GEO Group – This is an asymmetric Trump trade with a 2-yr path to $78 if the next administration follows through on commitment to increase funding for ICE monitoring. The monitoring business could eventually be spun off after it scales, potentially driving a re-rate of GEO shares to 13x EBITDA and a PT of $103. GEO's EBITDA could >2x from the current $500M r/r via (i) utilizing idle detention beds and (ii) growth in the ISAP monitoring program, and GEO is the exclusive provider to ICE. The stock is a coiled spring given: its levered (3.5x); trades at reasonable multiple (10.4x EBITDA) and is thus positioned for multi-bagger returns. This stock was neglected due to overhang from Biden's legacy hostility to private prison complex. The market is missing the magnitude of GEO's upside to EBITDA from expanded use of monitoring by ICE.

Trading Stats - 1/11/25				
Price	$ 30.94		26E EBITDA	$ 589
Shares	138		EV / '26E EBITDA	10.3x
Market cap.	$ 4,274		26E EPS	$ 1.57
Add: debt	1,862		P / '26 EPS	19.7x
Less: cash	(46)			
Enterprise val	$ 6,089			

OVERVIEW:

Private prison and correctional monitoring operator. Owns and manages prisons, detention centers, re-entry facilities, monitoring programs and ancillaries (transportation, etc.). Primarily serves the US, with smaller international operations in Australia and South Africa.

Owns or manages 100 facilities with 81,000 beds. For YE23, revenues were $2.4B, occupancy rate was 85.5% including 69,834 active beds. Excludes idle facilities with 11,421 beds.

Largest customer is Immigrations and Customs Enforcement ("ICE").

Breakdown of revenues:

- Secure Services = 72% of revenues. From Federal = 46% and State = 18%
    - Within Federal, ICE = 43%, US Marshalls = 16%, Bureau of Prisons ("BOP") = 3%
- Geo Care = 28% of revenues. From Monitoring & Supervision = 18%, and Re-entry Services = 10%.
    - Australia = 7%, Arizona = 5%, Florida = 4%

Secure Services Division: Oversees support services for secure facilities in US, Australia and South Africa

- In US operates 50 facilities 64,828 beds for US Marshalls Service ("USMS"), US Immigration and Customs enforcement ("ICE") and seven state correctional agencies
    - Australia = 3 facilities with 3,500 beds
    - South Africa = 1 facility with 3,024 beds
- Provides secure residential services to '23 average 42,000 people in US

- Renewed 15 contracts in '23, including 10 at federal level with ICE and US Marshalls

Geo Care Division: Provides community residential and non-residential reentry centers, and electronic alternative-to-detention ("ATD") monitoring programs

- Average daily census for ATD Monitoring has declined to 180k from '23 peak of 323k. Also operates 9,078 reentry beds, 89 non-residential centers
- In '23 renewed 32 residential contracts, and including 16 with Federal BOP, and 52 contracts for non-residential and day reporting programs
- BI Electronic Monitoring provides full suite of monitoring and supervision solutions for Federal, State, and local agencies

CATALYSTS:

- 1/20/25 – Trump inauguration
- 1/20/25 – Trump immigration actions start
- 1H25 – reconciliation bill

THESIS:

Given Trump's migration strategy, we expect a massive increase in GEO's ATD monitoring business in 2025, and this could >2x GEO's EBITDA. Following several years of declining ICE enforcement, we expect a return to significant growth in ICE spending on monitoring starting in 2025, regardless of the election outcome.

Importantly – neither congressional action nor even an executive order is needed to significantly increase detention census and monitoring (this is a common misconception). Indeed, the President has broad discretion within the DHS budget to allocate funding for various social programs and agencies into the ICE ATD monitoring program, and therefore can do it immediately. GEO is contracted as the sole provider for this ICE ATD monitoring program.

Additionally, there is bipartisan support for a large increase in ICE funding for ATD monitoring, so the next appropriation bill is likely to include a direct funding.

The ATD monitoring business is highly profitable to GEO with EBITDA margins ~50%. Thus a $1.5B appropriation would be worth $750M of EBITDA, or increase GEO'S run-rate EBITDA by 2.5x.

The Market is underestimating the benefit to GEO's Detention Segment under Trump, and again ignoring the size of GEO's ATD Monitoring opportunity.

- Expect further multiple re-rate as Trump immigration actions start. We expect a the multiple to expand towards 15x, which is where GEO traded in 2017 following Trump's first election.

- <u>Expect increase in Detention census from occupying idle beds, worth EBITDA of >$160M.</u> GEO has 23% of their beds in idled facilities, and 85% occupancy in active facilities. If Trump increase Detention such that idled beds are reactivated and occupancy increases back to 95%, the resultant $162M uplift to EBITDA would be a 31% increase over the '26 baseline.

- <u>Expect ATD Monitoring Business to grow to 1M people in first year (>$500M of EBITDA), and potentially larger over time.</u> Trump has said he supports ATD monitoring for 8M non-detained illegal immigrants. The $1.5B budget as proposed by Biden could accommodate a ~822k people, so a larger budget would be needed for Trump's plan. Nevertheless, we think the bipartisan support for the $1.5B indicates high likelihood that GEO's ATD Monitoring would get a significant funding increase under Trump.

<u>Capital returns play starting 2H25 / '26, following recent refinancing and ongoing de-levering.</u> Debt was refinanced and Apr24. Net leverage stands at 3.5x which is the covenant threshold for discretionary use of FCF. In 4Q25 the covenant allowance for discretionary FCF use increases from 25% to 50% and in 4Q26 increases to 100%.

<u>NEGATIVES:</u>

- *<u>A Harris win was the primary bear case, as it would have created sentiment overhang short-term.</u>* She had expressed hostility towards the private prisons industry, and street believed she would further de-emphasize their use in federally funded programs.

GEO - Pro Forma Analysis - 1/11/25												
										Street Estimates		
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue	$ 1,843	$ 2,180	$ 2,263	$ 2,331	$ 2,478	$ 2,350	$ 2,257	$ 2,378	$ 2,413	$ 2,443	$ 2,723	$ 2,805
% growth	*9.0%*	*18.3%*	*3.8%*	*3.0%*	*6.3%*	*-5.2%*	*-4.0%*	*5.4%*	*1.5%*	*1.2%*	*11.5%*	*3.0%*
EBITDA	$ 369	$ 404	$ 420	$ 444	$ 445	$ 440	$ 467	$ 539	$ 507	$ 492	$ 580	$ 589
% margin	*20.0%*	*18.5%*	*18.6%*	*19.0%*	*18.0%*	*18.7%*	*20.7%*	*22.7%*	*21.0%*	*20.1%*	*21.3%*	*21.0%*
Adj EPS	$ 1.32	$ 1.46	$ 1.41	$ 1.36	$ 1.40	$ 1.30	$ 1.32	$ 1.40	$ 0.95	$ 0.83	$ 1.55	$ 1.57

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Trump Admin Pro Forma - '26 EBITDA bridge & Price Target									
Detention - pro forma		Monitoring - pro forma							
Revenue producing beds	35,749	Day rate / person ($)	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50
Occupancy	85%	Annualized rate / person ($)	$ 1,643	$ 1,643	$ 1,643	$ 1,643	$ 1,643	$ 1,643	$ 1,643
Beds in use currently	30,387	Monitored people (mm)	0.4	0.5	0.6	0.7	0.8	1.0	1.5
Add: idle beds	10,486	Revenue uplift ($mm)	$ 657	$ 821	$ 986	$ 1,150	$ 1,314	$ 1,643	$ 2,464
PF revenue producing beds	46,235	Contribution margin	45%	45%	45%	45%	45%	45%	45%
PF occupancy	95%	**26 EBITDA - monitoring uplift**	**$ 296**	**$ 370**	**$ 443**	**$ 517**	**$ 591**	**$ 739**	**$ 1,109**
PF beds in use	43,923								
Uplift in beds in use	13,537	2026 Street EBITDA	$ 589	$ 589	$ 589	$ 589	$ 589	$ 589	$ 589
Annual rate / bed ($)	40,000	Add: detention uplift	162	162	162	162	162	162	162
Revenue lift ($MM)	$ 541	Add: monitoring uplift	296	370	443	517	591	739	1,109
EBITDA margin	30%	2026 PF EBITDA	1,047	1,121	1,195	1,269	1,343	1,491	1,860
26 EBITDA - detention uplift	**$ 162**								
		$ / Shr - 10x multiple	$ 62.66	$ 68.01	$ 73.36	$ 78.71	$ 84.07	$ 94.77	$ 121.52
		$ / Shr - 15x multiple	100.56	108.59	116.62	124.64	132.67	148.72	188.85