Kelly Services Third-Quarter 2026 Conference Call
November 5, 2026
Prepared Remarks

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 vice president of corporate affairs. Please go ahead.

Scott Thomas, Vice President of Corporate Affairs

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 Chris.

Chris Layden, Chief Executive Officer

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

In the third quarter, we delivered another solid performance while advancing our strategic initiatives and positioning the company for the future. Revenue came in above the midpoint of our guidance, and adjusted EBITDA margin was at the top end of our expected range.

Our overall performance was driven by continued momentum in ETM and SET, reflecting our ongoing focus on improving our execution and the progress we've made positioning the business to capitalize as the early stages of recovery take shape. This was somewhat offset by near-term demand dynamics in Education, which I'll discuss shortly.

Let me first start with ETM, which delivered positive year-over-year revenue growth for the first time since the segment was established. Staffing performed well in the period, capitalizing on increasing demand for industrial talent. Growth in Talent Solutions was also strong, led by double-digit gains in MSP and RPO as new programs continued to ramp. Across ETM, we continued to drive new business wins as we capitalized on demand from

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enterprise clients across pharmaceuticals, energy, and logistics. Our technology-enabled and AI-powered capabilities remain a clear differentiator in these pursuits. This is among the reasons why Kelly was once again recognized by Everest Group as a global leader in its 2026 PEAK Matrix for both MSP and RPO, and by HRO Today as the number one global provider of total workforce solutions.

We also continued to deepen our relationships within existing accounts as our Growth Office champions our One Kelly approach to meeting the evolving needs of our clients. Notably, we recently renewed and expanded our global MSP program with one of our largest clients – a leading semiconductor manufacturer that has partnered with Kelly for nearly 40 years. Our relationship has continued to grow globally across our lines of business as they capitalize on the digital infrastructure buildout. The depth of this relationship reflects the trust our largest clients place in Kelly to support their workforce needs wherever they operate, and the confidence they have in our technology-enabled and AI-powered offerings.

Turning to SET, we maintained our momentum as revenue grew on a sequential basis for the second consecutive quarter. This improvement was led by our higher margin solutions business which outperformed in the period, representing 40% of SET's revenue. Within the specialties, we saw growing demand for outcome-based solutions in Engineering among aerospace, pharmaceutical manufacturing, and advanced mobility clients. And in Life Sciences, we delivered another quarter of year-over-year revenue growth as we continued to capture demand for our differentiated functional service provider solution. Industrial reshoring drove activity across key technology and advanced manufacturing verticals as well this quarter, leading to the addition of new clients and the expansion of existing business.

Another example of how our One Kelly approach positions us to grow with our existing clients is our relationship with one of the world's largest IT infrastructure services providers. What began as a small number of specialized IT staffing placements through our Technology business has grown into a multinational, solutions-based engagement spanning staffing and statement-of-work delivery. The scope now includes advanced software development and cloud architecture projects as well as support of the client's expansion into new offerings, including the build out of a cutting-edge AI Innovation Center which launched last month. Today, this relationship spans our technology, digital infrastructure, and industrial specialties, with KellyOCG's global capabilities extending our support outside the U.S. From one line of business to four, and from domestic to multinational – this is our One Kelly strategy in action.

Finally, in Education, our results reflect two distinct dynamics. First is near-term enrollment pressure in some K-12 districts, which became more visible as we began a new school year in the quarter. In districts where enrollment has declined, schools are consolidating into fewer, larger classrooms, or in some cases closing altogether. Fewer classrooms has contributed to lower than expected demand for substitute teachers, despite the strong selling cycle we concluded in the second quarter.

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Second is a highly fragmented market in Therapy where demand for PT, OT, and speech therapy professionals remains solid, but we have not yet captured it at the pace we expect. To better position Kelly to capitalize on this opportunity, we're taking swift action to align resources with our growth priorities. This includes shifting capacity to where demand is strongest, ensuring the right team structure is in place to best identify and convert those opportunities to wins, and optimizing our processes to accelerate fulfillment.

Together, these dynamics are contributing to a more gradual pivot back to growth within Education. But we expect they'll strengthen the case for Kelly over the longer term, as districts facing persistent talent shortages and larger class sizes increasingly turn to a partner who can bring new sources of talent into the classroom. As the largest provider of education workforce solutions in the U.S., and with industry-leading fill rates, we remain well positioned to capture that opportunity. Our conviction in this market remains strong as we execute through this transitional period.

As we focused on delivering near-term results in the quarter, we also drove meaningful progress on our strategic priorities which are positioning Kelly for the future. Across each of our segments, we continued to transform how we go to market to raise our visibility and to make it easier to do business with Kelly. In October, we launched a refreshed brand architecture – a direct response to what we've heard from our clients about how they want to engage with us. We're bringing all of our brands together under One Kelly, organized into 10 specialties, and offering a full suite of differentiated capabilities, from individual placements to outsourcing, consulting, and Talent Solutions. We've included a supplement in today's presentation that illustrates how the 10 specialties map to our existing segment structure.

We announced one of those specialties, Kelly Digital Infrastructure, in September, bringing together Kelly Telecom, NextGen-GTA, and Motion Telco under a single brand. This builds on our 20 years of experience in the space to serve growing demand from AI and the broader digital infrastructure buildout. It's the final stage of integrating our legacy acquisitions. We've already brought these teams together organizationally, and now the way they go to market reflects it as well.

We're backing all of this with ongoing investment in technology. Last month marked another significant milestone in our technology modernization journey. We established Workday as our enterprise human capital management platform and cut over a significant portion of our back-office processes onto a single, enterprise-scale instance. Later phases of this key initiative will modernize our remaining back office and ancillary systems across the rest of the business, positioning us to operate with greater efficiency and better data as we scale our One Kelly strategy.

Our AI initiatives are also becoming more deeply integrated across the organization and helping our team move faster while improving the client and talent experience. For recruiters, we remain focused on automating transactional work through our proprietary internal AI platform, Grace Boost, so they can spend more of their time on the parts of the job only a person can do. This is important because job seekers are looking for a more personalized experience. They want an advocate who can offer tailored guidance to help

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them navigate a rapidly changing and increasingly unfamiliar job market. Our approach to AI enables that experience, matching job seekers to the right opportunity faster, while a recruiter with specialized domain expertise guides their job search from start to finish. Simply put, humans lead the process, and AI elevates it. No matter how a candidate reaches us – through a branch, an MSP program, or our AI recruiting agent – every hiring decision is made by a member of our team.

Overall, I'm pleased with the progress we delivered in the third quarter. Our momentum within ETM and SET is growing. We're accelerating conversion of our new business pipeline while building deeper relationships with our largest clients. And the investments we're making in our brand, technology and AI are positioning Kelly for the future.

With that, I'll 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. Our third-quarter results reflect continued sequential improvements and were on the favorable end of the commitments we outlined last quarter. Underlying revenue returned to growth and adjusted EBITDA margin expanded year over year, both for the first time in at least four quarters.

For the quarter, revenue totaled $927 million, a decline of 0.8% versus the prior-year quarter and solidly within our guidance of flat to down 2%. The year-over-year revenue decline improved 500 basis points relative to the second quarter.

Underlying revenue, which excludes the previously disclosed discrete impacts driven by reduced demand from the federal government and three large ETM clients, grew 2.3%, ahead of our guidance of 1% to 2%. This represents an improvement of 290 basis points versus the second quarter, thus contributing more than half of the overall year-over-year improvement in the quarter.

As a brief update, demand with the federal government continues to be stable, while we have seen more recent demand pressure with the larger ETM customer who remains active. We expect this pressure to continue into the fourth quarter.

At the segment level, ETM underlying revenue grew 7.7% year over year, an improvement of 460 basis points versus the second quarter. Talent Solutions grew for the third consecutive quarter, with revenue up 11.6% versus the prior-year quarter driven by strong demand in all of our service offerings including double-digit growth in MSP and RPO.

Underlying staffing revenue grew approximately 7% driven by strong demand and improved fill rates across our client base, while BPO showed a modest decline due to project and new business timing.

SET underlying revenue declined 0.8%, an improvement of more than 200 basis points versus the second quarter. Outcome-based revenue showed strong growth in the quarter, while

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permanent placement revenue grew for the third straight quarter. Across the specialties, Technology revenue continued to strengthen driven by solutions, while Life Sciences had another quarter of growth, and Engineering pivoted to growth as they convert their strong pipeline to revenue.

Education revenue declined 6.4%, which was below our expectations. For reference, at the beginning of each school year, we establish a new baseline for each customer as far as the number of enrolled students, their full-time staffing levels, number of classes and class sizes, and multiple other factors. With the enrollment declines in some of our key markets and the impact on our customers staffing needs, our demand is pressured more than we anticipated, both overall and for the mix of resource types, which is outweighing our new business and renewal momentum in the near term. With our leading K-12 and Therapy offerings and market share, and the white space opportunities available to us, we continue to expect Education to pivot to growth in the coming quarters.

Gross profit was $194.4 million, up slightly versus the prior-year quarter despite lower revenue, resulting in a 20 basis point improvement in our gross profit rate, to 21.0%. Education seasonality and continued growth in Talent Solutions and SET outcome-based solutions, along with higher permanent placement fees, all contributed to the increase.

At the segment level, ETM's gross profit rate improved 40 basis points year over year, while SET and Education had modest declines.

Reported SG&A expenses were $193.6 million, down slightly versus the prior-year quarter, and adjusted SG&A expenses were $188.3 million, down approximately 1%. Excluding depreciation and amortization, adjusted SG&A expenses decreased 2.5% driven by 3% declines in both ETM and SET. Depreciation and amortization increased to $15.2 million from $12.6 million in the prior-year quarter, reflecting our continued technology modernization investments and accelerated amortization on certain tradenames as a result of our branding initiative.

We recognized $5.3 million of charges in reported SG&A in the quarter, primarily integration, realignment and restructuring costs, including severance. We expect to continue incurring various charges as we advance our technology modernization journey and expand upon our various optimization efforts.

For the year, we are now projecting a net year-over-year decline in core adjusted SG&A expenses of $25 million to $30 million, or approximately 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.

Our reported diluted loss per share was $0.05 compared to a loss of $4.26 in the prior-year quarter, which included a non-cash goodwill impairment charge and a valuation allowance on deferred tax assets. On an adjusted basis, we delivered earnings per share of $0.07 compared to $0.17 in the prior year reflecting impacts from discrete tax items.

Adjusted EBITDA was $21.3 million, an increase of 29% despite lower revenue. Adjusted EBITDA margin was 2.3% which represents 50 basis points of year-over-year improvement, the top end

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of our guidance, and a return to year-over-year margin expansion. As I've noted previously, Q3 is our lowest revenue and a lower profit quarter given the Education segment seasonality.

For the segments, ETM adjusted EBITDA margin was 3.1%, up 130 basis points year over year, reflecting the improved gross profit rate and lower SG&A. SET adjusted EBITDA margin was 6.6%, up 10 basis points, while Education is negative EBITDA in the quarter due to schools being on summer break a portion of the quarter.

Throughout the quarter, we maintained a strong balance sheet which provides ample capital allocation flexibility. Total available liquidity as of the end of the quarter was $256 million, comprised of $22 million in cash and $234 million available in our credit facilities. We used $55 million of cash in the quarter resulting in total debt of $122.5 million at the end of the quarter. The use of cash was primarily driven by normal seasonality along with the working capital investment to support our return to underlying growth.

During the quarter we maintained the quarterly dividend of $0.075 per share and there were no share repurchases. Due to our current share repurchase authorization expiring in December, we are refreshing and extending it to maintain shareholder return optionality.

Overall, from a capital allocation perspective, our near-term focus continues to skew towards organic investments supporting profitable growth, maintaining the dividend, and managing leverage. We also expect inorganic activity to increase over time. 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.

Turning to the outlook for Q4 and fiscal 2026, in February we set an expectation for the fiscal year as we felt it was important given where we were from a business perspective to provide visibility into the year versus the established practice of one quarter of guidance. I'm pleased to report we continue to expect to deliver in line with that full-year expectation. For our current view of Q4, we are revising our most recent expectations largely driven by the more gradual return to growth in our Education business and the near-term incremental demand pressure from the one discrete ETM client.

For Q4 we expect total revenue to be flat to up 1 percent on a year over year basis, and adjusted EBITDA margin expansion of 180 to 200 basis points resulting in adjusted EBITDA margin of 3.8% to 4%. These include the impact of an extra fiscal week in the fourth quarter, which benefits revenue growth by approximately 3 points relative to the prior year and negatively impacts adjusted EBITDA by several million dollars.

On a fiscal year basis, we expect a mid-single digit total revenue decline and adjusted EBITDA margin of 2.6% to 2.7%, which would be flat to 10 basis points of year-over-year improvement.

We are encouraged by the trajectory of our business across multiple dimensions, including returning to underlying revenue growth and year-over-year margin expansion in the quarter. I'm thankful for all the Kelly team members and their commitment and resilience as we focus on delivering sustained growth and enhanced profitability over the long term.

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

Chris Layden, Chief Executive Officer

Thank you, Troy. Let me close with a few thoughts on where we're headed.

This quarter marks one year since I joined Kelly as CEO, and it coincides with Kelly's 80th year as a company. Since our founding, a lot has changed – from the scale and complexity of the workforce challenges employers face, to the breadth of capabilities we offer to solve them. What hasn't changed is the commitment of our Kelly team. I'm proud of the meaningful progress we delivered in just a short time while keeping client centricity, visibility, and accountability at the center of everything we do.

These priorities are visible throughout our achievements in the third quarter. They also show up in how we're engaging with both current and prospective clients. This includes Talent Leadership in Action, our growing thought leadership forum which brings together employers with Kelly leaders for candid conversations about the future of work. At our most recent events last month in Detroit, London, and Kuala Lumpur, we were pleased to host leaders from many of the largest companies across consumer goods, financial services, advanced mobility, and pharmaceuticals – a majority of whom were new prospects.

Reflecting on our conversations, one thing is clear: we're at an inflection point in the world of work. AI is reshaping how work gets done, skills gaps are widening, and both talent and employers are seeking greater flexibility. Kelly has navigated significant change at many points throughout its history. At every turn, our clients kept discovering, kept innovating, and kept creating – and we kept evolving right alongside them. That's what the work this past year has been about: building on 80 years of impact, while making clear we're just getting started.

It's also what employers demand. Whether it's flexibility in how they source and deploy talent, putting AI to work, or gaining a full view of their total workforce, employers want a partner who can meet them where they are. That demand is showing up in our pipeline, which is growing alongside the new business we're winning in ETM and SET and further strengthened by events like Talent Leadership in Action. The trend is clear – more clients are engaging with us, and engaging in more of what we offer.

We have more work to do. But our trajectory is positive, and I remain confident in the growth potential of every part of our business.

I'm grateful to our team for their efforts to position Kelly for the next 80 years, and to our shareholders, clients, and talent for their continued trust.

Operator – you can now open the call to questions.

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