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Zacks Small-Cap Research

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CoreCivic, Inc. (CXW-NYSE)

CXW: Actions to Enhance Shareholder Value Continue; Title 42 Looks Likely to End Shortly

CXW's measures to enhance shareholder value continue. In 1Q23, the company fully paid the $154M outstanding balance on its senior notes that were scheduled to mature on May 1, 2023 & has no major debt maturities coming due before 2026. We expect CXW to continue debt reduction / refinancing initiatives well in advance of the 2026 maturity date. The company has pared debt by more than $1.1B since first announcing its deleveraging strategy in 2020. CXW has also repurchased 5+% of its shares over this period.

OUTLOOK

We continue to expect the termination of Title 42, which is set to occur next week, to lead to rising occupancies at the company's facilities, as ICE apparently does not have sufficient capacity to house people. The company's expectation is that the impact of Title 42 ending will be gradual, although demand for occupancy could ramp faster than management currently anticipates. The company has added staff over the past several quarters in order to have adequate personnel once Title 42 ends.

Current Price (5/4/23)	$8.37
Valuation	**$17.00**

SUMMARY DATA

52-Week High	**$13.51**
52-Week Low	**$7.84**
One-Year Return (%)	**-31.1**
Beta	**N/A**
Average Daily Volume (sh)	**1,061,098**
Shares Outstanding (mil)	**114**
Market Capitalization ($mil)	**$1,000**
Short Interest Ratio (days)	**2.0**
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	**8.5**
P/E using 2023 Estimate	**17.8**
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	458 A	463 E	470 E	487 E	1,878 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	$0.11 A	$0.10 E	$0.12 E	$0.15 E	$0.47 E

Qs might not sum reflecting rounding

Disclosures on page 8

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KEY POINTS

- CoreCivic reported 1Q23 revenue of $458.0 million compared to $453.0 million in 1Q22; net income was $12.4 million, or $0.11/share, compared to $19.0 million, or $0.16. Normalized FFO came in at $38.9 million versus $41.5 million. The decline primarily reflects the expiration of a BOP contract in 4Q22, spillover impact of the La Palma transition, wage inflation and increased staffing ahead of anticipated occupancy increases following the termination of Title 42.

- We continue to expect the termination of Title 42, which is set to occur next week, to lead to rising occupancies at the company's facilities, as ICE apparently does not have sufficient capacity to house people. The company's expectation is that the impact of Title 42 ending will be gradual, although demand for occupancy could ramp faster than management currently anticipates. Nevertheless, the company has added staff over the past several quarters in order to have adequate personnel once Title 42 ends.

- CXW repurchased 2.5 million shares in 1Q23 for $24.9 million. At the end of 1Q23, $125.6 million remained under the share repurchase program.

- In 1Q23, the company fully paid the $154 million outstanding balance on its 4.625% senior notes that were scheduled to mature on May 1, 2023. The company has pared debt by more than $1.1 billion since first announcing its capital allocation / deleveraging strategy in 2020, the combination of cash flow from operations and asset sales.

- The company has also extended maturities through refinancings. Following recent balance sheet measures, the company has no major debt maturities coming due before 2026 and we expect CXW to continue to prioritize debt reduction / refinancing measures well in advance of the 2026 maturity date.

POSITIVE UNDERLYING TRENDS

1Q23 highlights

CoreCivic (NYSE: CXW) reported 1Q23 results and updated 2023 guidance this week. CXW's 1Q23 revenue was $458.0 million compared to $453.0 million in 1Q22. Net income was $12.4 million, or $0.11/share, compared to $19.0 million, or $0.16. Adjusted net income excluding special items in both periods was $14.7 million, or $0.13 /share in 1Q23, compared to $17.4 million, or $0.14 in 1Q22. The decline primarily reflects the expiration of a BOP (Federal Bureau of Prisons) contract at CXW's McRae Correctional Facility on November 30, 2022, spillover impact of the La Palma transition, wage inflation, including temporary incentives to attract new staff in a tight labor market, and increased staffing ahead of anticipated occupancy increases following the termination of Title 42. The company's staffing levels was higher and CXW paid more in overall wages and incentive expenses, as well as travel expenses to hire staff at several facilities.

Adjusted EBITDA was $73.7 million versus $80.8 million in 1Q22, with the decline largely attributable primarily to the above-noted La Palma transition and McRae contract expiration, which respectively represented a $7.4 million and $2.3 million reduction in EBITDA. FFO came in at $36.6 million, or $0.32 / share, compared to $41.5 million and $0.34, respectively, in 1Q22, while normalized FFO excluding special items noted above was $38.9 million, which equates to $0.34 per share versus $41.5 million, or $0.34, in 1Q22. We have updated our model based on 1Q23 results and company guidance.

The company's expectation is that the impact of Title 42 ending will be gradual, although demand for occupancy could ramp up faster than management currently anticipates. Nevertheless, the company has added staff over the past several quarters in order to have adequate personnel once Title 42 ends (which has resulted in short-term increases in costs preceding expected incremental revenue). As occupancy levels increase and staffing related costs normalize, the company anticipates operating leverage and improving margins, although management has indicated that it does not expect margins to return to pre-pandemic levels before 2024.

Share buybacks & deleveraging measures continue …

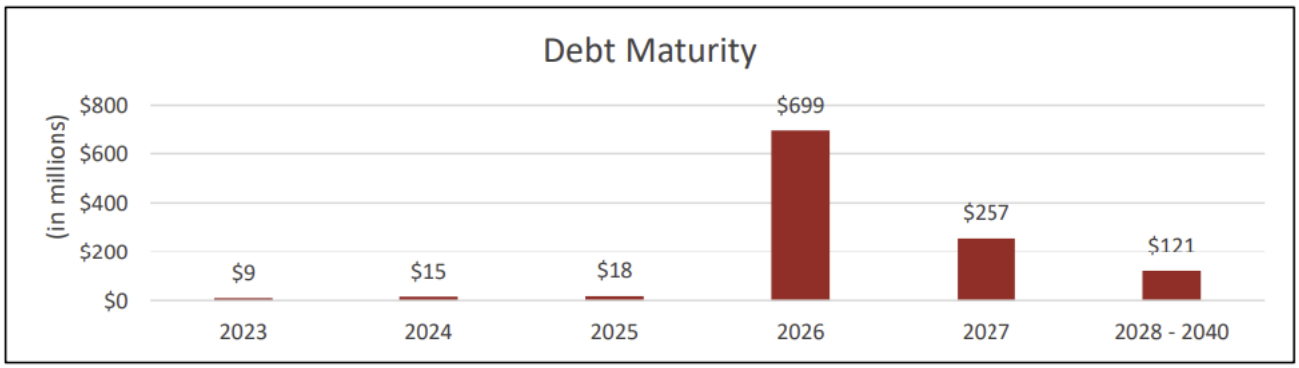
CXW repurchased 2.5 million shares in 1Q23 for $24.9 million. The repurchase plan was initiated in May 2022 for up to $150.0 million and subsequently increased to $225.0 million in August 2022. CXW has repurchased 9.1 million shares, or more than 5% of outstanding shares, for $99.4 million since the program began in 2Q22 through the end of 1Q23. At the end of 1Q23, there was $125.6 million remaining under the share repurchase program, which does not expire.

Debt reductions …

'23 Notes redeemed

In 1Q23, the company fully paid the $154 million outstanding balance on its 4.625% senior notes that were scheduled to mature on May 1, 2023. CXW's balance sheet and refinancing measures have led to substantially lower debt levels over the past couple of years. The company pared its debt balance by more than $287 million in 2022 alone and reduced debt by more than $1.1 billion since first announcing its deleveraging strategy in 2020, the combination of cash flow from operations and asset sales.

The company has also streamlined its real estate portfolio during this period, divesting non-core assets and, in turn, raising funds for deleveraging and other capital deployment initiatives. The company completed the sale of two Philadelphia properties (the Roth Hall Residential Reentry Center and the Walker Hall Residential Reentry Center), raising net proceeds of $5.8 million. CXW is currently looking to divest a residential reentry center located in Denver, Colorado that is valued at about $1.2 million.



Source: Quarterly presentation

Debt reduction measures expected to continue

The company has also extended maturities through refinancings. Following recent balance sheet measures, the company has no major debt maturities coming due before 2026. In terms of capital deployment, we expect the company to continue to prioritize debt reduction measures well in advance of 2026. Depending on market conditions, we would anticipate some further share buybacks, as well, although not expected at the level seen in 1Q23. The company has substantial liquidity to maintain these measures. CXW had $51.5 million of cash at the end of 1Q23 and $222.6 million remaining under its revolver.

TITLE 42 SET TO END

Anticipate rising demand for occupancy post-Title 42

We continue to expect the termination of Title 42, which is set to occur next week, to lead to rising occupancies at the company's facilities and believe this could be a potential upcoming catalyst. We also expect rising occupancies to lead to improving operating leverage. Moreover, the company also expects that OpEx is normalizing. 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.

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 in the past.

VALUATION

Strong contract renewal rates…

CXW shares have come under pressure since late 2022, as the termination of Title 42 has been delayed and the company has announced a couple of contract terminations. Nevertheless, the company's renewal rate on its facilities over the past five years averages about 94%. Moreover, management has indicated that it remains in discussions with potential partners for new agreements. We anticipate contract renewals will remain relatively steady in the foreseeable future because government entities and ICE need to house the prison populations and detainees and also face budgetary issues that likely constrain construction of new facilities in the near-term.

We anticipate further multiple expansion on CXW shares, as the shares continue to discount the expected stability of contract renewals and revenue streams, and as balance sheet measures continue. Over time, the company has also indicated that it might explore adjacent revenue opportunities such as at-home detention monitoring, for one. This would be consistent with activities in the past, as Core Civic has diversified into adjacent areas, growing its residential reentry centers, for example. 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 $16 valuation implies a multiple of 12x one-year forward FFO, which is below the low end of the recent average, as we believe the multiple could remain constrained until the impact of Title 42 ending is clearer. 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. We also note that on a price per bed basis, the share trade well below the valuation implied by the company's recent sale of its McRae facility.

RISKS

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

- As contracts 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 May 3, 2023, the company reported 1Q23 results.
- CXW announced that it received lease termination notice for the North Fork Correctional Facility from the State of Oklahoma on April 25, 2023.
- On April 17, 2023, the company releases its 5th Annual ESG report.
- 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 finalized new credit facilities and authorized a share buyback on May 12, 2022.
- 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.

FINANCIAL MODEL

Core Civic

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

	2021A	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E
Revenue	$1,862,616	$452,988	$456,697	$464,211	$471,433	$1,845,329	$458,002	$462,582	$470,446	$486,912	$1,877,941
Y/Y % change	*-2.2%*	*-0.4%*	*-1.7%*	*-1.5%*	*-0.1%*	*-0.9%*	*1.1%*	*1.3%*	*1.3%*	*3.3%*	*1.8%*
Operating expense	1,337,065	344,629	349,000	368,194	351,969	1,413,792	354,537	358,177	364,125	374,922	1,451,761
General and administrative	135,770	31,101	31,513	30,194	34,892	127,700	32,679	32,842	33,007	33,172	131,700
Depreciation and amortization	134,738	32,028	32,259	31,931	31,688	127,906	31,042	31,818	32,614	33,429	128,902
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	418,258	422,838	429,745	441,522	1,712,363
Operating income	189,370	45,230	42,025	30,379	52,005	169,639	39,744	39,744	40,701	45,389	165,578
Operating margin	10.2%	10.0%	9.2%	6.5%	11.0%	9.2%	8.7%	8.6%	8.7%	9.3%	8.8%
Interest expense, net	85,542	22,920	21,668	20,793	19,593	84,974	19,151	21,975	22,300	22,325	85,750
Other (income) expense	17,725	(3,303)	5,782	(82,974)	(142)	(80,637)	47	-	-	-	47
	103,267	19,617	27,450	(62,181)	19,451	4,337	19,198	21,975	22,300	22,325	85,797
Pretax income	86,103	25,613	14,575	92,560	32,554	165,302	20,546	17,770	18,401	23,065	79,781
Taxes	(137,999)	(6,610)	(4,013)	(24,242)	(8,117)	(42,982)	(8,146)	(6,397)	(5,079)	(6,366)	(25,988)
	160.3%										
Minority interest											
Net income	(51,896)	19,003	10,562	68,318	24,437	122,320	12,400	11,373	13,322	16,699	53,794
Per share data											
EPS	($0.43)	$0.16	$0.09	$0.58	$0.21	$1.03	$0.11	$0.10	$0.12	$0.14	$0.47
Dividends											
Average shares outstanding	121,673	121,420	121,346	116,569	116,256	116,256	114,533	114,353	114,173	113,683	114,186
Funds From Operation (FFO)											
Net income	($51,896)	$19,003	$10,562	$68,318	$24,437	$122,320	$12,400	$11,373	$13,322	$16,699	$53,794
+ D&A of real estate assets	98,738	24,166	24,501	24,158	24,092	96,716	24,171	23,864	24,460	25,072	97,566
+ 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)	-	-	-	-	-
+ - Other	8,785	625	283	21,165	(78)	21,995	-	-	-	-	-
FFO	20,196	41,533	34,286	33,326	48,751	157,695	36,571	35,236	37,782	41,770	151,360
FFO/share	$0.17	$0.34	$0.28	$0.28	$0.42	$1.33	$0.32	$0.31	$0.33	$0.37	$1.33
+ M&A expenses					-	-	-	-	-	-	-
+ COVID related expenses	2,434	-	-	-	-	-	-	-	-	-	-
+ Balance sheet related expenses					489	8,077	-				-
+ - Other special items	202,854	-	6,381	577	(127)	(757)	2,308	-	-	-	2,308
Normalized FFO	225,484	41,533	40,667	33,903	49,113	165,015	38,879	35,236	37,782	41,770	153,668
Normalized FFO/share	$1.85	$0.34	$0.34	$0.29	$0.42	$1.39	$0.34	$0.31	$0.33	$0.37	$1.35

Source: Company reports, Zacks estimates

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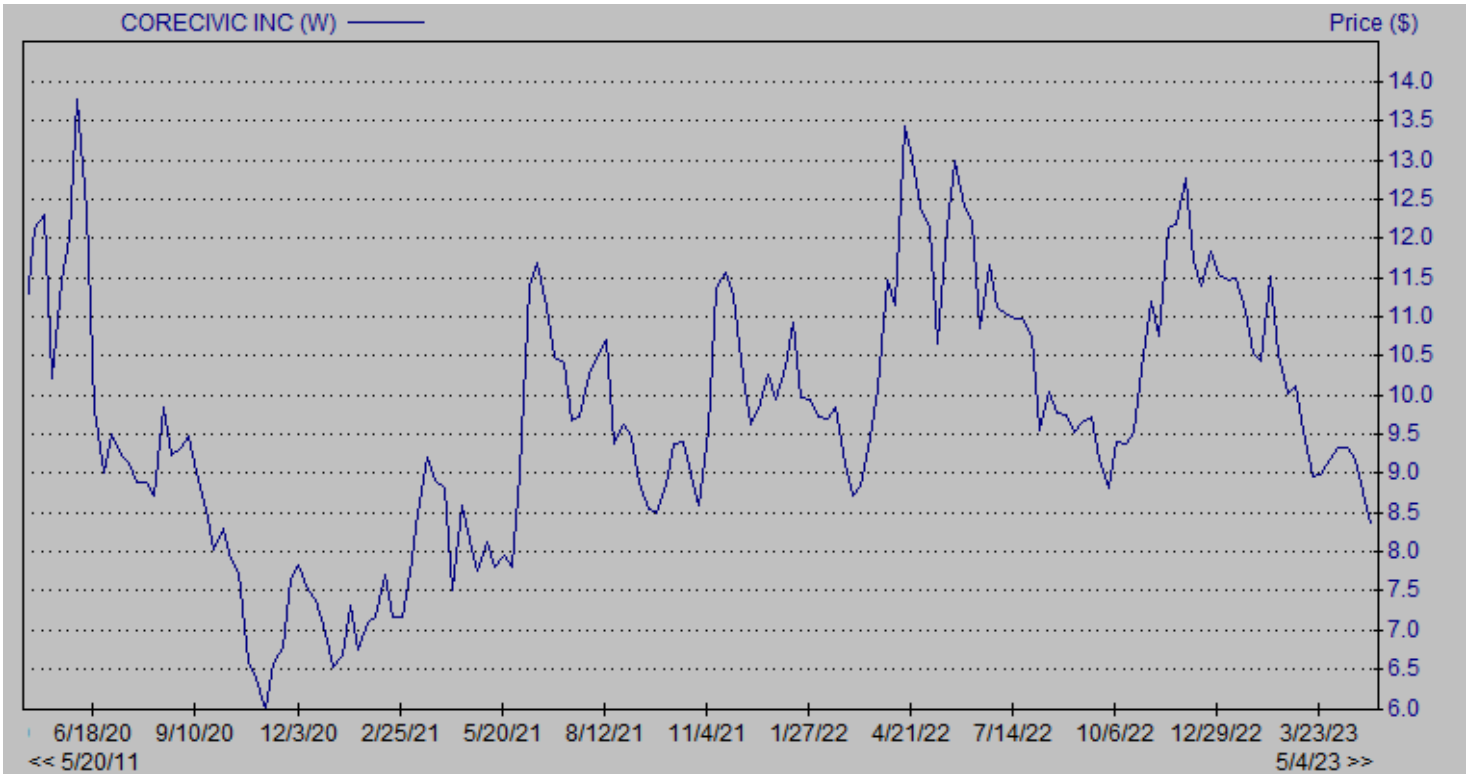

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