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CoreCivic, Inc. (CXW-NYSE)

CXW: 1Q24 Beat Highlights Operating Leverage, Improving Occupancies

We think CXW's 1Q24 beat underscores organic improvements as occupancies reach 75.2% - highest level since pandemic. Adj EPS was $0.25 vs $0.13. As CA prison populations decline, state has exited several facilities, including CXW's CA City Correctional Center. CXW believes facility - ~25 years old vs ~ 50 year avg of CA prisons – is well-suited for ICE, U.S. Marshalls needs.

Current Price (5/1/24)	$15.49
Valuation	**$20.00**

OUTLOOK

Management has indicated that the pipeline for new leases, renewals is robust as ICE & multiple government entities seek capacity. Company is engaged in multiple discussions. In addition, the recent debt issuance extended maturities & CXW was able to maintain the cost of capital despite the uncertain rate, economic outlook. Leverage ratio of 2.7x is within target range of 2.25x to 2.75x & no major debt maturities before 2029. CXW purchased 2.7m shares in 1Q24, more than it repurchased in all of 2023. We expect measures to deliver shareholder value will continue and are optimistic about operating improvements going forward.

SUMMARY DATA

52-Week High	**$16.24**
52-Week Low	**$8.27**
One-Year Return (%)	**68**
Beta	**0.83**
Average Daily Volume (sh)	**853,406**
Shares Outstanding (mil)	**111**
Market Capitalization ($mil)	**$1,719**
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	**20.9**
P/E using 2024 Estimate	**21.2**
P/E using 2025 Estimate	**19.4**

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	501 A	481 E	495 E	498E	1,975 E
2025					2,010 E

Adj EPS / Loss per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	$0.14 A	$0.13 A	$0.08 A	$0.22 A	$0.57 A
2023	$0.13 A	$0.12 A	$0.14 A	$0.23 A	$0.61 A
2024	$0.25 A	$0.14 E	$0.17 E	$0.15 E	$0.72 E
2025					$0.80 E

Qs might not sum reflecting rounding

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1Q24 BEAT UNDERSCORES ORGANIC IMPROVEMENTS, OPERATING LEVERAGE

Occupancies reached 75.2%, highest level since pandemic …

CoreCivic (NYSE: CXW) reported 1Q24 results that beat our / consensus expectations. Revenue came in at $500.7 million compared to $458.0 million in 1Q23. This represented a strong 9.3% year-over-year advance. We believe this increase underscores the organic improvements the company records as occupancies rise. The termination of Title 42 has led to higher ICE demand for space and consequently to higher occupancies at CXW facilities. We modeled 1Q24 revenue of $474.2 million. The consensus estimate was $477.9 million.

At the same time, costs have begun to normalize and the company has pursued cost containment efforts where it can, as well as debt reductions and other balance sheet measures. We also believe 1Q24 results underscore the strong operating leverage in the company's model, as occupancies and consequently revenues rise. The 1Q24 operating margin was a robust 10.9%, up from 8.7% in 1Q23 and even with 4Q23, even though sequentially 1Q generally is seasonally weaker compared to 4Q because it contains one fewer day and generally reflects higher utilities (as well as higher unemployment taxes). CXW narrowed and increased the 2024 guidance range to reflect the 1Q beat.

1Q24 Takeaways

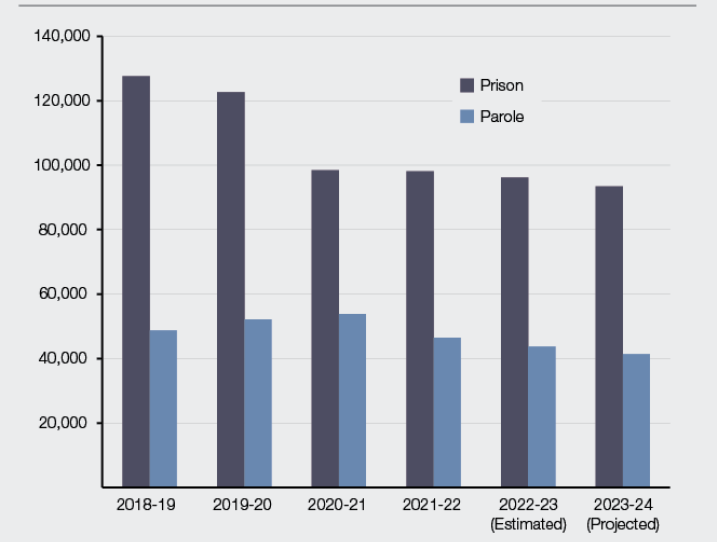
- CXW 1Q24 beat underscores organic improvements, operating leverage as occupancies rise
- Occupancies reached 75.2%, the highest level since the pandemic
- Normalizing for non-recurring items, adjusted EPS was $0.25, compared to $0.13 in 1Q23 on the same basis
- CA City Correctional center lease expired as the state's prison populations continue to decline
- CXW believes facility -~25 years old vs ~ 50 year avg for CA prisons - well-suited for ICE, U.S. Marshalls needs
- Management has indicated that the prospective pipeline is robust …
- Recent debt issuance extended maturities, maintained cost of capital despite uncertain rate, economic outlook
- Leverage ratio of 2.7x within target range of 2.25x to 2.75x, no major debt maturities before 2029
- Company purchased 2.7m CXW shares in 1Q24, more than it repurchased in all of 2023

CXW incurred non-recurring costs associated with the 1Q24 debt refinancing. Reflecting these expense, CXW reported EPS of $0.08, compared to $0.11 in last year's 1Q. We modeled EPS of $0.12 and consensus was $0.15. normalizing for these non-recurring items, adjusted EPS was $0.25, compared to $0.13 in last year's 1Q, on the same basis.

Average compensated occupancies at CXW facilities reached 75.2%, the highest occupancy level since the pandemic began. The majority of CXW's facilities are now at or above the fixed payment levels, which we expect to lead to improving margins as occupancies continue rise, although it would not surprise us if margins were lumpy in the near-term, particularly given the closure of CXW's California City Correctional Center.

California City Correctional Center well-suited for needs of ICE, U.S. Marshalls …

California Prison & Parole Populations Projected to Decrease



Source: LAO

The company's lease with the state of California at its California City Correctional Center expired on March 31, 2024, and the facility was shuttered in April. The state's prison populations have declined in recent years and are projected to decrease further, reflecting primarily "the estimated impact of various sentencing changes enacted in recent years," according to the Legislative Analyst's Office (LA0).

The facility was constructed in 1999, which makes it significantly newer than most other prisons in California. Based on data from the California Department of Corrections and Rehabilitation (CDCR), on average the state's prison facilities are about 50 years old, with many constructed in the 1950s and 1960s. Folsom State Prison and San Quentin were built in 1880 and 1852, respectively.

Management believes the Cal City facility would suit the needs of various prospective customers, particularly ICE and the U.S. Marshalls, both of which have used it in the past. However, conservatively the company's guidance reflects the expectation that negotiations do not lead to a new lease on this facility before year-end. The facility generates roughly $25 million in annual EBITDA.

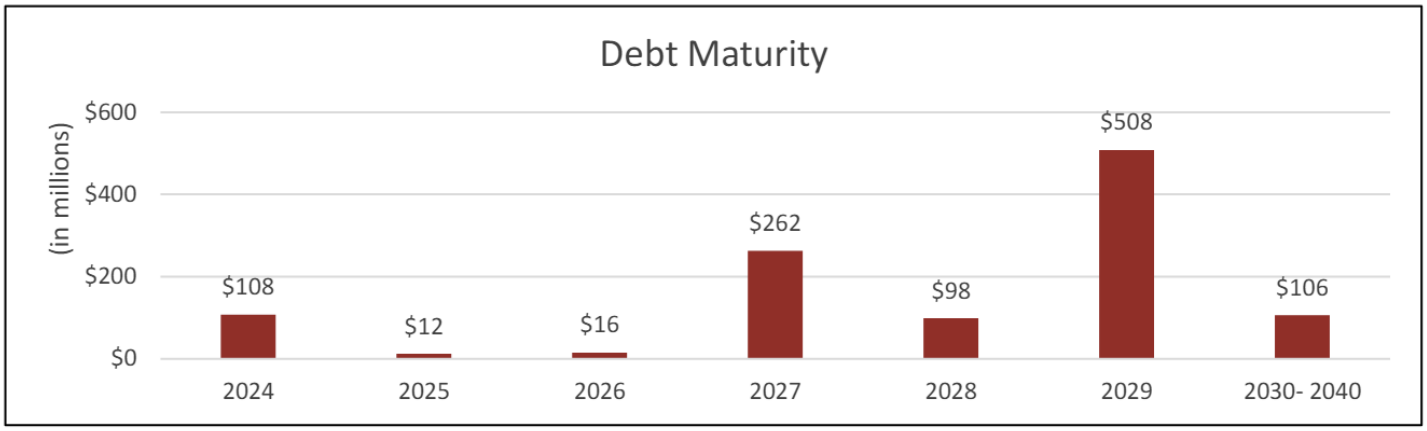
Management has indicated that the prospective pipeline is robust …

Reflecting growing demand for capacity and ongoing discussions the company is having with existing and potential partners plus its own efficiency improvements. Notably, the company indicated that government entities, including federal, state, and local agencies, have registered higher demand for occupancy. 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 95.7%.

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. 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.

Leverage ratio 2.7x within target range, no major debt maturities before '29

Even against the backdrop of the current interest rate environment, CXW has strengthened its balance sheet significantly. The company has reduced debt by more than $1.1 billion since first putting the deleveraging strategy in place in 2020. The company recently completed a debt issuance to extend maturities and was able to maintain its cost of capital on senior notes at 8.25% even with the uncertain interest rate and economic outlook. Demand for CXW's notes strong and the amount of notes offered was upsized to an aggregate $500 million principal, from a previously announced $450 million.



Source: Company reports

CXW's leverage ratio measured as net debt-to-TTM adjusted EBITDA was 2.7x at the end of 1Q24, within its target leverage range of 2.25x to 2.75x for the first time since launching the revised capital allocation strategy and goals in 2020. Moreover, 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 and we therefore do not expect the company to refinance these in advance.

CXW had $111.4 million of cash at the end of 1Q24 and $257 million available under its revolver. We 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. We expect funds to be used to repay the funds it has drawn from the revolver subsequent to 1Q24 and also repurchase shares, depending on market conditions and the share price. The company also repurchased 2.7 million of its shares in 1Q24, more than it repurchased in all of 2023.

VALUATION

Expect deleveraging, share buybacks, robust pipeline to help drive higher share price

As noted, we are optimistic about CXW's opportunity to continue generating stable cash flow. 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. 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.

Historically, CXW shares have been valued on a price to forward FFO basis, commanding an average multiple of about 13-14x this metric. We are adjusting our expected multiple slightly on the back of the strong results, improving balance sheet and robust outlook for the pipeline. Applying a multiple of about 13.5x to our 2024 FFO estimate yields a valuation of about $20 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.

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 1Q24 results on May 8, 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	1Q24A	2Q24E	3Q24E	4Q24E	2024E
Revenue	$458,002	$463,682	$483,705	$491,246	$1,896,635	$500,686	$481,395	$494,830	$497,775	$1,974,685
Y/Y % change	*1.1%*	*1.5%*	*4.2%*	*4.2%*	*2.8%*	*9.3%*	*3.8%*	*2.3%*	*1.3%*	*4.1%*
Operating expense	354,537	362,008	377,323	368,562	1,462,430	378,103	374,295	379,746	383,544	1,515,688
General and administrative	32,679	32,612	33,927	36,866	136,084	36,465	34,649	35,733	35,067	141,913
Depreciation and amortization	31,042	31,615	32,526	32,133	127,316	31,730	31,977	32,437	32,113	128,257
Shareholder litigation expense / other	-	-	-	-	-	-	-	-	-	-
Impairments / other	-	-	2,710	-	2,710	-	-	-	-	-
Total operating expense	418,258	426,235	446,486	437,561	1,728,540	446,298	440,921	447,916	450,723	1,785,858
Operating income	39,744	37,447	37,219	53,685	168,095	54,388	40,474	46,914	47,051	188,827
Operating margin	8.7%	8.1%	7.7%	10.9%	8.9%	10.9%	8.4%	9.5%	9.5%	9.6%
Interest expense, net	19,151	18,268	17,886	17,655	72,960	18,613	18,985	20,295	21,513	79,406
Other (income) expense	47	173	(194)	(714)	(688)	26,732	5,270	-	-	32,002
	19,198	18,441	17,692	16,941	72,272	45,345	24,255	20,295	21,513	111,408
Pretax income	20,546	19,006	19,527	36,744	95,823	9,043	16,218	26,619	25,539	77,418
Taxes	(8,146)	(4,176)	(5,635)	(10,276)	(28,233)	500	(2,108)	(8,252)	(8,300)	(18,160)
Minority interest										
Net income	12,400	14,830	13,892	26,468	67,590	9,543	14,110	18,367	17,239	59,258
Adj net income*	14,708	13,628	15,625	26,399	70,360	27,859	17,091	18,367	17,239	80,555
Per share data										
EPS	$0.11	$0.13	$0.12	$0.23	$0.59	$0.08	$0.13	$0.17	$0.15	$0.53
Adj EPS	$0.13	$0.12	$0.14	$0.23	$0.61	$0.25	$0.14	$0.17	$0.15	$0.72
Average shares outstanding	114,533	113,952	114,407	114,786	114,650	113,487	111,255	111,255	111,250	111,812
Funds From Operation (FFO)										
Net income	$12,400	$14,830	$13,892	$26,468	$67,590	$9,543	$14,110	$18,367	$17,239	$59,258
+ D&A of real estate assets	24,171	24,198	24,837	24,870	98,077	24,784	24,622	25,139	25,112	99,657
+ Impairment of real estate assets	-	-	-	-	-		-	-	-	-
- Gain on sale of real estate assets	-	25	(368)	(455)	(798)	(568)	-	-	-	(568)
+ - Other	-	(7)	107	126	226	178	-	-	-	178
FFO	36,571	39,046	38,468	51,009	165,095	33,937	38,732	43,506	42,351	158,525
FFO/share	$0.32	$0.34	$0.34	$0.44	$1.44	$0.30	$0.35	$0.39	$0.38	$1.42
+ M&A expenses	-	-	-	-	-					
+ COVID related expenses	-	-	-	-	-		-	-	-	-
+ Balance sheet related expenses	-	226	100	360	686	27,242	4,200	-	-	31,442
+ - Other asset impairments	2,308	-	2,710	-	5,018			-	-	-
+ - Tax assoc. w/chg in corp structure		(1,378)			(1,378)					
+ - Other special items (tax)	-	(68)	(816)	(100)	(984)	(8,536)	(1,219)	-	-	(9,755)
Normalized FFO	38,879	37,826	40,462	51,269	168,436	52,643	41,713	43,506	42,351	180,212
Normalized FFO/share	$0.34	$0.33	$0.35	$0.45	$1.47	$0.46	$0.37	$0.39	$0.38	$1.61

Source: Company reports, Zacks estimates

*Adj net income adjusts for highlighted items in FFO lines

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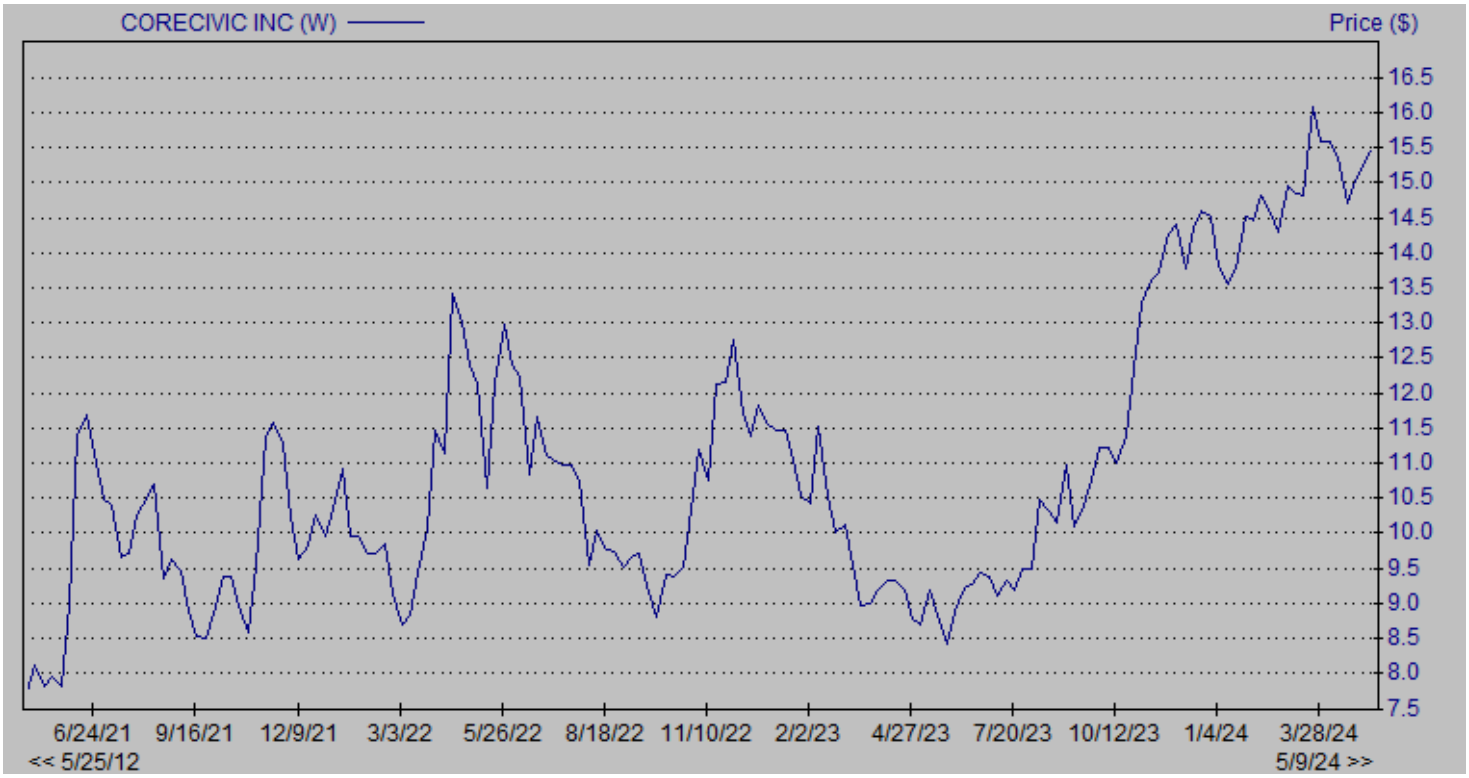

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