DaVita Inc. Reports 2nd Quarter 2005 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc., today announced results for the quarter ended June 30, 2005. Net income for the three months and six months ended June 30, 2005 was \$52.9 million and \$109.3 million, or \$0.51 and \$1.06 per share, respectively, as compared with \$52.4 million and \$105.3 million, or \$0.50 and \$1.02 per share, respectively, for the same periods of 2004.

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

Net income for the quarter ended June 30, 2005 included pre-tax Medicare lab recoveries related to prior years' services of \$2.6 million and a swap valuation loss of \$2.1 million.

Financial and operating highlights include:

- Cash Flow: Operating cash flow for the quarter ended June 30, 2005 was \$106 million and free cash flow was \$92 million. For the rolling 12-month period ended June 30, 2005 operating cash flow was \$369 million and free cash flow was \$321 million, excluding the tax benefit from stock option exercises and the after-tax benefit of Medicare lab recoveries related to prior years' services. Including those items, the rolling 12-month period operating cash flow was \$421 million and free cash flow was \$373 million.
- Operating Income: Operating income for the three months and six months ended June 30, 2005, was \$107.7 million and \$213.7 million, respectively, excluding \$2.6 million of Medicare lab recoveries related to prior years' services.
- Operating Income Margins: Operating income margins declined to 16.7%. The primary drivers were higher G&A in the quarter and increased minority interests associated with growth of existing partnerships as well as the number of new partnerships.
- Volume: Total treatments for the second quarter were 1,964,098 or 25,181 treatments per day, an increase of 15.2% per day as compared to the second quarter of last year. Non-acquired treatment growth was 5.5% for the second quarter.
- Center Activity: As of June 30, 2005, we operated or provided administrative services at 706 outpatient centers serving approximately 57,200 patients. During the second quarter we acquired 30 centers, including two centers that were previously minority owned and two centers where we previously provided administrative services. We opened 15 de novo centers. Additionally, we merged the operations of one center into one other existing center and entered into one new management services relationship.

Gambro Healthcare Acquisition:

We have reached a preliminary agreement with the Federal Trade Commission (FTC) staff to divest approximately 70 DaVita and Gambro Healthcare centers, which represents approximately 6% of the combined number of centers and revenues. We are nearing completion with the FTC on the contents of a consent order. We expect to execute a definitive agreement to sell the divested centers in the near future that would allow us to complete a sale of the centers contemporaneously with our closing of the Gambro acquisition. We currently expect to complete the Gambro acquisition during the next thirty to sixty days. Any consent order, including the terms of the divestitures and approval of any buyer of the divested assets, remains subject to formal approval by the Commissioners of the FTC.

Outlook

We are revising our 2005 operating income guidance; operating income is now expected to be up 4% to 6% over 2004. Our previous guidance was for operating income to be up 2% to 6% over 2004. This guidance is exclusive of the effects of the proposed Gambro Healthcare acquisition and related debt financings. We continue to expect the Gambro Healthcare acquisition together with the related debt financings to be dilutive to EPS in the first year, neutral in the second year and accretive thereafter. On a stand alone basis without regard to the acquisition, we would expect our 2006 operating income to be up 0% to 3% over the 2005 level.

DaVita will be holding a conference call to discuss its second quarter results for 2005 on July 28, 2005, at 11:30 AM 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 March 31, 2005. 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 preferred provider organizations (PPO) and private indemnity patients,
- -- possible reductions in private and government reimbursement rates,
- changes in pharmaceutical practice patterns or reimbursement policies,
- -- our 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 OIG, the subpoena from the U.S. Attorney's Office for the Eastern District of New York and the subpoena from the U.S. Attorney's Office, Eastern District of Missouri, and
- our ability to complete acquisitions of businesses, including the consummation of the Gambro Healthcare acquisition, the number of centers we expect we will be required to divest and the terms of such divestitures, terms of the related financing, and subsequent integration of the business.

We undertake no obligation to update any forward-looking statements, whether as a result of 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.

DAVITA INC.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars in thousands, except per share data)

Six months ended Three months ended June 30. June 30. 2005 2004 2005 2004 \$649,047 \$551,630 \$1,259,005 \$1,087,061 Net operating revenues Operating expenses and charges: Patient care costs 435,354 375,139 845,303 738,568 General and 59,856 45,727 114,119 88,331 administrative Depreciation and amortization 25,860 20,927 50,708 41,197 Provision for uncollectible accounts 11,537 9,867 22,423 19,444 Minority interests and 6,125 equity income, net 3,503 10,141 6,221 Total operating expenses and charges 538,732 455,163 1,042,694 893,761 Operating income 110,315 96,467 216,311 193,300

Debt expense (24,897) (11,258) (42,431) (22,894) Swap valuation (loss) gain (2,131) 6,261 Refinancing charges (6,872)

Other income 2,076 667 3,703 2,110

Income before income taxes 85,363 85,876 176,972 172,516

Income tax expense 32,420 33,475 67,695 67,250

Net income \$52,943 \$52,401 \$109,277 \$105,266

Earnings per share:

Basic \$0.53 \$0.53 \$1.09 \$1.06 Diluted \$0.51 \$0.50 \$1.06 \$1.02

Weighted average

shares:

Basic 100,476,587 99,686,182 99,939,222 98,873,220 Diluted 103,845,030 104,010,356 103,512,444 103,416,270

DAVITA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)

> Six months ended June 30, 2005 2004

Cash flows from operating activities:

Net income \$109,277 \$105,266

Adjustments to reconcile net income

to cash provided by operating activities:

Depreciation and amortization 50,708 41,197

Stock options, principally tax benefits 27,708 25,048

Swap valuation gains (6,261) Refinancing charges 6,872

Deferred income taxes (11,433) 4,828

Minority interests in income

of consolidated subsidiaries 10,652 7,366
Distributions to minority interests (7,970) (3,634)
Non-cash debt expense 1,505 951
Equity investment income (511) (1,145)
Gain on divestitures (400) (481)

Changes in operating assets and liabilities, other than from acquisitions and divestitures:

Accounts receivable (27,046)(14,113)Medicare lab recoveries 19.000 Inventories (2.528)4,942 (685)Other current assets 3,043 Other long-term assets (94)2,004 Accounts payable 5,054 (63)

Accrued compensation and benefits 18,314 13,653
Other current liabilities 41,028 18,095
Income taxes 1,221 (6,215)

Other long-term liabilities

Net cash provided by

operating activities 217,601 216,752

Cash flows from investing activities:

Additions of property and equipment, net (65,905) (55,139) Acquisitions and divestitures, net (83,990) (31,752)

2,190

(2,990)

Investments in and advances

to affiliates, net 4,028 3,988 Intangible assets (780) (580)

Net cash used in investing activities (146,647) (83,483)

Cash flows from financing activities:

Borrowings 1,742,232 1,549,894

Payments on long-term debt (1,752,197) (1,573,338)

Deferred financing costs (29,979)

Stock option exercises 29,772 29,219

Net cash (used in) provided

by financing activities (10,172) 5,775

Net increase in cash and cash equivalents 60,782 139,044

Cash and cash equivalents

at beginning of period 251,979 61,657

Cash and cash equivalents at end of period \$312,761 \$200,701

DAVITA INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

June 30, December 31, 2005 2004

Cash and cash equivalents \$312,761 \$251,979 Accounts receivable, less allowance of \$65,886 and \$58,166 489,970 462,095 Inventories 35,480 31,843 45,017 Other current assets 44,210 Deferred income taxes 95.980 78.593

979,208

868,720

3,332

Property and equipment, net 440,601 412,064 Amortizable intangibles, net 83,431 60,719 Investments in third-party dialysis businesses 2,054 12,239 Other long-term assets 10,898 Goodwill 1,233,960 1,156,226 \$2,751,493 \$2,511,959

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$101,381 \$ 96,231 Other liabilities 198.415 157,214

Accrued compensation and benefits 152,347 133,919 Current portion of long-term debt 53,364 4,480 Income taxes payable 2,228 1,007 Total current liabilities 458,851 441,735 Long-term debt 1.361.387 1.322.468 Other long-term liabilities 22,807 22,570 Deferred income taxes 148,859 154,813 Minority interests 66.805 53.193

Commitments and contingencies

Total current assets

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) 135 135 558,676 Additional paid-in capital 542,714 Retained earnings 720,564 611,287

Treasury stock, at cost (33,913,710

and 36,295,339 shares) (591,214)(632,732)

Accumulated comprehensive income valuations (1,331) 1,730

686,830 Total shareholders' equity 523,134

\$2,751,493 \$2,511,959

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA

(unaudited)

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

Six months ended June 30, Q2 2005 Q1 2005 Q2 2004 2005

Financial Results:

Net income, including Medicare

lab prior years' recoveries \$52.9 \$56.3 \$52.4 \$109.3 Basic EPS \$0.53 \$0.57 \$0.53 \$1.09 Diluted EPS \$0.51 \$0.55 \$0.50 \$1.06

Operating income, excluding Medicare lab prior years'

\$107.7 \$106.0 \$96.5 \$213.7 recoveries

Operating income margin 16.7% 17.4% 17.5% 17.0%

Other comprehensive income Unrealized (loss) gain on

securities, net of tax

benefit (expense) of \$5.7,

\$(6.9), \$(3.6), and \$(1.2) \$(9.0) \$10.9 \$5.7 \$1.9

Business Metrics:

Volume

Treatments 1,964,098 1,868,787 1,704,882 3,832,885 Number of treatment days 78.0 77.0 78.0 Treatments per day 25,181 24,270 21,857 24,728 Per day year over

year increase 15.2% 13.5% 7.9% 14.4%

Non-acquired growth	5.5%	% 5.6%	4.5%	5.6%
Revenue Total operating revenue Medicare lab prior years' recoveries Total operating revenue	\$3 ,	9 \$610	\$552 \$3	\$1,259
excluding Medicare lab prior years' recoveries Dialysis revenue	\$646	\$610	\$552	\$1,256
per treatment Per treatment increase (decrease) from previo			\$311.54 0.2% -	\$311.74
Per treatment increase from prior year	0.31%	0.0%	3.3%	0.15%
Per treatment increase	67.3% \$221.66			
(decrease) from previous quarter Per treatment increase	1.04%	(0.9%)	0.3%	
from previous year	0.74%	0.0%	3.4%	0.39%
B. General & administrative Percent of revenue Per treatment Per treatment increase	9.3%		8.3% \$26.82	9.1% \$29.77
from previous quarter Per treatment increase (decrease) from	5.0%	3.6%		
previous year	13.6%	13.0%	(0.5%)	13.3%
 C. Bad debt expense as a percent of current-period 				

revenue 1.8% 1.8% 1.8% 1.8%

D. Consolidated effective

38.0% 38.5% 39.0% 38.3% tax rate

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA-continued (unaudited)

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

Six months ended June 30,

Q2 2005 Q1 2005 Q2 2004 2005

Cash Flow

Operating cash flow \$106.2 \$111.4 \$90.6 \$217.6

Operating cash flow, excluding

Medicare lab prior

years' recoveries \$104.6 \$111.4 \$90.6 \$216.0

Operating cash flow, excluding

Medicare lab prior years' recoveries and tax benefit from stock

\$92.8 \$95.5 \$80.0 \$188.3 option exercises

Free cash flow, excluding

Medicare lab prior

years' recoveries \$90.0 \$103.8 \$75.7 \$193.7

Free cash flow, excluding Medicare lab prior years' recoveries and tax benefit

from stock option exercises \$78.2 \$87.8 \$65.1 \$166.0

Capital expenditures:

Development \$22.2 \$18.1 \$15.8 \$40.2 Routine maintenance/IT/other \$18.6 \$7.6 \$14.9 \$26.3 Acquisition expenditures, net \$81.5 \$2.5 \$14.7 \$84.0

Accounts Receivable

Net receivables \$490 \$473 \$402 DSO 70 71 68

Debt/Capital Structure

Total debt \$1,366 \$1,368 \$1,144 Net debt, net of cash \$1,053 \$1,050 \$943 Leverage ratio -- (see Note 1) 1.9x 2.0x 2.0x

Clinical (quarterly averages)

Dialysis adequacy -- % of patients

with Kt/V > 1.2 94% 94% 94%

Patients with arteriovenous

fistula 45% 43% 40%

DAVITA INC.

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

Note 1:

The leverage ratio under the Company's existing senior secured credit agreement is defined as all funded debt plus the face amount of all letters of credit issued, minus cash and cash equivalents, divided by "EBITDA". The leverage ratio determines the interest rate margin payable by the Company under the existing senior secured 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 indentures governing our recently issued Senior Notes. Such calculation is consistent with the definition of "EBITDA" contained in the existing senior secured credit agreement, except that EBITDA under our existing senior secured credit agreement is based on the last twelve-months and is not based on annualized EBITDA, and pro forma incremental "EBITDA" relating to acquisitions is included in the calculation of "EBITDA" under the existing senior secured credit agreement and is not included in the following calculations.

Q2 2005 Q1 2005 Q2 2004 Net income \$52,943 \$56,334 \$52,401

Debt expense 24,897 17,534 11,258

Refinancing charges 6,872

Income taxes 32,420 35,275 33,475

Depreciation and amortization 25,860 24,848 20,927

Minority interests and

equity income, net 6,125 4,016 3,503 Swap valuation loss (gain) 2,131 (8,392)

Medicare lab prior

years' recoveries (2,641)

"Consolidated EBITDA" as

defined in the indentures \$141,735 \$136,487 \$121,564

Annualized "Consolidated EBITDA"

as defined in the indentures \$566,940 \$545,948 \$486,256

Q2 2005 Q1 2005 Q2 2004

Total debt \$1,365,867 \$1,368,352 \$1,144,115 Letters of credit issued 22,959 22,959 22,984

1,388,826 1,391,311 1,167,099

Less: cash and cash equivalents (312,761) (317,879) (200,701)

\$1,076,065 \$1,073,432 \$966,398

Annualized "Consolidated EBITDA"

as defined in the indentures \$566,940 \$545,948 \$486,256

Leverage Ratio 1.9x 2.0x 2.0x

DAVITA INC.

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

1. Operating income, excluding Medicare lab recoveries related to prior years' services:

Six months ended

June 30, Q2 2005 Q1 2005 2005 Q2 2004

Operating income \$110,315 \$105,996 \$216,311 \$96,467

Less: Medicare lab prior

years' recoveries (2,641) (2,641)

\$107,674 \$105,996 \$213,670 \$96,467

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

Rolling 12-Six months ended Month Period June 30. ended Q2 2005 Q1 2005 2005 Q2 2004 Q2 2005 Cash provided by operating \$106,195 \$111,406 \$217,601 \$90,636 \$420,794 activities Less: Medicare lab prior years' recoveries (2,641) (2,641)(10,934)Related income 1,027 1.027 4,261 tax expense Operating cash flow, excluding Medicare lab prior years' recoveries \$104,581 \$111,406 \$215,987 \$90,636 \$414,121 Less: Tax benefit from stock option exercises (11,774) (15,934) (27,708) (10,659) (45,430) \$92,807 \$95,472 \$188,279 \$79,977 \$368,691

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

Free cash flow represents net cash provided by operating activities less on-development capital expenditures. We believe free cash flow is a useful djunct to cash flow from operating activities and other measurements under enerally accepted accounting principles in the United States since it is a eaningful measure of our ability to fund acquisition and development ctivities and meet our debt service requirements. Free cash flow is not a easure of financial performance under generally accepted accounting rinciples in the United States and should not be considered as an alternative o cash flows from operating, investing or financing activities as an ndicator of cash flows or as a measure of liquidity.

Six months Rolling 12ended Month Period June 30, ended Q2 2005 Q1 2005 2005 Q2 2004 Q2 2005

Cash provided by operating

activities \$106,195 \$111,406 \$217,601 \$90,636 \$420,794

Less: Expenditures for routine maintenance and information

technology (14,614) (7,634) (22,248) (14,899) (48,087) Free cash flow \$ 91,581 \$103,772 \$195,353 \$75,737 \$372,707

Less: Medicare lab prior years'

recoveries (2,641) (2,641) (10,934)
Related income
tax expense 1,027 1,027 4,261

Free cash flow, excluding Medicare lab prior years'

recoveries \$89,967 \$103,772 \$193,739 \$75,737 \$366,034

Less: Tax benefit from stock

option exercises (11,774) (15,934) (27,708) (10,659) (45,430)

\$78,193 \$87,838 \$166,031 \$65,078 \$320,604

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