

GARTNER INC  
Form 10-Q  
November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File Number 1-14443

Gartner, Inc.

(Exact name of Registrant as specified in its charter)

|  |   |
|--|---|
| Delaware   | 04-3099750                              |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

|                |            |
|----------------|------------|
| P.O. Box 10212 | 06902-7700 |
|----------------|------------|

|                     |            |
|---------------------|------------|
| 56 Top Gallant Road | (Zip Code) |
|---------------------|------------|

Stamford, CT

(Address of principal executive offices)

Registrant's telephone number, including area code: (203) 316-1111

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company (check one):

|                         |                                     |                           |                          |                         |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|-------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> | Non-accelerated filer   | <input type="checkbox"/> |
|                         |                                     | Smaller reporting company | <input type="checkbox"/> | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange

Edgar Filing: GARTNER INC - Form 10-Q

Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No p

As of October 29, 2018, 90,893,218 shares of the registrant's common shares were outstanding.

---

Table of Contents

|   | Page      |
|---|-----------|
| <u>PART I. FINANCIAL INFORMATION</u>  |           |
| <u>ITEM 1. FINANCIAL STATEMENTS (Unaudited)</u>   |           |
| <u>Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017</u>  | <u>3</u>  |
| <u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u>                  | <u>4</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2018 and 2017</u> | <u>5</u>  |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>                            | <u>6</u>  |
| <u>Notes to Condensed Consolidated Financial Statements</u>   | <u>7</u>  |
| <u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>                                    | <u>33</u> |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>   | <u>49</u> |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u>  | <u>50</u> |
| <u>PART II. OTHER INFORMATION</u>   |           |
| <u>ITEM 1. LEGAL PROCEEDINGS</u>  | <u>50</u> |
| <u>ITEM 1A. RISK FACTORS</u>  | <u>50</u> |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>  | <u>51</u> |
| <u>ITEM 6. EXHIBITS</u>   | <u>52</u> |

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## GARTNER, INC.

## Condensed Consolidated Balance Sheets

(Unaudited; in thousands, except share data)

|  | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--|--------------------------|-------------------------|
| Assets   |                          |                         |
| Current assets:  |                          |                         |
| Cash and cash equivalents  | \$210,997                | \$538,908               |
| Fees receivable, net of allowances of \$7,700 and \$12,700, respectively                                   | 979,181                  | 1,176,843               |
| Deferred commissions   | 166,726                  | 205,260                 |
| Prepaid expenses and other current assets  | 178,436                  | 124,632                 |
| Assets held-for-sale   | —                        | 542,965                 |
| Total current assets   | 1,535,340                | 2,588,608               |
| Property, equipment and leasehold improvements, net  | 246,061                  | 221,507                 |
| Goodwill   | 2,910,849                | 2,987,294               |
| Intangible assets, net   | 1,085,736                | 1,292,022               |
| Other assets   | 166,831                  | 193,742                 |
| Total Assets   | \$5,944,817              | \$7,283,173             |
| Liabilities and Stockholders' Equity   |                          |                         |
| Current liabilities:   |                          |                         |
| Accounts payable and accrued liabilities   | \$599,655                | \$666,821               |
| Deferred revenues  | 1,650,647                | 1,630,198               |
| Current portion of long-term debt  | 93,294                   | 379,721                 |
| Liabilities held-for-sale  | —                        | 145,845                 |
| Total current liabilities  | 2,343,596                | 2,822,585               |
| Long-term debt, net of deferred financing fees   | 2,077,466                | 2,899,124               |
| Other liabilities  | 582,207                  | 577,999                 |
| Total Liabilities  | 5,003,269                | 6,299,708               |
| Stockholders' Equity   |                          |                         |
| Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued or outstanding                  | —                        | —                       |
| Common stock, \$.0005 par value, 250,000,000 shares authorized; 163,602,067 shares issued for both periods | 82                       | 82                      |
| Additional paid-in capital   | 1,810,545                | 1,761,383               |
| Accumulated other comprehensive (loss) income, net   | (22,684 )                | 1,508                   |
| Accumulated earnings   | 1,671,412                | 1,647,284               |
| Treasury stock, at cost, 72,708,667 and 72,779,205 common shares, respectively                             | (2,517,807 )             | (2,426,792 )            |
| Total Stockholders' Equity   | 941,548                  | 983,465                 |
| Total Liabilities and Stockholders' Equity   | \$5,944,817              | \$7,283,173             |

See the accompanying notes to condensed consolidated financial statements.



## GARTNER, INC.

## Condensed Consolidated Statements of Operations

(Unaudited; in thousands, except per share data)

|  | Three Months Ended |             | Nine Months Ended |              |
|--|--------------------|-------------|-------------------|--------------|
|  | September 30,      |             | September 30,     |              |
|  | 2018               | 2017        | 2018              | 2017         |
| Revenues:                                |                    |             |                   |              |
| Research                                 | \$774,188          | \$653,443   | \$2,308,426       | \$1,778,481  |
| Events                                   | 57,141             | 44,953      | 214,481           | 171,427      |
| Consulting                               | 78,752             | 72,117      | 258,106           | 242,404      |
| Other                                    | 11,593             | 57,572      | 105,562           | 104,673      |
| Total revenues                           | 921,674            | 828,085     | 2,886,575         | 2,296,985    |
| Costs and expenses:                      |                    |             |                   |              |
| Cost of services and product development | 336,112            | 332,207     | 1,060,958         | 921,820      |
| Selling, general and administrative      | 447,537            | 421,163     | 1,396,085         | 1,133,633    |
| Depreciation                             | 17,335             | 17,340      | 50,456            | 45,637       |
| Amortization of intangibles              | 50,852             | 51,224      | 152,625           | 123,014      |
| Acquisition and integration charges      | 17,114             | 30,500      | 96,342            | 142,104      |
| Total costs and expenses                 | 868,950            | 852,434     | 2,756,466         | 2,366,208    |
| Operating income (loss)                  | 52,724             | (24,349 )   | 130,109           | (69,223 )    |
| Interest expense, net                    | (26,984 )          | (38,762 )   | (99,647 )         | (88,624 )    |
| Gain from divested operations            | 13,040             | —           | 38,500            | —            |
| Other (expense) income, net              | (827 )             | 1,171       | 1,193             | 1,653        |
| Income (loss) before income taxes        | 37,953             | (61,940 )   | 70,155            | (156,194 )   |
| Provision (benefit) for income taxes     | 26,200             | (13,760 )   | 31,719            | (52,166 )    |
| Net income (loss)                        | \$11,753           | \$(48,180 ) | \$38,436          | \$(104,028 ) |
| Net income (loss) per share:             |                    |             |                   |              |
| Basic                                    | \$0.13             | \$(0.53 )   | \$0.42            | \$(1.19 )    |
| Diluted                                  | \$0.13             | \$(0.53 )   | \$0.42            | \$(1.19 )    |
| Weighted average shares outstanding:     |                    |             |                   |              |
| Basic                                    | 90,854             | 90,624      | 90,969            | 87,585       |
| Diluted                                  | 92,148             | 90,624      | 92,244            | 87,585       |

See the accompanying notes to condensed consolidated financial statements.

GARTNER, INC.

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited; in thousands)

|   | Three Months<br>Ended |            | Nine Months Ended     |             |
|---|-----------------------|------------|-----------------------|-------------|
|   | September 30,<br>2018 | 2017       | September 30,<br>2018 | 2017        |
| Net income (loss)   | \$11,753              | \$(48,180) | \$38,436              | \$(104,028) |
| Other comprehensive income (loss), net of tax:            |                       |            |                       |             |
| Foreign currency translation adjustments                  | 964                   | 46,319     | (38,504 )             | 51,714      |
| Interest rate swaps – net change in deferred gain or loss | 350                   | 1,302      | 14,148                | (3,396 )    |
| Pension plans – net change in deferred actuarial loss     | 53                    | 52         | 164                   | 149         |
| Other comprehensive income (loss), net of tax             | 1,367                 | 47,673     | (24,192 )             | 48,467      |
| Comprehensive income (loss)                               | \$13,120              | \$(507 )   | \$14,244              | \$(55,561 ) |

See the accompanying notes to condensed consolidated financial statements.

5

## GARTNER, INC.

## Condensed Consolidated Statements of Cash Flows

(Unaudited; in thousands)

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2018                               | 2017        |
| Operating activities:  |                                    |             |
| Net income (loss)  | \$38,436                           | \$(104,028) |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: |                                    |             |
| Depreciation and amortization  | 203,081                            | 168,651     |
| Stock-based compensation expense   | 56,018                             | 67,930      |
| Deferred taxes   | (4,746)                            | (99,450)    |
| Gain from divested operations  | (38,500)                           | —           |
| Amortization and write-off of deferred financing fees                                | 12,205                             | 13,236      |
| Changes in assets and liabilities, net of acquisitions and divestitures:             |                                    |             |
| Fees receivable, net   | 172,679                            | (15,090)    |
| Deferred commissions   | 38,216                             | 3,231       |
| Prepaid expenses and other current assets  | (64,395)                           | (32,159)    |
| Other assets   | 23,444                             | (76,548)    |
| Deferred revenues  | 68,895                             | 198,353     |
| Accounts payable, accrued, and other liabilities                                     | (79,322)                           | 108,141     |
| Cash provided by operating activities  | 426,011                            | 232,267     |
| Investing activities:  |                                    |             |
| Additions to property, equipment and leasehold improvements                          | (64,631)                           | (75,619)    |
| Acquisitions - cash paid (net of cash acquired)                                      | (15,855)                           | (2,641,770) |
| Divestitures - cash received (net of cash transferred)                               | 520,709                            | —           |
| Cash provided by (used in) investing activities                                      | 440,223                            | (2,717,389) |
| Financing activities:  |                                    |             |
| Proceeds from employee stock purchase plan   | 11,134                             | 8,550       |
| Proceeds from borrowings   | —                                  | 3,025,000   |
| Payments for deferred financing fees   | —                                  | (51,171)    |
| Payments on borrowings   | (1,120,290)                        | (339,624)   |
| Purchases of treasury stock  | (104,400)                          | (37,188)    |
| Cash (used in) provided by financing activities                                      | (1,213,556)                        | 2,605,567   |
| Net (decrease) increase in cash and cash equivalents and restricted cash             | (347,322)                          | 120,445     |
| Effects of exchange rates on cash and cash equivalents and restricted cash           | (6,444)                            | 28,377      |
| Cash and cash equivalents and restricted cash, beginning of period                   | 567,058                            | 499,354     |
| Cash and cash equivalents and restricted cash, end of period                         | \$213,292                          | \$648,176   |

See the accompanying notes to condensed consolidated financial statements.

GARTNER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 — Business and Basis of Presentation

**Business.** Gartner, Inc. (NYSE: IT) is the world's leading research and advisory company and a member of the S&P 500. We equip business leaders with indispensable insights, advice and tools to achieve their mission-critical priorities and build the successful organizations of tomorrow. We believe that we have an unmatched combination of expert-led, practitioner-sourced and data-driven research that steers clients toward the right decisions on the issues that matter most. We're trusted as an objective resource and critical partner by more than 15,000 organizations in more than 100 countries - across all major functions, in every industry and enterprise size. To learn more about how we help decision makers fuel the future of business, visit [gartner.com](http://gartner.com).

**Segments.** Gartner currently delivers its products and services globally through three business segments: Research, Events and Consulting. Our revenues by business segment are discussed below under the heading "Revenue Recognition." When used in these notes, the terms "Gartner," "Company," "we," "us," or "our" refer to Gartner, Inc. and its consolidated subsidiaries.

During 2018, the Company divested all three of the non-core businesses that comprised its Other segment, each of which were acquired as part of the acquisition of CEB Inc. in April 2017. As a result of these divestitures, and the movement of a small residual product in the Other segment into the Research business, the Company is no longer recording any additional operating activity in the Other segment effective September 1, 2018. Additional information regarding the divestitures is included in Note 2 – Acquisitions and Divestitures.

**Basis of presentation.** The accompanying interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), as defined in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 270 for interim financial information and with the applicable instructions of the U.S. Securities and Exchange Commission ("SEC") Rule 10-01 of Regulation S-X on Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of the Company filed in its Annual Report on Form 10-K for the year ended December 31, 2017. The fiscal year of Gartner is the twelve-month period from January 1 through December 31. In the opinion of management, all normal recurring accruals and adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented herein have been included. The results of operations for the three and nine months ended September 30, 2018 may not be indicative of the results of operations for the remainder of 2018 or beyond.

**Principles of consolidation.** The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

**Use of estimates.** The preparation of the accompanying interim condensed consolidated financial statements requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of fees receivable, goodwill, intangible assets and other long-lived assets, as well as tax accruals and other liabilities. In addition, estimates are used in revenue recognition, income tax expense or benefit, performance-based compensation charges, depreciation and amortization. Management believes its use of estimates in these interim condensed consolidated financial statements to be reasonable.

Management continually evaluates and revises its estimates using historical experience and other factors, including the general economic environment and actions it may take in the future. Management adjusts these estimates when facts and circumstances dictate. However, these estimates may involve significant uncertainties and judgments and cannot be determined with precision. In addition, these estimates are based on management's best judgment at a point in time. As a result, differences between our estimates and actual results could be material and would be reflected in the Company's consolidated financial statements in future periods.

Adoption of new accounting standards. The Company adopted the accounting standards described below during the nine months ended September 30, 2018:

**Certain Tax Effects Stranded In Accumulated Other Comprehensive Income** — On April 1, 2018, the Company early adopted ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU No. 2018-02"). ASU No. 2018-02 provides an entity with the option to reclassify to retained earnings the tax effects from items that have been stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act of 2017 (the "Act"). Entities can adopt ASU No. 2018-02 using one of two transition methods: (i) retrospective to each period wherein the income tax effects of the Act related to items remaining in accumulated other comprehensive income are recognized or (ii) at the beginning of the period of adoption. Gartner elected to early adopt ASU No. 2018-02 as of the beginning of the second quarter of 2018, which resulted in an immaterial reclassification of stranded tax amounts related to the Act from Accumulated other comprehensive income, net to Accumulated earnings. ASU No. 2018-02 had no impact on the Company's operating results during either the three or nine months ended September 30, 2018.

**Stock Compensation Award Modifications** — On January 1, 2018, the Company adopted ASU No. 2017-09, "Compensation—Stock Compensation - Scope of Modification Accounting" ("ASU No. 2017-09"). ASU No. 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The adoption of ASU No. 2017-09 had no impact on the Company's consolidated financial statements.

**Retirement Benefits Cost Presentation** — On January 1, 2018, the Company adopted ASU No. 2017-07, "Compensation—Retirement Benefits" ("ASU No. 2017-07"). ASU No. 2017-07 improves the reporting of net benefit cost in the financial statements, and provides additional guidance on the presentation of net benefit cost in the income statement and clarifies the components eligible for capitalization. The adoption of ASU No. 2017-07 had an immaterial impact on the classification of benefit expense on the Company's Condensed Consolidated Statements of Operations.

**Partial Sales of Non-financial Assets** — On January 1, 2018, the Company adopted ASU No. 2017-05, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Non-financial Assets" ("ASU No. 2017-05"). ASU No. 2017-05 clarifies the scope of the FASB's guidance on non-financial asset de-recognition as well as the accounting for partial sales of non-financial assets. It conforms the de-recognition guidance on non-financial assets with the model for revenue transactions. The adoption of ASU No. 2017-05 had no impact on the Company's consolidated financial statements.

**Definition of a Business** — On January 1, 2018, the Company adopted ASU No. 2017-01, "Clarifying the Definition of a Business" ("ASU No. 2017-01"). ASU No. 2017-01 changes the U.S. GAAP definition of a business. Such change can impact the accounting for asset purchases, acquisitions, goodwill impairment and other assessments. The adoption of ASU No. 2017-01 had no impact on the Company's consolidated financial statements.

**Presentation of Restricted Cash** — On January 1, 2018, the Company adopted ASU No. 2016-18, "Restricted Cash" ("ASU No. 2016-18"). ASU No. 2016-18 requires that amounts generally described as restricted cash and restricted cash equivalents be presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on an entity's statement of cash flows. ASU No. 2016-18 must be applied using a retrospective transition method to each comparative period presented in an entity's financial statements.

As a result of the adoption of ASU No. 2016-18, the Company's restricted cash balances are now included in the beginning-of-period and end-of-period total amounts presented on the accompanying Condensed Consolidated Statements of Cash Flows. When compared to the Company's previously issued statement of cash flows for the nine

months ended September 30, 2017, the adoption of ASU No. 2016-18 resulted in: (i) an increase of \$7.0 million in cash used in investing activities; (ii) an increase of \$18.2 million in the end-of-period total cash amount; and (iii) an increase of \$25.1 million in the beginning-of-period total cash amount.

Below is a table presenting the beginning-of-period and end-of-period cash amounts from the Company's Consolidated Balance Sheets and the total cash amounts presented in the accompanying Condensed Consolidated Cash Flow Statements (in thousands).

|   | September 30, |           | December 31, |           |
|---|---------------|-----------|--------------|-----------|
|   | 2018          | 2017      | 2017         | 2016      |
| Cash and cash equivalents   | \$210,997     | \$630,016 | \$538,908    | \$474,233 |
| Restricted cash classified in (1), (2):   |               |           |              |           |
| Prepaid expenses and other current assets   | 2,295         | 15,158    | 15,148       | 25,121    |
| Other assets  | —             | 3,002     | 3,002        | —         |
| Cash classified as held-for-sale (3)  | —             | —         | 10,000       | —         |
| Cash and cash equivalents and restricted cash per the Condensed Consolidated Statements of Cash Flows | \$213,292     | \$648,176 | \$567,058    | \$499,354 |

(1) Restricted cash consists of escrow accounts established in connection with certain of the Company's business acquisitions. Generally, such cash is restricted to use due to provisions contained in the underlying asset purchase agreement. The Company will disburse the restricted cash to the sellers of the businesses upon satisfaction of any contingencies described in such agreements (e.g., potential indemnification claims, etc.).

(2) Restricted cash is recorded in Prepaid expenses and other current assets and Other assets in the Company's consolidated balance sheets with the short-term or long-term classification dependent on the projected timing of disbursements to the sellers.

(3) Represents cash classified as a held-for-sale asset for the CEB Talent Assessment business that was acquired as part of the CEB acquisition. See Note 2 — Acquisitions and Divestitures for additional information.

Income Taxes — On January 1, 2018, the Company adopted ASU No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" ("ASU No. 2016-16"). ASU No. 2016-16 accelerates the recognition of taxes on certain intra-entity transactions. U.S. GAAP previously required deferral of the income tax implications of an intercompany sale of assets until the assets were sold to a third party or recovered through use. Under ASU No. 2016-16, the seller's tax effects and the buyer's deferred taxes on asset transfers are immediately recognized upon the sale.

Pursuant to the transition rules in ASU No. 2016-16, any taxes attributable to pre-2018 intra-entity transfers that were previously deferred should be accelerated and recorded to accumulated earnings on the date of adoption. As a result of this transition rule, certain of the Company's balance sheet income tax accounts pertaining to pre-2018 intra-entity transfers, which aggregated \$13.7 million, were reversed against accumulated earnings on January 1, 2018. ASU No. 2016-16 could have a material post-adoption impact on the Company's consolidated financial statements, depending on the nature, size and tax consequences of future intra-entity transfers, if any. However, ASU No. 2016-16 had no impact on the Company's operating results during either the three or nine months ended September 30, 2018.

Statement of Cash Flows — On January 1, 2018, the Company adopted ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU No. 2016-15"). ASU No. 2016-15 sets forth classification requirements for certain cash flow transactions. The adoption of ASU No. 2016-15 had no impact on the Company's consolidated financial statements.

Financial Instruments Recognition and Measurement — On January 1, 2018, the Company adopted ASU No. 2016-01, "Financial Instruments Overall - Recognition and Measurement of Financial Assets and Liabilities" ("ASU No. 2016-01") to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among the significant changes required by ASU No. 2016-01 is that equity investments are to be measured at fair value with changes in fair value recognized in net income. The adoption of ASU No. 2016-01 had no impact on the Company's consolidated financial statements.

Revenue Recognition — On January 1, 2018, the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU No. 2014-09"). The adoption of the standard did not have a material impact on the Company's consolidated financial statements. However, as required by ASU No. 2014-09, the Company's disclosures around revenue recognition have been significantly expanded. Additionally, the Company's accounting policies have been updated to reflect the adoption of ASU No. 2014-09.

The following sections provide an overview of the Company's revenues by segment along with the required disclosures under the new revenue recognition standard:

#### Our business and our revenues

Gartner currently delivers its products and services globally through three business segments: Research, Events and Consulting. Our revenues from those business segments are discussed below.

#### Research

Research provides trusted, objective insights and advice on the mission-critical priorities of leaders across all functional areas of an enterprise through research and other reports, briefings, proprietary tools, access to our analysts, peer networking services and membership programs that enable our clients to make better decisions. Gartner's traditional strengths in information technology ("IT"), marketing and supply chain research were enhanced in 2017 with Gartner's acquisition of CEB, which added CEB's best practice and talent management research insights across a range of business functions, to include human resources, finance, sales and legal.

Research revenues are mainly derived from subscription contracts for research products, representing approximately 90% of the segment's revenue. The related revenues are deferred and recognized ratably over the applicable contract term (i.e., as we provide the service over the contract period). Fees derived from assisting organizations in selecting the right business software for their needs are recognized at a point in time (i.e., when the lead is provided to the vendor).

The Company enters into subscription contracts for research products that generally are for twelve-month periods or longer. Approximately 75% to 80% of our annual and multi-year Research subscription contracts provide for billing of the first full service period upon signing. In subsequent years, multi-year subscription contracts are normally billed prior to the contract's anniversary date. Our other Research subscription contracts are usually invoiced in advance, commencing with the contract signing, on (i) a quarterly, monthly or other recurring basis or (ii) in accordance with a customized invoicing schedule. Research contracts are generally non-cancelable and non-refundable, except for government contracts that may have cancellation or fiscal funding clauses, which historically have not produced material cancellations. It is our policy to record the amount of a subscription contract that is billable as a fee receivable at the time the contract is signed with a corresponding amount as deferred revenue because the contract represents a legally enforceable claim.

#### Events

Events provides business professionals across an organization with the opportunity to learn, share and network. From our flagship Chief Information Officer event, Gartner Symposium/ITxpo, to industry-leading conferences focused on specific business roles and topics, to member-driven sessions, our events enable attendees to experience the best of Gartner insight and advice live.

We earn revenues from both the attendees and exhibitors at our events. Attendees are generally invoiced for the full attendance fee upon their completion of an online registration form or their signing of a contract, while exhibitors typically make several individual payments commencing with the signing of a contract. We collect almost all of the invoiced amounts in advance of the related event, resulting in the recording of deferred revenue. We recognize both the attendee and exhibitor revenue as we satisfy our related performance obligations (i.e., when the related symposium, conference, summit or exhibition is held).

The Company defers certain costs directly related to its events and expenses those costs in the period during which the related symposium, conference or exhibition occurs. The Company's policy is to defer only those costs that are incremental and directly attributable to a specific event, primarily prepaid site and production services costs. Other costs of organizing and producing our events, primarily Company personnel and non-event specific expenses, are expensed in the period incurred. At the end of each fiscal quarter, the Company assesses, on an event-by-event basis, whether the expected direct costs of producing a scheduled event will exceed the expected revenues. If such costs are expected to exceed revenues, the Company records the expected loss in the period determined.

#### Consulting

Consulting provides customized solutions to unique client needs through on-site, day-to-day support, as well as proprietary tools for measuring and improving IT performance with a focus on cost, performance, efficiency and quality, and contract optimization services.

Consulting revenues, primarily derived from custom consulting and measurement services, are principally generated from fixed fee or time and materials engagements. Revenues from fixed fee engagements are recognized as we work to satisfy our performance obligations, while revenues from time and materials engagements are recognized as work is delivered and/or services are provided. In both of these circumstances, we satisfy our performance obligations and control of the services are passed to our customers over time (i.e., during the duration of the contract or consulting engagement). On a contract-by-contract basis, we typically use actual labor hours incurred compared to total expected labor hours to measure the Company's performance in respect of our fixed fee engagements. If our labor and other costs on an individual contract are expected to exceed the total contract value or the contract's funded ceiling amount, the Company reflects an adjustment to the contract's overall profitability in the period determined. Revenues related to contract optimization engagements are contingent in nature and are only recognized at a point in time when all of the conditions related to their payment have been satisfied.

Consulting customers are invoiced based on the specific terms and conditions in their underlying contracts. We typically invoice our Consulting customers after we have satisfied some or all of the related performance obligation and the related revenue has been recognized. We record fees receivable for amounts that are billed or billable. We also record contract assets, which represent amounts for which we have recognized revenue but lack the unconditional right to payment as of the balance sheet date due to our required continued performance under the relevant contract, progress billing milestones or other billing-related restrictions. The Company's contract assets are discussed below.

#### Overview of ASU No. 2014-09

ASU No. 2014-09 requires a five-step evaluative process that consists of:

- (1) Identifying the contract with the customer;
- (2) Identifying the performance obligations in the contract;
- (3) Determining the transaction price for the contract;
- (4) Allocating the transaction price to the performance obligations in the contract; and
- (5) Recognizing revenue when (or as) performance obligations are satisfied.

ASU No. 2014-09 is intended to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in previously existing revenue recognition rules; provide a more robust framework for addressing revenue recognition issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and provide more useful information to users of financial statements through improved disclosures.

The Company adopted ASU No. 2014-09 using the modified retrospective method of adoption. Under this method of adoption, the cumulative effect of applying the new standard is recorded at the date of initial application, with no restatement of the comparative prior periods presented. The adoption of ASU No. 2014-09 did not result in a cumulative effect adjustment to the Company's Accumulated earnings in its consolidated financial statements. However, the adoption of the new standard required reclassifications of certain amounts presented in the Company's consolidated balance sheet. As of January 1, 2018, these items were (i) the reclassification of certain fees receivable that met the definition of a contract asset, aggregating \$26.7 million, from Fees receivable, net to Prepaid expenses and other current assets; and (ii) the reclassification of a refund liability, aggregating \$6.2 million, from the allowance for fees receivable to Accounts payable and accrued liabilities.

Related to our adoption of ASU No. 2014-09, we elected to (i) apply the provisions of this new accounting guidance only to contracts that were not completed at the date of initial application and (ii) utilize a practical expedient whereby we reflected the aggregate effect of all contract modifications that occurred prior to January 1, 2018 (rather than retrospectively restating the affected contracts) when identifying our satisfied and unsatisfied performance obligations, determining the transaction prices with our customers, and allocating such transaction prices to our satisfied and

unsatisfied performance obligations. These two elections had no financial impact.

Prior to January 1, 2018, the Company recognized revenue in accordance with then-existing U.S. GAAP and SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("prior GAAP"). Under both ASU No. 2014-09 and prior GAAP, revenue can only be recognized when all of the required criteria are met. Although there were certain changes to the Company's revenue recognition policies and procedures effective January 1, 2018 with the adoption of ASU No. 2014-09, there were no material differences between the timing and amount of revenues recognized under ASU No. 2014-09 and prior GAAP. The accompanying Condensed Consolidated Statements of Operations present revenues net of any sales or value-added taxes that we collect from customers and remit to government authorities.

ASU No. 2014-09 requires that we assess at inception all of the promises in a customer contract to determine if a promise is a separate performance obligation. To identify our performance obligations, we consider all of the services promised in a customer

contract, regardless of whether they are explicitly stated or are implied by customary business practices. If we conclude that a service is separately identifiable and distinct from the other offerings in a contract, we account for such a promise as a separate performance obligation.

If a customer contract has more than one performance obligation, then the total contract consideration is allocated among the separate deliverables based on their stand-alone selling prices, which are determined based on the prices at which the Company discretely sells the stand-alone services. If a contract includes a discount or other pricing concession, the transaction price is allocated among the performance obligations on a proportionate basis using the relative stand-alone selling prices of the individual deliverables being transferred to the customer, unless the discount or other pricing concession can be ascribed to specifically identifiable performance obligations.

The contracts with our customers delineate the final terms and conditions of the underlying arrangements, including product descriptions, subscription periods, deliverables, quantity and price of each service purchased. Since the transaction price of almost all of our customer contracts is typically agreed upon upfront and generally does not fluctuate during the duration of the contract, variable consideration is insignificant. The Company may engage in certain financing transactions with customers but these arrangements have been limited in number and not material.

#### Required Disclosures under ASU No. 2014-09

ASU No. 2014-09 requires significantly expanded disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. These additional disclosures are provided below.

#### Disaggregated Revenues

We believe that disaggregating the Company's revenues by primary geographic location and the timing of when revenue is recognized achieves the disclosure objectives in ASU No. 2014-09. Our disaggregated revenue information by reportable segment, including our Other segment, is presented for the periods indicated in the tables below (in thousands).

#### Three Months Ended September 30, 2018

|                                 | Research Events | Consulting | Other<br>(1) | Total    |
|---------------------------------|-----------------|------------|--------------|----------|
| Primary Geographic Markets: (2) |                 |            |              |          |
| United States and Canada        | \$502,489       | \$22,002   | \$ 45,903    | \$ 8,948 |
| Europe, Middle East and Africa  | 180,124         | 25,422     | 26,255       | 2,645    |
| Other International             | 91,575          | 9,717      | 6,594        | —        |
| Total revenues                  | \$774,188       | \$57,141   | \$ 78,752    | \$11,593 |

#### Three Months Ended September 30, 2017

|                                 | Research Events | Consulting | Other     | Total    |
|---------------------------------|-----------------|------------|-----------|----------|
| Primary Geographic Markets: (2) |                 |            |           |          |
| United States and Canada        | \$406,732       | \$19,177   | \$ 36,483 | \$30,958 |
| Europe, Middle East and Africa  | 176,459         | 18,098     | 29,064    | 18,725   |
| Other International             | 70,252          | 7,678      | 6,570     | 7,889    |
| Total revenues                  | \$653,443       | \$44,953   | \$ 72,117 | \$57,572 |

Edgar Filing: GARTNER INC - Form 10-Q

Nine Months Ended September 30, 2018

|                                 | Research     | Events     | Consulting | Other      | Total        |
|---------------------------------|--------------|------------|------------|------------|--------------|
| Primary Geographic Markets: (2) |              |            |            |            |              |
| United States and Canada        | \$ 1,485,545 | \$ 131,215 | \$ 146,816 | \$ 59,419  | \$ 1,822,995 |
| Europe, Middle East and Africa  | 551,070      | 57,163     | 89,783     | 38,369     | 736,385      |
| Other International             | 271,811      | 26,103     | 21,507     | 7,774      | 327,195      |
| Total revenues                  | \$ 2,308,426 | \$ 214,481 | \$ 258,106 | \$ 105,562 | \$ 2,886,575 |

Nine Months Ended September 30, 2017

|                                 | Research     | Events     | Consulting | Other      | Total        |
|---------------------------------|--------------|------------|------------|------------|--------------|
| Primary Geographic Markets: (2) |              |            |            |            |              |
| United States and Canada        | \$ 1,127,039 | \$ 105,740 | \$ 139,266 | \$ 54,356  | \$ 1,426,401 |
| Europe, Middle East and Africa  | 445,039      | 45,052     | 82,554     | 35,685     | 608,330      |
| Other International             | 206,403      | 20,635     | 20,584     | 14,632     | 262,254      |
| Total revenues                  | \$ 1,778,481 | \$ 171,427 | \$ 242,404 | \$ 104,673 | \$ 2,296,985 |

The decline in Other segment revenues in the three months ended September 30, 2018 compared to the three (1) months ended September 30, 2017 was due to divestitures. Information regarding the divestitures is included in Note 2 – Acquisitions and Divestitures.

(2) Revenues are reported based on where the sale is fulfilled.

Three Months Ended September 30, 2018

|                                    | Research   | Events    | Consulting | Other     | Total      |
|------------------------------------|------------|-----------|------------|-----------|------------|
| Timing of Revenue Recognition:     |            |           |            |           |            |
| Transferred over time (1)          | \$ 709,496 | \$ —      | \$ 69,755  | \$ 8,800  | \$ 788,051 |
| Transferred at a point in time (2) | 64,692     | 57,141    | 8,997      | 2,793     | 133,623    |
| Total revenues                     | \$ 774,188 | \$ 57,141 | \$ 78,752  | \$ 11,593 | \$ 921,674 |

Three Months Ended September 30, 2017

|                                    | Research   | Events    | Consulting | Other     | Total      |
|------------------------------------|------------|-----------|------------|-----------|------------|
| Timing of Revenue Recognition:     |            |           |            |           |            |
| Transferred over time (1)          | \$ 600,265 | \$ —      | \$ 64,565  | \$ 47,010 | \$ 711,840 |
| Transferred at a point in time (2) | 53,178     | 44,953    | 7,552      | 10,562    | 116,245    |
| Total revenues                     | \$ 653,443 | \$ 44,953 | \$ 72,117  | \$ 57,572 | \$ 828,085 |

Nine Months Ended September 30, 2018

|                                    | Research     | Events     | Consulting | Other      | Total        |
|------------------------------------|--------------|------------|------------|------------|--------------|
| Timing of Revenue Recognition:     |              |            |            |            |              |
| Transferred over time (1)          | \$ 2,119,393 | \$ —       | \$ 220,838 | \$ 86,667  | \$ 2,426,898 |
| Transferred at a point in time (2) | 189,033      | 214,481    | 37,268     | 18,895     | 459,677      |
| Total revenues                     | \$ 2,308,426 | \$ 214,481 | \$ 258,106 | \$ 105,562 | \$ 2,886,575 |

Nine Months Ended September 30, 2017

|                                    | Research    | Events    | Consulting | Other     | Total       |
|------------------------------------|-------------|-----------|------------|-----------|-------------|
| Timing of Revenue Recognition:     |             |           |            |           |             |
| Transferred over time (1)          | \$1,636,995 | \$—       | \$197,942  | \$82,486  | \$1,917,423 |
| Transferred at a point in time (2) | 141,486     | 171,427   | 44,462     | 22,187    | 379,562     |
| Total revenues                     | \$1,778,481 | \$171,427 | \$242,404  | \$104,673 | \$2,296,985 |

These Research revenues were recognized in connection with performance obligations that were satisfied over time using a time-elapsed output method to measure progress. The corresponding Consulting revenues were recognized (1) over time using labor hours as an input measurement basis. Other revenues in this category were recognized using either a time-elapsed output method, performance-based milestone approach or labor hours, depending on the nature of the underlying customer contract.

(2) The revenues in this category were recognized in connection with performance obligations that were satisfied at the point in time the contractual deliverables were provided to the customer.

Determining a measure of progress for performance obligations that are satisfied over time and when control transfers for performance obligations that are satisfied at a point in time requires us to make judgments that affect the timing of when revenue is recognized. A key factor in this determination is when the customer is able to direct the use of, and can obtain substantially all of the benefits from, the deliverable.

For performance obligations recognized in accordance with a time-elapsed output method, the Company's efforts are expended consistently throughout the contractual period and the Company transfers control evenly by providing stand-ready services. For performance obligations satisfied under our Consulting fixed fee and time and materials engagements, we believe that labor hours are the best measure of depicting the Company's progress because labor output corresponds directly to the value of the Company's performance to date as control is transferred. In our Other segment, we selected a method to assess the completion of our performance obligations that best aligned with the specific characteristics of the individual customer contract. We believe that these methods to measure progress provide a reasonable and supportable determination as to when we transfer services to our customers.

For customer contracts that are greater than one year in duration, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2018 was approximately \$2.3 billion. The Company expects to recognize \$421.8 million, \$1,286.2 million and \$600.5 million of this revenue (most of which pertains to Research) during the remainder of 2018, the year ending December 31, 2019 and thereafter, respectively. The Company applies a practical expedient allowed in ASU No. 2014-09 and, accordingly, it does not disclose such performance obligation information for customer contracts that have original durations of one year or less. Our performance obligations for contracts meeting this ASU No. 2014-09 disclosure exclusion primarily include: (i) stand-ready services under Research subscription contracts; (ii) holding events where attendees and exhibitors can participate; and (iii) providing customized Consulting solutions for clients under fixed fee and time and materials engagements. The remaining duration of these performance obligations is generally less than one year, which aligns with the period that the parties have enforceable rights and obligations under the affected contracts.

#### Customer Contract Assets and Liabilities

The timing of the recognition of revenues, the amount and timing of our billings and cash collections, as well as upfront customer payments, result in the recording of both assets and liabilities on our Condensed Consolidated Balance Sheets.

The payment terms and conditions in our customer contracts vary. In some cases, customers prepay and, in other cases, after we conduct a credit evaluation, payment may be due in arrears. Because the timing of the delivery of our services typically differs from the timing of customer payments, the Company recognizes either a contract asset (we perform either fully or partially under the contract but a contingency remains) or a contract liability (upfront customer payments precede our performance, resulting in deferred revenue). Amounts recorded as contract assets are reclassified to fees receivable when all of the outstanding conditions have been resolved and our right to payment becomes unconditional. Contracts with payments due in arrears are also recognized as fees receivable. As our contractual performance obligations are satisfied over time or at a point in time, the Company correspondingly relieves its contract liabilities and records the associated revenue.

The table below provides information regarding certain of the Company's balance sheet accounts that pertain to its contracts with customers, excluding held-for-sale businesses (in thousands):

|   | September<br>30,<br>2018 | December<br>31,<br>2017 |
|---|--------------------------|-------------------------|
| Assets:                                   |                          |                         |
| Fees receivable, gross (1)                | \$986,881                | \$1,162,871             |
| Contract assets (2)                       | \$32,560                 | \$26,672                |
| Contract liabilities:                     |                          |                         |
| Deferred revenues (current liability) (3) | \$1,650,647              | \$1,630,198             |
| Non-current deferred revenues (3)         | 16,842                   | 16,205                  |
| Total contract liabilities                | \$1,667,489              | \$1,646,403             |

(1) Fees receivable represent the unconditional right of payment from our customers and include both billed and unbilled amounts.

(2) Contract assets represent recognized revenue for which we do not have an unconditional right to payment as of the balance sheet date because the project may be subject to a progress milestone or some other billing restriction. In the accompanying Condensed Consolidated Balance Sheets, contract assets are recorded in Prepaid expenses and other current assets as of September 30, 2018 and Fees receivable, net as of December 31, 2017.

(3) Deferred revenues represent amounts (i) for which the Company has received an upfront customer payment or (ii) that pertain to recognized fees receivable. Both situations occur before the completion of our performance obligation(s).

During the three and nine months ended September 30, 2018, the Company recognized \$642.0 million and \$1,164.2 million, respectively, of revenue that was attributable to deferred revenues that were recorded at the beginning of each such period. Those amounts primarily consisted of (i) Research and Other revenues that were recognized ratably as control of the goods or services passed to the customer and (ii) Events revenue pertaining to symposia, conferences, summits or exhibitions that occurred during the reporting period. During the nine months ended September 30, 2018, the Company recorded no material impairments related to its contract assets. In the normal course of business, the Company does not recognize revenues from performance obligations satisfied in prior periods.

#### Allowance for Losses and Revenue Reserves

As of December 31, 2017, the Company maintained an allowance for losses that included a bad debt allowance and a revenue reserve. Provisions to the Company's allowance for losses were charged against earnings as either a reduction in revenues or an increase in expense. Effective with the adoption of ASU No. 2014-09 on January 1, 2018, the allowance for losses, which is classified as an offset to the gross amount of fees receivable, and the related charge against earnings (i.e., bad debt expense) is now comprised solely of estimated uncollectible fees receivable due to credit and other associated risks. The revenue reserve previously reported as part of the allowance for losses has been reclassified and is now reported as a liability in accordance with ASU No. 2014-09.

The revenue reserve is maintained for amounts deemed to be uncollectible for reasons other than bad debt. When determining the amount of the revenue reserve, the Company uses an expected-value method that is based on current estimates and a portfolio of data from its historical experience. Due to the common characteristics and similar attributes of our customers and contracts, which provide relevant and predictive evidence about our projected future

liability, an expected-value method is reasonable and appropriate. However, the determination of the revenue reserve is inherently judgmental and requires the use of certain estimates. Changes in estimates are recorded in the period that they are identified. As of September 30, 2018, the revenue reserve balance was \$6.9 million and adjustments to the account during the nine months then ended were not significant.

The determination of the allowance for losses is based on historical loss experience, an assessment of current economic conditions, the aging of outstanding receivables, the financial health of specific clients and probable losses. This evaluation is inherently judgmental and requires the use of estimates. The allowance for losses is periodically re-evaluated and adjusted as more information about the ultimate collectability of fees receivable becomes available. Circumstances that could cause the allowance for losses to increase include changes in our clients' liquidity and credit quality, other factors negatively impacting our clients' ability to pay their obligations as they come due, and the effectiveness of our collection efforts.

#### Costs of obtaining and fulfilling a customer contract

Upon the signing of a customer contract, the Company capitalizes the related commission as a recoverable direct incremental cost of obtaining the underlying contract and records a corresponding commission payable. No other amounts are capitalized as a cost of obtaining or fulfilling a customer contract because no expenditures have been identified that meet the requisite capitalization criteria. For Research, Consulting and Other, we generally use the straight-line method of amortization for deferred commissions over a period that is based on the projected recoverability for such costs, using factors such as the underlying contract period, the timing of when the corresponding revenues will be earned and the anticipated term of the engagement. For Events, deferred commissions are expensed during the period when the related event occurs.

Under all circumstances, deferred commissions are amortized over a period that does not exceed one year. During the three months ended September 30, 2018 and 2017, such amortization expense was \$71.2 million and \$58.9 million, respectively, and was included in Selling, general and administrative expense in the accompanying Condensed Consolidated Statements of Operations. The corresponding amortization expense during the nine months ended September 30, 2018 and 2017 was \$223.9 million and \$163.8 million, respectively. The Company recorded no material impairments of its deferred commissions during either the nine months ended September 30, 2018 or 2017.

Accounting standards issued but not yet adopted. The FASB has issued accounting standards that have not yet become effective and may impact the Company's consolidated financial statements or related disclosures in future periods. These standards and their potential impact are discussed below:

#### Accounting standards effective in 2019

**Targeted Improvements to Accounting for Hedging Activities** — In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging ("ASU No. 2017-12"). ASU No. 2017-12 is intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the standard makes certain targeted improvements to simplify the application of hedge accounting guidance in current U.S. GAAP. ASU No. 2017-12 is effective for Gartner on January 1, 2019. We are currently evaluating the impact of ASU No. 2017-12 on the Company's consolidated financial statements.

**Leases** — In February 2016, the FASB issued ASU No. 2016-02, "Leases," as amended ("ASU No. 2016-02"), which will require significant changes in the accounting and disclosure for lease arrangements. Under current U.S. GAAP, lease arrangements that meet certain criteria are not recorded on an entity's balance sheet. ASU No. 2016-02 significantly changes the accounting for leases because a right-of-use ("ROU") model will be used whereby a lessee must record an ROU asset and a lease liability on its balance sheet for most of its leases. Under ASU No. 2016-02, leases will be classified as either operating or financing arrangements, with such classification affecting the pattern of expense recognition in an entity's income statement. ASU No. 2016-02 also requires significantly expanded disclosures to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows related to leases.

The Company will adopt ASU No. 2016-02 on January 1, 2019 using a modified retrospective approach. We have elected to use an available practical expedient that is permitted under ASU No. 2016-02 to record the required cumulative effect adjustment to the opening balance sheet in the period of adoption rather than in the earliest comparative period presented. As such, the Company's historical consolidated financial statements will not be restated. We believe that the adoption of the standard will have a material impact on our consolidated balance sheet because the ROU model will result in a significant increase in both assets and liabilities from our operating leases, which currently are not recorded on the balance sheet. Based on the composition of the Company's current lease

arrangements, the adoption of ASU No. 2016-02 on January 1, 2019 is expected to result in the recognition of operating lease liabilities ranging from approximately \$0.9 billion to \$1.0 billion based on the present value of the Company's remaining minimum lease payments, while the corresponding ROU assets are expected to range from approximately \$700.0 million to \$800.0 million. The actual amount of the increase in our assets and liabilities, including any resulting tax effects, will not be known until closer to the adoption date, and could be impacted by additional leasing activity. We do not believe that the Company's consolidated statements of operations, comprehensive income and cash flows will be materially impacted.

#### Accounting standards effective in 2020

**Implementation Costs in a Cloud Computing Arrangement** — In August 2018, the FASB issued ASU No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" ("ASU No. 2018-15"). ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Costs that are capitalized under ASU No. 2018-15 will be expensed over the term of the cloud computing

arrangement. ASU No. 2018-15 is effective for Gartner on January 1, 2020, with early adoption permitted. ASU No. 2018-15 may be adopted using either a retroactive or prospective method. The adoption of ASU No. 2018-15 is currently not expected to have a material impact on the Company's consolidated financial statements.

**Defined Benefit Plan Disclosures** — In August 2018, the FASB issued ASU No. 2018-14, "Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU No. 2018-14"). ASU No. 2018-14, which is part of the FASB's broader disclosure framework project, modifies and supplements the current U.S. GAAP annual disclosure requirements for employers that sponsor defined benefit pension plans. ASU No. 2018-14 is effective for Gartner for the year ending December 31, 2020, with early adoption permitted. ASU No. 2018-14 must be adopted on a retroactive basis and applied to each comparative period presented in an entity's financial statements. We are evaluating the potential impact of adopting ASU No. 2018-14; however, we do not currently expect it to have a material impact on the Company's consolidated financial statements.

**Fair Value Measurement Disclosures** — In August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU No. 2018-13"). ASU No. 2018-13, which is part of the FASB's broader disclosure framework project, modifies and supplements the current U.S. GAAP disclosure requirements pertaining to fair value measurements, with an emphasis on Level 3 disclosures of the valuation hierarchy. ASU No. 2018-13 is effective for Gartner on January 1, 2020, with early adoption permitted. The adoption of ASU No. 2018-13 is currently not expected to have a material impact on the Company's consolidated financial statements.

**Goodwill Impairment** — In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other - Simplifying the Test for Goodwill Impairment" ("ASU No. 2017-04"). ASU No. 2017-04 simplifies the determination of the amount of goodwill to be potentially charged off by eliminating Step 2 of the goodwill impairment test under current U.S. GAAP. ASU No. 2017-04 is effective for Gartner on January 1, 2020. The adoption of ASU No. 2017-04 is currently not expected to have a material impact on the Company's consolidated financial statements.

**Financial Instrument Credit Losses** — In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses" ("ASU No. 2016-13"). ASU No. 2016-13 amends the current financial instrument impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. ASU No. 2016-13 is effective for Gartner on January 1, 2020, with early adoption permitted. We are currently evaluating the potential impact of ASU No. 2016-13 on our consolidated financial statements.

The FASB continues to work on a number of other significant accounting standards which, if issued, could materially impact the Company's accounting policies and disclosures in future periods. As these standards have not yet been issued, the effective dates and potential impact are unknown.

## Note 2 — Acquisitions and Divestitures

### Acquisitions

The Company accounts for business acquisitions in accordance with the acquisition method of accounting as prescribed by FASB ASC Topic 805, Business Combinations. The acquisition method of accounting requires the Company to record the net assets and liabilities acquired based on their estimated fair values as of the acquisition date, with any excess of the consideration transferred over the estimated fair value of the net assets acquired, including identifiable intangible assets, to be recorded to goodwill. Under the acquisition method, the operating results of acquired companies are included in the Company's consolidated financial statements beginning on the date of acquisition.

The Company did not have any business acquisitions in 2018 but paid \$15.9 million from restricted cash in the third quarter of 2018 related to deferred consideration from a prior year acquisition. In the second quarter of 2017, the Company acquired CEB Inc. ("CEB"), a leading provider of subscription-based, best practice research and analysis focusing on human resources, sales, finance, IT and legal. The Company recognized \$17.1 million and \$96.3 million of acquisition and integration charges during the three and nine months ended September 30, 2018, respectively, compared to \$30.5 million and \$142.1 million during the three and nine months ended September 30, 2017, respectively. Acquisition and integration charges reflect additional costs and expenses resulting from our acquisitions and include, among other items, professional fees, severance, stock-based compensation charges and accruals for exit costs for certain office space in Arlington, Virginia related to our acquisition of CEB that the Company does not intend to occupy. During 2018, exit costs represented the single largest component of our acquisition and integration charges.

The following table presents a summary of the activity related to our accrual for exit costs at all of our facilities during the nine months ended September 30, 2018 (in thousands):

|   |         |        |  |
|---|---------|--------|--|
| Liability balance at December 31, 2017  | \$      | 12,961 |  |
| Charges and adjustments, net (1)        |         | 60,196 |  |
| (2)                                     |         |        |  |
| Payments, net of \$783 in sublease rent | (15,730 | )      |  |
| Liability balance at September 30, 2018 | \$      | 57,427 |  |
| (3)                                     |         |        |  |

The Company recognized \$6.1 million and \$60.2 million of charges and adjustments, net during the three and nine (1) months ended September 30, 2018, respectively, compared to \$1.0 million and \$21.1 million during the three and nine months ended September 30, 2017, respectively.

(2) During the nine months ended September 30, 2018, the Company recognized \$4.5 million of expense for changes in our original estimates of exit cost obligations.

(3) In total, we estimate that the Company will make net cash payments of approximately \$76.9 million for exit costs in connection with the activities described herein. Through September 30, 2018, in the aggregate, we have expensed \$73.3 million and had net cash outlays of \$15.9 million related to such activities.

#### Divestitures

During 2018, the Company completed the divestiture of three non-core businesses, all of which were acquired in the CEB acquisition in April 2017 and were reported in the Company's Other segment. These three businesses contributed approximately \$97.0 million of revenue and \$60.1 million of gross contribution in 2018. The Company used the cash proceeds from these divestitures to pay down outstanding debt.

Additional information regarding these divestitures is provided below:

#### CEB Challenger training business

On August 31, 2018, the Company sold its CEB Challenger training business for \$119.1 million and realized approximately \$116.2 million in cash, which is net of working capital adjustments and certain closing costs. The cash received is subject to certain post-closing adjustments. The Company recorded a pretax gain on the sale of approximately \$12.2 million.

#### CEB Workforce Survey and Analytics business

On May 1, 2018, the Company sold its CEB Workforce Survey and Analytics business for \$28.0 million and realized approximately \$26.4 million in cash, which is net of certain closing expenses. The Company recorded a pretax gain on the sale of approximately \$8.8 million.

#### CEB Talent Assessment business

On April 3, 2018, the Company sold its CEB Talent Assessment business for \$403.0 million and realized approximately \$375.8 million in cash from the sale, which is net of cash transferred with the business and certain closing expenses. The Company recorded a pretax gain of approximately \$16.7 million on the sale.

Other asset sales

During the nine months ended September 30, 2018, the Company also received approximately \$2.3 million in cash proceeds and recorded a net pretax gain of approximately \$0.8 million from the sale of certain other miscellaneous assets acquired in the CEB transaction. On October 31, 2018, the Company divested a small non-core Research business called Metrics That Matter, which was also acquired in the CEB acquisition. The divestiture of Metrics That Matter will be reported in the Company's fourth quarter 2018 results.

The principal components of the assets and liabilities in the above divestiture transactions are summarized in the table below (in thousands):

|  |           |
|--|-----------|
| Cash and cash equivalents                                  | \$19,624  |
| Fees receivable, net                                       | 60,077    |
| Goodwill   | 315,645   |
| Intangible assets, net                                     | 302,415   |
| Other assets (including prepaid expenses and fixed assets) | 29,725    |
| Total assets   | \$727,486 |

|   |           |
|---|-----------|
| Accounts payable and accrued liabilities                      | \$29,780  |
| Deferred revenues   | 85,970    |
| Other liabilities   | 50,743    |
| Foreign currency translation adjustment                       | 60,160    |
| Total liabilities and foreign currency translation adjustment | \$226,653 |

### Note 3 — Computation of Net Income (Loss) per Share

Basic earnings per share (“EPS”) is computed by dividing net income (loss) by the weighted average number of shares of Common Stock outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in earnings. When the impact of common share equivalents is anti-dilutive, they are excluded from the calculation.

The following table sets forth the calculation of basic and diluted income (loss) per share (in thousands, except per share data):

|   | Three Months Ended |                    | Nine Months Ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Numerator:  |                    |                    |                    |                    |
| Net income (loss) used for calculating basic and diluted income (loss) per common share | \$11,753           | \$(48,180)         | \$38,436           | \$(104,028)        |
| Denominator:  |                    |                    |                    |                    |
| Weighted average common shares used in the calculation of basic income (loss) per share | 90,854             | 90,624             | 90,969             | 87,585             |
| Common stock equivalents associated with stock-based compensation plans (1), (2)        | 1,294              | —                  | 1,275              | —                  |
| Shares used in the calculation of diluted income (loss) per share                       | 92,148             | 90,624             | 92,244             | 87,585             |
| Basic income (loss) per share   | \$0.13             | \$(0.53)           | \$0.42             | \$(1.19)           |
| Diluted income (loss) per share   | \$0.13             | \$(0.53)           | \$0.42             | \$(1.19)           |

For the three and nine months ended September 30, 2018, certain common stock equivalents were not included in (1) the computation of diluted income (loss) per share because the effect would have been anti-dilutive. These common share equivalents totaled less than 0.2 million for both periods.

For the three and nine months ended September 30, 2017, approximately 1.4 million common stock equivalents (2) were excluded from the calculation of diluted income (loss) per share because the effect would have been anti-dilutive.

Note 4 — Stock-Based Compensation

The Company grants stock-based compensation awards as an incentive for employees and directors to contribute to the Company's long-term success. The Company currently awards stock-settled stock appreciation rights, service-based and performance-based restricted stock units, and common stock equivalents. As of September 30, 2018, the Company had 4.9 million shares of its common stock, par value \$.0005 per share, (the "Common Stock") available for stock-based compensation awards under its 2014 Long-Term Incentive Plan.

The Company accounts for stock-based compensation awards in accordance with FASB ASC Topics 505 and 718 and SEC Staff Accounting Bulletins No. 107 and No. 110. Stock-based compensation expense for equity awards is based on the fair value of the award on the date of grant. The Company recognizes stock-based compensation expense over the period that the related service is performed, which is generally the same as the vesting period of the underlying award. Currently, the Company issues treasury shares upon the exercise, release or settlement of stock-based compensation awards.

Determining the appropriate fair value model and calculating the fair value of stock-based compensation awards requires the use of certain subjective assumptions, including the expected life of a stock-based compensation award and Common Stock price volatility. In addition, determining the appropriate periodic stock-based compensation expense requires management to estimate the likelihood of the achievement of certain performance targets. The assumptions used in calculating the fair values of stock-based compensation awards and the related periodic expense represent management's best estimates, which involve inherent uncertainties and the application of judgment. As a result, if circumstances change and the Company deems it necessary in the future to modify the assumptions it made or to use different assumptions, or if the quantity and nature of the Company's stock-based compensation awards changes, then the amount of expense may need to be adjusted and future stock-based compensation expense could be materially different from what has been recorded in the current period.

#### Stock-Based Compensation Expense

The Company recognized the following stock-based compensation expense by award type and expense category line item during the periods indicated (in millions):

| Award type                | Three Months Ended September 30, |        | Nine Months Ended September 30, |        |
|---------------------------|----------------------------------|--------|---------------------------------|--------|
|                           | 2018                             | 2017   | 2018                            | 2017   |
| Stock appreciation rights | \$0.8                            | \$1.1  | \$5.6                           | \$5.2  |
| Restricted stock units    | 9.8                              | 13.2   | 49.9                            | 62.3   |
| Common stock equivalents  | 0.1                              | 0.1    | 0.5                             | 0.5    |
| Total (1)                 | \$10.7                           | \$14.4 | \$56.0                          | \$68.0 |

  

| Expense category line item               | Three Months Ended September 30, |        | Nine Months Ended September 30, |        |
|--|----------------------------------|--------|---------------------------------|--------|
|  | 2018                             | 2017   | 2018                            | 2017   |
| Cost of services and product development | \$4.7                            | \$6.1  | \$22.8                          | \$21.5 |
| Selling, general and administrative      | 5.7                              | 7.1    | 31.4                            | 30.8   |
| Acquisition and integration charges (2)  | 0.3                              | 1.2    | 1.8                             | 15.7   |
| Total (1)                                | \$10.7                           | \$14.4 | \$56.0                          | \$68.0 |

(1) Includes a credit of \$0.3 million and a charge of \$2.1 million during the three months ended September 30, 2018 and 2017, respectively, and charges of \$19.6 million and \$22.6 million during the nine months ended September 30, 2018 and 2017, respectively, for awards to retirement-eligible employees. Those awards vest on an accelerated basis.

(2) These charges are the result of (i) the acceleration of the vesting of certain restricted stock units related to the CEB acquisition and (ii) restricted stock units granted in connection with the CEB integration process.

As of September 30, 2018, the Company had \$91.5 million of total unrecognized stock-based compensation cost, which is expected to be expensed over the remaining weighted average service period of approximately 2.5 years.

#### Stock-Based Compensation Awards

The disclosures presented below provide information regarding the Company's stock-based compensation awards, all of which have been classified as equity awards in accordance with FASB ASC Topic 505.

#### Stock Appreciation Rights

Stock-settled stock appreciation rights ("SARs") permit the holder to participate in the appreciation of the value of the Common Stock. After the applicable vesting criteria have been satisfied, SARs are settled in shares of Common Stock upon exercise by the

20

---

employee. SARs vest ratably over a four-year service period and expire seven years from the date of grant. The fair value of a SARs award is recognized as compensation expense on a straight-line basis over four years. SARs have only been awarded to the Company's executive officers.

When SARs are exercised, the number of shares of Common Stock issued is calculated as follows: (1) the total proceeds from the exercise of the SARs award (calculated as the closing price of the Common Stock as reported on the New York Stock Exchange on the date of exercise less the exercise price of the SARs award, multiplied by the number of SARs exercised) is divided by (2) the closing price of the Common Stock on the date of exercise. The Company withholds a portion of the shares of the Common Stock issued upon exercise to satisfy statutory tax withholding requirements. SARs recipients do not have any stockholder rights until the shares of Common Stock are issued in respect of the award, which is subject to the prior satisfaction of the vesting and other criteria relating to such grants.

The following table summarizes changes in SARs outstanding during the nine months ended September 30, 2018:

|  | Stock<br>Appreciation<br>Rights<br>("SARs") (in<br>millions) | Per Share<br>Per Share<br>Average<br>Exercise<br>Price | Per Share<br>Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) |
|--|--|--|--|---|
| Outstanding at December 31, 2017                 | 1.2  | \$ 76.73   | \$ 17.35   | 4.28  |
| Granted  | 0.3  | 114.26   | 25.63  | 6.36  |
| Exercised  | (0.3 )   | 60.54  | 14.98  | n/a   |
| Outstanding at September 30, 2018 (1) (2)        | 1.2  | 88.70  | 19.77  | 4.52  |
| Vested and exercisable at September 30, 2018 (2) | 0.5  | \$ 74.88   | \$ 16.96   | 3.42  |

n/a = not applicable

(1) As of September 30, 2018, 0.7 million of the total SARs outstanding were unvested. The Company expects that substantially all of those unvested awards will vest in future periods.

(2) As of September 30, 2018, the total SARs outstanding had an intrinsic value of \$86.0 million. On such date, SARs vested and exercisable had an intrinsic value of \$46.0 million.

The fair value of a SARs award is determined on the date of grant using the Black-Scholes-Merton valuation model with the following weighted average assumptions:

|                                     | Nine Months<br>Ended<br>September 30,<br>2018 2017 |       |
|-------------------------------------|--|-------|
| Expected dividend yield (1)         | — %  | — %   |
| Expected stock price volatility (2) | 21 %   | 22 %  |
| Risk-free interest rate (3)         | 2.5 %  | 1.8 % |
| Expected life in years (4)          | 4.5  | 4.5   |

(1) The expected dividend yield assumption was based on both the Company's historical and anticipated dividend payouts. Historically, the Company has not paid cash dividends on its Common Stock.

(2) The determination of expected stock price volatility was based on both historical Common Stock prices and implied volatility from publicly traded options in the Common Stock.

- (3) The risk-free interest rate was based on the yield of a U.S. Treasury security with a maturity similar to the expected life of the award.
- (4) The expected life represents the Company's estimate of the weighted average period of time the SARs are expected to be outstanding (that is, the period between the service inception date and the expected exercise date).

#### Restricted Stock Units

Restricted stock units ("RSUs") give the awardee the right to receive shares of Common Stock when the vesting conditions are met and certain restrictions lapse. Each RSU that vests entitles the awardee to one share of Common Stock. RSU awardees do not have any of the rights of a Gartner stockholder, including voting rights and the right to receive dividends and distributions, until

the shares are released. The fair value of a RSU award is determined on the date of grant based on the closing price of the Common Stock as reported on the New York Stock Exchange on that date. Service-based RSUs vest ratably over four years and are expensed on a straight-line basis over the vesting period. Performance-based RSUs are subject to the satisfaction of both performance and service conditions, vest ratably over four years and are expensed on an accelerated basis over the vesting period.

The following table summarizes the changes in RSUs outstanding during the nine months ended September 30, 2018:

|   | Restricted<br>Stock<br>Units<br>("RSUs")<br>(in<br>millions) | Per Share<br>Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
|---|--|--|
| Outstanding at December 31, 2017          | 1.5  | \$ 91.47   |
| Granted (1)                               | 0.7  | 112.74   |
| Vested and released                       | (0.7 )   | 88.60  |
| Forfeited                                 | (0.1 )   | 104.51   |
| Outstanding at September 30, 2018 (2) (3) | 1.4  | \$ 101.69  |

The 0.7 million of RSUs granted during the nine months ended September 30, 2018 consisted of 0.3 million of performance-based RSUs awarded to executives and 0.4 million of service-based RSUs awarded to non-executive employees and non-management board members. The performance-based awards include RSUs in final settlement of 2017 grants and approximately 0.2 million of RSUs representing the target amount of the grant for the year ending December 31, 2018 that is tied to an increase in Gartner's total contract value for 2018. The number of performance-based RSUs that will ultimately be awarded for 2018 ranges from 0% to 200% of the target amount and will be finalized based on the actual increase in Gartner's total contract value for 2018 as measured on December 31, 2018. If the specified minimum level of achievement is not met, the performance-based RSUs pertaining to 2018 will be forfeited in their entirety and any previously recorded compensation expense will be reversed.

(2) The Company expects that substantially all of the RSUs outstanding will vest in future periods.

(3) As of September 30, 2018, the weighted average remaining contractual term of the RSUs outstanding was approximately 1.4 years.

### Common Stock Equivalents

Common stock equivalents ("CSEs") are convertible into Common Stock. Each CSE entitles the holder to one share of Common Stock. Members of our Board of Directors receive their directors' fees in CSEs unless they opt to receive up to 50% of those fees in cash. Generally, CSEs have no defined term and are converted into shares of Common Stock when service as a director terminates unless the director has elected an accelerated release. The fair value of a CSE award is determined on the date of grant based on the closing price of the Common Stock as reported on the New York Stock Exchange on that date. CSEs vest immediately and, as a result, they are recorded as expense on the date of grant.

The following table summarizes the changes in CSEs outstanding during the nine months ended September 30, 2018:

|  | Common<br>Stock<br>Equivalents<br>("CSEs") | Per Share<br>Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
|--|--|--|
| Outstanding at December 31, 2017               | 110,013                                    | \$ 23.19   |
| Granted  | 4,172                                      | 133.35   |
| Converted to shares of Common Stock upon grant | (5,075 )                                   | 84.41  |
| Outstanding at September 30, 2018              | 109,110                                    | \$ 24.51   |

### Employee Stock Purchase Plan

The Company has an employee stock purchase plan (the "ESP Plan") under which eligible employees are permitted to purchase shares of Common Stock through payroll deductions, which may not exceed 10% of an employee's compensation, or \$23,750 in any calendar year, at a price equal to 95% of the closing price of the Common Stock as reported on the New York Stock Exchange at the end of each offering period. As of September 30, 2018, the Company had 0.7 million shares available for purchase under the ESP Plan. The ESP Plan is considered non-compensatory under FASB ASC Topic 718 and, as a result, the Company does not record stock-based compensation expense for employee share purchases. The Company received \$11.1 million and \$8.6 million in cash from employee share purchases under the ESP Plan during the nine months ended September 30, 2018 and 2017, respectively.

### Note 5 — Segment Information

During 2018, the Company divested all three of the non-core businesses that comprised its Other segment, each of which were acquired as part of the acquisition of CEB Inc. in April 2017. As a result of these divestitures, and the movement of a small residual product in the Other segment into the Research business, the Company is no longer recording any additional operating activity in the Other segment effective September 1, 2018. Additional information regarding the divestitures is included in Note 2 – Acquisitions and Divestitures.

Our products and services are currently delivered through three segments – Research, Events and Consulting, as follows:

Research provides trusted, objective insights and advice on the mission-critical priorities of leaders across all functional areas of the enterprise through research and other reports, briefings, proprietary tools, access to our analysts, peer networking services and membership programs that enable our clients to make better decisions. Gartner's traditional strengths in IT, marketing and supply chain research were enhanced in 2017 with Gartner's acquisition of CEB Inc., which added CEB's best practice and talent management research insights across a range of business functions, to include human resources, finance, sales and legal.

Events provides business professionals across the organization the opportunity to learn, share and network. From our flagship CIO event, Gartner Symposium/ITxpo, to industry-leading conferences focused on specific business roles and topics, to member-driven sessions, our events enable attendees to experience the best of Gartner insight and advice live.

Consulting provides customized solutions to unique client needs through on-site, day-to-day support, as well as proprietary tools for measuring and improving IT performance with a focus on cost, performance, efficiency and quality.

The Company evaluates segment performance and allocates resources based on gross contribution margin. Gross contribution, as presented in the table below, is defined as operating income or loss excluding certain Cost of services and product development expenses, Selling, general and administrative expenses, Depreciation, Amortization of intangibles, and Acquisition and integration charges. Certain bonus and fringe benefit costs included in consolidated Cost of services and product development are not allocated to segment expense. The accounting policies used by the reportable segments are the same as those used by the Company. There are no intersegment revenues. The Company does not identify or allocate assets, including capital expenditures, by reportable segment. Accordingly, assets are not reported by segment because the information is not available by segment and is not reviewed in the evaluation of segment performance or in making decisions in the allocation of resources.

Edgar Filing: GARTNER INC - Form 10-Q

The following tables present information about the Company's reportable segments, including its Other segment, for the periods indicated (in thousands):

| Three Months Ended September 30, 2018 | Research    | Events    | Consulting | Other     | Consolidated |
|---------------------------------------|-------------|-----------|------------|-----------|--------------|
| Revenues                              | \$774,188   | \$57,141  | \$78,752   | \$11,593  | \$921,674    |
| Gross contribution                    | 534,911     | 25,047    | 18,419     | 6,927     | 585,304      |
| Corporate and other expenses          |             |           |            |           | (532,580 )   |
| Operating income                      |             |           |            |           | \$52,724     |
| Three Months Ended September 30, 2017 | Research    | Events    | Consulting | Other     | Consolidated |
| Revenues                              | \$653,443   | \$44,953  | \$72,117   | \$57,572  | \$828,085    |
| Gross contribution                    | 436,222     | 16,011    | 16,188     | 31,215    | 499,636      |
| Corporate and other expenses          |             |           |            |           | (523,985 )   |
| Operating loss                        |             |           |            |           | \$(24,349 )  |
| Nine Months Ended September 30, 2018  | Research    | Events    | Consulting | Other     | Consolidated |
| Revenues                              | \$2,308,426 | \$214,481 | \$258,106  | \$105,562 | \$2,886,575  |
| Gross contribution                    | 1,599,277   | 104,698   | 76,236     | 65,075    | 1,845,286    |
| Corporate and other expenses          |             |           |            |           | (1,715,177 ) |
| Operating income                      |             |           |            |           | \$130,109    |
| Nine Months Ended September 30, 2017  | Research    | Events    | Consulting | Other     | Consolidated |
| Revenues                              | \$1,778,481 | \$171,427 | \$242,404  | \$104,673 | \$2,296,985  |
| Gross contribution                    | 1,187,906   | 79,313    | 71,558     | 48,512    | 1,387,289    |
| Corporate and other expenses          |             |           |            |           | (1,456,512 ) |
| Operating loss                        |             |           |            |           | \$(69,223 )  |

The following table provides a reconciliation of total segment gross contribution to net income (loss) (in thousands):

|  | Three Months Ended |             | Nine Months Ended |              |
|--|--------------------|-------------|-------------------|--------------|
|  | September 30,      |             | September 30,     |              |
|  | 2018               | 2017        | 2018              | 2017         |
| Total segment gross contribution                           | \$585,304          | \$499,636   | \$1,845,286       | \$1,387,289  |
| Costs and expenses:  |                    |             |                   |              |
| Cost of services and product development - unallocated (1) | (258 )             | 3,758       | 19,669            | 12,124       |
| Selling, general and administrative                        | 447,537            | 421,163     | 1,396,085         | 1,133,633    |
| Depreciation and amortization                              | 68,187             | 68,564      | 203,081           | 168,651      |
| Acquisition and integration charges                        | 17,114             | 30,500      | 96,342            | 142,104      |
| Operating income (loss)                                    | 52,724             | (24,349 )   | 130,109           | (69,223 )    |
| Interest expense and other, net                            | 27,811             | 37,591      | 98,454            | 86,971       |
| Gain from divested operations                              | 13,040             | —           | 38,500            | —            |
| Provision (benefit) for income taxes                       | 26,200             | (13,760 )   | 31,719            | (52,166 )    |
| Net income (loss)  | \$11,753           | \$(48,180 ) | \$38,436          | \$(104,028 ) |

The unallocated amounts consist of certain bonus and related fringe costs recorded in consolidated Cost of services (1) and product development expense that are not allocated to segment expense. The Company's policy is to only allocate bonus and related fringe charges to segments for up to 100% of the segment employee's target bonus.



## Note 6 — Goodwill and Intangible Assets

## Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair values of the tangible and identifiable intangible net assets acquired. Evaluations of the recoverability of goodwill are performed in accordance with FASB ASC Topic 350, which requires an annual assessment of potential goodwill impairment at the reporting unit level and whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The annual assessment of the recoverability of recorded goodwill can be based on either a qualitative or quantitative assessment or a combination of the two approaches. Both methods utilize estimates which, in turn, require judgments and assumptions regarding future trends and events. As a result, both the precision and reliability of the resulting estimates are subject to uncertainty. If our annual goodwill impairment evaluation determines that the fair value of a reporting unit is less than its related carrying amount, we may recognize an impairment charge. In connection with our most recent annual impairment test of goodwill during the quarter ended September 30, 2018, which indicated no impairment of recorded goodwill, the Company utilized the quantitative approach in assessing the fair values of its reporting units relative to their respective carrying values.

The following table presents changes to the carrying amount of goodwill by segment, including the Company's Other segment, during the nine months ended September 30, 2018 (in thousands):

|   | Research    | Events    | Consulting | Other    | Total       |
|---|-------------|-----------|------------|----------|-------------|
| Balance at December 31, 2017 (1), (2)             | \$2,619,677 | \$187,920 | \$97,798   | \$81,899 | \$2,987,294 |
| Divestitures (3)                                  | —           | —         | —          | (90,078) | (90,078)    |
| Foreign currency translation impact and other (4) | 6,005       | (225)     | (326)      | 8,179    | 13,633      |
| Balance at September 30, 2018                     | \$2,625,682 | \$187,695 | \$97,472   | \$—      | \$2,910,849 |

(1) The Company does not have any accumulated goodwill impairment losses.

(2) Excludes certain amounts related to held-for-sale operations.

(3) Represents amounts related to divested businesses. See Note 2 — Acquisitions and Divestitures for additional information.

(4) Includes the foreign currency translation impact and certain measurement period adjustments related to the acquisition of CEB in April 2017.

## Finite-Lived Intangible Assets

The following tables present reconciliations of the carrying amounts of the Company's finite-lived intangible assets as of the dates indicated (in thousands):

| September 30, 2018                                | Customer Relationships | Software  | Content   | Other    | Total       |
|---|------------------------|-----------|-----------|----------|-------------|
| Gross cost at December 31, 2017 (1)               | \$1,200,316            | \$123,424 | \$104,313 | \$54,929 | \$1,482,982 |
| Divestitures (2)                                  | (45,175)               | (321)     | (473)     | (160)    | (46,129)    |
| Write-off of fully amortized intangible assets    | (303)                  | (2,625)   | (669)     | (3,332)  | (6,929)     |
| Foreign currency translation impact and other (3) | (13,682)               | (385)     | (4,082)   | 328      | (17,821)    |
| Gross cost  | 1,141,156              | 120,093   | 99,089    | 51,765   | 1,412,103   |
| Accumulated amortization (4)                      | (162,029)              | (42,461)  | (91,275)  | (30,602) | (326,367)   |
| Balance at September 30, 2018                     | \$979,127              | \$77,632  | \$7,814   | \$21,163 | \$1,085,736 |

| December 31, 2017 | Customer Relationships | Software | Content | Other | Total |
|-------------------|------------------------|----------|---------|-------|-------|
|-------------------|------------------------|----------|---------|-------|-------|

Edgar Filing: GARTNER INC - Form 10-Q

|                                  |              |            |            |           |              |
|----------------------------------|--------------|------------|------------|-----------|--------------|
| Gross cost (1)                   | \$ 1,200,316 | \$ 123,424 | \$ 104,313 | \$ 54,929 | \$ 1,482,982 |
| Accumulated amortization (4)     | (92,983 )    | (26,344 )  | (47,475 )  | (24,158 ) | (190,960 )   |
| Balance at December 31, 2017 (1) | \$ 1,107,333 | \$ 97,080  | \$ 56,838  | \$ 30,771 | \$ 1,292,022 |

(1) Excludes certain amounts related to held-for-sale operations.

25

---

- (2) Represents amounts related to divested businesses. See Note 2 — Acquisitions and Divestitures for additional information.
- (3) Includes the foreign currency translation impact and certain other adjustments.
- (4) Finite-lived intangible assets are amortized using the straight-line method over the following periods: Customer relationships—4 to 13 years; Software—3 to 7 years; Content—1.5 to 5 years; and Other—2 to 5 years.

Amortization expense related to finite-lived intangible assets was \$50.9 million and \$51.2 million during the three months ended September 30, 2018 and 2017, respectively, and \$152.6 million and \$123.0 million during the nine months ended September 30, 2018 and 2017, respectively.

The estimated future amortization expense by year for finite-lived intangible assets is as follows (in thousands):

|                               |             |
|-------------------------------|-------------|
| 2018 (remaining three months) | \$34,865    |
| 2019                          | 130,158     |
| 2020                          | 123,567     |
| 2021                          | 103,100     |
| 2022                          | 93,538      |
| Thereafter                    | 600,508     |
|                               | \$1,085,736 |

## Note 7 — Debt

### 2016 Credit Agreement

The Company has a credit facility that provides for a \$1.5 billion Term loan A facility and a \$1.2 billion revolving credit facility (the "2016 Credit Agreement"). The Company's \$500.0 million Term loan B facility was completely repaid during the nine months ended September 30, 2018.

The 2016 Credit Agreement contains certain customary restrictive loan covenants, including, among others, financial covenants that apply a maximum leverage ratio and a minimum interest expense coverage ratio, and covenants limiting Gartner's ability to incur indebtedness, grant liens, make acquisitions, merge, dispose of assets, pay dividends, repurchase stock, make investments and enter into certain transactions with affiliates. The Company was in full compliance with the covenants as of September 30, 2018.

The Term loan A facility is being repaid in 16 consecutive quarterly installments that commenced on June 30, 2017, plus a final payment to be made on March 20, 2022. The revolving credit facility may be borrowed, repaid, and re-borrowed through March 20, 2022, at which time all amounts must be repaid. Amounts borrowed under the Term loan A facility and the revolving credit facility bear interest at a rate equal to, at the Company's option, either:

(i) the greatest of: (x) the Administrative Agent's prime rate; (y) the average rate on Federal Reserve Board of New York rate plus 1/2 of 1%; and (z) the eurodollar rate (adjusted for statutory reserves) plus 1%, in each case plus a margin equal to between 0.125% and 1.50% depending on Gartner's consolidated leverage ratio as of the end of the four consecutive fiscal quarters most recently ended; or

(ii) the eurodollar rate (adjusted for statutory reserves) plus a margin equal to between 1.125% and 2.50%, depending on Gartner's leverage ratio as of the end of the four consecutive fiscal quarters most recently ended.

### Senior Notes

The Company has \$800.0 million aggregate principal amount of 5.125% Senior Notes due 2025 (the “Senior Notes”). The Senior Notes were issued at an issue price of 100.00% and bear interest at a fixed rate of 5.125% per annum. Interest on the Senior Notes is payable on April 1 and October 1 of each year. The Senior Notes mature on April 1, 2025.

The Company may redeem some or all of the Senior Notes at any time on or after April 1, 2020 for cash at the redemption prices set forth in the Note Indenture, plus accrued and unpaid interest to, but not including, the redemption date. Prior to April 1, 2020, the Company may redeem up to 40% of the aggregate principal amount of the Senior Notes with the proceeds of certain equity offerings at a redemption price of 105.125% plus accrued and unpaid interest to, but not including, the redemption date. In addition, the Company may redeem some or all of the Senior Notes prior to April 1, 2020, at a redemption price of 100% of the principal

amount of the Senior Notes plus accrued and unpaid interest to, but not including, the redemption date, plus a “make-whole” premium. If the Company experiences specific kinds of change of control, it will be required to offer to purchase the Senior Notes at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

### Outstanding Borrowings

The following table summarizes the Company’s total outstanding borrowings as of the dates indicated (in thousands):

| Description:   | September 30, December 31, |              |
|--|----------------------------|--------------|
|  | 2018                       | 2017         |
| 2016 Credit Agreement - Term loan A facility (1)           | \$ 1,373,625               | \$ 1,429,312 |
| 2016 Credit Agreement - Term loan B facility (2)           | —                          | 496,250      |
| 2016 Credit Agreement - Revolving credit facility (1), (3) | 27,000                     | 595,000      |
| Senior Notes (4)   | 800,000                    | 800,000      |
| Other (5)  | 2,148                      | 2,500        |
| Principal amount outstanding (6)                           | 2,202,773                  | 3,323,062    |
| Less: deferred financing fees (7)                          | (32,013                    | ) (44,217 )  |
| Net balance sheet carrying amount                          | \$ 2,170,760               | \$ 3,278,845 |

- The contractual annualized interest rate as of September 30, 2018 on the Term loan A facility and the revolving credit facility was 3.99%, which consisted of a floating eurodollar base rate of 2.24% plus a margin of 1.75%.
- (1) However, the Company has interest rate swap contracts that effectively convert the floating eurodollar base rates on amounts outstanding to a fixed base rate.
- (2) The Term loan B facility was completely repaid in 2018.
- (3) The Company had \$1,149 million of available borrowing capacity on the revolver (not including the expansion feature) as of September 30, 2018.
- (4) Consists of \$800.0 million principal amount of Senior Notes outstanding. The Senior Notes pay a fixed rate of 5.125% and mature on April 1, 2025.
- (5) Consists of a State of Connecticut economic development loan with a 3.00% fixed rate of interest. The loan was originated in 2012 and has a 10 year maturity. The loan may be repaid at any time by the Company without penalty.
- (6) The weighted average annual effective rates on the Company's total debt outstanding for the three and nine months ended September 30, 2018, including the effect of its interest rate swaps discussed below, were 4.24% and 4.21%, respectively.
- (7) Deferred financing fees are being amortized to Interest expense, net over the term of the related debt obligation. The Company wrote off approximately \$6.9 million of deferred financing fees during the nine months ended September 30, 2018 related to the repayment of the Term loan B facility.

### Interest Rate Swaps

The Company has fixed-for-floating interest rate swap contracts that it designates as accounting hedges of the forecasted interest payments on the Company’s variable rate borrowings. The Company pays base fixed rates on the swaps and in return receives a floating eurodollar base rate on 30 day notional borrowings. The Company accounts for the interest rate swaps as cash flow hedges in accordance with FASB ASC Topic 815. Since the swaps hedge forecasted interest payments, changes in the fair value of the swaps are recorded in accumulated other comprehensive income (loss), a component of equity, as long as the swaps continue to be highly effective hedges of the designated interest rate risk. Any ineffective portion of a change in the fair value of the hedges is recorded in earnings. All of the Company's swaps were highly effective hedges of the forecasted interest payments as of September 30, 2018. The interest rate swaps had a net positive fair value (asset) to the Company of \$22.9 million at September 30, 2018, which is deferred and recorded in Accumulated other comprehensive (loss) income, net of tax effect.



## Note 8 — Equity

## Share Repurchase Authorization

The Company has a \$1.2 billion board approved authorization to repurchase the Company's common stock, of which \$1.0 billion remained available as of September 30, 2018. The Company may repurchase its common stock from time to time in amounts, at prices and in the manner the Company deems appropriate, subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company's financial performance and other conditions. Repurchases may be made through open market purchases (which may include repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended), accelerated share repurchases, private transactions or other transactions and will be funded from cash on hand and borrowings under the Company's credit arrangement. The Company's recent share repurchase activity is presented in the following table:

|   | Three Months<br>Ended<br>September 30,<br>2018 |         | Nine Months<br>Ended<br>September 30,<br>2017 |          |
|---|--|---------|---|----------|
| Number of shares repurchased (1)                    | 51,298   | 26,725  | 815,001                                       | 348,236  |
| Cash paid for repurchased shares (in thousands) (2) | \$8,129  | \$3,275 | \$104,400                                     | \$37,188 |

(1) The average purchase price for repurchased shares was \$140.09 and \$128.10 for the three and nine months ended September 30, 2018, respectively, and \$122.53 and \$106.79 for the three and nine months ended September 30, 2017, respectively.

(2) The cash paid for repurchased shares during the three and nine months ended September 30, 2018 included repurchases for both share-based compensation awards and open market purchases. There were no open market purchases during 2017.

## Accumulated Other Comprehensive Income (Loss), net ("AOCI/L")

The following tables disclose information about changes in AOCI/L by component and the related amounts reclassified out of AOCI/L to income during the periods indicated (net of tax, in thousands) (1):

For the three months ended September 30, 2018:

|   | Interest<br>Rate<br>Swaps | Defined<br>Benefit<br>Pension<br>Plans | Foreign<br>Currency<br>Translation<br>Adjustments | Total      |
|---|---------------------------|--|---|------------|
| Balance – June 30, 2018                               | \$16,281                  | \$(5,750)                              | \$(34,582)  | \$(24,051) |
| Changes during the period:                            |                           |  |   |            |
| Change in AOCI/L before reclassifications to income   | 969                       | —                                      | 814   | 1,783      |
| Reclassifications from AOCI/L to income (2), (3), (4) | (619)                     | 53                                     | 150   | (416)      |
| Other comprehensive income (loss) for the period      | 350                       | 53                                     | 964   | 1,367      |
| Balance – September 30, 2018                          | \$16,631                  | \$(5,697)                              | \$(33,618)  | \$(22,684) |

For the three months ended September 30, 2017:

|                         | Interest<br>Rate<br>Swaps | Defined<br>Benefit<br>Pension<br>Plans | Foreign<br>Currency<br>Translation<br>Adjustments | Total      |
|-------------------------|---------------------------|--|---|------------|
| Balance – June 30, 2017 | \$(6,107)                 | \$(5,700)                              | \$(37,082)  | \$(48,889) |

Edgar Filing: GARTNER INC - Form 10-Q

Changes during the period:

|   |           |           |          |            |
|---|-----------|-----------|----------|------------|
| Change in AOCI/L before reclassifications to income | 9         | —         | 46,319   | 46,328     |
| Reclassifications from AOCI/L to income (2), (3)    | 1,293     | 52        | —        | 1,345      |
| Other comprehensive income (loss) for the period    | 1,302     | 52        | 46,319   | 47,673     |
| Balance – September 30, 2017                        | \$(4,805) | \$(5,648) | \$ 9,237 | \$(1,216 ) |

28

---

Edgar Filing: GARTNER INC - Form 10-Q

For the nine months ended September 30, 2018:

|   | Interest<br>Rate<br>Swaps | Defined<br>Benefit<br>Pension<br>Plans | Foreign<br>Currency<br>Translation<br>Adjustments | Total      |
|---|---------------------------|--|---|------------|
| Balance – December 31, 2017                             | \$2,483                   | \$(5,861)                              | \$ 4,886  | \$ 1,508   |
| Changes during the period:                              |                           |  |   |            |
| Change in AOCI/L before reclassifications to income (5) | 14,339                    | —                                      | 21,656  | 35,995     |
| Reclassifications from AOCI/L to income (2), (3), (4)   | (191 )                    | 164                                    | (60,160 )   | (60,187 )  |
| Other comprehensive income (loss) for the period        | 14,148                    | 164                                    | (38,504 )   | (24,192 )  |
| Balance – September 30, 2018                            | \$ 16,631                 | \$(5,697)                              | \$(33,618 )                                       | \$(22,684) |

For the nine months ended September 30, 2017:

|  | Interest<br>Rate<br>Swaps | Defined<br>Benefit<br>Pension<br>Plans | Foreign<br>Currency<br>Translation<br>Adjustments | Total      |
|--|---------------------------|--|---|------------|
| Balance – December 31, 2016                                  | \$(1,409)                 | \$(5,797)                              | \$(42,477 )                                       | \$(49,683) |
| Changes during the period:                                   |                           |  |   |            |
| Change in AOCI/L before reclassifications to income (6,912 ) | —                         | —                                      | 51,714  | 44,802     |
| Reclassifications from AOCI/L to income (2), (3)             | 3,516                     | 149                                    | —   | 3,665      |
| Other comprehensive income (loss) for the period (3,396 )    | 149                       | —                                      | 51,714  | 48,467     |
| Balance – September 30, 2017                                 | \$(4,805)                 | \$(5,648)                              | \$ 9,237  | \$(1,216 ) |

(1) Amounts in parentheses represent debits (deferred losses).

(2) The reclassifications related to interest rate swaps (cash flow hedges) were recorded in Interest expense, net of tax effect. See Note 10 – Derivatives and Hedging for information regarding the hedges.

(3) The reclassifications related to defined benefit pension plans were recorded in Selling, general and administrative expense, net of tax effect. See Note 12 – Employee Benefits for information regarding the Company's defined benefit pension plans.

(4) The reclassifications related to foreign currency translation adjustments during the three and nine months ended September 30, 2018 were recorded in Gain from divested operations. See Note 2 – Acquisitions and Divestitures for information regarding our divestitures during 2018.

(5) The activity for interest rate swaps included an immaterial impact from the Company's adoption of ASU No. 2018-02. See Note 1 - Business and Basis of Presentation for additional information.

#### Note 9 — Income Taxes

The provision for income taxes for the three months ended September 30, 2018 was an expense of \$26.2 million on pretax income of \$38.0 million compared to a benefit of \$13.8 million on a pretax loss of \$61.9 million during the three months ended September 30, 2017. The effective income tax rate was 69.0% for the three months ended September 30, 2018 and 22.2% for the same period in 2017. The quarter-over-quarter increase in the effective income tax rate was primarily attributable to the taxable third quarter 2018 divestiture of the CEB Challenger training business, which resulted in a greater tax than book gain. This impact was partially offset by the lower U.S. statutory tax rate effective for 2018.

The provision for income taxes for the nine months ended September 30, 2018 was an expense of \$31.7 million on pretax income of \$70.2 million compared to a benefit of \$52.2 million on a pretax loss of \$156.2 million during the

nine months ended September 30, 2017. The effective income tax rate was 45.2% for the nine months ended September 30, 2018 and 33.4% for the same period in 2017. The year-over-year increase in the effective income tax rate was primarily driven by the same reasons as the quarter-over-quarter increase.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. Among other things, the Act reduced the U.S. federal corporation tax rate from 35% to 21% and requires companies to pay a one-time transition tax on accumulated deferred foreign income ("ADFI") of foreign subsidiaries that were previously tax deferred. Upon enactment, we remeasured U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which reduced our 2017 income tax

expense by \$123.2 million, and recorded a provisional amount for the one-time transition tax, which increased our 2017 income tax expense by \$63.6 million.

During the second quarter of 2018, we recorded an additional \$0.7 million provisional expense for the estimated state income tax impact of the one-time transition tax. As of September 30, 2018, we have not completed our accounting for the tax effects of enactment of the Act given the need to obtain, prepare and analyze various information largely pertinent to the determination of ADFI including, but not limited to, our post-1986 earnings and profits, foreign taxes and amounts held in cash or other specified assets on various measurement dates. As such, the amounts we have recorded are provisional as permitted by SEC Staff Accounting Bulletin No. 118 ("SAB 118") and could change materially. We expect to complete our accounting for the Act in the fourth quarter of 2018 per SAB 118.

The Act also created a new tax on global intangible low-taxed income ("GILTI") attributable to foreign subsidiaries. Companies have the option to account for the GILTI tax as a period cost in the period incurred, or to recognize deferred taxes for temporary differences including outside basis differences expected to reverse as a result of the GILTI provisions. The Company has not yet determined its accounting policy election with respect to GILTI. We have, however, included an estimate of the current year GILTI tax impact in the 2018 tax provision calculation.

The Company had gross unrecognized tax benefits of \$62.6 million at September 30, 2018 and \$60.3 million at December 31, 2017. It is reasonably possible that gross unrecognized tax benefits will decrease by approximately \$6.0 million within the next 12 months due to the anticipated closure of audits and the expiration of certain statutes of limitation.

In July 2015, the United States Tax Court (the "Court") issued an opinion relating to the treatment of stock-based compensation expense in an inter-company cost-sharing arrangement. In its opinion, the Court held that affiliated companies may exclude stock-based compensation expense from their cost-sharing arrangement. The Internal Revenue Service appealed the decision and, on July 24, 2018, the appellate court ruled in favor of the Internal Revenue Service. However, that ruling was vacated shortly after and the case remains in appeal. Because of uncertainty related to the final resolution of this litigation and the recognition of potential benefits to the Company, the Company has not recorded any financial statement benefit related to open statute years associated with this matter. The Company will monitor developments related to this case and the potential impact of those developments on the Company's consolidated financial statements.

#### Note 10 — Derivatives and Hedging

The Company enters into a limited number of derivative contracts to mitigate the cash flow risk associated with changes in interest rates on variable rate debt and changes in foreign exchange rates on forecasted foreign currency transactions. The Company accounts for its outstanding derivative contracts in accordance with FASB ASC Topic 815, which requires all derivatives, including derivatives designated as accounting hedges, to be recorded on the balance sheet at fair value. The following tables provide information regarding the Company's outstanding derivatives contracts as of the dates indicated (in thousands, except for number of outstanding contracts):

September 30, 2018

| Derivative Contract Type      | Number of Outstanding Contracts | Notional Amounts | Fair Value Asset (Liability), Net (3) | Balance Sheet Line Item | Unrealized Gain Recorded in AOCI/L |
|-------------------------------|---------------------------------|------------------|---------------------------------------|-------------------------|------------------------------------|
| Interest rate swaps (1)       | 7                               | \$2,100,000      | \$ 22,860                             | Other assets            | \$ 16,631                          |
| Foreign currency forwards (2) | 48                              | 378,492          | (434 )                                | Accrued liabilities     | —                                  |
| Total                         | 55                              | \$2,478,492      | \$ 22,426                             |                         | \$ 16,631                          |

Edgar Filing: GARTNER INC - Form 10-Q

December 31, 2017

| Derivative Contract Type      | Number of Outstanding Contracts | Notional Amounts | Fair Value Asset (Liability), Net (3) | Balance Sheet Line Item | Unrealized Gain Recorded in AOCI/L |
|-------------------------------|---------------------------------|------------------|---------------------------------------|-------------------------|------------------------------------|
| Interest rate swaps (1)       | 5                               | \$1,400,000      | \$ 3,412                              | Other assets            | \$ 2,483                           |
| Foreign currency forwards (2) | 137                             | 686,764          | 448                                   | Other current assets    | —                                  |
| Total                         | 142                             | \$2,086,764      | \$ 3,860                              |                         | \$ 2,483                           |

30

---

The swaps have been designated and are accounted for as cash flow hedges of the forecasted interest payments on (1) borrowings. As a result, changes in the fair value of the swaps are deferred and recorded in AOCI/L, net of tax effect (see Note 7 — Debt for additional information).

The Company has foreign exchange transaction risk because it typically enters into transactions in the normal course of business that are denominated in foreign currencies that differ from the local functional currency. The Company enters into short-term foreign currency forward exchange contracts to mitigate the cash flow risk (2) associated with changes in foreign currency rates on forecasted foreign currency transactions. These contracts are accounted for at fair value with realized and unrealized gains and losses recognized in Other income (expense), net because the Company does not designate these contracts as hedges for accounting purposes. All of the outstanding foreign currency forward exchange contracts at September 30, 2018 matured by the end of October 2018. (3) See Note 11 — Fair Value Disclosures for the determination of the fair value of these instruments.

At September 30, 2018, all of the Company's derivative counterparties were investment grade financial institutions. The Company did not have any collateral arrangements with its derivative counterparties and none of the derivative contracts contained credit-risk related contingent features. The following table provides information regarding amounts recognized in the Condensed Consolidated Statements of Operations for derivative contracts for the periods indicated (in thousands):

|                                    | Three Months Ended September 30, |          | Nine Months Ended September 30, |         |
|------------------------------------|----------------------------------|----------|---------------------------------|---------|
|                                    | 2018                             | 2017     | 2018                            | 2017    |
| Amount recorded in:                |                                  |          |                                 |         |
| Interest (income) expense, net (1) | \$(851)                          | \$2,154  | \$(262 )                        | \$5,860 |
| Other expense (income), net (2)    | 1,140                            | (1,764 ) | 2,815                           | (960 )  |
| Total expense, net                 | \$289                            | \$390    | \$2,553                         | \$4,900 |

(1) Consists of interest (income) expense from interest rate swap contracts.

(2) Consists of net realized and unrealized gains and losses on foreign currency forward contracts.

#### Note 11 — Fair Value Disclosures

The Company's financial instruments include cash equivalents, fees receivable from customers, accounts payable, and accruals, all of which are normally short-term in nature. The Company believes that the carrying amounts of these financial instruments reasonably approximate their fair values due to their short-term nature. The Company's financial instruments also include its outstanding variable-rate borrowings under the 2016 Credit Agreement. The Company believes that the carrying amounts of its variable-rate borrowings reasonably approximate their fair values because the rates of interest on those borrowings reflect current market rates of interest for similar instruments with comparable maturities.

The Company enters into a limited number of derivatives transactions but does not enter into repurchase agreements, securities lending transactions or master netting arrangements. Receivables or payables that result from derivatives transactions are recorded gross in the Company's consolidated balance sheets.

FASB ASC Topic 820 provides a framework for the measurement of fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of assets and liabilities. Classification within the valuation hierarchy is based upon the lowest level of input that is significant to the resulting fair value measurement. The valuation hierarchy contains three levels. Level 1 measurements consist of quoted prices in active markets for identical assets or liabilities.

Level 2 measurements include significant other observable inputs such as quoted prices for similar assets or liabilities in active markets; identical assets or liabilities in inactive markets; observable inputs such as interest rates and yield curves; and other market-corroborated inputs. Level 3 measurements include significant unobservable inputs, such as internally-created valuation models. The Company does not currently utilize Level 3 valuation inputs to remeasure any of its assets or liabilities. However, Level 3 inputs may be used by the Company in its required annual impairment review of recorded goodwill. Information regarding the periodic assessment of the Company's goodwill is included in Note 6 — Goodwill and Intangible Assets. The Company does not typically transfer assets or liabilities between different levels of the valuation hierarchy.

The following table presents the fair value of certain financial assets and liabilities (in thousands):

| Description:                               | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
| Assets:                                    |                       |                      |
| Values based on Level 1 inputs:            |                       |                      |
| Deferred compensation plan assets (1)      | \$ 16,161             | \$ 29,108            |
| Total Level 1 inputs                       | 16,161                | 29,108               |
| Values based on Level 2 inputs:            |                       |                      |
| Deferred compensation plan assets (1)      | 56,162                | 59,017               |
| Foreign currency forward contracts (2)     | 220                   | 2,053                |
| Interest rate swap contracts (3)           | 22,860                | 3,412                |
| Total Level 2 inputs                       | 79,242                | 64,482               |
| Total Assets                               | \$ 95,403             | \$ 93,590            |
| Liabilities:                               |                       |                      |
| Values based on Level 2 inputs:            |                       |                      |
| Deferred compensation plan liabilities (1) | \$ 74,833             | \$ 89,900            |
| Foreign currency forward contracts (2)     | 654                   | 1,605                |
| Senior Notes due 2025 (4)                  | 805,696               | 837,560              |
| Total Level 2 inputs                       | 881,183               | 929,065              |
| Total Liabilities                          | \$ 881,183            | \$ 929,065           |

The Company has a deferred compensation plan for the benefit of certain highly compensated officers, managers and other key employees. The assets consist of investments in money market and mutual funds, and (1) company-owned life insurance contracts, all of which are valued based on Level 1 or Level 2 valuation inputs. The related deferred compensation plan liabilities are recorded at fair value, or the estimated amount needed to settle the liability, which the Company considers to be a Level 2 input.

The Company enters into foreign currency forward exchange contracts to hedge the effects of adverse fluctuations in foreign currency exchange rates (see Note 10 - Derivatives and Hedging). Valuation of the foreign currency (2) forward contracts is based on observable foreign currency exchange rates in active markets, which the Company considers a Level 2 input.

The Company has interest rate swap contracts that hedge the risk of variability from interest payments on its borrowings (see Note 7 — Debt). The fair value of the swaps is based on mark-to-market valuations prepared by a (3) third-party broker. The valuations are based on observable interest rates from recently executed market transactions and other observable market data, which the Company considers Level 2 inputs. The Company independently corroborates the reasonableness of the valuations prepared by the third-party broker through the use of an electronic quotation service.

As discussed in Note 7 — Debt, the Company has \$800.0 million of principal amount fixed-rate Senior Notes due in (4) 2025. The estimated fair value of the notes was derived from quoted market prices provided by an independent dealer, which the Company considers to be a Level 2 input.

## Note 12 — Employee Benefits

### Defined-Benefit Pension Plans

The Company has defined-benefit pension plans in several of its international locations. Benefits paid under these plans are based on years of service and level of employee compensation. The Company's defined-benefit pension plans are accounted for in accordance with FASB ASC Topics 715 and 960. Net periodic pension expense was \$0.9 million and \$2.5 million for the three and nine months ended September 30, 2018, respectively, and \$0.9 million and \$2.4 million for the three and nine months ended September 30, 2017, respectively.

Note 13 — Contingencies

Legal Matters. The Company is involved in legal proceedings and litigation arising in the ordinary course of business. We believe that the potential liability, if any, in excess of amounts already accrued from all proceedings, claims and litigation will not have a material effect on our financial position, cash flows or results of operations when resolved in a future period.

32

---

Indemnifications. The Company has various agreements that may obligate us to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations related to matters such as title to assets sold and licensed or certain intellectual property rights. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of the Company's obligations and the unique facts of each particular agreement. Historically, payments made by us under these agreements have not been material. As of September 30, 2018, the Company did not have any material payment obligations under any such indemnification agreements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of the following Management's Discussion and Analysis ("MD&A") is to facilitate an understanding of significant factors influencing the quarterly operating results, financial condition and cash flows of Gartner, Inc. Additionally, the MD&A conveys our expectations of the potential impact of known trends, events or uncertainties that may impact future results. You should read this discussion in conjunction with our condensed consolidated financial statements and related notes included in this report and our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"). Historical results and percentage relationships are not necessarily indicative of operating results for future periods. References to "Gartner," the "Company," "we," "our" and "us" in this MD&A are to Gartner, Inc. and its consolidated subsidiaries.

### Business Divestitures

During 2018, the Company divested all three of the non-core businesses that comprised its Other segment, each of which were acquired as part of the acquisition of CEB Inc. in April 2017. As a result of these divestitures, and the movement of a small residual product in the Other segment into the Research business, the Company is no longer recording any additional operating activity in the Other segment effective September 1, 2018. Additional information regarding the divestitures is included in Note 2 – Acquisitions and Divestitures in the Notes to Condensed Consolidated Financial Statements.

### FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are any statements other than statements of historical fact, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. In some cases, forward-looking statements can be identified by the use of words such as "may," "will," "expect," "should," "could," "believe," "plan," "anticipate," "estimate," "predict," "potential," "continue" or other words of similar meaning.

We operate in a very competitive and rapidly changing environment that involves numerous risks and uncertainties, some of which are beyond our control. Additionally, our quarterly and annual revenues, operating income, and cash flows fluctuate as a result of many factors, including: the timing of our Symposium/ITxpo series that normally occurs during the fourth quarter, as well as our other events; the amount of new business generated, including from acquisitions; the mix of domestic and international business; domestic and international economic conditions; changes in market demand for our products and services; changes in foreign currency rates; the timing of the development, introduction and marketing of new products and services; competition in the industry; the payment of performance compensation; and other factors. The potential fluctuations in our operating income could cause period-to-period

comparisons of operating results not to be meaningful and could provide an unreliable indication of future operating results. A description of the risk factors associated with our business is included under “Risk Factors” contained in Item 1A. of the 2017 Form 10-K, which is incorporated herein by reference.

Forward-looking statements are subject to risks, estimates and uncertainties that could cause actual results to differ materially from those discussed in, or implied by, the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the Risk Factors described in our 2017 Form 10-K. Readers should not place undue reliance on these forward-looking statements, which reflect management’s opinion only as of the date on which they were made. Except as required by law, we disclaim any obligation to review or update these forward-looking statements to reflect events or circumstances as they occur.

## BUSINESS OVERVIEW

Gartner, Inc. (NYSE: IT) is the world's leading research and advisory company and a member of the S&P 500. We equip business leaders with indispensable insights, advice and tools to achieve their mission-critical priorities and build the successful organizations of tomorrow. We believe our unmatched combination of expert-led, practitioner-sourced and data-driven research steers clients toward the right decisions on the issues that matter most. We're trusted as an objective resource and critical partner by more than 15,000 organizations in more than 100 countries across all major functions, in every industry and enterprise size. Gartner is headquartered in Stamford, Connecticut, U.S.A. and, as of September 30, 2018, we had more than 14,700 associates.

Gartner currently delivers its products and services globally through three business segments: Research, Events and Consulting:

Research provides trusted, objective insights and advice on the mission-critical priorities of leaders across all functional areas of the enterprise through research and other reports, briefings, proprietary tools, access to our analysts, peer networking services and membership programs that enable our clients to make better decisions. Gartner's traditional strengths in IT, marketing and supply chain research were enhanced in 2017 with Gartner's acquisition of CEB Inc., which added CEB's best practice and talent management research insights across a range of business functions, to include human resources, finance, sales and legal.

- Events provides business professionals across the organization the opportunity to learn, share and network. From our flagship CIO event Gartner Symposium/ITxpo, to industry-leading conferences focused on specific business roles and topics, to member-driven sessions, our events enable attendees to experience the best of Gartner insight and advice live.

Consulting provides customized solutions to unique client needs through on-site, day-to-day support, as well as proprietary tools for measuring and improving IT performance with a focus on cost, performance, efficiency and quality.

BUSINESS MEASUREMENTS

We believe that the following business measurements are important performance indicators for our business segments:

BUSINESS  
SEGMENT

BUSINESS MEASUREMENTS

Research Total contract value represents the value attributable to all of our subscription-related contracts. It is calculated as the annualized value of all contracts in effect at a specific point in time, without regard to the duration of the contract. Total contract value primarily includes Research deliverables for which revenue is recognized on a ratable basis, as well as other deliverables (primarily Events tickets) for which revenue is recognized when the deliverable is utilized. Our total contract value consists of Global Technology Sales contract value, which includes sales to users and providers of technology, and Global Business Sales contract value, which includes sales to all other functional leaders.

Client retention rate represents a measure of client satisfaction and renewed business relationships at a specific point in time. Client retention is calculated on a percentage basis by dividing our current clients, who were also clients a year ago, by all clients from a year ago. Client retention is calculated at an enterprise level, which represents a single company or customer.

Wallet retention rate represents a measure of the amount of contract value we have retained with clients over a twelve-month period. Wallet retention is calculated on a percentage basis by dividing the contract value of clients, who were clients one year ago, by the total contract value from a year ago, excluding the impact of foreign currency exchange. When wallet retention exceeds client retention, it is an indication of retention of higher-spending clients, or increased spending by retained clients, or both. Wallet retention is calculated at an enterprise level, which represents a single company or customer.

Events Number of destination events represents the total number of hosted destination events completed during the period. Single day, local events are excluded.

Number of destination events attendees represents the total number of people who attend destination events. Single day, local events are excluded.

Consulting Consulting backlog represents future revenue to be derived from in-process consulting and measurement engagements.

Utilization rate represents a measure of productivity of our consultants. Utilization rates are calculated for billable headcount on a percentage basis by dividing total hours billed by total hours available to bill.

Billing rate represents earned billable revenue divided by total billable hours.

Average annualized revenue per billable headcount represents a measure of the revenue generating ability of an average billable consultant and is calculated periodically by multiplying the average billing rate per hour times the utilization percentage times the billable hours available for one year.

## EXECUTIVE SUMMARY OF OPERATIONS AND FINANCIAL POSITION

We have executed a consistent growth strategy since 2005 to drive revenue and earnings growth. The fundamentals of our strategy include a focus on creating extraordinary research insight, delivering innovative and highly differentiated product offerings, building a strong sales capability, providing world class client service with a focus on client engagement and retention, and continuously improving our operational effectiveness. We continue to focus on maximizing shareholder value.

We had total revenues of \$0.9 billion in the third quarter of 2018, an increase of 11% compared to the third quarter of 2017. Quarter-over-quarter revenues for Research, Events and Consulting increased 18%, 27% and 9%, respectively, during the third quarter of 2018. The Company's Other segment contributed \$11.6 million and \$57.6 million of revenues during the third quarter of 2018 and 2017, respectively, with the decline due to non-core divestitures we made during 2018. For a more complete discussion of our results by segment, see Segment Results below.

For the third quarter of 2018, we had a net income of \$11.8 million and diluted income per share of \$0.13. Cash provided by operating activities was \$426.0 million and \$232.3 million during the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, we had \$211.0 million of cash and cash equivalents and \$1,149 million of available borrowing capacity on our revolving credit facility. For a more complete discussion of our cash flows and financial position, see Liquidity and Capital Resources below.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our consolidated financial statements requires the application of appropriate accounting policies and the use of estimates. Our significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements of Gartner, Inc. contained in the 2017 Form 10-K. Management considers the policies discussed below to be critical to an understanding of our financial statements because their application requires complex and subjective management judgments and estimates. Specific risks for these critical accounting policies are also described below.

The preparation of our consolidated financial statements requires us to make estimates and assumptions about future events. We develop our estimates using both current and historical experience, as well as other factors, including the general economic environment and actions we may take in the future. We adjust such estimates when facts and circumstances dictate. However, our estimates may involve significant uncertainties and judgments and cannot be determined with precision. In addition, these estimates are based on our best judgment at a point in time and, as such, they may ultimately differ materially from actual results. Ongoing changes in our estimates could be material and would be reflected in the Company's consolidated financial statements in future periods.

Our critical accounting policies are described below.

**Revenue recognition** — On January 1, 2018, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU No. 2014-09"). ASU No. 2014-09 and related amendments required changes in revenue recognition policies as well as enhanced disclosures. Among other things, ASU No. 2014-09 requires a five-step evaluative process that consists of:

- (1) Identifying the contract with the customer;
- (2) Identifying the performance obligations in the contract;
- (3) Determining the transaction price for the contract;
- (4) Allocating the transaction price to the performance obligations in the contract; and
- (5) Recognizing revenue when (or as) performance obligations are satisfied.

The Company adopted ASU No. 2014-09 on January 1, 2018 using the modified retrospective method of adoption. Under this method of adoption, the cumulative effect of applying the new standard is recorded at the date of initial application, with no restatement of the comparative prior periods presented. The adoption of ASU No. 2014-09 did not have a material impact on the Company's consolidated financial statements. However, the adoption of the new standard required reclassifications of certain amounts presented in the Company's consolidated balance sheet. Prior to January 1, 2018, the Company recognized revenue in accordance with then-existing generally accepted accounting principles in the United States of America and SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("prior GAAP"). Under both ASU No. 2014-09 and prior GAAP, revenue can only be recognized when all of the required criteria are met. Note 1 — Business and Basis of Presentation in the Notes to Condensed Consolidated Financial Statements provides additional information regarding our adoption of ASU No. 2014-09 and its impact on the Company's consolidated financial statements and related disclosures.

Our revenue by significant source is accounted for as follows:

Research revenues are mainly derived from subscription contracts for research products. The related revenues are deferred and recognized ratably over the applicable contract term. Fees derived from assisting organizations in selecting the right business software for their needs are recognized when the leads are provided to vendors.

Events revenues are deferred and recognized upon the completion of the related symposium, conference or exhibition.

Consulting revenues are principally generated from fixed fee and time and material engagements. Revenues from fixed fee contracts are recognized as we work to satisfy our performance obligations. Revenues from time and materials engagements are recognized as work is delivered and/or services are provided. Revenues related to contract optimization contracts are contingent in nature and are only recognized upon satisfaction of all conditions related to their payment.

The majority of research contracts are billable upon signing, absent special terms granted on a limited basis from time to time. Research contracts are generally non-cancelable and non-refundable, except for government contracts that may have cancellation or fiscal funding clauses. It is our policy to record the amount of a subscription contract that is billable as a fee receivable at the time the contract is signed with a corresponding amount as deferred revenue because the contract represents a legally enforceable claim.

Uncollectible fees receivable — At December 31, 2017, the Company maintained an allowance for losses that was comprised of a bad debt allowance and a revenue reserve. In connection with the adoption of ASU No. 2014-09 on January 1, 2018, management concluded that the revenue reserve was a refund liability rather than a contra-receivable due to the nature of the account activity. As a result, the Company reclassified the revenue reserve of \$6.2 million on January 1, 2018 from the allowance for losses to Accounts payable and accrued liabilities and will consistently present the revenue reserve in this manner in all future consolidated balance sheets. Note 1 — Business and Basis of Presentation in the Notes to Condensed Consolidated Financial Statements provides additional information regarding our adoption of ASU No. 2014-09 and its impact on the Company's allowance for losses. Increases and decreases in the allowance for losses are charged to earnings, either to expense (i.e., the bad debt allowance) or revenues (i.e., the revenue reserve).

The determination of the bad debt allowance is based on historical loss experience, an assessment of current economic conditions, the aging of outstanding receivables, the financial health of specific clients and probable losses. This evaluation is inherently judgmental and requires estimates. The Company's bad debt allowance is periodically re-evaluated and adjusted as more information about the ultimate collectability of fees receivable becomes available. Circumstances that could cause our bad debt allowance to increase include changes in our clients' liquidity and credit quality, other factors negatively impacting our clients' ability to pay their obligations as they come due, and the effectiveness of our collection efforts.

The following table presents our total fees receivable and the related allowance for losses (in thousands):

|                           | September 30,<br>2018 | December 31,<br>2017 |
|---------------------------|-----------------------|----------------------|
| Total fees receivable (1) | \$ 986,881            | \$ 1,189,543         |
| Allowance for losses (2)  | (7,700 )              | (12,700 )            |
| Fees receivable, net      | \$ 979,181            | \$ 1,176,843         |

(1) Total fees receivable at December 31, 2017 included \$26.7 million of contract assets. As a result of the Company's adoption of ASU No. 2014-09 on January 1, 2018, contract assets are now included in Prepaid expenses and other

current assets on the Company's Condensed Consolidated Balance Sheet at September 30, 2018.

(2) The allowance for losses at December 31, 2017 included \$6.2 million that was attributable to the Company's revenue reserve. As a result of the Company's adoption of ASU No. 2014-09 on January 1, 2018, the revenue reserve balance is now included in Accounts payable and accrued liabilities on the Company's Condensed Consolidated Balance Sheet at September 30, 2018.

Goodwill and other intangible assets — When we acquire a business, we determine the fair value of the assets acquired and liabilities assumed on the date of acquisition, which may include a significant amount of intangible assets such as customer relationships, software and content, as well as resulting goodwill. When determining the fair values of the acquired intangible assets, we consider, among other factors, analyses of historical financial performance and an estimate of the future performance of the acquired business. The fair values of the acquired intangible assets are primarily calculated using an income approach that relies on discounted cash flows. This method starts with a forecast of the expected future net cash flows for the asset and then

adjusts the forecast to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. We consider this approach to be the most appropriate valuation technique because the inherent value of an acquired intangible asset is its ability to generate future income. In a typical acquisition, we engage a third-party valuation expert to assist us with the fair value analyses for acquired intangible assets.

Determining the fair values of acquired intangible assets requires us to exercise significant judgment. We select reasonable estimates and assumptions based on evaluating a number of factors, including, but not limited to, marketplace participants, consumer awareness and brand history. Additionally, there are significant judgments inherent in discounted cash flows such as estimating the amount and timing of projected future cash flows, the selection of appropriate discount rates, hypothetical royalty rates and contributory asset capital charges. Specifically, the selected discount rates are intended to reflect the risk inherent in the projected future cash flows generated by the underlying acquired intangible assets.

Determining an acquired intangible asset's useful life also requires significant judgment and is based on evaluating a number of factors, including, but not limited to, the expected use of the asset, historical client retention rates, consumer awareness and trade name history, as well as any contractual provisions that could limit or extend an asset's useful life.

The Company evaluates recorded goodwill in accordance with FASB Accounting Standards Codification ("ASC") Topic 350, which requires goodwill to be assessed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. In addition, an impairment evaluation of our amortizable intangible assets may also be performed if events or circumstances indicate potential impairment. Among the factors that could trigger an impairment review are current operating results that do not align with our annual plan or historical performance; changes in our strategic plan or the use of our assets; restructuring charges or other changes in our business segments; competitive pressures and changes in the general economy or in the markets in which we operate; and a significant decline in our stock price and our market capitalization relative to our net book value.

FASB ASC Topic 350 requires an annual assessment of the recoverability of recorded goodwill, which can be either quantitative or qualitative in nature, or a combination of the two approaches. Both methods utilize estimates which, in turn, require judgments and assumptions regarding future trends and events. As a result, both the precision and reliability of the resulting estimates are subject to uncertainty. If our goodwill impairment evaluation determines that the fair value of a reporting unit is less than its related carrying amount, we may recognize an impairment charge. Among the factors that we consider in a qualitative assessment are general economic conditions and the competitive environment; actual and projected reporting unit financial performance; forward-looking business measurements; and external market assessments. A quantitative analysis requires management to consider each of the factors relevant to a qualitative assessment, as well as the utilization of detailed financial projections, to include the rate of revenue growth, profitability and cash flows, as well as assumptions regarding discount rates, the Company's weighted average cost of capital and other data, in order to determine a fair value for our reporting units.

We conducted a quantitative assessment of the fair value of all of the Company's reporting units during the quarter ended September 30, 2018. Our assessment determined that the fair values of the Company's reporting units continue to exceed their respective carrying values and, as a result, no goodwill impairment was indicated. Note 6 — Goodwill and Intangible Assets in the Notes to Condensed Consolidated Financial Statements provides additional information regarding goodwill and amortizable intangible assets.

Accounting for income taxes — The Company uses the asset and liability method of accounting for income taxes. We estimate our income taxes in each of the jurisdictions where we operate. This process involves estimating our current tax expense or benefit together with assessing temporary differences resulting from differing treatment of items for tax

and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. When assessing the realizability of deferred tax assets, we consider if it is more likely than not that some or all of the deferred tax assets will not be realized. In making this assessment, we consider the availability of loss carryforwards, projected reversals of deferred tax liabilities, projected future taxable income, and ongoing prudent and feasible tax planning strategies. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on the technical merits of the position.

The Company adopted FASB Accounting Standards Update No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," on January 1, 2018. Note 1 — Business and Basis of Presentation in the Notes to Condensed Consolidated Financial Statements provides information regarding our adoption of this accounting standard and its impact.

Accounting for stock-based compensation — The Company accounts for stock-based compensation awards in accordance with FASB ASC Topics 505 and 718 and SEC Staff Accounting Bulletins No. 107 and No. 110. The Company recognizes stock-based compensation expense, which is based on the fair value of the award on the date of grant, over the related service period. Note 4

— Stock-Based Compensation in the Notes to Condensed Consolidated Financial Statements provides additional information regarding stock-based compensation. Determining the appropriate fair value model and calculating the fair value of stock-based compensation awards requires the use of certain subjective assumptions, including the expected life of a stock-based compensation award and the Company's common stock price volatility. In addition, determining the appropriate periodic stock-based compensation expense requires management to estimate the likelihood of the achievement of certain performance targets. The assumptions used in calculating the fair values of stock-based compensation awards and the related periodic expense represent management's best estimates, which involve inherent uncertainties and the application of judgment. As a result, if circumstances change and the Company deems it necessary in the future to modify the assumptions it made or to use different assumptions, or if the quantity and nature of the Company's stock-based compensation awards changes, then the amount of expense may need to be adjusted and future stock-based compensation expense could be materially different from what has been recorded in the current period.

Restructuring and other accruals — We may record accruals for severance costs, costs associated with excess facilities that we have leased, contract terminations, asset impairments and other costs as a result of ongoing actions we undertake to streamline our organization, reposition certain businesses and reduce ongoing costs. Estimates of costs to be incurred to complete these actions, such as future lease payments, sublease income, the fair value of assets, and severance and related benefits, are based on assumptions at the time the actions are initiated. These accruals may need to be adjusted to the extent actual costs differ from such estimates. In addition, these actions may be revised due to changes in business conditions that we did not foresee at the time such plans were approved. We also record accruals during the year for our various employee cash incentive programs. Amounts accrued at the end of each reporting period are based on our estimates and may require adjustment as the ultimate amount paid for these incentives are sometimes not known with certainty until the end of our fiscal year.

## RESULTS OF OPERATIONS

## Consolidated Results

The table below presents an analysis of selected line items and period-over-period changes in our interim Condensed Consolidated Statements of Operations for the periods indicated (in thousands). The operating results of CEB are included beginning on April 5, 2017, the date of acquisition.

|  | Three<br>Months<br>Ended<br>September<br>30, 2018 | Three<br>Months<br>Ended<br>September<br>30, 2017 | Income<br>Increase<br>(Decrease)<br>\$ | Income<br>Increase<br>(Decrease)<br>% |   |
|--|---|---|--|---------------------------------------|---|
| Total revenues                           | \$921,674   | \$828,085   | \$93,589                               | 11                                    | % |
| Costs and expenses:                      |   |   |  |                                       |   |
| Cost of services and product development | 336,112   | 332,207   | (3,905 )                               | (1 )                                  |   |
| Selling, general and administrative      | 447,537   | 421,163   | (26,374 )                              | (6 )                                  |   |
| Depreciation                             | 17,335  | 17,340  | 5                                      | —                                     |   |
| Amortization of intangibles              | 50,852  | 51,224  | 372                                    | 1                                     |   |
| Acquisition and integration charges      | 17,114  | 30,500  | 13,386                                 | 44                                    |   |
| Operating income (loss)                  | 52,724  | (24,349 )   | 77,073                                 | >100                                  |   |
| Interest expense, net                    | (26,984 )   | (38,762 )   | 11,778                                 | 30                                    |   |
| Gain from divested operations            | 13,040  | —   | 13,040                                 | >100                                  |   |
| Other (expense) income, net              | (827 )  | 1,171   | (1,998 )                               | >(100)                                |   |
| Provision (benefit) for income taxes     | 26,200  | (13,760 )   | (39,960 )                              | >(100)                                |   |
| Net income (loss)                        | \$11,753  | \$(48,180 )                                       | \$59,933                               | >100%                                 |   |
|  |   |   |  |                                       |   |
|  | Nine<br>Months<br>Ended<br>September<br>30, 2018  | Nine<br>Months<br>Ended<br>September<br>30, 2017  | Income<br>Increase<br>(Decrease)<br>\$ | Income<br>Increase<br>(Decrease)<br>% |   |
| Total revenues                           | \$2,886,575                                       | \$2,296,985                                       | \$589,590                              | 26                                    | % |
| Costs and expenses:                      |   |   |  |                                       |   |
| Cost of services and product development | 1,060,958   | 921,820   | (139,138 )                             | (15 )                                 |   |
| Selling, general and administrative      | 1,396,085   | 1,133,633   | (262,452 )                             | (23 )                                 |   |
| Depreciation                             | 50,456  | 45,637  | (4,819 )                               | (11 )                                 |   |
| Amortization of intangibles              | 152,625   | 123,014   | (29,611 )                              | (24 )                                 |   |
| Acquisition and integration charges      | 96,342  | 142,104   | 45,762                                 | 32                                    |   |
| Operating income (loss)                  | 130,109   | (69,223 )   | 199,332                                | >100                                  |   |
| Interest expense, net                    | (99,647 )   | (88,624 )   | (11,023 )                              | (12 )                                 |   |
| Gain from divested operations            | 38,500  | —   | 38,500                                 | >100                                  |   |
| Other income, net                        | 1,193   | 1,653   | (460 )                                 | (28 )                                 |   |
| Provision (benefit) for income taxes     | 31,719  | (52,166 )   | (83,885 )                              | >(100)                                |   |
| Net income (loss)                        | \$38,436  | \$(104,028 )                                      | \$142,464                              | >100%                                 |   |

Total revenues for the three months ended September 30, 2018 increased by \$93.6 million, to \$921.7 million, an increase of 11% compared to the same period in 2017 on a reported basis and 13% excluding the foreign currency impact. Total revenues for the nine months ended September 30, 2018 increased by \$589.6 million, to \$2.9 billion, an increase of 26% compared to the same period in 2017 on a reported basis and 24% excluding the foreign currency

impact. A portion of the total revenue increase for the nine months ended September 30, 2018 compared to the same period in 2017 was due to the CEB acquisition in early April 2017. Refer to the section of this MD&A below entitled “Segment Results” for a discussion of revenues and results by segment.

Cost of services and product development was \$336.1 million during the three months ended September 30, 2018, an increase of \$3.9 million compared to the same period in 2017, or 1% on a reported basis and 2% excluding the foreign currency impact. Cost of services and product development as a percent of revenues was 36% and 40% during the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018, cost of services and product development was \$1.1 billion, an increase of \$139.1 million compared to the same period in 2017, or 15% on a reported basis and 14% excluding the foreign currency impact. This increase was primarily due to higher payroll and related benefits costs resulting from increased headcount, as well as incremental payroll and related benefits costs from the CEB acquisition. Cost of services and product development as a percent of revenues was 37% and 40% during the nine months ended September 30, 2018 and 2017, respectively.

Selling, general and administrative (“SG&A”) expense was \$447.5 million during the three months ended September 30, 2018, an increase of \$26.4 million compared to the same period in 2017, or 6% on a reported basis and 8% excluding the foreign currency impact. This increase was primarily due to (i) higher commissions from increased sales bookings and (ii) more payroll and related benefits costs, which were driven mostly by increased headcount, partially offset by a reduction in SG&A expense resulting from certain businesses that were divested during 2018. The overall headcount growth includes increases in quota-bearing sales associates at Global Technology Sales and Global Business Sales to 2,955 and 765, respectively, at September 30, 2018. On a combined basis, the total number of quota-bearing sales associates increased by 14% when compared to September 30, 2017. SG&A expense as a percent of revenues was 49% and 51% during the three months ended September 30, 2018 and 2017, respectively.

For the nine months ended September 30, 2018, SG&A expense was \$1.4 billion, an increase of \$262.5 million compared to the same period in 2017, or 23% on a reported basis and 22% excluding the foreign currency impact. This increase was primarily due to the same factors that caused the 2018 quarterly increase, as well as (i) incremental costs from the CEB acquisition and (ii) higher facilities and corporate costs. SG&A expense as a percent of revenues was 48% and 49% during the nine months ended September 30, 2018 and 2017, respectively.

Depreciation was flat during the three months ended September 30, 2018 and increased by \$4.8 million during the nine months ended September 30, 2018 when compared to the same periods in 2017. The increase in depreciation during the 2018 nine month period was due to property, equipment and leasehold improvements acquired with CEB and additional Gartner investments.

Amortization of intangibles was flat during the three months ended September 30, 2018 and increased by \$29.6 million during the nine months ended September 30, 2018 when compared to the same periods in 2017. The increase in amortization of intangibles during the 2018 nine month period was due to additional amortization recorded in connection with our 2017 acquisitions.

Acquisition and integration charges were \$13.4 million and \$45.8 million lower during the three and nine months ended September 30, 2018, respectively, than the same periods in 2017. Acquisition and integration charges reflect additional costs and expenses resulting from our acquisitions and include, among other items, professional fees, severance, stock-based compensation charges and accruals for exit costs for certain office space in Arlington, Virginia related to our acquisition of CEB that the Company does not intend to occupy. During 2018, exit costs represented the single largest component of our acquisition and integration charges. Our acquisition and integration charges declined during each of the 2018 periods because the Company's acquisitions in 2017 occurred during the first half of the year.

During the three months ended September 30, 2018, our operating income was \$52.7 million compared to an operating loss of \$24.3 million for the same period in 2017. The improvement in profitability during the third quarter of 2018 reflects several factors, including: (i) higher segment contribution margins, primarily in our Research and Events segments and, to a lesser extent, in Consulting; and (ii) reduced acquisition and integration charges, partially

offset by higher cost of services and product development and SG&A expense.

During the nine months ended September 30, 2018, our operating income was \$130.1 million compared to an operating loss of \$69.2 million for the same period in 2017. The improvement in profitability during the 2018 nine month period was due to the same factors as the third quarter of 2018, partially offset by higher amortization of intangibles.

Interest expense, net declined by \$11.8 million during the three months ended September 30, 2018 and increased by \$11.0 million during the nine months ended September 30, 2018 when compared to the same periods in 2017. These changes reflect the Company's average outstanding borrowings during each of the 2018 and 2017 periods and significant principal repayments on our debt subsequent to the completion of the CEB acquisition.

Gain from divested operations of \$13.0 million and \$38.5 million during the three and nine months ended September 30, 2018, respectively, was due to sales of certain business units and other miscellaneous assets. Additional information is included in Note

2 — Acquisitions and Divestitures while additional information regarding our segments is included in Note 5 — Segment Information in the Notes to Condensed Consolidated Financial Statements.

Other (expense) income, net for the periods presented herein primarily reflects the net impact of foreign currency gains and losses from our hedging activities, as well as sales of certain state tax credits and the recognition of other tax incentives.

The provision for income taxes for the three months ended September 30, 2018 was an expense of \$26.2 million on pretax income of \$38.0 million compared to a benefit of \$13.8 million on a pretax loss of \$61.9 million in the three months ended September 30, 2017. The effective income tax rate was 69.0% for the three months ended September 30, 2018 and 22.2% for the same period in 2017. The quarter-over-quarter increase in the effective income tax rate was primarily attributable to the taxable third quarter 2018 divestiture of the CEB Challenger training business, which resulted in a greater tax than book gain. This impact was partially offset by the lower U.S. statutory tax rate effective for 2018.

The provision for income taxes for the nine months ended September 30, 2018 was an expense of \$31.7 million on pretax income of \$70.2 million compared to a benefit of \$52.2 million on a pretax loss of \$156.2 million in the nine months ended September 30, 2017. The effective income tax rate was 45.2% for the nine months ended September 30, 2018 and 33.4% for the same period in 2017. The year-over-year increase in the effective income tax rate was primarily driven by the same reasons as the quarter-over-quarter increase.

Net income during the three months ended September 30, 2018 was \$11.8 million compared to a net loss of \$48.2 million for the same period in 2017. During the nine months ended September 30, 2018, net income was \$38.4 million compared to a net loss of \$104.0 million for the same period in 2017. Additionally, our diluted income per share increased by \$0.66 and \$1.61 during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017. These quarter-over-quarter and year-over-year changes reflect an improvement in our operating profitability and the gain from divested operations, partially offset by an increase in tax provisions and higher interest expense during the 2018 nine month period.

## SEGMENT RESULTS

We evaluate reportable segment performance and allocate resources based on gross contribution margin. Gross contribution is defined as operating income (loss), excluding certain Cost of services and product development charges, SG&A expenses, Depreciation, Acquisition and integration charges, and Amortization of intangibles. Gross contribution margin is defined as gross contribution as a percent of revenues.

### Business Divestitures

During 2018, the Company divested all three of the non-core businesses that comprised its Other segment, each of which were acquired as part of the acquisition of CEB Inc. in April 2017. As a result of these divestitures, and the movement of a small residual product in the Other segment into the Research business, the Company is no longer recording any additional operating activity in the Other segment effective September 1, 2018. Additional information regarding the divestitures is included in Note 2 – Acquisitions and Divestitures in the Notes to Condensed Consolidated Financial Statements.

The Company's current reportable segments are as follows:

Research provides trusted, objective insights and advice on the mission-critical priorities of leaders across all functional areas of the enterprise through research and other reports, briefings, proprietary tools, access to our analysts, peer networking services and membership programs that enable our clients to make better decisions. Gartner's traditional strengths in IT, marketing and supply chain research were enhanced in 2017 with Gartner's acquisition of CEB Inc., which added CEB's best practice and talent management research insights across a range of business functions, to include human resources, finance, sales and legal.

Events provides business professionals across the organization the opportunity to learn, share and network. From our flagship CIO event, Gartner Symposium/ITxpo, to industry-leading conferences focused on specific business roles and topics, to member-driven sessions, our events enable attendees to experience the best of Gartner insight and advice live.

Consulting provides customized solutions to unique client needs through on-site, day-to-day support, as well as proprietary tools for measuring and improving IT performance with a focus on cost, performance, efficiency and quality.

The sections below present the results of the Company's three current reportable business segments and its Other segment.

Edgar Filing: GARTNER INC - Form 10-Q

Research

|  | As Of And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30, 2018 | As Of And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30, 2017 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) | As Of And<br>For The Nine<br>Months<br>Ended<br>September<br>30, 2018 | As Of And<br>For The Nine<br>Months<br>Ended<br>September<br>30, 2017 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--|---|---|------------------------|--------------------------------------|---|---|------------------------|--------------------------------------|
|--|---|---|------------------------|--------------------------------------|---|---|------------------------|--------------------------------------|

Financial

Measurements:

|                           |           |           |            |      |             |             |            |      |
|---------------------------|-----------|-----------|------------|------|-------------|-------------|------------|------|
| Revenues (1)              | \$774,188 | \$653,443 | \$120,745  | 18 % | \$2,308,426 | \$1,778,481 | \$529,945  | 30 % |
| Gross contribution (1)    | \$534,911 | \$436,222 | \$98,689   | 23 % | \$1,599,277 | \$1,187,906 | \$411,371  | 35 % |
| Gross contribution margin | 69        | % 67      | % 2 points | —    | 69          | % 67        | % 2 points | —    |

Business

Measurements:

Global Technology

Sales (2):

|                         |             |             |           |      |
|-------------------------|-------------|-------------|-----------|------|
| Contract value (1), (3) | \$2,397,000 | \$2,104,000 | \$293,000 | 14 % |
| Client retention        | 83          | % 83        | % —       | —    |
| Wallet retention        | 105         | % 104       | % 1 point | —    |

Global Business

Sales (2):

|                         |           |           |            |     |
|-------------------------|-----------|-----------|------------|-----|
| Contract value (1), (3) | \$615,000 | \$591,000 | \$24,000   | 4 % |
| Client retention        | 83        | % 80      | % 3 points | —   |
| Wallet retention        | 97        | % 96      | % 1 point  | —   |

(1) Dollars in thousands.

(2) Global Technology Sales includes sales to users and providers of technology. Global Business Sales includes sales to all other functional leaders.

(3) Contract values are on a foreign exchange neutral basis.

Research revenues increased by \$120.7 million during the three months ended September 30, 2018 compared to the same period in 2017, or 18% on a reported basis and 20% excluding the foreign currency impact. Higher revenues in the 2018 quarter were primarily driven by (i) a double-digit increase in subscription revenues in the 2018 quarter; and (ii) the negative impact on revenue in the 2017 quarter from the deferred revenue fair value accounting adjustment resulting from the CEB acquisition, which had little impact in the 2018 quarter. The gross contribution margin improved by two points in the 2018 quarter primarily due to (i) the negative impact on margin in 2017 from the deferred revenue fair value accounting adjustment, which had little impact in the 2018 quarter; and (ii) improvement in margins for our premium services in the 2018 quarter. For the nine months ended September 30, 2018, Research revenues increased by \$529.9 million compared to the same period in 2017, or 30% on a reported basis and 28% excluding the foreign currency impact. The gross contribution margin improved by two points during the nine months ended September 30, 2018, which was due to the same factors that caused the 2018 quarterly improvement.

Excluding the foreign currency impact, Global Technology Sales ("GTS") and Global Business Sales ("GBS") contract values increased 14% and 4%, respectively, at September 30, 2018 when compared to September 30, 2017. Total contract value increased to \$3.0 billion at September 30, 2018, or 12%. Total contract value at September 30, 2018 increased by double-digits across nearly all of the Company's client sizes and more than half of its industry segments when compared to September 30, 2017.

GTS client retention was 83% as of both September 30, 2018 and 2017, while wallet retention was 105% and 104%, respectively. GBS client retention was 83% and 80% as of September 30, 2018 and 2017, respectively, while wallet retention was 97% and 96%, respectively. The number of GTS and GBS client enterprises increased by 6% and 2%, respectively, at September 30, 2018 when compared to September 30, 2017.

## Events

|  | As Of And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30, 2018 | As Of And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30, 2017 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) | As Of And<br>For The<br>Nine<br>Months<br>Ended<br>September<br>30, 2018 | As Of And<br>For The<br>Nine<br>Months<br>Ended<br>September<br>30, 2017 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--|---|---|------------------------|--------------------------------------|--|--|------------------------|--------------------------------------|
| <b>Financial Measurements:</b>             |   |   |                        |                                      |  |  |                        |                                      |
| Revenues (1)                               | \$57,141  | \$44,953  | \$ 12,188              | 27 %                                 | \$214,481  | \$171,427  | \$ 43,054              | 25 %                                 |
| Gross contribution (1)                     | \$25,047  | \$16,011  | \$ 9,036               | 56 %                                 | \$104,698  | \$79,313   | \$ 25,385              | 32 %                                 |
| Gross contribution margin                  | 44 %  | 36 %  | 8 points               | —                                    | 49 %   | 46 %   | 3 points               | —                                    |
| <b>Business Measurements:</b>              |   |   |                        |                                      |  |  |                        |                                      |
| Number of destination events (2)           | 17  | 17  | —                      | —                                    | 55   | 54   | 1                      | 2 %                                  |
| Number of destination events attendees (2) | 13,322  | 10,640  | 2,682                  | 25 %                                 | 45,861   | 38,214   | 7,647                  | 20 %                                 |

(1) Dollars in thousands.

(2) Single day, local events are excluded.

Events revenues increased by \$12.2 million during the three months ended September 30, 2018 compared to the same period in 2017, or 27% on a reported basis and 31% excluding the foreign currency impact. Both attendee and exhibitor revenues increased by double-digits during the third quarter of 2018. We held 17 events during the three months ended September 30, 2018 with a 25% increase in the number of attendees and a 16% increase in exhibitors compared to the same period in 2017, while the average revenue per attendee was flat and the average revenue per exhibitor increased by 8%. The segment gross contribution margin improved by eight points during the three months ended September 30, 2018 compared to the same period in 2017 due to greater profitability at our ongoing events, which was primarily driven by increased attendee and exhibitor participation and improvements in our average revenue per exhibitor, as well as our continuing efforts to efficiently manage our event-related expenses.

For the nine months ended September 30, 2018, Events revenues increased by \$43.1 million compared to the same period in 2017, or 25% on a reported basis and 24% excluding the foreign currency impact. We held 55 events during the nine months ended September 30, 2018 with a 20% increase in the number of attendees and an 8% increase in exhibitors compared to the same period in 2017, while the average revenue per attendee and exhibitor increased by 2% and 10%, respectively. The segment gross contribution margin improved by three points during the nine months ended September 30, 2018 compared to the same period in 2017 due to the same drivers as the quarter increase, along with the increase in our average revenue per attendee.

## Consulting

|   | As Of And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30, 2018 | As Of And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30, 2017 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) | As Of And<br>For The<br>Nine<br>Months<br>Ended<br>September<br>30, 2018 | As Of And<br>For The<br>Nine<br>Months<br>Ended<br>September<br>30, 2017 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|---|---|---|------------------------|--------------------------------------|--|--|------------------------|--------------------------------------|
| <b>Financial Measurements:</b>                        |   |   |                        |                                      |  |  |                        |                                      |
| Revenues (1)  | \$78,752  | \$72,117  | \$6,635                | 9 %                                  | \$258,106  | \$242,404  | \$15,702               | 6 %                                  |
| Gross contribution (1)                                | \$18,419  | \$16,188  | \$2,231                | 14 %                                 | \$76,236   | \$71,558   | \$4,678                | 7 %                                  |
| Gross contribution margin                             | 23 %  | 22 %  | 1 point                | —                                    | 30 %   | 30 %   | —                      | —                                    |
| <b>Business Measurements:</b>                         |   |   |                        |                                      |  |  |                        |                                      |
| Backlog (1)   | \$108,000   | \$91,400  | \$16,600               | 18 %                                 |  |  |                        |                                      |
| Billable headcount                                    | 727   | 682   | 45                     | 7 %                                  |  |  |                        |                                      |
| Consultant utilization                                | 59 %  | 61 %  | (2) points             | —                                    | 64 %   | 64 %   | —                      | —                                    |
| Average annualized revenue per billable headcount (1) | \$354   | \$355   | \$(1)                  | —                                    | \$379  | \$364  | \$15                   | 4 %                                  |

(1) Dollars in thousands.

Consulting revenues increased 9% during the three months ended September 30, 2018 compared to the same period in 2017 on a reported basis and 10% excluding the foreign currency impact, with revenue improvements in both labor-based core consulting and contract optimization. The segment gross contribution margin was 23% and 22% for the three months ended September 30, 2018 and 2017, respectively. The higher margin during the third quarter of 2018 was primarily due to improvements in our core consulting business and an increase in contract optimization revenue, which has a higher contribution margin than our labor-based core consulting. For the nine months ended September 30, 2018, Consulting revenues increased 6% compared to the same period in 2017 on a reported basis and 4% excluding the foreign currency impact, while the segment gross contribution margin was flat at 30%.

Backlog increased by \$16.6 million, or 18%, from September 30, 2017 to September 30, 2018. The \$108.0 million of backlog at September 30, 2018 represented approximately four months of backlog, which is in line with the Company's operational target.

## Other

During 2018, the Company divested all three of the non-core businesses that comprised its Other segment, each of which were acquired as part of the acquisition of CEB Inc. in April 2017. As a result of these divestitures, and the movement of a small residual product in the Other segment into the Research business, the Company is no longer recording any additional operating activity in the Other segment effective September 1, 2018. Additional information regarding the divestitures is included in Note 2 – Acquisitions and Divestitures in the Notes to Condensed Consolidated Financial Statements.

|                              | As Of And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30, 2018 | As Of And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30, 2017 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) | As Of And<br>For The<br>Nine<br>Months<br>Ended<br>September<br>30, 2018 | As Of And<br>For The<br>Nine<br>Months<br>Ended<br>September<br>30, 2017 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|------------------------------|---|---|------------------------|--------------------------------------|--|--|------------------------|--------------------------------------|
| Financial<br>Measurements:   |   |   |                        |                                      |  |  |                        |                                      |
| Revenues (1)                 | \$ 11,593   | \$ 57,572   | \$(45,979)             | (80)%                                | \$ 105,562   | \$ 104,673   | \$ 889                 | 1%                                   |
| Gross contribution (1)       | \$ 6,927  | \$ 31,215   | \$(24,288)             | (78)%                                | \$ 65,075  | \$ 48,512  | \$ 16,563              | 34%                                  |
| Gross contribution<br>margin | 60  | % 54  | % 6 points             | —                                    | 62   | % 46   | % 16 points            | —                                    |

(1) Dollars in thousands.

Other segment revenues declined by \$46.0 million during the three months ended September 30, 2018 compared to the same period in 2017, or 80% on a reported basis, due to the divestitures of the three non-core businesses that comprised the segment. The gross contribution margin improved by six points during the three months ended September 30, 2018, which was primarily due to the reduced effect from the CEB acquisition deferred revenue fair value accounting adjustments in 2018. Other segment revenues improved by \$0.9 million during the nine months ended September 30, 2018 compared to the same period in 2017 and the related 2018 gross contribution margin improved by 16 points.

## LIQUIDITY AND CAPITAL RESOURCES

We finance our operations through cash generated from our operating activities and borrowings. Note 7 — Debt in the Notes to Condensed Consolidated Financial Statements herein provides additional information regarding the Company's outstanding debt obligations. At September 30, 2018, we had \$211.0 million of cash and cash equivalents and \$1,149 million of available borrowing capacity on the revolving credit facility under our 2016 Credit Agreement. We believe that the Company has adequate liquidity to meet its currently anticipated needs.

We have historically generated significant cash flows from our operating activities. Our operating cash flow has been continuously maintained by the leverage characteristics of our subscription-based business model in our Research segment, which is our largest business segment and historically has constituted the majority of our total revenues. The majority of our Research customer contracts are paid in advance and, combined with a strong customer retention rate and high incremental margins, has resulted in continuously strong operating cash flow. Cash flow generation has also benefited from our ongoing efforts to improve the operating efficiencies of our businesses as well as a focus on the optimal management of our working capital as we increase sales.

Our cash and cash equivalents are held in numerous locations throughout the world with approximately half held overseas as of September 30, 2018. The Company intends to reinvest substantially all of its accumulated undistributed foreign earnings, except in instances where repatriation would result in minimal additional tax. As a result of the U.S. Tax Cuts and Jobs Act of 2017, we believe that the income tax impact if such earnings were repatriated would be minimal.

The following table summarizes the changes in the Company's cash balances for the periods indicated (in thousands):

|  | Nine<br>Months<br>Ended<br>September<br>30, 2018 | Nine<br>Months<br>Ended<br>September<br>30, 2017 | Cash<br>Increase<br>(Decrease) |
|--|--|--|--------------------------------|
| Cash provided by operating activities                                    | \$426,011  | \$232,267  | \$193,744                      |
| Cash provided by (used in) investing activities                          | 440,223  | (2,717,389)                                      | 3,157,612                      |
| Cash (used in) provided by financing activities                          | (1,213,556)                                      | 2,605,567  | (3,819,123)                    |
| Net (decrease) increase in cash and cash equivalents and restricted cash | (347,322)  | 120,445  | (467,767)                      |
| Effects of exchange rates  | (6,444)  | 28,377   | (34,821)                       |
| Beginning cash and cash equivalents and restricted cash                  | 567,058  | 499,354  | 67,704                         |
| Ending cash and cash equivalents and restricted cash (1)                 | \$213,292  | \$648,176  | \$(434,884)                    |

(1) The September 30, 2018 ending cash balance of \$213.3 million consisted of \$211.0 million of cash and cash equivalents and \$2.3 million of restricted cash.

## Operating

Cash provided by operating activities was \$426.0 compared to \$232.3 million during the nine months ended September 30, 2018 and 2017, respectively, an increase of \$193.7 million. The year-over-year increase was primarily driven by net income in the 2018 period compared to a net loss in the 2017 period, as well as substantially higher receivable collections in the 2018 period. Partially offsetting these increases in 2018 were higher cash bonuses and cash payments for interest on our borrowings and negative changes in our other working capital accounts.

## Investing

Cash provided by investing activities was \$440.2 million during the nine months ended September 30, 2018, with \$504.8 million in net cash realized from business divestiture and acquisition activities, which was partially offset by \$64.6 million of capital expenditures. In the 2017 period, cash used in investing activities was \$2.7 billion, primarily due to business acquisitions.

#### Financing

Cash used in financing activities was \$1.2 billion during the nine months ended September 30, 2018 compared to cash provided of \$2.6 billion during the same period in 2017. During the 2018 period, the Company paid \$1.1 billion in cash for debt principal repayments and \$93.3 million in cash from net share-related activities. During the 2017 period, the Company borrowed

approximately \$3.0 billion and paid: (i) \$339.6 million in debt principal repayments; (ii) \$51.2 million for deferred financing fees on debt; and (iii) \$28.6 million for net share-related activities.

## OBLIGATIONS AND COMMITMENTS

### Debt

As of September 30, 2018, the Company had \$2.2 billion of principal amount of debt outstanding. Note 7 — Debt in the Notes to Condensed Consolidated Financial Statements provides additional information regarding the Company's debt obligations.

### Off-Balance Sheet Arrangements

Through September 30, 2018, we have not entered into any material off-balance sheet arrangements or transactions with unconsolidated entities or other persons.

## RECENTLY ISSUED ACCOUNTING STANDARDS

The FASB has issued accounting standards that have not yet become effective and that may impact the Company's consolidated financial statements or related disclosures in future periods. Note 1 — Business and Basis of Presentation in the Notes to Condensed Consolidated Financial Statements herein provides information regarding those accounting standards.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### INTEREST RATE RISK

As of September 30, 2018, the Company had \$2.2 billion in total debt principal outstanding. Note 7 — Debt in the Notes to Condensed Consolidated Financial Statements provides additional information regarding the Company's debt obligations.

Approximately \$1.4 billion of the Company's total debt outstanding as of September 30, 2018 was based on a floating base rate of interest, which exposes the Company to potential increases in interest rates. However, we reduce our overall exposure to changes in interest rates through our interest rate swap contracts, which effectively convert the floating base interest rate on variable rate borrowings to fixed rates. Thus, we are exposed to base interest rate risk on floating rate borrowings only in excess of any amounts that are not hedged. At September 30, 2018, the Company's floating rate debt outstanding was fully hedged.

### FOREIGN CURRENCY RISK

A significant portion of our revenues are earned outside of the U.S. and, as a result, we conduct business in numerous currencies other than the U.S. dollar. Among the major foreign currencies in which we conduct business are the Euro, the British Pound, the Japanese Yen, the Australian dollar and the Canadian dollar. The reporting currency of our consolidated financial statements is the U.S. dollar. As the values of the foreign currencies in which we operate fluctuate over time relative to the U.S. dollar, the Company is exposed to both foreign currency translation and transaction risk.

Translation risk arises as our foreign currency assets and liabilities are translated into U.S. dollars since the functional currencies of our foreign operations are generally denominated in the local currency. Adjustments resulting from the

translation of these assets and liabilities are deferred and recorded as a component of stockholders' equity. A measure of the potential impact of foreign currency translation can be determined through a sensitivity analysis of our cash and cash equivalents. At September 30, 2018, we had \$211.0 million of cash and cash equivalents, a portion of which was denominated in foreign currencies. If the exchange rates of the foreign currencies we hold all changed in comparison to the U.S. dollar by 10%, the amount of cash and cash equivalents we would have reported on September 30, 2018 would have increased or decreased by approximately \$12.0 million. The translation of our foreign currency revenues and expenses historically has not had a material impact on our consolidated earnings because movements in and among the major currencies in which we operate tend to impact our revenues and expenses fairly equally. However, our earnings could be impacted during periods of significant exchange rate volatility, or when some or all of the major currencies in which we operate move in the same direction against the U.S. dollar.

Transaction risk arises when our foreign subsidiaries enter into transactions that are denominated in a currency that may differ from the local functional currency. As these transactions are translated into the local functional currency, a gain or loss may result, which is recorded in current period earnings. We typically enter into foreign currency forward exchange contracts to mitigate the effects of some of our foreign currency transaction risk. Our outstanding currency contracts as of September 30, 2018 had an immaterial net unrealized loss.

## CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of short-term, highly liquid investments classified as cash equivalents, accounts receivable, interest rate swap contracts and foreign exchange contracts. The majority of the Company's cash and cash equivalents, interest rate swap contracts and foreign exchange contracts are with large investment grade commercial banks. Accounts receivable balances deemed to be collectible from customers have limited concentration of credit risk due to our diverse customer base and geographic dispersion.

## ITEM 4. CONTROLS AND PROCEDURES

We have established disclosure controls and procedures that are designed to ensure that the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported in a timely manner. Specifically, these controls and procedures ensure that the information is accumulated and communicated to our executive management team, including our chief executive officer and our chief financial officer, to allow timely decisions regarding required disclosure.

Management conducted an evaluation, as of September 30, 2018, of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of our chief executive officer and chief financial officer. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material Company information required to be disclosed by us in reports filed under the Exchange Act.

There have been no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are involved in legal and administrative proceedings and litigation arising in the ordinary course of business. We believe that the potential liability, if any, in excess of amounts already accrued from all proceedings, claims and litigation will not have a material effect on our financial position or results of operations when resolved in a future period.

### ITEM 1A. RISK FACTORS

Risk factors associated with our business are included under "Risk Factors" contained in Item 1A. of the Company's 2017 Form 10-K and are incorporated herein by reference.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities during the period covered by this report.

## Issuer Purchases of Equity Securities

The Company has a \$1.2 billion board authorization adopted in May 2015 to repurchase the Company's common stock. The Company may repurchase its common stock from time-to-time in amounts, at prices and in the manner the Company deems appropriate, subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company's financial performance and other conditions. Repurchases may be made through open market purchases (which may include repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended), accelerated share repurchases, private transactions or other transactions and will be funded from cash on hand and borrowings under the Company's 2016 Credit Agreement. Repurchases may also be made from time-to-time in connection with the settlement of the Company's share-based compensation awards.

The following table summarizes the repurchases of our outstanding common stock during the three months ended September 30, 2018 pursuant to our \$1.2 billion share repurchase authorization and the settlement of share-based compensation awards:

| Period                    | Total<br>Number<br>of<br>Shares<br>Purchased<br>(#) | Average<br>Price<br>Paid<br>Per<br>Share<br>(\$) | Maximum<br>Approximate<br>Dollar Value<br>of Shares<br>That May Yet<br>Be Purchased<br>Under The<br>Plans Or<br>Programs<br>(in billions) |
|---------------------------|---|--|---|
| 2018                      |   |  |   |
| July                      | 543   | \$ 137.63  |   |
| August                    | 48,831  | 139.47   |   |
| September                 | 1,924   | 156.45   |   |
| Total for the quarter (1) | 51,298  | \$ 140.09  | \$ 1.0  |

(1) Shares repurchased during the three months ended September 30, 2018 were primarily for the settlement of share-based compensation awards.

ITEM 6. EXHIBITS

EXHIBIT  
NUMBER DESCRIPTION OF DOCUMENT

31.1\* Certification of chief executive officer under Rule 13a — 14(a)/15d — 14(a).

31.2\* Certification of chief financial officer under Rule 13a — 14(a)/15d — 14(a).

32\* Certification under 18 U.S.C. 1350.

101\* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017; (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017; (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2018 and 2017; (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017; and (v) the Notes to Condensed Consolidated Financial Statements.

\* Filed with this report.

Items 3, 4 and 5 of Part II are not applicable and have been omitted.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Gartner, Inc.

Date: November 1, 2018 /s/ Craig W. Safian

Craig W. Safian

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)