

Total Renal Care Reports 2nd Quarter Results

PRNewswire
TORRANCE, Calif.

DaVita (Total Renal Care Holdings, Inc.), today announced results for the quarter ended June 30, 2000. Net earnings after tax were \$2.3 million, or \$0.03 per share, excluding previously announced after-tax charges totaling \$17.7 million. For continental U.S. operations, second quarter earnings before interest, taxes, depreciation and amortization (EBITDA), excluding these charges, were \$62.3 million. The charges and expenses relate to the divestiture of our non-continental operations, the settlement of a shareholder class action lawsuit and the write-off of a deferred tax asset associated with medical director stock options that have been cancelled. The consolidated net loss including the charges was \$15.4 million, or \$0.19 per share.

Quarterly financial highlights include:

- Continental U.S. dialysis revenue per treatment (excluding lab, pharmacy and other revenue) in the second quarter was \$249.23 as compared to \$247.01 in the first quarter, or a 1% increase.
- Continental U.S. DSO at quarter end was 80 days. This represents a three-day improvement from the first quarter. Excluding the suspended Florida laboratory Medicare receivables of \$38 million, DSO was 71 days or a four-day improvement during the quarter.
- Net cash provided by operations was \$49 million in the second quarter, after the payment of \$11 million for the shareholder litigation settlement. Routine capital asset purchases and growth capital expenditures were approximately \$8 million.
- Consolidated revenues for the three and six months ended June 30, 2000 were \$379 million and \$751 million, respectively. Revenues from the continental U.S. were \$344 million and \$684 million, respectively. Revenues from the non-continental operations were \$35 million and \$67 million, respectively.
- Total continental U.S. treatments for the second quarter were 1,335,873. Non-acquired treatment growth was 6.4%, which included same center treatment growth of 5.0%.
- Application of the proceeds of the sale of the Company's non-continental operations and outpatient pharmacy business reduced the Company's outstanding debt obligations by approximately \$128 million. Net debt (total debt less cash) was reduced by approximately \$174 million, or 13%, from \$1.29 billion to \$1.12 billion as of the end of the quarter.
- In July 2000, DaVita completed a restructuring of its revolving and term loan credit facilities. The Company is now in compliance with all credit facility covenants. Accordingly, the Company's credit facility debt and subordinated notes have been reclassified from current to long-term, except for the current portion. Interest rates related to these obligations have returned to the pre-default rates that are based on LIBOR plus an applicable margin.
- At June 30, 2000 we operated 489 outpatient centers in the continental U.S. serving over 40,000 patients. During the quarter, we opened 5 de novo dialysis facilities, added 4 managed units and closed 4 under-performing centers. Included in our continental patient and facility count are 4,500 patients in 55 centers under management. We also provide acute hemodialysis services to inpatients at 301 continental U.S. hospitals.

Specifics of the second quarter charges are as follows:

- \$4.4 million non-cash impairment and valuation adjustments primarily related to the divestiture of our non-continental operations,
- \$10.8 million cash charge related to the settlement of our shareholder class action lawsuit,
- \$4.7 million non-cash write-off of a cumulative foreign currency translation loss from our non-continental business, and
- \$2.7 million non-cash charge, included in tax expense, for the write-off of a deferred tax asset associated with medical director stock options that have been cancelled.

These previously disclosed charges total \$17.7 million on an after tax basis.

As a result of the restructuring of our revolving and term loan credit facilities in July 2000, our third quarter results will include the write-off of certain related financing costs. These write-offs will be reflected principally as an extraordinary loss of \$3.5 million, net of tax. Additionally, there will be \$1.2 million of pre-tax costs written-off which will be included in debt expense. Other previously disclosed potential future charges and expenses include potential charges related to the unwinding of poor performing contracts, partnerships or investments in dialysis related companies, and any potential losses related to unfavorable resolution of the ongoing payment suspension of Medicare claims for our Florida laboratory.

Kent Thiry, Chairman and CEO observed, "The DaVita team continues to demonstrate great resolve in our quest to meet the expectations of each of our constituencies. Our near-term prospects for sustaining our march to achieving operating excellence are good. However, we still advise caution with respect to long-term industry margins, in particular because, rate reductions in the higher pay segments would be difficult to offset."

This release contains forward-looking statements which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our financial performance and involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the uncertainties associated with governmental regulation, general economic and other market conditions, and the "risk factors" set forth in the Company's filings with the Securities and Exchange Commission, including but not limited to (1) the risks relating to the large amount and terms of the Company's outstanding debt, (2) possible changes in Medicare, Medicaid and private reimbursement rates, and (3) the high concentration of profits generated from private indemnity patients, which represent a small percentage of our total patients. The forward-looking statements should be considered in light of these risks and uncertainties.

DAVITA
(TOTAL RENAL CARE HOLDINGS, INC.)

CONSOLIDATED BALANCE SHEETS
(in thousands except per share data)

| | June 30, 2000 | December 31, 1999 |
|---|------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$190,672 | \$107,981 |
| Accounts receivable, less allowance of \$62,828, and \$67,315, respectively | 303,355 | 390,329 |
| Inventories | 19,865 | 32,916 |
| Other current assets | 21,700 | 32,082 |
| Income tax receivable | 25,856 | 45,645 |
| Deferred income taxes | 44,861 | 45,795 |
| Total current assets | 606,309 | 654,748 |
| Property and equipment, net | 248,033 | 285,449 |
| Intangible assets, net | 957,322 | 1,069,672 |
| Investments in third-party dialysis businesses | 35,814 | 35,552 |
| Deferred taxes | 5,407 | 6,553 |
| Other long-term assets | 2,264 | 4,744 |
| | \$1,855,149 | \$2,056,718 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|-----------|-----------|
| Accounts payable | \$72,888 | \$121,561 |
| Accrued compensation and benefits | 50,104 | 47,647 |
| Other liabilities | 81,420 | 77,141 |
| Current portion of long-term debt | 121,237 | 26,585 |
| Long-term debt potentially callable under covenant provisions | -- | 1,425,610 |
| Total current liabilities | 325,649 | 1,698,544 |
| Long-term debt, less \$0, and \$1,425,610 potentially callable classified as current | 1,188,134 | 5,696 |
| Other long-term liabilities | 3,921 | 3,497 |
| Minority interests | 17,395 | 22,577 |
| 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; 81,565,215 and 81,193,011 shares issued and outstanding) | 82 | 81 |
| Additional paid-in capital. | 426,428 | 426,025 |
| Notes receivable from shareholders. | (160) | (192) |

| | | |
|--------------------------------------|-------------|-------------|
| Accumulated other comprehensive loss | -- | (4,718) |
| Accumulated deficit | (106,300) | (94,792) |
| Total shareholders' equity | 320,050 | 326,404 |
| | \$1,855,149 | \$2,056,718 |

DAVITA
(TOTAL RENAL CARE HOLDINGS, INC.)

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|------------|---------------------------|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| Net operating revenues | \$378,908 | \$352,819 | \$751,021 | \$705,063 |
| Operating expenses | | | | |
| Dialysis and lab facilities. | 267,714 | 250,548 | 527,012 | 480,188 |
| General and administrative. | 31,619 | 29,559 | 63,540 | 53,167 |
| Depreciation and amortization. | 29,670 | 26,758 | 57,388 | 53,148 |
| Provision for uncollectible accounts. | 12,648 | 35,707 | 25,507 | 46,185 |
| Impairments and valuation adjustments | 4,414 | 16,600 | 4,414 | 16,600 |
| Total operating expenses | 346,065 | 359,172 | 677,861 | 649,288 |
| Operating income (loss) | 32,843 | (6,353) | 73,160 | 55,775 |
| Other income (loss) | (11,984) | 1,934 | (10,589) | 3,264 |
| Debt expense | 34,482 | 24,905 | 67,647 | 48,208 |
| Minority interests in income of consolidated subsidiaries | (1,023) | (2,521) | (2,021) | (4,839) |
| Income (loss) before income taxes. | (14,646) | (31,845) | (7,097) | 5,992 |
| Income tax expense (benefit) | 709 | (9,786) | 4,411 | 4,844 |
| Net income (loss) | \$(15,355) | \$(22,059) | \$(11,508) | \$ 1,148 |
| Earnings (loss) per share. | \$(0.19) | \$(0.27) | \$(0.14) | \$0.01 |
| Earnings (loss) per share-assuming dilution | \$(0.19) | \$(0.27) | \$(0.14) | \$0.01 |

SUPPLEMENTAL INFORMATION

DAVITA
(TOTAL RENAL CARE HOLDINGS, INC.)

CONTINENTAL U.S. OPERATING INCOME AND EARNINGS BEFORE
INTEREST, TAXES, DEPRECIATION AND AMORTIZATION

THREE MONTHS ENDED JUNE 30, 2000
(in thousands)

| | |
|---------------------------------------|-----------|
| Net operating revenues | \$344,331 |
| Operating expenses | |
| Dialysis and lab facilities | 240,385 |
| General and administrative | 29,815 |
| Depreciation and amortization | 25,700 |
| Provision for uncollectible accounts. | 11,825 |
| Impairments and valuation adjustments | 4,414 |
| Total operating expenses. | 312,139 |
| Operating income | \$32,192 |

| | |
|--|-----------|
| EBITDA pre-impairment | \$62,306 |
| Owned Centers | 434 |
| Treatments | 1,335,873 |
| Revenue per treatment (excludes lab, management fees and other revenue) | \$249.23 |

SOURCE: Total Renal Care Holdings, Inc.

Contact: LeAnne Zumwalt, Investor Relations of Total Renal Care, Inc.,
310-750-2072

Website: <http://www.totalrenal.com/>

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