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Zacks Small-Cap Research

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Corecivic Inc (CXW-NYSE)

CXW: Recent Debt Issuance & Asset Sales Used For Deleveraging Measures

CXW's 1Q21 results reflect the impact of lower occupancy rates as a result of the COVID-19 pandemic and recent asset divestitures. In addition, several one-time items impacted 1Q21 results. CXW reported a loss per share of ($1.03) but adjusted EPS came in at $0.24 compared to $0.30. Pro forma adjusted 1Q21 FFO per share was $0.47 compared with $0.50.

OUTLOOK

Through recent asset sales of 42 non-core properties and a 2Q21 debt offering, CXW has repaid debt. Total debt declined to $1.72 billion at the end of 1Q21 from $$1.74 billion at year-end 2020. In 2Q21, CXW raised $450 million through a debt issuance and redeemed all of its $250 million notes scheduled to mature in 2022, $149 million of notes scheduled to mature in 2023 and $80 million on its revolving credit facility. CXW extended the weighted average debt maturity from 5.3 years to 6.0 years.

Current Price (05/12/21)	$7.72
Valuation	**$15.60**

SUMMARY DATA

52-Week High	**$14.44**
52-Week Low	**$5.76**
One-Year Return (%)	**-23.18**
Beta	**1.32**
Average Daily Volume (sh)	**2,596,954**
Shares Outstanding (mil)	**121**
Market Capitalization ($mil)	**$941**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**73**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**1.8**
Earnings Per Share (%)	**-2.2**
Dividend (%)	**N/A**
P/E using TTM EPS	**3.4**
P/E using 2021 Estimate	**N/A**
P/E using 2022 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Mid-Value**
Industry	**Reit-Eqty Trust**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	484 A	490 A	509 A	498 A	1,981 A
2020	491 A	473 A	468 A	473 A	1,905 A
2021	455 A	482 E	482 E	499 E	1,918 E

EPS or LPS

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	$0.64 A	$0.69 A	$0.70 A	$0.59 A	$2.62 A
2020	$0.54 A	$0.56 A	$0.52 A	-$0.22 A	$0.45 A
2021	-$1.03 A	$0.20 E	$0.21 E	$0.20 E	-$0.43 E

1Q21 adjusted EPS $0.24 Qs might not sum from rounding

Disclosures on page 9

KEY POINTS

- CoreCivic's 1Q21 results reflect the impact of lower occupancy rates as a result of the COVID-19 pandemic and recent asset divestitures. Revenue of $454.7 million was down 7.4% year-over-year, reflecting ongoing government measures to curb the spread of COVID-19 among prison and re-entry populations, as well as measure by ICE to contain the spread of COVID-19.

- Several one-time items impacted 1Q21 results, including a $51.7 million charge to settle shareholder litigation and a $113.5 million tax charge related to the company's transition from a REIT structure to a C-Corp.

- CXW reported a loss per share of ($1.03) but adjusted EPS came in at $0.24 compared to $0.30. Pro forma adjusted 1Q21 FFO per share was $0.47 compared with $0.50.

- CXW closed on the sale of 42 of its non-core government leased properties for net proceeds of $27.8 million and used a portion of the proceeds for debt repayment. Total debt declined to $1.72 billion from $$1.74 billion at year-end 2020.

- At the end of 1Q21, CXW had four non-core real estate assets held for sale with a net book value of $281 million. The company expects these asset sales to be completed in 2Q21 and anticipates generating net proceeds of about $120 million after repaying related non-recourse mortgage notes.

- In 2Q21, CXW raised $450 million through the issuance of senior notes that mature in 2026 and redeemed all of its $250 million notes that were scheduled to mature in 2022. CXW also repaid $149 million of $350 million notes scheduled to mature in 2023 and pared its revolving credit facility by $80 million, using the combination of net proceeds from the issuance and cash from the balance sheet. CXW extended the weighted average debt maturity from 5.3 years to 6.0 years.

- CXW issued its third annual ESG report on May 12, 2021. While the privately operated prison sector remains out of favor with many ESG investors, the company has implemented several measures that are aligned with ESG goals. For instance, CXW has increased the range and availability of educational and vocational training available to inmates who qualify.

1Q21 FINANCIAL REVIEW

COVID-19 Impact Persists

CoreCivic (NYSE: CXW) reported 1Q21 results last week, with revenue coming in at $454.7 million, down 7.4% year-over-year. This decline primarily reflected lower occupancy rates as a result of COVID-19 with Immigration and Customs Enforcement (ICE) and at prison facilities, as well as the recent divestiture of assets. In December of 2020, CXW sold 42 GSA leased assets in the property segment. CXW has been administering vaccine dosages and the number of inmates testing positive for the COVID-19 virus has declined.

The lower occupancy rates reflect ongoing government measures to curb the spread of COVID-19 among the prison populations. Simultaneously, ICE has sought to contain the spread of COVID-19 through tighter control over the southern U.S. border. In turn, this led to lower numbers of people housed under existing contracts with ICE. Court delays as a result of the pandemic have also contributed to lower prison occupancy. CXW's average compensated occupancy in 1Q21 was 69.9% compared to 79.0% in 1Q20. Revenue from recently signed contracts partially offset these factors. The impact of lower occupancy rates in 1Q21 was also partially offset by an 8.1% annual decline in G&A expenses.

One-time items that impacted 1Q21 results included a $51.7 million charge to settle shareholder litigation. This equated to an estimated $0.33 charge per share. Excluding this non-recurring item and an asset impairment, the operating margin would have been 12.8%, which is slightly higher than 1Q20's 12.0% margin. In addition, the company recognized a $113.5 million tax charge related to the company's transition from a REIT structure to a C-Corp.

CXW reported a loss per share of ($1.03) compared to $0.27 in 1Q20. However, after adjusting for non-recurring items, including the above-noted items and a non-cash asset impairment charge of $1.3 million, 1Q21 adjusted EPS came in at $0.24 compared to $0.30. Pro forma adjusted 1Q21 FFO per share was $0.47 compared with $0.50.

We expect the COVID-19 pandemic to continue to impact utilization levels of CXW's facilities in the near-term. However, as access to vaccines improves, we believe occupancy levels could improve over the year, implying potential upside to our 1.5% 2021 revenue growth forecast, depending on the timing of the vaccine dissemination, among other factors.

STRENGTHENING THE BALANCE SHEET

Recent asset sales raise funds for debt repayments

As noted, CXW closed on the sale of 42 of its non-core government leased properties for net proceeds of $27.8 million. The company has earmarked the proceeds primarily for debt repayment. Total debt declined to $1.72 billion from $$1.74 billion at year-end 2020, through the combination of cash flow generation and the above-noted asset sales. The total leverage ratio was 3.7x, down from 4.3x at the end of 1Q20. CXW targets a leverage ratio of 2.25x to 2.75x.

At the end of 1Q21, CXW had four non-core real estate assets held for sale with a net book value of $281 million. The company expects these asset sales to be completed in 2Q21 and anticipates generating net proceeds of about $120 million after repaying related non-recourse mortgage notes.

C-Corp Transition Facilitates Balance Sheet Goals

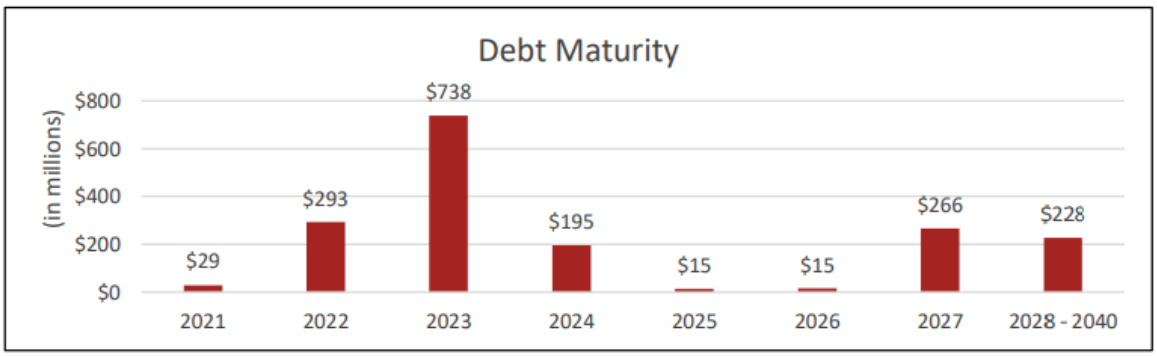
CXW had been structured as a REIT since 2013. Although the REIT structure provided certain tax benefits, it also meant that CXW was required to distribute at least 90% of its annual taxable income to shareholders every year. This mitigated the company's opportunity to build its cash position and to use cash for purposes other than dividend payments. On August 5, 1Q21, the company announced that its board of directors approved a plan to revoke its REIT election and become a taxable C Corporation, effective January 1, 2021.

Going forward, CXW expects to retain and build cash at a faster pace than it has over the past seven years as a REIT, despite the need to pay higher taxes. One key use of cash will be for debt repayments. CXW has generated cash flow from operations of more than $1.0 billion for the past three years. Another source of funds will be the sale of non-core real estate assets such as the divestitures noted above. The company is among the largest private owners of real estate that is leased to various U.S. government agencies, with some of these assets potentially non-core.

CXW had $168.1 million of cash at the end of 1Q21, plus an additional $16.4 million of restricted cash. The company also has added liquidity $587 million available under its revolver. The revolver matures in 2023. CXW expects to continue to repay debt. The company has about $250.0 million of debt that comes due by 3Q22. By building internally generated cash under the C-Corp. structure, CXW expects to pay down a substantial amount of its overall debt before maturity and to refinance the remainder.

Debt Issuance

Debt reduction is the first prioritized use of cash; debt refinancing to extend maturities is also a goal. In 2Q21, CXW accessed the capital markets to raise $450 million of senior notes that mature in 2026 and used the roughly $435.1 million net proceeds to redeem all of its $250 million notes that were scheduled to mature in 2022. CXW also repaid $149 million of $350 million notes scheduled to mature in 2023 and pared its revolving credit facility by $80 million, using the combination of net proceeds from the issuance and cash from the balance sheet. These measure enabled CXW to extend the weighted average debt maturity from 5.3 years to 6.0 years. This debt offering also enabled CXW to reduce its reliance on banks and other external source of cash and demonstrated ongoing investor interest in the company's securities.



Source: Company reports

While the debt maturity schedule shown above shows the schedule at the end of 1Q21, pro forma for the recent debt issuance and repayment of 2022 debt, we believe the picture is different, with no major maturities before 2023.

The company also expects to allocate a substantial portion of its free cash flow to returning capital to shareholders through share buybacks or dividends. Management believes the shares are oversold at this level. The company has a history of buying its shares depending on market conditions. For instance, in 2009-2011, prior to the original conversion to a REIT structure, CXW repurchased about $500 million of its shares.

POTENTIAL GROWTH DRIVERS

New Contracts Expected to Create Growth Opportunities

Alabama
Alabama recently awarded CXW contracts for the development of two new correctional facilities that will contain a combined 7,000 beds. While financial terms have not been disclosed yet, the company has noted that they represent two of the largest development projects the company has ever won. The total project cost is estimated at over $900 million. CXW expects to fund abuot10% of this using existing resources.

In addition to the recent Alabama contracts, CXW also plans to respond to a request for interest from Hawaii regarding the planned development of a new correctional facility in Oahu, which is contemplated to be the state's largest prison. Moreover, in 1Q21, the company won a new BOP contract for residential reentry and home confinement services at its 289-bed residential center in Tulsa, Oklahoma and 494-bed facility in Oklahoma City, Oklahoma. Thus, within the past few quarters, Oklahoma, Hawaii, Kansas and Alabama have each extended requests of interest of new contracts to private prison operators, which the company believes underscores the ongoing need for private facilities. The company believes that it has strong growth opportunities going forward as these states and others seek to increase and upgrade obsolete and often dangerously inadequate prison capacity. We highlight a few below.

Kentucky CXW entered into a 10-year lease with the Kentucky Department of Corrections in December 2019 for a 656-bed facility that previously had been idled since 2012. The lease commenced July 1, 1Q21.

Mississippi In January 1Q21, CXW entered into an emergency contract with the state of Mississippi to care for up to 375 of Mississippi's inmates to be placed at the company's Tallahatchie, Mississippi facility for 90-days. The contract was expanded up to 1,000 beds and extended through October 4, 1Q21.

Idaho In August 1Q21, CXW entered into a new contract with the state of Idaho to care for up to 1,200 adult male offenders at the company's Saguaro facility in Arizona. Subject to availability, the company may also care for offenders at its Central Arizona Correctional Complex under terms of the contract, which commenced August 18, 1Q21, and has an initial term of five years, with unlimited extension options thereafter upon mutual agreement.

USMS In September 1Q21, CXW entered into a new three-year contract under an Intergovernmental Services Agreement between the city of Cushing, Oklahoma and the USMS to utilize the company's 1,692-bed Cimarron Correctional Facility The contract commenced on September 15, 1Q21, and includes unlimited 24-month extension options.

ESG INITIATIVES

Including Sustainability Measures

CXW issued its third annual ESG report on May 12, 2021. While the privately operated prison sector remains out of favor with many ESG investors, the company has implemented several measures that are aligned with ESG goals. For instance, CXW has increased the range and availability of educational and vocational training available to inmates who qualify.

In its community services division, CXW has deployed what the company calls a *resident tablet program* to provide access to new programming and communication capabilities, including exercise programming. The company has also implemented green initiatives with the goal of reducing the carbon footprint of its facilities and overall operations.

VALUATION

We think the current share price does not reflect the fundamental value of the company's real estate holdings and opportunities for new contracts to augment revenue. Pressure on CXW shares reflects concerns about government reform measures potentially overhanging sector prospects and negative publicity around ESG issues, among other factors. We note, however, that over the past 10+ years, contract renewals have averaged over 90% per annum regardless of the administration in office and we anticipate that will continue in the foreseeable future for the very reason that government entities need to house the prison population and also face budgetary issues that likely constrain construction of new facilities in the near-term.

Moreover, over the past several years, Core Civic has diversified into adjacent areas, growing its residential reentry centers, for example. The transition to the C-Corp. structure could open the door to CXW entering additional adjacent verticals. We are optimistic about CXW's opportunity to continue generating stable cash flow.

Historically, CXW shares have been valued on a price to forward FFO basis, commanding an average multiple of about 13-14x this metric. However, given the concerns outlined above, the multiple has contracted significantly. We would anticipate multiple expansion as CXW continues to generate stable cash flow. We also believe the company's ESG initiatives will contribute positively to anticipate multiple expansions.

We see upside to CXW share price from two sources in the near-term: 1) as the company continues its deleveraging measures, we expect the equity component of enterprise value will rise and 2) we anticipate multiple expansions that narrows – if not eliminates – the gap between the current multiple and historical averages as investors become more comfortable with the company's outlook.

Even if the shares attained only a 6x multiple of forward FFO in the near-term, which implies a significant discount from recent averages, that equates to a share price of $15.60, and considerable upside from current levels. We believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

RISKS

We believe risks to CXW achieving continued stable cash flow, and to our valuation, include the following.

- Lower occupancy levels as a result of COVID-19 could last longer than expected.
- Justice system reforms might result in lower aggregate prison populations. However, CXW's efforts at diversification in recent years have led to community operating unit and reentry houses.
- Negative publicity and/or increased activism regarding the private prison operators could further pressure the share price.
- The company could be subject to litigation risk.
- Competitive risk, as the company responds to requests for proposals or interest.

RECENT NEWS

- CXW issued its ESG report on May 12, 2021.
- CXW reported 1Q21 results on May 5, 2021.
- CXW reported 4Q20 results on February 10, 2021.
- On January 19, 2021, CoreCivic established a new reentry-focused leadership role
- On January 15, 2021, the company provided tax allocations of 1Q21 dividend distributions
- CXW announced the sale of 42 non-core government leased properties for $106.5 million on December 23, 1Q21.
- CXW announced its support for the restoration of Pell Grants and voting rights to people who had been incarcerated and the reform of licensure policies on October 21, 1Q21.
- On September 15, 1Q21, the company announced that it had entered into new management contract with the United States Marshals Service.
- CoreCivic entered into a new management contract with Idaho on August 17, 1Q21.

FINANCIAL MODEL

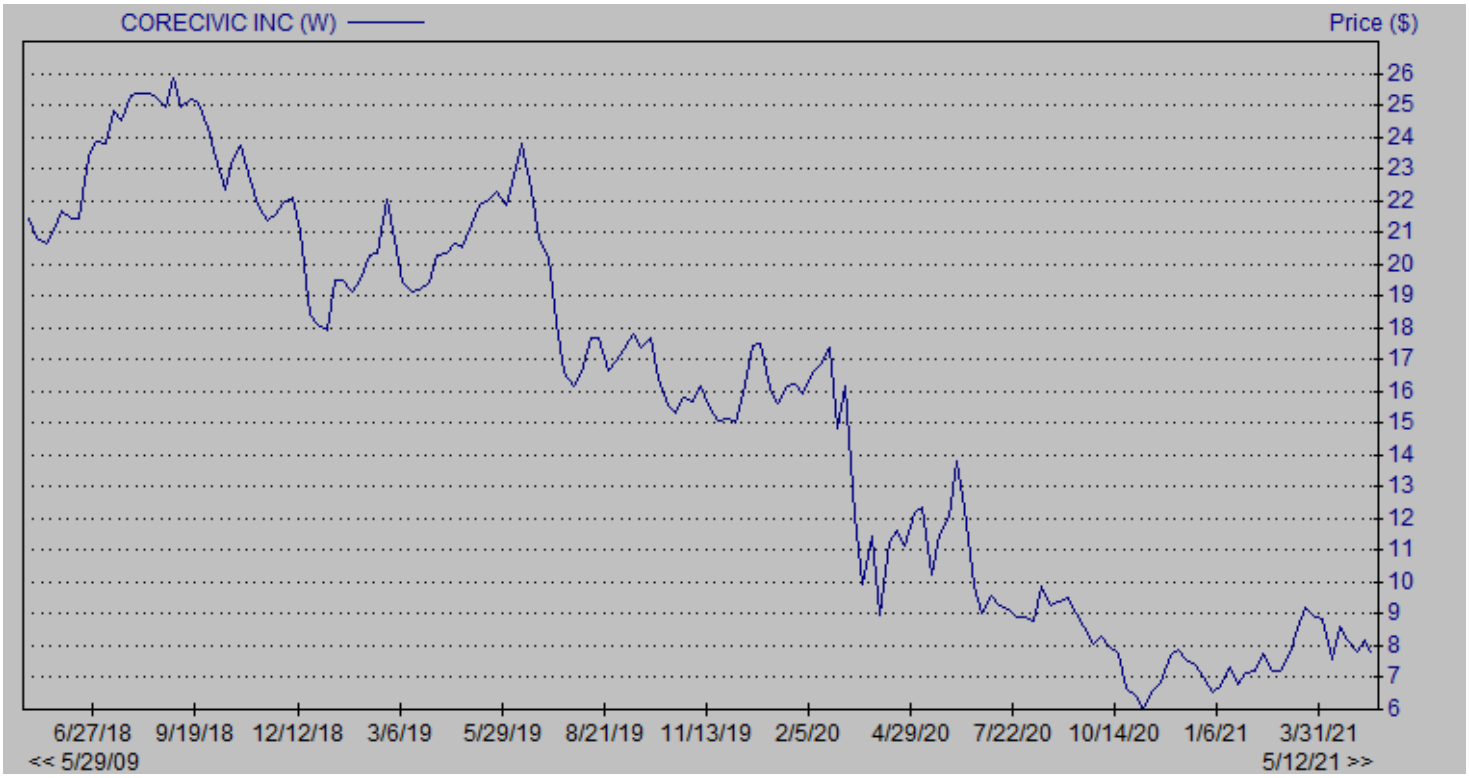
Core Civic

Core Civic Income Statement & Projections ($000s)

	2019	1Q20	2Q20	3Q20	4Q20	2020A	1Q21A	2Q21	3Q21	4Q21	2021E
Revenue	$1,980,689	$491,101	$472,641	$468,266	$473,477	$1,905,485	$454,718	$482,094	$482,314	$499,185	$1,918,311
Y/Y % change	*7.9%*	*1.5%*	*-3.6%*	*-7.9%*	*-4.9%*	*-3.8%*	*-7.4%*	*2.0%*	*3.0%*	*5.4%*	*0.7%*
Operating expense	1,422,769	362,315	352,927	347,927	343,207	1,406,376	332,884	356,749	361,735	363,658	1,415,027
General and administrative	127,078	31,279	30,145	35,883	27,031	124,338	29,530	30,372	31,350	32,640	123,892
Depreciation and amortization	144,572	37,952	38,619	37,865	36,425	150,861	32,712	37,121	37,138	43,392	150,364
Shareholder litigation expense / other	-	-	-	620	-	620	51,745	-	-	-	51,745
Impairments / other	4,706	536	11,717	805	47,570	60,628	1,308	-	-	-	1,308
Total operating expense	1,699,125	432,082	433,408	423,100	454,233	1,742,823	448,179	424,243	430,224	439,690	1,742,336
Operating income	281,564	59,019	39,233	45,166	19,244	162,662	6,539	57,851	52,090	59,495	175,975
Operating margin	14.2%	12.0%	8.3%	9.6%	4.1%	8.5%	1.4%	12.0%	10.8%	11.9%	9.2%
Interest expense, net	84,401	22,538	20,996	20,193	19,572	83,299	18,428	19,552	19,533	19,644	77,157
Other (income) expense	438	(533)	(2,987)	(2,113)	25,272	19,639	148	5,499	(2,100)	5,766	9,313
	84,839	22,005	18,009	18,080	44,844	102,938	18,576	25,051	17,433	25,410	86,470
Pretax income	196,725	37,014	21,224	27,086	(25,600)	59,724	(12,037)	32,800	34,657	34,084	89,504
Taxes	(7,839)	(3,776)	962	(369)	(1,203)	(4,386)	(113,531)	(9,020)	(9,531)	(9,175)	(141,257)
Minority interest		(1,181)	-	-	-	(1,181)					
Net income	188,886	32,057	22,186	26,717	(26,803)	54,157	(125,568)	23,780	25,126	24,909	(51,753)
Per share data											
EPS	$1.59	$0.27	$0.18	$0.22	($0.22)	$0.45	($1.03)	$0.20	$0.21	$0.20	($0.43)
Dividends	$1.76					$0.88					
Average shares outstanding	119,164	120,725	120,974	120,980	121,034	120,928	121,366	121,234	121,334	121,611	121,328

Source: Company reports, Zacks estimates

HISTORICAL STOCK PRICE



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