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Zacks Small-Cap Research

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CoreCivic, Inc. (CXW-NYSE)

CXW: Preview 1Q24 Results; Expect Recent Positive Trends Continue

CXW reports 1Q24 results after market on May 8, 2024. We forecast revenue of $474.2M vs. $458.0M in 1Q23, an expected 3.5% y/y advance. On the higher projected revenue, we model EPS of $0.12 compared to $0.11 in 1Q23. 1Q generally is sequentially seasonally weaker vs. 4Q because it contains one fewer day & utilities, unemployment taxes are usually higher.

Current Price (5/1/24)	$14.84
Valuation	**$19.00**

OUTLOOK

We are optimistic about operating improvements going forward and expect occupancies at CXW facilities to continue to increase as ICE & multiple government entities seek capacity. CXW also continues to strengthen its balance sheet, with a 1Q24 debt offering concurrent with a tender offer for 2026 8.25% notes. As a result, the company pushed debt maturities out roughly three years & has no major debt maturities before 2029 other than some $262M 4.75% notes that mature in 2027. Reflecting debt reductions over the past several quarters, interest expense was $55.3M in 2023, down from $65.4M in 2022.

SUMMARY DATA

52-Week High	**$16.24**
52-Week Low	**$7.84**
One-Year Return (%)	**24**
Beta	**0.82**
Average Daily Volume (sh)	**889,452**
Shares Outstanding (mil)	**113**
Market Capitalization ($mil)	**$1,671**
Short Interest Ratio (days)	**4.5**
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	**25.2**
P/E using 2024 Estimate	**22.8**
P/E using 2025 Estimate	**18.6**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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
2025					2,010 E

EPS / Loss per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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
2025					$0.80 E

Qs might not sum reflecting rounding

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POSITIVE TRENDS EXPECTED TO DRIVE CONTINUED MOMENTUM

1Q24 results after market close May 8, 2024 …

CoreCivic (NYSE: CXW) will report 1Q24 results after market close on May 8, 2024 and host a conference call at 10:00 a.m. CT / 11:00 a.m. ET on May 9, 2024. We forecast 1Q24 revenue of $474.2 million compared to $458.0 million in 1Q23, an expected 3.5% year-over-year advance. The consensus estimate is $477.9 million. On the higher projected revenue, we model EPS of $0.12 compared to $0.11 in 1Q23 and consensus of $0.15. Sequentially, 1Q generally is seasonally weaker compared to 4Q because it contains one fewer day and generally reflects higher utilities and unemployment taxes. We believe recent momentum in the company's business reflect positive trends, including rising average compensated occupancies at CXW facilities and normalizing costs. We are optimistic about operating improvements going forward.

Following termination of Title 42 in May 2023 through December 2023, the number of people in ICE custody rose 74%. 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, because many of the company's federal contracts include a fixed payment component, increases in occupancies do not boost revenue until the minimum level of compensated beds per the fixed payment component is exceeded. The majority of CXW's facilities are now at or above that level, which we expect to lead to improving margins as occupancies continue rise.

The company also continues to pursue cost containment efforts, debt reductions and other balance sheet strengthening measures. As CXW pursues cost containment efforts, debt reductions and other strengthening measures, we expect improving operating leverage and margin expansion, although it would not surprise us if margins were lumpy in the near-term.

Multiple contracts closed in recent months; talks for new contracts ongoing …

CXW is engaged in a number of discussions with multiple government entities. At the same time, 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. Over the past 5-years, renewal rates on owned and controlled facilities is 95%.

…leading to strong pipeline…

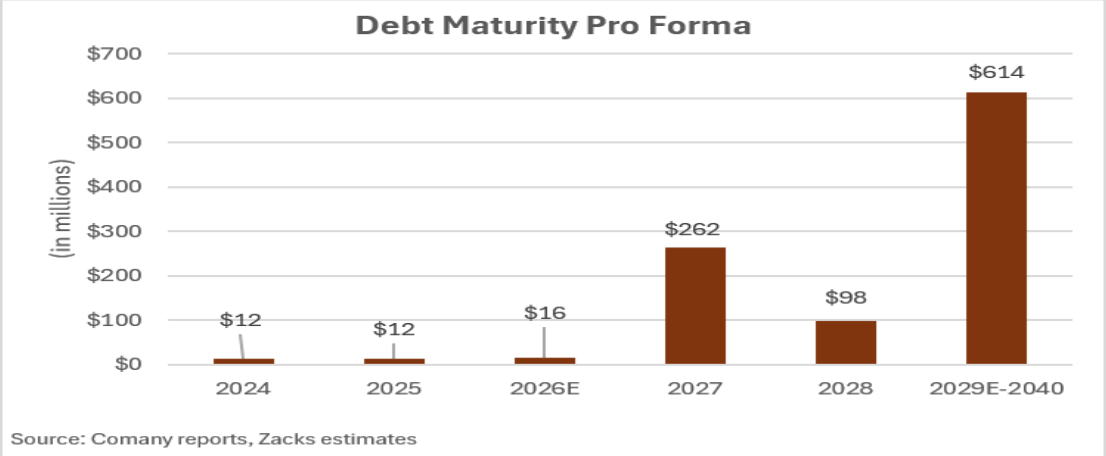
In our view, the company's strong pipeline and recent new business wins or contract extensions reflect CXW's ability to provide flexible capacity to government customers. CXW has indicated that it is seeing for occupancy from new and existing government entities, including federal, state, and local agencies. 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 has also announced several new contracts recently that we expect will benefit 2024 results and also underscore the stable retention rate.

Recent contracts include, among others, a new management contract with Montana to house up to 120 inmates at its1,896-bed Saguaro Correctional Facility in Eloy, Arizona, which marks multiple contracts with the Montana Department of Corrections. 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 and a new management contract with Hinds County, Mississippi for up to 250 beds at this facility. Another is with Harris County, Texas for up to 360 beds at the company's Tallahatchie County Correctional Facility and a contract with the U.S. Marshals Service at the 4,128-bed Central Arizona Florence Correctional Complex.

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.

Strengthening balance sheet include recently completed debt issuance to extend maturities

CXW has strengthened its balance sheet significantly since initiating its deleveraging goals in 2020 and recently completed a debt issuance to extend maturities. Demand for CXW's notes strong and 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. The net proceeds of the issuance is an estimated roughly $490 million, which were earmarked to redeem $593.1 million of outstanding 2026 notes. 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. The company has reduced debt by more than $1.1 billion since first putting the deleveraging strategy in place in 2020.



CXW generates strong funds from operations (FFO) and also 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. 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.

Refinancing and debt reduction measures over the past couple of years have contributed to substantially lower debt levels and lower interest expense. Interest expense was $55.3 million in 2023, down from $65.4 million in 2022. 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 company also repurchased $27.9 million of its notes in the open market in 2023. We expect these measures to continue.

VALUATION

Expect deleveraging, improving trends to lead to higher share price

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 95%, 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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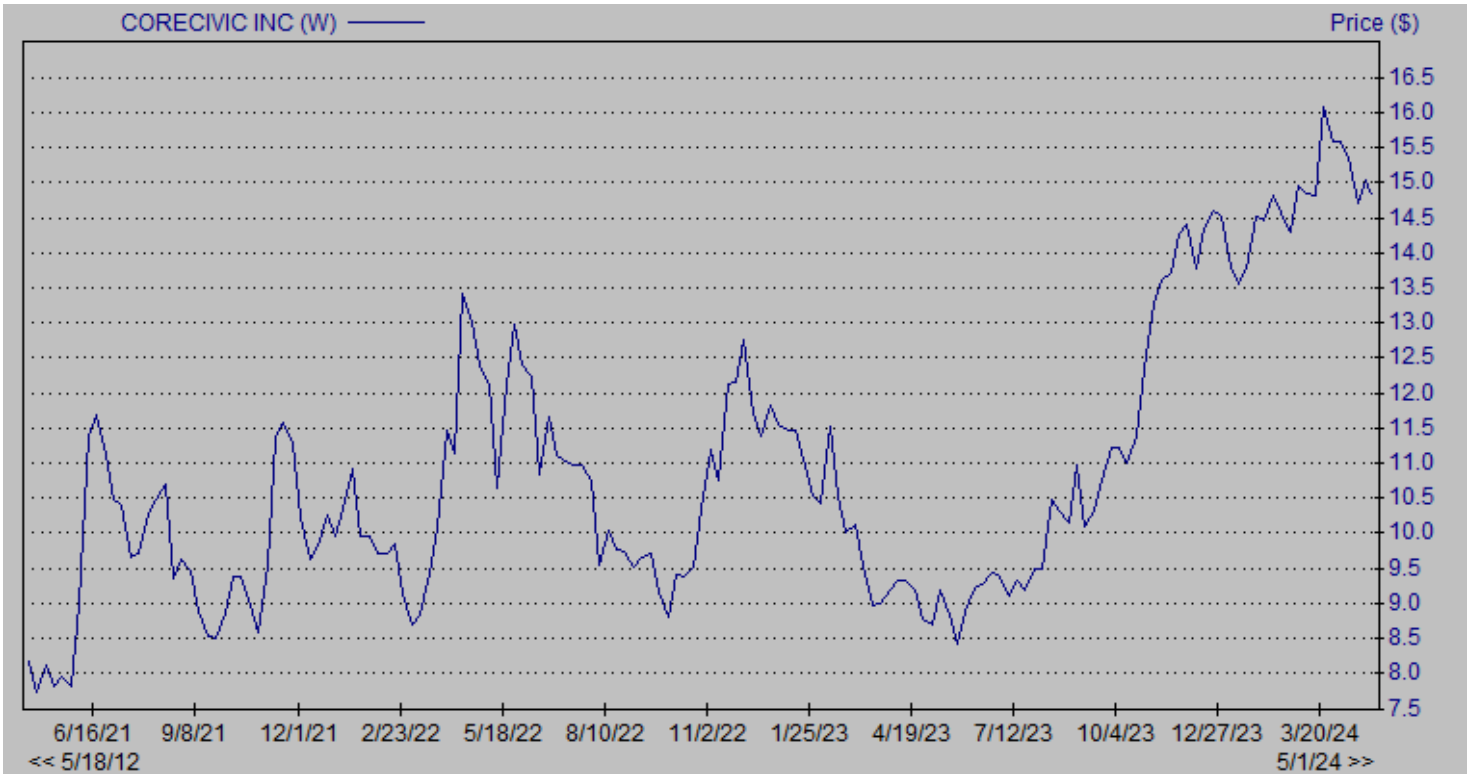

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