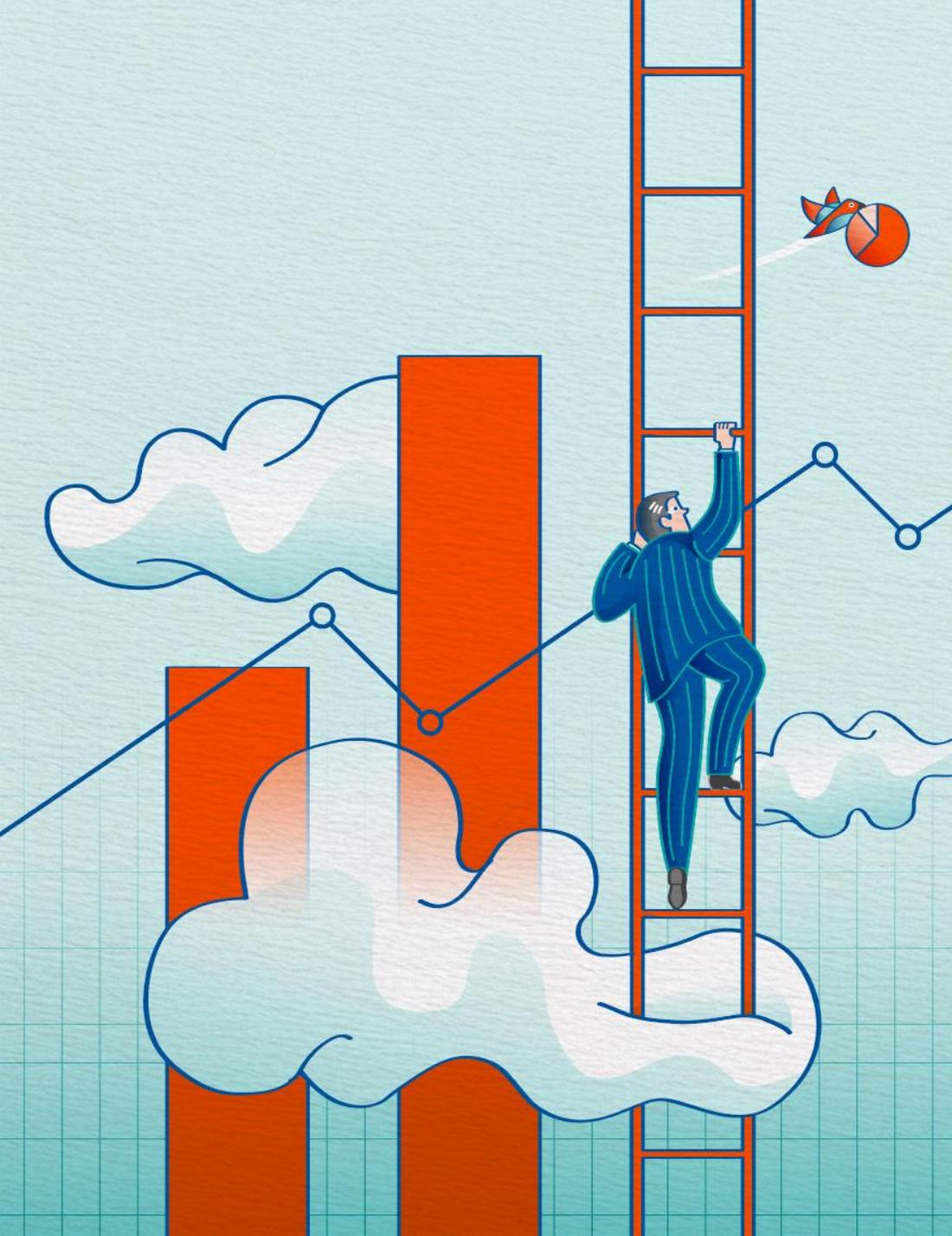




Learn more about the state of the healthcare industry and solutions for system leaders to protect margin, strengthen access and rebuild operations for a more resilient future.



# State of the healthcare industry 2026

# Five forces that are restructuring the healthcare landscape in 2026

- 1 The evolving health economy
- 2 Financially sustainable health systems
- 3 Positioning for the future
- 4 The future of care delivery
- 5 Intelligent health transformation



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## The evolving healthcare economy

Maneuvering economic uncertainty,  
policy changes and changing  
population demographics that  
directly impact care delivery and  
financial models.



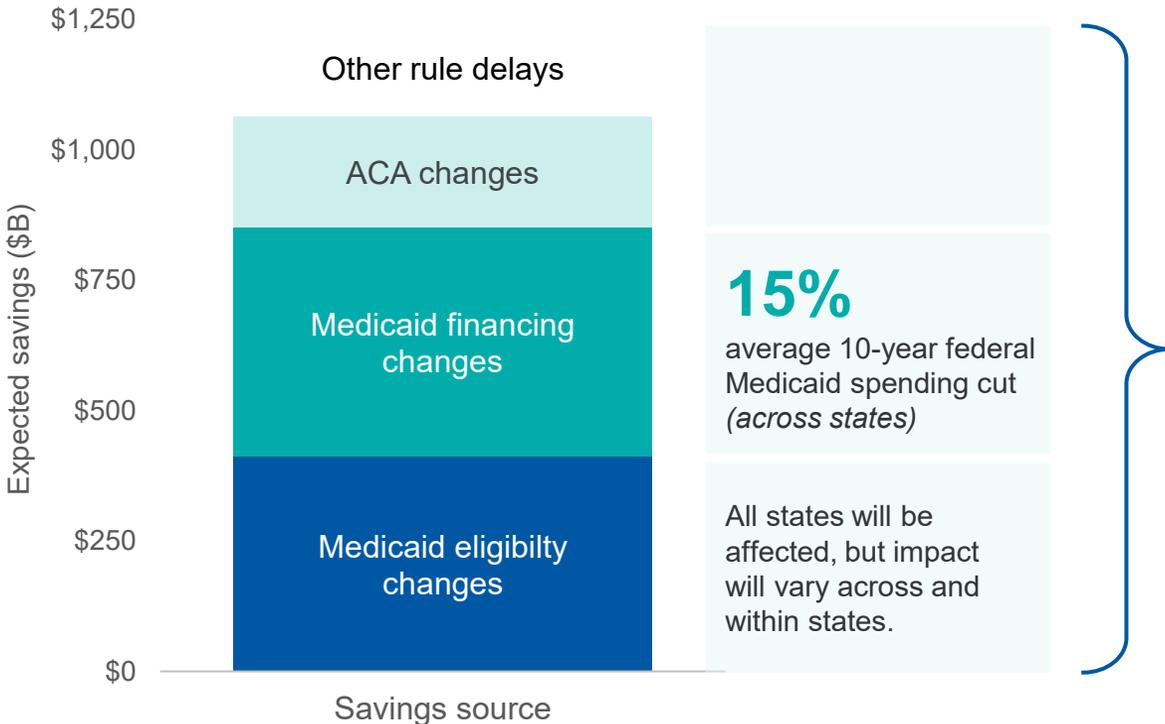
# OBBB changes to Medicaid eligibility/financing; ACA tax credit changes and more; expect ~14M+ newly uninsured over time

**>\$1T**  
reduction in federal outlays over 10 years (2025 – 2034)

Impact ramps up through 2034

CBO projects **50% of the uninsured** shift will be realized by 2027

## Significant healthcare spending reductions in OBBB



~14M more **uninsured** people are expected by 2034\*

↓

More **uncompensated care** and **bad debt** for hospitals and health systems

↓

Pressure to **transform costs ahead of changes** and sustain margin

Expiration of enhanced APTCs will cause premiums for exchange enrollees to grow by more than double in 2026 (from \$888 to \$1,904)



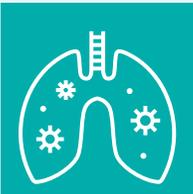
4 million individuals expected to lose coverage from the expiration of the enhanced APTCs

\*This projection will increase as a result of enhanced premium tax credits not being extended.

Abbreviations: ACA= Affordable Care Act; CBO= Congressional Budget Office; OBBB= One Big Beautiful Bill. Sources: KFF, Allocating CBO's Estimates of Federal Medicaid Spending Reductions Across the States: Senate Reconciliation Bill; Congressional Budget Office Medicaid spending reduction estimates; Vizient Office of Public Policy and Government Relations, Summary: One Big Beautiful Bill; Vizient analysis 2025.

# All Providers Will be Impacted – but by How Much?

## How might hospitals feel the impact?



Loss of coverage delays care (more ED, advanced conditions)



Increased bad debt, rising uncompensated & charity care



Medicaid enrollment shifts could impact eligibility elsewhere – like 340B

## How might states respond?



Reduce provider reimbursement?



Reduce benefits (e.g. dental, vision, HCBS)?



Reduce eligibility/coverage (e.g. end expansion)?



Increase state taxes (or other budgetary moves)?

Source: [Kaiser Family Foundation "Health Provisions in the 2025 Federal Budget Reconciliation Bill", July 2025.](#)

# Other policy changes will have a significant impact on hospital financials over the coming years

## Advancing site neutral

CMS will reduce OPPS reimbursement for drug administration services when provided in “excepted” off-campus HOPDs

Effective date: **January 2026**

### Medicare projected savings

CY 2026	.....	<b>\$220M</b>
CY 2026 – CY 2035	.....	<b>\$8.3B</b>

**IPO list will be phased out over three years, beginning with the removal of 285 musculoskeletal procedures in CY 2026.**

## Tariffs

continue to provide uncertainty with pending decision from SCOTUS

## Affordability

Is top of mind on Capitol Hill, with hospitals expected in the hot seat at some point

## 340B

revised rebate model RFI and ODACS survey paving the way for new/changed reimbursement structure

## CMMI

is bolding implementing mandatory, risk bearing models, some in effect already and likely more to come



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## Financially sustainable health system

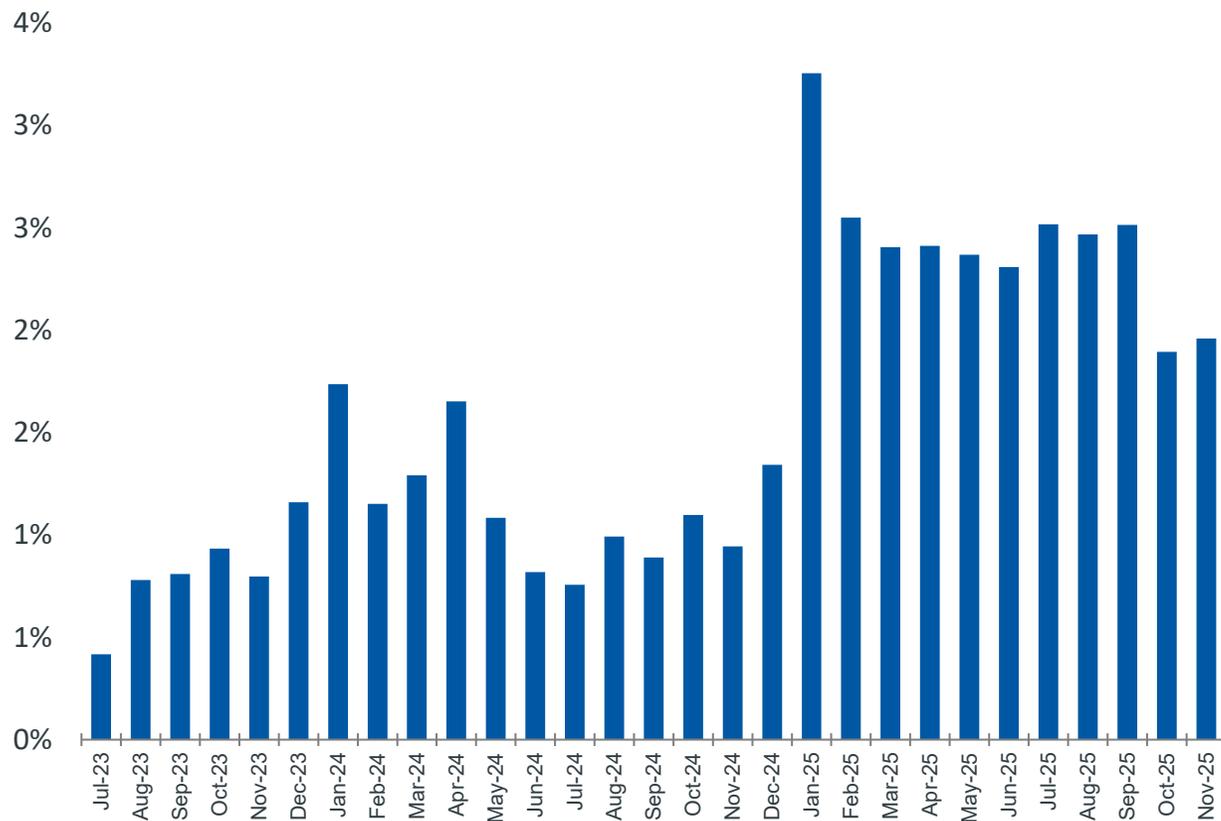
Coping with pressure to achieve financial sustainability — optimizing costs, improving margins and investing strategically for growth.



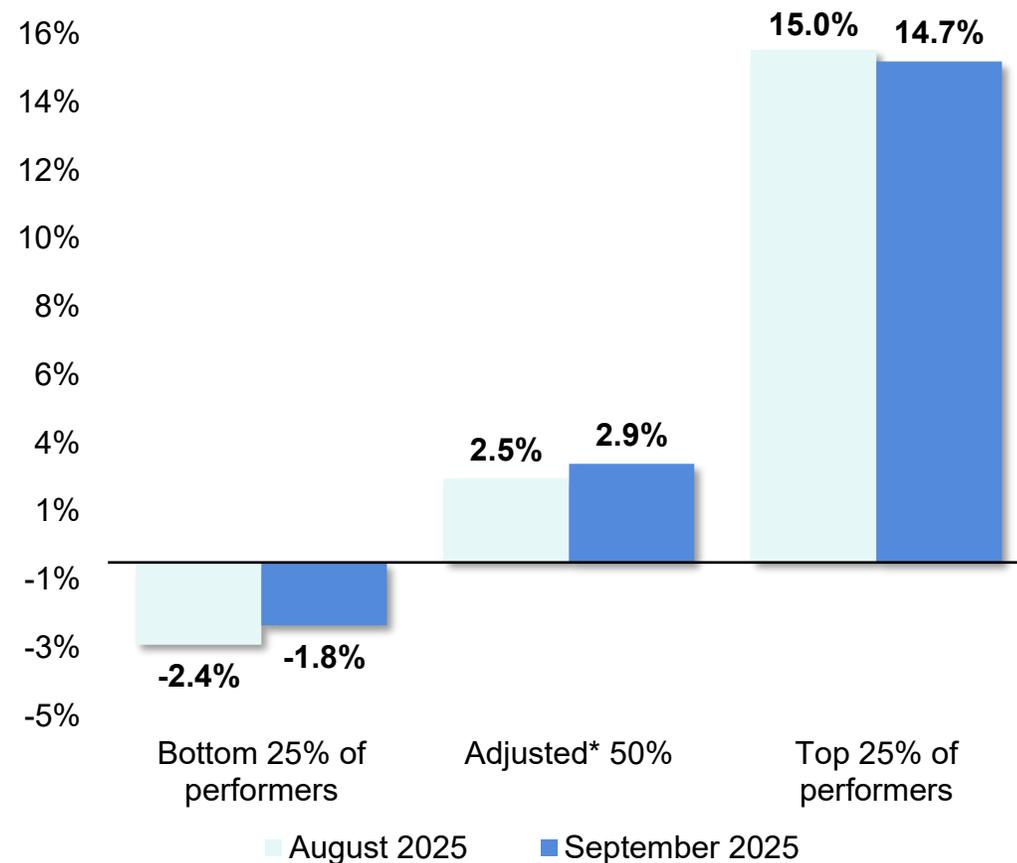
# Hospital operating margins appear to have stabilized in recent years but margins show a wide range of results

## U.S. hospital YTD operating margin index adjusted for corporate allocations

July 2023 – Nov. 2025



## Adjusted YTD operating margin trends



Note: The Kaufman Hall Hospital Operating Margin and Operating Margin Index is composed of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.  
\*Adjusted for allocations to hospitals from corporate, physician and other entities.

# 2026 NFP Health Care Outlooks & Key Themes

MOODY'S

*Outlook: Stable*

*\*Note: Moody's is revising its NFP healthcare methodology*

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S&P Global

*Outlook: Stable*

FitchRatings

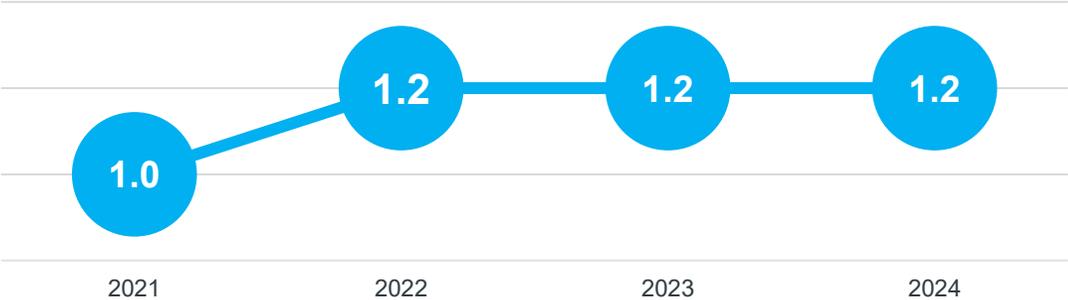
*Outlook: Neutral*

- Median margins are positive with **slow and steady improvement anticipated** in 2026
- Continued **focus on performance improvement**
- **Labor challenges, including increased union activity, remain a concern**
- **Liquidity to remain solid** with modest growth expected in 2026, allowing reinvestment
- Investments focused **expanding high-acuity service lines** to protect margin strength
- **Capital spending** will address capacity constraints, access to care and ambulatory expansion
- **Consolidation activity** to continue in 2026 given uneven recovery
- **Continued regulation and reporting requirements** will increase expenses
- **Growing reliance on supplemental funding**
- **Cyber and environmental events** present growing risk to operations
- **Slated reimbursement changes** are outside the 1-year outlook period

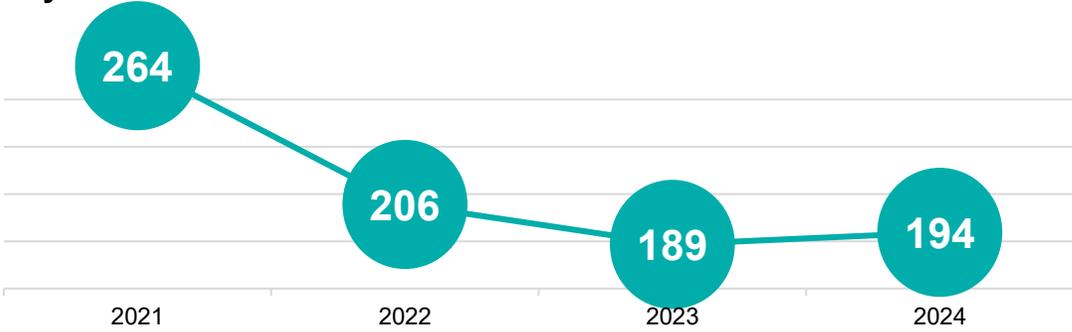
Sources: Moody's Investor Service, S&P Global and Fitch Ratings

# Balance sheet metrics show slow improvement given outsized expense growth and increase capex

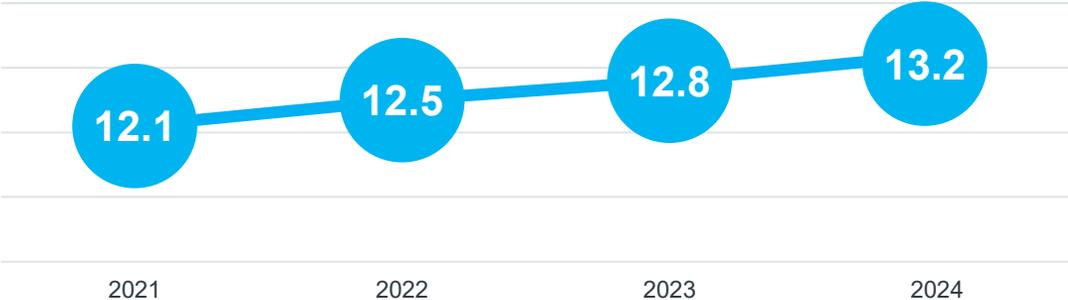
Capital spending ratio (x)



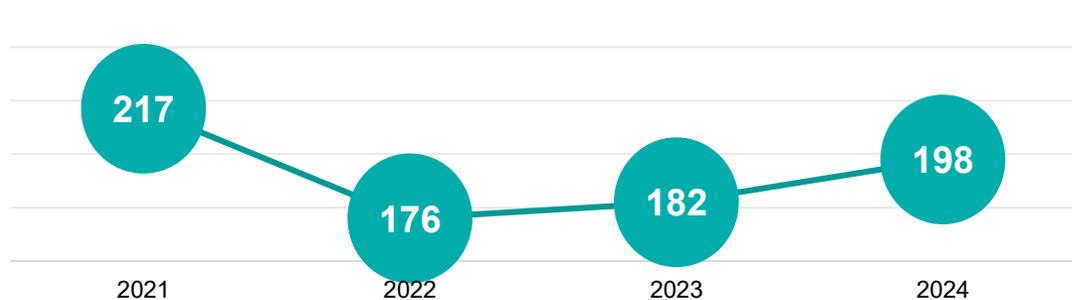
Days cash on hand



Average age of plant (years)



Cash to debt (%)



Source: Moody's Investor Service Not-for-Profit and Public Healthcare Medians flashcard, August 2025

# There are discernable breakpoints in the path from “struggling” to “thriving”



## Long-term sustainability (“Healthy” healthcare system)

### Quantitative checklist

- >150 days cash
- >8% OCF margin
- Funding capital >1.2x

### Qualitative checklist

- Proven essentiality with payers
- Ability to recruit top talent
- Rating: > A-



## Stable (Not sustainable long-term)

### Quantitative checklist

- 100-150 days cash
- 6-8% OCF margin
- Funding capital >1.0x

### Qualitative checklist

- Achieving desired payer terms
- Maintaining operating goals
- Rating: BBB to A-



## Unsustainable situation (Immediate action required)

### Quantitative checklist

- <100 days cash
- <6% OCF margin
- Funding capital <1.0x

### Qualitative checklist

- Lost essentiality/brand erosion
- Market correction
- Rating: < BBB

# Planning and scenario analysis increase in importance during times of disruption and uncertainty



## Test

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### Key question

What are the organization's assumptions behind financial performance?

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Clinical Activity

---

Payer Mix

---

Reimbursement

---

Capital Spend

---

Liquidity Targets



## Stress

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### Key question

What are the *scenarios* that can derail performance?

---

New Competitors Arrive

---

Federal & State Legislation

---

Business Model Change

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Investment Dislocation

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Macro Economic Factors



## Monitor

---

### Key question

How will we make mid-course changes when needed?

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What are the immediate levers we can take?

---

When does an aberration become a trend?

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What level of transformation might be required?



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## Positioning for the future

Navigating market consolidation, competition and integration — from M&A to strategic partnerships and network optimization.



# Hospital M&A regained steam in the latter half of the year, fueled by distressed deals, while interest in ASCs gained steam

## U.S. overall M&A and healthcare M&A rose in 2025

**+51%**

U.S. overall M&A deal value (2024 – 2025 estimated)

**+13%**

U.S. healthcare deal value (2024 – 2025 estimated)

## However, hospital M&A fell sharply, with more distressed deals and fewer megadeals

Hospital M&A values slowed in the face of political and financial uncertainty.



**53%**

Target revenue 2024 to 2025

Distressed asset deals reached new highs, up sharply from 2024.



**44%**

Percentage of 2025 announced transactions involving a financially distressed party (+13 pp vs. 2024)

“Megadeals” over \$1B in target revenue were much less frequent.



**64%**

YOY growth, 2024 - 2025

## Health systems continue to invest in ASCs and outside of acute care, regardless of system type

### *Ascension* :: *AMSURG*

\$3.9B deal for AmSurg’s 250+ ASCs across 34 states; scales Ascension’s ASC footprint 5x



Emphasizes ASC’s vital role and growing need for systems to lead the outpatient shift

### *Tenet Health* :: *United Surgical Partners INTERNATIONAL*

\$250M to be deployed toward ASC expansion annually; scales Tenet’s USPI ambulatory platform



Emphasizes the significant growth capture opportunity in the ambulatory setting

### *Cleveland Clinic* :: *Regent Surgical*

Focus on scaling access to care while preserving quality and maintaining delivery efficiency



Emphasizes the importance of core competency focus in ambulatory expansion

# Beyond ASCs, JVs and partnerships are an increasingly attractive alternative to traditional M&A

## Benefits of JVs/partnerships vs. traditional M&A

- Faster path forward
- Capital-light growth
- Retain operator expertise

## Added complexities

- Less control
- Governance
- Exit path
- Limited upside
- IT/data integration

	Imaging JVs	Behavioral health	Laboratory services	Urgent care/hybrid ER
	<p><b>BJC HealthCare</b> + <b>OIA</b></p> <p>Agreement to form outpatient diagnostic imaging JV</p> <hr/> <p><b>Medical University of South Carolina</b> + <b>OIA</b></p> <p>JV to expand ambulatory imaging across the MUSC service area</p>	<p><b>Henry Ford Health</b> + <b>Acadia</b></p> <p>Accelerated build and operational expertise for new acute behavioral health hospital</p> <hr/> <p><b>Baylor Scott &amp; White</b> + <b>Geode</b></p> <p>Rapidly expands outpatient access with in-person and hybrid care</p>	<p><b>Corewell Health</b> + <b>Quest Diagnostics</b></p> <p>Build new 100,000-square-foot facility and optimize operations of 21 existing labs</p> <hr/> <p><b>Inspira Health</b> + <b>labcorp</b></p> <p>Operational partnership; Labcorp to take over operations of three labs</p>	<p><b>UPMC</b> + <b>GoHealth Urgent Care</b></p> <p>Expands access to urgent care through 81 GoHealth locations</p> <hr/> <p><b>Baptist Health</b> + <b>Intuitive Health</b></p> <p>Co-development of hybrid ER and urgent care center</p>
	<i>Expanding OP imaging access and convenience</i>	<i>Accelerating growth and access</i>	<i>Often 'divest and operate' agreements</i>	<i>Add reach with fast scale and development</i>

**Abbreviations:** ASC= ambulatory surgery center; JV= joint venture; M&A= merger and acquisition; OP= outpatient. **Sources:** Outpatient Imaging Affiliates and BJC HealthCare outpatient diagnostic imaging joint venture; Outpatient Imaging Affiliates and Medical University of South Carolina radiology joint venture; Acadia Healthcare and Henry Ford Health partnership announcement; Baylor Scott & White Health and Geode Health statewide outpatient mental health partnership; Corewell Health and Quest Diagnostics laboratory services joint venture; Labcorp and Inspira Health strategic laboratory operations agreement; GoHealth and UPMC joint venture and rebranded urgent care centers; Baptist Health and Intuitive Health emergency room development partnership; Vizient analysis 2025.

vizient.

KaufmanHall

# Health insurance M&A in 2025 led by reshuffling of focus, scale in government programs and expanding regional partnerships

## Major carriers reshuffle focus across lines of business

**HCSC**

**The Cigna Group**

HCSC finalizes acquisition of CIGNA's Medicare business

**\$4.9B**

Brings HCSC to 4.3 million MA lives nationally and refocuses CIGNA's insurance business on commercial plans

CIGNA's insurance business now makes up ~16% of its total revenue with its Evernorth business producing the remainder, showing focus on pharmacy and care coordination

CIGNA announced the planned sale of its Evernorth Care Group clinics in Phoenix to HonorHealth

## Government programs seek scale amid challenges and pending headwinds

CareSource acquires Medicaid and other government focused plans:

- *Commonwealth Care Alliance (MA)*
- *ElderServe Health (NY)*
- *Common Ground (WI)*
- *Lakeland Care (WI) Planned*

**CareSource**

**Molina Healthcare**

Molina acquires MA and exchange focused ConnectiCare (NY) for \$350 million

**Humana**

In a departure from peers, Humana agrees to acquire Florida based retirement community clinics, The Villages Health for \$50 million via its CenterWell arm

*\*CenterWell makes up ~15% of Humana's 2025 revenues*

## Regional plans scale through creative partnerships

Kaiser plans to buy majority share of Renown Health's Hometown Health as part of new JV

**Kaiser Permanente**

**Hometown health**

Sanford Health Plan and Security Health Plan operate under common management structure as part of Marshfield Clinic-Sanford integration

**Sanford Health**

**Marshfield clinic**

Priority Health becomes governing member of Group Health Cooperative of Eau Claire

**Priority Health**



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## The future of care delivery

Improving care access, site of care strategy, quality and efficiency amid workforce constraints and evolving patient expectations.



# The Future of Care Delivery – Market Forces



**Outpatient Revenue has grown 33% over the past 3 years;** and will continue to outpace inpatient or ED growth over the next decade



**Nationwide in 2024; 27% of all procedures were performed in an ASC setting**

68% Ophthalmology | 47% Gastroenterology | 35% Orthopedics | 20% Urology | 19% Spine



**By 2035, Advanced practice providers (APPs) will comprise more than 50% of the workforce, outnumbering practicing physicians who are already in short-supply**



**Over the next 10 years, patients 65+ (*i.e. Medicare*) will drive hospital volume growth**

IP discharges of patients +20% | ED visits +27% | Observations +34%



**Specialty drugs now represent nearly two-thirds of pharmacy spend**

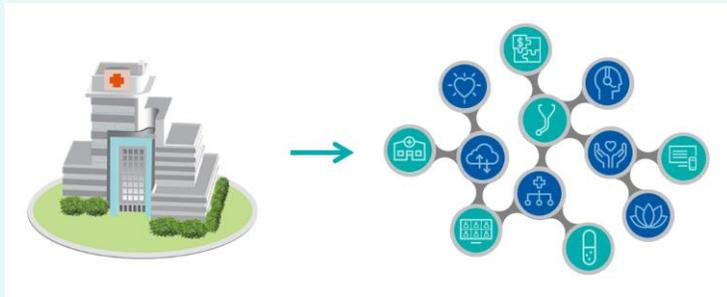
Up almost 8.5 percentage points in three years



**By 2035, 19% of all visits will be delivered virtually**

# The Future of Care Delivery – Strategic Opportunities

## Where Care is Delivered



- **Margin Growth is shifting to Ambulatory Settings**
- **Growth in ASC and home-based care** will continue, driven by policy shifts, demand, M&A activity and consumer choice
- **Hospitals are being asked to treat older and sicker patients** (65+ | *multiple co-morbidities*)

## Who Delivers the Care



- The growing physician shortage requires us to enable **Physicians to Practice at the top of their license**
- **Effective Physician–APP care teams** are becoming essential to meeting patient access demands
- Critical need for **Virtualists** and **Polychronic Quarterbacks**



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## Intelligent health transformation

Harnessing digital tools, data science and artificial intelligence (AI) to improve decision-making, operations and clinical outcomes.



# Intelligent Health Transformation

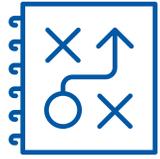
Why AI strategies fall short

80%+

**Project failure rate**

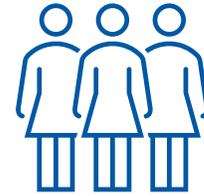
Most AI initiatives never deliver ROI

# What drives failure?



## No strategy

Lack of alignment with system-wide goals



## Talent gaps

Frontline staff lack training and confidence



## Poor governance

No formal oversight creates operational risk



## Fragmented tech

Investments made without clear ROI models

The root cause isn't AI technology – it's the **lack of maturity across key capabilities.**

# The Path to Maturity

Moving from isolated pilots to enterprise-wide intelligent transformation

## Six key capabilities to focus on in a mature system



### Strategy

Aligned with enterprise goals



### Culture and talent

Workforce readiness and trust



### Tech and data

Scalable infrastructure



### Governance and risk

Oversight and safety guardrails



### Adoption and scaling

From pilot to production



### ROI monitoring

Value realization and tracking

The journey: ● Ad hoc ● Defined ● Managed ● Integrated ● Optimized

## Maturity Snapshot

System-wide Assessment (Illustrative Example)

2.8/5.0

OVERALL SCORE

● You — Benchmark



### Primary Gap: Governance

Score is 15% below peer benchmark.

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