



Operator

Good morning, and welcome to Kelly Services' third-quarter earnings conference call. All parties will be on listen only until the question-and-answer portion of the presentation. Today's call is being recorded at the request of Kelly Services. If anyone has any objections, you may disconnect at this time. I would now like to turn the meeting over to your host, Mr. Scott Thomas, Kelly's head of investor relations. Please go ahead.

Scott Thomas, Head of Investor Relations

Good morning, and welcome to Kelly's third-quarter conference call. With me today are Kelly's chief executive officer, Chris Layden, and our chief financial officer, Troy Anderson.

Before we begin, I'll remind you that the comments made during today's call, including the Q&A session, may include forward-looking statements about our expectations for future performance. Actual results could differ materially from those suggested by our comments. We do not assume any obligation to update the statements made on this call. Please refer to our SEC filings for a description of the risk factors that could influence the company's actual future performance.

In addition, we'll discuss certain data on a reported and on an adjusted basis. Discussion of items on an adjusted basis are non-GAAP financial measures designed to give insight into certain trends in our operations. For more information regarding non-GAAP measures and other required disclosures, please refer to our earnings press release, presentation, and – once filed – form 10-Q, all of which can be accessed through our investor relations website at ir.kellyservices.com.

With that, I'll turn the call over to Kelly's chief executive officer, Chris Layden.

Chris Layden, Chief Executive Officer

Thank you, Scott, and good morning, everyone. It's great to be with all of you. Let me start by saying what a privilege it is to serve as CEO of Kelly – the sixth in our storied history, and the first to be selected from outside the company.

Having spent my entire career in this industry, I've known and admired Kelly for many years. Our brand is iconic – synonymous with the industry we created when we were founded by



William Russell Kelly in 1946. Since then, Kelly has connected millions of people to work, improving families, communities, economies, and the world.

This is also a company I've competed with. Throughout my career leading commercial organizations and customer pursuits, I've experienced up-close Kelly's ability to win in the market. Our diverse portfolio of businesses has significant scale in attractive specialties, and differentiated global capabilities that are widely recognized as leading the industry.

With our Education business, Kelly has proven the ability to drive rapid organic growth in emerging markets, having established a dominant position in K-12 staffing, and tripling the revenue of the business since 2020. This is among the best examples in our industry of what's possible when a team combines clear vision, sound strategy, and consistent execution.

In SET, I've watched a business that has acquired scale in higher margin, higher growth specialties like technology and telecom, moving up the value chain as a consultative partner to employers seeking differentiated technical solutions. At the same time, SET has continued to win and retain market share in our established life sciences and engineering specialties, where for years Kelly has led the market as the second and fourth largest staffing provider, respectively.

And in ETM, Kelly brings enterprise customers unmatched global workforce capabilities and insights through our technology-enabled and AI-powered offerings delivered at scale. This includes talent solutions, business process outsourcing, and staffing services, which Everest just recently recognized as leading the market. I've seen first-hand the competitive advantage that this breadth and depth of capabilities creates as employers increasingly seek partners who can meet their total talent management needs.

Because of these assets, Kelly's track record of driving value for customers – including many of the largest employers in the world – is as strong as any company in this space. Never have our core strengths and ability to enhance flexibility and agility in an employer's workforce been more important than they are today.

As I step into this role, the operating environment is evolving, driven by a dynamic macroeconomic landscape, a sluggish labor market, global and domestic policy shifts, and the AI boom. The impact of these trends on our industry is significant, and Kelly is not immune. These dynamics were more visible in our results in the third quarter. Despite continuing to capture growth in more resilient markets, our performance as a company fell short of expectations. Our team and I know that we can achieve more, having proven as much in the



organic growth and margin expansion that Kelly has delivered in recent years. But to consistently win in the market and unlock Kelly's full potential, it's critical that we maximize our core strengths and address head-on opportunities to continue to improve our strategy and execution.

To better understand where these opportunities exist, I'm spending much of my time in the field meeting with and listening to our employees and customers. Through my conversations with our team, it's clear that we have a highly engaged group of workforce experts who are passionate about winning in the market and serving our clients and talent. The expertise and high level of service they provide are among our key differentiators that drive employers to choose Kelly to meet their workforce needs. In meeting with many of our top customers, I've heard how Kelly's tailored solutions and unique insights are helping our clients maintain a competitive edge in their industries. I've also had the pleasure of connecting with the investment community, who have shared with me their growing interest in the value creation opportunity we have here at Kelly.

During my time in the field, a few common themes have emerged.

First, it's fundamentally important to customers that it be easy to do business with Kelly. We must ensure our structure and processes are designed with customers in mind, and they must be straightforward and intuitive to navigate.

Next, the scale Kelly has acquired in higher margin, higher growth specialties is a tremendous asset that has repositioned the company in the market. This has created in-roads with employers in attractive end markets who are eager to know how our expanded capabilities can meet their evolving needs. Completing the integration of these investments is critical to our ability to realize their full value and capitalize on these growth opportunities.

And finally, much work has been done by our team to reduce complexity and improve efficiency. This work continues today with the efforts underway to consolidate disparate front-, middle- and back-office systems, leveraging the leading technology stack we obtained when we acquired MRP. We must continue to assess our resources – from technology platforms to our workforce mix – to ensure they're optimized to drive profitable growth.

These early observations are helping inform how we move forward on the next leg of Kelly's strategic journey. I'll share more in a moment about our short-term priorities and long-term focus. First, I'll turn it over to our CFO, Troy Anderson, to provide more details on our results in the quarter.



Troy Anderson, Chief Financial Officer

Thank you, Chris, and good morning, everybody.

Before I walk through our results, as a reminder, beginning in the third quarter the Motion Recruitment Partners acquisition we completed in the second quarter of 2024 is fully in our year-over-year comparable results. Thus, I will only speak to reported and adjusted results for the current quarter.

Revenue for the third quarter of 2025 totaled \$935 million, a decrease of 9.9% versus Q3 of last year. This was lower than our expectations, most notably due to lower than expected growth in the ETM staffing specialty, Education and select other specialties. As we discussed last quarter, we have discrete impacts from reduced demand from the federal government and three of our top customers. Combined, these impacts drove approximately 8% of year-over-year revenue decline, consistent with our expectations, leaving us with an underlying decline of 2% excluding these impacts, which is in line with industry performance.

Kelly's underlying performance reflects positive trends in each business area that reinforces our confidence in our strategy.

Education continued its long-running streak of quarterly growth and achieved a 90% fill rate overall in the quarter for the first time.

Within SET, the telecom specialty achieved double-digit growth in the quarter after strong growth in the second quarter, while the engineering specialty has grown each quarter this year. SET's underlying performance was consistent with the second quarter and continues to outperform the market.

And within ETM, staffing underlying revenue has been consistent across the quarters despite the macro variability. Outcome-based solutions excluding contact center, and payroll process outsourcing, or PPO, both continued to grow in the quarter and have shown growth all year. Finally, our managed service provider or MSP specialty showed modest growth in the quarter for the first time this year, reflecting the new customer wins we have referenced in prior quarters.

For Q3 revenue by service type, staffing services reflects modest growth in our Education business and pressure from government, large customer, and macro environment impacts in SET and ETM. Our outcome-based offerings, excluding contact center solutions, were down year-over-year reflecting timing of both project demand and new business within SET and ETM. Talent solutions



was down modestly year-over-year in the quarter, reflecting a mix of performance across the individual specialties. Perm fees represented approximately 1% of revenue, which was consistent with the prior year.

Drilling down into revenue by segment, Education grew 0.9% year-over-year in the quarter, driven primarily by ongoing fill rate improvement. While we believe we won our fair share of the new business opportunities for the school year, we saw a number of decision delays in light of the broader macro environment, and the fill rate improvement benefit was lower year-over-year given our maturing customer portfolio, thus the relatively lower growth in the quarter. As a reminder, Education volumes and revenue are reduced significantly in the third quarter due to the summer break.

In the SET segment, revenue was down 9% in the quarter, or 3.5% excluding the federal government impact. Our telecom and engineering specialties continue to be growth areas within SET, while life sciences and technology saw year-over-year declines consistent with the second quarter.

In the ETM segment, revenue declined 13.1% year-over-year, or an underlying decline of 1.9%. Staffing services revenues declined 16.4%, driven primarily by the large customer and federal contractor demand reductions, along with lower hours volume across other clients. Outcome-based revenues decreased by 17.2%, reflecting demand pressure from the large contact center customer that has fully run off as of the end of the quarter. Excluding contact center, ETM outcome-based solutions grew modestly. Talent solutions revenue decreased 1.4% overall, reflecting growth in PPO, MSP new customer wins, and reduced customer volumes in recruitment process outsourcing.

Reported gross profit was \$194.0 million, down 12.5% versus the prior year quarter, primarily from reduced revenue. The gross profit rate was 20.8% – a decrease of 60 basis points compared to the prior year quarter, and a 30 basis point sequential increase. The sequential lift, which is typical with the seasonality of our business, was more muted than we expected given the revenue dynamics, along with elevated employee-related costs in the quarter. Education's GP rate increased 20 basis points, while SET declined 80 basis points, and ETM declined 60 basis points.

We made significant progress improving our SG&A expense profile in the quarter, with reported SG&A expenses of \$194.4 million, a decrease of \$24.6 million, or 11.2%. On an adjusted basis, SG&A expenses decreased 9.7% year-over-year, reflecting the momentum we are gaining on structural and volume-related cost optimization efforts. Expenses increased in our Education segment in support of the revenue growth, while expenses decreased across the rest of the company. With the increased revenue pressure, we're enhancing our efforts to drive durable and sustainable efficiencies in our operating model through technology enhancements, including leveraging AI,



process efficiencies, and multiple other levers. Existing initiatives like the formation of the ETM segment and integration of MRP and other acquisitions within SET are progressing well, and will drive both go-to-market and cost efficiencies going forward. In connection with our various efforts, we recognized \$4.7 million of charges in the quarter, down from \$6.4 million in the second quarter. These included costs associated with improving technology and processes across the enterprise, as well as severance expenses and executive transition costs. We expect to see these expenses increase in the fourth quarter as we make continued progress and expand upon our various optimization efforts.

Related to the realignment of SET and acquisition integration, during the quarter we assessed the current goodwill reporting units and determined it was appropriate to combine them into a single SET segment reporting unit. As a result of the assessment, along with declines in the current and projected business performance driven by macroeconomic and industry conditions, we concluded that there was a triggering event for a non-cash goodwill impairment totaling \$102.0 million in the quarter. We are excluding the impairment from our adjusted results.

Additionally, with the impairment activity, we were also required to reassess the recoverability of our deferred tax assets. While we have confidence in our business over the future recoverability time period, with a three-year cumulative loss position and our nearer term actual and expected financial performance, it was necessary to record a valuation allowance of \$70.0 million, which is also non-cash and excluded from our adjusted results.

As a result of the goodwill impairment and tax valuation allowance, our reported loss per share was \$4.26 for the quarter. On an adjusted basis, earnings per share was \$0.18 cents compared to \$0.21 cents in the prior year, with the decline over the prior year primarily due to lower profitability and discrete tax items.

Adjusted EBITDA was \$16.5 million – a decrease of 36.7% versus the prior year period – while adjusted EBITDA margin declined to 1.8%, both of which were below our expectations, reflecting the revenue and gross profit declines I previously noted. SET expanded margins by 60 basis points year-over-year despite the lower gross profit due to their expense optimization efforts. ETM saw margin pressure due to the elevated revenue and gross profit declines despite substantial progress on their SG&A. Education experienced margin compression due to the seasonality of that business.

Moving to the balance sheet and cash flow, we are generating strong operating cash flow this year with \$94 million through the third quarter, up significantly versus the prior year. Total available liquidity as of the end of the quarter was \$269 million, comprising \$30 million in cash and \$239 million of available liquidity on our credit facilities, leaving us ample capital allocation flexibility. Total



borrowing of \$118 million increased versus the prior quarter due to our normal working capital seasonality. Our debt to EBITDA leverage ratio was less than 1 at the end of the quarter. We don't expect a material change in our net debt position over the remainder of the year from normal operations.

We ended the quarter with \$40 million remaining on our current Class-A share repurchase authorization. We continue to believe the data demonstrates that the company is measurably undervalued by the market. With that backdrop, and our capital allocation flexibility, we anticipate being active in our repurchase program during the remainder of the year. We also maintained our quarterly dividend of 7.5 cents per share. These actions reflect our confidence in Kelly's strategy and our commitment to opportunistically deploying capital in pursuit of attractive returns for shareholders.

As we look at the fourth quarter, we are assuming no material change in the macroeconomic or industry dynamics, and a positive resolution to the federal government shutdown during the quarter.

For revenue, we expect a decline of 12% to 14% in the quarter, which includes 8% of negative impact associated with reduced demand from discrete large customers and for federal contractors, consistent with the third quarter impact. Excluding these items, our underlying revenue decline would be 4% to 6%. The incremental revenue decline relative to the third quarter is primarily due to the strong growth we saw in the fourth quarter of last year and includes a modest impact related to the government shutdown.

For adjusted EBITDA, we expect margin of approximately 3% in the quarter. This represents a sequential increase of 120 basis points, consistent with the prior year change, despite the incremental revenue pressure, and a decrease of approximately 70 basis points year-over-year in the quarter, consistent with what we experienced in the third quarter.

While we're not providing specific guidance beyond the fourth quarter, as we look out over the next few quarters and the anticipated residual year-over-year impacts from the reduced demand for federal contractors and from the 3 large customers in ETM, it's likely we'll see continued revenue and margin pressure at least through the first half of 2026.

As Chris said, across Kelly we're addressing head-on opportunities to continue to improve our execution. This includes in the Finance organization, where we're well underway with implementing measures that will enhance our agility, efficiency and business impact in this evolving operating environment.



I'm grateful to all of the Kelly team members for their unwavering commitment and resilience as we position the company for growth and enhanced profitability over the long term.

I'll now turn the call back to Chris for his closing remarks.

Chris Layden, Chief Executive Officer

Thank you, Troy.

As we move forward, our immediate focus is on stabilizing Kelly's performance, and actions to this end are underway.

We're moving swiftly to align our resources with current demand trends while continuing to drive structural efficiencies across the enterprise. As part of this effort, we made the difficult but necessary decision last month to implement strategic restructuring actions that resulted in a targeted workforce reduction. These actions addressed excess capacity while further streamlining our organizational structure following the consolidation of the OCG and P&I businesses into the single ETM segment.

We're also continuing – and where possible, accelerating – our technology modernization initiative within SET and ultimately across the enterprise. This initiative will unlock substantial growth and efficiency opportunities – making it easier for our employees to serve our customers and talent, reducing expenses associated with managing disparate and outdated systems, and enabling more rapid innovation and integration of AI.

While executing our near-term priorities, we're also keeping our sights set on the future. As I conclude my initial assessment of the business, our team is aligned on where we must focus longer term to accelerate progress on Kelly's strategic journey.

First and foremost is growth. Growth is the single most important value creation lever at this stage in Kelly's journey. To drive organic growth, we'll continue to enhance how we go to market – especially with our large enterprise customers – to bring to bear the full strength of Kelly's portfolio and win more market share. We'll also continue to drive inorganic growth by pursuing targeted investments that add scale and capabilities in higher-margin specialties. We'll focus on evolving our product mix as well to address changing buyer preferences, such as the shift toward statement of work solutions, and to capitalize on the AI boom. Our widely recognized Global Re:work Report found nearly half of executives surveyed are struggling to find talent with the right operational and



technical skills in AI. This unmet demand represents a significant opportunity to position Kelly as the partner of choice for employers navigating the transition to an AI-enabled workforce.

Next, we'll continue to focus on efficiency. This means continuing to align resources with demand while re-engineering our cost base to drive further structural efficiencies. That includes our initiatives to modernize our technology stack and integrate legacy acquisitions.

And finally, culture. Culture is fundamental to how we'll achieve our ambitions and win in the market. We're committed to building on the strong culture that exists here at Kelly – doubling down on customer centricity, visibility, and accountability.

I look forward to sharing with you more about these areas of focus and our progress as we move forward.

We're navigating a complex moment for our industry and our company. These circumstances call for decisive action to address the near-term dynamics while positioning the company to realize the significant value creation opportunity before us. There's much work to be done, but I'm excited and energized to meet this moment together with our team and contribute my operational experience to accelerate our progress. Our core strengths – an iconic brand, a differentiated portfolio, and an engaged team – give me the confidence that we'll emerge more agile, resilient, and primed for growth.

I'm grateful to the board of directors for placing their trust in me to lead Kelly at this moment on the company's journey. I also want to extend my appreciation to Peter Quigley for his support as I've stepped into this role, and for his distinguished service to the company over the last 23 years. And to our team: thank you for welcoming me with openness and enthusiasm. I look forward to working alongside you to realize our collective ambitions and create long-term value for all of our stakeholders.

Operator – you can now open the call to questions.

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