DaVita Inc. Reports 2nd Quarter 2002 Results

DaVita Inc. , today announced results for the quarter ended June 30, 2002. Continental U.S. EBITDA, excluding accounts receivable recoveries and valuation gains, was $92.7 million for the quarter.

Net earnings for the three and six months ended June 30, 2002 were $8 million and $44 million, or $0.13 and $0.54 per share, respectively. Net earnings, excluding the following three items: cash recoveries, valuation gains of $2.4 million and a $29 million after-tax extraordinary loss related to the early extinguishment of debt, were $35 million and $70 million, or $0.41 and $0.79 per share, respectively.

Financial and operating highlights include:

-- For the rolling 12 months ended June 30, 2002 operating cash flow was $248 million and free cash flow was $200 million; both exclude recoveries and settlements. Operating cash flow for the quarter was $61 million and free cash flow was $43 million.
-- Total continental U.S. treatments for the second quarter were 1,486,816. Both non-acquired and same center treatment growth were 4.5%.
-- Second quarter continental U.S. dialysis revenue per treatment (excluding lab, management fees and other revenue) was essentially flat from the first quarter at $291 and up 5.3% from the second quarter of 2001.
-- The continental EBITDA margin was 21.0%, a 130 basis point decline from the prior year quarter as a result of increased costs, primarily labor and general and administrative expenses.
-- Continental U.S. DSO remained at 73 days.
-- Cash recoveries associated with accounts receivable reserved in 1999 for the three and six months ended June 30, 2002, were $2 million and $4 million, respectively.
-- On April 26, 2002, we entered into a new senior credit facility. The proceeds were used to pay off all amounts outstanding under the existing credit facility, to complete a tender for the Company's outstanding $225 million 9 1/4% senior subordinated notes, to purchase 16.7 million shares of the Company's common stock, through a modified Dutch auction tender offer, at $24.00 per share, and to purchase shares of the Company's common stock in the open market following the completion of the tender.
-- At June 30, 2002 we operated 493 outpatient centers in the continental U.S. serving approximately 44,000 patients. During the second quarter we closed 1 under-performing center and opened 2 denovo centers. Included in this patient and center count are approximately 3,300 patients in 30 centers under management. Effective June 1, 2002, we completed the divestiture of our two remaining non-continental units.

DaVita will hold a conference call to discuss its second quarter 2002 results on August 1, 2002 at 1:30 p.m. Eastern. The dial-in number is 800-399-4406. A replay of the conference call will be available on DaVita's official web page, 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 March 31, 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 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
(unaudited)
(dollars in thousands, except per share data)

	June 30, 2002	December 31, 2001
ASSETS		
Cash and cash equivalents	$137,020	$36,711
Accounts receivable, less allowance of $54,765 and $52,475	347,064	333,546
Inventories	31,769	34,901
Other current assets	13,852	9,364
Deferred income taxes	61,607	60,142
Total current assets	591,312	474,664
Property and equipment, net	267,335	252,778
Amortizable intangibles, net	67,987	73,108
Investments in third-party dialysis businesses	3,449	4,346
Other long-term assets	1,876	2,027
Goodwill	852,691	855,760
	$1,784,650	$1,662,683
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$77,374	$74,630
Other liabilities	98,739	111,164
Accrued compensation and benefits	94,880	88,826
Current portion of long-term debt	8,299	9,034
Income taxes payable	11,036	15,027
Total current liabilities	290,328	298,681
Long-term debt	1,316,153	811,190
Other long-term liabilities	6,077	5,012
Deferred income taxes	37,045	23,441
Minority interests	21,613	20,722
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; 88,033,939 and 85,409,037 shares issued)	88	85
Additional paid-in capital	507,788	467,904
Retained earnings	100,356	56,008
Treasury stock, at cost (20,716,437 and 888,700 shares)	(494,798)	(20,360)
Total shareholders' equity	113,434	503,637
	$1,784,650	$1,662,683

DAVITA INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Net operating revenues	$442,677	$400,640	$870,342	$786,857
Operating expenses:				
Dialysis centers and labs	300,552	271,545	592,186	532,519
General and administrative	42,024	32,417	78,077	64,230
Depreciation and amortization	15,698	26,624	31,503	52,772
Provision for uncollectible accounts	5,882	(378)	11,137	(8,563)
Valuation adjustments	(2,390)		(2,390)	
Total operating expenses	361,766	330,208	710,513	640,958
Operating income	80,911	70,432	159,829	145,899

Other income, net	3,283	1,120	3,848	2,468
Debt expense	17,139	18,715	32,211	38,439
Minority interests in income of consolidated subsidiaries	(2,827)	(2,269)	(5,260)	(4,726)
Income before income taxes and extraordinary item	64,228	50,568	126,206	105,202
Income tax expense	26,500	22,000	52,500	45,700
Income before extraordinary item	37,728	28,568	73,706	59,502
Extraordinary (loss)/gain related to early extinguishment of debt, net of tax of $19,572 in 2002 and $652 in 2001	(29,358)	977	(29,358)	977
Net income	$8,370	$29,545	$44,348	$60,479
Basic earnings per common share:				
Income before extraordinary item	$0.47	$0.34	$0.91	$0.72
Extraordinary (loss)/ gain, net of tax	(0.37)	0.01	(0.36)	0.01
Net income	$0.10	$0.35	$0.55	$0.73
Diluted earnings per common share:				
Income before extraordinary item	$0.43	$0.32	$0.83	$0.67
Extraordinary (loss)/ gain, net of tax	(0.30)	0.01	(0.29)	0.01
Net income	$0.13	$0.33	$0.54	$0.68

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA

	Q2 2002	Q1 2002	Q2 2001	YTD 2002
Financial Results:				
Net Earnings, excluding extraordinary items, recoveries, valuation adjustments and goodwill amortization (in 000's) (A)	$35,100	$34,600	$29,500	$69,800
Basic EPS	$0.44	$0.42	$0.35	$0.86
EPS assuming dilution	$0.41	$0.39	$0.33	$0.79
EBITDA, excluding recoveries and valuation adjustments				
Consolidated (in 000's)	$92,300	$92,500	$88,100	$184,800
Continental U.S. (in 000's)	$92,700	$91,900	$88,500	$184,600
Continental EBITDA margin	21.0%	21.7%	22.3%	21.4%
Business Metrics (Continental U.S.):				
Category #1 Volume				
Treatments	1,486,816	1,433,803	1,409,320	2,920,618
Per day sequential increase	1.6%	0.8%	2.2%	--
Per day year over year increase	5.5%	6.2%	5.5%	5.8%
Same center growth	4.5%	4.2%	2.8%	4.4%
Non-acquired growth	4.5%	4.2%	2.8%	4.4%
Category #2 Revenue, excluding recoveries				
Revenue (in 000's)	$441,000	$424,000	$397,000	$864,000
Dialysis revenue per treatment	$290.52	$290.45	$275.87	$290.49
Per treatment increase from previous quarter	0%	2.6%	0.6%	--
Per treatment increase from prior year	5.3%	5.9%	--	5.6%
Category #3 Expenses				
A. Dialysis centers and lab operating expenses				
Percent of revenue	67.7%	68.0%	67.5%	67.8%
Per treatment	$200.46	$201.02	$190.04	$200.73

Per treatment increase (decrease) from previous quarter	(0.3%)	3.6%	1.0%	--
B. General & administrative				
Percent of revenue	9.5%	8.5%	8.2%	9.0%
Per treatment	$28.26	$25.14	$23.00	$26.73
Per treatment increase (decrease) from previous quarter	12.4%	10.2%	(1.2%)	--
C. Bad debt expense as a percent of revenue	1.8%	1.8%	2.0%	1.8%
D. Consolidated effective tax rate	41.2%	42.0%	43.5%	41.6%
Category #4 Cash Flow (Consolidated, in 000's)				
Operating cash flow	$61,000	$85,000	$77,000	$146,000
Free cash flow (before share repurchase, acquisition and development spending)	$43,000	$77,000	$68,000	$119,000
Capital expenditures:				
Development	$9,300	$8,200	$3,200	$17,500
Routine maintenance/IT/other	$18,400	$8,400	$8,700	$26,800
Acquisition expenditures, net	--	$1,400	$500	$1,400
Category #5 Accounts Receivable				
Net receivables (in 000's)	$347,000	$337,000	$291,000	$347,000
DSO	73	73	68	--
Category #6 Debt/Capital Structure (Consolidated)				
Total debt (in 000's)	$1,324,000	$800,000	$951,000	$1,324,000
Net debt, net of cash (in 000's)	$1,187,000	$769,000	$865,000	$1,187,000
LTM leverage ratio	3.2x	2.1x	2.6x	3.2x
Shares repurchased (in 000's)	16,900	2,900	--	19,800
Average repurchase price	$24.08	$23.02	--	$23.93
Category #7 Clinical				
Dialysis adequacy - % of patients with URR > 65	89%	88%	--	--
Dialysis adequacy - % of patients with Kt/V > 1.2	92%	92%	--	--
Anemia measure - % of patients with HCT > 33	80%	79%	--	--

(A) Effective January 1, 2002 goodwill is no longer amortized in accordance with new accounting standards. Second quarter 2001 net earnings and per-share amounts, including goodwill amortization but excluding extraordinary items and recoveries, were $23.2 million or $0.28 basic EPS and $0.26 diluted EPS.

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SOURCE: DaVita Inc.

CONTACT: LeAnne Zumwalt, Investor Relations of DaVita Inc.,
+1-310-750-2072

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