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Introduction to Private Equity's Acquisition of Medical Groups

Private equity's expansion into healthcare has proliferated in the past decade, with over [181 private equity deals](#) for all types of physician practices in 2018 alone. Most recently, private equity firms have been interested in investing in specialty practices like orthopedic, gastroenterology and urology practices. These private equity firms buy-in for a quick return on investment, typically selling their stake in the medical group within 3–5 years, most often to another private equity firm.

Medical groups may find these deals attractive because it is both lucrative for the physicians and also can allow them to focus more on patient care and keep costs down for their patients and practice. While private equity acquisitions of medical groups can result in positives for private equity firms and medical groups, the upfront structuring of these private equity deals with medical groups involves careful planning to avoid the risks posed by a variety of legal concerns.

For example, many states prohibit the "corporate practice of medicine," which effectively means that the only owners of a medical group can be state-licensed physicians. Further, many states also prohibit physicians from splitting the fees generated from their medical services with others. Generally, these prohibitions arose to protect patients from individuals or companies that are not licensed physicians from making medical decisions which may be influenced by making a profit at the expense of patients' best healthcare interests.

These types of prohibitions make it very difficult for a private equity firm to buy-in directly to a medical group. Thus, private equity firms interested in the healthcare space need to find a different vehicle by which to generate revenue from a medical group. This vehicle is typically a management services organization (the "MSO"), which is a separate legal entity created by the private equity firm to own and manage all the non-medical or business aspects of the medical group. To generate revenue for the MSO, the medical group's

assets— chairs, medical equipment, gauze—are sold to the MSO and then leased back to the medical group for a fee.

In addition to this leaseback arrangement of hard assets, the MSO may provide management services to the medical group for a fee. These management services usually consist of the back-office functions of the medical group, like billing and collections matters, office administration, and information technology services. The leaseback of the assets and management services provided by the MSO to the medical group are typically embodied in a long-term (sometimes 15–40 years), heavily negotiated management services agreement.

To patients getting care at a medical group that has an arrangement with an MSO, their experience is no different while in the physician's office. If anything, the stakeholders in the arrangement hope the patients' experience has improved. Our law firm has deep experience advising clients on healthcare acquisitions and would be happy to counsel anyone interested in a private equity healthcare deal. If you have questions, please reach out to the author. You can also visit our [Health Law Matters blog](#) for more insight into legal issues impacting the health care industry.

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