

Gartner

Gartner Inc. (NYSE: IT)

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Reccomendation: **BUY**

Price Target: \$346.32

Upside: 12.81%

Gartner, Inc. Overview



Gartner provides research insights, advice, analytics, and consulting for businesses with a primary focus on Information Technology so they can properly make high-impact decisions

Company Overview

- Gartner is an international research and advisory firm headquartered in Stamford, CT
- The firm serves nearly 15,000 clients worldwide in 90+ countries
- While there is a massive market for consulting services, Gartner is revered in Information Technology since its founding in 1979 and finds themselves competing with fewer private firms at such a high level
- The acquisition of AMR Research in 2009 shifted the company's business concentration to its research segment and supply chain data

Operating Statistics and Valuation Measures (\$mm)

Market Cap 25,155.3

Enterprise Value 27,609.3

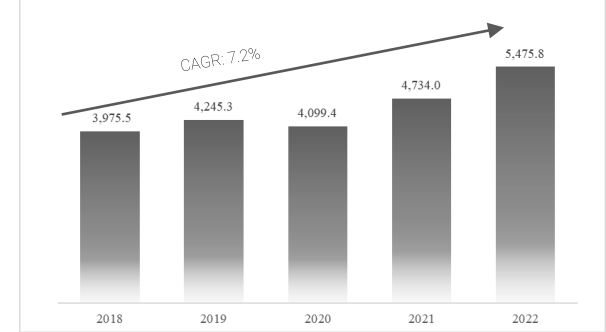
Gross Margin 69.1%

EBITDA Margin 21.2%

TEV/EBITDA 19.7x

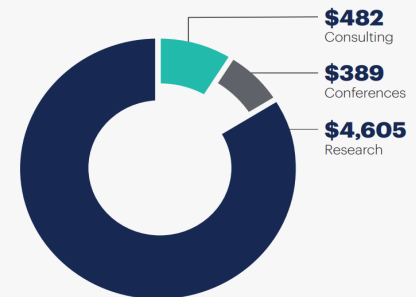
TEV/Total Revenue 5.0x

Revenue Growth (\$mm)



Segment Revenue 2022

(\$ in millions)



1

Growing dependence on IT for businesses after the COVID-19 Pandemic

2

The technology sector has outperformed the market thus far in 2023

3

Strong management, consistent growth, and strategic decision-making that reflect market changes (i.e. acquisitions, R&D, locations, etc.)

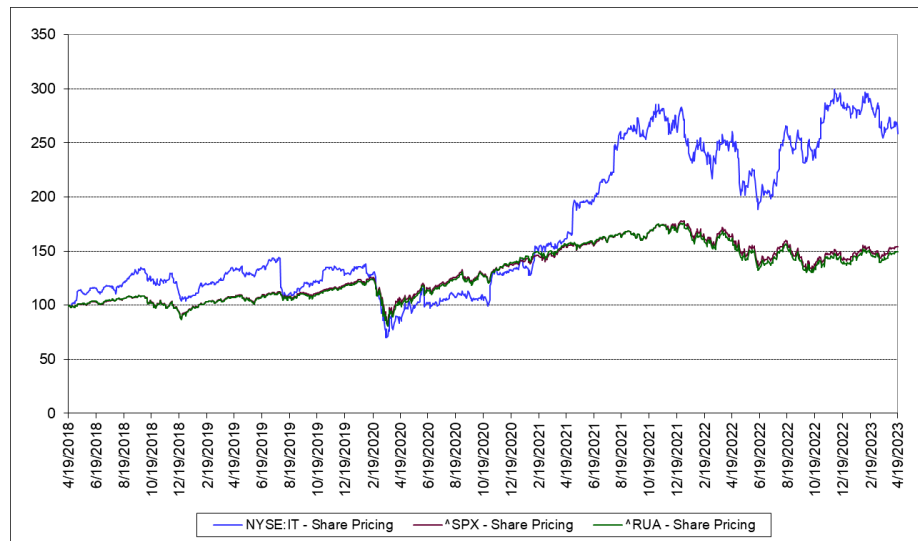
Investment Thesis



Since the beginning of the 2020 pandemic, business needs for Information Technology (specifically due to supply chain issues) have grown, as reflected by IT's 5YR performance

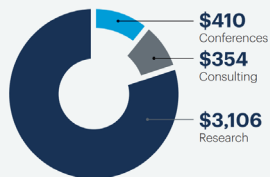
Competitive Advantages

- World leader in Technology research and advisory in a period when this industry is in a boom
- Strength in supply chain data in a period (late 2020-Present) supply chain management is a global issue for many organizations
- IT is projected to continue this growth into the future



Segment Revenue 2018¹

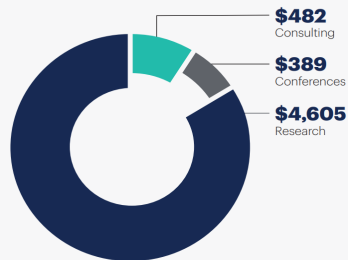
(\$ in millions)



¹ Excludes the company's Other segment, whose operations were divested during 2018.

Segment Revenue 2022

(\$ in millions)



Worldwide IT Spending Forecast (Millions of U.S. Dollars)

	2022 Spending	2022 Growth (%)	2023 Spending	2023 Growth (%)	2024 Spending	2024 Growth (%)
Data Center Systems	\$216,095	13.70%	\$224,123	3.70%	\$237,790	6.10%
Devices	\$717,048	-10.70%	\$684,342	-4.60%	\$759,331	11.00%
Software	\$793,839	8.80%	\$891,386	12.30%	\$1,007,769	13.10%
IT Services	\$1,250,224	3.50%	\$1,364,106	9.10%	\$1,502,759	10.20%
Communications Services	\$1,424,603	-1.80%	\$1,479,671	3.90%	\$1,536,156	3.80%
Overall IT	\$4,401,809	0.50%	\$4,643,628	5.50%	\$5,043,805	8.60%

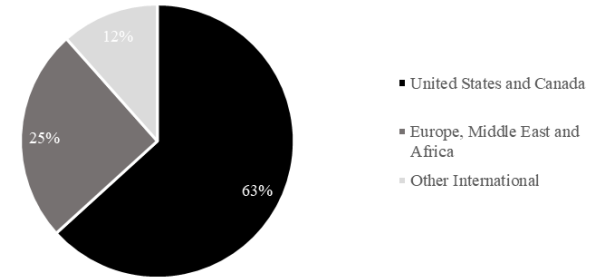
Investment Thesis



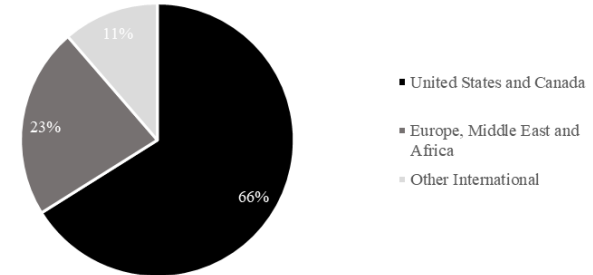
Management & Decision-making

- Core management has been with Gartner for decades and participated in the largest organization decisions since its inception
 - Eugene Hall, CEO & Director: Joined 2004
 - Craig Safian, CFO & Exec VP: Joined 2007
 - Michael Diliberto, CIO & Exec VP: Joined 2016
- Major Acquisitions:
 - L2 (2017)
 - L2 is a member-based business intelligence firm that benchmarks the digital performance of brands.
 - Nubera (2015)
 - Nubera, whose flagship web property is GetApp, helps organizations discover, compare and choose the right business software and applications for their needs. The services provided by Nubera are highly complementary to Gartner's Software Advice business.
 - ARM Research (2009)
 - A leading research and advisory services firm serving supply chain management and IT professionals.
- Growth Opportunities:
 - Continue International Expansion
 - Summits

Geographic Segments by Revenue - 2018



Geographic Segments by Revenue - 2022



Valuation



Base Case

(\$ in millions)	FYE December 31,							
	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2024E
Total Revenue	\$5,475.8	\$5,869.5	\$6,291.5	\$6,743.8	\$7,228.6	\$7,748.2	\$8,305.3	\$8,902.3
Revenue Growth	15.7%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Expenses								
COGS	1,693.8	1,843.9	1,976.5	2,118.6	2,270.9	2,434.2	2,609.2	2,796.7
Gross Profit	\$3,782.1	\$4,025.6	\$4,315.0	\$4,625.2	\$4,957.7	\$5,314.1	\$5,696.1	\$6,105.6
Gross Margin	69.1%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%
SG&A	2,428.0	2,602.5	2,742.5	2,889.0	3,042.5	3,203.1	3,371.1	3,546.7
R&D	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D&A	93.4	100.1	107.3	115.0	123.3	132.2	141.7	151.9
Other	98.5	105.6	113.2	121.4	130.1	139.4	149.5	160.2
Operating Expenses	2,619.9	2,808.3	2,963.0	3,125.4	3,295.9	3,474.7	3,662.2	3,858.7
Operating Income	\$1,162.1	\$1,217.3	\$1,352.0	\$1,499.8	\$1,661.8	\$1,839.4	\$2,033.9	\$2,246.9
Operating Margin	21.2%	20.7%	21.5%	22.2%	23.0%	23.7%	24.5%	25.2%
Income Tax Expense (24%)	219.4	243.5	270.4	300.0	332.4	367.9	406.8	449.4
NOPAT	\$942.7	\$973.8	\$1,081.6	\$1,199.8	\$1,329.4	\$1,471.5	\$1,627.1	\$1,797.5
Cash Flow								
Plus: D&A	93.4	118.9	127.4	136.6	146.4	156.9	168.2	180.3
Discretionary Cash Flow	1,036.2	1,092.7	1,209.0	1,336.4	1,475.8	1,628.4	1,795.3	1,977.8
Less: Increase in NWC	18.1	98.8	89.3	97.9	107.4	117.7	129.0	141.2
Less: CapEx	(118.0)	(142.2)	(152.4)	(163.4)	(175.2)	(187.7)	(201.2)	(215.7)
Free Cash Flow	\$936.2	\$1,049.3	\$1,145.8	\$1,270.9	\$1,408.1	\$1,558.4	\$1,723.1	\$1,903.3
Free Cash Flow Growth	(1.3%)	12.1%	9.2%	10.9%	10.8%	10.7%	10.6%	10.5%
Unlevered Free Cash Flow								
WACC		9.30%						
Discount Period		0.5	1.5	2.5	3.5	4.5	5.5	6.5
Discount Factor		0.96	0.88	0.80	0.73	0.67	0.61	0.56
Present Value of Free Cash Flow		\$1,003.7	\$1,002.8	\$1,017.6	\$1,031.5	\$1,044.5	\$1,056.6	\$1,067.9

Enterprise Value

Cumulative Present Value of FCF \$6,969.5

Terminal Value

Terminal Year EBITDA \$2,427.2

Exit Multiple 19.2x

Terminal Value \$46,519.8

Discount Factor 56.11%

Present Value of Terminal Value \$26,100.9

% of Enterprise Value 78.9%

Enterprise Value \$33,070.4

Key Drivers

- Influence of AI approaching will generate similar trend to what was seen with supply chain issues
- Areas of growth abroad and persistence by management to head in that direction
- Less acquisitions since pre-pandemic shows organic growth as an organization
- Technology's dominance in markets to date

DCF Implied Equity Value and Share Price

Enterprise Value \$33,070.4

Less: Total Debt \$3,184.2

Plus: Cash & Cash Equivalents \$704.3

Implied Equity Value \$30,590.5

Implied Share Price \$386.24

Shares Outstanding

79

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Valuation



Comps

Valuation Statistics

Company	Ticker	Market Capitalization	Enterprise Value	EV / Revenue		EV / EBITDA		Price / Earnings		Net Debt
				FY2022	LTM	FY2022	LTM	FY2022	LTM	
Equifax Inc.	EFX	\$24,018	\$29,589	6.0x	5.8x	18.4x	19.2x	41.0x	41.0x	\$5,571
Verisk Analytics, Inc.	VRSK	29,828	33,667	12.6x	13.5x	25.1x	27.0x	29.4x	29.4x	\$3,839
EPAM Systems, Inc.	EPAM	16,660	15,111	4.1x	3.1x	25.1x	19.3x	40.7x	40.7x	(\$1,548)
Booz Allen Hamilton Holding Corp.	BAH	12,999	15,704	1.6x	1.7x	14.4x	18.6x	30.5x	30.5x	\$2,706
FTI Consulting, Inc.	FCN	6,572	6,649	-	2.2x	-	18.5x	30.0x	30.0x	\$77
Gartner, Inc.	IT	\$24,323	\$26,777	5.0x	4.9x	71.4x	20.4x	30.8x	30.8x	\$2,454

Low	\$6,572	\$6,649	-	1.7x	-	18.5x	29.4x	29.4x
Mean	18,016	20,144	4.8x	5.3x	16.6x	20.5x	34.3x	34.3x
Median	16,660	15,704	4.1x	3.1x	18.4x	19.2x	30.5x	30.5x
High	29,828	33,667	12.6x	13.5x	25.1x	27.0x	41.0x	41.0x

Operating Statistics

Company	Ticker	Revenue		Revenue Growth		EBITDA		EBITDA Margin	
		FY2022	LTM	FY2022	LTM	FY2022	LTM	FY2022	LTM
Equifax Inc.	EFX	\$5,122	\$5,061	4.0%	(0.3%)	\$1,658	\$1,544	32.4%	30.5%
Verisk Analytics, Inc.	VRSK	2,497	2,497	1.4%	1.4%	1,249	1,249	50.0%	50.0%
EPAM Systems, Inc.	EPAM	4,825	4,825	28.4%	28.4%	783	783	16.2%	16.2%
Booz Allen Hamilton Holding Corp.	BAH	8,364	9,064	6.4%	11.8%	922	846	11.0%	9.3%
FTI Consulting, Inc.	FCN	3,029	3,029	9.1%	9.1%	360	360	11.9%	11.9%
Gartner, Inc.	IT	\$5,476	\$5,476	15.7%	15.7%	\$382	\$1,314	7.0%	24.0%

Low	\$2,497	\$2,497	1.4%	(0.3%)	\$360	\$360	11.0%	9.3%
Mean	4,767	4,895	9.9%	10.1%	994	956	24.3%	23.6%
Median	4,825	4,825	6.4%	9.1%	922	846	16.2%	16.2%
High	8,364	9,064	28.4%	28.4%	\$1,658	\$1,544	50.0%	50.0%

Comps Implied Equity Value and Share Price

Enterprise Value	\$25,193.7
Less: Total Debt	\$3,184.2
Plus: Cash & Cash Equivalents	\$704.3
Implied Equity Value	\$22,713.8
Implied Share Price	\$286.79
Shares Outstanding	79

Downside

Revenue Growth at 4% for if they remain stagnant for the next few years

Implied Equity Value and Share Price

Enterprise Value	\$26,846.7
Less: Total Debt	\$3,184.2
Plus: Cash & Cash Equivalents	\$704.3
Implied Equity Value	\$24,366.8
Implied Share Price	\$307.66
Shares Outstanding	79

Assumptions:

Upside

Revenue Growth at 9.3%, contributed to momentum over the past three years

Implied Equity Value and Share Price

Enterprise Value	\$35,917.3
Less: Total Debt	\$3,184.2
Plus: Cash & Cash Equivalents	\$704.3
Implied Equity Value	\$33,437.4
Implied Share Price	\$422.19
Shares Outstanding	79

Target Price



DCF Fair Value Estimate with Comps				
% Target	% FVE			
66.67%	50% Base	\$386.24	FV Base	\$353.43
	25% Upside	\$422.19	FV Upside	\$377.39
	25% Downside	\$307.66	FV Downside	\$301.04
33.33%	Comps Estimate		\$287.79	
Target Price		\$346.32		

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