DaVita 4th Quarter 2007 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc. today announced results for the quarter and year ended December 31, 2007. Net income for the three months ended December 31, 2007 was \$85.7 million, or \$0.79 per share, as compared to \$74.1 million, or \$0.70 per share, for the same period of 2006.

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

Net income for the year ended December 31, 2007 excluding after-tax gains from insurance settlements, the after-tax valuation gain on the Company's product supply agreement with Gambro Renal Products and after-tax gains on the sale of investment securities was \$340.3 million, or \$3.17 per share, as compared with \$266.5 million or \$2.52 per share for the same period of 2006.

Financial and operating highlights include:

- -- Cash Flow: For the year ended December 31, 2007 operating cash flow was \$533 million and free cash flow was \$421 million. For the three months ended December 31, 2007 operating cash flow was \$223 million and free cash flow was \$185 million.
- -- Operating Income: Operating income for the three months ended December 31, 2007 was \$195 million, as compared to \$189 million for 2006. Operating income for the year ended December 31, 2007 was \$862 million including pre-tax gains from insurance settlements of \$6.8 million, and the pre-tax valuation gain on the Company's product supply agreement with Gambro Renal Products of \$55 million, and was \$800 million excluding these items, as compared to \$701 million for 2006.
- -- Volume: Total treatments for the fourth quarter of 2007 were 3,983,542 or 50,045 treatments per day, as compared to 3,723,198 or 47,369 treatments per day for the fourth quarter of 2006. Non-acquired treatment growth in the quarter was 4.6% over the prior year's fourth quarter.
- -- Effective Tax Rate: The annual effective tax rate for the year ended December 31, 2007 was 39.2% and was 37.9 % for the three months ended December 31, 2007. We currently project our annual effective tax rate for 2008 to be in the range of 39.0% to 40.0%.
- -- Center Activity: As of December 31, 2007, we operated or provided administrative services at 1,359 outpatient dialysis centers serving approximately 107,000 patients, of which 1,336 centers are consolidated in our financial statements. During the fourth quarter of 2007, we acquired 6 centers, opened 25 new centers, closed 3 centers and discontinued providing administrative services to 20 centers. We also acquired a 50% non-controlling ownership interest in 6 centers.

Outlook

Our operating income guidance for 2008, excluding the impact of any potential Medicare legislation, is still projected to be in the range of \$790-850 million; however, we continue to believe that operating income is more likely to be in the lower end of the range for 2008. We are entering into a period of unusual earnings uncertainty. Therefore, the guidance range for 2008 does not capture as high a percentage of the potential outcomes as usual. These projections and the underlying assumptions involve significant risks and uncertainties, including those described below and actual results may vary significantly from these current projections.

DaVita will be holding a conference call to discuss its results for the fourth quarter ended December 31, 2007 on February 13, 2008 at 5PM 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, http://www.davita.com/, for the following 30 days.

This release contains forward-looking statements, including statements related to our 2008 operating results. Factors which could impact future results include the uncertainties associated with governmental regulations, general economic and other market conditions, accounting estimates and the risk factors set forth in the Company's SEC filings, including its Form 10-Q for the quarter ended September 30, 2007. 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 commercial payor plans,
- continued downward pressure on average realized payment rates from commercial payors and possible reductions in government payment rates,
- -- changes in the structure of and payment rates under the Medicare ESRD Program which may further reduce Medicare payment rates.
- -- changes in pharmaceutical or anemia management practice patterns, payment policies, or pharmaceutical pricing,
- -- our ability to maintain contracts with physician medical directors,
- legal compliance risks, including our continued compliance with complex government regulations and compliance with the corporate integrity agreement applicable to the dialysis centers acquired from Gambro Healthcare and assumed in connection with such acquisition, and
- -- the resolution of ongoing investigations by various federal and state governmental agencies.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in underlying factors, 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 Year ended December 31, December 31, 2007 2006 2007 2006 Net operating revenues \$1,354,869 \$1,272,617 \$5,264,151 \$4,880,662 Operating expenses and charges: Patient care costs 927,503 872,556 3,590,344 3,390,351 General and administrative 134.987 124.457 491.236 453.516 Depreciation and 51,392 45,209 193,470 173,295 amortization Provision for 32,908 uncollectible accounts 34,996 136,682 126,203 Minority interests and equity income, net 10,728 8,976 45,485 35,833 Valuation gain on Alliance and Product

(55,275) (37,968)

862,209

739,432

Debt expense (62,651)(69,907) (257,147) (276,706) Other income 2,915 22,460 5,329 13,033 Income from continuing operations before income taxes 137.941 121.519 627.522 475.759 Income tax expense 52,224 47.390 245,744 186.430 Income from

195,263

expenses and charges 1,159,606 1,084,106 4,401,942 4,141,230

188,511

continuing operations 85,717 74,129 381,778 289,329 Discontinued operations

Gain on disposal of discontinued operations, net

Supply Agreement

Total operating

Operating income

of tax - - - 362

Net income \$85,717 \$74,129 \$381,778 \$289,691

Earnings per share: Basic earnings per share from continuing

operations \$0.80 \$0.71 \$3.61 \$2.79 Basic earnings per share \$0.80 \$0.71 \$3.61 \$2.80 Diluted earnings per share from continuing

operations \$0.79 \$0.70 \$3.55 \$2.73 Diluted earnings per share \$0.79 \$0.70 \$3.55 \$2.74

Weighted average shares for earnings per share:

106,885,553 104,193,829 105,893,052 103,520,254 Basic Diluted 108,250,536 106,219,281 107,418,240 105,793,246

DAVITA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)

> Year ended December 31, 2007 2006

Cash flows from operating activities:

Net income \$381.778 \$289.691

Adjustments to reconcile net income to cash provided by operating activities:

Depreciation and amortization 193,470 173,295

Valuation gain on Alliance and

Product Supply Agreement (55,275) (37,968) Stock-based compensation expense 34,149 26,389 Tax benefits from stock award exercises 32,788 40,375 (25,541) (37,251) Excess tax benefits from stock award exercises

Deferred income taxes 18,601 2,342

Minority interests in income of

consolidated subsidiaries 46,702 38,141 Distributions to minority interests (48,029) (32,271) Equity investment income (1,217)(2,308)

(Gain) loss on disposal of discontinued

(2,825)operations and other dispositions 239

Non-cash debt and non-cash rent charges 12,713 27,736

Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:

Accounts receivable 15,911 (74,737)

Inventories 11,271 (18,587)

Other receivables and other current assets (61,049) (34,044) Other long term assets (14,528) (9,791)

Accounts payable 40,712 (9,216)Accrued compensation and benefits 9,691 101,555

Other current liabilities 88.841 657 Income taxes (12,779) (67,329) Other long-term liabilities 5,764 4,541

Net cash provided by operating activities 533,036 519,571

Cash flows from investing activities:

Additions of property and equipment, net (272,212) (262,708)

Acquisitions and purchases of other

ownership interests (127,094) (86,504) Proceeds from divestitures and asset sales 22.179 12.289 Purchase of investments available-for-sale (52,085) (3,726)

Purchase of investments held-to-maturity (23,061)

Proceeds from sale of investments

available-for-sale 32,274 3,030 4,795 Maturities of investments

Purchase of a non-controlling ownership

interest in an unconsolidated joint venture (17,550)21,263 Contributions from minority owners 18,463 Purchase of intangible assets (2,291) (5,597) Net cash used in investing activities (426,472) (312,063)

Cash flows from financing activities:

13,113,640 6,354,784 Borrowings Payments on long-term debt (13,160,942)(6,761,743)Deferred financing costs (4.511)(2)

Purchase of treasury stock (6,350)

Excess tax benefits from stock award exercises 25,541 37,251 Stock award exercises and other share issuances, net 62,902 40,593

Net cash provided by (used in)

30,280 (329,117) financing activities

Net increase (decrease) in cash and cash equivalents 136,844 (121,609) Cash and cash equivalents at beginning of period 310,202 431,811

DAVITA INC. CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

December 31, December 31, 2007 2006

ASSETS

Cash and cash equivalents \$ 447.046 \$310,202 Short-term investments 40,278 4,734 Accounts receivable, less allowance 927.949 932.385 of \$195,953 and \$171,757 Inventories 80,173 89,119 Other receivables 198,744 148,842 Other current assets 34,482 25,124 Deferred income taxes 247,578 199,090 1,976,250 Total current assets 1,709,496 Property and equipment, net 939,326 849,966 Amortizable intangibles, net 183,042 203,721 Investments in third-party dialysis businesses 19,446 1,813 Long-term investments 22,562 13.174 35,401 Other long-term assets 45,793

Goodwill 3,767,933 3,667,853 \$6,943,960 \$6,491,816

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$225,461 \$251,686

Other liabilities 486,151 473,219 Accrued compensation and benefits 334.961

Accrued compensation and benefits 341.766 Current portion of long-term debt 23,431 20,871 Income taxes payable 16,492 24,630 Total current liabilities 1,086,496 1,112,172 Long-term debt 3,683,887 3,730,380 Other long-term liabilities 83,448 50,076

Alliance and product supply agreement, net 41,307 105,263

Deferred income taxes 166,055 125,642

Minority interests 150,517 122,359

Commitments and contingencies

Shareholders' equity:

Preferred stock (\$0.001 par value, 5,000,000

shares authorized; none issued)

Common stock (\$0.001 par value, 450,000,000

and 195,000,000 shares authorized; 134,862,283 shares issued; 107,130,127

 and 104,636,608 shares outstanding)
 135
 135

 Additional paid-in capital
 707,080
 630,091

 Retained earnings
 1,515,290
 1,129,621

Treasury stock, at cost

(27,732,156 and 30,225,675 shares) (487,744) (526,920)

Accumulated other comprehensive

(loss) income (2,511) 12,997 Total shareholders' equity 1,732,250 1,245,924

\$6,943,960 \$6,491,816

DAVITA INC. SUPPLEMENTAL FINANCIAL DATA

(unaudited)

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

Three months ended Year ended Dec. 31, Sept. 30, Dec. 31, Dec. 31, 2007 2006 2007

Financial Results excluding gains from insurance settlements, the valuation gain on the product supply agreement and gains on sale of investment

securities:

Net income (1) \$74.1 \$85.7 \$89.3 \$340.3 Diluted earnings per share \$0.79 \$0.83 \$0.70 \$205.6 Operating income (1) \$195.3 \$188.5 \$800.2 Operating income margin 14.4% 15.6% 14.8% 15.2%

Other comprehensive income

Unrealized loss on securities, net of tax benefits of \$4.8,

\$5.1, \$0.7 and \$9.9 \$(7.5) \$(8.0) \$(1.1) \$(15.5)

Business Metrics:

Volume

Treatments 3,983,542 3,842,763 3,723,198 15,318,995 Number of treatment days 79.6 78.0 78.6 313 Treatments per day 50,045 49,266 47,369 48,942 Per day year over 5.6% 6.1% 7.0% 5.5% year increase

Non-acquired growth

year over year 4.6% 5.5% 4.6% 5.2%

Revenue

Total operating revenue \$1,355 \$1,318 \$1,273 \$5,264 Dialysis revenue per treatment, including the lab \$328.11 \$333.57 \$334.45 \$334.26 Per treatment (decrease) increase from previous quarter (1.6%)(1.3%)0.9%

Per treatment (decrease)

4.5% 1.2% increase from previous year (1.9%) 0.6%

Expenses

A. Patient care costs

Percent of revenue 68.5% 67.5% 68.6% 68.2% \$232.83 \$231.67 \$234.36 \$234.37 Per treatment

Per treatment increase (decrease) from previous

quarter 0.5% (1.4%)0.3%

Per treatment (decrease)

increase from previous year (0.7%) 0.2% (0.8%)2.6%

Per treatment (excluding gains from insurance settlements of \$1.76 and \$0.44 for the third quarter and year ended December 31,

2007, respectively) \$233.43 - \$234.81

B. General & administrative

expenses

9.3% Percent of revenue 10.0% 9.1% 9.8% Per treatment \$ 33.89 \$31.38 \$33.43 \$32.07

Per treatment increase (decrease) from previous

quarter 8.0% (2.8%)8.1%

Per treatment increase

from previous year 1.4% 1.5% 19.9% 2.5%

C. Bad debt expense as a percent

of current-period revenue 2.6% 2.6% 2.6% 2.6%

D. Consolidated effective

tax rate from continuing

operations 37.9% 39.4% 39.0% 39.2%

Cash Flow

\$190.1 Operating cash flow \$223.3 \$95.8 \$533.0 Operating cash flow, last twelve months \$499.8 \$-\$533.0 \$519.6 Free cash flow (1) \$421.4 \$184.6 \$73.5 \$158.9 Free cash flow,

\$-

\$395.6 \$410.4 last twelve months (1) \$421.4

Capital expenditures:

Development and

relocations \$60.4 \$48.5 \$44.5 \$162.3

Routine maintenance/

IT/other \$39.7 \$22.6 \$32.5 \$113.9 Acquisition expenditures \$45.3 \$75.5 \$10.9 \$127.1

Accounts Receivable

Net receivables \$928 \$976 \$932 DSO 66 70 70

Debt/Capital Structure Total debt, excluding debt premium of

\$4.5 million \$3,703 \$3,701 \$3,751

Net debt, net of cash,

excluding debt premium of

\$4.5 million \$3,256 \$3,309 \$3,441 Leverage ratio (see Note 1) 2.99x 3.10x 3.66x

Clinical (quarterly averages)

Dialysis adequacy - % of

patients with Kt/V > 1.2 94.4% 93.6% 92.9%

Patients with albumin

>/= 3.5 83.7% 82.9% 84.0%

Patients with HCT

>/= 33 82.4% 82.8% 84.7%

(1) These are non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to their most comparable measure calculated and presented in accordance with GAAP, see attached reconciliation schedules.

Note 1: Calculation of the Leverage Ratio

Under the Company's current Senior Secured Credit Facilities (Credit Agreement), the leverage ratio is defined as all funded debt plus the face amount of all letters of credit issued, minus cash and cash equivalents, divided by "Consolidated EBITDA". The leverage ratio determines the interest rate margin payable by the Company for its term loan A and revolving line of credit under the 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 Credit Agreement. The calculation below is based on the last twelve months of "Consolidated EBITDA", pro forma for the routine acquisitions that occurred during the period. The Company's management believes that the presentation of "Consolidated EBITDA" is useful to investors to enhance their understanding of the Company's leverage ratio under its Credit Agreement.

Year ended December 31, 2007

Net income \$381,778 Income taxes 245,744

Debt expense including the write-off of

deferred financing costs, (excluding other cash

charges of \$180) 256,967
Depreciation and amortization 193,470
Minority interests and equity income, net 45,485
Valuation gain on Product Supply Agreement (55,275)

Other (300)

Stock-based compensation expense 34,149

"Consolidated EBITDA" \$1,102,018

December 31, 2007

Total debt, excluding debt premium of \$4.5 million \$3,702,839

Letters of credit issued 41,002

3,743,841

Less: cash and cash equivalents (447,046)

Last twelve months "Consolidated EBITDA"

\$1,102,018

Leverage ratio

2.99x

In accordance with the Company's Credit Agreement, the Company's leverage ratio cannot exceed 5.25 to 1.0 as of December 31, 2007. At that date, the Company's leverage ratio did not exceed 5.25 to 1.0.

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

1. Net income excluding gains from insurance settlements, the valuation gain on the product supply agreement and gains on the sale of investment securities

Net income excluding gains from insurance settlements, the valuation gain on the product supply agreement and gains on the sale of investment securities held by us, excludes certain unusual or non-recurring items in order to present a measure of net income that is more reflective of the normal day-to-day operations of our business. Gains from insurance settlements relates to insurance proceeds from Hurricane Katrina and from a fire that destroyed one of our centers. The valuation gains on the product supply agreement with Gambro Renal Products reflect non-cash items. In 2006, the valuation gain resulted from the modification of the product supply agreement, that reduced our required purchase obligations, and in 2007, the valuation gain resulted from an additional modification of the product supply agreement, which resulted in the termination of our obligation to purchase dialysis machines from Gambro Renal Products Inc. under that agreement. Gains on the sale of investment securities related to the sale of our common stock in NxStage. We believe that the exclusion of each of these items enhances a user's understanding of our normal operations and performance and that the adjusted amount of net income is more comparable to prior periods and therefore more indicative of our performance for purposes of period over period comparison. Our management eliminates these items when evaluating our operating performance. This measure is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative to net income.

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Three months ended
                                       Year ended
           Dec. 31, Sept. 30, Dec. 31, Dec. 31,
            2007
                   2007
                            2006
                                    2007
                                             2006
Net income
               $85,717 $ 94,455 $74,129 $381,778 $289,691
Less: Gains
   on insurance
   settlements
                     (6,779)
                                     (6,779)
   Valuation gain
                                  (55,275) (37,968)
   Gain on the
   sale of
   investment
   securities
                    (1,634)
                                    (5,868)
Add: Related
income tax
                      3,273
                                     26,422 14,770
           $85,717 $89,315 $74,129 $340,278 $266,493
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2. Operating income excluding pre-tax gains from insurance settlements, and the pre-tax valuation gain on the product supply agreement

Operating income excluding gains from insurance settlements, and the valuation gain on the product supply agreement, excludes certain unusual or non-recurring items in order to present a measure of operating income that is more reflective of the normal day-to-day operations of our business. Gains from insurance settlements relates to insurance proceeds from Hurricane Katrina and from a fire that destroyed one of our centers. The valuation gains on the product supply agreement with Gambro Renal

Products reflect non-cash items. In 2006, the valuation gain resulted from the modification of the product supply agreement, that reduced our required purchase obligations, and in 2007, the valuation gain resulted from an additional modification of the product supply agreement, which resulted in the termination of our obligation to purchase dialysis machines from Gambro Renal Products Inc. under that agreement. We believe that the exclusion of each of these items enhances a user's understanding of our normal operations and performance and that the adjusted amount of operating income is more comparable to prior periods and therefore more indicative of our performance for purposes of period over period comparison. Our management eliminates these items when evaluating our operating performance. This measure is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative operating income.

Three months ended Year ended
Dec. 31, Sept. 30, Dec. 31, Dec. 31, Dec. 31,
2007 2007 2006 2007 2006

Operating

income \$195,263 \$212,412 \$188,511 \$862,209 \$739,432

Less: Gains from insurance

settlements - (6,779) - (6,779)

Valuation gain - - - (55,275) (37,968) \$195,263 \$205,633 \$188,511 \$800,155 \$701,464

3. Free cash flow

Free cash flow represents net cash provided by operating activities less capital expenditures for routine maintenance and information technology. We believe free cash flow is a useful adjunct to cash flow from operating activities and other measurements under United States generally accepted accounting principles, since free cash flow 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 United States generally accepted accounting principles 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.

Three months ended
December 31, September 30, December 31,
2007 2007 2006

Cash provided by operating

activities \$223,326 \$95,778 \$190,108

Less: Expenditures for routine maintenance and

information technology (38,688) (22,229) (31,214)

Free cash flow \$184,638 \$73,549 \$158,894

Rolling 12-Month Period
December 31, September 30, December 31,
2007 2007 2006

Cash provided by

operating activities \$533,036 \$499,818 \$519,571

Less: Expenditures for routine maintenance and

information technology (111,663) (104,189) (109,131) Free cash flow \$421,373 \$395,629 \$410,440

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