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Zacks Small-Cap Research

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CoreCivic, Inc. (CXW-NYSE)

CXW: 3Q21 Operating Results Improve as Occupancies Rise; Balance Sheet Measures Continue

CXW's 3Q21 revenue of $471M was up about 1% y/y, despite the impact of the pandemic and recent sales of non-core assets. Higher overall occupancy rates in CXW facilities contributed to the revenue improvement. 3Q21 adjusted EBITDA of $100.9M advanced 7% y/y. CXW reported EPS of $0.25 compared to $0.22 in 3Q20. Adjusted EPS came in at $0.28, equal to $0.28 in 3Q20. Pro forma adjusted 3Q21 FFO per share was $0.48 compared with $0.52.

Current Price (11/11/21)	$10.87
Valuation	**$15.60**

OUTLOOK

CXW continues initiatives to strengthen the balance sheet. CXW's TTM leverage ratio was 2.7x at the end of 3Q21, down from 4.0x at the end of 3Q20, and within the target range of 2.25x to 2.75x. CXW expects to begin deploying capital in the near-term in additional ways to return value to shareholders, including share buybacks and / or dividends. The company has a history of buying its shares depending on market conditions. Separately, the company continues to engage in discussions with the USMS and other government entities to secure solutions for upcoming expiring contracts. Earlier this year, the company secured occupancy with multiple government agencies at the Northeast Ohio Correctional Center and also improved its economic terms. In our view, this dual or multiple service model could serve as a template for other facilities.

SUMMARY DATA

52-Week High	**$12.35**
52-Week Low	**$5.92**
One-Year Return (%)	**64.70**
Beta	**1.27**
Average Daily Volume (sh)	**682,624**
Shares Outstanding (mil)	**120**
Market Capitalization ($mil)	**$1,307**
Short Interest Ratio (days)	**8.8**
Institutional Ownership (%)	**84**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**1.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2021 Estimate	**N/A**
P/E using 2022 Estimate	**13.3**
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	465 A	471 A	482 E	1,873 E
2022					1,940 E

EPS / Loss per share

	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	$0.13 A	$0.25 A	$0.24 E	-$0.41 E
2022					$0.82 E

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

Disclosures on page 10

KEY POINTS

Results improve as occupancies climb
Continued balance sheet improvements
Negotiations with new and existing customers to secure occupancy as contracts come up for renewal

- **Revenue up y/y…** CXW's 3Q21 revenue came in at $471.2 million, up about 1% year-over-year, despite the ongoing impact of the pandemic and CXW's sale of 47 non-core real estate assets over the past several months. The company's vaccination measures contributed to improvements in overall occupancy rates within its facilities.

- **…As occupancies improve** The Safety segment recorded a 110-basis point year-over-year improvement in occupancy to 73.2% and the Community segment recorded a 180-basis point improvement to 56.4%, contributing to the above-noted revenue improvement. CXW expects occupancies to continue an upward trend, as courts resume operations and COVID-19 restrictions are eased. However, given that active COVID-19 cases could continue to fluctuate in certain markets, in our view, occupancy rates might also fluctuate over the next several quarters.

- Total operating expenses were 3% lower compared to 3Q20, in part, reflecting the challenges that many companies currently face regarding filling staffing positions. CXW reported EPS of $0.25 compared to $0.22 in 3Q20. Adjusted EPS came in at $0.28, equal to $0.28 in 3Q20. Pro forma adjusted 3Q21 FFO per share was $0.48 compared with $0.52.

- **Balance sheet improvements…** The company has accessed the capital markets to refinance debt and extend maturities. CXW raised $450 million of senior notes that mature in 2026 earlier this year and added a tack-on offering of $225.0 million. The additional notes have an effective yield to maturity of 7.65%. In 3Q21, CXW paid down $187.5 million of debt. Through the end of 3Q21, the company had reduced its total net debt by $500+ million year-to-date. Subsequently, after the quarter, CXW repaid $90.0 million of the outstanding balance on its term loan B using cash on hand.

- CXW had $455.5 million of cash at the end of 3Q21, plus an additional $11.1 million of restricted cash. The company also has $786.1 million available under its revolver, which matures in 2023. CXW's TTM leverage ratio (net debt to adjusted EBITDA) was 2.7x, down from 4.0x at the end of 3Q20. CXW targets a leverage ratio of 2.25x to 2.75x.

- **… And Other Expected Shareholder Returns** As the 3Q21 leverage ratio is within the company's targeted range, CXW expects to begin deploying capital in additional ways in the near-term to return value to shareholders, including share buybacks and / or dividends. Management believes the shares are oversold at this level and 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.

- **Multiple service model…** CXW had four contracts with the U.S. Marshals Service (USMS) set to expire in 2021. Two have been resolved to CXW's economic benefit: at the Crossroads Correctional Center in Montana and the Northeast Ohio Correctional Center. The company continues to engage in discussions with the USMS and other government agencies to secure solutions regarding other contracts expiring near-term. Moreover, in the Northeast Ohio Correctional Center, the company secured occupancy with multiple government agencies and this dual or multiple service model could serve as a template for other facilities, as well, we believe.

- **…Could serve as a template** The company is engaged in discussions regarding the West Tennessee contract that expired at the end of 3Q21. This facility is important to the local economy, according to regional trade publications, in terms of creating jobs and contributing to the tax base, among other factors. Thus, local regulators are seeking solutions to maintain capacity at this facility. The company's Leavenworth contract does not expire until next month.

OPERATING RESULTS IMPROVE AS OCCUPANCIES IMPROVE

CoreCivic (NYSE: CXW) released 3Q21 results this week. Revenue came in at $471.2 million, up about 1% year-over-year, despite the ongoing impact of the pandemic and CXW's sale of 47 non-core real estate assets over the past several months. CXW has been administering vaccine dosages and the number of inmates testing positive for the COVID-19 virus has declined, although CXW saw some minor, temporary increase in cases at some facilities during the quarter.

The company's vaccination measures contributed to improvements in occupancy rates within its facilities in 3Q21. CXW's Safety segment recorded a 110-basis point year-over-year improvement in occupancy to 73.2% and the company's Community segment recorded a 180-basis point improvement to 56.4%. As a result, revenue in both operating segments also improved. Revenue in the Safety segment advanced nearly 3% compared to 3Q20 to $431.5 million; revenue in the Community segment improved over 6% compared to 3Q20 to $25.5 million. CXW expects occupancies to continue an upward trend, as courts resume operations and COVID-19 restrictions are eased. However, given that active COVID-19 cases could continue to fluctuate in certain markets, in our view, occupancy rates might also fluctuate over the next several quarters.

Total operating expenses were 3% lower in 3Q21 compared to 3Q20, with G&A expense down 4% and depreciation & amortization expense down 10%. Operating expenses fell 3% year-over-year. In part, the cost reductions reflect the challenges that many companies currently face regarding filling staffing positions. These challenges are generally expected to persist, although CXW has enacted several measures to mitigate their impact, including offering incentives to increase staffing levels.

Adjusted EBITDA of $100.9 million advanced 7% year-over-year. CXW reported EPS of $0.25 compared to $0.22 in 3Q20. After adjusting for non-recurring items, 3Q21 adjusted EPS came in at $0.28, equal to $0.28 in 3Q20. Pro forma adjusted 3Q21 FFO per share was $0.48 compared with $0.52. We have revised our 4Q21 forecast slightly to reflect the lower than expected operating costs and the recent reduction of the Term loan B. Our revised EPS forecast is $0.24.

2022 Outlook

For 2022, we expect further improvements in occupancy rates and revenue. Our $1.9 million forecast could prove conservative, depending on the status of Title 42 and potential new contracts and / or renewals, among other factors. We expect operating costs to rise over the next several quarters as the company continues to increase staffing levels and forecast total operating expense of $1.7 million. Again, this forecast is dependent on how quickly the company can hire new personnel. Our 2022 EPS forecast is $0.82.

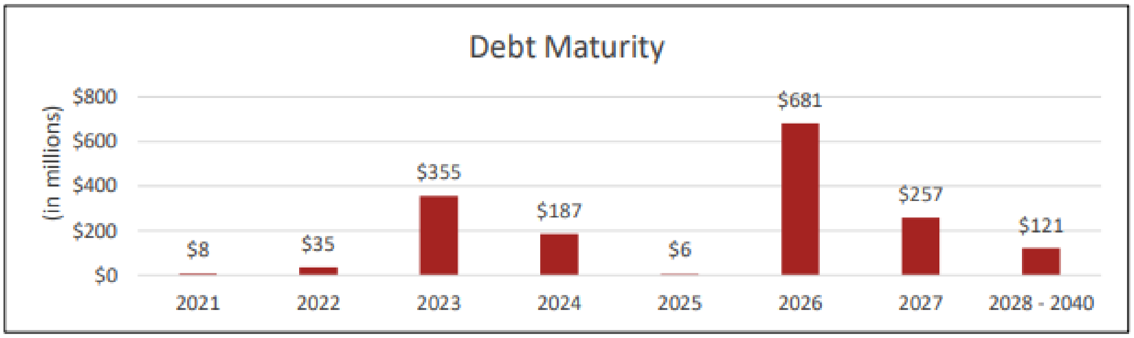
Balance sheet improvements

The company has accessed the capital markets to refinance debt and extend maturities. CXW raised $450 million of senior notes that mature in 2026 earlier this year and added a tack-on offering of $225 million. The additional notes have an effective yield to maturity of 7.65%. In 3Q21, CXW paid down $187.5 million of debt.

Through the end of 3Q21, the company had reduced total net debt by $500+ million year-to-date. Subsequently, after the quarter, CXW repaid $90.0 million of the outstanding balance on its term loan B using cash on hand. Although the term loan B matures in 2024, compared to 2023 for the term loan A, the term loan B represents a higher cost of capital for CXW. The term loan B bears interest at LIBOR plus 4.50%, with a 1.00% LIBOR floor.

The TTM leverage ratio (net debt to adjusted EBITDA) was 2.7x, down from 4.0x at the end of 3Q20. CXW targets a leverage ratio of 2.25x to 2.75x. As the 3Q21 leverage ratio is within the company's targeted range, CXW is expected to begin to deploy capital in other ways in the near-term to return value to shareholders (see below).

At the end of 3Q21, the company had no major debt maturities coming due before 2023. The debt offerings and recent asset sales 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: http://ir.corecivic.com/static-files/4c86da23-cdf1-45f4-9517-ded4d62dda1e

CXW had $455.5 million of cash at the end of 3Q21, plus an additional $11.1 million of restricted cash. The company also has $786.1 million available under its revolver, which matures in 2023. By building internally generated cash under the C-Corp. structure, CXW expects to continue paying down a substantial amount of its overall debt before maturity and to refinance the remainder.

Shareholder Returns

The company also expects to allocate a substantial portion of its free cash flow to returning capital to shareholders through share buybacks and / or dividends. Given that the leverage ratio at the end of 3Q21 was within the company's targeted range, this initiative could begin within the next few quarters. Management 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.

CONTRACT UPDATES

Importantly, the company's exposure to reductions caused by the executive order implemented by the Biden administration to not renew Department of Justice contracts with privately operated criminal detention facilities is minimal. CXW has only one prison contract with the Federal Bureau of Prisons (BOP), which accounts for only about 2% of total revenue. Conversely, contracts with the U.S. Marshals Service (USMS) represent about 23% of CXW's annual revenue. USMS prison populations have remained relatively steady over the past several years and CXW believes that the USMS does not have sufficient detention capacity to satisfy their current needs without leveraging the capacity that CXW and other private entities can provide.

CXW had four contracts with the USMS set to expire in 2021. As contracts near end dates, the company continues to engage in discussions with the USMS and other government agencies to secure occupancy and facilities usage through contract renewals and / or extensions or other solutions. While the company is still engaged in discussions regarding the West Tennessee contract and the Leavenworth contract does not expire until next month, contracts in Ohio and Montana have been extended or otherwise resolved (see below). The company has also been able to resolve contracts to its economic advantage in some cases such as at the Crossroads Correctional Center in Montana and the Northeast Ohio Correctional Center.

USMS Contracts Expiring in 2021

- **Northeast Ohio Correctional Center in Ohio***
- **Crossroads Correctional Center in Montana**
- West Tennessee Detention Facility in Tennessee
- Leavenworth Detention Center in Kansas

Source: Company reports   Bold = renewed or other solution   *Now serving multiple government entities

USMS populations have held steady in recent years and even grown over the past year, according to CXW, indicating that the USMS requires detention capacity to house their populations. Moreover, the company believes that need for states such as Alabama and Hawaii to replace old, outdated facilities with modern ones underscores the state of prison facilities throughout most of the country and the need for states and federal authorities to access privately run facilities. CXW is analyzing and responding to several RFPs (requests for proposal).

Alabama The Alabama Department of Corrections (ADOC) notified CXW of its decision to terminate two 30-year lease agreements effective August 6, 2021. The company is engaged in discussions with ADOC to evaluate potential alternative solutions. (CXW expects to incur an asset impairment charge of $4.0 million to $6.0 million for pre-development activities in Alabama).

Arizona The State of Arizona recently issued an RFP (request for proposal) for up to 2,706 beds, as Arizona plans to close its oldest facility, which the state feels is in dilapidated condition. The company indicated its intention to submit a proposal in response to the RFP.

Hawaii On July 1, 2021, CXW received notice from the State of Hawaii for the rebid of the company's contract at the 1,896-bed Saguaro Correctional Facility in Eloy, Arizona. CXW, which cares for about 1,100 inmates from Hawaii, as well as about 375 inmates from Idaho at this facility, expects to enter into a new three-year contract with Hawaii. In addition, The company is also in discussions with Hawaii regarding potential replacement solutions for the Oahu Community Correctional Center, which is the largest such facility in the state and needs to be replaced with a new, modern facility.

Kansas The USMS contract for the 1,033-bed Leavenworth Detention Center expires in December of 2021. CXW is engaged in discussions with other government entities to seek alternative solutions, as it did in Ohio and Montana earlier this year, if it does not renew and / or extend the existing USMS contract.

Montana CXW's USMS contract was set to expire in 2021 was for 96 beds at the 664-bed Crossroads Correctional Center in Montana. In 3Q21, the company amended the contract with the state of Montana to fully utilize the capacity at Crossroads and extend the agreement through June of 2023. The two parties can extend the contract through August 2029 by mutual agreement.

New Mexico CXW recently entered into a new three-year lease agreement for its Northwest New Mexico 596-bed facility. CoreCivic currently operates the Northwest New Mexico Correctional Center under a contract with New Mexico. The new lease agreement commences on November 1, 2021, at which time the company will transition the facility to the New Mexico Corrections Department. The agreement includes automatic extension options that could extend the lease through October 31, 2041.

New Jersey ICE has notified CXW that it intends to exercise its renewal option to extend the contract at the 300-bed Elizabeth Detention Center through August 31, 2023. The contract had been set to expire in 3Q21.

Ohio Earlier in 2021, CXW signed 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.

Tennessee The company is engaged in discussions with other government agencies to secure utilization of the West Tennessee Detention facility and recently submitted a response to an RFP to utilize this facility. The West Tennessee Detention facility generated revenue of $18.4 million in 2020 and $10.2 million in 1H21. Given the need for inmate capacity and the importance of this facility to the local economy, local regulators are seeking solutions, according to regional trade publications.

VALUATION

We think the current share price does not reflect the fundamental value of the company’s steady cash flow generation 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 expansion 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.

- As contracts come reach expirations, the company might not be able to renew existing contracts or secure alternative utilization.
- Occupancy levels as a result of COVID-19 could continue to fluctuate.
- 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

- On November 8, 2021, CXW announced 3Q21 results.
- On September 22, 2021, CXW announced the upsizing and pricing of its tack-on notes offering.
- CXW entered into a new lease agreement with the state of New Mexico at the Northwest New Mexico Correctional Center on September 21, 2021.
- CXW provided an update on the USMS contract for the West Tennessee Detention facility on September 17, 2021.
- CXW announced the sale of 42 non-core government leased properties for $106.5 million on December 23, 2Q20.

FINANCIAL MODEL

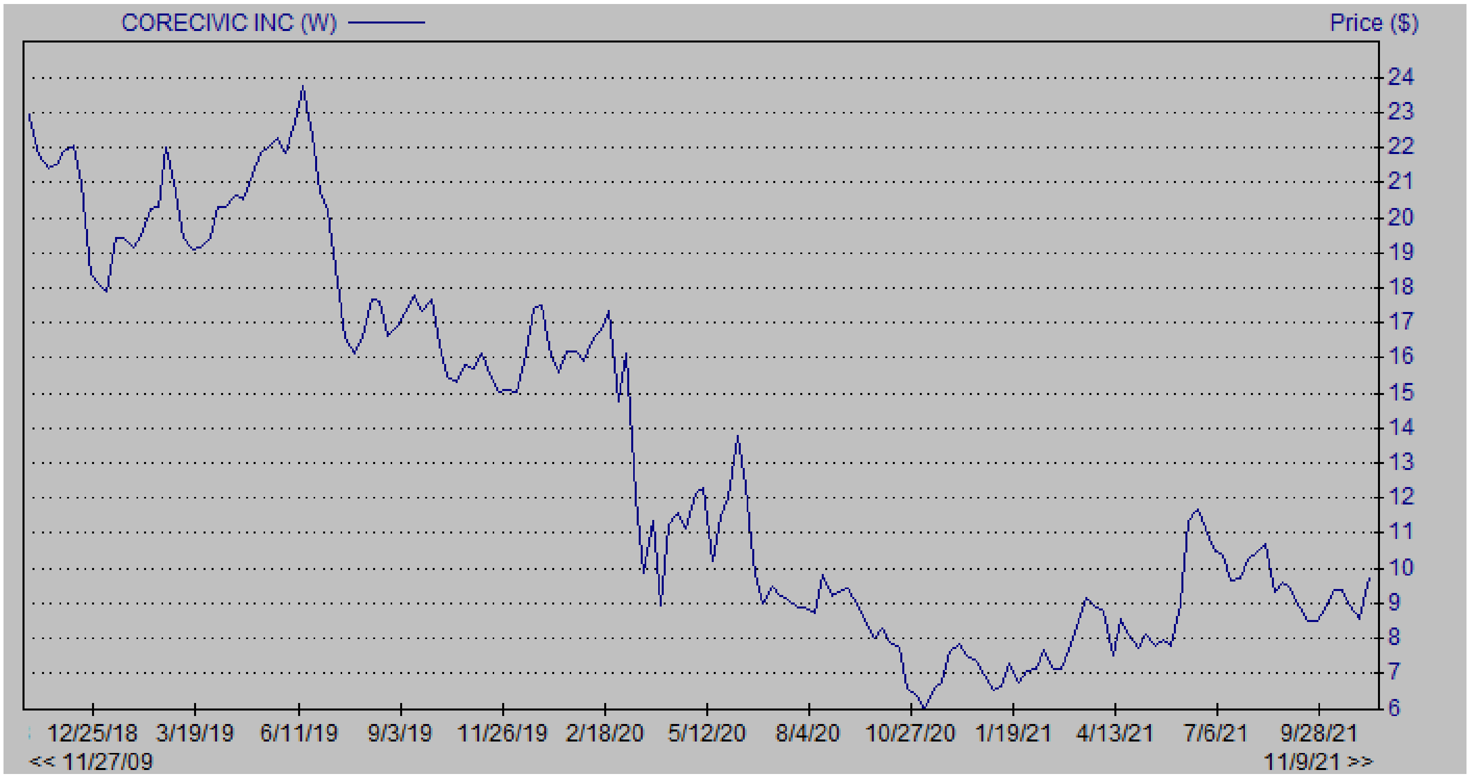
Core Civic

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

	2019	1Q20	2Q20	3Q20	4Q20	2020A	1Q21A	2Q21A	3Q21A	4Q21E	2021E	2022E
Revenue	$1,980,689	$491,101	$472,641	$468,266	$473,477	$1,905,485	$454,718	$464,571	$471,194	$482,117	$1,872,600	$1,940,388
Y/Y % change	*7.9%*	*1.5%*	*-3.6%*	*-7.9%*	*-4.9%*	*-3.8%*	*-7.4%*	*-1.7%*	*0.6%*	*1.8%*	*-1.7%*	*3.6%*
Operating expense	1,422,769	362,315	352,927	347,927	343,207	1,406,376	332,884	333,070	338,192	348,088	1,352,234	1,435,887
General and administrative	127,078	31,279	30,145	35,883	27,031	124,338	29,530	33,228	34,600	34,769	132,127	133,448
Depreciation and amortization	144,572	37,952	38,619	37,865	36,425	150,861	32,712	34,084	33,991	33,627	134,414	133,070
Shareholder litigation expense / other	-	-	-	620	-	620	51,745	2,550	-	-	54,295	-
Impairments / other	4,706	536	11,717	805	47,570	60,628	1,308	2,866	5,177	-	9,351	1,000
Total operating expense	1,699,125	432,082	433,408	423,100	454,233	1,742,823	448,179	405,798	411,960	416,485	1,682,422	1,703,406
Operating income	281,564	59,019	39,233	45,166	19,244	162,662	6,539	58,773	59,234	65,632	190,178	236,982
Operating margin	14.2%	12.0%	8.3%	9.6%	4.1%	8.5%	1.4%	12.7%	12.6%	13.6%	10.2%	12.2%
Interest expense, net	84,401	22,538	20,996	20,193	19,572	83,299	18,428	23,222	20,653	23,853	86,156	95,662
Other (income) expense	438	(533)	(2,987)	(2,113)	25,272	19,639	148	13,409	(49)	450	13,958	500
	84,839	22,005	18,009	18,080	44,844	102,938	18,576	36,631	20,604	24,303	100,114	96,162
Pretax income	196,725	37,014	21,224	27,086	(25,600)	59,724	(12,037)	22,142	38,630	41,329	90,064	140,820
Taxes	(7,839)	(3,776)	962	(369)	(1,203)	(4,386)	(113,531)	(6,519)	(8,618)	(11,365)	(140,033)	(38,726)
Minority interest		(1,181)	-	-	-	(1,181)						
Net income	188,886	32,057	22,186	26,717	(26,803)	54,157	(125,568)	15,623	30,012	29,964	(49,969)	102,095
Per share data												
EPS	$1.59	$0.27	$0.18	$0.22	($0.22)	$0.45	($1.03)	$0.13	$0.25	$0.24	($0.41)	$0.82
Dividends	$1.76					$0.88						
Average shares outstanding	119,164	120,725	120,974	120,980	121,034	120,928	121,366	122,059	122,049	123,259	122,183	123,759
Funds From Operation (FFO)												
Net income	$188,886	$33,238	$22,186	$26,717	($26,803)	$55,338	($125,568)	$15,623	$30,012	$29,964	($49,969)	$102,095
+ D&A of real estate assets	107,402	28,106	28,244	28,249	27,447	112,046	23,759	24,926	24,877	24,548	98,110	98,073
+ Impairment of real estate assets	4,428	405	9,750	-	4,225	14,380	1,308			-	1,308	725
- Gain on sale of real estate assets	(287)	-	(2,818)	(2,102)	17,943	13,023		(38,766)	-	-	(38,766)	-
+ - Other	-	-	-	532	-	532	(350)	9,641	-	-	9,291	6,250
FFO	300,429	61,749	57,362	53,396	22,812	195,319	(100,851)	11,424	54,889	54,512	19,974	207,142
FFO/share	$2.52	$0.51	$0.47	$0.44	$0.19	$1.62	($0.83)	$0.09	$0.45	$0.44	$0.16	$1.67
+ M&A expenses	1,132	338		620								
+ COVID related expenses			8,165	2,820	2,792	13,777	1,598	836	-	-	2,434	-
+ - Other special items	10,360	3,216	2,314	5,503	50,681	61,714	152,284	43,757	3,728	3,350	203,119	21,375
Normalized FFO	311,921	65,303	67,841	62,339	76,285	271,768	53,031	56,017	58,617	57,862	225,527	228,517
Normalized FFO/share	$2.62	$0.54	$0.56	$0.52	$0.63	$2.25	$0.44	$0.46	$0.48	$0.47	$1.84	$1.86

Source: Company reports, Zacks estimates

HISTORICAL STOCK PRICE



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