

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

Q3 2021 iStar Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 02, 2021 / 2:00PM GMT

## CORPORATE PARTICIPANTS

**Jason Fooks** *iStar Inc. - SVP of IR & Marketing*  
**Jay S. Sugarman** *iStar Inc. - Executive Chairman & CEO*  
**Marcos Alvarado** *iStar Inc. - President & CIO*

## CONFERENCE CALL PARTICIPANTS

**Jade Joseph Rahmani** *Keefe, Bruyette, & Woods, Inc., Research Division - Director*  
**Matthew Philip Howlett** *B. Riley Securities, Inc., Research Division - Senior Research Analyst*  
**Nathan Daniel Crossett** *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*  
**Richard Anderson**  
**Stephen Albert Laws** *Raymond James & Associates, Inc., Research Division - Research Analyst*

## PRESENTATION

### Operator

Good morning, and welcome to iStar's Third Quarter 2021 Earnings Conference Call.

(Operator Instructions)

As a reminder, today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Jason Fooks, Senior Vice President of Investor Relations and Marketing. Please go ahead, sir.

---

### Jason Fooks *iStar Inc. - SVP of IR & Marketing*

Good morning. Thank you for joining us today to review iStar's Third Quarter 2021 Earnings. With me today are Jay Sugarman, Chairman and Chief Executive Officer, and Marcos Alvarado, our President and Chief Investment Officer.

This morning, we published an earnings presentation highlighting our results and our call will refer to these slides, which can be found on our website at [istar.com](http://istar.com) in the Investors section.

There'll be a replay of the call beginning at 2:30 p.m. Eastern Time today. The replay is accessible on our website or by dialing 1 (866) 207-1041 with a confirmation code of 1463546. Before I turn the call over to Jay, I'd like to remind everyone that statements in this earnings call, which are not historical facts will be forward looking.

iStar's actual results may differ materially from these forward-looking statements and the risk factors that could cause these differences are detailed in our SEC reports. iStar disclaims any intent or obligation to update these forward-looking statements, except as expressly required by law.

Now I'd like to turn the call over to iStar's Chairman and CEO, Jay Sugarman. Jay?

---

### Jay S. Sugarman *iStar Inc. - Executive Chairman & CEO*

Thanks, Jason. I appreciate everyone joining us today. iStar's Third Quarter was highlighted by strong success in monetizing legacy assets and continued progress in scaling Safehold.

Earnings benefited from both of these strategic initiatives, with EPS for the quarter topping \$1.50 a share and adjusted EPS over \$1.75. On the legacy asset side, our asset management team has been working hard to simplify our portfolio, and those efforts paid off nicely last quarter, bringing in almost \$250 million of proceeds and generating almost \$50 million of gains in the process.

Legacy assets now make up well less than 10% of the overall portfolio and are rapidly moving into the rearview mirror.

Turning to Safehold. Our investment team continues to drive new business in the ground lease sector, delivering over \$320 million of new ground leases into Safehold's portfolio during the quarter and exploring further ways to help expand the customer base.

We continue to believe the ground lease ecosystem represents a rich area of opportunity going forward. We also continue to make progress on our net lease exploration process and have been positioning ourselves to be able to execute efficiently, as we evaluate various alternatives. As we are mid process, we can't provide any details just yet, but look forward to updating you on the process in the future.

And with that, let's have Marcos take you through the details. Marcos?

---

**Marcos Alvarado iStar Inc. - President & CIO**

Thanks, Jay, and good morning, everyone. Let's begin on Slide 3. During the third quarter, we made meaningful progress on our 2-year strategy we laid out at the beginning of the year. We continue to scale and build momentum at Safehold with solid investment activity and capital raising, expanding the ground lease ecosystem.

In terms of simplifying the business, we were pleased with the progress this quarter, with legacy assets now down to 7% of our portfolio. Altogether, this success produced \$125 million of gains, which drove strong third quarter earnings results. Slide 4 provides more details on Safehold.

We continue to grow our investment in ground leases. And over the past year, the value of our interest has increased by approximately \$0.5 billion. During the quarter, Safehold saw EPS growth of 36% from the prior year period and strong investment momentum with \$321 million of originations.

Alongside with new originations, UCA grew by an additional \$624 million and stood at approximately \$6.7 billion at quarter end. Additionally, during the quarter, Safehold raised \$242 million of equity at a price of \$76 per share. Based on strong institutional demand, the offering was upsized by 10% from launch. Notably, iStar took a smaller position in this equity raise, representing 25% of the initial base offering.

While we continue to believe that Safehold at these levels is materially undervalued, we felt it was important to focus on long-term value creation and pare back our participation so that Safehold could attract new investors, increase its float and enhance trading liquidity in the stock.

As a result of our smaller participation, our ownership position decreased from 66% to 64%. U.S. GAAP treats this reduction and percentage ownership as if iStar sold a pro rata share of its investment in Safehold. This resulted in a gain of \$60 million, which was recorded in earnings from equity method investments.

In effect, the gain accretes into book value, a portion of the unrealized gain we have been highlighting for the past 2 years. And so for investors who have been thinking about iStar's intrinsic value, inclusive of Safehold's market value, these gains have no net effect. At the end of the quarter, we held approximately 36 million shares of Safehold with a market value of \$2.6 billion, a \$1.4 billion unrealized gain above our \$1.1 billion gross book value.

On Slide 5, we provide an update on our legacy assets. We're very pleased with the progress on our legacy asset strategy this quarter as we were able to generate proceeds of \$246 million and record \$49 million of gains. This included the previously announced sale of Grand Vista, which posted a \$26 million gain this quarter.

Over the past year, we have reduced our legacy asset portfolio by 42% from \$803 million to \$464 million, which is now down to 7% of our total portfolio. As you can see on the right side of the slide, our legacy asset portfolio includes 14 short-term assets, totaling \$113 million. The long-term assets are comprised of 2 remaining assets, Asbury Park and Magnolia Green, which totaled \$351 million.

While there are no near-term plans to sell these assets outright, we expect to see the balance at Asbury Park continue to decrease as we sell our remaining condo inventory at the Ocean Club. To date, we've sold approximately 70% of the inventory and our basis in the remaining condos is approximately \$69 million.

Slide 6 summarizes our investment activity for the quarter. iStar invested a total of \$175 million during the third quarter. This included \$53 million in Safehold, of which \$50 million was our participation in SAFE's equity offering. And the remaining \$3 million was open market stock purchases.

This quarter, we also repurchased 2.4 million shares of iStar's stock for \$60 million. Our remaining stock buyback authorization stood at \$31 million at quarter end. In addition, we invested \$54 million associated with loan, net lease and other fundings that were primarily associated with prior commitments. And lastly, we invested \$8 million of capital expenditures related to our legacy assets.

Slide 7 shows the makeup of our portfolio. At the end of the third quarter, our total portfolio stood at \$6.3 billion, with Safehold, net lease and cash on hand, representing nearly 85% of our portfolio.

In July of this year, we announced that we had engaged Eastdil to explore a potential sale of our net lease portfolio. That process is ongoing, and we look forward to updating you in the future after concluding the process.

Slide 8 details our earnings results. For the quarter, net income was \$121.9 million or \$1.51 per diluted common share, and adjusted earnings were \$141.3 million or \$1.76 per diluted common share. Earnings were driven in large part by \$125 million of gains this quarter, including the previously discussed \$60 million gain related to the Safehold equity offering and the \$49 million of the gains associated with sales of legacy assets. In addition, we recorded \$16 million of gains on strong performance from other investments.

Lastly, Slide 9 shows our book value per share on a GAAP basis, and as adjusted, to illustrate the value created through Safehold, but not recognized in our reported financial statements. As of September 30, our common equity per share was \$7.12. And when adjusted for depreciation, amortization and CECL allowance, adjusted common equity per share was \$12.23 per share.

Including Safe's mark-to-market value, our common equity value per share stood at \$25.75 per share and adjusted common equity was \$30.47 per share. Of note, the third quarter included the dilution impact of our convertible bonds. Based on the average stock price during the third quarter, those bonds had a dilutive impact of 9 million shares, whereas they were nondilutive in that comparative bid a year ago. We have sought to mitigate some of that dilution from the convert with our open-market stock repurchases.

In conclusion, the third quarter represented strong progress on our 2-year strategy with solid investment activity at Safehold, and we're encouraged with the advancement of sales in our legacy asset portfolio. And while we're pleased with the progress to date, we still have a lot of work to accomplish our objectives. With that, let me turn it back to Jay.

---

**Jay S. Sugarman *iStar Inc. - Executive Chairman & CEO***

Great, Marcos. Good progress on a number of fronts and more to come as we expand our Ground Lease business and streamline iStar.

Operator, let's go ahead and open it up for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question comes from Nate Crossett with Berenberg.

---

**Nathan Daniel Crossett *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Just on the portfolio sale, and I know you can't say much, but it looks like you made an announcement yesterday that you received the consent from the bondholders, as it relates to the solicitation. And so I was just kind of wondering, is that kind of the last procedural move needed before any sale announcement?

And then 2, let's just say, hypothetically, a large sale occurs within the next couple of months, can you kind of remind us near term use of proceeds of such a sale?

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes, sure. Yes, the consent process is really to eliminate any barriers on timing, sequencing, sizing, and give us the ability to execute efficiently on any of the various potential alternatives. Not in a position to talk about them yet, but it was a major step to really make sure we can execute efficiently when we -- when and if we want to.

I think in terms of the process and getting through the other side, we're not going to specifically be able to talk about what we're going to do until we know exactly what we're going to do, but we've begun analyzing a number of different alternatives for each of the outcomes we think is possible and we'll certainly be in a position on our next call to start talking about that.

**Nathan Daniel Crossett Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst**

Okay. That's helpful. And then if I could just ask one on -- no, maybe just an update on the Ground Lease Plus product. I think that was a big topic on the last quarter's call. Maybe you can just touch on what does the pipeline look for that product heading into '22? And then just maybe remind us on kind of the yields and returns that you get for that product.

**Marcos Alvarado iStar Inc. - President & CIO**

Nate. So as you remember, we closed our first 2 Ground Lease Plus transactions in the prior quarter. We have our third transaction under letter of intent and is in the closing process. And we have a reasonable pipeline going into '22 for the product, which I think is a fantastic outcome for both STAR and SAFE. As you kind of think about returns, high single digits, low double digits IRR is what we're looking for.

**Operator**

Our next question comes from with Stephen Laws Raymond James.

**Stephen Albert Laws Raymond James & Associates, Inc., Research Division - Research Analyst**

You mentioned in the Asbury and Magnolia Green, curious to get a little more detail there, if you think you guys will look at completing those on your own or if you're looking to bring in some partners there. And then as I think about other long-duration investments, I know the senior loans are, I think, 0.7 year weighted average maturity, but the mezz and other loans in the real estate finance bucket look like they have 7- and 9-year weighted average maturity.

Can you talk about what you may elect to do there, as you think about potential combination of the company in a much shorter time frame than those expected maturities?

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Stephen, thanks for the question. So Asbury and Magnolia, our stories continue to move in a positive direction. We will anticipate bringing in others to take down pieces of the puzzle. So we don't intend to be building all those out to the bitter end. So there's an opportunity. We've seen a lot of interest from third-party builders in both markets. So as we get closer to the finish line, we certainly see transactions where accounts of those properties will be sold to third parties.

In terms of the senior debt book, you're right, it's running off on a relatively short maturity basis. And the mezz and any longer-dated assets, we are looking at opportunities to monetize those where appropriate. We feel pretty good about most of the book in terms of sort of the end of '22 being just around sort of target for having the book in a nice streamlined, simplified shape. There's going to be some assets left. There's no question, but we feel pretty good about the direction everything is added.

**Stephen Albert Laws Raymond James & Associates, Inc., Research Division - Research Analyst**

Great. And very active on the stock repurchase front. Glad to see you guys focus on that, Jay, given the discounts to the mark-to-market book value. \$31 million remaining authorization. Can you talk about your appetite for more repurchases at the current price, whether or not you continue those repurchases in October, I don't think the Q is out yet?

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes. It's part of our strategy to recycle gains into smart investments, we think Safehold and STAR both represent significant value. So that are core to our thesis of recycling some of the proceeds and gains out of legacy assets into more productive users, and that's been taking place.

Historically, our Board has approved prudent levels of repurchases, and I would expect that to continue. I'm not going to talk about exactly what we're doing, but we have been historically an active buyer when we think our securities are undervalued.

---

**Operator**

Our next question comes from Jade Rahmani with KBW.

I do apologize. Our next question comes from Matt Howlett with B. Riley.

---

**Matthew Philip Howlett B. Riley Securities, Inc., Research Division - Senior Research Analyst**

Yes, I don't need to ask a question about the portfolio. But I mean could you tell us whether there's been an LOI out there? And anything in terms of what's going on in terms of negotiations at this point with the net lease portfolio?

---

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes. I wish, I could, Matt. We're mid-process, can't really do that at this moment, but we're trying to move the process along and continue to work with our adviser on a very productive basis. So we should definitely have some information for you by the next call coming around.

---

**Matthew Philip Howlett B. Riley Securities, Inc., Research Division - Senior Research Analyst**

Got you. Well, just thinking ahead to potentially a sale and the excess capital being freed up, I look at some of the secured debt, but most of that's tied \$1 billion, tied to the portfolio, am I right to assume that's likely to go with the sale, be paid down? Two, would you be in a position to pay back some senior notes? Three, you're out there buying SAFE shares every day through these Form 4s. What is the appetite in conjunction with you continuing to buy back your own stock to buying those SAFE shares? Just talking about this capital transformational then and what you plan on doing with it?

---

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes. Sure. Look, I think the goal with any transaction is to simplify our balance sheet and strengthen it, retiring debt is definitely going to be part of that calculus. How deep and how far and where it goes, we'll save for our next call, but that's certainly one of the alternatives that's something we're going to have to evaluate if a transaction happens, what do we do with the proceeds most effectively, but debt retirement will definitely be part of that thought process.

And when we think about Safehold and the opportunity set over there, we did pare back our investment in the most recent offering if the market gives an opportunity to buy below what we think is fair value, it's always a good alternative.

But I don't think we have signaled to the market that we'll be -- I'm trying to increase our ownership dramatically. We just think we have quite a bit of liquidity at iStar today, and we're looking for parts of the capital structure that we think are really attractive.

So as I said, historically, we've been thoughtful about how to deploy capital to keep a strong balance sheet, do everything prudently, but certainly safe trading below the last offering price seemed unusually attractive.

---

**Matthew Philip Howlett B. Riley Securities, Inc., Research Division - Senior Research Analyst**

And then, of course, weighing that against share repurchases? I mean, assuming there could be a dividend requirement when you sell, and all this is just part of the capital management process that you'll convey to us when you're ready?

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes. No, that's -- there are a lot of pieces to the puzzle. It's one of the process, we need to be prudent and thoughtful as we go through it. We have tried to make it as efficient as possible, but it's still going to take a little bit of time to be able to come back to you on that.

**Operator**

Our next question comes from Jade Rahmani with KBW.

**Jade Joseph Rahmani Keefe, Bruyette, & Woods, Inc., Research Division - Director**

I was wondering if you could quantify what percentage of corporate G&A relates to the net lease business?

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes. We don't break out specifically is -- obviously a lot of cross functionality throughout the iStar organization. So people work on lots of different things to add expertise.

But in terms of just general direction, Jade, it's not a huge part of the G&A. It's a piece of the puzzle, but I wouldn't allocate an enormous amount to it.

**Jade Joseph Rahmani Keefe, Bruyette, & Woods, Inc., Research Division - Director**

And in the short term, the legacy asset bucket with the low average price per asset of \$8 million, do you think that there are decent gains in that portfolio?

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Sorry, which part of the bucket?

**Jade Joseph Rahmani Keefe, Bruyette, & Woods, Inc., Research Division - Director**

The short-term legacy asset bucket, which has an \$8 million average value per asset.

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes. And I think we've historically guided you through -- there'll be some winners, there'll be some losers. Overall, we feel book is comfortable. A good market that might surprise us to the upside, but I wouldn't be programming that in just yet.

**Jade Joseph Rahmani Keefe, Bruyette, & Woods, Inc., Research Division - Director**

And then the strategic investments, can you give any color as to what those are composed of? And does it include any proptech investments?

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes. Look, we have used our balance sheet to seed areas where we thought it could be really interesting. We had an interesting opportunity in cold storage. That's been successful. We do have a small investment in the proptech world just to keep our eyes and ears to see what's coming next. But again, not material amounts.

**Jade Joseph Rahmani Keefe, Bruyette, & Woods, Inc., Research Division - Director**

And lastly, any update on the Park Hotel's portfolio? Or assets within SAFE's portfolio that could have a near-term catalyst?

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

No active discussions, Jade. I think the portfolio is recovering. So I think there could be an opportunity in the future when things are more stabilized. But right now, I think they're still focused on this recovery mode from COVID. So we've not had any active dialogue.

**Operator**

(Operator Instructions)

Our next question comes from Rich Anderson with SMBC.

---

**Richard Anderson**

So when you guys think about a hypothetical collapsing or recombination of STAR and SAFE, what do you -- obviously, there'll be something in STAR today that would follow along in that type of sort of hypothetical arrangement. But how small does the asset base have to be in STAR for it to start to make logical sense to bring the 2 companies back together?

---

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Yes. I think it's probably premature to start focusing on that. We've got a lot of work to do between here and there, and we've told the market, we'll have that conversation when we think SAFE has reached the scale where it makes the most sense. And the good news here, Rich, and you know this is -- both companies are very much aligned on maximizing the value of the Safehold ecosystem that it's building, that's going to accrue significant benefits to iStar and the Safehold shareholders.

So -- yes, that's the kind of question that will have to be sorted out, it will determine the whens, ifs and hows and whether it's -- what's the highest and best execution and architecture going forward. There are a lot of steps between here and there. So let us focus on those first, and then we'll have a much clearer sense of how to maximize value for both sets of shareholders.

That's the good news because I think you've got very much alignment of interest in terms of the ultimate goal, how we get there. There's a number of steps on each side that we've said Safehold needs to scale further, iStar need to continue to streamline and keep its balance sheet strong and liquid.

Those are the steps we're most focused on now. But if it's appropriate and there's a value uplift from having a conversation, that's certainly one that both companies are prepared for and should be in good alignment for.

---

**Richard Anderson**

Yes. So let me maybe ask it this way, and I respect the process and everything, but would the assets, the current STAR assets that would remain in this sort of this combined entity have some form of business relationship with the Ground Lease execution? Or could there be distinct stuff that would stay in the combined company?

In other words, were there -- the STAR plus business obviously would follow along, but would there be other forms of business potentially that would stay even if they don't have any real connection with the Ground Lease business?

---

**Jay S. Sugarman iStar Inc. - Executive Chairman & CEO**

Look, we structured the Safehold business as a pure play. We think that was the absolute right strategy. I don't think anything's changed in our thinking there. Ultimately, in terms of timing, sequencing, sizing, all those questions, tax, we're going to have to kick those to further out when we have more clarity around what both companies are trying to achieve and how to maximize both companies' outcomes.

So at least at this point, I can't give you a lot of guidance on the what ifs and how big anything might be. Just let us have that conversation when we further execute the both companies along their business plans. And I think the answer will be the right one for everybody. At least at this point, having Safehold as a pure play still, at least in our minds, it makes a lot of sense.

---

**Richard Anderson**

So if I ask you the third time, you're not going to -- you're still not going to answer? All right.

---

**Jason Fooks *iStar Inc.* - SVP of IR & Marketing**

All right. Well, thank you, everyone. If you have any additional questions on today's earnings release, please feel very to contact me directly. Tiffany, would you please give the replay instructions again?

---

**Operator**

Absolutely, thank you. Ladies and gentlemen, this conference will be available after 2:30 P.M. Eastern Time today through November 16 at midnight. You may access the executive replay system at any time by dialing 1 (866) 207-1041 and entering the access code 1463546. Those numbers, again, are 1 (866) 207-1041 with the access code 1463546.

That does conclude our conference for today. Thank you for your participation. You may now disconnect.

---

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021 Refinitiv. All Rights Reserved.