Corporate Participants

Petros Pappas
Star Bulk - Chief Executive Officer

Hamish Norton
Star Bulk – President

Simos Spyrou
Star Bulk - co-Chief Financial Officers

Christos Begleris
Star Bulk - co-Chief Financial Officers

Presentation

Operator:
Good afternoon, ladies and gentlemen. Thank you for standing by and welcome to the Star Bulk Carriers conference call on the first-quarter 2016 financial results. We have with us Mr. Petros Pappas, Chief Executive Officer; Mr. Hamish Norton, President; Mr. Simos Spyrou and Mr. Christos Begleris, co-Chief Financial Officers of the Company.

At this time all participant are on a-listen only mode. At this time all participant are on a listen-only mode. And there will be a presentation followed by a question and answer session. At which if you wish to ask a question press star one on your telephone keypad and wait for your name to announce.

I must advise you that the conference is being recorded today, and we now pass the floor to one of your speakers, Mr. Pappas. Please go ahead.

Petros Pappas:
Thank you, operator. I am Petros Pappas, Chief Executive Officer of Star Bulk Carriers, and I would like to welcome you to the Star Bulk Carriers conference call regarding our financial results for the first quarter of 2016.

Before we begin I kindly ask you to take a moment to read the Safe Harbor statement on slide number 2 of our presentation. Let us now turn to slide number 3 of the presentation for a summary of our first-quarter 2016 financial highlights in comparison to the same period last year.

In the three months ending March 31, 2016, net revenues adjusted for noncash items less voyage expenses amounted to $26.9 million, 14.9 percent less than the $31.7 million for the same period in 2015.

Adjusted EBITDA for the first-quarter 2016 was negative $7.3 million versus negative $5.6 million in the first quarter 2015. Excluding noncash items and one-off expenses, our adjusted net loss for the first

quarter amounted to $38.3 million or $0.87 loss per share, versus $29.8 million adjusted net loss or $0.97 loss per share in Q1 2015.

Our time-charter equivalent rate during this quarter was $4,968 per day compared to $6,866 in the same quarter last year. Our average daily operating expenses, excluding $1.5 million of nonrecurring predelivery expenses, were $3,591, a reduction of 19.1 percent compared to the Q1 2015 similarly adjusted figure of $4,439.

As of June 24 our total cash balance, including restricted and pledged cash, stood at $159.2 million. On the liability side, total debt as of the same date stood at $984.3 million. Based on the above, our net debt was $825.1 million.

During the quarter, we had an impairment loss of $6.4 million impacting our results, $5.6 million of which was for one vessel sold and $0.7 million from the termination of two shipbuilding contracts during the quarter.

Having said that, I will now pass the floor to our co-CFO, Simos Spyrou, for an update on our operational performance for the quarter.
Simos Spyrou:Thank you, Petros. Please turn to slide 4 where we summarize our operation performance for the first-quarter 2016.

In this difficult market, we take a disciplined and focused approach in order to have low breakeven rates and continue to be one of the lowest cost dry bulk operators. We believe that the combination of our in-house management abilities and the scale of the Group provide us significant operating leverage and advantages in terms of cost and quality.

On the left-hand side you can see that we have improved our average daily OpEx to $3,591 per vessel in the first quarter of 2016, a significant reduction of 19.1 percent compared to one year ago.

In the middle, you can see that over 91 percent of the vessels managed by Star Bulk have a maximum rating of five stars by RightShip. We are very focused on having the highest standards of vessel maintenance, safety, and operation; and over the past five quarters we have been able to increase the percentage of vessels under management that have the highest rating from 84 percent to 91 percent. Our fleet is maintained in good condition to meet the requirements of our strictest and most demanding clients.

On the right-hand side, you can see the evolution of our average daily net cash G&A expenses per vessel. Our expenses per vessel are similar to the first-quarter 2015 at $1,148 per vessel per day. The reduction of both our daily operating expenses and our daily G&A expenses result from the economies of scale of a larger fleet as well as the discipline and dedication our employees have shown with respect to cost control.

Slide 5 shows that Star Bulk is one of the lowest-cost operators among US listed dry bulk peers, based on latest available publicly information. There is a clear trend of cost containment throughout the industry, and Star Bulk is one of the leaders in this development, with operating expenses approximately 26.5 percent below the industry average.

We will continue to be vigilant on the cost side in order to remain competitive. But as expected, we have achieved most of the available cost savings already at this stage by having reviewed and renegotiated agreements with suppliers and service providers.

Please turn to slide 6 where we provide an overview of our remaining CapEx going forward. We have taken delivery of the majority of our newbuilding vessels, and we currently have a fleet of 70 vessels in the water. There are five new Kamsarmax vessels that we are due to take delivery by early 2018:three in 2017 and two in early 2018. There are no other deliveries due in 2016.

Four of the five vessels have variable financing, with fixed debt amounts, with no LTV test at drawdown. The Q3 2017 delivery is the only vessel with an LTV test.

There will be very little equity to be paid to take delivery of the remaining vessels. Having said that, I will now pass the floor back to Petros for a market update and his closing remarks.

Petros Pappas:
Thank you, Simos. Please turn to slide 7 for a brief update of supply.

During the first six months of 2016, the dry bulk fleet has grown by 0.7 percent. A total of 27.5 million deadweight was delivered and 22.5 million deadweight was set for demolition, for a net increase of 5 million tons.

Limited ordering, cancellations, and conversions have helped trim the dry bulk order book slightly below 15 percent, from 21 percent during the same month last year. Dry bulk contracting, if we exclude the 30 Valemaxes, has been minimal with a total of 270,000 deadweight ordered year to date.

This is a positive development that is likely to support high levels of delivery slippage during the rest of 2016 and 2017. We expect as a result full-year net fleet growth to decrease slightly below 1.5 percent during 2016 and below 1 percent during 2017.

Let's now turn to slide 8 for a brief update of demand. Dry bulk trade flows during the first months of 2016 experienced a strong correction mainly as a result of global destocking, decreasing commodity prices, and steel production cuts. This led the Baltic Dry Index to reach a historical low on February 10.

On a positive note, after more than two years of strong declines, commodity prices appear to have reached a bottom during the first quarter of 2016. We expect that the ongoing monetary and fiscal stimulus taking place in China will boost steel consumption in the medium term. As a matter of fact, house prices and building permits have been recording healthy increases during the first half of 2016.

Furthermore, we find very encouraging that both iron ore and coal production in China are reported to have recorded strong declines during the first months of 2016. This has been the result of supply-side reforms such as the 276-workday restriction on coal mining that came into effect a few months ago.

China National Bureau of Statistics recently reported that coal production during May was down 15.5 percent year-over-year. Coal stocks at Chinese ports and power plants also stand at very low levels, meaning that imports could experience a small recovery during the next 18 months.

According to Clarksons, total dry bulk trade growth during 2016 is projected to stabilize and experience a marginal increase between 0.5 percent and 1 percent. From the middle of 2017, we expect iron ore, coal, bauxite, and grain ton-miles to increase substantially due to an increase of Brazilian iron ore and West Africa bauxite exports, a reduction and substitution of Indonesian coal exports, and healthy grain demand from the Pacific.

We believe the first half of 2016 will go on record as the most challenging period in dry bulk history. Despite the recent improvement in rates, we highlight once again that the most important factor for market balance is on the supply response.

Absence of ordering and increased demolition is gradually putting a cap on fleet growth for the next couple of years and is creating the foundation for a sustainable recovery to take place sometime in the not-too-distant future.

Without taking any more of your time I will now pass the floor over to the operator to answer any questions you might have.

Operator:
Thank you very much indeed gentleman. At this time if you wish to ask a question press star one on your telephone keypad and wait for your name to announced.

And our first question from JPMorgan comes from the line of Noah Parquette.

Noah Parquette:
Thanks. I wanted to ask a little bit about your opinion on scrap rate. We saw a great Q1 in terms of scrapping, but that's fallen off a decent amount, since.

Can you talk about why you think that is? If that's a change in sentiment or if that's -- people are talking about monsoon season. Is there anything temporary there? I just want your view on scrapping for the rest of the year.

Petros Pappas:
Thank you, Noah. It is both. I think it is, in a way, temporary, because of the monsoon season.

But if you look at last year's scrapping, the way scrapping went last year, there was a lot of it in the first half and much less in the second half. So depending on people's expectations, we will also see how scrapping moves.

I think that probably scrapping the second half of the year will reduce in comparison to the first half. And -- but it will depend a lot on how rates go. If rates are strong, scrapping will slow down.

Noah Parquette:
OK; that's helpful. And then in terms of the shipyards, you've had a lot of discussions with them. What's your view on how much of the order book you think just doesn't get delivered? How much shipyard capacity maybe going forward will we lose? What's your view after these discussions?

Petros Pappas:

We think about perhaps 10 percent to 15 percent of shipyard capacity might not be delivered and other capacity might be delayed. This capacity that won't be delivered will be almost entirely coming from second- or third-rate Chinese yards.

It's difficult to say, because vessels that have -- are almost complete, at some point they will be completed fully and they will get back into the market. But also this delay factor has a positive effect as well.

So I would say, let's say about 10 percent never to be delivered; a percentage -- which I don't know what it would be -- that will delay in hitting the water. And that's about it.

Noah Parquette:
OK. And then just lastly, you mentioned about the substitution from Indonesian coal. One thing we saw was India taking coal from South Africa, which helps ton-miles.

Any other trade route shifts that you are seeing that are extending ton-miles because of this?

Petros Pappas:
You mean on the coal side?

Noah Parquette:
On the coal side, yes.

Petros Pappas:
Well, what we've seen is that Indonesia is supposedly going to cut exports by about 50 percent going forward, because of needs for domestic consumption. We think that China has reached its bottom -- the downside of Chinese coal imports have reached their bottom.

And we think that China will be obliged to import this coal now mostly from South Africa, Australia, and probably also Colombia, especially with the new Panama Canal coming into play.

Noah Parquette:
OK. All right. That's all I have. Thank you.

Operator:
Your next question comes from the line of Deutsche Bank with Amit Mehrotra.

Amit Mehrotra:
Yes, thank you, operator. Good afternoon, everybody. First question, just for Christos or Simos. Can you just give us the scheduled debt repayments, I guess between -- your last disclosure was June 24 or the end of the year. I know there's a standstill, but just so I understand what we're looking at for the -- prospectively.

I think it was $100 million annually, and just over $60 million of balloon payments at the end of the year, which I think may be refinanced. But Christos maybe if you can -- or Simos, can you update us on that?

Simos Spyrou:

Sure. First of all, we have signed documentation on the effective refinancing of the two balloons in September and October 2016. We have moved them now to September and October 2018, so that's done.

As you correctly said, Amit, our annual principal repayments are around $95 million. And obviously since June 1, as we have announced, we have the standstill agreement and therefore we have not made any principal debt repayments since June 1.

Amit Mehrotra:
Right. But what were the principal repayments between January 1 and June 1?

Simos Spyrou:
The remaining amount from June 1 through the end of the year is $61 million. So you can…

(Multiple Speakers)

Christos Begleris:
It would be the opposite, I think, Simos. The principal payments from the beginning of the year through -- until June 1.

Simos Spyrou:
That was what I was trying to say, Amit. So we have remaining $61 million, so you can do the difference.

Amit Mehrotra:
Got you. OK. Great, thanks. So $39 million between January 1 and June 1. OK.

And then, Christos -- or Simos, sorry. The $192 million of committed debt financing, I'm pretty sure that that's the actual amount that you expect to draw as opposed to just what's available.

And I'm just trying to understand what type of asset value is underlying that expectation, and if there's any risk that maybe some more equity may be needed based on asset value assumptions that may ultimately prove too high. So I'm just trying to understand how much conservatism there is baked into that.

Simos Spyrou:
So, Amit, what we have on page 6 of the presentation is actually the committed debt. As we said during our presentation, out of these five vessels, four have essentially fixed financing and therefore there is no extra equity that will be required.

Now, the fifth one, again it's a Newcastlemax that is delivering in July 2017. We may see -- and it has a 60 percent loan-to-value financing; so depending on where are values today, we may need more equity than what is currently here. However, this is only on one vessel.

Amit Mehrotra:
Right, OK. So pretty small. Got it.

And then the -- sorry for all these detail questions. But the additional net cash proceeds from asset sales, I think you had like $20 million or something based on the last disclosure. Is that now fully baked into the June 24 cash balance?

Simos Spyrou:
Correct.

Amit Mehrotra:
OK, great. And then let me just ask a couple more bigger-picture questions. As you guys negotiate with your banks for temporary debt relief, is there any good reason for us to basically think that you guys can achieve that without the need for additional equity capital?

Because that's really not been the case for pretty much all the dry bulk companies. A lot of the temporary debt relief has been contingent on new equity financing. So is that something that you guys think you can achieve, essentially not having to further…

Hamish Norton:
Amit, I think obviously nothing is set in stone, because if it were set in stone we would have made an announcement. But if we have to issue equity it's going to be very manageable.

And I would expect, frankly, despite the fact that I'm telling people that it's a positive surprise, that it would be a positive surprise. We are getting substantial credit for the fact that we issued more equity than any of our peers issued last year, and that our balance sheet is in better shape than the balance sheet of many of our peers.

And so while again I reemphasize that nothing is set in stone, our expectation is that if we have to issue any equity it's going to be a smaller number incrementally than you've seen in other recent situations. But that's, frankly, because we issued so much equity last year.

Amit Mehrotra:
Right, and I wanted to follow-up on that, Hamish. Because based on Petros's comments in the press release about runway to 2019, given the capital structure today, and given the amortization schedule, and given the operating cash burn in the first quarter -- which I assume is much lowered, if not neutral, in the second quarter, and now we're at the end of the second quarter here -- how much liquidity or essentially pushback of cash calls do you think you guys need in terms of order of magnitude to get you to that 2019 runway?

Just so we get an understanding of what you guys are trying to do here.

Hamish Norton:
Well, again, I don't want to be disclosing more than we know for sure and, obviously, as I said before, nothing is set in stone.

But it's in everybody's interest -- and I think all of our lenders understand this -- for us to have a runway that gets us well into 2019. And more cash on the balance sheet is not necessarily required to make that happen.

Amit Mehrotra:

Right.

Hamish Norton:
But when we've got an agreement with everybody we'll announce it, and hopefully it won't take that much time.

Amit Mehrotra:
OK.

Hamish Norton:
But I think everybody is shooting for something that gets us well into 2019.

Amit Mehrotra:
Got you. OK. Well, good luck on that.

Let me just ask you one operational-related question on the OpEx, because, obviously, that's a super-impressive number. I'm just trying to understand how that was achieved.

Because if you look at the owned fleet and the average days, they grew by mid to high single-digit percentages, and the OpEx actually was down about $3 million year-on-year and down about $1.5 million sequentially.

So I'm just trying to understand the major buckets that maybe drove that absolute dollar reduction and trying to understand that, if that's a sustainable level or if it can go even lower.

Petros Pappas:
Amit, there isn't a major bucket. What we are doing here is we are organizing the Company continuously. We go at every sector and revisit the ways we do our procedures. We go to suppliers and negotiate. Nothing is set in stone, to borrow Hamish's term.

And every three months or so we're back and discuss. And the size of the Company helps a lot, and our drive to do better helps even more.

And it's not just operating expenses. It is also voyage expenses.

OpEx is one thing. Voyage expense is another thing. Like for example, disbursements, (staff) to operate, like that. We are looking at every facet of the business, trying to do better every time.

I think the fact that the dollar was stronger helped us in that respect. But in general we are in a continuous motion. We don't sit back and enjoy the previous success that we had on that sector.

Amit Mehrotra:
Right. One last question from me. One thing I noticed is that there was a pretty large working capital reversal. And I think a lot of dry bulk shipowners have tried to maybe stretch their payables as much as possible -- rightfully so -- with their suppliers.

Can we expect essentially this past quarter, the first quarter, was the reversal of that? And now this starts a new cycle maybe of some working capital build, and that could be some source of cash over the next couple quarters?

Petros Pappas:
We would expect…

(Multiple Speakers)

Sorry, Hamish.

Hamish Norton:
Yes, I was going to say, and Christos should amplify, but some of that is better pricing for prompt payment; and some of our reduction in operating costs is a result of better pricing for prompt payment. But Christos, why don't you add?

Christos Begleris:
And just to add to that, we would expect basically payables to remain at the same levels going forward, so we wouldn't expect any major movements.

Amit Mehrotra:
Got it.

Petros Pappas:
Amit, we pay on time and that's part of why we get better prices.

Amit Mehrotra:
Right. OK, guys. Thank you very much. Best of luck in the negotiations. Appreciate it.

Petros Pappas:
Thank you.

Operator:
Your next question comes from the line of Omar Nokta with Clarksons Platou Securities.

Omar Nokta:
Hi; thank you. Actually I was going to ask about the bank agreements and see what they contemplated. But I figure it's probably not appropriate for you to give specifics on that, as I read from the response to Amit's questions.

Hamish Norton:
Yes. No, that's right, Omar. Look, we want to let everybody know precisely what our agreement is as soon as we have a final agreement, and we hope that doesn't take too much longer.

Omar Nokta:
Yes. But just -- I guess just a quick -- I do have one other question, and it's regarding the vessel sales. You guys obviously were very active late last year, beginning of this year.

And it appears, if I'm reading this correctly, you've basically delivered all the ships. All the vessels now that you've agreed to sell have been sold and delivered. You now stand with 70 ships plus the five newbuildings.

Where are you guys now? We've seen, obviously, some improvement in asset prices. Do you see any further sales on the horizon?

Petros Pappas:
Omar, the plan for now is to only -- to basically sell older vessels. If we see that they cannot be operated well, maybe if their drydocks are coming up, perhaps on an older vessel there's no need to go through a couple of million dollar drydock expense.

But that's a plan. Now, if prices go further up in the future -- we are in a fluid market. Nobody knows.

Omar Nokta:
Yes, OK. That's it for me. Thank you, guys.

Operator:
Your next question comes from the line of Arctic Securities with Erik Stavseth.

Erik Stavseth:
Hi, guys. Just a question on the value-to-loan ratios you have. Could you give an indication of either the amount needed to get back into the lower end of the compliance of those ratios, or could you comment on where those ratios are today?

Christos Begleris:
Well, obviously, valuations are quite subjective in this volatile market. But our corporate loan-to-value, Erik, was at around 80 percent, which obviously is higher than the 70 percent threshold that we had.

This has been waived as part of the standstill agreement. And obviously, part of our negotiations with our banks is to either waive or substantially relax certain covenants, for a certain period in the future.

Erik Stavseth:
Right. Right, and that was loan-to-value, right? Loan-to-value was…

(Multiple Speakers)

Hamish Norton:
Just too clearly answer your question, we are in compliance at this moment with all of our covenants, some of which have been amended due to the standstill. But we have no amounts due to put ourselves in compliance.

Erik Stavseth:
Right, and it was loan-to-value that was 80 percent, not value-to-loan, as you stated in the 20-F, right? Loan-to-value, 80 percent?

Hamish Norton:
Correct.

Erik Stavseth:
Thank you. OK, that's all. Thank you.

Operator:
Thank you. And just once more if you wish to ask a question press star one on your telephone keypad and wait for your name to announce.

Your next question comes from the line of Zazove Associates with Nick Brown.

Nick Brown:
Hi, thank you for taking the question. A quick question on the three vessels that you sold in April and maybe one in May. You mentioned in your press release that you got a prepayment in the first quarter on at least two of those vessels.

Were there more proceeds from those vessel sales received in Q2? And if so, what were -- how much was received?

Christos Begleris:
Hi, Nick. The cash balance that we have actually put in our presentation, that is as of June 27, includes basically all the proceeds that we have received during the second quarter from vessels that were committed to sale as of the first quarter. We have now no more vessels to deliver to new owners. So the cash balance basically nets of all sale proceeds.

Nick Brown:
OK, terrific. That answers my question. Thank you very much.

Operator:
At this point, gentlemen, there are no further questions, so I'll pass the floor back to you for closing remarks.

Petros Pappas:
Just one thing I want to say. I believe that in a year or a year and a half from now we will see a better market as far as ton-miles are concerned in various sectors.

Like coal, that we already discussed; iron ore, because we see that Brazil is going to be exporting many more tons, probably more than 100 million tons starting as of mid-2017, and Australia has much less to export in addition to what it's already exporting.

And that is a major factor in the market. It's more important than tons. Ton-miles are hugely more important than tons.

And then we think that there's going to be much more trade in bauxite because Indonesia again is curtailing their exports in bauxite, and we'll probably see it coming from Africa.

And we think there's going to be more grain trade which by definition is long ton-miles. So we believe that the upturn of this market is going to start from that sector more than anything else.

Of course, restraint by owners on ordering is very important, and scrapping more is important. As I said, I'm not sure how the second half is going to fare.

I think this year there's going to be more scrapping than last year. I don't know by how much.

And oil prices are important because, if they stay around $50 versus $30, $35 that we were seeing last year, will probably contribute in slowing down vessel speeds. And we see China looking more towards infrastructure, and we see more housing permits starting up.

So we think that there are reasons why we should be looking at the future -- at a better future. However, as we said, more restraint on ordering and more scrapping, this is going to be the key of a better market in 2018. Thank you very much, operator.

Operator:
Thank you very much, sir, and with many thanks to all our speakers today, that does conclude the conference. Thank you for participating and you may now disconnect. Thank you, gentlemen.

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