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Zacks Small-Cap Research

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CoreCivic, Inc. (CXW-NYSE)

CXW: Recent Momentum Continues; Several Factors Support Optimism About Further Growth

Occupancies at CXW facilities are up following the termination of Title 42 and likely, we believe, to increase further as ICE & government organizations seek capacity. At the same time, costs appear to be normalizing, particularly as labor market conditions improve, which likely leads to margin improvements. CXW has executed or renewed several contracts in recent months.

OUTLOOK

Operating factors appear favorable & CXW continues its debt reduction / maturities extending measures and cost cutting initiatives. These steps likely contribute to further margin improvements and a stronger balance sheet. Moreover, trends in CXW's Community segment also appear strong, in our view & we believe the segment could offer an alternate solution in certain cases to help ease the growing court backlog and challenges with mounting numbers at the border. In 3Q23 ICE issued an RFI for community services.

Current Price (2/9/24)	$14.84
Valuation	**$19.00**

SUMMARY DATA

52-Week High	**$15.17**
52-Week Low	**$7.84**
One-Year Return (%)	**21.7**
Beta	**0.82**
Average Daily Volume (sh)	**938,027**
Shares Outstanding (mil)	**114**
Market Capitalization ($mil)	**$1,675**
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 (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**25.1**
P/E using 2023	**25.1**
P/E using 2024 Estimate	**22.8**

Risk Level	**Average,**
Type of Stock	**Mid-Value**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (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	491A	1,897 A
2024	474 E	479 E	496 E	499E	1,949 E

EPS / Loss per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (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	$0.23 A	$0.59 A
2024	$0.12 E	$0.13 E	$0.19 E	$0.21 E	$0.65 E

Qs might not sum reflecting rounding

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YEAR-END MOMENTUM CONTINUES INTO 2024

Multiple 2H23 recent contracts illustrate ongoing momentum with existing / prospective customers…

Takeaways

- Occupancies at CXW facilities are up and likely to increase further
- Costs appear to be normalizing, particularly as labor market conditions improve
- CXW has executed or renewed several contracts in recent months, is in additional contract discussions
- Continued cost & debt reductions contribute to improving margins, substantially lower interest expense
- Trends in CXW's Community segment also appear strong

CoreCivic (NYSE: CXW) reported 2023 results and initiated 2024 guidance last week. Reflecting positive trends, including rising average compensated occupancies at its facilities and normalizing costs, we are optimistic about operating improvements going forward. Guidance is lower than our / consensus prior forecasts but the variance likely reflects that the lease on CXW's California City Correctional Center with the state of California ends on March 31, 2024 which CXW has disclosed previously, as California has citied declining inmate populations. We have revised our model, and note that company guidance might prove conservative if CXW wins additional new contracts.

In our view, 4Q23 results highlight robust momentum in the company's business, as occupancies rise and costs slowly begin to normalize. CoreCivic reported 4Q23 total revenue of $483.7 million, up 4%, compared to $471.4 million in 4Q22. CXW achieve this increase even with the prior expiration of two contracts: one in November of 2022 with the Bureau of Prisons (BOP) at the company's McRae Correctional Facility and one on June 30, 2023 with the Oklahoma Department of Corrections at its North Fork Correctional Facility. Excluding these, on an adjusted same-store basis, total revenue growth would have been 7%. The company reported EPS of $0.23 compared to $0.21 and our forecast of $0.20. Normalized funds from operations (FFO) was $51.3 million or $0.45, up 7% from $49.1 million or $0.42 in the same period of 2022.

The results reflect rising occupancies at CXW facilities, as noted, combined with the benefits of certain cost saving initiatives, particularly as the previously tight labor market eases. Following termination of Title 42, occupancies at CXW facilities have increased, reaching 74% by the end of 4Q23, the highest quarterly level since 2Q20 as the pandemic began to impact occupancies. Furthermore, record numbers of people continue to seek entrance at the U.S. southern border. Depending on funding levels, we anticipate further ramp up in ICE occupancies, given the need for the Department of Homeland Security and ICE to meet the increases at the southern border.

Since the May 2023 expiration of Title 42 through December 2023, the number of people in ICE custody rose 74% and ICE detention populations in CXW facilities rose 76% over the same period. The company believes the prior investments it had made in staffing enabled CXW to accommodate this increase in a relatively short period. Moreover, many of the company's federal contracts include a fixed payment component, meaning that the increase in occupancies did not lead to a commensurate increase in revenue the minimum level of compensated beds per the fixed payment component is exceeded. Importantly, the company noted that the majority of its facilities are now at or above that level, which we expect to lead to improving margins as occupancies continue rise. The company's La Palma Correctional Center in Eloy, Arizona, the second largest facility in its portfolio, won a new management contract from the State of Arizona in 2022 and continues to record improvements in operating and financial metrics.

The company also continues to pursue cost containment efforts, debt reductions and other balance sheet strengthening measures. The company has invested in staff during a title labor market, as noted, in anticipation of the post-Title 42 ramp in occupancies. The labor market is improving and the company is optimistic that its costs will continue to normalize. As the company continues to pursue cost containment efforts, debt reductions and other strengthening measures, we expect the company to realize operating leverage and see further margin improvement, although it would not surprise us if margins were lumpy in the near-term.

SIGNIFICANT RECENT CONTRACT WINS; NEED FROM EXISTING, NEW CUSTOMERS

Talks for new capacity continue; momentum likely to continue

The company has had an increase in the number of discussions from multiple government sources, including counties – which in the past has not been a large source of demand for capacity. The company announced several new contracts recently that we expect will benefit 2024 results and also underscore the stable retention rate the company has. Over the past 5-years, renewal rates on owned and controlled facilities is 95%. 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.

Recent new contracts/ extensions

- Montana, at Saguaro Correctional Facility in Eloy, Arizona
- Wyoming, at Tallahatchie County Correctional Facility in Tutwiler, Mississippi.
- Hinds County, Mississippi at Tallahatchie County Correctional Facility
- Harris County, Texas at Tallahatchie County Correctional Facility.
- U.S. Marshals Service 5-year extension at Central Arizona Florence Correctional Complex

CoreCivic recently won a new management contract with Montana to house up to 120 inmates at its1,896-bed Saguaro Correctional Facility in Eloy, Arizona. The contract started in mid-November 2023 and ends or is renewed on October 31, 2025. The company had indicated that it expected the intake of inmates from Montana would be completed by year-end 2023. With this new award, CXW now has multiple contracts with the Montana Department of Corrections. Under a separate management contract, CXW also manages the 100% occupied company-owned Crossroads Correctional Center in Shelby for the state of Montana.

Moreover, its Eloy, Arizona facility is meeting demand for occupancy from three different states, highlighting – in our view – the company's flexibility in forming, renewing and / or extending contracts to maintain and boost occupancies. CXW has roughly 875 residents from Hawaii and nearly 600 residents from Idaho at this location.

CXW also signed a new management contract with Wyoming for up to 240 beds at its 2,672-bed Tallahatchie County Correctional Facility in Tutwiler, Mississippi. The contract expires June 30, 2026. CXW signed multiple contracts for this facility in recent months and anticipates that aggregate revenue from them will be roughly $25 million annually. For example, the company had also signed a new management contract with Hinds County, Mississippi earlier for up to 250 beds at the Tallahatchie County Correctional Facility. CXW 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 and illustrates CXW's ability to provide flexible capacity to government customers.

Another new contract is with Harris County, Texas for up to 360 beds at the company's Tallahatchie County Correctional Facility. The contract could be expanded to add an incremental 360 beds at the facility if needed. As noted, the contract commenced on December 1, 2023, and expires or needs to be renewed on November 30, 2024. Harris County represents a new customer. The company believes these recent contract wins demonstrate the strong interest CXW is seeing for occupancy from new and existing government entities, including federal, state, and local agencies. Reflecting growing demand for capacity, the company is engaged in discussions with existing and potential partners. 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.

CXW executed a 5-year extension of its contract with the U.S. Marshals Service in 3Q23 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, and the company is engaged in discussions around this lease. The facility generates roughly $25 million in annual EBITDA.

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.

COMMUNITY SEGMENT: POSITIVE TRENDS

Community segment: higher occupancy levels

CXW's community segment encompasses 23 residential reentry facilities. The company is optimistic about opportunities for this segment, for which revenue increased to $115.1 million in 2023, from $103.3 million in 2022. Occupancy in the community segment advanced to 63.7% in 4Q23 from 58.4% in 4Q22. In addition to beds, the company also provides electronic monitoring and case management services in through this operating segment. The company expects the occupancy trend to continue in the community segment, as pandemic related public health policies have ended. Moreover, we also believe this segment could be seen as a partial alternate solution in certain cases to help ease the growing court backlog and challenges at the border.

In fact, in 3Q23 ICE issued an RFI (request for information) for Release and Reporting Management Services, including information about monitoring technology, coordination services, residential space and other community services for non-U.S. citizens. This initiative is in early stages and likely will depend on budgetary allocations. However, given that more than two million cases are pending in U.S. immigration courts, according to the Government Accountability Office (GAO), we expect ICE to continue to seek these and other measures.

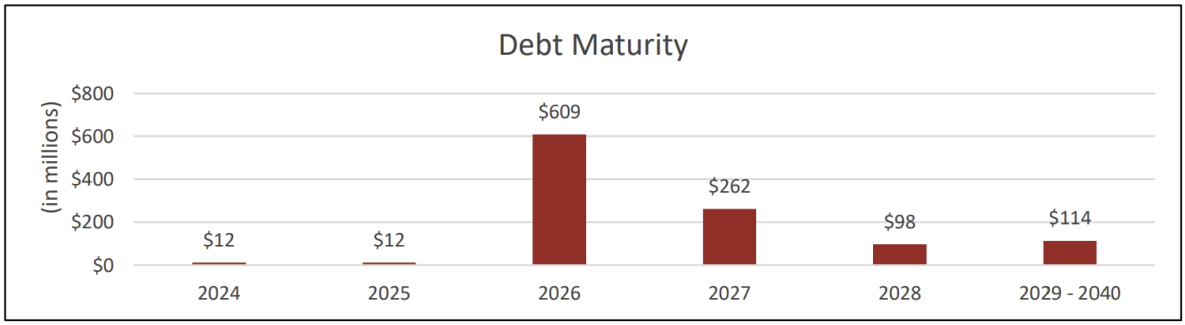
At the same time, there is still a trial court backlog that worsened during the pandemic. In New York state, for instance, the governor signed a bill to alleviate the statewide backlog in December 2023 and increase the number of judges serving on certain courts. In many other states, attempts to reduce the gap have been successful but a backlog persists. In Massachusetts, for example, the backlog roughly doubled during the pandemic according to trade publications and has not been eliminated. It would not surprise us to see forms of alternate detention, including potentially electronic monitoring in certain cases that might be appropriate.

POSITIVE TAKEAWAYS ONGOING BALANCE SHEET MEASURES

Balance sheet continues to strengthen, contributing to lower interest expense, enhanced financial flexibility…

No debt maturities before '25

Refinancing and debt reduction measures over the past couple of years have contributed to substantially lower debt levels and lower interest expense. We expect these measures to continue and it would not surprise us if CXW opportunistically issued new debt, depending on market conditions, to refinance portions of existing debt to extend our weighted average debt maturities and / or lower overall debt expense.



Source: Quarterly presentation

Reflecting debt reductions over the past several quarters, interest expense was $55.3 million in 2023, down from $65.4 million in 2022. In 2023, CXW repaid $157.8 million of debt ($130.3 million net of the change in cash). The company repurchased $27.9 million of its notes in the open market in 2023, including $6.9 million in 4Q23. The company 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. Reflecting its measures, 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, as the company did in 2023 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 total 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. As of 3Q23, the revolver remained undrawn, except for $17.4 million in outstanding letters of credit.

The company has substantial liquidity to maintain these measures. CXW had $121.8 million of cash at the end of 4Q23 and $257.1 million available under its revolver. 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.

VALUATION

Expect further multiple expansion …

As noted, we have revised our model, but believe the company's guidance might prove conservative if CXW wins additional new contracts. We note that 1Q generally is seasonally weaker compared to 4Q because it contains one fewer day and generally reflects higher utilities and unemployment taxes.

We are optimistic about CXW's opportunity to continue generating stable cash flow. The company's renewal rate on its facilities over the past five years averages a high roughly 94%, as noted. Reflecting the momentum CXW is experiencing with contract wins, combined with its efficiency and balance sheet measures, we anticipate further multiple expansion on CXW shares. Moreover, the company has also indicated that it might explore adjacent revenue opportunities over time, 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.

Historically, CXW shares have been valued on a price to forward FFO basis, commanding an average multiple of about 13-14x this metric. Applying a multiple of 12.5x to our 2024 FFO estimate yields a valuation of about $19 per share. We also believe that this could be conservative, because as the company's balance sheet measures continue, we expect to see continuing equity shareholder valuation improvement.

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.
- 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.

RECENT NEWS

- CXW announced 2023 results on February 7, 2024.
- CXW announced new contracts at the Tallahatchie County Correctional Facility with the state of Wyoming and Harris County, Texas on November 16, 2023.
- CoreCivic signed a new contract with Montana at its Saguaro Correctional Facility on November 14, 2023.
- 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.

FINANCIAL MODEL

Core Civic

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

	1Q23A	2Q23A	3Q23A	4Q23A	2023A	1Q24E	2Q24E	3Q24E	4Q24E	2024E
Revenue	$458,002	$463,682	$483,705	$491,246	$1,896,635	$474,215	$479,447	$496,455	$498,675	$1,948,792
Y/Y % change	*1.1%*	*1.5%*	*4.2%*	*4.2%*	*2.8%*	*3.5%*	*3.4%*	*2.6%*	*1.5%*	*2.8%*
Operating expense	354,537	362,008	377,323	368,562	1,462,430	371,555	372,146	376,488	378,801	1,498,991
General and administrative	32,679	32,612	33,927	36,866	136,084	33,986	34,156	35,733	35,067	138,942
Depreciation and amortization	31,042	31,615	32,526	32,133	127,316	31,663	32,773	32,247	29,817	126,500
Shareholder litigation expense / other	-	-	-	-	-	-	-	-	-	-
Impairments / other	-	-	2,710	-	2,710	-	-	-	-	-
Total operating expense	418,258	426,235	446,486	437,561	1,728,540	437,204	439,075	444,469	443,685	1,764,433
Operating income	39,744	37,447	37,219	53,685	168,095	37,011	40,372	51,987	54,989	184,360
Operating margin	8.7%	8.1%	7.7%	10.9%	8.9%	7.8%	8.4%	10.5%	11.0%	9.5%
Interest expense, net	19,151	18,268	17,886	17,655	72,960	19,750	19,750	19,750	19,750	79,000
Other (income) expense	47	173	(194)	(714)	(688)	-	-	500	-	-
	19,198	18,441	17,692	16,941	72,272	19,750	19,750	20,250	19,750	79,000
Pretax income	20,546	19,006	19,527	36,744	95,823	17,261	20,622	31,737	35,239	105,360
Taxes	(8,146)	(4,176)	(5,635)	(10,276)	(28,233)	(5,006)	(5,444)	(9,521)	(9,529)	(29,500)
Minority interest										
Net income	12,400	14,830	13,892	26,468	67,590	12,256	15,178	22,216	25,710	75,860
Per share data										
EPS	$0.11	$0.13	$0.12	$0.23	$0.59	$0.12	$0.13	$0.19	$0.21	$0.65
Dividends										
Average shares outstanding	114,533	113,952	114,407	114,786	114,650	114,756	114,736	114,736	114,736	114,741
Funds From Operation (FFO)										
Net income	$12,400	$14,830	$13,892	$26,468	$67,590 U	$12,256	$15,178	$22,216	$25,710	$75,860
+ D&A of real estate assets	24,171	24,198	24,837	24,870	98,077	23,905	24,743	24,347	23,043	96,039
+ Impairment of real estate assets	-	-	-	-	-	-	-	-	-	-
- Gain on sale of real estate assets	-	25	(368)	(455)	(798)	-	-	(280)	-	-
+ - Other	-	(7)	107	126	226	-	-	-	-	-
FFO	36,571	39,046	38,468	51,009	165,095	36,161	39,921	46,283	48,754	171,899
FFO/share	$0.32	$0.34	$0.34	$0.44	$1.44 U	$0.32	$0.35	$0.40	$0.42	$1.50
+ M&A expenses	-	-	-	-	-	-	-	-	-	-
+ COVID related expenses	-	-	-	-	-	-	-	-	-	-
+ Balance sheet related expenses	-	226	100	360	686	-	-	-	-	-
+ - Other asset impairments	2,308	(1,446)	2,710	-	3,572	-	-	-	-	-
+ - Other special items	-	-	(816)	(100)	(916)	-	-	(500)	-	(500)
Normalized FFO	38,879	37,826	40,462	51,269	168,436	36,161	39,921	45,783	48,754	171,399
Normalized FFO/share	$0.34	$0.33	$0.35	$0.45	$1.47	$0.32	$0.35	$0.40	$0.42	$1.49

Source: Company reports, Zacks estimates

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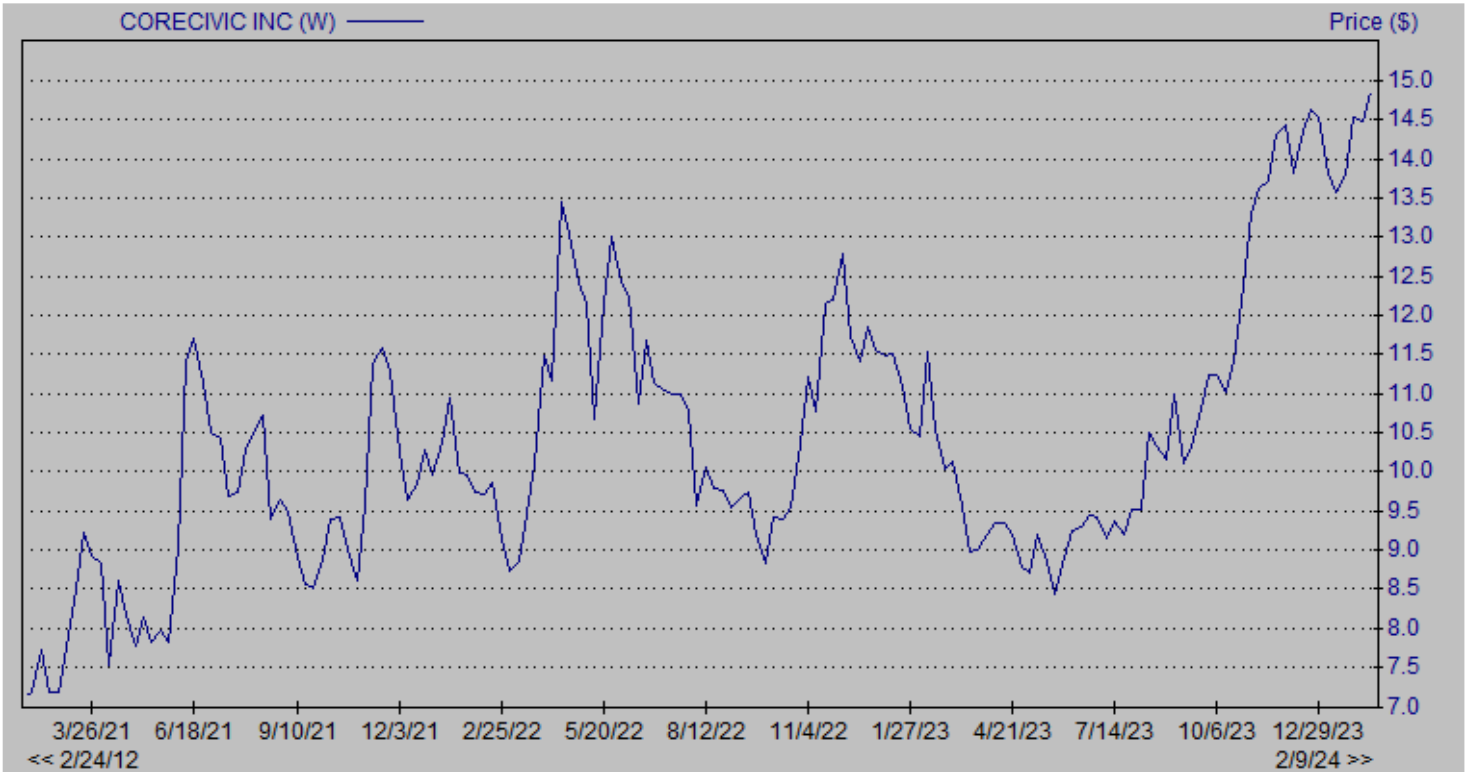

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