DaVita Inc. Reports 2nd Quarter 2002 Results

PRNewswire-FirstCall TORRANCE, Calif.

DaVita Inc., today announced results for the quarter ended June 30, 2002. Continental U.S. EBITDA, excluding accounts receivable recoveries and valuation gains, was \$92.7 million for the quarter.

Net earnings for the three and six months ended June 30, 2002 were \$8 million and \$44 million, or \$0.13 and \$0.54 per share, respectively. Net earnings, excluding the following three items: cash recoveries, valuation gains of \$2.4 million and a \$29 million after-tax extraordinary loss related to the early extinguishment of debt, were \$35 million and \$70 million, or \$0.41 and \$0.79 per share, respectively.

Financial and operating highlights include:

- -- For the rolling 12 months ended June 30, 2002 operating cash flow was \$248 million and free cash flow was \$200 million; both exclude recoveries and settlements. Operating cash flow for the quarter was \$61 million and free cash flow was \$43 million.
- -- Total continental U.S. treatments for the second quarter were 1,486,816. Both non-acquired and same center treatment growth were 4.5%
- -- Second quarter continental U.S. dialysis revenue per treatment (excluding lab, management fees and other revenue) was essentially flat from the first quarter at \$291 and up 5.3% from the second quarter of 2001
- -- The continental EBITDA margin was 21.0%, a 130 basis point decline from the prior year quarter as a result of increased costs, primarily labor and general and administrative expenses.
- -- Continental U.S. DSO remained at 73 days.
- Cash recoveries associated with accounts receivable reserved in 1999 for the three and six months ended June 30, 2002, were \$2 million and \$4 million, respectively.
- -- On April 26, 2002, we entered into a new senior credit facility. The proceeds were used to pay off all amounts outstanding under the existing credit facility, to complete a tender for the Company's outstanding \$225 million 9 1/4% senior subordinated notes, to purchase 16.7 million shares of the Company's common stock, through a modified Dutch auction tender offer, at \$24.00 per share, and to purchase shares of the Company's common stock in the open market following the completion of the tender.
- -- At June 30, 2002 we operated 493 outpatient centers in the continental U.S. serving approximately 44,000 patients. During the second quarter we closed 1 under-performing center and opened 2 denovo centers. Included in this patient and center count are approximately 3,300 patients in 30 centers under management. Effective June 1, 2002, we completed the divestiture of our two remaining non-continental units.

DaVita will hold a conference call to discuss its second quarter 2002 results on August 1, 2002 at 1:30 p.m. Eastern. The dial-in number is 800-399-4406. A replay of the conference call will be available on DaVita's official web page, http://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 March 31, 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)

June 30, December 31, 2002 2001

ASSETS

Cash and cash equivalents \$137,020 \$36,711

Accounts receivable,

less allowance of \$54,765 and \$52,475 347,064 333,546

Inventories 31.769 34.901 Other current assets 13,852 9,364 Deferred income taxes 61,607 60,142 Total current assets 591.312 474.664 Property and equipment, net 267,335 252.778 Amortizable intangibles, net 67,987 73,108 4,346 Investments in third-party dialysis businesses 3,449 Other long-term assets 1,876 2,027

Goodwill 852,691 855,760 \$1,784,650 \$1,662,683

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$77,374 \$74,630 Other liabilities 98,739 111,164

Accrued compensation and benefits 94.880 88.826 Current portion of long-term debt 8,299 9,034 Income taxes payable 11,036 15,027 Total current liabilities 290,328 298,681 Long-term debt 1,316,153 811,190 Other long-term liabilities 5,012 6.077 Deferred income taxes 37,045 23.441 Minority interests 21,613 20,722

Shareholders' equity:

Preferred stock (\$0.001 par value; 5,000,000 shares authorized; none issued or outstanding)
Common stock (\$0.001 par value, 195,000,000 shares authorized;

 88,033,939 and 85,409,037 shares issued)
 88
 85

 Additional paid-in capital
 507,788
 467,904

 Retained earnings
 100,356
 56,008

Treasury stock, at cost

(20,716,437 and 888,700 shares) (494,798) (20,360) Total shareholders' equity 113,434 503,637

\$1,784,650 \$1,662,683

DAVITA INC.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

Three months ended Six months ended June 30, June 30, 2002 2001 2002 2001

Net operating revenues \$442,677 \$400,640 \$870,342 \$786,857 Operating expenses:

Dialysis centers and labs 300,552 271,545 592,186 532,519 General and administrative 42,024 32,417 78,077 64,230

Depreciation

and amortization 15,698 26,624 31,503 52,772

Provision for

uncollectible accounts 5,882 (378) 11,137 (8,563)

Valuation adjustments (2,390)(2,390)Total 361,766 330,208 710,513 640,958 operating expenses Operating income 80,911 70,432 159,829 145,899 3,283 1,120 Other income, net 3,848 2,468 Debt expense 17.139 18,715 32.211 38.439 Minority interests in income of consolidated subsidiaries (2,827) (2,269) (5,260)(4,726)Income before income taxes 64,228 50,568 105,202 and extraordinary item 126,206 26,500 22,000 Income tax expense 52,500 45,700 Income before 28,568 extraordinary item 37,728 73,706 59,502 Extraordinary (loss)/gain related to early extinguishment of debt, net of tax of \$19.572 in 2002 and \$652 in 2001 (29,358)977 (29,358)977 \$8,370 \$29,545 Net income \$44,348 \$60,479 Basic earnings per common share: Income before extraordinary item \$0.47 \$0.34 \$0.91 \$0.72 Extraordinary (loss)/ gain, net of tax (0.37)0.01 (0.36)0.01 Net income \$0.10 \$0.35 \$0.55 \$0.73 Diluted earnings per common share: Income before \$0.67 extraordinary item \$0.43 \$0.32 \$0.83 Extraordinary (loss)/ gain, net of tax (0.30)0.01 (0.29)0.01 Net income \$0.13 \$0.33 \$0.54 \$0.68 DAVITA INC. SUPPLEMENTAL FINANCIAL DATA Q2 2002 Q1 2002 Q2 2001 YTD 2002 Financial Results: Net Earnings, excluding extraordinary items, recoveries, valuation adjustments and goodwill amortization (in 000's) (A) \$35,100 \$34,600 \$29,500 \$69,800 \$0.86 \$0.44 \$0.42 \$0.35 Basic FPS EPS assuming dilution \$0.41 \$0.39 \$0.33 EBITDA, excluding recoveries and valuation adjustments Consolidated (in 000's) \$92,300 \$92,500 \$88,100 \$184,800 Continental U.S. (in 000's) \$92,700 \$91,900 \$88,500 \$184,600 Continental EBITDA margin 21.0% 21.7% 22.3% 21.4% Business Metrics (Continental U.S.): Category #1 Volume **Treatments** 1,486,816 1,433,803 1,409,320 2,920,618 Per day sequential increase 1.6% 0.8% 2.2% Per day year over year increase 5.5% 6.2% 5.5% 5.8% 4.4% 4.5% 4.2% 2.8% Same center growth Non-acquired growth 4.5% 4.2% 2.8% 4.4% Category #2 Revenue, excluding recoveries Revenue (in 000's) \$441,000 \$424,000 \$397,000 \$864,000 Dialysis revenue per treatment \$290.52 \$290.45 \$275.87 \$290.49 Per treatment increase

Category #3 Expenses

from prior year

from previous quarter

Per treatment increase

0%

5.3%

2.6%

5.9%

0.6%

5.6%

A. Dialysis centers

and lab operating expenses

67.7% 67.8% Percent of revenue 68.0% 67.5% \$200.46 \$201.02 \$190.04 Per treatment \$200.73

Per treatment increase (decrease) from

previous quarter (0.3%)3.6% 1.0%

B. General & administrative

9.5% 8.5% 8.2% Percent of revenue 9.0% Per treatment \$28.26 \$25.14 \$23.00 \$26.73

Per treatment increase

(decrease) from

12.4% 10.2% (1.2%)previous quarter

C. Bad debt expense

as a percent of revenue 1.8% 1.8% 2.0% 1.8%

D. Consolidated

effective tax rate 41.2% 42.0% 43.5% 41.6%

Category #4 Cash Flow (Consolidated, in 000's)

Operating cash flow \$61,000 \$85,000 \$77,000 \$146,000

Free cash flow (before share repurchase, acquisition and

development spending)

\$43,000 \$77,000 \$68,000 \$119,000

Capital expenditures:

Development \$9,300 \$8,200 \$3,200

Routine

maintenance/IT/other \$18,400 \$8,400 \$8,700 \$26,800

Acquisition

expenditures, net \$1,400 \$500 \$1,400

Category #5 Accounts Receivable

Net receivables (in 000's) \$347,000 \$337,000 \$291,000 \$347,000

DSO 73 68

Category #6 Debt/Capital Structure (Consolidated)

Total debt (in 000's) \$1,324,000 \$800,000 \$951,000 \$1,324,000

Net debt.

net of cash (in 000's) \$1,187,000 \$769,000 \$865,000 \$1,187,000

LTM leverage ratio 3.2x 2.1x 2.6x Shares repurchased (in 000's) 16,900 2,900 19.800 Average repurchase price \$24.08 \$23.02 \$23.93

Category #7 Clinical

Dialysis adequacy

- % of patients

with URR > 65 89% 88%

Dialysis adequacy

- % of patients

with Kt/V > 1.292%

Anemia measure - % of patients

with HCT > 33 80% 79%

(A) Effective January 1, 2002 goodwill is no longer amortized in accordance with new accounting standards. Second quarter 2001 net earnings and per-share amounts, including goodwill amortization but excluding extraordinary items and recoveries, were \$23.2 million or \$0.28 basic EPS and \$0.26 diluted EPS.

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