DaVita 2nd Quarter 2008 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc. today announced results for the quarter ended June 30, 2008. Net income for the three and six months ended June 30, 2008 was \$95.0 million and \$181.9 million, or \$0.90 per share and \$1.70 per share, respectively. This compares to net income for the three and six months ended June 30, 2007 of \$88.7 million and \$165.2 million, or \$0.83 per share and \$1.55 per share, respectively, which exclude a valuation gain on the Company's alliance and product supply agreement with Gambro and exclude after-tax gains on the sale of investment securities.

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

Net income for the three and six months ended June 30, 2007 including the valuation gain on the Company's alliance and product supply agreement with Gambro and including after-tax gains on the sale of investment securities was \$125.0 million and \$201.6 million, or \$1.17 per share and \$1.89 per share, respectively.

Financial and operating highlights include:

- -- Cash Flow: For the rolling 12 months ended June 30, 2008 operating cash flow was \$545 million and free cash flow was \$446 million. For the three months ended June 30, 2008 operating cash flow was \$135 million and free cash flow was \$114 million.
- -- Operating Income: Operating income for the three and six months ended June 30, 2008 was \$206 million and \$402 million, respectively, as compared to \$206 million and \$399 million, respectively, for the same periods of 2007, which exclude a pre-tax valuation gain of \$55 million on the product supply agreement.
- -- Volume: Total treatments for the second quarter of 2008 were 4,018,763 or 51,523 treatments per day, representing a per day increase of 6.0% over the second quarter of 2007. Non-acquired treatment growth in the quarter was 4.5% over the prior year's second quarter.
- -- Effective Tax Rate: The effective tax rate was 38.0% and 38.5% for the three and six months ended June 30, 2008, respectively. As a result of realizing certain tax benefits during the second quarter of 2008 we are lowering the range of our projected 2008 annual effective tax rate to 38.5%-39.5%. We currently project our 2009 effective tax rate to return to around 40.0%.
- -- Share Repurchases: During the second quarter of 2008 and for the six months ended June 30, 2008, we repurchased a total of 2,778,853 and 3,461,353 shares, respectively, of our common stock for \$137.2 million and \$169.7 million, or an average price of \$49.35 and \$49.02 per share, respectively, pursuant to previously announced Board authorizations. We have not repurchased any additional shares of our common stock subsequent to June 30, 2008.
- -- Center Activity: As of June 30, 2008, we operated or provided administrative services at 1,401 outpatient dialysis centers serving approximately 109,000 patients, of which 1,378 centers are consolidated in our financial statements. During the second quarter of 2008, we acquired 6 centers, opened 12 new centers, merged 2 centers, closed 4 centers, and discontinued providing administrative services to 1 center.

Outlook

We are narrowing our operating income guidance for 2008 to a range of \$800-\$840 million. Our operating income for 2009 is currently projected to be in the range of \$820-\$880 million. 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 second quarter ended June 30, 2008 on August 4, 2008 at 5:00 p.m. 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 and 2009 operating results and our 2009 expected effective tax rate. Factors which could impact future results include the uncertainties associated with governmental regulations, general economic and other market conditions, competition, accounting estimates and the risk factors set forth in the Company's SEC filings, including its Form 10-Q for the quarter ended March 31, 2008. 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, which may result in the loss of revenue or patients, 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.

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DAVITA INC.
          CONSOLIDATED STATEMENTS OF INCOME
                (unaudited)
      (dollars in thousands, except per share data)
                Three months ended
                                      Six months ended
                  June 30,
                                   June 30,
                2008
                         2007
                                  2008
                                           2007
Net operating revenues $1,407,304 $1,312,735 $2,752,028 $2,590,901
Operating expenses and
charges:
                     973,286
                              891,013 1,903,495 1,772,598
  Patient care costs
  General and
                    125,199
                              122,432 245,964 235,653
  administrative
  Depreciation and
                    52,892
  amortization
                              47,058
                                      105,703
                                                  92,848
  Provision for
  uncollectible
  accounts
                    37,497
                              33,944
                                       72,128
                                                67,579
  Minority
  interests and
  equity income, net
                      12.876
                                12.346
                                         22.457
                                                   22.964
  Valuation gain on
  alliance and
  product supply
  agreement
                           (55.275)
                                            (55.275)
    Total operating
     expenses and
    charges
                  1,201,750 1,051,518 2,349,747 2,136,367
Operating income
                      205,554
                                261,217 402,281 454,534
Debt expense
                      (55,320) (62,911) (114,386) (131,781)
Other income
                      2,987
                                7,658
                                        7,850
                                                10,853
Income before
                     153,221
                               205,964 295,745
                                                   333,606
income taxes
                                  80,940 113,860 132,000
Income tax expense
                        58,270
                    $94,951 $125,024 $181,885 $201,606
Net income
Earnings per share:
  Basic earnings
                    $0.91
  per share
                              $1.19
                                       $1.71
                                               $1.92
  Diluted earnings
  per share
                    $0.90
                              $1.17
                                       $1.70
                                               $1.89
  Weighted average shares
  for earnings per
  share:
                104.814.817 105.451.306 106.082.024 105.246.995
    Basic
    Diluted
                105,617,173 107,011,248 106,927,556 106,879,727
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DAVITA INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)

> Six months ended June 30, 2008 2007

Cash flows from operating activities:

Net income \$181,885 \$201,606

Adjustments to reconcile net income to cash

provided by operating activities:

Depreciation and amortization 105,703 92,848

Valuation gain on alliance and product

supply agreement (55,275)

Stock-based compensation expense 19,216 16,326 Tax benefits from stock award exercises 5,264 12.481

Excess tax benefits from stock award

(10,516)exercises (3,055)Deferred income taxes 17,171 27,458

Minority interests in income of

consolidated subsidiaries 21.934 23.502 Distributions to minority interests (29,423)(25,230)Equity investment losses (income) 523 (538)Loss (gain) on disposal of assets 4,462 (1,866)

Non-cash debt and non-cash rent charges 6,953 8,430

Changes in operating assets and liabilities,

other than from acquisitions and divestitures:

Accounts receivable (119,996)(27,427)

19,503 Inventories (301)

Other receivables and other current assets (33,793)(12,493)

Other long-term assets (10,344)(5,095)(18,255)(31,146)Accounts payable (701) Accrued compensation and benefits 4,091

Other current liabilities 58,078 13,891 Income taxes (10,057)(10,292)

Other long-term liabilities 4,178 (234)

Net cash provided by operating

225.534 activities 213,932

Cash flows from investing activities:

Additions of property and equipment, net (145,007) (104,999)

Acquisitions and purchases of other

ownership interests (69,652)(6,262)Proceeds from asset sales 622 125

Purchase of investments available for sale (1.352)(21,214)Purchase of investments held-to-maturity (15,777)(15,862)

Proceeds from sale of investments available

for sale 5,321

Proceeds from maturities of investments

held-to-maturity 15.462 15

Contributions from minority owners 18,983 13,476 Purchase of intangible assets (65)(556)Net cash used in investing activities (191,962) (109,377)

Cash flows from financing activities:

8,397,822 Borrowings 8,227,417

Payments on long-term debt (8,397,476) (8,271,098) Deferred financing costs (130)(4,228)

Purchase of treasury stock (169,673)

Excess tax benefits from stock award

10,516 exercises 3,055

Stock award exercises and other share

12,770 19,538 issuances, net

Net cash used in financing activities (153,632) (17,855)

Net (decrease) increase in cash and cash

equivalents (120.060)86,700

Cash and cash equivalents at beginning of

period 447,046

310,202 Cash and cash equivalents at end of period \$326,986 \$396,902

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

June 30, December 31,

ASSETS 2008 2007

Cash and cash equivalents \$326,986 \$447,046 Short-term investments 51,138 40,278

Accounts receivable, less allowance of

\$202,489 and \$195,953 1,046,665 927,949

80,173 Inventories 81,222 Other receivables 220,343 198,744 Other current assets 34,756 34,482 228,129 Deferred income taxes 247.578 1,989,239 1,976,250 Total current assets Property and equipment, net 985,503 939,326 Amortizable intangibles, net 170,831 183,042 Investments in third-party dialysis businesses 18,350

Long-term investments 7,896 22,562 Other long-term assets 45.745 35.401 Goodwill 3,831,996 3,767,933

\$7,049,560 \$6,943,960

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$207,206 \$225,461 Other liabilities 544.229 486.151

Accrued compensation and benefits 345,830 334,961 Current portion of long-term debt 23,431 52,195 Income taxes payable 16.492 Total current liabilities 1.149.460 1,086,496 Long-term debt 3,657,118 3,683,887 Other long-term liabilities 83,344 83,448

Alliance and product supply agreement, net 38,642 41,307

166,055 Deferred income taxes 181,419

Minority interests (fair value under potential

put obligations - \$292,000 and \$330,000) 159,698 150,517

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 shares authorized; 134,862,283 shares issued; 104,221,739 and 107,130,127 shares outstanding) 135 135

Additional paid-in capital 707.080 734,845 Retained earnings 1.697.175 1,515,290

Treasury stock, at cost (30,640,544 and

27,732,156 shares) (647, 225)(487,744)Accumulated other comprehensive loss (5,051)(2,511)Total shareholders' equity 1,779,879 1,732,250

\$7,049,560 \$6,943,960

DAVITA INC. SUPPLEMENTAL FINANCIAL DATA

(unaudited)

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

Three months ended Six months June 30, March 31, June 30, ended 2008 2008 2007 June 30, 2008

Financial Results excluding the valuation gain on the alliance and product supply agreement and gains on sale of investment securities for the three months

ended June 30, 2007:

Net income(1) \$95.0 \$86.9 \$88.7 \$181.9

Diluted earnings per

\$1.70 share(1) \$0.90 \$0.80 \$0.83 Operating income(1) \$205.6 \$196.7 \$205.9 \$402.3

Operating income

margin(1) 14.6% 14.6% 15.7% 14.6%

Business Metrics:

Volume

Treatments 4,018,763 3,934,777 3,792,419 7,953,540

Number of treatment

days 78.0 77.4 78.0 155.4

Treatments per day 51,523 50,837 48,621 51,181 Per day year over year 6.3% 6.1% 6.0% 5.3% increase Non-acquired growth year over year 4.5% 5.0% 4.6% 4.8% Revenue Total operating revenue \$1,407 \$1,345 \$1,313 \$2,752 Dialysis revenue per treatment, including the lab \$335.98 \$328.95 \$337.94 \$332.51 Per treatment increase from previous quarter 2.1% 0.3% 0.0% Per treatment (decrease) increase from previous (0.6%)(2.6%)2.7% (1.6%)year Expenses Patient care costs 69.2% 69.2% 67.9% 69.2% Percent of revenue Per treatment \$242.19 \$236.41 \$234.95 \$239.33 Per treatment increase (decrease) from previous quarter 2.4% 1.5% (1.4%)Per treatment increase (decrease) from (0.8%)1.2% previous year 3.1% 0.4% General & administrative expenses 8.9% 9.0% 9.3% 8.9% Percent of revenue Per treatment \$31.15 \$30.69 \$32.28 \$30.93 Per treatment increase (decrease) from 5.5% previous quarter 1.5% (9.4%)Per treatment increase (decrease) 4.4% from previous year (3.5%)0.3% (1.7%)Bad debt expense as a percent of current period revenue 2.7% 2.6% 2.6% 2.6% Consolidated effective D. 38.0% 39.0% 39.3% 38.5%

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.

DAVITA INC. SUPPLEMENTAL FINANCIAL DATA-continued (unaudited)

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

Three months ended Six months
June 30, March 31, June 30, ended
2008 2008 2007 June 30, 2008

Cash Flow Operating cash flow \$134.5 \$91.0 \$125.9 \$225.5 Operating cash flow, last twelve months \$544.6 \$536.0 \$501.0 Free cash flow(1) \$114.4 \$73.2 \$101.7 \$187.6 Free cash flow, last \$433.1 \$389.5 twelve months(1) \$445.7 Capital expenditures: Development and relocations \$60.2 \$30.8 \$46.1 \$106.3 Routine maintenance /IT other \$20.2 \$18.5 \$38.7 \$24.7 Acquisition expenditures \$60.9 \$6.1 \$69.7 \$8.8

Accounts Receivable

Net receivables \$1,047 \$960 \$960 DSO 70 68 69

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Debt/Capital Structure
                        $3,705
  Total debt(2)
                                  $3,701
                                            $3,703
                                      $3,222
  Net debt, net of cash(2)
                            $3,378
                                               $3,306
  Leverage ratio (see Note 1) 3.07x
                                        2.94x
                                                3.23x
  Overall effective weighted
  average interest rate
                           5.75%
                                     6.10%
                                              6.52%
  during the quarter
  Effective weighted average
  interest rate end of the
                       5.68%
                                 5.79%
                                           6.43%
  quarter
  Effective weighted average
  interest rate on the Senior
  Secured Credit Facilities
                           4.59%
                                     4.80%
                                               6.01%
  end of the quarter
  Economically fixed interest
  rates as a percentage of our
                                  72%
  total debt
                        69%
                                           79%
  Share repurchases
                            $137.2
                                      $32.5
                                                $- $169.7
Clinical (quarterly averages)
  Dialysis adequacy - % of
  patients with Kt/V > 1.2
                             95%
                                       95%
                                                93%
  Patients with albumin > 3.5
                               82%
                                        82%
                                                  84%
  Patients with Hb>=11
                              81%
                                        80%
                                                 84%
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- (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.
- (2) Excludes an unamortized balance of a debt premium associated with our senior notes that is not actually outstanding debt principal.

DAVITA INC. SUPPLEMENTAL FINANCIAL DATA-continued (unaudited) (dollars in thousands)

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.

> Rolling 12-months ended June 30, 2008

\$362,057 Net income 227,604 Income taxes

Debt expense including the write-off

of deferred financing costs 239.752 Depreciation and amortization 206,325 Minority interests and equity income, net 44,978 Other 727

Stock-based compensation expense 37,040 "Consolidated EBITDA" \$1,118,483

June 30, 2008

Total debt, excluding debt premium of \$4.1 million \$3.705.195 Letters of credit issued

50,002 3.755.197

Less: cash and cash equivalents (326.986)\$3,428,211 Consolidated net debt Last twelve months "Consolidated EBITDA" \$1,118,483

3.07x Leverage ratio

2008. At that date, the Company's leverage ratio did not exceed 4.75 to 1.0.

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

1. Net income excluding the valuation gain on the alliance and product supply agreement (the Product Supply Agreement) and gains on the sale of investment securities:

We believe that net income excluding the valuation gain on the Product Supply Agreement and gains on the sale of investment securities enhances a user's understanding of our normal net income for these periods by providing a measure that is more meaningful because it excludes a non-recurring non-cash item that resulted from the termination of our purchase obligation for dialysis machines from Gambro Renal Products Inc. under the Amended Product Supply Agreement and non-recurring gains on the sale of investment securities and accordingly is more comparable to current and prior periods and indicative of consistent net income. 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.

```
Six months ended
               Three months ended
                                        June 30,
            June 30, March 31, June 30,
                     2008
                             2007
                                     2008
                                             2007
Net income
             $94,951 $86,934 $125,024 $181,885 $201,606
Less: Valuation gain
                            - (55,275)
   Gain on the sale
    of investment
                            (4,234) - (4,234)
    securities
                                  23,149
Add: Related income tax
                                           - 23.149
             $94,951 $86,934 $88,664 $181,885 $165,246
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2. Operating income excluding the pre-tax valuation gain on the Product Supply Agreement:

We believe that operating income excluding the valuation gain on the Product Supply Agreement enhances a user's understanding of our normal operating income for these periods by providing a measure that is more meaningful because it excludes a non-recurring non-cash item that resulted from the termination of our purchase obligation for dialysis machines from Gambro Renal Products Inc. under the Amended Product Supply Agreement and accordingly is more comparable to prior periods and indicative of consistent operating income items. 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 operating income.

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Six months ended
             Three months ended
                                       June 30.
         June 30, March 31, June 30,
          2008
                   2008
                           2007
                                     2008
                                           2007
Operating income $205,554 $196,727 $261,217 $402,281 $454,534
Less: Valuation
gain
                      - (55,275)
                                    - (55,275)
          $205,554 $196,727 $205,942 $402,281 $399,259
        RECONCILIATIONS FOR NON-GAAP MEASURES
               (unaudited)
            (dollars in thousands)
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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 Six months ended

June 30, March 31, June 30, June 30, 2008 2007 2008

Cash provided by operating

activities \$134,510 \$91,024 \$125,901 \$225,534

Less: Expenditures for routine maintenance and

information technology (20,153) (17,827) (24,157) (37,980) Free cash flow \$114,357 \$73,197 \$101,744 \$187,554

> Rolling 12-Month Period June 30, March 31, June 30, 2008 2008 2007

Cash provided by operating

activities \$544,638 \$536,029 \$500,977

Less: Expenditures for routine maintenance and information

technology (98,897) (102,901) (111,511) Free cash flow \$445,741 \$433,128 \$389,466

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