DaVita inc. Reports 4th Quarter and Year End 2002 Results

DaVita Inc. , today announced results for the quarter and year ended December 31, 2002. EBITDA, excluding impairments, prior period Medicare laboratory receipts and accounts receivable recoveries, was $97 million for the quarter. Our fourth quarter EBITDA guidance was $95 million to $100 million. EBITDA for the twelve months ended December 31, 2002 was $392 million, again excluding cash recoveries and impairments.

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Net earnings for the three months ended December 31, 2002 were $59 million, or $0.81 per share. Net earnings for the quarter excluding impairments and lab and accounts receivable recoveries related to prior years' services, representing a total of $24 million of additional after-tax income, were $35 million or $0.50 per share.

Net earnings for the full year ended December 31, 2002 were $157 million, or $1.96 per share. Net earnings for the year before the extraordinary loss of $29 million for early extinguishment of debt, and excluding impairments and lab and accounts receivable recoveries related to prior years' services totaling $39 million of additional after-tax income, were $148 million or $1.85 per share.

Financial and operating highlights include:
-- For the 12 months ended December 31, 2002 operating cash flow was $303 million and free cash flow was $247 million. Operating cash flow for the quarter was $42 million and free cash flow was $25 million. The fourth quarter and full year cash flow numbers exclude lab and accounts receivable recoveries related to prior years' services.
-- Total treatments for the fourth quarter were 1,537,821. Non-acquired same center treatment growth was 2.9%.
-- Fourth quarter dialysis revenue per treatment (excluding lab, management fees and other revenue) was essentially flat from the third quarter at $291 and up 2.8% from the fourth quarter of 2001.
-- DSO for the fourth quarter remained steady at 70 days.
-- Fourth quarter prior-period recoveries included $42 million associated with Medicare lab claims.
-- As of December 31, 2002, we operated 515 outpatient centers serving approximately 45,000 patients. During the fourth quarter we acquired four centers and opened eight de novo centers. We also closed one center, that did not have enough private patients to cover the Medicare reimbursement deficit. Included in this patient and center count are approximately 3,400 patients in 30 centers under management.

Our 2003 EBITDA guidance remains at $380 million to $400 million.

DaVita will be holding a conference call to discuss its fourth quarter and year end 2002 results on February 14, 2003, at 1:30 Eastern Standard 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 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 September 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 mix and 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
(dollars in thousands, except per share data)

	December 31, 2002	2001
ASSETS		
Cash and cash equivalents	$96,475	$36,711
Accounts receivable, less allowance of $48,927 and $52,475	344,292	333,546
Inventories	34,929	34,901
Other current assets	28,667	9,364
Deferred income taxes	40,163	60,142
Total current assets	544,526	474,664
Property and equipment, net	298,475	252,778
Amortizable intangibles, net	63,159	73,108
Investments in third-party dialysis businesses	3,227	4,346
Other long-term assets	1,520	2,027
Goodwill	864,786	855,760
	$1,775,693	$1,662,683
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$77,890	$74,630
Other liabilities	101,389	111,164
Accrued compensation and benefits	95,435	88,826
Current portion of long-term debt	7,978	9,034
Income taxes payable	9,909	15,027
Total current liabilities	292,601	298,681
Long-term debt	1,311,252	811,190
Other long-term liabilities	9,417	5,012
Deferred income taxes	65,930	23,441
Minority interests	26,229	20,722
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; 88,874,896 and 85,409,037 shares issued)	89	85
Additional paid-in capital	519,369	467,904
Retained earnings	213,337	56,008
Treasury stock, at cost (28,216,177 and 888,700 shares)	(662,531)	(20,360)
Total shareholders' equity	70,264	503,637
	$1,775,693	$1,662,683

DAVITA INC.

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

	Three months ended December 31,		Years ended December 31,	
	2002	2001	2002	2001
Net operating revenues	$503,096	$429,657	$ 1,854,632	$1,650,753
Operating expenses:				
Dialysis centers and labs	317,061	290,881	1,217,685	1,100,652
General and administrative	39,328	33,814	154,453	129,194
Depreciation and amortization	16,895	26,156	64,665	105,209
Provision for uncollectible accounts	7,623	3,580	26,877	(2,294)
Impairments and valuation adjustments	2,010		(380)	
Total operating expenses	382,917	354,431	1,463,300	1,332,761

Operating income	120,179	75,226	391,332	317,992
Other income, net	818	320	5,790	4,644
Debt expense	19,458	15,680	71,636	72,438
Minority interests in income of consolidated subsidiaries	(2,128)	(2,408)	(9,299)	(9,260)
Income before income taxes and extraordinary items	99,411	57,458	316,187	240,938
Income tax expense	40,600	24,900	129,500	104,600
Income before extraordinary items	58,811	32,558	186,687	136,338
Extraordinary (loss) gain related to early extinguishments of debt, net of tax of $19,572 in 2002 and $(652) in 2001			(29,358)	977
Net income	$58,811	$32,558	$157,329	$137,315
Basic earnings per common share:				
Income before extraordinary items	$0.97	$0.38	$2.60	$1.63
Extraordinary (loss) gain, net of tax			(0.41)	0.01
Net income	$0.97	$0.38	$2.19	$1.64
Diluted earnings per common share:				
Income before extraordinary items	$0.81	$0.36	$2.28	$1.51
Extraordinary (loss) gain, net of tax			(0.32)	0.01
Net income	$0.81	$0.36	$1.96	$1.52

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA

	Q4 2002	Q3 2002	Q4 2001	YE 2002
Financial Results:				
Net earnings, excluding prior period Medicare lab revenue, extraordinary items, recoveries, valuation adjustments and goodwill amortization				
(in 000's) (A)	$34,600	$37,400	$35,700	$147,700
Basic EPS	$0.57	$0.58	$0.42	$2.06
EPS assuming dilution	$0.50	$0.51	$0.39	$1.85
EBITDA, excluding prior period Medicare lab revenue, recoveries and valuation adjustments				
Consolidated (in 000's)	$97,000	$99,800	$96,300	$391,600
Continental U.S. (in 000's).	$97,000	$99,800	$96,000	$391,500
Continental EBITDA margin	21.0%	22.0%	22.5%	21.9%
Business Metrics (Continental U.S.):				
Category #1 Volume				
Treatments	1,537,821	1,516,840	1,481,958	5,975,280
Number of treatment days	79.6	79	79.6	313
Treatments per day	19,319	19,201	18,618	19,090
Per day year over year increase	3.8%	4.6%	8.4%	5.0%
Same center growth (year over year)	2.9%	3.7%	4.6%	3.9%

Non-acquired growth (year over year)	2.9%	3.8%	4.6%	3.9%
Category #2 Revenue, excluding prior period Medicare lab revenue and recoveries				
Revenue (in 000's)	$462,000	$454,000	$426,000	$1,790,000
Dialysis revenue per treatment	$291.02	$290.92	$283.19	$290.73
Per treatment increase from previous quarter	0.0%	0.1%	1.1%	--
Per treatment increase from prior year	2.8%	3.8%	6.3%	4.4%
Category #3 Expenses				
A. Dialysis centers and lab operating expenses				
Percent of revenue	68.7%	67.9%	67.5%	67.7%
Per treatment	$206.17	$203.34	$194.03	$202.79
Per treatment increase (decrease) from previous quarter	1.4%	1.4%	1.5%	--
B. General & administrative expenses				
Percent of revenue	8.5%	8.2%	7.9%	8.6%
Per treatment	$25.57	$24.42	$22.82	$25.85
Per treatment increase (decrease) from previous quarter	4.7%	(13.6%)	4.9%	--
C. Bad debt expense as a percent of current-period revenue	1.8%	1.9%	2.0%	1.8%
D. Consolidated effective tax rate	40.8%	40.0%	43.3%	41.0%
Category #4, Cash Flow (Consolidated, including prior period recoveries, in 000's)				
Operating cash flow	$66,000	$134,000	$23,000	$342,000
Free cash flow (before share repurchase, acquisition and development spending)	$49,000	$124,000	$9,000	$286,000
Capital expenditures:				
Development	$19,600	$11,700	$7,400	$47,000
Routine maintenance/IT/ other	$16,700	$10,500	$14,500	$55,900
Acquisition expenditures, net	$6,500	$10,600	--	$18,500
Category #5 Accounts Receivable				
Net receivables (in 000's)	$344,000	$340,000	$325,000	$344,000
DSO	70	70	72	70
Category #6 Debt/Capital Structure (Consolidated)				
Total debt (in 000's)	$1,319,000	$1,322,000	$820,000	$1,319,000
Net debt, net of cash (in 000's)	$1,223,000	$1,207,000	$784,000	$1,223,000

LTM net leverage ratio	3.1x	3.2x	3.2x	3.1x
Shares repurchased (in 000's)	1,900	5,600	800	27,300
Average repurchase price	$23.80	$21.88	$23.43	$23.50
Category #7 Clinical				
Dialysis adequacy - % of patients with URR > 65	88%	88%	87%	
Dialysis adequacy - % of patients with Kt/V > 1.2	92%	91%	90%	
Anemia measure - % of patients with HCT > 33	83%	81%	79%	

(A) Effective January 1, 2002 goodwill is no longer amortized in accordance with new accounting standards. Fourth quarter 2001 net earnings and per-share amounts, including goodwill amortization but excluding extraordinary items and recoveries, were $30 million or $0.35 basic EPS and $0.33 diluted EPS.

DAVITA INC.

RECONCILIATIONS FOR NON-GAAP MEASURES

	Q4 2002	YE 2002
	(dollars in thousands)	
EBITDA, excluding impairments, prior period lab receipts and accounts receivable recoveries:		
Operating income	$120,179	$391,332
Depreciation and amortization	16,895	64,665
EBITDA	137,074	455,997
Other exclusions:		
Prior period lab receipts	(41,555)	(58,778)
Impairments and valuations adjustments	2,010	(380)
Accounts receivable recoveries	(510)	(5,192)
	(40,055)	(64,350)
	$97,019	$391,647
Net income, excluding impairments, prior period lab receipts and accounts receivable recoveries:		
Net income	$58,811	$157,329
Extraordinary loss - extinguishment of debt		
Other exclusions:		
Prior period lab receipts	(41,555)	(58,778)
Impairments and valuations adjustments	2,010	(380)
Accounts receivable recoveries	(510)	(5,192)
	(40,055)	(64,350)
Income tax expense	15,842	25,405
Other exclusions, net of tax	(24,213)	(38,945)
	$34,598	$147,742
Operating cash flow excluding lab and accounts receivable related to prior years' services and free cash flow:		
Cash provided by operating activities	$66,318	$341,995
Less other exclusions, net of tax	(24,213)	(38,945)
Operating cash flow excluding lab and accounts receivable related to prior years' services	42,105	303,050
Less expenditures for routine maintenance and information technology	(16,706)	(55,936)
Free cash flow	$25,399	$247,114

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