

# Prisons' Dilemma

*October 20, 2009*



**Pershing Square Capital Management, L.P.**

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# Corrections Corporation of America

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**Ticker: "CXW"**

**Stock price: \$24.50 <sup>(1)</sup>**

- ▶ **Corrections Corp owns and operates private prisons**
  - Owns the land and building at most of its facilities
  - Largest private prison company
  - Fifth largest prison manager behind California, the Bureau of Prisons, Texas and Florida
  
- ▶ **Capitalization:**
  - Enterprise value: \$4.1 billion
  - Equity market value: \$2.9 billion
  
- ▶ **Recent valuation multiples:**
  - '09e Cap rate: 12.2%
  - '09e P / Free Cash Flow Per Share: 13.3x

*1) All financials in this presentation assume a share price of \$24.50.*

# Overview of CXW

**CXW operates its business in two segments: Owned & Managed Facilities and Managed Facilities**

## **Owned & Managed Facilities**

- CXW owns the land and building for the vast majority of its owned & managed facilities
- 44 owned & managed facilities
- 61,054 beds
- ~35% Facility EBITDA margin
- High-multiple, high-margin business

**~90% of Facility EBITDA**

## **Managed Facilities**

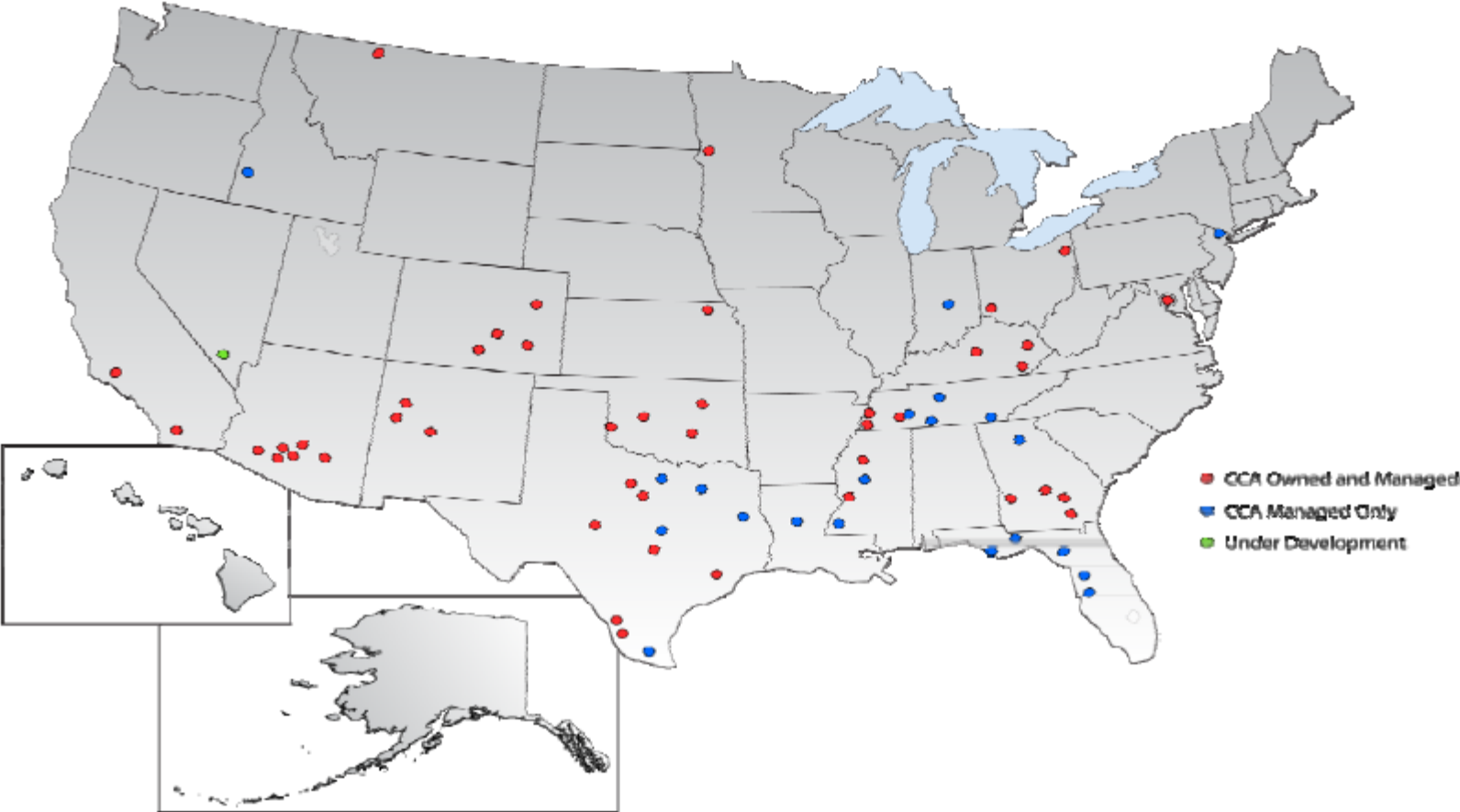
- CXW operates facilities on the government's behalf, but does not own the underlying property
- 20 managed facilities
- 25,916 beds
- ~14% Facility EBITDA margin
- Subject to higher competition

**~10% of Facility EBITDA**

Note: Facility EBITDA is before G&A.

# Strong National Footprint

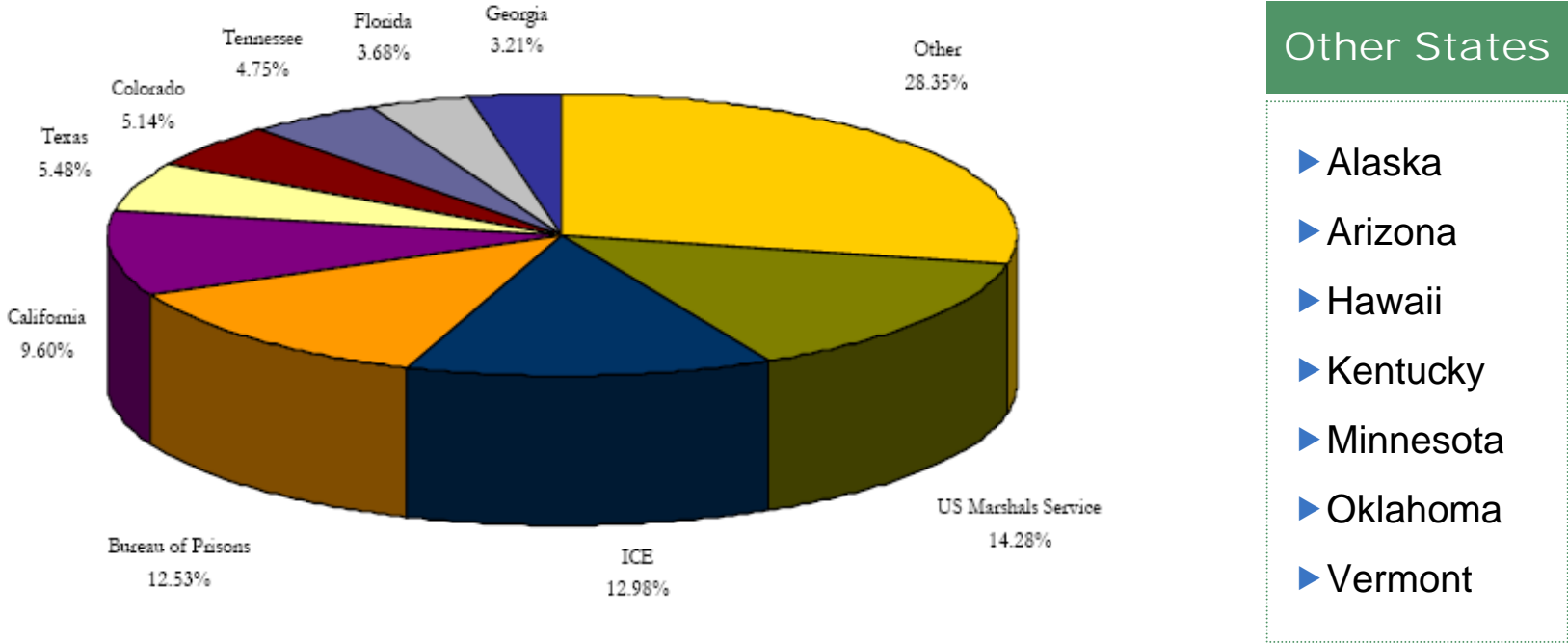
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Source: CXW investor presentation, Aug. 2009.

# Tenants Unlikely to Default

**CXW provides services under management contracts to all three federal agencies, 19 state agencies, the District of Columbia and multiple local agencies**

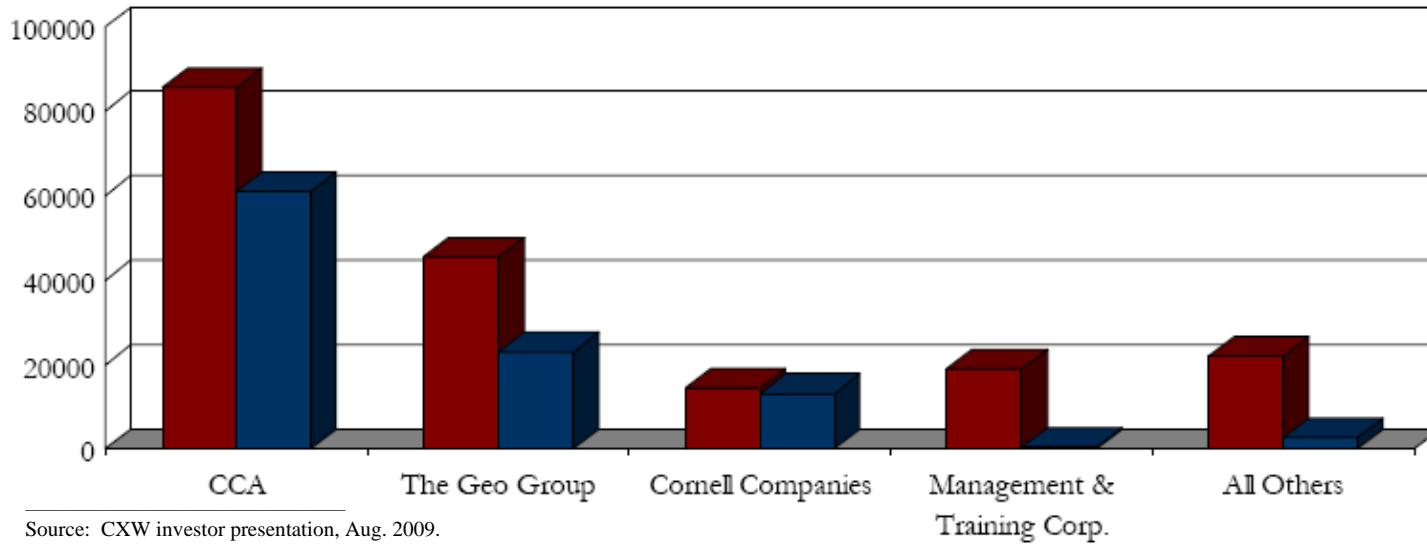


Percentage of Management Revenue  
For the Three Months Ended March 31, 2009

Source: CXW investor presentation, Aug. 2009.

# Market Leader

**CXW is the clear leader in privatized prisons, controlling approximately 46% of the private prison and jail beds in the U.S.**



Source: CXW investor presentation, Aug. 2009.

■ Total Capacity ■ Owned and Controlled Beds

*He who has the beds gets the prisoners*

Spare Capacity (includes development projects not yet completed)

~12,000	~7,000	~2,000	NA	NA
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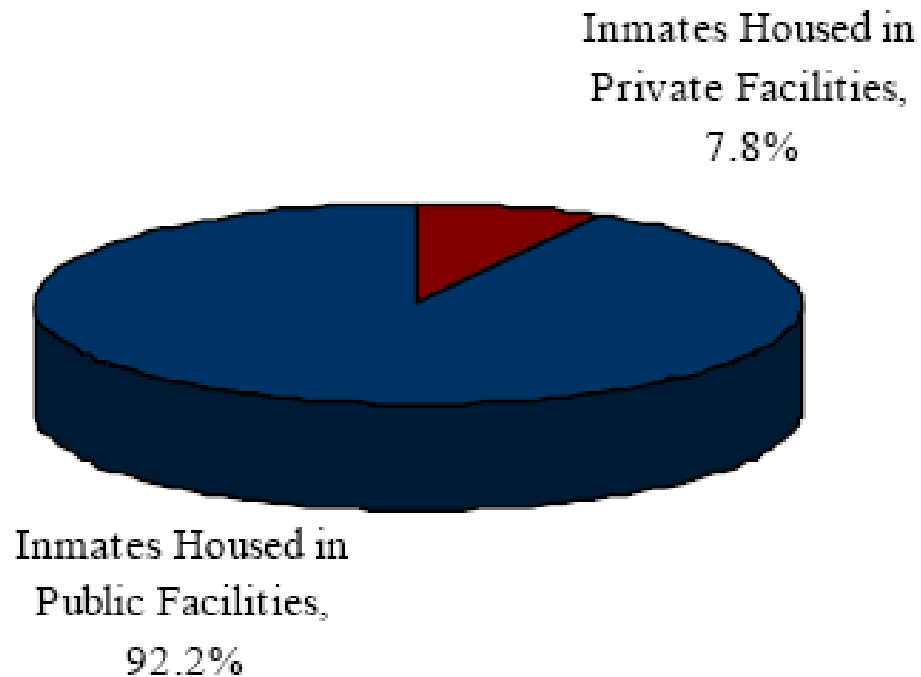


Source: Company filings and Pershing Square estimates.

# Large and Under-penetrated Market

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**CXW addresses a total U.S. market that exceeds \$65bn, of which only ~8% is outsourced. Privatized beds have grown from nearly 11,000 in 1990 to over 185,000 today (17% CAGR)**



Source: Bureau of Justice Statistic: Prison Inmates at Midyear 2008, CXW investor presentation, Aug. 2009.

# Supply / Demand Imbalance

## Public-sector correctional systems are currently operating at, or in excess of, design capacity

- 19 states were operating at 100% or more of their highest capacity measure (29 states were operating at 100% or more of their lowest capacity measure) <sup>(1)</sup>;
- In total, state prisons were operating at 96% of their highest capacity measure and 113% of their lowest capacity measure <sup>(1)</sup>; and
- The Federal prison system was at 137% of capacity.<sup>(2)</sup>

*(1) Bureau of Justice Statistics, Prisoners in 2007.*

*(2) Federal Bureau of Prisons website, July 2009.*

Source: CXW investor presentation, Aug. 2009.

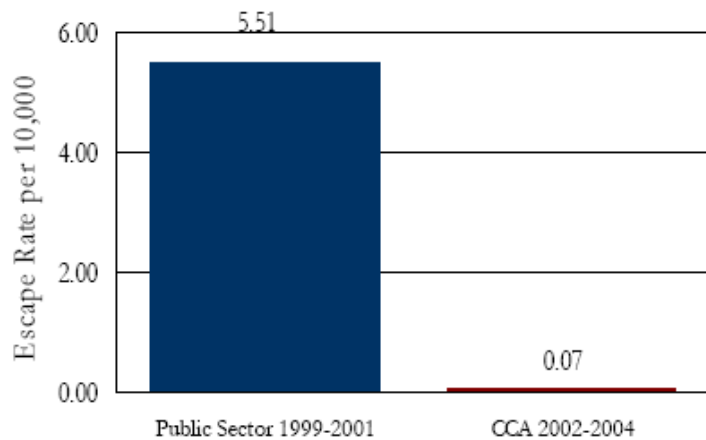
Across the state of California, facilities are running at 170% of designed capacity



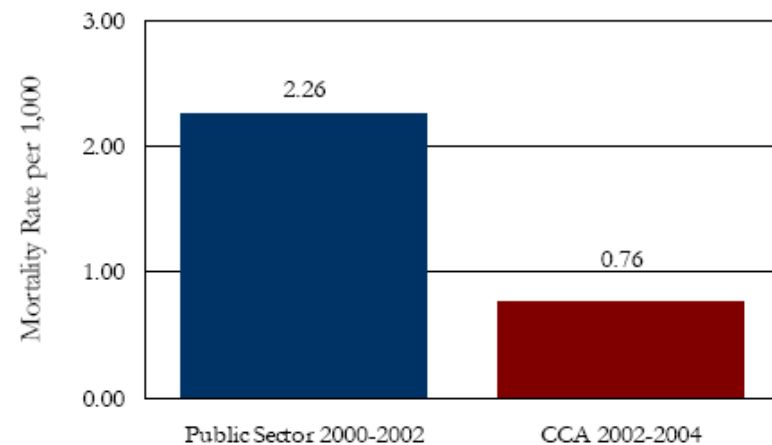
# Competitive Advantage: State vs. Private

**CXW has historically outperformed the public sector in safety and security**

**3-year Average Escape Rate (per 10,000 inmates)<sup>(1)</sup>**



**Total Mortality Rate across all Types of Death<sup>(2)</sup>**



*(1) Public Sector data obtained from 2000 - 2002 Corrections Yearbooks (most recent data available). Escape rates for both the public sector and CCA are for Adult Secure Prisons only.*

*(2) Public Sector data obtained from BJS, Prison and Jail Inmates at Midyear 2004 (most recent data available). Mortality rates for both the public sector and CCA are for Adult Secure Prisons only.*

## Competitive Advantage: State vs. Private (Cont'd)

**As a private company, CXW has cost and efficiency advantages compared with its largest competitor**

	State / Federal	Private
Lead Time for Prison Build	5 to 8 yrs	~1.5 yrs
Cost to Build / Bed	~\$100-\$150k	<\$70k
Annual OpEx / Inmate <sup>(1)</sup>	\$24k	~\$16k
Average Age of Facility	Old	New

<sup>(1)</sup> Source: 2007 Pew Charitable Trusts report – “Public Safety, Public Spending – Forecasting America’s Prison Population 2007 – 2011.” Annual Operating Cost per Inmate for the year 2005. States vary widely; for instance, California had a \$34k annual operating cost per inmate in 2005.

## Increasing Market Penetration

Because of constraints in new public prison construction, private prison operators were able to capture 49% of the incremental growth in U.S. inmate populations in 2007

Year	Total Inmate Population	Private Prison Population*	Private %	Incremental Inmate Population	Private Incremental Inmate Population	Private Capture of Incremental Growth
2000	1,416,799	89,984	6.4%			
2001	1,443,155	95,272	6.6%	26,356	5,288	20%
2002	1,480,963	97,832	6.6%	37,808	2,560	7%
2003	1,514,493	101,497	6.7%	33,530	3,665	11%
2004	1,546,229	106,596	6.9%	31,736	5,099	16%
2005	1,579,544	113,797	7.2%	33,315	7,201	22%
2006	1,627,264	125,944	7.7%	47,720	12,147	25%
2007	1,654,606	139,360	8.4%	27,342	13,416	49%

\*Includes State, BOP and USMS populations. Excludes Juvenile, Jail and ICE populations.

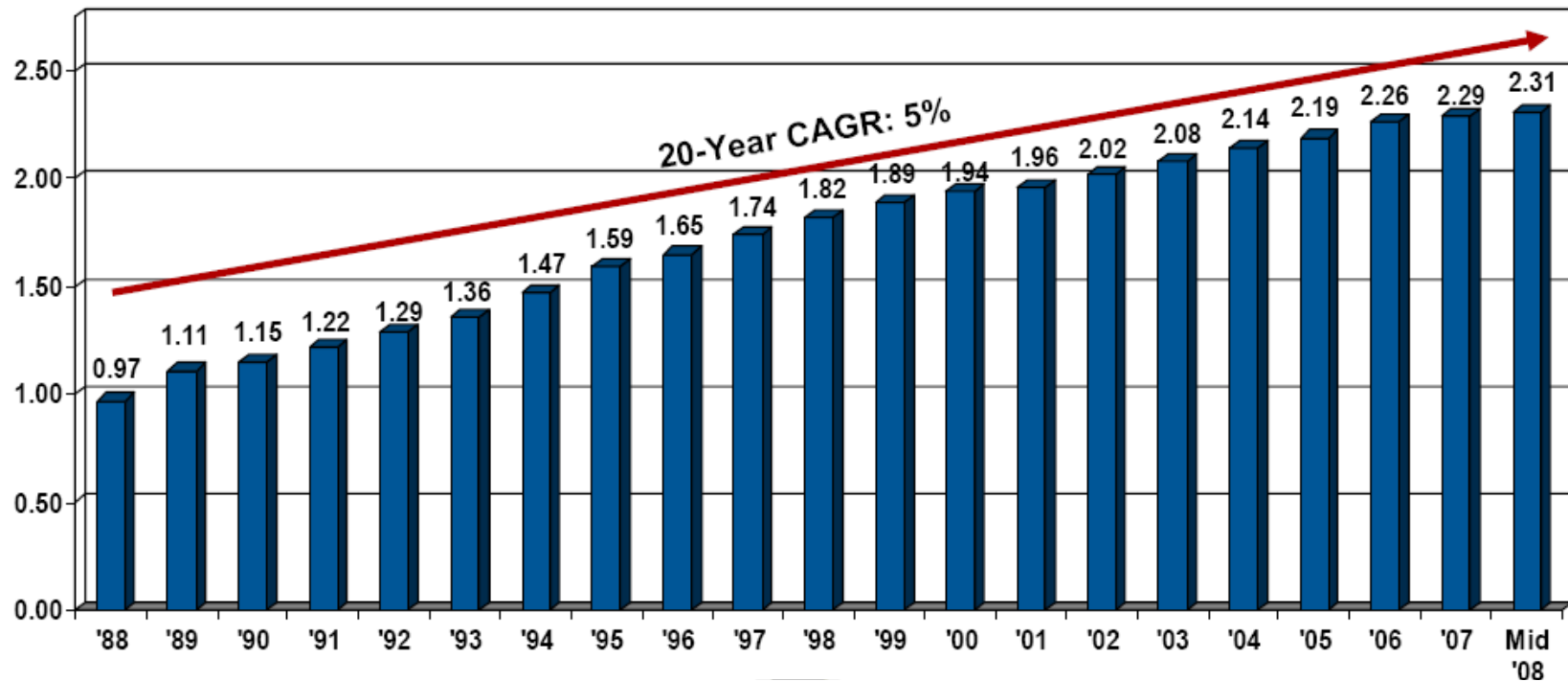
Sources: Bureau of Justice Statistics and Office of Detention Trustee Statistics.

# Historical Prison Population Growth

Historically, inmate populations in the U.S. have grown regardless of economic factors

## Total Inmates in U.S. Custody

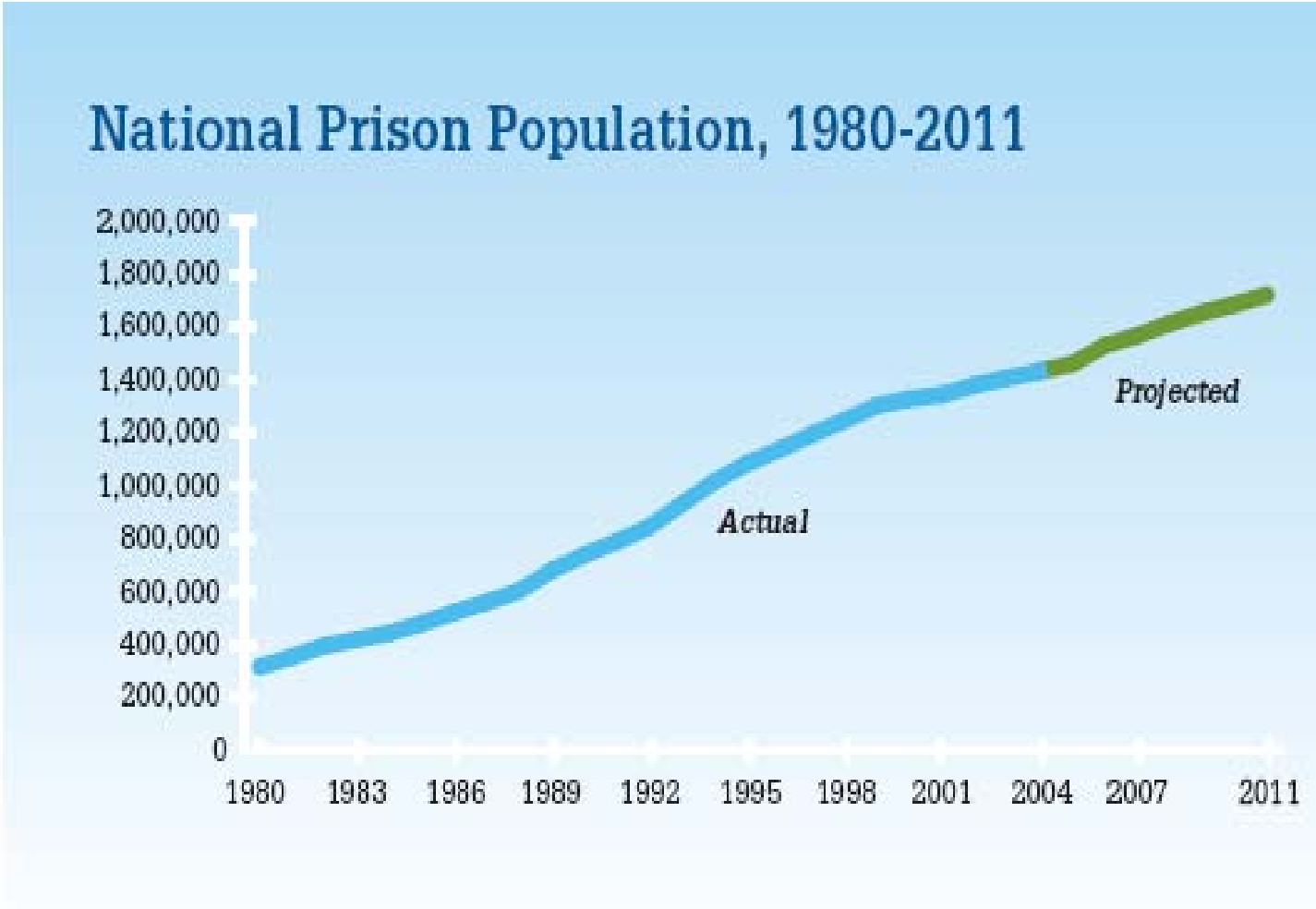
Inmate Population (MM)



Source: Bureau of Justice Statistics (Mid-Year 2008)

# Prison Populations Expected to Rise

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Sources: Bureau of Justice Statistics (historical) and JFA Institute

# Federal Demand Drives Growth

**Federal demand alone could fill CXW's ~12,000 bed inventory over the coming years**

- ▶ The Federal Bureau of Prisons ("BOP") is currently operating at 137% of rated capacity, with a stated desire to operate closer to 115%
- ▶ The BOP projects that between 2008 and 2011 its population will grow by ~19,000 inmates, with just over 12,000 new beds planned for development by 2012
- ▶ The United States Marshals Service ("USMS") has a population of about 60,000-65,000 and has grown 8%-10% per annum over the last five years
- ▶ Since 1994, Immigration and Customs Enforcement ("ICE") detainee populations have grown by over 300% to ~35,000

Federal Demand Drivers	Beds
BOP: Shift from 137% to 115% capacity (1)	28,000
BOP: Undeveloped growth (2)	7,000
USMS / ICE (3)	15,000
Incremental Federal Demand	50,000
CXW inventory (as of 8/1/09) (4)	11,979
<b>Incr. Federal Demand as % of Inventory</b>	<b>417%</b>
<b>Capture Rate Required to Fill Inventory</b>	<b>24%</b>

(1) Based on 172,827 inmates in BOP facilities as of 9/26/09. Source: BOP website.

Assumes the shift from 137% to 115% takes place over the next three years.

(2) The BOP projects its inmate population will grow by ~19,000 inmates from 2008 to 2011 but has only planned the development of ~12,000 beds.

(3) Assumes ~5% growth of USMS / ICE inmate populations over the next three years.

(4) Includes 2,572 beds not yet developed. Source: CXW investor presentation, Aug. 2009.

## State Demand Drives Growth

State prison populations are projected to increase by more than 90,000 over the next three years. If CXW can capture ~13% of this demand, it could achieve 100% occupancy

Year	50 States Projected Prison Population	Year over Year Growth Rate	Incremental Population Increase
2006	1,337,870		
2007	1,368,126	2.3%	30,256
2008	1,407,826	2.9%	39,700
2009	1,442,385	2.5%	34,559
2010	1,469,110	1.9%	26,725
2011	1,500,595	2.1%	31,485
<b>TOTAL</b>			<b>162,725</b>

(1) 2007 Pew Charitable Trusts report – "Public Safety, Public Spending – Forecasting America's Prison Population 2007 -2011"

***"Of the 19 state customers that CCA does business with, we are currently estimating that those states will have an incremental growth that will be twice as much as their funded plan capacity by 2013."***

***– Damon Hininger, CEO, Q1 Earnings Call***

# Supply / Demand Imbalance Drives Growth

If private prisons can capture just 25% of the incremental growth in the U.S. inmate population, CXW should achieve >98% occupancy in its Owned & Managed business by 2012. Private prison operators captured 49% of the growth in 2007 as state budget pressures have postponed new prison construction

	Potential Growth Opportunity								
	2004a	2005a	2006a	2007a	2008a	2009e	2010e	2011e	2012e
<i>(Beds in thousands)</i>									
<b>Market Analysis</b>									
<b>Total Inmate Population (MM) (1)</b>	1,546	1,580	1,627	1,655	1,677	1,701	1,726	1,760	1,795
<i>Growth</i>	2.1%	2.2%	3.0%	1.7%	1.3%	1.4%	1.5%	1.9%	2.0%
<b>Private Inmate Pop'n (000s) (2)</b>	107	114	126	139	147	153	159	168	177
<i>Growth</i>	5.0%	6.8%	10.7%	10.7%	5.6%	4.1%	4.2%	5.3%	5.2%
<i>% Private</i>	6.9%	7.2%	7.7%	8.4%	8.8%	9.0%	9.2%	9.5%	9.8%
<i>Incremental Private Inmates</i>									
<i>Incremental Total Inmates</i>	32	33	48	27	22	24	26	34	35
<i>Private Capture Rate (2)</i>	16.1%	21.6%	25.5%	49.1%	35.0%	25.0%	25.0%	25.0%	25.0%
<i>Incremental Private Inmates</i>	5	7	12	13	8	6	6	8	9
<i>CXW Capture Rate (Owned only)</i>	27.7%	18.5%	33.6%	33.4%	43.6%	40.0%	40.0%	40.0%	40.0%
<b>Incremental CXW Beds (Owned)</b>	1.4	1.3	4.1	4.5	3.4	2.4	2.6	3.4	3.5
<b>Occupancy (Owned)</b>	90.3%	88.3%	93.9%	98.6%	94.5%	87.5%	89.8%	93.2%	98.7%
<i>Memo: Pershing Square Forecast</i>									
<i>Incremental CXW Beds (Owned)</i>	1.4	1.3	4.1	4.5	3.4	1.9	2.0	3.3	2.5
<i>Occupancy (Owned)</i>	90.3%	88.3%	93.9%	98.6%	94.5%	86.6%	88.0%	91.5%	95.5%

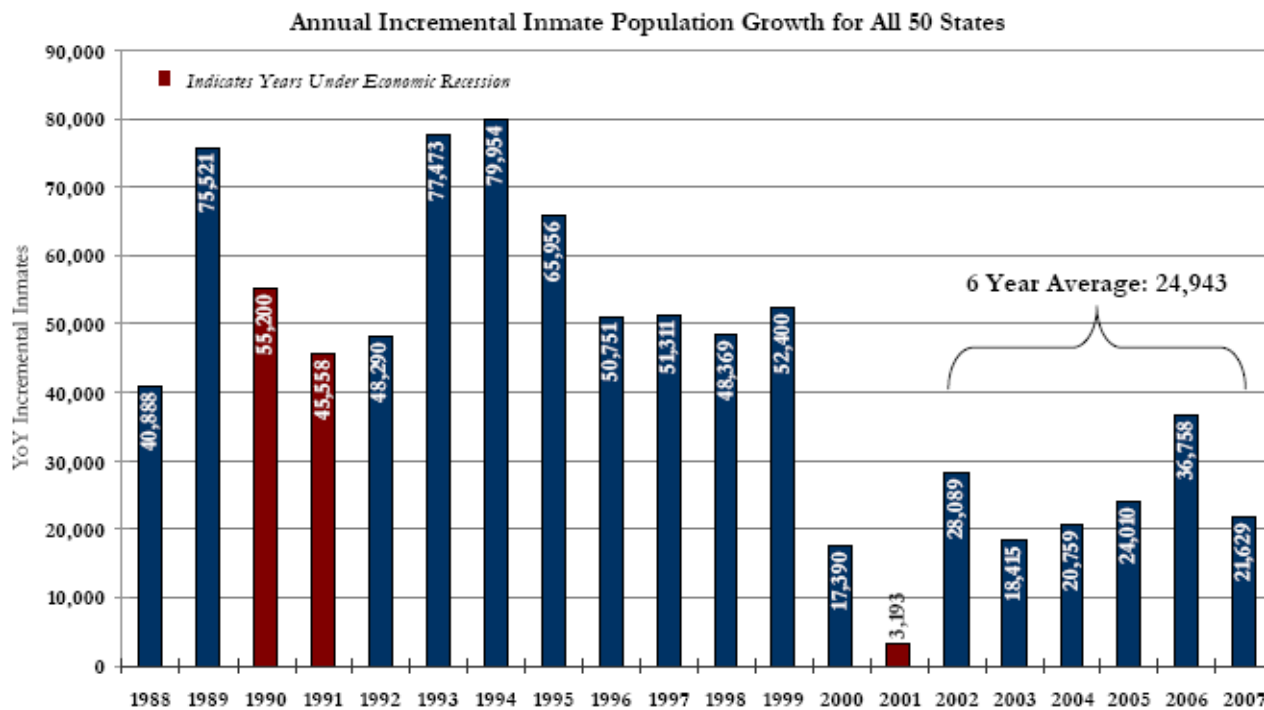
We estimate CXW's owned beds represent >40% of the industry's spare capacity

Potential upside to our estimates

(1) Source ('04-'07): Bureau of Justice Statistics and Office of Detention Trustee Statistics. Excludes juvenile, jail and ICE population.  
 Source ('08-'12): In 2007, Pew Charitable Trust estimated there will be an incremental 153,000 prisoners by YE 2011.  
 This analysis assumes an incremental 140,000 prisoners by YE 2012.  
 (2) Source ('04-'07): Bureau of Justice Statistics and Office of Detention Trustee Statistics. Excludes juvenile, jail and ICE population.  
 Assumes 35% private capture rate in 2008 and 25% private capture rate going forward.

# Near-Term Catalysts: Post-Recession Growth

**Inmate populations have historically grown at an accelerated rate after recessions**



Increased crime during times of economic weakness and high U.S. recidivism rates drive post-recessionary inmate population growth

Source: Bureau of Justice Statistics

**Of 300,000 prisoners released from 15 states in 1994, 67.5% were re-arrested for a new offense within three years <sup>(1)</sup>**

(1) Bureau of Justice Statistics Report in June 2002 (most recent available)

# Near-Term Catalysts: Increased Occupancy Drives EBITDA

**At current margins, CXW management estimates its inventory of existing beds could generate an additional ~\$100mm of EBITDA**

- Available bed inventory increases likelihood of winning contracts and provides pricing leverage.

Facility	Inventory on August 1, 2009	Prospects
<b>Owned Beds In Inventory</b>		
Adams County Correctional Center, Mississippi	2,232	Under contract with the BOP
North Fork Correctional Facility, Oklahoma	1,343	Federal and/or Various States
Prairie Correctional Facility, Minnesota	965	Federal and/or Various States
Cimarron Correctional Facility, Oklahoma	890	Oklahoma and / or Various States
Queensgate Correctional Facility, Ohio	850	Federal / Various States / Local
Owned Incremental Beds	2,270 <sup>(1)</sup>	Existing customers and Various States
<b>Total Owned Beds Available</b>	<b>8,550</b>	
<b>Managed-Only Beds In Inventory</b>		
North Georgia Detention Center, Georgia	502	Under IGSA with ICE
Managed-Only Incremental Beds	355	Customers within those facilities
<b>Total Managed-Only Beds Available</b>	<b>857</b>	
<b>TOTAL AVAILABLE BEDS IN INVENTORY</b>	<b>9,407</b>	
<b>Beds Under Development</b>		
Nevada Southern Detention Center, Nevada	1,072	Under Contract with OFDT
Coffee Correctional Facility, Georgia	788	Under Contract with the State of Georgia
Wheeler Correctional Facility, Georgia	712	Under Contract with the State of Georgia
<b>TOTAL BEDS IN INVENTORY/UNDER DEVELOPMENT</b>	<b>11,979</b>	
Less Beds in Inventory Under Contract	(5,418)	
<b>TOTAL REMAINING BEDS IN INVENTORY/UNDER DEVELOPMENT AFTER CONTRACTS FILL</b>	<b>6,561</b>	

# Near-Term Catalysts: Operating Leverage

Management derives its ~\$100mm estimate by applying CXW's Q2'09 margin to the lease-up of its existing inventory; however, approximately 84% of the costs in CXW's Owned & Managed Facilities segment are fixed

## CXW Facilities (Owned-only) Q2'09

Revenue per man-day	\$66.88
Less: Fixed expense per man-day (1)	(32.74)
Less: Variable expense per man-day (2)	<u>(10.68)</u>

<b>Facility EBITDA per Man-Day</b>	<b>\$23.46</b>
<b>Margin</b>	<b>35.1%</b>

Implies ~\$100mm of incremental EBITDA

## Contribution Margin Analysis: (3)

Revenue per man-day	\$66.88
Less: Variable expense per man-day	<u>(10.68)</u>

<b>Facility EBITDA per Incremental Man-Day</b>	<b>\$56.20</b>
<b>Contribution Margin</b>	<b>84.0%</b>

Implies ~\$230mm of incremental EBITDA

**While this contribution margin analysis implies \$230mm of incremental EBITDA, we believe the actual number will be somewhere between \$100mm and \$230mm**

Source: CXW Q2'09 financial supplement. See page 33 of the CXW investor presentation for details of the assumptions used to derive management's ~\$100mm estimate.

(1) The vast majority of CXW's fixed expense is labor. Also includes utilities, property taxes, insurance, repairs & maintenance and other similar expenses.

(2) Includes legal, medical, food, welfare and other similar expenses.

(3) This analysis is illustrative. We note that there will be some amount of incremental fixed expense associated with the ramp-up of CXW's inventory as staffing requirements increase with occupancy. We further note that some of the beds in CXW's inventory have not yet been developed, and therefore do not yet have associated fixed expenses.

## Near-Term Catalysts: Stock Buyback

CXW's repurchase of 10.7 million shares in Q4 '08 – Q2 '09 (~8.5% of total shares) provides a tailwind for NTM free cash flow per share growth

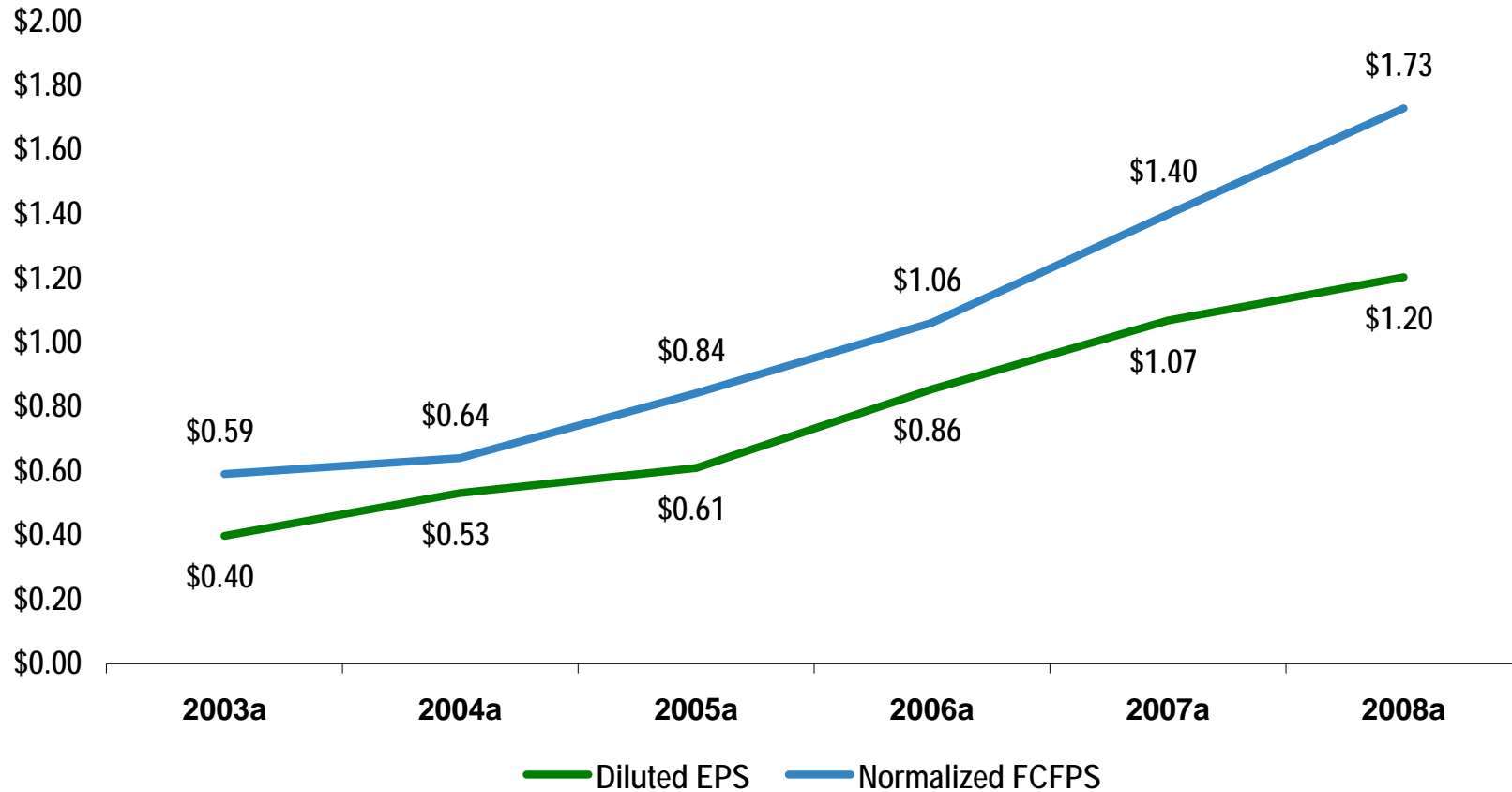
Recent Share Repurchases			
Timeframe	Shares (mm)	Amount (mm)	Per Share
November through December 31	1.1	\$16.6	\$15.09
January through February	1.4	21.4	\$15.29
February through May	8.2	87.0	\$10.61
<b>Total</b>	<b>10.7</b>	<b>\$125.0</b>	<b>\$11.68</b>

*Memo: Remaining Buyback Authorization* \$25.0

	Quarter Ended,							
	<u>Q108a</u>	<u>Q208a</u>	<u>Q308a</u>	<u>Q408a</u>	<u>Q109a</u>	<u>Q209a</u>	<u>Q309e</u>	<u>Q409e</u>
WASO	126.1	126.5	126.5	126.1	120.6	115.7	117.3	117.3
<i>Growth (YoY)</i>					(4.4%)	(8.6%)	(7.3%)	(7.0%)

# Strong Free Cash Flow Generation

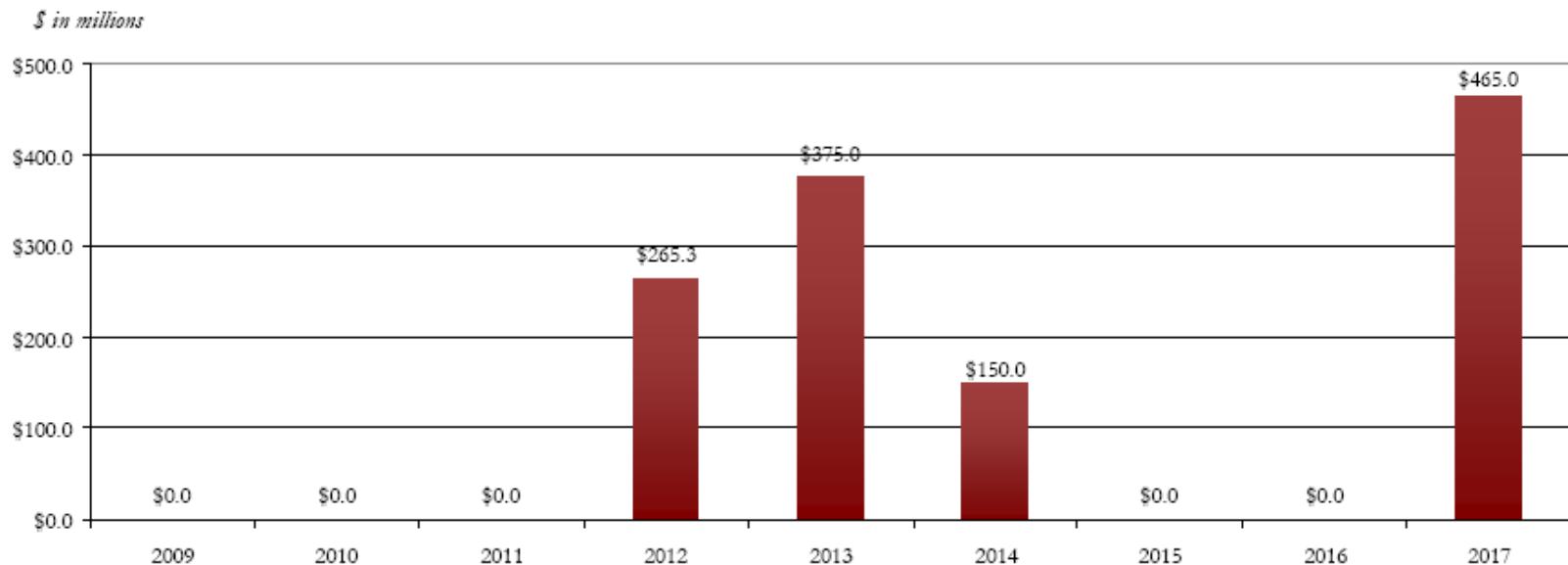
Because prisons are made of concrete and steel, depreciation expense meaningfully exceeds maintenance capex. As a result, CXW's free cash flow per share is substantially greater than earnings per share



# Strong Balance Sheet

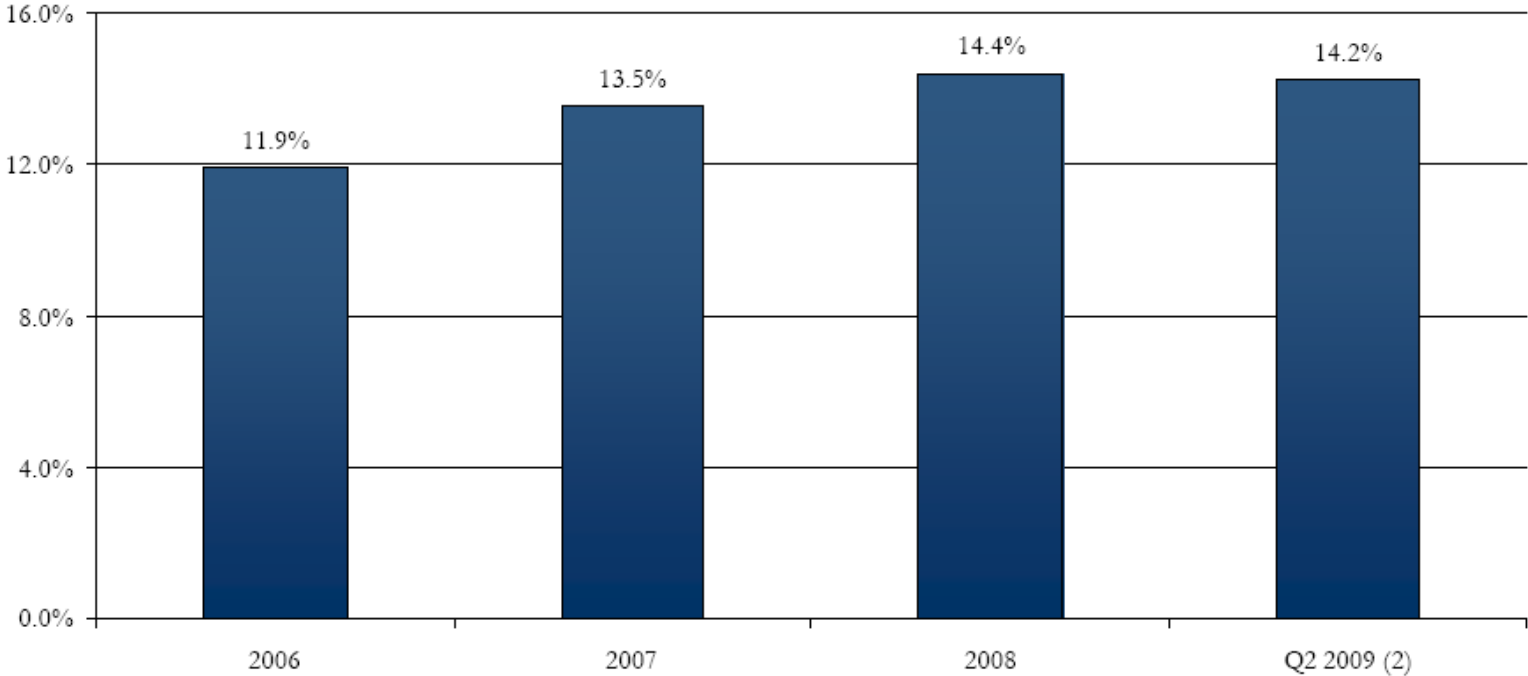
As of Q2'09, CXW's interest coverage ratio was 5.4x. Its next debt maturity is not until 2012. Its cash interest expense is less than 6%, and more than 80% of its debt is fixed rate

Debt Maturity at July 31, 2009, reflecting the redemption of the outstanding \$450.0 million senior notes.



# High Returns on Capital

■ Return on Capital Employed <sup>(1)</sup>



<sup>(1)</sup> Return on Capital Employed (ROCE) = (Operating Income + Depreciation & Amortization - Maintenance and IT Cap-ex) / (average assets - average current liabilities).

<sup>(2)</sup> Annualized for the three months ended March 31, 2009 and June 30, 2009, respectively.

# Culture of Equity Ownership

**Board and management own more than 6 million shares of CXW <sup>(1)</sup>**

<b>Name of Beneficial Owner</b>	<b>Title</b>	<b>Total Beneficial Ownership (1)</b>
William F. Andrews	<i>Director</i>	525,523
John D. Ferguson	<i>Chairman</i>	1,711,455
Donna M. Alvarado	<i>Director</i>	50,916
Lucius E. Burch, III	<i>Director</i>	1,282,934
John D. Correnti	<i>Director</i>	83,124
Dennis W. DeConcini	<i>Director</i>	5,500
John R. Horne	<i>Director</i>	100,166
C. Michael Jacobi	<i>Director</i>	97,700
Thurgood Marshall, Jr.	<i>Director</i>	72,998
Charles L. Overby	<i>Director</i>	47,284
John R. Prann, Jr.	<i>Director</i>	87,232
Joseph V. Russell	<i>Director</i>	352,410
Henri L. Wedell	<i>Director</i>	1,377,920
Damon Hininger	<i>Chief Executive Officer</i>	20,489
Todd J. Mullenger	<i>Chief Financial Officer</i>	134,072
G.A. Puryear, IV	<i>General Counsel</i>	159,295
Richard P. Seiter	<i>Chief Corrections Officer</i>	144,742
William K. Rusak <sup>(2)</sup>	<i>Chief of Human Resources</i>	91,984
<b>All Directors &amp; Exeutive Officers as a Group</b>		<b>6,453,308</b>
<b>Percent of Common Stock Beneficially Owned (3)</b>		<b>5.4%</b>

Source: CXW March 31, 2009 proxy and Bloomberg.

<sup>(1)</sup> Includes shares that could be purchased upon exercise of stock options at March 1, 2009 or within 60 days thereafter.

<sup>(2)</sup> William Rusak was succeeded by Brian Collins on September 14, 2009.

<sup>(3)</sup> Based on 117,681,012 shares outstanding as of March 1, 2009. Deems shares that could be purchased upon exercise of stock options as shares outstanding.

Valuation

# CXW Capitalization and Multiples

**CXW trades for ~13x free cash flow per share or at an implied cap rate of 12.2%**

(US\$ in mm, except per share data)

Capitalization	
Share Price	\$24.50
FDSO	117
<b>Market Cap</b>	<b>\$2,873</b>
Plus: Debt	1,212
Less: Cash & Equivalents	(28)
<b>TEV</b>	<b>\$4,057</b>

Cap Rate Analysis	
TEV	\$4,057
Less: Mgmt Business (1)	(400)
<b>PropCo TEV</b>	<b>\$3,657</b>

2009e NOI (owned only) (2)	445
<b>Cap Rate</b>	<b>12.2%</b>

	Summary Financials				
	2008a	2009e	2010e	2011e	2012e
<b>Avg Occupied Beds (owned only)</b>	<b>51,005</b>	<b>52,868</b>	<b>54,889</b>	<b>58,218</b>	<b>60,763</b>
<b>Avg Total Beds (owned only)</b>	<b>53,990</b>	<b>61,043</b>	<b>62,340</b>	<b>63,626</b>	<b>63,626</b>
<b>Occupancy (owned only)</b>	<b>94.5%</b>	<b>86.6%</b>	<b>88.0%</b>	<b>91.5%</b>	<b>95.5%</b>
<b>Revenue</b>	<b>\$1,599</b>	<b>\$1,650</b>	<b>\$1,723</b>	<b>\$1,828</b>	<b>\$1,932</b>
<i>Growth</i>	8.1%	3.2%	4.4%	6.1%	5.7%
<b>NOI (owned only) (2)</b>	<b>431</b>	<b>445</b>	<b>467</b>	<b>514</b>	<b>571</b>
<i>Margin</i>	27.0%	27.0%	27.1%	28.1%	29.6%
<b>EBITDA</b>	<b>395</b>	<b>402</b>	<b>419</b>	<b>462</b>	<b>518</b>
<i>Margin</i>	24.7%	24.3%	24.3%	25.3%	26.8%
<b>EBITDA - Maint Capex</b>	<b>359</b>	<b>362</b>	<b>372</b>	<b>414</b>	<b>470</b>
<i>Margin</i>	22.5%	22.0%	21.6%	22.7%	24.3%
<b>Normalized FCFPS (3)</b>	<b>\$1.73</b>	<b>\$1.84</b>	<b>\$1.95</b>	<b>\$2.34</b>	<b>\$2.90</b>
<i>Growth</i>	23.6%	6.4%	5.9%	19.9%	23.8%

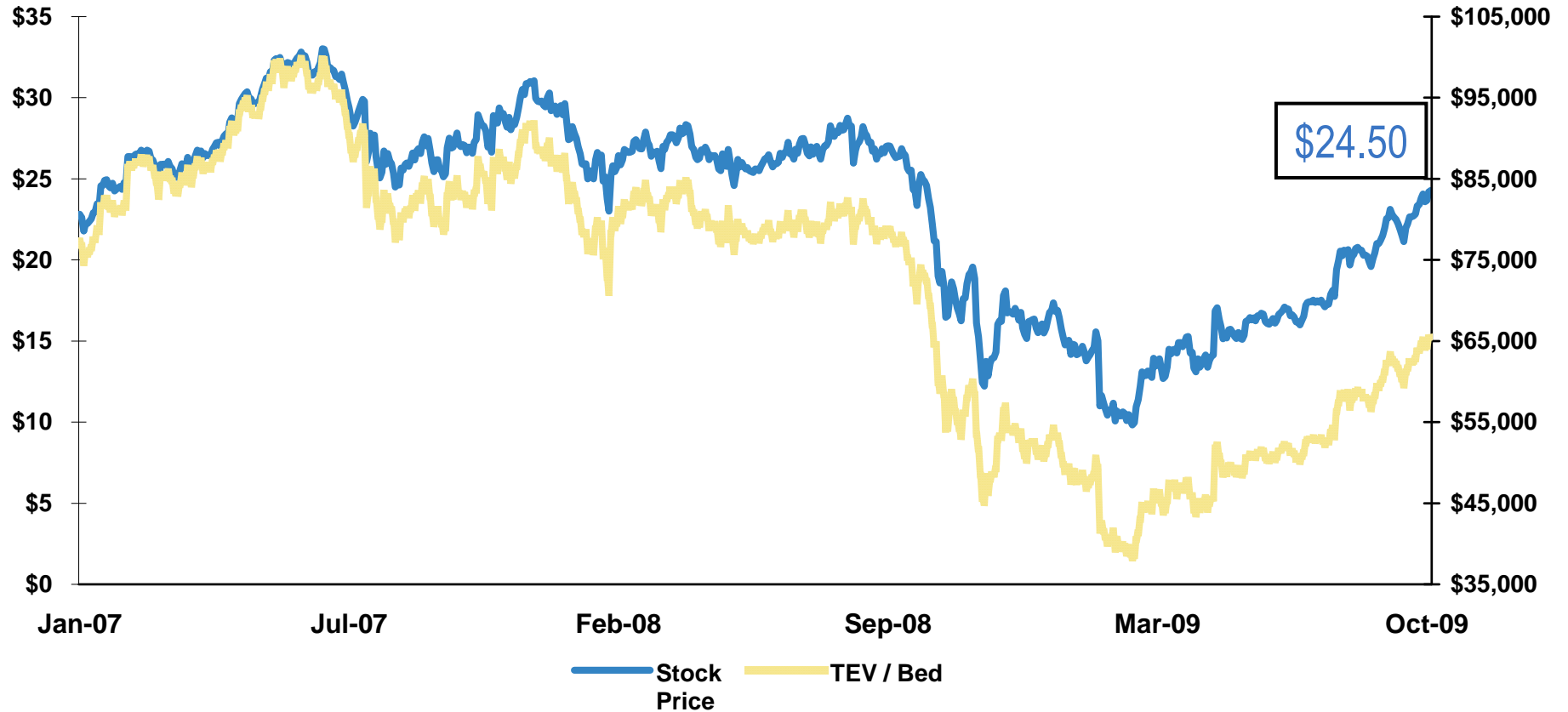
	Trading Multiples				
	2008a	2009e	2010e	2011e	2012e
TEV / EBITDA	10.3x	10.1x	9.7x	8.8x	7.8x
TEV / EBITDA - Maint Capex	11.3x	11.2x	10.9x	9.8x	8.6x
<b>Implied Cap Rate</b>	<b>11.8%</b>	<b>12.2%</b>	<b>12.7%</b>	<b>14.0%</b>	<b>15.6%</b>
<b>P / Normalized FCFPS</b>	<b>14.2x</b>	<b>13.3x</b>	<b>12.6x</b>	<b>10.5x</b>	<b>8.5x</b>

(1) Applies an 8.0x multiple to Facility EBITDA from the management business.

(2) NOI is defined as Facility EBITDA from CXW's Owned & Managed segment ("owned only").

(3) Assumes a 38% cash tax rate. Assumes CXW uses future free cash flow to repurchase shares at a premium to market.

# Historical Stock Chart



## Owned & Managed Available Beds

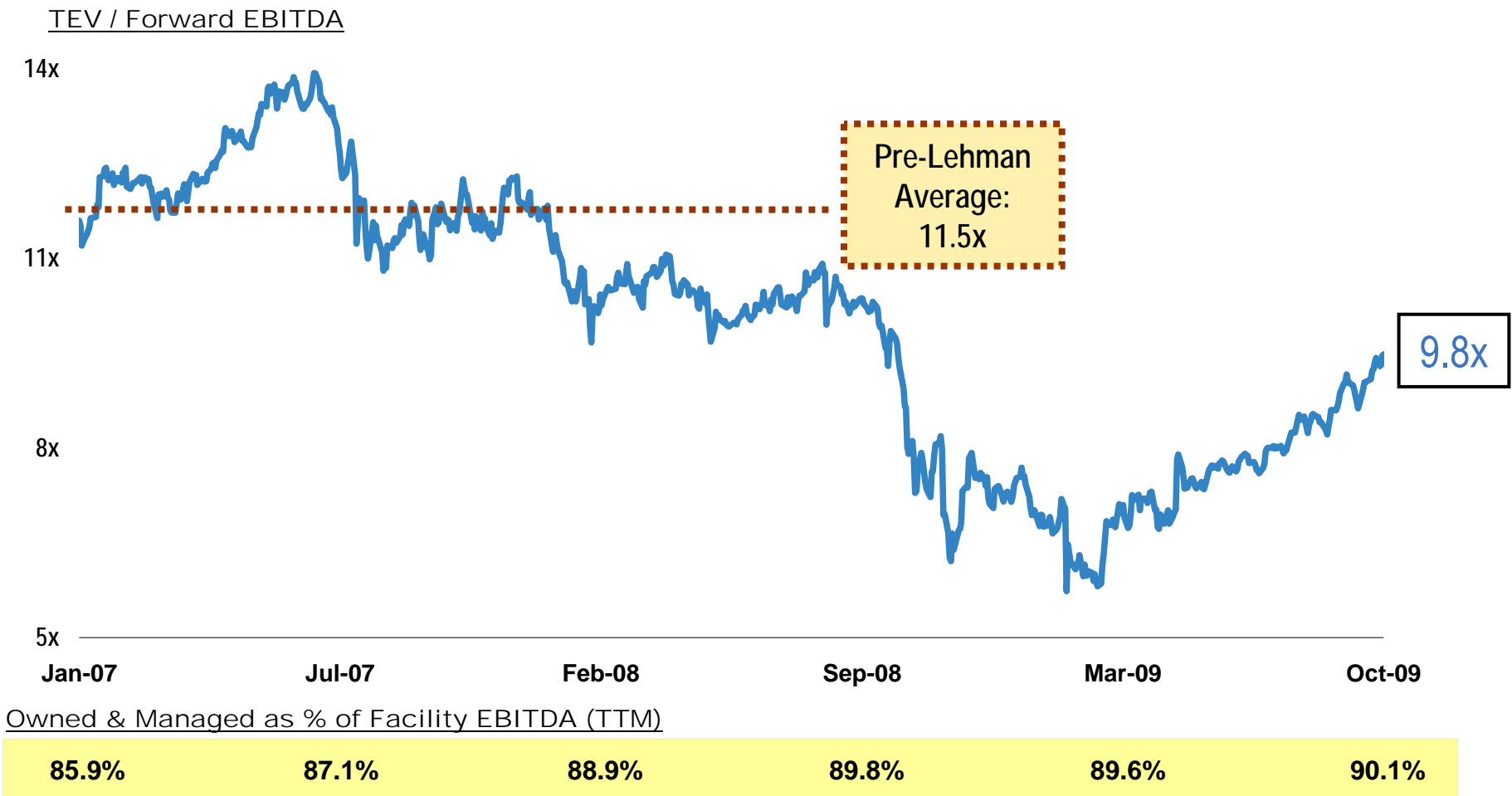
46,681	48,933	50,909	53,464	59,184	61,054
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## Weighted Average Shares Outstanding

125.3	125.6	126.1	126.5	120.6	115.7
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# Opportunity for Multiple Expansion

**CXW's earnings quality has improved since 2007 as its Owned & Managed segment now accounts for more than 90% of Facility EBITDA**



# Key Attributes of Corrections Corp

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Principal Asset

Real Estate

Primary Tenant

Government

Growth Opportunity

Secular

Maint Capex as % of Revenue

~2%

Tenant Allowances

None

Return on New Development

High

Competition for Existing Units

Local Monopoly

Competition for New Construction


Oligopoly

Cyclicality

Low

CXW has credit-worthy tenants, requires limited maintenance capex, and enjoys excellent competitive dynamics – all features of a high quality real estate business

# Health Care REITs are the Best Comp

		Typical Health Care REIT <sup>(1)</sup>
Primary Tenant	Government	Government
Maint Capex as % of Revenue <sup>(2)</sup>	~2%	~3.5%
Growth	Supply / demand imbalance provides <u>secular tailwind</u>	Aging baby boomers provide <u>secular tailwind</u>
Tenant Allowances	None	Minimal
Cyclicality	Low	Low
Competition for New Builds	Oligopoly	Medium
Competition for Existing Units	Local Monopoly	<div style="border: 1px dashed black; padding: 2px;">                     Senior Housing: High                      MOBs / Hospitals: Local Monopoly                      Skilled Nursing / Life Sciences: Medium                 </div>
Cap Rate	>12%	~7%

Source: Green Street research and Pershing Square estimates.

<sup>(1)</sup> We define typical health care REITs to include senior housing, skilled nursing, MOBs, hospitals and life sciences.

<sup>(2)</sup> Maintenance capex is low for health care REITs due to the triple-net leases associated with senior housing, skilled nursing and hospitals.

# Illustrative Sum-Of-The-Parts Valuation

CXW is composed of two businesses: an operating company (“OpCo”) and a real estate company (“PropCo”)

<b>Illustrative OpCo / PropCo Financials</b>			
<i>(\$ in millions)</i>			
	<u>2010e</u>	<u>2011e</u>	<u>2012e</u>
<b>OpCo</b>			
CXW Revenue (owned-only)	\$1,349	\$1,449	\$1,543
Rent as % of Revenue	<u>25.0%</u>	<u>25.0%</u>	<u>25.0%</u>
Illustrative Rent	337	362	386
<i>Per Bed</i>	<i>\$5,411</i>	<i>\$5,692</i>	<i>\$6,062</i>
CXW EBITDA	419	462	518
Less: Rent	<u>(337)</u>	<u>(362)</u>	<u>(386)</u>
<b>PF EBITDA</b>	<b>\$82</b>	<b>\$100</b>	<b>\$132</b>
<b>PF Margin</b>	<b>4.7%</b>	<b>5.5%</b>	<b>6.8%</b>
<b>PropCo</b>			
Rental Revenue	\$337	\$362	\$386
<b>NOI</b>	<b>\$337</b>	<b>\$362</b>	<b>\$386</b>
<b>Margin</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<i>Less: Cash expenses</i>	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>
<i>AFFO</i>	327	352	376
<i>Margin</i>	97.0%	97.2%	97.4%

## Illustrative Sum-Of-The-Parts Valuation (Cont'd)

An OpCo / PropCo analysis suggests the stock could be worth between \$40 and \$54 per share

(\$ in millions)

### **OpCo Valuation:**

2012e PF EBITDA	\$132	\$132
Multiple	<u>8.0x</u>	<u>8.0x</u>
OpCo Value	\$1,057	\$1,057

### **PropCo Valuation:**

2012e NOI	\$386	\$386
Cap Rate	<u>8.0%</u>	<u>6.0%</u>
PropCo Value	\$4,822	\$6,429
<i>Memo: Dividend yield</i>	7.8%	5.8%

<b>Total Value</b>	<b>\$5,878</b>	<b>\$7,485</b>
<b>Per Share</b>	<b>\$40</b>	<b>\$54</b>

## CXW used to be a REIT...

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**From 1997 through 1999, CXW operated as two separate companies: CCA Prison Realty Trust (a REIT), and Old CCA (the operating company)**

### CCA Prison Realty Trust was a Huge Success

- ▶ IPO'd in July-97 at \$21 per share and immediately traded up to \$29
- ▶ Upon its formation, CCA Prison Realty Trust purchased 9 correctional facilities from Old CCA for \$308mm. It then leased the facilities to Old CCA pursuant to long-term, non-cancellable triple-net leases with built-in rent escalators
- ▶ Within five months of its IPO, CCA Prison Realty Trust used the remaining proceeds from its IPO and its revolver to purchase three additional facilities from Old CCA

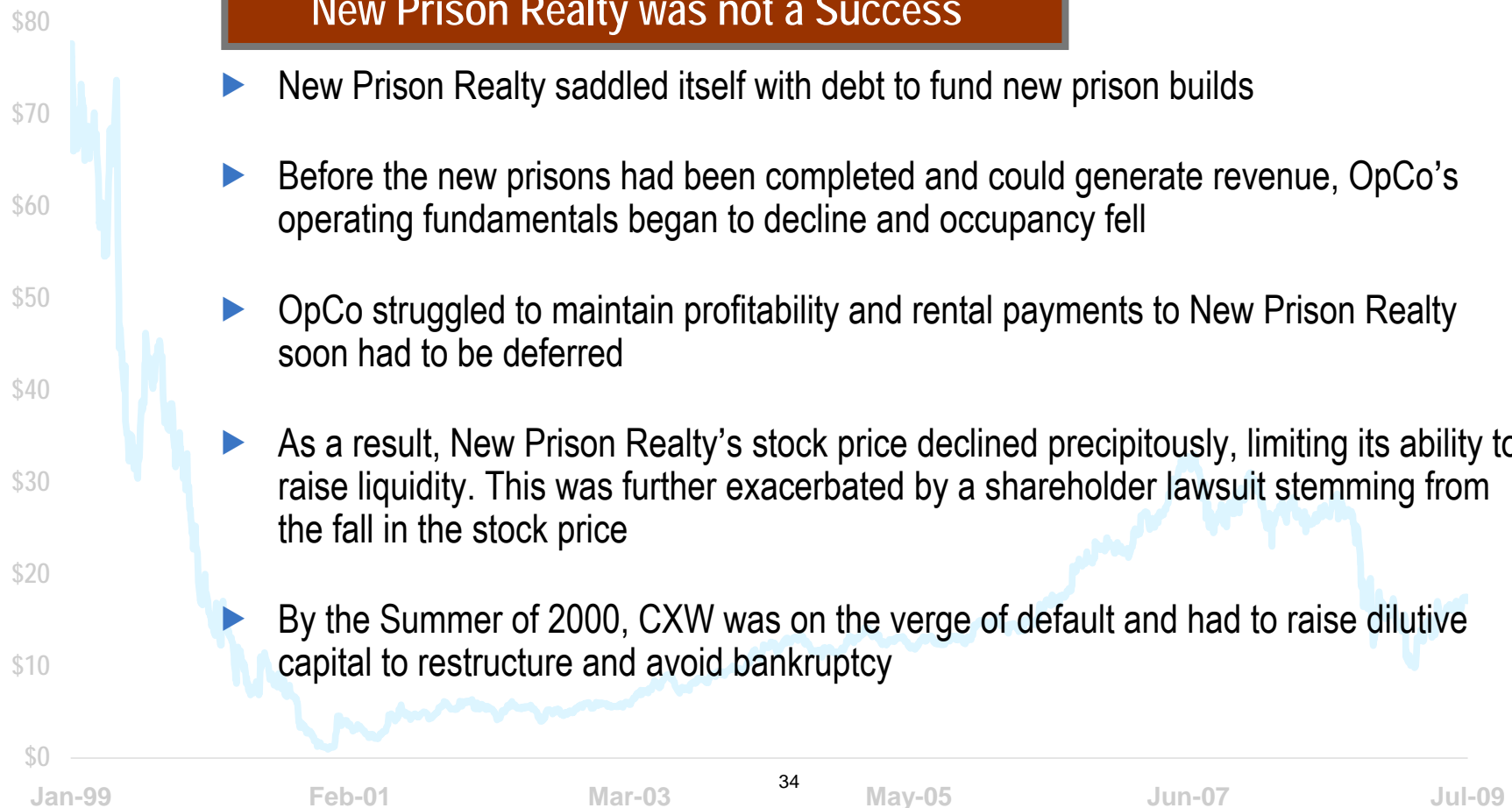
By December-97, CCA Prison Realty Trust's stock had moved up to the \$40s, trading at a ~5% cap rate and a ~4% dividend yield

## CXW used to be a REIT... (Cont'd)

On January 1, 1999, Old CCA and CCA Prison Realty Trust merged to form an even larger REIT, "New Prison Realty." In order for New Prison Realty to qualify as a REIT, it had to spin off its management business ("OpCo")

### New Prison Realty was not a Success

- ▶ New Prison Realty saddled itself with debt to fund new prison builds
- ▶ Before the new prisons had been completed and could generate revenue, OpCo's operating fundamentals began to decline and occupancy fell
- ▶ OpCo struggled to maintain profitability and rental payments to New Prison Realty soon had to be deferred
- ▶ As a result, New Prison Realty's stock price declined precipitously, limiting its ability to raise liquidity. This was further exacerbated by a shareholder lawsuit stemming from the fall in the stock price
- ▶ By the Summer of 2000, CXW was on the verge of default and had to raise dilutive capital to restructure and avoid bankruptcy



# Why Did New Prison Realty Fail?

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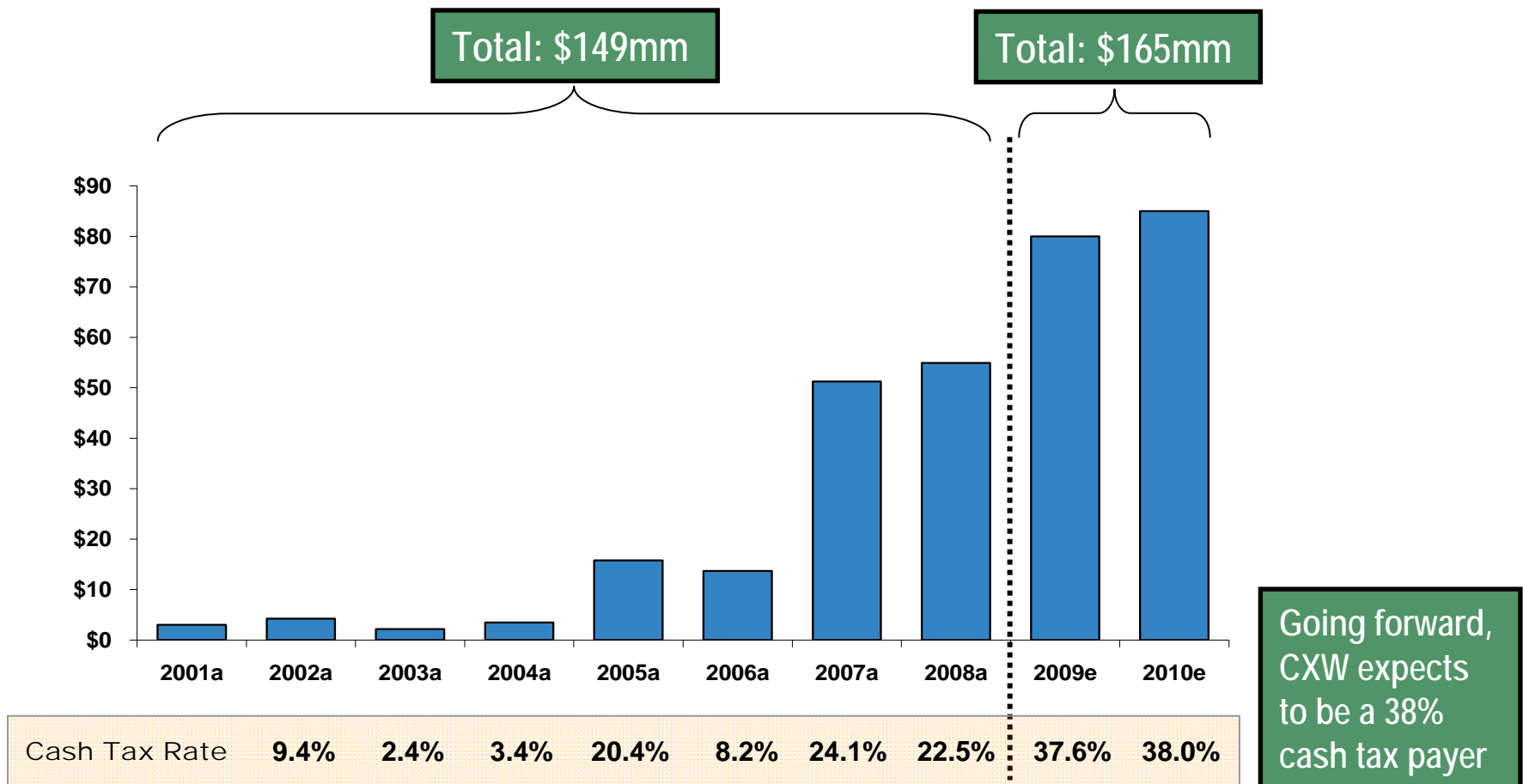
**New Prison Realty did not fail because it was a REIT, it failed because:**

- ✓ **It had too much leverage**
- ✓ **It had an overly aggressive development plan**
- ✓ **Its tenant, OpCo, was also over-leveraged <sup>(1)</sup>**

<sup>(1)</sup> “The rates on the Operating Company leases were set with the intention that the public stockholders of New Prison Realty would receive as much of the benefit as possible from owning and operating the correctional and detention facilities.... In fact, the Operating Company lease rates were set so that Operating Company was projected to lose money for the first several years of its existence.” Source: CXW 2002 10-K.

# NOLs

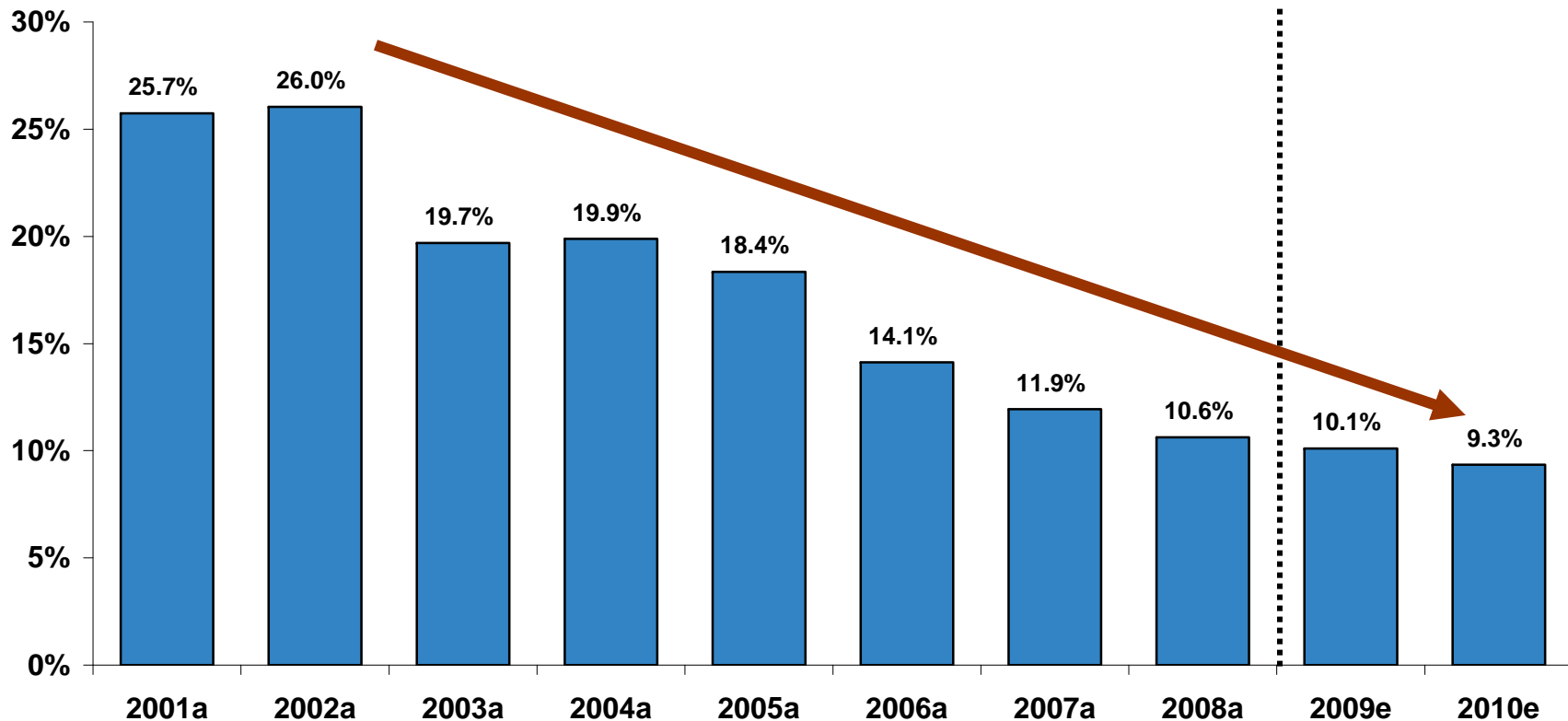
**CXW has not been a large taxpayer for the last eight years because of substantial NOLs that are now exhausted**



# Owned vs. Managed

Since 2000, CXW has increasingly shifted away from a business focused on the management of prisons toward a business focused on the ownership of prisons

Managed EBITDA as a % of Facility EBITDA



## Management Gets It

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*"The other thing I would point out is before we'd even sell stock, that there's a lot of value in these assets. I hear people talking to me about regional malls selling at six cap rates or parking garages selling at five cap rates or 20 times cash flow and you think about -- or highways selling at 50 times cash flow, you think about prisons as infrastructure or some type of real estate asset, I think these could be even sold and harvested in some fashion to avoid selling stock in the future. So there are a number of things that we could do to finance our growth, but just with respect to cash flow and leverage, we could go quite a ways."*

**– Irving Lingo, Former-CFO of Corrections Corp, Q2'06 Earnings Call**

# Conclusions

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Market Leader /  
Competitive Advantage

Secular Growth Opportunity

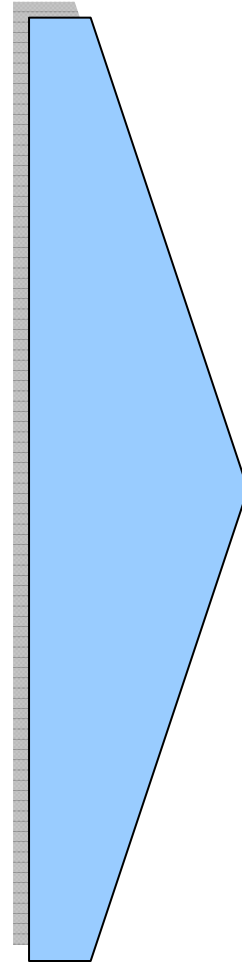
Several Near-Term Catalysts

Stable Free Cash Flow  
in Excess of EPS

Strong Management

Strong Balance Sheet

Attractive ROC /  
Low Cost of Capital



High Quality  
Business at a  
Substantial  
Discount to  
Intrinsic Value