

Gartner

3, 2, 1... nearing Contract Value lift off

Reiterate Rating: BUY | PO: 550.00 USD | Price: 461.70 USD

Our 2024 EBITDA/FCF are 9/16% above guidance

IT's metrics-packed 4Q results and guide give us confidence in its 2024 Contract Value (CV) re-acceleration story. We think CV could pick up in 1H24 given strong new business momentum. We reiterate our Buy rating as we think 2024 is shaping up to be a year of guidance beats and raises driven by higher sales. We raise our PO from \$530 to \$550 as we roll forward to 2025 estimates. We're now using a 30x FY2 P/FCF multiple (vs. 32x prior). Our lower multiple factors in that our 2024 EBITDA is already 9% above guidance.

IT's playbook: another beat & raise set up

IT's \$3.04 4Q EPS beat our \$2.80E driven by a higher EBITDA margin (24.4% vs. our 22.9%E). Sales were slightly lower (5.4% vs. our 5.6%E). IT initiated 2024 guidance for \$10.55+ EPS on +5%+ sales and an implied 23% EBITDA margin. Guidance was below us / the Street. This wasn't a shock; we expected a conservative guide. Importantly, mgmt said the guide was achievable in a range of macro and geopolitical scenarios. In other words, IT is setting itself for beats during the year. We trim our 2024 EPS by 24c to \$11.92 largely on higher D&A and our 2024 FCF by 4.5% on a lower conversion ratio.

We're excited by Tech Vendor new business growth

IT still expects Tech Vendor spending to return to normalized growth in the next ~9-15 months. 4Q metrics bode positively for this turnaround. 3Q Tech Vendor CV (25% of total) improved from 3Q and was flat y/y, this compares to 3Q/2Q's low-single digits y/y growth. Tech Vendor new business growth (a leading indicator) was up high-single-digits y/y, the first y/y increase in 2023. IT's benefitting from a maturing salesforce, as well as a focus on pockets of growth amid a still challenged tech industry. However, into 1Q, management struck a cautious tone as it laps a higher-than-normal pocket of tech vendor renewals amid some insolvency in small tech and ongoing layoffs in large tech.

CV spread to headcount: a framework not a rule

Mgmt has guided to quota bearing headcount (QBH) growth ~400bp below CV growth long-term. This is a framework, not a qtrly or annual target. In 4Q, QBH was up 50 people q/q, but only 2% y/y. This isn't a reflection on near-term CV, but rather a function of IT having enough capacity from recent hiring. Guidance is for mid- to high-single-digit 2024 QBH growth, and could trend higher if CV accelerates faster.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.23	11.26	11.32	11.92	13.64
GAAP EPS	9.22	9.97	11.08	10.68	12.84
EPS Change (YoY)	88.4%	22.0%	0.5%	5.3%	14.4%
Consensus EPS (Bloomberg)			11.12	12.08	13.90
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	50.0x	41.0x	40.8x	38.7x	33.8x
GAAP P/E	50.1x	46.3x	41.7x	43.2x	36.0x
EV / EBITDA*	29.8x	26.1x	25.9x	24.7x	22.4x
Free Cash Flow Yield*	3.4%	2.7%	2.9%	3.4%	3.9%

* For full definitions of *IQmethod*SM measures, see page 5.

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	530.00	550.00
2023E Rev (m)	5,910.2	5,907.0
2024E Rev (m)	6,362.5	6,346.7
2025E Rev (m)	6,957.4	6,939.3
2023E EPS	11.08	11.32
2024E EPS	12.16	11.92
2025E EPS	13.96	13.64

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Stock Data

Price	461.70 USD
Price Objective	550.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-9
52-Week Range	292.60 USD - 471.76 USD
Mrkt Val (mn) / Shares Out (mn)	36,474 USD / 79.0
Free Float	97.2%
Average Daily Value (mn)	172.78 USD
BofA Ticker / Exchange	IT / NYS
Bloomberg / Reuters	IT US / IT.N
ROE (2023E)	198.5%
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter TM	High

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Timestamp: 06 February 2024 05:28PM EST

iQprofileSM Gartner

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	20.4%	24.8%	26.7%	25.5%	29.7%
Return on Equity	108.7%	304.9%	198.5%	139.8%	154.9%
Operating Margin	19.3%	20.1%	20.9%	18.4%	19.4%
Free Cash Flow	1,253	993	1,053	1,230	1,412

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.7x	1.2x	1.3x	1.4x	1.5x
Asset Replacement Ratio	0.3x	0.6x	0.5x	0.5x	0.6x
Tax Rate	18.2%	21.4%	23.1%	22.0%	22.0%
Net Debt-to-Equity Ratio	459.9%	NM	167.4%	143.7%	86.6%
Interest Cover	7.9x	9.1x	13.1x	12.6x	19.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,734	5,476	5,907	6,347	6,939
% Change	15.5%	15.7%	7.9%	7.4%	9.3%
Gross Profit	3,290	3,782	4,004	4,308	4,739
% Change	19.4%	15.0%	5.9%	7.6%	10.0%
EBITDA	1,287	1,471	1,483	1,557	1,714
% Change	57.4%	14.2%	0.8%	5.0%	10.1%
Net Interest & Other Income	54	(73)	(90)	(97)	(70)
Net Income (Adjusted)	795	913	902	931	1,055
% Change	80.3%	14.9%	-1.2%	3.2%	13.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	794	808	882	834	993
Depreciation & Amortization	212	192	191	203	205
Change in Working Capital	141	(34)	61	142	174
Deferred Taxation Charge	(42)	(31)	(64)	(69)	(75)
Other Adjustments, Net	207	167	86	230	238
Capital Expenditure	(60)	(108)	(103)	(110)	(121)
Free Cash Flow	1,253	993	1,053	1,230	1,412
% Change	52.9%	-20.7%	6.0%	16.8%	14.9%
Share / Issue Repurchase	(1,637)	(1,021)	(581)	(1,025)	(1,094)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	480	(6)	(8)	(274)	3

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	757	698	1,319	1,249	1,571
Trade Receivables	1,365	1,557	1,601	1,668	1,814
Other Current Assets	498	531	508	569	621
Property, Plant & Equipment	274	265	263	261	257
Other Non-Current Assets	4,523	4,249	4,145	4,055	3,976
Total Assets	7,416	7,300	7,836	7,802	8,239
Short-Term Debt	6	8	10	10	10
Other Current Liabilities	3,373	3,559	3,768	4,038	4,411
Long-Term Debt	2,457	2,454	2,449	2,175	2,178
Other Non-Current Liabilities	1,210	1,052	929	929	929
Total Liabilities	7,045	7,072	7,155	7,152	7,527
Total Equity	371	228	681	651	712
Total Equity & Liabilities	7,416	7,300	7,836	7,802	8,239

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Business Services

Company Description

Gartner is a leading global research and advisory firm, helping senior executives in IT, finance, HR and other areas make better business decisions. Its Research segment provides subscription research products and associated tools and analytics, and its smaller Events and Consulting segments are extensions of the research offerings that extend the value to clients.

Investment Rationale

Our rating on Gartner is Buy. The company generates best in class free cash flow conversion, We also think it is well positioned to beat and raise earnings on higher sales and margins as its Global Business Sales segment gains traction and robust demand for its IT Research. The company's recent focus on long-term margin expansion after a period of investment is an incremental positive. The company also has a long history of returning excess cash to shareholders via buybacks and select M&A.

Stock Data

Average Daily Volume 374,220

Quarterly Earnings Estimates

	2022	2023
Q1	2.33A	2.88A
Q2	2.85A	2.84A
Q3	2.41A	2.56A
Q4	3.70A	3.04E



Price objective basis & risk

Gartner (IT)

Our \$550 price objective is based on 30x our 2025E P/FCF (vs. 32x 2024E P/FCF prior). Our multiple is 2x above the peer average, which we think is warranted given IT's resilient business.

Downside risks are 1) slowing demand throughout the COVID-recovery, 2) a slow rebound in conference activity due to consumers' reduced willingness to travel, and 3) inability to hire as much or as quickly as expected.

Upside risks are 1) EPS beat with Research segment sales upside, 2) better-than-expected in-person conference sales, and 3) better cost control.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Gartner (IT) Price Chart



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Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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