

DaVita Inc. Reports 2nd Quarter 2003 Results

PRNewswire-FirstCall
TORRANCE, Calif.

DaVita Inc. , today announced results for the quarter ended June 30, 2003. Net earnings for the three and six months ended June 30, 2003 were \$38.5 million and \$74.9 million, or \$0.55 and \$1.07 per share, respectively.

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

Financial and operating highlights include:

- For the rolling 12 months ended June 30, 2003, before considering recoveries of \$59 million in 2002 related to prior years' lab billings, operating cash flow was \$324 million and free cash flow was \$277 million.
- Operating cash flow for the three and six months ended June 30, 2003 was \$79 million and \$159 million, respectively. Free cash flow for the same periods was \$69 million and \$139 million, respectively.
- Operating income for the three and six months was \$83 million and \$162 million, respectively. Operating income excluding depreciation, amortization and minority interests was \$103 million and \$201 million, respectively (previously described as EBITDA).
- Total treatments for the second quarter were 1,579,580, an increase of 6.2% compared to the second quarter of last year. Non-acquired treatment growth was 3.4%, with acquisitions contributing the additional 2.8% to treatment growth.
- Second quarter dialysis revenue per treatment was approximately \$302, compared to \$291 in the second quarter of last year, an increase of 3.8%.
- As of June 30, 2003, we provided dialysis services at 539 outpatient centers serving approximately 47,000 patients. During the second quarter we acquired 11 centers and opened eight de novo centers. We also closed two centers. Included in this patient and center count are approximately 3,300 patients in 29 centers under management arrangements.

Capital structure:

- During the quarter we called our 5 5/8% convertible notes, resulting in their conversion into 4.9 million shares of common stock on July 15, 2003.
- On July 15, 2003 we completed a refinancing of our senior credit facilities resulting in lower interest rates, additional borrowing of \$200 million and modification of certain covenants.
- The additional borrowings will be used to redeem a portion of our outstanding 7% convertible notes, as previously announced on July 16, 2003.

Guidance:

- We are updating our 2003 operating income guidance. It was \$300 to \$320 million. It is now \$315 to \$330 million.
- Our current expectation for 2004 is that operating income will be relatively flat from 2003.
- We have changed our primary guidance metric from EBITDA to operating income to simplify compliance with the SEC's new Regulation G.

DaVita will be holding a conference call to discuss its second quarter 2003 results on August 1, 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, 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-Q for the year ended March 31, 2003. The forward-looking statements should be considered in light of these risks and uncertainties.

These risks include those relating to:

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

DAVITA INC.
 CONSOLIDATED BALANCE SHEETS
 (unaudited)
 (dollars in thousands, except per share data)

| | June 30, 2003 | December 31, 2002 |
|--|------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$315,606 | \$96,475 |
| Accounts receivable, less allowance of \$49,361 and \$48,927 | 346,209 | 344,292 |
| Inventories | 30,111 | 34,929 |
| Other current assets | 26,275 | 28,667 |
| Deferred income taxes | 47,666 | 40,163 |
| Total current assets | 765,867 | 544,526 |
| Property and equipment, net | 314,374 | 298,475 |
| Amortizable intangibles, net | 61,198 | 63,159 |
| Investments in third-party dialysis businesses | 3,266 | 3,227 |
| Other long-term assets | 2,972 | 1,520 |
| Goodwill | 901,714 | 864,786 |
| | \$2,049,391 | \$1,775,693 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts payable | \$83,821 | \$77,890 |
| Other liabilities | 115,106 | 101,389 |
| Accrued compensation and benefits | 94,812 | 95,435 |
| Current portion of long-term debt | 47,314 | 7,978 |
| Income taxes payable | 20,486 | 9,909 |
| Total current liabilities | 361,539 | 292,601 |
| Long-term debt | 1,409,687 | 1,311,252 |
| Other long-term liabilities | 12,914 | 9,417 |
| Deferred income taxes | 78,187 | 65,930 |
| Minority interests | 28,390 | 26,229 |
| Shareholders' equity: | | |
| Preferred stock (\$0.001 par value, 5,000,000 shares authorized; none issued) | | |
| Common stock (\$0.001 par value, 195,000,000 shares authorized; 89,790,206 and 88,874,896 shares issued) | 90 | 89 |
| Additional paid-in capital | 532,133 | 519,369 |
| Retained earnings | 288,270 | 213,337 |
| Treasury stock, at cost (28,185,827 and 28,216,177 shares) | (661,819) | (662,531) |
| Total shareholders' equity | 158,674 | 70,264 |
| | \$2,049,391 | \$1,775,693 |

DAVITA INC.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands, except per share data)

| | Three months ended | | Six months ended | |
|---|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| Net operating revenues | \$489,883 | \$442,677 | \$949,690 | \$870,342 |
| Operating expenses and charges: | | | | |
| Dialysis centers and labs | 335,986 | 300,552 | 652,696 | 592,186 |
| General and administrative | 42,583 | 39,634 | 79,370 | 75,687 |
| Depreciation and amortization | 17,921 | 15,698 | 35,366 | 31,503 |
| Provision for uncollectible accounts | 8,780 | 5,882 | 17,017 | 11,137 |
| Minority interests and equity income, net | 1,813 | 2,164 | 3,107 | 4,299 |
| Total operating expenses and charges | 407,083 | 363,930 | 787,556 | 714,812 |
| Operating income | 82,800 | 78,747 | 162,134 | 155,530 |
| Debt expense | 19,495 | 17,139 | 38,951 | 32,211 |
| Refinancing charges | 48,930 | 48,930 | | |
| Other income | 890 | 2,620 | 1,675 | 2,887 |
| Income before income taxes | 64,195 | 15,298 | 124,858 | 77,276 |
| Income tax expense | 25,675 | 6,928 | 49,925 | 32,928 |
| Net earnings | \$38,520 | \$8,370 | \$74,933 | \$44,348 |
| Earnings per share: | | | | |
| Basic | \$0.63 | \$0.10 | \$1.23 | \$0.55 |
| Diluted | \$0.55 | \$0.10* | \$1.07 | \$0.52* |
| Weighted average shares for earnings per share: | | | | |
| Basic | 61,305,955 | 79,784,841 | 61,097,841 | 81,366,393 |
| Diluted | 79,188,721 | 83,022,414 | 78,964,493 | 89,814,524 |

* The diluted earnings per share for the three and six months ended June 30, 2002 are restated to reflect the adoption of Statement of Financial Accounting Standards No. 145 Rescission of FASB Standard No. 4, 44, and 64, Amendment of FASB Statement No. 14, and Technical Corrections. Refinancing charges previously classified as an extraordinary item are now included as an ordinary pre-tax income item. As a result of this reclassification, certain convertible subordinated notes are not dilutive in the earnings per share calculations for these periods.

DAVITA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

| | Six months ended | |
|---|------------------|----------|
| | June 30, | |
| | 2003 | 2002 |
| Cash flows from operating activities: | | |
| Net income | \$74,933 | \$44,348 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 35,366 | 31,503 |
| Impairments and valuation adjustments, net | | (2,390) |
| Loss (gain) on divestitures | 343 | (462) |
| Deferred income taxes | 4,754 | 11,843 |
| Non-cash debt expense | 1,958 | 1,526 |
| Stock options, principally tax benefits | 5,699 | 16,304 |
| Equity investment income | (967) | (960) |
| Minority interests in income of consolidated subsidiaries | | 5,260 |
| Refinancing charges | 48,930 | |
| Distributions to minority interests | (3,685) | (4,138) |

| | | |
|--|-------------|-----------|
| Changes in operating assets and liabilities, excluding acquisitions and divestitures: | | |
| Accounts receivable | (740) | (20,471) |
| Inventories | 5,327 | 2,436 |
| Other current assets | 2,495 | (4,533) |
| Other long-term assets | (2,774) | 151 |
| Accounts payable | 5,852 | 9,315 |
| Accrued compensation and benefits | (716) | 6,367 |
| Other current liabilities | 13,554 | (536) |
| Income taxes | 10,577 | (3,694) |
| Other long-term liabilities | 3,377 | 1,118 |
| Net cash provided by operating activities | 159,427 | 141,917 |
| Cash flows from investing activities: | | |
| Additions of property and equipment, net | (42,077) | (43,691) |
| Acquisitions and divestitures, net | (47,035) | (1,426) |
| Investments in affiliates, net | 2,663 | 1,857 |
| Intangible assets | 754 | (30) |
| Net cash used in investing activities | (85,695) | (43,290) |
| Cash flows from financing activities: | | |
| Borrowings | 1,350,195 | 1,323,335 |
| Payments on long-term debt | (1,212,574) | (819,107) |
| Debt redemption premium | | (40,910) |
| Deferred financing costs | | (10,781) |
| Purchase of treasury stock | | (474,438) |
| Proceeds from issuance of common stock | 7,778 | 23,583 |
| Net cash provided by financing activities | 145,399 | 1,682 |
| Net increase in cash | 219,131 | 100,309 |
| Cash and cash equivalents at beginning of period | 96,475 | 36,711 |
| Cash and cash equivalents at end of period | \$315,606 | \$137,020 |

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA

(dollars in millions, except for per share and per treatment data)

| | Q2 2003 | Q1 2003 | Q2 2002 | YTD 2003 |
|---|-----------|-----------|-----------|-----------|
| Financial Results: | | | | |
| Net earnings excluding refinancing charges | \$38.5 | \$36.4 | \$37.7 | \$74.9 |
| Basic EPS | \$0.63 | \$0.60 | \$0.47 | \$1.23 |
| EPS assuming dilution | \$0.55 | \$0.52 | \$0.43 | \$1.07 |
| Operating income | | | | |
| Consolidated | \$82.8 | \$79.3 | \$78.7 | \$162.1 |
| Continental U.S. | \$82.8 | \$79.3 | \$77.8 | \$162.1 |
| Continental operating income margin | 16.9% | 17.3% | 17.7% | 17.1% |
| Business Metrics (Continental U.S.): | | | | |
| Volume | | | | |
| Treatments | 1,579,580 | 1,503,031 | 1,486,816 | 3,082,611 |
| Number of | | | | |
| treatment days | 78 | 76.4 | 78 | 154.4 |
| Treatments per day | 20,251 | 19,673 | 19,062 | 19,965 |
| Per day year | | | | |
| over year increase | 6.2% | 4.8% | 5.5% | 5.5% |
| Non-acquired growth | 3.4% | 3.3% | 4.5% | 3.5% |
| Revenue | | | | |
| Revenue | \$490 | \$460 | \$441 | \$950 |
| Dialysis revenue | | | | |
| per treatment | \$301.52 | \$296.31 | \$290.52 | \$298.98 |
| Per treatment | | | | |
| increase from previous quarter | 1.8% | 1.8% | 0% | -- |
| Per treatment | | | | |
| increase from prior year | 3.8% | 2.0% | 5.3% | 2.9% |

Expenses

| | | | | |
|--|----------|----------|----------|----------|
| A. Dialysis centers and lab operating expenses | | | | |
| Percent of revenue | 68.6% | 68.9% | 67.7% | 68.7% |
| Per treatment | \$212.71 | \$210.71 | \$200.46 | \$211.74 |
| Per treatment increase (decrease) | | | | |
| from previous quarter | 0.9% | 2.2% | (0.3%) | -- |
| B. General & administrative expenses | | | | |
| Percent of revenue | 8.7% | 8.0% | 9.3% | 8.4% |
| Per treatment | \$26.96 | \$24.48 | \$27.59 | \$25.75 |
| Per treatment increase (decrease) | | | | |
| from previous quarter | 10.1% | (4.3%) | 9.7% | -- |
| C. Bad debt expense as a percent of current-period revenue | | | | |
| | 1.8% | 1.8% | 1.4% | 1.8% |
| D. Consolidated effective tax rate | | | | |
| | 40.0% | 40.0% | 41.2% | 40.0% |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA, CONTINUED

(dollars in millions, except for per share and per treatment data)

| | Q2 2003 | Q1 2003 | Q2 2002 | YTD 2003 |
|-------------------------------|---------|---------|---------|----------|
| Cash Flow | | | | |
| Operating cash flow | \$78.8 | \$80.6 | \$58.4 | \$159.4 |
| Free cash flow | \$69.3 | \$70.2 | \$38.8 | \$139.4 |
| Capital expenditures: | | | | |
| Development | \$10.4 | \$11.9 | \$8.1 | \$22.3 |
| Routine maintenance/IT/other | \$9.5 | \$10.5 | \$19.7 | \$20.0 |
| Acquisition expenditures, net | \$46.0 | \$0.7 | -- | \$47.0 |

Accounts Receivable

| | | | |
|-----------------|-------|-------|-------|
| Net receivables | \$346 | \$346 | \$347 |
| DSO | 66 | 69 | 73 |

Debt/Capital Structure

| | | | |
|-------------------------------|---------|---------|---------|
| (Consolidated) | | | |
| Total debt | \$1,457 | \$1,464 | \$1,324 |
| Net debt, net of cash | \$1,141 | \$1,159 | \$1,187 |
| Leverage ratio - last quarter | | | |
| annualized (see Note 1) | 2.8x | 3.0x | 3.1x |
| Shares repurchased | -- | -- | 16,900 |
| Average repurchase price | -- | -- | \$24.08 |

Clinical

| | | | |
|---------------------------------|-----|-----|-----|
| Dialysis adequacy | | | |
| - % of patients with URR > 65 | 89% | 89% | 89% |
| Dialysis adequacy | | | |
| - % of patients with Kt/V > 1.2 | 93% | 92% | 92% |
| Anemia measure | | | |
| - % of patients with HCT > 33 | 84% | 83% | 80% |

Note 1. Leverage ratio is defined as net debt (total debt net of cash) to operating income excluding depreciation, amortization and minority interests (previously referred to as EBITDA). The operating income reconciliation is provided below.

DAVITA INC.

RECONCILIATIONS FOR NON-GAAP MEASURES

(dollars in thousands)

| | Q2 2003 | Q1 2003 | Q2 2002 | YTD 2003 |
|--|----------|----------|---------|----------|
| 1. Net earnings excluding refinancing charges: | | | | |
| Net earnings | \$38,520 | \$36,413 | \$8,370 | \$74,933 |
| Add back: Refinancing charges | | 48,930 | | |
| Related income | | | | |

| | | | | |
|-------------|----------|----------|----------|----------|
| tax expense | | (19,572) | | |
| | | 29,358 | | |
| | \$38,520 | \$36,413 | \$37,728 | \$74,933 |

| | Q2 2003 | Q1 2003 | Q2 2002 | YTD 2003 |
|---|-----------|----------|----------|-----------|
| 2. Operating income excluding depreciation, amortization and minority interests (previously described as EBITDA): | | | | |
| Operating income | \$82,800 | \$79,334 | \$78,747 | \$162,134 |
| Add back: Depreciation and amortization | 17,921 | 17,445 | 15,698 | 35,366 |
| Minority interests and equity income, net | 1,813 | 1,294 | 2,164 | 3,107 |
| | \$102,534 | \$98,073 | \$96,609 | \$200,607 |

| | Q2 2003 | Q1 2003 | Q2 2002 | Rolling 12-month period ended Q2 2003 |
|---|----------|----------|-----------|---------------------------------------|
| 3. Operating cash flow before prior years' lab recoveries | | | | |
| Cash provided by operating activities | \$78,778 | \$80,649 | \$359,505 | |
| Less: Prior years' lab recoveries | | (58,778) | | |
| Related income | | | | |
| tax expense | | | 23,511 | |
| | \$78,778 | \$80,649 | \$324,238 | |

4. Free cash flow

Free cash flow represents net cash provided by operating activities less non-development capital expenditures. We believe free cash flow is a useful adjunct to cash flow from operating activities and other measurements under generally accepted accounting principles in the United States since it is a meaningful measure of our ability to fund development activities and meet our debt service requirements. Free cash flow is not a measure of financial performance under generally accepted accounting principles in the United States and should not be considered as an alternative to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity.

| | Q2 2003 | Q1 2003 | Q2 2002 | Q2 2003 | Rolling 12-month period ended Q2 2003 |
|--|----------|----------|----------|-----------|---------------------------------------|
| Cash provided by operating activities | \$78,778 | \$80,649 | \$58,433 | \$359,505 | |
| Less expenditures for routine maintenance and information technology | (9,513) | (10,490) | (19,652) | (47,198) | |
| Free cash flow (including prior years' lab recoveries) | 69,265 | 70,159 | 38,781 | 312,307 | |
| Less: Prior years' lab recoveries | | | (58,778) | | |
| Related income | | | | | |
| tax expense | | | 23,511 | | |
| Free cash flow before prior years' lab recoveries | \$69,265 | \$70,159 | \$38,781 | \$277,040 | |

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

AP Archive: <http://photoarchive.ap.org/>

PRN Photo Desk, 888-776-6555 or 212-782-2840

SOURCE: DaVita Inc.

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

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

<https://stage.mediaroom.com/davitainc/press-releases?item=122484>