Kelly Services First-Quarter 2026 Conference Call
May 7, 2026
Prepared Remarks

Operator

Good morning, and welcome to Kelly Services' first-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 first-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. I'll begin with highlights from the first quarter.

The macroeconomic environment remained dynamic over the first three months of 2026. Against this familiar backdrop, employers continued to take a cautious approach to hiring, contributing to a mixed labor market. That said, conditions through the quarter were stable – consistent with our expectations. This stability was reflected in our results as we executed on our strategic priorities.

Total company revenue exceeded our expectations, and adjusted EBITDA margin was in line with our expectations. In ETM, staffing and overall revenue trends improved sequentially from the fourth quarter, including growth in Talent Solutions across our technology-enabled and AI-powered MSP, RPO, and PPO offerings. In SET, we delivered another quarter of year-over-year growth in our Telecom specialty, and Life Sciences and Engineering performance improved sequentially. In Education, we continued to experience pressure from delayed contract decisions, enrollment declines, and to a lesser extent, weather related closings. Across all three segments, we continued to align resources with demand and maintain a disciplined approach to expense management as part of our ongoing focus on efficiency.

Contributing to stabilizing trends in our results, were new customer wins that were implemented and came online during the quarter. Among them is a significant MSP program with a leading global oil and gas company across its North American operations. Kelly was selected based on the differentiated value of our technology-enabled capabilities. This includes our Helix Analytics platform and AI-enabled rate intelligence, which provide the visibility, benchmarking, and cost optimization large enterprise customers require of a contingent talent management program. With the initial implementation of this new MSP program complete, we have clear line of sight to additional expansion opportunities. This win underscores what our One Kelly go-to-market approach is capable of delivering, leveraging technology and our experience serving global customers to win in the market and grow.

With momentum building across the enterprise, we remain focused on returning to organic growth and margin expansion. Paving the way toward this next horizon is our newly formed Growth Office. Since it was established in February, the Growth Office has been collaborating across the enterprise to lay the foundation for an integrated commercial operating framework. This framework will serve as the foundation of a unified, One Kelly Enterprise strategy that brings the full breadth of our portfolio to Kelly's current customers and prospects. Central to this effort is the migration of all commercial teams on to a new unified CRM system. A key component of our modernized tech stack, the CRM will provide enterprise-wide pipeline visibility, enable high conviction forecasting, and support cross-selling across business units. We expect the migration to be complete by mid-year as part of our ongoing technology modernization initiative.

Reflecting more broadly on our technology modernization journey, we remain on track with our multi-phase approach. In the first quarter, our team was successful in ensuring a smooth transition following the cutover of our acquisitions in SET from their legacy technology stack to the modernized platform Kelly acquired through our acquisition of MRP. Armed with the key learnings we gathered from the initial cutover, we are well positioned to execute on subsequent phases and realize the benefits of deeper data and insights, AI and automation at scale, and enhanced productivity.

As we executed our strategic priorities throughout the quarter, we continued to evolve our leadership team. In March, we welcomed Joel Leege as president of SET. Joel is a proven industry leader with broad-based sector experience, having spent nearly three decades in staffing, talent solutions, and managed services across technology, engineering, and life sciences. He brings extensive experience leading complex transformations and integrations, enabling exceptional service delivery for customers, and driving above market growth. This experience is uniquely suited to further enhance SET's competitive positioning and take the business to the next level. I'm pleased to have him as part of Kelly, and I look forward to Joel leading the SET business to new heights of growth and profitability.

I am also reevaluating the leadership structure within the ETM business. This business is core to our strategy, and with this in mind, I'm taking time to assess what we need longer term to ensure we deliver on our growth objectives. In the interim, I will be closely involved in the management of ETM. I have great confidence in the team, who have consistently demonstrated their commitment to customer centricity, visibility, and accountability. These cultural pillars remain fundamental to how we'll achieve our ambitions and win in the market – both in ETM and across the enterprise.

I was pleased to have the opportunity to see the strength of our culture on full display at our recent Impact 2026 leadership summit in March. This immersive experience brought together 200 of our leaders for two days of dialogue and collaboration focused on transforming Kelly into a more customer centric, visible, and accountable enterprise. Impact reflects our commitment to building on the strength of Kelly's culture from the leadership level down, positioning the company to execute more consistently as we target a return to revenue growth and margin expansion in the second half of the year.

In a moment, I'll share more about our pathway toward a return to growth. First, I'll turn it over to Troy to provide more details on the results in the quarter. Troy?

Troy Anderson, Chief Financial Officer

Thank you, Chris, and good morning, everybody. I'm pleased to report that we started the year with solid execution and results on a number of fronts.

For the first quarter of 2026 revenue totaled $1.0 billion, which was down 10.7% overall versus Q1 of last year and favorable to our guidance. Excluding the previously disclosed discrete impacts driven by reduced demand from the Federal government and three top ETM customers, revenue was down 3.3% on an underlying basis, which was improved 60 basis points versus last quarter.

As a reminder and brief update regarding these impacts: Federal government demand largely stabilized in Q3 of last year, with a slight sequential increase this quarter mainly from the government shutdown and seasonal impacts in Q4. For the three top ETM customers, one stabilized at the current reduced demand levels beginning in Q3, one fully ran off in Q3, and the largest one remains one of our top customers and has stabilized across Q4 and Q1.

At the segment level, underlying ETM declined 0.4% versus the prior-year quarter, which is measurably improved versus last quarter and exceeded our expectations. Each Talent Solutions specialty grew versus the prior-year quarter. In Staffing, we saw a net underlying decline of just 1.2% in the quarter and year-over-year growth across February and March. Overall underlying ETM revenue has been relatively stable across the last five quarters.

Education decreased 4.8% year over year in the quarter, reflecting the prior-year delayed new contract decisions, elevated weather-related school closures, and overall reduced demand in key markets due to enrollment declines. We expect Education to deliver sequential year-over-year improvement throughout the remainder of 2026 and a return to growth in the second half of the year as a result of new business wins, successfully defending several key renewals, and continued penetration of our Therapy offering into new and existing clients.

SET's underlying revenue declined 6.0% in the quarter led primarily by near-term demand pressure within the Technology specialty. Consistent with ETM and Education, we are confident we will see sequential year-over-year improvement each quarter in 2026, with Science, Engineering, and Technology contributing most strongly in Q2.

Reported gross profit was $196.4 million, down 17.0% versus the prior-year quarter, reflecting the lower revenue volume along with employee-related costs and business mix changes. The gross profit rate was 18.9%, a decrease of 140 basis points compared to the prior-year quarter. Approximately 50 basis points of the decline is timing related, which we expect to normalize over the course of the year. Our overall gross profit rate improved 10 basis points relative to Q4, and the year-over-year decline improved similarly. Versus Q4, both ETM and SET saw improvement in their gross profit rates and year-over-year declines, while Education saw rate pressure in light of the revenue decline, cost timing, and mix. We expect to see gross profit rate improvement overall and in each BU in Q2 and over the remainder of the year.

We continue to make significant progress improving our SG&A expense profile, with reported SG&A expenses of $199.3 million, a decrease of 11.7%. On an adjusted basis, SG&A expenses decreased 10.3% year over year, reflecting the continued momentum with our structural and volume-related cost optimization efforts. Over the last three quarters, the year-over-year decline has averaged over 10%. Additionally, core adjusted SG&A expenses, which exclude depreciation and amortization and incentives, have declined sequentially each quarter since Q1 2025.

In the quarter, adjusted SG&A expenses decreased across all the segments as we continue to drive durable and sustainable efficiencies in our operating model through technology enhancements and process efficiencies, including leveraging AI. We also continue seeing benefits from realignments within the ETM segment and integration of MRP and other acquisitions within SET, all of which are progressing well.

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

Our reported loss per share was $0.17 for the quarter. On an adjusted basis, we delivered earnings per share of $0.03 cents compared to $0.39 cents in the prior year.

For our adjusted results, in connection with our various efforts, we recognized $9.2 million of charges in the quarter. Integration, technology modernization, organizational realignment, and restructuring drove $5.2 million of the charges. The balance is related to costs associated with our controlling shareholder change, executive transitions, and initial steps we have taken in our real estate rationalization efforts. We expect to continue incurring various charges throughout 2026 as we progress on our technology modernization journey, reduce our fixed cost structure including real estate costs, and expand upon our various optimization efforts.

Adjusted EBITDA was $15.8 million with an adjusted EBITDA margin of 1.5%, which was down 150 basis points versus the prior-year quarter and in line with our expectations. The year-over-year decline improved 20 basis points relative to Q4. The revenue and gross profit declines drove the decrease versus the prior year, with the significant SG&A reductions partially offsetting them.

At a segment level, similar to the gross profit rate, both ETM and SET improved their margins and year-over-year performance versus Q4, while Education saw pressure in light of the revenue and gross profit declines. We expect each BU to show sequential improvement in their adjusted EBITDA margins in Q2 and on a year-over-year basis as we progress through the year.

Moving to the balance sheet and cash flow, we utilized $25.4 million of cash from operations this quarter due to timing of working capital requirements. Total available liquidity as of the end of the quarter was $252 million, comprising $26 million in cash and $226 million available on our credit facilities, providing us with ample capital allocation flexibility. Total borrowings of $130.5 million increased versus the prior year end reflecting the working capital needs during the quarter. Our debt to EBITDA leverage remained near one at the end of the fiscal quarter.

During Q1, we maintained our quarterly dividend of 7.5 cents per share. We remain confident in Kelly's strategy and cash flow generation capabilities, and are committed to opportunistically deploying capital in pursuit of attractive returns for shareholders.

As we turn to the outlook for the remainder of 2026, our expectations are unchanged relative to the initial view we established in February. Our expectations assume no material change in the macroeconomic or industry dynamics in the coming quarters.

For Q2, we expect to show year-over-year improvement relative to Q1, with an overall revenue decline of 7% to 9%, which includes at least 100 basis points of improvement in the underlying decline. For adjusted EBITDA margin, we expect at least 2.5%, representing at least 100 basis points of improvement relative to Q1 and a significant reduction in the year-over-year decline relative to the past two quarters.

As we progress through the balance of the year, assuming no new material impacts, we expect to see relative improvement in our year-over-year performance each successive quarter for both revenue and adjusted EBITDA margin.

That should translate to modest revenue growth in the second half of the year, and a roughly mid-single digit decline on a full-year basis.

For adjusted EBITDA margin, we expect to see measurable year-over-year margin expansion in the second half of the year, and a modest increase on a full-year basis.

We are excited about the momentum we are building and the opportunities that lie ahead in 2026. I'm grateful to all 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 look ahead, we remain firmly committed to executing on the priorities we outlined in February. Rooted in the strategic pillars I shared shortly after joining Kelly, these priorities will continue to guide our actions and progress on the pathway toward an inflection point in our results.

Growth remains our top priority. The Growth Office is taking shape and beginning to enhance how we go to market as One Kelly Enterprise. With the leadership transition in SET complete, and organic growth drivers gaining traction in each of our businesses, we have a clear path to improved top-line performance as we move through the year. The strength of our pipeline and the steady stream of new wins coming online reinforce our confidence that our go-to-market approach is working, and that our ability to convert opportunities is accelerating.

On efficiency, we'll continue to align resources with demand while re-engineering our cost base to drive structural efficiencies and enhance profitability. Our technology modernization initiative remains on track, and our enterprise AI strategy continues to unlock productivity across the business.

And on culture, the energy and alignment our team demonstrated at our recent Impact leadership summit reinforced what I've known since I joined Kelly: our people are deeply committed to the success of this company, our clients, and the talent we place. We'll continue to build on that momentum with an emphasis on customer centricity, visibility, and accountability across everything we do.

We remain on track to deliver on our commitments and achieve revenue growth and margin expansion in the second half of the year. There is much work ahead, but I am confident in our plan, our team, and our ability to execute. I look forward to capitalizing on the positive momentum we are building together and unlocking Kelly's full potential for the benefit of all our stakeholders.

Operator, you can now open the call to questions.

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