



**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 President and Chief Executive Officer, Peter Quigley, 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](http://ir.kellyservices.com).

With that, I'll turn the call over to Kelly's President and Chief Executive Officer, Peter Quigley.

**Peter Quigley, President and Chief Executive Officer**

Thank you, Scott, and good morning, everyone. Before I share my reflections on our second-quarter results, I'll discuss the CEO transition update that we announced earlier this morning.

Following a rigorous search process with the full engagement of Kelly's Board of Directors – including myself – Chris Layden has been selected to serve as the next President and CEO of



Kelly. Chris will formally join Kelly and step into the role on September 2. I'll remain with the Company as a strategic advisor to Chris and the Board to ensure a smooth transition.

Chris is a dynamic industry leader with extensive experience leading organizations through transformations to advance go-to-market initiatives and accelerate profitable growth. He joins Kelly from workforce solutions provider Prolink, where he served as Chief Operating Officer and oversaw a period of rapid growth. Prior to Prolink, Chris spent nearly two decades at ManpowerGroup where he served in a range of senior roles spanning general management, regional leadership, corporate strategy, and sales.

After many conversations with Chris, it was clear that his skills and experience are uniquely suited for this moment in Kelly's strategic evolution. He brings a track record of executing enterprise-scale transformations and driving commercial excellence, as well as visionary leadership that aligns well with our commitment to accelerate profitable growth and value creation.

Under Chris's leadership, I'm confident that Kelly will build upon the strong foundation we've established and reach new heights of profitability and growth. I look forward to formally welcoming him to Kelly when he joins us next month, and introducing him to our talent, customers, and shareholders.

With that, let's review the highlights from our second-quarter earnings.

In the second quarter, we saw the benefits of our focus on more resilient markets to drive growth, with each business unit delivering strategic contributions to Kelly's results. Our Education business achieved another quarter of revenue growth as we maintained strong fill rates in the K-12 staffing business. In SET, we capitalized on solid demand within the engineering and telecom verticals. Payroll process outsourcing remained a source of strength within the ETM segment and delivered robust revenue growth over the prior year. Across both SET and ETM, outcome-based offerings, excluding our contact center business, sustained positive momentum with customers as we continued to shift our business mix toward higher margin, higher growth solutions.

Results were impacted by acute demand reductions with certain large customers. These reductions were largely the result of cost controls implemented by these customers in response to the increasingly dynamic trade and geopolitical landscape. More broadly, the current environment continued to drive employers in some sectors to take a more measured approach to hiring. As such, demand for staffing services decelerated in ETM. Volumes within



our U.S. federal government business declined at the outset of the quarter, but leveled off in May and June. This was in-line with our expectations, which we previously revised in light of reduced demand for federal contractors in the first quarter.

As market conditions evolved, we doubled down on our commitment to operational discipline and took decisive action to align resource levels with demand.

Our differentiated capabilities and agility in adapting to changing market conditions enabled Kelly to pursue attractive new business opportunities. Our unique solutions provide employers with a flexible, scalable approach to bridge the transition to an AI-enabled workforce in a way that unlocks the combined power of people and technology. They also position Kelly to harness the potential of AI and turn it into an opportunity to drive profitable growth for our customers and our shareholders. We'll continue to leverage our position as the partner of choice as employers increasingly integrate AI into their operations to drive efficiency and growth.

While delivering near-term results, we're also laser-focused on executing our growth and efficiency initiatives to position Kelly for the future. We advanced our efforts to integrate MRP's portfolio of businesses with our existing SET businesses, completing the realignment of sales, recruiting, and functional teams as part of our redefined go-to-market strategy organized by specialty. We're also making excellent progress on the implementation of modernized front- and back-office systems within SET that will leverage MRP's leading technology stack and consolidate disparate systems to reduce complexity and drive efficiencies across the organization.

Our progress in the second quarter reflects our agility in both seizing and creating opportunities in any operating environment, while accelerating profitable growth over the long term. We're deliberate about staying close to our customers' evolving workforce needs and leveraging our differentiated capabilities to provide them with innovative solutions. The decisive actions we took earlier in the year to improve efficiencies and drive simplicity in our operating model have positioned us to better serve our customers and execute on our strategic priorities. Altogether, we continue to deliver for customers and shareholders in the near term, and position Kelly to compete and win over the long term.

For more details on our results in the quarter, I'll turn the call over to our Chief Financial Officer, Troy Anderson.



**Troy Anderson, Executive Vice President and Chief Financial Officer**

Thank you, Peter, and good morning, everybody.

We're pleased with our performance in the first half of the year given the evolving macro environment and are encouraged by the adaptability and resiliency of our teams and that we're seeing across our business.

As referenced last quarter, we made changes to our operating model for 2025 which reduced our reportable segments from four to three: Enterprise Talent Management or ETM, Science Engineering and Technology or SET, and Education. We realigned certain customers and businesses as part of these changes. The 2024 results of ETM and SET have been recast accordingly. Please refer to our prepared remarks from the first quarter and our 10-Q for further details.

As a reminder, our reported results for 2025 include MRP and its portfolio of businesses, and Children's Therapy Center, while our 2024 results only include them from their acquisition dates. To provide greater visibility into the underlying trends in our operating results, I'll discuss year-over-year changes on a reported and organic basis, with the organic information excluding these items. MRP will be fully in our year-over-year comparisons beginning in the third quarter.

Revenue for the second quarter of 2025 totaled \$1.1 billion, an increase of 4.2% versus Q2 last year. We saw a number of positive trends across the business during the quarter, however we also experienced a larger than anticipated negative impact from the evolving macro environment. On an organic basis, year-over-year revenue was down 3.3%, including a 1.3% negative impact from reduced demand for federal contractors in the SET and ETM segments and a 3.5% impact from a few large customers within ETM who materially decreased demand in conjunction with internal cost reduction initiatives. We expect the full impacts of these actions to be realized by the end of the third quarter.

For Q2 organic revenue by service type, staffing services reflects continued strength 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, demonstrated resilience, and were up 2% year-over-year driven by ETM. Perm fees, which were 1% of revenue in total, reflect growth in ETM offset by a moderating decline in SET.

Drilling down into revenue results by segment, Education grew 5.6% year-over-year in the quarter or 5.3% on an organic basis. Each of the Education specialties grew in the quarter, with the primary driver being ongoing fill rate improvement on stable demand for services in the K-12 space.



In the SET segment, revenue was up 19% on a reported basis driven by the acquisition of MRP. SET organic revenue was down 8.5% in total and was down only 3.2% excluding lower demand for federal contractors. This reflects year-over-year sequential improvement, building upon the positive trend we saw last quarter. Staffing services was down 10% and outcome-based services down 4.5%. Lower staffing revenue was primarily due to the federal contractor impact. Outcome-based solutions revenue was down primarily due to lower demand in certain industry verticals and with a few key customers. Excluding the government impact, SET continues to outperform the market as a result of its targeted mix of specialty offerings and industry verticals, despite the variability in the macro environment and weaker demand in the technology segment. This includes the outcome-based business and the Statementworx suite of solutions, which are a growing portion of the market where we've sharpened our focus and are driving innovation, most recently by expanding this capability across the MRP sales team and customer base.

In the ETM segment, revenue declined 3.9% year-over-year on a reported basis or 5.1% on an organic basis. Staffing services revenues declined 7.7%, driven primarily by the large customer demand reductions and lower demand for federal contractors. Outcome-based revenues decreased by 6.2% reflecting demand pressure from a large customer within our contact center offering. Declines for this customer accelerated materially in the quarter, and they'll be fully run-off by the end of the third quarter. Excluding contact center, ETM outcome-based revenue increased 5% reflecting strong demand from a variety of industry verticals including semiconductors and manufacturing. Talent Solutions revenue increased 8% overall or 2% organically, with overall growth driven by the addition of the Sevenstep business from the MRP acquisition and strong performance in the PPO specialty, partially offset by a sequentially lower year-over-year decline in MSP. We continue to gain momentum in the talent solutions space with new customer wins, the Sevenstep integration and enhanced go-to-market efforts, and positive industry recognition – a recent example of this being the Everest Group naming Kelly both a Leader and Star Performer in RPO in its latest industry rankings.

Reported gross profit was \$225.5 million, reflecting a gross profit rate of 20.5% – an improvement of 30 basis points compared to the prior year quarter. This includes 70 basis points of improvement from the acquisition of MRP, and 40 basis points of organic decline from lower perm fees, business mix and employee-related costs. The business mix impact is similar to last quarter and reflects the strong growth in Education which has a lower relative GP rate. During the quarter, we saw GP rate improvement in SET as a result of the MRP acquisition. Education's GP rate was flat while ETM's GP rate was down slightly with benefits from the addition of Sevenstep and growth in perm fees offset by growth in PPO, which carries a lower GP rate.



We remained focused on improving our SG&A expense profile in the quarter, with reported SG&A expenses of \$207.3 million. On an adjusted organic basis, SG&A expenses declined 1% year-over-year. Expenses increased in our Education segment in conjunction with revenue growth, while expenses declined in ETM and SET. We remain focused on improving productivity and aligning resource levels with demand, while also driving structural and sustainable efficiencies in our operating model through technology enhancements including leveraging AI, process efficiencies, and other levers. Actions like the formation of the ETM segment and the integration of MRP will drive efficiencies throughout 2025 and into 2026. In connection with these efforts, we recognized \$6 million of charges in the quarter, down from \$11 million in the first quarter. Included in those charges are costs associated with improving technology and processes across the enterprise, as well as severance expenses. We expect to see this reduced level of charges over the next few quarters as we execute these initiatives.

Also included in our Q2 results is a \$4 million gain on the 2024 sale of our EMEA staffing operations as a result of the final net working capital and other adjustments.

For the quarter, reported earnings per share were 52 cents compared to earnings per share of 12 cents in Q2 2024. On an adjusted basis, earnings per share were 54 cents compared to 71 cents in the prior year. The decline over the prior year reflects lower earnings from operations and increased net interest expense as a result of the debt incurred for the MRP acquisition, and a higher average cash balance in the prior year quarter as a result of the sale of the EMEA staffing business.

Adjusted EBITDA was \$37 million – a decrease of 9% versus the prior year period – while adjusted EBITDA margin declined 40 basis points to 3.4% which reflects the incremental revenue pressure I previously noted. Education achieved year-over-year improvement in its adjusted EBITDA margin for the second straight quarter. Both SET and ETM expanded margins versus the first quarter, but were down year-over-year due to the timing of expense management actions relative to reduced demand.

Moving to the balance sheet, we maintained a disciplined yet opportunistic approach to capital allocation in pursuit of attractive returns. We ended the quarter with total available liquidity of \$301 million, comprising \$18 million in cash, and \$283 million of available liquidity on our credit facilities leaving us ample capital allocation flexibility. We had seasonally strong operating cash flow in the quarter and we benefited further from favorable working capital timing and \$22 million of cash proceeds related to the final true up from the sale of our EMEA staffing operations. As a result, we had a \$130 million net paydown on our debt leaving us with total borrowing of \$74 million at the end of the quarter and an adjusted EBITDA leverage ratio of 0.6. We expect our net debt to increase over the balance of the year relative to the current level based upon our normal seasonal cash flow



and capital deployment activities. For the year, we should see an overall reduction in net debt relative to the prior year-end balance.

For our third-quarter outlook, while the macroeconomic environment appears to be stabilizing, a number of our clients are taking a measured approach to their workforce management strategies. Given that, we're assuming current macroeconomic conditions persist for the foreseeable future. Also, with MRP fully in our comparable results, I'll only speak to the overall totals as the organic difference is immaterial.

For revenue, we expect a decline of 5% to 7% in the quarter, which includes 8% of negative impact associated with reduced demand from discrete large customers and for federal contractors. Excluding these items, our underlying revenue growth would be 1% to 3%.

For adjusted EBITDA margin, we expect an increase of 80 to 90 basis points year-over-year in the third quarter. We also continue to expect modest year-over-year adjusted EBITDA margin expansion for the full year.

As we progress through the balance of the year, we'll continue to adapt as conditions evolve while remaining opportunistic and focusing on achieving or exceeding our expectations.

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

**Peter Quigley, President and Chief Executive Officer**

Thanks for those insights, Troy.

As we move forward into the second half of the year, I remain confident in Kelly's ability to navigate this dynamic macroeconomic environment. Building on the meaningful progress we made in the first half, the Company will continue to execute on its priorities:

As employers' needs continue to evolve, we'll quickly adapt alongside them. Whether driven by macroeconomic shifts or advancements in AI, we stand ready to provide tailored workforce solutions that will enable them to maintain a competitive edge. From staffing and outcome-based solutions, to managed service provider and recruitment process outsourcing, our differentiated portfolio of solutions leads the market. This is how we've continued to capture market share, and why Everest Group named Kelly both a Leader and Star Performer in each of its Contingent Talent and Strategic Solutions PEAK Matrices – marking the first time a company has achieved this feat.



We'll further refine our go-to-market approach within our realigned SET and ETM businesses to ensure that our teams, processes, and technology are optimized to enhance efficiency and effectiveness, while making it easier for both employers and talent to engage with Kelly.

And we'll continue to align resources with demand, leveraging our operational discipline to respond quickly to changing trends and maintaining our capacity to capture growth in more resilient markets.

Executing on these priorities and remaining agile in the face of persistent change will enable Kelly to deliver on the commitments we outlined at the start of the year. And, with greater scale in our chosen specialties, a streamlined operating model, and enhanced profitability, the foundation is set for the next generation of leadership to take Kelly into a new phase of its strategic evolution.

As I prepare to conclude my nearly 23-year career here, I'm grateful to each member of Team Kelly for their contributions on our journey to realize our collective vision for this great Company. Their resilience, agility, and unwavering commitment to our Noble Purpose are the driving forces that continue to propel Kelly forward in pursuit of profitable growth. As the team moves forward together with Chris at the helm, I'm confident in their capacity to unleash Kelly's full potential, and create long-term value for all of the Company's stakeholders.

Operator, you can now open the call to questions.

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