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Zacks Small-Cap Research

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CoreCivic, Inc. (CXW-NYSE)

CXW: Occupancies Improving; La Palma Transition Nearing Completion; Balance Sheet Strength Reflecting CXW Initiatives

CXW expects average daily ICE populations to increase in subsequent quarters & tightened 2022 guidance toward the higher end of the range, reflecting positive trends including higher populations at its facilities and the winding down of the La Palma transition. Separately, divestitures of non-core assets – including a 3Q22 $83.8M gain on the sale of assets – facilitate CXW's strategy to strengthen its operating footprint and balance sheet. CXW has earmarked a portion of its capital deployment for share repurchases, as well as debt reduction.

Current Price (11/3/22)	$10.50
Valuation	**$18.00**

OUTLOOK

CXW has executed on its strategy to deleverage via cash generated from operations, asset sales and opportunistic financings. Long-term debt was $1.1B at the end of 3Q22, down from $1.492B at the end of 2021. CXW had $185.3M of cash at the end of 3Q22 plus an additional $13.8M of restricted cash. Following recent measures, the company has no major debt maturities coming due before May 2023 & expects to repay this maturity using its cash position & capacity under its currently undrawn $250.0M revolver. Other than notes maturing in 2023, CXW has no other maturities before 2026. We anticipate further balance sheet measures & share buybacks, depending on market conditions.

SUMMARY DATA

52-Week High	**$14.24**
52-Week Low	**$8.39**
One-Year Return (%)	**9.72**
Beta	**0.87**
Average Daily Volume (sh)	**1,053,993**
Shares Outstanding (mil)	**115**
Market Capitalization ($mil)	**$1,208**
Short Interest Ratio (days)	**4.1**
Institutional Ownership (%)	**82**
Insider Ownership (%)	**2**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**11.0**
P/E using 2023 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	465 A	471 A	472 A	1,863 A
2022	453 A	457 A	464 A	465 E	1,839 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	$0.23 A	-$0.43 A
2022	$0.16 A	$0.09 A	$0.58 A	$0.12 E	$0.94 E

incl~4Q20 $0.35 noncash chg, 3Q22 asset sale gains Qs might not sum from rounding

Disclosures on page 10

KEY POINTS

- CXW tightened 2022 guidance toward the higher end of the prior range, reflecting positive trends including higher populations at its facilities and the winding down of the transition at the La Palma facility. The company expects average daily ICE populations to increase in 4Q22.

- The company has added staff in order to have adequate personnel in place in anticipation of populations at its facilities increasing. Thus, we continue to anticipate a near-term increase in costs that precedes the expected incremental revenue when the number of ICE detainees housed in CXW facilities increases.

- CXW reported a 3Q22 gain on the sale of real estate assets of $83.8 million. CXW's divestitures of non-core assets have been a consistent part of the company's strategy to strengthen its operating footprint and balance sheet to enhance shareholder value. The proceeds of this and other divestitures enhance the company's liquidity. CXW has earmarked a portion of its capital deployment to share repurchases, as well as debt reduction.

- CXW has reduced and refinanced debt substantially over the past few quarters. CXW reduced its debt balance by $109.1 million during 3Q22, net of the change in cash. Recent debt offerings and asset sales have enabled CXW to reduce its reliance on banks and other external source of cash and demonstrated ongoing investor interest in the company's securities.

- Long-term debt was $1.10 billion at the end of 3Q22, down from $1.492 billion at the end of 2021 and compared to $1.748 billion at the end of 2020. CXW had $185.3 million of cash at the end of 3Q22 plus an additional $13.8 million of restricted cash. Following recent measures, the company has no major debt maturities coming due before May 2023.

- CXW expects to repay the May 2023 debt maturity using its cash position –CXW had $185.3 million of cash at the end of 3Q22 – and capacity under its currently undrawn $250.0 million revolver. Other than the notes maturing in 2023, CXW has no other maturities before 2026.

- We expect the company to prioritize actions to enhance shareholder, including share buybacks. Through November 1, 2022, the company had repurchased 6.6 million shares in 2022 for an aggregate gross $74.5 million, with roughly $150.5 million remaining under the repurchase plan. Depending on market conditions, we would anticipate further share buybacks. Down the road, we also believe the company could also enhance shareholder value via a dividend.

- As occupancy at the company's La Palma facility increases and staffing related costs normalize, we expect CXW to benefit from the expected reversal of Title 42 and other measures. Once Title 42 is lifted, we anticipate an increase in demand for occupancy at CXW facilities, as ICE apparently does not have sufficient supply to satisfy demand. Moreover, as the transition at La Palma winds down and reflecting cost containment measures, the company is optimistic that operating margins will begin to trend up to more normalized levels.

POSITIVE TAKEAWAYS: OCCUPANCIES IMPROVING, LA PALMA TRANSITION ENDING

CXW Tightened Guidance Range - Reflecting Positive Trends

CoreCivic (NYSE: CXW) reported 3Q22 results this week and tightened 2022 guidance toward the higher end of the prior guidance range, reflecting positive trends including higher populations at its facilities and the winding down of the transition at the La Palma facility (see below). The company tightened adjusted net income, adjusted EBITDA and FFO guidance reflecting these factors.

Specifically, 2022 net Income guidance is now $110.1 million to $114.1 million compared to earlier guidance of $106.6 million to $118.2 million. EPS guidance is now $0.93 to $0.96 compared to earlier guidance of $0.89 to $0.99, while adjusted EPS excluding special items guidance is $0.47 to $0.50 compared to earlier guidance of $0.44 to $0.50. We have revised our model based on 3Q22 actual results and the company's updated guidance.

FFO (funds from operation) per share guidance is now in the range of $1.22 to $1.26. Guidance for this metric previously was $1.19 to $1.26. The increase in guidance reflects the expectation of completing the transition at La Palma shortly and the expectation of rising occupancies in 4Q22. Compensated occupancy in the company's Safety &

Community facilities averaged 70.1% in 3Q22, up sequentially from 69.5% in 2Q22. Management's comments indicate that occupancy improvements have continued in recent weeks. The company expects average daily ICE populations to increase in 4Q22, including at the Eloy Detention Center in Arizona.

As occupancy at the company's La Palma facility increases and staffing related costs normalize, we expect CXW to benefit from the expected reversal of Title 42 and other measures. Court action to stop the reversal of Title 42 has impacted revenue in 2022. Once Title 42 is lifted, we anticipate an increase in demand for occupancy at CXW facilities, as ICE apparently does not have sufficient supply to satisfy demand.

Transition at La Palma facility expected to be completed by yearend

CXW reported 3Q22 results that were in-line with our expectations. Total revenue of $464.2 million was down slightly (about 1.5%) compared to $471.2 million in 3Q21, but ahead of our $459.4 million estimate. The lower revenue compared to 3Q21 was expected, primarily reflecting the reduction of ICE (Immigration and Customs Enforcement) populations at CXW's La Palma facility pending the facility's transition to state detainees under a new contract with the state of Arizona. As CXW prepares to receive Arizona state inmates at La Palma, the average daily population of ICE detainees there declined, which contributed to the lower revenue. The transition process has taken longer than the company originally anticipated, but management believes it will be complete by the end of the year. CXW's sale of non-core real estate assets over the last several quarters has also contributed to lower revenue compared to 2021. As noted, CXW expects average daily ICE populations to increase in 4Q22, including at the company's Arizona Eloy Detention Center.

Inflationary environment impacted margins

The broader macroeconomic inflationary environment is impacting 2022 results, as anticipated. The company realized an operating margin of 6.5%, down from 9.2% in the prior sequential quarter and 12.6% in the prior year quarter. In the near-term, management expects margins are likely to remain constrained by several factors. These include the La Palma transition – even though the population transition is expected to be complete by yearend 2022, the company expects costs will still be higher than the historical normalized average through 1Q23. Some of the upward pressure on costs includes staffing of temporary workers and wage inflation, among other factors. For example, in 3Q22 CXW incurred $5.6 million more in temporary incentives compared to 3Q21 in order to attract and retain staff. The company expects staffing levels at La Palma to become more normalized over the next few months.

Specifically, 2022 costs and operating margins have been impacted by higher labor costs, particularly of registry nursing staff, as the company increases staffing levels and reflecting general wage inflation. In part, the company is adding staff in order to have adequate personnel in place in anticipation of Title 42 ending and populations at its facilities increasing. Thus, there is likely to be a near-term increase in costs that precedes the expected incremental revenue when the number of ICE detainees housed in CXW facilities increases. Conversely, staffing levels were lower than historical averages in 2021, reflecting general labor shortages last year. As the transition at La Palma winds down and reflecting cost containment measures, the company is optimistic that operating margins will trend up to more normalized levels.

CXW reported a 3Q22 gain on the sale of real estate assets of $83.8 million. CXW's divestitures of non-core assets have been a consistent part of the company's strategy to strengthen its operating footprint and balance sheet. CXW sold its 1,978-bed McRae correctional facility for $130.0 million, which produced the above-noted gain. The company's contract with the Federal Bureau of Prisons (BOP) at the McRae Facility expires at the end of November 2022 and CXW entered into an agreement to lease the McRae facility from the Georgia Building Authority through November 30, 2022 to satisfy the BOP contract. This gain was partially offset by an asset impairment charge of $3.5 million related to the pending divestiture of another facility.

The asset sale gain contributed to 3Q22 net income of $68.3 million and EPS of $0.58. This compares to net income of $30.0 million and EPS of $0.25 in 3Q21. Adjusted EPS, excluding the asset sale gain and other non-recurring items in both periods, was $0.08 per in 3Q22 compared to $0.28. Factors that explain the lower adjusted results include the above noted decline in population at La Palma and higher labor costs.

EBITDA & Adjusted EBITDA

EBITDA was $147.9 million compared with $95.7 million. Adjusted EBITDA, excluding one-time gains and expenses and other special items, was $68.4 million compared to $100.9 million in 3Q21. The decline primarily reflects the sale of non-core properties that generated an aggregate $4.4 million in adjusted EBITDA in 3Q21, plus the above-noted lower populations at La Palma (about $11.8 million of the EBITDA variance) and the non-renewal of contracts at three facilities that collectively resulted in a reduction of $2.7 million.

FFO

FFO (Funds from operations) of $33.3 million was in-line with $34.3 million in the prior quarter and equates to $0.28 per share versus $54.9 million, and $0.45 per share, in 3Q21. Excluding special items, normalized FFO was $33.9 million compared to $58.6 million in 3Q21. FFO was hurt by the same factors that impacted adjusted EBITDA.

BALANCE SHEET STRENGTHENED; LIQUIDITY ENHANCED

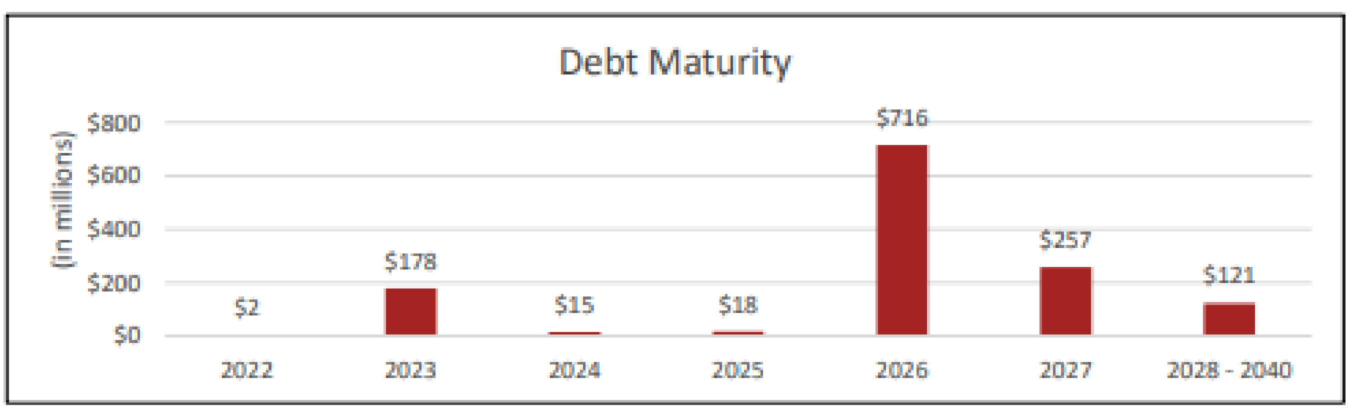
Divestures enhance CXW's liquidity…

CXW's sale of non-core real estate assets over the last several quarters also contributed to lower revenue compared to 3Q21. Divestitures of non-core assets have been a consistent part of the company's strategy to strengthen its operating footprint and balance sheet in order to enhance shareholder value. In line with these goals, CXW sold its 1,978-bed McRae correctional facility in 3Q22 for $130.0 million. The sale closed in 3Q22 and produced the above-noted gain. The company's existing contract with the Federal Bureau of Prisons (BOP) at the McRae Facility expires in November 2022 and CXW had not expected it to be renewed. The company entered into an agreement to lease the McRae facility from the Georgia Building Authority through November 30, 2022 to satisfy the contract with the BOP.

CXW also completed the sale of its Stockton Female Community Corrections facility, Long Beach Community Corrections center and an undeveloped California of land parcel. CXW entered into a Letter of Intent in September 2022 to sell two Philadelphia properties segment for an aggregate gross $6.3 million. Subsequently, CXW entered into an agreement to sell its idled Oklahoma City Transitional Center for $1.0 million and recognized the above-noted 3Q22 $3.5 million impairment charge.

… Contributing to debt reductions &…

The proceeds of the above-noted divestitures enhance the company's liquidity. CXW has earmarked a portion of its capital deployment to share repurchases, as well as debt reduction. The company has executed its strategy to pare debt and deleverage via cash generated from operations, asset sales (including recent divestitures) and opportunistic financings. The company's balance sheet is much stronger as of September 2022 than it was at the end of 2020, as CXW has reduced and refinanced debt substantially over the past few quarters. Recent debt offerings and 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: Company presentation

… Balance sheet strengthening measures - extending maturities

CXW reduced its debt balance by $109.1 million during 3Q22, net of the change in cash. CXW purchased $3.6 million of its 4.625% senior notes that mature in May 2023, reducing the outstanding balance to $166.5 million. CXW expects to repay the balance using its cash position –CXW had $185.3 million of cash at the end of 3Q22 – and capacity under its $250.0 million revolver, which is currently undrawn. CXW also purchased $33.5 million of its 8.25% senior notes that mature in April 2026, reducing the outstanding balance to $641.5 million. Other than the 4.625% notes maturing in May 2023, CXW has no other maturities before April 2026.

Long-term debt was $1.10 billion at the end of 3Q22, down from $1.492 billion at the end of 2021 and compared to $1.748 billion at the end of 2020. CXW had $185.3 million of cash at the end of 3Q22, as noted, compared to $299.6 million at year-end 2021, plus an additional $13.8 million of restricted cash. Following recent measures, the company has no major debt maturities coming due before 2023.

With no funds drawn against its revolver and above-noted cash balance, we believe the company has significant liquidity. The new credit facilities aggregate $350 million and CXW has an option to increase the availability under the revolver and to request term loans or up to $200 million or 50% of TTM consolidated EBITDA. With no near-term need to access the capital markets and minimal variable rate debt (less than 20% of total debt), the company believes it is better positioned than many others in a rising interest rate environment. We believe the new credit facilities reflect this, as well.

… As well as enhancing shareholder value via share repurchases

In terms of capital deployment, we expect the company to continue to prioritize actions such as debt reductions and share buybacks. The company has repurchased shares in 2022 under its existing share buyback plan. The company obtained board approval of a new share repurchase authorization of up to $150 million earlier this year and recently increased the authorization to $225.0 million. Through November 1, 2022, the company had repurchased 6.6 million shares for an aggregate gross $74.5 million, with roughly $150.5 million remaining under the repurchase plan. Depending on market conditions, we would anticipate further share buybacks. Down the road, we also believe the company could also enhance shareholder value via a dividend.

VALUATION

We maintain an $18 valuation on CXW shares and continue to believe that the current CXW share price does not fully reflect the expected stability and fundamental value of the company's steady cash flow generation, opportunities for new contracts to augment revenue and strengthening balance sheet. Pressure on CXW shares reflects concerns about government reform measures potentially overhanging sector prospects, although notably CXW's renewal rate on its owned facilities has averaged 95% over the previous five years, and negative publicity around ESG issues, among other factors. CXW released its fourth annual ESG Report recently. Among other measures, the company continues to provide vocational training to help prepare inmates for employment opportunities upon release and reduce recidivism. As the stability of the company's revenue streams and ESG measures continue, we anticipate further multiple expansion on CXW shares.

Strong contract renewal rates; revenue diversification efforts

We note 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, and it would not surprise us to see the company add other new revenue streams over time. 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 and with its ESG initiatives.

Anticipate further multiple expansion; FFO growth

Our $18 valuation implies a multiple of just under 12x one-year forward FFO, which remains below the recent average. Moreover, we would expect FFO per annum to grow in the high single digit range over the next year or so thereafter, as we believe likely in a more stable post-pandemic environment. We believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

Takeaways from McRae facility divestiture

The sale price CXW garnered from the divestiture of the McRae facility represents a private market valuation of about $66,000 per bed, as illustrated below. CXW has more than 70,000 owned and managed correctional beds. If the McRae price / bed were applied to CXW's portfolio, it would equate to a valuation above $4.0 billion. We do not expect the shares to trade at a private market valuation but note that it underscores, we believe, that CXW shares do not reflect the full value of the company's overall portfolio and its operating potential.

Takeaways From Divestiture of McRae Facility

McRae sales price ($M)	$130
McRae Facility beds*	1,978
Takeout price per McRae bed ($k)	$65.7
CXW's total beds* excluding idle facilities	63,897
Implied company private market value CXW ($M)	$4,199

Source: Company reports, Zacks estimates * As denoted by design capacity

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.
- Title 42 could be extended.
- Occupancy levels as a result of COVID-19 or other factors 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.
- Inflation could pressure costs more than currently expected and CXW might not be able to obtain higher per diems from customers to help offset its impact.
- The company might not be able to fill hiring positions as quickly as it would like.

RECENT NEWS

- CXW reported 3Q22 results on November 2, 2022.
- CXW finalized new credit facilities and authorized a share buyback on May 12, 2022.
- CXW provided an ESG update on April 11, 2022, with the release of its fourth annual ESG report.
- CoreCivic announced a new contract with the state of Arizona on January 10, 2022.
- 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, 2020.

FINANCIAL MODEL

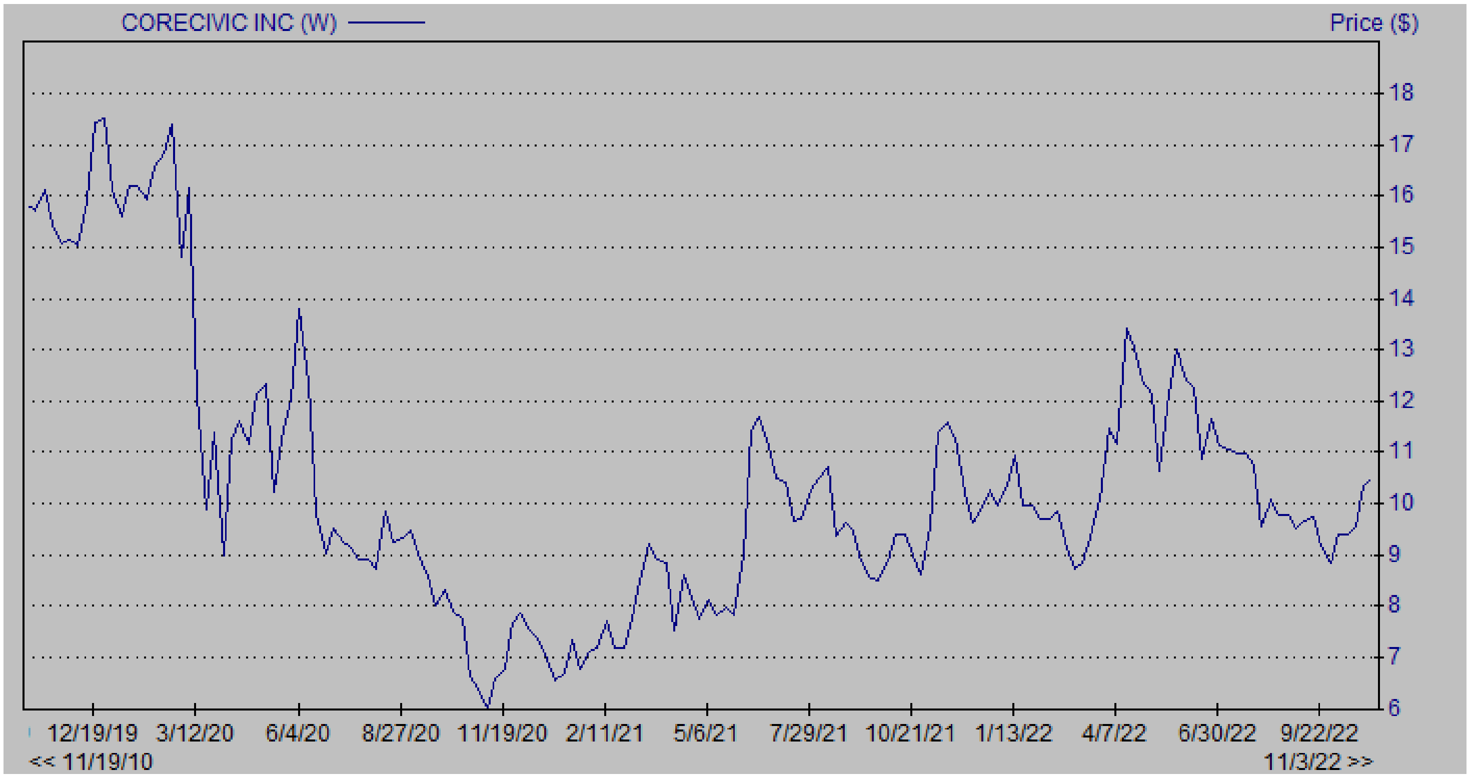
Core Civic

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

	2020A	1Q21A	2Q21A	3Q21A	4Q21A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E
Revenue	$1,905,485	$454,718	$464,571	$471,194	$472,133	$1,862,616	$452,988	$456,697	$464,211	$465,364	$1,839,260
Y/Y % change	*-3.8%*	*-7.4%*	*-1.7%*	*0.6%*	*-0.3%*	*-2.2%*	*-0.4%*	*-1.7%*	*-1.5%*	*-1.4%*	*-1.3%*
Operating expense	1,406,376	332,884	333,070	338,192	332,919	1,337,065	344,629	349,000	368,194	366,830	1,428,653
General and administrative	124,338	29,530	33,228	34,600	38,412	135,770	31,101	31,513	30,194	31,113	123,921
Depreciation and amortization	150,861	32,712	34,084	33,991	33,951	134,738	32,028	32,259	31,931	31,952	128,170
Shareholder litigation expense / other	620	51,745	2,550	-		54,295		1,900	-	-	1,900
Impairments / other	60,628	1,308	2,866	5,177	2,027	11,378	-	-	3,513	-	3,513
Total operating expense	1,742,823	448,179	405,798	411,960	407,309	1,673,246	407,758	414,672	433,832	429,896	1,686,158
Operating income	162,662	6,539	58,773	59,234	64,824	189,370	45,230	42,025	30,379	35,468	153,102
Operating margin	8.5%	1.4%	12.7%	12.6%	13.7%	10.2%	10.0%	9.2%	6.5%	7.6%	8.3%
Interest expense, net	83,299	18,428	23,222	20,653	23,239	85,542	22,920	21,668	20,793	20,044	85,425
Other (income) expense	19,639	148	13,409	(49)	4,217	17,725	(3,303)	5,782	(82,974)	(3,504)	(83,999)
	102,938	18,576	36,631	20,604	27,456	103,267	19,617	27,450	(62,181)	16,540	1,426
Pretax income	59,724	(12,037)	22,142	38,630	37,368	86,103	25,613	14,575	92,560	18,928	151,676
Taxes	(4,386)	(113,531)	(6,519)	(8,618)	(9,331)	(137,999)	(6,610)	(4,013)	(24,242)	(4,921)	(39,786)
						160.3%					
Minority interest	(1,181)										
Net income	54,157	(125,568)	15,623	30,012	28,037	(51,896)	19,003	10,562	68,318	14,007	111,890
Per share data											
EPS	$0.45	($1.05)	$0.13	$0.25	$0.23	($0.43)	$0.16	$0.09	$0.58	$0.12	$0.94
Dividends	$0.88										
Average shares outstanding	120,928	121,366	122,059	122,049	121,218	121,673	121,420	121,346	116,569	116,519	118,964
Funds From Operation (FFO)											
Net income	$55,338	($125,568)	$15,623	$30,012	$28,037	($51,896)	$19,003	$10,562	$68,318	$14,007	$111,890
+ D&A of real estate assets	112,046	23,759	24,926	24,877	25,176	98,738	24,166	24,501	24,158	24,284	97,109
+ Impairment of real estate assets	14,380	1,308			2,027	3,335	-	-	3,513	-	3,513
- Gain on sale of real estate assets	13,023		(38,766)	-	-	(38,766)	(2,261)	(1,060)	(83,828)	(1,450)	(88,599)
+ - Other	532	(350)	9,641	-	(506)	8,785	625	283	21,165	399	22,472
FFO	195,319	(100,851)	11,424	54,889	54,734	20,196	41,533	34,286	33,326	37,239	146,384
FFO/share	$1.62	($0.83)	$0.09	$0.45	$0.45	$0.17	$0.34	$0.28	$0.28	$0.32	$1.23
+ M&A expenses											-
+ COVID related expenses	13,777	1,598	836	-	-	2,434	-	-	-	-	-
+ - Other special items	61,714	152,284	43,757	3,728	3,085	202,854	-	6,381	577	-	6,958
Normalized FFO	271,768	53,031	56,017	58,617	57,819	225,484	41,533	40,667	33,903	37,239	153,342
Normalized FFO/share	$2.25	$0.44	$0.46	$0.48	$0.48	$1.85	$0.34	$0.34	$0.29	$0.32	$1.29

Source: Company reports, Zacks estimates

HISTORICAL STOCK PRICE



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