

DaVita Inc. Reports 2nd Quarter 2005 Results

PRNewswire-FirstCall
EL SEGUNDO, Calif.

DaVita Inc. , today announced results for the quarter ended June 30, 2005. Net income for the three months and six months ended June 30, 2005 was \$52.9 million and \$109.3 million, or \$0.51 and \$1.06 per share, respectively, as compared with \$52.4 million and \$105.3 million, or \$0.50 and \$1.02 per share, respectively, for the same periods of 2004.

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

Net income for the quarter ended June 30, 2005 included pre-tax Medicare lab recoveries related to prior years' services of \$2.6 million and a swap valuation loss of \$2.1 million.

Financial and operating highlights include:

- Cash Flow: Operating cash flow for the quarter ended June 30, 2005 was \$106 million and free cash flow was \$92 million. For the rolling 12-month period ended June 30, 2005 operating cash flow was \$369 million and free cash flow was \$321 million, excluding the tax benefit from stock option exercises and the after-tax benefit of Medicare lab recoveries related to prior years' services. Including those items, the rolling 12-month period operating cash flow was \$421 million and free cash flow was \$373 million.
- Operating Income: Operating income for the three months and six months ended June 30, 2005, was \$107.7 million and \$213.7 million, respectively, excluding \$2.6 million of Medicare lab recoveries related to prior years' services.
- Operating Income Margins: Operating income margins declined to 16.7%. The primary drivers were higher G&A in the quarter and increased minority interests associated with growth of existing partnerships as well as the number of new partnerships.
- Volume: Total treatments for the second quarter were 1,964,098 or 25,181 treatments per day, an increase of 15.2% per day as compared to the second quarter of last year. Non-acquired treatment growth was 5.5% for the second quarter.
- Center Activity: As of June 30, 2005, we operated or provided administrative services at 706 outpatient centers serving approximately 57,200 patients. During the second quarter we acquired 30 centers, including two centers that were previously minority owned and two centers where we previously provided administrative services. We opened 15 de novo centers. Additionally, we merged the operations of one center into one other existing center and entered into one new management services relationship.

Gambro Healthcare Acquisition:

We have reached a preliminary agreement with the Federal Trade Commission (FTC) staff to divest approximately 70 DaVita and Gambro Healthcare centers, which represents approximately 6% of the combined number of centers and revenues. We are nearing completion with the FTC on the contents of a consent order. We expect to execute a definitive agreement to sell the divested centers in the near future that would allow us to complete a sale of the centers contemporaneously with our closing of the Gambro acquisition. We currently expect to complete the Gambro acquisition during the next thirty to sixty days. Any consent order, including the terms of the divestitures and approval of any buyer of the divested assets, remains subject to formal approval by the Commissioners of the FTC.

Outlook

We are revising our 2005 operating income guidance; operating income is now expected to be up 4% to 6% over 2004. Our previous guidance was for operating income to be up 2% to 6% over 2004. This guidance is exclusive of the effects of the proposed Gambro Healthcare acquisition and related debt financings. We continue to expect the Gambro Healthcare acquisition together with the related debt financings to be dilutive to EPS in the first year, neutral in the second year and accretive thereafter. On a stand alone basis without regard to the acquisition, we would expect our 2006 operating income to be up 0% to 3% over the 2005 level.

DaVita will be holding a conference call to discuss its second quarter results for 2005 on July 28, 2005, at 11:30 AM Eastern 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 release contains forward-looking statements. Factors which could impact future results include the uncertainties associated with governmental regulations, general economic and other market conditions, acquisitions and the risk factors set forth in the Company's SEC filings, including its Form 10-Q for the quarter ended March 31, 2005. The forward-looking statements should be considered in light of these risks and uncertainties.

These risks and uncertainties include those relating to:

- the concentration of profits generated from preferred provider organizations (PPO) and private indemnity patients,
- possible reductions in private and government reimbursement rates,
- changes in pharmaceutical practice patterns or reimbursement policies,
- our ability to maintain contracts with physician medical directors,
- legal compliance risks, including our continued compliance with complex government regulations and the ongoing review by the U.S. Attorney's Office for the Eastern District of Pennsylvania and the OIG, the subpoena from the U.S. Attorney's Office for the Eastern District of New York and the subpoena from the U.S. Attorney's Office, Eastern District of Missouri, and
- our ability to complete acquisitions of businesses, including the consummation of the Gambro Healthcare acquisition, the number of centers we expect we will be required to divest and the terms of such divestitures, terms of the related financing, and subsequent integration of the business.

We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

This release contains non-GAAP financial measures. For reconciliations of these non-GAAP financial measures to their most comparable measure calculated and presented in accordance with GAAP, see the attached reconciliation schedules.

DAVITA INC.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

| | Three months ended | | Six months ended | |
|-------------------------------------------|--------------------|-----------|------------------|-------------|
| | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Net operating revenues | \$649,047 | \$551,630 | \$1,259,005 | \$1,087,061 |
| Operating expenses and charges: | | | | |
| Patient care costs | 435,354 | 375,139 | 845,303 | 738,568 |
| General and administrative | 59,856 | 45,727 | 114,119 | 88,331 |
| Depreciation and amortization | 25,860 | 20,927 | 50,708 | 41,197 |
| Provision for uncollectible accounts | 11,537 | 9,867 | 22,423 | 19,444 |
| Minority interests and equity income, net | 6,125 | 3,503 | 10,141 | 6,221 |
| Total operating expenses and charges | 538,732 | 455,163 | 1,042,694 | 893,761 |
| Operating income | 110,315 | 96,467 | 216,311 | 193,300 |
| Debt expense | (24,897) | (11,258) | (42,431) | (22,894) |
| Swap valuation (loss) gain | (2,131) | | 6,261 | |
| Refinancing charges | | | (6,872) | |
| Other income | 2,076 | 667 | 3,703 | 2,110 |
| Income before income taxes | 85,363 | 85,876 | 176,972 | 172,516 |
| Income tax expense | 32,420 | 33,475 | 67,695 | 67,250 |
| Net income | \$52,943 | \$52,401 | \$109,277 | \$105,266 |

Earnings per share:

| | | | | |
|------------------|-------------|-------------|-------------|-------------|
| Basic | \$0.53 | \$0.53 | \$1.09 | \$1.06 |
| Diluted | \$0.51 | \$0.50 | \$1.06 | \$1.02 |
| Weighted average | | | | |
| shares: | | | | |
| Basic | 100,476,587 | 99,686,182 | 99,939,222 | 98,873,220 |
| Diluted | 103,845,030 | 104,010,356 | 103,512,444 | 103,416,270 |

DAVITA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(dollars in thousands)

| | Six months ended | |
|---------------------------------------------------------------------------------------------|------------------|-------------|
| | June 30, | |
| | 2005 | 2004 |
| Cash flows from operating activities: | | |
| Net income | \$109,277 | \$105,266 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 50,708 | 41,197 |
| Stock options, principally tax benefits | 27,708 | 25,048 |
| Swap valuation gains | (6,261) | |
| Refinancing charges | 6,872 | |
| Deferred income taxes | (11,433) | 4,828 |
| Minority interests in income of consolidated subsidiaries | 10,652 | 7,366 |
| Distributions to minority interests | (7,970) | (3,634) |
| Non-cash debt expense | 1,505 | 951 |
| Equity investment income | (511) | (1,145) |
| Gain on divestitures | (400) | (481) |
| Changes in operating assets and liabilities, other than from acquisitions and divestitures: | | |
| Accounts receivable | (27,046) | (14,113) |
| Medicare lab recoveries | | 19,000 |
| Inventories | (2,528) | 4,942 |
| Other current assets | (685) | 3,043 |
| Other long-term assets | (94) | 2,004 |
| Accounts payable | 5,054 | (63) |
| Accrued compensation and benefits | 18,314 | 13,653 |
| Other current liabilities | 41,028 | 18,095 |
| Income taxes | 1,221 | (6,215) |
| Other long-term liabilities | 2,190 | (2,990) |
| Net cash provided by operating activities | 217,601 | 216,752 |
| Cash flows from investing activities: | | |
| Additions of property and equipment, net | (65,905) | (55,139) |
| Acquisitions and divestitures, net | (83,990) | (31,752) |
| Investments in and advances to affiliates, net | | |
| | 4,028 | 3,988 |
| Intangible assets | (780) | (580) |
| Net cash used in investing activities | (146,647) | (83,483) |
| Cash flows from financing activities: | | |
| Borrowings | 1,742,232 | 1,549,894 |
| Payments on long-term debt | (1,752,197) | (1,573,338) |
| Deferred financing costs | (29,979) | |
| Stock option exercises | 29,772 | 29,219 |
| Net cash (used in) provided by financing activities | (10,172) | 5,775 |
| Net increase in cash and cash equivalents | 60,782 | 139,044 |
| Cash and cash equivalents at beginning of period | | |
| | 251,979 | 61,657 |
| Cash and cash equivalents at end of period | \$312,761 | \$200,701 |

DAVITA INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)
(dollars in thousands, except per share data)

| | June 30, | December 31, |
|--------|----------|--------------|
| | 2005 | 2004 |
| ASSETS | | |

| | | |
|-----------------------------------------------------------------|-------------|-------------|
| Cash and cash equivalents | \$312,761 | \$251,979 |
| Accounts receivable, less allowance of \$65,886 and \$58,166 | 489,970 | 462,095 |
| Inventories | 35,480 | 31,843 |
| Other current assets | 45,017 | 44,210 |
| Deferred income taxes | 95,980 | 78,593 |
| Total current assets | 979,208 | 868,720 |
| Property and equipment, net | 440,601 | 412,064 |
| Amortizable intangibles, net | 83,431 | 60,719 |
| Investments in third-party dialysis businesses | 2,054 | 3,332 |
| Other long-term assets | 12,239 | 10,898 |
| Goodwill | 1,233,960 | 1,156,226 |
| | \$2,751,493 | \$2,511,959 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--------------------------------------------------------------------------------------------------|-------------|-------------|
| Accounts payable | \$101,381 | \$96,231 |
| Other liabilities | 198,415 | 157,214 |
| Accrued compensation and benefits | 152,347 | 133,919 |
| Current portion of long-term debt | 4,480 | 53,364 |
| Income taxes payable | 2,228 | 1,007 |
| Total current liabilities | 458,851 | 441,735 |
| Long-term debt | 1,361,387 | 1,322,468 |
| Other long-term liabilities | 22,807 | 22,570 |
| Deferred income taxes | 154,813 | 148,859 |
| Minority interests | 66,805 | 53,193 |
| Commitments and contingencies | | |
| 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; 134,862,283 shares issued) | 135 | 135 |
| Additional paid-in capital | 558,676 | 542,714 |
| Retained earnings | 720,564 | 611,287 |
| Treasury stock, at cost (33,913,710 and 36,295,339 shares) | (591,214) | (632,732) |
| Accumulated comprehensive income valuations | (1,331) | 1,730 |
| Total shareholders' equity | 686,830 | 523,134 |
| | \$2,751,493 | \$2,511,959 |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA

(unaudited)

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

| | | | | |
|--|---------------------------------|---------|---------|------|
| | Six months ended June 30, | | | |
| | Q2 2005 | Q1 2005 | Q2 2004 | 2005 |

Financial Results:

| | | | | |
|---------------------------------------------------------------|--------|--------|--------|---------|
| Net income, including Medicare lab prior years' recoveries | \$52.9 | \$56.3 | \$52.4 | \$109.3 |
| Basic EPS | \$0.53 | \$0.57 | \$0.53 | \$1.09 |
| Diluted EPS | \$0.51 | \$0.55 | \$0.50 | \$1.06 |

| | | | | |
|------------------------------------------------------------------------|---------|---------|--------|---------|
| Operating income, excluding Medicare lab prior years' recoveries | \$107.7 | \$106.0 | \$96.5 | \$213.7 |
| Operating income margin | 16.7% | 17.4% | 17.5% | 17.0% |

Other comprehensive income

| | | | | |
|---------------------------------------------------------------------------------------------------------------------|---------|--------|-------|-------|
| Unrealized (loss) gain on securities, net of tax benefit (expense) of \$5.7, \$(6.9), \$(3.6), and \$(1.2) | \$(9.0) | \$10.9 | \$5.7 | \$1.9 |
|---------------------------------------------------------------------------------------------------------------------|---------|--------|-------|-------|

Business Metrics:

| | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|
| Volume | | | | |
| Treatments | 1,964,098 | 1,868,787 | 1,704,882 | 3,832,885 |
| Number of treatment days | 78.0 | 77.0 | 78.0 | 155.0 |
| Treatments per day | 25,181 | 24,270 | 21,857 | 24,728 |
| Per day year over year increase | 15.2% | 13.5% | 7.9% | 14.4% |

| | | | | |
|-------------------------------------------------------------------------|----------|----------|----------|----------|
| Non-acquired growth | 5.5% | 5.6% | 4.5% | 5.6% |
| Revenue | | | | |
| Total operating revenue | \$649 | \$610 | \$552 | \$1,259 |
| Medicare lab prior years' recoveries | \$3 | | \$3 | |
| Total operating revenue, excluding Medicare lab prior years' recoveries | \$646 | \$610 | \$552 | \$1,256 |
| Dialysis revenue per treatment | \$312.52 | \$310.92 | \$311.54 | \$311.74 |
| Per treatment increase (decrease) from previous quarter | 0.51% | (0.1%) | 0.2% | -- |
| Per treatment increase from prior year | 0.31% | 0.0% | 3.3% | 0.15% |
| Expenses | | | | |
| A. Patient care costs | | | | |
| Percent of revenue | 67.3% | 67.2% | 68.0% | 67.3% |
| Per treatment | \$221.66 | \$219.37 | \$220.04 | \$220.54 |
| Per treatment increase (decrease) from previous quarter | 1.04% | (0.9%) | 0.3% | -- |
| Per treatment increase from previous year | 0.74% | 0.0% | 3.4% | 0.39% |
| B. General & administrative expenses | | | | |
| Percent of revenue | 9.3% | 8.9% | 8.3% | 9.1% |
| Per treatment | \$30.48 | \$29.04 | \$26.82 | \$29.77 |
| Per treatment increase from previous quarter | 5.0% | 3.6% | 4.3% | -- |
| Per treatment increase (decrease) from previous year | 13.6% | 13.0% | (0.5%) | 13.3% |
| C. Bad debt expense as a percent of current-period revenue | | | | |
| | 1.8% | 1.8% | 1.8% | 1.8% |
| D. Consolidated effective tax rate | | | | |
| | 38.0% | 38.5% | 39.0% | 38.3% |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA-continued
(unaudited)

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

| | Six months ended June 30, | | | |
|-----------------------------------------------------------------------------------------------------------------|---------------------------|---------|---------|---------|
| | Q2 2005 | Q1 2005 | Q2 2004 | 2005 |
| Cash Flow | | | | |
| Operating cash flow | \$106.2 | \$111.4 | \$90.6 | \$217.6 |
| Operating cash flow, excluding Medicare lab prior years' recoveries | \$104.6 | \$111.4 | \$90.6 | \$216.0 |
| Operating cash flow, excluding Medicare lab prior years' recoveries and tax benefit from stock option exercises | \$92.8 | \$95.5 | \$80.0 | \$188.3 |
| Free cash flow, excluding Medicare lab prior years' recoveries | \$90.0 | \$103.8 | \$75.7 | \$193.7 |
| Free cash flow, excluding Medicare lab prior years' recoveries and tax benefit from stock option exercises | \$78.2 | \$87.8 | \$65.1 | \$166.0 |
| Capital expenditures: | | | | |
| Development | \$22.2 | \$18.1 | \$15.8 | \$40.2 |
| Routine maintenance/IT/other | \$18.6 | \$7.6 | \$14.9 | \$26.3 |
| Acquisition expenditures, net | \$81.5 | \$2.5 | \$14.7 | \$84.0 |

| | | | | |
|----------------------------------------------------|---------|---------|---------|--|
| Accounts Receivable | | | | |
| Net receivables | \$490 | \$473 | \$402 | |
| DSO | 70 | 71 | 68 | |
| Debt/Capital Structure | | | | |
| Total debt | \$1,366 | \$1,368 | \$1,144 | |
| Net debt, net of cash | \$1,053 | \$1,050 | \$943 | |
| Leverage ratio -- (see Note 1) | 1.9x | 2.0x | 2.0x | |
| Clinical (quarterly averages) | | | | |
| Dialysis adequacy -- % of patients with Kt/V > 1.2 | 94% | 94% | 94% | |
| Patients with arteriovenous fistula | 45% | 43% | 40% | |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA-continued
(unaudited)
(dollars in thousands)

Note 1:

The leverage ratio under the Company's existing senior secured credit agreement is defined as all funded debt plus the face amount of all letters of credit issued, minus cash and cash equivalents, divided by "EBITDA". The leverage ratio determines the interest rate margin payable by the Company under the existing senior secured credit agreement by establishing the margin over the base interest rate (LIBOR) that is applicable. The following Leverage Ratio was calculated using "Consolidated EBITDA" as defined in the indentures governing our recently issued Senior Notes. Such calculation is consistent with the definition of "EBITDA" contained in the existing senior secured credit agreement, except that EBITDA under our existing senior secured credit agreement is based on the last twelve-months and is not based on annualized EBITDA, and pro forma incremental "EBITDA" relating to acquisitions is included in the calculation of "EBITDA" under the existing senior secured credit agreement and is not included in the following calculations.

| | Q2 2005 | Q1 2005 | Q2 2004 |
|---------------------------------------------------------------|-------------|-------------|-------------|
| Net income | \$52,943 | \$56,334 | \$52,401 |
| Debt expense | 24,897 | 17,534 | 11,258 |
| Refinancing charges | | 6,872 | |
| Income taxes | 32,420 | 35,275 | 33,475 |
| Depreciation and amortization | 25,860 | 24,848 | 20,927 |
| Minority interests and equity income, net | 6,125 | 4,016 | 3,503 |
| Swap valuation loss (gain) | 2,131 | (8,392) | |
| Medicare lab prior years' recoveries | (2,641) | | |
| "Consolidated EBITDA" as defined in the indentures | \$141,735 | \$136,487 | \$121,564 |
| Annualized "Consolidated EBITDA" as defined in the indentures | \$566,940 | \$545,948 | \$486,256 |
| | Q2 2005 | Q1 2005 | Q2 2004 |
| Total debt | \$1,365,867 | \$1,368,352 | \$1,144,115 |
| Letters of credit issued | 22,959 | 22,959 | 22,984 |
| | 1,388,826 | 1,391,311 | 1,167,099 |
| Less: cash and cash equivalents | (312,761) | (317,879) | (200,701) |
| | \$1,076,065 | \$1,073,432 | \$966,398 |
| Annualized "Consolidated EBITDA" as defined in the indentures | \$566,940 | \$545,948 | \$486,256 |
| Leverage Ratio | 1.9x | 2.0x | 2.0x |

DAVITA INC.

RECONCILIATIONS FOR NON-GAAP MEASURES
(unaudited)
(dollars in thousands)

1. Operating income, excluding Medicare lab recoveries related to prior years' services:

Six months
ended

| | June 30, | | | |
|--------------------------------------------|-----------|-----------|------------|----------|
| | Q2 2005 | Q1 2005 | 2005 | Q2 2004 |
| Operating income | \$110,315 | \$105,996 | \$ 216,311 | \$96,467 |
| Less: Medicare lab prior years' recoveries | (2,641) | | (2,641) | |
| | \$107,674 | \$105,996 | \$ 213,670 | \$96,467 |

2. Operating cash flow, excluding Medicare lab recoveries related to prior years' services, and tax benefit from stock option exercises:

| | Six months ended June 30, | | Rolling 12-Month Period ended | | |
|---------------------------------------------------------------------|---------------------------|-----------|-------------------------------|----------|-----------|
| | Q2 2005 | Q1 2005 | 2005 | Q2 2004 | Q2 2005 |
| Cash provided by operating activities | \$106,195 | \$111,406 | \$217,601 | \$90,636 | \$420,794 |
| Less: Medicare lab prior years' recoveries | (2,641) | | (2,641) | (10,934) | |
| Related income tax expense | 1,027 | | 1,027 | 4,261 | |
| Operating cash flow, excluding Medicare lab prior years' recoveries | \$104,581 | \$111,406 | \$215,987 | \$90,636 | \$414,121 |
| Less: Tax benefit from stock option exercises | (11,774) | (15,934) | (27,708) | (10,659) | (45,430) |
| | \$92,807 | \$ 95,472 | \$188,279 | \$79,977 | \$368,691 |

3. Free cash flow and free cash flow, excluding Medicare lab recoveries related to prior years' services, and tax benefit from stock option exercises:

Free cash flow represents net cash provided by operating activities less on-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 acquisition and 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.

| | Six months ended June 30, | | Rolling 12-Month Period ended | | |
|-----------------------------------------------------------------------|---------------------------|-----------|-------------------------------|----------|-----------|
| | Q2 2005 | Q1 2005 | 2005 | Q2 2004 | Q2 2005 |
| Cash provided by operating activities | \$106,195 | \$111,406 | \$217,601 | \$90,636 | \$420,794 |
| Less: Expenditures for routine maintenance and information technology | (14,614) | (7,634) | (22,248) | (14,899) | (48,087) |
| Free cash flow | \$ 91,581 | \$103,772 | \$195,353 | \$75,737 | \$372,707 |
| Less: Medicare lab prior years' recoveries | (2,641) | | (2,641) | (10,934) | |
| Related income tax expense | 1,027 | | 1,027 | 4,261 | |
| Free cash flow, excluding Medicare lab prior years' recoveries | \$ 89,967 | \$103,772 | \$193,739 | \$75,737 | \$366,034 |
| Less: Tax benefit from stock option exercises | (11,774) | (15,934) | (27,708) | (10,659) | (45,430) |
| | \$78,193 | \$87,838 | \$166,031 | \$65,078 | \$320,604 |

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<https://stage.mediaroom.com/davitainc/press-releases?item=122599>