

Gartner, Inc. (IT)

\$152.77 (As of 12/30/19)

Price Target (6-12 Months): **\$162.00**

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: B

Momentum: B

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.

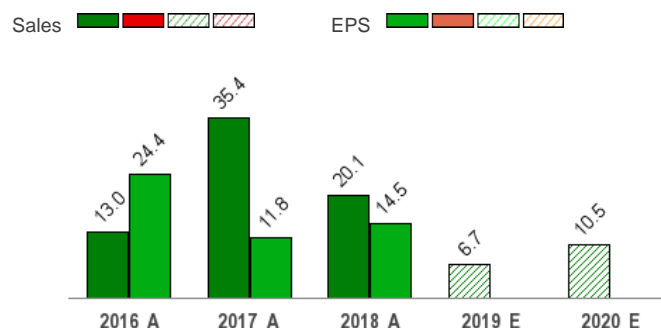
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$171.78 - \$122.50
20 Day Average Volume (sh)	482,223
Market Cap	\$13.7 B
YTD Price Change	19.5%
Beta	1.23
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consulting Services
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	55.6%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	38.9
P/E F1	43.0
PEG F1	3.0
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,069 E	1,174 E	1,107 E	1,325 E	4,687 E
2019	970 A	1,071 A	1,001 A	1,198 E	4,242 E
2018	964 A	1,001 A	922 A	1,089 A	3,975 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.87 E	\$0.58 E	\$1.22 E	\$0.79 E	\$3.55 E
2019	\$0.58 A	\$1.45 A	\$0.70 A	\$0.46 E	
2018	\$0.72 A	\$1.03 A	\$0.85 A	\$1.20 A	\$3.79 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 12/30/2019. The reports text is as of 12/31/2019.

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.

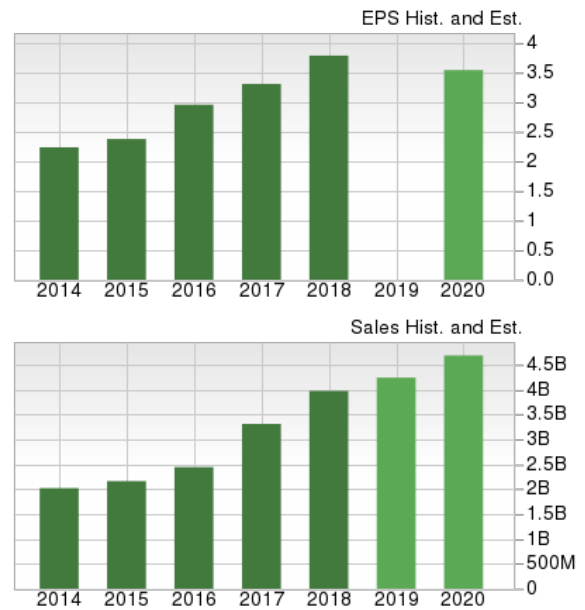
Gartner's diversified business model utilizes depth and breadth of intellectual capital to create and distribute research content as broadly as possible through published reports, interactive tools, briefings, consulting, advisory services and conferences.

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 78% of 2018 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 2018 GAAP revenues.

The **Conferences segment** accounted for 10% of 2018 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 2018, Gartner repurchased 1.9 million shares for \$261 million. In 2017, the company repurchased 0.4 million shares for \$41.3 million. In 2016, the company repurchased 0.6 million shares for \$59.0 million. Such shareholder friendly moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. Also, these moves help instill investors' confidence in the stock and positively impact earnings per share.

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.
- ▼ 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 gained 19.5% over the past year, but underperformed its industry's growth of 41%. 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 Q3 Earnings and Revenues Estimates

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

Adjusted earnings per share of 70 cents beat the consensus mark by 25 cents but decreased 18% on a year-over-year basis.

Revenues of \$1.00 billion outpaced the consensus estimate by roughly \$13 million and improved 9% year over year on a reported basis and 10% on a foreign currency-neutral basis. Adjusted revenues improved 10% year over year on a reported basis and 11% on a foreign currency-neutral basis.

Total contract value was \$3.3 billion, up 11% year over year on a foreign currency-neutral basis.

Quarterly Numbers in Detail

Revenues at the Research segment increased 9% year over year on a reported basis and 10% on a foreign currency-neutral basis to \$841 million. Gross contribution margin was 69% in the reported quarter.

Revenues at the Conferences segment increased 16% year over year on a reported basis and 19% on a foreign currency-neutral basis to \$66 million. Gross contribution margin was 41%.

Revenues at the Consulting segment grew 18% year over year on a reported basis and 20% on a foreign currency-neutral basis to \$93 million. Gross contribution margin was 28% in the reported quarter.

Adjusted EBITDA of \$140 million declined 6% year over year on a reported basis and 5% on a foreign currency-neutral basis.

Operating cash flow totaled \$220 million and free cash flow was \$190 million in the reported quarter. Capital expenditures totaled \$36 million.

2019 View

Gartner reaffirmed its full-year 2019 guidance. The company now projects revenues in the range of \$4.22-\$4.26 billion. Adjusted EPS is anticipated in the range of \$3.39-\$3.64. Adjusted EBITDA is projected in the range of \$670-\$700 million. Operating cash flow is anticipated between \$487 million and \$527 million and free cash flow is expected in the range of \$400- 430 million.

Quarter Ending 09/2019

Report Date	Oct 31, 2019
Sales Surprise	1.28%
EPS Surprise	55.56%
Quarterly EPS	0.70
Annual EPS (TTM)	3.93

Valuation

Gartner shares are up 19.5% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 41%, 34.5% and 30.7%, respectively in the same time frame.

The stock is currently trading at 37.67X price to forward 12 months' earnings, which compares to 24.25X for the Zacks sub-industry, 24.7X for the Zacks sector and 18.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.67X and as low as 27.17X, with a 5-year median of 32.58X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$162.00 price target reflects 39.9X 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	37.67	24.25	24.7	18.77
	5-Year High	40.67	24.25	24.7	19.34
	5-Year Low	27.17	17.63	18.75	15.17
	5-Year Median	32.58	20.57	20.55	17.44
P/S F12M	Current	2.92	1.6	3.79	3.41
	5-Year High	3.69	1.73	5.13	3.41
	5-Year Low	2.44	1.26	3.09	2.54
	5-Year Median	3.01	1.49	3.63	3
P/B TTM	Current	14.86	5.91	5	4.42
	5-Year High	NA	7.8	6.72	4.42
	5-Year Low	NA	4.78	4.13	2.85
	5-Year Median	12.73	6.48	5.34	3.6

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 253)



Top Peers

CBIZ, Inc. (CBZ)	Outperform
Huron Consulting Group Inc. (HURN)	Outperform
Bureau Veritas Registre International De Classification (BVRDF)	Neutral
CoreLogic, Inc. (CLGX)	Neutral
FTI Consulting, Inc. (FCN)	Neutral
Forrester Research, Inc. (FORR)	Neutral
Stantec Inc. (STN)	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 Neutral
VGM Score	B	-	-	B	A	B
Market Cap	13.67 B	553.88 M	23.75 B	11.85 B	4.16 B	3.13 B
# of Analysts		1	13			
Dividend Yield	0.00%	0.00%	1.79%	0.00%	0.00%	1.55%
Value Score	D	-	-	C	B	C
Cash/Price	0.02	0.05	0.04	NA	0.06	0.04
EV/EBITDA	28.04	14.37	13.92	NA	15.53	21.22
PEG Ratio	3.06	1.45	2.12	NA	NA	NA
Price/Book (P/B)	14.86	2.66	3.32	11.66	2.85	2.19
Price/Cash Flow (P/CF)	22.16	16.52	13.73	16.92	21.40	19.76
P/E (F1)	43.29	19.22	19.56	23.74	18.74	19.22
Price/Sales (P/S)	3.31	1.62	2.67	NA	1.85	0.89
Earnings Yield	2.32%	4.90%	5.10%	4.21%	5.34%	5.22%
Debt/Equity	3.08	0.30	0.72	NA	0.30	0.81
Cash Flow (\$/share)	6.89	1.43	6.94	1.59	5.17	1.43
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	15.14%	15.14%	10.53%	NA	28.64%	-5.45%
Proj. EPS Growth (F1/F0)	-6.46%	9.97%	6.30%	0.00%	47.63%	4.64%
Curr. Cash Flow Growth	11.86%	8.95%	14.83%	3.50%	47.51%	-38.63%
Hist. Cash Flow Growth (3-5 yrs)	22.55%	8.51%	9.00%	2.94%	-3.38%	-2.81%
Current Ratio	0.68	1.77	1.23	NA	2.00	1.77
Debt/Capital	75.46%	23.32%	42.99%	NA	23.32%	44.81%
Net Margin	6.04%	5.85%	11.08%	NA	9.37%	2.99%
Return on Equity	40.06%	12.24%	17.10%	NA	15.79%	11.53%
Sales/Assets	0.63	0.93	0.55	NA	0.89	1.05
Proj. Sales Growth (F1/F0)	6.69%	3.15%	2.86%	1.63%	12.46%	3.15%
Momentum Score	B	-	-	D	B	C
Daily Price Chg	-0.68%	0.00%	-0.43%	3.35%	0.02%	0.25%
1 Week Price Chg	0.50%	-1.07%	0.13%	0.97%	-2.18%	0.50%
4 Week Price Chg	-3.08%	1.63%	2.78%	1.98%	2.48%	6.42%
12 Week Price Chg	7.15%	0.00%	8.67%	11.76%	2.50%	32.02%
52 Week Price Chg	19.50%	22.78%	27.07%	30.19%	66.03%	28.82%
20 Day Average Volume	482,223	76,835	1,731,328	130	176,396	58,940
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.34%
(F1) EPS Est 12 week change	1.11%	0.99%	0.14%	-2.59%	9.05%	0.86%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	0.00%

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	B
Momentum Score	B
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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