Corporate Participants

Spyros Capralos
Star Bulk - President & Chief Executive Officer

Simos Spyou
Star Bulk - Chief Financial Officer

Presentation

Operator:
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk conference call on the fourth 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'll be a presentation followed by a question and answer session, at which time if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. I must advise you the conference is being recorded today, Wednesday, March the 5th, 2014.

We now pass the floor to one of your speakers today, Mr. Spyros Capralos. Please go ahead, sir.

Spyros Capralos:
Thank you, operator.

I'm Spyros Capralos, president and chief executive officer of Star Bulk Carriers, and I would like to welcome you to the Star Bulk Carriers' fourth quarter and 12 months 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 Harbor statement on slide number two of our presentation. And since I know that you read very fast -- now that you are done with slide number two, I would like to summarize our recent strategic initiatives as presented on slide number four.

First of all, we have designed and executed an aggressive fleet expansion and renewal strategy with 11 fuel efficient new buildings from top-class yards as well as opportunistic acquisitions of premium second-hand tonnage, at what is essentially the bottom of the dry bulk shipping cycle. We secured compelling delivery slots in 2015 and early 2016 now worth 60 to 65 million above the contract price. We have adopted the flexible commercial strategy so as to maintain long-term spot market exposure, taking full advantage of a market recovery, as well as (also) the savings from our fuel efficient new buildings.

We have diversified the composition of our fleet by weighing more on larger vessels, which will benefit mostly from our broad market recovery due to the economies of scale they offer of freight per ton basis and the increase in long-haul shipments. Furthermore, we have, and will continue to do so, leverage our (sponsors') vast experience in shipping, involving acquiring, operating and successfully disposing vessels along various stages of the shipping cycle -- the benefits of the above span across various areas from access to first year shipyards to long-term relationships with charters and brokers.

Finally, despite being in a growth mode, we remain committed to the cornerstone of our goals -- that is, maximizing total return to shareholders. As our fleet expands and the dry bulk market recovery is established, we will evaluate favorably the potential return of capital to our shareholders in a manner consistent with our overall business strategy, cash flows and liquidity position.

Please turn now to slide number five for a brief review of our recent key corporate developments during this clearly transformative year. First of all, we have totally reshaped our capital structure, raising $150 million of equity through two transactions in July and October of 2013. Two well-accreted institutions, Oaktree Capital Management and Monarch Alternative Capital have joined our shareholder base through these two transactions, enhancing and diversifying our sources of equity capital. Our market capitalization is now above 350 million -- more than 10 times the (respective) figure in July of 2013, making Star Bulk an investable vehicle for pure dry bulk play.

With this substantial financial power, we embarked in an extensive new building program by ordering top-class yards in Japan and China, 11 high-quality eco vessels with fuel-efficient specifications in three batches with an aggregate purchase price of $482.9 million. We also returned to the (S&P) market by acquiring four high-spec premium second-hand vessels, two Ultramax and two Post Panamax bulk carriers, respectively.

Regarding the former, currently there are few such vessels in the water, and thus we clearly believe that this acquisition will provide us with competitive edge when pursuing charters business. Regarding the latter, we arranged (to charter them) back to the sellers until mid-2016, at a healthy freight rate, strategically coinciding with the expansion of the Panama Canal and the emergence of new trade routes for these vessels. Furthermore, we have secured debt financing for all four second-hand vessels acquired at competitive terms, both from existing as well as from new lenders.

The last two new Newcastlemax bulk carriers acquired come also with (attached) financing of 80 percent of the contract cost, by way of an innovative bareboat hire-purchase fracture. In addition, we extended our third party ship management business to 14 vessels currently, achieving synergies in economies of scale while we expect to further grow this business in the years to come. And finally, we are proud to report that 2013 marks the return to profitability of Star Bulk after two consecutive loss-making years -- and of course the generation of 11.4 million of free cash flow from operations.

Star Bulk is well-positioned to take advantage of the firming dry bulk market in 2014, with its premium competitive vessel portfolio and with a management team that has demonstrated its skills to transform positively the company during a challenging market environment.

And now I will ask Mr. (Simos Spyrou), our CFO to give you an update on the financials. Please go ahead, Simos.

(Simos Spyrou):
Thank you, Spyros.

Let us now turn to slide number seven of the presentation for a preview of our fourth quarter 2013 and 12-month financial highlights in comparison to last year's. In the three months ended December 31st, 2013, net revenues amounted to 17.3 million, essentially in line versus the same period of 2012. Net revenues represent our total revenues adjusted for non-cash items, less voyage expenses. The reason we refer to our net revenues is because this figure nets out any difference in the number of voyage charters we performed in each period, and therefore is directly comparable to other periods.

Overall, we were able to partially benefit from the increasing spot freight rates during the fourth quarter of 2013 as certain of our charterers opted to redeliver the vessel to us at the latest redelivery date, the customary situation and the tightening freight markets. This was the case with one of our newest (gates), Star Polaris, which had an earliest redelivery date in the middle of October and the latest in the middle of January, with the second being the actual date that was redelivered to us.

Our adjusted EBITDA for the fourth quarter 2013 was 7.4 million, increased by 16.5 percent versus last year's respective figure. Overall, during the fourth quarter of 2013, the company had a marginal net profit of $54,000 compared to a net loss of 1.4 million in the fourth quarter 2012. Excluding non-cash items, our net income for the fourth quarter amounted to 2.1 million, compared to an adjusted net income of 0.3 million in the fourth quarter 2012.

Our time charter equivalent rate during this quarter was $14,467 per day, compared to $14,969 last year. Our average daily operating expenses were $5,392 per vessel, compared to $5,730 during the same period last year, representing a 6 percent reduction.

The adjusted net income of 2.1 million represents an adjusted EPS of 7 cents per share, basic and diluted, versus an adjusted net income of 5 cents per share, basic and diluted, during the respective period in 2012. So, as you can see, this has been another profitable quarter for us, (the third being) 2013.

Continuing with our annual results now, for the 12 months ended December 31st, 2013, net revenues amounted to 68.7 million, representing a 6 percent reduction versus the same period of 2012. Our revenues were mainly affected by the lower charter rates achieved by certain of our vessels and the lower average number of vessels due to a sale of Star Sigma and Start Epsilon in 2013 and 2012, respectively.

Our adjusted EBITDA for the 12 months 2013 was 32.3 million, compared to 40.4 million during the same period of 2012. The latter figure includes, however, an amount of 6.4 million related to a gain on early charters (ammunition) for Star Sigma in 2012. The 32.3 million of adjusted EBITDA represents a yield of approximately 11 percent on the average value of our in-the-water fleet for 2013.

Overall, during the 12 months of 2013, the company had a net income of 1.9 million, compared to a net loss of 314.5 million in the 12 months of 2012. This is the first year after 2008 that we report a profit on U.S. GAAP basis and we are certainly very proud of this.

Excluding non-cash items, our net income for the 12 months amounted to 9.7 million, compared to an adjusted net loss of 0.3 million in 12 months 2012. This marks our return to profitability on an adjusted basis after two consecutive loss-making years -- again, an achievement that validates our cost containment efforts and flexible commercial strategy.

Our time charter equivalent rate during this six-month period was $14,427 per day compared to $15,419 per day last year. Our average daily operating expenses were $5,564 per day per vessel, compared to $5,361 per day per vessel during the same period last year. Regarding this 4 percent increase, I would like to remind you that last year, one of our (Capesize) vessels -- namely, Star Polaris -- sustained an engine failure damage and thus was non-operational throughout the full year -- quarter. This resulted in, firstly, artificially low operating expenses in the third quarter and fourth quarter of 2012; and secondly, to higher insurance premiums for our fleet in 2013.

Our operating expenses in 2013 were also affected by the new tonnage tax regime, which didn't exist last year, as well. The adjusted net income of 9.7 million for the 12 months of 2013 represents an adjusted EPS of 69 cents per share, basic and diluted, versus an adjusted net loss of 5 cents per share, basic and diluted, during the respective period in 2012.

Please turn now to Slide eight to discuss our balance sheet profile. Currently, our total debt stands at 260.3 million and our total cash position at 52.6 million, both including the 39 million available liquidity under our committed facility with Deutsche Bank to be drawn within this week. Consequently, our net debt on a pro forma basis is 207.7 million.

Furthermore, the market value of our fleet in the water stands currently at 404.1 million. In addition, our 11 new buildings, currently worth 546.7 million, 64 million or 13 percent above the contracted price, bringing our fully delivered fleet value close to 1 billion. We have paid 79.3 million in the form of advanced payments for the 11 vessels on order; and assuming 60 percent debt financing, we have approximately 93 million remaining equity CAPEX. Taking all the above into account, we calculate our NAV per share on a (charter fee) basis at $11.6 per share.

Going forward, as you can see from the bottom left graph, our principal repayments so far this year stand at 4 million, while our remaining scheduled principal repayments for 2014 and 2015 stand at 18.5 and 34 million, respectively. These figures include the scheduled repayments of our 39 million credit facility with Deutsche Bank, as well.

As it is evident from the graph in the right bottom, assuming 60 percent debt financing, we essentially have no material remaining equity CAPEX repayments for 2014, while for 2015 and 2016, the respective obligations stand at 77 and 15 million, respectively. So, overall, we have a smooth debt repayment profile over the next two years while our remaining CAPEX obligations are paid heavy and supported by our cash flows and current liquidity position.

Kindly turn now to slide nine for review of our cash flow generation during the 12 months of 2013. On December 31st, 2012, our total cash balance, including restricted and (pledged costs) stood at 31.8 million. During the 12 months of 2013, we generated 27.5 million cash from operations while we had an addition and 1.9 million of cash inflow from investing activities. Exclusive of new building advances and the sale of Star Sigma -- included in this amount are 3.9 million of insurance proceeds related to the main engine failure of Star Polaris in 2012.

Our debt repayment requirements, excluding any prepayments made in connection with the agreements with our lenders, and the sale of Star Sigma were 17.6 million of -- for the 12 months of 2013 -- that's leading to (a fleet free) cash flow of 11.5 million on an adjusted recurring basis.

So, despite the low freight environment, our fleet has been significantly cash flow positive in 2013. For the 12 months of 2013, we have paid the total amount of 67.3 million in advances related to nine of our new buildings ordered within 2013, while the two (Ultramax) bulk carriers acquired had the purchase price of 58.1 million.

As mentioned earlier, on April of 2013, we sold one of our oldest Capesize vessels, Star Sigma, for 8.26 million while we proceeded with debt repayments of 16.1 million in one of our loan facilities. The above resulted in a net debt repayment of approximately 8 million. Finally, including the 146 million net proceeds from the equity offerings this year, we arrive at the total cash balance as of September 30th, 2013, which stood at 56 million.

I would like to now to pass the floor back to Spyros as to provide you an update with our fleet strategy, operational and commercial development.

Spyros Capralos:
Thank you, Simos.

Please now turn to Slide 11, to give you a brief overview of our fleet profile. We currently own 17 dry bulk vessels, five Capesizes, two Post-Panamaxes, two Ultramaxes and eight Supramaxes with a total dead weight capacity of 1.61 million dead weight tons and an average age of about (8.9) years.

As said earlier, we have a new building program consists of -- consisting of 11 fuel efficient eco-friendly vessels under order in first class shipyards, consisting of five Newcastlemaxes, two Capesizes and four Ultramaxes, with deliveries spanning between 2015 and early 2016. Upon full delivery of our new buildings, we'll own a total of 28 vessels from 17 vessels in the water today.

The fleet is managed internally, which provides full efficiency and transparency to our shareholders. Aside from the management to our own fleet, we also provide ship management services to 14 third party vessels for a daily fee of $750 per day.

On the bottom left graph, you can see that upon completion of our new building program, we'll have grown our total fleet under management -- that is, including third party vessels managed by us -- to more than 8 million deadweight tons representing a 35 percent compounded annual rate of growth on deadweight basis from 2009. This figure is inclusive of an additional number

of approximately 30 more third party vessels that we expect to take under management until 2016. This will bring our operating fleet to approximately 70 vessels, (getting) us the size to benefit from high purchasing power and economies of scale.

Please turn now to Slide 12, whereby we try to provide some further color on our recent acquisition announced last week. The latest additions to our fleet of 208,000 deadweight ton Newcastlemax vessels, built by SWS, similar to the ones we already have on order with them. We believe that Newcastlemaxes are the ideal way to play the dry bulk shipping cycle during this early market upswing. These vessels are optimized for iron ore trade, having access to all major iron ore (trading ports) without the size restrictions of VLOCs, offering simultaneously better freight economies -- economics from Capesize vessels.

Furthermore, they maintain their versatility, being very appropriate for coal trade as well -- not limited solely to iron ore trade, as VLOCs, while again they are more competitive on a freight per ton basis versus Capesize vessels. The construction price of these vessels is 59 and 56-and-a-half million respectively, while their scheduled delivery is in November of 2015 and February 2016.

The bareboat hire-purchase structure we have set up with CSSC, a company affiliated with SWS, is essentially a capital lease arrangement that provides us with debt financing at 80 percent of the aforementioned construction price of the vessels. The remaining 20 percent of the construction price, or 23.1 million, represents our equity portion of the transaction, out of which we have already paid down 11.55 million.

The agreement has a term of 10 years and we have the obligation to acquire the vessels at the end of the term for a reduced predetermined price equivalent to the balloon payment of standard shipping loan. We also have the option to purchase the vessels earlier with such option being (decidable) each month, again, being equivalent to refinancing a standard shipping loan.

The bareboat arrangement provides for monthly hire-payments ranging from 371,000 to $410,800 plus (labor). These monthly hire payments essentially consist of a margin portion, which is 4-and-a-half percent over (labor) and a principal repayment portion, which equates to a repayment profile of approximately 14.3 years.

Assuming a (labor) cost of 2 percent, the aforementioned terms result in an average daily rate of 14,850 and 14,200 for each vessel, respectively. We consider the above terms very competitive comparing to debt financing of similar advanced ratio available in the market, while it's worth noting that Star Bulk will not pay any commitment fee for this financing. Assuming 1 percent of commitment fees, if it was, this is equivalent to approximately $1.8 million in interest expense savings.

Now, let's turn to Slide 13 for the overview of our fleet employment and charter counterparties. Currently, we have secured 40 percent of our available days in 2014, 18 percent in 2015 and 6 percent in 2016. Specifically, our time charter coverage in the Capesize segment is 45 percent for 2014, 19 percent for 2015 at an average gross daily rate of $23,463, while our Supramax (average) stands at 27 percent for 2014 at the gross daily rate of 11,314.

On the Panamax segment, we are fully covered for the next two years; while we have secured 50 percent of our available days in 2016, at the previously announced (gross charter rates of ($15,000) per day. Overall, as of today, our total contracted revenue amounts to approximately 51.4 million equal to an average gross daily fixed rate of $17,000 over an average remaining charter duration of approximately 0.6 (over) year on a fleet-wide basis.

As we have stated before, our adaptive flexible commercial strategy mostly focuses on short-term time charter employment, maintaining increased exposure to a long-term recovery in freight rates. This allows us to relatively insulate our fleet from adverse market movements in the short-term, while maintaining our upside potential on the firming freight market. The current firming market validates this strategy and we expect to achieve higher re-charter rates for our vessels as we move towards the second quarter of 2014.

Now, please turn to Slide 14, where we'll try to evaluate our operational performance over the last five years. As (a general comment), our cost-cutting efforts in our operating and G and A expenses have played an important role in our financial and operating performance in this very challenging market environment. This, of course, has been achieved without a compromise in our high quality and operational standards.

On the top right graph, you can see that for the 12 months of 2013 -- if we exclude the effect of Star Sigma, which was sold in April -- our fleet utilization ratio is at 98.2 percent, essentially in line with our historic levels. I would also like to note that utilization ratio for 2012 is not truly reflective as well, since it was negatively affected by the substantial (hire) time of Star Epsilon, also sold in February 2012. Still, even if we adjust for this effect of utilization ratio, ratio has improved this year by approximately 1 percent.

On the left graph, you can see the evolution of our average daily operating expenses. Since 2009, our daily operating expense have been reduced from $6,903 to $5,564 in the 12 months of 2013 -- a 19.5 percent cumulative decrease. For 2013, we have managed to contain our operating expenses keeping them in line with our historical levels, despite the effects of increased insurance premiums and the new Greek tax tonnage regime explained earlier. Furthermore, an -- approximately an amount of 200,000 or $40 per day of pre-delivery non-recurring expenses were incurred related to the delivery of the two Ultramaxes in late December 2013.

On the bottom right graph, you can see the total carrying capacity of our managed fleet versus G and A expenses, which exclude one-off severance payments and stock-based compensation. These G and A expenses are of course reflective of the in-house vessel management capabilities we have developed since our inception.

As you can see, the G and A expenses for the months of 2013, excluding non-cash items, are 7-and-a-half percent higher than in 2012, while the same, our total fleet under management has increased by 48 percent on the deadweight tonnage basis. Moving forward, we expect expanded size of our operating fleet to provide us with economies of scale and synergies to the benefit of both our own and our managed fleet and clearly of our shareholders.

Now, I will ask again, Simos, to give you an update on the market developments. Simos, try to be brief on that, please.

(Simos Spyrou):
Thank you, Spyros.

If we can now turn to Slide 16, to summarize dry bulk trade demand dynamics --a s most of you know, iron ore and coal are the two most important commodities for the dry bulk shipping, accounting for more than half of the seaborne dry bulk trade. On the top-right graph, you can see how Chinese crude steel production and Chinese iron ore imports have evolved in the last eight years. During 2013, Chinese iron ore imports have increased by 10 percent on the back of strong steel production growth and increased domestic to imported iron ore substitution.

As we have explained in previous presentations, Chinese domestic iron ore is of very low quality compared to international commercial mining standards due to its low ferrous content. This trend has been consistent over the past 10 years, with China producing iron ore of lower ferrous content year-on-year. The large part of Chinese iron ore production is non-competitive with high-cost breakeven, (above) $100 per ton, due to small production scale, low quality of iron ore reserves and long distance from Chinese steel mills.

On the other hand, the major international iron ore exporters comprising mainly of Vale, Rio Tinto, BHP and (Potash) enjoy low breakeven price levels due to large scale of operations and high quality of iron ore reserves. Furthermore, substantial addition mining capacity of minimum 400 metric tons per annum is expected come online until 2016, mainly by these companies. To put this into prospective, Vale alone has lined up an investment of 19 million metric tons per annum additional iron mining capacity to come on line in early 2016 -- a truly significant amount for a (sole) project.

So, overall, it is apparent that the international iron ore market will see substantial additional supply coming in from producers that have the ability of predatory pricing in order to capture more international markets share. This is expected to drive international iron ore price to lower levels, i.e. at approximately $100 per ton -- a level at which the majority of small private Chinese producers are non-competitive. This process has already started to take place as the iron ore spot price has dropped below $120 per ton from $133 per ton at the end of 2013. Therefore, we believe that the substitution of the expensive Chinese iron ore production with imported ore can provided significant support to iron ore trade even with zero steel production growth.

Regarding cool freight, as you can see on the left bottom graph, Chinese coal trade has evolved tremendously for the last eight years. China's increased energy needs have turned the county from a traditional coal exporter to the single-biggest coal importer in the world in the last half of a decade. From significant coal trade (prices) up until 2005, China had a gold trade deficit of around 422 million tons during the last 12 months.

What is even more impressive is the growth potential of this trade. China's coal production in 2012 was more around 4 billion tons. As you can understand, the 442 million tons of net imports represent only around 10 percent of the total Chinese coal consumption. As China continues growing, we expect the need for energy in general, and coal fire energy in particular, to continue growing, as well.

Another major importer of coal is India, which lacks material reserves to satisfy its huge consumption needs. As you will see from the bottom-right graph, Indian coal imports have increased with a compound annual growth of 25 percent during the period of 2006 to 2012, reaching 157 million tons per annum.

Main driver of this trade pattern has been the increasing reliance of the country to coal-fired electricity production, and hence on thermal coal. In absence of many economically viable alternatives, Indian thermal coal imports have increased substantially during the past years.

Going forward, according to (Clarksons), India is expected to reach the 195 million tons per annum in coal imports in 2014 -- an increase of 25 percent versus 2012 levels. Furthermore, as the grain season kicks off in early -- the second quarter of 2014, we expect this to provide an additional uplift in Panamax and Supramax freight rates.

Grain is a commodity that is carried mostly by Panamax and Supramax vessels; and according to (Clarksons), grain exports are expected to increase by 3 percent this crop season verses 2013 levels, due to the higher crop yields and production in U.S. and Canada. If this is combined with a relatively flat exports of Argentinean grains, or even decreasing ones as we have seen in 2013, this would further boost the Atlantic Basin market while having a significant ton mile effect on a global basis, as well.

Turning to Slide 17, we will update -- we will have an update on the supply side. Dry bulk vessel deliveries have significantly decreased during the last three months of 2013 and peaked in January of 2014. This is, however, expected, as ship owners tend to prefer and push for having their vessels delivered on January of the New Year.

As you can see on the top right hand graph, deliveries in the period between 2008 to 2012 had an average slippage rate of around 30 percent. The respective figure for 2013 was close to 40 percent, and certainly we should expect some level of slippage going forward, even though reduced.

Overall, as you can see from the top-right graph, putting the forward scheduled deliveries into historical context clearly demonstrates that the worst has past due for dry bulk industry. The nominal order book stands at approximately 21 percent to our fleet, substantially lower from the peak 80 percent in 2008. Furthermore, if the nominal order book is adjusted for orders originally placed before 2012, it is reduced to a 16 percent, a level that can be more smoothly digested by the market and in line with historical levels.

On the bottom-right-hand graph, we also provide the order book for the remainder of 2013, '14, '15 and '16, broken down in vessel classes. At this point in time, we can safely say that the order book for 2014 speaks, while for 2015, first-year yards have essentially no available slots. We limited risk in orders being placed in second and third-tier Chinese yards for 2015, due to the current type pricing environment, as well as viscosity for bank financing for such low quality vessels.

Finally, what is important and encouraging is the fact that bulk carrier demolition has stayed at record-high levels the last couple of years. 2013's cropping activity of 22.2 million deadweight tons was very close to the second lowest -- highest, excuse me; the second highest all-time level of 23.2 million deadweight tons in 2011. Going forward, and given the (firming) of the freight market, we expect this cropping activity to be reduced, but still present, since 9 percent of the fleet is above 21 years of age.

Overall, the seasonal freight rates weakness during January and February of 2014 was expected and became more severe due to the temporary trade disruptions such as the two months coal shipments suspension in Columbia, and the unprocessed minerals export by the Indonesia. The current outlook, however, remains compelling. As the grain season kick off and the iron purchasing activities resume, we will enter into a tightened freight rate environment expected to peak towards the end of the year.

Overall, the analyst consensus is that demand growth will outpace supplies growth in 2014, while for 2015 this gap is expected to increase even. This is in line with our internal view, as well, as we expect the trade market to transition towards a sustainable recovery in the years to come.

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

Spyros Capralos:
Thank you, Simos.

In conclusion, as you can see on slide 19, we believe that investing in Star Bulk offer certain distinct benefits. First of all, our fleet is poised to benefit from the dry bulk market -- dry bulk market recovery, while we have the financial power to capitalize on any distressed opportunities that may arise. Secondly, our investors get exposure to superior assets with a diverse quality modern fleet, including 11 top-spec eco-new buildings orders.

Furthermore, we focus on what we do best -- that is owning and operating dry bulk vessels while we have diversified our asset base to higher margin vessels such as Newcastlemaxes. Being experienced fleet managers led by our chairman, Mr. Pappas, we have expanded our shareholder base to our credit institutions, such as Monarch and Oaktree -- clearly a vote of confidence in our transparent and efficient operations.

Lastly, we possess strongly in-house ship management capabilities for which we take full advantage by managing third party vessels, as well. This activity generates riskless revenue, diversifying our consolidated cash flows. Furthermore, as the size of our operating fleet increases, we enjoy substantial economies of scale and cost synergies, benefiting both the third party vessels under management as well as our own vessels equitable.

Overall, we believe Star Bulk has a good set of characteristics that base us among the most promising companies in the dry bulk industry. This has been clearly demonstrated throughout this exciting year and we certainly look forward to continuing along this path.

In closing, I would like to thank our shareholders for their ongoing support and loyalty and reassure them that we will continue 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

Operator
Thank you very much, indeed, Mr. Capralos.

As a reminder, to ask a question, please press star one on your telephone keypad and wait for your name to be announced.

Your first question from Stifel Financial comes from Ben Nolan. Your line is now open, sir.

Ben Nolan:
Yes, and nice quarter, gentlemen. I have a few questions for you, if I could. Number one, with respect to the most recent Newcastlemax deal, it does seem to be a pretty nice deal, both in terms of the acquisition price and the financing. Could you just maybe walk me through how that deal originated? Were these vessels already ordered by someone else that were just where the order was walked away from or was this a speculative bill by the shipyard or is it a brand-new order to the fleet, and how did you come by -- come by the terms that you did?

Spyros Capralos:
OK, Ben. First of all, we also think that it was a very accretive transaction for us, as it combines the high leverage as well as the options to be able to acquire those vessels anytime from now until 10 years from now and then we have the obligation to pay for them. Having done the cash flows and the calculations, we think that in today's market and also in the future market, it leaves -- if you add also the operating expenses for those vessels -- it leaves a quite substantial for profit on the table.

This deal -- we benefited from this from the connections of our chairman and the previous good relationship with the yard, since we are constructing a lot of our vessels in this yard. So we managed to get those spots and I think this is important for the development of our fleet.

Ben Nolan:
OK. And from a modeling perspective, these will be seen as, I guess, capital leases, correct, rather than bareboat chartered -- and even though technically I suppose they are bareboats; but you would depreciate them and so forth?

Spyros Capralos:
Yes.

Ben Nolan:
OK. All right. The -- my next question relates to sort of where -- following this acquisition of these vessels, where do you see yourself standing from a liquidity perspective both to -- from the remaining equity that you need to pay for your new buildings, but then also additional capacity to grow? I mean, could you maybe walk me through where you believe that to be, you know, any additional financing you may be able to get or anything of that sort?

(Simos Spyrou):
Ben, this is Simos. As we said earlier, we have currently 52 million of cash on our balance sheet and we do not any remaining CAPEX for 2014; actually, all our CAPEX requirements are for 2015 and 2016. And assuming 60 percent debt financing on the acquisition of the (order) price of new buildings, which to ourselves seems that it is conservative, the remaining equity CAPEX for 2015 is 77 million; and for 2016, it's 50 million. So, overall, its 92 million. Basically, you know, from your model, you can see, you know, the cash flow generation for 2014 and 2015 and estimate, you know, if and when will be (in need of), you know, new equity raise.

Ben Nolan:
OK, so by and large, I guess you should be able to fund that out of cash on hand and cash flow, but there may be, at some point, you need to do a modest equity raise. Is that how to think of it?

(Simos Spyrou):
Depending on the, you know, market conditions and, you know, how freight rates are going to be and, you know, our cash flow generation, yes.

Ben Nolan:
Sure, OK. All right, and then last question -- obviously as of late, we've seen -- we've seen an improvement in asset values, really in the past month. Where do you -- how do you come out with respect to being a buyer at these levels? I mean, do you feel like there's still substantial value in addition to where we have moved such that you would, you know, you'd still be a buyer right now? Or do you feel like, you know, it could afford to cool off a little bit first? I mean, where do you see the market from an acquisition standpoint?

Spyros Capralos:
Usually we do not like to buy in a market when there is frenzy with a -- with asset prices. I think we did our move; we placed our orders for new buildings at the right time before the market picked up. We felt that there were some good deals out there, and so, we did the -- and we acquired the two Japanese Ultramaxes as well as the Post Panamaxes.

We are there. If we find -- then we think there's a good business opportunity, then we may do a deal; but not just for the sake of doing a deal, because what is of interest to us is the bottom line.

Ben Nolan:

Sure, OK. That's helpful across the board. I appreciate, and again -- and congratulations on a nice quarter.

Spyros Capralos:
Thank you, Ben.

(Simos Spyrou):
Thanks, Ben.

Operator:
Thank you, Mr. Nolan.

Now from Maxim Group, your next question comes from the line of Noah Parquette. Please go ahead, sir.

Noah Parquette:
Hi, guys. Just a follow-up on Ben's question about, you know, being buyers at these levels. Can -- you touched on it, but can you maybe give a little bit more detail about how you see the dividend being part of how you return capital to shareholders? I imagine won't be until more of your ships are delivered, but can you tell more -- tell us more about what you want to see in the market and, you know, when you're more comfortable with that?

Spyros Capralos:
Good morning, Noah. Basically, we believe that first of all, we need to see a much firmer market where chartering rates will be at higher levels than what we are currently experiencing -- and that's why we have most of our fleet in the spot market, because we believe that rates will continue firming. And when we would feel comfortable with the rates and when we see the upward potential is not there anymore, then our risk assessment will be chartering some vessels longer term and making sure that the cash flows will be there. At that time, we'll able to start considering bringing back capital to our shareholders.

Noah Parquette:
OK, so it would be safe to say once we start seeing you sign charters for your (unfixed) ships and more of (those vessels are) delivered, then that's when the time is at hand, basically?

Spyros Capralos:
That's correct. Because right now, we still see a growth potential. We see that that we have many vessels that will come -- in the water, we have 11 new building vessels that will come into water in 2015 and beginning of 2016. Therefore, I think the -- and then the market, we think, has a good potential for further growth into chartering rates.

Noah Parquette:
That makes sense. Then I guess, just quickly, you have the Star Mega older Capesize that comes out charter later this year. What are your thoughts on what to do with it, then?

Spyros Capralos:
Yes -- when the charter rates will finish and then we'll see -- we'll have -- we'll put all the details on the table about when is the next dry docking view. How the market will be at that time, we

think we'll be at least trading that vessel until the time for the next dry dock, and then we will decide what we're going to do.

Noah Parquette:
OK.

Spyros Capralos:
We may even sell both vessels at that time when the charters expire.

(Simos Spyrou):
Noah, Star Mega is -- has the earliest delivery day in this year. If we see a further tightening in the market, charters might decide to opt for the latest delivery, which is January 2016 -- you know, depending on where the market is going to be...

Spyros Capralos:
Fifteen.

(Simos Spyrou):
The -- January '15, I'm sorry -- depending on where the market is going to be at that time.

Noah Parquette:
How much of a discount does a ship of that age get versus you know, a 2012 (build or something) -- modern ship?

Spyros Capralos:
It has about 10 to 15 percent discount.

Noah Parquette:
OK, all right...

Spyros Capralos:
It depends up to time -- it depends always up to time with availability; and of course charters prefer to -- in some cases, even if the discount is not there, to keep a vessel that they already know that they've been trading for quite some time. And therefore, we don't know whether they will decide and how the market conditions will be at that time -- whether they will keep (her) or not.

Noah Parquette:
OK. Thanks again.

Spyros Capralos:
Thank you.

Operator:
Thank you, sir.

Now from Morgan Stanley, your next question comes from Fotis Giannakoulis. Your line is now open, sir.

Fotis Giannakoulis:
Yes -- hi, gentlemen. I also want to ask about your new customer acquisition. If you can give us a little bit more background of what led you to such an acquisition -- obviously the financing looks very attractive to you. But how did this opportunity come through to you and why did you choose to buy Newcastlemaxes?

Spyros Capralos:
Thank you, Fotis, and good morning. We have -- had already ordered Newcastlemaxes from that same yard, SWS, which is one of the most reputable yards in China. When these came as a deal that we could be part of it, we opted to proceed because the financing was very advantageous and this deal gives a lot of opportunities to us and the option to acquire this vessel within the 10-year period.

And looking at the financials, even though the credit terms of the spread that we're paying the financial cost is higher than what we'd normally pay on commercial loans, we thought that the acquisition price of 59 million for the one and 56-and-a-half million for the other one, as well as all of the total costs involved, makes it advantageous if we are proven right that the market will become stronger for these class of vessels.

We like Newcastlemaxes. We think that in the future, Newcastlemaxes will be the winners in this Capesize segment. And that's why we proceeded to do it -- and because we found that the those (vessels) had much -- had deliveries late '15 and early '16. That has helped our decision -- because these days, it's very difficult and very rare to be able to get some quality yards deliveries at those early days.

Fotis Giannakoulis:
Thank you, Spyros. A little bit more about Newcastlemaxes -- we have seen other companies ordering these vessels. But the deals that we have seen, they always have some time charter for a number of years. How is the spot market for Newcastlemaxes? How shall we think the revenues (of) -- besides, it sounds pleasantly surprising of the acquisition price -- is very similar to Capesizes. But is there any premium (or) that we should consider? And also, how do operating expenses of a new new build - Newcastlemax compared (without other) Capesize?

Spyros Capralos:
I will start with easy part, which is the second -- the last part of the question. We expect Newcastlemaxes to have similar operating expenses as the Capes. But now on the revenue potential -- and because also these Newcastlemaxes are also with modern designs and therefore they will be more advantages to the existing Capes. But on the revenue potential, we haven't seen how much the market is willing to pay as a premium versus the Capes yet. We know that there is demand for such vessels, and -- but still in questions whether we would be willing to time charter them for a long periods. From now, our answer is no -- because we think that we can have later on higher prices than what the market is experiencing today.

Fotis Giannakoulis:
And regarding the spot market, is there liquidity enough for such vessels to operate with highest utilization like Capesizes?

Spyros Capralos:
Right now, there are not many such vessels in the water, but we think that because they can go to the same ports that Capes can go, we think that that's why they will have a higher and better potential -- because they carry exactly the same and they can do exactly the same trades, carrying larger quantities of iron ore and coal.

Fotis Giannakoulis:
Thank you, Spyros. One question about the market -- we've seen conflicting signals for the iron ore market at the beginning of the year. On the one hand, the imports in China -- they look quite strong. On the other hand, inventories, of course, are arising and steel production is uncertain. How do you view the steel market in China and do you see that there are any risks over a slowdown in steel production in China that could have an impact for Capesize (raise) and the dry bulk market in general?

Spyros Capralos:
This is a many million dollar question, Fotis. It's very difficult to know exactly what will happen with China. Of course, there are different views -- and we see and we analyze daily all those numbers that we -- that we see from China. Obviously, the market has picked up in the last few days, which means that there's more demand for vessels to -- and especially on the Capesize, which is most volatile of all the dry bulk segments.

But of course it's an (unknown factor). (Things) show that despite the slowdown of China, there's going to be still more imports coming in China because of the -- due to the poor quality of the domestically produced iron ore, as well as the coal. But nobody can quantify exactly how much it's going to be substituted. It has to also do with the prices of iron ore and steel. And of course we believe that long-term, (still) China will be a continuing, growing importer of iron ore.

Fotis Giannakoulis:
All right, one last question -- and it has to do mainly with your relationship with the -- your two major shareholders -- with Monarch and Oaktree. I understand that Oaktree has a separate fleet that is growing fast. First, how do you view the management income from operating the vessels of your major shareholder? And at what levels this income can increase the next couple of years? And second, if you have initiated any discussions of potential expanding your asset base with vessels -- that they are right now in the hands of Oaktree?

Spyros Capralos:
We enjoy a very good relationship with Oaktree and Oceanbulk -- and that's why we are managing their vessels. And we are doing, I think, a very good job -- the same way we are treating their vessels as we treat our own vessels.

And of course it’s a -- it's business that requires a lot of attention, effort and people; that's why, actually, we get paid the $750 per vessel, which covers our costs. And I think that the long-term -- when we'll be getting many of their vessels, because right now we only have 11 of their vessels; the other three as for -- are from other third party -- third party that we manage. So the

moment we get more vessels in the water, I think that we'll be able -- that will leave also some money on the table for us; but this is not the most important thing.

We think the most important is that we manage to achieve synergies and economies of scale; we managed to make better deals with all of our suppliers and gives us a much bigger (powder) to be able to negotiate and have better deals that improve not only the managed vessels performance, but also our own vessels because everybody benefits from that. For example, at year-end, when we get rebates from suppliers for certain categories of goods, those rebates are attributed accordingly to the own fleet as well as to the managed fleet -- and that gives benefits to all parties. And that's why I think that we enjoy a very good relationship with Oaktree and we continue managing their fleet.

Fotis Giannakoulis:
And regarding potential transaction with the Oaktree fleet?

Spyros Capralos:
We are always there exploring all kind of transactions and opportunities in the market; therefore, right now, I don't -- I cannot -- no, there's nothing more I can say. We're looking at everything.

Fotis Giannakoulis:
Thank you very much, Spyros.

Operator:
Thank you very much, indeed, sir.

And as there are no further questions, I'll pass the floor back, Mr. Capralos, for closing remarks.

Spyros Capralos:
Thank you all for joining us today for our earnings conference call and we will look forward to your attendance in the next call with our first quarter 2014 results towards the end of May just before Posidonia. Thank you, all, and have a good day.

Operator:
And with many thanks to both our speakers today, that does conclude the conference. Thank you for participating. You may now disconnect.