client list of more than 15k corporate clients around the world, a reputation for independent research and proven set of capabilities that place it among the premier global research providers. This is an important advantage, since in an industry with relatively low barriers to entry, the reputational advantages presented by a significant client list and known, high-quality services are the key differentiators leading to new business and creating significant barriers to entry for potential competitors. Favorable views about a company/product by Gartner analysts are often marketed by the reviewed companies, creating an efficient mechanism for further promoting Gartner's brand. We also view the Gartner brand and market position as helping attract and retain high quality analysts.

**Risks & Caveats**

Economic conditions could have a meaningful impact on the business. While we view Gartner as a secular growth company (serves a very large and largely untapped addressable market despite being the market leader), we also believe that demand for some of its services can be cyclically sensitive. Consequently, severe and/or prolonged economic weakness, leading to bankruptcies, consolidations and high employee turnover, could have a meaningful impact on revenue and the company's overall financial condition. Specifically, the current shutdowns and macroeconomic impacts from the Coronavirus pandemic could materially negatively impact its business.
Financial leverage. IT significantly increased its leverage coinciding with its acquisition of CEB in 2017, and exited 1Q20 with pro-forma net debt/LTM adj. EBITDA of 2.6x (down substantially vs. ~4.1x at the time of the acquisition). During a period of pronounced macro economic weakness, and general negative financial implications in the current pandemic environment, its debt and covenants could particularly negatively impact its business and/or stock.

Competitive pressures. Potential new entrants are not subject to any significant barriers to entry, other than the recruitment of skilled personnel (and to some extent brand/scale), and technology including business networks can facilitate the connection of experts with companies seeking their advice in a more targeted fashion, and outside of a syndicated research subscription.

Risks specific to operating internationally. Gartner operates its business globally in both developed and emerging markets. Thus, Gartner is subject to various political and economic factors specific to those locations, which could be difficult to predict, as well as FX risks.

Retention risks. As with any professional service entity, the retention of key personnel is a key risk factor, given that competition for highly skilled personnel is intense and expected to remain so in an increasingly interconnected global economy. While Gartner has a great platform for developing star analysts, the model is not dependent upon retaining these stars at any cost as the core value to the customer is largely in the overall Gartner brand and product quality and not specific analysts.

Government exposure. Approximately $639 million of Research contract value and Consulting backlog was attributable to governments at the end of 2019. Changes in procurement processes, sequestration, and the government shutdown in the U.S. and austerity in Europe have previously served as headwinds to Gartner’s federal government business.
Appendix - Important Disclosures and Analyst Certification

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