August 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 Trends – Rising Occupancy, Normalizing OpEx, Debt Reductions – Lead CXW to Raise Guidance

Title 42 ended on May 11, 2023. ICE detention populations at CXW facilities have increased by ~45% since then (through July 31, 2023). The company's discussions with existing & potential partners also would appear to have positive implications for further occupancy increases. We expect rising occupancies to lead to improving operating leverage. Combined with continued debt reductions – CXW has pared debt by more than $1.1B since 2020 – this has positive implications for the share price multiple, in our view.

OUTLOOK

CoreCivic reported 2Q23 results this week. As anticipated, the termination of Title 42 has led to higher occupancies at CXW facilities, while at the same time the company continues to pursue cost containment efforts, debt reductions and other balance sheet strengthening measures. Reflecting rising occupancies, the apparent growing demand for capacity and ongoing discussions the company is having with existing and potential partners plus its own efficiency improvements, CXW raised 2023 guidance.

Current Price (8/9/23)	$10.57
Valuation	**$17.00**

SUMMARY DATA

52-Week High	**$13.50**
52-Week Low	**$7.84**
One-Year Return (%)	**7.1**
Beta	**0.96**
Average Daily Volume (sh)	**735,048**
Shares Outstanding (mil)	**114**
Market Capitalization ($mil)	**$1,200**
Short Interest Ratio (days)	**1.8**
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	**9.3**
P/E using 2023 Estimate	**20.6**
P/E using 2024 Estimate	**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	464 A	470 E	487 E	1,879 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	$0.13 A	$0.11 E	$0.17 E	$0.51 E

Qs might not sum reflecting rounding

Disclosures on page 9

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

TAKEAWAYS: POSITIVE TRENDS LEAD COMPANY TO RAISE GUIDANCE

Occupancies up, debt reductions continue…

CoreCivic (NYSE: CXW) reported 2Q23 results this week. As anticipated, the termination of Title 42 has led to higher occupancies at CXW facilities, while at the same time the company continues to pursue cost containment efforts, debt reductions and other balance sheet strengthening measures. Reflecting rising occupancies, the apparent growing demand for capacity and ongoing discussions the company is having with existing and potential partners plus its own efficiency improvements, CXW raised 2023 guidance.

2Q23 Takeaways

- CXW raised 2023 guidance
- Occupancies at CXW facilities are up
- Company continues debt reductions / balance sheet strengthening measures

Importantly, the higher guidance came even against the backdrop of a difficult labor market and inflationary pressure, as well as the interest rate environment. As courts have resumed operations and with the termination of Title 42 (see below), the need for correctional and detention capacity has increased for some government agencies and the company is engaged in discussions, as noted, to provide further capacity. Moreover, CXW believes that it has adequate personnel in place to support rising occupancy levels at its facilities, reflecting recent investments in its workforce.

RECENT RESULTS

Positive factors lead company to raise guidance…

CoreCivic reported 2Q23 total revenue of $463.7 million, up from $456.7 million. Net Income was $14.8 million or $0.13 per share, compared to $10.6 million and $0.09, respectively. Largely reflecting tight labor market conditions, operating expense advanced 3.7% year-over-year to $362.0 million and operating income was $37.4 million compared to $42.0 million. On the higher OpEx, CXW recorded an operating margin of 8.1% versus 9.2%. Nevertheless, the company expects that OpEx is normalizing. CXW has cut some labor-related costs, such as registry nursing, wage incentives and travel, and believes it can reduce these expenses further as labor market conditions improve.

Notably, CXW has experienced rising job applications at many of its facilities and believes it has put sufficient staff in place to support the rising populations the company began to see in 2Q23. Since Title 42 ended, the number of people in ICE (U.S. Immigration and Customs Enforcement) custody has increased 43%, according to CXW. The company has experienced a comparable increase in occupancies.

Reflecting the company's ongoing debt reduction measures over the past several quarters (see below), interest expense was $18.3 million, down from $21.7 million in 2Q22. This contributed to significantly higher net income in 2Q23 – $14.8 million or $0.13 per share, compared with $10.6 million or $0.09 in 2Q22. However, adjusted for special items in both periods, adjusted 2Q23 net income was $13.6 million and $0.12 per share, compared with $16.2 million or $0.13. The decline was due, in part, to the expiration of the contract at the McRae Correctional Facility in 4Q22, as well as above noted labor market and wage inflation pressures combined with higher staffing levels as CXW has prepared for increased occupancy levels.

EBITDA was $71.8 million in 2Q23, compared with $71.1 million 2Q 2022 and adjusted EBITDA was $72.1 million, compared with $78.8 million in 2Q22. The decline in adjusted EBITDA was primarily related to factors noted above, including termination of the McRae contract. McRae accounted for $2.4 million of EBITDA in 2Q22. Adjusted EPS declined by $0.01 – to $0.12 from $0.13 – reflecting the same factors.

Funds From Operations (FFO) of $39.0 million, or $0.34 per share, was up from $34.3 million and $0.28, respectively, in 2Q22. Excluding special items noted earlier, normalized FFO was $37.8 million and $0.33 per share, compared to $40.7 million and $0.34 in 2Q22.

Improved outlook; current guidance…

Following strong 2Q23 results, CXW now expects 2023 net income of $58.4 million to $66.4 million and EPS of $0.51 to $0.58, up from earlier guidance of $51.2 million to $63.2 million and EPS of $0.44 to $0.55. The company anticipates generating adjusted net income of $59.5 million to $67.5 million and adjusted EPS of $0.52 to $0.59. This compares to earlier adjusted net income guidance of $53.5 million to $65.5 million or $0.46 to $0.57 per share. Normalized FFO per share is now expected to range from $1.37 to $1.45, up from earlier guidance ranging from $1.31 to $1.42. We have adjusted our forecasts following 2Q23 and the higher company guidance.

OCCUPANCIES UP; FURTHER INCREASES EXPECTED

ICE populations up post-Title 42…

Title 42 ended on May 11, 2023. We believe this has continued positive implications for demand for occupancy at CoreCivic's facilities, as ICE apparently does not have sufficient supply to satisfy demand. In fact, ICE detention populations within the company's facilities have increased by 2,573, or 45% since May 11, 2023, through July 31, 2023. We also expect rising occupancies to lead to improving operating leverage. 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.

By way of background, 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 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.

The company had added staff over the past several quarters, as indicated above, in order to have adequate personnel in place for when Title 42 ended. As occupancy levels increase and staffing related costs normalize, the company expects to realize operating leverage and see margins improve, although management has indicated that it does not expect margins to return to pre-pandemic levels before 2024.

New Lease Agreement at Davis Correctional Facility; 94% Contract Renewal Rate

Separately, CXW also recently extended its lease with the Oklahoma Department of Corrections for the company's 1,670-bed Davis Correctional Facility, which we believe is positive for operating results. CXW had a management contract with Oklahoma that was set to end on June 30, 2023 and the two entered into a 90-day contract extension. At September 30, 2023, when the contract extension ends, operations of the facility will transfer to the Oklahoma Department of Corrections under a new lease agreement slated to run from October 1, 2023 through June 30, 2029, with unlimited two-year renewal options. The company expects to generate annual rental revenue at the Davis facility of $7.5 million under the new lease agreement. The company expects margins will be consistent with the average roughly 75+% operating margin the company's Properties segment generates. By comparison, Davis produced a net operating loss of $1.5 million in 1H23.

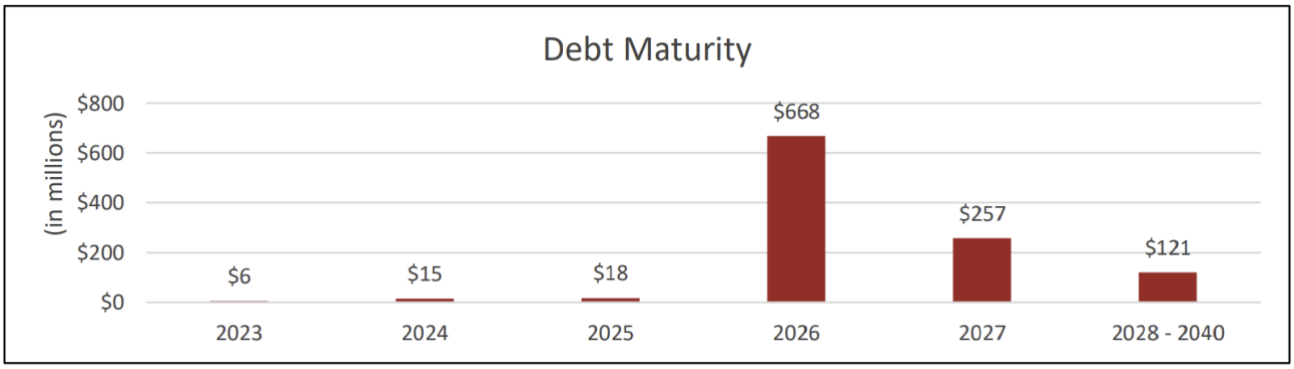
Moreover, even with the above-noted expiration of the McRae contract, CXW's renewal rate over the past 5-years on owned and controlled facilities is 94%. Management believes renewal rates remain high, reflecting the limited supply of and older state of many government owned correctional facilities, the programs the company offers inmates and the cost effectiveness of its services, among other factors.

BALANCE SHEET MEASURES INCLUDE DEBT REPAYMENTS, SHARE BUYBACKS

… Expect deleveraging measures to continue …

CXW's balance sheet and refinancing measures have led to substantially lower debt levels over the past couple of years. The company's near-term focus continues to be on further strengthening its balance sheet via debt paydowns. In 2Q23, CXW repurchased $21.0 million of its 8.25% senior notes that are scheduled to mature on April 15, 2026, through open market purchases. 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 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.



Source: Quarterly presentation

Minimal Maturities Until 2026

The company has also extended maturities through refinancings. Following recent balance sheet measures, the company has no major debt maturities coming due before 2026. At this point, CXW has reduced the 8.25% senior notes outstanding balance to $593.1 million.

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.

Potential share repurchases, depending on market conditions …

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 earlier quarters.

Depending on market conditions, it would not surprise us to see CXW also buy back shares from time to time, although the company has noted that deleveraging measures will remain the priority for capital allocation measures in the near-term. The repurchase plan was initiated in May 2022 for up to $150.0 million and subsequently increased to $225.0 million in August 2022. Since the program began, CXW had repurchased more than 9 million shares for about $100+ million. At the end of 2Q23, there was $124.9 million remaining under the share repurchase program, which does not expire. The company has substantial liquidity to maintain these measures. CXW had $41.8 million of cash at the end of 2Q23 and no borrowings outstanding under its revolver.

VALUATION

Expect multiple expansion over time …

After coming under pressure over the past few years on concerns about the private correctional sector, delays in the termination of Title 42 and a couple of CXW contract terminations, among other factors, the shares have recovered some ground since the May 2023 termination of Title 42. As noted, the company's renewal rate on its facilities over the past five years averages a high roughly 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 view the recent Davis contract as a positive.

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 $17 valuation implies a multiple of about 12.4x our 2023 low-end of guidance FFO forecast, which is below the recent average. Moreover, our forecast is at the low-end of the guidance range, implying that there could be upside to this metric. We also believe that as OpEx continues to normalize and occupancies rise post-Title 42, the company's operating leverage is likely to further improve. CXW's operating margin averaged about 14%-15% in the years leading up to the pandemic and we anticipate further margin expansion. From 2017 to 2019, FFO per share ranged from about $2.21 to $2.52. If the anticipated operating improvements continue, we would expect the company's FFO to return to more normalized pre-pandemic levels, which implies that the shares trade at a significantly lower multiple currently.

We also believe the company's ESG initiatives will contribute positively to anticipated 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 August 7, 2023, the company reported 2Q23 results.
- CXW announced a new lease agreement with the state of Oklahoma for the Davis correctional facility on June 14, 2023.
- 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

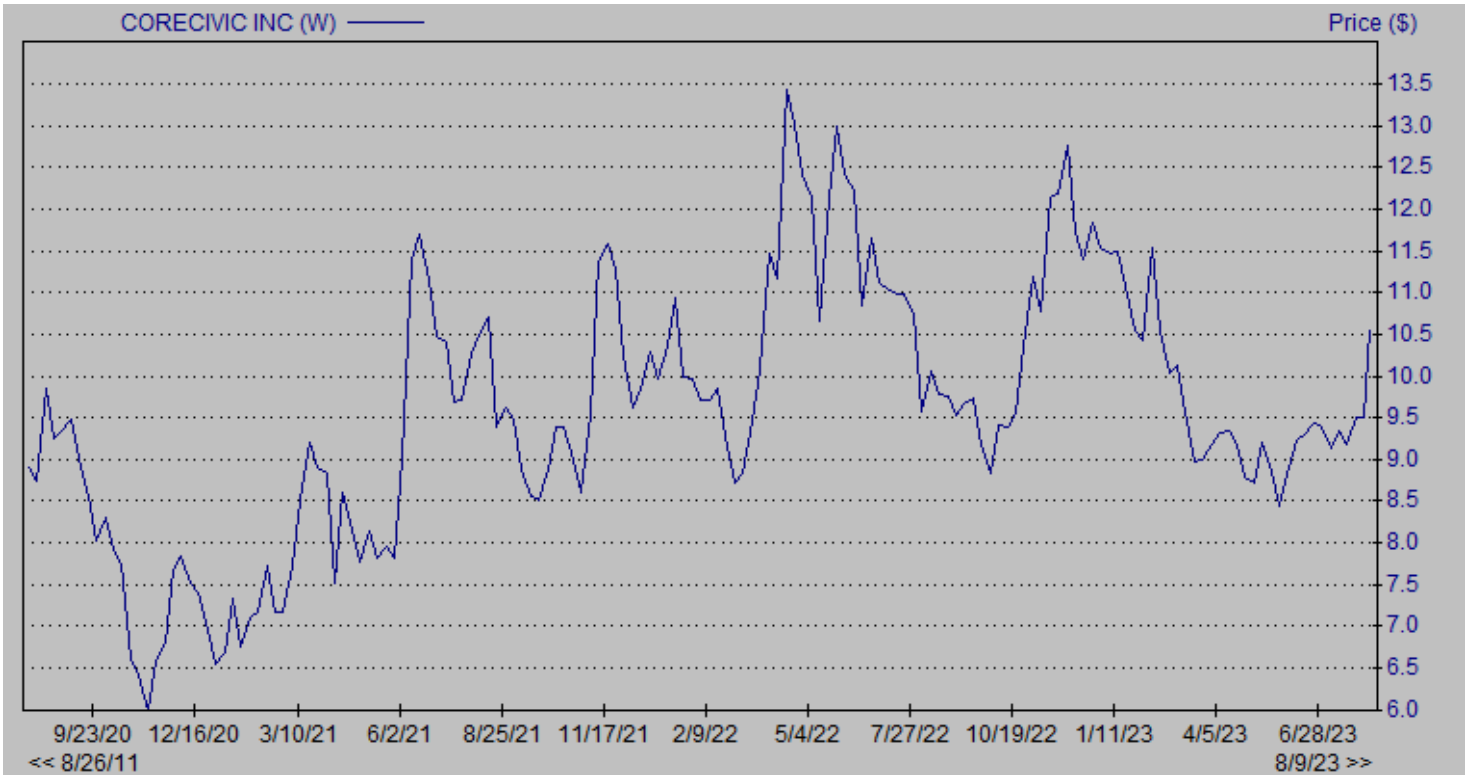
Core Civic Income Statement & Projections ($000s except per share data)

	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23A	2Q23A	3Q23E	4Q23E	2023E
Revenue	$452,988	$456,697	$464,211	$471,433	$1,845,329	$458,002	$463,682	$470,446	$486,912	$1,879,041
Y/Y % change	*-0.4%*	*-1.7%*	*-1.5%*	*-0.1%*	*-0.9%*	*1.1%*	*1.5%*	*1.3%*	*3.3%*	*1.8%*
Operating expense	344,629	349,000	368,194	351,969	1,413,792	354,537	362,008	364,125	370,053	1,450,723
General and administrative	31,101	31,513	30,194	34,892	127,700	32,679	32,612	33,007	32,974	131,271
Depreciation and amortization	32,028	32,259	31,931	31,688	127,906	31,042	31,615	32,177	32,917	127,750
Shareholder litigation expense / other		1,900	-	-	1,900	-	-	-	-	-
Impairments / other	-	-	3,513	879	4,392	-	-	-	-	-
Total operating expense	407,758	414,672	433,832	419,428	1,675,690	418,258	426,235	429,308	435,943	1,709,744
Operating income	45,230	42,025	30,379	52,005	169,639	39,744	37,447	41,138	50,968	169,297
Operating margin	10.0%	9.2%	6.5%	11.0%	9.2%	8.7%	8.1%	8.7%	10.5%	9.0%
Interest expense, net	22,920	21,668	20,793	19,593	84,974	19,151	18,268	22,847	23,597	83,862
Other (income) expense	(3,303)	5,782	(82,974)	(142)	(80,637)	47	173	-	-	220
	19,617	27,450	(62,181)	19,451	4,337	19,198	18,441	22,847	23,597	84,082
Pretax income	25,613	14,575	92,560	32,554	165,302	20,546	19,006	18,291	27,372	85,215
Taxes	(6,610)	(4,013)	(24,242)	(8,117)	(42,982)	(8,146)	(4,176)	(6,036)	(8,348)	(26,706)
Minority interest										
Net income	19,003	10,562	68,318	24,437	122,320	12,400	14,830	12,255	19,023	58,508
Per share data										
EPS	$0.16	$0.09	$0.58	$0.21	$1.03	$0.11	$0.13	$0.11	$0.17	$0.51
Dividends										
Average shares outstanding	121,420	121,346	116,569	116,256	116,256	114,533	113,952	113,402	113,047	113,734
Funds From Operation (FFO)										
Net income	$19,003	$10,562	$68,318	$24,437	$122,320	$12,400	$14,830	$12,255	$19,023	$58,508
+ D&A of real estate assets	24,166	24,501	24,158	24,092	96,716	24,171	24,198	24,132	24,688	97,189
+ Impairment of real estate assets	-	-	3,513	879	4,392	-	-	-	-	-
- Gain on sale of real estate assets	(2,261)	(1,060)	(83,828)	(579)	(87,728)	-	25	-	-	25
+ - Other	625	283	21,165	(78)	21,995	-	(7)	-	-	(7)
FFO	41,533	34,286	33,326	48,751	157,695	36,571	39,046	36,387	43,711	155,716
FFO/share	$0.34	$0.28	$0.28	$0.42	$1.33	$0.32	$0.34	$0.32	$0.39	$1.37
+ M&A expenses				-	-	-	-	-	-	-
+ COVID related expenses	-	-	-	-	-	-	-	-	-	-
+ Balance sheet related expenses				489	8,077	-	226			226
+ - Other special items	-	6,381	577	(127)	(757)	2,308	(1,446)	-	-	862
Normalized FFO	41,533	40,667	33,903	49,113	165,015	38,879	37,826	36,387	43,711	156,804
Normalized FFO/share	$0.34	$0.34	$0.29	$0.42	$1.39	$0.34	$0.33	$0.32	$0.39	$1.38

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.