



Capital Link US

Moderator: Simos Spryou
February 18, 2021
4:00 p.m. GMT

OPERATOR: This is Conference # 4476648.

Operator: Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers conference call on the fourth quarter 2020 financial results.

We have with us Mr. Petros Pappas, Chief Executive Officer; Mr. Hamish Norton, President; Mr. Nicos Rescos, Chief Operating Officer; 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 wish to ask a question, please press star and one 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 to one of your speakers today, Mr. Begleris. Please go ahead, sir.

Christos Begleris: Thank you, operator. I'm Christos Begleris, Co-Chief Financial 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 of 2020.

Before we begin, I kindly ask you to take a moment to read the safe harbor statement on slide number two of our presentation. Today's presentation will focus on an overview of our fourth quarter and full year results, our cash evolution during the quarter, our operational performance, our future dry dock

and ballast water treatment system expenses and the latest industry's fundamentals before opening up for questions.

Let us now turn to slide number three of the presentation for a summary of our fourth quarter 2020 financial highlights. In the three months ending December 31, 2020, TCE revenues amounted to \$140.7 million compared to \$148 million for the same period in 2019. Adjusted EBITDA for the quarter was \$81.5 million versus \$88.3 million in the fourth quarter of 2019. Net income for the fourth quarter amounted to \$27.8 million or \$0.29 earnings per share versus \$23.5 million net income or \$0.25 earnings per share in the fourth quarter of 2019.

Our time charter equivalent rate during this quarter was \$13,415 per vessel per day. Total cash today stands at \$232 million with total debt at approximately \$1.63 billion. A \$30 million revolving facility is currently undrawn and this included pro forma in the above figures.

As far as our recent vessel acquisitions are concerned, we have taken delivery of the three 2010 built Capesize vessels acquired from E.R. Capital and expect to take delivery of the seven Scorpio Bulkers vessels in March 2021, reaching a total of 126 vessels on the water on a fully delivered basis.

Turning to slide number four. This is a summary of our full year 2020 financial highlights. Adjusted EBITDA for 2020 was \$229.1 million versus \$237.3 million in 2019.

Net income for 2020 amounting to \$9.7 million or \$0.10 earnings per share versus \$16.2 million net loss or \$0.17 loss per share in 2019. Slide five graphically illustrates the changes in the company's cash balance during the fourth quarter. The company started the quarter with \$222.1 million in cash and generated positive cash flow from operating activities of \$58.1 million.

After including debt proceeds and repayments, CapEx payments for scrubber and ballast water treatment system installments, we arrived at a cash balance of \$195.5 million at the end of the quarter. I would just highlight here that the reduction in our cash balance is due to the fact that during the fourth quarter,

we prepaid voluntarily the \$30 million revolving facility, which can be withdrawn at any time.

Slide six, we demonstrate the changes in the company's net debt over the past year. In early 2020, the company started with an adjusted net debt of \$1.52 billion, peaking in May 2020 at \$1.54 billion and then continuously decreasing until today (inaudible) where we summarize our operational performance.

OpEx was \$4,169 per vessel per day for the quarter and \$4,122 per vessel per day for the whole of 2020. The increase was primarily due to increased crew expenses throughout the year due to COVID-19 disruptions and crew changes.

Otherwise, our vessels have operated largely uninterrupted during the second half of 2020 despite the COVID-19 pandemic.

Net cash G&A expenses were \$1,068 per vessel per day for the quarter and \$1,035 per vessel per day for 2020. The combination of our in-house management and the scale of the group enable us to provide our service at very competitive costs, complemented by excellent ship management capabilities, with Star Bulk currently number one amongst our listed peers in terms of Rightship Ratings.

Slide eight provides some guidance around our future dry docks and ballast water treatment system expenses for 2021 and the relevant total of five days. The 2021 numbers are based on current estimates around retrofit planning, vessel employment and yard capacity. These figures incorporate our current understanding of present and future shipyard congestion.

Since the beginning of the year, 10 vessels have enter dry dock and 5 have already been retrofitted with ballast water systems. Our expected CapEx for 2021 is estimated at \$20.9 million for the dry docking of 31 vessels with another \$23.2 million for the ballast water system CapEx of 23 vessels. In total, we expect to have approximately 943 off-hire days during the year.

I will now pass the floor to our CEO, Petros Pappas, for a market update and his closing remarks.

Petros Alexandros Pappas: Thank you, Nico. Please turn to slide nine for a brief update of supply. During 2020, a total of 48.8 million deadweight was delivered, and 15.4 million deadweight was sent to demolition for a net fleet growth of 33.4 million deadweight or 3.7 percent. Quarantine related to the coronavirus outbreak and complications on crew changes created strong supply and efficiencies throughout the year, while freezing weather conditions during December disrupted port operations in the North Pacific and led to a record high congestion.

New environmental regulations and uncertainties around the future vessel proportion are expected to keep dry bulk newbuilding activity under control over the next years. The order book decreased to a historical low of 5.8 percent of the fleet with just 14.7 million deadweight firm orders reported during 2020. Increased demand from ship breakers push scrap prices higher and made demolition of all the tonnage a more attractive option for ship owners.

The IMO low sulfur regulation and switch to more expensive VLSFO led to a 0.3 percent decrease of average steaming speeds during 2020 despite the strong correction in crude oil prices at the start of the year. We expect that oil prices will increase as the global economy recovers from the pandemic and the higher bunker price environment to incentivize low steaming and improved scrubber savings. As a result of the above positive trends, net fleet growth is projected to correct an average around 1.5 percent per annum between 2021 and 2023.

Let's now turn to slide 10 for a brief update of demand. 2020 was a challenging year for trade as COVID-19 affected consumption and disrupted the supply chain of all dry bulk cargoes. According to Clarksons, total dry bulk trade during 2020 is estimated to have declined by 2.1 percent in tons, with a negative effect concentrated in the first half of the year. China led the recovery, and during the second half, imported record high volumes of iron ore, grains and bauxite. Economic activity from the rest of the world remains depressed for a prolonged period and slowly began to recover during the fourth quarter.

Iron ore ton miles during 2020 expanded by 4.8 percent. China crude steel production increased by 6.2 percent to a near record high despite the pandemic, while the rest of the world contracted by 8.4 percent. Ton miles will receive strong support the next three years as Vale plans to raise capacity from 320 million tons at the end 2020 to 400 million tons per year by the end of 2022. The recent strength in iron ore prices and relatively low stocks are positive indicators that iron ore trade will continue to expand during the next years.

Coal was the worst performer among dry bulk cargoes during 2020 with ton miles contracting by 9.7 percent. The pandemic reduced global consumption, China tensions with Australia led to a ban of coal imports, and Colombia supply was disrupted by strikes. The combination had a negative effect on long distance trade and ton miles as a result. On a positive note, a colder than average winter is taking place in the Northern Hemisphere that has helped coal consumption recover. Furthermore, the rebound in international coal prices is providing an incentive to global coal producers to raise exports, and together with an industrial activity recovery, is creating a favorable outlook for short-term gold rates.

Grain and soybean trade during 2020 expanded by 10.1 percent in ton miles on the back of a record high Latin America crop and the return of U.S. exports to China as part of the Phase 1 trade deal. China's demand for grains is expected to remain strong going forward as the next five-year plan will focus on food security and the hog herd has now fully recovered from the African swine fever outbreak of 2018.

Minor bulk rate during 2020 is estimated to have declined by 1.5 percent in ton miles. However, West Africa bauxite exports continue to expand and have a strong positive effect on Capesize ton miles.

Vaccination against COVID-19 together with favorable monetary and fiscal policies globally, has brought optimism to global markets with the IMF expecting 5.5 percent economic growth in 2021 and 4.2 percent in 2022.



Focusing on dry bulk, Clarksons expects dry bulk trade to expand during 2021 by 3.7 percent in tons and ton miles.

In an environment where on the macro side we expect a world economic rebound, a weak dollar, strong oil prices and low interest rates. And on the micro side, low order book now and in the future, increased Brazilian iron ore exports and West African bauxite, strong long-haul grain trade, congestion and a positive supply effect due to environmental regulations, we continue to remain very positive about the short- and medium-term prospects of dry shipping.

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. Ladies and gentlemen, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. Please stand by while we compile the Q&A queue. This will only take a few moments. If you wish to cancel your request, please press star and two. Once again, please press star and one if you wish to ask a question. And star and two to cancel that request.

And your first question comes from Randy Giveans from Jefferies.

Randall Giveans: All right. Can you provide a breakdown for 1Q '21 quarter-to-date rates by your asset class? And then also just kind of bigger picture. Obviously, Capesizes are still relative weak compared to Panamaxs, right? Pan is about \$20,000 a day, Capes around \$16,000, but the forward curves are obviously pointing to an inflection, where Capes are going to outperform them. So kind of if you can talk on the current market, why that is, Panamax are outperforming Capes and why you and the forward curve are confident that, that reverses here in the coming months?

Petros Alexandros Pappas: Thanks, Randy. That's a lot of questions. First of all, our coverage, our coverage for Q1 is around 50 percent for the Capes at a bit above \$19,000 net. Our Panamax is 92 percent coverage at about \$13,400 net. And our Supra coverage, about 87.5 percent at about \$12,750. Total coverage, 75 percent, 76 percent at about \$14,500.

You asked why Panamax is doing better than Cape right now. We think that this is happening because there is a stronger soybean market in the U.S. Because – also because of the cold weather, there's more coal in being moved at present. And especially because of the Australia-China situation, there is more imports from Indonesia, and these imports are carried mostly on Panamax and not Capesize.

Also, we see coal from Colombia, a lot of it on Panamax. And therefore, we see a lot of trade on coal and grains that is usually mostly Panamax cargoes. And that is why we've seen this squeeze, especially on the Panamax.

Now don't expect to see \$25,000 and \$22,000 on the Panamax forever. Hopefully, will happen in the future, but it's not going to be a continuous thing. And for that reason, today, you saw that rates have gone down. But generally, it's a very positive situation, and the reason for that positive situation is what we call in this office ocean imbalance, ocean imbalance.

And that is due to the fact that there's more exports from the Atlantic to the Pacific, then the other way around. And therefore, when a cargo – when cargoes are loaded in the Atlantic and go to the far east, these vessels have to come back.

During the last couple of months, there's been very few vessels in the Atlantic, and that has squeezed the Atlantic a lot. And the charters instead of finding a vessel in the Atlantic to be able to load it and get to the Pacific in 60 days, now they have to source vessels, for example, from the Indian Ocean. And a trip that will take 60 days for a certain cargo actually takes 90 or 100 days.

And therefore, that creates a huge squeeze. And we think that a main reason for these rates that are taking place right now is that squeeze, which we think will continue, perhaps not to the same degree. Lately, because of the dry docks, the scrubber installations, the new buildings that are being delivered, the ballast water treatment plants that most of us actually retrofit in the Far East, we have been obliged to have more vessels in the Far East. And therefore, the Atlantic squeeze takes place.

Now if you want me to complete this, in general, we are extremely positive about the markets going forward for a number of reasons. There are macro reasons and micro reasons. The macro reasons have to do, for example, with economic rebound.

We expect once the COVID is dealt with, with the low dollar, the low dollar is very important because it makes commodity prices cheaper in local currencies and also makes freight cheaper in local currencies and also, it makes vessel prices cheaper in local currencies.

And therefore, it makes it easier for the receivers to pay for them. And that also makes us believe that we will see higher prices of vessels going forward. And then we have low interest rates for the foreseeable future, and we believe in stronger oil prices. Oil prices are important because if crude oil is high, then bunker prices are high. And that obliges vessels to slow steam, and therefore, decrease supply of vessels. So it is a positive for us. And these are the macro side.

The micro side is when we focus in our own business, it's the very low order book, below 6 percent, the best in the last 25 years. The fear of ordering vessels going forward because we don't know what engines we will need. The IMO regulations are important because they will encourage slow steaming in order to be able to achieve the efficiencies that will be demanded of especially the older vessels. There will be perhaps potentially more scrapping, so that's positive. We see more iron ore from Brazil, more bauxite from West Africa. We see more grain trade. All these are long ton miles, extremely important. We see congestion as a consequence of all that.

And of course, never forget, as I said before, the ocean imbalance, this is extremely important. And lastly, the sentiment, there is positive sentiment. And I think psychology is also very important. So I hope I didn't tire you, but I – and I hope I answered your question in full.

Randall Giveans: Yes, more than full. That was very impressive. Now I guess, following up on that briefly, how have the asset values been impacted by this kind of current market strength as well as, in your view and others, the optimistic outlook

based on the strong FFA forward curve for the back half of this year and even '22?

And then any appetite from Star Bulk specifically for additional acquisitions and maybe ships for shares now that your share price is closer to NAV?

Hamish Norton: We're always looking at attractive fleet acquisitions if we can arrange that, as you've seen us do in the past.

Petros Alexandros Pappas: And also if we find an opportunity, we will take advantage of it. We see a very, very positive future going forward. And as far as prices, I think they have gone up by like 10 percent, 15 percent. And I expect them to go further up going forward.

Hamish Norton: And just on a completely separate note, let me just correct one error that we made in the presentation. We talked about \$20.9 million of CapEx relating to dry docking, and that should be \$20.9 million of projected dry docking expense in 2021.

Randall Giveans: Got it. OK. And sounds good. Yes, (inaudible), still a pretty big disconnect between new builds and secondhand. So hopefully, you continue to focus on those secondhands.

Operator: Your next question comes from Amit Mehrotra from Deutsche Bank.

Amit Singh Mehrotra: I guess, Petros, the first quarter bookings were stronger, especially on the Capes, stronger than I would have expected. I imagine that there's some scrubber benefits in there. If you can just kind of help us think about that dynamic.

Petros Alexandros Pappas: Yes, there is some scrubber benefit in there. And going forward, it seems that it's going to be higher because there was a part of the year that the differential was like \$50 to \$60. Right now, it seems it's around \$120 to \$125. So I think it's going to be higher going forward. So I mean it depends how much a vessel burns.

A vessel that burns, for example, 30 tons may make times 123 is 3,600 times about 6 – 70 percent at sea should be \$2,500 a day. So Capes more, smaller vessels less. It will take us a few years to repay, I think about 3 years, 2.5, 3 years, probably as things stand right now, which we think it's a decent return.

Also, one thing I want to say is that during the last quarter, as we usually do, we did hedge part of Q1 and a little bit of Q2 as well, and of course, at lower levels than what we're seeing today. But Q1 this year has been totally different from the last 11 years, 10 years. And we always had a little bit towards the last quarter to be on the safe side. Last year, the rates were like \$3,000. This year, the rates are \$15,000. So we missed out a little bit, but you cannot go all out and totally naked. So that's why you see average at \$14,500 otherwise the coverage would be at \$17,000 or \$16, 500.

Amit Singh Mehrotra: Right. Yes, you guys usually do that in the first quarter. Yes. OK.

Christos, Simos, can you just update us on the like the actual current share count? I don't usually ask that. The only reason I ask that, obviously, you've done a few ship for share deals, and I just want to make sure that we're having the actual exact pinpoint share count.

And then the other thing I wanted help on. You gave us the dry docking days in the first quarter. But can you actually give us the total revenue days in the first quarter and the entirety of 2020 just because there's so many moving parts on the asset side?

Simos Spyrou: Amit, this is Simos. We have, as we speak, today, 99.2 million shares outstanding. And we have announced that on delivery of the seven Scorpio vessels, we will lease another 3 million shares. So pro forma for the delivery of the vessel is going to be 102 million shares, 102.2 million shares outstanding.

Amit Singh Mehrotra: OK. And the revenue days?

Simos Spyrou: The revenue days, you should assume on a fully delivered basis, 45,000 days per annum. Have we provided, Nico, the guidance on the price on the evolution over the year off-hires?

Amit Singh Mehrotra: We can take it off-line if you need to. It's not a big deal.

Nicos Rescos: Yes. It's about 42,000 days for the 116 vessels. Then about the 1,000 days in addition for the three E.R. vessels. And if we assume that everything is delivered for the Scorpio vessels by March 31, then it's another nine months times seven, times 34.25. So it's another almost 2,000 days for the Scorpio vessels. And that's how you get to the 45,000 that Simos mentioned before.

Simos Spyrou: Yes. We have provided guidance of the off-hire days, which are 462 days in Q1, 270 days in Q2, 183 days in Q3 and 30 days in Q4.

Amit Singh Mehrotra: Great. A couple of quick other ones, if I may. The – is the amortization schedule change from last quarter on the debt? Or no, is it still the same?

Petros Alexandros Pappas: So basically, with the acquisition of the three E.R. vessels, we basically add approximately \$7.5 million of amortization per quarter.

Amit Singh Mehrotra: And then the Scorpio?

Petros Alexandros Pappas: And then on the Scorpio vessels, we add approximately \$10 million more on an annualized basis. So it's \$17 million more on an annualized basis from what we were before.

Amit Singh Mehrotra: Got it. OK. And then the last, I guess, the more important question, I actually think your stock is now trading at or above NAV. I know NAV is a moving target with respect to gross asset values. You've obviously done these really great ship for share deals. They've been pretty small when your stock was trading at a discount to NAV – struck at NAV.

Aren't those deals now more frequent given your public equity value is actually at NAV or even above NAV? And can we just assume that you're going to grow significantly more as a result of this currency that you're benefiting from?

Hamish Norton: Well, Amit, making predictions is hard, especially about the future, but we'll do our best.



Amit Singh Mehrotra: Yes. But Hamish, I'm going to press you a little bit on that. Have you gotten more inquiries related for ship for share deals as a result of this valuation you've gotten relative to NAV? Because I feel like we've been trying to get to this point for a long time. We're at this point now, even a little bit earlier than maybe we would have all expected. Are you getting more inquiries on sellers that are looking to have liquidity that now you guys can provide in an advantageous way?

Hamish Norton: Well, look, we're always getting inquiries. In fact, in the past, it's been challenging to turn these inquiries into deals. We would hope that now we might be better able to turn an inquiry into a deal. But again, there are many, many obstacles always to doing a deal, and so we'll just have to see what happens. We may get luckier now that our share price is higher, but there's no way to know for sure, except to try.

Amit Singh Mehrotra: Maybe the sellers want more money now than they did a few months ago. So the bid-ask spreads have widened out a little bit, is that fair to say, too?

Hamish Norton: Well, look, all kinds – all kinds of things can happen. It's – you can't plan on deals happening. We just try to do our best.

Operator: Your next question comes from Ben Nolan from Stifel.

Benjamin Joel Nolan: I want to start – well, the quarter was, I think, pretty good. And the guidance is, I think, pretty good for the portion that you have fixed in the first quarter, at least particularly on the Capesize vessels. And obviously, you're optimistic with respect to the outlook.

The dividend program that you had was ended up being a little bit short-lived, but sort of given the fact that you're now back to – or solidly within positive earnings and it sounds like you expect to be there. How are you thinking about the possible, I don't know, reinstatement or getting back on track with respect to that dividend? Or have your capital allocation thoughts shifted at all?

Hamish Norton: Well, Ben, the fact is our dividend policy is still in force. And the only real question is something that's a matter of Board discretion, which is how to treat

the \$115 million of cash that we added to our balance sheet basically through refinancing of debt and effectively additional borrowing. And the Board has discretion to treat that as counting towards our cash minimum level for the dividend or not.

So far, they have elected not to treat that cash as counting towards the minimum balance for the dividend, but they have the capacity to change their mind, and let's see what happens with the market.

Benjamin Joel Nolan: All right. Fair enough. And Petros, I want to ask a little bit of a – you expounded quite a lot on Randy's sort of market-related question. I wanted to dig in on one of those areas a little bit, if I could. You have these it seems like increasingly, everybody is talking about these EEXI regulations that are coming.

And first of all, do you envision there being any direct impact on your fleet? I suspect not. But ultimately, can you maybe walk through how you would envision that playing out in terms of give and takes on the supply side?

Petros Alexandros Pappas: The EEXI, I don't think it's going to have much effect on the global fleet. The CII will have more of an effect. And the only solution there for a big number of vessels is going to be, not the only, but the easier solution, is going to be to slow steam.

Now whether some vessels will have to slow steam so much that charters will not want them and therefore they won't be usable, this is possible, but it's going to be probably a small number of vessels. In my view, then there is going to be slow steaming, and that is going to help a lot the market.

Now regarding our fleet, we're going through every single vessel, and we're taking whether it needs to slow steam and to what extent. And we will be ready for this – for it in 2023 when it comes into action.

Nico, do you have anything to add on that?

Nicos Rescos: The investigation is ongoing, as Petros said. We're examining, obviously, the slow steaming impact from each of the vessels and other operational measures

and especially optimizing steaming voyages, voyage planning. That's going to play a big part in the future.

Hamish Norton: And obviously, it's very bullish for charter rates that you have much of the fleet slow steaming to perhaps a greater extent than it is today.

Benjamin Joel Nolan: Right. Well – and forgive my ignorance on this, and I appreciate that scrubbers are primarily implemented for sulfur, whereas what we're talking about here is carbon. But under the new regulations, would there be any change in sort of fuel specs? And would there be any knock-on implications as to the need or usage of scrubbers?

Petros Alexandros Pappas: We don't expect any change on the use of scrubbers for multiple reasons. One is regulation and the systems have been installed do enjoy grandfathering.

Otherwise, on specification of fuel, HSFO is still widely available. There have been some shortages during the pandemic, but everything is coming back online also with the oil prices going up.

What is required is to continue monitoring the performance of the systems, but we don't foresee any kind of change in the utilization of the systems on board.

Hamish Norton: I mean, the only change in fuel spec is that in theory, you can use biofuels to help meet your carbon emissions requirements. But of course, when everybody is required to meet carbon emissions requirements, the supply of biofuels is likely to be woefully insufficient. I mean it's available now because basically you're not required to use it.

Benjamin Joel Nolan: Right. That's interesting. OK. And then lastly for me, just sort of record keeping. As it relates to the two most recent transactions, are there any lockup periods on the shares that are being issued?

Simos Spyrou: No lockup period, Ben, for the new shareholders. Although the share amounts that they're getting are relatively small compared to our total number of shares.



Operator: There are no further questions at this time. Once again, ladies and gentlemen, if you wish to ask a question please press star and one on your telephone.

And we seem to have no further questions at this time. I would now like to hand back the floor to management for closing remarks.

Petros Alexandros Pappas: No closing remarks, operator. Stay safe, and thank you very much.

Operator: That does conclude our conference for today. Thank you all for participating. You may now disconnect.

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