Corporate Participants

Petros Pappas
Star Bulk Carriers - Chief Executive Officer

Hamish Norton
Star Bulk Carriers - President

Simos Spyrou
Star Bulk Carriers - Co-Chief Financial Officers

Christos Begleris
Star Bulk Carriers - Co-Chief Financial Officers

Presentation

Operator:
Ladies and gentlemen, thank you for standing by and welcome to your Star Bulk Carriers first-quarter 2017 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 participants are in a listen-only mode. There will be a presentation, followed by a question and answer session. At which time if you want to ask a question, please press star one on your telephone keypad and wait for your name to be announced. I must advise you this conference is being recorded today on Thursday, May 25, 2017.

We now pass the floor to all of your speakers today. Mr. Pappas, please go ahead.

Petros Pappas:
Thank you, operator. I'm 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 2017. Before we begin, I can please 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 III of the presentation for a summary of our first-quarter 2017 financial highlights in comparison to the same period last year. In the three months ending March 31, 2017, net revenues adjusted for non-cash items less voyage expenses amounted to $49.9 million, 85 percent higher than the $26.9 million for the same period in 2016.

Adjusted EBITDA for the first quarter 2017 was $18.1 million versus negative $7.3 million in the first quarter 2016. Adjusted net loss for the first quarter amounted to $12.9 million or $0.21 loss per share versus $38.3 million adjusted net loss or $0.87 loss per share in Q1 2016.

Our time charter equivalent rate during this quarter was $8,176 per day compared to $4,331 per day in the same quarter last year. Our average daily operating expenses were $3,949 per vessel per day.

During the quarter, we were able to acquire two modern Kamsarmax vessels at attractive prices and improve the average age profile of our fleet. We have agreed with a major financial institution for up to $16 million of financing for these two vessels, which demonstrates the continuous support of our lenders to the Company.

I will now pass the floor to our co-CFO Simos Spyrou for an update on our operation performance for the quarter.

Simos Spyrou:
Thank you, Petros. Slide number 4 highlights Star Bulk's strong liquidity position. Our focus on cost control combined with our restructured capital structure enables us to have an (all endcap) break-even, which, including OpEx, corporate overhead, interest, lease payments, and drydock provision, is approximately $7,400 per vessel per day. Our lower breakeven enabled the Company to have positive free cash flow of $3.7 million during the first quarter of 2017.

On the right-hand side, we provide recent balance sheet information on our cash and debt positions. As of May 24, our total cash balance stood at $249.4 million. Total debt as of the same date stood at $1.05 billion. These figures are adjusted for the new $16 million debt facility we are expected to draw on during this quarter.

The remaining CapEx on the three new Kamsarmax vessels that we are due to take delivery of is $103.5 million. $29.2 million is due in 2017 when we take delivery of 1 vessel and $74.3 million is due in early 2018 when we take delivery of the remaining two vessels.

One of the three vessels have variable financing with fixed debt amounts and no LTV test at drawdown. We are in negotiations for 60 percent LTV financing of the remaining 2 vessels that will leave around $7 million of equity required in order to take delivery of the vessels.

In slide 5, we want to update you on our fleet employment. We have fixed 26 vessels on period charters ranging from a couple of months up to 12 months forward. For the second quarter, we have fixed 81 percent of the second-quarter available days at an average TCE of $10,150 per day per vessel.

In addition, four index-linked Newcastlemax vessels are employed with a major miner for a series of consecutive voyages. And another Newcastlemax is employed on a time charter contract with a major trading house at BCI plus 32 percent.

Please turn now to slide number 6, where we summarize our operational performance for the first quarter 2017. The combination of our in-house management and the scale of the Group provide us significant advantages in terms of cost and quality which our shareholders can enjoy.

Operating expenses were at $3,949 per vessel per day for the quarter, in line with our performance over the previous three quarters. Net cash G&A expenses adjusted for one-off restructuring expenses were $1,133 per day per vessel for the quarter.

Our low cost structure is complemented by excellent fee management capabilities, as Star Bulk is ranked in the top three among managers evaluated by Rightship. We are very focused on having the highest standards of vessel safety and maintenance to meet the requirements of our strictest and most demanding clients.

Slide 7 shows that Star Bulk is one of the lowest cost operators among US leased dry bulk peers based on the latest publicly available information. Star Bulk is one of the leaders in cost efficiencies among the industry, with OpEx approximately 15 percent below the industry average.

Notwithstanding the above, we always continue paying a lot of attention on the condition of our vessels in order to remain at the top of the lease of our commercial partners.

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 8 for a brief update of supply. During the first 4.5 months of 2017, the dry bulk fleet has grown by 1.8 percent. A total of 20.6 million deadweight has been delivered and 6.3 million deadweight has been sent to demolition.

Dry bulk confirmed contracting has remained low, with 2.1 million deadweight currently reported by Clarkson's as firm orders. Limited contracting, along with relatively high deliveries, cancellations, and conversions, have helped bring the dry bulk order book to approximately 8 percent of the fleet from 15 percent during the same period last year.

Despite the record low order book, we expect full-year net fleet growth to increase to around 3.5 percent during 2017 from 2.2 percent during 2016, mainly due to a slowdown in demolition activity from 29.3 million deadweight during 2016 to less than 15 million deadweight during 2017.

Finally, it is important to note that demolition continues to outpace contracting during the first months of 2017. And if this trend continues along with further slippage and potential cancellations, it will support a dearth of supply of vessels during 2018 and possibly 2019.

Let's now turn to slide 9 for a brief update of demand. As per Clarkson's latest reports, total dry bulk trade in tons will grow by 3.1 percent during 2017, up from 1.9 percent during full year 2016. More important is that from the middle of 2017, we expect ton miles to grow at a higher pace on the back of stronger Brazilian iron ore and West Africa bauxite exports and healthy grain demand from the Pacific.

During the first quarter of 2017, global steel production growth has rebounded by 6 percent, following a healthy recovery of international steel prices and steel mill profitability. Pig iron production in China reached a new record high in April 2017 due to ongoing substitution of induction furnaces and strong steel consumption from healthy infrastructure and real estate investment.

China coal mining capacity cuts during the second half of 2016, record low coal stocks, and a 7.6 percent growth in thermal electricity production during the first four months of 2017 has forced imports to rebound by more than 30 percent over the last quarters. Despite the recent disruptions in Australian coal exports, we expect volumes and ton miles to continue to expand in the medium term.

2016 will go on record as one of the most challenging years in living memory. 2017 will see an influx of up to 45 million tons deadweight and the recent market slowdown indicates that wherever it becomes too optimistic may be met with disappointment. We therefore highlight once again that the most important factor for market balance is owners' supply discipline.

Continued absence of ordering and acceleration of demolition are required to place a cap on fleet growth for 2019, as 2018 is already almost closed at low prospective delivery levels. That way, the foundation will be laid for a sustainable market upturn to increase pace. Thereafter, and assisted by the positive scrapping and (speedy) reduction impact of the impending environmental regulations, the shipping markets will finally find their way to a strong recovery.

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

Operator:
Thank you sir. Ladies and gentlemen if you would like to ask a question today, please press star one on your telephone keypad and wait for your name to be announced. To cancel your request, please use the hash key. Once again that's star one if you do have a question today. Your first request comes from the line of Amit Mehrotra from Deutsche Bank. Please go ahead, your line is now open.

Amit Mehrotra:
I just want to congratulate everyone. I think this is really the first quarter in what seems to be forever that the Company is actually reporting positive EBITDA on an unadjusted basis. So hopefully this release in some ways can represent an inflection point for the Company.

With that being said, it's also true that the breakeven levels are somewhat artificially low, I would say, because of the deferrals of the debt amortization payment. So I think that stops by the middle of next year or lasts through the middle of next year.

So either Christos or Simos, could you just please talk about how much of the Company's breakeven levels will increase, I guess, in the third quarter of next year versus the $7,000 to $8,000 per day level today. Thank you.

Christos Begleris:
Well, right now, as you correctly said, we have a low cash breakeven of around $7,400 per day, given the deferrals. From July 1, 2018, we go back to our old breakeven of $11,400, given that principal repayments are approximately $4,000 per day.

Now, we have already announced that, for example, for the second quarter, we have booked about 80 percent of our days at $10,000, which means that we will also have some payments of the deferred amounts through our cash (we've maken).

Amit Mehrotra:
Okay, that is great. So $11,400 is kind of the bogey, which I guess seems pretty reasonable based on where you are fixing today. Petros, I think last quarter, we talked about this maybe pivot in terms of chartering strategy and locking in a little bit of visibility. You are certainly doing at least three months out.

Is there any -- given the massive size of the fleet, is there any appetite to potentially leave some money on the table if there is a recovery, but just secure a little bit more visibility further out? So maybe at the end of this year, we could be looking at more than just three months out the majority of the days fixed? How do you think about that?

Petros Pappas:
We are basically fixed for 2017. We have covered about 28 percent of our income starting June 1 till the end of December. Now, we are expecting a strong -- for various reasons, we are expecting a stronger second half of the year. And depending on how that goes, we will also consider what -- and forecast what's going to happen in the first half of next year.

However, if we see a very strong market towards the second part of this year, I think we would probably try to take some cover to get through to the first half of next year.

Amit Mehrotra:
Okay, got it, great. Thanks. And then one last one from me. A little bit of a bigger picture question, but I think an important one nonetheless with respect to the new sulfur cap regulations.

Petros, it feels like a lot of people aren't thinking about it in terms of the potential cash calls to the businesses. I believe you are obviously and the management team is thinking about it. Given the massive fleet that you guys have, just like to get your thoughts on how you are thinking about the capital needs to comply with this new regulation.

And how you and the rest of the management team maybe strategizing in terms of trying to understand the economics about the incremental cost of scrubbers and things like that versus the potential opportunity of having that asset be as productive as possible. If you can just help me understand how you're thinking about that.

Petros Pappas:
Yes, well, first of all, the cost of installing scrubbers on the various types of vessels we have range between, let's say, $2 million and $5 million per vessel. So if that's, let's say, it is an average of $3 million, it would cost the Company like -- and if we decided to install them on every vessel, it would cost us about $220 million.

Now, first of all, we think there's going to be loans for that. Already financial institutions are considering it. So if that is the case, it will assist a lot in taking the decision to install scrubbers. Potentially even the scrubber companies themselves might finance installation of such scrubbers.

Then if you do the calculation, and depending on whether you have your vessel on voyage or on time charter, and depending on the size of the vessel and the age of the vessel, one has to take his decision which -- it's basically a financial decision.

But if you install a scrubber, we should probably look at being able to repay that scrubber within between one to two years and depending where distillate prices go. So from the financial side and provided there's finance for these scrubbers, I think that it would make sense for shipowners and definitely for our own Company to install scrubbers on our vessels.

Now, I said that it's different on whether you are on voyage charter or you are on time charter because if the vessels are on time charter, I'm pretty sure that the charters will ask for a percentage of the profit differential. Let's say that fuel oil costs $300 and distillate costs $600. And therefore, you save $300 per ton and you burn 30 tons a day, that's $9,000 difference a day.

The charter will probably ask for part of it, like 40 percent or 50 percent. And therefore, that will double the time during which you can recover the cost of the scrubber. If you do voyage charters, then 100 percent of the profit is yours. And therefore, bigger vessels do more voyage charters than smaller vessels.

And we are taking all that into account. I think that we are veering towards installing scrubbers. We don't think -- we think a lot of people will not install scrubbers. Actually, if nobody install scrubbers, the market will go through the roof because the vessels will have to slow down speed. And along with scrapping, that will occur as a consequence of the additional costs of older vessels, older smaller vessels will become uncompetitive and especially when their dry docks come due. The less scrubbers, the higher the market is going to be.

Amit Mehrotra:
But then I understand the economics of it a little bit. But it becomes a little bit more difficult, the economics at least, when you think about it in terms of the more modern vessels versus the older vessels. You have generally a nice fleet of modern ships, but you also have some that are going to be -- that are aging and going to be of age over the next two to three years.

So do the economics become more difficult there? And so when you talk about installing scrubbers on the entire fleet, which is obviously a significant cash call, could we expect maybe a pruning of the older ships and a sale of the older ships? And then you're really just focusing on doing it on the newer ships so the cash call might also be less?

Petros Pappas:
It goes without saying that the younger vessels and bigger vessels are the first in line to do this for; there's no question about that. And then as age goes up and size goes down, it perhaps not as important.

However, if you can repay the scrubber in one to two years, it probably makes sense to install them even on smaller vessels. Now, one thing that would stop people from installing it is in case it's more -- there's not enough space or the configuration of the vessel doesn't allow it.

So I think for us, we will start with the bigger and younger vessels and go down the row. So I think we would probably end up doing it on everything. Of course, if there's no finance and one has to shell out $230 million, then we'll have to see which vessel do it first.

Amit Mehrotra:
Right, right. Yes, that makes sense. Okay, that's all I had. Thanks for answering my questions, everybody. Have a good day.

Operator:
Your next request comes from the line of Fotis Giannakoulis from Morgan Stanley.

Fotis Giannakoulis:
Petros, I wanted to ask you about the market, the S&P market. It was very hot at the beginning of the year when rates rallied and it seemed to be a lot of people expecting vessels. The charter rates have eased off a little bit the last couple of months.

I'm wondering if you see any slowdown in the interest of buyers to acquire ships? If asset values they remain at the same levels or you see any weakness that might allow you to utilize your excess cash that you have in your balance sheet.

Petros Pappas:
First of all, yes, we think that prices have gone down by between 5 percent and 10 percent during the last couple of weeks when the market went down. However -- and then of course, we saw what happened when the market was going up, which shows that we shipowners have amazing reflexes.

It's not certain that it's good, because those reflex, especially when the market goes up, basically stops us from benefiting from the market by over-ordering, but -- especially on the newbuilding side. But yes, we've seen it going up and then now we're seeing it going down. And I think that if the second half is stronger, then you'll see prices going up again. This happens very quickly, actually.

Hamish Norton:
Just to answer the second part of your question, I think, as you may have understood from Petros' remarks, I think we would in this market normally be investors in vessels. But our bank restructuring doesn't permit us to use the cash on our balance sheet to buy vessels.

We are required to, if we buy vessels, use proceeds as equity issued after September of 2016 and then only at 50 percent loan to value or less. And furthermore, we have to take 20 percent of any equity we use to buy vessels and repay bank debt. So that's probably the main reason you haven't seen us buying a large number of vessels.

Fotis Giannakoulis:
Just to follow up on this last remark, we have seen in other sectors in tankers some acquisitions or efforts to expand utilizing the stock as a currency. It seems that there are plenty of vessels owned by financial investors that -- investments that they would have made a few years ago at a much higher environment.

Last year, obviously, nobody could sell anything because the market was so weak. Now the market has improved considerably. Are there any opportunities for you to do any stock acquisition and expand your fleet asset through an M&A?

Hamish Norton:
The same restrictions apply to a share-acquired vessel as they do to a cash-acquired vessel. And we still have to deal with equity issued after September 2016. We are limited by the 50 percent loan to value and we have to take 20 percent of any equity paid for the vessel and use that amount to repay banks pro rata.

If there were an acquisition that were attractive enough that we could get approval from all banks, obviously we would like to do that. We haven't seen anything so far that is as attractive as that. But we are open.

Fotis Giannakoulis:
Going back to the market, Petros, I just wanted from you if you can dissect the reason of the softness the last couple of months. If you see specific trades weakening, for example, if it is the Chinese trying to

bring down their iron ore inventories. If you see last volume from Brazil lately, or it's a result of seasonality and some temporary increase in the coal production in China.

Petros Pappas:
Yes. Well, always the first half of a year is slower than the second half of the year. And we have averaged out to be like 46 percent versus 50 percent of the trade taking part in the first half and second half of the year, respectively.

Now, the latest slowdown is a result of a number of factors. Of course, we always see that after the fact. First of all, the Typhoon Debbie decreased Australian coal exports by between 30 percent and 50 percent.

And what it did was in effect to increase coal prices. The minute coal prices increased, it made more sense for the Chinese to increase their local production. And you see that in April, local Chinese production went up by 9.9 percent. We estimate that May is going to be up by 15 percent. So one negative thing is China increased their local production because of high prices, which was affected at least to a great degree from the Typhoon Debbie.

Now, a second reason for the slowdown is high iron ore prices that were around $90 per ton. And that led to an increase in internal Chinese production of up to 14 percent during Q1. So it was the same reason. Now I think that iron is down, I don't know, it's down to mid-$60s or something or low $60s. So this will turn around.

Then also Brazil had a slowdown in their exports in this period of the year. And usually endures still middle of July. We think that as of the middle of July, it will increase, for example, from 8 million tons went down to 6 million tons of exports.

Then, Brazil up to now has only exported 40 percent of their grain crop. There's another 60 percent to be exported. And I think with their currency being devaluated as of late by -- I don't know what it was; 8 percent to 10 percent -- this will give an extra incentive for exporters to sell more of it.

That, the fact that they didn't export as much grain, also affected congestion. Right now congestion in Brazilian ports is about 40 vessels, where in the last two years we were used to congestions of between 100 and 200 vessels. So there's more vessels free in the market.

On top of that, we had a fleet increase of 3.8 percent year on year, which is pretty high, and demolition went down. And finally, oil prices were relatively low and that means higher vessel speeds. All these things we believe are going to turn around, like coal prices.

Typhoon Debbie is not there anymore. They are preparing their facilities. We'll see more coal coming from Australia, which will also increase ton miles. Because the Chinese not only increase local production, but they also import it from Indonesia more. So that we think will be reversed.

Iron ore, there will be more iron ore coming from Brazil; lower prices; FX regions. We see more tons and more ton miles there as well. We are expecting the 60 percent of grains to come out of Brazil as well, which is another positive factor.

Fleet increase will slow down going forward because most of the vessels usually come in the first part of the year. And we also think that oil prices may have hit a bottom and may start going up.

So all these factors that were negative in the last couple of months will probably turn positive. I told you why we think that the market went down and I'm telling you why we think the market will improve during the second half.

Fotis Giannakoulis:
Can I ask you if you can share how do you position your vessels regionally? Are you sending more of your vessels to South America, to Brazil for grains and for upcoming ore exports? Or there might be in the Atlantic Basin also pockets of demand that they can spread the global fleet around the world and increase the utilization?

Petros Pappas:
Well, you are asking me to divulge secrets of the trade now. Okay, what we try to do is the following. There's some vessels that are better traders in the Atlantic, and like, for example, the Supramaxes. And we try to send them back with long-haul -- long-backhaul cargoes from the Far East to the Atlantic at relatively low levels. But then once they are in Atlantic, we try to keep them operating there.

Our Panamax, Kamsarmax, and Post Panamax would try to position in India, in the Persian Gulf, to be closer to East Coast South America during the grain season. Our Capes and Newcastlemaxes, when the market is low, we try to maintain in the Pacific in short-term trips, like 35 to 40 days. So that while it is low, we at least don't lose money for a long time or make less money for a longer period of time.

And basically, that's the strategy. Of course, sometimes beggars cannot be choosers. And if things are bad, we are trying to find the best possible business under the circumstance.

Fotis Giannakoulis:
And it works the other way around hopefully very soon.

Petros Pappas:
Yes, I am certain about it.

Fotis Giannakoulis:
My last question -- I want your comment about the VLOC accident and the 50 converts, the VLOCs. Have you seen any slowdown in their utilization, in their speed, any signs of a substitution?

You are very familiar with the large vessels. Can this accident also have any implications for the utilization and the speed of the new building vessels that they will come the next couple of years?

Petros Pappas:
Well, besides the tragic incident of the one vessel that sank, it seems there were problems on another two or three of those. One of them went to Brazil that didn't load and then left. We are not sure about its whereabouts. And it seems that a couple of others developed cracks.

Now, these very big animals, if you don't keep maintenance up, they go very quickly. And in my view, on 20-year-old vessels or 25-year-old vessels like this, I'm pretty sure there's a lot of problems.

Now, it will depend a lot on how correct the classification. Sometimes (society) check the vessels. And how much pressure there is on the owners of these vessels as well as the charters, especially if they want to appear to the public eye being correct charterers and following safety rules and environmental and other stuff, I think that I'm pretty sure that most of these vessels will present problems under scrutiny.

I'm not sure it will happen they will stop trading or not. I think we should put pressure on that because it's the right thing to do and it will also assist the markets. I think what will happen is that the people that own them, with few exceptions, will try to keep on trading them.

And at the same time, I'm pretty certain that at some point in the next few months, we will see some orders coming in to replace them. So I'm mildly hopeful and -- but I don't control the situation there. So we'll see what happens.

Fotis Giannakoulis:
Thank you very much, Petros, for sharing your insights.

Operator:
Thank you, as a reminder ladies and gentlemen, it is star one if you would like to ask a question today. Your next request comes from the line Noah Parquette from JPMorgan. Please go ahead your line is now open.

Noah Parquette:
I wanted to ask, following up on asset values softening a little bit, how close are we, you think, to a point where owners seriously consider new orders again?

Petros Pappas:
I think you got the answer two months ago, three months ago. Owners were there to order vessels. In reality, owners ordered 13 million tons of vessels within a span of 1.5 months. Fortunately, only 2.1 million of those were actual contracts and the rest were LOIs and options.

Now we understand that at least 40 to 45 of those LOIs have been canceled. That would probably mean about 3.5 million tons of those 15 million. And if the market stays down for a little bit longer, I think we may see more cancellation.

But owners are very quick to respond to these things. So if the market goes up in September, I'm pretty sure that people will order again. Of course, this will have to go for 2019. There's very few slots for 2018 towards the last quarter of 2018. So at least for 2018, we almost know the order book.

Noah Parquette:
You read my mind on that last part. Just lastly, I wanted to get your opinion with the VLOC situation in the news, how you perceive the safety issues there? And what are your thoughts on how this plays out?

Petros Pappas:
Well, as I told Fotis a couple minutes ago, these are very big animals. And there's no question there is -- if one was going to go through a very meticulous check of the vessels that a number of problems would appear.

Now, will these vessels sink because of these problems? It requires a number of things for vessels to sink. Basically, first of all, the way vessels are loaded is important. The rate at which they are loaded may create damage to the vessel. Or if they do alternate haul loading, that may increase the risk of a vessel during the sea passage. Weather has a lot to do with it.

Generally vessels withstand all that, but there's no question that the risk involved is higher than it would've been otherwise. So if we would want to get down to almost 0 percent of risk, then it would be very difficult to achieve that with these vessels. But I'm not saying that the chances are 50 percent for a vessel like that to sink, but there's definitely a higher risk than nil risk.

Noah Parquette:
Okay. That's all I had. Thank you.

Operator:
Thank you. At this time, there are no further questions, so I hand the conference back to your speakers.

Petros Pappas:
Operator, nothing else to add. Thank you very much for ending this. And let's hope for a better market going forward.

Operator:
Thank you, sir. So ladies and gentlemen that does conclude your presentation for today. Thank you all for participating. You may now disconnect.

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