

Gartner

# 4Q EPS preview: anticipating another step towards Contract Value inflection

Reiterate Rating: BUY | PO: 530.00 USD | Price: 453.10 USD

## We are bullish as Contract Value poised for acceleration

We expect Gartner to report 4Q23 EPS the week of Feb. 4<sup>th</sup> before the open. Shares are up 34% (vs. the S&P 16%) since reporting 3Q EPS and we're bullish on the clearer line of sight to Research Contract Value (CV) inflecting positive by 1H24 (BofA estimate). In 3Q, Tech Vendor CV (25% of total CV) growth stabilized and new business growth in Research was much better than expected. We reiterate our Buy rating as we see upside to EPS estimates and expect multiple expansion as Contract Value accelerates. We raise our PO to \$530 on a higher multiple (32x P/FCF vs. 30x prior) to reflect peer rerating and our confidence in the 2024 CV inflection.

## Hot topic #1: CV's inflection: we think in 1Q24

A key debate among investors for 2024 is when CV growth will re-accelerate: we think 1Q24. Since 4Q22, CV has been decelerating due to weak Tech Vendor spending amid tech industry challenges. In October, IT set a wide timeline (12-18 months) for trends to normalize (i.e., return to low-double-digit growth). We assume 4Q23 CV growth was stable at +8.3% y/y (vs. 3Q/2Q23's +8.1/9.0%), and inflects modestly in 1Q24 to 8.8%.

## Hot topic #2: we expect 22-23% '24 EBITDA margin guide

Investors have been heavily debating 2024 EBITDA margins. The buy-side seems to be at 24-25%; we're at 24.5%. Near-term angst is on how low IT will guide. Management has a track record of guiding conservatively and revising upward through the year. Initial 2023 guidance implied a 21.5%+ margin, while the latest guide was for 24.4%+ (we're at 24.7%). We think an initial guide implying 22-23%+ EBITDA margins is a possibility.

## Focused on the details in 4Q

Our \$2.80 4Q EPS is in line with Visible Alpha consensus. Our outlook reflects 5.6% sales growth and 22.9% EBITDA margin (down 510bp y/y). We model Research/Consulting /Conferences 4Q sales growth of 6%/(5.5%)/11.5%. We're focused on new business growth (we expect it to be strong) and CV (we expect flattish q/q). We adjust our 2023 EPS estimate slightly.

## Gartner has a track record of guiding low

We expect IT initially to guide 2024 below the Street (\$12.12) and revise higher during the year. We model \$12.16 EPS driven by ~8% sales growth and a 24.5% EBITDA margin ((20)bp). We model 7.5/7/10% Research/Consulting/Conferences 2024 sales growth. Research revenues lag CV, so we expect sales to continue to decelerate into 1Q24.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.23	11.26	11.08	12.16	13.96
GAAP EPS	9.22	9.97	10.72	11.28	13.20
EPS Change (YoY)	88.4%	22.0%	-1.6%	9.7%	14.8%
Consensus EPS (Bloomberg)			11.12	12.08	13.90
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	49.1x	40.2x	40.9x	37.3x	32.5x
GAAP P/E	49.1x	45.4x	42.3x	40.2x	34.3x
EV / EBITDA*	29.6x	25.9x	26.1x	24.4x	22.2x
Free Cash Flow Yield*	3.5%	2.7%	2.9%	3.6%	3.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

17 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	500.00	530.00
2023E Rev (m)	5,909.8	5,910.2
2024E Rev (m)	6,371.4	6,362.5
2025E Rev (m)	6,967.7	6,957.4
2023E EPS	11.05	11.08

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### Stock Data

Price	453.10 USD
Price Objective	530.00 USD
Date Established	17-Jan-2024
Investment Opinion	B-1-9
52-Week Range	292.60 USD - 469.58 USD
Mkt Val (mn) / Shares Out (mn)	36,166 USD / 79.8
Free Float	97.2%
Average Daily Value (mn)	214.44 USD
BofA Ticker / Exchange	IT / NYS
Bloomberg / Reuters	IT US / IT.N
ROE (2023E)	251.8%
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 17 January 2024 12:36AM EST

# iQprofile<sup>SM</sup> Gartner

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	20.4%	24.8%	26.8%	28.1%	32.0%
Return on Equity	108.7%	304.9%	251.8%	202.1%	216.1%
Operating Margin	19.3%	20.1%	20.2%	19.2%	19.8%
Free Cash Flow	1,253	993	1,047	1,287	1,413

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.7x	1.2x	1.3x	1.5x	1.4x
Asset Replacement Ratio	0.3x	0.6x	0.6x	0.6x	0.7x
Tax Rate	18.2%	21.4%	22.8%	22.0%	22.0%
Net Debt-to-Equity Ratio	459.9%	NM	278.3%	227.7%	138.8%
Interest Cover	7.9x	9.1x	12.6x	12.7x	19.0x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,734	5,476	5,910	6,363	6,957
% Change	15.5%	15.7%	7.9%	7.7%	9.4%
Gross Profit	3,290	3,782	4,020	4,320	4,753
% Change	19.4%	15.0%	6.3%	7.5%	10.0%
EBITDA	1,287	1,471	1,460	1,560	1,717
% Change	57.4%	14.2%	-0.7%	6.8%	10.1%
Net Interest & Other Income	54	(73)	(89)	(96)	(73)
<b>Net Income (Adjusted)</b>	<b>795</b>	<b>913</b>	<b>883</b>	<b>949</b>	<b>1,079</b>
<b>% Change</b>	<b>80.3%</b>	<b>14.9%</b>	<b>-3.3%</b>	<b>7.4%</b>	<b>13.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	794	808	855	880	1,021
Depreciation & Amortization	212	192	191	188	182
Change in Working Capital	141	(34)	100	192	191
Deferred Taxation Charge	(42)	(31)	(71)	(77)	(84)
Other Adjustments, Net	207	167	83	218	226
Capital Expenditure	(60)	(108)	(110)	(115)	(122)
<b>Free Cash Flow</b>	<b>1,253</b>	<b>993</b>	<b>1,047</b>	<b>1,287</b>	<b>1,413</b>
<b>% Change</b>	<b>52.9%</b>	<b>-20.7%</b>	<b>5.4%</b>	<b>22.9%</b>	<b>9.8%</b>
Share / Issue Repurchase	(1,637)	(1,021)	(727)	(1,029)	(1,094)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	480	(6)	(4)	(274)	3

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	757	698	1,143	1,127	1,449
Trade Receivables	1,365	1,557	1,583	1,669	1,807
Other Current Assets	498	531	547	555	606
Property, Plant & Equipment	274	265	269	281	295
Other Non-Current Assets	4,523	4,249	4,124	4,038	3,962
<b>Total Assets</b>	<b>7,416</b>	<b>7,300</b>	<b>7,666</b>	<b>7,670</b>	<b>8,120</b>
Short-Term Debt	6	8	10	10	10
Other Current Liabilities	3,373	3,559	3,817	4,103	4,481
Long-Term Debt	2,457	2,454	2,451	2,177	2,180
Other Non-Current Liabilities	1,210	1,052	915	915	915
<b>Total Liabilities</b>	<b>7,045</b>	<b>7,072</b>	<b>7,192</b>	<b>7,204</b>	<b>7,586</b>
<b>Total Equity</b>	<b>371</b>	<b>228</b>	<b>473</b>	<b>465</b>	<b>533</b>
<b>Total Equity &amp; Liabilities</b>	<b>7,416</b>	<b>7,300</b>	<b>7,666</b>	<b>7,670</b>	<b>8,120</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## 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 473,266

## Quarterly Earnings Estimates

	2022	2023
Q1	2.33A	2.88A
Q2	2.85A	2.84A
Q3	2.41A	2.56A
Q4	3.70A	2.80E

## Price objective basis & risk

### Gartner (IT)

Our \$530 price objective is based on 32x our 2024E P/FCF. 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

I, Heather Balsky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
<b>UNDERPERFORM</b>				
	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



## iQmethod<sup>SM</sup> 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 &amp; 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

EV / EBITDA

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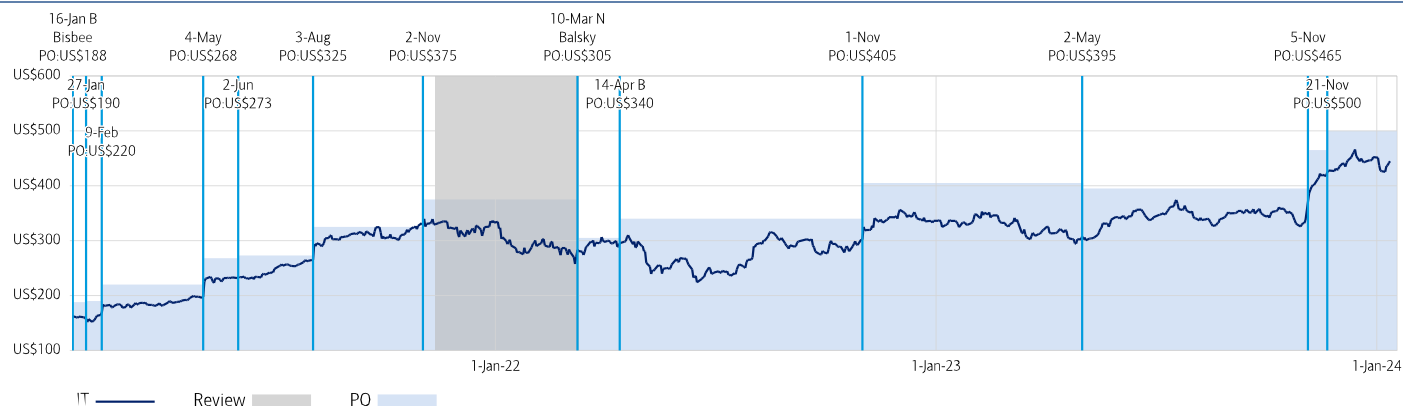
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#### Gartner (IT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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