iStar Inc.

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James Posner: Good morning, everybody. My name is James Posner, I'm a high-yield salesman here at Bank of America. Next up, we have iStar, a New York-based finance and investment REIT focused on the commercial real estate industry. A market cap of $775 million and over $4.1 billion of real estate assets.

As we will hear more details shortly, the Company provides investment capital to owners of real estate as well as directly invested across the range of diverse real estate investments.

With us today we have Chief Financial Officer, Geoffrey Jervis. Mr. Jervis joined iStar over a year ago from a leading industrial REIT STAG Industrial, and previously held the CFO position at Blackstone's Real Estate Debt practice at Blackstone Mortgage Trust, (inaudible) Capital Trust.

Joining in today is Jason Fooks, Vice President Investor Relations, an 11-plus year veteran at the Company alongside IR Team Associate member Jason Lee; and Vice President of Capital Markets, Brett Asnas.

We now welcome Mr. Jervis to share the Company's presentation and discuss details of business with you. There will be time for Q&A after the presentation.

Geoffrey Jervis: Thank you. Good morning, everyone. So before I begin, I wanted to just give a quick sense of who we are and, really, what our primary goals are over the next two, three years.

We are a capital provider to the commercial real estate industry. So, in general, we're not looking to operate properties, but we're looking to find partners to provide capital to. In particular, the markets that we're looking for are what we consider non-commodity businesses. Examples of non-commodity businesses would be, in the early 1990s, mid-1990s, when we founded the commercial real estate mezz space. In the late 1990s, when we were really discovered and optimized the triple net lease space, which, obviously, today is a behemoth. And an example today would be a REIT that we took public earlier this year called Safety, Income & Growth, which is an opportunity to invest in ground leases.

So, again, we are very much of a capital provider, and we are very much of a, as we refer to it, white space player, and we're trying to find opportunities that others have not necessarily compressed the arbitrage or the opportunity.

Our goal, speaking to this conference in particular, we want to get back to investment grade. We think that by completing the monetization of our legacy assets and reinvesting those proceeds into our core businesses, that is the path to achieving them.

Going to the slide deck, we start with some highlights from this year. We had significant year-over-year net income and adjusted net income growth for 2017. The formation and contribution of iStar's ground net lease portfolio to the aforementioned Safety, Income & Growth, the REIT that we took public, and we realized $123 million gain in the second quarter on that transaction as well as a $55 million gain to be recorded in the second quarter of 2017 when the new accounting standards are implemented at the beginning of this year.

So, all in all, a close to $180 million gain on the formation of this REIT. So not only a great opportunity, going forward, but also a monetization opportunity for the Company.

In addition, we settled our nine-year litigation with Lennar, a litigation referred to Bevard. We generated $234 million of net proceeds, and $123 million of income above our basis in that transaction. Again, a nine-year saga but a very favorable conclusion.

We also executed a comprehensive series of capital markets transactions in the third quarter, over $2 billion of total sources and $2 billion of total uses. That transaction that I'll describe that this is a transaction that Brett and the Capital Markets team came up with that really allowed us to optimize our capital structure, take a big step forward, and moving out a great deal of maturities. And, ultimately, as noted at the bottom of the page, got us upgraded by all three rating agencies.

A little meat on the bones with the earnings growth. So net income on the left-hand side of the page, you can see in 2015 we had a loss of $0.62 -- sorry, in 2015/2016, we made $0.55, and year-to-date, 2017, we have $1.61 of income. So, obviously, we've got the slope not only in the right direction, but also we've got a nice pitch to our slope here.

Adjusted income, a metric that we focus on, which basically adds back depreciation as the major item and some other elements of the income statement to reduce noise and get closer to a recurring cash income number, you can see that in fiscal year 2015, we made $0.35, $1.15 in 2016, and $2.16 year-to-date. So, obviously, a very positive result and a very positive trajectory there as well.

The weaknesses here, the things that we're critical of, this is very gain-driven. It has given us a large cash balance and tremendous liquidity, which is a positive as we've monetized these assets. And our goal is to take that liquidity and turn it into rent from our triple net lease business, interest income from our loan business, and dividends from our Safety, Income and Growth business, which, again, is a separate entity.

In addition, I think it's important to note that we are also in the process of a comprehensive review of our G&A. We understand that our G&A needs to be rationalized. Unfortunately, given the mix of our businesses right now, it's a very labor-intensive endeavor with respect to our legacy assets. And more on that in a moment.

The three major themes that position us for the future -- one, a continuation of our comprehensive refinancing strategy. We're going to continue to look opportunistically at debt maturities in 2019 and beyond. There's a debt maturity chart in here that we'll go through that shows $770 million due at 5% paper that's due in 2019. That is very squarely in the crosshairs for us to try and address early. We think that this is a great opportunity. Unfortunately, the market over the last few weeks has gotten very squirrely, so we've been unable to transact.

We want to continue to maintain communication with the rating agencies for further upgrades. We think that there are multiple future upgrades embedded inside iStar. I think that even the upgrade action that we received earlier in the third quarter was really something we were pregnant with for a while.

We want to also raise new capital as needed. I think the receptivity that we had in the capital markets for the $2 billion refinancing gives us great comfort that as we continue to need new capital, not just refinancing capital, that that's there in the market.

Number two, monetization of legacy assets -- we still have $1.8 billion of assets, what we'll call legacy, which is really pre-crisis assets. Some loans that we've taken back when REO, and we continued to transition those properties to be sale-ready.

Also, the third is to expand our investment activity. Really focused on the finance net leasing ground lease businesses, and we think with this lower cost of capital that we've really widened the playing field.

So theme 1, continue our comprehensive refinancing strategy. Or, just quickly, a highlight of what we just did. On the left-hand side of the page from a uses standpoint, a very -- "comprehensive" is the right word here -- $473 million of term loan were effectively repaid and/or amended, however you want to look at it. $1.15 billion of notes due in 2017 and 2018, so all of our maturities for the next 21 months were repaid. We also redeemed $240 million of preferreds at close to an 8% coupon. And we also repurchased some common stock in association with a convert that we did.

And so over on the right-hand side of the page, that's the amendment. We took 75 basis points off our term loan. We've done that twice so far. We've taken, all in all, over 150 basis points off of our term loan. We believe there's probably another opportunity in the near term to take more off of it.

We also issued two new pieces of unsecured debt, $400 million due in 2020, $400 million due in 2022. Their receptivity in the market was tremendous. We were very healthily over-subscribed. We had over 100 investors indicating interest in our paper. And, for us, this is a great momentum, because that was not the case two years ago.

And then we also issued some convertible notes as well as used some of our cash, about $471 million, to de-lever the Company. Again, we have tremendous liquidity at the Company, and so we took the opportunity there because we have confidence that to the extent we need that money again for new investment opportunity that they'll be there in the capital markets.

So at the bottom of the page, what did this really do? No maturities for 21 months; we extended our weighted average maturity by a year and a half; we reduced our annual expenses, both interest expense and preferred dividends by $0.55 a share; and we lowered our cost of capital by 35 basis points; and at the bottom of the page we upsized our revolver from $250 million to $325 million, and we have a goal of increasing that to $400 million by the end of 2018. So I think that we've made some great strides on that front.

Rating agency updates -- you can see in the three agencies, S&P, Moody's and Fitch from a prior to the current. Everybody upgraded us. I would say that the target for us is very much to get Moody's to get us up into the same BB range as we are with the other agencies. We think, again, that even before this capital markets transaction that we were pregnant with an upgrade, and so we think we've got additional arguments with the agencies for further upgrade. I think they are also looking for us to demonstrate that this wasn't just an anomaly with respect to our strategy with respect to the capital structure monetizing assets. And I think that as time goes on, the argument will get louder and louder in their ears, and I believe we'll be successful.

Corporate debt maturity profile, as you can see, that $770 million is obviously right, it's staring us in the face in just under two years. Again, we have great confidence that we'd be able to do something in a more manageable sense within the last six to 12 months before that piece of paper matures. Again, we're looking to do something opportunistically if the opportunity presents itself.

Obviously, that piece of paper has a 5% coupon and, considering that it's two-year paper, we obviously know we could replace that paper with a much lower coupon. I think our goal would be to actually take -- add some duration to that as well. And we think we can save on coupon and add duration.

Theme number two, monetizing legacy assets. This is just a chart using our balance sheet numbers, and it really doesn't tell the whole story. But we have, since 2013, we have cut in half our legacy assets. I would say two things -- this doesn't show a great deal of -- it doesn't show another, probably, $1.5 billion to $2 billion of activity that has occurred intra-quarter. So we've really taken this book from close to $5 billion, $6 billion down to about $1.7 billion. And that $1.7 billion, if you look, the land number is $933 million. We've actually invested $500 million in our land book and sold $500 million of land since 2013.

So, truly, that number would be about $1.2 billion. So we've taken it down. We've had tremendous success there. The investment that we've put into the land book, we believe will lead to some very near-term monetizations as we discussed on our earnings call.

And then the last slide, before I turn it to Q&A, is really what we're doing, the third team investing in expanding our investment opportunities. Real estate finance, it is definitely a competitive space, but we have great relationships. It's what this company was founded on when we came out of Starwood Capital. Net lease, again something that we were at the forefront of, really, the modern net lease movement when we bought TriNet back in the late '90s.

We currently have a portfolio of net lease and also a joint venture with the government of Singapore to invest in net lease. That relationship is great. We love the government of Singapore. I would tell you honestly that we would love to have more opportunity to invest directly on balance sheet now that we're no longer capital-constrained as the crisis gets further and further in the rearview mirror.

New item -- Safety, Income and Growth. Again, this is a publicly traded entity. We IPO'd this business. It's $5 million of assets, and it focuses specifically on ground leases.

And then, lastly, our search for more non-commodity businesses, more white space opportunities continues, and we believe that there will be great opportunity, going forward. We're researching two or three opportunities right now that we're very optimistic will develop into businesses.

So, with that, I will turn it over to the group for questions. I think we have over 10 minutes for questions. So if you guys don't raise your hands, I'm going to keep talking on my own.

James Posner: Let's start more on a macro level. So as the Senate heads to a vote on tax reform in the next couple of days, could you comment on just any impact you think reform may have on your business strategy, going forward? Or maybe some of the internal topics conversations you guys are having with your team? You know, what are your tenants thinking? Counter-party seeing as well?

Geoffrey Jervis: Look, our sense is that corporate tax reform, which is really what this is, is great for the economy for capital formation, for increased business activity specifically here in the States bringing back, repatriating profits, allowing us to continue to invest, really, something that hasn't happened in this country in a while.

And so when you look at these businesses on the screen, all of those benefit from higher degrees of activity. The more active the real estate market is, the more real estate finance opportunities we'll have. The more active the market is, the more net lease opportunities; the more ground lease opportunities; the more that we'll develop and feel comfortable in white space.

So we think that tax reform is very healthy. I think, as a New Yorker, tell you from an individual standpoint, boy, I sure hope I get to continue to deduct my state and local taxes and property taxes, but I think that's a different conversation.

We think this is good. We were at a dinner last night hosted by BofA where Larry Kudlow spoke, who is actually helping write some of the legislation, and he is very confident that this is all going to get passed. He thinks that this will get passed before December 26th, and that date is important because that's when the Alabama election gets certified.

So, how was that? Was that good? The Larry Kudlow part was good, right? A little plug for BofA.

James Posner: Could you just talk about your investment opportunities that you're seeing out there? I know you guys have talked in the past about it's been harder to compete with your level of financing and such, just some evaluation?

Geoffrey Jervis: Sure, absolutely. So let's go down each one of these businesses. So if you look in real estate finance, this business was originally a mezz business, right? Then it developed into a transitional whole loan business. And then, now, if you look at the competitive landscape, it's everything, right? There are a tremendous amount of competitors. TPG's got an entity; Blackstone, my former employee, has an entity; KKR has an entity; Starwood has an entity; Colony NorthStar; and the list goes on.

So it's a much more crowded space. That's fine. We still think there's opportunity there. But the recent upgrades, our recent improvements in our cost of debt does make us a sharper tool in order to execute that business, but that business is one that is definitely more competitive.

Net lease -- we think that there's still very good opportunities in net lease. If you look at the net lease companies in general, and I'm not trying to be disparaging, but I think that the reality is that they have a box. And anytime there's a business where people have a box, that's where we thrive, right? Net lease likes to do something right down the middle of the fairway. If you've got the pension funds investing in it, even the public companies. And so, for us, that's an opportunity where there's a lot of area around the fringe.

We just did a net lease deal with a A-rated company in Baltimore, right? A-rated, and our IRRs on that will be double-digit IRRs we put this into the government of Singapore venture. And the reason we were able to do it was that there were just some -- you had to buy the land, you had to help build the building, there was a period of transition. It had enough hair on it that it sort of kicked it out of all the boxes. Yet, at the end of the day, the reality is it was a 15 and likely a 20+ year leased to a single-A entity that corporate headquarters where the vast majority of its business in the United States was within a three-mile radius, right?

So all the right conclusions, it's just there was a lot of noise to get there. And so that's where our opportunities lie. The ground lease business -- fair. We had a cost of capital -- this is very, very low-risk, low current return-business from a cash standpoint. So we needed to form a special entity, the public company, in order to capitalize that business. You're right, our cost of capital wasn't appropriate for that.

However, owning the equity, which we believe has 20-plus percent return profile, as we prove out this thesis and this theory, this is the first public company ever to dedicate itself to ground leases. We think that it's going to be a great opportunity. We own 35% of this entity, and we have $150 million invested in it -- we're close to $150 million invested in it. So that will be a great opportunity.

And then white space, we think that -- we weren't really interested ever in competing with the banks and making loans that anybody else would make. And so I think the white space is really, sort of, an outsized return opportunity, in general. And so we think that that allows our capital structure, even in the past, to give us some opportunity. But I think as we've continued to tighten up our spreads on the debt side, our equity, I think, will start to work here as we continue to make progress. I think that we'll have more than an appropriate cost of capital. But it's fair. I think that was not the statement that I would have made to you a year ago.

James Posner: Shifting to the balance sheet. I know you have no real significant maturities for the next 20, 21 months, but you do have that $400 million preferreds callable coming relatively soon. Any thoughts on cost of capital there? You know, what you may look to do with those re-fi opportunities?

Geoffrey Jervis: Sure. Is Brett's mic working there? I'll give this one to Brett, if it is.

Brett Asnas: Sure. So, yes, right now, based on the capital markets transactions executed back in September, we did take out $240 million of preferred stock. What's left right now is about $500 million. $200 million is convertible preferred as a strike of $12.79. Those are callable in mid-March, and the rest of the three other series that we have are -- they're perpetual. So we continue to evaluate our options out in the capital markets. Those coupons are mid-to-high 7. So to the extent we'd find opportunities to -- as Geoff mentioned, get duration and lower our cost of funds we'll continue to evaluate.

Geoffrey Jervis: We want to be careful with the preferreds because we do get some credit with the agencies, and so it's effectively a straight leveraging if we take it out with debt. So, again, why were we not more aggressive in the comprehensive refinancing? I will tell you that we had models where we were taking out $500 million and ended up settling on $240 million. So we have our eyes on that, for sure. It's just, again, we have a goal here. The goal here is not to, in the very short term, maximize net income. The goal here is to get us to a point where we're -- if we're not investment grade, we're BB+ and give our business the best chance of long-term success. And so we'll be prudent, I think, as we look at the preferred, but, trust me, Brett and I would love to take it out if it wasn't for the rating agency concern. And I'm sure Jason would like to take it out as well.

Jason Fooks: I like them.

Geoffrey Jervis: No more questions? Okay. Well, thank you guys very much. A great opportunity to speak to predominantly high-yield investors. This is a group that we have tried to go out and -- this probably isn't a word -- but "redevelop" -- that is a word, actually, redevelop. Redevelop our relationships with the market. You know, we've worked over the last 18 months, Jason and I. I think it's evidenced by, you know, we've continued to increase the size of our IR group. Jason Lee here, who is in the front row, is a new member.

We are very committed to continuing to up the transparency of this business. We are very committed to continuing to engage directly with the market. In 2015 we attended zero conferences, equity or debt. And that wasn't because we weren't invited, we were just in that profile. We have committed ourselves to increasing disclosure, committed ourselves to making this company understandable and committed ourselves to having the market; be able to talk directly with management in order to figure out whether or not this is the type of investment that it wants to make.

And I think that that has borne fruit. If you look at where our credit spreads were 24 months ago, this is a tremendous success story, and we believe that this is really -- I don't want to say the beginning or the tip of the iceberg -- but we believe there's a lot more to come here as we continue to pick, frankly, low-hanging fruit of continuing to monetize assets like the land and the operating portfolios and turn those into cash and, ultimately, that cash into new net lease and loans.

So I think that this is a great opportunity, and I think it's particularly a great opportunity in the debt markets because I think that there's much more good news to come as we just execute, hopefully, a well-articulated business plan.

So thank you, guys, very much.