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Zacks Small-Cap Research

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CoreCivic, Inc. (CXW-NYSE)

CXW: Company Completes Asset Sales; Deleveraging Measures Continue

CXW announced yesterday that it has completed the divestiture of non-core assets that it discussed earlier in the quarter. CXW purchased the properties in 2018 for a total of $293.6 million and generated an aggregate $326.0 million from the sales. The asset sales are consistent with CXW's core objective of raising funds to reduce debt and create shareholder value. Moreover, CXW has exceeded the up to $150.0M that it originally expected to raise from selling non-core assets.

Current Price (06/29/21)	$10.69
Valuation	**$15.60**

OUTLOOK

We also think the recent closure of two ICE detention centers along the border imply potential opportunities for CoreCivic, as the agency seeks alternative capacity. The company's 2020-21 results have been negatively impacted as ICE and government agencies have sought to contain the spread of COVID-19, which led to lower numbers of people housed in CXW facilities. We believe increasing numbers of vaccinations administered and ICE's need to seek other capacity could boost the company's occupancy rates and operating metrics.

SUMMARY DATA

52-Week High	**$12.35**
52-Week Low	**$5.76**
One-Year Return (%)	**18.94**
Beta	**1.32**
Average Daily Volume (sh)	**2,331,762**
Shares Outstanding (mil)	**121**
Market Capitalization ($mil)	**$1,293**
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 (%)	**1.9**
Earnings Per Share (%)	**-1.7**
Dividend (%)	**-3.6**
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	467 E	474 E	486 E	1,882 E

Per Share Earnings / Loss

	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	$0.15 E	$0.17 E	$0.17 E	-$0.54 E

4Q20 includes ~$0.35 noncash chg Qs might not sum from rounding

Disclosures on page 9

KEY POINTS

- CXW announced yesterday that it has completed the divestiture of non-core assets that it discussed earlier in the quarter. CXW purchased the properties in 2018 for a total of $293.6 million and generated an aggregate $326.0 million from the sales. The asset sales are consistent with CXW's core objective of reducing debt.

- Separately, we also believe the recent closure of two ICE detention centers along the border imply opportunities for CXW, as ICE seeks alternative capacity. While the Biden administration remains committed to reducing the numbers of people entering the country illegally at the southern border, it still faces the problem of housing the immigrants who have arrived.

- In addition, some state or government agencies that formerly provided capacity to ICE are now reluctant to do so, which also implies that ICE will have to seek other options, we believe, at least in the short-term. For example, earlier this year, New Jersey introduced Bill No. 3361 and Illinois passed SB 667.

- Separately, the company recently announced a new contract with Mahoning County, Ohio to utilize up to 990 beds at the Company's 2,016-bed Northeast Ohio Correctional Center. Mahoning County is responsible for county inmates and federal detainees.

ASSET DIVESTITURES COMPLETED

Advances Balance Sheet Objectives

CoreCivic (NYSE: CXW) announced yesterday that it has completed the divestiture of non-core assets that it had discussed earlier in the quarter. Of these assets, CXW sold the membership interests of SSA Baltimore Holdings, LLC, which owns a roughly 541,000 square-foot Social Security Administration (SSA) office building in Baltimore, Maryland. The company also completed the sale of two additional properties earlier in 2Q21, including Capital Commerce Center and a roughly 217,000 square-foot warehouse. In total, the asset sales generated an aggregate sales price of $326.0 million. CXW purchased the properties in 2018 for a total of $293.6 million.

The company intends to use a portion of the proceeds to reduce debt, a core company goal, as it did earlier with the 4Q20 divestiture of non-core assets. In August 2020, CXW indicated that it expected to generate up to $150.0 million from selling non-core assets and has exceeded that metric. CXW used $194.4 million of the proceeds to fully repay two non-recourse mortgage notes associated with SSA-Baltimore and Capital Commerce Center assets, including prepayment premiums of $32.5 million.

We have revised our estimates, which do not include expected one-time gains associated with the sales and fees associated with balance sheet measures. We estimate these non-recurring items resulted in a net gain of roughly $4 million to $5 million in 2Q21.

ICE – NEED TO REPLACE CAPACITY

Pending closures & changes in ICE detention capacity imply opportunities for CXW

Separately, we also believe the recent closure of two ICE detention centers along the border imply opportunities for CXW, as the agency seeks alternative capacity. CoreCivic's 2020-21 results have been negatively impacted as 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. As the COVID-19 vaccine is administered and occupancy rates can return to pre-pandemic levels, the company's metrics are expected to improve. Moreover, while the Biden administration remains committed to reducing the numbers of people entering the country illegally at the southern border but still faces the problem of housing the immigrants who have arrived.

In addition, some state or government agencies that formerly provided capacity to ICE are now reluctant to do so, which also implies that ICE will have to seek other options, at least in the short-term. For example, earlier this year, New Jersey introduced Bill No. 3361, which seeks to prohibit "the State, local government agencies, and private detention facilities operating in this State from entering into, renewing, or extending immigration detention agreements."

Earlier this month, the Illinois General Assembly passed SB 667, generally referred to as the Illinois Way Forward Act, which calls for local officials to end existing contracts to detain those in immigration custody by January 1, 2022, and also prohibits new ICE contracts going forward.

We note that CXW has minimal exposure in these states. It operates a small 200-bed facility in New Jersey under a contract that expires in 3Q21 and does not operate in Illinois. Moreover, while the Biden administration remains committed to reducing the numbers of people entering the country illegally at the southern border and state governments propose measures to end ICE contracts, the administration nevertheless still faces the problem of housing people who have arrived. We believe this could, in turn, create an opportunity for CXW.

NEW CONTRACT IN OHIO

CXW recently announced a new contract with Mahoning County, Ohio to utilize up to 990 beds at the company's 2,016-bed Northeast Ohio Correctional Center. Mahoning County is responsible for county inmates and federal detainees. Mahoning County expects to use the Northeast Ohio facility to address its population needs, while other beds in the CXW facility will continue to be used by the state of Ohio.

Specifically, in addition to providing much needed capacity for Mahoning County, the Northeast Ohio Correctional Center also houses about 800 inmates under a management contract with the state of Ohio. CXW will continue to operate the correctional facility under both contracts.

STRENGTHENING THE BALANCE SHEET

Recent asset sales raise funds for debt repayments

The above-noted asset sales are consistent with the company's goal of reducing debt and leverage ratios. Debt reduction remains the first prioritized use of cash; debt refinancing to extend maturities is also a goal. Towards these goals, CXW accessed the capital markets in 2Q21, issuing $450 million of senior notes that mature in 2026. The company 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.

Total debt declined to $1.72 billion at the end of 1Q21 from $$1.74 billion at year-end 2020, through the combination of cash flow generation and 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.

The company's new C-Corp structure facilitates CXW's balance sheet goals. In 2020, the company announced that its board of directors approved a plan to revoke its REIT structure and become a taxable C Corporation. 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.

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. A key use of cash will be for debt repayments, as noted. 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 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

Ohio
Mahoning County, Ohio recently awarded CXW a contract to utilize up to 990 beds at CXW's 2,016-bed Northeast Ohio Correctional facility, as noted. The contract started on May 31, 2021. The company operates this facility under two separate contracts – the above-noted one with Mahoning County and another with the state of Ohio for about 800 inmates. This also means that CXW will essentially service the same level of inmates as it did prior to the recent presidential executive order.

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, 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, 2020, 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 announced the divestiture of non-core assets on June 29, 2021.
- CXW issued its ESG report on May 12, 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.
- On November 4, 1Q21, CoreCivic reported 3Q 1Q21 operating and financial results.
- 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

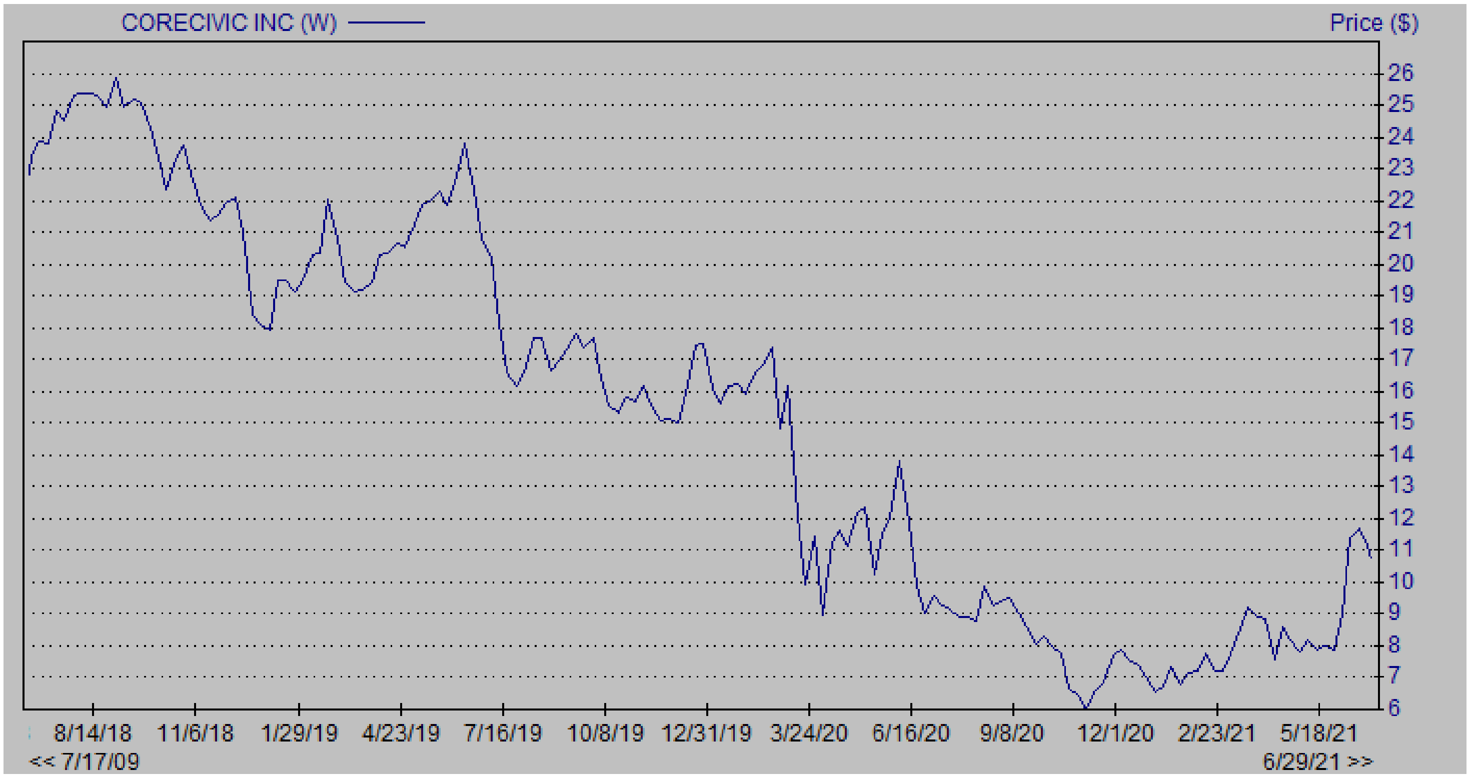
Core Civic

Core Civic Income Statement & Projections ($000s except per share data)

	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	$467,360	$474,064	$485,916	$1,882,057
Y/Y % change	*7.9%*	*1.5%*	*-3.6%*	*-7.9%*	*-4.9%*	*-3.8%*	*-7.4%*	*-1.1%*	*1.2%*	*2.6%*	*-1.2%*
Operating expense	1,422,769	362,315	352,927	347,927	343,207	1,406,376	332,884	350,520	355,548	364,437	1,403,388
General and administrative	127,078	31,279	30,145	35,883	27,031	124,338	29,530	30,378	30,814	32,640	123,362
Depreciation and amortization	144,572	37,952	38,619	37,865	36,425	150,861	32,712	32,876	33,040	33,205	131,833
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	413,774	419,402	430,282	1,711,636
Operating income	281,564	59,019	39,233	45,166	19,244	162,662	6,539	53,586	54,662	55,634	170,421
Operating margin	14.2%	12.0%	8.3%	9.6%	4.1%	8.5%	1.4%	11.5%	11.5%	11.4%	9.1%
Interest expense, net	84,401	22,538	20,996	20,193	19,572	83,299	18,428	23,472	22,167	22,145	86,212
Other (income) expense	438	(533)	(2,987)	(2,113)	25,272	19,639	148	5,499	3,299	3,167	12,114
	84,839	22,005	18,009	18,080	44,844	102,938	18,576	28,971	25,467	25,313	98,326
Pretax income	196,725	37,014	21,224	27,086	(25,600)	59,724	(12,037)	24,615	29,195	30,321	72,095
Taxes	(7,839)	(3,776)	962	(369)	(1,203)	(4,386)	(113,531)	(6,769)	(8,029)	(9,175)	(137,504)
Minority interest		(1,181)	-	-	-	(1,181)					
Net income	188,886	32,057	22,186	26,717	(26,803)	54,157	(125,568)	17,846	21,166	21,146	(65,409)
Per share data											
EPS	$1.59	$0.27	$0.18	$0.22	($0.22)	$0.45	($1.03)	$0.15	$0.17	$0.17	($0.54)
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
Funds From Operation (FFO)											
Net income	$188,886	$33,238	$22,186	$26,717	($26,803)	$55,338	($125,568)	$17,846	$21,166	$21,146	($65,409)
+ D&A of real estate assets	107,402	28,106	28,244	28,249	27,447	112,046	23,759	23,735	23,712	23,688	94,894
+ Impairment of real estate assets	4,428	405	9,750	-	4,225	14,380	1,308	-	-	-	1,308
- Gain on sale of real estate assets	(287)	-	(2,818)	(1,570)	17,943	13,555					-
+ - Other	-	-	-	-	-	-	(350)	-	-	-	(350)
FFO	300,429	61,749	57,362	53,396	22,812	195,319	(100,851)	41,581	44,878	44,834	30,442
FFO/share	$2.52	$0.51	$0.47	$0.44	$0.19	$1.62	($0.83)	$0.34	$0.37	$0.37	$0.25
+ M&A expenses	1132	338		620							
+ COVID related expenses			8,165	2,820	2,792	13,777	1,598	1,582	1,550	1,473	6,203
+ - Other special items	10,360	3,216	2,314	5,503	50,681	61,714	152,284	-	-	-	152,284
Normalized FFO	311,921	65,303	67,841	62,339	76,285	271,768	53,031	43,163	46,428	46,307	188,929
Normalized FFO/share	$2.62	$0.54	$0.56	$0.52	$0.63	$2.25	$0.44	$0.36	$0.38	$0.38	$1.56

Source: Company reports, Zacks estimates

HISTORICAL STOCK PRICE



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