Corporate Participants

Spyros Capralos
Star Bulk – President & CEO

Simos Spyrou
Star Bulk – CFO

Conference Call Participants

Ronald Berkman – *BC Capital*

Tamas Eisenberger – *BlueShore Capital*

Presentation

Operator
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk conference call on the second quarter 2013 financial results. We have with us Mr Spyros Capralos, President and Chief Executive Officer; and Mr Simos Spyrou, Chief Financial Officer of the company. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session (operator instructions). I must advise you that today's conference is being recorded today, Tuesday, August 27th 2013. And we now pass the floor to one of your speakers today, Mr Spyros Capralos. Please go ahead, sir.

Spyros Capralos
Thank you, operator. Good morning and good afternoon to everybody listening. My name is Spyros Capralos, President and Chief Executive Officer of Star Bulk Carriers, and I would like to welcome you to the Star Bulk Carriers Second Quarter and First Half 2013 Financial Results conference call. Along with me today to discuss our financial results is our CFO, Mr Simos Spyrou.

Before we begin I kindly ask you to take a moment to read the Safe Harbour statement in slide number two of our presentation. While you read our Safe Harbour statement I would like to remind you that last month we completed a previously announced 75 million equity rights offering. We are pleased that due to the level of participation of our shareholders backstopped providers were allocated the minimum amounts and the size of the equity raised was increased to approximately 80.1 million.

The majority of these funds are being used to finance our recently announced agreements to construct two 180,000 deadweight tonne Capesizes and two 60,000 deadweight tonne Ultramax fuel-efficient new buildings. We will touch upon this issue in more detail later in the presentation. However, I would like to share my belief with these acquisitions insure Star Bulk's position among the healthiest and most promising companies in the dry bulk shipping sector. Let us now turn to slide number three of the presentation for a preview of our second quarter 2013 financial highlights in comparison to last year's.

In the three months ended June 30th 2013, net revenues amounted to 17.1 million, representing a 6% reduction versus the same period of 2012. Our revenues were mainly affected by the low freight rate environment and the lower average number of vessels due to the sale of the Star Sigma. Net revenues represent our total revenues adjusted for noncash items less voyage expenses. The reason we refer to our net revenues is because this figure nets out any difference in the number of [unclear] charters we perform in each period and therefore is directly comparable to other periods. General and administrative expenses were 2.6 million, Q2 2013; versus 2.1 million in Q2 2012. However, this quarter's number includes approximately half a million of stock based compensation. As a reminder, stock based compensation last year impacted our first quarter results and amounted to 1.3 million.

If we exclude the noncash stock based compensation, core G&A expenses in Q2 2013 were reduced by 3% versus the same quarter last year, despite the fact that the headcount increased by more than 10% during this period to cater for the needs of our continuously expanding ship management business. We will touch upon this issue in more detail later in the presentation.

Our second quarter 2013 operating income stood at 2.7 million compared to 2.7 million of operating loss during the second quarter 2012. Overall, during the second quarter of 2013, the company had a net income of $800,000 compared to a net loss of 4.6 million in Q2 2012. Excluding noncash items, our adjusted EBITDA for the second quarter 2013 was 8.4 million, coinciding with last year's. Adjusted net income for the quarter amounted to 2.6 million compared to an adjusted net loss of 2.9 million in Q2 2012.

Our time charter equivalent during this quarter was $14,273 per day compared to $14,628 last year. It is worth mentioning that our cash flow breakeven TCE for the second quarter 2013 stands at $7,400 per day, if we include expenses and interest payments; and at $12,900 per day, if we include expenses plus interest payment plus principal repayments to the banks. We are pleased that both numbers are well below industry average.

Our average daily operating expenses were $5,664 per vessel compared to 5,242 during the same period last year. The adjusted net income of 2.6 million represents an adjusted EPS of 48c per share, basic and diluted. Please turn to slide four of the presentation for a preview of our first half 2013 financial highlights.

In the six months ended June 30th 2013 net revenues amounted to 34.5 million, representing a 12% reduction versus the same period of 2012. Our revenues were mainly affected by the low freight rate environment and the lower average number of vessels due to the sales of the Star Sigma and the Star Epsilon. G&A expenses were 4.7 million in the first half of 2013 versus 5.3 million in the first half of 2012. However, both numbers include the noncash component of stock based compensation.

Our first half 2013 operating income stood at 5.7 million compared to half a million of operating loss during the first half of 2012. Overall, during the first half of 2013, the company had a net income of $2 million compared to a net loss of 4.5 million in the first half of 2012. Excluding noncash items, adjusted EBITDA for the first half 2013 was 17.1 million compared to 26.4 during the same period of 2012. Adjusted net income for the first half amounted to 5.4 million compared to an adjusted net income of 3.2 million in the first half of 2012. I would like to remind you that last year's adjusted net income includes a 6.5 million gain from the early time charter termination related to Star Sigma, which is a nonrecurring asset.

Our time charter equivalent during the six month period was $14,301 per day compared to $15,724 last year, a reduction of 9%. Our average daily operating expenses were $5,596 per vessel compared to $5,416 during the same period last year. The adjusted net income of $5.4 million represents adjusted earnings per share of 99c, basic and diluted per share.

Please turn now to slide five for a brief overview of our recent key commercial developments. We recently announced that we have reached agreements with two high quality shipyards for the construction of two 180,000 Capesizes and two 60,000 deadweight Ultramaxes. For the two Capesizes we have signed ship building agreements with SWS in China and we expect the vessels to be delivered in October 2015 and January 2016. The instalment payment scheduled is rather unusual, 30% upon signing and 70% upon delivery. In return for the heavy down payment, we have received a 600,000 discount on each vessel. We have already deposited the 30% down payments for both Capes and we have no remaining capital expenditure commitments for these vessels until their deliveries.

For the two Ultramax vessels, the company has entered into letters of intent with a major Japanese shipyard, which are subject to negotiation and execution of definitive documentation. The vessels, both vessels, are expected to be delivered within 2015. The instalment payment schedule is 10/10/10/70, which means that we will pay 10% upon signing of the shipbuilding contract; 10% on keel laying; 10% upon launching; and 70% upon delivery of each vessel.

Therefore we expect that our total capital expenditure commitments for the next two years, for both vessels, will amount to 5.6 million in 2013 and another$5.6 million in 2014. We aim to seek bank financing for all four vessels and we are confident that we can get approximately 60% financing, which is a level we feel comfortable with. Please turn to slide number six.

Here we will try to give you some insights on the factors that were considered before reaching the agreements for the four new buildings. First of all is the quality of the shipyards; both yards are very experienced and well known for the quality of the vessels they build. This is a very important factor, because low quality vessels usually require higher maintenance and operating cost, which makes them less economical to operate and loss making in a low freight environment. The low quality vessel even though it would usually be bought at a lower price than a high quality one, may prove to be much less profitable in the long term, and its sale price would be affected accordingly.

Secondly, the designs of these vessels are new and improved compared to most existing vessels. These vessels have a higher carrying capacity than the [unclear] vessel used by the Baltic Exchange. This additional capacity can be translated in higher earning capacity and greater attractiveness from the charterers' perspective. A series of other operational efficiencies make them also more economical to operate. Timing wise we believe that we are at the low point in the shipping cycle, where carefully selected acquisitions can prove to be very profitable. As you can see in the graph, new building prices have dropped very close to the historical lows as adjusted for inflation, limiting the downside significantly in our view.

Lastly, and perhaps more importantly, the vessels are fuel efficient. We estimate that compared to conventional vessels, our new building Capes will consume eight times less fuel while slow steaming, while fuel savings could double at higher speeds. Assuming an average of 250 steaming days per year and $600 per tonne of fuel, this vessel will be saving approximately $1.2 million while slow steaming. Under similar assumptions, our new building Ultramaxes are expected to have fuel savings of approximately $500,000 per year.

Please turn now to slide seven to discuss our balance sheet profile. As of today, our total debt stands at 194.8 million. Our current cash position stands at 82.3 million and our net debt stands at 112 million. Following the agreements with our lenders in early 2013, and the principal repayment related to sale of the Star Sigma, our remaining principal repayment obligations for 2013 stand only at 4.5 million. As you can see on the graph we have made, so far this year, principal repayments of 29 million, while our scheduled principal repayments for 2014 and ’15 stand at 18 million and 28 million respectively.

Please turn to slide eight for an overview of our fleet employment and our charter counterparts. Currently, we have secured 86% of our operating days in 2013 and 21% for 2014. Specifically, our time charter coverage in the Capesize segment is 90% for 2013 and 44% for 2014, as we have just fixed the Star Aurora for 11 to 13 months at the rate of $17,000 per day with a major mining company. Our Supramax coverage stands at 83% for 2013. Our current strategy mostly focuses on short term time charter employment, so as to maintain our upside potential once the market recovers. Overall, our total contracted revenue amounts to approximately 42.3 million, while it's worth noting that we no longer have legacy charters from the high levels of 2008. Please turn to slide number nine.

Year after year we continue our efforts to improve our operational performance. Our cost cutting efforts in our operating and G&A expenses have played an important role in our financial and operating performance in this challenging market environment. On the left graph, you can see the weighted average size of our vessels versus our average daily operating expenses. Since 2009, our daily operating expenses have been reduced from $6,903 to $5,596 in the first half of 2013, a 19% accumulative decrease. At the same time, our average vessel size increased by 12% from 92,000 to 103,000 deadweight tonnes. Kindly note: that this year's increase in our daily operating expenses has to do primarily with the new tonnage taxation, which did not exist last year.

On the right graph you can see the total carrying capacity of our managed fleet versus our G&A expenses, which exclude one off severance payments and stock based compensation. These G&A expenses are, of course, reflective of the in house vessel management capabilities we have developed since our inception. Moving forward, we remain focused on further optimising operating costs and implementing our quality objectives to the benefit of both our own fleet and our managed fleet and, of course, our shareholders.

If you turn to slide ten we have a table showing the third party vessels that we currently manage. We have been growing our management capacity and have been expanding our third party vessels management business so far this year. We currently have six bulkers under full management and seven product tankers under partial management. We have agreed to get another three bulks under full management, within the next three months. We estimate that until 2015, we will have at least 35 third party vessels under management, further growing our revenues from these activities.

And now I'll ask Mr Simos Spyrou, our CFO, to discuss on the financials and give you an update on the market developments. Please go ahead, Simos.

Simos Spyrou

Thank you, Spyros. Please turn now to slide 12 for a brief review of our recent key financial developments. During July we completed the fully backstopped equity rights offering we had announced earlier in the quarter. The company issued 15,338,861 new shares and raised 80.1 million of gross proceeds.

I believe that through their participation our shareholders have validated their confidence in the company's prospects and strategy. The majority of the funds raised are being used to finance the vessels Spyros described earlier. Currently, Star Bulk has 20,751,671 outstanding shares. According to the latest 13G filing, our two major backstoppers, Monarch Alternative Capital and Oaktree Capital Management, each own 3,865,888 shares or 18.6% of the company respectively. Standstill provisions have been inserted in the agreement with two new investors who among others backstopped our equity rights offering. Additionally, pursuant to the terms of this agreement, Monarch and Oaktree each have the right to appoint one director to the Board of Directors of our company. Monarch has already exercised their right by appointing Mr Roger Smith, while Oaktree has not yet exercised their right.

Lastly, during the second quarter of 2013 and while the interest rate forward curve was near historically low levels, we entered into a swap agreement in order to partially hedge our forward interest rate exposure. Specifically, the swap agreement concerns one of our credit facilities for the period starting from the second half of 2014 up to the second half of 2018, and for a principal amount of 55.5 million, which represents approximately 30% of our current outstanding debt. The interest rate for this facility was fixed at approximately 1.7% and the mark to [market] of July 31st stood at a positive $450,000.

Let us now move to slide 13 for an overview of our balance sheet as of June 30th 2013. Our total cash balance stood at 29.6 million, while other current assets were at 10.4 million. Our fixed assets amounted to 275.6 million, while fair value of our bulk market acquired time charter stood at $11.2 million and other noncurrent assets at $1.8 million. Summing up the above, total assets amounted to 328.6 million. Total debt stood at 198.5 million, other liabilities were $10.8 million and stockholder equity was at 119.3 million.

If we can now turn to slide 14 to discuss our second quarter 2013 income statement, I would like to point out that our results include noncash items, which are depicted in the middle column, while the adjusted figures on the right exclude them. For the second quarter of 2013, noncash adjusted revenues amounted to$19 million compared to 23.4 million in the same period last year. In particular, noncash items include 1.6 million related to the amortisation of our bulk market acquired time charters, for the vessels Star Big and Star Mega, which are long term chartered to the world known mining giant.

Voyage expenses amounted to 1.9 million for the second quarter of 2013 from 5.3 million in the second quarter of 2012. Adjusted net revenues, net of voyage expenses, amounted to 16.8 million this quarter, compared to 18 million in the same period last year, a reduction of 7%. I believe that this number is an accurate measure of our actual comparable revenue, as it nets out the effect of the voyage charters on the revenue and voyage expenses lines.

This 7% reduction was mainly due to our smaller average number of vessels during the quarter and our higher spot market exposure under a low freight rate environment. Vessel operating expenses stood at 6.8 million versus 6.7 million last year. Dry docking expenses amounted to approximately $300,000 versus 930,000 last year. However, dry docking expenses are generally not comparable as they mainly relate to the number of vessels dry docked each period, or to advance payments of forthcoming dry docks. In the third and fourth quarters, we will have in total four vessels to undergo dry docking surveys.

G&A expenses, adjusted for noncash stock-based compensation totalled 2 million during the second quarter 2013 compared to 2.1 million during the second quarter 2012, despite the increase in the average number of employees by 10% to support our current and upcoming managed fleet growth. Excluding noncash items, daily G&A expenses per owned vessels, netted for management fee revenues, were reduced by 6% in the second quarter 2013 versus the same quarter last year. Other operational loss and other operational gain represent mainly commercial claims that the company had initiated in the past and are nonrecurring items. Nonetheless the company had a cost inflow of $400,000. Overall the company's adjusted net income amounted to 2.6 million, compared to an adjusted net loss of 2.9 million in the second quarter of 2012.

If we can now turn to slide 15 to discuss our first half 2013 income statement… For the first half of 2013, noncash adjusted revenues amounted to 39 [audio] to 53 million in the same period last year. In particular noncash items include 3.2 million [related again to amortisation] of above market acquired time charters for the vessels Star Big and Star Mega. Voyage expenses amounted to 4.5 million for the first half of 2013 from 14 million in the first half of 2012. Adjusted net revenues net of voyage expenses amounted to 34 million this first half of the year compared to 38.8 million during the same period last year, a reduction of 12%. This reduction was mainly due to our smaller average number of vessels during this period and our higher spot market exposure under a low freight rate environment. The vessel operating expenses stood at 13.7 million versus 14.2 million last year. Dry docking expenses amounted to approximately 572,000 versus 1 million last year. G&A expenses adjusted for noncash stock based compensation totalled 4.1 million during the first half of 2013 compared to 3.9 million during the first half of 2012 due to an increase in our number of employees to support our current and upcoming needs for managed vessels. Other operational loss and other operational gain represent mainly the commercial claims that the company had initiated in the past and the cash inflow from these claims was 1.1 million.

Overall the company's adjusted net income amounted to 5.4 million compared to an adjusted net income of 3.2 million last year. I would like to remind you that this first half of 2012 adjusted net income includes a 6.5 million gain from the early time termination related to the Star Sigma, which was of course a nonrecurring item.

I would like now to give you a brief update on the dry bulk markets and—therefore please turn to slide 17. After four years of consecutive record high deliveries, 2013 will be a year of fairly balanced fleet growth. Just to put these record deliveries into perspective, the dry bulk fleet has grown from 418 million deadweight tonnes in the beginning of 2009 to 706 million deadweight tonnes in the beginning of this month. This represents a massive cumulative net growth of around 69%. Also keep in mind that these numbers take into account 87 million deadweight tonnes of scrapping during this period. The fact that deliveries have dropped to lower more sustainable levels this last eight month is in our view positive and based on the current order book, we expect delivery to slow down further going forward. Another encouraging element in the supply side is the reduction of the average speed of the fleet or slow steaming which effectively reduces the available fleet carrying capacity. According to [unclear] the average speed of a dry bulk fleet stood at 11.1 knots in 2012, compared to 14 knots in 2009. On the other hand dry bulk demand is very much dependent on global economic growth which is still trying to recover. As you can see on the right graph, China, India, US and the Eurozone countries have witnessed a significant slowdown in terms of their GDP growth over the past few years. Even though we believe that dry bulk demand growth will by far outperform GDP growth going forward, the global slowdown definitely prevents tonne mile demand from unleashing its potential. On the positive side, GDP growth seems to be bottoming out in most parts of the world. Nonetheless it remains to be seen whether this will prove to be the turning point. Overall we believe that the global economy will recover in the coming quarters which will help global trade growth.

Please turn now to slide 18 for an update on the supply side. Dry bulk vessel deliveries have continued at a high pace that has been keeping the BDI under pressure. We expect deliveries in the remaining months of 2013 to continue at a slower pace compared to the last two years and should slow down further going forward. As you can see on the top right hand graph, deliveries in the period 2008 to 2012 had an average slippage rate of around 30%. Many analysts believe that this rate of slippage is likely to continue into 2013 due to the scarcity of financing.

On the bottom right hand graph, we provide the order book for the remainder of 2013, 2014 and 2015. As you can see, while the dry bulk industry still has to go through a process of absorbing a very large number of new vessels that had come into market in 2011 and 2012, the current order book stands at significantly lower levels. What is important and encouraging is the fact that bulk carrier demolition has stayed at record high levels for the last couple of years. 2011, all time record of 22.3 million deadweight tonnes, was by far being surpassed by 2012 scrapping activity of 33.7 million deadweight tonnes. During the first seven months of 2013, scrapping activity stood at around 14.3 million deadweight tonnes. While we expect that the annualised number is significantly lower than the last year’s all time record high, it will certainly help mitigate this year's fleet growth. Some brokers believe that the slowdown in scrapping activity is partly due to owners' expectation of an upcoming market recovery, which we're seeing happening in the Capesize segment.

Please turn now to slide 19. In my opinion, these two graphs sum up the long term demand trend for the dry bulk industry. As most of you know iron ore and coal are the two most important commodities for dry bulk shipping, accounting for more than half of the seaborne dry bulk freight.

On the left graph, you can see how Chinese iron ore imports have evolved in the last eight years. As we have explained in previous presentations Chinese domestic iron ore is of very low quality compared to international commercial mining standards. Therefore we believe that the substitution of the expensive Chinese iron ore production with imported ore can provide a significant support to iron ore trade even with zero steel production growth. From the breakdown of Chinese iron ore imports by shores, we can see that Indian exports have plummeted. Taking into account that India is China's closest major iron ore exporter, we expect this will have a positive effect on tonne miles as China will be forced to import from other more distant sources.

On the right hand side graph, you can see how Chinese coal trade has evolved for the last eight years. The growth of this trade has been truly remarkable. China's increased energy needs have turned the country from a traditional coal exporter to the single biggest coal importer in the world in half of the decade. From a significant coal trade surplus, up until 2005, China had a coal trade deficit of around 300 million tonnes during the last 12 months. What is even more impressive is the growth potential of this trade. China's coal production during the last 12 months was more around 3.85 billion tonnes, so as you can understand, the 300 million tons of net imports represent only around 7% of the total Chinese coal consumption. As China continues growing, we expect the need for energy in general and coal fired energy in particular to continue growing as well. We believe the potential for additional coal imports is large, and so long as additional mining capacity comes online, we will continue to see rapid growth in this trade.

Overall, the recent Capesize strength has inspired some optimism in the market, while many analysts believe that the dry bulk demand growth could outstrip supply growth towards the end of the year.

I would like now to pass the floor back to Mr Capralos for his closing remarks.

Spyros Capralos

Thank you, Simos. As you have heard during our presentation Star Bulk is a completely different company this quarter. Our market capitalisation has increased from around 30 million to over 150 million following the successful equity raise. We believe that Star Bulk is not only positioned to navigate safely through the current challenging environment, but to expand further its operations through vessel acquisitions in low prices, and at the same time through active management of third party fleets.

Going to slide 21, our in house management has provided tangible results as it has led to a meaningful increase in our efficiency and transparency; a consistent decrease in operating costs; and lastly, an increase in our revenues going forward due to the management of third party vessels. We have an experienced and dedicated management team; a moderately leveraged balance sheet; and a healthy liquidity profile compared to the industry. We have secured our lenders' trust and support and we have 82.3 million of cash. On top of our quality modern fleet, Star Bulk also has a diverse group of quality charterers with long lasting relationships. Last, but not least, the four fuel efficient new buildings that will be financed through the 80 million we raised places Star Bulk in an advantageous position in terms of our fleet's competitiveness. Not only will these vessels be performing better than the vast majority of their peers, but they will also do so in an environmentally friendly manner. We believe Star Bulk has a good set of characteristics that place the company among the most promising in the dry bulk industry.

In closing I would like to thank our shareholders for their support and loyalty and reassure them that we'll continue our efforts to ensure the company's long term viability and enhanced shareholder value. Without taking any more of your time I will now pass the floor over to the operator. In case you have any questions, both Simos and myself will be happy to answer them.

Questions and Answers

Ronald Berkman – *BC Capital*
I have a quick question. Vessels coming off charter, what are your chartering plans, if the market improves will you look to charter on a longer period? And for third party managed vessels will you look outside of dry bulk and product tanker?

Spyros Capralos
First question first. We think that by keeping our fleet with short term charters, we will be able to benefit and maximise the revenues that we have going forward when the markets will start improving. Right now we have [audio] Capesize sector where it is so volatile. I think that we have seen the last increases in rates and I think we will benefit a lot with two of our—the newest vessels in our [audio] the Star Polaris and the Star Borealis. The Borealis is not fixed and we will be looking [audio] after the 15th September and the Polaris will be off before the year end. Therefore I think that we have managed to benefit more from the raising of the charter rates.

Now regarding third party managed fleet, we are only taking vessels on the dry bulk side. Regarding the product tankers we offer only partial management services [audio] regarding insurance and regarding [audio].

Tamas Eisenberger – *BlueShore Capital*

First of all we would like to congratulate you on such a strong quarter and the successful capital raising. And then just a very quick question in terms of purchasing vessels, are you considering buying any second hand ships, as we are seeing an increased volume of ships and fleets that are being offered for sale currently?

Spyros Capralos

Thank you. That's a very good question and we had a long discussion today at our board today. Not only we are looking for acquiring additional new buildings, but I think we'll be also quite active in the market in the second hand. Especially if the prices versus the rates that you can get in the market make sense and bring accretiveness to the transactions. If we find accretive transactions in the second hand we'll also consider them.

Operator

There appear to be no further questions at this time, so I'll pass the floor back to you for closing remarks.

Spyros Capralos

Thank you all for being present with us today for our earnings conference call. Our 2013 second quarter results—the third quarter results are scheduled for some time in November. Thank you all very much for your attention and have a good day. Goodbye.