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Zacks Small-Cap Research

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

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

CoreCivic, Inc. (CXW-NYSE)

CXW: Strong History of Contract Retention; Preview 2Q24 Results

CXW reports 2Q24 results after market on Aug. 7 & will host a conference call on Aug. 8 (11am ET). We forecast 2Q24 revenue of $481.4M compared to $463.7M in 2Q23, an expected 3.8% y/y advance. On the higher projected revenue, we model adjusted EPS of $0.14 compared to $0.12 in 2Q23. Consensus is $0.13.

Current Price (7/19/24)	$14.33
Valuation	**$16.35**

OUTLOOK

We remain optimistic about CXW's new business activities, operating improvements and cost containment efforts. Over time, we expect occupancies at CXW facilities to continue to increase, the pending ICE termination of services at CXW's South Texas Family Residential Center notwithstanding, as ICE & multiple government entities seek capacity. CXW also continues to strengthen its balance sheet, with a 2Q24 debt offering concurrent with a tender offer for 2026 8.25% notes. Through these measures, CXW 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.

SUMMARY DATA

52-Week High	**$16.54**
52-Week Low	**$9.18**
One-Year Return (%)	**52**
Beta	**0.90**
Average Daily Volume (sh)	**966,167**
Shares Outstanding (mil)	**111**
Market Capitalization ($mil)	**$1,607**
Short Interest Ratio (days)	**5.2**
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	**19.6**
P/E using 2024 Estimate	**25.6**
P/E using 2025 Estimate	**35.8**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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

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	$0.25 A	$0.14 E	$0.09 E	$0.07 E	$0.56 E
2025					$0.40 E

Qs might not sum reflecting rounding

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RENEWAL RATES HIGH REGARDLESS OF ADMINISTRATION

2Q24 results after market close August 7, 2024 …

CoreCivic (NYSE: CXW) will report 2Q24 results after market close on August 7, 2024, and host a conference call at 10:00 a.m. CT / 11:00 a.m. ET on August 8, 2024. We forecast 2Q24 revenue of $481.4 million compared to $463.7 million in 2Q23, an expected 3.8% year-over-year advance. The consensus estimate is $481.9 million. On the higher projected revenue, we model adjusted EPS of $0.14 compared to $0.12 in 2Q23 and consensus of $0.13. Recent momentum in the company's business reflecting positive trends include rising average compensated occupancies at CXW facilities and normalizing costs.

However, ICE plans to terminate services at the South Texas Family Residential Center in Dilley, Texas effective on about August 9, 2024 and therefore is not expected to impact 2Q24. 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.

While we see this as a short-term challenge for CXW in terms of the loss of occupancy and revenue – CXW expects the annualized EPS impact to be a reduction of about $0.38 to $0.41; we estimate the 2024 EPS impact will be about $0.15 to $0.16 –we believe the contract termination does not reflect on the company's relationship with ICE, its largest customer. In fact, 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.

Other new business activity has been strong…

Moreover, longer-term, we remain optimistic about operating improvements going forward and we expect further renewals, extensions and new business agreements for CXW with ICE in the future. The company has also closed new or renewed several contracts in recent months. 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.

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, retention 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, retention rates on owned and controlled facilities is 95.7%.

CONTRACT RETENTION

	2019	2020	2021	2022	2023	TOTAL
OWNED AND CONTROLLED:						
# of Contracts up for Renewal	43	43	35	21	34	176
# of Contracts Retained	40	40	33	20	34	167
Retention Rate	93.0%	93.0%	94.3%	95.2%	100.0%	94.9%

Source: Company reports

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.

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.

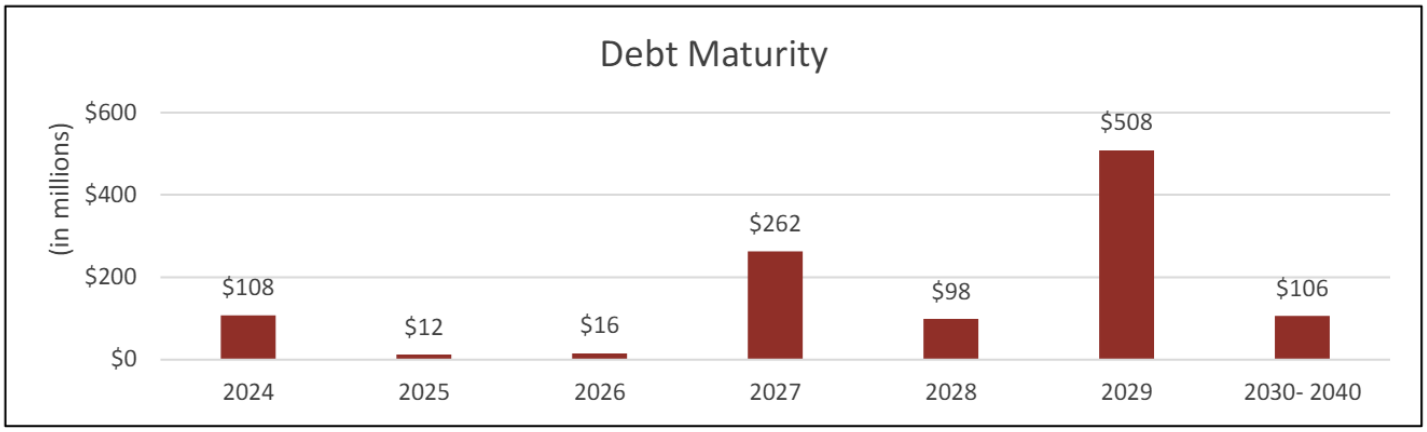
With strong pipeline, Expect CXW will largely offset impact over time…

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, in 2Q24 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.



Source: Company reports

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 retention 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.

VALUATION

Believe 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. Nevertheless, given CXW's momentum with contract wins, efficiency gains and balance sheet measures, we anticipate multiple expansion on CXW shares to resume.

Historically, CXW shares have been valued on a price to forward FFO basis, commanding an average multiple of about 13-14x this metric. When ICE's notification of its termination of services at was initially announced, we lowered the expected multiple to about 12x on anticipated multiple constraint until 1) CXW reinstates guidance and / or 2) the company offsets or partially offsets the impact of this termination.

We are revising our expected multiple up to 13x (although it would not surprise us if the multiple remained constrained until CXW reinstates guidance). Thus, applying a multiple of about 13x to our 2024 FFO estimate yields a valuation of about $16.35 per share. As noted, we continue to view the company's recent momentum and balance sheet measures as catalysts for ongoing 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)

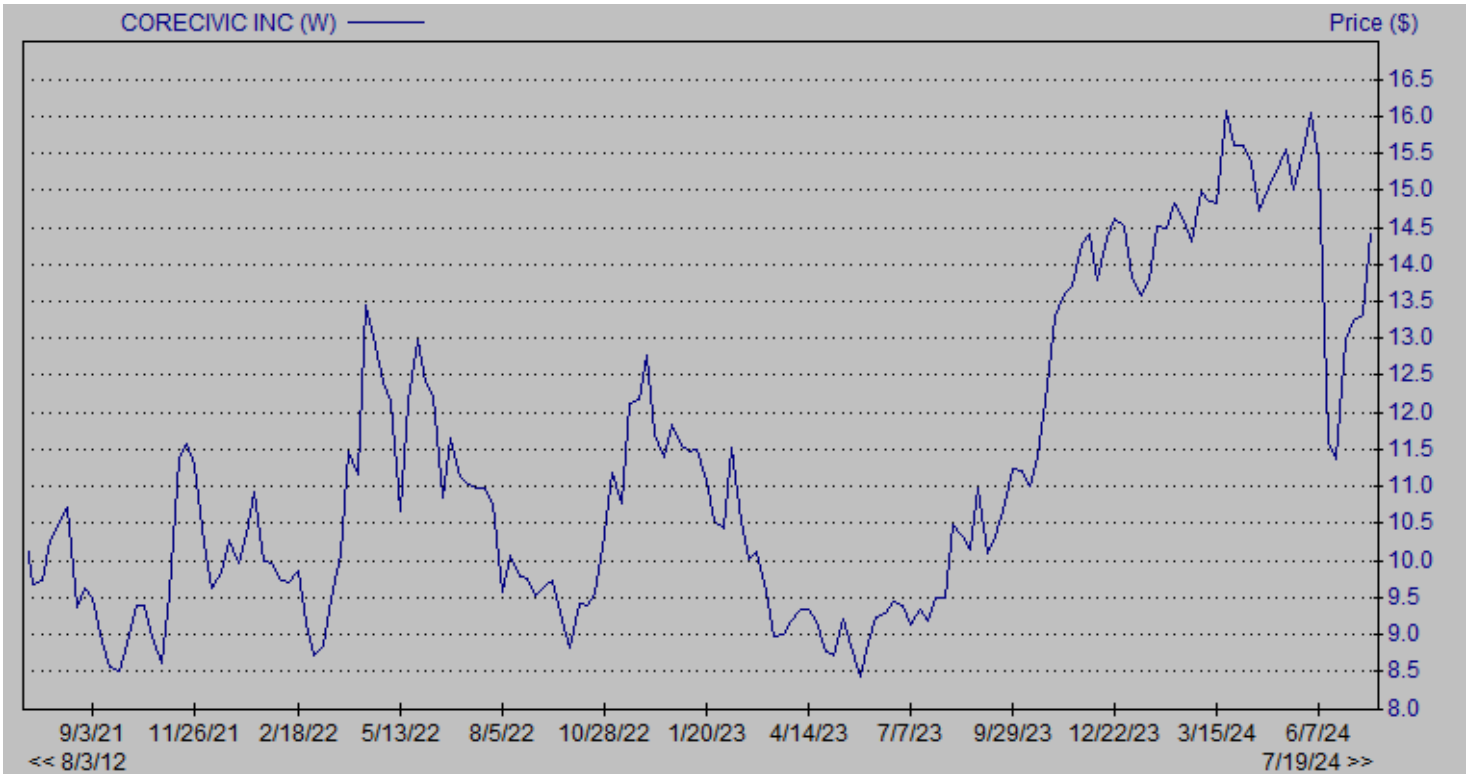
	1Q23A	2Q23A	3Q23A	4Q23A	2023A	1Q24A	2Q24E	3Q24E	4Q24E	2024E
Revenue	$458,002	$463,682	$483,705	$491,246	$1,896,635	$500,686	$481,395	$473,630	$457,775	$1,913,485
Y/Y % change	*1.1%*	*1.5%*	*4.2%*	*4.2%*	*2.8%*	*9.3%*	*3.8%*	*-2.1%*	*-6.8%*	*0.9%*
Operating expense	354,537	362,008	377,323	368,562	1,462,430	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

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HISTORICAL STOCK PRICE



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