

DaVita Inc. Reports 1st Quarter 2004 Results

PRNewswire-FirstCall
EL SEGUNDO, Calif.

DaVita Inc. , today announced results for the quarter ended March 31, 2004. Net income for the three months ended March 31, 2004 was \$52.9 million or \$0.77 per share, compared with \$36.4 million or \$0.52 per share for the same period of 2003.

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

Financial and operating highlights include:

- Cash Flow: Operating cash flow for the quarter ended March 31, 2004 was \$115 million and free cash flow was \$109 million. For the rolling 12 months ended March 31, 2004 operating cash flow was \$328 million and free cash flow was \$287 million. These cash flow numbers exclude after-tax prior period Medicare lab recoveries of \$12 million.
- Operating Income: Operating income for the quarter was \$96.8 million.
- Volume: Total treatments for the first quarter were 1,657,055 or 21,381 treatments per day, an increase of 8.7% per day compared to the first quarter of last year. Non-acquired treatment growth was 4.1%.
- Center Activity: As of March 31, 2004, we operated or provided administrative services at 571 outpatient centers serving approximately 48,400 patients. During the first quarter we acquired 5 centers and opened 5 de novo centers. We also closed 2 centers and discontinued providing administrative services at 3 centers.

Outlook

We are increasing our 2004 operating income target to \$370 to \$390 million.

DaVita will be holding a conference call to discuss its first quarter 2004 results on May 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 press release includes non-GAAP financial measures, which we believe provide useful information to investors by excluding certain nonrecurring charges and prior period recoveries and by allowing consistency and comparability in our financial reporting to prior periods for which these non-GAAP measures were previously reported. These measures should be considered in addition to results prepared in accordance with GAAP, but are not a substitute for or superior to GAAP results. Included in this press release is a reconciliation of these non-GAAP measures to the most comparable GAAP financial measures.

This release also 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-K for the year ended December 31, 2003. The forward-looking statements should be considered in light of these risks and uncertainties. These risks 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, such as the ongoing review by the U.S. Attorney's Office and HHS Office of the Inspector General in Philadelphia.

The 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 March 31, 2004 2003 | | |
|---|-----------|-----------|
| Net operating revenues | \$535,431 | \$459,807 |
| Operating expenses and charges: | | |
| Patient care costs | 363,429 | 316,710 |
| General and administrative | 42,604 | 36,787 |
| Depreciation and amortization | 20,270 | 17,445 |
| Provision for uncollectible accounts | 9,577 | 8,237 |
| Minority interests and equity income, net | 2,718 | 1,294 |
| Total operating expenses and charges | 438,598 | 380,473 |
| Operating income | 96,833 | 79,334 |
| Debt expense | 11,636 | 19,456 |
| Other income | 1,443 | 785 |
| Income before income taxes | 86,640 | 60,663 |
| Income tax expense | 33,775 | 24,250 |
| Net income | \$52,865 | \$36,413 |

| | | |
|---|------------|------------|
| Earnings per share: | | |
| Basic | \$0.81 | \$0.60 |
| Diluted | \$0.77 | \$0.52 |
| Weighted average shares for earnings per share: | | |
| Basic | 65,399,651 | 60,905,056 |
| Diluted | 68,588,969 | 78,772,410 |

DAVITA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (dollars in thousands)

Three months ended
March 31,
2004 2003

| | | |
|---|----------|----------|
| Cash flows from operating activities: | | |
| Net income | \$52,865 | \$36,413 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 20,270 | 17,445 |
| (Gain) loss on divestitures | (628) | 119 |
| Deferred income taxes | (1,016) | 4,841 |
| Non-cash debt expense | 484 | 840 |
| Stock option expense and tax benefits | 14,389 | 1,378 |
| Equity investment income | (442) | (519) |
| Minority interests in income of consolidated subsidiaries | 3,160 | 1,813 |
| Distributions to minority interests | (2,082) | (2,465) |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: | | |
| Accounts receivable | (12,511) | (676) |
| Medicare lab recoveries | 19,000 | |
| Inventories | 6,818 | 9,543 |
| Other current assets | 697 | 4,721 |
| Other long-term assets | 1,592 | (2,457) |
| Accounts payable | 8,843 | (6,674) |
| Accrued compensation and benefits | 2,393 | (13,075) |
| Other current liabilities | 1,779 | 11,952 |
| Income taxes | 5,315 | 16,641 |
| Other long-term liabilities | 5,190 | 809 |
| Net cash provided by operating activities | 126,116 | 80,649 |

Cash flows from investing activities:

| | | |
|--|----------|----------|
| Additions of property and equipment, net | (24,681) | (21,708) |
| Acquisitions and divestitures, net | (17,088) | (718) |
| Investments in and advances to | | |
| affiliates, net | 2,191 | 1,931 |
| Intangible assets | (360) | (300) |
| Net cash used in investing activities | (39,938) | (20,795) |

Cash flows from financing activities:

| | | |
|--|-----------|-----------|
| Borrowings | 774,534 | 623,822 |
| Payments on long-term debt | (786,791) | (478,659) |
| Net proceeds from issuance of common stock | 17,578 | 3,502 |
| Net cash provided by financing activities | 5,321 | 148,665 |

| | | |
|--|-----------|-----------|
| Net increase in cash and cash equivalents | 91,499 | 208,519 |
| Cash and cash equivalents at beginning of period | 61,657 | 96,475 |
| Cash and cash equivalents at end of period | \$153,156 | \$304,994 |

DAVITA INC.

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

March 31, December 31,
2004 2003

ASSETS

| | | |
|---|-------------|-------------|
| Cash and cash equivalents | \$153,156 | \$61,657 |
| Accounts receivable, less allowance of \$54,391 and \$52,554 | 400,444 | 387,933 |
| Medicare lab recoveries | 19,000 | |
| Inventories | 26,187 | 32,853 |
| Other current assets | 43,178 | 43,875 |
| Deferred income taxes | 66,530 | 59,740 |
| Total current assets | 689,495 | 605,058 |
| Property and equipment, net | 349,868 | 342,447 |
| Amortizable intangibles, net | 50,570 | 49,971 |
| Investments in third-party dialysis businesses | 3,348 | 3,095 |
| Other long-term assets | 9,179 | 10,771 |
| Goodwill | 947,894 | 934,188 |
| | \$2,050,354 | \$1,945,530 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|-------------|-------------|
| Accounts payable | \$80,711 | \$71,868 |
| Other liabilities | 118,643 | 112,654 |
| Accrued compensation and benefits | 101,652 | 100,909 |
| Current portion of long-term debt | 50,025 | 50,557 |
| Income taxes payable | 30,506 | 26,832 |
| Total current liabilities | 381,537 | 362,820 |
| Long-term debt | 1,105,277 | 1,117,002 |
| Other long-term liabilities | 24,500 | 19,310 |
| Deferred income taxes | 112,014 | 106,240 |
| Minority interests | 36,200 | 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; 89,908,189 and 89,870,803 shares issued) | 90 | 90 |
| Additional paid-in capital | 538,877 | 539,575 |
| Retained earnings | 441,993 | 389,128 |
| Treasury stock, at cost (23,964,510 and 25,368,019 shares) | (586,641) | (620,998) |
| Accumulated comprehensive income valuations | (3,493) | (924) |
| Total shareholders' equity | 390,826 | 306,871 |
| | \$2,050,354 | \$1,945,530 |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA
(unaudited)

(dollars in millions, except for per share and per treatment data)

Q1 2004 Q4 2003 Q1 2003

Financial Results:

| | | | |
|---|--------|---------|--------|
| Net earnings excluding refinancing charges and Medicare lab recoveries for prior years' services | \$52.9 | \$53.9 | \$36.4 |
| Basic EPS | \$0.81 | \$0.84 | \$0.60 |
| EPS assuming dilution | \$0.77 | \$0.79* | \$0.52 |

Operating income, excluding

| | | | |
|-------------------------|--------|--------|--------|
| Medicare lab recoveries | \$96.8 | \$97.2 | \$79.3 |
| Operating income margin | 18.1% | 18.4% | 17.3% |

Other comprehensive income

| | | | |
|--|---------|---------|--|
| Unrealized loss on securities, net of tax of \$1,641 and \$590 | \$2,569 | \$(924) | |
|--|---------|---------|--|

Business Metrics:

Volume

| | | | |
|------------------------------------|-----------|-----------|-----------|
| Treatments | 1,657,055 | 1,666,225 | 1,503,031 |
| Number of treatment days | 77.5 | 79.5 | 76.4 |
| Treatments per day | 21,381 | 20,959 | 19,673 |
| Per day year over year increase | 8.7% | 8.5% | 4.8% |
| Non-acquired growth | 4.1% | 4.3% | 3.3% |

Revenue

| | | | |
|---|-------|--------|-------|
| Total revenue | \$535 | \$553 | \$460 |
| Less Medicare lab recoveries for prior years' services | | \$(24) | |
| Revenue excluding Medicare lab recoveries | \$535 | \$529 | \$460 |

| | | | |
|---|----------|----------|----------|
| Dialysis revenue per treatment | \$311.02 | \$306.36 | \$296.31 |
| Per treatment increase from previous quarter | 1.5% | 0.0% | 1.8% |
| Per treatment increase from prior year | 5.0% | 5.3% | 2.0% |

Expenses

A. Patient care costs

| | | | |
|---|----------|----------|----------|
| Percent of revenue | 67.9% | 68.0% | 68.9% |
| Per treatment | \$219.32 | \$216.04 | \$210.71 |
| Per treatment increase from previous quarter | 1.5% | 0.9% | 2.2% |

B. General & administrative
expenses

| | | | |
|---|---------|---------|---------|
| Percent of revenue | 8.0% | 7.6% | 8.0% |
| Per treatment | \$25.71 | \$24.21 | \$24.48 |
| Per treatment increase (decrease) from previous quarter | 6.2% | (1.5%) | (8.9%) |

| | | | |
|---|------|------|------|
| C. Bad debt expense as a percent of current-period revenue | 1.8% | 1.8% | 1.8% |
|---|------|------|------|

| | | | |
|---------------------------------------|-------|-------|-------|
| D. Consolidated effective tax rate | 39.0% | 37.5% | 40.0% |
|---------------------------------------|-------|-------|-------|

* The fourth quarter benefited from a year-to-date reduction in the annualized effective tax rate that added \$0.02 to fourth quarter earnings per share.

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA, CONTINUED
(unaudited)

(dollars in millions, except for per share and per treatment data)

Q1 2004 Q4 2003 Q1 2003

Cash Flow

| | | | |
|--------------------------------|---------|--------|--------|
| Operating cash flow, excluding | | | |
| Medicare lab recoveries | \$114.5 | \$34.6 | \$80.6 |
| Free cash flow, excluding | | | |
| Medicare lab recoveries | \$108.7 | \$19.2 | \$70.1 |
| Capital expenditures: | | | |
| Development | \$19.2 | \$22.7 | \$11.9 |
| Routine maintenance/IT/other | \$5.8 | \$15.4 | \$10.5 |
| Acquisition expenditures, net | \$17.1 | \$30.4 | \$0.7 |

| | | | |
|---------------------|-------|-------|-------|
| Accounts Receivable | | | |
| Net receivables | \$400 | \$388 | \$346 |
| DSO | 70 | 69 | 69 |

| | | | |
|----------------------------------|---------|---------|---------|
| Debt/Capital Structure | | | |
| Total debt | \$1,155 | \$1,168 | \$1,464 |
| Net debt, net of cash | \$1,002 | \$1,106 | \$1,159 |
| Leverage ratio - last quarter | | | |
| annualized (see Note 1) | 2.1x | 2.3x | 3.0x |
| Shares repurchased (in millions) | - | 0.7 | - |
| Average repurchase price | - | \$34.20 | - |

| | | | |
|---|-----|-----|-----|
| Clinical (quarterly averages) | | | |
| Dialysis adequacy - % of patients with Kt/V > 1.2 | 94% | 93% | 92% |
| Anemia measure - % of patients with HCT > 33 | 85% | 85% | 83% |

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

DAVITA INC.

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

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

| | Q1 2004 | Q4 2003 | Q1 2003 |
|---|----------|----------|----------|
| Net earnings | \$52,865 | \$62,798 | \$36,413 |
| Add back: Refinancing charges | | 9,261 | |
| Less: Medicare lab recoveries for prior years' services | (24,000) | | |
| Related income tax expense | | 5,837 | |
| | \$52,865 | \$53,896 | \$36,413 |

2. Operating income excluding Medicare lab recoveries, and excluding depreciation, amortization, and minority interests:

| | Q1 2004 | Q4 2003 | Q1 2003 |
|---|-----------|-----------|----------|
| Operating income | \$96,833 | \$121,190 | \$79,334 |
| Less: Medicare lab recoveries for prior years' services | (24,000) | | |
| | \$96,833 | \$97,190 | \$79,334 |
| Add back: Depreciation and amortization | 20,270 | 19,985 | 17,445 |
| Minority interests and equity income, net | 2,718 | 2,499 | 1,294 |
| | \$119,821 | \$119,674 | \$98,073 |

3. Operating cash flow, excluding Medicare lab recoveries collected in the period:

Rolling
12-Month
Period
ended Q1

| Q1 2004 | Q4 2003 | Q1 2003 | 2004 |
|---------|---------|---------|------|
|---------|---------|---------|------|

| | | | | |
|---------------------------------------|-----------|----------|----------|-----------|
| Cash provided by operating activities | \$126,116 | \$34,576 | \$80,649 | \$339,115 |
| Less: Medicare lab recoveries | | | | |

| | | | | |
|----------------------------|-----------|----------|----------|-----------|
| collected in the period | (19,000) | (19,000) | | |
| Related income tax expense | 7,410 | 7,410 | | |
| | \$114,526 | \$34,576 | \$80,649 | \$327,525 |

4. Free cash flow, excluding Medicare lab recoveries collected in the period:

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.

| | | | |
|----------|---------|---------|------|
| Rolling | | | |
| 12-Month | | | |
| Period | | | |
| ended Q1 | | | |
| Q1 2004 | Q4 2003 | Q1 2003 | 2004 |

| | | | | |
|---|-----------|----------|----------|-----------|
| Cash provided by operating activities | \$126,116 | \$34,576 | \$80,649 | \$339,115 |
| Less: Expenditures for routine maintenance and information technology | (5,816) | (15,362) | (10,490) | (40,193) |
| Medicare lab recoveries collected in the period | (19,000) | | (19,000) | |
| Related income tax expense | 7,410 | | 7,410 | |
| | \$108,710 | \$19,214 | \$70,159 | \$287,332 |

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