

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

PRNewswire-FirstCall  
TORRANCE, Calif.

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.

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

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](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 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        |
| <b>ASSETS</b>   |              |             |
| Cash and cash equivalents                                       | \$96,475     | \$36,711    |
| Accounts receivable, less allowance<br>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 |

|  |             |             |
|--|-------------|-------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |             |             |
| 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<br>shares authorized; none issued)                               |             |             |
| Common stock (\$0.001 par value, 195,000,000<br>shares authorized; 88,874,896 and<br>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<br>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 |           | Years ended  |             |
|-----------------------|--------------------|-----------|--------------|-------------|
|                       | December 31,       |           | 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<br>(year over year)  | 2.9% | 3.7% | 4.6% | 3.9% |
| Non-acquired growth<br>(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<br>per treatment                  | \$291.02 | \$290.92 | \$283.19 | \$290.73 |
| Per treatment<br>increase from<br>previous quarter | 0.0%     | 0.1%     | 1.1%     | --       |
| Per treatment<br>increase from<br>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<br>increase (decrease)<br>from previous<br>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<br>increase (decrease)<br>from previous<br>quarter | 4.7%    | (13.6%) | 4.9%    | --      |

C. Bad debt expense

|  |      |      |      |      |
|--|------|------|------|------|
| as a percent of<br>current-period<br>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<br>share repurchase,<br>acquisition and<br>development<br>spending) | \$49,000 | \$124,000 | \$9,000  | \$286,000 |
| Capital expenditures:  |          |           |          |           |
| Development  | \$19,600 | \$11,700  | \$7,400  | \$47,000  |
| Routine<br>maintenance/IT/<br>other  | \$16,700 | \$10,500  | \$14,500 | \$55,900  |
| Acquisition<br>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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