DaVita Inc. Reports 3rd Quarter 2002 Results

PRNewswire-FirstCall TORRANCE, Calif.

DaVita Inc., today announced results for the quarter ended September 30, 2002. EBITDA, excluding prior period laboratory receipts and accounts receivable recoveries, was \$99.8 million for the quarter. EBITDA for the quarter included current period Medicare laboratory revenue of \$5.4 million.

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

Net earnings for the three and nine months ended September 30, 2002 were \$54 million and \$99 million, or \$0.72 and \$1.20 per share, respectively. Net earnings for the quarter, excluding the prior period Medicare laboratory receipts and accounts receivable recoveries totaling \$28 million, were \$37 million or \$0.51 per share. Net earnings for the nine months, excluding prior period lab receipts and accounts receivable recoveries totaling \$32 million, valuation gains of \$2.4 million and a \$29 million after-tax extraordinary loss related to the early extinguishment of debt, were \$107 million or \$1.29 per share.

Financial and operating highlights include:

- -- For the rolling 12 months ended September 30, 2002 operating cash flow was \$280 million and free cash flow was \$230 million. Operating cash flow for the quarter was \$119 million and free cash flow was \$110 million. These cash flow numbers exclude prior period lab receipts and accounts receivable recoveries.
- -- Total treatments for the third quarter were 1,516,840. Non-acquired same center treatment growth was 3.8%.
- -- Third quarter dialysis revenue per treatment (excluding lab, management fees and other revenue) was essentially flat from the second quarter at \$291 and up 3.8% from the third quarter of 2001.
- -- The Company began recognizing current-period Medicare lab revenue in the third quarter of 2002, which amounted to \$5.4 million. During the third quarter, the Medicare carrier began paying claims from the Company's lab for the first time in more than four years.
- EBITDA margin, excluding all prior-period recoveries, was 22.0%.
 EBITDA margin improved 100 basis points from the second quarter primarily as a result of the recognition of current period Medicare laboratory revenue.
- -- DSO improved 3 days from the second quarter to 70 days.
- -- Third quarter prior-period recoveries included \$27 million associated with Medicare lab claims and \$0.5 million in cash recoveries associated with accounts receivable reserved in 1999.
- -- Based on recent communications with the Medicare carrier, the Company expects to receive, over the next few months, additional payments of \$20 million or more related to prior years' Medicare lab claims. The revenue associated with these recoveries will be recognized as the payments are received.
- -- As of September 30, 2002, we operated 504 outpatient centers serving approximately 44,000 patients. During the third quarter we closed 1 under-performing center, acquired 6 centers and opened 7 de novo centers. Included in this patient and center count are approximately 3,300 patients in 29 centers under management.

Since the Company is now recognizing Medicare laboratory revenue, we are raising our 2002 EBITDA guidance to \$380 million to \$386 million. Correspondingly, our 2003 EBITDA guidance has been increased to \$380 million to \$400 million.

DaVita will be holding an investor meeting on November 6, 2002, at the New York Palace Hotel. The event will begin at 9:30 AM Eastern Standard Time. Kent Thiry, Chairman and CEO, and Rich Whitney, CFO, will discuss the Company's financial results for the guarter ended September 30, 2002 followed by a presentation on the state of the Company.

Please join us in person at the New York Palace Hotel located at 455 Madison Avenue @50th Street. If you are unable to attend you can participate in both presentations via conference call at 800-399-4406. A replay of both presentations will be available on DaVita's official web page, www.davita.com, for the following 30 days.

This release 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 June 30, 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 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.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

September 30, December 31,

2002 2001

ASSETS

Cash and cash equivalents \$115,361 \$36,711

Accounts receivable, less allowance of

\$50,165 and \$52,475 339,955 333,546

 Inventories
 21,931
 34,901

 Other current assets
 17,068
 9,364

 Deferred income taxes
 63,741
 60,142

Total current assets 558,056 474,664

Property and equipment, net 278,761 52,778

Amortizable intangibles, net 65,635 73,108

Investments in third-party dialysis businesses 3,266 4,346

Other long-term assets 1,831 2,027

Goodwill 860,425 855,760

\$1,767,974 \$1,662,683

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$77,846 \$74,630 Other liabilities 106,456 111,164

Accrued compensation and benefits 99,070 88,826 Current portion of long-term debt 8,166 9,034 Income taxes payable 33,473 15,027

Total current liabilities 325,011 298,681

 Long-term debt
 1,313,847
 811,190

 Other long-term liabilities
 8,034
 5,012

 Deferred income taxes
 49,910
 23,441

 Minority interests
 22,462
 20,722

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; 88,314,176 and 85,409,037 shares issued) 88 85
Additional paid-in capital 511,627 467,904

Retained earnings 154,526 Treasury stock, at cost (26,325,677 and

888,700 shares) (617,531) (20,360)

Total shareholders' equity 48,710 503,637

\$1,767,974 \$1,662,683

56,008

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

Three months ended September 30, September 30, September 30, 2002 2001

95,380

Net operating

revenues \$481,194 \$434,239 \$1,351,536 \$1,221,096

Operating expenses:

Dialysis centers

and labs 308,438 277,252 900,624 809,771 General and

administrative 37,048 31,150 115,125 Depreciation and

amortization 16,267 26,281 47,770 79,053

Provision for uncollectible

accounts 8,117 2,689 19,254 (5,874)

Impairments and

valuation adjustments (2,390)

Total operating

expenses 369,870 337,372 1,080,383 978,330

 Operating income
 111,324
 96,867
 271,153
 242,766

 Other income, net
 1,124
 1,856
 4,972
 4,324

 Debt expense
 19,967
 18,319
 52,178
 56,758

Minority interests in income of consolidated

subsidiaries (1,911) (2,126) (7,171) (6,852)

Income before income

taxes and extraordinary

item 90,570 78,278 216,776 183,480

Income tax expense 36,400 34,000 88,900 79,700

Income before

extraordinary item 54,170 44,278 127,876 103,780

Extraordinary (loss) gain related to early extinguishment of debt, net of tax of \$19,572 in 2002 and \$652 in

2001 (29,358) 977

Net income \$54,170 \$44,278 \$98,518 \$104,757

Basic earnings per share:

Income before

extraordinary item \$0.84 \$0.52 \$1.69 \$1.25

Extraordinary (loss)

gain, net of tax (0.39) 0.01

Net income \$0.84 \$0.52 \$1.30 \$1.26

Diluted earnings per share:

Income before

extraordinary item \$0.72 \$0.47 \$1.51 \$1.15

Extraordinary (loss)

gain, net of tax (0.31) 0.01

Net income \$0.72 \$0.47 \$1.20 \$1.16

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA

Q3 2002 Q2 2002 Q3 2001 YTD 2002

Financial Results: Net earnings, excluding prior period Medicare lab revenue, extraordinary items, recoveries, valuation adjustments and goodwill amortization \$34,300 \$107,100 (in 000's) (1) \$37,400 \$35,100 Basic EPS \$0.58 \$0.44 \$0.41 \$1.42 **EPS** assuming \$0.51 \$0.41 \$0.38 \$1.29 dilution EBITDA, excluding prior period Medicare lab revenue, recoveries and valuation adjustments Consolidated (in 000's) \$99,800 \$92,300 \$96,000 \$284,600 Continental U.S (in 000's). \$99.800 \$92,700 \$95,600 \$284,400 Continental EBITDA 22.0% 21.0% 23.4% 21.6% margin Business Metrics (Continental U.S.): Category #1 Volume 1,486,816 1,432,453 4,437,459 Treatments 1,516,840 Per day sequential 1.6% 1.6% increase 0.7% Per day year over year increase 4.6% 5.5% 7.6% 5.4% Same center growth 3.7% 4.2% (year over year) 4.5% 4.1% Non-acquired growth (year over year) 4.5% 4.1% 4.2% Category #2 Revenue, excluding prior period Medicare lab revenue and recoveries Revenue (in 000's) \$441,000 \$408,000 \$1,318,000 \$454,000 Dialysis revenue per treatment \$290.92 \$290.52 \$280.16 \$290.63 Per treatment increase from previous quarter 0.1% 0.0% 1.6% Per treatment increase from prior 5.3% 7.6% 5.0% year 3.8% Category #3 Expenses A. Dialysis centers and lab operating expenses Percent of revenue 67.9% 67.7% 67.1% 67.9% Per treatment \$203.34 \$200.46 \$191.13 \$201.64 Per treatment increase (decrease) from previous quarter 1.4% (0.3%)0.6% B. General & administrative Percent of revenue 8.2% 9.5% 7.6% 8.7% \$21.75 Per treatment \$25.94 \$24.42 \$28.26 Per treatment increase (decrease) from previous quarter (13.6%)12.4% (5.4%)

C. Bad debt expense as a percent of

current-period revenue 1.9% 1.8% 1.9% 1.8% D. Consolidated effective tax 40.0% 41.2% 43.4% 41.0% rate Category #4, Cash Flow (Consolidated, including prior period recoveries, in 000's) Operating cash \$61,000 \$112,000 \$282,000 flow \$136,000 Free cash flow (before share repurchase, acquisition and development \$127,000 spending) \$43,000 \$104,000 \$246,000 Capital expenditures: Development \$11,700 \$8,100 \$4,800 \$27,400 Routine maintenance/IT/ other \$10,500 \$19,600 \$7,200 \$39,200 Acquisition expenditures, net \$10,600 \$15,500 \$12,000 Category #5 Accounts Receivable Net receivables (in 000's) \$340,000 \$347,000 \$309,000 \$340,000 DSO 70 73 71 Category #6 Debt/ Capital Structure (Consolidated) Total debt (in 000's) \$1,322,000 \$1,324,000 \$820,000 \$1,322,000 Net debt, net of cash (in 000's) \$1,207,000 \$1,187,000 \$775,000 \$1,207,000 LTM net leverage ratio 3.2x 3.2x 2.1x 3.2x Shares repurchased (in 000's) 5,600 16,900 25,400 Average repurchase price \$21.88 \$24.08 \$23.48 Category #7 Clinical Dialysis adequacy - % of patients with URR > 65 89% 88% Dialysis adequacy - % of patients with Kt/V > 1.2Anemia measure - % of patients with HCT > 33 81% 80%

(1)Effective January 1, 2002 goodwill is no longer amortized in accordance with new accounting standards. Third quarter 2001 net earnings and per-share amounts, including goodwill amortization but excluding extraordinary items and recoveries, were \$28 million or \$0.33 basic EPS and \$0.31 diluted EPS.

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