February 10, 2023

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

CoreCivic, Inc. (CXW-NYSE)

CXW: Positive Underlying Trends Include Senior Note Redemption, Occupancy Uptick

Reflecting positive trends, including rising average compensated occupancies at its facilities and the near completion of the transition at the La Palma facility, CXW is optimistic about operating improvements going forward. As occupancy levels increase and staffing related costs normalize, management anticipates operating leverage and improving margins. We continue to view the termination of Title 42 at some point, rising occupancies at the company's facilities and continued balance sheet measures as potential catalysts.

Current Price (2/9/23)	$11.40
Valuation	**$18.25**

OUTLOOK

Compensated occupancy in the company's Safety & Community facilities averaged 71.1% in 4Q22, up sequentially from 70.1% and 69.5% in the two prior quarters. We are optimistic that this uptick portends a positive trend, as the La Palma transition is now nearly complete. Separately, CXW has pared its debt balance by > $1B since implementing its debt reduction strategy in 2020, the combination of cash from operations & asset sales. The company has also extended maturities through debt paydowns and refinancings; no major debt maturities come due before 2026. We expect the company to continue to prioritize share buybacks, depending on market conditions, and debt reduction measures and note CXW's substantial liquidity to maintain these initiatives. CXW had $149.4M of cash at the end of 2022 and $233.2M remaining under its revolver.

SUMMARY DATA

52-Week High	**$14.24**
52-Week Low	**$8.39**
One-Year Return (%)	**17.2**
Beta	**0.98**
Average Daily Volume (sh)	**1,065,936**
Shares Outstanding (mil)	**115**
Market Capitalization ($mil)	**$1,307**
Short Interest Ratio (days)	**3.4**
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 2023 Estimate	**11.1**
P/E using 2024 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)
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	471 A	1,845 A
2023	474 E	476 E	476 E	477 E	1,902 E

EPS / Loss per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	$0.21 A	$1.03 A
2023	$0.15 E	$0.13 E	$0.13 E	$0.13 E	$0.54 E

Qs might not sum reflecting rounding

Disclosures on page 9

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

KEY POINTS

- CoreCivic reported 2022 results and initiated 2023 guidance this week. Reflecting positive trends, including rising average compensated occupancies at its facilities and the near completion of the transition at the La Palma facility, the company is optimistic about operating improvements going forward.

- Guidance is lower than our / consensus prior forecasts but the company noted that the variance largely reflects 1) management's expectation that Title 42 ending will have a *gradual* positive impact of and 2) the expected ramp in staffing in anticipation of rising occupancies, which could lead to short-term increases in costs preceding incremental revenue – particularly in 1H.

- As occupancy levels increase and staffing related costs normalize, management anticipates operating leverage and improving margins. Management noted that it does not expect margins to return to pre-pandemic levels before 2024. We have revised our model based on company guidance.

- We continue to view the termination of Title 42 at some point, rising occupancies at the company's facilities and continued balance sheet measures as potential catalysts.

- Compensated occupancy in the company's Safety & Community facilities averaged 71.1% in 4Q22, up sequentially from 70.1% and 69.5% in the two prior quarters. We are optimistic that this uptick portends a positive trend, as the La Palma transition is now nearly complete. As occupancy at the company's facilities increase and staffing related costs normalize, we expect operating improvements. Once Title 42 is lifted, we anticipate a gradual increase in demand for occupancy at CXW facilities, as ICE apparently does not have sufficient supply to satisfy demand. An estimated roughly two-thirds of CXW's centers are operated under occupancy guarantees that exceed current actual occupancy levels. Once actual occupancy reaches – and then passes – guaranteed levels, we expect CXW to garner incremental revenue.

- CXW pared its debt balance by more than $1 billion since summer 2020, the combination of cash flow from operations and asset sales. The company has also extended maturities through debt paydowns and refinancings, with no major debt maturities coming due before 2026. CXW has also pursued a share repurchase program, buying 6.6 million shares (5%+ of the outstanding shares) in 2022 for $74.5 million.

- In terms of capital deployment, we expect the company to continue to prioritize share buybacks and maintain debt reduction measures. Depending on market conditions, we would anticipate further share buybacks. The company has substantial liquidity to maintain these measures. CXW had $149.4 million of cash at the end of 2022 and $233.2 million remaining under its revolver.

POSITIVE UNDERLYING TRENDS

CoreCivic (NYSE: CXW) reported 4Q22 results and initiated 2023 guidance this week. Reflecting positive trends, including higher populations at its facilities and the near completion of the transition at the La Palma facility, the company is optimistic about net income, EBITDA and FFO (Funds from Operations) going forward. Specifically in 2023, excluding special items, net Income guidance is $58 million to $75 million. EPS guidance is $0.50 to $0.65 and FFO per share guidance is $1.35 to $1.50. EBITDA guidance is $298.5 million to $313.5 million. We have revised our model based on company guidance. While guidance is lower than our and consensus prior forecasts, the company noted that the variance largely reflects management's expectation that the positive impact of Title 42 ending will be gradual and management also expects to ramp up staffing in anticipation of rising occupancies. Because the company has added staff over the past several quarters in order to have adequate personnel once Title 42 ends and populations at its facilities, including La Palma and Eloy, increase, there have been short-term increases in costs preceding incremental revenue and management expects this could continue in 2023, particularly in 1H. However, as occupancy levels increase and staffing related costs normalize, the company anticipates operating leverage and improving margins. Management noted that it does not expect margins to return to pre-pandemic levels before 2024.

4Q22 highlights

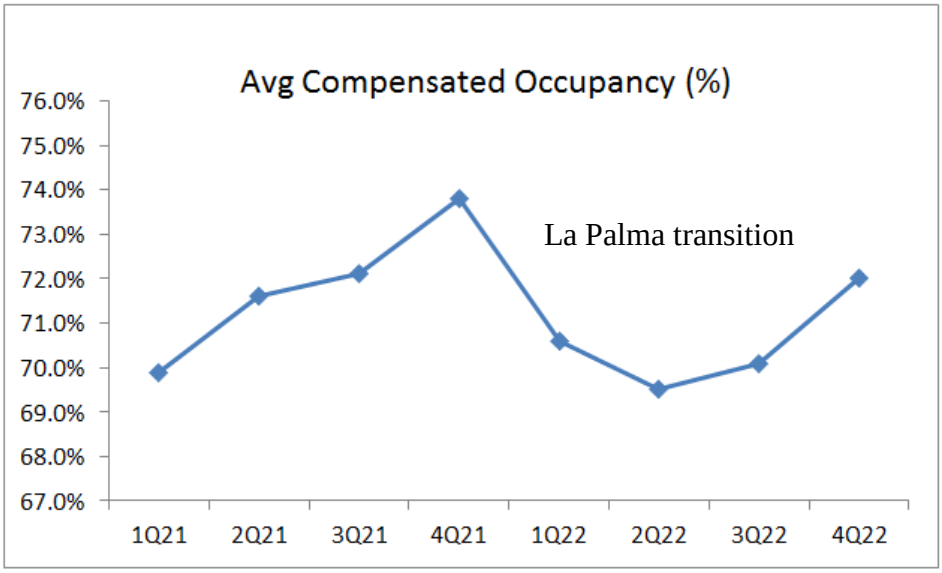
CXW's 4Q22 revenue was $471.4 million compared to $472.1 million in 4Q21. Net income was $24.4 million, or $0.21/share, compared to $28.0 million, or $0.23. Adjusted net income excluding special items in both periods was $25.0 million, or $0.22 /share in 4Q22, compared to $32.6 million, or $0.27 in 4Q21. The decline primarily reflects the La Palma transition, the expiration of a BOP (Federal Bureau of Prisons) our contract at CXW's McRae Correctional Facility on November 30, 2022 and wage inflation, including temporary incentives to attract new staff in a tight labor market. Adjusted EBITDA was $87.7 million versus $103.2 million in 4Q21, with the decline largely attributable to above-noted factors. The La Palma transition represented a reduction in EBITDA of $9.1 million, and the McRae contract expiration represented a $2.6 million reduction in EBITDA.

Lower incentive payments expected, although CXW expects challenging labor market conditions to continue…

The company's staffing levels was higher and CXW paid more in incentive expenses, as noted. These factors were partially offset by pandemic-related credits. FFO came in at $48.8 million, or $0.42 / share, compared to $54.7 million and $0.45, respectively, in 4Q21. Excluding special items, normalized FFO, which was impacted by the factors noted above, was $49.1 million, which equates to $0.42 per share versus $57.8 million, or $0.48, in 4Q21.

Occupancies – hurt by La Palma transition – appear to be rebounding …

Compensated occupancy in the company's Safety & Community facilities averaged 71.1% in 4Q22, up sequentially from 70.1% and 69.5% in the two prior quarters, as illustrated below. The decline in occupancies in the last three quarters of 2022 compared to the same periods of 2021 primarily reflects the transition at La Palma, according to management. As occupancy at the company's facilities increase 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 a gradual increase in demand for occupancy at CXW facilities, as ICE apparently does not have sufficient supply to satisfy demand. Many (an estimated roughly two-thirds) CXW centers are operated under occupancy guarantees that exceed current actual occupancy levels. Once actual occupancy reaches – and then passes – guaranteed levels, we expect CXW to garner incremental revenue.



Source: Company quarterly supplements

Anticipate higher occupancies post-Title 42 …

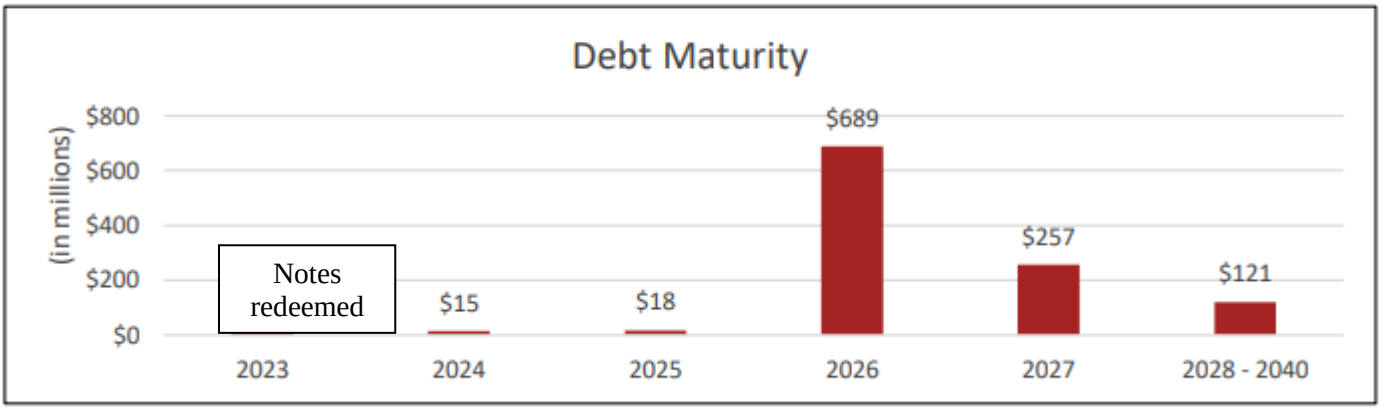
We continue to expect the termination of Title 42 at some point, rising occupancies at the company's La Palma facility and continued balance sheet measures as potential upcoming catalysts for CoreCivic. We also expect rising occupancies to lead to improving operating leverage. Moreover, the company also expects that OpEx is normalizing. Thus, although CXW anticipates higher costs as staffing levels increase, the company does not expect to incur the same level of incentive payments in order to attract staff members, although CXW expects challenging labor market conditions to continue in 2023.

Title 42 was enacted during the pandemic under the Trump administration to deter immigration into the U.S., with a stated public health justification to deter the spread of COVID-19. Concerns that ICE (Immigration and Customs Enforcement) does not have adequate detention capacity if the flow of people seeking entry into the U.S. rises have led to a delay in lifting this measure, but we expect an end to Title 42 in 2H23.

Separately, the California Department of Corrections and Rehabilitation (CDCR) recently informed CXW that it intends to terminate the lease at CXW's 2,560-bed California City Correctional Center (CCCC) by March 31, 2024, citing declining inmate populations. CXW has significant lead time to enter into discussions with CDCR and potentially other entities to replace occupancy at that facility and is optimistic about this initiative, particularly reflecting what management notes is the advanced age of CDCR's facilities. Moreover, the lease agreement at CCCC is fully funded through June 30, 2023, after which time funding beginning July 1, 2023 will be determined during the California legislature's annual budget process. The CCCC facility generated rental revenue of $33.3 million from the CDCR for the full year of 2021.

Balance sheet stronger with debt reductions, refinancing measures…

CXW's balance sheet and refinancing measures have led to substantially lower debt levels. The company pared its debt balance by more than $287 million in 2022. In February 2023, CXW fully paid the $154 million outstanding balance on its 4.625% senior notes that were scheduled to mature on May 1, 2023. Since summer 2020, the company has reduced debt by more than $1 billion, the combination of cash flow from operations and asset sales, and also extended maturities through refinancings.



Source: Quarterly supplement

Debt reductions / share repurchases expected to continue

Following recent balance sheet measures, the company has no major debt maturities coming due before 2026. CXW has also pursued a share repurchase program, buying 6.6 million shares (5%+ of the outstanding shares) in 2022 for $74.5 million.

In terms of capital deployment, we expect the company to continue to prioritize share buybacks and maintain debt reduction measures. Depending on market conditions, we would anticipate further share buybacks. The company has substantial liquidity to maintain these measures. CXW had $149.4 million of cash at the end of 2022 and $233.2 million remaining under its revolver. Down the road, we also believe the company could also enhance shareholder value via a dividend.

VALUATION

Strong contract renewal rates…

The company's renewal rate on its facilities over the past five years averages about 95%. We anticipate further multiple expansion on CXW shares, as the shares continue to discount the stability of the company's contracts and revenue streams and balance sheet measures. In addition to opportunities for new contracts to augment revenue, the company has indicated that it might explore adjacent revenue opportunities such as at-home detention monitoring, for one.

Notably, 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. Our $18.25 valuation implies a multiple of just about 13x one-year forward FFO, the low end of the recent average. We also believe the company's ESG initiatives will contribute positively to anticipate multiple expansions. We believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

Takeaway from McRae facility transaction

The sale price CXW garnered from the recent divestiture of its 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 remain in place longer than expected.
- 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

- On February 8, 2023, the company reported 2022 results.
- On December 22, 2022, CoreCivic announced its intention to redeem its 4.625% Senior Notes due 2023.
- CXW received lease termination notice for the California City Correctional Center from the State of California on December 6, 2022.
- 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.

FINANCIAL MODEL

Core Civic

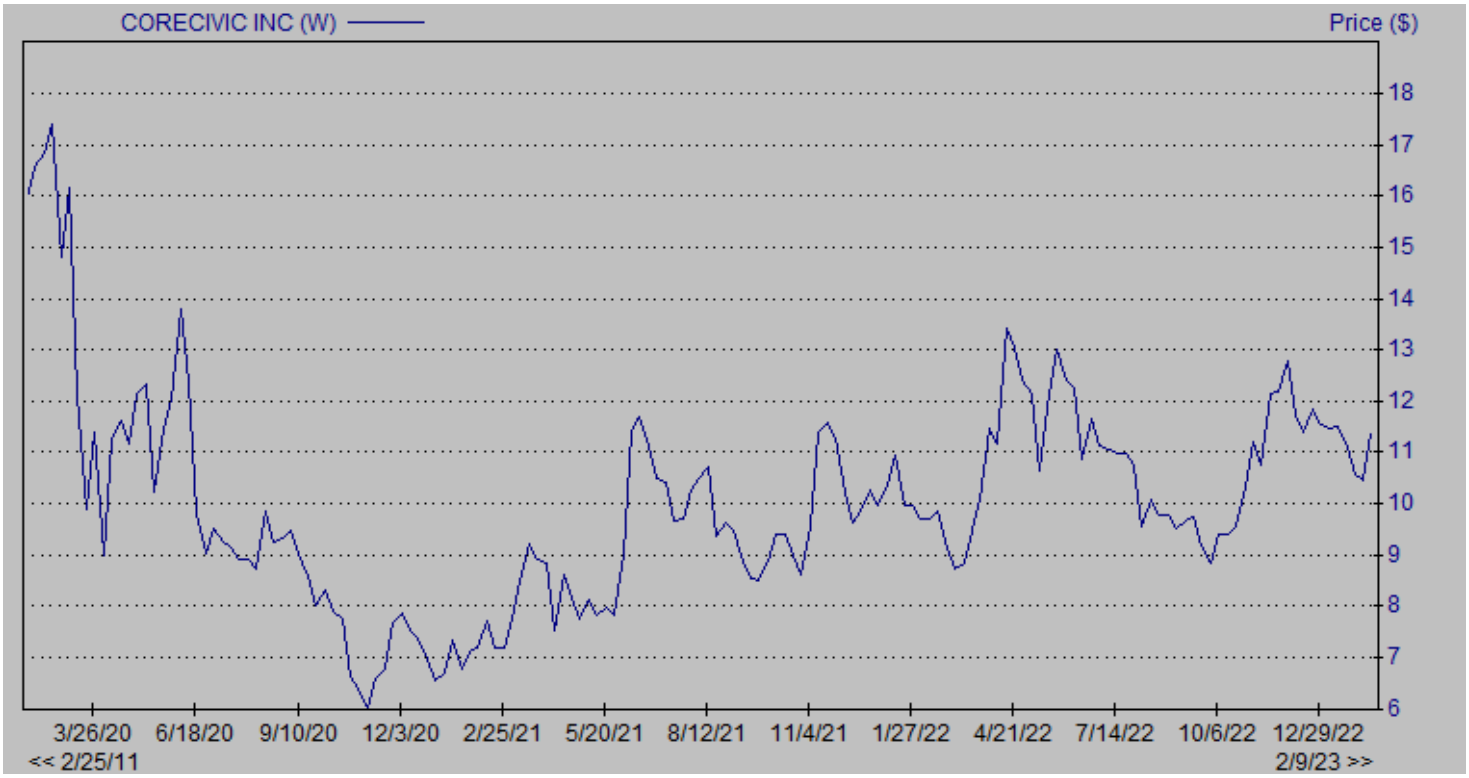
Core Civic Income Statement & Projections ($000s except per share data)

	2021A	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23E	2Q23E	3Q23E	4Q23E	2023E
Revenue	$1,862,616	$452,988	$456,697	$464,211	$471,433	$1,845,329	$473,790	$475,685	$476,113	$476,590	$1,902,178
Y/Y % change	*-2.2%*	*-0.4%*	*-1.7%*	*-1.5%*	*-0.1%*	*-0.9%*	*4.6%*	*4.2%*	*2.6%*	*1.1%*	*3.1%*
Operating expense	1,337,065	344,629	349,000	368,194	351,969	1,413,792	364,818	371,035	371,368	371,740	1,478,961
General and administrative	135,770	31,101	31,513	30,194	34,892	127,700	30,607	30,729	30,757	30,788	122,881
Depreciation and amortization	134,738	32,028	32,259	31,931	31,688	127,906	32,346	32,437	32,599	32,794	130,176
Shareholder litigation expense / other	54,295		1,900	-	-	1,900	-	-	-	-	-
Impairments / other	11,378	-	-	3,513	879	4,392	-	-	-	-	-
Total operating expense	1,673,246	407,758	414,672	433,832	419,428	1,675,690	427,771	434,200	434,724	435,322	1,732,018
Operating income	189,370	45,230	42,025	30,379	52,005	169,639	46,019	41,485	41,389	41,268	170,160
Operating margin	10.2%	10.0%	9.2%	6.5%	11.0%	9.2%	9.7%	8.7%	8.7%	8.7%	8.9%
Interest expense, net	85,542	22,920	21,668	20,793	19,593	84,974	22,475	21,258	20,928	20,838	85,500
Other (income) expense	17,725	(3,303)	5,782	(82,974)	(142)	(80,637)	(950)	-	-	-	(950)
	103,267	19,617	27,450	(62,181)	19,451	4,337	21,525	21,258	20,928	20,838	84,550
Pretax income	86,103	25,613	14,575	92,560	32,554	165,302	24,494	20,226	20,461	20,429	85,610
Taxes	(137,999)	(6,610)	(4,013)	(24,242)	(8,117)	(42,982)	(6,613)	(5,583)	(5,647)	(5,638)	(23,481)
	160.3%										
Minority interest											
Net income	(51,896)	19,003	10,562	68,318	24,437	122,320	17,880	14,644	14,814	14,791	62,129
Per share data											
EPS	($0.43)	$0.16	$0.09	$0.58	$0.21	$1.03	$0.15	$0.13	$0.13	$0.13	$0.54
Dividends											
Average shares outstanding	121,673	121,420	121,346	116,569	116,256	116,256	116,255	116,075	115,585	115,405	115,830
Funds From Operation (FFO)											
Net income	($51,896)	$19,003	$10,562	$68,318	$24,437	$122,320	$17,880	$14,644	$14,814	$14,791	$62,129
+ D&A of real estate assets	98,738	24,166	24,501	24,158	24,092	96,716	24,421	24,490	24,612	24,760	98,283
+ Impairment of real estate assets	3,335	-	-	3,513	879	4,392	-	-	-	-	-
- Gain on sale of real estate assets	(38,766)	(2,261)	(1,060)	(83,828)	(579)	(87,728)	532	-	-	-	532
+ - Other	8,785	625	283	21,165	(78)	21,995	-	-	-	-	-
FFO	20,196	41,533	34,286	33,326	48,751	157,695	42,834	39,134	39,426	39,551	160,944
FFO/share	$0.17	$0.34	$0.28	$0.28	$0.42	$1.33	$0.37	$0.34	$0.34	$0.34	$1.39
+ M&A expenses					-	-	-	-	-	-	-
+ COVID related expenses	2,434	-	-	-	-	-	-	-	-	-	-
+ Balance sheet related expenses					489	8,077	950				
+ - Other special items	202,854	-	6,381	577	(127)	(757)	-	-	-	-	-
Normalized FFO	225,484	41,533	40,667	33,903	49,113	165,015	43,784	39,134	39,426	39,551	160,944
Normalized FFO/share	$1.85	$0.34	$0.34	$0.29	$0.42	$1.39	$0.38	$0.34	$0.34	$0.34	$1.39

Source: Company reports, Zacks estimates

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



© Copyright 2023, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.