

DaVita Inc. Reports 4th Quarter and Year Ended 2003 Results

EL SEGUNDO, Calif., Feb. 11 /PRNewswire-FirstCall/ -- DaVita Inc. (NYSE: DVA), today announced results for the quarter and year ended December 31, 2003. Net earnings for the fourth quarter and the full year, excluding refinancing charges and Medicare lab recoveries, were \$53.9 million and \$177.3 million or \$0.79 and \$2.51 per share, respectively. However, the fourth quarter benefited from a year-to-date reduction in the annualized effective tax rate that added \$0.02 to fourth quarter earnings per share.

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

Net earnings, on a GAAP basis including these items, for the three and twelve months ended December 31, 2003, were \$62.8 million and \$175.8 million, or \$0.92 and \$2.49 per share, respectively.

Financial and operating highlights include:

- Cash Flow: For the 12 months ended December 31, 2003, operating cash flow was \$294 million and free cash flow was \$249 million.
- Operating Income: Operating income for the three and twelve months ended December 31, 2003, excluding Medicare lab recoveries of \$24 million for prior years' services, was \$97 million and \$355 million, respectively.
- Medicare Lab Recoveries: The fourth quarter results include \$24 million of additional revenue and pre-tax income from recoveries of prior period Medicare billings of our Florida lab, principally associated with services provided from 1998 to 2000. In 2002, we recorded Medicare lab recoveries of \$59 million for prior years' services. Cumulatively, this brings our Medicare lab recoveries to nearly 90% of total disputed billings for the period from 1995 through 2001.
- Volume: Total treatments for the fourth quarter were 1,666,225, or 20,959 treatments per day, an increase of 8.5% compared to the fourth quarter of last year. Non-acquired treatment growth was 4.3%.
- Effective Tax Rate: The final effective annual income tax rate for 2003 was 39.0%, resulting in an effective rate of 37.5% for the fourth quarter.
- Facility Activity: As of December 31, 2003, we operate or provide administrative services at 566 outpatient dialysis centers serving approximately 48,500 patients. During the fourth quarter we acquired 11 centers and opened 8 de novo centers. For the full year, we acquired 27 centers, including a controlling interest in two centers in which we previously held a minority interest, and opened 30 de novo centers. We also closed five centers.

Recent transactions:

- On October 14, 2003 we completed the redemption of the remaining \$145 million of 7% convertible notes for cash except for \$526,000 of notes that were converted into approximately 16,000 shares of stock.
- On November 18, 2003, we completed a second refinancing of our senior credit facilities resulting in lower interest rates and modification of certain covenants.

Outlook:

- Our 2004 operating income outlook is \$360 to \$385 million. "While at this time, we are not changing our 2004 range, we are entering 2004 with solid momentum. As a result, the probability that our performance will be at the higher end of this range or exceed the range is greater than the probability that we will be at the lower end of the range," Kent Thiry, Chairman and CEO stated.

DaVita will be holding a conference call to discuss its fourth quarter and year ended 2003 results on February 11, 2004, at 1:00 p.m. Eastern Standard 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 charges 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 quarter ended September 30, 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 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 the ongoing review by the US Attorney's Office and HHS Office of Inspector General in Philadelphia.

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

DAVITA INC.

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

| | Three months ended | | Years ended | |
|---|--------------------|-----------|--------------|-------------|
| | December 31, | | December 31, | |
| | 2003 | 2002 | 2003 | 2002 |
| Net operating revenues | \$553,446 | \$503,096 | \$2,016,418 | \$1,854,632 |
| Operating expenses and charges: | | | | |
| Patient care costs | 359,965 | 317,061 | 1,360,556 | 1,217,685 |
| General and administrative | 40,338 | 41,338 | 159,628 | 154,073 |
| Depreciation and amortization | 19,985 | 16,895 | 74,687 | 64,665 |
| Provision for uncollectible accounts | 9,469 | 7,623 | 35,700 | 26,877 |
| Minority interests and equity income, net | 2,499 | 1,802 | 7,312 | 7,506 |
| Total operating expenses and charges | 432,256 | 384,719 | 1,637,883 | 1,470,806 |
| Operating income | 121,190 | 118,377 | 378,535 | 383,826 |
| Debt expense | 11,766 | 19,458 | 66,828 | 71,636 |
| Refinancing charges | 9,261 | | 26,501 | 48,930 |
| Other income | 335 | 492 | 3,060 | 3,997 |
| Income before income taxes | 100,498 | 99,411 | 288,266 | 267,257 |
| Income tax expense | 37,700 | 40,600 | 112,475 | 109,928 |
| Net income | \$62,798 | \$58,811 | \$175,791 | \$157,329 |
| Earnings per share: | | | | |
| Basic | \$0.98 | \$0.97 | \$2.79 | \$2.19 |

| | | | | |
|---------|--------|--------|--------|--------|
| Diluted | \$0.92 | \$0.81 | \$2.49 | \$1.96 |
|---------|--------|--------|--------|--------|

Weighted average
shares for earnings
per share:

| | | | | |
|-------|------------|------------|------------|------------|
| Basic | 64,253,852 | 60,773,914 | 62,897,079 | 71,831,158 |
|-------|------------|------------|------------|------------|

| | | | | |
|---------|------------|------------|------------|------------|
| Diluted | 68,440,856 | 79,098,156 | 75,840,235 | 90,480,206 |
|---------|------------|------------|------------|------------|

STATEMENTS OF COMPREHENSIVE INCOME

| | | | | |
|--|----------|----------|-----------|-----------|
| Net income | \$62,798 | \$58,811 | \$175,791 | \$157,329 |
| Unrealized loss on securities, net of tax of \$590 | (924) | (924) | | |
| Comprehensive income | \$61,874 | \$58,811 | \$174,867 | \$157,329 |

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

Years ended December 31,
2003 2002

Cash flows from operating activities:

| | | |
|--|-----------|-----------|
| Net income | \$175,791 | \$157,329 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 74,687 | 64,665 |
| Refinancing charges | 26,501 | 48,930 |
| Loss (gain) on divestitures | 2,130 | (1,151) |
| Deferred income taxes | 20,914 | 62,172 |
| Non-cash debt expense | 3,124 | 3,217 |
| Stock option expense and tax benefits | 20,180 | 22,212 |
| Equity investment (income) | (1,596) | (1,791) |
| Minority interests in income of consolidated subsidiaries | 8,908 | 9,299 |
| Distributions to minority interests | (7,663) | (6,165) |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: | | |
| Accounts receivable | (41,369) | (17,699) |
| Medicare lab recoveries | (19,000) | |
| Inventories | 3,159 | (342) |
| Other current assets | (13,297) | (19,089) |
| Other long-term assets | 4,692 | 527 |
| Accounts payable | (6,875) | 10,822 |
| Accrued compensation and benefits | 5,821 | 6,837 |
| Other current liabilities | 9,958 | 2,585 |
| Income taxes | 17,810 | (4,821) |
| Other long-term liabilities | 9,773 | 4,458 |
| Net cash provided by operating activities | 293,648 | 341,995 |

Cash flows from investing activities:

| | | |
|--|-----------|-----------|
| Additions of property and equipment, net | (100,272) | (102,712) |
| Acquisitions and divestitures, net | (97,370) | (18,511) |
| Investments in and advances to affiliates, net | 4,456 | 5,064 |
| Intangible assets | (790) | (342) |
| Net cash used in investing activities | (193,976) | (116,501) |

Cash flows from financing activities:

| | | |
|--|-------------|-------------|
| Borrowings | 4,766,276 | 2,354,105 |
| Payments on long-term debt | (4,797,994) | (1,855,199) |
| Debt redemption premium | (14,473) | (40,910) |
| Deferred financing costs | (4,193) | (10,812) |
| Net proceeds from issuance of common stock | 23,056 | 29,257 |
| Purchase of treasury shares | (107,162) | (642,171) |
| Net cash used in financing activities | (134,490) | (165,730) |

Net (decrease) increase in cash and cash equivalents

| | | |
|--|----------|----------|
| | (34,818) | 59,764 |
| Cash and cash equivalents at beginning of year | 96,475 | 36,711 |
| Cash and cash equivalents at end of year | \$61,657 | \$96,475 |

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

| | December 31, 2003 | 2002 |
|--|----------------------|--------------------|
| ASSETS | | |
| Cash and cash equivalents | \$61,657 | \$96,475 |
| Accounts receivable, less allowance of \$52,554 and \$48,927 | 387,933 | 344,292 |
| Medicare lab recoveries | 19,000 | |
| Inventories | 32,853 | 34,929 |
| Other current assets | 43,875 | 28,667 |
| Deferred income taxes | 59,740 | 40,163 |
| Total current assets | 605,058 | 544,526 |
| Property and equipment, net | 342,447 | 298,475 |
| Amortizable intangibles, net | 49,971 | 63,159 |
| Investments in third-party dialysis businesses | 3,095 | 3,227 |
| Other long-term assets | 10,771 | 1,520 |
| Goodwill | 934,188 | 864,786 |
| | \$1,945,530 | \$1,775,693 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts payable | \$71,868 | \$77,890 |
| Other liabilities | 112,654 | 101,389 |
| Accrued compensation and benefits | 100,909 | 95,435 |
| Current portion of long-term debt | 50,557 | 7,978 |
| Income taxes payable | 26,832 | 9,909 |
| Total current liabilities | 362,820 | 292,601 |
| Long-term debt | 1,117,002 | 1,311,252 |
| Other long-term liabilities | 19,310 | 9,417 |
| Deferred income taxes | 106,240 | 65,930 |
| Minority interests | 33,287 | 26,229 |
| 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; 89,870,803 and 88,874,896 shares issued) | 90 | 89 |
| Additional paid-in capital | 539,575 | 519,369 |
| Retained earnings | 389,128 | 213,337 |
| Treasury stock, at cost (25,368,019 and 28,216,177 shares) | (620,998) | (662,531) |
| Accumulated other comprehensive loss | (924) | |
| Total shareholders' equity | 306,871 | 70,264 |
| | \$1,945,530 | \$1,775,693 |

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA

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

| | Q4 2003 | Q3 2003 | Q4 2002 | YE 2003 |
|--|---------|---------|---------|---------|
| Financial Results: | | | | |
| Net earnings excluding refinancing charges and Medicare lab recoveries for prior years' services | \$53.9 | \$48.5 | \$33.7 | \$177.3 |
| Basic EPS | \$0.84 | \$0.74 | \$0.55 | \$2.82 |
| EPS assuming dilution | \$0.79* | \$0.67 | \$0.49 | \$2.51 |
| *The fourth quarter benefited from a year-to-date reduction in the annualized effective tax rate that added \$0.02 to fourth quarter earnings per share. | | | | |
| Operating income, excluding Medicare lab recoveries | \$97.2 | \$95.2 | \$76.8 | \$354.5 |
| Operating income margin | 18.4% | 18.5% | 16.6% | 17.8% |

Business Metrics:
Volume

| | | | | |
|---------------------------------|-----------|-----------|-----------|-----------|
| Treatments | 1,666,225 | 1,625,058 | 1,537,821 | 6,373,894 |
| Number of treatment days | 79.5 | 79 | 79.6 | 312.9 |
| Treatments per day | 20,959 | 20,570 | 19,319 | 20,370 |
| Per day year over year increase | 8.5% | 7.1% | 3.8% | 6.7% |
| Non-acquired growth | 4.3% | 3.8% | 2.9% | 3.9% |

| | | | | |
|--|--------|-------|--------|---------|
| Revenue | | | | |
| Total revenue | \$553 | \$513 | \$503 | \$2,016 |
| Less Medicare lab recoveries for prior years' services | \$(24) | | \$(41) | \$(24) |
| Revenue excluding Medicare lab recoveries | \$529 | \$513 | \$462 | \$1,992 |

| | | | | |
|--|----------|----------|----------|----------|
| Dialysis revenue per treatment | \$306.36 | \$306.20 | \$291.02 | \$302.75 |
| Per treatment increase from previous quarter | 0.0% | 1.6% | 0.0% | -- |
| Per treatment increase from prior year | 5.3% | 5.3% | 2.8% | 4.1% |

Expenses

A. Patient care costs

| | | | | |
|--|----------|----------|----------|----------|
| Percent of revenue | 68.0% | 67.8% | 68.7% | 68.3% |
| Per treatment | \$216.04 | \$214.08 | \$206.17 | \$213.46 |
| Per treatment increase from previous quarter | 0.9% | 0.6% | 1.4% | -- |

B. General & administrative expenses

| | | | | |
|---|---------|---------|---------|---------|
| Percent of revenue | 7.6% | 7.8% | 9.0% | 8.0% |
| Per treatment | \$24.21 | \$24.57 | \$26.88 | \$25.04 |
| Per treatment (decrease) increase from previous quarter | (1.5%) | (8.9%) | 10.1% | -- |

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

| | | | | |
|--|------|------|------|------|
| | 1.8% | 1.8% | 1.8% | 1.8% |
|--|------|------|------|------|

D. Consolidated

| | | | | |
|--------------------|-------|-------|-------|-------|
| effective tax rate | 37.5% | 39.5% | 40.8% | 39.0% |
|--------------------|-------|-------|-------|-------|

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA, CONTINUED

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

| | Q4 2003 | Q3 2003 | Q4 2002 | YE 2003 |
|--|---------|---------|---------|---------|
| Cash Flow | | | | |
| Operating cash flow, excluding Medicare lab recoveries | \$34.6 | \$99.6 | \$41.2 | \$293.6 |
| Free cash flow, excluding Medicare lab recoveries | \$19.2 | \$90.1 | \$24.5 | \$248.8 |
| Capital expenditures: | | | | |
| Development | \$22.7 | \$12.9 | \$19.6 | \$57.9 |
| Routine maintenance /IT/other | \$15.4 | \$9.5 | \$16.7 | \$44.9 |
| Acquisition expenditures, net | \$30.4 | \$19.9 | \$6.5 | \$97.4 |
| Accounts Receivable | | | | |
| Net receivables | \$388 | \$357 | \$344 | |
| DSO | 69 | 65 | 70 | |
| Debt/Capital Structure | | | | |
| Total debt | \$1,168 | \$1,323 | \$1,319 | |
| Net debt, net of cash | \$1,106 | \$1,051 | \$1,223 | |

| | | | | |
|---|---------|---------|---------|---------|
| Leverage ratio - last quarter annualized (see Note 1) | 2.3x | 2.3x | 3.2x | |
| Shares repurchased (in millions) | 0.7 | 2.7 | 1.9 | 3.4 |
| Average repurchase price | \$34.20 | \$30.34 | \$23.80 | \$31.13 |

Clinical (quarterly averages)

| | | | | |
|--|-----|-----|-----|--|
| Dialysis adequacy - % of patients with Kt/V greater than 1.2 | 93% | 93% | 92% | |
| Anemia measure - % of patients with HCT greater than 33 | 85% | 83% | 83% | |

Note 1. Leverage ratio is defined as net debt (total debt net of cash) to operating income excluding depreciation, amortization, minority interests and prior period Medicare lab revenue. The operating income reconciliation is provided below.

DAVITA INC.
RECONCILIATIONS FOR NON-GAAP MEASURES
(dollars in thousands)

1. Net earnings excluding refinancing charges and Medicare lab recoveries:

| | Q4 2003 | Q3 2003 | Q4 2002 | YE 2003 |
|--|----------|----------|----------|-----------|
| Net earnings | \$62,798 | \$38,060 | \$58,811 | \$175,791 |
| Add back: Refinancing charges | 9,261 | 17,240 | 26,501 | |
| Less: Medicare lab recoveries for prior years' services (24,000) | | | (41,555) | (24,000) |
| Related income tax expense | 5,837 | (6,818) | 16,435 | (981) |
| | \$53,896 | \$48,482 | 33,691 | \$177,311 |

2. Operating income excluding Medicare lab recoveries, and excluding depreciation, amortization, and minority interests:

| | Q4 2003 | Q3 2003 | Q4 2002 | YE 2003 |
|--|-----------|-----------|-----------|-----------|
| Operating income | \$121,190 | \$95,211 | \$118,377 | \$378,535 |
| Less: Medicare lab recoveries for prior years' services (24,000) | (24,000) | | (41,555) | (24,000) |
| | \$97,190 | \$95,211 | \$76,822 | \$354,535 |
| Add back: Depreciation and amortization | 19,985 | 19,336 | 16,895 | 74,687 |
| Minority interests and equity income, net | 2,499 | 1,706 | 1,802 | 7,312 |
| | \$119,674 | \$116,253 | \$95,519 | \$436,534 |

3. Operating cash flow, excluding Medicare lab recoveries collected in the period:

| | Q4 2003 | Q3 2003 | Q4 2002 | YE 2003 |
|---|----------|----------|----------|-----------|
| Cash provided by operating activities | \$34,576 | \$99,645 | \$66,318 | \$293,648 |
| Less: Medicare lab recoveries collected in the period | | | (41,555) | |
| Related income tax expense | | | 16,435 | |
| | \$34,576 | \$99,645 | \$41,198 | \$293,648 |

4. Free cash flow, excluding Medicare lab recoveries collected in the period:

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.

| | Q4 2003 | Q3 2003 | Q4 2002 | YE 2003 |
|---|----------|----------|----------|-----------|
| Cash provided by operating activities | \$34,576 | \$99,645 | \$66,318 | \$293,648 |
| Less: Expenditures for routine maintenance and information technology | (15,362) | (9,533) | (16,706) | (44,898) |
| Medicare lab recoveries collected in the period | | (41,555) | | |
| Related income tax expense | | 16,435 | | |
| | \$19,214 | \$90,112 | \$24,492 | \$248,750 |

SOURCE DaVita Inc.

<https://stage.mediaroom.com/davitainc/press-releases?item=123037>