

Gartner, Inc. (IT)

\$129.39 (As of 02/28/20)

Price Target (6-12 Months): **\$137.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Gartner offers timely, thought-provoking and comprehensive analysis that is known for its high quality, independence and objectivity. Its research reports have become indispensable tools for various companies across different sectors, strengthening its leading position in the market. The company has a large and diverse addressable market with low customer concentration that mitigates operating risks. However, continuous investments to retain a competitive edge and fend off competition has increased the company's expenses and contracted margin. Revenues from the federal government business are exposed to lengthy approval times and other austerity measures, which often increase operating risks. Foreign currency exchange rate fluctuations is a concern. Due to these negatives, shares of Gartner have underperformed the industry in the past year.

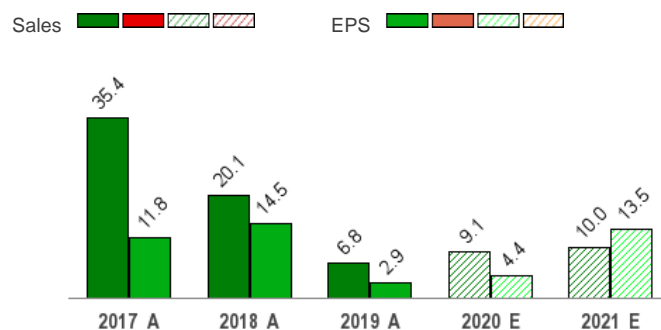
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$171.77 - \$124.77
20 Day Average Volume (sh)	825,874
Market Cap	\$11.6 B
YTD Price Change	-16.0%
Beta	1.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consulting Services
Zacks Industry Rank	Top 21% (53 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	43.9%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	33.1
P/E F1	31.8
PEG F1	2.3
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,095 E
2020	1,063 E	1,164 E	1,090 E	1,310 E	4,631 E
2019	970 A	1,071 A	1,001 A	1,203 A	4,245 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$1.37 E	\$0.92 E	\$1.71 E	\$4.62 E
2020	\$0.57 E	\$1.22 E	\$0.78 E	\$1.51 E	\$4.07 E
2019	\$0.58 A	\$1.45 A	\$0.70 A	\$1.18 A	\$3.90 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/28/2020. The reports text is as of 03/02/2020.

Overview

Headquartered in Stamford, Connecticut, Gartner, Inc. is reportedly the world's leading information technology research and advisory firm. The company offers rich domain expertise and technology-related insight necessary for informed decision-making process.

Over the years, Gartner's comprehensive services portfolio has enabled customers across the spectrum to research, analyze and interpret the business with greater precision, efficiency and discipline.

The company's long-term strategy is to increase business volume and penetration with most important clients, recognizing relationships with the highest sales potential and expanding them through offering strategically relevant research and advice.

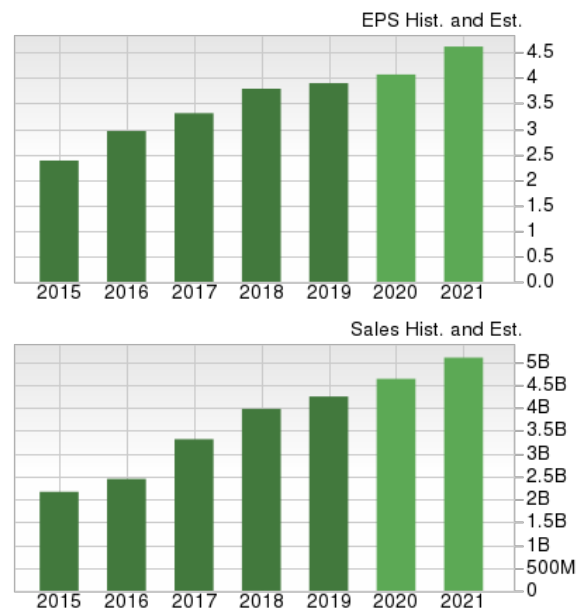
Gartner's diversified business model utilizes depth and breadth of intellectual capital to create and distribute research content as broadly as possible through published reports, interactive tools, briefings, consulting, advisory services and conferences.

The company operates through three business segments – Research, Conference and Consulting.

The **Research segment** is the fundamental building block for all Gartner services and combines proprietary research methodologies with extensive industry and academic relationships to offer in-depth analysis in the form of reports, briefings, updates and related tools primarily through a subscription-based, digital media service. Research generates the lion's share of the total revenue, contributing 80% of 2019 GAAP revenues.

The **Consulting unit** offers fact-based consulting services for optimal business performance through its unique research insight, benchmarking data, problem-solving methodologies and hands-on experience. These services are primarily provided to CIOs and other professionals responsible for IT applications, enterprise architecture, go-to-market strategies, infrastructure and operations, program and portfolio management, and sourcing and vendor relationships. Consulting accounted for 9% of 2019 GAAP revenues.

The **Conferences segment** accounted for 11% of 2019 GAAP revenues. The Events segment has been renamed as Conferences segment as part of business operations alignment.



Reasons To Buy:

- ▲ Over the years, Gartner research reports have become **indispensable tools** for diverse companies across different sectors, strengthening its leading position in the market. Using advanced technologies to collect and analyze troves of data, Gartner draws on unique data assets and deep domain expertise to provide key insights and decision support solutions for informed decision-making process. These insights are typically drawn from a critical fact base, collated from interactions with clients in more than 15,000 distinct organizations worldwide. The acquisition of CEB further reinforces Gartner's market strength. The combination of Gartner's analyst-driven, syndicated research and advisory services with CEB's best practice and talent management insights across a range of business functions is likely to provide a comprehensive and differentiated suite of services portfolio across the globe.
 - ▲ Gartner has a large and **diverse addressable market** with low customer concentration that mitigates operating risks. Operating in an industry with low barriers to entry, Gartner has an integrated research and consulting team designed to best serve client needs. This enables it to have a competitive advantage against its rivals. Leveraging the breadth and depth of its intellectual capital, Gartner creates and distributes proprietary research content as broadly as possible via published reports, interactive tools, facilitated peer networking, briefings, consulting and advisory services, and events. These facilitate a steadily improving revenue stream for the company. With a diligent execution of operational plans, Gartner has recorded double-digit growth in key metrics for over a decade.
 - ▲ Gartner offers **timely, thought-provoking and comprehensive analysis** that is known for its high quality, independence and objectivity. This unbiased, pragmatic and actionable insight can help organizations to effectively save thousands of dollars through in-depth research. With rapid strides in technology and massive proliferation of the Internet of things, the differences between the physical and digital worlds have gradually blurred. As a result, information technology has become critical for all firms to support higher productivity, improve performance metrics, and protect the enterprise from cyber-security threats. In order to keep abreast of the new developments in the dynamic and complex industry and take well-informed decisions to maximize returns on IT capital investments, business enterprises as well as government agencies solicit Gartner's research and consultancy services. This offers a strong value proposition for the company.
 - ▲ Gartner's **endeavor to reward its shareholders'** in the form of share repurchases is appreciable. In 2019, Gartner repurchased 1.4 million shares for \$199 million. It repurchased 1.9 million and 0.4 million shares in 2018 and 2017 for respective amounts of \$261 million and \$41.3 million. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in business. Also, these moves help instill investors' confidence in the stock and positively impact earnings per share.
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Gartner has a large and diverse addressable market with low customer concentration that mitigates operating risks.

Reasons To Sell:

- ▼ Gartner faces **stiff competition** from other players in the market, which has limited barriers to entry. There are a significant number of independent providers of information products and services such as electronic and print media companies as well as consulting firms. In order to retain a competitive edge and fend off competition, Gartner has to continually invest in value drivers that increase its operating costs and contract margins.
- ▼ Although Gartner is widely viewed as a secular growth company, it remains relatively immune to the vagaries of the market due to secular growth of information technology spend and its increasing market penetration rate, some of its services are **cyclically sensitive**. In addition, revenues from the federal government business are exposed to lengthy approval times and other austerity measures, which often increase operating risks. These factors undermine the long-term growth potential of the company to some extent.
- ▼ The nature of its business makes Gartner vulnerable to **foreign exchange risk**. A significant part of the company's operations is international. Thus, appreciation or depreciation of the U.S. dollar versus foreign currencies such as British pound, euro, Canadian dollar, Australian dollar and Japanese yen could impact the company's financial results. Notably, foreign exchange rates unfavorably impacted the company's revenues by 2% in 2019.
- ▼ Higher talent costs due to **a competitive talent market** and Trump's stringent policies on immigration are hurting consulting services companies like Gartner whose shares have underperformed its industry over the past year. The stock has declined 10.1% compared with the industry's growth of 7.2% on the said time frame. The industry is labor intensive and heavily dependent on foreign talent. Moreover, while advancement in automation and AI offer massive opportunity to the industry, these technologies enable clients to comprehend and integrate new methods to improve performance, thereby creating uncertainty for consulting services firms.

Gartner has to continually invest in value drivers that increase its operating costs and contract margins.

Last Earnings Report

Gartner Beats on Q4 Earnings and Revenues

Gartner reported solid fourth-quarter 2019 results, wherein the company's earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share of \$1.18 beat the consensus mark by 43.9% but decreased 2% on a year-over-year basis.

Revenues of \$1.20 billion outpaced the consensus estimate by 0.4% and improved 11% year over year on a reported basis and on a foreign currency-neutral basis. Adjusted revenues also improved 11% year over year on a reported basis and on a foreign currency-neutral basis.

Total contract value was \$3.4 billion, up 12% year over year on a foreign currency-neutral basis.

Quarterly Numbers in Detail

Revenues at the Research segment increased 11% year over year on a reported basis and on a foreign currency-neutral basis to \$882 million. Gross contribution margin was 70% in the reported quarter.

Revenues at the Conferences segment increased 11% year over year on a reported basis and 12% on a foreign currency-neutral basis to \$217 million. Gross contribution margin was 53%.

Revenues at the Consulting segment grew 9% year over year on a reported basis and on a foreign currency-neutral basis to \$104 million. Gross contribution margin was 28% in the reported quarter.

Adjusted EBITDA of \$218 million improved 3% year over year on a reported basis and 5% on a foreign currency-neutral basis.

Operating cash flow totaled \$83 million and free cash flow was \$40 million in the reported quarter. Capital expenditures totaled \$53 million.

2020 View

Gartner unveiled its full-year 2020 guidance. The company expects revenues to register approximately 9% growth on a foreign currency-neutral basis. Adjusted EPS is anticipated to be roughly \$4.06. Adjusted EBITDA margin is projected to register at least 16.1% growth or above. Operating cash flow is anticipated to be approximately \$627 million and free cash flow is expected to be roughly \$505 million.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	0.49%
EPS Surprise	43.90%
Quarterly EPS	1.18
Annual EPS (TTM)	3.91

Recent News

On **Feb 28, 2020**, Gartner announced that Craig Safian, executive vice president and chief financial officer, will be participating in a fireside chat at the Bank of America Securities Information Services Conference, scheduled to be held on Mar 12, 2020, in New York.

On **Jan 28, 2020**, Gartner announced that Craig Safian, executive vice president and chief financial officer, will be participating in a fireside chat at the Goldman Sachs Technology and Internet Conference, scheduled to be held on Feb 11, 2020 in San Francisco.

Valuation

Gartner shares are down 10.1% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 7.2%, 6.9% and 5%, respectively in the same time frame.

The stock is currently trading at 31.09X price to forward 12 months' earnings, which compares to 20.47X for the Zacks sub-industry, 23.09X for the Zacks sector and 16.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44X and as low as 27.17X, with a 5-year median of 32.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$137.00 price target reflects 32.93X price to forward 12 months' earnings.

The table below shows summary valuation data for IT

Valuation Multiples - IT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	31.09	20.47	23.09	16.89
	5-Year High	44.00	24.12	25.26	19.34
	5-Year Low	27.17	18.67	18.78	15.18
	5-Year Median	32.69	20.94	20.58	17.44
P/S F 12M	Current	2.45	1.53	3.7	3.12
	5-Year High	3.69	1.73	4.01	3.43
	5-Year Low	2.44	1.28	3.09	2.54
	5-Year Median	3.01	1.5	3.63	3.01
P/B TTM	Current	12.29	5.13	4.54	4.28
	5-Year High	NA	7.8	6.71	4.9
	5-Year Low	NA	4.78	4.13	2.85
	5-Year Median	12.72	6.42	5.25	3.62

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 254)



Top Peers

CBIZ, Inc. (CBZ)	Outperform
Forrester Research, Inc. (FORR)	Outperform
Stantec Inc. (STN)	Outperform
Bureau Veritas Registre International De Classification (BVRDF)	Neutral
CoreLogic, Inc. (CLGX)	Neutral
FTI Consulting, Inc. (FCN)	Neutral
Huron Consulting Group Inc. (HURN)	Neutral
Verisk Analytics, Inc. (VRSK)	Neutral

Industry Comparison Industry: Consulting Services				Industry Peers		
	IT Neutral	X Industry	S&P 500	BVRDF Neutral	FCN Neutral	STN Outperform
VGM Score	C	-	-	F	B	B
Market Cap	11.57 B	575.31 M	21.48 B	10.62 B	4.22 B	3.32 B
# of Analysts	6	2	13	1	2	4
Dividend Yield	0.00%	0.00%	2.07%	0.00%	0.00%	1.46%
Value Score	D	-	-	C	B	C
Cash/Price	0.02	0.05	0.04	NA	0.06	0.03
EV/EBITDA	23.74	15.58	12.57	NA	15.76	22.19
PEG Ratio	2.24	1.42	1.84	NA	NA	NA
Price/Book (P/B)	12.33	2.32	2.88	NA	2.83	2.32
Price/Cash Flow (P/CF)	20.19	14.02	11.58	15.00	15.64	20.97
P/E (F1)	31.75	19.08	16.87	19.82	19.55	17.13
Price/Sales (P/S)	2.73	1.45	2.34	NA	1.79	0.92
Earnings Yield	3.15%	5.25%	5.91%	5.05%	5.12%	5.85%
Debt/Equity	3.06	0.42	0.70	NA	0.30	0.81
Cash Flow (\$/share)	6.41	1.43	6.94	1.59	7.20	1.43
Growth Score	C	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	14.89%	13.78%	10.85%	NA	28.64%	-5.45%
Proj. EPS Growth (F1/F0)	4.36%	9.02%	6.79%	5.26%	-0.69%	14.80%
Curr. Cash Flow Growth	-7.30%	8.06%	5.92%	NA	36.49%	-38.63%
Hist. Cash Flow Growth (3-5 yrs)	18.55%	6.95%	8.38%	2.94%	-3.38%	-2.81%
Current Ratio	0.71	1.77	1.23	NA	1.92	1.77
Debt/Capital	75.40%	29.39%	42.53%	NA	23.28%	44.81%
Net Margin	5.50%	5.09%	11.57%	NA	9.21%	4.03%
Return on Equity	38.63%	11.85%	16.80%	NA	15.32%	12.04%
Sales/Assets	0.62	0.88	0.54	NA	0.90	1.05
Proj. Sales Growth (F1/F0)	9.08%	4.88%	4.07%	3.93%	6.45%	4.88%
Momentum Score	A	-	-	F	C	F
Daily Price Chg	-1.45%	-1.45%	-1.44%	-4.88%	1.33%	-1.52%
1 Week Price Chg	2.00%	0.00%	-0.94%	-0.25%	-2.15%	-2.14%
4 Week Price Chg	-20.74%	-3.74%	-10.98%	-14.37%	-7.48%	-1.22%
12 Week Price Chg	-18.35%	-1.69%	-7.84%	-9.82%	1.01%	10.74%
52 Week Price Chg	-9.07%	-2.28%	1.20%	0.04%	51.82%	21.50%
20 Day Average Volume	825,874	148,615	2,169,477	266	250,492	132,066
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.64%	-0.35%	0.00%
(F1) EPS Est 4 week change	0.83%	0.00%	-0.09%	-1.64%	-0.35%	0.00%
(F1) EPS Est 12 week change	0.49%	0.62%	-0.24%	-1.23%	-0.35%	3.37%
(Q1) EPS Est Mthly Chg	-0.87%	0.00%	-0.72%	NA	7.26%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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