

# DaVita Inc. Reports 3rd Quarter 2002 Results

PRNewswire-FirstCall  
TORRANCE, Calif.

DaVita Inc. , today announced results for the quarter ended September 30, 2002. EBITDA, excluding prior period laboratory receipts and accounts receivable recoveries, was \$99.8 million for the quarter. EBITDA for the quarter included current period Medicare laboratory revenue of \$5.4 million.

(Photo: <http://www.newscom.com/cgi-bin/prnh/20020729/DAVITALOGO> )

Net earnings for the three and nine months ended September 30, 2002 were \$54 million and \$99 million, or \$0.72 and \$1.20 per share, respectively. Net earnings for the quarter, excluding the prior period Medicare laboratory receipts and accounts receivable recoveries totaling \$28 million, were \$37 million or \$0.51 per share. Net earnings for the nine months, excluding prior period lab receipts and accounts receivable recoveries totaling \$32 million, valuation gains of \$2.4 million and a \$29 million after-tax extraordinary loss related to the early extinguishment of debt, were \$107 million or \$1.29 per share.

Financial and operating highlights include:

- For the rolling 12 months ended September 30, 2002 operating cash flow was \$280 million and free cash flow was \$230 million. Operating cash flow for the quarter was \$119 million and free cash flow was \$110 million. These cash flow numbers exclude prior period lab receipts and accounts receivable recoveries.
- Total treatments for the third quarter were 1,516,840. Non-acquired same center treatment growth was 3.8%.
- Third quarter dialysis revenue per treatment (excluding lab, management fees and other revenue) was essentially flat from the second quarter at \$291 and up 3.8% from the third quarter of 2001.
- The Company began recognizing current-period Medicare lab revenue in the third quarter of 2002, which amounted to \$5.4 million. During the third quarter, the Medicare carrier began paying claims from the Company's lab for the first time in more than four years.
- EBITDA margin, excluding all prior-period recoveries, was 22.0%. EBITDA margin improved 100 basis points from the second quarter primarily as a result of the recognition of current period Medicare laboratory revenue.
- DSO improved 3 days from the second quarter to 70 days.
- Third quarter prior-period recoveries included \$27 million associated with Medicare lab claims and \$0.5 million in cash recoveries associated with accounts receivable reserved in 1999.
- Based on recent communications with the Medicare carrier, the Company expects to receive, over the next few months, additional payments of \$20 million or more related to prior years' Medicare lab claims. The revenue associated with these recoveries will be recognized as the payments are received.
- As of September 30, 2002, we operated 504 outpatient centers serving approximately 44,000 patients. During the third quarter we closed 1 under-performing center, acquired 6 centers and opened 7 de novo centers. Included in this patient and center count are approximately 3,300 patients in 29 centers under management.

Since the Company is now recognizing Medicare laboratory revenue, we are raising our 2002 EBITDA guidance to \$380 million to \$386 million. Correspondingly, our 2003 EBITDA guidance has been increased to \$380 million to \$400 million.

DaVita will be holding an investor meeting on November 6, 2002, at the New York Palace Hotel. The event will begin at 9:30 AM Eastern Standard Time. Kent Thiry, Chairman and CEO, and Rich Whitney, CFO, will discuss the Company's financial results for the quarter ended September 30, 2002 followed by a presentation on the state of the Company.

Please join us in person at the New York Palace Hotel located at 455 Madison Avenue @50th Street. If you are unable to attend you can participate in both presentations via conference call at 800-399-4406. A replay of both presentations will be available on DaVita's official web page, [www.davita.com](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 June 30, 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)

	September 30, 2002	December 31, 2001
<b>ASSETS</b>		
Cash and cash equivalents	\$115,361	\$36,711
Accounts receivable, less allowance of \$50,165 and \$52,475	339,955	333,546
Inventories	21,931	34,901
Other current assets	17,068	9,364
Deferred income taxes	63,741	60,142
<b>Total current assets</b>	<b>558,056</b>	<b>474,664</b>
Property and equipment, net	278,761	52,778
Amortizable intangibles, net	65,635	73,108
Investments in third-party dialysis businesses	3,266	4,346
Other long-term assets	1,831	2,027
Goodwill	860,425	855,760
	<b>\$1,767,974</b>	<b>\$1,662,683</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$77,846	\$74,630
Other liabilities	106,456	111,164
Accrued compensation and benefits	99,070	88,826
Current portion of long-term debt	8,166	9,034
Income taxes payable	33,473	15,027
<b>Total current liabilities</b>	<b>325,011</b>	<b>298,681</b>
Long-term debt	1,313,847	811,190
Other long-term liabilities	8,034	5,012
Deferred income taxes	49,910	23,441
Minority interests	22,462	20,722
<b>Shareholders' equity:</b>		
Preferred stock (\$0.001 par value; 5,000,000 shares authorized; none issued)		
Common stock (\$0.001 par value, 195,000,000 shares authorized; 88,314,176 and 85,409,037 shares issued)	88	85
Additional paid-in capital	511,627	467,904
Retained earnings	154,526	56,008
Treasury stock, at cost (26,325,677 and 888,700 shares)	(617,531)	(20,360)
<b>Total shareholders' equity</b>	<b>48,710</b>	<b>503,637</b>
	<b>\$1,767,974</b>	<b>\$1,662,683</b>

DAVITA INC.

# CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net operating revenues	\$481,194	\$434,239	\$1,351,536	\$1,221,096
Operating expenses:				
Dialysis centers and labs	308,438	277,252	900,624	809,771
General and administrative	37,048	31,150	115,125	95,380
Depreciation and amortization	16,267	26,281	47,770	79,053
Provision for uncollectible accounts	8,117	2,689	19,254	(5,874)
Impairments and valuation adjustments			(2,390)	
Total operating expenses	369,870	337,372	1,080,383	978,330
Operating income	111,324	96,867	271,153	242,766
Other income, net	1,124	1,856	4,972	4,324
Debt expense	19,967	18,319	52,178	56,758
Minority interests in income of consolidated subsidiaries	(1,911)	(2,126)	(7,171)	(6,852)
Income before income taxes and extraordinary item	90,570	78,278	216,776	183,480
Income tax expense	36,400	34,000	88,900	79,700
Income before extraordinary item	54,170	44,278	127,876	103,780
Extraordinary (loss) gain related to early extinguishment of debt, net of tax of \$19,572 in 2002 and \$652 in 2001		(29,358)	977	
Net income	\$54,170	\$44,278	\$98,518	\$104,757
Basic earnings per share:				
Income before extraordinary item	\$0.84	\$0.52	\$1.69	\$1.25
Extraordinary (loss) gain, net of tax		(0.39)	0.01	
Net income	\$0.84	\$0.52	\$1.30	\$1.26
Diluted earnings per share:				
Income before extraordinary item	\$0.72	\$0.47	\$1.51	\$1.15
Extraordinary (loss) gain, net of tax		(0.31)	0.01	
Net income	\$0.72	\$0.47	\$1.20	\$1.16

DAVITA INC.

## SUPPLEMENTAL FINANCIAL DATA

Q3 2002    Q2 2002    Q3 2001    YTD 2002

# Financial Results:

Net earnings, excluding prior period Medicare lab revenue, extraordinary items, recoveries, valuation adjustments and goodwill amortization (in 000's) (1)	\$37,400	\$35,100	\$34,300	\$107,100
Basic EPS	\$0.58	\$0.44	\$0.41	\$1.42
EPS assuming dilution	\$0.51	\$0.41	\$0.38	\$1.29

EBITDA, excluding  
prior period Medicare  
lab revenue, recoveries  
and valuation adjustments

Consolidated (in 000's)	\$99,800	\$92,300	\$96,000	\$284,600
Continental U.S. (in 000's).	\$99,800	\$92,700	\$95,600	\$284,400
Continental EBITDA margin	22.0%	21.0%	23.4%	21.6%

## Business Metrics (Continental U.S.):

### Category #1 Volume

Treatments	1,516,840	1,486,816	1,432,453	4,437,459
Per day sequential increase	0.7%	1.6%	1.6%	--
Per day year over year increase	4.6%	5.5%	7.6%	5.4%

Same center growth (year over year)	3.7%	4.5%	4.1%	4.2%
Non-acquired growth (year over year)	3.8%	4.5%	4.1%	4.2%

### Category #2 Revenue, excluding prior period Medicare lab revenue and recoveries

Revenue (in 000's)	\$454,000	\$441,000	\$408,000	\$1,318,000
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Dialysis revenue per treatment	\$290.92	\$290.52	\$280.16	\$290.63
Per treatment increase from previous quarter	0.1%	0.0%	1.6%	--
Per treatment increase from prior year	3.8%	5.3%	7.6%	5.0%

### Category #3 Expenses

#### A. Dialysis centers and lab operating expenses

Percent of revenue	67.9%	67.7%	67.1%	67.9%
Per treatment	\$203.34	\$200.46	\$191.13	\$201.64
Per treatment increase (decrease) from previous quarter	1.4%	(0.3%)	0.6%	--

#### B. General & administrative

Percent of revenue	8.2%	9.5%	7.6%	8.7%
Per treatment	\$24.42	\$28.26	\$21.75	\$25.94
Per treatment increase (decrease) from previous quarter	(13.6%)	12.4%	(5.4%)	--

#### C. Bad debt expense as a percent of

current-period revenue	1.9%	1.8%	1.9%	1.8%
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D. Consolidated effective tax rate	40.0%	41.2%	43.4%	41.0%
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Category #4, Cash Flow  
(Consolidated,  
including prior period  
recoveries, in 000's)

Operating cash flow	\$136,000	\$61,000	\$112,000	\$282,000
Free cash flow (before share repurchase, acquisition and development spending)	\$127,000	\$43,000	\$104,000	\$246,000
Capital expenditures: Development	\$11,700	\$8,100	\$4,800	\$27,400
Routine maintenance/IT/ other	\$10,500	\$19,600	\$7,200	\$39,200
Acquisition expenditures, net	\$10,600	--	\$15,500	\$12,000

Category #5 Accounts

Receivable Net receivables (in 000's)	\$340,000	\$347,000	\$309,000	\$340,000
DSO	70	73	71	--

Category #6 Debt/  
Capital Structure  
(Consolidated)

Total debt (in 000's)	\$1,322,000	\$1,324,000	\$820,000	\$1,322,000
Net debt, net of cash (in 000's)	\$1,207,000	\$1,187,000	\$775,000	\$1,207,000
LTM net leverage ratio	3.2x	3.2x	2.1x	3.2x
Shares repurchased (in 000's)	5,600	16,900	--	25,400
Average repurchase price	\$21.88	\$24.08	--	\$23.48

Category #7 Clinical

Dialysis adequacy - % of patients with URR > 65	88%	89%	--	--
Dialysis adequacy - % of patients with Kt/V > 1.2	91%	92%	--	--
Anemia measure - % of patients with HCT > 33	81%	80%	--	--

(1)Effective January 1, 2002 goodwill is no longer amortized in accordance with new accounting standards.Third quarter 2001 net earnings and per-share amounts, including goodwill amortization but excluding extraordinary items and recoveries, were \$28 million or \$0.33 basic EPS and\$0.31 diluted EPS.

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