Davita Inc. Reports 1st Quarter 2003 Results

PRNewswire-FirstCall TORRANCE, Calif.

DaVita Inc., today announced results for the quarter ended March 31, 2003. Net income for the three months ended March 31, 2003 was \$36 million or \$0.52 per share, compared with \$36 million or \$0.40 per share for the same period of 2002.

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

Financial and operating highlights include:

- For the rolling 12 months ended March 31, 2003 operating cash flow was \$302 million and free cash flow was \$244 million. These cash flow numbers exclude prior period lab receipts, accounts receivable recoveries and valuation adjustments. Operating cash flow for the quarter ended March 31, 2003 was \$81 million and free cash flow was \$70 million.
- -- Operating income for the quarter was \$79 million.
- -- EBITDA and EBITDA margin for the quarter were \$98 million and 21.3%, respectively.
- -- Total treatments for the first quarter were 1,503,031 up 4.8% over the prior year's quarter. Non-acquired treatment growth was 3.3%, with acquisitions contributing the additional 1.5% to treatment growth.
- -- First quarter dialysis revenue per treatment was \$296, compared to \$291 in the fourth quarter, an increase of 1.8%.
- -- DSO for the first quarter decreased by one day during the quarter to 69 days.
- -- As of March 31, 2003, we operated 523 outpatient centers serving approximately 45,000 patients. During the first quarter we acquired a controlling interest in two centers in which we previously had minority ownership and opened seven de novo centers. We also closed one center. Included in this patient and center count are approximately 3,300 patients in 30 centers under management.

Our 2003 EBITDA guidance remains at \$380 million to \$400 million. This guidance implies Generally Accepted Accounting Principles (GAAP) operating income of \$300 million to \$320 million for 2003.

DaVita will be holding a conference call to discuss its first quarter 2003 results on May 5, 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-K for the year ended December 31, 2002. The forward-looking statements should be considered in light of these risks and uncertainties. These risks include those relating to:

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

DAVITA INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS (dollars in thousands, except per share data)

March 31, December 31, 2003 2002

ASSETS

Cash and cash equivalents \$304,994 \$96,475

Accounts receivable, less allowance

of \$48,743 and \$48,927 346,145 344,292

Inventories 25,465 34,929 Other current assets 24,049 28.667 41.773 Deferred income taxes 40.163 Total current assets 742,426 544,526 305,742 Property and equipment, net 298,475 Amortizable intangibles, net 60,080 63,159

Investments in third-party dialysis businesses 3,368 3,227
Other long-term assets 2,609 1,520
Goodwill 865,449 864,786

\$1,979,674 \$1,775,693

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$71,295 \$77,890 Other liabilities 113,505 101,389

Accrued compensation and benefits 95,435 82,391 Current portion of long-term debt 43,908 7,978 Income taxes payable 26,550 9,909 337,649 Total current liabilities 292,601 Long-term debt 1,420,585 1,311,252 Other long-term liabilities 10,346 9.417 Deferred income taxes 72.381 65.930 Minority interests 27,156 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; 89,162,390 and 88,874,896 shares issued)
 89

 89
 89

 Additional paid-in capital
 523,572
 519,369

 Retained earnings
 249,750
 213,337

Treasury stock, at cost (28,187,326 and

28,216,177 shares) (661,854) (662,531) Total shareholders' equity 111,557 70,264

\$1,979,674 \$1,775,693

DAVITA INC.

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

Three months ended March 31, 2003 2002

Net operating revenues \$459,807 \$427,665

Operating expenses and charges:

Dialysis centers and labs 291,634 316,710 General and administrative 36,787 36,053 Depreciation and amortization 17,445 15,805 Provision for uncollectible accounts 8,237 5,255 2,135 Minority interests and equity income, net 1.294 Total operating expenses and charges 380,473 350,882

Operating income 79,334 76,783

 Debt expense
 19,456
 15,072

 Other income, net
 785
 267

 Income before income taxes
 60,663
 61,978

24,250 26,000 Income tax expense \$35,978 Net income \$36,413

Comprehensive income \$36,413 \$35,978

Earnings per share:

Basic \$0.60 \$0.43 Diluted \$0.52 \$0.40

Weighted average shares for earnings

per share:

60,905,056 Basic 82,967,141 Diluted 78,772,410 102,246,452

DAVITA INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (dollars in thousands)

Three months ended March 31. 2003 2002

Cash flows from operating activities:

Net income \$36,413 \$35,978

Adjustments to reconcile net income

to cash provided by operating activities:

Depreciation and amortization 17,445 15,805 Loss (gain) on divestitures 119 (458)Deferred income taxes 4,841 7,861 Non-cash debt expense 840 634 Stock options, principally tax benefits 1.378 8,931 Equity investment income (519)(298)Minority interests in income of consolidated subsidiaries 1,813 2,433

Distributions to minority interests (2,465)(1,501)

Changes in operating assets and liabilities,

excluding acquisitions and divestitures:

Accounts receivable (676)(11,163)Inventories 9,543 6,726 Other current assets 4,721 (2,840)

Other long-term assets (2,457)

Accounts payable 8,969 (6,674)Accrued compensation and benefits (13,075)

(2,617)

11,952 Other current liabilities 15,050 Income taxes 16,641 261 Other long-term liabilities 809 (287)

Net cash provided by

operating activities 80,649 83,484

Cash flows from investing activities:

Additions of property and equipment, net (21,708) (16, 115)Acquisitions and divestitures, net (1,379)(718)Investments in affiliates, net 1,931 499

Intangible assets (300)

Net cash used in investing activities (20,795) (16,995)

Cash flows from financing activities:

623,822 Borrowings 335,883 Payments on long-term debt (478,659)(355,803)

Deferred financing costs (57)Purchase of treasury stock (67,877)Proceeds from issuance of common stock 16,351 3,502

Net cash provided by (used in)

financing activities 148,665 (71,503)

Net increase (decrease) in cash 208,519 (5,014)

Cash and cash equivalents at

beginning of period 96,475 36,711

Cash and cash equivalents at end of period \$304,994 \$31,697

DAVITA INC.

| SUPPLEMENTAL FINANCIAL DATA | | | |
|---|--------------------------------|---|------------------------------|
| Q1 2 Financial Results: Net earnings, excluding prior period Medicare lab revenue, extraordinary items, recoveries, and valuation adjustments (in 000's) \$3 Basic EPS EPS assuming dilution | 36,400 \$0.60 | \$34,600 \$0.57 | \$34,600 \$0.42 \$0.39 |
| EBITDA, excluding prior period Medicare lab revenue, recoveries and valuation adjustme Consolidated (in 000's) Continental U.S (in 000's). Continental EBITDA m | nts \$98,000 | \$97,000 | |
| Business Metrics (Continental U.S.): Volume Treatments 1 Number of treatment d Treatments per day Per day year over year increase Same center growth Non-acquired growth | | 1,537,821 4 79.6 19,319 3.8% 2.9% 2.9% | 76.4 |
| Revenue, excluding prior period Medicare lab revenue and recoveries of \$41,555 in Q4 2002 Revenue (in 000's) \$460,000 \$462,000 \$424,000 | | | |
| Dialysis revenue per treatment Per treatment increase from previous quarter Per treatment increase from prior year | 1.8% | \$291.02 0.0% 2.8% | \$290.45 2.6% 5.9% |
| Expenses, excluding pri period Medicare lab revenue and recoveries A. Dialysis centers and lab operating expense Percent of revenue Per treatment Per treatment increase from previous quarter | 68.9% \$210.71 9 2.2% | 68.7% \$206.17 1.4% | 68.0% \$201.02 3.6% |
| B. General & administra expenses Percent of revenue Per treatment Per treatment increase (decrease) from previous quarter | 8.0% \$24.48 | 8.5% \$25.57 4.7% | 8.5% \$25.14 10.2% |
| C. Bad debt expense as percent of current-per revenue | | 1.8% | 1.8% |

D. Consolidated effective

tax rate

40.0%

40.8%

42.0%

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SUPPLEMENTAL FINANCIAL DATA, CONTINUED Q1 2003 Q4 2002 Q1 2002 Cash Flow (Consolidated, including prior period recoveries, in 000's) Operating cash flow \$81,000 \$66,000 \$83,000 Free cash flow (before share repurchase, acquisition and \$70,000 \$49,000 development spending) \$74,000 Capital expenditures: Development \$11,900 \$19,600 \$7,600 Routine maintenance/ IT/other \$10,500 \$16,700 \$9,100 Acquisition expenditures, net \$700 \$6,500 \$1,400 Accounts Receivable Net receivables (in 000's) \$346,000 \$344,000 \$337,000 DSO 69 70 Debt/Capital Structure (Consolidated) Total debt (in 000's) \$1,464,000 \$1,319,000 \$800,000 Net debt, net of cash (in 000's) \$1,159,000 \$1,223,000 \$769,000 LQA net leverage ratio 3.0x 3.1x 2.1x Shares repurchased 2,900 (in 000's) 1,900 Average repurchase price \$23.80 \$23.02 Clinical

Dialysis adequacy - % of patients with

URR > 65 89% 88% 88%

Dialysis adequacy - % of patients with

92% $\dot{K}t/V > 1.2$ 92% 92%

Anemia measure - % of

patients with HCT > 33 83% 83% 79%

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RECONCILIATIONS FOR NON-GAAP MEASURES

Q1 2002

Rolling 12-month period ended Q1 2003 Q1 2003 Q4 2002 (dollars in thousands)

1. Operating cash flow excluding

lab and accounts

receivable

recoveries

related to prior years'

services and

free cash flow:

Cash provided by operating

\$339,160 activities \$80,649 \$83,484 \$66,318

Exclusions:

Prior period

lab receipts (58,778)(41,555)

Impairments and valuations

```
adjustments
                    (380)
                                      2,010
   Accounts
   receivable
   recoveries
                  (2,938)
                                      (510)
                                               (2,254)
                                 (40,055)
             (62,096)
                                             (2,254)
   Related income
   tax expense
                   24,559
                                      15,842
                                                    891
  Exclusions, net
  of tax
               (37,537)
                                   (24,213)
                                               (1,363)
  Operating cash
  flow excluding
  lab and accounts
  receivable
  recoveries
  related to
  prior years'
                 301.623
                             80,649
                                        42,105
                                                   82,121
  services
  Less expenditures
  for routine
  maintenance and
  information
                              (10,490)
                                        (16,706)
                                                     (9,090)
  technology
                  (57,337)
  Free cash flow
                  $244,286
                                $70,159
                                           $25,399
                                                       $73,031
2. Net income.
  excluding
  impairments,
  prior period
  lab receipts
  and accounts
  receivable
  recoveries:
                           $36,413
                                                  $35,978
 Net income
                                      $58,811
  Less exclusions.
                                 (24,213)
                                             (1,363)
  net of tax
                      $36,413
                                 $34,598
                                             $34,615
3. EBITDA, excluding
  impairments,
  prior period lab
  receipts and
  accounts receivable
  recoveries:
  Operating income
                             $79,334
                                        $118,377
                                                      $76,783
  Additions:
                                      14,385
                                                  13,295
  Depreciation
                           14,946
   Amortization
                            2,499
                                      2,510
                                                 2,510
   Minority
   interests and
   equity income,
                        1,294
   net
                                   1,802
                                             2,135
  EBITDA
                           98,073
                                     137,074
                                                  94,723
  Exclusions:
  Prior period lab
   receipts
                                 (41,555)
   Impairments and
   valuations
                                    2,010
   adjustments
   Accounts
   receivable
   recoveries
                                    (510)
                                             (2,254)
                              (40,055)
                                          (2,254)
                      $98,073
                                 $97,019
                                             $92,469
4. Last quarter
  annualized (LQA)
  net leverage ratio:
  EBITDA, excluding
  impairments, prior
  period lab receipts
  and accounts
  receivable
  recoveries
                          $98,073
                                     $97,019
                                                 $92,469
                              x 4
                                            4
```

X 4 X 4 X 4 Annualized EBITDA, less exclusions \$392,292 \$388,076 \$369,876

Net debt, net
of cash \$1,159,000 \$1,223,000 \$769,000
Annualized EBITDA,
less exclusions
divided by net
debt, net of
cash 2.95x 3.15x 2.08x

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