Corporate Participants

Petros Pappas
Star Bulk Carriers - Chief Executive Officer

Hamish Norton
Star Bulk Carriers – President

Simos Spyrou
Star Bulk Carriers – co- Chief Financial Officer

Christos Begleris
Star Bulk Carriers - co-Chief Financial Officers

Presentation

Operator:
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call for Second Quarter 2018 Financial Results. We have with us Mr. Pertos 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 do wish to ask a question, please press star one on your telephone and wait for your line to be opened. I must advise this conference is being recorded today.

And we now pass the floor to one of your speakers, Mr. Pappas. Please go ahead.

Pertos Pappas:
Thank you, operator. I'm Pertos 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 second quarter of 2018.

Before we begin, I kindly ask you to take a moment to read the safe harbor statement on Slide number 2 of our presentation.

Let us now turn to Slide number 3 of the presentation for a summary of our second quarter 2018 financial highlights. In the three months ending June 30, 2018, TCE revenues amounting to $90 million, 47.3 percent higher than the $61.1 million for the same period in 2017. Adjusted EBITDA for the second quarter 2018 was $52 million versus $25.7 million in the second quarter 2017.

Adjusted net income for the second quarter amounted to $13.4 million or $0.21 gain per share versus $7.6 million. Adjusted net loss or $0.12 loss per share in Q2 2017. Our Time Charter Equivalent Rate during this quarter was $13,567 per day compared to $9,747 per day in the same quarter last year.

Our average daily operating expenses were $3,996 per day per vessel per day. We're pleased to have recently closed all three announced acquisitions, adding 34 high-quality vessels with an average age of 5.2 years and average size of 119,000 bed weight. We're taking over this fleet in an opportune time for the dry bulk market when rates and assets values are strengthening.

I will now pass the floor to our Co-CFO, Christos Begleris, for an update on our operational performance for the quarter.

Christos Begleris:
Thank you, Petros. Slide 4 summarizes the cash movements during the second quarter. The improving dry bulk markets enabled us to generate strong free cash flow of $25 million from our vessels on the water during the quarter. After including debt proceeds, CapEx payments and cash repayments, we arrive at a cash balance of $240 million at the end of the second quarter, one of the highest in our industry amongst dry bulk peers.

Slide 5 highlights Star Bulk's strong liquidity position. We are focused on maintaining competitive cash breakeven levels. Our lean cost structure enables us to deleverage our balance sheet and create value for our shareholders.

On the right-hand side, we provide a breakdown of the net debt position of Star Bulk, which is currently at $1.26 billion. Star Bulk has zero equity CapEx for the three Newcastlemax vessels we had acquired from Oceanbulk Container Carriers as there is committed financing in place for the remaining CapEx payments for these vessels. We expect to take delivery of these Newcastlemaxes during the first half of 2019.

Please turn to Slide 6, where we summarize our operational performance for the second quarter of 2018. The combination of our in-house management and the scale of our group provide a significant cost and quality benefits.

OpEx was at $3,996 per vessel per day for the quarter, in line with our performance over the previous quarters. Net cash G&A expenses were $1,072 per vessel per day for the quarter. Our low-cost structure is complemented by excellent ship management capabilities. Our Star Bulk is ranked in the top five amongst managers evaluated by Rightship. We're very focused on having the highest standards on 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 amongst U.S. listed dry bulk peers based on latest publicly available information. Star Bulk is one of the leaders in cost efficiencies, with OpEx approximately 16 percent below the industry average. So withstanding 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 list of our commercial partners.

In Slide 8, we're providing an update for fleet employment, with 32 vessels in medium- to long-term charters of up to 12 months. In terms of visibility for the next quarter, we have covered 60 percent of our available days at average rates of $13,900 per vessels per day, which is above our long-term breakeven levels, including repayment of principal debt.

I will now pass the floor back to Pertos for a market update and his closing remarks.

Pertos Pappas:
Thank you, Christos. Please turn to Slide 9 for a brief update of supply.

During the first half of 2018, a total of 15.4 million deadweight has been delivered, and 2.2 million deadweight was sent to Demolition for a 13.2 million deadweight net inflow. Although Demolition pace has slowed down significantly in 2018 following the freight market improvement, deliveries also stands at the lowest level since 2008. During the same period, a total of 12.5 million deadweight has been reported by Clarksons as firm orders and up to an additional 6.9 million deadweight have been identified as LOIs or options. The total dry bulk order book currently stands between 9.8 percent and 12 percent of the fleet depending on the percentage of LOIs and options that will ultimately materialize.

Following three years of minimal contracting, dry bulk deliveries are bound to correct to new historical lows over the next 18 months. As a result, during 2018 and 2019, metric growth is expected to stabilize between 2 percent and 2.5 percent per annum depending on the rate of Demolition. Furthermore, it is also worth noting that bunker costs are gently approximately 50 percent higher than last year at $450 per ton and trenching, slow steaming and thus providing support to a higher freight environment.

Let's now turn to Slide 10 for a brief update of demand. During the second quarter of 2018, dry bulk trade activity experienced a healthy rebound from the seasonally slow Q1, although some disruptions continued to take place. Brazil iron ore exports increased by 3.1 percent year-on-year in the second quarter, up from minus 7.5 percent during the first quarter, despite political unrest and truckers' strikes.

The new Vale SD11 mine and healthy demand for high-quality ore from China are expected to support the iron ore market. Strong steel prices and profit margins have supported the 6.6 percent year-on-year increase in global steel production during Q2 as well as 9.1 percent increase in crude steel output by China. On this note, main particular, a record high crude steel output figure in China leading to a double-digit growth of 12 percent year-on-year.

China's environmental restrictions have also led to a 38 percent decline of domestic iron ore production during the first half of 2018, supporting imports of higher-quality iron ore sourced from further far origins. China's apparent crude steel consumption is estimated to have increased by 9 percent during the first half of a year, while steel inventories have experienced a fast decline during Q2, indicating healthy demand. At the same time, international steel prices have received strong upward pressures, reaching multiyear highs at the end of Q2 due to significantly lower exports of Chinese steel and the U.S. imposition of steel tariffs.

China coal imports increased by 9.2 percent during the first half of 2018, on the back of a 7.8 percent thermal electricity growth, flat hydropower generation growth and a 0.07 percent decline in domestic production of coal. At the same time, vessel-tracking data suggest that India coal imports have increased 9 percent during the first half of 2018, while India coal stocks continue to stand at relatively low levels. Overall, in 2018, coal imports into Asian countries are expected to expand, especially in view of above-average temperatures through the summer, with Atlantic coal exports expected to support ton-miles.

As far as the grains play is concerned, strong growth of Brazilian coarse grain and soybean exports are expected to support trade. The imposition of a 25 percent tariff on U.S. soybeans by China has the potential to affect soybean trade flows over the next year. It is worth noting that U.S. soybean prices have corrected by more than 10 percent over the last six months and could incentivize an increase of Latin American and European imports.

As per Clarksons' latest report, during full year 2018, total dry bulk tons are projected to grow by approximately 2.6 percent, while ton-miles are expected to expand by 3.3 percent. However, the second half is expected to grow at a faster pace than the first, with strong export growth of Brazil iron ore, U.S., Columbia and Australia coal and West Africa bauxite. As a result, we expect demand growth to outpace fleet growth during full 2018 and 2019 on the back of healthy ton-miles and supply constraints.

Finishing my presentation, let me just highlight, once again, that the most important factor for market balance is owners ordering discipline. This will lay the foundation for a sustainable recovery until environmental regulations gradually come into force. These environmental regulations will thereafter not only contribute the transition towards a cleaner environment, but they may also assist shipping and reducing vessel supply and lead us to potentially even better markets as of 2020 onwards.

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. We will now begin the question and answer session. if you wish to ask a question, please press star one on your telephone keypad and wait for an automated message advising your line is open. To cancel your request, please press star two. Once again, please press star one if you wish to ask a question and star two to cancel the request.

Your first question today -- we will now take your first question. Please go ahead. Your line is now open.

Chris Snyder:
Hi, this is Chris Snyder on for Amit. My first question is on the cash profile. With company is working way out of cash flow sweep and rates inflecting higher, can you just talk about how you prioritize the use of future cash flow?

Hamish Norton:
It's Hamish Norton. So we are going to be reducing our debt over time. We intend also to be a dividend (inaudible). And in terms of the priority between reducing debt and paying dividends, that's going to depend on the details of the market situation we find ourselves in next year and the following year.

Chris Snyder:
OK, thank you for that. And also, are you guys open to more ship-for-share deals? Or are you currently just in digestion mode as you take on all these vessels? And then just following up to that. Are there more of these opportunities out there?

Hamish Norton:
We always look for opportunities like that. We're certainly open to more opportunities to do deals as attractive as the ones we've just closed. And only time will tell if those deals are available.

Chris Snyder:
OK, I appreciate that. And then just real quickly on the booking data. You only booked 45 percent of Cape days while the smaller segment had around 70 percent booking. That clearly weighed on the blended Q3 booking number. Was this done on purpose? Or is it just a result of the longer voyages and lumpy booking nature of the Capesize fleet?

Pertos Pappas:
Chris, everything we do is on purpose, finally. Yes, it was done on purpose. We thought that the Cape market was going to be stronger in the second half of the year for the reasons we have already laid out. And therefore we tried to cover more of our smaller fleet rather than the bigger fleet, because (inter alia), the bigger fleet is not affected really, iron ore not affected by the potential of trade war. So we thought that it looked -- second half looked good, and we covered more on the smaller size exactly for that reason.

Chris Snyder:
OK, that does it for me. Thanks for the time, guys.

Pertos Pappas:
Thank you.

Operator:
Thank you. We will now take our next question. Please go ahead. Your line is open.

Herman Hildan:
Good afternoon, gentlemen, this is Herman from Clarksons Platou. Are you on?

Pertos Pappas:
Yes. Yes.

Hamish Norton:
Yes.

Herman Hildan:
Hi. You briefly touched on these, Pertos. I mean, looking at the second half of the year, on one hand, you have I guess already rates that are approaching the peak levels seen last year on the Capes. And obviously, this is -- iron exports out of Brazil and so on, kind of points a very nice picture on the Capes. On the other hand you have -- on the soybean exports, the Latin America season kind of ebbing out as the U.S. is supposed to replace it, which kind of obviously in light of the tariffs and everything creates some uncertainty on the smaller segments. But I guess you just said that you're taking that into account on your fixed vessels for the second half of the year. But do you kind of -- could you give some more -- obviously, it's a guess for everyone, but kind of how you think about the impacts of potentially weak exports of U.S. in the second half of the year?

Pertos Pappas:
Well, we should if you look at the bigger picture, Herman. It could -- there could be a positives and negatives out of this. It's very difficult for anybody to figure it out. Like, for example, China just had this 25 percent tax on LNG imports from the U.S., right? So this potentially could be good for us, because maybe China who was veering towards LNG consumption in the long term maybe they will at least in the short term burn more coal as a consequence of that.

Now regarding grains, it is also possible that the U.S. may export, for example, to Brazil and then Brazil export bigger percentage of their grains to China and the Far East, in general. So I think it's so complicated here that it's difficult to tell. I think the major burden of all this is the psychological one. And of course, we all hope that this doesn't get -- to become a real all-out war, because then it's anybody's guess. But for the time being, as you said, we're playing it a little bit safe for now.

And I'm just answering as far as the trade war is concerned, because otherwise -- and in general, our strategy -- our commercial strategy has been for a number of years and will remain to be so that we try to have our fleet spots during Q3 and the beginning of Q4 every year, so that then we can cover a percentage of that fleet through Q1 at least. If possible, Q2 as well. So I mean, this -- because -- I mean, the first half of the year is a slow part of the year and therefore a very simple strategy. Fixing when the market is a strong, hopefully getting through the weak part of the year after.

Herman Hildan:
So kind of in particular, for example, on the soybeans, where you're saying the tariffs creates a layer of, call it, infrastructure, call it, complexity. There's ways around them, it doesn't necessarily mean a full-out loss of the U.S. export (inaudible) affected there, right? It just means the redistribution of trades to put in simple words?

Pertos Pappas:
Yes. Redistribution of trade. Now whether we will lose some ton-miles because the U.S. may not send their product to China and will send it -- send more of it to Europe, that's possible. But again, as I said, the counterbalancing thing would be that the U.S. exports to South America and then South America exports more of its own product to China. So it's very difficult to do this calculation. Exactly for that reason, we are more covered on the smaller sizes.

Herman Hildan:
But I guess at the end of the day there's no real way for China to replace U.S. as an importer. So at the end of the day, they need to kind of have a redistribution of trade if they're going to consume soybeans, I guess, right?

Pertos Pappas:
Yes. And it's also possible that at the end of the day, China will still have to import from the U.S. some part of their -- because I'm not sure they will find all the soybeans they need from other sources.

Herman Hildan:
Yes. And then I guess finally -- I guess it's more of a modeling question. But this quarter, Star Logistics had a negative number $1.6 million and I fully appreciate that you made movement in the last quarter, but for modeling purposes, what kind of range and how should we model the quarter-to-quarter volatility of Star Logistics?

Pertos Pappas:
How do we manage the volatility of Star Logistics?

Herman Hildan:
Like, how should we model the -- should we just assume that you've now reached I think in the second quarter you had about 12 vessels with (inaudible) (why they were earning).

Simos Spyrou:
Herman, this is Simos. Can you repeat the question, please, because I'm not sure I understood. What number do you mention about Star Logistics?

Herman Hildan:
If you take your revenue and straight (inaudible) to TC earnings, then you get, call it, the Star Logistics revenue and you compare that to the charter in-costs before you had the …

Simos Spyrou:
OK, OK. Herman. You have -- there are other lines below the revenue. So Star Logistics is a business, actually, which is hedged. And you should also see the result of their FFAs portfolio and their bunker hedging portfolio. So Star Logistics on their own made a net profit of about $0.5 million on this quarter. So the result that you see on the FFA is basically primarily due to the second quarter results of Star Logistics. So net-net, on the bottom line, Star Log was positive by about $0.5 million.

Pertos Pappas:
This is because when we fix the voyage, we basically cover heads -- the bunkers, which go up and down. So we need to hedge it as soon as we fix the voyage to make sure that there's no loss there. And we also take FFA positions against the position of the voyage itself. When we take vessels on time charter, we do the same thing. And we expect to see profits from the optional periods.

Herman Hildan:
So obviously without giving them daily update on their hedge positions (and so like) what kind of range should we assume as a average net results from Star Logistics taking into account all the hedging and so on going forward?

Simos Spyrou:
So hopefully it's going to be generating a small profit compared to the overall numbers of Star Bulk.

Herman Hildan:
I think that's all for me. Thank you very much for taking my questions.

Pertos Pappas:
Thank you, Herman.

Operator:
Thank you. We will now take our next question. Please go ahead. Your line is open.

Chris Robertson:
Hey, guys. This is Chris Robertson on for Randy. I had a question, actually string of questions related to the scrubbers that are on order. So if you could give some details on the CapEx requirement, expected downtimes, financing arrangements that you may be in discussions for the supplier and the time line for delivery and installation?

Hamish Norton:
OK. So Chris, it's Hamish Norton.

Chris Robertson:
Hi, Hamish.

Hamish Norton:
So we have not, as you know, commented on most of those questions. And we probably will be giving a more full view as to what we think about all those subjects when we finally figured it out ourselves. But clearly, there's going to be some downtime. We don't think there's going to be a lot of downtime, but there's going to be some downtime for the ships on which we installed scrubbers in 2019 primarily, although some in 2018.

And in terms of financing, we're looking at a lot of different options. But I think you can be pretty confident, and we are -- we have no current intention of issuing any equity to pay for scrubbers. But in terms of how we're going to finance them apart from that, that's still in flux.

And what else were you asking about?

Chris Robertson:
The supplier?

Hamish Norton:
We haven't commented on who's our supplier or suppliers and we probably will not.

Chris Robertson:
OK. Kind of a follow-up to your comment then, Hamish. In terms of the downtime in '19, primarily in '18, could you comment on how many of those days would coincide with already scheduled dry docks versus just kind of one-offs?

Hamish Norton:
Well, there's probably extra downtime for the ships on which we install scrubbers of, call it, 5 percent for the -- for those ship sailing days over 2019, primarily. But so it's not a big effect, frankly.

Pertos Pappas:

If you take into account the number of vessels that will have normal dry docks at the same time. And of course, that's when we will install scrubbers on the vessels -- dry dock will install scrubbers at the same time, obviously. So if we take that into accounts, probably a bit below 5 percent, like 4 percent or 3.5 percent somewhat.

Hamish Norton:

Right. I mean, you are a better man than we are if you can project charter rates to within 5 percent.

Pertos Pappas:

I'm talking about time basically. I'm talking about …

Hamish Norton:

Yes, yes -- no, no, no, I understand, but it's equivalent in effect to projecting charter rates to that precision.

Chris Robertson:

That's helpful. Thanks, Hamish. And then kind of a return question to the Star Logistics. Is there a similar number of chartering days going into Q3? How should we think about that going forward?

Pertos Pappas:

Yes, it's about the same level of days for Q3. Yes.

Chris Robertson:

All right. And then last question for me. You kind of talked about this earlier. But in terms of expected use of cash, how much cash you want to keep on the balance sheet comfortably going forward?

Hamish Norton:

That will depend a lot on our outlook on the market. And I think if the market does what we hope it will do, you'll see us both reducing debt over time and paying some dividend in the near future, so …

Chris Robertson:
So in other words, there's no minimum amount necessarily. It's market dependent, and you'll evaluate the situation for it either accelerating debt repayments or dividend as the market ...

Hamish Norton:
Or both.

Chris Robertson:
OK, fair enough.

Pertos Pappas:
Contractually, we're obliged by our lenders to have about $500,000 per vessel. Therefore, right now, that's 105 vessels that we have in our fleet that effectively corresponds to $52.5 million. Obviously, we'll try and keep more cash than that in order to have some buffer. But as Hamish said, the exact level of cash depends on market outlook as well as the overall level of our debt within the company.

Chris Robertson:
OK, perfect, that makes a lot of sense. Thank you very much for the detail. That’s it for me.

Operator:
Thank you. As a reminder, ladies and gentlemen, please press star one if your wish to ask a question and please press star two to cancel the request.

We will now take our next question from the line of Eirik Haavaldsen from Pareto. Please go ahead.

Eirik Haavaldsen:
Hi ,this is Eirik Haavaldsen from Pareto Securities. A little more high-level question, if I may, because I'm a bit surprised and pleasantly surprised by the lack or the relatively slow pace on new build orders in this space and just wanted to hear your thoughts about why that is? Is it higher yard prices? Is it lack of financing? Is it more uncertainty about the market? Is it that we finally learned a lesson? Or what you think about that? And how would you see this continue? How aggressive are yards at the moment?

Pertos Pappas:
Did you say pleasantly or unpleasantly?

Eirik Haavaldsen:
No, I'm pleasantly surprised by the relatively lack of new building orders. I mean, it feels like we've learned a lesson, it's dangerous to say in shipping, but it sort of feels a bit like it.

Pertos Pappas:
Right. Well, first of all, there's a few reasons for that. I think that, for example, on the bigger vessels, maybe some people got a little bit worried about Vale orders. So one has to do the calculations and see whether this is a risk for bigger vessels or not going forward. Another reason is that prices are going up, especially now that there are no tier or are there are a very few Tier 2 vessels left. So you have to buy Tier 3, which adds a few million on the vessels. Then third reason is the environmental regulations and people not being certain of where all this is going.

So I think that in -- at times of uncertainty, people hold back, I think that's probably the main reason.

Also, like, for example, if you want order vessels in Japan, you will need to go to 2021, that's 3 years from now. And in China, probably well into 2020. So I mean this is 2.5 to 3.5 years from now. And it's understandable that under a climate of uncertainty people will sit back and wait to see how things evolve. But we're very happy about it. And also market was a bit slow at the beginning of this year, and that I think also helped.

Eirik Haavaldsen:
OK. But I mean, given Q2 now and then the start of Q3, did you expect this silence in terms of new build ordering? I mean, it always happens, so we're just waiting for it, but are you as well?

Pertos Pappas:
Well, I don't know if I was expecting. I was definitely praying for it.

Eirik Haavaldsen:
That's good. Thank you.

Pertos Pappas:
Thank you.

Operator:
Thank you. We have no further questions at this time. Please continue.

Petros Pappas:
Nothing else to add, operator. Thank you very much for listening to us. And have a good summer to everybody.

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

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