

## Equity Research

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## Financials

### iStar, Inc.

#### 2Q16 EPS Beat Puts STAR Ahead of Goal of 50% Earnings Growth in FY16; Buyback Program Increased

While iStar Financial (STAR) has continued to take a deliberate approach to deploying cash in new investments, it has become far more aggressive in using it to buy back its stock. The company, which had expressed reluctance to open the share-repurchase spigot at its June 2015 Investor Day, has made buybacks a much more central part of its strategy, with the 2Q16 report it released this morning the latest example.

- STAR reported 2Q16 adjusted earnings per share of \$0.56, significantly beating the consensus estimate of \$0.28 and our estimate of \$0.29, as it exceeded management's goal of a 50% increase in FY16 earnings through the first half of the year. The company also used \$33.7mm to buy back 3.6mm shares, or 5% of its outstanding shares, and management announced an increase in the buyback program to \$50mm. STAR has now reduced its share count by 16.7mm shares, or 19% of shares outstanding, through buybacks during the past 12 months.
- STAR had ample cash to fund those buybacks as its portfolio during 2Q16 generated \$461mm from repayments and sales, and its cash balance and undrawn revolver capacity stood at \$721mm at June 30 ahead of the \$400mm in 3% and 1.5% convertible bond maturities scheduled for November. Management stated that STAR would maintain "larger liquidity balances" ahead of those maturities.
- We are reiterating our Buy recommendation on STAR and \$17 price target** based on our updated net asset value (NAV) analysis (see page 3). We continue to view STAR as significantly undervalued as it trades at just 0.47x our estimate of its net asset value per share of \$23.11 as of June 30. We believe management has outlined a viable path to materially higher earnings that was impeded somewhat by a choppy market during the first part of the year, but that nevertheless remains intact.
- Valuation:** Our \$17 price target is based on 0.75x our estimated net asset value (NAV) as of June 30.

### STAR

**\$10.24**

12 month target

\$17.00

### BUY

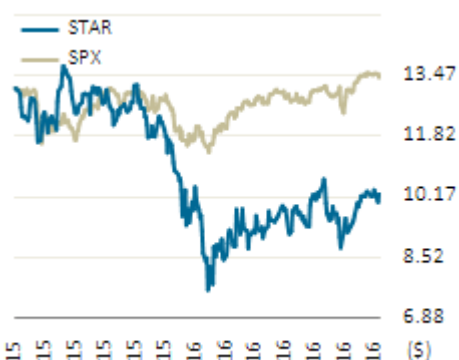
52 week range

\$7.64 - \$13.74

Market Cap (m)

\$1,214

#### Price Performance



Source: IDC

## Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 A	2Q16 A	3Q16 E	4Q16 E	FY16 E	FY17 E
Net Income (Adj.)	(23)	(31)	(6)	8	(52)	(21)	38	15	21	53	84
Diluted EPS (Adj.)	0.10	0.11	0.25	0.34	0.81	0.04	0.52	0.28	0.34	1.28	1.44

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

- ▶ STAR during 2Q16 funded \$118mm in investments, developments and financing commitments, below the \$148mm it funded in 2Q16 but ahead of the \$93mm it funded in 1Q16. Management had targeted \$200mm in new investments per quarter through much of 2015 before opting to slow that pace during 4Q15.
- ▶ Occupancy at STAR's \$1.53bn net lease portfolio increased to 98% in 2Q16, up from 97% in the prior quarter, while its unleveraged yield increased to 8.2% from 7.9% in 1Q16.
- ▶ STAR, which called \$265mm of bonds due in July 2016 during 2Q16, reported a 7.7% sequential decline in net debt to \$3.25bn. As a result, its leverage ratio fell to 2.1x, which is at the lower end of management's target of 2.0-2.5x.

## iStar Net Asset Value (NAV) Analysis

### Net Lease

Net Lease Book Value	\$1,168.2
2016E NOI	\$164.5
Cap rate	7.5%
Assumed Asset value	\$2,193.7
Incremental Value	\$1,025.5

**Value per share** **\$18.51**

### Land and Development

Land & Development Book Value	\$1,120.6
Multiple of Book	1.5X
Assumed value	\$1,680.91
Incremental Value	\$560.3

**Value per share** **\$14.18**

### Real Estate Finance

Real Estate Finance Book Value	\$1,637.4
Multiple of Book	1.0X
Assumed value	\$1,637.39
Incremental Value	\$0.0

**Value per share** **\$13.82**

### Operating Properties

Operating Properties Book Value	\$622.8
Multiple of Book	1.5X
Assumed value	\$934.23
Incremental Value	\$311.4

**Value per share** **\$7.88**

### Strategic Investments

Strategic Investments Book Value	\$57.7
Multiple of Book	1.5X
Assumed value	\$86.61
Incremental Value	\$28.9

**Value per share** **\$0.73**

### Holding Company

Total Debt	-\$3,770.6
Preferred Equity	-\$745.0
Unrestricted Cash	\$721.4

**Value per share** **-\$32.02**

Diluted Shares 118.51

**iStar NAV per share** **\$23.11**

Source: BTIG Estimates and Company Reports.

## Income Statement

IStar Financial - Operating Model (\$ in millions)	Dec-11 2011A	Dec-12 2012A	Dec-13 2013A	Dec-14 2014A	Mar-15 1Q15A	Jun-15 2Q15A	Sep-15 3Q15A	Dec-15 4Q15A	Dec-15 2015A	Mar-16 1Q16A	Jun-16 2Q16A	Sep-16 3Q16E	Dec-16 4Q16E	Dec-16 2016E	Dec-17 2017E
Operating lease income	240.2	162.8	234.6	243.1	59.1	56.2	55.7	58.7	229.7	54.9	54.5	54.8	55.1	219.3	225.8
Interest income	156.8	133.4	108.0	122.7	34.9	33.7	33.6	32.5	134.7	33.2	34.4	34.7	35.1	137.5	142.1
Other income	37.7	47.9	48.2	81.0	10.6	12.8	16.9	9.7	49.9	11.5	10.1	10.6	11.1	43.4	40.7
Land sales revenue	-	-	-	15.2	8.3	6.5	14.3	71.1	100.2	14.9	27.9	34.9	43.6	121.3	143.7
<b>Total revenues</b>	<b>434.7</b>	<b>344.1</b>	<b>390.8</b>	<b>462.0</b>	<b>112.9</b>	<b>109.2</b>	<b>120.5</b>	<b>172.0</b>	<b>514.6</b>	<b>114.6</b>	<b>126.9</b>	<b>135.0</b>	<b>144.9</b>	<b>521.4</b>	<b>552.3</b>
Interest expense	342.4	355.1	266.2	224.5	54.6	55.8	56.9	57.3	224.6	57.0	56.0	55.8	55.5	224.3	216.5
Real estate expense	106.8	151.5	157.4	163.4	39.6	36.4	35.2	35.6	146.8	34.3	35.4	20.9	26.1	116.8	86.2
Land cost of sales	-	-	-	12.8	6.9	5.3	10.7	44.6	67.4	11.6	17.3	17.4	17.6	63.9	65.9
Depreciation and amortization	60.0	68.9	71.3	73.6	18.5	15.5	15.8	15.4	65.2	14.7	14.5	14.5	14.6	58.3	59.2
General and administrative	105.0	80.9	92.1	88.8	20.8	20.6	21.2	18.8	81.3	23.1	19.7	17.7	17.5	78.0	78.3
Provision for (recovery of) loan losses	46.4	81.7	5.5	(1.7)	4.3	19.2	7.5	5.6	36.6	1.5	0.7	0.7	0.7	3.6	2.5
Impairment of assets	17.9	13.8	12.6	34.6	-	1.7	3.9	4.9	10.5	-	3.0	-	-	3.0	-
Other expense	11.1	17.3	8.1	5.8	2.1	0.9	3.3	0.0	6.4	0.7	3.2	-	-	3.9	-
<b>Total costs and expenses</b>	<b>689.6</b>	<b>769.0</b>	<b>613.1</b>	<b>601.8</b>	<b>146.8</b>	<b>155.2</b>	<b>154.4</b>	<b>182.2</b>	<b>638.8</b>	<b>143.0</b>	<b>149.8</b>	<b>127.1</b>	<b>132.1</b>	<b>551.9</b>	<b>508.6</b>
<b>Income (loss) before earnings from equity method investments</b>	<b>(254.9)</b>	<b>(424.9)</b>	<b>(222.4)</b>	<b>(139.8)</b>	<b>(34.0)</b>	<b>(46.1)</b>	<b>(34.0)</b>	<b>(10.2)</b>	<b>(124.2)</b>	<b>(28.3)</b>	<b>(22.9)</b>	<b>7.9</b>	<b>12.8</b>	<b>(30.5)</b>	<b>43.7</b>
Loss on early extinguishment of debt	101.5	(37.8)	(33.2)	(25.4)	(0.2)	(0.0)	(0.1)	(0.0)	(0.3)	(0.1)	(1.5)	-	-	(1.6)	-
Earnings from equity method investments	95.1	103.0	41.5	79.3	6.5	8.8	10.6	6.2	32.2	8.3	39.4	8.7	9.5	65.9	54.3
Loss on transfer on unconsolidated subsidiary	-	-	(7.4)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Income (loss) from continuing operations before taxes</b>	<b>(58.4)</b>	<b>(359.7)</b>	<b>(221.4)</b>	<b>(85.9)</b>	<b>(27.6)</b>	<b>(37.3)</b>	<b>(23.4)</b>	<b>(4.0)</b>	<b>(92.3)</b>	<b>(20.2)</b>	<b>15.1</b>	<b>16.6</b>	<b>22.3</b>	<b>33.9</b>	<b>98.0</b>
Income tax expense (benefit)	4.7	(8.4)	0.7	(3.9)	(5.9)	(0.8)	2.9	(3.8)	(7.6)	0.4	1.2	-	-	1.6	-
<b>Income (loss) from continuing operations</b>	<b>(53.6)</b>	<b>(368.2)</b>	<b>(220.8)</b>	<b>(89.8)</b>	<b>(33.5)</b>	<b>(38.1)</b>	<b>(20.6)</b>	<b>(7.8)</b>	<b>(100.0)</b>	<b>(19.8)</b>	<b>16.3</b>	<b>16.6</b>	<b>22.3</b>	<b>35.5</b>	<b>98.0</b>
Income from discontinued operations	(2.9)	(18.1)	0.6	-	-	-	-	-	-	-	-	-	-	-	-
Gain from discontinued operations	25.1	27.3	22.2	-	-	-	-	-	-	-	-	-	-	-	-
Income from sales of real estate	5.7	63.5	86.7	89.9	21.2	18.4	26.5	27.8	93.8	10.5	43.5	11.0	11.5	76.5	37.0
<b>Net income (loss)</b>	<b>(25.7)</b>	<b>(295.5)</b>	<b>(111.2)</b>	<b>0.2</b>	<b>(12.3)</b>	<b>(19.8)</b>	<b>6.0</b>	<b>20.0</b>	<b>(6.2)</b>	<b>(9.3)</b>	<b>59.8</b>	<b>27.6</b>	<b>33.9</b>	<b>111.9</b>	<b>135.0</b>
Net income (loss) attributable to noncontrolling interest	3.6	1.5	(0.7)	0.7	1.8	0.6	0.7	0.5	3.7	0.9	(8.8)	-	-	(7.9)	-
<b>Net income attributable to STAR</b>	<b>(22.1)</b>	<b>(294.0)</b>	<b>(112.0)</b>	<b>0.9</b>	<b>(10.5)</b>	<b>(19.1)</b>	<b>6.7</b>	<b>20.5</b>	<b>(2.4)</b>	<b>(8.4)</b>	<b>51.0</b>	<b>27.6</b>	<b>33.9</b>	<b>104.1</b>	<b>135.0</b>
Preferred dividends	(42.3)	(42.3)	(49.0)	(51.3)	(12.8)	(12.8)	(12.8)	(12.8)	(51.3)	(12.8)	(12.8)	(12.8)	(12.8)	(51.3)	(51.3)
Net income (loss) attributable to HPU holders	4.3	9.3	5.2	1.6	0.7	1.0	0.1	(0.0)	1.9	-	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
<b>Net income (loss) attributable to common shareholders</b>	<b>(60.1)</b>	<b>(327.1)</b>	<b>(155.8)</b>	<b>(48.8)</b>	<b>(22.6)</b>	<b>(31.0)</b>	<b>(6.1)</b>	<b>7.7</b>	<b>(51.9)</b>	<b>(21.2)</b>	<b>38.1</b>	<b>14.7</b>	<b>21.0</b>	<b>52.7</b>	<b>83.6</b>
<b>EPS Diluted</b>	<b>-\$0.68</b>	<b>-\$3.90</b>	<b>-\$1.83</b>	<b>-\$0.51</b>	<b>-\$0.26</b>	<b>-\$0.36</b>	<b>-\$0.07</b>	<b>\$0.06</b>	<b>-\$0.54</b>	<b>-\$0.27</b>	<b>\$0.32</b>	<b>\$0.13</b>	<b>\$0.18</b>	<b>\$0.49</b>	<b>\$0.74</b>
<b>Adjusted EPS Diluted</b>	<b>-\$1.10</b>	<b>-\$2.31</b>	<b>-\$0.26</b>	<b>\$0.88</b>	<b>\$0.10</b>	<b>\$0.11</b>	<b>\$0.25</b>	<b>\$0.34</b>	<b>\$0.81</b>	<b>\$0.04</b>	<b>\$0.52</b>	<b>\$0.28</b>	<b>\$0.34</b>	<b>\$1.28</b>	<b>\$1.44</b>
Diluted shares outstanding	88.7	83.8	85.1	114.7	97.5	114.5	130.4	127.8	117.5	77.4	118.5	117.0	115.5	107.1	113.0

Source: BTIG Estimates and Company Reports.

## Appendix: Analyst Certification and Other Important Disclosures

### Analyst Certification

I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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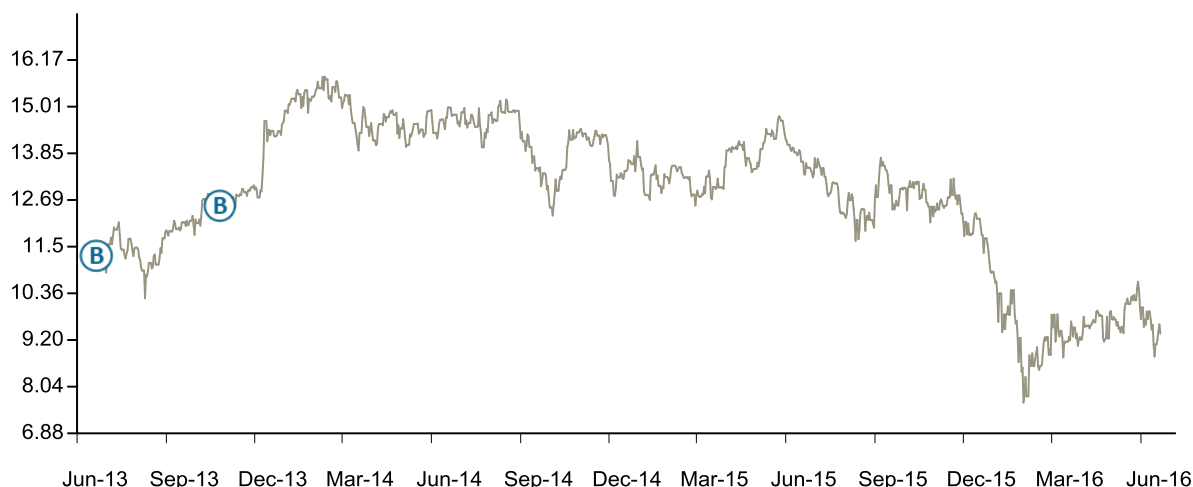
### Company Valuation and Risk Disclosures

#### iStar, Inc. (STAR, Buy, \$17 PT)

**Valuation:** Our \$17 price target is based on 0.75x our estimated net asset value (NAV) as of June 30.

**Risks:** The primary risks to achieving our price target include vulnerability to weakness in the commercial and residential real estate markets, a meaningful percentage of loans that are nonperforming, a cost of capital higher than that of many of its peers, and vulnerability to significantly higher interest rates.

**iStar, Inc. (STAR)**  
(\\$)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
11-Sep-12	7.61	11	Mark Palmer	Buy
18-Mar-13	10.89	13	Mark Palmer	Buy
04-Nov-13	12.53	17	Mark Palmer	Buy

## Company-Specific Regulatory Disclosures

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Additional Information Available Upon Request

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