

# **Working Capital Adjustments in IT Staffing Transactions: Why Early Alignment Determines Deal Certainty and Valuation**

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## **Abstract**

Working capital adjustments are among the most litigated and value-sensitive provisions in IT staffing mergers and acquisitions. Although often framed as mechanical post-closing true-ups, these provisions in practice determine economic risk allocation, influence purchase price certainty, shape debt underwriting, and frequently dictate whether a transaction closes at all. This white paper examines the distinctive working-capital dynamics of IT staffing businesses—characterized by payroll float, MSP-driven receivables, visa-related accruals, bench utilization volatility, and frequent reliance on factoring—and explains why sophisticated buyers insist on resolving working-capital mechanics early in the process rather than deferring negotiations to definitive agreements. Drawing on prevailing private-equity and strategic buyer practices, the paper argues that early, rigorous working-capital modeling materially improves closing probability, reduces purchase-price erosion, and signals institutional readiness to acquirers. The analysis concludes with a framework for sellers to optimize working-capital profiles pre-sale and for buyers to underwrite liquidity risk with greater precision.

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## **Introduction**

In IT staffing transactions, enterprise value is typically quoted as a multiple of adjusted EBITDA, yet the amount of cash sellers ultimately receive at closing is often determined by working-capital provisions embedded in the purchase agreement. Working capital—generally defined as current assets minus current liabilities, excluding cash and debt—serves as the bridge between accrual accounting profitability and real-time liquidity. Because staffing firms fund payroll weekly or biweekly while collecting from clients thirty to ninety days later, working capital is not a peripheral accounting concept but the operating bloodstream of the business. A poorly constructed working-capital mechanism can transfer millions of dollars of economic risk between buyer and seller after signing, generate post-closing disputes, or derail lender syndication. For this reason, sophisticated acquirers treat working-capital analysis not as a closing formality but as a core underwriting discipline that must be addressed early in the letter-of-intent stage.

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## **The Unique Working-Capital Structure of IT Staffing Firms**

IT staffing businesses exhibit working-capital profiles that differ materially from those of product companies or traditional professional-services firms. Their largest current asset is typically accounts receivable, driven by MSP billing cycles, VMS approval workflows, and end-client payment practices that can extend beyond sixty days. Simultaneously, payroll and payroll taxes are immediate cash obligations, creating a structural negative-cash-conversion cycle that must be financed either through balance-sheet reserves, revolving credit facilities, or factoring arrangements. Immigration-related accruals—such as legal fees, filing costs, relocation allowances, and bench-time compensation—introduce further volatility, while recruiter commissions and sales bonuses are often earned before client invoices are collected. These structural features cause normalized working capital to fluctuate with growth rates, seasonal hiring cycles, visa utilization patterns, and client mix, making simple trailing-twelve-month averages an unreliable basis for transaction mechanics.

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## **Why Buyers Insist on Working-Capital Adjustments**

Buyers include working-capital adjustments to ensure that the business is delivered at closing with sufficient liquidity to operate in the ordinary course, without requiring an immediate capital injection from the acquirer. From the buyer's perspective, a transaction priced at six times EBITDA presumes a normalized level of receivables, accrued payroll, commissions, and vendor payables consistent with historical operations. If a seller accelerates collections before closing, delays paying recruiters, or under-reserves immigration liabilities, the buyer effectively overpays unless a true-up mechanism exists. Lenders reinforce this discipline by conditioning financing on minimum working-capital thresholds, as payroll-funding risk directly affects debt-service coverage and covenant compliance. Consequently, working-capital provisions are not mere accounting hygiene; they are integral to capital-markets credibility.

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## **The Strategic Importance of Early Alignment**

Although working-capital clauses appear in definitive agreements, the economic battle lines are typically drawn months earlier. When parties postpone detailed discussion until late-stage negotiations, disagreements about the peg—the target level of normalized working capital—often surface after valuation expectations have hardened, producing adversarial renegotiations or last-minute purchase-price reductions. In contrast, transactions in which buyers and sellers exchange granular monthly balance-sheet data, payroll cycles, aging schedules, factoring statements, and accrual policies during exclusivity are far more likely to close on original terms. Early alignment allows both sides to separate valuation from liquidity mechanics: enterprise value can be negotiated on EBITDA, while working capital is treated as a neutral delivery condition rather than a covert price lever. Sophisticated sellers increasingly

recognize that transparency on working capital is not a concession but a credibility signal that strengthens negotiating leverage on headline multiple.

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## **Constructing the Working-Capital Peg**

The peg represents the normalized amount of working capital the seller must deliver at closing. In IT staffing, constructing this figure requires more than averaging recent month-end balances. Buyers typically analyze twelve to twenty-four months of data, adjusting for growth trends, seasonality, visa-processing cycles, MSP billing delays, and unusual events such as mass redeployments or client terminations. Receivables are often scrubbed for aged balances unlikely to be collected, disputed invoices, or concentration risk with financially stressed end-clients. Accrued payroll and commissions are recalculated to reflect earned-but-unpaid obligations through the closing date, while immigration accruals are normalized for ongoing filing cadence rather than one-time surges. Factoring complicates this exercise further: because sold receivables may be removed from the balance sheet, buyers frequently require pro-forma reconstruction of working capital as if the company were unfactored, ensuring that liquidity economics are not obscured by financing structures.

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## **Frequent Sources of Dispute**

Post-closing litigation in staffing transactions most commonly arises from disagreements over receivables collectability, bonus accrual timing, visa-related liabilities, and classification of deferred revenue on statement-of-work engagements. Sellers may argue that slow-pay MSP invoices are historically collectible and therefore part of normal working capital, while buyers may insist on reserves or exclusions for balances aged beyond ninety days. Commission plans that reward recruiters upon placement rather than collection can create large accrued liabilities that surprise acquirers unfamiliar with the firm's compensation architecture. Similarly, under-accrued immigration expenses or bench-time payroll obligations can emerge after closing, prompting buyers to assert that working capital was overstated at delivery. Each of these disputes is more effectively resolved when addressed analytically before signing rather than litigated after ownership transfers.

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## **Interaction with Valuation and Debt Financing**

Working-capital mechanics exert second-order effects on valuation through their influence on leverage capacity and perceived risk. A staffing firm that consistently operates with high DSOs, thin cash buffers, and heavy factoring reliance may generate attractive EBITDA yet still

command a lower multiple because buyers anticipate greater equity contributions at closing or tighter credit terms. Conversely, sellers who demonstrate disciplined collections, modest payroll float relative to revenue, and clean accrual practices often secure both higher leverage multiples and narrower working-capital collars, effectively increasing proceeds at closing without altering headline enterprise value. Thus, optimization of working capital is not merely defensive; it can be an offensive valuation strategy.

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## **Best Practices for Sellers Preparing for Market**

Owners contemplating a sale should begin preparing working-capital narratives years in advance. This preparation includes implementing rigorous monthly close procedures, standardizing commission and bonus accrual policies, reducing reliance on factoring, tightening DSO through invoice automation and MSP escalation protocols, and maintaining detailed schedules of visa-related obligations. Developing rolling working-capital forecasts tied to growth plans allows sellers to demonstrate that apparent balance-sheet volatility is operationally rational rather than symptomatic of control weaknesses. When presented coherently in data rooms and management presentations, such discipline reframes working-capital discussions from adversarial negotiation to collaborative calibration.

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## **Implications for Buyers and Advisors**

For buyers, early working-capital diligence is a powerful diagnostic tool that reveals more about operational maturity than income-statement analysis alone. Stable conversion of gross profit into cash, predictable payroll cycles, and transparent accrual practices signal scalable platforms suitable for leverage and integration. Advisors who force these conversations into the LOI stage—by defining peg methodology, collar ranges, and treatment of factoring and aged receivables—reduce execution risk and preserve deal momentum. In competitive auctions, clarity on working-capital treatment can differentiate bids as effectively as headline price.

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## **Conclusion**

In IT staffing transactions, working-capital adjustments are not technical footnotes but central economic levers that shape closing proceeds, financing structures, and post-deal relations between buyers and sellers. Because the industry's payroll-heavy model, MSP receivables, visa economics, and growth volatility create structural liquidity risk, sophisticated parties elevate working-capital analysis to the earliest stages of negotiation. When addressed proactively, these mechanics de-risk transactions, prevent late-stage renegotiations, and allow enterprise value to

reflect true operating performance rather than balance-sheet uncertainty. In an environment where EBITDA determines valuation, working capital determines whether that valuation is realized in cash. For IT staffing owners and acquirers alike, mastery of working-capital adjustments is therefore not optional—it is a prerequisite for transaction certainty.