June 14, 2024

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

M. Marin
312-265-9211
mmari@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

CoreCivic, Inc. (CXW-NYSE)

CXW: Revising Estimates; Believe CXW Relationship with ICE Remains Strong

CXW received notice that ICE plans to terminate services at the South Texas Family Residential Center in August. While we see this as a short-term challenge for CXW in terms of the loss of occupancy, we believe it does not reflect on the company's relationship with ICE, its largest customer. We expect further new and extended business with ICE over time.

Current Price (6/13/24)	$11.74
Valuation	**$15.00**

OUTLOOK

The contract termination was driven primarily by costs, according to the WSJ. Unlike most CXW ICE contracts, the center has been operated under a costlier model because it was initially opened in 2014 to house families, then was transitioned in 2021 to detention primarily of individual adults. Despite the expected short-term challenge of the contract termination, longer term we expect rising demand from ICE under the traditional detention model. In fact, last month ICE DHS issued an RFI for detention capacity in the Chicago, Harlingen, Texas & Salt Lake City markets. CXW's Midwest regional center, located in Leavenworth, Kansas, has capacity and potentially could represent a well-positioned solution.

SUMMARY DATA

52-Week High	**$16.54**
52-Week Low	**$9.06**
One-Year Return (%)	**26**
Beta	**0.89**
Average Daily Volume (sh)	**862,806**
Shares Outstanding (mil)	**111**
Market Capitalization ($mil)	**$1,308**
Short Interest Ratio (days)	**4.9**
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	**15.9**
P/E using 2024 Estimate	**21.0**
P/E using 2025 Estimate	**29.0**

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	474 E	458E	1,913 E
2025					1,855 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	$0.09 E	$0.07 E	$0.56 E
2025					$0.40 E

Qs might not sum reflecting rounding

Disclosures page 7

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

REVISING FOR LEASE TERMINATION; BELIEVE LONG-TERM STORY UNCHANGED

Believe contract termination does not reflect any change to CXW's strong relationship with ICE …

Earlier this week CoreCivic (NYSE: CXW) received termination notice from ICE, which plans to terminate services at the South Texas Family Residential Center in Dilley, Texas effective in 60 days (~August 9, 2024). While we see this as a short-term challenge for CXW in terms of the loss of occupancy, we believe the contract termination does not reflect on the company's relationship with ICE, its largest customer. We expect further renewals, extensions and new business agreements for CXW with ICE in the future.

According to the WSJ, the decision to terminate the contract primarily reflects the high cost of operating the facility, which unlike the majority of CXW's ICE contracts, has been operated under a costlier Family Residential Standards (FRS) model because the facility was initially designed to house families seeking asylum. Specifically, the company originally entered into the contract in 2014 as ICE sought to provide solutions for the high volume of families seeking to enter the U.S. at the time. However, subsequently in 2021, the facility transitioned primarily to detention of single adults. The population at the center was 1,561 as of June 9, 2024.

Revenue at the center was $156.6 million in 2023 and $39.3 million in 1Q24. The company expects the annualized EPS impact to be a reduction of about $0.38 to $0.41. Given that the termination becomes effective in August 2024, we estimate the 2024 impact will be about $0.15 to $0.16 per share. We have revised our model to reflect the expected impact.

The company leases the South Texas Family Residential Center and has provided termination notice to Target Hospitality Corp., which owns the facility. CXW therefore has largely matched lease costs with expected revenue reduction. There might, however, be other costs (labor costs associated with winding down the contract, potential contract impairment expense, for example) that might lead to non-recurring expense in 2024. Although CXW has suspended guidance, we would expect the company to reinstate guidance once it has a clearer understanding of the timing of winding down the contract and potential 1-time charges.

Expect CXW will largely offset impact over time…

Although the contract termination presents a short-term challenge for CXW, as noted, longer term we believe it could lead to rising demand from ICE under the traditional detention model, depending on budgets and potential political factors. If so, we would expect CXW to garner a rising number of contracted beds with ICE over time. In fact, last month ICE and Homeland Security (DHS) issued an RFI (Request for Information) to "identify possible detention facilities to house non-citizens in support of its public safety mission." Specifically, ICE is seeking detention capacity in the Chicago, Harlingen, Texas and Salt Lake City markets. CXW's Midwest Regional Reception Center, which is located in Leavenworth, Kansas, has capacity and potentially could represent a well-positioned solution.

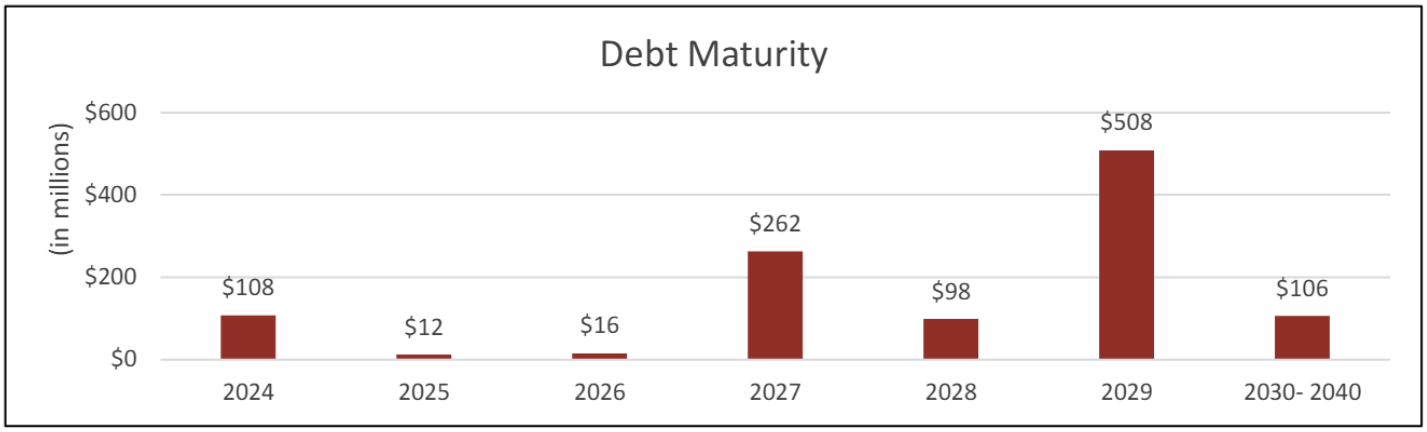
Moreover, we also expect that the company is in discussions with ICE to explore other solutions for the capacity that is housed at the South Texas Family Residential Center, including potentially transitioning from the above-noted costlier FRS model to the more traditional model.

Capital allocation expected to prioritize leverage reduction …

Separately, CXW's leverage ratio reached 2.7x by the end of 1Q24, placing it within the target range of 2.25x to 2.75x. With no major debt maturities before 2029 as illustrated below other than some $262 million maturing in 2027 (which carry a 4.75% stated interest rate and therefore we do not expect the company to refinance in advance), CXW purchased 2.7 million shares in 1Q24. This was more than it repurchased in all of 2023. However, in the short-term, the leverage ratio is expected to change reflecting the expected reduction in EBITDA from the South Texas Family Residential Center. As a result, CXW has indicated the likelihood that it will prioritize debt reductions rather than share buybacks in the near-term.

CXW has strengthened its balance sheet significantly, reducing 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.

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.



Source: Company reports

Strong potential new business pipeline…

Longer-term, reflecting growing demand for capacity, CXW is engaged in ongoing discussions with existing and potential partners. The company has indicated that government entities, including federal, state, and local agencies, have registered higher demand for occupancy and 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.

VALUATION

Shares could remain constrained until company reinstates guidance…

We remain optimistic about CXW's opportunity to continue generating stable cash flow, entering into new business with existing and prospective customers and pursuing its capital allocation initiatives. Reflecting the contract termination, the shares have pulled back about x% this week. Nevertheless, given CXW's momentum with contract wins, efficiency gains and balance sheet measures, we anticipate multiple expansion on CXW shares to resume.

The revisions to our model result in an anticipated roughly $0.16 per share reduction to expected FFO per share in 2024. 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 news, given the significance of the facility to consolidated results. Moreover, it would not surprise us if the multiple remained constrained until CXW reinstates guidance. Thus, applying a multiple of about 12x to our revised 2024 FFO estimate yields a valuation of about $15 per share. Nevertheless, as noted, we continue to view the company's recent momentum and balance sheet measures as catalysts for multiple expansion over time. We believe the risk / reward ratio remains 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 received termination notice from ICE for the South Texas Family Residential Center on June 10, 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)

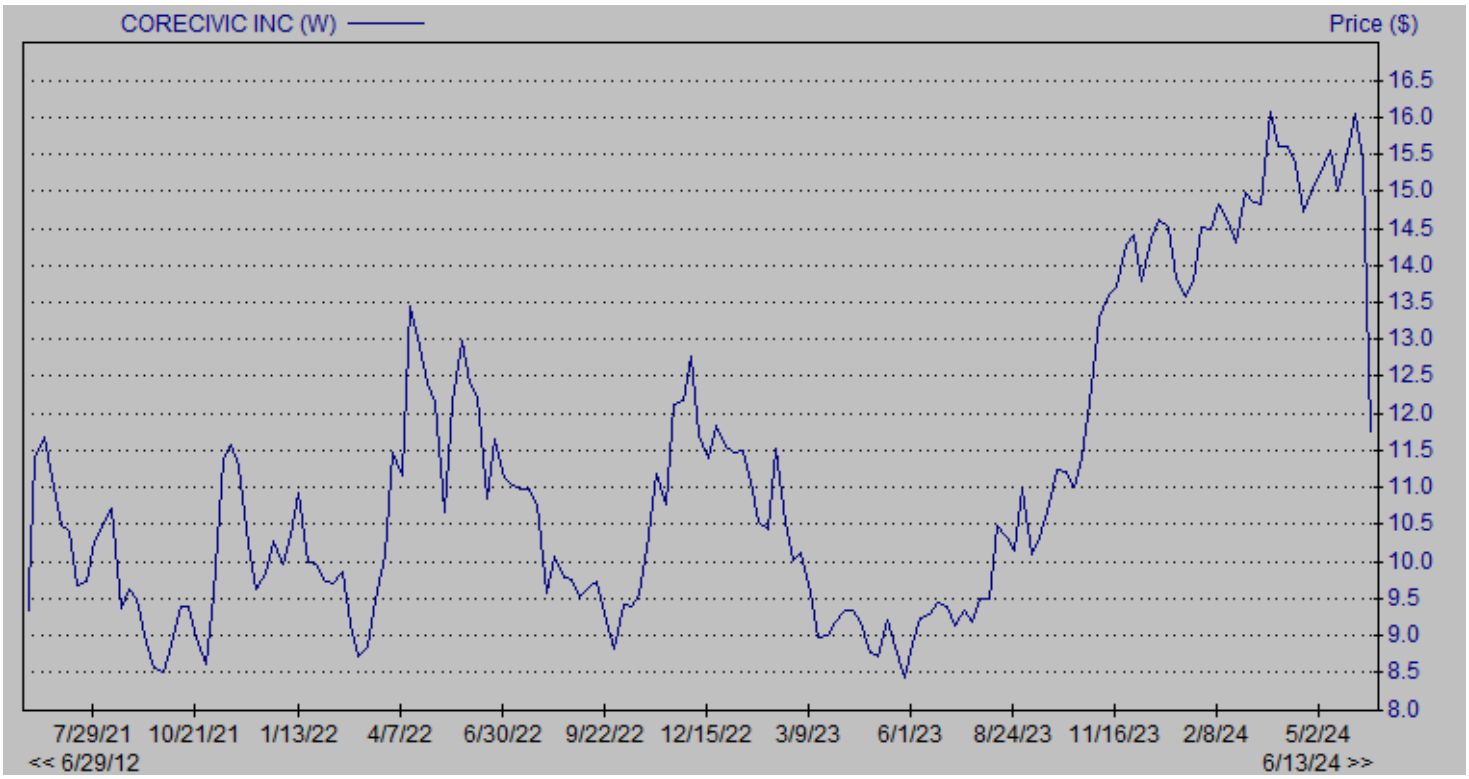
	1Q23A	2Q23A	3Q23A	4Q23A	2023A	1Q24A	2Q24E	3Q24E	4Q24E	2024E
Revenue	$458,002	$463,682	$483,705	$491,246	$1,896,635	$500,686	$481,395	$473,630	$457,775	$1,913,485
Y/Y % change	*1.1%*	*1.5%*	*4.2%*	*4.2%*	*2.8%*	*9.3%*	*3.8%*	*-2.1%*	*-6.8%*	*0.9%*
Operating expense	354,537	362,008	377,323	368,562	1,462,430	378,103	374,295	371,326	357,064	1,480,788
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	439,496	424,243	1,750,958
Operating income	39,744	37,447	37,219	53,685	168,095	54,388	40,474	34,134	33,531	162,527
Operating margin	8.7%	8.1%	7.7%	10.9%	8.9%	10.9%	8.4%	7.2%	7.3%	8.5%
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	13,839	12,018	51,118
Taxes	(8,146)	(4,176)	(5,635)	(10,276)	(28,233)	500	(2,108)	(4,290)	(3,906)	(9,804)
Minority interest										
Net income	12,400	14,830	13,892	26,468	67,590	9,543	14,110	9,549	8,112	41,314
Adj net income*	14,708	13,628	15,625	26,399	70,360	27,859	17,091	9,549	8,112	62,611
Per share data										
EPS	$0.11	$0.13	$0.12	$0.23	$0.59	$0.08	$0.13	$0.09	$0.07	$0.37
Adj EPS	$0.13	$0.12	$0.14	$0.23	$0.61	$0.25	$0.14	$0.09	$0.07	$0.56
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	$9,549	$8,112	$41,314
+ 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	34,688	33,224	140,581
FFO/share	$0.32	$0.34	$0.34	$0.44	$1.44	$0.30	$0.35	$0.31	$0.30	$1.25
+ 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	34,688	33,224	162,268
Normalized FFO/share	$0.34	$0.33	$0.35	$0.45	$1.47	$0.46	$0.37	$0.31	$0.30	$1.44

Source: Company reports, Zacks estimates

*Adj net income adjusts for highlighted items in FFO lines

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

HISTORICAL STOCK PRICE



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

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
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 non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.