# DaVita Inc. Reports 1st Quarter 2004 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc., today announced results for the quarter ended March 31, 2004. Net income for the three months ended March 31, 2004 was \$52.9 million or \$0.77 per share, compared with \$36.4 million or \$0.52 per share for the same period of 2003.

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

Financial and operating highlights include:

- -- Cash Flow: Operating cash flow for the quarter ended March 31, 2004 was \$115 million and free cash flow was \$109 million. For the rolling 12 months ended March 31, 2004 operating cash flow was \$328 million and free cash flow was \$287 million. These cash flow numbers exclude after-tax prior period Medicare lab recoveries of \$12 million.
- -- Operating Income: Operating income for the guarter was \$96.8 million.
- -- Volume: Total treatments for the first quarter were 1,657,055 or 21,381 treatments per day, an increase of 8.7% per day compared to the first quarter of last year. Non-acquired treatment growth was 4.1%.
- -- Center Activity: As of March 31, 2004, we operated or provided administrative services at 571 outpatient centers serving approximately 48,400 patients. During the first quarter we acquired 5 centers and opened 5 de novo centers. We also closed 2 centers and discontinued providing administrative services at 3 centers.

Outlook

We are increasing our 2004 operating income target to \$370 to \$390 million.

DaVita will be holding a conference call to discuss its first quarter 2004 results on May 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 press release includes non-GAAP financial measures, which we believe provide useful information to investors by excluding certain nonrecurring charges and prior period recoveries and by allowing consistency and comparability in our financial reporting to prior periods for which these non-GAAP measures were previously reported. These measures should be considered in addition to results prepared in accordance with GAAP, but are not a substitute for or superior to GAAP results. Included in this press release is a reconciliation of these non-GAAP measures to the most comparable GAAP financial measures.

This release also 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-K for the year ended December 31, 2003. The forward-looking statements should be considered in light of these risks and uncertainties. These risks 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, such as the ongoing review by the U.S.
   Attorney's Office and HHS Office of the Inspector General in Philadelphia.

The 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 March 31,

2004 2003

Net operating revenues \$535,431 \$459,807

Operating expenses and charges:

Patient care costs 363,429 316,710 36.787 General and administrative 42,604 Depreciation and amortization 20.270 17.445 Provision for uncollectible accounts 9,577 8,237 Minority interests and equity income, net 2,718 1,294 Total operating expenses and charges 438,598 380,473

Operating income 96,833 79,334

 Debt expense
 11,636
 19,456

 Other income
 1,443
 785

Income before income taxes 86,640 60,663 Income tax expense 33,775 24,250

Net income \$52,865 \$36,413

Earnings per share:

Basic \$0.81 \$0.60

Diluted \$0.77 \$0.52

Weighted average shares for earnings per share:

Basic 65,399,651 60,905,056

Diluted 68,588,969 78,772,410

#### DAVITA INC.

# CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)

Three months ended March 31, 2004 2003

Cash flows from operating activities:

Net income \$52,865 \$36,413

Adjustments to reconcile net income to cash

provided by operating activities:

Depreciation and amortization 20,270 17,445 (Gain) loss on divestitures (628)119 Deferred income taxes (1,016)4.841 Non-cash debt expense 484 840 1,378 14,389 Stock option expense and tax benefits Equity investment income (442)(519)Minority interests in income of

consolidated subsidiaries 3,160 1,813
Distributions to minority interests (2,082) (2,465)

Changes in operating assets and liabilities, net

of effect of acquisitions and divestitures:

Accounts receivable (12,511)(676)Medicare lab recoveries 19,000 Inventories 6,818 9,543 Other current assets 697 4,721 Other long-term assets 1,592 (2,457)Accounts payable 8,843 (6,674)

Accrued compensation and benefits 2,393 (13,075) Other current liabilities 1,779 11,952

Income taxes 5,315 16,641
Other long-term liabilities 5,190 809

Net cash provided by operating

activities 126,116 80,649

Cash flows from investing activities:

Additions of property and equipment, net (24,681) (21,708)Acquisitions and divestitures, net (17,088)(718)Investments in and advances to 1,931 2,191 affiliates, net Intangible assets (360)(300)Net cash used in investing activities (39,938) (20,795)

Cash flows from financing activities:

**Borrowings** 774,534 623,822 Payments on long-term debt (786,791)(478,659)Net proceeds from issuance of common stock 17,578 3,502 Net cash provided by financing activities 5,321

Net increase in cash and cash equivalents 91.499 208.519 Cash and cash equivalents at beginning of period 61,657 96,475 Cash and cash equivalents at end of period \$153,156 \$ 304,994

## DAVITA INC.

### CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

March 31. December 31, 2004 2003

#### **ASSETS**

Cash and cash equivalents \$153,156 \$61,657 Accounts receivable, less allowance of \$54,391 and \$52,554 400,444 387,933 Medicare lab recoveries 19,000 26,187 Inventories 32,853 Other current assets 43,178 43,875 Deferred income taxes 66,530 59,740 689.495 605.058 Total current assets Property and equipment, net 349,868 342,447 Amortizable intangibles, net 50,570 49,971 Investments in third-party dialysis businesses 3,348 3,095 Other long-term assets 9,179 10,771 Goodwill 947,894 934.188 \$2,050,354 \$1,945,530

# LIABILITIES AND SHAREHOLDERS' EQUITY

\$71,868 Accounts payable \$80.711 Other liabilities 118,643 112.654 Accrued compensation and benefits 101,652 100.909 Current portion of long-term debt 50,025 50,557 Income taxes payable 30,506 26,832 Total current liabilities 381,537 362,820 Long-term debt 1,105,277 1,117,002 Other long-term liabilities 24,500 19,310 Deferred income taxes 112,014 106,240 Minority interests 36,200 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; 89,908,189 and 89,870,803 shares issued) 90 Additional paid-in capital 538,877

539,575 Retained earnings 441,993 389,128

Treasury stock, at cost (23,964,510

and 25,368,019 shares) (586,641)(620,998)(924)Accumulated comprehensive income valuations (3,493) 306,871

Total shareholders' equity 390,826 \$2,050,354 \$1,945,530

DAVITA INC.

## SUPPLEMENTAL FINANCIAL DATA

(unaudited)

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

#### Financial Results:

Net earnings excluding refinancing charges and

Medicare lab recoveries for

prior years' services \$52.9 \$53.9 \$36.4 Basic EPS \$0.84 \$0.81 \$0.60 EPS assuming dilution \$0.77 \$0.79\* \$0.52

Operating income, excluding

Medicare lab recoveries \$96.8 \$97.2 \$79.3 Operating income margin 18.1% 18.4% 17.3%

Other comprehensive income Unrealized loss on securities,

net of tax of \$1,641

and \$590 \$(2,569) \$(924)

## **Business Metrics:**

Volume

1,657,055 1.503.031 **Treatments** 1,666,225 Number of treatment days 77.5 79.5 76.4 Treatments per day 21,381 20,959 19,673

Per day year over year

increase 8.5% 4.8% Non-acquired growth 4.1% 4.3% 3.3%

Revenue

\$553 \$460 Total revenue \$535

Less Medicare lab recoveries

for prior years' services \$(24)

Revenue excluding Medicare

lab recoveries \$529 \$460 \$535

Dialysis revenue per

treatment \$311.02 \$306.36 \$296.31

Per treatment increase

from previous quarter 1.5% 0.0% 1.8%

Per treatment increase from

5.3% 2.0% prior year 5.0%

## Expenses

A. Patient care costs

Percent of revenue 67.9% 68.0% 68.9% \$219.32 Per treatment \$216.04 \$210.71 Per treatment increase from previous quarter 1.5% 0.9% 2.2%

B. General & administrative

expenses

Percent of revenue 8.0% 7.6% 8.0% Per treatment \$25.71 \$24.21 \$24.48 Per treatment increase (decrease) from previous (8.9%)

(1.5%)quarter 6.2%

C. Bad debt expense as a percent

of current-period revenue 1.8% 1.8% 1.8%

D. Consolidated effective tax

rate 39.0% 37.5% 40.0%

#### DAVITA INC.

## SUPPLEMENTAL FINANCIAL DATA, CONTINUED (unaudited)

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

Q1 2004 Q4 2003 Q1 2003

<sup>\*</sup> The fourth quarter benefited from a year-to-date reduction in the annualized effective tax rate that added \$0.02 to fourth quarter earnings per share.

Operating cash flow, excluding Medicare lab recoveries \$114.5 \$34.6 \$80.6 Free cash flow, excluding Medicare lab recoveries \$108.7 \$19.2 \$70.1

Capital expenditures:

\$22.7 \$11.9 Development \$19.2 Routine maintenance/IT/other \$5.8 \$15.4 \$10.5 Acquisition expenditures, net \$17.1 \$30.4 \$0.7

Accounts Receivable

\$400 \$388 Net receivables \$346 DSO 69 69 70

Debt/Capital Structure

Total debt \$1,155 \$1,168 \$1,464 Net debt, net of cash \$1,002 \$1,106 \$1,159 Leverage ratio - last quarter annualized (see Note 1) 2.3x 3.0x Shares repurchased (in millions) -0.7 Average repurchase price \$34.20

Clinical (quarterly averages)

Dialysis adequacy - % of patients

with Kt/V > 1.294% 93% 92% Anemia measure - % of patients with HCT > 33 85% 83%

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

#### DAVITA INC.

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

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

Q1 2004 Q4 2003 Q1 2003

\$52,865 \$62,798 Net earnings \$36,413

Add back: Refinancing charges 9,261

Less: Medicare lab recoveries

(24,000) for prior years' services Related income tax expense 5,837 \$52,865 \$53,896 \$36,413

2. Operating income excluding Medicare lab recoveries, and excluding depreciation, amortization, and minority interests:

Q1 2004 Q4 2003 Q1 2003 Operating income \$96,833 \$121,190 \$79,334

Less: Medicare lab recoveries

for prior years' services (24,000)

\$79,334 \$96,833 \$97,190

Add back: Depreciation and

20,270 amortization 19,985 17,445

Minority interests and

equity income, net 2,718 2,499 1,294 \$119,821 \$119,674 \$98,073

3. Operating cash flow, excluding Medicare lab recoveries collected in the period:

> Rolling 12-Month Period ended Q1

Q1 2004 Q4 2003 Q1 2003 2004

Cash provided by operating

activities \$126,116 \$34,576 \$80,649 \$339,115

Less: Medicare lab recoveries

collected in the period (19,000) (19,000)Related income tax expense 7,410 7,410 \$114,526 \$34,576 \$80,649 \$327,525

4. Free cash flow, excluding Medicare lab recoveries collected in the

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.

> Rolling 12-Month Period ended Q1 Q1 2004 Q4 2003 Q1 2003 2004

Cash provided by operating

activities \$126,116 \$34,576 \$80,649 \$339,115

Less: Expenditures for routine maintenance and information

technology (5,816) (15,362) (10,490) (40,193)

Medicare lab recoveries

collected in the period (19,000) (19,000)

Related income tax expense 7,410 7,410

\$108,710 \$19,214 \$70,159 \$287,332

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