



Hospital M&A Rebounds in Q1 2026

After a slow 2025 that saw hospital and health system merger and acquisition (M&A) activity drop to multi-year lows, the first quarter of 2026 brought a marked rebound, with 22 hospital and health system transactions announced in the first quarter of 2026, representing the highest first quarter activity since 2020.¹ The number of first quarter deals recorded by consulting firm Kaufman Hall contrasts sharply with the 46 transactions announced across all of 2025.² Three of the quarter's transactions qualified as "mega mergers," in which the smaller party reported annual revenue over \$1 billion,³ headlined by the proposed combination of Sacramento-based Sutter Health and Minneapolis-based Allina Health. This Health Capital Topics article reviews the first quarter data, the factors driving the rebound, and the implications of the Sutter-Allina deal for cross-market hospital combinations across the U.S.

The 22 announced transactions produced \$14.5 billion in transacted revenue, which is higher than every first quarter total in the past eight years.⁴ Average annual revenue of the smaller party rose to \$657 million, in the upper range of recent year-end averages and the second-highest level Kaufman Hall has recorded in recent years, lifted by the three mega mergers announced during the quarter.⁵ Divestitures continued to dominate, accounting for 15 of the 22 transactions (68%), compared to 45.6% of all transactions in 2025.⁶ Buyer composition also shifted: six of the transactions involved a for-profit acquirer, a striking change from 2025, when only one of 46 transactions involved a for-profit acquirer.⁷ Buying activity by independent not-for-profit organizations remained the largest single category, with nine of the 22 deals.

Kris Blohm, Managing Director and Co-Leader of Kaufman Hall's M&A practice, surmised that, "this quarter's trends reflect an industry undergoing transformation," with health systems "repositioning by withdrawing from underperforming or non-core markets, building capital to invest in new capabilities, proactively seeking partners to increase resilience or enhance access to care and services, and placing big bets on new combinations of resources and capabilities."⁸

A primary policy force shaping first quarter dealmaking is the *One Big Beautiful Bill Act* (OBBBA), enacted on July 4, 2025. Kaufman Hall observes that the high share of divestitures in the first quarter "is also an indicator of proactive positioning for the future, as systems seek to

improve financial performance and balance sheet strength in advance of the anticipated impacts of OBBBA, which are expected to begin materializing in 2027."⁹

OBBBA's hospital-relevant Medicaid provisions are phased in across multiple years. The Act caps state-directed payments at 100% of Medicare in expansion states (110% in non-expansion states) for inpatient hospital and nursing facility services; freezes provider taxes at July 4, 2025 levels; and phases the safe-harbor threshold for provider taxes in expansion states down from 6.0% by 0.5 percentage points per year beginning in federal fiscal year 2028.¹⁰ Medicaid work and community-engagement requirements, six-month redeterminations for expansion adults, and reduced retroactive coverage take effect January 1, 2027.¹¹

The Congressional Budget Office (CBO) estimates the law will reduce federal Medicaid outlays by approximately \$989.7 billion over the 2025-2034 budget window.¹² CBO further projects that, when combined with the expiration of the enhanced *Affordable Care Act* premium tax credits at the end of 2025 (which OBBBA did not extend), the cumulative coverage effect could reach approximately 10 million additional uninsured by 2034.¹³ Market analysts characterize this dual pressure – phased Medicaid revenue reductions plus a likely uptick in uninsured volume – as a key reason large health systems are accelerating portfolio rationalization and well-positioned independents are pursuing partnerships now, before reimbursement headwinds intensify.¹⁴

The largest first quarter transaction was the proposed combination of Sutter Health and Allina Health, announced March 17, 2026. The two organizations signed a non-binding letter of intent under which Allina would join Sutter as the system's Upper Midwest Division while retaining the Allina Health brand and its Minneapolis regional headquarters.¹⁵ Sutter, the larger party, reported \$19.8 billion in total operating revenue and \$509 million in operating income for 2025,¹⁶ while Allina reported approximately \$6 billion in revenue and a \$95.4 million operating loss for the same year.¹⁷ The combined system would operate 39 hospitals and over 400 primary and specialty care sites, employ 88,000 individuals (including 18,000 aligned physicians), and serve more than 5 million patients annually across northern and central California, Minnesota, and western Wisconsin.¹⁸

Sutter has committed over \$2 billion in investments to expand ambulatory and specialty care sites, recruit physicians, and enhance artificial intelligence and digital health capabilities in Allina's Minnesota and western Wisconsin markets.¹⁹ Sutter President and CEO Warner Thomas, who would lead the combined organization, framed the rationale as one of national-scale transformation, stating that the parties "have a responsibility to fundamentally transform care for patients and communities across the country."²⁰ The parties are targeting a close before the end of 2026, subject to definitive agreement and regulatory review.²¹

The Sutter-Allina combination may signal renewed interest in cross-market deals, in which the parties operate in geographically distinct service areas. Cross-market consolidation has grown over the past two decades; one analysis found that of approximately 1,500 hospitals targeted for M&A between 2010 and 2019, 55% were located in a different commuting zone than the acquirer.²² A 2024 study published in Health Services Research found that cross-market hospital mergers were associated with acquirer commercial price increases of 12.9% six years post-acquisition relative to control hospitals, with no measurable change in mortality or readmissions for heart failure, heart attack, or pneumonia.²³ Whether the Sutter-Allina deal triggers a broader wave of similar geographically dispersed combinations will depend on regulatory reception, financing conditions, and whether prospective parties view scale across non-contiguous markets as a credible response to the operating pressures ahead.

Several other first quarter transactions illustrate the dual themes of well-positioned independents seeking partners and large systems rationalizing portfolios. RWJBarnabas Health and Englewood Health signed a definitive agreement on January 5, 2026.²⁴ Goshen Health in Indiana announced a non-binding letter of intent to partner with Parkview Health on January 27, 2026, citing the need to act proactively to preserve community access to care, services, and specialists.²⁵

On the divestiture side, Community Health Systems announced a definitive agreement on March 5, 2026, to sell its four-hospital Northwest Health network in Arkansas to Missouri-based Freeman Health System,²⁶ with the transaction valued at approximately \$112

million and expected to close in the second quarter of 2026.²⁷ CommonSpirit Health and Altru Health System signed a letter of intent on January 22, 2026 to explore the transfer of three CHI St. Alexius Health hospitals in North Dakota to Altru.²⁸ Providence and NorthBay Health announced plans for the transfer of Providence Queen of the Valley Medical Center in Napa, California in early March 2026.²⁹

The dealmaking rebound is occurring against a backdrop of continuing margin pressure. Kaufman Hall's National Hospital Flash Report for February 2026 found that hospital expenses remain elevated relative to 2025 while revenues are pressured by an eroding payor mix, with the firm characterizing hospital revenues as "remain[ing] below sustainable levels."³⁰ Market analysts read the combination of soft operating performance and approaching policy headwinds as a primary explanation for why both buyers and sellers are moving now. As Courtney Midanek, Managing Director and Co-Leader of Kaufman Hall's M&A practice, observed, "health system M&A activity continues to rebound from the policy and market-related uncertainty of early 2025," and "organizations are increasingly aware that partnerships can help them face future challenges and opportunities."³¹

First quarter 2026 hospital and health system M&A activity reflects a sector positioning itself for a more difficult operating and reimbursement environment. The combination of phased Medicaid reductions under OBBBA, the expiration of enhanced ACA premium tax credits, and continued margin pressure has accelerated both portfolio rationalization by large systems and partnership-seeking by well-positioned independents. The proposed Sutter-Allina combination raises the possibility that cross-market deals may again become a meaningful share of the transaction landscape, though whether that prospect translates into a sustained trend will depend on regulatory reception of the Sutter-Allina filing, the trajectory of hospital operating performance through the remainder of 2026, and how prospective parties weigh scale against integration risk. Whether the first quarter rebound represents a durable shift or a near-term acceleration ahead of the 2027 Medicaid effective dates remains to be seen.

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