

# Zacks Small-Cap Research

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## CoreCivic, Inc.

(CXW-NYSE)

### CXW: Operating Improvements Continue, View Credit Facility Extension, Expansion as a Positive

We believe 3Q23 results & recent credit facility amendments underscore organic improvements as occupancies rise, wage inflation slowly abates & the company pursues cost containment efforts, debt reductions & other strengthening measures. CXW has executed or renewed several contracts in recent months, with renewals averaging a strong (in our view) 94% over the past 5-years.

### OUTLOOK

CXW recently expanded & extended its bank credit facility, reflecting, we believe, its stronger balance sheet and operating improvements. CXW has indicated that government entities, including federal, state, and local agencies, are seeing higher need for occupancy. Reflecting growing demand for capacity post-pandemic and as courts have resumed full operations and ongoing discussions the company is having with existing, potential partners plus its own efficiency improvements, CXW also tightened 2023 guidance even against the backdrop of a difficult labor market, inflationary pressure & the interest rate environment.

Current Price (11/09/23) \$13.69  
Valuation \$17.00

### SUMMARY DATA

52-Week High \$14.44  
52-Week Low \$7.84  
One-Year Return (%) 26.0  
Beta 0.88  
Average Daily Volume (sh) 834,771

Shares Outstanding (mil) 114  
Market Capitalization (\$mil) \$1,562  
Short Interest Ratio (days) 1.9  
Institutional Ownership (%) 81  
Insider Ownership (%) 2

Annual Cash Dividend \$0.00  
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates  
Sales (%) -0.6  
Earnings Per Share (%) -12.8  
Dividend (%) N/A

P/E using TTM EPS 9.5  
P/E using 2023 Estimate 9.8  
P/E using 2024 Estimate 8.0

Zacks Rank N/A

Risk Level  
Type of Stock  
Industry  
Average, Mid-Value  
N/A

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Year    |
|------|-------|-------|-------|-------|---------|
|      | (Mar) | (Jun) | (Sep) | (Dec) | (Dec)   |
| 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 | 484 A | 487 E | 1,892 E |
| 2024 |       |       |       |       | 1,948 E |

#### EPS / Loss per share

|      | Q1        | Q2       | Q3       | Q4       | Year      |
|------|-----------|----------|----------|----------|-----------|
|      | (Mar)     | (Jun)    | (Sep)    | (Dec)    | (Dec)     |
| 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 | \$0.12 A | \$0.20 E | \$0.56 E  |
| 2024 |           |          |          |          | \$0.80 E  |

Qs might not sum reflecting rounding

Disclosures page 9

## OPERATING IMPROVEMENTS CONTINUE

### *Occupancies up, debt reductions continue...*

CoreCivic (NYSE: CXW) reported 3Q23 results that we believe underscore organic improvements as occupancies rise and costs slowly begin to normalize. 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. Notably, the company indicated that government entities, including federal, state, and local agencies, have registered higher demand for occupancy. Reflecting growing demand for capacity and ongoing discussions the company is having with existing and potential partners plus its own efficiency improvements, CXW tightened 2023 guidance even against the backdrop of a difficult labor market and inflationary pressure and the interest rate environment.

### 3Q23 Takeaways

- Occupancies at CXW facilities are up
- Continued debt reductions / balance sheet measures contribute to substantially lower interest expense
- CXW has executed or renewed several contracts in recent months

## RECENT RESULTS

### *Positive takeaways include rising occupancies, improving margins, bank credit facility amendments ...*

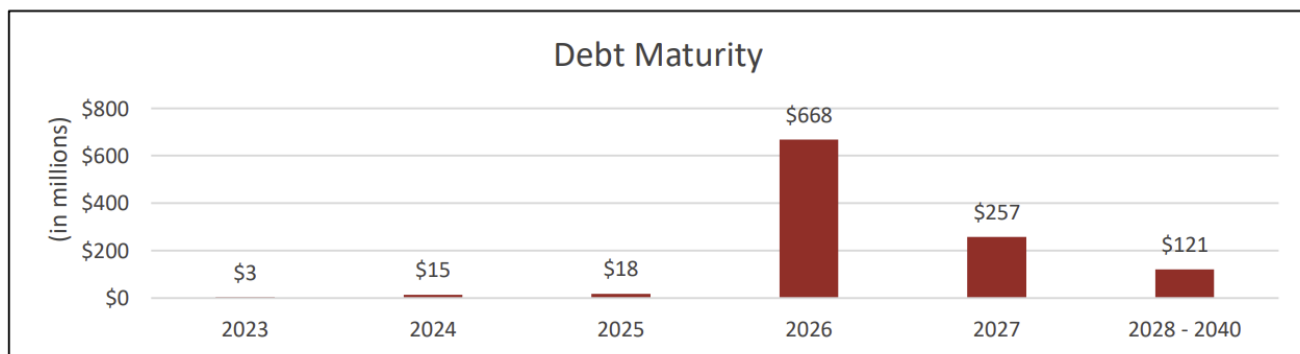
CoreCivic reported 3Q23 total revenue of \$483.7 million, up 4% from \$464.2 million in 3Q22. Excluding the McRae and North Fork contracts (see below) in both years, on a pro forma basis total revenue would be up 7% year-over-year. Since Title 42 ended on May 11, 2023, the number of people in ICE (U.S. Immigration and Customs Enforcement) custody has increased substantially, contributing to increased occupancies at CXW facilities. ICE detention populations at the company's facilities have increased by about 84% since May 11, 2023, through September 30, 2023. The impact of this has not been fully reflected in the company's operating results, as CXW did not meet / exceed overall minimum guaranteed levels until recently. Average compensated occupancy was 72.0% in 3Q23, up from 70.1% in 3Q22.

Total operating expense advanced 3% year-over-year to \$446.5 million, partially reflecting tight labor market conditions and higher corporate management salaries and incentive-based compensation. Operating income was \$37.2 million compared to \$30.4 million. 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. The operating margin of 7.7% was up compared to 6.5% in 3Q22, but down 40 bps quarter over quarter largely reflecting, we believe, a non-recurring impairment recognized in 3Q23.

As occupancy levels increase and staffing-related costs normalize, the company expects to realize operating leverage and see margins improve. CoreCivic expects that as OpEx continues to normalize, over 2024 margins will trend back towards pre-pandemic levels. It would not surprise us if margins were lumpy in the near-term. Net Income was \$13.9 million or \$0.12 per share, compared to \$68.3 million and \$0.58, respectively. However, comparisons are not apples-to-apples, in our view, as last year's 3Q recorded a sizable \$83.8 million gain on asset sales. Excluding asset sale gains, impairments and other 1-time items in both quarters, 3Q23 adjusted net income was \$15.6 million and \$0.14/share compared to \$9.7 million and \$0.08/share in 3Q22.

Despite the termination of the company's McRae and North Fork contracts, which in the aggregate represented EBITDA of \$4.8 million in 3Q22, adjusted EBITDA, excluding factors noted above, was \$75.2 million, compared with \$68.4 million in 3Q22. The company attributes this improvement to above-noted higher occupancy rates, lower employment incentives and normalizing OpEx costs.

Funds From Operations (FFO) of \$38.5 million, or \$0.34 per share, was up from \$33.3 million and \$0.28, respectively, in 3Q22. Excluding special items noted earlier, normalized FFO was \$40.5 million and \$0.35 per share, compared to \$33.9 million and \$0.29 in 3Q22.



Source: [Quarterly presentation](#)

### Balance sheet continues to strengthen...

Substantial liquidity

CXW's balance sheet and refinancing measures have led to substantially lower debt levels over the past couple of years. Reflecting debt reductions over the past several quarters, interest expense was \$17.9 million, down from \$20.8 million in 3Q22. In the first nine months of 2023, CXW repaid \$137.7 million of debt, net of the change in cash, including \$65.0 million in 3Q23. In 2022, the company pared its debt balance by more than \$287 million and has reduced debt by more than \$1.1 billion since first putting the deleveraging strategy in place in 2020, through the combination of cash flow from operations and asset sales.

The company has no major debt maturities before April 2026 when \$593.1 million of 8.25% senior notes are scheduled to mature. As we have seen CXW do with other approaching debt maturities, it would not surprise us to see the company begin to reduce the balance in advance, depending on the interest rate environment. In fact, in 2Q23 CXW repurchased \$21.0 million of these notes through open market purchases.

### ... Amended credit facility: larger, with extended-maturity, less restrictive ...

CXW recently amended its bank credit facility, increasing the facility to \$400.0 million, up from \$350.0 million before. The new facility increases the company's access to capital and extends the maturity from May 12, 2026, to October 11, 2028. The company now has available borrowings under the revolving credit facility of \$275.0 million, up from \$250.0 million. The term loan has increased to \$125.0 million, up from \$100.0 million. In addition, financial covenants are less restrictive following removal of the prior \$100.0 million limit of netting unrestricted cash and equivalents when calculating the consolidated total leverage and secured leverage ratios. The revolver remains undrawn, except for \$17.4 million in outstanding letters of credit.

### Anticipate further share repurchases, depending on market conditions ...

Although CXW did not repurchase any shares in 3Q23, in the first nine months of 2023, the company bought 2.6 million of its shares for an aggregate net \$25.6 million. Since the plan was initially authorized in 2022 through the end of 3Q23, the company had repurchased 9.2 million shares at an aggregate net \$100.1 million, with \$124.9 million remaining under the plan and no expiration. The company's recent capital allocation focus has been on further strengthening its balance sheet via debt paydowns but, depending on market conditions, we would anticipate further share buybacks, particularly given that the company's leverage ratio is now nearly at the targeted leverage range of 2.25x to 2.75x.

The company has substantial liquidity to maintain these measures. CXW had \$104.7 million of cash at the end of 3Q23 and no borrowings outstanding under its revolver, as noted. The company has also boosted its cash position over the past few years by divesting non-core assets and, in turn, raising funds for deleveraging and other capital deployment initiatives. While CXW has additional properties that are currently under-utilized and which might make sense to divest, we believe these are generally smaller facilities.

### *Guidance range tightened on improving outlook ...*

Following strong 3Q23 results, CXW tightened and increased the guidance range. Normalized FFO per share is now expected to range from \$1.40 to \$1.46, up from earlier guidance range of \$1.37 to \$1.45. The company now expects 2023 net income of \$58.7 million to \$64.9 million and EPS of \$0.51 to \$0.57, up from earlier guidance of \$58.4 million to \$66.4 million and EPS of \$0.51 to \$0.58. The company anticipates generating adjusted net income of \$62.3 million to \$68.5 million and adjusted EPS of \$0.54 to \$0.60. This compares to earlier adjusted net income guidance of \$59.5 million to \$67.5 million and adjusted EPS of \$0.52 to \$0.59. We have adjusted our forecasts following 3Q23 and the higher company guidance. We have also introduced preliminary 2024 forecasts, incorporating the potential that the lease for the California City Correctional Center, which is scheduled to expire on March 31, 2024, might not be extended or replaced with another contract immediately.

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## **CONTRACT AWARDS, EXTENSIONS**

### *New Management Contracts, Renewals*

In 3Q23, the company signed a new management contract with Hinds County, Mississippi for up to 250 adult male pre-trial detainees at its Mississippi 2,672-bed Tallahatchie County Correctional Facility. The initial contract term is for two years, with an additional year extension upon mutual agreement. The company currently has about 200 residents from Hinds County at this location, in addition to more than 400 residents from the U.S. Marshals Service, Vermont, South Carolina, the U.S. Virgin Islands, and Tallahatchie County.

In addition, the state of Montana notified management on October 11, 2023, that it intends to award CXW a new management contract for up to 120 inmates at the 1,896-bed Saguaro Correctional Facility in Eloy, Arizona. The company expects to begin accepting residents from Montana in 4Q23. Currently, CXW has roughly 875 residents from Hawaii and nearly 600 residents from Idaho at this location. Under a separate management contract, CXW also manages the 100% occupied company-owned Crossroads Correctional Center in Shelby for the state of Montana.

In 3Q23, CXW executed a 5-year extension of its contract with the U.S. Marshals Service at the 4,128-bed Central Arizona Florence Correctional Complex. Other recent contract extensions include with various government partners including the state and/or ICE at the Elizabeth Detention Center, Crossroads Correctional Center, the managed only South Central Correctional Center; and with the Texas Department of Criminal Justice for five residential reentry centers in Texas.

Earlier, CXW had also extended its lease with the Oklahoma Department of Corrections for the company's 1,670-bed Davis Correctional Facility. 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 ended, operations transferred 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.

Separately, the company's lease with the state of California at its California City Correctional Center is scheduled to expire on March 31, 2024, as noted. The company is engaged in discussions around this lease. The facility generates roughly \$25 million in annual EBITDA.

Over the past 5-years, renewal rates 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.

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## VALUATION

### *Expect multiple expansion over time ...*

CXW shares have recovered some ground since the May 2023 termination of Title 42 after coming under pressure over the past few years on concerns about the private correctional sector and the impact of Title 42, among other factors. Nevertheless, the company's renewal rate on its facilities over the past five years averages a high roughly 94%, as noted. 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 \$17 valuation is based on our 2023 low-end of guidance FFO forecast and equates to a multiple of about 12.4x, which is below the recent average, implying that there could be upside to this metric. We also believe the shares will begin to reflect expectations for 2024 shortly, with further expected operating leverage and margin improvement as OpEx continues to normalize and occupancies rise. 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.

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## 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.
- Occupancy levels 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.

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## RECENT NEWS

- On November 6, 2023, the company reported 3Q23 results.
- On October 12, 2023, CoreCivic entered into an amendment and extension of its bank credit facility.
- CXW entered into a new management contract with Hinds County on September 25, 2023.
- 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 released 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

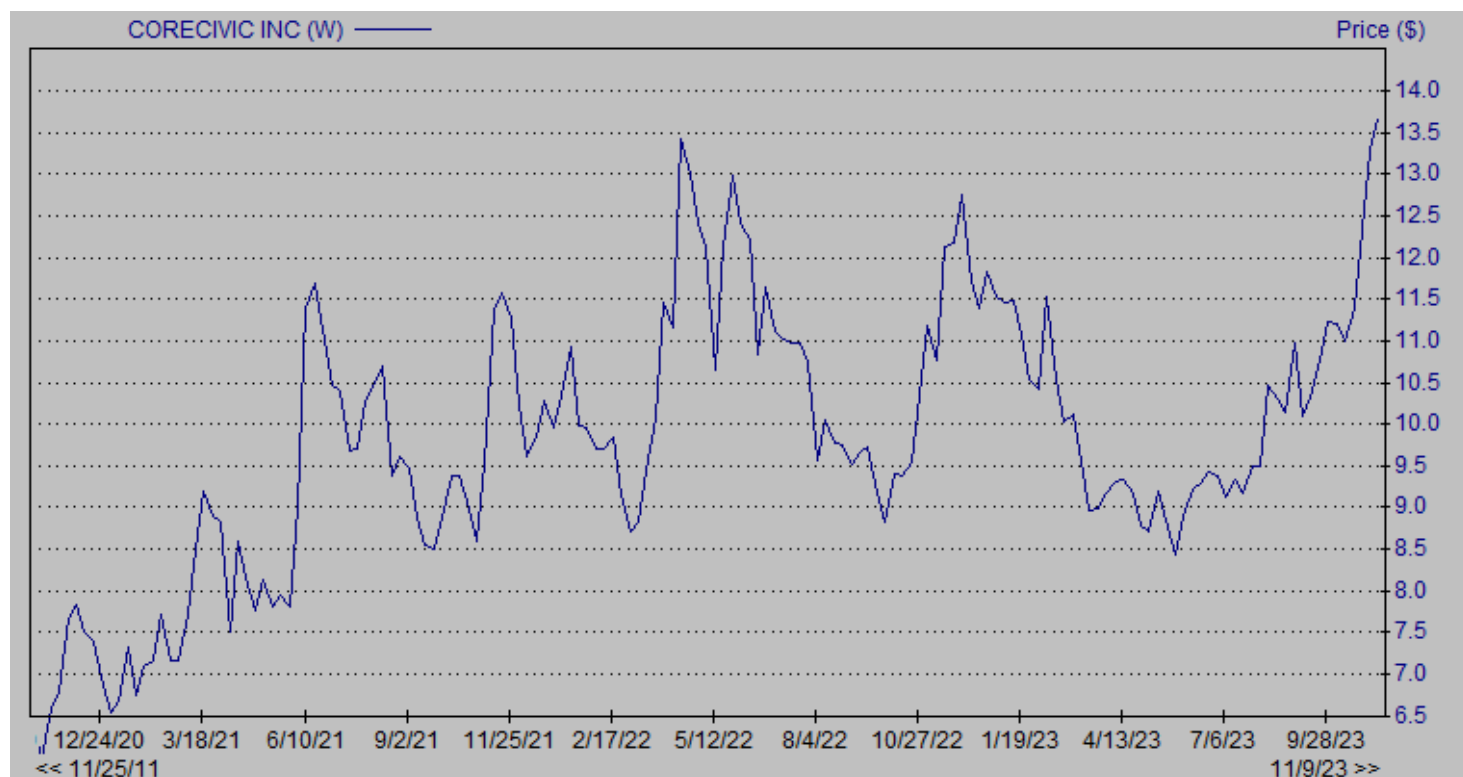
## Core Civic

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

|                                        | 1Q22A     | 2Q22A     | 3Q22A     | 4Q22A     | 2022A       | 1Q23A     | 2Q23A     | 3Q23A     | 4Q23E     | 2023E       | 2024E       |
|----------------------------------------|-----------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|-----------|-------------|-------------|
| Revenue                                | \$452,988 | \$456,697 | \$464,211 | \$471,433 | \$1,845,329 | \$458,002 | \$463,682 | \$483,705 | \$486,912 | \$1,892,301 | \$1,948,123 |
| Y/Y % change                           | -0.4%     | -1.7%     | -1.5%     | -0.1%     | -0.9%       | 1.1%      | 1.5%      | 4.2%      | 3.3%      | 2.5%        | 3.0%        |
| Operating expense                      | 344,629   | 349,000   | 368,194   | 351,969   | 1,413,792   | 354,537   | 362,008   | 377,323   | 370,053   | 1,463,921   | 1,491,003   |
| General and administrative             | 31,101    | 31,513    | 30,194    | 34,892    | 127,700     | 32,679    | 32,612    | 33,927    | 32,974    | 132,192     | 134,174     |
| Depreciation and amortization          | 32,028    | 32,259    | 31,931    | 31,688    | 127,906     | 31,042    | 31,615    | 32,526    | 32,917    | 128,100     | 129,381     |
| Shareholder litigation expense / other | -         | 1,900     | -         | -         | 1,900       | -         | -         | -         | -         | -           | -           |
| Impairments / other                    | -         | -         | 3,513     | 879       | 4,392       | -         | -         | 2,710     | -         | 2,710       | -           |
| Total operating expense                | 407,758   | 414,672   | 433,832   | 419,428   | 1,675,690   | 418,258   | 426,235   | 446,486   | 435,943   | 1,726,922   | 1,754,558   |
| Operating income                       | 45,230    | 42,025    | 30,379    | 52,005    | 169,639     | 39,744    | 37,447    | 37,219    | 50,968    | 165,378     | 193,565     |
| Operating margin                       | 10.0%     | 9.2%      | 6.5%      | 11.0%     | 9.2%        | 8.7%      | 8.1%      | 7.7%      | 10.5%     | 8.7%        | 9.9%        |
| Interest expense, net                  | 22,920    | 21,668    | 20,793    | 19,593    | 84,974      | 19,151    | 18,268    | 17,886    | 17,868    | 73,173      | 68,971      |
| Other (income) expense                 | (3,303)   | 5,782     | (82,974)  | (142)     | (80,637)    | 47        | 173       | (194)     | -         | 26          | -           |
|                                        | 19,617    | 27,450    | (62,181)  | 19,451    | 4,337       | 19,198    | 18,441    | 17,692    | 17,868    | 73,199      | 68,971      |
| Pretax income                          | 25,613    | 14,575    | 92,560    | 32,554    | 165,302     | 20,546    | 19,006    | 19,527    | 33,100    | 92,179      | 124,594     |
| Taxes                                  | (6,610)   | (4,013)   | (24,242)  | (8,117)   | (42,982)    | (8,146)   | (4,176)   | (5,635)   | (10,096)  | (28,053)    | (34,637)    |
| Minority interest                      |           |           |           |           |             |           |           |           |           |             |             |
| Net income                             | 19,003    | 10,562    | 68,318    | 24,437    | 122,320     | 12,400    | 14,830    | 13,892    | 23,005    | 64,127      | 89,957      |
| <b>Per share data</b>                  |           |           |           |           |             |           |           |           |           |             |             |
| EPS                                    | \$0.16    | \$0.09    | \$0.58    | \$0.21    | \$1.03      | \$0.11    | \$0.13    | \$0.12    | \$0.20    | \$0.56      | \$0.80      |
| Dividends                              |           |           |           |           |             |           |           |           |           |             |             |
| Average shares outstanding             | 121,420   | 121,346   | 116,569   | 116,256   | 116,256     | 114,533   | 113,952   | 113,947   | 113,047   | 113,870     | 113,038     |
| <b>Funds From Operation (FFO)</b>      |           |           |           |           |             |           |           |           |           |             |             |
| Net income                             | \$19,003  | \$10,562  | \$68,318  | \$24,437  | \$122,320   | \$12,400  | \$14,830  | \$13,892  | \$23,005  | \$64,127    | \$89,957    |
| + D&A of real estate assets            | 24,166    | 24,501    | 24,158    | 24,092    | 96,716      | 24,171    | 24,198    | 24,837    | 24,852    | 98,059      | 98,226      |
| + 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        | (368)     | -         | (343)       | -           |
| + - Other                              | 625       | 283       | 21,165    | (78)      | 21,995      | -         | (7)       | 107       | -         | 100         | -           |
| FFO                                    | 41,533    | 34,286    | 33,326    | 48,751    | 157,695     | 36,571    | 39,046    | 38,468    | 47,857    | 161,942     | 188,183     |
| FFO/share                              | \$0.34    | \$0.28    | \$0.28    | \$0.42    | \$1.33      | \$0.32    | \$0.34    | \$0.34    | \$0.42    | \$1.42      | \$1.66      |
| + M&A expenses                         | -         | -         | -         | -         | -           | -         | -         | -         | -         | -           | -           |
| + COVID related expenses               | -         | -         | -         | -         | -           | -         | -         | -         | -         | -           | -           |
| + Balance sheet related expenses       | -         | -         | -         | 489       | 8,077       | -         | 226       | 100       | 1,037     | 1,363       | 100         |
| + - Other asset impairments            | -         | 6,381     | 577       | (127)     | (757)       | 2,308     | (1,446)   | 2,710     | -         | 3,572       | -           |
| + - Other special items                | -         | -         | -         | -         | -           | -         | -         | (816)     | -         | -           | -           |
| Normalized FFO                         | 41,533    | 40,667    | 33,903    | 49,113    | 165,015     | 38,879    | 37,826    | 40,462    | 48,894    | 166,877     | 188,282     |
| Normalized FFO/share                   | \$0.34    | \$0.34    | \$0.29    | \$0.42    | \$1.39      | \$0.34    | \$0.33    | \$0.36    | \$0.43    | \$1.46      | \$1.66      |

Source: Company reports, Zacks estimates

## HISTORICAL STOCK PRICE



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