



Operator

Good morning, and welcome to Kelly Services' fourth-quarter and full-year 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 fourth-quarter and full-year 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-K, 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.

Before I discuss Kelly's performance in the fourth quarter, I'd like to reflect on recent developments that mark an important moment on the Company's journey.



On January 30, we announced that Kelly had entered an agreement with Hunt Companies related to its purchase of the controlling stake of our Class B common stock. In conversations with Hunt, it's clear they see many of the same opportunities I saw as I considered joining the Company as CEO: an iconic brand to build upon. A strong balance sheet with consistent free cash flow. A clear pathway to accelerate growth. And, significant value to be unlocked. I welcome their support as we pursue these opportunities and realize Kelly's full potential.

As part of the agreement, our board has been reconstituted, and four new board members have been appointed. Our new directors bring extensive experience which positions them to be strong contributors to the board as we drive progress on Kelly's strategic journey. I look forward to engaging with them and continuing to work with the entire board to create lasting value for all of our stakeholders.

Now, let's review the highlights from our performance in the fourth quarter.

Starting first with the broader macroeconomic environment, the dynamics that shaped our results through the third quarter persisted in the fourth quarter. Employers continued to take a cautious approach to hiring amid a mixed labor market. At the same time, we capitalized on positive trends in each segment, which were reflected in our performance in the quarter.

Kelly delivered revenue at the top end of our expectations as we doubled down on our commitment to stabilize the Company's performance and enhance how we're going to market as one Kelly enterprise. We achieved continued year-over-year growth in Education driven by solid demand for K-12 and Therapy specialties. In SET, we delivered top-line growth on a year-over-year basis in our Telecom specialty, and sequential revenue stability in Life Sciences. And in ETM, we achieved stable sequential revenue performance in our Staffing, MSP, and BPO specialties excluding Contact Center Solutions. Across the enterprise, we continued to align resources with demand and maintained a disciplined approach to expense management.

These results also reflect our deliberate shift towards customer centricity. My time in the field with our customers and talent has reinforced how this approach unlocks value for employers and for Kelly. Recently, I visited with the CEO of a consumer technology company that is designing and building some of the world's most advanced audio solutions. I had the opportunity to see first-hand how Kelly has helped evolve their workforce as they've scaled advanced manufacturing capacity in the U.S. to meet growing demand. When our relationship began eight years ago, they produced 10,000 units a year. Today, that number has grown to four million – with our teams supporting key workstreams from R&D to final



production and distribution. As they have invested in advanced robotics and capital equipment, our workforce has evolved alongside them – learning new skills, adapting to new processes, and helping them scale production in the U.S. As more manufacturers ramp up domestic capital investment and re-shore operations, Kelly is well positioned to capitalize – leveraging our differentiated solutions, a customer-centric delivery model, and market leadership in North America.

Parallel to these efforts, we reached a significant milestone in our technology modernization initiative that will power our growth well into the future. In December, our acquisitions in SET successfully completed the cutover from their legacy technology stack to the modernized platform Kelly acquired through our acquisition of MRP. This marks the first of a multi-phase strategy to move our enterprise from a fragmented and outdated mix of front-, middle-, and back-office technologies to a unified, best-in-class platform. With our SET acquisitions fully operational within the platform, the business is now benefiting from deeper data and insights, AI and automation at scale, and enhanced productivity. These benefits will extend across SET and the enterprise as we execute on our phased approach, with a majority of Kelly's businesses and functions slated to be operational within the platform in 2027.

With our technology modernization initiative gaining momentum, we also accelerated the integration of AI across the enterprise. In the fourth quarter, we launched a proprietary internal AI platform, Grace Boost, to every employee at Kelly. This is the latest iteration of Grace, a standalone gen AI tool which we initially deployed nearly two years ago to simplify sales and recruiting workflows. With Boost, we've taken its capabilities a step further including directly integrating AI into the applications our people use every day. This integration eliminates swivel-chair processes that limit adoption while improving its ability to learn users' workflows, provide contextual assistance, and ultimately enhance productivity.

As we continue to double down on customer centricity, we're also leveraging AI to enhance the customer and talent experience directly. During the quarter, we deployed a tailored AI recruiting solution with a large multinational manufacturing customer, enabling them to rapidly staff a key assembly line. The AI agent calls, screens, and answers questions from applicants, helping our recruiters hone in on top candidates and accelerate the hiring process – and the results have exceeded our expectations. Talent feedback has been overwhelmingly positive, customer satisfaction has improved meaningfully, and we're meeting their needs faster and at a lower cost. The solution is highly configurable and scalable, and we're pursuing opportunities to deploy it to additional customers. These examples reflect Kelly's focus on practical applications that put AI directly into the hands of our employees and our customers



to solve real business challenges – leveraging the combined power of people and technology to deliver results with clear alignment to our strategy.

We're also aligning our leadership team to accelerate growth. Yesterday, we announced the appointment of Pat McCall as Kelly's chief growth officer. Pat brings 30 years of sales and operations experience, and a proven track record accelerating profitable growth at leading global staffing and IT services firms. In this newly created role, he will help bring to bear the full strength of Kelly's portfolio – working across the enterprise to strengthen large enterprise account management and expand new customer acquisition. We're pleased to welcome him to the team and look forward to his contributions towards Kelly's growth strategy.

Additionally, we announced in the fourth quarter the initiation of a comprehensive search for the next president of SET. Kelly has engaged a nationally recognized firm to conduct the search for a proven leader with significant experience enhancing go-to-market strategies, capitalizing on opportunities created by AI, and driving profitable growth. I'm excited about the caliber of candidates we are speaking to, and I look forward to sharing an update soon when our process concludes.

The positive momentum we generated in the fourth quarter has set Kelly on the right path entering 2026. As we carry forward this momentum, we remain confident in our strategy, underpinned by a strong balance sheet, healthy cash generation, and a balanced approach to capital allocation. In a moment, I'll share more on our priorities for the year. First, I'll turn it over to Troy to provide more details on the results in the quarter and for the full year.

Troy Anderson, Chief Financial Officer

Thank you, Chris, and good morning, everybody.

For the fiscal year, revenue totaled \$4.25 billion, which was down 1.9% overall and roughly flat excluding acquisitions and discrete impacts from reduced demand from the Federal government and three top customers, which we have discussed in prior quarters.

For the fourth quarter of 2025, revenue totaled \$1.1 billion, a decrease of 11.9% versus Q4 of last year, or down 3.9% on an underlying basis excluding the discrete impacts.

As a reminder and brief update regarding these impacts, federal government demand largely stabilized in Q3, with a modest sequential decline in Q4 mainly due to seasonality. For the three top customers, one stabilized at the current reduced demand levels beginning in Q3; one fully ran off



in August; and the largest one remains one of our top customers and saw continued demand reductions throughout Q4, and could see some further reduction in 2026.

At the segment level, Education grew 1.3%, reflecting continued fill rate improvement.

SET's underlying revenue declined 5.4% in the quarter, which was modestly better than our expectations, and reflects demand pressure within Information Technology and other key specialties, partially offset by growth in Telecom.

Underlying ETM also declined 5.4% and was modestly better than our expectations, with varying levels of declines across the primary specialty areas. On an absolute basis, underlying ETM revenue has been relatively consistent across the quarters throughout 2025.

For Q4 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 project demand and new business within SET and ETM. Talent Solutions was down year-over-year, reflecting a mix of performance across the individual specialties. Perm fees represented approximately 1% of revenue, which was consistent with the prior year.

Reported gross profit was \$197.0 million, down 18.4% versus the prior year quarter, reflecting the lower revenue performance along with increased employee-related costs and business mix changes in the quarter. The employee-related costs were driven primarily by healthcare and workers compensation claims expense, as well as certain impacts related to the large customer runoffs. The gross profit rate was 18.8% – a decrease of 150 basis points compared to the prior year quarter. Education's GP rate held flat at 14.2%, while SET at 24.2% declined 130 basis points, and ETM at 18.1% declined 220 basis points.

We made significant progress improving our SG&A expense profile in the quarter, with reported SG&A expenses of \$198.5 million, a decrease of 8.7%. On an adjusted basis, SG&A expenses decreased 11.1% year-over-year, reflecting the momentum we are gaining on structural and volume-related cost optimization efforts. 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. Reduced incentive compensation expenses also contributed to the decline in the quarter. Existing initiatives like the continued realignment within the ETM segment and integration of MRP and other acquisitions within SET are progressing well and will drive increased go-to-market and cost efficiencies going forward. In connection with our various efforts, we recognized \$9.8 million of charges in the 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 incur certain of these expenses through 2026 as we make continued progress and expand upon our various optimization efforts, including our technology modernization initiative.

As a result of the overall business performance and a \$127.9 million increase to the tax valuation allowance, our reported loss per share was \$3.69 for the quarter. On an adjusted basis, we delivered earnings per share of \$0.16 compared to \$0.79 in the prior year, with the decline over the prior year primarily due to lower profitability and discrete tax items. For the full year, the reported loss per share was \$7.24 including \$7.61 of non-cash negative impacts from goodwill impairments and tax valuation allowances. Full year adjusted earnings per share was \$1.26.

Adjusted EBITDA was \$21.0 million with an adjusted EBITDA margin of 2.0%, which was down 170 basis points versus the prior year quarter and below our expectations. The revenue and gross profit declines I previously noted drove the decrease versus the prior year, while incremental GP rate pressure drove the shortfall versus expectations. Education margin expanded by 30 basis points year-over-year driven by their revenue growth and expense optimization efforts. ETM and SET saw margin pressure due to the elevated revenue and gross profit declines despite substantial SG&A reductions.

Moving to the balance sheet and cash flow, we generated strong operating cash flow this year with \$122.6 million through the fourth quarter, up significantly versus the prior year. Total available liquidity as of the end of the quarter was \$288.0, comprising \$33.0 million in cash and \$255.0 million available on our credit facilities, leaving us ample capital allocation flexibility. Total borrowings of \$102.0 million decreased \$16.0 million versus the prior quarter and \$137.0 million versus the prior year end. Our debt to EBITDA leverage ratio was less than one at the end of the fiscal year.

In addition to the debt repayment during the quarter, we completed \$10.0 million of Class A share repurchases, leaving us with \$30.0 million remaining on the current Class A share repurchase authorization. We also maintained our quarterly dividend of \$0.075 per share. Total capital deployed across these three areas was approximately \$30.0 million in the quarter, and \$158.0 million for the fiscal year. These actions reflect our confidence in Kelly's strategy and cash flow generation, and our commitment to opportunistically deploying capital in pursuit of attractive returns for shareholders.

As we look ahead to 2026, we are assuming no material change in the macroeconomic or industry dynamics. Consistent with what we discussed last quarter, during the first half of 2026 we will still be experiencing the larger year-over-year effects of the discrete impacts from the federal



government and the three large ETM customers, with some residual impact into the third and fourth quarters.

Given that, we expect Q1 to look very similar to Q4, with revenue declining between 11% and 13% year-over-year, or an underlying decline of 3% to 5% excluding the discrete impacts, and adjusted EBITDA margin of approximately 1.5%, which steps down from Q4 primarily due to payroll tax resets.

As we progress through 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 many opportunities that lie ahead in 2026. 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.

The path to improved year-over-year performance becomes clearer as we move through 2026 and the discrete impacts we've discussed begin to anniversary. The actions we're taking today are designed to ensure we capitalize on that inflection. Let me share more about our priorities for 2026, which build on the strategic pillars we discussed last quarter.

First and foremost is growth. Our focus on growth is reflected in the formation of a Growth Office which, under Pat's experienced leadership, will work across our businesses to enhance how we go to market as one Kelly enterprise. And, having identified organic growth drivers in each business, we have a clear path to improved top-line performance as we progress through the year.



In Education, our pipeline of net-new K-12 staffing opportunities remains strong. We're well positioned to continue to gain share in this growing market as more schools seek to improve fill rates through our industry-leading offering. In districts where we already have strong relationships, we're driving penetration of our higher margin pediatric therapy services to meet growing demand.

In SET, we're sharpening our focus on high-growth areas including data centers, AI, and cybersecurity, where our scale and expertise are uniquely suited to meet customers' evolving needs. We're also continuing to capitalize on the shift toward higher margin statement of work and consulting engagements. As an example, in Life Sciences, where Kelly is already the second largest staffing provider in the U.S., we're capturing growth in the clinical trials market through our differentiated functional service provider solution, or FSP. Our outsourcing model provides sponsors with specialized, scalable expertise to more efficiently manage specific functions in clinical trials – from data management and biostatistics to pharmacovigilance. With new deals coming online, including a multi-year contract with a global pharmaceutical company, we expect FSP will continue to be an important contributor to Kelly's top and bottom line going forward.

And in ETM, we have several MSP and enterprise staffing wins slated to go live in the first quarter. This includes a new MSP program with a global financial services firm – one of the largest MSP deals Kelly has ever won. Our scale and capabilities which contributed to this win are reflected in our recent recognition by HRO Today as the number one global provider of total workforce solutions, encompassing MSP, RPO, and Staffing. As we build on this momentum and enhance how we go to market as an enterprise, I expect our new business pipeline to continue to grow, and our conversion of these opportunities to accelerate.

Let me talk next about our second strategic priority, efficiency. We'll continue to align resources with demand while re-engineering our cost base to drive further structural efficiencies and enhance profitability. Our SG&A trajectory reflects the momentum we're building, and our technology modernization initiative is central to this effort. And our enterprise AI strategy reflects a targeted approach to unlocking productivity and growth across the business.

And finally, culture. Culture remains fundamental to how we'll achieve our growth and efficiency ambitions, with an emphasis on customer centricity, visibility, and accountability. We'll continue making it easier to do business with Kelly, spending time in the field to better understand the needs of our customers and talent, and holding ourselves to the highest standard of execution across every part of the business.



As we enter 2026, the investments we've made in our portfolio, our technology, and our people have positioned us to emerge stronger on the other side. There is much work to be done, but I am confident in our plan, our team, and our ability to execute.

I want to thank our shareholders for their support and trust at this important moment on Kelly's journey. I also want to express my gratitude to the Kelly team for their perseverance and resilience as we closed last year. The fourth quarter was a sprint, and we ran through the tape. Now it's time to carry our momentum forward and deliver on the promise of 2026. I look forward to working alongside our team to realize our collective ambitions and create long-term value for our stakeholders.

Operator – you can now open the call to questions.

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