# Davita Inc. Reports 4th Quarter and Year Ended 2004 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc., today announced results for the quarter and year ended December 31, 2004. Net income for the three months ended December 31, 2004, was \$56.6 million and \$0.56 per share. Net income for the year ended December 31, 2004, was \$217.2 million, and \$2.11 per share, excluding after-tax Medicare lab recoveries of \$5.1 million.

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

Net income for the year ended December 31, 2004 including the lab recoveries (GAAP basis), was \$222.3 million and \$2.16 per share.

Financial and operating highlights include:

- -- Cash Flow: Cash flow for the 12 months ended December 31, 2004, was our strongest ever with operating cash flow and free cash flow of \$361 million and \$314 million, excluding the tax benefit from stock option exercises and the after-tax benefit of prior years' Medicare lab recoveries. Including those items, 12-month operating cash flow was \$420 million.
- -- Operating Income: Operating income for the three months was \$105.2 million. Operating income for the year ended December 31, 2004 was \$401.8 million, excluding Medicare lab recoveries of \$8.3 million for prior years' services.
- -- Volume: Total treatments for the fourth quarter were 1,895,952 or 23,999 treatments per day, an increase of 14.5% per day compared to the fourth quarter of last year. Total treatments for 2004 were 7,062,424 or 22,528 treatments per day, representing an increase of 10.6% per day as compared to 2003. Non-acquired treatment growth was 6.0% and 5.0% for the fourth quarter and full year 2004, respectively.
- -- Effective Tax Rate: The final effective annual income tax rate for 2004 was 38.6%. The fourth quarter benefited from a year-to-date reduction in the annualized effective tax rate that added \$0.01 to fourth quarter earnings per share. At this time, the effective tax rate for 2005 is projected to be at a comparable level.
- -- Center Activity: As of December 31, 2004, we operated or provided administrative services at 658 outpatient centers serving approximately 54,000 patients. During the fourth quarter we acquired 6 centers, opened 19 de novo centers and provided administrative services to 2 additional centers. We also closed 4 centers and terminated one administrative services agreement.

#### Outlook

Our previous 2005 operating income guidance was for operating income to improve from 0 to 6% over the 2004 operating income performance. Our new 2005 operating income guidance is for operating income to be up 2 to 6% over 2004, exclusive of the effects of the proposed Gambro Healthcare acquisition and related debt financing, as well as the anticipated expensing of stock options in accordance with FASB No. 123R. In connection with the Gambro acquisition the Company will be assessing financing alternatives, which could include closing some or all of the financing in advance of the closing of the acquisition. At this time, we expect the Gambro acquisition together with related debt financing to be dilutive to EPS in the first year, neutral in the second year and accretive thereafter.

DaVita will be holding a conference call to discuss its fourth quarter and year ended results for 2004 on February 9, 2005, 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 September 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,

- -- 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,
- -- legal compliance risks, including our continued compliance with complex government regulations and the ongoing review by the U.S. Attorney's Office for the Eastern District of Pennsylvania, and the HHS Office of the Inspector General and the recently announced subpoena from the U.S. Attorney's Office for the Eastern District of New York, and
- -- the consummation of the Gambro acquisition, terms of the related financing, and subsequent integration of the business.

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 Years ended December 31, December 31, 2004 2003 2004 2003

Net operating revenues \$616,003 \$553,446 \$2,298,595 \$2,016,418

Operating expenses and

charges:

Patient care

costs 419,593 359,965 1,555,070 1,360,556

General and

administrative 53,151 40,338 192,082 159,628

Depreciation and

amortization 23,212 19,985 86,666 74,687

Provision for uncollectible

accounts 10,996 9,469 40,960 35,700

Minority interests

and equity income,

net 3,880 2,499 13,694 7,312

Total operating expenses and

charges 510,832 432,256 1,888,472 1,637,883

Operating income 105,171 121,190 410,123 378,535

Debt expense 15,777 11,766 52,412 66,828

Refinancing Charges 9,261 26,501

Other income 1,053 335 4,173 3,060

Net income \$56,602 \$62,798 \$222,254 \$175,791

Earnings per share:

Basic \$0.58 \$0.65 \$2.25 \$1.86 Diluted \$0.56 \$0.61 \$2.16 \$1.66

Weighted average shares for earnings per

earnings per share:

Basic 97,984,401 96,380,778 98,726,674 94,345,618
Diluted 101,777,418 102,661,284 102,861,044 113,760,352

DAVITA INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)

Years ended December 31, 2004 2003

Cash flows from operating activities:

Net income \$222,254 \$175,791

Adjustments to reconcile net income to cash provided by operating activities:

| Depreciation and amortization                                 | 86            | ,666 74,6   | 687             |
|---|---------------|-------------|-----------------|
| Stock options, principally tax b                              |               |             | 180             |
| Deferred income taxes   | 29,1          | 15 20,91    | 4               |
| Minority interests in income of                               |               |             |                 |
| consolidated subsidiaries                                     | 15,13         | 35 8,908    | }               |
| Distributions to minority interes                             |               | (7,66 (7,66 |                 |
| Equity investment income                                      | (1,4          | 41) (1,59   | 6) <sup>´</sup> |
| Loss on divestitures  | 7 <b>6</b> 4  | 2,130       | ,               |
| Non-cash debt expense   | 2,0           | 88 3,12     | 4               |
| Refinancing charges   |               | 26,501      |                 |
| Changes in operating assets and                               | liabilities,  |             |                 |
| other than from acquisitions and                              | divestitures: |             |                 |
| Accounts receivable   | (61,42        | 4) (41,369  | )               |
| Medicare lab recoveries                                       | 19,00         | 00 (19,00   | 0)              |
| Inventories   | 4,257         | 3,159       |                 |
| Other current assets  | 1,780         | (13,297)    |                 |
| Other long-term assets  | 3,34          |             |                 |
| Accounts payable  | 17,764        |             |                 |
| Accrued compensation and be                                   |               | 32,899      | 5,821           |
| Other current liabilities                                     | 42,784        | 9,958       |                 |
| Income taxes  | (25,995)      |             |                 |
| Other long-term liabilities                                   | (1,355        | ) 9,773     |                 |
| Net cash provided by oper                                     |               |             |                 |
|   | 119,945       | 293,648     |                 |
| Cash flows from investing activitie                           |               |             |                 |
| Additions of property and equi                                |               | 100.070)    |                 |
|   |               | 100,272)    | 270)            |
| Acquisitions and divestitures,<br>Investments in and advances | ,             | 0,042) (97  | ,370)           |
| affiliates, net   | 14,344        | 4,456       |                 |
| Intangible assets   | (635)         | (790)       |                 |
| Net cash used in investing                                    | ` ,           | (730)       |                 |
| •   |               | (193,976)   |                 |
| Cash flows from financing activitie                           |               | (130,370)   |                 |
| Borrowings  | 4,444,160     | 4,766,276   |                 |
| Payments on long-term debt                                    |               |             | 97,994)         |
| Debt redemption premium                                       | ( .,=0        | (14,473     | ,               |
| Deferred financing costs                                      | (4,15         | , .         | ,               |
| Purchase of treasury stock                                    |               | 540) (107,1 | ,               |
| Stock option exercises  |               | 2 23,056    | ,               |
| Net cash provided by (use                                     |               | -,          |                 |
| financing activities  | 150,038       | (134,490)   |                 |
| Net increase (decrease) in cash a                             |               | , , ,       |                 |
| cash equivalents  | 190,322       | (34,818)    |                 |
| Cash and cash equivalents at beg                              | jinning       |             |                 |
| of period   | 61,657        | 96,475      |                 |
| Cash and cash equivalents at end                              | l of period   | \$251,979   | \$61,657        |
|   |               |             |                 |
|   |               |             |                 |
| DAVITA INC.   |               |             |                 |

#### CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

December 31,

2004 2003

**ASSETS** 

Cash and cash equivalents \$251,979 \$61,657

Accounts receivable, less allowance

of \$58,166 and \$52,554 462,095 387,933 Medicare lab recoveries 19,000

31,843 Inventories 32,853 Other current assets 44,210 43,875 Deferred income taxes 78,593 59,740 605,058 Total current assets 868,720 Property and equipment, net 412,064 342,447 Amortizable intangibles, net 60,719 49,971

Investments in third-party dialysis businesses 3,332 3,095 10,898 Other long-term assets 10,771 Goodwill

934,188 1,156,226

\$2,511,959 \$1,945,530

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$ 96,231 \$ 71,868 Other liabilities 157,214 112,654

100,909 Accrued compensation and benefits 133,919

Current portion of long-term debt 53,364 50,557 Income taxes payable 26,832 1,007 Total current liabilities 441,735 362,820 Long-term debt 1,322,468 1,117,002 Other long-term liabilities 22,570 19,310 Deferred income taxes 148.859 106.240 Minority interests 53,193 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 and 134,806,205 shares issued) 135 135 Additional paid-in capital 542,714 539,575 Retained earnings 389,083 611,287 Treasury stock, at cost (36,295,339 and 38,052,028 shares) (620,998)(632,732)Accumulated comprehensive income valuations 1,730 (924)523,134 306.871 Total shareholders' equity \$2,511,959 \$1,945,530 DAVITA INC. SUPPLEMENTAL FINANCIAL DATA (unaudited) (dollars in millions, except for per share and per treatment data) Q4 2004 Q3 2004 YE 2004 YE 2003 Financial Results: Net income excluding Medicare lab recoveries for prior years' services and refinancing charges. \$56.6 \$55.3 \$217.2 \$177.3 Basic EPS \$.58 \$.56 \$2.20 \$1.88 **EPS** assuming dilution \$.56\* \$.54 \$2.11 \$1.67 Operating income, excluding Medicare lab recoveries \$105.2 \$103.4 \$401.8 \$354.5 Operating income 17.5% 17.6% 17.8% margin 17.1% Other comprehensive income Unrealized gain (loss) on securities, net of tax (expense) benefit of \$(1.3), \$1.6, \$(1.7) and \$0.6 \$(2.5) \$(0.9) \$2.1 \$2.7 **Business Metrics:** Volume Treatments 1,895,952 1,804,534 7,062,424 6,373,894 Number of treatment days 79.0 79.0 313.5 312.9 Treatments per 23,999 22,842 22,528 20,370 day Per day year over year 6.7% 14.5% 11.0% 10.6% increase Non-acquired 6.0% growth 4.8% 5.0% 3.9% Revenue Total operating revenue \$616 \$596 \$2,299 \$2,016 Less Medicare

lab recoveries for prior years'

\$8 \$8 \$24 services

Revenue excluding Medicare lab

recoveries \$616 \$587 \$2,290 \$1,992

Dialysis revenue

per treatment \$311.22 \$313.60 \$311.86 \$302.75

Per treatment change from

0.7% previous quarter (0.8%)

Per treatment

change from prior

1.6% 2.4% 3.0% 4.1% year

#### Expenses

A. Patient care costs

Percent of revenue,

excluding Medicare

lab recoveries 68.3% 68.1% 67.6% 67.9% Per treatment \$221.31 \$219.95 \$220.19 \$213.46 Per treatment

change from

previous quarter 0.6% 0.0%

Per treatment change from

previous year 2.4% 2.7% 3.2% 5.3%

B. General & administrative expenses

Percent of revenue,

excluding Medicare lab

8.6% 8.4% 8.0% 8.6% recoveries Per treatment \$28.03 \$28.04 \$27.20 \$25.04

Per treatment change from

0.0% 4.5%

previous quarter Per treatment change from

previous year 15.8% 14.1% 8.6% (3.8%)

C. Bad debt expense

as a percent of current-period

revenue 1.8% 1.8% 1.8% 1.8%

D. Consolidated

effective tax rate 37.4% 39.0% 38.6% 39.0%

#### DAVITA INC.

#### SUPPLEMENTAL FINANCIAL DATA-continued (unaudited)

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

Q4 2004 Q3 2004 YE 2004 YE 2003

Cash Flow

Operating cash flow, excluding Medicare lab

recoveries \$82.3 \$115.9 \$403.3 \$293.6

Operating cash flow, excluding Medicare lab recoveries and tax benefit from stock option

exercises \$70.0 \$110.4 \$360.5 \$273.5

Free cash flow, excluding

<sup>\*</sup> Earnings per share benefited from a year-to-date reduction in the annualized tax rate that added \$0.01 to the fourth quarter of 2004.

Medicare lab recoveries \$67.4 \$104.9 \$356.7 \$248.8

Free cash flow, excluding

Medicare lab recoveries

and tax benefit from stock

option exercises \$55.1 \$99.5 \$314.0 \$228.6

Capital expenditures:

Development \$25.0 \$22.8 \$82.9 \$57.9

Routine maintenance/

IT/other \$14.9 \$11.0 \$46.6 \$44.9

Acquisition expenditures,

net \$19.8 \$213.5 \$265.0 \$97.4

Accounts Receivable

Net receivables \$462 \$435 DSO 70 68

Debt/Capital Structure

Total debt \$1,376 \$1,388

Net debt, net of cash

balance \$1,124 \$1,161

Leverage ratio - last

quarter annualized

(see Note 1) 2.1x 2.2x

Share repurchases

(in millions) .3 3.1 3.4 5.2

Average repurchase price \$30.14 \$28.69 \$28.82 \$20.76

Clinical (quarterly averages)

Dialysis adequacy - % of

patients with Kt/V > 1.2 94% 94%

Anemia measure - % of

patients with HCT > 33 86% 87%

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:

Q4 2004 Q3 2004 YE 2004 YE 2003

Net income \$56,602 \$60,386 \$222,254 \$175,791

Less: Medicare lab recoveries for prior

years' services (8,293) (8,293) (24,000)

Add back: Refinancing

charges 26,501

Related income tax

expense 3,234 3,234 (981) \$56,602 \$55,327 \$217,195 \$177,311

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

Q4 2004 Q3 2004 YE 2004 YE 2003

Operating income \$105,171 \$111,652 \$410,123 \$378,535

Less: Medicare lab recoveries for prior

years' services (8,293) (8,293) (24,000)

105,171 103,359 401,830 354,535

Add back: Depreciation

and

amortization 23,212 22,257 86,666 74,687

Minority interests and equity

income, net 3,880 3,593 13,694 7,312

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

Q4 2004 Q3 2004 YE 2004 YE 2003

Cash provided by operating

activities \$87,341 \$115,852 \$419,945 \$293,648

Less: Medicare lab recoveries for prior

(8,293)(27,293)

years' services Related income tax expense 3,234

10,644

Operating cash flow,

excluding Medicare lab

recoveries \$82,282 \$115,852 \$403,296 \$293,648

Less: Tax benefit from

stock option exercises (12,305) (5,417) (42,770) (20,180) \$69,977 \$110,435 \$360,526 \$273,468

DAVITA INC.

#### SUPPLEMENTAL FINANCIAL DATA-continued (unaudited) (dollars in thousands)

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.

Q4 2004 Q3 2004 YE 2004 YE 2003

Cash provided by operating

activities \$87,341 \$115,852 \$419,945 \$293,648

Less: Expenditures for routine maintenance and

information technology (14,883) (10,956) (46,554) (44,898)

\$72,458 \$104,896 \$373,391 \$248,750 Free cash flow

Medicare lab recoveries related to prior years'

services (8,293)(27,293)Related income tax

3,234 expense

10,644 Free cash flow, excluding

Medicare lab recoveries \$67,399 \$104,896 \$356,742 \$248,750

Less: Tax benefit from

stock option exercises (12,305) (5,417) (42,770) (20,180) \$55,094 \$99,479 \$313,972 \$228,570

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