CLIENT ALERTS & INSIGHTS

Oregon Enacts Strictest Legislative Barrier on Private Equity Transactions in Healthcare

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Summary

On June 9, 2025, Oregon enacted Senate Bill ("SB 951"). SB 951 significantly limits the ability of management services organizations ("MSOs") and professional medical entities to engage in the traditional structures of private equity transactions. The legislation prohibits an MSO and its agents from owning, managing, or working for a professional medical entity if the MSO has a contract for management services with the professional medical entity, as well as institutes other restrictions on MSO activity. This new restrictive legislation may have enormous impact on the landscape of healthcare transactions, specifically in terms of private equity-backed transactions. And, although this legislation is specific to Oregon, other states continue to explore limitations on private investments in healthcare businesses. Thus, all stakeholders in the healthcare merger and acquisition industry need to take notice.

What is an MSO?

An MSO is a company that provides non-clinical administrative and management services to healthcare practices. MSOs help streamline operations, improve efficiency, and manage the business side of medical practices, allowing physicians, as an example, to focus on patient care. MSOs provide a range of services, including billing and collections, human resources, financial management, information technology, facilities management, and contract negotiations.

How does Private Equity Invest in MSOs?

Private equity firms invest in healthcare, including physician practices, using the MSO structure to navigate regulations related to the corporate practice of medicine.

New Prohibitions and Restrictions

SB 951 lays out specific restrictions on what an MSO and its agents cannot do. Restrictions include owning or controlling a professional medical entity with which the MSO has a management contract, instituting patient care schedules, setting clinical staffing schedules, making diagnostic coding decisions, setting billing policies, influencing clinical standards or pricing, advertising under a nonprofessional entity name for clinical services, making employment decisions about clinical staff, and negotiating payor contracts.

While many of these prohibitions are a codification of current corporate practice of medicine restrictions that MSOs may already follow to avoid improper control of clinical entities, the legislation importantly prohibits individuals from having significant financial interests or control in both a

medical practice and an associated MSO. This would have an impact on many private equity healthcare transactions, in that the medical practitioner and owner of the professional entity usually has received shares in an MSO-affiliated entity as part of the transaction. The legislation also restricts MSOs from having contractual rights that allow removal or replacement of medical practitioner equityholders. This restriction would greatly limit an MSO's ability to utilize a continuity planning agreement, share restriction agreement, or an option agreement, in its transactions.

Benesch Comment: Stakeholders in Oregon will need to take action in the coming months to review whether any changes may need to take place in any healthcare businesses or structures that they may have invested in. That review will require a deep dive into the intent behind the Oregon statute, and a word-for-word review, in terms of its implications and potential planning opportunities. SB 951 also requires any future Oregon transactions to be reviewed against the new landscape in place because of its passing.

SB 951 also impacts non-competition, non-disclosure, and non-disparagement agreements between medical professionals and MSOs. Many of these restrictions are now void and unenforceable in Oregon, with some narrow statutory exceptions. The law also prohibits retaliation against medical professionals for violating the void agreements.

Benesch Comment: Benesch will post a separate client alert specific to the impact on non-competition, non-disclosure, and non-disparagement agreements. Look out for that alert in the coming week or so.

Parties Affected and Impact on Current Transactions

The focus of the legislation is clearly on private equity investments and other larger corporate owners. These are the most common parties to the classic MSO and clinical entity structures. Yet, as with most government oversight, while allegedly intended to protect the public and foster a healthy marketplace, that oversight can sometimes lead to unintended consequences and overreach. Time will tell.

Important Dates

The law becomes effective for new transactions starting January 1, 2026. Existing relationships between MSOs and professional medical entities have until January 1, 2029 to comply.

Future Implications

Private equity-backed transactions in healthcare have already seen a lot of limitations begin to arise in recent years. With the introduction and implementation of Oregon's new strict restrictions, more states may start to pass similar laws, especially those that already have stricter prohibitions on the corporate practice of medicine. The explanation below from the Oregon legislature provides some understanding of and insight into their motivations in passing SB 951. Stakeholders will need to continue to combat, and educate legislators and the public at large, on why such perspectives may not be consistent with the actual healthcare landscape and its private equity investments in the healthcare industry.

> **Oregon Legislature**. This legislation was passed "to protect the best interests of patients in this state, and enable medical practitioners to exercise medical judgment free from

> interference from those who are not licensed to practice medicine in this state." Thus, "the Legislative Assembly must prohibit business entities from practicing medicine or employing actively practicing physicians and other practitioners and using noncompetition agreements, nondisclosure agreements and nondisparagement agreements to restrict reasonable and honest criticism."

This is the reality of what is being communicated across certain states on a more frequent basis. Recognizing this reality, stakeholders have to make strategic decisions on how to impact that perspective, as well as determine what is in the best interest of their investors and investments.

The full text of SB 951 can be read here.

For additional questions, please contact:

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