DaVita 4th Quarter 2008 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc. today announced results for the quarter and year ended December 31, 2008. Net income for the three months ended December 31, 2008 was \$98.4 million, or \$0.94 per share, as compared to \$85.7 million, or \$0.79 per share, for the same period of 2007.

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

Net income for the year ended December 31, 2008 was \$374.2 million, or \$3.53 per share, as compared to \$340.3 million, or \$3.17 per share, for the same period of 2007, excluding after-tax gains from insurance settlements, after-tax gains on the sale of investment securities and the valuation gain on the Company's alliance and product supply agreement with Gambro Renal Products. Net income for the year ended December 31, 2007 including these items was \$381.8 million, or \$3.55 per share.

Financial and operating highlights include:

- -- Cash Flow: For the year ended December 31, 2008 operating cash flow was \$556 million and free cash flow was \$451 million. For the three months ended December 31, 2008 operating cash flow was \$184 million and free cash flow was \$145 million.
- -- Operating Income: Operating income for the three months ended December 31, 2008 was \$212 million as compared to \$195 million for 2007. Operating income for the year ended December 31, 2008 was \$822 million, as compared to \$800 million for the same period of 2007, excluding pre-tax gains from insurance settlements of \$6.8 million and the pre-tax valuation gain on the Company's product supply agreement with Gambro Renal Products of \$55 million. Operating income for the year ended December 31, 2007 including these items was \$862 million.
- -- Volume: Total treatments for the fourth quarter of 2008 were 4,172,468, or 52,484 treatments per day, representing a per day increase of 4.9% over the fourth quarter of 2007. Non-acquired treatment growth in the quarter was 4.0% over the prior year's fourth quarter.
- -- Effective Tax Rate: The effective tax rate was 37.7% and 38.6% for the three and twelve months ended December 31, 2008, respectively. The 2008 effective tax rate included certain one time benefits. We are projecting our 2009 effective tax rate to be in a range of 39.5% to 40.5%.
- -- Share Repurchases: During the fourth quarter of 2008, and for the year ended December 31, 2008, we repurchased a total of 1,327,528 and 4,788,881 shares, respectively, of our common stock for \$63.0 million and \$232.7 million, or an average price of \$47.49 and \$48.59 per share, respectively, pursuant to previously announced Board authorizations. We have not repurchased any additional shares of our common stock subsequent to December 31, 2008.
- -- Center Activity: As of December 31, 2008, we operated or provided administrative services at 1,449 outpatient dialysis centers serving approximately 112,000 patients, of which 1,426 centers are consolidated in our financial statements. During the fourth quarter of 2008, we acquired 4 centers, opened 26 new centers, merged 3 centers, closed 3 centers, ceased operations at 1 joint venture in which we owned a minority interest, and provided management and administrative services to 1 additional center.

Outlook

Our operating income guidance for 2009 remains unchanged at a range of \$820-\$880 million. These projections and the underlying assumptions involve significant risks and uncertainties, including those described below and actual results may vary significantly from these current projections.

DaVita will be holding a conference call to discuss its results for the fourth quarter and year ended December 31, 2008 on February 11, 2009 at 9:30 a.m. 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, http://www.davita.com/, for the following 30 days.

This release contains forward-looking statements, including statements related to our 2009 operating results and our 2009 expected effective tax rate. Factors which could impact future results include the uncertainties associated with governmental regulations, general economic and other market conditions, competition, accounting estimates and the risk factors set forth in the Company's SEC filings, including its Form 10-Q for the quarter ended September 30, 2008. 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 commercial payor plans,
- continued downward pressure on average realized payment rates from commercial payors, which may result in the loss of revenue or patients
- -- a reduction in the number of patients under higher-paying commercial plans.
- a reduction in government payment rates or the structure of payments under the Medicare ESRD Program which result in lower reimbursement for services we provide to Medicare patients,
- changes in pharmaceutical or anemia management practice patterns, payment policies, or pharmaceutical pricing,
- -- our ability to maintain contracts with physician medical directors,
- legal compliance risks, including our continued compliance with complex government regulations and compliance with the corporate integrity agreement applicable to the dialysis centers acquired from Gambro Healthcare and assumed in connection with such acquisition, and
- -- the resolution of ongoing investigations by various federal and state governmental agencies.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in underlying factors, 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)

Net operating revenues \$1,461,010 \$1,354,869 \$5,660,173 \$5,264,151 Operating expenses and charges: Patient care costs 1,011,344 927,503 3,920,487 3,590,344 General and administrative 133,659 134,987 508,240 491,236 Depreciation and amortization 56,244 51,392 216,917 193,470 Provision for uncollectible accounts 36,796 34,996 146,229 136,682 Minority interests and equity income, 11,367 10,728 46,535 45,485 Valuation gain on alliance and product supply agreement (55, 275)Total operating expenses and charges 1,249,410 1,159,606 4,838,408 4,401,942 Operating income 211.600 195.263 821.765 862,209 Debt expense (55,825)(62,651) (224,716) (257,147) 12,411 Other income 2,080 5,329 22,460 Income before income taxes 157,855 137,941 609,460 627,522 Income tax expense 59.490 52,224 235.300 245.744 Net income \$98,365 \$85,717 \$374,160 \$381,778 Earnings per share: Basic earnings per \$0.95 \$0.80 \$3.56 \$3.61 share Diluted earnings per \$0.94 \$0.79 \$3.53 \$3.55 share Weighted average shares for earnings

103,897,138 106,885,553 105,149,448 105,893,052

104,530,333 108,250,536 105,939,725 107,418,240

per share: Basic

Diluted

DAVITA INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)

> Year ended December 31, 2008 2007

Cash flows from operating activities:

Net income \$374,160 \$381,778

Adjustments to reconcile net income to cash

provided by operating activities:

Depreciation and amortization 216,917 193,470

Valuation gain on alliance and product supply

agreement -- (55,275)

Stock-based compensation expense 41,235 34,149
Tax benefits from stock award exercises 13,988 32,788
Excess tax benefits from stock award exercises (8,013) (25,541)

Deferred income taxes 94,912 18,601

Minority interests in income of consolidated

subsidiaries 47,331 46,702
Distributions to minority interests (57,770) (48,029)
Equity investment income (796) (1,217)
Loss (gain) on disposal of assets 15,216 (2,825)

Non-cash debt and non-cash rent charges 11,794 12,713

Changes in operating assets and liabilities,

other than from acquisitions and divestitures:

Accounts receivable (149,939) 15,911

Inventories (2,715) 11,271

Other receivables and other current assets (40,960) (61,049)

Other long-term assets (11,929) (14,528)
Accounts payable 57,422 (9,216)
Accrued compensation and benefits (31,602) 9,691

 Other current liabilities
 8,871
 657

 Income taxes
 (30,258)
 (12,779)

 Other long-term liabilities
 8,067
 5,764

Net cash provided by operating activities 555,931 533,036

Cash flows from investing activities:

Additions of property and equipment, net (317,962) (272,212)

Acquisitions and purchases of other ownership

interests (126,368) (127,094)
Proceeds from asset sales 530 12,289

Purchase of investments available for sale (2,009) (52,085) Purchase of investments held-to-maturity (21,048) (23,061)

Proceeds from sale of investments available for sale 21,291 32,274

Proceeds from maturities of investments

held-to-maturity 21,355 4,795

Purchase of a non-controlling ownership interest

in an unconsolidated joint venture -- (17,550)
Contributions from minority owners 30,316 18,463
Purchase of intangible assets (65) (2,291)
Net cash used in investing activities (393,960) (426,472)

Cash flows from financing activities:

Borrowings 17,089,018 13,113,640
Payments on long-term debt
Deferred financing costs (130) (4,511)
Purchase of treasury stock (232,715) (6,350)

Excess tax benefits from stock award exercises 8.013 25.541

Stock award exercises and other share

issuances, net 40,247 62,902

Net cash (used in) provided by financing

activities (198,136) 30,280

Net (decrease) increase in cash and cash

equivalents (36,165) 136,844

Cash and cash equivalents at beginning of period 447,046 310,202
Cash and cash equivalents at end of period \$410,881 \$447,046

DAVITA INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands, except per share data)

December December 31, 2008 31, 2007

Cash and cash equivalents \$410,881 \$447,046 Short-term investments 35,532 40,278

Accounts receivable, less allowance of \$211,222

ASSETS

and \$195,953 1,075,457 927,949 80,173 Inventories 84,174 Other receivables 239,165 198,744 Other current assets 33,761 34,482 Income tax receivable 32,138 Deferred income taxes 217,196 247,578 Total current assets 2,128,304 1,976,250 Property and equipment, net 1,048,075 939,326 Amortizable intangibles, net 160.521 183.042 Investments in third-party dialysis businesses 19,274 19,446

 Long-term investments
 5,656
 22,562

 Other long-term assets
 47,330
 35,401

 Goodwill
 3,876,931
 3,767,933

 \$7,286,091
 \$6,943,960

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$282,883 \$225,461 Other liabilities 495,239 486,151

Accrued compensation and benefits

Current portion of long-term debt
Income taxes payable
Total current liabilities

Total current liabilities

312,216
72,725
23,431
16,492
1,163,063
1,086,496

Long-term debt 3,622,421 3,683,887

Other long-term liabilities 101,442 83,448

Alliance and product supply agreement, net 35,977 41,307

Deferred income taxes 244,884 166,055

Minority interests (fair value subject to potential put obligations . \$291,000 and

\$330,000) 165,846 150,517

Commitments and contingencies

Shareholders' equity:

Preferred stock (\$0.001 par value, 5,000,000

shares authorized; none issued)

Common stock (\$0.001 par value, 450,000,000 shares authorized: 134.862.283 shares issued:

103,753,673 and 107,130,127 shares outstanding) 135 135

Additional paid-in capital 769,069 707,080 Retained earnings 1,889,450 1,515,290

Treasury stock, at cost (31,108,610 and

27,732,156 shares) (691,857) (487,744)

Accumulated other comprehensive loss (14,339) (2,511)

Total shareholders' equity 1,952,458 1,732,250

\$7,286,091 \$6,943,960

DAVITA INC. SUPPLEMENTAL FINANCIAL DATA (unaudited)

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

Year

Three months ended ended

December September December December
31, 2008 30, 2008 31, 2007 31, 2008

1. Consolidated Financial Results:

\$1,461 \$1,447 \$1,355 \$5,660 Revenues Operating income \$211.6 \$207.9 \$195.3 \$821.8 Operating income margin 14.5% 14.4% 14.4% \$98.4 \$93.9 Net income \$85.7 \$374.2 Diluted earnings per share \$0.79 \$0.94 \$0.89 \$3.53

2. Consolidated Business Metrics:

Expenses

Patient care costs as a percent of consolidated

revenue (3) 69.2% 69.5% 68.5% 69.3%

General and administrative expenses as a percent of consolidated revenue (3) 9.1% 8.9% 10.0% 9.0% Bad debt expense as a percent 2.6% of consolidated revenue 2.5% 2.6% 2.6% Consolidated effective tax rate 37.7% 39.8% 37.9% 38.6%

3. Segment Financial Results:

(dollar amounts rounded to

nearest million)

Dialysis and related lab

services

 Revenues
 \$1,389
 \$1,378
 \$1,310
 \$5,415

 Direct operating expenses
 1,148
 1,142
 1,079
 4,472

 Dialysis segment margin
 \$241
 \$236
 \$231
 \$943

Other - Ancillary services and strategic initiatives

Revenues \$72 \$69 \$45 \$245 Direct operating expenses 79 74 61 279 Ancillary segment loss \$(7) \$(5) \$(16) \$(34) Total segment margin \$215 \$910 \$234 \$231

Reconciling items:

Stock-based compensation (11) (11) (9) (41)

Minority interests and

equity income, net (11) (13) (11) (47)

Consolidated operating

income \$212 \$208 \$195 \$822

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA -- continued (unaudited)

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

Year

Three months ended ended

December September December December
31, 2008 30, 2008 31, 2007 31, 2008

4. Segment Business Metrics:

Dialysis and related lab

services:

Volume

Treatments 4,172,468 4,091,099 3,983,542 16,217,107

Number of treatment

days 79.5 79.0 79.6 313.9

Treatments per day 52,484 51,786 50,045 51,663

Per day year over

year increase 4.9% 5.1% 5.6% 5.6%

Non-acquired growth

year over year 4.0% 3.8% 4.6% 4.3%

Revenue

Dialysis and related

lab services revenue per

treatment \$332.61 \$336.42 \$328.11 \$333.52

Per treatment (decrease) increase from previous

quarter (1.1%) 0.1% (1.6%) --

Per treatment

increase (decrease)

from previous year 1.4% 0.9% (1.9%) (0.2%)

Percent of

consolidated revenue 95.1% 95.2% 96.7% 95.7%

Expenses

Patient care costs

Percent of segment

revenue 68.6% 69.0% 67.9% 68.7%
Per treatment \$228.29 \$232.50 \$223.10 \$229.50

Per treatment (decrease) increase from previous

(1.8%)0.7% (0.3%)quarter Per treatment increase (decrease) from previous 3.9% (2.3%)1.2% year 2.3% General and administrative expenses Percent of segment revenue 7.6% 7.3% 8.2% 7.4% Per treatment \$25.36 \$24.68 \$26.87 \$24.56 Per treatment increase from previous quarter 2.8% 7.0% 0.2% Per treatment (decrease) from previous year (5.6%)(1.8%)(6.4%)(5.3%)5. Cash Flow Operating cash flow \$146.2 \$223.3 \$184.2 \$555.9 Operating cash flow, last twelve months \$533.0 \$555.9 \$595.1 Free cash flow(1) \$119.0 \$450.7 \$144.8 \$184.6 Free cash flow, last twelve months(1) \$450.7 \$491.2 \$421.4 Capital expenditures: Development and relocations \$54.7 \$51.6 \$60.4 \$212.7 Routine maintenance/IT \$39.4 \$27.2 \$39.7 \$105.2 other Acquisition expenditures \$25.2 \$31.5 \$45.3 \$126.4 6. Accounts Receivable Net receivables \$1,057 \$928 \$1,075 DSO 70 70 66 DAVITA INC. SUPPLEMENTAL FINANCIAL DATA-continued (unaudited) (dollars in millions, except for per share and per treatment data) Year Three months ended ended December September December December 31, 2008 30, 2008 31, 2007 31, 2008 7. Debt and Capital Structure Total debt(2) \$3,691 \$3,704 \$3,703 Net debt, net of cash(2) \$3,281 \$3,316 \$3,256 Leverage ratio (see Note 1, calculation of leverage ratio) 2.88x 2.98x 2.99x Overall effective weighted average interest rate during the quarter 5.77% 5.66% 6.46% Overall effective weighted average interest rate at end of the quarter 5.10% 6.09% 6.37% Effective weighted average interest rate on the Senior Secured Credit Facilities at end of the 5.39% quarter 3.48% 5.90% Economically fixed interest rates as a percentage of our total debt 70% 74% \$63.0 \$232.7 Share repurchases \$--\$--8. Clinical (quarterly averages) Dialysis adequacy -% of patients with 95% 94% 94% Kt/V > 1.2Patients with Hb>=10 <=13 (90 Day Patients) 87% 87% Patients with arteriovenous

fistulas placed

62%

61%

59%

- (1) These are non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to their most comparable measure calculated and presented in accordance with GAAP, see attached reconciliation schedules.
- (2) This is a non-GAAP financial measure. It excludes \$3.8 million, the unamortized balance of a debt premium associated with our senior notes that is not actually outstanding debt principal.
- (3) Consolidated percentages of revenue and per treatment amounts are comprised of the dialysis and related lab services business, other ancillary services and strategic initiatives, as well as stock-based compensation expenses.

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA-continued
(unaudited)
(dollars in thousands)

Note 1: Calculation of the Leverage Ratio

Under the Company's current Senior Secured Credit Facilities (Credit Agreement), the leverage ratio is defined as all funded debt plus the face amount of all letters of credit issued, minus cash and cash equivalents, divided by "Consolidated EBITDA". The leverage ratio determines the interest rate margin payable by the Company for its term loan A and revolving line of credit under the 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 Credit Agreement. The calculation below is based on the last twelve months of "Consolidated EBITDA", pro forma for the routine acquisitions that occurred during the period. The Company's management believes the presentation of "Consolidated EBITDA" is useful to investors to enhance their understanding of the Company's leverage ratio under its Credit Agreement.

Year ended December 31, 2008

Net income\$374,160Income taxes235,300Debt expense224,716Depreciation and amortization216,917

Minority interests and equity income, net 46,535

Other 18,004

Stock-based compensation expense 41,235 "Consolidated EBITDA" \$1,156,867

December 31, 2008
Total debt, excluding debt premium of \$3.8 million
\$3.691,389

Letters of credit issued 50,901 3,742,290

Less: cash and cash equivalents (410,881)
Consolidated net debt \$3,331,409

Consolidated net debt \$3,331,409 Last twelve months "Consolidated EBITDA" \$1,156,867

Leverage ratio 2.88x

In accordance with the Company's Credit Agreement, the Company's leverage ratio cannot exceed 4.50 to 1.0 as of December 31, 2008. At that date the Company's leverage ratio did not exceed 4.50 to 1.0.

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

1. Net income excluding gains from insurance settlements, gains on the sale of investment securities and the valuation gain on the alliance and product supply agreement (the Product Supply Agreement):

We believe that net income excluding gains from insurance settlements, gains on the sale of investment securities and the valuation gain on the Product Supply Agreement enhances a user's understanding of our normal net income for these periods by providing a measure that is more meaningful because it excludes insurance settlement gains related to insurance proceeds from Hurricane Katrina and from a fire that destroyed one of our centers, as well as non-recurring gains on the sale of investment securities and a non- recurring non-cash item that resulted from the termination of our purchase obligation for

dialysis machines from Gambro Renal Products Inc. under the Product Supply Agreement, and accordingly is more comparable to current and prior periods and indicative of consistent net income. This measure is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative to net income.

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Three months ended
                                        Year ended
            December September December December December
                     30,
                          31,
                                  31,
                                         31,
             2008
                     2008
                           2007
                                     2008
                                             2007
Net income
                 $98,365 $93,910 $85,717 $374,160 $381,778
Less: Gains on
    insurance
    settlements
                                         (6,779)
   Gains on the sale
    of investment
    securities
                                       (5.868)
   Valuation gain
                                        (55, 275)
Add: Related income
                                  -- 26,422
    tax
             $98,365 $93,910 $85,717 $374,160 340,278
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2. Operating income excluding pre-tax gains from insurance settlements and the pre-tax valuation gain on the Product Supply Agreement:

We believe that operating income excluding gains from insurance settlements and the valuation gain on the Product Supply Agreement enhances a user's understanding of our normal operating income for these periods by providing a measure that is more meaningful because it excludes insurance settlements gains related to insurance proceeds from Hurricane Katrina and from a fire that destroyed one of our centers and a non-recurring non-cash item that resulted from the termination of our purchase obligation for dialysis machines from Gambro Renal Products Inc. under the Product Supply Agreement, and accordingly is more comparable to current and prior periods and indicative of consistent operating income items. This measure is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative to operating income.

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Three months ended
                                      Year ended
            December September December December
              31,
                    30,
                           31,
                                 31,
                                      31,
                             2007 2008 2007
             2008
                     2008
                   $211,600 $207,884 $195,263 $821,765 $862,209
Operating income
Less: Gains on
   insurance
   settlements
                                      (6,779)
   Valuation gain
                                   -- (55,275)
            $211,600 $207,884 $195,263 $821,765 $800,155
        RECONCILIATIONS FOR NON-GAAP MEASURES
              (unaudited)
            (dollars in thousands)
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3. Free cash flow

Free cash flow represents net cash provided by operating activities less capital expenditures for routine maintenance and information technology. We believe free cash flow is a useful adjunct to cash flow from operating activities and other measurements under United States generally accepted accounting principles, since free cash flow 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 United States generally accepted accounting principles 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.

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Three months ended
                                            Year ended
                   December September December December
                    31,
                           30,
                                  31,
                                         31,
                                    2007
                    2008
                            2008
                                            2008
Cash provided by operating
                     $184,170 $146,227 $223,326 $555,931
activities
Less: Expenditures for
routine maintenance and
                            (39,412) (27,217) (38,688) (105,233)
information technology
Free cash flow
                        $144,758 $119,010 $184,638 $450,698
```

Rolling 12-Month Period

December September December
31, 30, 31,
2008 2008 2007

Cash provided by operating activities \$555,931 \$595,087 \$533,036

Less: Expenditures for routine

maintenance and information technology (105,233) (103,885) (111,663)

Free cash flow \$450,698 \$491,202 \$421,373

First Call Analyst:

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