Kelly Services Second-Quarter 2026 Conference Call
August 6, 2026
Prepared Remarks

Operator

Good morning, and welcome to Kelly Services' second-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 second-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 Chris.

Chris Layden, Chief Executive Officer

Thank you, Scott, and good morning, everyone. It's great to be with all of you.

In the second quarter, we measurably exceeded our guidance for both total company revenue and adjusted EBITDA margin. These results were driven primarily by positive momentum from our growth and efficiency initiatives. We continued to capitalize on organic growth drivers and constructive demand trends across the enterprise as well. Notably, Kelly's adjusted EBITDA margin returned to 3.0% in the quarter. This achievement demonstrates our ability to generate operating leverage in pursuit of growth as we continue to re-engineer our cost base, while driving greater value for our customers as a strategic workforce partner. The value we deliver continued to be recognized in the quarter, as Everest Group named Kelly a Leader in its 2026 PEAK Matrix for RPO, and for staffing and solutions in engineering, IT, business and professional, and industrial. In addition, Forbes once again ranked Kelly among America's Best Temporary Staffing and Professional Recruiting Companies. These accolades are a testament to 80 years of industry leadership and our unwavering focus on meeting the evolving needs of our customers and talent.

At the segment level, we delivered sequential improvements in each of our businesses. ETM capitalized on broad-based demand for professional and industrial staffing among both new and existing customers. Talent Solutions benefited from the ramp-up of recent MSP wins. Continued growth in Talent Solutions reflects the differentiation of our technology-enabled and AI-powered offerings.

Within SET, revenue grew on a sequential basis for the first time in two years. This represents an inflection point driven by improving trends across each specialty vertical, and strong execution by our team following the completion of the leadership transition in the first quarter. SET's outcome-based solutions also contributed to positive momentum, with revenue increasing over the prior year and contributing 40% of SET's total revenue in the quarter – up from about one-third a year ago. This reflects an intentional shift in our business mix as we increasingly leverage our specialized technical expertise across SET's specialty areas to deliver milestone and SLA-based solutions to our customers.

And in Education, the second quarter marked the conclusion of a strong sales cycle for our K-12 staffing business. The cycle included a 100% renewal rate in the quarter, a significant milestone underpinned by industry leading fill rates and customer satisfaction. We also delivered a year-over-year increase in net-new customer wins, which will come online beginning in the third quarter with the start of the new school year. These positive outcomes reflect the differentiated value we deliver and the depth of our relationships as the largest provider of education staffing solutions in the U.S.

Across ETM and SET, our One Kelly Enterprise go-to-market approach continued to generate positive traction with our customers. The recent expansion of our relationship with a leading North American water technology company illustrates the potential of this model. What began as an engineering staffing engagement grew into a consultative workforce partnership through a unified effort across SET and ETM. Our teams leveraged their combined insights into the company's contingent talent management strategy to identify additional capabilities which addressed their needs, positioning Kelly to capture the MSP. Through this win, we are well positioned to further expand this relationship as the customer moves forward with plans to double the size of their business by 2030. This is our One Kelly Enterprise go-to-market approach in action. By supporting our customers as a unified team and bringing the full strength of our portfolio to bear, we're better able to anticipate their needs and position Kelly as a strategic partner in their success.

As we scale our enhanced go-to-market approach, our technology modernization initiative is a key enabler. To that end, we delivered another milestone on our journey with the successful cutover onto a unified CRM platform. Powered by AI, this platform enables increased transparency and high-conviction forecasting while also driving cross-selling opportunities across the business. These capabilities are foundational to Kelly's integrated commercial operating framework. Championed by our Growth Office, this framework is strengthening account planning to capture greater market share and accelerate profitable growth.

We also accelerated the integration of AI across the enterprise to drive efficiency and enhance the talent and customer experience. Growing employee adoption of Grace Boost, our proprietary internal AI platform, is driving increased productivity at a small fraction of the utilization cost of third-party AI platforms. For talent and customers, we continued to scale our AI-enabled recruiting solution to create a more streamlined experience for both. Our solution can operate 24/7 and connect with applicants within minutes of receiving their application, increasing the throughput of highly qualified candidates. Feedback has been positive: talent appreciate the responsiveness of the application and screening process, while customers value the reduction in cycle time. We're actively scaling new use cases, including for talent care, as we pursue opportunities to reduce turnover and increase redeployment to new assignments with our customers.

As our technology modernization initiative creates a foundation for innovative AI-powered offerings, we're evolving our strategy to drive deeper alignment between these critical workstreams. That's why I'm pleased that we recently welcomed Alan Stukalsky as Kelly's chief product and technology officer. Alan brings significant technology and digital leadership experience to this newly created role. His background includes more than 20 years in staffing and a track record of aligning technology and product strategy to accelerate profitable growth. At Kelly, Alan will oversee product development, technology, and digital innovation efforts across the enterprise. I'm confident he'll be able to help us scale and optimize what's working today, while building new capabilities that will define the future of work – from the products our teams will use to deploy our specialized technical solutions, to autonomous AI agents.

As we continued to solidify our management team in the second quarter, we further strengthened our Board of Directors as well. In May, we welcomed three new directors: Ryan McRory, Michael Wartell, and George "Woody" Young. Each of these directors brings extensive experience which positions them to be strong contributors to the Board as we drive progress on Kelly's strategic journey.

I'm pleased with our achievements in the second quarter, which reflect disciplined execution on our growth and efficiency priorities. The meaningful progress we've delivered on our strategy has set us up on a positive trajectory entering the second half of 2026. I'll now turn the call over to Troy to talk through the quarter in more detail, and our expectations for the balance of the year. Troy?

Troy Anderson, Chief Financial Officer

Thank you, Chris, and good morning, everyone. I'm pleased to report second quarter results that both exceeded our guidance and reflect clear, sequential improvement across our business. We are increasingly confident with the momentum we have established, and are adjusting our full-year expectations favorably as a result.

For the second quarter of 2026, revenue totaled $1.04 billion, a decline of 5.8% versus the prior-year quarter and measurably better than our guidance of down 7% to 9%. The year-over-year revenue decline improved 500 basis points relative to the first quarter.

Underlying revenue, which excludes the previously disclosed discrete impacts driven by reduced demand from the federal government and three large ETM customers, declined approximately 0.6%, an improvement of 270 basis points versus the first quarter, thus contributing more than half of the overall year-over-year improvement versus Q1.

We expect to fully anniversary the year-over-year discrete impacts in the fourth quarter. Demand across the federal government and the two large ETM customers who remain active has been relatively stable the past three quarters.

At the segment level, ETM underlying revenue grew 3.1% year over year, which is an improvement of 350 basis points versus the first quarter decline. Staffing and outcome-based solutions excluding contact center returned to growth, with staffing growing approximately 3% driven by strong demand across a variety of clients and industries. Talent solutions grew for the second consecutive quarter. The growth of approximately 6% was driven by ramping new wins and increased overall demand across the RPO and MSP specialties, with both showing double-digit growth.

SET underlying revenue declined 3.0% year over year, an improvement of 300 basis points versus the first quarter. Each specialty area showed year-over-year improvement versus Q1, while Telecom delivered another quarter of year-over-year growth.

Education declined 4.4%, which was a 40 basis point improvement versus the first quarter. The decline reflects the ongoing impacts of prior-year delayed new contract decisions and overall reduced demand in key markets due to enrollment declines. With year-over-year growth in our new business signings, a strong renewal cycle, and accelerating growth in Therapy, we expect year-over-year growth in the second half of the year.

Gross profit was $212 million, down 6% versus the prior-year quarter, reflecting the lower revenue volume. The gross profit rate was 20.4%, essentially flat to the prior year, and up 150 basis points sequentially from the first quarter, reflecting seasonality for employee related costs and favorable business mix.

All three business units saw notable improvement in their gross profit rates relative to the first quarter. For year-over-year performance, ETM improved 50 basis points while SET and Education both reduced their year-over-year declines relative to Q1.

Reported SG&A expenses were $195.9 million, down 5.5% versus the prior-year quarter, and adjusted SG&A expenses were $192.7 million, down 4.1%, reflecting the continued focus with our structural and volume-related cost optimization efforts, along with investment in growth, technology, and other areas. Core adjusted SG&A expenses, which exclude depreciation, amortization, and incentives, continued the sequential decline trend that has been in place since Q1 2025.

In the quarter, adjusted SG&A expenses decreased across all three segments as we continue to drive durable and sustainable efficiencies in our operating model through technology enhancements and process efficiencies, including leveraging AI. This includes benefits from the prior-year realignments within the ETM segment and the acquisition integration within SET.

For the year, we're projecting a net year-over-year decline in core SG&A expenses of approximately $25 million, or 4%, despite investments being made in technology, the Growth Office, and other areas. The structural changes we are making will allow us to scale more efficiently as we grow, thus supporting our margin expansion expectations in the second half of the year and beyond.

Our reported diluted earnings per share was $0.31 for the quarter. On an adjusted basis, we delivered earnings per share of $0.37 cents compared to $0.54 cents in the prior year. The year-over-year decline reflects lower profitability, and a more normalized effective tax rate.

For our adjusted results, in connection with our various efforts, we recognized $3.2 million of charges in the quarter, reflecting reduced integration, realignment and restructuring costs, as well as transaction costs relative to Q1. We expect to continue incurring various charges throughout 2026 as we advance our technology modernization journey and expand upon our various optimization efforts.

Adjusted EBITDA was $31.1 million, with an adjusted EBITDA margin of 3.0%. This was well above our guidance of at least 2.5% and represents 150 basis points of sequential improvement from the first quarter. On a year-over-year basis, adjusted EBITDA margin declined 40 basis points, significantly narrowing the decline versus recent quarters, reflecting the improved revenue and gross profit rate declines and our continued SG&A discipline.

For the segments, ETM and SET adjusted EBITDA margin improved approximately 200 and 100 basis points versus Q1, respectively, while Education was stable. Each segment was down year over year, with ETM down only 10 basis points, a notable improvement relative to the past several quarters.

Our balance sheet remains strong and continues to provide ample capital allocation flexibility. Total available liquidity as of the end of the quarter of $303 million, comprised of $24 million in cash and $279 million available on our credit facilities. During the quarter we generated $47.7 million of free cash flow and net reduced our debt by $52.4 million resulting in total debt of $78.1 million at quarter-end. Of note: during the quarter, we amended our accounts receivable securitization facility, primarily to extend the term by a year, along with other ancillary benefits that increase flexibility and reduce our cost of capital.

We maintained our quarterly dividend of $0.075 cents per share during the quarter. We remain confident in Kelly's cash generation and are committed to a disciplined and opportunistic approach to capital allocation in pursuit of attractive returns for shareholders.

As we turn to the outlook for the remainder of 2026, our expectations have improved relative to the initial view we established in February, and remain unchanged for adjusted EBITDA margin. Our expectations assume no material change in the macroeconomic environment in the coming quarters.

For Q3, we expect to show measurable year-over-year improvement relative to Q2. Before I jump into specifics, I want to remind everyone that Q3 is the lowest revenue quarter and therefore a lower profit quarter for Kelly due to seasonality in our Education business as a result of schools being out of session the majority of the quarter. With our volume-based revenue model, this results in notable sequential revenue and adjusted EBITDA declines from Q2 to Q3, along with lower margin, and then a strong bounce back in the fourth quarter.

For the third quarter, we expect underlying revenue growth of 1% to 2%, and total revenue to be flat to a decline of 2% versus the prior year. For adjusted EBITDA margin, we expect year-over-year improvement of 40 to 50 basis points in the quarter, resulting in adjusted EBITDA margin in the low 2% range.

For Q4, we expect to see further year-over-year improvement for both revenue growth and adjusted EBITDA margin, with total revenue growth in the mid to upper single digits, and approximately 200 basis points of year-over-year adjusted EBITDA margin expansion resulting in adjusted EBITDA margin of approximately 4%. This includes the impact of an extra fiscal week in the fourth quarter, which benefits revenue growth by approximately 4 points in the quarter, but negatively impacts adjusted EBITDA.

On a fiscal year basis, that should translate to a roughly low- to mid-single digit total revenue decline and 10 to 20 basis points of year-over-year improvement in adjusted EBITDA margin.

We are excited about the trajectory of our business going into the second half of the year. I'm thankful for all the Kelly team members and their commitment and resilience as we focus on delivering growth and enhanced profitability over the long term.

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

Chris Layden, Chief Executive Officer

Thank you, Troy.

The momentum we've generated strengthens our conviction in our strategy, and reinforces our confidence in our expectation of further measurable improvement in our year-over-year performance in the second half of the year. As we move forward, we remain well positioned to capitalize on organic growth drivers in each of our businesses. These include capturing additional K-12 staffing and therapy market share in Education; capitalizing on the shift towards higher margin statement-of-work and consulting engagements in SET; and growing demand for ETM's total talent management solutions among large enterprises. In addition to these growth drivers, we're seeing secular trends taking shape in markets where our breadth of offerings and depth of technical domain expertise are well suited to meet growing demand.

Among these trends is industrial reshoring, which is driving significant expansion in U.S. manufacturing. Domestic semiconductor manufacturing capacity is expected to triple over the next decade, driven by the CHIPS and Science Act. With the construction of new fabrication sites underway across the country, demand for highly specialized talent needed to build and operate them is growing at a rapid pace – from electrical and process engineers, to product developers, to field and service technicians. Kelly is well established as a leading workforce solutions provider to the world's largest semiconductor fabricators – and we continued to win new semiconductor logos in the first half of the year. Our SET and ETM businesses offer the breadth of solutions, and depth of technical domain expertise, and industry leading scale – uniquely situating Kelly to meet this moment.

Industrial reshoring momentum extends beyond semiconductors to other areas as well. The development of breakthrough drugs and treatments is driving companies throughout the life science value chain to accelerate their investments in U.S. manufacturing. This shift is increasing talent demand while introducing operational risk and uncertainty for companies investing in their supply chains to ramp up production and distribution. As one of the largest life sciences solutions providers in the U.S., our SET business offers a differentiated functional service provider capability that mitigates these challenges. By providing just-in-time access to specialized talent through our proprietary methodology to support critical development milestones, we're enabling life science companies developing new drugs and maintain high performance and quality outcomes at optimal cost.

We're also seeing AI contribute to significant investments in data centers, which is driving demand for workers with technology, engineering, and telecom expertise. This next phase of data center growth will favor organizations that can build, staff, and operate at scale in a sustainable way, and our SET business is among the top providers of staffing and solutions across these key domains. Our tailored approach aligns workforce strategy with site selection, build schedules, and long-term operational planning. We're actively deploying this approach with new customers, including a global hyperscaler who engaged Kelly in the quarter to source critical-to-fill mechanical and electrical engineers and technicians as it commissions new data centers in EMEA and APAC.

Our growth and efficiency initiatives are positioning Kelly to capitalize on these opportunities. Our One Kelly Enterprise go-to-market approach is bringing our full portfolio of solutions to the large, multi-site manufacturers and infrastructure providers at the center of these trends. The unified

CRM platform we implemented in the second quarter is a critical enabler of that work. It gives our teams the tools and visibility they need to identify the white space within our existing customer base and convert it into new business. As these new wins materialize, our structural efficiency enhancements will enable us to generate leverage across our operating model and convert a greater share of the incremental revenue to margin.

We have more work to do, but I remain excited and energized about the opportunities ahead. Our strategy is delivering results, our leadership is strong, and with the demand trends beginning to improve, we're well positioned to capitalize and create value for our stakeholders. I'm grateful to our team for delivering on our commitments, and to our shareholders, customers, and talent for placing their trust in Kelly.

Operator – you can now open the call to questions.

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