Corporate Participants

Petros Pappas
Star Bulk – CEO

Hamish Norton
Star Bulk – President

Simos Spyrou
Star Bulk – Co – CFO

Christos Begleris
Star Bulk – Co – CFO

Presentation

Operator:
Thank you for standing by, ladies and gentlemen. Welcome to the Star Bulk Carriers Conference Call on the Fourth Quarter 2015 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 questionandanswer session. At which time, if you wish to ask a question please press * and 1 on your telephone keypad, and wait for your name to be announced. I must advise you that this conference is being recorded today.

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

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 fourth quarter and full-year of 2015. Before we begin, I kindly ask you to take a moment to read the Safe Harbor statement on slide number 2 of our presentation. In slide 3, we want to highlight the actions we have taken over the past 18 months to actively improve our liquidity and extend our financial runway in this challenging market environment.

During 2015, we proactively raised $425 million of equity through two separate offerings. Our core shareholders have shown their active support to the Company by participating with $268 million in these offerings. Previously, in October 2014, we had raised $50 million in senior notes to strengthen our liquidity. Over the same period, we have sold 23 vessels for more than $435 million of gross proceeds generating a total of $86 million of free cash to the Company. We have taken some painful but necessary steps to sell assets that release significant amounts of cash to extend the Company's runaway. These 23 vessels consist of six newbuildings and six modern vessels as well as eleven 1990s built vessels that did not fit our commercial profile. Throughout this period, we have had a very constructive dialog with the various shipyards building our vessels where from we have agreed the following.

We adjusted the remaining CapEx obligations on newbuildings. We agreed not to take delivery of four newbuilding contracts. We have also been able to delay delivery of 16 vessels by eight months on average, which in the current rate environment has reduced our cash burn. The aggregate effect of these actions is approximately $80 million in cash savings. We have put a lot of time and effort on a daily basis in order to reduce our operating and G&A expenses throughout 2015, saving over this period an additional $21 million. The total effect of this aforementioned actions have benefited the Company for more than $660 million, which go a long way in supporting Star Bulk in this weak market. I want to stress that we will continue to work hard to find ways that we can collaborate with all stakeholders in order to improve the Company's liquidity and make sure we extend our runway into the future.

I would like now to pass the floor to one of our Co-Chief Financial Officers, Christos Begleris to walk you through our fourth quarter financial highlights.

Christos Begleris:
Thank you, Petro. Let us now turn to slide number 4 of the presentation for a summary of our fourth quarter 2015 financial highlights in comparison to last year's same period. In the three months ending December 31, 2015, net revenues adjusted for non-cash items less voyage expenses amounted to $44.1 million, 3.2 percent less than the $45.6 million for the same period in 2014. Adjusted EBITDA for the fourth quarter 2015 was $6.6 million versus $16.6 million in the fourth quarter 2014. Excluding non-cash and one-off expenses, our adjusted net loss for the fourth quarter amounted to $24.6 million or $0.11 loss per share versus $4.7 million adjusted net loss or $0.05 loss per share in the fourth quarter of 2014.

Our time charter equivalent rate during this quarter was $7,886 per day compared to $11,384 per day last year. Our average daily operating expenses, excluding $900,000 of non-recurring pre-delivery expenses, were $3,966 per day, a reduction of 9.4 percent compared to the fourth quarter of 2014, similarly adjusted figure of $4,378 per day. As of December 31, our total cash balance, including restricted and pledged cash, stood at $222.1 million. On the liability side, total debt as of December 31, 2015 stood at $991.3 million. Based on the above, our net debt was $769.2 million.

During the quarter, we also had an impairment loss of $287.7 million impacting our results. $185.1 million of which was for vessels sold. Total impairment charges for 2015 were $322 million, reflecting the weaker asset value environment.

Having said that, I will now pass the floor to our President, Hamish Norton, for an update on our operational performance for the quarter.

Hamish Norton:
Thank you, Christos. Please turn to slide 5, where we summarize our operational performance for 2015. In this difficult market, we aimed at low breakeven rates and aim to continue to be one of the lowest cost dry bulk operators. We believe that a combination of our in-house management abilities and the scale of the Group provide us with a distinct advantage in terms of cost and quality.

On the left hand graph on slide 5, you can see that we continued to improve our average daily OpEx to $4,233 per vessel per day in 2015, which is an 11 percent reduction compared to a year ago, and of course for the fourth quarter, it's even lower. On the right hand side, you can see the evolution of our average daily net cash G&A expenses per vessel. Our expenses per vessel are lower than in 2014 at $1,134 per vessel per day, which is a reduction that's 22 percent and this illustrates our ability to spread the cost of our employees over a much larger fleet as well as being very efficient with how we use our employees.

We're focused on maintaining the highest standards of vessel maintenance, safety and operation. Over 88 percent of the vessels managed by Star Bulk have a rating of five stars by RightShip, which is a vetting organization and that's the maximum rating. OpEx and G&A expense reductions have aided the Company an estimated $21 million during the year relative to the previous levels of OpEx and G&A per ship per day. The reduction of both our daily operating expenses and our daily G&A expenses are mostly the result of economies of scale from managing a larger fleet but of course managing that scale very efficiently.

Slide 6 shows that Star Bulk is one of the lowest cost operators among US listed dry bulk peers based on the latest available public information for the peers and the full-year 2015 information for Star Bulk. Now, you know it's true that we've probably achieved most of the available cost savings already. However, we continue to look for and find additional savings by reviewing and renegotiating agreements with suppliers and service providers. That processes is not going to stop as we remain vigilant on the cost side in order to remain competitive.

And now I'll pass the floor to our Co-CFO Simos Spyrou to continue with an update on our agreements with the shipyards.

Simos Spyrou:
Thank you, Hamish. Please turn to slide 7, where we summarize the agreements with yards and their effect on the Company's liquidity. Throughout this period, we've been in contact and have had good cooperation with the yards building our vessels to further improve the payment and delivery schedules. We maintain excellent relationship and continue to constructively find measures that improve our liquidity. Our agreements to date are summarized as follows. Overall, we have managed to push back the delivery of 16 vessels by a total of 124 months, approximately eight months per vessel on average.

The delivery dates and $188 million in CapEx payments for five Newcastlemax vessels have been pushed from 2016 to 2017 and 2018. The above is positive to the Company's liquidity, but it also creates value for these vessels long-term. The permanent reduction in the vessel aids as well as the potential for better commercial prospects in case the market conditions are better once delivered in 2017 and 2018 are of significant value.

CapEx has been reduced by $223 million through a variety of agreements; re-assignment of two newbuilding lease agreements at no extra cost to the Company; termination of two shipbuilding contracts; adjustment of remaining CapEx obligation for certain vessels. The graph on this page illustrates both the 2015 CapEx payments as well as the new total amounts the Company will need to pay to take delivery of its fleet. At the bottom of the page, you will also see our updated CapEx schedule as of February 25, 2016 as well as the committed debt amounts we have for those vessels.

Having said that, I will now pass the floor back to Petros for a market update and his closing remarks.

Petros Pappas:
Thank you, Simo. Please turn to slide 8 for a brief update of supply. During 2015, the dry bulk fleet grew by 2.5 percent compared to 4.4 percent in 2014. A total of 49.3 million deadweight was delivered and 30.4 million deadweight was sent for demolition. The dry bulk order book decreased from 23 percent in the beginning of the year to 15 percent at the end of the year as a result of limited ordering, cancellations and conversions. During the first two months of 2016, it is encouraging that more than 9 million deadweight has been scrapped or sold for demolition with half reported to be Capesize vessels.

Delivery slippage is expected to remain in line with 2015 at slightly above 40 percent resulting in net fleet growth for 2016 of around 1.5 percent.

Let's now turn to slide 9 for a brief update of demand. Dry bulk trade growth during 2015 experienced a sharp slowdown compared to 2014. Dry bulk demand is estimated to have remained flat over the last year both in volume and ton-miles terms compared to 5.5 percent increase in ton-miles in 2014. Iron ore ton-miles increased by 0.3 percent compared to 9.2 percent increase in 2014.

Coal ton-miles decreased by 3.5 percent compared to an increase of 3.7 percent in 2014. Grain and soybean ton-miles increased by 4.4 percent compared to an 8.2 percent increase in 2014. Minor bulk ton-miles increased by 1 percent compared to a 3 percent increase in 2014. The main causes behind the poor market were the oil price correction that began in quarter four 2014 and led to an increase of the fleet's overall speed, global crude steel production decreasing by 3 percent, China coal imports decreasing by 30 percent and Australia iron ore exports gaining market share from Brazil with a negative effect on ton-miles.

According to Clarksons, total ton-miles growth during full 2016 is expected to marginally improve to 1 percent, mainly driven by strong grain export growth from Latin America and a global economic stimulus from low commodity prices and interest rates. The steel industry is expected to find support during the second half of 2016 as the cumulative effect of China's monetary and fiscal stimulus measures starts to yield results.

On a positive note, Chinese iron ore and coal domestic production are reported to have decreased by 9 percent and 5 percent respectively during full 2015. As a result, despite the fact that China's steel production has stagnated, iron ore imports have received support from the gradual substitution of domestic supplies. Additionally, Chinese coal imports are likely to stabilize at current levels and could even experience a small rebound assisted by the gradual relaxation of coal import duties from Australia. We expect 2016 to be one of the most challenging years in dry bulk history.

Paradoxically, this should ultimately be seen as a positive factor for the medium term, as it will encourage further scrapping and will discourage newbuilding orders and further trim the orderbook through cancellations and conversions. We highlight once again that the most important market improving factor is owner's supply response. Absence of ordering and increased demolition since early 2015 is slowly putting a cap on the fleet growth for the next couple of years and is creating the foundation for a sustainable recovery to take place sometime in the not-too-distant future.

Closing, I would like to reiterate our commitment to take all necessary actions to navigate the Company through these turbulent times. In slide 10, we present our current cash and debt position as of February 25, 2016. Our cash position currently stands at $175 million. Our total debt including capital lease obligations stands at approximately $925 million. Expected equity proceeds from the sale of committed vessels is $39 million, which is due to be received in the next couple of months. These transactions will boost our cash and extend the Company's runway. It is worth noting that after our latest discussions with the yards, we now only have $8 million of equity CapEx to be paid until June 30, 2017. This is a significant achievement given the importance of liquidity over the foreseeable future.

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

Operator:Thank you very much sir. As a reminder, if you wish to ask a question please press star followed by one on your telephone keypad. Your first question today comes from the line of Amit Mehrotra, with Deutsche Bank. Please go ahead.

Amit Mehrotra:
My first question is on the cash requirements associated with debt repayments. I didn't see that slide in the updated presentation, Christos or Simos, if you could just update us on that and also timing of any balloon payments?

Christos Begleris:
The principal debt repayments that we have are to the tune of $100 million per year. Additionally, we have two balloon payments in 2016 totaling $62 million. However, we are in discussions with banks in order to extend the maturity in those two facilities and I believe you will see results soon on that front.

Hamish Norton:
And then refinancing of those facilities.

Amit Mehrotra:
Just wanted to ask you -- follow-up on that Christos, I mean the progress towards that refinancing, I mean I guess that's kind of been the case over the last couple of quarters here, can you just give us some more -- because that's obviously a pretty serious cash call and an overhang on the stock. So if you could just provide a little bit more color in terms of when we could expect announcement, how far you are along in that negotiation and any color would be appreciated?

Christos Begleris:
Amit, you can expect some further color in the next few months on that.

Amit Mehrotra:
OK. And then the other question I had with respect to the new building was with respect to the newbuilding book and, Christos, I don't know if there's anything you can provide in terms of color or guidance on how much equity payments have actually been made so far in the vessels that are yet to deliver. And the reason I'm asking just trying to understand the potential liquidity that is available down the road if there is maybe additional sales of the newbuilding book?

Hamish Norton:
Well, I mean, that's sort of a two part question, maybe Simos can answer the first part and maybe, you know, Petros or I can answer the second part.

Amit Mehrotra:
OK.

Simos Spyrou:
Well, Amit, what we are showing on the presentation is that the total remaining CapEx for the vessels to be delivered as of today is $297.1 million, out of which we expect that the equity CapEx for the next 16 months is just $8 million. Out of this $8 million, almost $5 million are due to be paid tomorrow for a delivery and the remaining just $3 million is remaining equity CapEx for the next 16 months.

Amit Mehrotra:
Right, so I understand that. My question was really about the payments that you've -- the payments that have actually been made to date, I assume all of those are equity payments, if you could just provide sort of the total amount of that number in terms of what sort you've been paid in?

Christos Begleris:
Well, for the -- right now we have, let's say, nine new building vessels. As of the end of this month, we're going to have six new building vessels to be delivered and for those nine vessels, the equity that has already been paid is the tune of $80 million. Was that your question?

Amit Mehrotra:
Yes, thank you, Christos, appreciate it.

Simos Spyrou:
And, Amit, as far as the new building sales that you asked, in the last two-and-half months, we have basically sold 10 vessels and we canceled two newbuildings. So, we think we're actually fine for now. Now, if going forward, we see prices increasing and we see that it makes sense, we might do something more, but for now we're OK.

Amit Mehrotra:

And then one last question from me on the operations. The OpEx slide that you guys keep on showing is obviously really good and impressive and the question I had is though that, that $4,200 a day that you guys present on slide 6, just wondering is that on an accrual basis or is that on a cash cost basis?

Simos Spyrou:
It's on accrual basis.

Amit Mehrotra:
And then if we think about your OpEx though like in this market obviously, every $1,000 or even $100 a day is significant savings, but if I look out sort of over the next 12 months, the OpEx number, I mean it's got to be lower than that $4,200, right, because a lot of the -- the actual costs, some of the costs are basically already been outweighed or incurred. And so, what should we sort of think about what your real cash OpEx is over the next 12 months to 18 months?

Hamish Norton:
Remember that the cash -- the OpEx reported does not include dry-docking, which is also expensed. So, I mean maybe Simos and Christos, you can talk about what items are non-cash in that OpEx, I mean it's not a lot, right?

Christos Begleris:
We do not have anything that is non-cash in that OpEx. But to your question, Amit, the 2016 budget that we have and we have been actually slightly below that budget so far this year is at -- a bit below actually $4,000 per day and I believe we are set to achieve this budget.

Hamish Norton:
I don't know, Amit, what sort of non-cash costs you were thinking about?

Amit Mehrotra:
Well, let's say, Hamish, it's not non-cash, it's more the lumpiness of the cash payments or things like insurance and lubricant oils or things like that that have already been incurred that are amortized over the use on the P&L, but not necessarily effected on the cash flow statement.

Hamish Norton:
The lubricant acquisitions for the fleet since we have so many ships in the water tend to average out, maybe Simos and Christos can talk about timing of payments to for the insurance.

Amit Mehrotra:
I mean, if it's not a big deal, then maybe $4,200 is the right number.

Hamish Norton:
It's not a big deal.

Amit Mehrotra:
I'm just trying to see if (multiple speakers).

Simos Spyrou:
I think we average those out as well Amit. I think we also average out insurance payments as well.

Amit Mehrotra:
Got it, OK guys that's all for me, thank you very much.

Simos Spyrou:
Thank you.

Operator:
Thank you very much, your next question comes from the line of Noah Parquette, with JP Morgan. Please go ahead.

Noah Parquette:
So, obviously, you guys have done a lot of work in terms of improving CapEx programs and stuff. I mean at this point, can we think that your new build schedule isn't going to change much. I mean most of the ships are being delivered in the next couple of months and then you have some in 2017 and 2018, is there more to be done there?

Hamish Norton:
Yes, exactly. You've got it right, nothing much more is going to change from the present situation, I think.

Noah Parquette:
And then, look, going forward, what other levers do you have to pull to improve your situation if required. I mean, are you thinking about a deferral? I think you mentioned you're OK in vessel sales for now, but that's, I imagine, an option in the future, can you just talk a little bit about strategy you are thinking of?

Hamish Norton:
Yes, sometimes it's best from a business point of view not to discuss publicly all the things that are at our disposal for the benefit of the shareholders and I'm sure you understand that. There are a lot of things we can do and we've got one of the most dedicated and talented management teams in the industry working for us. So, you are correct in not making the mistake that thinking our situation is static, but we just can't talk about all the things that we're able to do, because then we might not be able to do them.

Noah Parquette:
I know, but I had to try.

Hamish Norton:
You've seen that with us in the past, we performed, but we haven't necessarily been able to talk about what we were hoping to do.

Noah Parquette:

I can totally understand that, Hamish. Then, can I ask a little bit, obviously you shrunk the fleet a little bit. I think you've given guidance of G&A on a full fleet basis around $1,000 to date, are you still comfortable with that level with the smaller fleet or that changed at all?

Christos Begleris:
Well, our budget for 2016, Noah, is at around $1,100, so $1,000 to $1,100. We are quite comfortable that we will achieve this level. We don't expect it to be higher.

Noah Parquette:
And then I just had a quick one, can you give any guidance on rates that you've achieved in Q1 to date on your fleet?

Petros Pappas:
I think in the first two months of this year, our average income, net income was around $5,500. I think January was $6,500 and February was $5,500, so actually probably around $6,000.

Noah Parquette:
OK. All right, that’s very helpful. Thank you.

Operator:
Thank you very much. Your next question comes from the line of Sherif Elmaghrabi, from Morgan Stanley. Please go ahead.

Sherif Elmaghrabi:
First, I'm going to start off, have you seen very many vessels entering lay-ups and are you considering putting any of yours into lay-up? And also if you could just remind us what are the economics around putting a vessel into lay-up? How much of the savings in daily vessel expenses and how much does it cost to bring it back into operation afterwards?

Petros Pappas:
Right. Well, we have -- we presently have three vessels in lay-up -- in cold lay-up and three vessels in warm lay-up. Now, whether you have a vessel in cold or warm-up, it's a decision of how you expect the market to move in the next few months. For example, therefore, if we think that the grain season in South America is starting somewhere in March/April, then we would keep a vessel which today is not doing that well, we would keep it in warm lay-up, because it's not worth it going cold and then going through the expense of re-activating it again. So, future employment has a lot to do with that decision.

Now, as far as costs go, if we lay up in the Far East, cost of lay-up is about between $2,100 and $2,300 per day and that -- it's not very different between the sizes of the vessels, maybe low $2,000 for Supras and $2,300 for Cape. If we lay up in Greece, it's about $1,500. Now, the costs are -- the most of the cost is usually very -- this is on the basis of six months lay-up, most of the cost is the reactivation cost. So, let's say, a lay-up cost of $2,000, $1,000 on the basis of six months. Therefore, let's say around $180,000, maybe bit less, is basically the reactivation, about the couple of hundred would be the lay-up itself and the rest $800 would be having maintaining the vessel's engines from time to time, having guards to look after the vessel, paying fees to the ports, insurance and stuff like that. So, as a yardstick rule, I would say half is reactivation and the rest is during the lay-up period. Now, how do you take the decision. Let's say that the cost is $2,000, let's say that the operating expense of a vessel is $5,000, if the market is at $3,000 -- if the market rates are at $3,000, we're losing $2,000 a day. That is exactly the point where you have to decide whether you keep on operating or you lay up the vessel, because whether you lay up the vessel or you keep on operating, you lose $2,000 a day. So, there the decision is qualitative. You have to think what is going to happen during the next two months, three months, six months onwards. And it's not an exact science, but we have to figure out how we believe the market to be going forward.

Sherif Elmaghrabi:
Shifting gears a bit, if Indonesia repeals the ban on bauxite and nickel ore, do you think this could provide some relief to the market or is there just no appetite for more cargoes given the way commodity prices have moved?

Petros Pappas:
What was the first part, if Indonesia does what?

Sherif Elmaghrabi:
Repeals their ban on bauxite and nickel ores.

Petros Pappas:
Well, you know Indonesia is close to China, so actually if they keep the ban, China might have to import it from further away, so it will be more ton-miles. So, I don't think that relaxing the ban of Indonesia would be anything really positive for the market, actually it's probably fine as it is now. And I think that China is importing increased quantities of bauxite from Australia right now where the ton-miles are much higher and from West Africa.

Sherif Elmaghrabi:
All right that’s it for me. Thank you gentlemen.

Operator:
Thank you very much. We have no further questions at this time. As a reminder, if you do wish to ask a question today please press star and one on your telephone keypad. That’s star and one on your telephone.

Petros Pappas:
No closing remarks. Thank you, operator.

Operator:
Thank you very much. In that case, that does conclude our conference for today. Thank you all for participating. You may now disconnect.

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