DaVita Inc. Reports 2nd Quarter 2004 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc., today announced results for the quarter ended June 30, 2004. Net income for the three months and six months ended June 30, 2004 was \$52.4 million and \$105.3 million, or \$0.50 and \$1.02 per share, respectively.

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

Financial and operating highlights include:

- -- Cash Flow: For the rolling 12 months ended June 30, 2004 operating cash flow was \$351 million and free cash flow was \$305 million. Excluding the tax benefit from stock option exercises and the after-tax benefit of prior period Medicare lab recoveries, rolling 12-month operating cash flow was \$300 million and free cash flow was \$254 million
- -- Operating Income: Operating income for the three and six months was \$96.5 million and \$193.3 million, respectively.
- -- Volume: Total treatments for the second quarter were 1,704,882 or 21,857 treatments per day, an increase of 7.9% per day compared to the second quarter of last year. Non-acquired treatment growth was 4.5%.
- -- Center Activity: As of June 30, 2004, we operated or provided administrative services at 592 outpatient centers serving approximately 50,000 patients. During the second quarter we acquired 7 centers, opened 13 de novo centers and provided administrative services to one additional center.

Recent Transactions

On July 22, 2004, we announced that we had entered into a definitive agreement to acquire Physicians Dialysis, Inc. ("PDI"), for approximately \$150 million in cash. The transaction is expected to close by the end of the third quarter. As previously disclosed, we anticipate this acquisition to be EPS neutral in 2005. Operating synergies and growth opportunities over the subsequent 24 months as several centers mature are expected to deliver incremental earnings over the longer-term.

On July 30, 2004, we amended our existing credit facilities in order to modify certain covenants and borrowed an additional \$250 million under a new Term Loan C to fund the PDI transaction as well as other potential acquisitions or share repurchases. We are also in the process of extending the maturity of the Term Loan B until June 30, 2010. We intend to enter into interest rate swap transactions that will effectively fix the interest rate on approximately 40% of our long-term debt.

In May 2004, our Board of Directors approved a three-for-two stock split payable on June 15, 2004, to stockholders of record on June 1, 2004. All share and per share data have been restated to reflect the effects of the stock split.

Outlook

We are increasing our 2004 operating income target to \$385 to \$400 million. Regarding 2005, Centers for Medicare and Medicaid Services (CMS) recently released proposed policy changes with respect to EPO utilization and the 2003 Medicare Modernization Act (MMA) implementation that have the potential to have a material negative impact on our operating income going forward. Our current assessment, which captures a majority of the likely outcomes, is that operating income could be reduced by \$15 to \$30 million annually. Taking this uncertainty into account, we currently expect 2005 operating income to be flat to 6% higher than the 2004 level.

DaVita will be holding a conference call to discuss its second quarter 2004 results on August 3, 2004, at 12:00 PM 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 press release includes non-GAAP financial measures, which we believe provide useful information to investors by excluding 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 March 31, 2004. 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
- -- legal compliance risks, such as the ongoing review by the U.S. Attorney's Office and HHS Office of the 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

(unaudited)

(dollars in thousands, except per share data)

Six months ended Three months ended June 30. June 30, 2003 2004

Net operating revenues \$551,630 \$489,883 \$1,087,061 \$949,690

Operating expenses and

charges:

335,986 Patient care costs 375,139 738,568 652,696 General and administrative 45,727 42,583 88,331 79,370 Depreciation and amortization 20,927 17,921 41,197 35,366 Provision for uncollectible accounts 9,867 8,780 19,444 17,017 Minority interests and equity income, net 3,503 1,813 6,221 3,107 Total operating expenses and 893,761 787,556

455,163 407,083 charges

Operating income 96,467 82,800 193,300 162,134

11,258 Debt expense 19,495 22,894 38,951 Other income 667 890 2,110 1,675

Income before income taxes 85,876 64,195 124.858 172,516 Income tax expense 33,475 25,675 67,250 49,925

Net income \$52,401 \$38,520 \$105,266 \$74,933

Earnings per share:

Basic \$0.53 \$1.06 \$0.82 \$0.42 Diluted \$0.50 \$0.37 \$1.02 \$0.72

Weighted average shares for earnings per share:

Basic 99,686,182 91,958,932 98,873,220 91,646,761 104,010,356 118,783,081 103,416,270 118,446,739 Diluted

DAVITA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)

> Six months ended June 30, 2004 2003

Cash flows from operating activities:

Net income \$105,266 \$74,933

Adjustments to reconcile net income to cash

provided by operating activities:

Depreciation and amortization 41,197 35,366

25,048 Stock option expense and tax benefits 5,699 Deferred income taxes 4,828 4,754 (Gain) loss on divestitures (481)343 1,958 Non-cash debt expense 951 Equity investment income (1,145)(967)Minority interests in income of consolidated subsidiaries 4,074 Distributions to minority interests (3,634)(3,685)Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: Accounts receivable (740)(14,113)Medicare lab recoveries 19,000 5,327 Inventories 4.942 3,043 2,495 Other current assets Other long-term assets 2,004 (2,774)5,852 Accounts payable (63)(716)13,653 Accrued compensation and benefits Other current liabilities 18,095 13,554 Income taxes (6,215)10,577 (2,990)Other long-term liabilities 3,377 Net cash provided by operating activities 216,752 159,427 Cash flows from investing activities: Additions of property and equipment, net (55, 139)(42,077)Acquisitions and divestitures, net (31,752)(47,035)Investments in and advances to affiliates, net 3,988 2.663 Intangible assets (580)754 Net cash used in investing activities (83,483) (85,695) Cash flows from financing activities: Borrowings 1,549,894 1,350,195 (1,573,338) (1,212,574) Payments on long-term debt Stock option exercises 29,219 7,778 Net cash provided by financing activities 5.775 145.399 Net increase in cash and cash equivalents 139,044 219,131 Cash and cash equivalents at beginning of period 61,657 96.475 Cash and cash equivalents at end of period \$200,701 \$315,606

DAVITA INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

June 30, December 31, 2004 2003

\$ 61,657

ASSETS

Cash and cash equivalents \$200,701

Accounts receivable, less allowance

of \$57,264 and \$52,554 402,046 387,933

Medicare lab recoveries 19,000 28,337 32,853 Inventories Other current assets 40,836 43,875 Deferred income taxes 76,513 59,740 Total current assets 748.433 605,058 363,164 Property and equipment, net 342,447 Amortizable intangibles, net 49,095 49,971 3,791 3,095 Investments in third-party dialysis businesses

 Other long-term assets
 12,352
 10,771

 Goodwill
 959,539
 934,188

\$2.136.374 \$1.945.530

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$71,868 \$ 71,805 Other liabilities 129,235 112,654 100,909 Accrued compensation and benefits 112,854 Current portion of long-term debt 50,557 49.868 Income taxes payable 20,617 26,832 Total current liabilities 384,379 362.820 1,094,247 1,117,002 Long-term debt

 Long-term debt
 1,094,247
 1,117,002

 Other long-term liabilities
 18,308
 19,310

 Deferred income taxes
 127,841
 106,240

 Minority interests
 40,391
 33,287

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 and 134,806,204 shares issued) 135 135 Additional paid-in capital 541,121 539,575 Retained earnings 494,299 389,083 Treasury stock, at cost (34,714,719 and (566,534) (620,998)38,052,028 shares) Accumulated comprehensive income valuations 2,187 (924)Total shareholders' equity 471,208 306,871 \$2,136,374 \$1,945,530 DAVITA INC. SUPPLEMENTAL FINANCIAL DATA (unaudited) (dollars in millions, except for per share and per treatment data) Q2 2004 Q1 2004 Q2 2003 YTD 2004 Financial Results: \$52.9 \$38.5 Net earnings \$52.4 \$105.3 Basic EPS \$0.53 \$0.54 \$0.42 \$1.06 EPS assuming dilution \$0.50 \$0.51 \$0.37 \$1.02 Operating income \$96.5 \$96.8 \$82.8 \$193.3 Operating income margin 17.5% 18.1% 16.9% 17.8% Other comprehensive income Unrealized gain (loss) on securities, net of tax benefit (expense) of \$(3.6), \$1.6 and \$(2.0) \$5.7 \$(2.6) \$3.1 **Business Metrics:** Volume Treatments 1,704,882 1,657,055 1,579,580 3,361,937 Number of treatment days 78.0 77.5 78.0 155.5 21,857 21,381 Treatments per day 20,251 21,620 Per day year over year 6.2% 7.9% 8.7% 8.3% increase 3.4% Non-acquired growth 4.5% 4.1% 4.3% Revenue

Total operating revenue \$552 \$535 \$490 \$1,087

Dialysis revenue per

treatment \$311.54 \$311.02 \$301.52 \$311.28

Per treatment increase from

previous quarter 0.2% 1.5% 1.8%

Per treatment increase from

prior year 3.3% 5.0% 3.8% 4.1%

Expenses

A. Patient care costs

Percent of revenue 68.0% 67.9% 68.6% 67.9% Per treatment \$220.04 \$219.32 \$212.71 \$219.69

Per treatment increase from

previous quarter 0.3% 1.5% 0.9%

Per treatment increase from

previous year 3.4% 4.1% 6.1% 3.8%

B. General & administrative

expenses

Percent of revenue 8.3% 8.0% 8.7% 8.1% Per treatment \$26.82 \$25.71 \$26.96 \$26.27 Per treatment increase from previous quarter 4.3% 6.2% 10.1% Per treatment increase

(decrease) from previous

year (0.5%)5.0% (2.3%)2.0%

C. Bad debt expense as a percent

of current-period revenue 1.8% 1.8% 1.8%

D. Consolidated effective

tax rate 39.0% 39.0% 40.0% 39.0%

SUPPLEMENTAL FINANCIAL DATA - continued (unaudited)

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

Q2 2004 Q1 2004 Q2 2003 YTD 2004

Cash Flow

Operating cash flow, excluding

Medicare lab recoveries \$90.6 \$114.5 \$78.8 \$205.2

Operating cash flow, excluding Medicare lab recoveries and tax

benefit from stock option

\$80.0 \$100.1 \$74.5 \$180.1 exercises

Free cash flow, excluding Medicare

lab recoveries \$75.7 \$108.7 \$69.3 \$184.4

Free cash flow, excluding Medicare

lab recoveries and tax benefit

from stock option exercises \$65.1 \$94.3 \$64.9 \$159.4

Capital expenditures:

\$15.8 \$19.2 \$10.4 \$35.0 Development Routine maintenance/IT/other \$14.9 \$5.8 \$9.5 \$20.7 Acquisition expenditures, net \$14.7 \$17.1 \$46.0 \$31.8

Accounts Receivable

Net receivables \$402 \$400 \$346 DSO 70 66

Debt/Capital Structure

Total debt \$1,144 \$1,155 \$1,457 Net debt, net of cash \$943 \$1,002 \$1,141

Leverage ratio - last quarter

annualized (see Note 1) 2.0x 2.1x 2.8x

Clinical (quarterly averages)

Dialysis adequacy - % of patients

with Kt/V > 1.294% 94% 93%

Anemia measure - % of patients

with HCT > 33 85% 86% 84%

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

DAVITA INC. RECONCILIATIONS FOR NON-GAAP MEASURES (unaudited)

(dollars in thousands)

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

> Rolling 12-Month Period ended Q2

Q2 2004 Q1 2004 YTD 2004 Q2 2003

Cash provided by

operating activities \$90,636 \$126,116 \$216,752 \$78,778 \$350,973

Less: Medicare lab recoveries related

to prior period services (19,000) (19,000)(19,000)

Related income tax

expense 7,410 7,410 7,410

Operating cash flow, excluding Medicare

\$90,636 \$114,526 \$205,162 \$78,778 \$339,383 lab recoveries

Less: Tax benefit from stock option

exercises (10,659) (14,389) (25,048) (4,321) (39,529)

\$79,977 \$100,137 \$180,114 \$74,457 \$299,854

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

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 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.

Rolling 12-Month Period ended Q2

Q2 2004 Q1 2004 YTD 2004 Q2 2003 2004

Cash provided by

operating activities \$90,636 \$126,116 \$216,752 \$78,778 \$350,973

Less: Expenditures for routine maintenance and

information technology (14,899) (5,816) (20,715) (9,513) (45,610)

Free cash flow \$75,737 \$120,300 \$196,037 \$69,265 \$305,363

Medicare lab recoveries related to prior period

services

(19,000) (19,000) (19,000)

Related income tax expense 7,410 7,410

7,410

Free cash flow, excluding

Medicare lab recoveries \$75,737 \$108,710 \$184,447 \$69,265 \$293,773

Less: Tax benefit from

stock option exercises (10,659) (14,389) 25,048) (4,321) (39,529)

\$65,078 \$94,321 \$159,399 \$64,944 \$254,244

3. Operating income excluding depreciation, amortization, and minority interests (used for debt leverage ratio calculation):

Q2 2004 Q1 2004 Q2 2003 YTD 2004

Operating income \$96,467 \$96,833 \$82,800 \$193,300

Add back: Depreciation and

amortization 20,927 20,270 17,921 41,197

Minority interests

and equity income, net 3,503 2,718 1,813 6,221

\$120,897 \$119,821 \$102,534 \$240,718

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