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PRESENTATION

Operator

Good afternoon, and thank you for standing by. Welcome to Forrester's Third Quarter 2023 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to turn the conference over to Vice President of Corporate Development and Investor Relations, Ed Bryce Morris. Please go ahead.

Edward Bryce Morris - *Forrester Research, Inc. - Executive Officer*

Thank you, and hello, everyone. Thanks for joining today's call. Earlier this afternoon, we issued our press release for the third quarter of 2023. If you need a copy, you can find one on our website in the Investors section.

Here with us today to discuss our results are George Colony, Forrester's Chief Executive Officer and Chairman; and Chris Finn, Chief Financial Officer. Carrie Johnson, our Chief Product Officer; and Nate Swan, our Chief Sales Officer, are also here with us for the Q&A section of the call.

Before we begin, I'd like to remind you that this call will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, intends, plans, estimates or similar expressions are intended to identify these forward-looking statements. These statements are based on the company's current plans and expectations, and involve risks and uncertainties that could cause future activities and results of operations to be materially different from those set forth in the forward-looking statements.

Factors that could cause actual results to differ are discussed in our reports and filings with the Securities and Exchange Commission. And the company undertakes no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

Lastly, consistent with our previous calls, today, we will be discussing our performance on an adjusted basis, which excludes items affecting comparability. While reporting on an adjusted basis is not in accordance with GAAP, we believe that reporting numbers on this adjusted basis provides a meaningful comparison and an appropriate basis for our discussion. You can find a detailed list of items excluded from these adjusted results in our press release.

And with that, I'll hand it over to George.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

Thank you for joining Forrester's Q3 2023 Earnings Call. As has been true for the last 4 quarters, we continue to navigate through a challenging macroeconomic environment while simultaneously progressing on a major product transition.

As we enter the busiest selling season of the year for Forrester, I would like to cover 5 key themes: one, Forrester's third quarter performance; two, enhancements to the Forrester Decisions product; three, our work applying generative AI to our business; four, an update on our third quarter events; and five, improvements to our sales process.

As a result of persistent headwinds, contract value was flat in Q3. However, we are pleased to report that Forrester Decisions has now reached approximately \$200 million in contract value, representing 57% of our overall CV. In our non-CV businesses, we have seen signs of stabilization as well as a modest improvement in our strategy consulting volume. Consulting is transitioning to be a smaller part of our overall business, but its importance as part of our CV growth engine remains undiminished.

We are piloting acceleration services, prepackaged consulting offerings that are aligned with priorities in the Forrester Decisions services. The packages will give clients in-depth direction and guidance as they apply our research models and frameworks in their organizations. We remain on track to convert 2/3 of our CV to Forrester Decisions by the end of the year, and Chris will go into more details in a few moments.

Turning now to the enhancements we've made to the Forrester Decisions product. Firstly, we are excited to report that the addition of client outcomes, which was mentioned in our previous call, has made significant progress. As a reminder, client outcomes is a new feature that identifies our clients' most pressing initiatives and links them to contextually relevant Forrester Decisions assets. We have now cataloged initiatives and outcomes for 80% of Forrester Decisions clients.

Client outcomes will play a vital role in creating a stickier product as it directly aligns our offerings with the work that our clients are doing every day. It creates a continuous dialogue between clients and our research, which we call the golden thread, stitching the partnership together over the long term. A new form of IP, which we call Solutions Blueprints, codifies the most common client initiatives into step-by-step guides for success.

On the research side, I'm excited to share that we have recently published both our 2024 planning guides and our prediction series for the year ahead. These widely read reports provide guidance for our clients as they make critical 2024 budget decisions.

We have also released our top emerging tech report. This was a major collective effort by our research organization in which we tracked and analyzed 410 emerging technologies to highlight the tech that will shape business over the next 3 years.

And finally, Q3 also marked the launch of the AI Advantage, our sixth bold vision research theme. Because AI will become pervasive in a wide array of business applications, we are making this analysis available to all Forrester Decisions personas.

The most important enhancement to Forrester Decisions is currently in beta test with 75 clients. Izola, our generative AI tool, enables clients to converse with Forrester's massive database of research and get answers quickly and efficiently. We believe that it is the most significant step forward in delivering value to our clients since the launch of our website in 1994. After testing and refinement, Izola will become available to all Forrester Decisions clients, further enhancing the product experience.

Izola is 1 of 4 generative AI projects being developed at Forrester. In addition to improving our clients' research experience, we expect these gen AI applications to be used to increase the efficiency of internal operations, improve the productivity of our sales force and augment our customer success process. I believe that generative AI will revolutionize the research business, and we are positioning Forrester to lead that revolution.

Turning now to our Events business. In Q3, we hosted 3 events: Technology and Innovation North America, Data Strategy and Insights, and B2B Summit APAC. We continue to successfully attract audiences through our hybrid events model, which combines in-person and a digital experience. This approach is enabling Forrester to widen the reach of events globally. Approximately 25% of our event attendees are joining virtually.

Our Q3 events received all-time high session scores for experience, value and content. Notably, our Executive Leadership Exchange program, a set of tracks built for C-level technology leaders, grew nearly 50% year-over-year. Nate Swan, Forrester's Head of Sales; and Lisa Riley, Forrester's Head of Events, are successfully partnering to optimize events for driving new research contract sales and for boosting cross-sell with existing accounts.

In response to client demand, we are premiering a new flagship technology event next year. By bringing together data and technology through the merger of our data strategy and insights and our technology and innovation events, tech and data teams will be able to align on growth and opportunity in a single unified forum. This move has already resulted in growing sponsorship renewals 100% year-over-year.

Next year, the events portfolio will consist of B2B Summit, CX Forum and the Technology Forum, each held in North America, Europe and Asia. We believe that simplifying and focusing our events will improve the client experience and more closely align the business with the research content. Events continue to play a significant role in sales pipeline generation. The Technology and Innovation Forum alone generated over \$9 million in client opportunities, up significantly from 2022.

I would like to turn to our ongoing journey to create a high-performance sales team at Forrester. In September, Carter McCrory joined as Vice President of New Business. Carter has deep new business experience in the research industry, having worked in sales at the Corporate Executive Board before that company was acquired. He will run new sales in the Americas as well as manage global revenue development. This is a team that converts leads to new opportunities.

Recognizing the importance of customer success in sustaining long-term partnerships, we also recently welcomed the new Vice President of Customer Success, Senthil Kumar. Senthil brings significant experience from his previous role at Salesforce where he was a regional VP of CS. Nate Swan, our Chief Sales Officer, continues to build a culture of process and coaching in the sales force, and Carter and Senthil will be excellent additions to his team.

In Q3, we saw 3 themes play out in our sales motion. First, we are seeing broad relationships within user cloud organizations. This quarter, a major American telco expanded their contract with Forrester Decisions in deployments across multiple business units contributing to over \$1 million in CV. These types of deals are exactly what Forrester Decisions was designed to do with our legacy base: start conversations and unlock new opportunities in previously untapped functional areas.

Second, we are seeing strong traction with government, both in the United States and internationally. Governments and public agencies now recognize the connection between delivering high-quality citizen and customer experiences. Our government clients benefit from Forrester benchmarks, frameworks, including zero trust and certifications, while helping them meet stringent security requirements. In the quarter, we closed several million-dollar-plus deals with U.S. government agencies as well as significant government contracts in APAC and EMEA.

The third trend in Forrester Decisions sales is the conversion of large technology vendors over to the platform. In Q3, a major U.S.-based tech company extended their relationship by signing a \$1.2 million Forrester Decisions contract, which will be used by C-level executives to operate their functions. Forrester will now play an important role helping the company increase growth through the alignment of sales, marketing and products.

Forrester's Board of Clients convened last week in Cambridge. These executives have advised Forrester on our strategy and our products, and this is the 25th anniversary of the formation of the Board. Feedback on Forrester Decisions was overwhelmingly positive. And the Board was enthusiastic about enhancements we are making to the platform, in particular, the addition of Izola.

To end my remarks, I want to reiterate that I remain confident and positive regarding the future of our business. Unlike in past turbulent times like 2001, we have a powerful product platform, a differentiated strategy and a sales force that is making the transition to high performance. Additionally, we see generative AI as a game-changer for our business that has the potential to make our product more usable and valuable for our clients. We know where we are going. And although we have encountered challenges, we remain resolute in our pursuit of growing CV.

Thank you very much. And I will now turn the call over to Chris Finn, Forrester's CFO. Chris?

L. Christian Finn - Forrester Research, Inc. - CFO

Thanks, George, and good afternoon, everyone. As George outlined, we continue to see business uncertainty impacting our results. The third quarter saw most metrics coming in lower than the prior year, but generally consistent with the prior quarter.

We believe this uncertain environment will continue to impact the remainder of the year and into 2024. This, along with our product migration, is limiting our CV growth and continues to depress our non-CV business, specifically with Consulting and Events. However, we are confident in our ability to execute and have maintained our revenue, margin and EPS guidance for the year.

Furthermore, we continue to manage costs and set the business on a solid foundation to improve performance into 2024 and beyond. Q3 saw flat CV in the quarter, and overall revenue decreased 11%, largely driven by our Consulting business and declining legacy research. For the total company, we generated \$113.4 million in revenue compared to \$127.7 million in the prior year period.

In terms of segment results for the quarter, Research revenues decreased 7% compared to the third quarter of 2022 with revenue from our subscription research products down 1%, coupled with declines in our reprint and other smaller and discontinued products. Overall client and wallet retention bulk-dipped slightly compared to Q2 at 73% and 91%, respectively, while Forrester Decisions specific client and wallet retention also dipped slightly or flat versus the second quarter at 85% and 92%, respectively.

Although overall client count is down from the prior quarter, Forrester Decisions client count continues to grow. And Forrester Decisions client retention remains well above overall client retention by approximately 12 points. As we noted previously, we expect continued noise around our client count and retention rates as we migrate our legacy base to the Forrester Decisions platform.

We continue to believe that macro headwinds will perpetuate well into 2024, and this is causing our clients to put off buying decisions. This is evident in new business growth in our Consulting and Events businesses. Despite these headwinds, we remain on track for our Forrester Decisions migration plan. We now have approximately \$200 million of CV on the platform, and we're confident in achieving our target of approximately 2/3 of total CV on Forrester Decisions by the end of the year.

Our Consulting business posted revenues of \$28.2 million, which was down 24% compared to the prior year, and this was driven by 2 factors. One, as outlined in previous quarters, we are focusing on using consulting as a lever to drive CV by increasing engagement and identifying cross-sell opportunities within our CV client base. As such, except in limited circumstances, we've enacted a policy of only selling consulting to customers who have a CV relationship with Forrester.

Two, due to the environment, clients are limiting discretionary spending on consulting projects. This was evident across most of our consulting lines of business, including content marketing, strategy and advisory. However, this quarter, we did see a small improvement in our content marketing and strategy consulting businesses compared to the prior quarter.

And finally, our Events business posted revenues of \$4.6 million, representing an increase of 41% compared to the third quarter of 2022. The increase was driven by a shift in event timing. In Q3 this year, Forrester hosted 3 events compared to 2 events in the prior year quarter.

Continuing down our P&L, on an adjusted basis, operating expenses for the third quarter decreased by 10%, primarily driven by the restructuring plan we announced during our Q1 call. Specifically on headcount for the third quarter, we were down 13% compared to the same period in 2022. We plan to keep a close eye on headcount, hiring and attrition throughout the remainder of the year. We are encouraged that attrition has remained very low throughout 2023.

Operating income decreased by 22% to \$12.3 million or 10.8% of revenue in the current quarter compared to \$15.8 million or 12.4% of revenue in the third quarter of 2022. We continue to manage our margins and remain committed to aligning our cost structure with our revenue outlook.

Interest expense for the quarter was \$0.8 million as compared to \$0.6 million in the third quarter of 2022. This increase was driven by higher interest rates compared to a year ago.

Finally, net income and earnings per share decreased 21% and 23%, respectively, compared to Q3 of last year with net income at \$8.6 million and earnings per share at \$0.44 for the current quarter compared with net income of \$10.9 million and earnings per share of \$0.57 in the third quarter of 2022.

Looking at our capital structure, year-to-date cash flow from operating activities was \$9.8 million, and capital expenditures were \$3.9 million. And we had \$111.5 million of cash and investments as we exited the quarter. We did not pay down any debt during the third quarter. However, we did repurchase approximately \$3.3 million worth of shares in the quarter, leaving us with approximately \$71 million of our stock repurchase authorization intact.

I'll now provide additional commentary on longer-term trends we expect to play out for the remainder of the year and into next year. One, recent flat CV performance will continue to impact revenue growth in 2023 and 2024. The continued focus on CV with alignment from our product, sales, consulting and events teams are targeted to drive a return to CV growth.

We saw a continued stabilization of CV this quarter and believe this, combined with our ongoing sales initiatives, will translate to modest CV growth in 2024. With that said, the recent flat CV performance, combined with declines in consulting and events, will impact the overall company revenue outlook in the near term.

We expect revenue declines to moderate into next year to the mid-single digits as we return to CV growth in the back half of 2024, and our expectation that consulting and events will continue to be challenged based on the macro environment.

Two, we remain focused on migration and converting approximately 2/3 of our CV to Forrester Decisions by the end of the year. In the longer term, we anticipate that approximately 80% of our CV will be represented by the Forrester Decisions platform. This percentage will be capped by non-Forrester Decisions CV products such as reprints, our growing Feedback Now business and a small amount of long-tail legacy business that we expect to continue into 2025 and then become immaterial to the business overall.

Three, since Nate Swan joined as CSO, we continue the work to elevate our go-to-market strategy and sales force. As George mentioned, the sales organization has a number of initiatives underway, including a focus on new business, improvement to the customer success process and a tighter interlock between sales and the rest of the organization. These changes will improve our focus on renewals, cross-sell, upsell and new business growth.

Let me provide some additional commentary on the remainder of the year. Revenue is still expected to be in the range of \$475 million to \$485 million. This guidance assumes the outlook for the Research business to be in a mid-single-digit decline, a decline in our Consulting business in the low 20s and a decline in our Events business in the mid- to high-single digits for the year.

Operating margins are still expected to be in the range of 10.5% to 11.5%. Interest expense is expected to be approximately \$3.1 million for the year, and we are continuing to guide to a full year tax rate of approximately 29%. Taking all this into account, we are maintaining earnings per share in the range of \$1.80 to \$2.

We remain focused on the elements of the business we can control, namely the focus on CV, the go-to-market improvements and our ability to manage costs. We plan on carefully managing these levers for the remainder of 2023 and into 2024. We continue to be emboldened by the customer feedback and the value that our Forrester Decisions platform is driving for clients, which now includes approximately \$200 million of contract value and will continue to grow. Furthermore, we believe this platform and our operations in general can only be enhanced by generative AI, as seen in the recent launch of Izola.

Thank you all for taking the time today. And with that, I will hand the call back to George.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

Thank you, Chris. I would like to take a moment to express my gratitude to our employees and clients. As we approach Thanksgiving, we are thankful of the hard work and commitment of our employees who have navigated through the prolonged headwinds and challenges we faced this year. Their dedication and resilience have been instrumental in driving our business forward and enabling us to adapt to the evolving needs of our clients.

We are also grateful for the trust and partnership of our clients. Their continued support and engagement have allowed us to deliver impactful research, innovative consulting solutions and groundbreaking event experiences. We appreciate the opportunity to work with them and help them achieve their business outcomes.

I'm going to hand the call now back to the operator, and we will take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And I show our first question comes from the line of Andrew Nicholas from William Blair.

Thomas Colton Roesch - William Blair & Company L.L.C., Research Division - Research Analyst

This is Tom Roesch on for Andrew Nicholas. I wanted to ask about the CV growth stabilization -- or the stabilization of CV growth that you're seeing in the quarter. I know you mentioned you saw it coming out of last quarter. And I was wondering if that was kind of in line with those expectations or did it improve, got a little bit worse? And kind of what you're thinking as we exit this year?

L. Christian Finn - Forrester Research, Inc. - CFO

Yes. Thanks for your question. It's Chris. So as you know, we don't specifically guide on CV growth per se. We've said in the past, we do expect our metrics to continue to be a little bit lumpy in that area as we go through our product transition, especially in light of the macroeconomic conditions that are out there. So for the next few quarters, we do expect to see CV growth move up and down a few points. I think we said that last time as well, but essentially it'd be relatively flat.

That being said, we are continuing to have positive feedback on the FD platform, as I noted. And we're very confident in getting to our 2/3 of CV on the platform by the end of the year. And that, combined with the improvements that Nate and his team are making to the sales organization, do give us confidence that CV growth will return as we get further along on the product transition next year.

Thomas Colton Roesch - William Blair & Company L.L.C., Research Division - Research Analyst

Great. And then for a follow-up, I know you mentioned the AI product, Izola, and it's being piloted by some customers. I was wondering what kind of feedback you're getting right now? And then also just gen AI in general, kind of what opportunities you see there going forward from the product side?

Carrie Johnson Fanlo - Forrester Research, Inc. - Chief Product Officer

Sure. This is Carrie. I'll take that one. We rolled Izola out to about 80 beta clients last week. The early feedback has been unbelievably positive. In particular, clients like the ability to get quick answers from our entire body of research and then figure out which research is the most relevant for them to then dig into.

So Izola is doing very nicely for us, and we're hoping to roll this out to more customers soon because we really do believe this is a massive leap forward in how customers interact with us and help move their journeys forward. So we're very proud of this and excited to launch it to more customers soon.

George F. Colony - *Forrester Research, Inc. - Founder, Chairman, CEO & President*

Yes. I mean, gen AI is a way for people to converse in their own language, English for us, with big piles of data. We have a very big pile of data, and it's a daunting pile of data. It's hard to find the right research. With Izola, strangely enough, you get there immediately. So this is, again, as I said, the biggest change since our website, which is why we have 4 projects internally ongoing. Thanks for the question.

Operator

And I show our next question comes from the line of Anja Soderstrom from Sidoti.

Anja Marie Theresa Soderstrom - *Sidoti & Company, LLC - Senior Equity Research Analyst*

So I'm just curious about the client churn, is that still mainly due to shedding on nonstrategic accounts? Or...

L. Christian Finn - *Forrester Research, Inc. - CFO*

Yes. From a client churn perspective, yes, this is Chris, Anja, yes, we're still seeing that really in the small vendor cohort. That's ongoing as we go through the transition. And we get a smaller base now of our -- in our legacy business from a CV perspective going into Q4 now and into next year. So look, we continue to expect our retention numbers to be a little bit lumpy as we go forward. But obviously, as we continue to make that migration progress, we're going to see it stabilize going into next year.

George F. Colony - *Forrester Research, Inc. - Founder, Chairman, CEO & President*

Yes, Anja, one of our Board members is a Silicon Valley executive. And she said that 650 start-ups have gone out of business in the last 4 or 5 quarters. And she expects another 1,500 to go out of business over the next 4 quarters ahead. So it's pretty extraordinary what's happening in the small vendor world. Yes.

Anja Marie Theresa Soderstrom - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Yes. And in terms of the clients that have transitioned to Forrester Decisions, you're talking about that wallet retention and retention rate is higher than the overall. Did you say to what magnitude? That is...

L. Christian Finn - *Forrester Research, Inc. - CFO*

Yes, from a client retention standpoint, it's approximately 12 points higher on FD than it is for the overall platform -- or the overall -- sorry, the overall business rather.

Anja Marie Theresa Soderstrom - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Okay. And then in terms of the AI addition to your platform, how much of an upsell is that?

Carrie Johnson Fanlo - Forrester Research, Inc. - Chief Product Officer

Actually -- Anja, it's Carrie. Izola will be included in the Forrester Decisions product line and not included in our heritage line.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

So again, more incentive to migrate.

Carrie Johnson Fanlo - Forrester Research, Inc. - Chief Product Officer

More incentive to migrate, correct.

Operator

And I show our next question comes from the line of Vince Colicchio from Barrington.

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

Curious, so what caused the sequential decline in sales? Was that voluntary, involuntary? What does that look like?

L. Christian Finn - Forrester Research, Inc. - CFO

Sorry, you mean on sales headcount?

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

Yes. Yes, sorry.

L. Christian Finn - Forrester Research, Inc. - CFO

Got it. It's down slightly. I don't know, Nate, you want to comment on that?

Nate Swan - Forrester Research, Inc. - Chief Sales Officer

Down, are you talking from Q2 to Q3 post reduction in force?

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

Yes.

Nate Swan - Forrester Research, Inc. - Chief Sales Officer

Okay. Post reduction in force, we've had just slight declines. We're in the process of actually adding back in headcount right now. So actually, opening up a lot to -- for backfill. So we're excited about that. We're looking forward to continuing to grow our sales force. We need to invest in the right areas, and the right areas really are around new business development.

That's part of the reason Carter is here is getting focused on the end-user opportunity that we see out here. We're already very good at capturing the midsized vendors. We're going to get really focused on how do we capture more user clients. So we will be focused in that area and adding headcount in that area. So right now, we're just down due to attrition, but we are bringing those back up. And we don't anticipate going lower than what we are right now.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

And Vince, attrition is very low. It's in the single digits.

Nate Swan - Forrester Research, Inc. - Chief Sales Officer

Single-digit attrition.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

So kind of historically low attrition.

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

And Nate, how are you feeling about the important process of selling more to more senior people, clients and prospects? Is that progressing as you had expected?

Nate Swan - Forrester Research, Inc. - Chief Sales Officer

Yes, I think so. I mean it's a journey that we go through. There is -- it's a different model that we're selling to events or different sets that we're selling to. So that's a change in skill set. But the sales force is reacting really well to that. They want to be where we're going. They want to have more senior-level relationships, and they are enjoying doing the skill building to get there.

We're also doing this. We got great feedback back from our Board of Clients that, that was the value that they see in working with Forrester is better alignment across their teams. These are some of the most senior executives at rather large organizations. And they specifically look to Forrester to understand what's happening in their organization because we can connect that all together for them. So it's not just that we think this is something that's good, our clients are telling us that this is good as well.

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

And Chris, on the decline in clients, small clients is obviously the key driver there. How large is the small client base as a percentage of the total now?

L. Christian Finn - *Forrester Research, Inc. - CFO*

Yes. As a percentage of the total at this point, I mean I think we're down to -- in the legacy business, I mean, it's less than 30% at this point. So we feel pretty good about the ongoing migration in general from a legacy perspective. And look, that churn is expected, and it's kind of built into our numbers as we go forward. And obviously, the further we get in the migration going next year, the less of an impact that's going to have. And especially as we go out past '24, we do expect that to really be an immaterial part of the business on the legacy side once we get into '25 and beyond.

George F. Colony - *Forrester Research, Inc. - Founder, Chairman, CEO & President*

Yes. And Vince, we made a decision to not sell to sub-\$50 million vendors. So we are turning the sales force again toward larger users primarily and, of course, the large vendors.

Operator

I'm showing no further questions in the queue. At this time, I'd like to turn the call back over to Chris Finn for closing remarks.

L. Christian Finn - *Forrester Research, Inc. - CFO*

Yes. Thanks, everybody, for joining us today. We really appreciate it. Any questions, follow-up comments, please reach out to us, myself or Ed Bryce Morris. Thank you all.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

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