NESVOLD
CAPITAL PARTNERS

EXECUTIVE BRIEFING

Preserving Strategic Optionality

— Why Your Legal Structure May Limit Growth, Succession & Valuation

An analysis of how legal structure shapes an RIA's access to capital, succession planning, and after-tax proceeds in a future transaction.

KEY TAKEAWAYS

- **Structure shapes strategic flexibility.** Legal structure influences far more than tax treatment — it directly shapes access to capital, succession, and equity design.
- **S-corporations can block institutional capital.** Legacy S-corp structures create obstacles to raising outside capital and implementing modern equity incentive plans.
- **C-corporations carry embedded tax risk.** Legacy C-corp structures often accumulate tax liabilities that may reduce shareholder proceeds in a future transaction.
- **Timing determines your options.** Restructuring years before a liquidity event generally provides more alternatives than restructuring during a transaction.
- **The goal is optionality, not perfection.** The objective is not selecting the "perfect" entity structure, but preserving the broadest range of future strategic options.

PREPARED BY NESVOLD CAPITAL PARTNERS
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ABOUT NESVOLD CAPITAL PARTNERS

Nesvold Capital Partners (NCP) is an investment bank specializing in M&A advisory and merchant banking for the wealth management industry and its broader ecosystem. As one of the sector's most exclusive M&A advisory boutiques, the firm avoids overlapping engagements with competing firms and focuses its sell-side processes on a select group of pre-vetted, highly qualified buyers. NCP delivers CEO-level advisory services to firms experiencing exponential growth or navigating transformative events — including mergers, acquisitions, recapitalizations, organic growth strategies, and partner liquidity or succession planning — and also makes supportive, non-control investments in innovative financial services firms led by exceptional management teams. Over the course of their careers, NCP's principals have advised, or invested in, firms managing over **$1 trillion** of client assets.

OUR TEAM



H. Peter Nesvold

JD, CFA, CPA

MANAGING PARTNER

Peter is a seasoned finance executive with a rare blend of legal, financial, and strategic expertise, holding credentials as a lawyer, CPA, and CFA charterholder. With over 25 years of experience on Wall Street, he has built a distinguished career in asset and wealth management, earning recognition as one of the top five most impactful M&A bankers in the industry. Peter advises CEOs, fiduciary boards, and senior leaders on complex M&A transactions, succession planning, compensation and equity strategies, brand building, and recruitment.

Previously, Peter was a partner and Chief Strategy Officer at Silver Lane Advisors, where he played a pivotal role in scaling the firm from startup to a top-ranked M&A advisor in wealth management, culminating in its sale to a Fortune 500 company. Prior to Silver Lane, he was a Senior Managing Director at Bear Stearns and a "five-star" portfolio manager at Lazard Asset Management.

Beyond his professional achievements, Peter is an Adjunct Professor at the Gabelli School of Business at Fordham University, an accomplished author of four books on M&A with McGraw-Hill, and an active member of multiple fiduciary and advisory boards. He holds degrees from the University of Pennsylvania and Fordham Law, and previously was a dedicated long-distance runner, having completed 19 full marathons.



Ruotao Wang

JD, CFA

DIRECTOR

Ruotao Wang is a Director at Nesvold Capital Partners, where he advises on mergers, acquisitions, and capital raises and serves as a key member of the firm's principal investment team. Prior to NCP, he was a Vice President in the Financial Services Investment Banking Group at Raymond James, where his main area of focus is asset and wealth management.

Ruotao holds the Chartered Financial Analyst designation and has a bachelor's degree with highest distinction from the University of Michigan, and a juris doctor from Harvard Law School.

PRESERVING STRATEGIC OPTIONALITY

WHY LEGAL STRUCTURE MAY BE LIMITING GROWTH, SUCCESSION & VALUATION

EXECUTIVE SUMMARY

Most discussions surrounding the future of an independent wealth management firm begin with valuation, capital raising, or acquisitions. These are all important strategic questions, but they often overlook a more fundamental issue: whether the firm's legal structure actually provides the flexibility to pursue any of those alternatives efficiently.

Thousands of registered investment advisers continue to operate as legacy S-corporations and C-corporations established decades ago. Those structures often made perfect sense when the firms were founded, but today they can unintentionally limit access to outside capital, complicate succession, restrict employee ownership, and reduce after-tax proceeds in a future liquidity event.

The firms that preserve flexibility today are often the firms with the greatest number of options tomorrow.



THE INDUSTRY HAS CHANGED

Twenty years ago, relatively few RIAs contemplated institutional capital, mergers of equals, or billion-dollar enterprise values. Most firms were founder-led businesses focused on organic growth, with ownership rarely extending beyond one or two principals and succession planning consisting of little more than selling the business upon retirement.

Today's marketplace looks dramatically different. Independent firms now compete for sophisticated advisors, acquire complementary businesses, build multi-generational ownership structures, raise growth capital, and increasingly operate as professional enterprises rather than lifestyle practices.

This institutionalization has fundamentally changed what owners should expect from their legal structure. What once served primarily as a tax election has become an important determinant of strategic flexibility.

WHY LEGAL STRUCTURE MATTERS

Entity structure influences far more than annual tax filings. It affects who can invest in the business, determines how equity can be transferred to future leaders, influences employee compensation strategies, impacts succession planning, and can materially affect after-tax proceeds in a sale.

Owners frequently spend years maximizing revenue growth, expanding margins, and increasing valuation multiples while overlooking structural issues that may reduce the ultimate value they receive. The legal structure of an RIA should therefore be evaluated with the same strategic rigor as capital allocation, recruiting, or acquisition decisions.

CHALLENGES FACING LEGACY S-CORPORATIONS

S-corporations continue to offer significant tax advantages for many closely held businesses. Nevertheless, the structure contains several limitations that become increasingly important as firms mature.

Raising Institutional Capital

One of the most significant restrictions is the limitation on eligible shareholders. Most institutional investors — including private equity firms, family offices investing through LLCs, and many strategic capital providers — cannot directly become shareholders of an S-corporation. As a result, firms may unintentionally eliminate a meaningful portion of the available capital market simply because of their legal structure.

Creating Meaningful Employee Ownership

The competition for talented advisors has intensified considerably, and leading firms increasingly use equity ownership to recruit, retain, and motivate key professionals. LLCs generally possess considerable flexibility in creating profits interests and other ownership structures that align employees with future enterprise value. S-corporations possess far fewer alternatives — although phantom stock plans and stock appreciation rights can replicate certain economic benefits, they generally do not create true ownership and frequently lack the cultural and economic advantages associated with direct equity participation.

Internal Succession

Many founders intend to transition ownership gradually over a decade or more. Unfortunately, S-corporation rules can create unexpected tax consequences when equity is repurchased or transferred among shareholders. Likewise, estate planning techniques involving trusts require careful attention, because certain trust structures can inadvertently jeopardize the firm's S-election if not properly maintained.

CHALLENGES FACING LEGACY C-CORPORATIONS

C-corporations provide greater flexibility regarding ownership and capital formation. However, they often create a different long-term challenge: double taxation. Corporate earnings may be taxed once at the entity level and again upon distribution to shareholders. While closely held corporations have historically attempted to minimize this issue through compensation planning, those strategies become increasingly difficult as ownership broadens or institutional investors participate.

The more significant issue frequently arises upon an eventual liquidity event. Many buyers prefer asset acquisitions because they obtain valuable tax benefits through a stepped-up tax basis. For owners of legacy C-corporations, however, an asset transaction can trigger taxation at both the corporate and shareholder levels, materially reducing net proceeds. By the time owners begin evaluating strategic alternatives, substantial embedded tax liabilities may already have accumulated.

STRATEGIC ALTERNATIVES

Fortunately, firms generally possess more alternatives than either maintaining the existing structure indefinitely or undertaking an immediate taxable conversion. Depending upon the firm's objectives, several restructuring strategies may preserve flexibility while minimizing unnecessary tax costs.

LLC Drop-Down Structures

An S-corporation may contribute its operating assets into a newly formed LLC, allowing future investors to invest at the LLC level while preserving existing ownership above it. This approach may also facilitate more flexible employee incentive arrangements, although client consent considerations require careful analysis.

S-Corporation Inversions

Where assignment issues make a traditional LLC conversion impractical, an inversion transaction may achieve many of the same objectives while reducing disruption to ongoing operations.

Convertible Capital Structures

Some firms may utilize convertible debt to obtain institutional capital without immediately terminating S-corporation status. While the structure presents additional complexity, it demonstrates that thoughtful planning frequently creates alternatives that are not immediately obvious.

Drop-and-Freeze Transactions

Legacy C-corporations may also consider "drop-and-freeze" structures that effectively isolate existing enterprise value while allowing future appreciation to accrue within a more tax-efficient LLC structure. Beyond tax efficiency, these structures can significantly enhance long-term succession planning by allowing future leaders to purchase equity representing only future growth rather than the firm's existing value.

OPTIONALITY CREATES VALUE

Business owners frequently view restructuring as something to address immediately before raising capital or selling the firm. That timing is often too late. The most valuable restructurings are typically completed years before a transaction is contemplated, when owners have the flexibility to optimize tax planning, ownership design, governance, and employee incentives without the pressure of an active process.

In many respects, preserving optionality resembles purchasing insurance. The objective is not predicting exactly which strategic path the firm will ultimately pursue. Rather, it is ensuring that future decisions are driven by business considerations — not by avoidable structural limitations created decades earlier.

CONCLUSION

The wealth management industry continues to evolve toward larger, more sophisticated enterprises. As firms become increasingly institutionalized, legal structure should be viewed as strategic infrastructure rather than administrative paperwork. Whether an RIA ultimately remains independent, executes an internal succession, raises minority capital, acquires competitors, or pursues an eventual sale, the firm's organizational structure should facilitate those objectives — not constrain them.

Owners cannot predict every opportunity that will emerge over the next decade. They can, however, position their firms to respond when those opportunities arise.

That is the real objective of strategic planning: preserving the greatest possible range of future alternatives.

This briefing is provided for informational purposes only and does not constitute investment, legal, or tax advice. It should not be relied upon as the basis for any restructuring or transaction decision. Please contact Nesvold Capital Partners directly to discuss the legal structure of a specific business.