

Gartner, Inc. (IT)

\$129.39 (As of 08/05/20)

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:B

Value: D

Growth: A

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 declined significantly year to date.

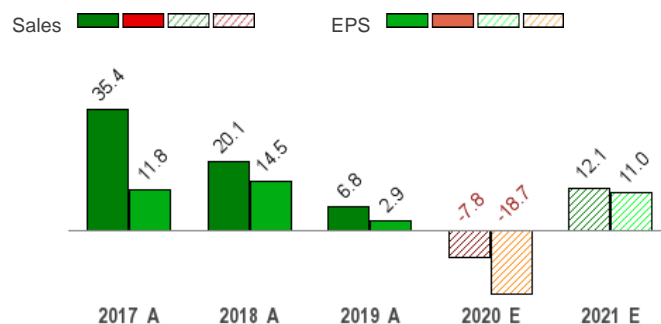
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$165.27 - \$76.91
20 Day Average Volume (sh)	454,701
Market Cap	\$11.5 B
YTD Price Change	-16.0%
Beta	1.45
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consulting Services
Zacks Industry Rank	Top 26% (67 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	51.9%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	6.3%
Expected Report Date	10/29/2020
Earnings ESP	-7.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,387 E
2020	1,019 A	973 A	920 E	945 E	3,915 E
2019	970 A	1,071 A	1,001 A	1,203 A	4,245 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.84 E	\$1.00 E	\$0.72 E	\$1.03 E	\$3.52 E
2020	\$1.20 A	\$1.20 A	\$0.53 E	\$0.51 E	\$3.17 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.

P/E TTM	30.2
P/E F1	40.8
PEG F1	2.9
P/S TTM	2.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/05/2020. The reports text is as of 08/06/2020.

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.

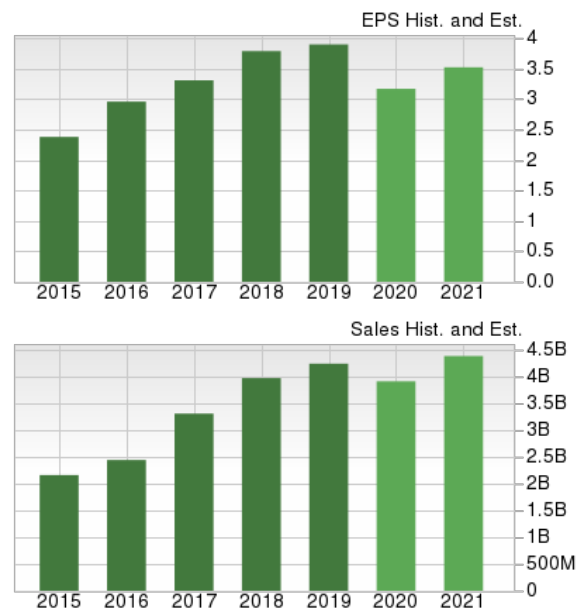
Gartner's diversified business model utilizes depth and breadth of intellectual capital to create and distribute research content as broadly as possible through published reports, interactive tools, briefings, consulting, advisory services and conferences.

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.
- ▼ 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 18% compared with the industry's growth of 6.5% 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 a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$2.99 billion, compared with \$3.02 billion at the end of the prior quarter. Total debt-to-capital ratio of 0.77 is higher than the industry's 0.21 and the previous quarter's 0.76. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$228 million at the end of the first quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$149 million.

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

Last Earnings Report

Gartner Beats Q2 Earnings Estimates

Gartner reported better-than-expected second-quarter 2020 results, wherein the company's earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share of \$1.20 beat the consensus mark by 51.9% but decreased 17.2% year over year. Revenues of \$973.1 million beat the consensus estimate by 3.5% but declined 9.1% year over year on a reported basis and 7.6% on a foreign currency-neutral basis.

Total contract value was \$3.4 billion, up 7% year over year on a foreign currency-neutral basis.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	3.49%
EPS Surprise	51.90%
Quarterly EPS	1.20
Annual EPS (TTM)	4.28

Quarterly Numbers in Detail

Revenues at the Research segment increased 6% year over year on a reported basis and 7.8% on a foreign currency-neutral basis to \$875 million. Gross contribution margin was 72.3% in the reported quarter.

Revenues at the Consulting segment declined 5.9% year over year on a reported basis and 5.1% on a foreign currency-neutral basis to \$97 million. Gross contribution margin was 34.4% in the reported quarter.

Adjusted EBITDA of \$192 million improved 4% year over year on a reported basis and 6% on a foreign currency-neutral basis.

Operating cash flow totaled \$343 million and free cash flow was \$322 million in the reported quarter. Capital expenditures totaled \$21 million.

2020 View

Gartner raised its full-year 2020 guidance. The company now expects total revenues to be \$3.88 billion compared with the prior guidance of \$3.81 billion. Adjusted EPS is anticipated to be \$3.08 compared with the prior guidance of \$3.00.

Adjusted EBITDA is projected to be \$635 million compared with the prior guidance of \$625 million. Free cash flow is anticipated to be \$425 million compared with the prior guidance of \$300 million.

Recent News

On **May 26, 2020**, Gartner announced that its 2020 Annual Meeting of Stockholders will be conducted virtually, scheduled to be held on Jun 8, 2020, considering the current scenario of coronavirus-led lockdown.

Valuation

Gartner shares are down 18% in the year-to-date period but up 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 6.5% and those in the Zacks Business Services sector are down 0.8% in the year-to-date period. Over the past year, the Zacks sub-industry is up 18.2% and the sector is up 4.2%.

The S&P 500 index is up 2.6% in the year-to-date period and up 15% in the past year.

The stock is currently trading at 38.44X price to forward 12 months' earnings, which compares to 26.09X for the Zacks sub-industry, 30.51X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44X and as low as 20.56X, with a 5-year median of 32.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$137.00 price target reflects 40.77X 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 F12M	Current	38.44	26.09	30.51	22.58
	5-Year High	44	26.09	30.51	22.58
	5-Year Low	20.56	18.67	18.7	15.25
	5-Year Median	32.63	21.14	20.93	17.55
P/S F12M	Current	2.79	1.92	4.24	3.63
	5-Year High	3.69	1.92	4.24	3.63
	5-Year Low	1.59	1.28	3.07	2.53
	5-Year Median	2.96	1.53	3.59	3.04
P/B TTM	Current	NA	5.73	4.83	4.52
	5-Year High	NA	7.8	6.72	4.56
	5-Year Low	12.67	3.8	3.28	2.83
	5-Year Median	12.96	6.31	5.22	3.73

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Top 26% (67 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
CBIZ, Inc. (CBZ)	Outperform	1
CoreLogic, Inc. (CLGX)	Outperform	1
Forrester Research, Inc. (FORR)	Outperform	1
Huron Consulting Group Inc. (HURN)	Outperform	2
Bureau Veritas Registre International De Classification (BVRDF)	Neutral	3
FTI Consulting, Inc. (FCN)	Neutral	2
Stantec Inc. (STN)	Neutral	4
Verisk Analytics, Inc. (VRSK)	Neutral	2

Industry Comparison Industry: Consulting Services				Industry Peers		
	IT	X Industry	S&P 500	BVRDF	FCN	STN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	4
VGM Score	B	-	-	A	B	C
Market Cap	11.54 B	936.49 M	22.93 B	9.79 B	4.42 B	3.66 B
# of Analysts	5	3	14	2	2	4
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	1.37%
Value Score	D	-	-	B	B	D
Cash/Price	0.02	0.07	0.07	0.16	0.07	0.03
EV/EBITDA	23.54	11.57	13.16	10.42	12.84	18.30
PEG Ratio	2.88	1.62	2.99	NA	NA	NA
Price/Book (P/B)	11.64	2.86	3.20	6.61	2.99	2.44
Price/Cash Flow (P/CF)	20.12	13.14	12.45	11.56	16.76	21.48
P/E (F1)	40.77	22.84	21.78	28.47	21.32	23.86
Price/Sales (P/S)	2.75	1.29	2.47	NA	1.83	1.01
Earnings Yield	2.45%	4.29%	4.33%	3.51%	4.69%	4.18%
Debt/Equity	2.76	0.68	0.77	2.45	0.32	0.72
Cash Flow (\$/share)	6.43	1.61	6.94	1.90	7.20	1.52
Growth Score	A	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	14.99%	11.46%	10.46%	NA	34.13%	0.18%
Proj. EPS Growth (F1/F0)	-18.72%	-8.66%	-7.14%	-32.46%	-2.41%	-9.70%
Curr. Cash Flow Growth	-7.30%	8.06%	5.47%	16.14%	36.49%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	18.55%	9.73%	8.55%	0.94%	18.21%	-2.16%
Current Ratio	0.70	1.88	1.32	1.67	2.18	1.76
Debt/Capital	73.43%	40.30%	44.59%	71.05%	24.41%	42.02%
Net Margin	5.70%	4.45%	10.15%	NA	8.07%	3.94%
Return on Equity	41.19%	12.59%	14.46%	NA	13.63%	11.86%
Sales/Assets	0.61	0.86	0.51	NA	0.89	1.04
Proj. Sales Growth (F1/F0)	-8.39%	-0.80%	-1.68%	-6.26%	5.12%	-1.60%
Momentum Score	A	-	-	D	F	B
Daily Price Chg	2.45%	0.00%	0.59%	0.00%	-1.38%	1.08%
1 Week Price Chg	-0.04%	0.56%	0.14%	0.13%	5.91%	1.93%
4 Week Price Chg	6.20%	5.57%	5.31%	-1.28%	7.24%	3.28%
12 Week Price Chg	17.71%	15.59%	19.84%	11.10%	2.88%	13.83%
52 Week Price Chg	0.04%	-10.26%	2.73%	-5.76%	13.96%	44.08%
20 Day Average Volume	454,701	139,742	2,098,555	367	403,673	92,212
(F1) EPS Est 1 week change	5.69%	0.00%	0.00%	-1.91%	2.17%	0.00%
(F1) EPS Est 4 week change	6.27%	0.33%	1.10%	0.65%	2.17%	-1.61%
(F1) EPS Est 12 week change	8.58%	0.38%	1.04%	-19.37%	2.17%	-1.61%
(Q1) EPS Est Mthly Chg	-5.42%	-2.50%	0.39%	NA	-3.19%	-2.50%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Momentum Score	A
VGM Score	B

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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