# DaVita Inc. Reports 3rd Quarter 2004 Results

DaVita Inc. , today announced results for the quarter ended September 30, 2004. Net income for the three and nine months ended September 30, 2004, excluding after tax Medicare lab recoveries of $5.1 million was $55.3 million and $160.6 million, or $0.54 and $1.56 per share, respectively.

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

Net income, on a GAAP basis, including the lab recoveries, for the three and nine months ended September 30, 2004, was $60.4 million and $165.7 million, or $0.59 and $1.61 per share, respectively.

Financial and operating highlights include:

-- Cash Flow: For the rolling 12 months ended September 30, 2004, operating cash flow was $367 million. Excluding the tax benefit from stock option exercises and the after-tax benefit of prior years' Medicare lab recoveries, rolling 12-month operating cash flow was $315 million and free cash flow was $268 million.

-- Operating Income: Operating income for the three and nine months ended September 30, 2004, excluding Medicare lab recoveries of $8.3 million for prior years' services, was $103.4 million and $296.7 million, respectively.

-- Volume: Total treatments for the third quarter were 1,804,534 or 22,842 treatments per day, an increase of 11.0% per day compared to the third quarter of last year. Non-acquired treatment growth was 4.8%.

-- Center Activity: As of September 30, 2004, we operated or provided administrative services at 636 outpatient centers serving approximately 53,000 patients. During the third quarter we acquired 37 centers including minority interests in 4 centers, opened 7 de novo centers and provided administrative services to 2 additional centers. We also closed 2 centers.

Recent Transactions

On September 1, 2004, we completed our acquisition of Physicians Dialysis, Inc. (PDI), by acquiring 24 centers for approximately $150 million in cash.

In August 2004, we began repurchasing shares of our common stock in the open market pursuant to a previous authorization by our Board of Directors. During the third quarter of 2004, we repurchased a total of 3,049,800 shares of common stock at an average price of $28.69 per share.

On November 2, 2004, the Board of Directors authorized the Company to repurchase up to an additional $200 million of the Company's common stock. The purchases are expected to be made on the open market or in privately negotiated transactions, from time to time, depending upon market conditions as well as other considerations. The total outstanding Board authorizations for share repurchases are now approximately $250 million.

Outlook

We expect our fourth quarter operating income to be comparable to the third quarter of 2004. For 2005 we currently expect operating income to be flat to 6% higher than the 2004 level.

DaVita will be holding a conference call to discuss its third quarter 2004 results on November 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 release contains forward-looking statements. Factors which could impact future results include the uncertainties associated with governmental regulations, general economic and other market conditions, acquisitions and the risk factors set forth in the Company's SEC filings, including its Form 10-Q for the quarter ended June 30, 2004. 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 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, including our continued compliance with complex government regulations and the ongoing review by the U.S. Attorney's Office and HHS Office of the Inspector General in Philadelphia and the recently announced subpoena from the U.S. Attorney's Office, Eastern District of New York.

This 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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net operating revenues | $595,531 | $513,282 | $1,682,592 | $1,462,972 |
| Operating expenses and charges: | | | | |
| Patient care costs | 396,909 | 347,895 | 1,135,477 | 1,000,591 |
| General and administrative | 50,600 | 39,920 | 138,931 | 119,290 |
| Depreciation and amortization | 22,257 | 19,336 | 63,454 | 54,702 |
| Provision for uncollectible accounts | 10,520 | 9,214 | 29,964 | 26,231 |
| Minority interests and equity income, net | 3,593 | 1,706 | 9,814 | 4,813 |
| Total operating expenses and charges | 483,879 | 418,071 | 1,377,640 | 1,205,627 |
| Operating income | 111,652 | 95,211 | 304,952 | 257,345 |
| Debt expense | 13,741 | 16,111 | 36,635 | 55,062 |
| Refinancing Charges | | 17,240 | | 17,240 |
| Other income | 1,010 | 1,050 | 3,120 | 2,725 |
| Income before income taxes | 98,921 | 62,910 | 271,437 | 187,768 |
| Income tax expense | 38,535 | 24,850 | 105,785 | 74,775 |
| Net income | $60,386 | $38,060 | $165,652 | $112,993 |
| Earnings per share: | | | | |
| Basic | $0.61 | $0.39 | $1.67 | $1.21 |
| Diluted | $0.59 | $0.36 | $1.61 | $1.07 |
| Weighted average shares for earnings per share: | | | | |
| Basic | 99,168,930 | 97,654,447 | 98,972,666 | 93,663,063 |
| Diluted | 102,889,781 | 114,749,043 | 103,193,267 | 117,231,159 |

DAVITA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

| | Nine months ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Cash flows from operating activities: | | |
| Net income | $165,652 | $112,993 |
| Adjustments to reconcile net income | | |

| | | |
|---|---|---|
| to cash provided by operating activities: | | |
| Depreciation and amortization | 63,454 | 54,702 |
| Stock options, principally tax benefits | 30,465 | 10,240 |
| Deferred income taxes | 11,831 | 12,271 |
| Loss on divestitures | 59 | 929 |
| Non-cash debt expense | 1,497 | 2,636 |
| Equity investment income | (1,531) | (1,331) |
| Minority interests in income of consolidated subsidiaries | 11,345 | 6,144 |
| Distributions to minority interests | (6,966) | (5,560) |
| Refinancing charges | | 17,240 |
| Changes in operating assets and liabilities, other than from acquisitions and divestitures: | | |
| Accounts receivable | (33,998) | (9,978) |
| Medicare lab recoveries | 10,707 | |
| Inventories | 5,065 | 9,974 |
| Other current assets | (755) | (4,189) |
| Other long-term assets | 2,109 | 3,902 |
| Accounts payable | 7,773 | (7,950) |
| Accrued compensation and benefits | 22,409 | 12,959 |
| Other current liabilities | 43,360 | 25,832 |
| Income taxes | 136 | 13,312 |
| Other long-term liabilities | (8) | 4,946 |
| Net cash provided by operating activities | 332,604 | 259,072 |
| Cash flows from investing activities: | | |
| Additions of property and equipment, net | (89,872) | (64,031) |
| Acquisitions and divestitures, net | (245,284) | (66,922) |
| Investments in and advances to affiliates, net | 4,862 | 3,516 |
| Intangible assets | (635) | (540) |
| Net cash used in investing activities | (330,929) | (127,977) |
| Cash flows from financing activities: | | |
| Borrowings | 3,123,171 | 3,423,511 |
| Payments on long-term debt | (2,903,648) | (3,299,064) |
| Debt redemption premium | | (8,405) |
| Deferred financing costs | (3,934) | (3,445) |
| Purchase of treasury stock | (86,559) | (83,037) |
| Stock option exercises | 34,580 | 14,979 |
| Net cash provided by financing activities | 163,610 | 44,539 |
| Net increase in cash and cash equivalents | 165,285 | 175,634 |
| Cash and cash equivalents at beginning of period | 61,657 | 96,475 |
| Cash and cash equivalents at end of period | $226,942 | $272,109 |

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

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $226,942 | $61,657 |
| Accounts receivable, less allowance of $59,051 and $52,554 | 434,669 | 387,933 |
| Medicare lab recoveries | 8,293 | 19,000 |
| Inventories | 30,666 | 32,853 |
| Other current assets | 47,723 | 43,875 |
| Deferred income taxes | 78,581 | 59,740 |
| Total current assets | 826,874 | 605,058 |
| Property and equipment, net | 392,072 | 342,447 |
| Amortizable intangibles, net | 62,238 | 49,971 |
| Investments in third-party dialysis businesses | 4,381 | 3,095 |
| Other long-term assets | 8,368 | 10,771 |
| Goodwill | 1,136,958 | 934,188 |
| | $2,430,891 | $1,945,530 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |

| | | |
|---|---|---|
| Accounts payable | $84,365 | $ 71,868 |
| Other liabilities | 157,707 | 112,654 |
| Accrued compensation and benefits | 123,166 | 100,909 |
| Current portion of long-term debt | 53,277 | 50,557 |
| Income taxes payable | 27,138 | 26,832 |
| Total current liabilities | 445,653 | 362,820 |
| Long-term debt | 1,334,687 | 1,117,002 |
| Other long-term liabilities | 19,662 | 19,310 |
| Deferred income taxes | 133,613 | 106,240 |
| Minority interests | 44,940 | 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; 134,862,283 shares issued) | 135 | 135 |
| Additional paid-in capital | 541,736 | 539,575 |
| Retained earnings | 554,685 | 389,083 |
| Treasury stock, at cost (37,153,625 and 38,052,028 shares) | (643,860) | (620,998) |
| Accumulated comprehensive income valuations | (360) | (924) |
| Total shareholders' equity | 452,336 | 306,871 |
| | $2,430,891 | $1,945,530 |

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA
(unaudited)
(dollars in millions, except for per share and per treatment data)

| | Q3 2004 | Q2 2004 | Q3 2003 | YTD 2004 |
|---|---|---|---|---|
| Financial Results: | | | | |
| Net income excluding Medicare lab recoveries for prior years' services and refinancing charges in Q3-2003. | $55.3 | $52.4 | $48.5 | $160.6 |
| Basic EPS | $.56 | $0.53 | $.50 | $1.62 |
| EPS assuming dilution | $.54 | $0.50 | $.45 | $1.56 |
| Operating income, excluding Medicare lab recoveries | $103.4 | $96.5 | $95.2 | $296.7 |
| Operating income margin | 17.6% | 17.5% | 18.5% | 17.7% |
| Other comprehensive income | | | | |
| Unrealized (loss) gain on securities, net of tax (benefit) expense of $(1.6), $3.6 and $0.4 | $(2.5) | $5.7 | -- | $0.6 |
| Business Metrics: | | | | |
| Volume | | | | |
| Treatments | 1,804,534 | 1,704,882 | 1,625,058 | 5,166,472 |
| Number of treatment days | 79.0 | 78.0 | 79.0 | 234.5 |
| Treatments per day | 22,842 | 21,857 | 20,570 | 22,032 |
| Per day year over year increase | 11.0% | 7.9% | 7.1% | 9.2% |
| Non-acquired growth | 4.8% | 4.5% | 3.8% | 4.5% |
| Revenue | | | | |
| Total operating revenue | $596 | $552 | $513 | $1,683 |
| Less Medicare lab recoveries for prior years' services | $8 | | $8 | |
| Revenue excluding | | | | |

| | | | | |
|---|---|---|---|---|
| Medicare lab recoveries | $587 | $552 | $513 | $1,674 |
| Dialysis revenue per treatment | $313.60 | $311.54 | $306.20 | $312.09 |
| Per treatment change from previous quarter | 0.7% | 0.2% | 1.6% | -- |
| Per treatment change from prior year | 2.4% | 3.3% | 5.3% | 3.5% |
| Expenses | | | | |
| A. Patient care costs | | | | |
| Percent of revenue, excluding Medicare lab recoveries | 67.6% | 68.0% | 67.8% | 67.8% |
| Per treatment | $219.95 | $220.04 | $214.08 | $219.78 |
| Per treatment change from previous quarter | -- | 0.3% | 0.6% | -- |
| Per treatment change from previous year | 2.7% | 3.4% | 5.3% | 3.4% |
| B. General & administrative expenses | | | | |
| Percent of revenue, excluding Medicare lab recoveries | 8.6% | 8.3% | 7.8% | 8.3% |
| Per treatment | $28.04 | $26.82 | $24.57 | $26.89 |
| Per treatment change from previous quarter | 4.5% | 4.3% | (8.9%) | -- |
| Per treatment change from previous year | 14.1% | (0.5%) | 0.6% | 6.1% |
| C. Bad debt expense as a percent of current-period revenue | 1.8% | 1.8% | 1.8% | 1.8% |
| D. Consolidated effective tax rate | 39.0% | 39.0% | 39.5% | 39.0% |

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA-continued
(unaudited)
(dollars in millions, except for per share and per treatment data)

| | Q3 2004 | Q2 2004 | Q3 2003 | YTD 2004 |
|---|---|---|---|---|
| Cash Flow | | | | |
| Operating cash flow, excluding Medicare lab recoveries | $115.9 | $90.6 | $99.6 | $321.0 |
| Operating cash flow, excluding Medicare lab recoveries and tax benefit from stock option exercises | $110.4 | $80.0 | $95.1 | $290.5 |
| Free cash flow, excluding Medicare lab recoveries development spending) | $104.9 | $75.7 | $90.1 | $289.3 |
| Free cash flow, excluding Medicare lab recoveries and tax benefit from stock option exercises development spending) | $99.5 | $65.1 | $85.6 | $258.9 |
| Capital expenditures: | | | | |
| Development | $22.8 | $15.8 | $12.9 | $57.8 |

| | | | | |
|---|---|---|---|---|
| Routine maintenance /IT/other | $11.0 | $14.9 | $9.5 | $31.7 |
| Acquisition expenditures, net | $213.5 | $14.7 | $19.9 | $245.3 |

| | | | |
|---|---|---|---|
| Accounts Receivable | | | |
| Net receivables | $435 | $402 | $357 |
| DSO | 68 | 68 | 65 |
| | | | |
| Debt/Capital Structure | | | |
| Total debt | $1,388 | $1,144 | $1,323 |
| Net debt, net of cash balance | $1,161 | $943 | $1,051 |
| Leverage ratio -- last quarter annualized (see Note 1) | 2.2x | 2.0x | 2.3x |
| Share repurchases in millions) | 3.1 | | 3.1 |
| | | | |
| Clinical (quarterly averages) | | | |
| Dialysis adequacy -- % of patients with Kt/V > 1.2 | 94% | 94% | 93% |
| Anemia measure -- % of patients with HCT > 33 | 87% | 86% | 83% |

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

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

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

| | Q3 2004 | Q2 2004 | Q3 2003 | YTD 2004 |
|---|---|---|---|---|
| Net income | $60,386 | $52,401 | $38,060 | $165,652 |
| Less: Medicare lab recoveries for prior years' services | (8,293) | | | (8,293) |
| Add back: Refinancing charges | | 17,240 | | |
| Related income tax expense | 3,234 | | (6,818) | 3,234 |
| | $55,327 | $52,401 | $48,482 | $160,593 |

2. Operating income excluding Medicare lab recoveries, and excluding depreciation, amortization, and minority interests (used to calculate leverage ratio):

| | Q3 2004 | Q2 2004 | Q3 2003 | YTD 2004 |
|---|---|---|---|---|
| Operating income | $111,652 | $96,467 | $95,211 | $304,952 |
| Less Medicare lab recoveries for prior years' services | (8,293) | | | (8,293) |
| | 103,359 | 96,467 | 95,211 | 296,659 |
| Add back: Depreciation and amortization | 22,257 | 20,927 | 19,336 | 63,454 |
| Minority interests and equity | | | | |

| | | | | |
|---|---|---|---|---|
| income, net | 3,593 | 3,503 | 1,706 | 9,814 |
| | $129,209 | $120,897 | $116,253 | $369,927 |

3. Operating cash flow, excluding Medicare lab recoveries related to prior years' services, and tax benefit from stock option exercises:

| | Q3 2004 | Q2 2004 | YTD 2004 | Q3 2003 | Rolling 12-month period ended Q3 2004 |
|---|---|---|---|---|---|
| Cash provided by operating activities | $115,852 | $90,636 | $332,604 | $99,645 | $367,180 |
| Less: Medicare lab recoveries related to prior years' services | | | (19,000) | | (19,000) |
| Related income tax expense | | | 7,410 | | 7,410 |
| Operating cash flow, excluding Medicare lab recoveries | $115,852 | $90,636 | $321,014 | $99,645 | $355,590 |
| Less: Tax benefit from stock option exercises | (5,417) | (10,659) | (30,465) | (4,541) | (40,405) |
| | $110,435 | $79,977 | $290,549 | $95,104 | $315,185 |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA-continued
(unaudited)
(dollars in millions, except for per share and per treatment data)

4. Free cash flow, excluding Medicare lab recoveries related to prior years' services, and tax benefit from stock option exercises:
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.

| | Q3 2004 | Q2 2004 | YTD 2004 | Q3 2003 | Rolling 12-month period ended Q3 2004 |
|---|---|---|---|---|---|
| Cash provided by operating activities | $115,852 | $90,636 | $332,604 | $99,645 | $367,180 |
| Less: Expenditures for routine maintenance and information technology | (10,956) | (14,899) | (31,671) | (9,533) | (47,033) |
| Free cash flow | $104,896 | $75,737 | $300,933 | $90,112 | $320,147 |
| Medicare lab recoveries related to prior years' services | | | (19,000) | | (19,000) |
| Related income tax expense | | | 7,410 | | 7,410 |
| Free cash flow, excluding Medicare | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| lab recoveries | $104,896 | $75,737 | $289,343 | $90,112 | $308,557 |
| Less: Tax benefit from stock option exercises | (5,417) | (10,659) | (30,465) | (4,541) | (40,405) |
| | $99,479 | $65,078 | $258,878 | $85,571 | $ 268,152 |

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