

# Davita Inc. Reports 1st Quarter 2003 Results

PRNewswire-FirstCall  
TORRANCE, Calif.

DaVita Inc. , today announced results for the quarter ended March 31, 2003. Net income for the three months ended March 31, 2003 was \$36 million or \$0.52 per share, compared with \$36 million or \$0.40 per share for the same period of 2002.

(Photo: <http://www.newscom.com/cgi-bin/prnh/20020729/DAVITALOGO> )

Financial and operating highlights include:

- For the rolling 12 months ended March 31, 2003 operating cash flow was \$302 million and free cash flow was \$244 million. These cash flow numbers exclude prior period lab receipts, accounts receivable recoveries and valuation adjustments. Operating cash flow for the quarter ended March 31, 2003 was \$81 million and free cash flow was \$70 million.
- Operating income for the quarter was \$79 million.
- EBITDA and EBITDA margin for the quarter were \$98 million and 21.3%, respectively.
- Total treatments for the first quarter were 1,503,031 up 4.8% over the prior year's quarter. Non-acquired treatment growth was 3.3%, with acquisitions contributing the additional 1.5% to treatment growth.
- First quarter dialysis revenue per treatment was \$296, compared to \$291 in the fourth quarter, an increase of 1.8%.
- DSO for the first quarter decreased by one day during the quarter to 69 days.
- As of March 31, 2003, we operated 523 outpatient centers serving approximately 45,000 patients. During the first quarter we acquired a controlling interest in two centers in which we previously had minority ownership and opened seven de novo centers. We also closed one center. Included in this patient and center count are approximately 3,300 patients in 30 centers under management.

Our 2003 EBITDA guidance remains at \$380 million to \$400 million. This guidance implies Generally Accepted Accounting Principles (GAAP) operating income of \$300 million to \$320 million for 2003.

DaVita will be holding a conference call to discuss its first quarter 2003 results on May 5, 2003, at 1:30 PM Eastern Daylight Time. The dial in number is 800 399-4406. A replay of the conference call will be available on DaVita's official web page, [www.davita.com](http://www.davita.com) , for the following 30 days.

This press release includes non-GAAP financial measures, which we believe provide useful information to investors by excluding certain nonrecurring expenses and prior period recoveries and by allowing consistency and comparability in our financial reporting to prior periods for which these non- GAAP measures were previously reported. These measures should be considered in addition to results prepared in accordance with GAAP, but are not a substitute for or superior to GAAP results. Included in this press release is a reconciliation of these non-GAAP measures to the most comparable GAAP financial measures.

This release also contains forward-looking statements. Factors which could impact future results include the uncertainties associated with governmental regulation, general economic and other market conditions, and the risk factors set forth in the Company's SEC filings, including its Form 10-K for the year ended December 31, 2002. The forward-looking statements should be considered in light of these risks and uncertainties. These risks include those relating to:

- possible reductions in private mix and private and government reimbursement rates,
- the concentration of profits generated from PPO and private indemnity patients and from ancillary services including the administration of pharmaceuticals,
- changes in pharmaceutical practice patterns or reimbursement policies, the ongoing review of the Company's Florida laboratory subsidiary by its Medicare carrier and the Department of Justice,
- the ongoing review by the US Attorney's Office and HHS Office of Inspector General in Philadelphia and
- the Company's ability to maintain contracts with physician medical directors.

DAVITA INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except per share data)

|   | March 31,<br>2003 | December 31,<br>2002 |
|---|-------------------|----------------------|
| ASSETS  |                   |                      |
| Cash and cash equivalents                                       | \$304,994         | \$96,475             |
| Accounts receivable, less allowance<br>of \$48,743 and \$48,927 | 346,145           | 344,292              |
| Inventories   | 25,465            | 34,929               |
| Other current assets  | 24,049            | 28,667               |
| Deferred income taxes   | 41,773            | 40,163               |
| Total current assets  | 742,426           | 544,526              |
| Property and equipment, net                                     | 305,742           | 298,475              |
| Amortizable intangibles, net                                    | 60,080            | 63,159               |
| Investments in third-party dialysis businesses                  | 3,368             | 3,227                |
| Other long-term assets  | 2,609             | 1,520                |
| Goodwill  | 865,449           | 864,786              |
|   | \$1,979,674       | \$1,775,693          |

LIABILITIES AND SHAREHOLDERS' EQUITY

|  |             |             |
|--|-------------|-------------|
| Accounts payable   | \$71,295    | \$77,890    |
| Other liabilities  | 113,505     | 101,389     |
| Accrued compensation and benefits  | 82,391      | 95,435      |
| Current portion of long-term debt  | 43,908      | 7,978       |
| Income taxes payable   | 26,550      | 9,909       |
| Total current liabilities  | 337,649     | 292,601     |
| Long-term debt   | 1,420,585   | 1,311,252   |
| Other long-term liabilities  | 10,346      | 9,417       |
| Deferred income taxes  | 72,381      | 65,930      |
| Minority interests   | 27,156      | 26,229      |
| Shareholders' equity:  |             |             |
| Preferred stock (\$0.001 par value,<br>5,000,000 shares authorized; none issued)                               |             |             |
| Common stock (\$0.001 par value, 195,000,000<br>shares authorized; 89,162,390 and 88,874,896<br>shares issued) | 89          | 89          |
| Additional paid-in capital   | 523,572     | 519,369     |
| Retained earnings  | 249,750     | 213,337     |
| Treasury stock, at cost (28,187,326 and<br>28,216,177 shares)  | (661,854)   | (662,531)   |
| Total shareholders' equity   | 111,557     | 70,264      |
|  | \$1,979,674 | \$1,775,693 |

DAVITA INC.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(dollars in thousands, except per share data)

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2003                            | 2002      |
| Net operating revenues                    | \$459,807                       | \$427,665 |
| Operating expenses and charges:           |                                 |           |
| Dialysis centers and labs                 | 316,710                         | 291,634   |
| General and administrative                | 36,787                          | 36,053    |
| Depreciation and amortization             | 17,445                          | 15,805    |
| Provision for uncollectible accounts      | 8,237                           | 5,255     |
| Minority interests and equity income, net | 1,294                           | 2,135     |
| Total operating expenses and charges      | 380,473                         | 350,882   |
| Operating income                          | 79,334                          | 76,783    |
| Debt expense                              | 19,456                          | 15,072    |
| Other income, net                         | 785                             | 267       |
| Income before income taxes                | 60,663                          | 61,978    |

|                    |          |          |
|--------------------|----------|----------|
| Income tax expense | 24,250   | 26,000   |
| Net income         | \$36,413 | \$35,978 |

|                      |          |          |
|----------------------|----------|----------|
| Comprehensive income | \$36,413 | \$35,978 |
|----------------------|----------|----------|

Earnings per share:

|         |        |        |
|---------|--------|--------|
| Basic   | \$0.60 | \$0.43 |
| Diluted | \$0.52 | \$0.40 |

Weighted average shares for earnings

per share:

|         |            |             |
|---------|------------|-------------|
| Basic   | 60,905,056 | 82,967,141  |
| Diluted | 78,772,410 | 102,246,452 |

DAVITA INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollars in thousands)

|   | Three months ended |           |
|---|--------------------|-----------|
|   | March 31,          |           |
|   | 2003               | 2002      |
| Cash flows from operating activities:   |                    |           |
| Net income  | \$36,413           | \$35,978  |
| Adjustments to reconcile net income to cash provided by operating activities:         |                    |           |
| Depreciation and amortization   | 17,445             | 15,805    |
| Loss (gain) on divestitures   | 119                | (458)     |
| Deferred income taxes   | 4,841              | 7,861     |
| Non-cash debt expense   | 840                | 634       |
| Stock options, principally tax benefits   | 1,378              | 8,931     |
| Equity investment income  | (519)              | (298)     |
| Minority interests in income of consolidated subsidiaries                             | 1,813              | 2,433     |
| Distributions to minority interests   | (2,465)            | (1,501)   |
| Changes in operating assets and liabilities, excluding acquisitions and divestitures: |                    |           |
| Accounts receivable   | (676)              | (11,163)  |
| Inventories   | 9,543              | 6,726     |
| Other current assets  | 4,721              | (2,840)   |
| Other long-term assets  | (2,457)            |           |
| Accounts payable  | (6,674)            | 8,969     |
| Accrued compensation and benefits   | (13,075)           | (2,617)   |
| Other current liabilities   | 11,952             | 15,050    |
| Income taxes  | 16,641             | 261       |
| Other long-term liabilities   | 809                | (287)     |
| Net cash provided by operating activities   | 80,649             | 83,484    |
| Cash flows from investing activities:   |                    |           |
| Additions of property and equipment, net  | (21,708)           | (16,115)  |
| Acquisitions and divestitures, net  | (718)              | (1,379)   |
| Investments in affiliates, net  | 1,931              | 499       |
| Intangible assets   | (300)              |           |
| Net cash used in investing activities   | (20,795)           | (16,995)  |
| Cash flows from financing activities:   |                    |           |
| Borrowings  | 623,822            | 335,883   |
| Payments on long-term debt  | (478,659)          | (355,803) |
| Deferred financing costs  |                    | (57)      |
| Purchase of treasury stock  |                    | (67,877)  |
| Proceeds from issuance of common stock  | 3,502              | 16,351    |
| Net cash provided by (used in) financing activities                                   | 148,665            | (71,503)  |
| Net increase (decrease) in cash   | 208,519            | (5,014)   |
| Cash and cash equivalents at beginning of period                                      | 96,475             | 36,711    |
| Cash and cash equivalents at end of period  | \$304,994          | \$31,697  |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA

|  | Q1 2003  | Q4 2002  | Q1 2002  |
|--|----------|----------|----------|
| Financial Results:   |          |          |          |
| Net earnings, excluding prior period Medicare lab revenue, extraordinary items, recoveries, and valuation adjustments (in 000's) |          |          |          |
|  | \$36,400 | \$34,600 | \$34,600 |
| Basic EPS  | \$0.60   | \$0.57   | \$0.42   |
| EPS assuming dilution  | \$0.52   | \$0.50   | \$0.39   |
| EBITDA, excluding prior period Medicare lab revenue, recoveries and valuation adjustments  |          |          |          |
| Consolidated (in 000's)  | \$98,000 | \$97,000 | \$92,500 |
| Continental U.S. (in 000's).   | \$98,000 | \$97,000 | \$91,900 |
| Continental EBITDA margin  | 21.3%    | 21.0%    | 21.7%    |

Business Metrics  
(Continental U.S.):

| Volume                          |           |           |           |
|---------------------------------|-----------|-----------|-----------|
| Treatments                      | 1,503,031 | 1,537,821 | 1,433,803 |
| Number of treatment days        | 76.4      | 79.6      | 76.4      |
| Treatments per day              | 19,673    | 19,319    | 18,767    |
| Per day year over year increase | 4.8%      | 3.8%      | 6.2%      |
| Same center growth              | 3.1%      | 2.9%      | 4.2%      |
| Non-acquired growth             | 3.3%      | 2.9%      | 4.2%      |

|  |           |           |           |
|--|-----------|-----------|-----------|
| Revenue, excluding prior period Medicare lab revenue and recoveries of \$41,555 in Q4 2002 |           |           |           |
| Revenue (in 000's)   | \$460,000 | \$462,000 | \$424,000 |

|  |          |          |          |
|--|----------|----------|----------|
| Dialysis revenue per treatment               | \$296.31 | \$291.02 | \$290.45 |
| Per treatment increase from previous quarter | 1.8%     | 0.0%     | 2.6%     |
| Per treatment increase from prior year       | 2.0%     | 2.8%     | 5.9%     |

Expenses, excluding prior period Medicare lab revenue and recoveries

|  |          |          |          |
|--|----------|----------|----------|
| A. Dialysis centers and lab operating expenses |          |          |          |
| Percent of revenue                             | 68.9%    | 68.7%    | 68.0%    |
| Per treatment                                  | \$210.71 | \$206.17 | \$201.02 |
| Per treatment increase from previous quarter   | 2.2%     | 1.4%     | 3.6%     |

|   |         |         |         |
|---|---------|---------|---------|
| B. General & administrative expenses                    |         |         |         |
| Percent of revenue                                      | 8.0%    | 8.5%    | 8.5%    |
| Per treatment   | \$24.48 | \$25.57 | \$25.14 |
| Per treatment increase (decrease) from previous quarter | (4.3%)  | 4.7%    | 10.2%   |

|  |      |      |      |
|--|------|------|------|
| C. Bad debt expense as a percent of current-period revenue |      |      |      |
|  | 1.8% | 1.8% | 1.8% |

|                                    |       |       |       |
|------------------------------------|-------|-------|-------|
| D. Consolidated effective tax rate |       |       |       |
|                                    | 40.0% | 40.8% | 42.0% |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA, CONTINUED

|   | Q1 2003  | Q4 2002  | Q1 2002  |
|---|----------|----------|----------|
| Cash Flow (Consolidated,<br>including prior period<br>recoveries, in 000's)             |          |          |          |
| Operating cash flow   | \$81,000 | \$66,000 | \$83,000 |
| Free cash flow (before<br>share repurchase,<br>acquisition and<br>development spending) |          |          |          |
|   | \$70,000 | \$49,000 | \$74,000 |
| Capital expenditures:   |          |          |          |
| Development   | \$11,900 | \$19,600 | \$7,600  |
| Routine maintenance/<br>IT/other  | \$10,500 | \$16,700 | \$9,100  |
| Acquisition expenditures,<br>net  |          |          |          |
|   | \$700    | \$6,500  | \$1,400  |

|                               |           |           |           |
|-------------------------------|-----------|-----------|-----------|
| Accounts Receivable           |           |           |           |
| Net receivables<br>(in 000's) |           |           |           |
|                               | \$346,000 | \$344,000 | \$337,000 |
| DSO                           |           |           |           |
|                               | 69        | 70        | 73        |

|  |             |             |           |
|--|-------------|-------------|-----------|
| Debt/Capital Structure<br>(Consolidated) |             |             |           |
| Total debt (in 000's)                    | \$1,464,000 | \$1,319,000 | \$800,000 |
| Net debt, net of cash<br>(in 000's)      |             |             |           |
|  | \$1,159,000 | \$1,223,000 | \$769,000 |
| LQA net leverage ratio                   | 3.0x        | 3.1x        | 2.1x      |
| Shares repurchased<br>(in 000's)         |             |             |           |
|  | --          | 1,900       | 2,900     |
| Average repurchase price                 |             |             |           |
|  | --          | \$23.80     | \$23.02   |

|   |     |     |     |
|---|-----|-----|-----|
| Clinical  |     |     |     |
| Dialysis adequacy - %<br>of patients with<br>URR > 65   |     |     |     |
|   | 89% | 88% | 88% |
| Dialysis adequacy - %<br>of patients with<br>Kt/V > 1.2 |     |     |     |
|   | 92% | 92% | 92% |
| Anemia measure - % of<br>patients with HCT > 33         |     |     |     |
|   | 83% | 83% | 79% |

DAVITA INC.

RECONCILIATIONS FOR NON-GAAP MEASURES

|  | Rolling<br>12-month<br>period<br>ended<br>Q1 2003 | Q1 2003  | Q4 2002  | Q1 2002  |
|--|---|----------|----------|----------|
| (dollars in thousands)   |   |          |          |          |
| 1. Operating cash<br>flow excluding<br>lab and accounts<br>receivable<br>recoveries<br>related to<br>prior years'<br>services and<br>free cash flow: |   |          |          |          |
| Cash provided<br>by operating<br>activities  | \$339,160   | \$80,649 | \$66,318 | \$83,484 |
| Exclusions:  |   |          |          |          |
| Prior period<br>lab receipts   | (58,778)  |          | (41,555) |          |
| Impairments<br>and valuations  |   |          |          |          |

|   |           |          |          |          |
|---|-----------|----------|----------|----------|
| adjustments   | (380)     | 2,010    |          |          |
| Accounts receivable recoveries  | (2,938)   | (510)    | (2,254)  |          |
|   | (62,096)  | (40,055) | (2,254)  |          |
| Related income tax expense  | 24,559    | 15,842   | 891      |          |
| Exclusions, net of tax  | (37,537)  | (24,213) | (1,363)  |          |
| Operating cash flow excluding lab and accounts receivable recoveries related to prior years' services | 301,623   | 80,649   | 42,105   | 82,121   |
| Less expenditures for routine maintenance and information technology                                  | (57,337)  | (10,490) | (16,706) | (9,090)  |
| Free cash flow  | \$244,286 | \$70,159 | \$25,399 | \$73,031 |

|   |          |          |          |  |
|---|----------|----------|----------|--|
| 2. Net income, excluding impairments, prior period lab receipts and accounts receivable recoveries: |          |          |          |  |
| Net income  | \$36,413 | \$58,811 | \$35,978 |  |
| Less exclusions, net of tax   |          | (24,213) | (1,363)  |  |
|   | \$36,413 | \$34,598 | \$34,615 |  |

|   |          |           |          |  |
|---|----------|-----------|----------|--|
| 3. EBITDA, excluding impairments, prior period lab receipts and accounts receivable recoveries: |          |           |          |  |
| Operating income  | \$79,334 | \$118,377 | \$76,783 |  |
| Additions:  |          |           |          |  |
| Depreciation  | 14,946   | 14,385    | 13,295   |  |
| Amortization  | 2,499    | 2,510     | 2,510    |  |
| Minority interests and equity income, net   | 1,294    | 1,802     | 2,135    |  |
| EBITDA  | 98,073   | 137,074   | 94,723   |  |
| Exclusions:   |          |           |          |  |
| Prior period lab receipts   |          | (41,555)  |          |  |
| Impairments and valuations adjustments  |          | 2,010     |          |  |
| Accounts receivable recoveries  |          | (510)     | (2,254)  |  |
|   |          | (40,055)  | (2,254)  |  |
|   | \$98,073 | \$97,019  | \$92,469 |  |

|   |           |           |           |  |
|---|-----------|-----------|-----------|--|
| 4. Last quarter annualized (LQA) net leverage ratio:  |           |           |           |  |
| EBITDA, excluding impairments, prior period lab receipts and accounts receivable recoveries | \$98,073  | \$97,019  | \$92,469  |  |
|   | x 4       | x 4       | x 4       |  |
| Annualized EBITDA, less exclusions  | \$392,292 | \$388,076 | \$369,876 |  |

|   |             |             |           |
|---|-------------|-------------|-----------|
| Net debt, net<br>of cash  | \$1,159,000 | \$1,223,000 | \$769,000 |
| Annualized EBITDA,<br>less exclusions<br>divided by net<br>debt, net of<br>cash | 2.95x       | 3.15x       | 2.08x     |

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SOURCE: DaVita Inc.

CONTACT: LeAnne Zumwalt, Investor Relations of DaVita Inc.,  
+1-310-750-2072

Web site: <http://www.davita.com/>

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