



FORESTAR

Information on Execution of Key Initiatives
and Second Quarter 2016 Financial
Results

July 29, 2016

Notice to Investors



This presentation contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements are typically identified by words or phrases such as “will,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target,” “forecast,” and other words and terms of similar meaning. These statements reflect management’s current views with respect to future events and are subject to risk and uncertainties. We note that a variety of factors and uncertainties could cause our actual results to differ significantly from the results discussed in the forward-looking statements, including but not limited to: general economic, market, or business conditions; market demand for our non-core assets; changes in commodity prices; opportunities (or lack thereof) that may be presented to us and that we may pursue; fluctuations in costs and expenses including development costs; demand for new housing, including impacts from mortgage credit rates or availability; lengthy and uncertain entitlement processes; cyclical nature of our businesses; accuracy of accounting assumptions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond our control. Except as required by law, we expressly disclaim any obligation to publicly revise any forward-looking statements contained in this presentation to reflect the occurrence of events after the date of this presentation.

This presentation includes Non-GAAP financial measures. The required reconciliation to GAAP financial measures can be found as an exhibit to this presentation and on our website at www.forestargroup.com.

Significant Progress at Forestar



Key Initiatives - Update

Reducing Costs Across the Entire Organization

- Identified additional \$6 million in annual cost reductions
- Revised target SG&A is \$33 million annual run rate
- Continue to review cost structure for savings

Reviewing Entire Portfolio of Assets

- Marketing timberland / undeveloped land
- Opportunistic exit of remaining multifamily assets
- Exiting 5 non-core community development assets

Reviewing Capital Structure

- Reduced outstanding debt \$260.9 million in second quarter 2016
- Reduced annual interest expense by approximately \$19.7 million

Non-Core Asset Sales - Update

Completed *(\$ in millions)*

Pre-Tax Net Proceeds

In Process

Radisson Hotel & Suites

\$128.8

Timberland / Undeveloped Land

Oil & Gas Working Interest Assets

\$80.6

Multifamily (3 venture projects, 2 sites)

Multifamily (3 projects, 2 sites)

\$156.5

5 Community Development Projects

Pre-Tax Net Proceeds to Date*

\$365.9

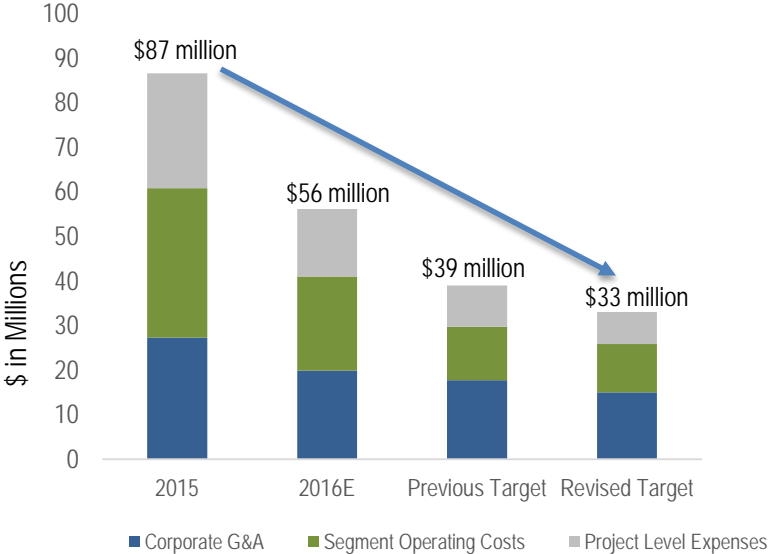
Use of Proceeds – Debt Reduction*

\$349.3

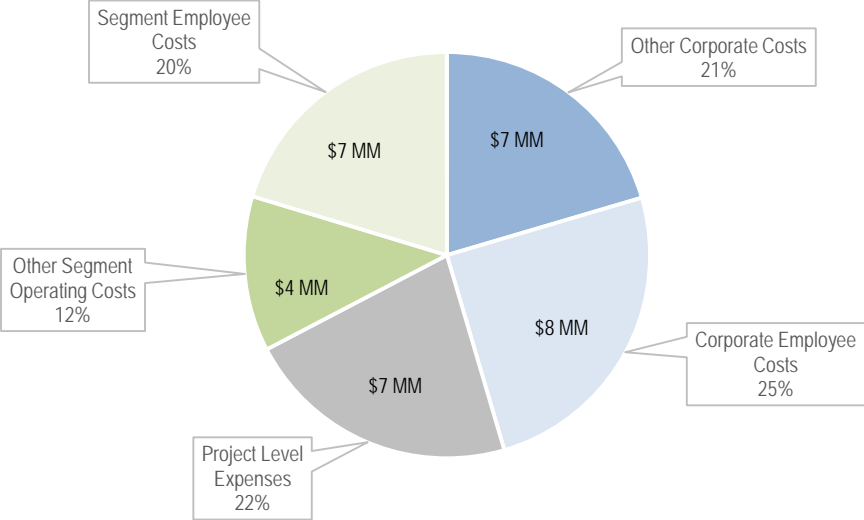
*Proceeds generated and debt reductions since end of third quarter 2015. Use of proceeds includes \$30.4 million in premium and fees related to completion of the cash tender offer of 8.50% Senior Secured Notes due 2022.

Executing Cost Reductions

Annual SG&A Costs



Revised Target SG&A Cost - \$33 million



Identified additional \$6 million in cost reductions since last update

Second Quarter 2016 Results

<i>(\$ in Millions, except per share data)</i>	Q2 2016	Q2 2015
Revenues *	\$48.0	\$43.6
Net Income – Continuing Operations *	\$11.7	\$2.5
Net Income Per Diluted Share – Continuing Operations *	\$0.28	\$0.06
Net Income	\$9.6	(\$34.5)
Net Income Per Diluted Share	\$0.23	(\$0.81)
Segment Earnings (Loss) *		
Real Estate **	\$73.3	\$15.5
Mineral Resources	0.9	1.8
Other	<u>(0.2)</u>	<u>(0.0)</u>
Total Segment Earnings (Loss)	\$74.0	\$17.3

* Excludes oil & gas working interests which are now reported as discontinued operations

** Q2 2016 real estate results include gains of \$107.7 million principally related to non-core asset sales, partially offset by non-cash impairments of \$48.8 million. Q2 2015 real estate results include \$1.2 million gain from the reduction of a surety bond issued in connection with the Cibola Canyons Special Improvement District bond offering in 2014.

Note: Q2 2016 weighted average diluted shares outstanding were 42.4 million compared with 42.3 million in Q2 2015

Real Estate Segment - Earnings Reconciliation Q2 2016

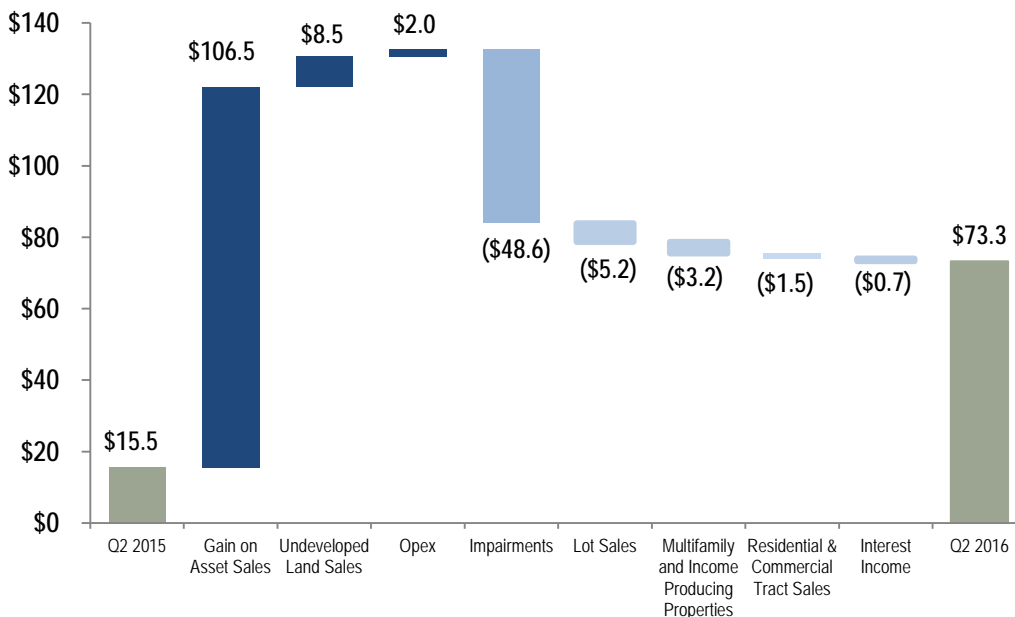


Q2 2016 Sales Activity / Highlights

Segment Earnings Reconciliation

Q2 2015 vs. Q2 2016

(\$ in millions)



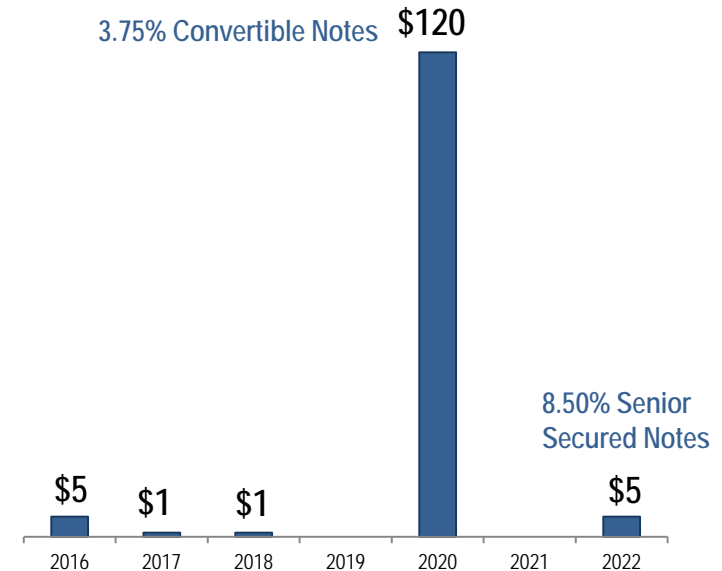
- Sold Radisson Hotel & Suites for \$130.0 million, generating \$95.3 million gain
- Sold Eleven multifamily community for \$60.2 million, generating \$9.1 million gain
- Sold Dillon multifamily site for \$26.0 million, generating \$1.2 million gain
- Sold 5,425 acres of undeveloped land, generating \$10.6 million in earnings
 - Average price \$2,360 per acre
- Incurred \$48.8 million in non-cash impairments
- Residential lot sales – 489 lots
 - > \$66,600 average price per lot
 - \$23,900 gross profit per lot
- Commercial tract sales – 3 acres
 - > \$376,000 per acre
- Residential tract sales – 10 acres
 - > \$35,500 per acre

Note: Includes ventures

Transforming Capital Structure

(\$ in Millions)	Q2 2016	YE 2015	Q3 2015
8.5% Senior Secured Notes	\$5	\$230	\$250
Convertible Notes ¹	104	107	106
Tangible Equity Unit Notes ²	5	9	11
Project Financing ³	<u>2</u>	<u>44</u>	<u>68</u>
Total Debt	\$116	\$390	\$435
Less: Unamortized Deferred Financing Fees	<u>(2)</u>	<u>(8)</u>	<u>(9)</u>
Debt, Net	\$114	\$382	\$426
Shareholder's Equity	\$507	\$504	\$507
Total Debt / Total Capital	18%	43%	46%
Available Liquidity ⁴	>\$319	>\$373	>\$373

Q2 2016 Debt Maturity Schedule



Q2 Highlights:

- \$107 million in cash and cash equivalents at second quarter-end 2016
- Retired \$216.6 million (98% outstanding) of 8.50% Senior Secured Notes due 2022
- Retired \$5.0 million of 3.75% Convertible Senior Notes due 2020
- Repaid \$15.4 million and \$23.9 million in project level debt for Radisson Hotel & Suites and Eleven
- Reduced future annual interest expense by approximately \$19.7 million

¹ Fair value of convertible notes as of Q2 2016 is \$104 million and YE 2015 is \$107 million; principal amount of notes is \$120 million as of Q2 2016 is and \$125 million at year-end 2015 and which is due and payable at maturity in 2020

² Represents amortizing note portion of \$150 million tangible equity unit issuance

³ Consolidated project level debt principally non-recourse to Forestar

⁴ Includes unrestricted cash plus available revolver



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Appendix

Non-Core Community Development Projects



Community	Location	Interest Owned*	Residential Lots Remaining	Commercial Acres Remaining
Buffalo Highlands	Denver	100%	164	---
Stonebraker	Denver	100%	603	---
The Colony	Austin	100%	1,460	5
Caracol	TX Coast	75%	61	14
Tortuga Dunes	TX Coast	75%	134	4
			2,422	23

- Exiting five non-core communities
- Changed business plans and incurred \$45.2 million in non-cash impairments
- Reduces annual carry costs by \$1.7 million, once sold
- Sales are expected to trigger tax losses to offset tax gains from other non-core asset sales

* Interest owned reflects our total interest in the project, whether owned directly or indirectly, which may be different than our economic interest in the project.

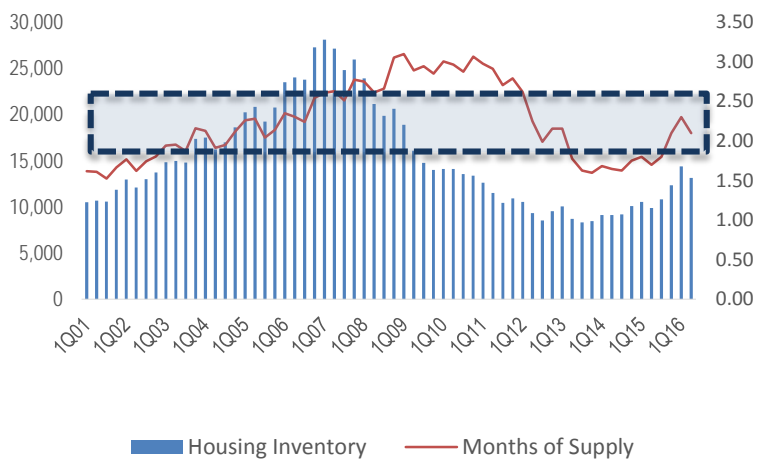
Stable Market Demand in Most of our Key Markets



Job Growth vs. National Average

May 2016 vs. May 2015	
Austin	3.7%
Dallas / Fort Worth	3.6%
Houston	0.3%
San Antonio	2.9%
Atlanta	3.0%
Charlotte	2.0%
Nashville	2.5%
U.S. Average	1.7%

Texas Finished Vacant Home Inventories Within Equilibrium*



*Source: Metrostudy

- Job growth in our key markets holding well above U.S. average (excluding Houston)
- Texas finished vacant home inventory remains within equilibrium levels

We continue to target 2016 residential lot sales of 1,600 – 1,800 lots
Q2 2016 - 1,683 lots under option contract

Real Estate Segment KPI's

	Q2 2016*	Q2 2015
Residential Lot Sales		
Lots Sold	489	519
Average Price / Lot	\$66,600	\$73,400
Gross Profit / Lot	\$23,900	\$34,400
Commercial Tract Sales		
Acres Sold	3	21
Average Price / Acre	\$376,000	\$82,700
Land Sales		
Acres Sold	5,425	1,248
Average Price / Acre	\$2,360	\$3,000
Segment Revenues (\$ in Millions)	\$46.4	\$39.4
Segment Earnings (\$ in Millions)	\$73.3	\$15.5

* Q2 2016 real estate segment results include \$95.3 million gain associated with sale of Radisson Hotel & Suites, \$9.1 million gain associated with sale of Eleven multifamily community and \$1.2 million gain associated with sale of Dillon multifamily site.



Mineral Resources Segment KPI's

	Q2 2016	Q2 2015
Fee Leasing Activity		
Net Acres Leased	984	800
Avg. Bonus / Acre	\$257	\$254
Minerals		
Oil Produced (Barrels) *	18,900	33,800
Average Price / Barrel	\$32.15	\$47.47
Natural Gas Produced (MMCF) **	195.0	242.7
Average Price / MCF **	\$1.74	\$2.57
Total BOE	51,300	74,300
Average Price / BOE	\$18.42	\$30.02
Segment Revenues (\$ in millions)	\$1.3	\$2.4
Segment Income (\$ in millions)	\$0.9	\$1.8

* Includes NGL's

** Includes our share of venture production: 36 MMcf in Q2 2016, 40 MMcf in Q2 2015

Note: Excludes oil and gas working interest assets now reported as discontinued operations



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