The GEO Group

A Look into the Fourth Quarter

Feb 28, 2025

General
GEO
NYSE

Rating
Market Perform
Unchanged

Current Price
$25.78

Market Capitalization
3.62b

Shares Outstanding
139.83m

Float
132.84m

Institutional Holdings
88.32%

12-Month Low/High
$11.50/$36.46

Average 90-Day Volume
2830000

Fiscal Year End
12/31/2025

Revenues ($ MIL)			
Period	2023A	2024E	2025E
Q1	608.2A	605.7A	620.0E
Q2	593.9A	607.2A	625.0E
Q3	602.8A	603.1A	635.0E
Q4	608.3A	615.0E	645.0E
	2,413.2A	2,430.9E	2,525.0E

EPS ($)			
Period	2023A	2024E	2025E
Q1	0.22A	0.18A	0.22E
Q2	0.24A	0.22A	0.23E
Q3	0.19A	0.21A	0.27E
Q4	0.29A	0.22E	0.30E
	0.92A	0.83E	1.02E

4Q Results. Revenues for the fourth quarter slightly declined to $607.7 million from $608.3 million in the prior year. Adjusted EBITDA totaled $108.0 million, down from $129.0 million last year. Net income was $15.5 million, or $0.11 per diluted share, down from $25.2 million, or $0.17 per share, last year. Adjusted EPS was $0.13 per diluted share versus $0.29 per share the prior year. Earnings and adjusted EBITDA were below expectations, primarily due to higher general and administrative expenses incurred during the fourth quarter of 2024.

New ICE Contract. Also announced was the award of a 15-year, fixed-price contract by ICE to provide support services for the establishment of a federal immigration processing center at the company-owned, 1,000 bed Delaney Hall facility in Newark, NJ. The contract is expected to generate in excess of $60 million in its first full year of operations, with margins consistent with GEO's Secure Services facilities. The idle facility is expected to be activated in 2Q 2025, with revenues and earnings from the new contract normalizing during the second half of 2025.

CapEx. CapEx for 2025 is projected to be between $125 million and $145 million, including the impact of the $70 million investment announced in December of 2024 to strengthen capabilities to deliver expanded detention capacity, secure transportation, and electronic monitoring services to ICE and the federal government, of which $9 million was already spent in 2024.

Focus on Debt Reduction. Net debt was consistent with the prior quarter at $1.7 billion, while net leverage increased to 3.7x adjusted EBITDA. Management noted that the Company is expected to reduce total net debt by approximately $150-$175 million in 2025, bringing the total net debt to roughly $1.55 billion. We anticipate the Company will be prudent in its debt paydowns as the fiscal year progresses.

Guidance. Management provided guidance for fiscal year 2025. Revenue is expected to be approximately $2.5 billion, with net income in the range of $0.74-$0.88 per diluted share. Adjusted EBITDA is expected to be in the range of $460-$485 million.

Equity Research
Joe Gomes, CFA, Managing Director, Equity Research Analyst, Generalist
561-999-2262, jgomes@noblecapitalmarkets.com, Connect on LinkedIn

Joshua Zoepfel, Research Associate - jzoepfel@noblecapitalmarkets.com

Noble Capital Markets, Inc.
Trading: (561) 998-5489 Sales: (561) 998-5491
noblecapitalmarkets.com | Follow Noble on LinkedIn

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Company Profile

Founded in 1984, The GEO Group specializes in the ownership, leasing and management of secure facilities, processing centers, and reentry facilities and the provision of community-based services in the United States, Australia, South Africa and the United Kingdom. GEO owns, leases and operates a broad range of secure facilities including maximum, medium and minimum security facilities, processing centers, as well as community-based reentry facilities. As of December 31, 2021, the Company's worldwide operations included the management and/or ownership of approximately 86,000 beds at 106 secure and community-based facilities, including idle facilities and projects under development.

In addition to owning and operating secure and community facilities, GEO provides innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. The Company's GEO Cares business also provides secure transportation services for offender and detainee populations as contracted domestically and in the United Kingdom through joint venture GEO Amey PECS Ltd. As of December 31, 2021, GEO oversees the provision of community supervision services for more than 250,000 offenders and pretrial defendants, including more than 150,000 individuals through an array of technology products including radio frequency, GPS, and alcohol monitoring devices.

Finally, The GEO Group develops new facilities based on contract awards, using its project development expertise and experience to design, construct and finance what are state-of-the-art facilities that maximize security and efficiency.

For the year ended December 31, 2022, The GEO Group generated approximately 61% of revenues from its U.S. Secure Services business, 31% from its GEO Care segment, and 8% of revenue from its International Services segment.

Fundamental Analysis: 3.5/5.0 checks

We give The GEO Group 3.5 checks out of 5.0, which falls within our "Above Average" range of 3.5 to 4.0 checks. We give the Company high marks for its Corporate Governance and Management. Officers and Directors, lead by CEO Zoley, hold a significant ownership position in the Company. The Company holds annual election of all directors. In addition, there are ownership guidelines for senior management and directors, many of whom have enjoyed long careers in the corrections industry. We view GEO's Competitive position favorably, as the Company holds a leading position in the private prison industry, is a leading company in residential reentry markets, and has a growing presence in the alternative incarceration market. We view the Company's Market Opportunity as mixed, with declining inmate populations and shifting political views as significant potential negatives, although aging government infrastructure could result in continued demand for the Company's services. And while we believe the Company will continue to generate sufficient cash flows to handle its debt load, the pullback by financial institutions to help finance the private prison industry is a negative. We view the Company's Operating Leverage as Average. While existing idled facilities could generate increases in operating income, government contracts can be cancelled or not renewed which could negatively impact operating leverage.

Valuation Summary

We are moving our rating to Market Perform from Outperform. We believe a period of consolidation is more likely until definitive spending plans are unveiled for potential increased detention and supervision.

We also look at GEO stock from a property valuation perspective. The cost to build prison and detention facilities increases annually. Government at all levels face either a shortage of available facilities, old and outdated facilities, or a combination of both. One potential outcome of the private prison debate could be a government takeover of the existing private beds. In the table below, we provide a matrix of the valuation of GEO shares based on the cost of a bed, the current net value (after subtracting current outstanding debt) to GEO, and what the value per GEO share is if the government acquired the assets at either a 25% discount or 50% discount. For example, if the value of a prison bed was $100,000, GEO's 45,133 owned beds would be worth some $4.5 billion, or $2.9 billion after subtracting outstanding net debt. This equates to a value per GEO share of $20.88. If the government were to acquire the beds at 75% of fair value, then GEOs shares would be valued at approximately $12.73. If the government were to pay only 50% of value, then the per share value to GEO would be just $4.57.

Unlike in the past, the sharp rise in GEO shares this week has made many of the current values below the current share price. Based on increased construction and development costs, management estimates the Company-owned facilities have a combined replacement value in excess of $6 billion. And, not included in the valuation is the significant domestic managed only secure business, the Community segment, and the electronic monitoring business, nor the International segment.

Safety Segment Property Valuation Matrix

(Value $ in millions, except per share)

Owned Beds	Cost to Build/Bed	Gross Value	Net Value	Value/ Share	Value at 25% Discount	Net Value	Value/ Share	Value at 50% Discount	Net Value	Value/ Share
45,133	$50,000	$2,257	$632	$4.57	$1,692	$67	$0.49	$1,128	-$497	-$3.59
45,133	$75,000	$3,385	$1,760	$12.73	$2,539	$914	$6.61	$1,692	$67	$0.49
45,133	$100,000	$4,513	$2,888	$20.88	$3,385	$1,760	$12.73	$2,257	$632	$4.57
45,133	$125,000	$5,642	$4,017	**$29.04**	$4,231	$2,606	$18.84	$2,821	$1,196	$8.65
45,133	$150,000	$6,770	$5,145	**$37.20**	$5,077	$3,452	$24.96	$3,385	$1,760	$12.73
45,133	$200,000	$9,027	$7,402	**$53.52**	$6,770	$5,145	**$37.20**	$4,513	$2,888	$20.88
45,133	$250,000	$11,283	$9,658	**$69.84**	$8,462	$6,837	**$49.44**	$5,642	$4,017	**$29.04**
45,133	$300,000	$13,540	$11,915	**$86.15**	$10,155	$8,530	**$61.68**	$6,770	$5,145	**$37.20**

Source: Company reports and Noble estimates

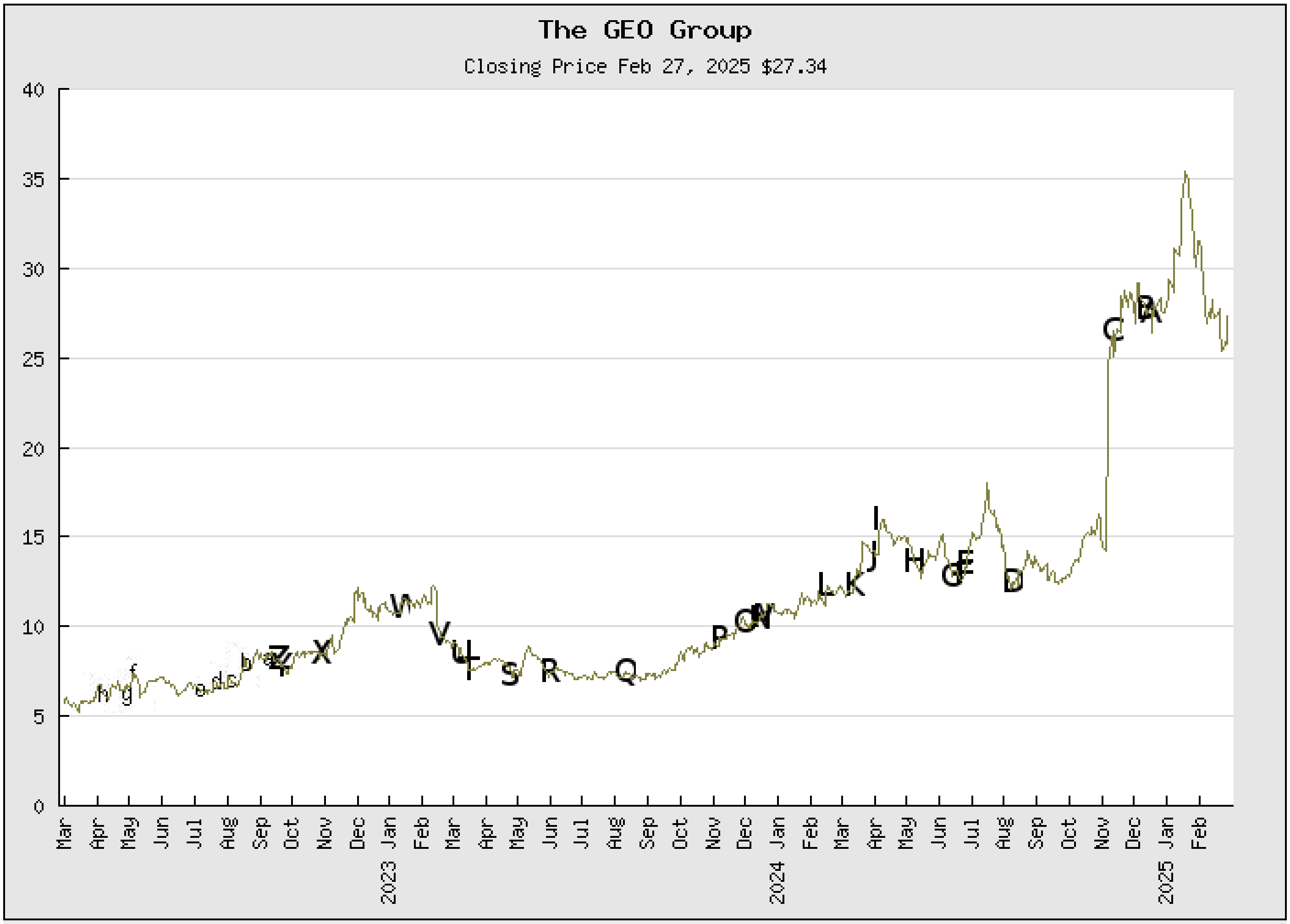
Gross Value = Number of beds multiplied by cost to build a bed

Net Value = Gross value minus net outstanding recourse debt at 9/30/2024

Value/GEO Share = Net Value divided by 138.3 million fully diluted shares

Investment Risks Include:

- Declining inmate populations. Since peaking in 2009, inmate populations have been declining due to changing laws. Continued declines in inmate populations could negatively impact GEO's operations.
- Political risk. The Biden Administration has taken steps to eliminate contracts with for profit prisons. GEO's business is dependent on government appropriations.
- Concentrated government customer base. In 2023, ICE, the USMS, and the BOP accounted for 63% of total revenues, with ICE accounting for 43% of total revenue. Any declines in these customers, could negatively impact financial results.
- More limited access to capital. Due to political pressure, certain banks have declined to do business with for profit prison operators which could make raising additional capital more difficult.
- Past and/or future acquisitions may not be successful.



A - 12/17/2024 Market Perform Current $27.53	B - 12/12/2024 Market Perform Current $27.77
C - 11/11/2024 Market Perform Current $26.48	D - 08/08/2024 Outperform Target $17.00 Current $12.46
E - 06/27/2024 Outperform Target $17.00 Current $13.51	F - 06/24/2024 Outperform Target $17.00 Current $12.84
G - 06/12/2024 Outperform Target $17.00 Current $12.80	H - 05/08/2024 Outperform Target $17.00 Current $13.60
I - 04/08/2024 Outperform Target $17.00 Current $15.93	J - 04/04/2024 Outperform Target $15.00 Current $14.05
K - 03/13/2024 Outperform Target $15.00 Current $12.30	L - 02/16/2024 Outperform Target $15.00 Current $12.23
M - 12/18/2023 Outperform Target $15.00 Current $10.56	N - 12/14/2023 Outperform Target $15.00 Current $10.44
O - 12/01/2023 Outperform Target $15.00 Current $10.25	P - 11/08/2023 Outperform Target $15.00 Current $9.27
Q - 08/10/2023 Outperform Target $15.00 Current $7.42	R - 05/31/2023 Outperform Target $15.00 Current $7.46
S - 04/26/2023 Outperform Target $15.00 Current $7.28	T - 03/17/2023 Outperform Target $15.00 Current $7.57
U - 03/09/2023 Outperform Target $15.00 Current $8.52	V - 02/17/2023 Outperform Target $15.00 Current $9.54
W - 01/11/2023 Outperform Target $15.00 Current $11.03	X - 10/28/2022 Outperform Target $15.00 Current $8.49
Y - 09/22/2022 Outperform Target $15.00 Current $7.73	Z - 09/19/2022 Outperform Target $15.00 Current $8.18
a - 09/08/2022 Outperform Target $15.00 Current $8.29	b - 08/18/2022 Outperform Target $15.00 Current $8.00
c - 08/03/2022 Outperform Target $15.00 Current $7.09	d - 07/20/2022 Outperform Target $15.00 Current $6.95
e - 07/05/2022 Outperform Target $15.00 Current $6.55	f - 05/04/2022 Outperform Target $15.00 Current $7.41
g - 04/26/2022 Outperform Target $15.00 Current $6.37	h - 04/05/2022 Outperform Target $15.00 Current $6.27

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or under-served needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicality, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

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Outperform: potential return is >15% above the current price	86%	17%
Market Perform: potential return is -15% to 15% of the current price	14%	6%
Underperform: potential return is >15% below the current price	0%	0%

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Noble Capital Markets, Inc.
150 E Palmetto Park Rd, Suite 110
Boca Raton, FL 33432
561-994-1191

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