# DaVita Inc. Reports 3rd Quarter 2002 Results

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, 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 |
|---|---|---|
| ASSETS | | |
| 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 |
| Total current assets | 558,056 | 474,664 |
| 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 |
| | $1,767,974 | $1,662,683 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| 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 |
| Total current liabilities | 325,011 | 298,681 |
| 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 |
| 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; 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) |
| Total shareholders' equity | 48,710 | 503,637 |
| | $1,767,974 | $1,662,683 |

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 |
| 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% |
| D. Consolidated | | | | |

| | | | | |
|---|---|---|---|---|
| effective tax rate | 40.0% | 41.2% | 43.4% | 41.0% |
| 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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