

EBITDA vs. Gross Margin in IT Staffing: What Buyers Really Underwrite

By: Deepak Narasimham

In IT staffing and IT services acquisitions, gross margin explains whether a firm can generate economic spread on individual consultants, but EBITDA determines whether that spread can be converted into enterprise value. Buyers—whether strategic acquirers, private-equity sponsors, or lenders—rarely price businesses on bill-rate arbitrage alone. They focus on normalized, forward-looking EBITDA because it governs valuation multiples, leverage capacity, rollover equity, and post-close synergy potential. Gross margin is treated as an operating indicator; EBITDA is treated as the economic engine that capital markets reward.

Gross margin in staffing is typically calculated as the difference between bill rate and fully burdened pay rate—including payroll taxes and benefits—divided by revenue. It reveals pricing power with MSP programs, skill scarcity premiums, visa mix efficiency, offshore recruiting leverage, and the firm's ability to pass wage inflation through to clients. EBITDA, by contrast, reflects what remains after recruiting expense, SG&A, leadership compensation, compliance infrastructure, immigration costs, sales coverage, and corporate overhead. In diligence, EBITDA is almost always adjusted to normalize owner salaries, remove one-time legal or visa charges, strip pandemic-era distortions, correct for abnormal factoring fees, and exclude temporary bench spikes. Buyers are underwriting sustainable cash generation, not accounting optics.

The distinction becomes decisive when two firms with identical gross margins trade at radically different valuations. Imagine two \$40-million-revenue IT staffing companies each producing a 28 percent gross margin and \$11.2 million of gross profit. If one spends nearly all of that gross profit on overhead, leaving \$1.4 million of EBITDA, while the other operates with disciplined SG&A and produces \$5.2 million of EBITDA, the valuation gulf is dramatic. At a six-times multiple, the first business is an \$8-million enterprise; the second clears \$30 million. The spread is not driven by pricing on consultants but by recruiting productivity, offshore leverage, founder dependence, leadership layers, bench discipline, immigration systems, and sales efficiency. Buyers consistently reward the company that has built a scalable operating machine rather than one reliant on heroic management effort.

Professional acquirers underwrite staffing targets through a layered lens. They begin with revenue quality—client concentration, MSP versus direct mix, statement-of-work exposure, contract duration, termination rights, and net revenue retention. They then analyze spread sustainability by testing wage inflation sensitivity, recruiter output per head, bill-rate escalators, offshore-to-onshore ratios, visa pipelines, and vertical specialization. The most revealing metric becomes EBITDA conversion: the proportion of gross profit that drops to EBITDA. Elite platforms routinely convert 35 to 50 percent of gross profit into EBITDA, while sub-scale

operators often struggle to exceed 15 to 20 percent. That ratio alone tells buyers whether the business possesses systems capable of scaling.

Working capital further modifies valuation. Staffing firms that operate with DSOs north of 65 days, rely permanently on factoring, float payroll for weeks, or carry under-reserved bonuses are treated as riskier credits. Buyers haircut EBITDA or compress multiples because these models consume cash and restrict leverage. Capital efficiency therefore becomes inseparable from valuation: even healthy gross margins lose appeal if the business cannot self-fund growth.

Transaction behavior across the industry reinforces this hierarchy. Strategic acquirers such as **Accenture** consistently target digital engineering and IT services firms that already demonstrate double-digit EBITDA margins, offshore delivery leverage, and institutionalized client relationships; headline gross margins are secondary to operating discipline. Similarly, **Cognizant** emphasized delivery pods, engineering scale, and margin conversion in its acquisition of Softvision rather than recruiter-driven staff-augmentation economics. Indian-headquartered global platforms such as **Tata Consultancy Services** and **Infosys** pursue U.S. targets that can translate bill-rate spreads into repeatable EBITDA through training academies, offshore leverage, and standardized delivery engines. In each case, EBITDA scalability—not nominal gross margin—anchors price.

Private-equity sponsors apply the same logic when building staffing roll-ups. Scaled assets with clean infrastructure and 10–15 percent EBITDA margins command five-to-seven-times multiples, while founder-centric operators with thin margins trade closer to three-to-five-times or remain unsold. Sponsors frequently acquire companies whose EBITDA is temporarily depressed but whose gross margins and delivery platforms signal latent profitability; their underwriting assumes recruiter productivity gains, SG&A consolidation, visa optimization, MSP repricing, and shared back-office services. In investment-committee memoranda, gross margin is treated as a lever that management can pull, while EBITDA is treated as the result that drives returns.

Debt markets reinforce the same hierarchy. Lenders focus on fixed-charge coverage, payroll funding needs, client credit profiles, bench volatility, and immigration exposure. A staffing firm generating 12 percent EBITDA margins can often support three to four turns of leverage, while one earning four percent may struggle to exceed one and a half turns. Because leverage fuels equity returns, and equity returns drive purchase price, EBITDA margin becomes not merely an operating statistic but a capital-markets credential.

Visa strategy plays an unusually powerful role in this equation. Firms that centralize PERM and H-1B processing, recycle bench efficiently, maintain ready-deploy talent pools, and operate offshore recruiting pods frequently outperform peers with identical gross margins but fragmented immigration processes. Ownership of the visa engine reduces third-party dependency, shortens redeployment cycles, and lowers SG&A drag, magnifying EBITDA through every cycle.

There are circumstances in which buyers lean more heavily on gross margin than trailing EBITDA—particularly when profitability is temporarily suppressed by growth investments,

new-market expansion, technology migrations, or founder reinvestment. In those cases, stable 30-percent-plus gross margins paired with blue-chip clients, long-term MSAs, and offshore scalability allow acquirers to price on pro-forma EBITDA, assuming post-close cost rationalization. Sophisticated sellers often unlock premium valuations by demonstrating not just what EBITDA is today, but what it becomes under institutional ownership.

Owners preparing for a sale therefore focus on three levers years in advance. First is EBITDA conversion, achieved through centralized recruiting, offshore sourcing, renegotiated MSP terms, elimination of chronically unprofitable verticals, and normalization of owner compensation. Second is gross-margin durability through skill-based pricing, rate-escalation clauses, upgraded client mix, bench forecasting, and immigration planning. Third is working-capital discipline via DSO reduction, invoice automation, factoring exits, and payroll-timing optimization. These improvements expand not only EBITDA but also the multiple buyers are willing to pay for it.

Ultimately, buyers evaluate every IT staffing platform with a forward-looking question: if this company is dropped into our operating system, what does EBITDA look like in twenty-four months? Gross margin answers whether each consultant is profitable; EBITDA answers whether the firm can scale into a cash-generating institution. In practice, gross margin gets a company into the conversation, but EBITDA determines enterprise value, debt capacity, and final price. In modern IT staffing M&A, EBITDA is the valuation currency, and everything else—bill rates, spreads, recruiter pods, and visa engines—exists to support it.