Gartner, Inc. (IT) CEO Gene Hall on Q3 2019 Results - Earnings Call Transcript

Oct. 31, 2019 2:31 PM ET | 1 Like
by: SA Transcripts

Q3: 10-31-19 Earnings Summary

Press Release *Slides*

EPS of $0.7 beats by $0.27 | Revenue of $1B (8.55% Y/Y) beats by $7.66M

Earning Call Audio

Subscribers Only

00:00 -56:20

Gartner, Inc. (NYSE:IT) Q3 2019 Earnings Conference Call October 31, 2019 8:00 AM ET

Company Participants

David Cohen - Group Vice President, Investor Relations

Gene Hall - Chief Executive Officer

Craig Safian - Chief Financial Officer

Conference Call Participants

Jeff Meuler - Baird

Manav Patnaik - Barclays

Gary Bisbee - Bank of America

Toni Kaplan - Morgan Stanley

Andrew Nicholas - William Blair

Jeff Silber - BMO Capital Markets

Joseph Foresi - Cantor Fitzgerald

George Tong - Goldman Sachs

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Gartner Third Quarter 2019 Earnings Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, David Cohen, Gartner, GVP of Investor Relations. Please go ahead.

David Cohen

Thank you, Sarah, and good morning, everyone. We appreciate you joining us today for Gartner's third quarter 2019 earnings call. With me today are Gene Hall, Chief Executive Officer; and Craig Safian, Chief Financial Officer. This call will include a discussion of third quarter 2019 financial results and our current outlook for 2019 as disclosed in today's press release. In addition to today's press release, we have provided a detailed review of our financials and business metrics and earnings supplement for investors and analysts. We have posted the press release and the earnings supplement on our website investor.gartner.com.

Following comments by Gene and Craig, we will open up the call for your questions. We ask that you limit your questions to one and a follow-up. On the call, unless stated otherwise, all references to revenue and contribution margin are for adjusted revenue and adjusted contribution margin, which exclude deferred revenue purchase accounting adjustments and the 2018 divestitures. All references to EBITDA are for adjusted EBITDA, with the adjustments as described in our earnings release and excluding the 2018 divestitures.

All cash flow numbers, unless stated otherwise, are as reported with no adjustments related to the 2018 divestitures. All growth rates in Gene's comments are FX neutral unless stated otherwise. In our discussion of Global Business Sales or GBS, we will refer to the GxL products. These are the products for business leaders across an enterprise. Gartner for Marketing Leaders is GML. Gartner for Finance Leaders is GFL and so on. In aggregate, we refer to these products for business leaders as GxL.

Reconciliations for all non-GAAP numbers we use are available in the Investor Relations section of the gartner.com website. Finally all contract values and associated growth rates we discuss are based on 2019 foreign exchange rates. As set forth in more detail in today's earnings release, certain statements made on this call may constitute forward-looking statements. Forward-looking statements can vary materially from actual results and are subject to a number of risks and uncertainties, including those contained in the company's 2018 annual report on Form 10-K and quarterly reports on Form 10-Q as well as in other filings with the SEC. I encourage all of you to review the risk factors listed in these documents.

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

Gene Hall

Good morning. Thanks for joining us. For the third quarter 2019, we continued to deliver strong performances across our business. Total revenues were up 11% fueled by double-digit growth in each of our business segments: Research, Conferences and Consulting. We continue to make a significant global impact through these segments. We help more than 15,000 enterprise clients in more than 100 countries around the world with their mission-critical priorities, while providing great jobs to more than 16,000 associates globally.

Research, our largest and most profitable segment, is the core of our value proposition. Our Research business was up 10% over this time last year. The Gartner formula for sustained double-digit growth continues to drive success in our Research business. As we previously highlighted, the Gartner formula consists of indispensable insights, exceptional talent, sales excellence and enabling infrastructure. For each of these elements, we drive relentless, globally consistent execution of best practices and consistent improvement and innovation.

Global Technology Sales or GTS serves leaders and their teams within IT. This group represents more than 80% of our total Research contract value. GTS contract value growth was 13% year-over-year. We delivered double-digit growth in every region, across every size company and in virtually every industry. Global Business Sales or GBS serves leaders and their teams beyond IT and represents about 20% of our total Research contract value. This includes supply chain and marketing, which we have addressed for several years, as well as other major enterprise roles, including HR, finance, legal sales and more.

GBS continued on a path toward double-digit growth with total GBS contract value accelerating to 3%. Our GxL product line continued to gain momentum, with contract value increasing $26 million sequentially. GxL products provide greater value to clients because they are tailored to the client's individual needs. This in turn results in higher prices per user and stronger retention. Beyond better pricing retention, GxL products provide exponentially more growth opportunities because we can sell these high-value products throughout our client's organizations.

For Q3, GxL contract value grew 65% year-over-year and new business was up 39%. We expect continued acceleration in GBS contract value. In Q4, if new business growth and retention improvement is the same as it was in Q3, contract value growth will be 9.6%. Our Conferences segment also delivered a terrific performance in Q2 with double-digit revenue growth of 19%. Gartner Conferences combine the outstanding value of research with the immersive experience of live interactions, making every conference we produce the most important gathering for the executives we serve.

I recently attended our IT Symposium Conference in Orlando, Florida. This conference is the most important gathering of CIOs and Senior IT Executives in North America. We hosted around 8,000 attendees on site and about 3,000 of these were Chief Information Officers. This is near all-time highs.

At our conferences, you can see firsthand the power of Gartner in helping clients achieve their mission-critical priorities. Clients received incredible insights from our analysts. They networked with leading peers and experienced leading edge technology for the most important providers in the world.

Our executive attendees were inspired and empowered to succeed as a result of the insights we delivered at this important event. Our associates were equally inspired and excited about the incredible value we deliver to our clients.

Our Consulting segment also achieved double-digit growth in Q2 with revenues up 20%. Gartner Consulting is an extension of Gartner Research and provides clients a deeper level of involvement through extended project-based work to help them execute their most strategic initiatives. Our growth in the quarter was a combination of our labor-based business and strength in our Contract Optimization business.

So, we delivered another strong quarter across all three of our business segments. We continue to have a vast market opportunity. We've made investments over the past two years that position us well to capture that market opportunity. We're preparing our 2020 business plan and expect to continue attractive double-digit growth.

We plan to maintain expense growth in line with revenue growth by leveraging investments we've made over the past three years. Specifically, we expect total expense growth to be in line with total revenue growth. We've had a strong history of continuous improvement and continuous innovation. We're shifting the emphasis of our innovations and improvements to be on more tightly managing expenses.

Sales is one of our largest expense categories. In sales, we'll be implementing significant innovations that we expect will improve sales expenses relative to contract value.

Here are three examples. Territory design is an important factor in determining a salesperson's productivity, especially in a growth company. We've developed a highly sophisticated territory planning capability over the past few years. For 2020, we're making a major advance by making the territory planning process much more dynamic.

Another important factor impacting sales expenses is how quickly new sales hires get into the territory and make their first sale. Over the past few years, we developed a very strong recruiting capability. For 2020, we're implementing changes to the recruiting process which will allow us to put salespeople in territory just in time, analogous to just-in-time manufacturing.

A third factor impacting sales expenses is training. Over the past few years we developed sales training that is broadly recognized as being outstanding. For our next evolution, we're reducing the amount of upfront training and shifting this training to be just-in-time as a salesperson needs it. This will enable us to be even more effective, while getting salespeople into territory even faster.

Beyond sales, we expect to get leverage from the G&A investments we've made over the past few years. We've already begun making these changes to ensure we get the full impact in our 2020 plan.

Summarizing, we're shifting to getting returns from the investments we've made over the past three years, while maintaining the long-term growth that captures our enormous market opportunity.

Looking ahead, we are well-positioned for sustained long-term growth. We expect continued sustained long-term growth in GTS. We expect continued acceleration in GBS and Conferences and Consulting are on a strong path.

Looking ahead to 2020 with the great strategic positioning of GTS and GBS together with leveraging the investments we've made, we expect double-digit topline growth and EBITDA growing approximately in line with revenues.

With that I'll hand the call over to Craig.

Craig Safian

Thank you, Gene, and good morning, everyone. Global Technology Sales, the largest part of our business continues to deliver strong double-digit growth. Global Business Sales continued to accelerate after inflecting to growth last quarter.

Our strategy to deliver products and services with the compelling value proposition across all enterprise functions is working. Conferences and Consulting are having outstanding years.

Third quarter revenue was $1 billion, up 10% as reported and 11% on an FX-neutral basis. Topline growth was impacted by about 100 basis points in the quarter from the product retirements we've previously discussed.

In addition, contribution margin was 64% down 10 basis points from the prior year. EBITDA was $140 million, ahead of expectations, although down 6% year-over-year and 5% FX neutral. Adjusted EPS was $0.70 and free cash flow in the quarter was $190 million.

Our Research business had a strong quarter. Research revenue grew 9% year-over-year in the third quarter and 10% on an FX-neutral basis. Third quarter contribution margin was 69%. Total contract value was $3.3 billion at September 30th, growth of 11% versus the prior year. We always report contract value growth in FX-neutral terms.

I'll now review the details of our performance for both GTS and GBS. In the third quarter, GTS contract value increased 13% versus the prior year. GTS had contract value of $2.6 billion on September 30, representing just over 80% of our total contract value. Client retention for GTS remained strong at 82%.

Wallet retention for GTS was 105% for the quarter, down 16 basis points year-over-year. Our wallet retention rates show that our clients spend more with us each and every year because of the value we provide to them. GTS new business grew 12% versus the third quarter of last year, a strong rebound from second quarter. New businesses coming from a mix of new enterprises and growth in existing enterprises through sales of additional services and upgrades.

We ended the third quarter with 12,728 GTS enterprises, up 2% compared to Q3 2018. We've added over 1,600 new enterprises so far in 2019. The majority of client losses are with our smaller, lower spending clients, which you can see in the client retention rates.

Moving forward, we expect to grow the number of enterprises as well as expanding the contract value in those enterprises. The average contract value per enterprise continues to grow. It now stands at $208,000 per enterprise in GTS, up 11% year-over-year. Growth in CV per enterprise reflects both price increases as well as upsell and increased numbers of subscriptions.

At the end of the third quarter, we had 3,355 quota-bearing associates in GTS, a growth of 14% year-over-year. We have made investments in the GTS sales force and have seen CV accelerate from 2017. Following the additions we made late last year and early this year, we are recalibrating our expense growth to ensure we align it with GTS CV growth. These changes are consistent with our continuing commitment to strong execution and sustained long-term double-digit growth.

We expect GTS headcount growth to end 2019 at approximately 10%. With the hiring we've done, the sales force has the capacity to grow GTS contract value between 12% and 16% per year, consistent with our medium-term guidance. For GTS, the year-over-year net contract value increase or NCVI divided by the beginning period quota-bearing headcount was $104,000 per salesperson, down 4% versus the third quarter of last year.

The higher headcount growth late last year and into this year brought down the average tenure as new salespeople take time to get the full productivity. One of the benefits of moderating the headcount growth exiting this year and moving into 2020 is that average tenure will increase, which should improve productivity.

Turning to Global Business Sales. GBS contract value was $620 million at the end of the third quarter or about 20% of our total contract value. The momentum we saw last quarter continued, with GBS CV increasing 3% year-over-year. The acceleration in GBS contract value was driven by strength in GxL. Total GBS new business was up 26% and retention improved as well. GxL products are an important part of our strategy and continue to gain share.

Looking at total contract value from the GxL products, we drove an FX-neutral increase of 65% year-over-year from $154 million to $254 million. We've updated the GxL data we provided the last few quarters on Page 11 of the earnings supplement to highlight the trend in GxL new business and contract value. We sold $35 million of GxL new business in Q3, up 39% versus the prior year quarter. We continue to make great progress with our GxL products across each of the functions GBS serves.

More than half of the GxL new business in the quarter came from newly launched products. GxL CV now makes up 41% of our total GBS contract value, up 15 percentage points from Q3 of last year. We're driving increased client engagement through expanded service teams and growing adoption of individualized content and service. For the standalone of quarter, we drove attrition rate down for GBS.

For contracts that were up for renewal in the third quarter, attrition improved by about 500 basis points over the prior year quarter. Again, this is a result of the increased engagement we've discussed, a richer mix of GxL renewals and all of our other retention programs having an impact. Our path to continued acceleration and double-digit growth for GBS is clear.

As Gene detailed, the path to double-digit growth is based on new business growth and attrition improvement consistent with Q3. At the end of the third quarter, we had 910 quota-bearing associates in GBS or growth of 19%. Headcount was down sequentially as we are recalibrating our cost base. We expect GBS headcount growth to moderate by the end of the year as we shift to reap the benefits of the investments we've made.

In conferences, revenues increased by 16% year-over-year in Q3 to $66 million. FX-neutral growth was 19%. Third quarter contribution margin was 41%, down 239 basis points from an especially strong third quarter 2018. The largest impact on the year-over-year Q3 contribution margin comparison was the movement of our Europe supply chain conference into Q2. On a year-to-date basis, conferences contribution margin was flat compared to the prior year.

We had 18 destination conferences in the third quarter. On a same conference FX-neutral basis, revenues were up 20% with a 9% increase in attendees and a 100 basis point improvement from same conference contribution margin.

Turning to Consulting. Third quarter Consulting revenues increased by 18% year-over-year to $93 million. FX-neutral growth was 20%. Consulting contribution margin was 28% in the third quarter.

Labor-based revenues were $78 million, up 11% versus Q3 of last year or 13% on an FX-neutral basis. Labor based billable headcount of 809 was up 11%. Utilization was 57% as the third quarter is our seasonally lowest utilization quarter and also when our annual MBA hires join the company.

Backlog at September 30th was $109 million, up 3% year-over-year on an FX-neutral basis. Our backlog provides us with about 4.5 months of forward revenue coverage in line with our operating targets.

Contract Optimization revenues were up 74% versus the prior year quarter. As we have detailed in the past, this part of the Consulting segment is highly variable. The compares get significantly more challenging in the fourth quarter.

SG&A increased 15% year-over-year in the third quarter and 17% on an FX-neutral basis. We will continue to grow sales capacity and the enabling infrastructure to support our strategy of delivering sustained double-digit growth over the long-term. We have started the process to recalibrate the sales and infrastructure investment to align cost growth with revenue growth.

EBITDA for the third quarter was $140 million, down 6% year-over-year on a reported basis and 5% on an FX-neutral basis. In the third quarter this year, EBITDA was adversely affected by about four percentage points or $5 million impact due to the product retirements we have discussed. Taking that into consideration, underlying FX-neutral EBITDA was down about 2% in the quarter.

Depreciation was up about $3 million from last year as additional office space went into service. Amortization was flat sequentially. Integration expenses were down year-over-year as we have moved past the biggest part of the integration work.

During the quarter, we recognized an unrealized gain of $9.1 million related to a minority equity investment that we sold in October. The gain is in other income. This was a heritage CEB minority investment in a small company, which was acquired.

Net interest expense excluding deferred financing costs in the quarter was $22 million, down from $25 million in the third quarter of 2018. Our lower net interest expense resulted from lower average debt balances of roughly $170 million. The Q3 adjusted tax rate, which we use for the calculation of adjusted net income was 22.8% for the quarter, lower than expected as a result of more favorable income mix and timing of reserve movements. The tax rate for the items to adjust net income was 24.2% in the quarter.

Adjusted EPS in Q3 was $0.70, above our expectations due to operating upside and a lower tax rate. In Q3, operating cash flow was $220 million, compared to $249 million last year. The decrease in operating cash flow is primarily driven by lower EBITDA.

Q3 2019 CapEx was $36 million and Q3 acquisition and integration payments and other non-recurring items was approximately $7 million. This yields Q3 free cash flow of $190 million, which is down 17% versus the prior year quarter, normalizing 2018 for divestitures and working capital timing.

On a rolling four quarter basis, our free cash flow conversion was 119% of adjusted net income, excluding divested operations and working capital timing. The lower conversion is due to timing and we expect to finish the year with the conversion rate in the high 120s.

Turning to the balance sheet. Our September 30th debt balance was about $2.2 billion. Our debt is effectively 100% fixed rate. Adjusting EBITDA for the divestitures, our gross leverage ratio is now about 3.3 times EBITDA. We repurchased $95 million of stock in the quarter at an average price of about $134 per share. We will continue to be price sensitive and opportunistic as we return capital to shareholders. We have $777 million remaining on our repurchase authorization.

Our capital allocation strategy remained the same. We deployed our free cash flow and balance sheet flexibility by returning capital to our shareholders through our buyback programs and through strategic value enhancing M&A.

Earlier this month, we acquired TOPO, a provider of insight and advice for sales leaders. The overall purchase price was $33 million with a portion of the consideration deferred for a couple of years.

Turning to the outlook for 2019. Revenue, adjusted EBITDA, free cash flow and adjusted EPS guidance all remain unchanged from last quarter. The top line growth outlook on an FX-neutral basis remain strong and we are committed to the same second half targets we provided in July. As you're thinking about the fourth quarter in the context of third quarter results there are two points to keep in mind.

First Consulting outperformed our expectations in the quarter in both labor-based and Contract Optimization. Most of the upside was revenue we previously forecasted for the fourth quarter. And second, as we began the process to realign our expense growth with our revenue, we shifted some cost out of Q3 and into Q4.

Our guidance reflects FX rates as of September 30. FX is causing a roughly two point negative impact to a projected 2019 full year growth rates across revenue, EBITDA, adjusted EPS and free cash flow. The highlights of our full year guidance are as follows: We expect FX-neutral revenue growth of 10% to 11%; we expect adjusted EBITDA in FX-neutral terms of down 1% to up 4%; we expect an adjusted tax rate of around 25.5% for 2019 that implies a mid-50% rate for the fourth quarter; our tax planning related to our intellectual property is ongoing and we anticipate incremental tax costs in the fourth quarter.

Please note that, if you are adding back from GAAP net income the rate for the tax effect on the add-backs is also about 25.5%. For 2019, we expect free cash flow of $400 million to $430 million. That is a projected FX-neutral change of down 2% to up 5% versus our normalized 2018 free cash flow. All the details of our full year guidance are included on our Investor Relations site.

In summary, GTS contract value growth continues to be strong and sales of our new GxL products and GBS continue to rise. Our Conferences and Consulting businesses both had great quarters. We expect to finish the year with free cash flow conversion from net income in the high 120 percents. As we prepare for 2020, we are actively recalibrating our investments to ensure cost growth is in line with revenue growth. And we continue to apply the Gartner formula across the combined business to drive sustained long-term double-digit growth to revenues, EBITDA and free cash flow.

With that, I'll turn the call back over to the operator and we'll be happy to take your questions. Operator?

Question-And-Answer Session

Operator

Thank you [Operator Instructions] Our first question comes from the line of Jeff Meuler with Baird. Your line is now open.

Jeff Meuler

Yeah. Thank you. To start, can you just give some more color on the improved GTS new business sold trend. And I guess, what I'm wondering if last quarter you talked about an abnormal amount of management or operational change and that had some impact. I'm just curious, does it tie back to those regions or just anything you can say about the improved GTS new business sold trend?

Gene Hall

Good morning, Jeff. Thanks for the question. I think our new business performance obviously we want to drive consistent double-digit improvements in our new business on a year-over-year basis. We got back on track for that trend in the third quarter with strong new business growth. I think that the challenges we detailed last quarter, we are working our way through them. It takes time to work through them.

So I would definitely not attribute the rebound to – those things all bounce back. But I just attribute it to: one, we have a huge market opportunity which we continue to go after; two, we've continued to grow our sales force to go after that opportunity; and three we have an expectation that we'll drive double-digit growth in our new business to basically support or sustain double-digit growth within GTS.

Jeff Meuler

Okay. And then on the way that you're managing expenses and margin I know, it's being well received from your shareholders base, but I guess just want to make sure that the way you're managing it doesn't ultimately impact growth. And I hear you on the GBS sales headcount that you've kind of already made the investment and it's time to harvest that. But the other things that you're citing, they sound to me like kind of the continual improvements that Gartner is always making. So am I wrong about that? Is there some reason why we should think that those productivity impacts will be bigger from this round of initiatives? Or are there other areas other than kind of harvesting GBS sales headcount where you're actually reducing spend or not making investments that you otherwise would have made?

Gene Hall

Hey, Jeff, it's Gene. I put it in two categories. One is – or three categories, I'm sorry, three categories. One is sort of in GBS where again, as you correctly articulated we made some major investments since we acquired CEB. We're seeing those returns on those investments, we're very focused and making sure we get those returns to the investment. We've got the sales force trained and we got the products introduced. And so now we want to make sure we focus on getting returns from that, and so we see a big upside there. Secondly, in GTS similarly we've made – in GTS similarly we made some investments over the last year – during that same period of time, and we invested a little higher rate than we had invested even before this CEB acquisition. And we have a similar situation just not as pronounced as it was on the GBS side.

And some of the changes involve some innovations like -- I took you through three of them and we think are material innovations that will affect in particular, the expense relative to contract value which is really important in sales.

And the last thing I also mentioned which is, we do think that there is some leverage we can get out of our G&A that we haven't gotten over the last couple of years. And I'll give you an example which is as we grew we had some major real estate projects. Those projects are now at a point where we can start getting the benefits from those and so we have less of a drag in G&A from those, which is part of the reason we can expect, as I said G&A to grow slower than our overall revenues going forward.

Jeff Meuler

Okay. Thank you.

Operator

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

Manav Patnaik

Thank you, good morning. I was wondering if you could just talk a little bit more around the client count reduction. It's been three quarters now. I know you said most of it was on the small business side, but that's usually the case.

So I was just wondering is there anything incremental. And your confidence in growing that again are you going to shift strategy to more larger accounts or if there's any change there at all?

Craig Safian

Good morning, Manav. And thanks for the question. I think on the enterprise account thing -- or the enterprise account trend I should say, there are a few things going on there. One is; as we have talked about in the past, any M&A obviously won't impact that count and we have been in a period where there's been more M&A than normal and that has a modest impact on the count.

And the second piece which we talked about last quarter was, we're continually refreshing and updating our data sources and that does and has over the last three or four quarters impacted the enterprise count a little bit to the negative as we've cleaned up data and consolidated certain enterprises; again, another modest impact.

The third thing I'd say is, which I alluded to in the prepared remarks, we're continuing to add new enterprises at a very strong clip in GTS. As I mentioned through the first three quarters, we've added over 1600 gross new enterprises. You will note a modest uptick or downtick I should say in our client retention rate.

And essentially you're not seeing the increases you've historically seen in our enterprise count because of the cleanup and because of the small downtick in the client retention rate.

Going forward, I don't think there's any change in the strategy. It's not about going after larger companies. The note I'd make around the really small companies and small tech companies in particular is, we have a different strategy around how we're attacking them.

The bulk of our market is really not them and so, we want to make sure that we handle that bit of the business in a more efficient, more effective, and more profitable manner. But the market opportunity remains really, really, really vast and we'll continue to go after that opportunity by adding new salespeople and by growing the enterprise count over the long term.

Manav Patnaik

Okay, got it. And Gene just to follow-up on your last comment there around seeing the returns in a lot of your investments and making sure you see more. I guess how will we see it? Like shouldn't we also see some of that with some signs of improved margins, given the heavy investment? Or is that maybe two years out which is why you guided to flat margins for next year?

Craig Safian

Hey, Manav, I'll jump in. You mentioned margin so Gene looked over to me. So I think the way to think about it is, I think you're right. So two things; one is, we're not providing 2020 guidance yet. We're working our 2020 operating plan as we speak and we'll give you and all of our investors the details of that plan in early February.

Two, I do think there is time that takes to actually see those benefits flow through especially given the routable nature of the bulk of our revenues. And so what Gene stated and which I affirmed is, we believe for 2020 revenues and expenses and EBITDA will grow roughly in line with one another.

And in my mind that's the first step towards seeing the real benefits of all the investments we've put in place.

Manav Patnaik

All right. Got it. Thank you, guys.

Operator

Thank you. Our next question comes from the line of Gary Bisbee with Bank of America. Your line is now open.

Gary Bisbee

Hey guys, good morning. As Gene -- I guess the first question for you on the sales changes that you mentioned can you just give us a little more color? I've always thought your sales turning was a key part of your long-term success. So reducing that upfront more I guess you said just in time as you go, what does that really mean?

And is there any productivity risk around that in similar concept on the recruiting process changes or even the new way you're managing territories? What's the risk to those strategy?

Gene Hall

So let me just -- I mean there's clearly risk in anything you do, but we think these are actually -- have a lot of upside to it. And let me just take for example the training piece. So the way we have traditionally trained is, we'll bring a new person on and depending what role they're in and what geography they're in the training is six to eight weeks long and it's really good training. We have -- it really gives them a lot of tools.

What we found is after getting training for a couple of weeks, the kind of retention of what they've learned isn't as high as you'd like. And so we've come up with what we think is our big innovation there, which is shortening the upfront training to approximately -- again, it will vary, they call it approximately two weeks. And then delivering the others -- other training, as they're in -- throughout their first year, but when they need it.

So for example, you might have a training session on how to handle client objections for a particular product. If you get the training upfront well, it's much more applicable, if they're about to talk to a client about that particular product to get their firm hand on how to handle objections, the day before as opposed to three months beforehand where they -- the retention that there -- what they remember about what they were told is a lot lower.

And so the way to think about it is, they're going to get the same amount of training, but this is actually a much more effective way to do it, because we give them the bases what they need upfront. And then each week they would get a booster on the specific things they need to address the challenges, they have there with their client base that particular week.

And so the total training we are not thinking of is less, it's just a smarter way to do it, where they get it where they can really use it. Any studies that you read and our experience is the same, which is, if you get trained the day -- if the salesperson gets trained the day before they have to actually use it, they pay higher a lot attention than if its the fifth week of six weeks of training for something they're going to use in nine months, if you're with me.

And so the way to think about it is, same training, just much more effectively delivered. It also happens to help our cost structure, because then we have people into territories sooner. And so instead of going to territory after six or eight weeks, they're going to territory after two weeks, and so they actually start learning their client base and get to that first sale faster, which gives them a lot of confidence.

Gary Bisbee

Great. That's helpful. And then Craig just one for you. When you talked about free cash flow, I think I heard you say ex the divestiture's fine. But could you also say when you're talking about conversion ex working capital movements. And if so, two part or are you changing how you talk about cash flow conversion, number one? Number two, is there anything about the working capital characteristic particularly now that you've got CV growing at GBS that we should think it's different than what it's been in the past?

Craig Safian

Good morning, Gary. Good question. So the working capital timing adjustment that we've discussed relates to the catch-up where we got behind at the end of 2017, which we talked about which really impacted 2017 free cash flow. At the time, we said it was about a $40 million impact of free cash flows, because we had challenges in the integration with getting the invoices out about $40 million of 2017 free cash flow split into 2018.

And so when we talk about the adjustment -- the "adjustment" for working capital timing, that's splitting that $40 million back in 2017 when we do the year-over-year comparison to get a better view on what the true organic growth rate is in free cash flow.

And then on the second part of your question, no change to the working capital characteristics of the company. We remain really focused on making sure that we leverage and get the benefits out of the negative working capital characteristics of our Research businesses. We're very, very, very focused on that, as we've discussed in the past and as you alluded to.

As GBS contract value accelerates, that clearly is a benefit on those negative working capital components, because as that business is growing faster, we could take more advantage of it.

And the third thing, I'd say is, we remain very focused on improving the efficiency of our working capital as well. And so I think as we roll forward, we would expect to see us continue to get the benefits, perhaps even get more benefits out of the fundamentals of our working capital model as we grow both GTS CV and GBS CV.

Gary Bisbee

Thank you.

Operator

Thank you. Our next question comes from the line of Toni Kaplan with Morgan Stanley. Your line is now open.

Toni Kaplan

Thanks very much. Craig you mentioned the two main reasons for keeping the guidance you see in Consulting and the expenses shifting into Q4. Would you say there is similar conservatism in the guidance than last quarter? And are there any incremental factors that you're seeing that are maybe a little bit less good and that's the reason you're keeping it the same?

Craig Safian

Yeah. Hey, good morning Toni. Thanks for the question. I think the way to think about the guidance is when we came out of Q2 and with our adjustments there, we were very focused on delivering what we committed to over the second half of 2019. And as we rolled through Q3, I'd say, again, the three -- the two things I mentioned on the call most notably, the timing around Consulting and deferral of certain expenses into -- from Q3 into Q4 certainly were the largest impacts.

You might argue we were a little conservative in the Q3 number, when we came out with it, but I would not imply huge overarching conservatism over our second half target, which we remain committed to.

Toni Kaplan

Okay. Great. And then I wanted to ask about Conferences. I think I probably hadn't appreciated the link between Conferences and Research sales as much as I should have. And so can you just talk about how the GBS Conferences have been going? And I guess if there's any way to quantify how much benefit you normally get from a conference translating into Research sales later on? And anything in terms of improvement with Evanta, that would be great? Thank you.

Gene Hall

So, our Conferences are a great business and it's a great way to leverage our Research, where we do research on a particular topic. Obviously, that's very relevant to the people that are Research clients. It's also very relevant to people that are not yet Research clients.

And so, we've introduced, as you pointed out, Conferences for GBS, taken for the ones that we've had smaller and those have all done great. They've really grown very rapidly, they've been very attractive to both, the existing Research clients as well as people buying their own ticket separately. And we intend to continue that whole strategy.

Operator

Thank you. Our next question comes from the line of Andrew Nicholas with William Blair. Your line is now open.

Andrew Nicholas

Hi. Good morning. Thanks for taking my questions. Just -- I wanted to talk about GBS a little bit. When we're thinking about your ability to get to double-digit GB growth next quarter, is that entirely a function of generating new GxL business? Or do you think there's still a little bit of room to go in terms of improving your legacy attrition?

Gene Hall

Hey, good morning, Andrew. I think, it's absolutely both, as we've discussed throughout the year. Our focus clearly has been on GxL and GxL new business, and that's been going really, really well for us, as we've described in -- as you can see, in our disclosure information.

I would note, though, that we have also been very focused on improving the attrition rates across the entire GBS portfolio. And so, the numbers we've given over the past couple of quarters have been inclusive of both GxL and the legacy leadership talent pool.

And we've seen really significant and material improvements in our attrition rates and they've improved from quarter to quarter to quarter, with our best quarter so far being Q3. And that's across both GxL and legacy leadership council business.

And so, yes, that is absolutely a big lever for us. The bigger lever is clearly continued momentum in GxL new business. But every dollar we save from an attrition perspective, obviously, helps to accrete the overall growth rate.

Andrew Nicholas

Great. Thank you. And then, within GxL, again, I know you target a number of different verticals there, HR, sales so on and so forth. I'm just curious if you could speak to where you're seeing the most traction. And then, maybe on the flipside, which verticals you would like to see grow a bit faster? Thank you.

Craig Safian

Yes. I'll talk to the quantitative part of that question and Gene can talk strategically. I think, the really nice thing that we've seen since we launched the GxL products is each of the functions that we serve, we've seen really, really strong -- continued strong growth and accelerating growth.

And one of the things we keep mentioning is, more than half of the new business we've generated in each of last three quarters, more than half of it has come from the new GxL products that were launched post acquisition. So, meaning, we're doing well and continue to do well on the marketing and supply chain.

GxL offerings that we had prior to the CEB acquisition, but we're really growing rapidly across all the functions that we now have GxL products for. And, again, whether you look at HR, or legal, or finance, they're all doing really, really well. GxL new business and each of those enterprise functions is up significantly on a year-over-year basis and we've seen really nice progress across all the functions.

Gene Hall

Yes. If I could add to that there, we don't have a place that we sort of say, hey, it's underperforming relative to the expectations.

Andrew Nicholas

Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Jeff Silber with BMO Capital Markets. Your line is now open.

Jeff Silber

Thanks so much. Wanted to go back to the margin discussion. If I go back a number of years ago before you guys bought CEB, now GBS, you were generating adjusted EBITDA margins of close to 19% or so. I know, GBS was a different business.

You've made a lot of investments and a lot of improvements. But I think when you bought the company, you were hoping to make it a Gartner-like company, which you're making significant amount of progress already. Do you think we can get back to these adjusted EBITDA margins around 19% over time?

Craig Safian

Good morning, Jeff. Yes. I think, we are committed, as we talked about, to getting returns on the investments we've made. And we spent a lot of time this morning talking about -- and last quarter as well, talking about and showing that we are aligning our cost structure to our revenue growth.

And so, I think the way to think about it is we are committed to that. We're going to go after that and when we get through 2020, we can start talking about what 2021 and 2022 and 2023 will look like. But for now, I think, we're very focused on finishing this year, making sure that we enter 2020 in the best possible condition both from a bookings perspective and also from a cost structure perspective. And then, we're going to take it from there.

Jeff Silber

Okay. Fair enough. Thanks so much.

Operator

Thank you. Our next question comes from the line of Joseph Foresi with Cantor Fitzgerald. Your line is now open.

Joseph Foresi

Hi. I guess my first question here is just around -- it seems like there's a shift in strategy and that maybe the investment cycle for GxL is over at this point. Is that accurate? And if so, why this quarter versus other quarters?

Gene Hall

So, it's Gene. So there is a shift in strategy. You're right and the shift in strategy we -- over the last three years, we've been investing for the future. In particular, with things like getting the GxL products in place, getting the sales force trained on, getting our sales force capacity up, moving the -- all of the GTS tools and training and so forth into GBS that all took a lot of investment. We've now made those investments, and we feel like there's leverage we can get out of those.

And so, there really is a big shift in strategy from putting those investments in place to now, actually we have them in place and getting acceleration to take advantage of those investments. Obviously, and so, we have been investing ahead of our CEB growth, particularly in GBS. Now we want to make sure that we get all the levers we can out of those investments.

Joseph Foresi

Okay. And then secondly, and I guess this for you Craig, because you get the margin questions or Gene will at least point to you form. On the margin side, if GxL improves and the revenues accelerate there as you're implying with the guidance of the contract value, is it fair to say that margins will follow it up? Because I mean it's been an area of dilution. Or is there any reason to think that there'd be a separation there? Thanks.

Craig Safian

Hi. Good morning, Joe. Thank you. Again, I think the way to think about it is that, as Gene just mentioned, we have invested a lot. The investments are largely in people and we continue to pay those people. And that cost base is relatively fixed, but we'll continue to go up with inflation and things of that nature.

I -- we absolutely do believe that as we accelerate our -- the GxL business and the GBS business in total, that all other things equal, that is definitely a help for our margin profile and margin position.

I would remind you that GBS only represents about 20% of our total contract value and probably only 15% of our total revenue. And so, it does have an impact, but a modest or more muted impact than you might think just given the size of it.

The real kind of margin or profit profile or incremental profitability that we generate really comes out of our GTS business, which is again a $2.6 billion business that's growing at 13% per year.

And again, we remain committed to making sure that we align our cost base with our -- cost base growth, with our revenue growth, and that's how we're thinking about it as we plan for 2020. And as we roll again into future years, we will continue to update everyone on how we're going to manage the business going forward.

Joseph Foresi

All right. Thank you.

Operator

Thank you. Our next question comes from the line of George Tong with Goldman Sachs. Your line is now open

George Tong

Hi. Thanks. Good morning. You indicated earlier that GBS CV growth will be about 9.6% in the fourth quarter if new business and attrition improvements in the third quarter carry over to 4Q. Can you outline precisely what assumptions that involve and maybe talk about the top two or three factors that could cause the trends from 3Q not to carry over to 4Q?

Craig Safian

Yeah. Hey, good morning George. So, the top line assumptions are new business growth of 26% year-over-year, which is what we achieved in Q3 and about a 500 basis point improvement in the attrition rates, which also is what we achieved in Q3. And so as Gene went through the math, those are the assumptions that we've used to get to that 9.6% based on the amount of contract value we have expiring in the fourth quarter.

As you know, Q4 is a big quarter for us in total for GBS in particular, both on the new business side where we generate a significant amount of our new business in the fourth quarter and also with our expiring CV. It tends to be the -- or it is the highest weighted quarter in terms of expiring CV.

But again, if you just extend what we saw in Q3 into Q4 with the new business improvement and the attrition improvement, if you run that math you get to 9.6%.

George Tong

Got it. That's helpful. And I want to tackle the margin question a little bit differently. Last quarter, you took down the full year margins from about 17.5% to about 16% at the midpoint for EBITDA because you were pulling forward the open territory highers, and now it sounds like you're going to recalibrate your expense growth to match the top line growth, and it's going to take about a year for 2020 for that to happen so roughly flat margins. But as you manage the margins longer term is there room for the margins to get back to where they were just about a quarter ago in terms of the outlook of around 17.5%? Or do you see a structural change in the business that might cause 16% to be the new norm?

Craig Safian

Hey, George. Excellent job of re-swizzling the question in a thoughtful way, so thank you for that. So again, I think that there is nothing structurally different in the business. We're running it in a very similar way to the way we ran it forever within Gartner. Again, we're very focused for 2020 again as we've talked about around just making sure that our cost growth and our -- is aligned with our revenue growth that's kind of step one in the process. If everything works and goes well is there potential for some margin benefit? Yes, we would say that absolutely. How much? We'll come back to you on that as we kind of get through this first phase, which is really making sure that we are aligned for 2020.

George Tong

Got it. Thank you.

Operator

Thank you. This concludes today's question-and-answer session. I will now turn the call back to Gene Hall for closing remarks.

Gene Hall

Well, as you heard today, we, once again, delivered strong performance across all three of our businesses Research, Consulting and Conferences. Gartner formula for sustained long-term growth continues to drive success in our Research business. Our GTS organization continues to deliver strong performance. GBS continued on the path towards double-digit growth and we expect GBS contract value to continue to accelerate. We delivered credible value to every major function of the enterprise.

We have a vast market opportunity. We've made investments over the past few years that positions well to capture that market opportunity. And looking ahead to 2020 with the great strategic positioning of GTS and GBS together with leveraging the investments we've made, we expect double-digit topline growth and EBITDA growing approximately in line with revenues. Thanks for listening. We look forward to updating you again next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.