

2015

# TO OUR SHAREHOLDERS

Kelly entered 2015 with a clear imperative for growth. 2014 had been a year of aggressive investments and structural change that repositioned Kelly for the future, and in 2015 we faced the critical test of our ability to deliver returns on those investments. Focused execution of our strategy was paramount. As we look at our full-year results, I am pleased to say that we've seen returns on Kelly's investments, and our performance improved significantly on several fronts.

## Driving Results

We entered the year with our new operating models firmly in place, and we gained traction throughout the year as we delivered against our investments and accelerated bottom-line growth.

Kelly brought in full-year revenue of \$5.5 billion in 2015, up 4.7%\* compared to last year. We held expense growth to less than half the pace of revenue growth, with an increase of just 2.2%\* year-over-year. All told, in this year of focused execution, we delivered operating earnings of \$67 million, nearly doubling the \$34 million in adjusted earnings we reported in 2014.

Earnings per share were \$1.39 — well above adjusted earnings of \$0.81 per share for the same period last year.

Most notably, we improved the quality of our earnings and delivered outsized leverage in 2015. In total, we dropped nearly 70% of our gross profit (GP) dollar growth\* to the bottom line — affirmation that Kelly is operating as a more efficient company keenly focused on profitability.

## Executing Our Strategy

2015 brought renewed commitment to accelerate progress through the strategy that guides us. Our investments were designed — and our actions aligned — to help Kelly move more rapidly toward delivering shareholder value and maximizing returns by:

Pursuing higher-skilled, higher-margin professional and technical (PT) staffing solutions  
Evolving OCG as a market-leading talent supply chain solutions manager

Maintaining our core strengths in Commercial staffing in key markets  
Capturing permanent placement growth in selected specialties

Lowering our costs through efficient service delivery models

In 2015 we proved this strategy responds to shifts in the market and aligns with customers' needs — and is a strategy that drives Kelly forward and generates growth.

We saw that growth demonstrated in our U.S. branch network as they delivered strong, sustained results in our new PT operating model throughout the year. Our international segments focused on the

niches where they excel and delivered growth in the face of uneven economies, with APAC bringing in record-breaking earnings for 2015 and EMEA improving its bottom line. OCG growth continued to surge, most notably in contingent workforce outsourcing (CWO) and business process outsourcing (BPO), as more clients adopted Kelly's talent supply chain management approach.

**we are well on our way to becoming a more productive, profitable company with a balanced portfolio that generates MORE competitive returns.**

## **Delivering Progress**

2015 marked the first full year of operating within our newly formed delivery models, and our investment

in GP-producing roles clearly accelerated Kelly's progress in our local U.S. markets. Our expanded PT salesforce won new higher-margin business, while our PT recruiting network efficiently connected clients with specialized talent. PT revenue and GP growth accelerated throughout the year, reaching new heights in the fourth quarter. We expect to see this strong performance continue in 2016 as our U.S. branches deliver outsized PT growth in their local markets and continue to lead in Commercial.

In our centralized delivery model, 2015 brought client-specific fluctuations and significant shifts in buying behavior. Large customers are choosing to purchase more of their PT business through competitive sourcing models rather than through single-source arrangements — a trend that puts pressure on our centralized staffing growth, while creating additional opportunities in our OCG business. We continued to adjust our centralized delivery model over the course of 2015, and we entered 2016 showing signs of improved performance. We will continue to focus our sales and recruiting teams on adapting to our largest clients' needs for PT talent in the year ahead.

Our investments in OCG solutions yielded clear returns in 2015. OCG is expanding current relationships, bringing new clients into Kelly's portfolio, and winning new recognition in the workforce solutions market.

We will continue to build out our talent supply chain management approach, equipping Kelly to win in the marketplace and expand our role as a trusted advisor to strategic clients worldwide.

## **Continuing Our Transformation**

Reaching Kelly's full potential requires an ongoing appetite for change and transformation. As the world of work continues to evolve, so does Kelly. We are selling workforce solutions today that didn't exist 10 years ago, and delivering them in ways that simply weren't possible with our old operating models.

We now have the capacity to deliver talent in 140 countries, without opening a single new office, through our global supplier network. In addition to the 550,000 people we connect directly with work through our staffing business, we connect another half-million people with work through the companies that comprise our talent supply chain. Not only

have we upheld our reputation as a superb staffing provider, we have also won industry acclaim for our innovative approach to holistically managing talent acquisition on our clients' behalf.

Moving forward, Kelly has set its sights on becoming an even more competitive, consultative, and profitable company. We have, and we are, reshaping our business to make that vision a reality. We are redeploying our resources to align with our goals for growth, intentionally rebalancing our workforce toward client-facing roles that drive revenue and GP for the company. We are challenging ourselves to find innovative ways to deliver exceptional solutions more efficiently than ever, without compromising the quality for which we are known. We are truly transforming into a company that designs and delivers the world's best workforce solutions.

## Committing to Growth

We knew that 2015 would be a critical test of Kelly's ability to deliver on our strategy. We have clearly passed that test and turned the corner toward growth. With a year of solid execution behind us and a proven strategy to guide us, we enter 2016 from a position of strength.

Our investments in higher-margin PT and OCG are yielding results. We are capturing new growth while delivering solutions with efficiency and speed. We are responding to the needs of customers and talent, and leading them forward as a trusted advisor, helping them navigate the ever-changing landscape.

We are well on our way to becoming a more productive, profitable company with a balanced portfolio that generates more competitive returns. We will set the bar higher and keep reaching upward, growing our business until our bottom-line results reflect the top-level quality of the solutions we deliver. We will reward our shareholders while bringing innovations to market, solving our clients' most pressing challenges, and creating new opportunities for the world's best talent. In short, Kelly's best days are yet to come.

With a clear plan for the future, we are focused on delivering growth now. There is significant work ahead of us in 2016. I have no doubt we will rise to the new challenges and continue our upward trajectory, executing with flexibility, speed, and confidence.

My personal thanks to Kelly shareholders and board members for trusting us to deliver on Kelly's investments, and to my Kelly colleagues for delivering strong results with the excellence and integrity that have always been Kelly's trademark.

Here's to a successful 2016 for all!

**CARL T. CAMDEN**

President and Chief Executive Officer

March 2016

2016

Kelly entered 2016 with a firm commitment to increased profitability and strategic growth. I'm pleased to report that we made progress on both fronts. Our full-year performance

confirmed that we are indeed acting as a more focused, agile company — one that is delivering improved shareholder value even as we continue to transform. We are managing our business with disciplined intent, and in 2016 we demonstrated that our focus on profitability is yielding results.

## Delivering Results

Multiple factors impacted our reported results and complicated our financial picture in 2016. Sorting through the complexity, it's clear that Kelly made progress in several key areas. In the face of revenue softening to \$5.3 billion, we improved our higher-value business mix while exercising strong pricing discipline and good cost control, growing our gross profit 50 basis points and holding expenses flat. We also strengthened our cash position and shareholder value in 2016: we added free cash flow, more than doubled EPS to \$3.08, and delivered higher dividends to our shareholders — all while ending the year debt-free. Even after transitioning Kelly's APAC staffing operations into the TS Kelly Asia Pacific joint venture in July, we still recorded a full-year operating profit of \$63.2 million. Kelly is indeed operating as a more focused company with a keen eye on profitability.

## Implementing our Strategy

Kelly's time-tested strategy continues to guide our steps. We are able to deliver improved shareholder value and returns by:

Pursuing higher-skilled, higher-margin professional and technical staffing solutions

Transforming our Outsourcing and Consulting Group (OCG) into a market-leading provider of talent supply chain solutions

Maintaining our core strengths in commercial staffing in key markets

Capturing permanent placement growth in selected specialties

Lowering our costs through efficient service delivery models

In 2016, this strategy continued to serve us well. We managed our staffing operations in line with growth, and increased efficiency in both the U.S. and EMEA. While our increased investments in OCG impacted the segment's overall growth rates a bit in the second half of the year,

Business Process Outsourcing (BPO) and Recruitment Process Outsourcing (RPO) delivered strong gross profit growth as we diversified and expanded these critical components of our talent supply chain strategy. We continue to add OCG resources in support of increased market and customer demand for these holistic solutions throughout our large account portfolio.

## Sharpening Our Focus

Kelly remains focused on executing a well-formed strategy with increased speed and precision, making the necessary investments and adjustments to advance that strategy.

We have set our sights on becoming an even more focused and profitable company, and we are reshaping our business to make that vision a reality. In 2016, we took actions across our operations to hone our strategy and secure a competitive edge.

Our newly expanded APAC joint venture exemplifies our focus. In July 2016, Kelly and Temp Holdings formally expanded our 14-year strategic partnership to create TS Kelly Asia Pacific, and Kelly transferred its APAC staffing operations into the joint venture. The joint venture is one of the largest workforce solutions companies in the Asia Pacific region, providing accelerated growth opportunities and enhanced competitive positioning. Yet even as the joint venture establishes a dominant presence in the Asian staffing sector, it also sharpens Kelly's focus on OCG solutions in the APAC market. Since our global OCG segment remains wholly owned by Kelly, we are now positioned to accelerate our OCG investments in this high-growth market with renewed speed and intensity, seizing opportunities for higher margin growth in the region's outsourcing and consulting space.

Kelly's commitment to focusing on growth extends beyond the joint venture. In 2016, our local U.S. branch network tightened its structure and made intentional investments in select key markets — a strategy that helped not only protect Kelly's commercial staffing core, but also perform well against competitors in the face of slower demand. To accelerate future OCG growth, we refocused our global sales teams and added resources dedicated to capturing new business in the OCG space. And throughout the Company, we are continually rebalancing our resources to align with our goals, intentionally designing a workforce that is equipped to drive top-line growth and increased gross profit.

## Relentlessly Pursuing Growth

As we execute our strategy, our sights remain set on capturing the growth opportunities in the global workforce solutions market. We are increasing the breadth and depth of our large account relationships, earning a seat at the table and becoming embedded in our customers' talent strategies. At the same time, our local markets are becoming more targeted and competitive as they focus on the niches where they can dominate and deliver world-class staffing. We remain the leader in the K-12 U.S. staffing market, and Kelly Educational Staffing continues to deliver double-digit revenue increases year over year, meriting industry attention and our ongoing investments.

Our OCG segment continues to respond to clients' complex demands for more holistic talent solutions, and we are confident we will reap the benefits of expanded large account relationships and significant new wins our sales teams secured in 2016. OCG's strategic direction is sound, and we remain committed to making intentional investments to increase top- and bottom-line growth in this segment.

We have learned to adapt to the inevitable uncertainty of today's labor markets, knowing that the growing trend toward free agency favors Kelly's strengths — particularly serving large companies. As businesses increasingly rely on flexible staffing models and seek more comprehensive workforce management solutions, Kelly will continue to seize opportunities to win in the market and deliver those wins with increased efficiency and focus that yields growth on the bottom line.

We remain focused on profitable growth, connecting companies and talented people with the same excellence and integrity that has been Kelly's hallmark for 70 years.

## Ready for the Road Ahead

We believe Kelly is poised for continued progress in the year ahead, and we move forward with confidence. We remain focused on profitable growth, and we are proud to deliver that growth by connecting companies and talented people with the same excellence and integrity that has been Kelly's hallmark for 70 years.

As we strengthen our financial position, we're also advancing the position of talented people and large and small businesses around the world. We're connecting companies with workforces designed around their business strategies, and connecting people with work designed around their lives. We take pride in knowing that even in uncertain times, we are a force for good — not only for our shareholders, but also for the people who work with and lead the companies we empower.

My personal thanks, as always, go out to Kelly shareholders who trust us with their investments, and to the entire network of Kelly colleagues, suppliers, and workers who trust us with their time and talents.

**Carl T. Camden**

*President and Chief Executive Officer*

MARCH 2017

2017

## To Our Shareholders

**2017** was a year of change and acceleration at Kelly. We created solid momentum and

carried it through all four quarters, delivering strong top-line growth that outpaced the market and profitability gains that held strong even as we invested in our future. We bid farewell to CEO Carl Camden after a 22-year career, and welcomed a new company, Teachers On Call, to the Kelly family. We weathered a series of storms and natural disasters unlike any we'd encountered before, standing strong together and caring for our colleagues and communities. We introduced new reporting segments, sharpened our focus, accelerated our investments, and established strategic priorities that yielded strong results for Kelly.

### DELIVERING RESULTS

After entering the year at a steady clip, Kelly drove forward with sustained growth quarter after quarter, achieving a 41% increase in annual operating earnings on a like-for-like basis. Our performance reflects our efforts to produce higher earnings from both gross profit growth and a balanced approach to expenses. Through a combination of strong top-line growth and good GP rate improvement, we delivered increased profitability even as we invested in the talent and technology that will drive our company forward. Our conversion rate\* for 2017 was up 160 basis points to 9.0% (excluding restructuring), another clear indicator that confirms we are creating value along with driving volume.

### REFOCUSING OUR STRATEGY

As the world of work continues to evolve, so too does Kelly's strategy. In 2017, we took a fresh look at the labor environment and defined a path that is at once familiar and ambitious.

Our go-forward strategy is our response to the external realities shaping our industry and the world at large. Talented people are embracing new ways to work. Modern businesses are looking for ways to adapt and find the talent they need to move their organizations forward. Kelly is staking its claim as the connection point in a marketplace marked by disruption. Our go-forward strategy is designed to help our candidates, our clients, and our company not only withstand those disruptions, but turn them to advantages. In so doing, we will be able to

deliver improved shareholder value and returns from a business that is focused on its strengths and committed to leading where we know we can win.

Our plan centers on four strategic pillars:

Being the destination for top talent

Leading in our chosen markets via scale or specialty Embracing the future of work

Investing in technology for innovation and efficiency

In 2017, we began aligning our actions to these guideposts, which will inform Kelly's journey and investment decisions over the next several years. Taken in concert, these focus areas complement each other and drive Kelly forward into a future where we are not only more profitable, but also better able to fulfill our mission to connect people with work in ways that enrich their lives.

## ACCELERATING ACROSS ALL SEGMENTS

With our APAC joint venture fully in place, we entered 2018 with reporting segments that reflected our new operating reality: Americas Staffing, International Staffing, and Global Talent Solutions.

*\*Conversion rate represents earnings from operations as a percentage of gross profit, or return on gross profit.*

Growth in Americas Staffing increased as the investments we made in recruiters and sales resources during the first half of the year fueled results in all areas. The second half of the year brought additional acceleration as we completed the acquisition of Teachers On Call to further strengthen Kelly's leading position in K-12 educational staffing — a clear example of investing where we know we can win, and a notable milestone of our strategy in action. With steadily climbing revenue growth and a marked improvement in GP rates, Americas Staffing delivered an 18% increase in full-year operating profit (excluding restructuring). International Staffing, now comprised of our European staffing operations, added another strong finish to the year. For the full year, International Staffing achieved 44% growth in earnings from operations (in constant currency).

Global Talent Solutions—the combination of our previously reported Outsourcing and Consulting Group segment plus our centrally delivered staffing operations—delivered results from our 2016 investments and turned in strong double-digit growth in 2017. As large clients continue to turn to Kelly for Talent Fulfillment and Outcome-Based Solutions, Global Talent Solutions is delivering the proven expertise and capabilities our clients seek. For the full year, the segment achieved a 35% increase in earnings from operations over 2016 (excluding restructuring).

## ADVANCING TALENT & TECHNOLOGY

Nothing is reshaping work more rapidly or precipitously than technology. We believe the digitally powered future is one of boundless opportunity for the people we serve. Our optimism is rooted in a legacy rich in innovation

and forward progress. At our inception, we ushered in a newly mobile workforce, and as work evolved, we have equipped and empowered people to meet the needs of a changing marketplace.

As work is reinvented, our evolution continues. Technology, talent, and work itself are all going mobile — untethering new generations to define work on their own terms, as something they do, not someplace they go. By executing our go-forward strategy, we will continually assess where we apply our investments to make the biggest difference, the largest contribution to the people and companies who are powering the world forward. Digital transformation will also involve

reimagining our business models, engineering new solutions, and continually sharpening our focus. We will enable meaningful freedom of choice in the world of work, equipping people to bring their skills to the market as independent workers, honoring their priorities, advancing their careers, and enriching their lives.

## **MOVING FORWARD WITH CLARITY AND CONFIDENCE**

We entered 2018 with renewed focus and clear plans to accelerate the progress we have set in motion. As we look with confidence at the year ahead, we are committed to investing in the talent and technology that will drive our future. We are focusing on our strengths, accelerating our investments where we know we can win, and leveraging technology to connect with talent like never before.

I'm proud to stand alongside my Kelly colleagues as we face the future together with renewed confidence, increased clarity, and a deepened connection to the talent that has always been at the heart of our business.

### **GEORGE S. CORONA**

*President and Chief Executive Officer March 2018*