DaVita Inc. Reports 3rd Quarter 2004 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc., today announced results for the quarter ended September 30, 2004. Net income for the three and nine months ended September 30, 2004, excluding after tax Medicare lab recoveries of \$5.1 million was \$55.3 million and \$160.6 million, or \$0.54 and \$1.56 per share, respectively.

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

Net income, on a GAAP basis, including the lab recoveries, for the three and nine months ended September 30, 2004, was \$60.4 million and \$165.7 million, or \$0.59 and \$1.61 per share, respectively.

Financial and operating highlights include:

- -- Cash Flow: For the rolling 12 months ended September 30, 2004, operating cash flow was \$367 million. Excluding the tax benefit from stock option exercises and the after-tax benefit of prior years' Medicare lab recoveries, rolling 12-month operating cash flow was \$315 million and free cash flow was \$268 million.
- -- Operating Income: Operating income for the three and nine months ended September 30, 2004, excluding Medicare lab recoveries of \$8.3 million for prior years' services, was \$103.4 million and \$296.7 million, respectively.
- -- Volume: Total treatments for the third quarter were 1,804,534 or 22,842 treatments per day, an increase of 11.0% per day compared to the third quarter of last year. Non-acquired treatment growth was 4.8%.
- -- Center Activity: As of September 30, 2004, we operated or provided administrative services at 636 outpatient centers serving approximately 53,000 patients. During the third quarter we acquired 37 centers including minority interests in 4 centers, opened 7 de novo centers and provided administrative services to 2 additional centers. We also closed 2 centers.

Recent Transactions

On September 1, 2004, we completed our acquisition of Physicians Dialysis, Inc. (PDI), by acquiring 24 centers for approximately \$150 million in cash.

In August 2004, we began repurchasing shares of our common stock in the open market pursuant to a previous authorization by our Board of Directors. During the third quarter of 2004, we repurchased a total of 3,049,800 shares of common stock at an average price of \$28.69 per share.

On November 2, 2004, the Board of Directors authorized the Company to repurchase up to an additional \$200 million of the Company's common stock. The purchases are expected to be made on the open market or in privately negotiated transactions, from time to time, depending upon market conditions as well as other considerations. The total outstanding Board authorizations for share repurchases are now approximately \$250 million.

Outlook

We expect our fourth quarter operating income to be comparable to the third quarter of 2004. For 2005 we currently expect operating income to be flat to 6% higher than the 2004 level.

DaVita will be holding a conference call to discuss its third quarter 2004 results on November 3, 2004, at 12:00 PM 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, 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 regulations, general economic and other market conditions, acquisitions and the risk factors set forth in the Company's SEC filings, including its Form 10-Q for the quarter ended June 30, 2004. 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 PPO and private indemnity patients and from 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, including our continued compliance with complex government regulations and the ongoing review by the U.S. Attorney's Office and HHS Office of the Inspector General in Philadelphia and the recently announced subpoena from the U.S. Attorney's Office, Eastern District of New York.

This Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

DAVITA INC. CONSOLIDATED STATEMENTS OF INCOME (unaudited) (dollars in thousands, except per share data) Three months ended Nine months ended September 30, September 30, 2004 2003 2004 2003 Net operating \$513,282 \$1,682,592 \$1,462,972 revenues \$595,531 Operating expenses and charges: Patient care 396,909 347,895 1,135,477 1,000,591 costs General and administrative 50,600 39.920 138,931 119,290 Depreciation 54,702 and amortization 22,257 19,336 63,454 Provision for uncollectible accounts 10,520 9,214 29,964 26,231 Minority interests and equity income, net 3,593 1,706 9,814 4,813 Total operating expenses and charges 483,879 418,071 1,377,640 1,205,627 Operating income 111,652 95,211 304,952 257.345 55,062 Debt expense 13,741 16,111 36,635 17,240 Refinancing Charges 17,240 1,010 1,050 3,120 2,725 Other income Income before 98,921 62,910 271,437 187,768 income taxes Income tax 38,535 24,850 105,785 expense 74,775 Net income \$60,386 \$38,060 \$165,652 \$112,993 Earnings per share: \$0.39 Basic \$0.61 \$1.67 \$1.21 Diluted \$0.59 \$0.36 \$1.61 \$1.07 Weighted average shares for earnings per share: 99.168.930 97.654.447 98.972.666 93.663.063 Basic Diluted 102,889,781 114,749,043 103,193,267 117,231,159

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

September 30, 2004 2003

Cash flows from operating activities:

\$165,652 \$112,993 Net income

Adjustments to reconcile net income

to cash provided by operating activities:

63,454 54,702 Depreciation and amortization Stock options, principally tax benefits 30,465 10,240 Deferred income taxes 11,831 12,271 929 Loss on divestitures 59 Non-cash debt expense 1,497 2,636 Equity investment income (1,531)(1,331)Minority interests in income

of consolidated subsidiaries 11,345 6,144 Distributions to minority interests (5,560)(6,966)Refinancing charges 17,240

Changes in operating assets and liabilities, other than

from acquisitions and divestitures:

Accounts receivable (33,998)(9,978)Medicare lab recoveries 10.707 Inventories 9,974 Other current assets (755)(4,189)Other long-term assets 2.109 3.902 Accounts payable 7,773 (7,950)

Accrued compensation and benefits 12,959 22.409 43,360 Other current liabilities 25,832 Income taxes 136 13,312 Other long-term liabilities (8) 4,946

Net cash provided by

operating activities 332,604 259,072

Cash flows from investing activities:

Additions of property and equipment, net (89.872)(64.031)Acquisitions and divestitures, net (245,284)(66,922)

Investments in and advances to

affiliates, net 4,862 3.516 Intangible assets (635)(540)

Net cash used in investing

activities (330,929)(127,977)

Cash flows from financing activities:

Borrowings 3,123,171 3,423,511 Payments on long-term debt (2,903,648) (3,299,064) Debt redemption premium (8,405)Deferred financing costs (3,934)(3,445)Purchase of treasury stock (83,037)

(86,559)Stock option exercises 34,580 14,979

Net cash provided by financing

activities 163,610 44,539

Net increase in cash and cash equivalents 165,285 175,634

Cash and cash equivalents at

beginning of period 61,657 96,475 Cash and cash equivalents at end of period \$226,942 \$272,109

> DAVITA INC. CONSOLIDATED BALANCE SHEETS (unaudited)

(dollars in thousands, except per share data)

September 30, December 31, 2004 2003

ASSETS

\$226,942 Cash and cash equivalents \$61,657

Accounts receivable, less allowance of

434,669 387,933 \$59,051 and \$52,554 Medicare lab recoveries 8,293 19,000 Inventories 30,666 32,853 Other current assets 47,723 43,875 59.740 Deferred income taxes 78.581 Total current assets 826,874 605,058 Property and equipment, net 392,072 342,447 Amortizable intangibles, net 62,238 49,971

Investments in third-party

dialysis businesses 4,381 3,095 Other long-term assets 8,368 10,771 Goodwill 1,136,958 934,188

\$2,430,891 \$1,945,530 LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$84,365 \$ 71.868 Other liabilities 157,707 112,654

Accrued compensation and benefits 100,909 123,166 Current portion of long-term debt 53,277 50,557 27,138 Income taxes payable 26,832 Total current liabilities 445,653 362,820 Long-term debt 1,334,687 1,117,002 Other long-term liabilities 19,662 19,310 133,613 Deferred income taxes 106,240 Minority interests 44,940 33,287

Commitments and contingencies

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;

134,862,283 shares issued) 135 135 Additional paid-in capital 541,736 539,575 Retained earnings 554,685 389.083

Treasury stock, at cost

(37,153,625 and 38,052,028 shares) (643,860)(620,998)

Accumulated comprehensive income

valuations (360)(924)452,336 306,871 Total shareholders' equity \$2,430,891 \$1,945,530

DAVITA INC. SUPPLEMENTAL FINANCIAL DATA (unaudited)

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

Q3 2004 Q2 2004 Q3 2003 YTD 2004

Financial Results: Net income excluding Medicare lab recoveries for prior years' services and refinancing

charges in Q3-2003. \$55.3 \$52.4 \$48.5 \$160.6 Basic EPS \$.56 \$0.53 \$.50 \$1.62

EPS assuming

dilution \$.54 \$0.50 \$.45 \$1.56

Operating income, excluding Medicare

\$103.4 \$96.5 \$95.2 \$296.7 lab recoveries

Operating income

margin 17.6% 17.5% 18.5% 17.7%

Other comprehensive

income

Unrealized (loss) gain on securities, net of tax (benefit) expense of \$(1.6), \$3.6

and \$0.4 \$0.6 \$(2.5) \$5.7

Business Metrics:

Volume

Treatments 1,804,534 1,704,882 1,625,058 5,166,472

Number of

treatment days 79.0 78.0 79.0 234.5

Treatments

per day 22,842 21,857 20,570 22,032

Per day year

over year increase 11.0% 7.9% 7.1% 9.2% Non-acquired growth 4.8% 4.5% 3.8% 4.5%

Total operating rever	nue \$5	96 \$!	552 \$5	513 \$1,683
Less Medicare lab recoveries for		φ.		
prior years' services Revenue excluding	\$8			\$8
Medicare lab recoveries	\$587	\$552	\$513	\$1,674
Dialysis revenue per treatment	\$313.60	\$311.5	54 \$306.	20 \$312.09
Per treatment change from				
previous quarter Per treatment change from prior ye	0.7% ear 2.4			3% 3.5%
	ai 2.4	76 5.	J /6 J.	J /6 J.J /6
Expenses A. Patient care costs Percent of revenue excluding Medicar lab recoveries Per treatment Per treatment chan from previous qual Per treatment chan	e 67.6% \$219.95 age rter	\$220.0)4 \$214	
from previous year		3.49	% 5.3°	% 3.4%
B. General & administrative expenses Percent of revenue excluding Medical lab recoveries Per treatment Per treatment chaifrom previous qua from previous year	re 8.6% \$28.04 nge urter 4.5°	% 4.3	2 \$24.5 3% (8.9	%)
C. Bad debt expense as a percent of current-period revenue	1.8%	1.8%	1.8%	1.8%
D. Consolidated effective tax rate	39.0%	39.0%	39.5%	39.0%
DAVITA INC. SUPPLEMENTAL FINANCIAL DATA-continued (unaudited) (dollars in millions, except for per share and per treatment data)				
Q3 :	2004 Q2	2004 (23 2003	YTD 2004
Cash Flow Operating cash flow, excluding Medicare lab recoveries Operating cash flow, excluding Medicare lab recoveries and tax benefit	\$115.9	\$90.6	\$99.6	\$321.0
from stock option exercises Free cash flow, excluding Medicare lab recoveries	\$110.4	\$80.0	\$95.1	\$290.5
development spending) Free cash flow, excluding Medicare lab recoveries and tax benefit from	\$104.9	\$75.7	\$90.1	\$289.3

stock option

exercises

development spending) \$99.5 \$65.1 \$85.6 \$258.9

Capital expenditures:

Development \$22.8 \$15.8 \$12.9 \$57.8

Routine maintenance

/IT/other \$11.0 \$14.9 \$9.5 \$31.7

Acquisition

expenditures, net \$213.5 \$14.7 \$19.9 \$245.3

Accounts Receivable

Net receivables \$435 \$402 \$357 DSO 68 68 65

Debt/Capital Structure

Total debt \$1,388 \$1,144 \$1,323

Net debt, net of cash

balance \$1,161 \$943 \$1,051

Leverage ratio -- last

quarter annualized

(see Note 1) 2.2x 2.0x 2.3x

Share repurchases

in millions) 3.1 3.1

Clinical (quarterly averages)

Dialysis adequacy -- %

of patients with

Kt/V > 1.2 94% 94% 93%

Anemia measure -- %

of patients

with HCT > 33 87% 86% 83%

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

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

1. Net income excluding Medicare lab recoveries and refinancing charges:

(8,293)

Q3 2004 Q2 2004 Q3 2003 YTD 2004

Net income \$60,386 \$52,401 \$38,060 \$165,652

Less: Medicare lab recoveries for prior

years' services (8,293)

Add back:

Refinancing

charges 17,240

Related

income

tax expense 3,234 (6,818) 3,234

\$55,327 \$52,401 \$48,482 \$160,593

Operating income excluding Medicare lab recoveries, and excluding depreciation, amortization, and minority interests (used to calculate leverage ratio):

Q3 2004 Q2 2004 Q3 2003 YTD 2004

Operating income \$111,652 \$96,467 \$95,211 \$304,952 Less Medicare lab recoveries for

prior years'

services (8,293) (8,293)

103,359 96,467 95,211 296,659

Add back:
Depreciation
and amortization 22,257 20,927 19,336 63,454
Minority interests
and equity
income, net 3,593 3,503 1,706 9,814
\$129,209 \$120,897 \$116,253 \$369,927

Operating cash flow, excluding Medicare lab recoveries related to prior years' services, and tax benefit from stock option exercises:

> Q3 2004 Q2 2004 YTD 2004 Q3 2003 Rolling 12month period ended Q3 2004

Cash provided by operating

activities \$115,852 \$90,636 \$332,604 \$99,645 \$367,180

Less: Medicare lab recoveries related to

prior years' services (19,000) (19,000) Related income tax expense 7,410 7,410

Operating cash flow, excluding Medicare lab

recoveries \$115,852 \$90,636 \$321,014 \$99,645 \$355,590

Less: Tax benefit from stock

option exercises (5,417) (10,659) (30,465) (4,541) (40,405) \$110,435 \$79,977 \$290,549 \$95,104 \$315,185

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA-continued (unaudited)

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

4. Free cash flow, excluding Medicare lab recoveries related to prior years' services, and tax benefit from stock option exercises: 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 acquisition and development activities and meet our debt service requirements. Free cash flow is not a measure of financial performance under generally accepted accounting principles in 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.

Q3 2004 Q2 2004 YTD 2004 Q3 2003 Rolling 12month period ended Q3 2004

Cash provided by operating

activities \$115,852 \$90,636 \$332,604 \$99,645 \$367,180

Less:

Expenditures for routine maintenance and information

technology (10,956) (14,899) (31,671) (9,533) (47,033) Free cash flow \$104,896 \$75,737 \$300,933 \$90,112 \$320,147

Medicare lab recoveries related to prior years'

services (19,000) (19,000)

Related

income tax expense 7,410 7,410

Free cash flow, excluding Medicare

lab recoveries \$104,896 \$75,737 \$289,343 \$90,112 \$308,557

Less: Tax benefit from stock option

exercises (5,417) (10,659) (30,465) (4,541) (40,405) \$99,479 \$65,078 \$258,878 \$85,571 \$ 268,152

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