



**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 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).

I will now 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. I'll begin with some reflections on the first quarter.

Kelly delivered organic revenue growth that was in-line with our expectations, and once again, we outperformed the market. Our operating model demonstrated its resilience, with each of our businesses making strategic contributions in the quarter – notwithstanding changes in



demand among our U.S. federal government business. Our Education business remained a source of strength as our K-12 business maintained excellent fill rates on existing business while capturing a steady stream of net-new customer wins. Demand for our higher-margin outcome-based solutions also remained robust, particularly within the semiconductor and renewables sectors.

We delivered these results by focusing on what we can control and through disciplined execution. As anticipation of global trade policy shifts increased throughout the quarter, we remained agile and ready to respond to changing external dynamics while keeping our sights set on our priorities.

We stayed close with our customers as their workforce needs changed, offering our full range of flexible solutions paired with nearly 80 years of experience helping employers navigate through dynamic economic environments. This approach enabled us to uncover higher margin opportunities with multiple customers for whom we tailored solutions to bolster the efficiency and adaptability of their workforces.

We remained laser-focused on driving organizational efficiency and effectiveness. To this end, we implemented targeted actions in the quarter to deliver additional structural improvements to our cost base. These actions will contribute to incremental EBITDA margin expansion later this year and beyond, and underscore our commitment to enhancing Kelly's profitability over the long term.

In parts of our portfolio where customers are taking a more measured approach to hiring, we took swift action to align resources with demand. This reflects our ability to anticipate and adjust in real time to changing trends across our businesses – a key element of Kelly's recently improved operational discipline.

We continued to optimize Kelly's operating model, completing the unification of our OCG and P&I business units. We've already begun to see the benefits of this change, which is resonating well with both customers and talent. This streamlined structure builds upon the enterprise account growth initiative we implemented in 2023, further enhancing our ability to deliver the full suite of Kelly offerings to our largest customers and increasing our share-of-wallet. Through this more customer- and talent-centric go-to-market approach, we're poised to unlock new value creating opportunities within attractive sectors, among them financial services, technology, healthcare, and energy. We've consolidated these businesses into a single reportable segment, Enterprise Talent Management, or ETM, which Troy will provide more details on shortly.



We also accelerated the integration of Motion Recruitment Partners, or MRP, with the conclusion of the earnout period at the end of the quarter enabling us to ramp up our pursuit of synergies. For SET, in addition to realigning the segment into distinct and unified business lines as we discussed last quarter, we initiated the implementation of a strategy to modernize SET's front- and back-office systems that leverages MRP's leading technology stack. This will create a scalable, efficient, and integrated technology platform within SET that significantly reduces complexity. It will also enhance agility across the business by enabling the rapid integration of AI as new solutions and use cases emerge. Longer term, our vision is to implement this technology stack across Kelly. By taking a thoughtful, phased approach to implementation, we'll minimize disruption to the business, while realizing the full value from these tools.

Within ETM, we launched an integrated permanent hiring solutions business line by bringing together our global recruitment process outsourcing specialty, or RPO, and MRP's talent acquisition solutions brand, Sevenstep. This combination creates a leading talent solutions offering that ranks among the top five globally, differentiated by innovative technology including a proprietary talent data integration and predictive analytics platform driven by AI. We're encouraged by the positive market reaction following the launch in February, which has translated to a notable increase in new business opportunities.

Together, our accomplishments in the first quarter reflect Kelly's enhanced operational fitness resulting from our ongoing focus on efficiency, and our team's ability to execute in any environment. 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 off to a positive start to the year, and are encouraged by the momentum we're building and the resiliency demonstrated by our solid first-quarter results.

As Peter referenced, we made changes to our operating model in the first quarter which resulted in reducing our reportable segments from four to three: Enterprise Talent Management, or ETM; Science Engineering & Technology, or SET; and Education. ETM combines the former P&I and OCG segments. We also shifted certain customers from SET to ETM to support a more streamlined and efficient go-to-market approach. Finally, we've moved MRP's Sevenstep business, which includes both managed service provider, or MSP, and



RPO specialties, from SET to ETM as part of the integration approach for MRP. ETM and SET continue to deliver specialty talent through staffing services, permanent placement and outcome-based solutions. ETM also delivers MSP, RPO, and payroll process outsourcing, or PPO, which we collectively refer to as talent solutions. The 2024 results of ETM and SET have been recast accordingly.

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, May 31 and mid-November, respectively. 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.

Revenue for the first quarter of 2025 totaled \$1.16 billion, an increase of 11.5% versus Q1 last year. On an organic basis, year-over-year revenue was up 0.2%, which includes a 0.8% negative impact from reduced demand for federal contractors in the SET and ETM segments. We're pleased that we continued to deliver organic revenue growth despite a rapidly evolving macro environment. In the quarter, staffing revenue trended up positively on continued strength in our Education business. Our outcome-based offerings demonstrated resilience, and were flat year-over-year. Perm fees, which were 1% of revenue in total, reflect continued declines consistent with ongoing trends seen across the industry.

Drilling down into revenue results by segment, I'll start with Education, which was up 6.6% year-over-year in the quarter or 6.3% on an organic basis. The growth in the quarter reflects ongoing fill rate improvement and higher bill rates in our existing business, partially offset by fewer school days in January due to harsh winter weather in a few areas.

In the SET segment, revenue was up 39% on a reported basis driven by the acquisition of MRP. SET organic revenue was down 7% in total, but down only 4% excluding 3% of decline related to lower demand for federal contractors. SET's targeted mix of specialty offerings and industry verticals allows it to continue to outperform the market despite variability in the macro environment and weaker demand in the technology segment. SET's organic revenue in Q1 reflects an 8% decline due to lower staffing services demand, with 5% associated with lower demand for Federal contractors. Outcome-based solutions revenue was down 3% primarily due to lower demand in certain industry verticals and with a few key customers. The outcome-based business, including our statementworX suite of solutions, is a growing portion of the market where we are sharpening our focus and continuing to innovate.



In the ETM segment, revenue grew 1.9% on a reported basis, and was flat year-over-year on an organic basis. Staffing services revenues declined 1.8%, driven primarily by large customer cost reduction actions and lower demand for federal contractors. Overall, we continue to see above-market performance in staffing, with our successful omni-channel strategy being a key contributor. Outcome-based revenues increased by 1.8% reflecting strong demand for these services in a variety of industry verticals including semiconductors and manufacturing, which more than offset continued demand pressure within our call center offering. Consistent with SET, ETM is seeing stronger demand for its innovative portfolio of outcome-based solutions that meet clients' talent needs across a variety of skill sets. And finally, talent solutions revenue increased 3% driven by continued strong performance in the PPO specialty, partially offset by year-over-year declines in MSP reflecting reduced contingent labor demand from our customers.

Reported gross profit was \$236.5 million, reflecting a gross profit rate of 20.3% – an improvement of 60 basis points compared to the prior year quarter. This includes 90 basis points of improvement from the acquisition of MRP, and 30 basis points of organic decline from lower perm fees, business mix, and employee-related costs. The business mix impact – a result of strong growth in Education which has a lower relative GP rate – eased on a sequential basis. During the quarter, we saw GP rate improvement in SET as a result of the MRP acquisition, as well as improvement in Education resulting from lower employee-related costs. ETM's GP rate was nearly flat year-over-year in the quarter as outcome-based business growth and improving GP rates offset the impact of continued revenue 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 \$225.7 million. On an adjusted organic basis, SG&A expenses were flat year-over-year. Expenses increased in our Education segment in conjunction with the revenue increase, while expenses declined in ETM and SET. We continue to focus on improving productivity and aligning resource levels with volumes, while also driving structural and sustainable efficiencies in our operating model. Actions like the formation of the ETM organization and the integration of MRP will drive efficiencies throughout 2025 and into 2026. In connection with these efforts, we recognized \$10.7 million of charges in the 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 a similar level of charges over the next few quarters as we continue executing these initiatives.

For the quarter, reported earnings per share were 16 cents compared to earnings per share of 70 cents in Q1 2024. On an adjusted basis, earnings per share were 39 cents compared to 56



cents in the prior year. The decline over the prior year is primarily due to debt incurred for the MRP acquisition, and a higher cash balance in the prior year quarter as a result of the sale of the EMEA staffing business.

Adjusted EBITDA was \$34.9 million – an increase of 5% versus the prior year period – while adjusted EBITDA margin declined 20 basis points to 3%. ETM and Education improved their organic adjusted EBITDA margin by 10 basis points in the quarter versus last year. SET’s adjusted EBITDA margin was down in the quarter and was impacted by the timing of cost actions relative to reduced demand, including for federal contractors.

We ended the quarter with total available liquidity of \$181 million, comprising \$28 million in cash, and \$153 million of available liquidity on our credit facilities. We maintained our disciplined approach to capital allocation and will opportunistically deploy capital to generate attractive returns. In the quarter we had a \$35 million net paydown on our debt leaving us with total borrowing of \$205 million at the end of the quarter and an adjusted EBITDA leverage ratio of 1.4. Our net debt may fluctuate from quarter to quarter based upon our cash flow and capital deployment activities.

Looking forward, the dynamic macroeconomic environment is factoring into a number of our clients taking a measured approach to their workforce management strategies. We expect this may temper staffing market demand in the near term until greater clarity materializes. Even with these market conditions, we expect to capture additional market share in 2025 and capitalize on opportunities for incremental organic revenue growth in high-growth specialties. As the year progresses, we also expect to expand our adjusted EBITDA margin, and ultimately cash flow, by efficiently converting more of our top-line results to bottom-line profitability through a disciplined approach to business mix and SG&A management.

For our second-quarter outlook, we’re assuming a continuation of current macroeconomic conditions. We expect to outperform the market and to deliver total revenue growth of 6% to 7% in the quarter, which includes a 1% to 1.5% negative impact associated with reduced demand for federal contractors, and an additional 1% negative impact related to slower economic growth relative to our initial expectations.

Organically, we expect revenue to be down 1% to 2%, or roughly flat excluding the impacts related to the federal government and slower economic growth. Our overall first-half revenue expectation is in line with the outlook we provided in February excluding these impacts.



For adjusted EBITDA margin, we expect a decline of 20 to 30 basis points year-over-year in the second quarter, which is consistent with the first-quarter decline and will yield an adjusted EBITDA margin that continues to be significantly better than our pre-transformation historical average. While we were originally anticipating adjusted EBITDA margin expansion throughout the year, given the macroeconomic environment and timing of the benefits of our efficiency and optimization initiatives, we now anticipate margin expansion in Q3 and Q4, and for the full year.

Overall, we're pleased with our performance to start the year. I'm grateful to our team for the agility and discipline they demonstrated to deliver these results. As we move forward through the second quarter and the balance of the year, we'll continue to adapt as conditions evolve while remaining focused on achieving 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 a result of the extensive work we've done to transform Kelly, we're well positioned to navigate this rapidly changing environment and drive further progress on our specialty growth journey.

Our streamlined operating model is resilient, underpinned by specialized businesses that provide a breadth of differentiated solutions to employers across a diverse range of attractive sectors. They form a winning combination that has driven Kelly to outperform the market as staffing demand pressure has persisted.

We're among the largest providers in areas where we've chosen to specialize, among them Education, Life Sciences, and Engineering staffing – each of which present compelling market opportunities. And with our acquisition of MRP, we've doubled down on our Technology staffing and global RPO specialties, propelling us to among the top-10 and top-5 providers, respectively. Our enhanced scale and formidable market positioning in these specialties will enable us to win in the market and drive growth in an improving demand environment.

And, as we demonstrated in the first quarter, our efficiency initiatives have improved our agility in responding to changing market conditions, providing greater visibility into expenses and productivity, and enabling us to manage resources accordingly.



Moving ahead through the balance of the year, we'll harness these strengths as we execute on our priorities and accelerate profitable growth. We'll continue to implement our growth and efficiency initiatives, including the integration of MRP and building out the go-to-market strategy within our realigned ETM business. We remain wholly committed to driving incremental EBITDA margin expansion as well. By executing on these priorities, we'll position Kelly to capitalize when demand rebounds.

In closing, I'd like to thank our talent on assignment, our customers, and our shareholders for being with us on this journey – and the Kelly team for their unwavering focus on delivering value for all our stakeholders. No matter the environment, I'm confident in our capacity to rise to the occasion and meet the moment, as Kelly people have done time and again over nearly 80 years.

Operator, you can now open the call to questions.

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