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# CoreCivic US Marshals contracts under investor microscopes ahead of 2023 maturity wall

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PROPRIETARY
North America

USA

**Issuer**

CoreCivic, Inc.

After shrugging off the Biden administration's 26 January executive order directing the Department of Justice not to renew contracts with private prison operators, CoreCivic investors are reassessing the depth of the company's exposure to federal counterparties – namely the US Marshals Service, said a buysider, two sellside analysts and two credit analysts.

The Tennessee-based private prison operator announced last week that the USMS would not renew a contract for a 2,106 bed facility in Youngstown, Ohio. That contract alone won't materially impact the company's performance, but it's an indicator that CoreCivic's second largest counterparty presents an operating risk, said three of the analysts.

"This is another dagger for the industry and directionally, it's not good news for CoreCivic," said one of the credit analysts.

The Bureau of Prisons represented just 3% of CoreCivic's 2020 revenue, while USMS accounted for 21% of revenue. Both agencies sit under the DOJ's purview.

"If they lose all of those [USMS] contracts, it will bite," said the buysider.

Getting a handle on the go-forward earnings will be critical to the company's ability to address a USD 753m maturity wall in 2023 while maintaining compliance with leverage covenants, should EBITDA decline ahead of its ability to refinance or delever its balance sheet, said four of the sources.

CoreCivic stock traded at USD 7.66 today (USD 915m market cap), a small rebound after Friday's 12% plunge in reaction to the announcement about the USMS Youngstown facility. The stock has trended downward since early August when it announced its decision to de-REIT and become a C-Corp following an engagement with Moelis.

Despite the bad news, CoreCivic's bonds have strengthened or remained steady. Its USD 250m 4.75% senior unsecured note due 2027 softened to 90 on 2 March to yield 6.4%, down from 91.6 to yield 6.3% on 26 February, but up from 85.9 to yield 7.4% on 26 January when the Biden administration announced its directive to the DOJ, according to MarketAxess.

Meanwhile, its USD 250m 5% unsecured notes due 2022 traded up to 101.2 on 26 February to yield 4%, up from 98.96 to yield 5.6% on 8 February. The USD 349.6m 4.625% unsecured notes due 2023 last traded at 97 to yield 6.1% on 26 February, slightly weaker than 97.6 to yield 5.7% at the start of February.

| CoreCivic Capital Structure (31-Dec-20) | | | | | Face | | Market | | |
|---|---|---|---|---|---|---|---|---|---|
| USD (m) | Maturity | Coupon | Price | Yield | Principal | Leverage (LTM) | Value | Leverage (LTM) | Interest Expense |
| USD 800m Revolving Facility[1] | 17-Apr-23 | L + 1.5% | 94 | 4.49% | 219 | - | 207 | - | 4 |
| Term Loan A[2] | 17-Apr-23 | L + 1.5% | - | - | 180 | - | 180 | - | 3 |
| Term Loan B[3] | 18-Dec-24 | L + 4.5% | 98 | 6.23% | 238 | | 232 | | 13 |
| **Secured Debt** | | | | | **637** | **1.6x** | **618** | **1.5x** | **20** |
| Senior Unsecured Notes | 15-Oct-22 | 5.0% | 100 | 5.00% | 250 | - | 250 | - | 13 |
| Senior Unsecured Notes | 1-May-23 | 4.625% | 97 | 6.12% | 350 | - | 340 | - | 16 |
| Senior Unsecured Notes | 15-Oct-27 | 4.75% | 90 | 6.64% | 250 | - | 225 | - | 12 |
| **Total Debt, Excl. Non-Recourse Debt** | | | | | **1,487** | **3.7x** | **1,433** | **3.5x** | **60** |
| Capital Commerce Center Mortgage Note[4] | Jan-33 | 4.5% | - | - | 21 | - | 21 | - | 1 |
| Lansing Correctional Center Mortgage Note[5] | Jan-40 | 4.43% | - | - | 158 | - | 158 | - | 7 |
| SSA-Baltimore Mortgage Note[6] | Feb-34 | 4.5% | - | - | 144 | - | 144 | - | 7 |
| **Total Debt, Inc. Recourse Debt** | | | | | **1,810** | **4.5x** | **1,756** | **4.3x** | **75** |
| Less: Unrestricted Cash | | | | | 113 | | 113 | | |
| **Net Debt** | | | | | **1,696** | **4.2x** | **1,643** | **4.1x** | |
| Plus: Market Capitalization (NYSE: $CXW) | | | USD 7.66/share | | 916 | | 916 | | |
| Plus: NCI | | | | | 23 | | 23 | | |
| **Enterprise Value (EV)** | | | | | **2,636** | **6.5x** | **2,582** | **6.4x** | |

*Sources: Company Filings, Markit, MarketAxess, Debtwire*

| *Memo* | |
|---|---|
| FY20 Adj EBITDA - Total | 405 |
| FY20 Normalized FFO | 272 |
| Total Debt / LTM Normalized FFO | 6.7x |
| Shares Outstanding (m) | 119.6 |

| Operational Liquidity | |
|---|---|
| Cash & Cash Equivalents | 113 |
| Revolver Availability | 566 |
| **Liquidity on 31 December 2020** | **679** |

***Notes***

*1. Secured by a pledge of all CoreCivic's accounts receivable and deposit accounts. Libor margin ranges from 1.0% - 2.0% depending on leverage. Facility includes a USD 30m sublimit for swing line loans and USD 50m sublimit for letters of credit.*
*2. Secured by the same collateral and floats at the same interest rate as the Revolving Facility. Pre-payable without penalty and subject to quarterly amortization.*
*3. Subject to a 1.0% Libor floor and quarterly principal amortization. Secured by a first lien on certain property assets, representing a loan-to-value of no greater than 80%.*
*4. Secured by a 261k sf facility in Tallahassee Florida. Principal and interest on the Capital Commerce Note are payable in equal monthly payments over the 15-year term.*
*5. Secured by the newly built Lansing Correctional Facility in Kansas, which opened in January 2020. Principal and interest will be payable in quarterly payments beginning in July 2020 until maturity.*
*6. Secured by a 551k sf office building in Baltimore. Note requires monthly principal and interest payments, with a balloon payment of USD40 m due at maturity.*

The buoyant bond trading levels – especially for the nearest term maturities – reflect the perception of continued capital markets access, said the two credit analysts. While the regulatory environment seems to drip with bad news for private prison operators shunned by bulge-bracket banking services, CoreCivic peer GEO Group tapped the bond market on 19 February for USD 200m 6.5% exchangeable notes due 2026 to repay bonds coming due in 2022, said the two credit analysts.

GEO's lead bookrunner, StoneX (formerly International FC Stone), provided the issuer with access to debt capital markets when many traditional investment banks have shied away due to social impact concerns, said the buysider. While GEO Group paid a relatively high rate for the equity-linked securities, the transaction demonstrated that pockets of demand and investment banking services still exist for the private prison operators, said one of the credit analysts.

Shifting ground

The bigger picture for CoreCivic is how it adapts to shifting governmental ideology and priorities while chipping away at a USD 758m maturity wall in 2023, said the buysider and the two credit analysts. The company is using its free cash flow to pay down debt and make opportunistic purchases in the debt markets, as reported.

But a sudden reduction in financial performance stemming from a loss in government contracts would erode the cash flow that the company has generated as a result of transforming into a C-Corp, a move that allows CoreCivic to preserve USD 200m in cash per year to pay down debt.

The revenue picture for CoreCivic is still fluid; two more of its USMS contracts expire in 2021 and a third expires next year, said the buysider. If those three contracts alone are not renewed, CoreCivic could lose USD 23m of the USD 304m in EBITDA it generated in 2020, according to the analyst. That's but a portion of its total USMS contracts, so investors are still modelling worst-case scenarios.

Its cushion under a 5.5x consolidated total leverage covenant and a 2.75x consolidated senior secured leverage covenant could narrow or evaporate, the sources added. The company's total leverage and senior secured leverage at the end of FY20, based on USD 404m in adjusted

EBITDA for covenant purposes, was 3.5x and 1.3x, respectively, according to company financials.

Meanwhile, CoreCivic's contracts with its largest customer, the US Immigration and Customs Enforcement at 28% of 2020 revenue, are not as vulnerable, at least for now, the sources said. For one, the Trump Administration in its final days signed a complicated agreement with the union representing ICE workers, giving the union veto rights over any changes in working conditions, said Brandon Barford, a partner at Washington DC-based Beacon Advisors.

Still, the ideology around companies profiting from detaining migrants, and the practical necessity of housing an increase in migrants along the southern border, will undoubtedly play out over the next four years under an administration that is largely seen as more friendly to immigration, acknowledged the market sources.

Calls to the company and USMS were not returned.

by Seth Brumby

Debtwire
An Acuris company

# Corecivic shrugs off new Biden order as it moves ahead with its liability management strategy

03 February 2021 | 23:59 GMT

PROPRIETARY
**North America**

USA

**Issuer**
CoreCivic, Inc.

**Issuer**
The GEO Group, Inc.

CoreCivic's bonds dipped after President Biden announced plans to phase out privately operated prisons last week. However, investor sentiment has since improved as the policy shift is not expected to have an outsized impact on CoreCivic, according to a sellside analyst and a buyside analyst.

On 26 January, the President instructed the Department of Justice not to renew contracts with private prison operators, as one of the executive actions under his racial equality plan.

CoreCivic's shares tanked as much as 10% on the news, before settling at USD 6.26 on 26 January. The shares closed at USD 6.92 today for a USD 828m market cap.

Meanwhile, the USD 250m 5% unsecured notes due 2022 and USD 349.6m 4.625% unsecured notes due 2023 fell roughly 2.75-3.5 points to the 91.25-95 range on 26 January. The notes due 2023 bounced to 94.35 to yield 7.3% on 29 January, according to *MarketAxess*.

The notes pared back losses after the market internalized that the hit to CoreCivic would not be as bad as previously thought, a buyside analyst noted.

The executive order affects only one contract out of six that CoreCivic has with the Bureau of Prisons, representing roughly 2% of the company's total revenue, CoreCivic's managing director of investor relations Cameron Hopewell told *Debtwire* in an interview.

In contrast, peer GEO Group will see a 6% hit to its topline.

Amid an increasingly challenging environment to procure contracts and raise capital, CoreCivic has worked on preserving cash flow by changing its tax status to a C-Corp from a REIT while paying down debt ahead of their maturities.

The Tennessee-based company had USD 282m in cash and USD 456m drawn on its USD 800m revolver at the end of 3Q20 and will continue to pay down the drawn revolver balance with free cash flow, said Hopewell.

The company is also authorized to make open market purchases of the roughly USD 850m in unsecured bonds.

"We can do bond purchases which can be attractive considering their discount," said Hopewell. "But we're not calling the bonds."

| CoreCivic Capital Structure (30-Sep-20) | | | | | Face | | Market | | |
|---|---|---|---|---|---|---|---|---|---|
| USD (m) | Maturity | Coupon | Price | Yield | Principal | Leverage (LTM) | Value | Leverage (LTM) | Interest Expense |
| USD 800m Revolving Facility[1] | 17-Apr-23 | L + 1.5% | 94 | 4.35% | 471 | - | 445 | - | 8 |
| Term Loan A[2] | 17-Apr-23 | L + 1.5% | - | - | 183 | - | 183 | - | 3 |
| Term Loan B[3] | 18-Dec-24 | L + 4.5% | 98 | 6.19% | 241 | | 235 | | 13 |
| **Secured Debt** | | | | | 894 | 2.2x | 862 | 2.2x | 24 |
| Senior Unsecured Notes | 15-Oct-22 | 5.0% | 96 | 7.54% | 250 | - | 240 | - | 13 |
| Senior Unsecured Notes | 1-May-23 | 4.625% | 94 | 7.40% | 350 | - | 330 | - | 16 |
| Senior Unsecured Notes | 15-Oct-27 | 4.75% | 86 | 7.46% | 250 | - | 215 | - | 12 |
| **Total Debt, Excl. Non-Recourse Debt** | | | | | 1,744 | 4.4x | 1,647 | 4.1x | 65 |
| Capital Commerce Center Mortgage Note[4] | Jan-33 | 4.5% | - | - | 21 | - | 21 | - | 1 |
| Lansing Correctional Center Mortgage Note[5] | Jan-40 | 4.43% | - | - | 159 | - | 159 | - | 7 |
| SSA-Baltimore Mortgage Note[6] | Feb-34 | 4.5% | - | - | 146 | - | 146 | - | 7 |
| Government Real Estate Solutions Mortgage Note[7] | Nov-25 | 4.91% | - | - | 52 | - | 52 | - | 3 |
| **Total Debt, Inc. Recourse Debt** | | | | | 2,121 | 5.3x | 2,025 | 5.1x | 82 |
| Less: Unrestricted Cash | | | | | 282 | | 282 | | |
| **Net Debt** | | | | | 1,839 | 4.6x | 1,742 | 4.4x | |
| Plus: Market Capitalization (NYSE: $CXW) | | | USD 6.87/share | | 822 | | 822 | | |
| Plus: NCI | | | | | 23 | | 23 | | |
| **Enterprise Value (EV)** | | | | | 2,684 | 6.7x | 2,587 | 6.5x | |

*Sources: Company Filings, Markit, MarketAxess, Debtwire*

| *Memo* | |
|---|---|
| LTM Adj EBITDA - Total | 400 |
| LTM Adj EBITDA - Excl. Restricted Group | 380 |
| Total Recourse Debt / Restricted EBITDA | 4.6x |
| LTM Normalized FFO | 265 |
| Total Debt / LTM Normalized FFO | 8.0x |
| Shares Outstanding (m) | 119.6 |

| Operational Liquidity | |
|---|---|
| Cash & Cash Equivalents | 282 |
| Revolver Availability | 329 |
| **Liquidity on 30 September 2020** | **612** |

Notes

*1. Secured by a pledge of all CoreCivic's accounts receivable and deposit accounts. Libor margin ranges from 1.0% - 2.0% depending on leverage. Facility includes a USD 30m sublimit for swing line loans and USD 50m sublimit for letters of credit. Principal amount includes USD 14.8m of outstanding letters of credit.*
*2. Secured by the same collateral and floats at the same interest rate as the Revolving Facility. Pre-payable without penalty and subject to quarterly amortization.*
*3. Subject to a 1.0% Libor floor and quarterly principal amortization. Secured by a first lien on certain property assets, representing a loan-to-value of no greater than 80%.*
*4. Secured by a 261k sf facility in Tallahassee Florida. Principal and interest on the Capital Commerce Note are payable in equal monthly payments over the 15-year term.*
*5. Secured by the newly built Lansing Correctional Facility in Kansas, which opened in January 2020. Principal and interest will be payable in quarterly payments beginning in July 2020 until maturity.*
*6. Secured by a 551k sf office building in Baltimore. Note requires monthly principal and interest payments, with a balloon payment of USD40 m due at maturity.*
*7. Secured by a 28-property portfolio, of which 24 secure the instrument. The note requires monthly principal and interest payments, with a balloon payment of USD 46.2 million due at maturity.*

The decision to become a C-Corp allows CoreCivic to preserve up to USD 200m of annual cash flow that would normally go toward shareholder dividends under its REIT status. In addition, CoreCivic is pursuing non-core asset sales and completed a USD 106.5m sale of 42 properties netting USD 27m in proceeds after paying various mortgage notes and unwinding partnership agreements, said Hopewell.

The single contract with the Bureau of Prisons (BOP) is within CoreCivic's safety division, which encompasses its prison facilities. The other contracts with the BOP reside within the company's community segment, which operates halfway houses and re-entry facilities.

As of 3Q20, the safety segment generates roughly 90% of the company's revenue, or roughly USD 420m, while the community segment earned USD 24.1m. The company's property division generated USD 24.1m in revenue in the same period.

The President's 26 January executive order does not affect CoreCivic's BOP contracts that operate community facilities, a sellside analyst noted.

While CoreCivic might have enough business and counterparty diversity to avoid the federal government's targeted mandates, it is not immune to the larger social gales that seeks to end privately operated prisons.

With many banking institutions shying away from private prison operators and with the new Biden administration, companies like CoreCivic are exposed to increased government scrutiny and action. An important indicator for industry operators and observers is the new leadership within the DOJ.

Biden recently nominated Vanita Gupta as Associate Attorney General who has largely advocated that there should not be a profit-making element on human incarceration, said Brandon R Barford, a partner at Beacon Policy Advisor based in Washington DC.

"It's a pincer movement," said Barford. "Make financial counterparties stop doing business with [private prison operators] then turn the spigot off from the government."

by Seth Brumby