March 6, 2024

# Zacks Small-Cap Research (NOTE)

*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: Capital Measures Align With Financial, Operating Optimization Strategy, Extend Debt Maturities

### Research Note

***Upsized offering underscores strong demand …***

CoreCivic (NYSE: CXW) completed a debt issuance yesterday. Reflecting strong demand, the amount of notes offered was upsized. The company priced an aggregate $500 million principal of 8.25% senior notes due 2029. The aggregate principal amount had been increased from a previously announced $450 million. CXW has consistently been proactive about strengthening its balance sheet and managing debt maturities, which aligns with the company's ongoing strategy to optimize its operating and financial efficiency. The net proceeds of the issuance is an estimated roughly $490 million, which CoreCivic intends to use, along with its revolving credit facility and cash on the balance sheet, to redeem existing $593.1 million of outstanding 2026 notes.

As we have seen CXW do with other approaching debt maturities, the company began to reduce the 2026 balance in advance via open market purchases. Thus, the outstanding amount at the time of the new debt offering down from $614.1 million at year-end 2022.

We expect the company will fully redeem the 2026 notes following the capital raise. CXW has substantial liquidity; CXW had $121.8 million of cash at the end of 4Q23 and $257.1 million available under its revolver. With the roughly $490 million in net proceeds from the offering, we expect CXW will still have a solid cash balance even after repurchasing the 2026 notes.

***Strong cash flow generation underscores solid cash balance…***

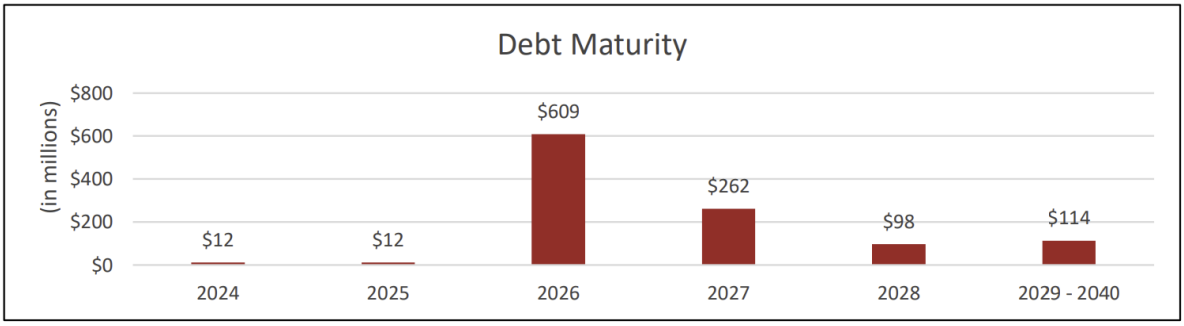
The company generates strong funds from operations (FFO). CXW generated $165.1 million in adjusted FFO in 2023, up from $158.5 million in 2022. For 2024, we forecast $171.4 million. We are optimistic about CXW's opportunity to continue generating stable cash flow, reflecting the company's renewal rate on its facilities over the past five years, which averages a high roughly 95%, the momentum CXW is experiencing with contract wins, combined with its efficiency measures discussed below and balance sheet measures. 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.

***Debt maturities extended, majority of scheduled maturities in 2029 …***

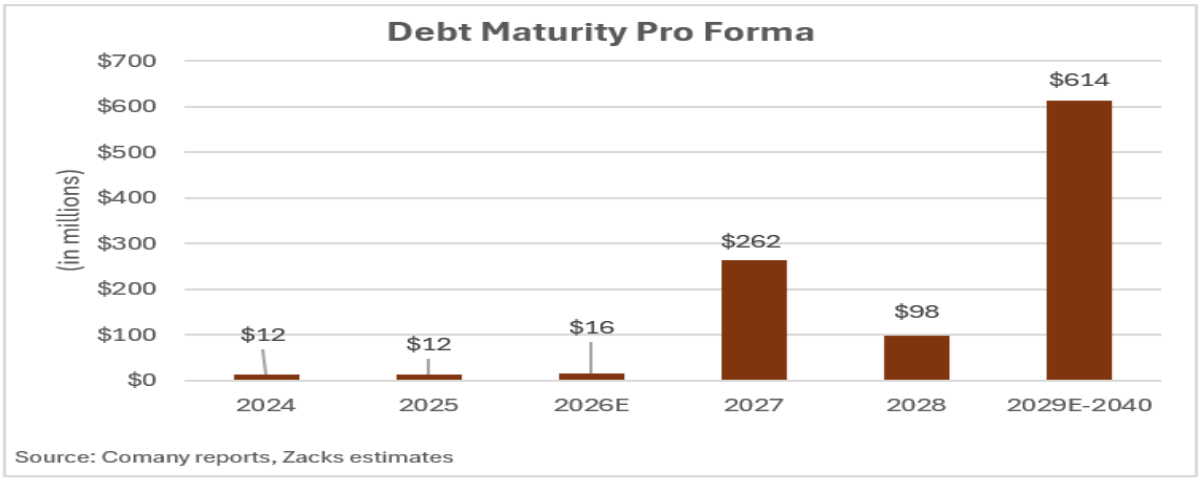
The company's concurrent debt offering and tender offer for the 2026 8.25% notes push the company's debt maturities out roughly three years. We view it as a positive that, even with the uncertain interest rate and economic outlook, CXW has maintained its cost of capital on senior notes at 8.25%. Reflecting its measures, the company has no major debt maturities before 2029 other than some $262 million maturing in 2027. Notably, the 2027 notes carry a 4.75% stated interest rate.

© Copyright 2024, Zacks Investment Research. All Rights Reserved.

**Prior to New Debt Issuance** (as of December 31, 2023)




Source: Quarterly presentation




With the offering and concurrent redemption of the 2026 notes, the company has strengthened its balance sheet. Prior to these measures, some 55% of the company's aggregate debt was due within two years. Pro forma for these steps, the company has pushed out some 60+% of debt maturities to 2029, giving itself substantial room to reduce debt organically and potentially lower its cost of capital depending on the interest rate environment. As we have seen CXW do with other debt, it would not surprise us to see the company reduce debt opportunistically, depending on the interest rate environment, including through open market purchases.

Specifically, we expect CXW will continue to pare debt organically from time to time, depending on other capital allocations and market conditions. We would expect the company to prioritize lowering its overall weighted cost of capital when/if a market window opens to refinance at lower rates. The 2027 notes carry a 4.75% stated interest rate, as noted, and are therefore not a likely priority for refinancing, in our view.

***CXW has reduced debt by more than $1.1 billion since initiating deleveraging strategy…***

Moreover, since first putting the deleveraging strategy in place in 2020, Core Civic has reduced debt by more than $1.1 billion through the combination of cash flow from operations and asset sales. 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.

Refinancing and debt reduction measures over the past couple of years have contributed to substantially lower debt levels and lower interest expense. In fact, reflecting debt reductions over the past several quarters, interest expense was $55.3 million in 2023, down from $65.4 million in 2022.

### *With 4Q23 credit facility amendments, company also enhances financial flexibility …*

In 4Q23, CXW also 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.

### *Revenue improvements as occupancies up …*

At the same time as CXW has focused on strengthening its balance sheet, the company has also focused on maximizing operating efficiency. Recently, the company has had a positive tailwind from rising occupancy rates, following the pandemic, termination of Title 42 and resumption of activity in the courts. 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.

### *New business activity on the upswing …*

Moreover, CoreCivic has had several new contract wins or extensions recently. For example, CXW 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.

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

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 also 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.

***…as CXW maintains cost containment initiatives …***

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.

## DISCLOSURE

SUBSCRIBE TO ZACKS SMALL CAP RESEARCH to receive our articles and reports emailed directly to you each morning. Please visit our website for additional information on Zacks SCR.

DISCLOSURE: 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 research coverage for a period of no less than one year. Research articles, as seen here, are part of the service Zacks provides and Zacks receives quarterly payments totaling a maximum fee of $40,000 annually for these services. Full Disclaimer HERE.