Q3 2014 Earnings Call Company Participants

- Petros Pappas, Chief Executive Officer
- Hamish Norton, President
- Christos Begleris, Co-Chief Financial Officer
- Simos Spyrou, Co-Chief Financial Officer

Other Participants

- Douglas Mavrinac, Analyst
- Jon Chappell, Analyst
- Ben Nolan, Analyst
- Salvatore Vitale, Analyst
- Noah Parquette, Analyst

Operator

Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the Third Quarter 2014 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. (Operator Instructions). I must advise you this conference is being recorded today, Tuesday, December 2, 2014.

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

Petros Pappas, Chief Executive Officer

Thank you, operator. I'm Petros Pappas, the Chief Executive Officer of Star Bulk Carriers, and I would like to welcome you to the Star Bulk Carriers' conference call discussing third quarter and nine months of 2014 financial results.

Before we begin, I kindly ask you to take a moment to read the Safe Harbor statement on slide number two of our presentation.

Ladies and gentlemen, it is with great pleasure to report profits in the first quarter following the two transformative transactions announced back December. We do look to more profitable quarters in the future, but this is certainly a good start, in particular, for the third quarter 2014, Star Bulk reported net revenues of 25 million, adjusted EBITDA of $9.7 million, a net income of $200,000 or $0.3 per share.

Going through our recent corporate events on July 11, 2014, we successfully closed the

merger with Oceanbulk, approved essentially by all the shareholders of Star Bulk . As a result of the transaction, we have recognized a non-cash gain from bargained purchase of $12.3 million.

Furthermore, we continue to take delivery over the 34 vessels acquired and blocked from Excel Maritime. As of today, we've taken delivery of 20 vessels, 9 of which during the third quarter of 2014.

We expect to complete the delivery process by the end of the year. Total cash consideration paid as of today is $176 million, financed by $156 million debts and the remaining from cash on hand. We have drawn circa a $131 million from the bridge loan facility provided by Oaktree in Angelo, Gordon while $24.75 million debt financing have been provided by DVB Bank. Having commissioned a major growth plan, we have shifted our focus on securing and financing for it.

On November 7, 2014, we successfully completed the public offering of 2 million notes due in 2019 bearing fixed interest at the rate of 8% per annum, raising $50 million in gross proceeds. This does demonstrate our access to various sources of capital. In addition, (Technical Difficulty) to procure $30 million debt financing on 11 vessels acquired by Excel, which will further boost our liquidity position when drawn.

We also secured the commitment of $157.3 million from two major lending institutions for ECA backed financing of eight Ultramax newbuildings due for delivery in 2015. On the newbuilding front, this quarter we have taken delivery of two Japanese-built Capesize vessels, both with fuel-efficient specifications. We clearly believe in vehicle story, and in the potential of these vessels. And we look forward to the delivery of the remaining 35 newbuilding vessels over the next two years.

Total financing committed or nearly committed from June 30 to date of $694 million against for the vessels. Finally, we had settled a packed claim with STX Pan Ocean regarding a reputed long-term charter of Star Borealis netting $8 million of cash compensation collected in full in October, plus $1.4 million in banking compensation.

Our long-term goal remains to build a large well-capitalized drybulk shipping company, while in the short term, smooth execution of our growth plan and bridging of our newbuilding funding gap remain top priorities.

Let me now pass the floor to our President, Hamish Norton, who will drive you through a brief overview of our carrying fleet and its lined up growth plan. Hamish, the floor is yours.

Hamish Norton, President

Thank you, Petros. Please turn to slide number four for a brief review of the characteristics of our fleet following the two transformative transactions with Oceanbulk and Excel Maritime. This graph illustrates our pro forma fleet which is diversified across all five segments.

You can see how the acquired fleet from Excel Maritime complement our existing fleet in sizes in which we had little exposure. We believe that this versatility and diversity will enable us to better service our customers needs commercially. We will be able to do business with a variety of charters and handle all types of drybulk cargos.

Furthermore, operating a large fleet allows us to provide scale to our drybulk customer, since they can charter many similar and sister vessels from us, instead of the logistic issues of having to shop through various owners. Excluding the older '90s built Panamaxes, the average age of the fully delivered fleet in August of 2016 when our last newbuildings would have been delivered will be 6.5 years. It is worth mentioning that in terms of deadweight tonnage, over 60% of our fleet will be Capesize and Newcastlemax vessels, with 39 vessels such vessels in operation on a fully delivered basis.

Newcastlemax vessels are slightly larger Capesize vessels which are optimized for carrying iron ore. Our new Newcastlemax vessels can carry 208,000 to 209,000 tons of cargo.

On slide number five, you can see our contracted growth by number of ships and dead-weight tons. In December 2014 when we expect to have taken delivery of all 34 vessels of the acquired fleet, Star Bulk will own 68 ships in the water up from the 52 currently and up from the 17 prior to the merger with Oceanbulk. By Q4 2015, when we would have taken delivery of the majority of our eco newbuilding orders, we will own and operate 96 vessels, followed by our full fleet of 103 ships by August of 2016. This expansion plan was well timed across the shipping cycles from both the short and the long-term perspective.
Slide number six provides a more detailed view. First of all, our newbuilding orders were placed at one of the lowest points with the newbuilding price cycle. Subsequently, we merged with Ocean Bulk at an opportunistic time in July after a high price levels of market faded [ph]. We then agreed the acquisition of the XL vessels in August, taking advantage of even lower vessel prices at that time. Going forward, we continue to explore consolidation opportunities.

Let us now turn to slide number seven of the presentation. With an on-the-water fleet of approximately 6.8 million deadweight tons as of December 2014, and a total owned fleet of 11.9 million deadweight tons on a fully delivered basis.

We are by far the largest listed -- US listed drybulk company by deadweight. I would like now to pass the floor to our co-Chief Financial Officer, Christos Begleris to walk you

through our third quarter and nine month financial statements.

Christos Begleris, Co-Chief Financial Officer

Thank you, Hamish. Let us now turn to slide number nine of the presentation for a preview of our third quarter 2014 financial highlights in comparison to last years. In the three months ended September 30, 2014, net revenues amounted to $25.2 million versus 17 million during the same period of 2013.

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 revenue recognition between voyage charter and time charters and therefore is directly comparable to other periods.

This increase is attributed to the increase of the average number of vessels to 31.5 in the third quarter of 2014, from 13 vessels in the third quarter of 2013. Note that the majority of the revenues from the management of third-party vessels was being generated, promotion bulks vessels, which as of July 11, became owned vessels and thus we will not be getting management fees going forward.

Adjusted EBITDA for the third quarter 2014 was 9.7 million increased by 24% versus last year's respective figure. Net income for the third quarter 2014 was 0.2 million or $0.003 per basic and diluted share versus 0.2 million net loss or $0.01 per basic and diluted share in the respective period of 2013.

Excluding non-cash and one-off expenses related to the Star Bulk, Ocean Bulk merger, our adjusted net loss for the third quarter amounted to 2.2 million or $0.03 per basic and diluted share versus 2.3 million adjusted net income or $0.13 per basic and diluted share during the respective period of 2013.

Our time charter equivalent rate during this quarter was 11,159 per day compared to 14,652 per day last year. Our average daily operating expenses were 5,192 per vessel compared to 5,675 during the same period last year, representing an 8.5% reduction.

The reduction is even bigger if we exclude approximately 1.1 million or $376 per day of pre-joining and pre-delivery expenses related to the acquisition of XM vessels and the two newbuildingsdelivered during that period.

Continuing with slide number ten of the presentation and the preview for nine months 2014 financial highlights in comparison to last years. In the nine months ended September 30, 2014, net revenues amounted to 65.6 million, 28% higher versus 51.4 million during the same period of 2013. This increase is attributed to the increase of the average number of vessels to 21.5 in the nine months of 2014 from 13.4 in the nine months of 2013.

Adjusted EBITDA for the nine months ended September 30 was 27.1 million, 8.5% higher than the 24.9 million versus last year's respective figure.

Net loss for the nine months ended September 30, 2014 was 3.7 million or $0.08 per basic and diluted share versus 1.8 million net income or $0.19 per basic and diluted share in the respective periods of 2013.

Excluding non-cash and one-off expenses related to the Star Bulk-Oceanbulk merger, our adjusted net loss for the third quarter amounted to 2.4 million or $0.05 per basic and diluted share versus 7.6 million or $0.82 per basic and diluted share during the respective period of 2013.

Our TCE equivalent rate during this nine month period was $12,813 per day compared to $14,414 per day last year. Our average OpEx were $5,302 per day per vessel, compared to $5,622 per day per vessel during the same period last year, representing a 5.7% reduction.

This reduction is even bigger if we exclude 1.5 million or $256 per day of pre-joining and pre-delivery expenses related to the acquisition of Excel vessels and the two newbuildingsdelivered during that period.

Kindly turn now to slide 11 for a review of our balance sheet as of September 30, 2014. This is the first consolidated balance sheet of Star Bulk and Oceanbulk following the merger of July 11, 2014.

Total cash including restricted and pledged cash stood at 107 million. Other current assets stood at 47 million increased from 14.5 million on the previous quarter.

Net fixed assets stood at 1 billion versus 377 million on June 30, 2014. Please note that this figure includes the 30 on the water vessels owned by Star Bulk and Oceanbulk prior to the merger, two newbuilding Capesize vessels delivered during the third quarter and 9 of the 34 vessels acquired from Excel Maritime during the same period, i.e., 41 vessels in total.

Advances for vessels stood at 392 million as of September 30, 2014 and were basically comprised of 290 million of cash paid for newbuilding installments for our 35 new buildings, 25 million for the two vessels to be acquired from Heron Ventures and 10 million of capitalized borrowings in supervision costs. The figure also includes, a figure that comes from the process with consolidation with Oceanbulk as per US GAAP provision for business combinations, which is a fair value adjustment of 138 million recording in this account on top of the cash newbuilding installment paid.

On the liability side, total debt as of September 30, 2014 stood at 576.25 million versus 253.9 million on June 30, 2014. The former figure includes 59.8 million of the bridge loan facility provided by Oaktree and Angelo Gordon to take delivery of their nine vessels from Excel Maritime who took delivery during the third quarter of 2014.

Total shareholders' equity as of September 30, 2014 stood at 1 billion versus 264 million as of June 30, 2014. Based on the above, our net debt was at 470 million approximately, implying a net debt to capitalization ratio of 30% which we clearly feel comfortable with.

And now, I will pass the floor to my co-Chief Financial Officer, Simos Spyrou to continue with an update on our current debt, our CapEx and overall leverage profile.

Simos Spyrou, Co-Chief Financial Officer

Thank you, Christos. Let us now move to slide 12 to discuss the current status of our balance sheet and leverage profile. Currently, our total debt stands at 716.3 million and our total cash position at 110.7 million. Consequently, our net debt is 605.6 million. The above figures are inclusive of certain changes since September 30, 2014 such as the successful public offering of $50 million of senior unsecured notes due in 2019. The drawdown of an additional 71.67 million from the bridge loan provided by Oaktree and Angelo Gordon, the drawdown of 24.75 million of debt financing provided by DVB in order to finance the acquisition of Christine.

Going forward, as you can see from the bottom graph, our principal repayment so far this year stand at 32 million, while our remaining scheduled principal repayments for 2014, 2015 and 2016 stand at 5.8, 70.8 and 53.9 million respectively.

Moving to slide 13, this is a list of the 35 newbuilding vessels we are scheduled to take delivery by the second quarter of 2016 and status of financing for each one of those.

We have obtained committed financing for 24 out of the 35 of newbuilding vessels. We are in negotiations for the financing of nine newbuilding vessels and we expect these negotiations to turn into committed financing in the next one or two months. There are only two vessels for which we have not commenced negotiations yet, and for which we are targeting a total of 65 million of senior debt financing, which is the equivalent figure we have obtained for (inaudible) of those vessels.

Regarding the underwater vessels, we have recently signed committed term sheets with CIT for up to 30 million secured debt financing on 11, 1990s built vessels being acquired from Excel Maritime.

Furthermore, we are in discussions to proactively refinance the 231 million bridge loan facility provided by Oaktree and Angelo, Gordon and we have signed committed term sheets for 17 out of the 33 vessels securing the facility.

In addition, we are currently in a preliminary discussion so as to refinance certain of our balloon payments due in 2016, aiming to smooth out our cash flows during this year.

Overall, we see strong demand from major lenders to finance our vessels and this is reflected in the terms offered to us. For example, our cost of debt financing has been reduced by 50 to 75 basis points as a direct result of the improving financing market, as well as the increased size of the company, following the merger with Oceanbulk.

Moving now to slide 14, you can see that our CapEx fund is mostly addressed. The total contracted costs of our 35 vessels on order stands at 1.5 billion.

Aside from new buildings, as of today, we have 12.5 million of cost to be paid to Excel Maritime for the delivery of the remaining vessels representing our equity portion of them.

We have also paid so far 244.6 million in the form of advance payments for the newbuilding vessels. We have committed debt financing of 717.4 million, while we are currently on the final stage of negotiating with lenders another 305 million of debt financing.

Assuming 60% debt financing for the non-finance newbuilding vessels on their contracted values as we said before, we estimate another 65 million of debt financing there. Subtracting the total debt financing of 1.04 billion from the remaining CapEx leaves a remaining equity CapEx figure of a 186.2 million. Furthermore, the 11, 1990s built vessels acquired from Excel Maritime have today an aggregate scrap value of 49 million which if netted against the 30 million of the aforementioned CIT facility, results in 19 million net scrap proceeds from the potential sale of these vessels. We may be able to sell them for more, but we are clearly taking a conservative side here.

Adjusting for our cash on hand, expected cash inflow from refinancing and undrawn committed debt and minimum liquidity requirements leaves an equity CapEx gap slightly north of 102.7 million, which is a figure that we feel comfortable given the size, the visibility and the shareholder base of this company.

Just to clarify this amount is spread over a period of 1.5 to 2 years. So we have some time ahead of us to select the best financing solution.

Let me now pass the floor back to Petros to give you an update on the market.

Petros Pappas, Chief Executive Officer

Thank you, Simos. Let's now turn to slide 16 in order to summarize the drybulk trade demand dynamics. Commodities in our materials currently experience substantial price corrections with oil, iron ore and thermal coal prices being reduced by 32%, 49% and 21% year-on-year respectively.

The top right graph illustrates this exact points. It is clear to us that this weakness in commodity markets is mostly supply related and not demand related. Commodity demand remains healthy, while substantial supply expansion has resulted in proceeds [ph] across various commodity markets. This low price levels and the related trade arbitrage clearly provide a great incentive for importing countries to continue to source commodities carried through the international seaborne market.

Turning to China now, Chinese crude steel production growth has grown by 4% year-on-year, lower than last year's respective figure of almost 10%. At the same time, Chinese steel exports are up 54% year-on-year, which might not be a sign of weak domestic market as many analysts suspect, but may also be due to the trade arbitrage between Chinese and USA steel prices.

Furthermore, given the fact that steel prices have fared better than iron ore and coking coal prices, Chinese steel mills production margins have increased substantially, incentivizing production expansion.

As you can see from the bottom right graph, the cost for just one ton of crude steel in China used to be 73% of its selling price, while now it stands at only 54%.

The above situation should support a revival of Chinese crude steel production growth. Interestingly, Chinese iron ore imports have grown year-on-year by 13%, which may be explained by the substitution of domestic production by imports and new inventory buildup.

Aside from increases in the volume of iron ore imported to China, the source of imports and the average distances are also very important for ship-owners. This year, while the iron imports grew at 13% year-on-year, this figure when translated to ton-miles was lower at 9%.

This has put a ceiling on Capesize rates and was mostly due to the substantially higher expansion of mining capacity and export volumes of Australian iron ore majors versus Vale from the Atlantic. We expect that in the next two years Vale will cover the lost ground as it ramps up its production even also its target will essentially double its sales to the Pacific market by 2018. As we have explained in the past, these were increased on miles approximately three times the tons transported.

Moving on to slide 17, we will try to provide an update on the coal and grain trade. Chinese coal trade has contracted by 12% during 2014 due to the substantial increase in the hydropower electricity production.

In our view, the effect of the recently announced coal import restrictions was minimal, while the signing of a free trade agreement between Australia and China can be considered a very positive development going forward.

In that respect, and maybe little downside with regards to the Chinese coal imports. While I would like to note that hydropower production is volatile. The bottom left graph highlights this last point exactly. Turning to India now, Indian thermal coal imports are up 18% on a quarterly basis. This is due to thermal electricity production, which as you can see from the top right graph is increased by 13.6% year-on-year.

Going forward, thermal electricity output is projected to increase by more than 25% over the next three years, providing to a meaningful upside in Indian thermal coal imports.

With regard to grain trade, this is expected to increase by 6% this year from the US and Europe, the Middle East and Far East generating substantial ton miles as a consequence. Let us now move to slide 18 for an update on the supply side. As you can see on the top right hand graph, deliveries in the period 2008- 2012 compared to the schedule of the book had an average annual slippage rate of around 30%, whilst the respective figure for

2015 was close to 40%.

For the ten months of 2014, 42 million deadweight of drybulk vessels have been delivered versus 75 million scheduled for the whole year, assuming the regular slowdown in the last two months of the year, we would expect total deliveries for the year to be in the tune of 49 million deadweight, implying a slippage rate of approximately 35%.

The nominal order book presently stands at approximately 23% of the fleet. On the bottom right hand graph, we also provide the order book for the remainder of 2014, 2015, 2016 and 2017 broken down in vessel classes.

At this point in time, we can safely say that order book for 2015 is closed whilst for 2016, capacity is almost
non-existent especially in Japanese and Chinese first tier yards. We see the limited risk in orders being placed in second and third tier Chinese yards due to current freight environment, as well as the scarcity for bank financing for such low quality vessels.

A positive sign is a recent slowdown of contracting, which for the first nine months of 2014 was running approximately at 7% of fleet on the water. During September 2014, 2.8 million deadweight of drybulk vessels, where ordered vessels,
14.5 million in January.

Overall, we see slowing fleet growth across the three larger dry bulk vessels segments during 2014, while total fleet growth came to stand at 5.8% versus 6.8% during the same period last year.

Let us now move to slide 19 for a summary on key market trends going forward. According to Clarksons, iron ore and coal expected to grow by 6.6% and 2.3% respectively in 2015.

As outlined earlier, we are slightly more bullish on the iron ore ton-mile side due to the expected increase in the Brazilian export share to China.

Clarksons also expect the bauxite and nickel ore trade, will resume positive growth, 2.8% and 11.3% in particular, which if it materializes, it will greatly support Kamsarmax, Panamax and Supramax vessels after the severe trade disruption this year due the Indonesian raw material export ban.

The former is also based on the fact that Chinese bauxite inventories will be essentially depleted by the second half of 2015. Especially, if Chinese alumina production continues to grow at current rates of 19%. Overall, and according to the Clarkson forecast, the drybulk demand is expected to grow in terms by approximately 4% next year, just in line with 2014.

Given our more favorable view on iron ore dynamics, this might be the lower point in the range of our expectations, especially in ton-mile terms.

On the supply side, we believe that aside from the factors highlighted in the previous slide, we might see a further slowdown in fleet growth due to the application of various environmental regulations, such as the water ballast system and consequence scrapping of

all the vessels.

Having said that, I will now pass the floor back to Hamish for an update on our company.

Hamish Norton, President

Thank you, Petros. Turning to slide 21, we have an overview of our fleet employment and the portfolio of key charterers with whom we do regular business. As a result of our diverse fleet, we serve almost every major charter around the globe, including steel mills, trading houses and multinational mining companies.

From a commercial standpoint, we are currently exploring opportunities for direct and long-term cooperation with major drybulk consumers and producers, which should provide us with steady flows of cargos and business. As Petros outlined earlier, our market outlook calls for more spot oriented vessel employment at least in the short to medium term. Currently including the influx of the new fleet, we've secured about 71% of the limited remaining available days in 2014, 9% of those days in 2015 and just 2% in 2016. Overall, as of today our total contracted revenue amounts to approximately 72.8 million.

On slide 22, we present Star Bulk's operating leverage after the acquisition of the 34 vessels of Excel fleet, which provides Star Bulk with significant earnings and cash flow upside in an improving market environment. On a fully delivered basis, we expect to have about 37,000 spot days in 2017, which would be after all of our newbuildings have been delivered.

As you can imagine, each one dollars swing in spot rates will have a material impact on our cash flow for example, a thousand dollar per day increase in cape rates, combined with a $400 per day increase in Panamax and Supramax rates would translate into an increase in EBITDA of approximately 23 million once the fleet is delivered.
Let's now turn to slide 23 for a presentation of our commercial performance. As you can see from the slide, we have consistently outperformed the Baltic Capesize Index and the Baltic Supramax index on our Capesize and Supramax vessels respectively, while -- and this trend continued for this past quarter as well.

Turning to slide 24, we will try to evaluate our operational performance over the last five years. As a general comment, our cost cutting efforts in our operating and G&A expenses have played an important role in our financial and operating performance in this challenging market environment. This of course has been achieved without a compromise in our high quality and operational standards.

On the bottom left graph, you can see the evolution of our average daily operating expenses. Since 2009, our daily operating expenses have been reduced from $6,903 per day to 5,192 in the third quarter of 2014, which is a 25% cumulative reduction.

This increase would have been higher if we exclude approximately $376 per day of pre-delivery expenses for our newbuildingsand acquired ships, resulting in an average resulting

OpEx per vessel of 4,816 per day. It is also important to note that the reduction in average daily OpEx is even more important, if we considered the average size of the fleet that's been increasing over time.

On the bottom right graph, you can see the evolution of our average daily net cash G&A expenses per vessel versus personnel growth over the years. Overall, while we grow our personnel headcount to accommodate the managed fleet growth over the years, we've been lowering our core overhead costs per vessel.

You can see that for the nine months of 2014, our average daily net cash G&A expenses per vessel has been essentially the same as 2013 levels. While at the same time, we've increased our onshore personnel by 43% so as to accommodate the 34 vessels already acquired and two we acquired from Excel.

So basically, once the transition is complete, we expect our daily G&A expenses per vessel and this is the transition with Excel, and also the newbuilding deliveries. We expect our daily G&A expenses per vessel to move below $1,000 per day per ship on a run rate basis. This is one area where we clearly look to benefit from economies of scale and the projected cost synergies with our G&A expenses developing from over $1,400 per share per day for a fleet of 17 vessels due below a $1,000 per ship per day for a fleet of 103 vessels.

Moving forward, we expect that the expanded size of our operating, we expect the expanded size of our operating fleet to make Star Bulk the lowest cost operator amongst our peer group.

And now, let me pass the floor back to Petros for his closing remarks.

Petros Pappas, Chief Executive Officer

Thank you, Hamish. Before we close this presentation and pass the floor back to you for any questions that you might have, let me walk you through a summary of our strategy going forward as presented on slide 25. On the chartering side, we will continue to support employment of our fleet except in cases where we see opportunities to fix vessels for additional medium term charters.

We want to be well positioned to capitalize on increases in demand for drybulk shipping in the second half 2015 onwards, when we believe that ship oil and raw materials will have kick-started the world economy. We intend to employ our fleet in an active and sophisticated manner tailored to the fuel efficiency and other specific attributes of each vessel, in particular our eco newbuilding vessels are ideal for employment on a voyage basis. While our older vessels made be more appropriate for time charters. Once we see the market sentiment improving, we may start taking some of these vessels on longer term charters. Furthermore, as we have already demonstrated, we will keep on monitoring the market for further acquisition opportunities, aiming to further consolidate the industry. We intend to continue to opportunistically acquire high quality fleets at attractive prices as long

as such transactions are accretive to our shareholders.

We aim at maintaining a young average age for our fleet and may opportunistically dispose some of our older assets, depending on the market conditions and the overall commercial prospects. We will also continue to improve the performance of our fleet, solidifications and enhancements that increase efficiency. The above will be facilitated by the combined a 120 years of shipping industry experience, that we have as a management team. Our relationships with charters, shipyards, ship brokers, banking suppliers et cetera have developed across several shipping cycles, and we believe they will give us as a significant advantage.

On the operational side, we view that the new and large Star Bulk will serve as a highly efficient platform, which will strive for the lowest operating expenses and corporate overhead amongst our peer group in the years to come.

Investments like the one we're making for our vessel performance monitoring department will help us have real time feedback on various vessel parameters including consumption of fuel and lubricants in order to be as efficient as possible and minimize the daily operating cost of our fleet.

At the same time, we plan to maintain a healthy balance sheet through the moderate use of leverage, while we strive for reduced cost of financing through our access to equity and debts and debt capital markets. Last but not least, we have a transparent corporate structure. As our Board of Directors is mostly comprised by representatives of institutional investors and the technical and commercial management are performance in in-house in contrast with the majority of our peers.

Overall, we believe Star Bulk has a good set of characteristics that place us among the most promising companies in the drybulk industry. And with delivery of our newbuilding vessels, we aim to become the lowest cost operator in the peer group.

Closing, I would like to thank our shareholders for their ongoing support and loyalty and we assure them that we will continue our efforts to ensure the company's long-term success and enhance 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, we'll be happy to answer them.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) And your first question comes from the line of Doug Mavrinac from Jefferies. Please go ahead.

Douglas Mavrinac, Analyst

Thank you operator, good afternoon guys and thank you for your detailed commentary, again in particular, your market outlook, I thought that was very good. My first question pertains to just something much shorter term in nature and that is the current market conditions.

When you look at Capesize bulk charter rates, it's a case what's going on, they've been extraordinarily volatile since really the beginning of August, with the most recent volatility being to the downside of the last couple of weeks. So, can you describe to us what's happening most recently in the Capesize market the caused us to see the downdraft really I guess since the November?

Petros Pappas, Chief Executive Officer

Hi, Doug, thank you for the question. What's happening actually is that Vale has not exported in the open market any cargos for the last 2.5 weeks. I think this is the reason why this is happening for the time being. I don't think this can continue for long and I believe that in case, Vale put some more cargoes in the market, we will see a potential upturn within December or even January.

Douglas Mavrinac, Analyst

Got it. And Petros, following up on your commentary about the importance of the ton-mile impact on Vale's exports, as soon as those come back, we should expect to see the same impact that we saw in mid-October. Would you agree with that?

Petros Pappas, Chief Executive Officer

Yes, I would agree with that. It's -- I mean, Brazil is a very material in what is going to happen and according to what we see coming out of Vale, they say that their production is increasing by -- I think about 50 [ph] million tons next year. So under normal circumstances, we should be seeing longer distances going forward and that would help the margin.

Douglas Mavrinac, Analyst

Yeah. For sure. And then on the topic of volatility itself, what does the fact that Capesize rates can go from 6,000 a day to almost 30 in a short period of time? What does that tell you guys about the underlying supply demand balance, i.e., vessel utilization levels, and in short, how close are we to being in a more sustainable charter rate environment based on what you may be able to infer from that underlying supply demand balance?

Christos Begleris, Co-Chief Financial Officer

Well, to me, when it can go from 6 to 13, from 13 to 6, it means that we're very tightly balanced in the way. And I think actually charters and the shippers also realize that, and I think actually in a way they tried to manipulate the market.

But the fact that the minute five new cargoes will come on Monday, or Tuesday in the market and the market goes from 6 to 26, I think that means that means that, if this relatively finally balance.

Douglas Mavrinac, Analyst

Got it. I'll totally agree. And then just two final questions before turning it over. When we look at the sale and purchase market, what have you guys been seeing in terms of activity in the S&P market and then also given the volatile in the spot market, how has asset values been trending?

Hamish Norton, President

Asset values actually since July and until end of November that we did our very recent calculation have gone down by like about over its 12%. We've seen values go down more on second hand vessels and less on newbuilding vessels.

Douglas Mavrinac, Analyst

Got it. So that could be an opportunity I guess given the outlook. And then just final question, you guys have a lot of things going on, you've been very busy in the corporate M&A front in recent months. Given that, what would you list as your top two or three priorities as a management team, say, over the next few months, I mean, well all the things going on, what do you see as the most important between now and say March?

Christos Begleris, Co-Chief Financial Officer

Well, you mean commercially or in which sense?

Douglas Mavrinac, Analyst

Yeah, just the integration of the fleet and whether, as you're doing that, if acquisition opportunities enters the discussion, the share repurchase program entered the discussion. I mean, as you're kind of balancing all of your priorities, what is most important to you and then, maybe what's second?

Christos Begleris, Co-Chief Financial Officer

Well, first of all, the first priority is kind of a defensive one like, putting our house in order. Because, we're still taking delivery of the XL vessels and we have newbuildingsto take delivery of. So that is one main thing and we're organizing our company accordingly. So that's one thing, that's the defensive part. We're also dealing with our funding up, which is important as well.

Now, on the commercial side, we don't believe that we should stay stagnant, we think there's going to be opportunities coming up. We have people approaching us and one thing to potentially merge with us, we have opportunities. We think that we might see some perhaps even lower prices beginning of next year, especially due to the yen going down and that might create some other opportunities. So, we are looking in the market in -- we have one eye in the market in
-- we have one eye in the market, but we also have one eye in our in-house in doing our -- putting our house in order.

Douglas Mavrinac, Analyst

Perfect. That's very, very helpful, and thank you for the time.

Christos Begleris, Co-Chief Financial Officer

Thank you.

Operator

Thank you. Our next question comes from Jon Chappell from Evercore. Please go ahead.

Jon Chappell, Analyst

Thank you, guys. You just addressed, I think the keys to the whole story going forward, which is the funding gap. Couple of questions on that. First of all, what options are you looking at for the shortfall, you obviously just called some 8% senior notes, which -- is it horrible from an interest rate perspective, are you thinking more pursuing other public debt issuances, equity, how much leverage could you possibly take from the banks in addition to what you've already taken on and negotiated in the targeting?

Hamish Norton, President

So, John, it's Hamish Norton. Look, we're looking at several alternatives we continue to examine the bond markets for opportunities. We look at, equity and equity linked markets for opportunities and of course, we do have some vessels that are probably non-core to our

fleet. That would be an opportunity to raise liquidity and frankly, between those three methods, I think we'll be more than well covered.

Jon Chappell, Analyst

And just as a follow-up to that, you mentioned the older vessels, and you have that in this slide 14. I think Petros has mentioned that, you think that asset values may fall actually in beginning next year mostly to do with the yen I guess, probably also some market sentiment. What's the realistic timings on the potential sale of those older ships, number one, since you just got a new facility associated with them. And then number two, with your expectations that asset values still may come down?

Petros Pappas, Chief Executive Officer

But look, it's very hard to predict. It could be, it could be, soon, it could be a little bit later but I'd point out that these older vessels are on our books for not much above scrap value. And they are unlikely to be the vessels that would fall on a falling market to any great degree.

Jon Chappell, Analyst

And then also just the last bar on that graph, the fully delivered minimum liquidity, just wondering if you can provide kind of your base case scenario for that number, obviously with a fleet of your size almost all spot exposed, there's a lot of leverage to rates. So if there is upside obviously that minimum liquidity to be covered by operating cash flow and then some, but if there is downside that capital also potentially widens. So could you just give an idea of the base case that goes into that number?

Petros Pappas, Chief Executive Officer

Yeah, well, look, we have in our bank covenants the minimum liquidity covenant of $500,000 per vessel. So with 103 vessels that's 51.5 million and that's basically what we're referring to. And look just getting to your, I realize, I didn't answer your question about bank lending, but I mean, we've been doing a pretty good job, levering up our newbuildingsand our second hand acquisitions. And I wouldn't expect that we would be squeezing the banks for more senior secured debt. What we need to raise now is, something that's unsecured debt, equity, equity linked or possibly some vessel sales.

Jon Chappell, Analyst

Okay. One last one, that's not on this topic. Can you just remind us of the lock ups for Oaktree and insiders, I guess, Angelo Gordon and Monarch and the family, both for the

Oceanbulk transaction and Excel, if there were any?

Christos Begleris, Co-Chief Financial Officer

There were no lock-ups as such, but Oaktree and Monarch are affiliates of the company and have the cell pursuant or registration statement.

And there has been an effective lock up in Excel, simply because we're taking the ships one by one. And we understand that there is an intention to make a couple of distributions of Star shares by Excel to its shareholders. And those shares, when they are distributed would be covered by our registration statement.

Angelo Gordon is not an affiliate of the Company. And so, could sell as they choose Oaktree even for it's Excel shares still remains restricted by its status as an affiliate.

And so, it would be covered by volume limitations unless it's all pursuant to registration statement.

Jon Chappell, Analyst

Okay, understand. Thanks a lot, Hamish.

Hamish Norton, President

Okay. Welcome. Thanks.

Operator

Thank you. Our next question comes from the line of Ben Nolan from Stifel. Please go ahead.

Ben Nolan, Analyst

Yeah, thanks. A sort of circling back around to the funding gap, I think it was mentioned that, there is sort of the net funding gap after vessel sales and other adjustments was a little over $100 million, if I heard correctly. Does that include any operating cash flow assumptions in that $102.7 million number that was given?

Christos Begleris, Co-Chief Financial Officer

Yeah, it includes basically zero net operating cash flow after debt service.

Ben Nolan, Analyst

Okay. Now in that sort of -- on that basis, what kind of timeframe should we think about

that coming due or it needing to be resolved here in part of in whole?

Christos Begleris, Co-Chief Financial Officer

Well, look, our newbuildingsdelivered through August of 2016, so this is kind of a continuing obligation to make equity payments on the new buildings. So we've got some time, but look, we get a baby bond issue recently and that buys us a fair amount of time before we have to do anything else.

Ben Nolan, Analyst

Okay, that's helpful. Well and sort of associated, I suppose with that and I know Hamish, you outlined a number of alternatives. Do you think that there would be any or there is any likelihood or sort of a -- and maybe some sort of a bridge loan or something from Oaktree or other affiliates, should the capital markets not be available at the time you may need to capital, is that an option something that's been considered?

Petros Pappas, Chief Executive Officer

It's certainly not being considered, I think it's unlikely that we would want something like that, but obviously Oaktree is a very large shareholder. There will be a 57% shareholder roughly once all the Excel ships deliver. And they are presumably going to want to make sure that their investment is protected, but I mean, we haven't discussed anything like the bridge loan with them. And again, I doubt that that or anything like that is going to be required.

Hamish Norton, President

Right. Yeah, I agree. And just currently, the markets are best monitors and so now I guess, but it might always funding gap is relatively small and should be not too challenging to fill, but the sort of get to my next question. With respect to the bank finance, both what's already on the books and what you're seeking to finalize, are there asset value covenants in those loans that might and if your asset prices fall further might, limit the amount you could ultimately draw down on those facilities relative to sort of that stated amount?

Christos Begleris, Co-Chief Financial Officer

Hi, Ben. This is Christos. Effectively, we have a corporate covenant of net debt to market value of the assets being at 70%. So we have far-off this covenant, especially as the newbuildings get delivered, the financing, that we book for the newbuildings are in the high 50s, with a capital 60% to the fair market value of the vessel at the time of delivery of the vessel. And therefore, we would not expect under any potential scenarios, reasonable

scenario, that we would breach the 70% threshold that we have on the corporate guarantor level.

Ben Nolan, Analyst

Okay. That's very helpful. So, I suppose in there, that the answer is, there is an outside shot, if things really got bad by here is so much clearance right now. It would certainly that would create remote in your opinion, that's a fair analysis. Correct?

Hamish Norton, President

Right.

Ben Nolan, Analyst

Okay. All right. Well, that actually does it for my questions. I mean, it's certainly an exciting time for you guys with an awful lot of moving parts and more to be done. But it seems like making good progress, so look forward to seeing what comes.

Christos Begleris, Co-Chief Financial Officer

Thanks, Ben.

Operator

Thank you. Our next question comes from Salvatore Vitale from Sterne Agee. Please go ahead.

Salvatore Vitale, Analyst

Good evening, gentlemen. Thank you for taking my question. I just have a quick question, first on the utilization that was in the high 70s for the quarter. I assume that have to do with certain delivery of the Excel vessels and repositioning them if you are deploying them. And I guess the question is, should that continue into 4Q and do you get back to some kind of normalized mid-90s level say in 1Q, and how do I think about that?

Simos Spyrou, Co-Chief Financial Officer

Well, hi, this is Simos. These have nothing to do with the delivery of the Excel vessel. This is purely an accounting treatment and based on the US gap. According to US gap, basically it's a distortion there, the ballast leg of when you do you a (inaudible), at the ballast leg of the

(inaudible), you are not basically allowed to book revenues up until the time that you signed a time charter agreement with a charter. So if you take the vessel from China to Brazil and basically you sign the time charter with the -- volume charter, with the charter and in 20 or 30 days, the first 20 or 30 days that you are ballasting, basically, you're getting no revenues and are considered to be offer for the accounting according to US GAAP. So this is the reason that we are serving this reduced utilization.

Salvatore Vitale, Analyst

Okay. Thank you.

Christos Begleris, Co-Chief Financial Officer

Yeah, just to clarify, this is because, we have a lot of vessels on voyage charter for a company that uses short-term time charters instead of voyage charters is not going to have this accounting issue. Basically, the number of voyage charter that we had this quarter versus the same quarter last year were significantly higher.

Salvatore Vitale, Analyst

Okay, thank you for the explanation. I appreciate it. And the next question is really on the funding gap and I apologize, I don't have the presentation in front of me. You mentioned several figures earlier, the 102.7 million in particular, just to clarify is that -- is that reflect already some vessel sales in that or is that before the effect of any vessel sales?

Petros Pappas, Chief Executive Officer

Yes, basically if you see it on page 14, what we have assumed there is that the 11, 1990s built Panamaxes which are do not fit our profile are basically sold and what we have said is that we are a bit conservative there and we are considering for the, -- funding gap calculations that these vessels are being sold for scrap. So there is a rumor that we might be getting some more there. But just for being conservative. We're calculating this sale at a scrap value and that's why on the last column of this table, this we have the minimum liquidity requirement 46 million is for the 92 vessels, so is the 103 minus 11 that will be sold.

Salvatore Vitale, Analyst

Understood. So, just following up on that. Thank you for that clarification. I'm sorry, go ahead.

Petros Pappas, Chief Executive Officer

So is that a very conservative obviously estimate because in these vessels, when we said the, we have the vessels built in 97-98. So, assuming that these are sold for scrap is definitely extremely conservative even in today's market.

Salvatore Vitale, Analyst

Okay, that's helpful. And then I guess just following up on that. Thank you for the clarification, is are there -- number one are there any other vessels that you would consider selling? And I guess, and maybe you can answer that question in the context of, if you look at addressing your funding gap, you mentioned three options, one being corporate debt, then asset sales and you mentioned equity. How do I think about where you're leaning or what your preferences, I guess, and if I could frame it this way, perhaps accepting a slightly lower price and you would like on selling a vessel versus having issue equity at this -- on track prices. As you know your valuation is very low at this point. How do I think about that?

Hamish Norton, President

We'll have to examine our alternatives and opportunities every day. I suspect that it's more likely that you might see us selling up vessels if we see opportunities to buy better vessels. Then other vessels to fund our funding gap, but you never know.

Salvatore Vitale, Analyst

Okay, that's helpful. And then just last thing on the vessel sales, you said that you're assuming scrap value that's what you are assuming that slide. If you assume say the most recent reported Clarksons prices which I don't have in front of me, what would that this funding gap would take it down from 1027[ph] for what more or less?

Simos Spyrou, Co-Chief Financial Officer

It would definitely take it down, but I mean we don't have the Clarksons values in front of us, but I mean Clarksons values would be a good bit higher than scrap.

Salvatore Vitale, Analyst

Okay, thank you for your time. I appreciate it.

Operator

Thank you. Our next question comes from Noah Parquette from Canaccord. Please go ahead.

Noah Parquette, Analyst

Thanks for taking my questions. Firstly, I just had, -- going back to industry side on the kind of the Indian call situation, they've been running a critical stock culture for a while now. And I guess, what have you seen in terms of increase trade call into and then looking forward, it seems like the government is trying to restructure the (inaudible) there to hopefully increase production domestically. How do you see, how you guys are struck to that initiative and over what timeframe do expect that to occur?

Petros Pappas, Chief Executive Officer

Thank you, Noah. It's going to take at least three years. The Indian government to manage to create the necessary infrastructure for even a percentage of their needs. So it's -- this is not a short-term matter, I would say, I look at it as something of the medium term.

In the meantime, they're saying that in the next two, three years, India will probably increase imports, coal imports by about 25% and this will mostly benefit the smaller sizes of vessels (inaudible) we think and hopefully it will create at some point, some congestion, as well.

Noah Parquette, Analyst

Okay, that's great. And then continuing, I guess, we've seen a dramatic fall in oil prices and bunker fuel. I mean, I know it's complicated calculation, but have you seen any speeding up of vessels with rates, where they are probably not, but how does that, how close to that are we?

Petros Pappas, Chief Executive Officer

I don't think we are close enough to that phase, two reasons why vessels would speed up. One is that fuel prices fall, of course, but the main thing is the vessel will speed up, if rates go up and rates have not gone up. They will need to go for a -- that would need to be above $20,000 at least for vessels to have to increase speed by about one quarter or half or not. So we are not there yet. On the other hand, this is the micro picture on the macro picture. We believe that low oil and low material prices will have a beneficial effect worldwide in the economies. And usually that comes with a lag of a, like six months. So, we think that we're going to see better demand going forward, because of that. Also, of course, raw material prices as you know, enhanced trades and they replace local production. So, we see a low raw material and low oil prices, we see as a bonus to the market going forward. Would you even take a step forward and say lower bunker fuel prices make shipping longer distances more feasible and the overall cost is lower?

Petros Pappas, Chief Executive Officer

Yes, definitely. Especially -- you're very right, especially for iron ore from Brazil to China and all types of grains from the Atlantic to the Pacific and the Middle East.

Noah Parquette, Analyst

Okay. And then just really quickly, and I guess the acquisition, I think as you said 3 million this quarter, was there anything one time with deals that are been closed or is this kind of regular number we expect going forward?

Petros Pappas, Chief Executive Officer

I think, we may have not completely heard your questions.

Noah Parquette, Analyst

Non-cash stock compensation, I think it was just a 3 million, so want to know if there's anything one time in that, or what can we expect going forward?

Petros Pappas, Chief Executive Officer

Yes, actually there is a portion associated with the transactions between the merger between the Star Bulk and Oceanbulk. There was a severance payment for the CEO who left after the merger. And this was an one-off.

Petros Pappas, Chief Executive Officer

So yeah, that's the one-time expense.

Noah Parquette, Analyst

Okay. Alright. Thanks very much.

Operator

Thank you. And there are no further questions at this time. I'd now like to hand back for any closing comments.

Petros Pappas, Chief Executive Officer

As already said, our aim is to run a low cost transparent and efficient organization. That is always in position to take advantage of opportunities and create value for its shareholders. So, we'll try for that. Thank you, again for joining us in this call and for your support and belief in our company.

Operator

Thank you very much. That does conclude our conference for today. Thank you for participating. You may all disconnect.