DaVita Inc. Reports 2nd Quarter 2003 Results

PRNewswire-FirstCall TORRANCE, Calif.

DaVita Inc., today announced results for the quarter ended June 30, 2003. Net earnings for the three and six months ended June 30, 2003 were \$38.5 million and \$74.9 million, or \$0.55 and \$1.07 per share, respectively.

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

Financial and operating highlights include:

- -- For the rolling 12 months ended June 30, 2003, before considering recoveries of \$59 million in 2002 related to prior years' lab billings, operating cash flow was \$324 million and free cash flow was \$277 million
- -- Operating cash flow for the three and six months ended June 30, 2003 was \$79 million and \$159 million, respectively. Free cash flow for the same periods was \$69 million and \$139 million, respectively.
- -- Operating income for the three and six months was \$83 million and \$162 million, respectively. Operating income excluding depreciation, amortization and minority interests was \$103 million and \$201 million, respectively (previously described as EBITDA).
- -- Total treatments for the second quarter were 1,579,580, an increase of 6.2% compared to the second quarter of last year. Non-acquired treatment growth was 3.4%, with acquisitions contributing the additional 2.8% to treatment growth.
- -- Second quarter dialysis revenue per treatment was approximately \$302, compared to \$291 in the second quarter of last year, an increase of 3.8%.
- -- As of June 30, 2003, we provided dialysis services at 539 outpatient centers serving approximately 47,000 patients. During the second quarter we acquired 11 centers and opened eight de novo centers. We also closed two centers. Included in this patient and center count are approximately 3,300 patients in 29 centers under management arrangements.

Capital structure:

- During the quarter we called our 5 5/8% convertible notes, resulting in their conversion into 4.9 million shares of common stock on July 15, 2003.
- On July 15, 2003 we completed a refinancing of our senior credit facilities resulting in lower interest rates, additional borrowing of \$200 million and modification of certain covenants.
- -- The additional borrowings will be used to redeem a portion of our outstanding 7% convertible notes, as previously announced on July 16, 2003.

Guidance:

- -- We are updating our 2003 operating income guidance. It was \$300 to \$320 million. It is now \$315 to \$330 million.
- -- Our current expectation for 2004 is that operating income will be relatively flat from 2003.
- -- We have changed our primary guidance metric from EBITDA to operating income to simplify compliance with the SEC's new Regulation G.

DaVita will be holding a conference call to discuss its second quarter 2003 results on August 1, 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-Q for the year ended March 31, 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 ancillary services including 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 those associated with the ongoing review of the Company's Florida laboratory subsidiary by its Medicare carrier and the Department of Justice, and the ongoing review by the US Attorney's Office and HHS Office of Inspector General in Philadelphia.

DAVITA INC. CONSOLIDATED BALANCE SHEETS (unaudited)

(dollars in thousands, except per share data)

June 30, December 31, 2003 2002

ASSETS

Cash and cash equivalents \$315,606 \$96,475

Accounts receivable, less allowance

of \$49,361 and \$48,927 346,209 344,292 Inventories 30,111 34,929 Other current assets 26.275 28.667 Deferred income taxes 47,666 40,163 Total current assets 765,867 544,526 Property and equipment, net 314,374 298,475 Amortizable intangibles, net 61,198 63,159

Investments in third-party dialysis

 Other long-term assets
 3,266
 3,227

 Goodwill
 901,714
 864,786

 \$2,049,391
 \$1,775,693

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$83,821 \$77,890 Other liabilities 101,389 115.106 Accrued compensation and benefits 94.812 95.435 Current portion of long-term debt 47,314 7,978 Income taxes payable 20,486 9,909 Total current liabilities 361,539 292,601 Long-term debt 1,409,687 1,311,252 9,417 Other long-term liabilities 12.914 Deferred income taxes 78,187 65,930 28,390 Minority interests 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;

 89,790,206 and 88,874,896 shares issued)
 90
 89

 Additional paid-in capital
 532,133
 519,369

 Retained earnings
 288,270
 213,337

Treasury stock,

at cost (28,185,827 and 28,216,177 shares) (661,819) (662,531)

Total shareholders' equity 158,674 70,264

\$2,049,391 \$1,775,693

DAVITA INC. CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

Three months ended Six months ended June 30, June 30, 2003 2002 2003 2002

Net operating revenues \$489,883 \$442,677 \$949,690 \$870,342 Operating expenses and charges: Dialysis centers

and labs

335,986 300,552 652,696 592,186 General

and administrative 42,583 39,634 79,370 75,687 Depreciation and amortization 17,921 15,698 35,366 31,503 Provision for

uncollectible accounts

5,882 17,017 8,780 11,137 Minority interests and equity income, net 1,813 3.107 4.299 2.164

Total operating

expenses and charges 407,083 363,930 787,556 714,812

Operating income 82,800 78.747 162.134 155.530

Debt expense 19,495 17,139 38,951 32,211

Refinancing charges 48,930 48,930

2,620 1,675 Other income 890 2,887

Income before income taxes 64,195 15,298 124,858 77,276 Income tax expense 25,675 6,928 49,925 32,928

Net earnings \$38,520 \$8,370 \$74,933 \$44,348

Earnings per share:

Basic \$0.63 \$0.10 \$1.23 \$0.55 \$0.52* Diluted \$0.55 \$0.10* \$1.07

Weighted average shares for earnings per share:

61,305,955 79,784,841 61,097,841 81,366,393 Basic Diluted 79,188,721 83,022,414 78,964,493 89,814,524

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

Six months ended June 30. 2003 2002

Cash flows from operating activities:

Net income \$74.933 \$44,348

Adjustments to reconcile net income to cash

provided by operating activities:

Depreciation and amortization 35,366 31,503 Impairments and valuation adjustments, net (2,390)Loss (gain) on divestitures 343 (462)Deferred income taxes 4,754 11,843 Non-cash debt expense 1,958 1,526 Stock options, principally tax benefits 5.699 16.304 Equity investment income (960)(967)Minority interests in income of consolidated subsidiaries 4,074 5,260 Refinancing charges 48,930

Distributions to minority interests (3,685)(4,138)

^{*} The diluted earnings per share for the three and six months ended June 30, 2002 are restated to reflect the adoption of Statement of Financial Accounting Standards No. 145 Rescission of FASB Standard No. 4, 44, and 64, Amendment of FASB Statement No. 14, and Technical Corrections. Refinancing charges previously classified as an extraordinary item are now included as an ordinary pre-tax income item. As a result of this reclassification, certain convertible subordinated notes are not dilutive in the earnings per share calculations for these periods.

Changes in operating assets and liabilities,
excluding acquisitions and divestitures:
Accounts receivable (740) (20,471)
Inventories 5,327 2,436
Other current assets 2,495 (4,533)
Other long-term assets (2,774) 151
Accounts payable 5,852 9,315
Accrued compensation and benefits (716) 6,367 Other current liabilities 13,554 (536)
Income taxes 10.577 (3.694)
Other long-term liabilities 3,377 1,118
Net cash provided
by operating activities 159,427 141,917
Cash flows from investing activities:
Additions of property and equipment, net (42,077) (43,691)
Acquisitions and divestitures, net (47,035) (1,426)
Investments in affiliates, net 2,663 1,857
Intangible assets 754 (30)
Net cash used in investing activities (85,695) (43,290)
Cash flows from financing activities:
Borrowings 1,350,195 1,323,335
Payments on long-term debt (1,212,574) (819,107)
Debt redemption premium (40,910)
Deferred financing costs (10,781) Purchase of treasury stock (474,438)
Proceeds from issuance of common stock 7,778 23,583
Net cash provided
by financing activities 145,399 1,682
Net increase in cash 219,131 100,309
Cash and cash equivalents
at beginning of period 96,475 36,711 Cash and cash equivalents
at end of period \$315,606 \$137,020
DAVITA INC. SUPPLEMENTAL FINANCIAL DATA
(dollars in millions, except for per share and per treatment data)
(donate in minione, except for per chare and per treatment data)
Q2 2003 Q1 2003 Q2 2002 YTD 2003
Financial Results:
Net earnings excluding
refinancing charges \$38.5 \$36.4 \$37.7 \$74.9 Basic EPS \$0.63 \$0.60 \$0.47 \$1.23
EPS assuming dilution \$0.55 \$0.52 \$0.43 \$1.07
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Operating income
Consolidated \$82.8 \$79.3 \$78.7 \$162.1
Continental U.S. \$82.8 \$79.3 \$77.8 \$162.1
Continental operating
income margin 16.9% 17.3% 17.7% 17.1%
Business Metrics (Continental U.S.):
Volume
Treatments 1,579,580 1,503,031 1,486,816 3,082,611
Number of
treatment days 78 76.4 78 154.4
Treatments per day 20,251 19,673 19,062 19,965
Per day year over year increase 6.2% 4.8% 5.5% 5.5%
Non-acquired growth 3.4% 3.3% 4.5% 3.5%
Revenue
Revenue \$490 \$460 \$441 \$950
Dialycic royanya
Dialysis revenue per treatment \$301.52 \$296.31 \$290.52 \$298.98
Per treatment
increase from
increase from previous quarter 1.8% 1.8% 0%

increase from

prior year

3.8%

2.0% 5.3% 2.9%

Expenses A. Dialysis centers and lab operating expenses			
Percent of revenue 68.6%	68.9%	67.7%	68.7%
Per treatment \$212.71	\$210.71	\$200.46	\$211.74
Per treatment	Ψ=.σ	Ψ=000	Ψ=
increase (decrease)			
from previous quarter 0.9%	2.2%	(0.3%)	
nom previous quarter 0.070	2.270	(0.070)	
B. General & administrative expenses			
Percent of revenue 8.7%	8.0%	9.3%	8.4%
Per treatment \$26.96	\$24.48	\$27.59	\$25.75
Per treatment	•	·	·
increase (decrease)			
from previous quarter 10.1%	(4.3%)	9.7%	
promode quarter remite	(1.070)	0 /0	
C. Bad debt expense			
as a percent of			

current-period revenue 1.8% 1.8% 1.4% 1.8%

D. Consolidated effective

40.0% 41.2% tax rate 40.0% 40.0%

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA, CONTINUED (dollars in millions, except for per share and per treatment data)

Q2 2003 Q1 2003 Q2 2002 YTD 2003

Cash Flow

\$78.8 \$80.6 Operating cash flow \$58.4 \$159.4 Free cash flow \$69.3 \$70.2 \$38.8 \$139.4

Capital expenditures:

Development \$10.4 \$11.9 \$8.1 \$22.3 Routine maintenance/IT/other \$9.5 \$10.5 \$19.7 \$20.0 \$47.0 Acquisition expenditures, net \$46.0 \$0.7

\$1,457 \$1,464 \$1,324

Accounts Receivable

Net receivables \$346 \$346 \$347 DSO 66 69 73

Debt/Capital Structure

(Consolidated) Total debt

Net debt, net of cash \$1,141 \$1,159 \$1,187 Leverage ratio - last quarter annualized (see Note 1) 2.8x 3.0x 3.1x

Shares repurchased -- 16,900 Average repurchase price \$24.08

Clinical

Dialysis adequacy

- % of patients with URR > 65 89% 89%

Dialysis adequacy

- % of patients with Kt/V > 1.2 93% 92% 92%

Anemia measure

- % of patients with HCT > 33 84% 83% 80%

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

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

Q2 2003 Q1 2003 Q2 2002 YTD 2003

1. Net earnings excluding

refinancing charges:

Net earnings \$38,520 \$36,413 \$8,370 \$74,933

Add back: Refinancing

charges 48,930

Related income

tax expense (19,572) 29,358

\$38,520 \$36,413 \$37,728 \$74,933

Q2 2003 Q1 2003 Q2 2002 YTD 2003

 Operating income excluding depreciation, amortization and minority interests (previously described

as EBITDA):

Operating income \$82,800 \$79,334 \$78,747 \$162,134

Add back: Depreciation and

amortization 17,921 17,445 15,698 35,366

Minority interests

and equity income, net 1,813 1,294 2,164 3,107 \$102,534 \$98,073 \$96,609 \$200,607

Rolling 12-month period ended Q1 2003 Q2 2003

 Operating cash flow before prior years' lab recoveries Cash provided by

operating activities \$78,778 \$80,649 \$359,505

Q2 2003

Less: Prior years' lab recoveries

(58,778)

Related income

tax expense 23,511 \$78,778 \$80,649 \$324,238

4. Free cash flow

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 principlesin 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 2003 Q1 2003 Q2 2002 Q2 2003

Cash provided by

operating activities \$78,778 \$80,649 \$58,433 \$359,505

Less expenditures for routine maintenance

and information technology (9,513) (10,490) (19,652) (47,198)

Free cash flow (including prior years'

lab recoveries) 69,265 70,159 38,781 312,307

Less: Prior years'

lab recoveries (58,778)
Related income
tax expense 23,511

Free cash flow

before prior years'

lab recoveries \$69,265 \$70,159 \$38,781 \$277,040

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