The Geo Group Reports Second Quarter 2023 Results

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BOCA RATON, Fla.--(BUSINESS WIRE)--Aug. 9, 2023-- The GEO Group, Inc. (NYSE: GEO) (“GEO”), a leading provider of support services for secure facilities, processing centers, and reentry centers, as well as enhanced in-custody rehabilitation, post-release support, and electronic monitoring programs, reported today its financial results for the second quarter and first six months of 2023.

Second Quarter 2023 Highlights

- **Total revenues of $593.9 million**
- **Net Income of $29.5 million**
- **Net Income Attributable to GEO of $0.20 per diluted share**
- **Adjusted Net Income of $0.24 per diluted share**
- **Adjusted EBITDA of $129.0 million**

For the second quarter 2023, we reported net income of $29.5 million, compared to net income of $53.7 million for the second quarter 2022. We reported total revenues for the second quarter 2023 of $593.9 million compared to $588.2 million for the second quarter 2022. Second quarter 2023 results reflect a year-over-year increase of $26.1 million in net interest expense as a result of the completed transactions to address the substantial majority of our outstanding debt, which closed on August 19, 2022, as well as the impact of higher interest rates. We reported second quarter 2023 Adjusted EBITDA of $129.0 million, compared to $132.3 million for the second quarter 2022.

George C. Zoley, Executive Chairman of GEO, said, “We are pleased with our performance for the second quarter 2023, which exceeded our previously issued financial guidance. Our diversified business units delivered overall strong operational and financial performance during the first half of 2023 despite some headwinds in our Electronic Monitoring and Supervision Services segment. Our management team remains focused on reducing our net debt, which is a key strategic priority for our company. We are also continuing our efforts to market our current idle facilities to federal and state government agencies.”

First Six Months 2023 Highlights

- **Total revenues of $1.20 billion**
- **Net Income of $57.5 million**
- **Net Income Attributable to GEO of $0.39 per diluted share**
- **Adjusted Net Income of $0.46 per diluted share**
- **Adjusted EBITDA of $259.9 million**

For the first six months of 2023, we reported net income of $57.5 million, compared to net income of $91.9 million for the first six months of 2022. We reported total revenues for the first six months of 2023 of $1.20 billion compared to $1.14 billion for the first six months of 2022.

Results for the first six months of 2023 reflect a year-over-year increase of $53.2 million in net interest expense as a result of the completed transactions to address the substantial majority of our outstanding debt, which closed on August 19, 2022, as well as the impact of higher interest rates. For the first six months of 2023, we reported Adjusted EBITDA of $259.9 million, compared to $257.5 million for the first six months of 2022.

2023 Financial Guidance

Today, we updated our guidance for the full-year 2023 to reflect our updated expectations regarding the timing of participant levels under the U.S. Department of Homeland Security’s Intensive Supervision and Appearance Program (“ISAP”).

Our previously issued guidance for 2023 assumed that the number of ISAP participants would stabilize at the mid-point of 2023 and then moderately increase during the third quarter of 2023 and the fourth quarter of 2023.

Although the number of ISAP participants continued to decline throughout the month of July of 2023 and in early August of 2023, which was longer than we previously estimated, we continue to believe that the ISAP participant count is likely to stabilize and then begin to increase moderately.

We expect full-year GAAP Net Income to be between $95 million and $110 million, on annual revenues of approximately $2.4 billion. We expect our full-year 2023 Adjusted EBITDA to be between $490 million and $520 million. We expect our effective tax rate for the full-year 2023 to be approximately 29 percent, exclusive of any discrete items.

For the third quarter of 2023, we expect Net Income to be between $19 million and $26 million on quarterly revenues of $588 million to $603 million. We expect third quarter 2023 Adjusted EBITDA to be in a range of $115 million to $130 million.

For the fourth quarter of 2023, we expect Net Income to be between $19 million and $27 million on quarterly revenues of $595 million to $610 million. We expect fourth quarter 2023 Adjusted EBITDA to be in a range of $115 million to $130 million.

Our guidance assumes steady performance from our other segments and does not include the potential reactivation of any of our remaining idle Secure Services facilities, which total approximately 9,000 beds.

Conference Call Information

We have scheduled a conference call and webcast for today at 11:00 AM (Eastern Time) to discuss our second quarter 2023 financial results as well as our outlook. The call-in number for the U.S. is 1-877-250-1553 and the international call-in number is 1-412-542-4145. In addition, a live audio webcast of the conference call may be accessed on the Webcasts section under the News, Events and Reports tab of GEO's investor relations webpage at investors.geogroup.com. A replay of the webcast will be available on the website for one year. A telephonic replay of the conference call will be available through August 16, 2023, at 1-877-344-7529 (U.S.) and 1-412-317-0088 (International). The participant passcode for the telephonic replay is 4095233.

About The GEO Group

The GEO Group, Inc. (NYSE: GEO) is a leading diversified government service provider, specializing in design, financing, development, and support services for secure facilities, processing centers, and community reentry centers in the United States, Australia, South Africa, and the United Kingdom. GEO's diversified services include enhanced in-custody rehabilitation and post-release support through the award-winning GEO Continuum of Care®, secure transportation, electronic monitoring, community-based programs, and correctional health and mental health care. GEO's worldwide operations include the ownership and/or delivery of support services for 102 facilities totaling approximately 82,000 beds, including idle facilities and projects under development, with a workforce of up to approximately 18,000 employees.

Reconciliation Tables and Supplemental Information

GEO has made available Supplemental Information which contains reconciliation tables of Net Income Attributable to GEO to Adjusted Net Income, and Net Income to EBITDA and Adjusted EBITDA, along with supplemental financial and operational information on GEO's business and other important operating metrics. The reconciliation tables are also presented herein. Please see the section below titled "Note to Reconciliation Tables and Supplemental Disclosure - Important Information on GEO's Non-GAAP Financial Measures" for information on how GEO defines these supplemental Non-GAAP financial measures and reconciles them to the most directly comparable GAAP measures. GEO's Reconciliation Tables can be found herein and in GEO's Supplemental Information available on GEO's investor webpage at investors.geogroup.com.

Note to Reconciliation Tables and Supplemental Disclosure –
Important Information on GEO's Non-GAAP Financial Measures

Adjusted Net Income, EBITDA, and Adjusted EBITDA are non-GAAP financial measures that are presented as supplemental disclosures. GEO has presented herein certain forward-looking statements about GEO's future financial performance that include non-GAAP financial measures, including Net Debt, Net Leverage, Adjusted Net Income, and Adjusted EBITDA. The determination of the amounts that are included or excluded from these non-GAAP financial measures is a matter of management judgment and depends upon, among other factors, the nature of the underlying expense or income amounts recognized in a given period.

While we have provided a high level reconciliation for the guidance ranges for full year 2023, we are unable to present a more detailed quantitative reconciliation of the forward-looking non-GAAP financial measures to their most directly comparable forward-looking GAAP financial measures because management cannot reliably predict all of the necessary components of such GAAP measures. The quantitative reconciliation of the forward-looking non-GAAP financial measures will be provided for completed annual and quarterly periods, as applicable, calculated in a consistent manner with the quantitative reconciliation of non-GAAP financial measures previously reported for completed annual and quarterly periods.

Net Debt is defined as gross principal debt less cash from restricted subsidiaries. Net Leverage is defined as Net Debt divided by Adjusted EBITDA.

EBITDA is defined as net income adjusted by adding provisions for income tax, interest expense, net of interest income, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA adjusted for (gain)/loss on asset divestitures, pre-tax, net loss attributable to non-controlling interests, stock-based compensation expenses, pre-tax, other non-cash revenue and expenses, pre-tax, and certain other adjustments as defined from time to time.

Given the nature of our business as a real estate owner and operator, we believe that EBITDA and Adjusted EBITDA are helpful to investors as measures of our operational performance because they provide an indication of our ability to incur and service debt, to satisfy general operating expenses, to make capital expenditures, and to fund other cash needs or reinvest cash into our business. We believe that by removing the impact of our asset base (primarily depreciation and amortization) and excluding certain non-cash charges, amounts spent on interest and taxes, and certain other charges that are highly variable from year to year, EBITDA and Adjusted EBITDA provide our investors with performance measures that reflect the impact to operations from trends in occupancy rates, per diem rates and operating costs, providing a perspective not immediately apparent from net income. The adjustments we make to derive the non-GAAP measures of EBITDA and Adjusted EBITDA exclude items which may cause short-term fluctuations in income from continuing operations and which we do not consider to be the fundamental attributes or primary drivers of our business plan and they do not affect our overall long-term operating performance.

EBITDA and Adjusted EBITDA provide disclosure on the same basis as that used by our management and provide consistency in our financial reporting, facilitate internal and external comparisons of our historical operating performance and our business units and provide continuity to investors for comparability purposes.

Adjusted Net Income is defined as net income attributable to GEO adjusted for certain items which by their nature are not comparable from period to period or that tend to obscure GEO's actual operating performance, including for the periods presented (gain)/loss on asset divestitures, pre-tax, (gain)/loss on the extinguishment of debt, pre-tax, and tax effect of adjustments to net income attributable to GEO.

Safe-Harbor Statement

This press release contains forward-looking statements regarding future events and future performance of GEO that involve risks and uncertainties that could materially and adversely affect actual results, including statements regarding GEO's financial guidance for the full-year, third quarter, and fourth quarter of 2023, statements regarding GEO's efforts to market its current idle facilities, GEO's focus on reducing net debt, and GEO's assumptions regarding the number of ISAP participants during the second half of 2023. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," or "continue" or the negative of such words and similar expressions. Risks and uncertainties that could cause actual results to vary from current expectations and forward-looking statements contained in this press release include, but are not limited to: (1) GEO's ability to meet its financial guidance for 2023 given the various risks to which its business is exposed; (2) GEO's ability to deleverage and repay, refinance or otherwise address its debt maturities in an amount and on terms commercially acceptable to GEO, and on the timeline it expects or at all; (3) GEO's ability to identify and successfully complete any potential sales of company-owned assets and businesses on commercially advantageous terms on a timely basis, or at all; (4) changes in federal *and state government policy, orders, directives, legislation and regulations that affect public-private partnerships with respect to secure, correctional and detention facilities, processing centers and reentry centers, including the timing and scope of implementation of President Biden's Executive Order directing the U.S. Attorney General not to renew the U.S. Department of Justice contracts with privately operated criminal detention facilities; (5) changes in federal immigration policy; (6) public and political opposition to the use of public-private partnerships with respect to secure correctional and detention facilities, processing centers and reentry centers; (7) the magnitude, severity, and duration of the COVID-19 global pandemic, its impact on GEO, GEO's ability to mitigate the risks associated with COVID-19, and the efficacy and distribution of COVID-19 vaccines; (8) GEO's ability to sustain or improve company-wide occupancy rates at its facilities in light of the COVID-19 global pandemic and policy and contract announcements impacting GEO's federal facilities in the United States; (9) fluctuations in GEO's operating results, including as a result of contract terminations, contract renegotiations, changes in occupancy levels and increases in GEO's operating costs; (10) general economic and market conditions, including changes to governmental budgets and its impact on new contract terms, contract renewals, renegotiations, per diem rates, fixed payment provisions, and occupancy levels; (11) GEO's ability to address inflationary pressures related to labor related expenses and other operating costs; (12) GEO's ability to timely open facilities as planned, profitably manage such facilities and successfully integrate such facilities into GEO's operations without substantial costs; (13) GEO's ability to win management contracts for which it has submitted proposals and to retain existing management contracts; (14) risks associated with GEO's ability to control operating costs associated with contract start-ups; (15) GEO's ability to successfully pursue growth and continue to create shareholder value; (16) GEO's ability to obtain financing or access the capital markets in the future on acceptable terms or at all; and (17) other factors contained in GEO's Securities and Exchange Commission periodic filings, including its Form 10-K, 10-Q and 8-K reports, many of which are difficult to predict and outside of GEO's control.*

Second quarter and first six months of 2023 financial tables to follow:

Condensed Consolidated Balance Sheets*
(Unaudited)

	As of *June 30, 2023* *(unaudited)*	As of *December 31, 2022* *(unaudited)*
ASSETS		
Cash and cash equivalents	$ 48,716	$ 95,073
Accounts receivable, less allowance for doubtful accounts	350,961	416,399
Prepaid expenses and other current assets	52,299	43,536
Total current assets	$ **451,976**	**$ 555,008**
Restricted Cash and Investments	136,497	111,691
Property and Equipment, Net	1,963,880	2,002,021
Operating Lease Right-of-Use Assets, Net	108,975	90,950
Assets Held for Sale	14,113	480
Deferred Income Tax Assets	8,005	8,005
Intangible Assets, Net (including goodwill)	896,160	902,887
Other Non-Current Assets	92,283	89,341
Total Assets	**$ 3,671,889**	**$ 3,760,383**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$ 73,076	$ 79,312
Accrued payroll and related taxes	46,136	53,225
Accrued expenses and other current liabilities	174,835	237,369
Operating lease liabilities, current portion	23,784	22,584
Current portion of finance lease obligations, and long-term debt	29,377	44,722
Total current liabilities	$ **347,208**	**$ 437,212**
Deferred Income Tax Liabilities	75,849	75,849
Other Non-Current Liabilities	79,763	74,008
Operating Lease Liabilities	90,127	73,801
Finance Lease Liabilities	922	1,280
Long-Term Debt	1,845,649	1,933,145
Total Shareholders' Equity	1,232,371	1,165,088
Total Liabilities and Shareholders' Equity	**$ 3,671,889**	**$ 3,760,383**

* all figures in '000s

Condensed Consolidated Statements of Operations*
(Unaudited)

	Q2 2023	***Q2 2022***	***YTD 2023***	***YTD 2022***
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*

Revenues	$ 593,891	$ 588,177	$ 1,202,100	$ 1,139,362
Operating expenses	428,128	411,791	861,620	796,952
Depreciation and amortization	31,691	32,016	63,614	67,954
General and administrative expenses	41,692	49,296	91,826	97,856
Operating income	**92,380**	**95,074**	**185,040**	**176,600**
Interest income	1,297	5,562	2,465	11,190
Interest expense	(55,046)	(33,225)	(109,304)	(64,846)
(Loss) on extinguishment of debt	(1,618)	-	(1,754)	-
Gain on asset divestitures	2,175	3,680	2,175	3,053
Income before income taxes and equity in earnings of affiliates	**39,188**	**71,091**	**78,622**	**125,997**
Provision for income taxes	11,153	18,898	23,515	36,860
Equity in earnings of affiliates, net of income tax provision	1,490	1,480	2,412	2,715
Net income	**29,525**	**53,673**	**57,519**	**91,852**
Less: Net loss attributable to noncontrolling interests	46	54	55	94
Net income attributable to The GEO Group, Inc.	$ **29,571**	$ **53,727**	$ **57,574**	$ **91,946**
Weighted Average Common Shares Outstanding:				
Basic	122,045	121,119	121,740	120,918
Diluted	123,278	121,881	123,496	121,650
Net income per Common Share Attributable to The GEO Group, Inc.** :				
Basic:				
Net income per share — basic	$ **0.20**	$ **0.37**	$ **0.39**	$ **0.63**
Diluted:				
Net income per share — diluted	$ **0.20**	$ **0.37**	$ **0.39**	$ **0.63**

* All figures in '000s, except per share data

** In accordance with U.S. GAAP, diluted earnings per share attributable to GEO available to common stockholders is calculated under the if-converted method or the two-class method, whichever calculation results in the lowest diluted earnings per share amount, which may be lower than Adjusted Net Income Per Diluted Share.

Reconciliation of Net Income to EBITDA and Adjusted EBITDA, and Net Income Attributable to GEO to Adjusted Net Income*

(Unaudited)

	Q2 2023	***Q2 2022***	***YTD 2023***	***YTD 2022***
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Net Income	$ **29,525**	$ **53,673**	$ **57,519**	$ **91,852**
Add:				
Income tax provision **	11,487	19,061	24,029	37,136
Interest expense, net of interest income ***	55,366	27,663	108,593	53,656
Depreciation and amortization	31,691	32,016	63,614	67,954
EBITDA	**$ 128,069**	**$ 132,413**	**$ 253,755**	**$ 250,598**
Add (Subtract):				
(Gain)/Loss on asset divestitures, pre-tax	(2,175)	(3,680)	(2,175)	(3,053)
Net loss attributable to noncontrolling interests	46	54	55	94
Stock based compensation expenses, pre-tax	3,357	3,556	8,935	9,869
Other non-cash revenue & expenses, pre-tax	(331)	-	(687)	-
Adjusted EBITDA	**$ 128,966**	**$ 132,343**	**$ 259,883**	**$ 257,508**

Net Income attributable to GEO	$ **29,571**	$ **53,727**	$ **57,574**	$ **91,946**
Add (Subtract):				
(Gain)/Loss on asset divestitures, pre-tax	(2,175)	(3,680)	(2,175)	(3,680)
(Gain)/Loss on extinguishment of debt, pre-tax	1,618	-	1,754	-
Tax effect of adjustment to net income attributable to GEO (1)	140	926	106	926
Adjusted Net Income	**$ 29,154**	**$ 50,973**	**$ 57,259**	**$ 89,192**
Weighted average common shares outstanding - Diluted	123,278	121,881	123,496	121,650
Adjusted Net Income per Diluted share	**0.24**	**0.42**	**0.46**	**0.73**

* all figures in '000s, except per share data
** including income tax provision on equity in earnings of affiliates
*** includes (gain)/loss on extinguishment of debt
(1) Tax adjustment related to gain/Loss on asset divestitures and gain/loss on extinguishment of debt.

2023 Outlook/Reconciliation (1)
(In thousands, except per share data)
(Unaudited)

	FY 2023		
Net Income	$ 95,000	to	$ 110,000
Net Interest Expense	215,000		221,000
Income Taxes			
(including income tax provision on equity in earnings of affiliates)	40,500		46,000
Depreciation and Amortization	126,500		130,000
Non-Cash Stock Based Compensation	16,500		16,500
Other Non-Cash	(3,500)		(3,500)
Adjusted EBITDA	**$ 490,000**	to	**$ 520,000**
Net Income Attributable to GEO Per Diluted Share	**$ 0.76**	to	**$ 0.89**
Weighted Average Common Shares Outstanding-Diluted	123,500	to	123,500
CAPEX			
Growth	9,000	to	10,000
Technology	16,000	to	20,000
Facility Maintenance	45,000	to	50,000
Capital Expenditures	**70,000**	**to**	**80,000**
Total Debt, Net	**$ 1,820,000**		**$ 1,780,000**
Total Leverage, Net	**3.60**		**3.52**

(1) Total Net Leverage is calculated using the midpoint of Adjusted EBITDA guidance range.

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