Corporate Participants

Spyros Capralos
Star Bulk – President and Chief Executive Officer

Simos Spyrou
Star Bulk – Chief Financial Officer

Conference Call Participants

Natasha Boyden
Global Hunter Securities

Harsha Gowda
Blue Shore

Tony Polak
Maxim

Presentation

Operator

Welcome to the Star Bulk Conference Call on the First Quarter 2012 Financial Results. We have today Mr. Spyros Capralos, President and Chief Executive Officer; and Mr. Simos Spyrou, Chief Financial Officer 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 *1 on your telephone keypad and wait for your name to be announced. I must advise you that this conference is being recorded today on Thursday, May 31, 2012.
We now pass the floor to one of your speakers, today Mr. Spyros Capralos. Please go ahead sir.

Spyros Capralos

Thank you, operator and good morning everybody. I'm Spyros Capralos, President and Chief Executive Officer of Star Bulk Carriers, and I'd like to welcome you to the Star Bulk Carriers' first quarter 2012 financial results conference call. Along with me today to discuss our financial results is our CFO, Mr. Simos Spyrou.

Before we begin I kindly ask you to take a moment to read the Safe Harbour statement from Slide number two of our presentation. While you read it I'd like to personally address some of the most frequent questions we have been receiving from various investors.

First of all, it is true that this year unlike most of the previous year's our first quarter results came out a little later than usual. The main reason behind this is the fact that as of the beginning of the year, we have appointed new auditors. In view of this, we decided it would be better to allow enough time for our new auditors, namely Ernst & Young, to complete all auditing procedures. Our cooperation with our previous auditors was exceptional and our relationship remained excellent, however, we believe that the company should switch auditors every five years in order to ensure better corporate governance and increase transparency towards its shareholders.

Another question we have been receiving recently has to do with our F3 filing. Our previous F3 registration statement expired and in order to continue using it, we had to file a new one with a same terms and conditions. This procedure is considered a standard practice for listed companies within the industry. Finally, I'd like to underline the Star Bulk Carriers is a Marshall Islands company, not a Greek company. It is true that we maintain offices in Greece and our fleet is managed from these offices, but the shipping business is global. Even though a potential Greek exit from the Eurozone would definitely have ripple effects throughout the global economy, our business is not affected directly. If anything, the current Euro weakness works in our favour, since more than 70% G&A expenses are in Euros.

Let us now turn to Slide number 3 of the presentation to discuss our first quarter 2012 financial highlights in comparisons to last year's. In the first quarter of 2012 gross revenues amounted to $28 million representing a 5% reduction versus the same period of 2011. General and administrative expenses excluding amortization of stock-based compensation were reduced by 54% to 1.9 million in Q1 2012 versus 4 million in Q1 2011, mainly due to the one-off severance payment of 2.3 million during last year's first quarter. Excluding this item, our recurring G&A expenses were higher by 10%. This was a result of the additional staff the company hired in order to undertake the management of the additional four Capesize and two Supramax vessels during 2011.

Our net income for the first quarter 2012 amounted to $100,000 compared to 1.7 million in Q1 2011. Excluding non-cash items our net income for the first quarter amounted to $5.9 million compared to 1.3 in Q1 2011, mainly due to the 6.5 million related to the compensation for the early time charter termination of the Star Sigma.

Adjusted EBITDA for the first quarter was 17.9 million compared to 14.2 million last year. In Q1 2012, the time charter equivalent was $16,841 per day compared to $23,252 last year, representing mainly the expiration of our [below] market time charter agreements, the lost off-hire due to the grounding of the Star Polaris and the low freight rate environment.

Our average daily operating expenses were $5,582 per vessel, 8% higher than the same period last year, emanating from the 28% rise in our fleet's average vessel size from the addition of the four new Capes. The adjusted net income of 5.9 million represents 7c earnings per share basic and diluted which is significantly higher than analyst consensus of 2.5c loss according to Bloomberg.

Please turn now to Slide 4 to discuss our balance sheet profile which we believe is one of the healthiest in the dry bulk industry. First of all, I'd like to point out the we currently have zero capital expenditure commitments as well as no exposure to interest rate swaps, so we are able to take advantage of the prevailing low interest rate environment as all our loans are based on floating rate. As of today, total debt stands at 243.1 million and our current cash position stands at $41.9 million. Our net debt stands at around 4.4 times 2012 EBITDA. For this calculation we have annualized a Q1 2012 EBITDA and we have adjusted each for non-recurring and non-cash items.

We feel very comfortable regarding the prompt service of our loans as our remaining principal repayment obligations for 2012 stand at 17 million. As you can see in the graph, our debt amortisation profile for 2013, '14 and '15 stands at 32, 33 and 28 million respectively. We believe that these characteristics make Star Bulk one of the most financially sound players in the dry bulk industry today.

Please turn to Slide 5 for an overview of our fleet employment and our counterparties. This information is also available on our website in a very transparent manner and is updated regularly. Currently we have secured 77% of our operating days in 2012, 35% in 2013 and 19% for 2014 with most of the open days in the Supramax category. Specifically, our time charter coverage in the Capesize segment is 92% for 2012, 73% for 2013 and 43% for 2014. We refer especially to the Capes as this segment has been the most volatile and the most negatively affected so far. Supramax rates have been less volatile and have maintained healthier margins. We plan to opportunistically secure our vessels with upcoming contract expirations on period employment as the freight rate environment improves.
Our total contracted revenue amounts approximately $165 million, while it's worth noting that we no longer have legacy charters from the hires of 2008 that would be extremely difficult for our

charters to cope with. Moreover, I'd like to highlight the high quality [great] profile of our charterers with blue-chip companies like RioTinto, Cargill and Louis Dreyfus among our counterparties.

Please turn now to Slide 6 to briefly discuss recent highlights. During this quarter we sold one of our oldest vessels, the oldest vessel, I would say, Star Ypsilon, for a contracted price of $9.1 million. The sale was successfully concluded with the delivery of the vessel to the scrap yard. Also we agreed to settle all claims that was a subject of an ongoing arbitration with Deiulemar. Star Bulk receives around $1 million in cash which represents a major portion of its arbitration claim. In addition, the cash collateral posted by the company security of the arbitration proceedings was released and returned to the company, thus increasing our free cash balance. While these funds do not affect our income statement, they do strengthen our cash position and our financial condition in general.

In today's press release, we declared a cash dividend of 1.5c outstanding shares of the company's common stock for the three months ended March 31, 2012. The dividend is payable on or about June 20, 2012 to shareholders of record as of June 13, 2012. This is a 12th consecutive dividend since the company reinstated the dividend in 2009. Since the extension of the repurchase plan, we have repurchased and retired about 726,000 shares at average gross price of 98c per share.

Star Bulk received a written application from NASDAQ indicating that the company is not in compliance with NASDAQ listing rule, because the closing bid price of the company's common stock was below the $1 minimum for more than 30 consecutive business days. We intend to regain compliance with the NASDAQ minimum bid price requirement.
During February, the Star Polaris sustained bottom damage while entering a port in Turkey. The vessel has now being fully repaired and delivered to the charterer. While the cost of the repairs is fully covered by the vessel's hull and machinery insurance policy, this incident resulted in around 48 days of loss of hire.

Please turn to Slide 7. During 2011 we took delivery of four Capesize vessels and increased our operating fees by 75% in terms of cargo carrying capacity. As we can see in the bar graph on the lower left hand side, we have managed to grow our fleet from the beginning of 2011 from around 900,000 deadweight tons to just below 1.5 million at the moment.
The sale of the Star Ypsilon and the subsequent reduction of our total carrying capacity was motivated by a combination of our high quality standards in our fleet renewal plan. Star Ypsilon was the oldest vessel in our fleet. Furthermore, the vessel was due for dry dock in early summer

and the estimated cost of 2.5 million of the dry dock was not recoverable under current market conditions. In addition, our fleet management capacity almost doubled during 2011 with 16 vessels being managed at the end of last year.

Please turn to Slide 8. Our strategy to bring the technical fleet management in-house in late 2009 has produced tangible results quarter-after-quarter. Our cost cutting efforts in our operating and G&A expenses have played a key role in our financial and operating performance in this challenging market environment.

On the top right graph you can see that while the weighted average size of our vessels increased from 102,000 deadweight tons during the full-year 2011 to 108,000 during Q1 2012, our average daily operating expenses were slightly reduced.

On the bottom right graph, you can see the twice the average number of employees increased by 56% from 34 people during Q1 2011 to 53 in Q1 2012. Our G&A expenses excluding the one-off severance payment and stock-based compensation were increased by only 12%. What I believe is impressive though is the fact that while we have been prudently containing our expenses, our ship management quality standards have been maintained at very high levels.

The lower left hand side graph shows Star Bulk's average deficiencies per port state control inspection versus the industry average. As you can see, we have consistently outperformed the industry and we try to improve our quality standards every year. Moving forward we remain focused on further optimising operating cost and the implementing our quality objectives.

And now I'll ask Mr. Simos Spyrou, our CFO, on the market developments. Thank you.

Simos Spyrou

Thank you, Spyros. Let us now move to Slide 10 for an overview of our balance sheet as of March 31, 2012. Current assets stood at $33.6 million; our fixed assets amounted to 617.6 million; and total assets amounted to $696.1 million. Current liabilities were $43.7 million while non-current liabilities amounted to 218.2 million and stockholder's equity was at 434.1 million.

If we can now turn to Slide 11 to discuss our first quarter 2012 income statement, I'd like to point out that our results include non-cash items amounting to $5.9 million, which are depicted in the middle column, while the adjusted figures exclude them.

For the first quarter of 2012, non-cash adjusted revenues amounted to 29.6 million compared to 29.3 in the same period last year. Net income for the first quarter of 2012 was marginal and amounted to $94,000. In particular, non-cash items include a 1.6 million related to the amortisation of above market acquired time charters, expenses of 1.3 million relating to the amortisation of stock-based compensation and the loss on the sale of Star Ypsilon of $3.1 million. Excluding the non-cash items, net income for the first quarter of 2012 amounted 5.9 million or 7c earnings per share. The increase in vessel operating expenses for the three months ended march 31, 2012 versus the same period last year was due to the increased number of vessels in our fleet and the increased average vessel size.

Voyage expenses increased to 8.7 million for the first quarter of 2012 from 6.6 million in Q1 2011. If we exclude the expense for charting in a third-party vessel to serve a shipment under our contract of payment amounting to 4 million and 6.6 million for the respective quarter last year due to fewer shipment days, the increase in voyage expenses would amount to 4.7 million. This increase was due to the stock that during the three months ended March 31, 2012 our vessels were under three [voyage] charter agreements compared to none for the same period last year. The respective revenue for these three voyage expenses was $10.5 million.
G&A expenses totaled 3.2 million during Q1 2012 compared to 4.2 million during the same quarter last year. Excluding non-recurring severance statement and non-cash stock-based compensations, G&A expenses amounted to 1.9 million compared to 1.7 million last year. Our adjusted net income amounted to 5.9 million versus 1.3 million last year mainly due to the 6.5 million the company received a compensation for the early time charter that we mentioned of Star Sigma.

Please turn now to Slide 12. We believe we are in healthy financial position to weather the current turbulence in the dry bulk markets. Our 2012 contracted already earned revenue covers about 86% of our 2012 projected cash needs.

According to our calculations, our unfixed vessels need to earn about 13,000 daily to make up the remaining 14%. Our unfixed days for 2012 stand at around 1,000, so every 1,000 below the 13,000 benchmark results in a 1 million cash deficit.

In today's market we are witnessing historical lows in asset values and this gives us the opportunity to acquire vessels at prices that we believe will be accretive to earnings over the next few years as the supply demand curve improves.

I'd like now to give you a brief update on the dry bulk markets. Please turn to Slide 14 for a supply update. Dry bulk vessel deliveries have continued at a record high pace and had a negative impact on the BDI, which has been weak for the last month. We expect deliveries in 2012 to continue at a high pace but to slow down afterwards.

As we can see on the top right hand graph, deliveries in the period 2008 to 2011 had an average slippage rate of around 30%. We expect slippage in 2012 to remain at similar levels. Based on annualised figures of vessel deliveries up to April 2012, deliveries are expected to reach around 110 million deadweight.

On the bottom right hand graph we provide the order book for the remainder of 2013, ‘14 and ‘15. As you can see, while the dry bulk industry still has to go through a process of absorbing a very large number of new vessels that will come into the market this year, the current order book for 2013 onwards stands at significantly lower levels.

What is important currently is the fact that bulk carrying [demolition] during 2011 increased to an all time record of 22.3 million deadweight tons. And this year scrapping activity has continued to increase. Lower charter rates make it unprofitable to run average vessels and high scrap value demolition an attractive alternative.

As we can see in the lower left hand side graph, scrapping was quite strong in January to April period with 10.9 million dead weight tons of dry bulk vessels going to the stop yards. That is almost half of what was scrapped during the whole of last year and continued strength in scrapping activity should slow down the fleet’s net growth rate which effectively could provide some relief to the supply pressures.

Please turn now to Slide 15 for an update on Chinese demand. We believe that the fundamentals behind the demand strength we have seen in the past years are still intact and we will ensure the strength of demand growth in the future. Let’s start with iron ore. On the top right graph you can see how the Chinese iron ore imports have developed over the last years. As most of you know iron ore demand growth has been the single most significant demand for during the years of the dry bulk shipping. This is unlikely to change in the near future in our opinion. We expect Chinese iron ore imports to continue growing based on undeniable geological factors. It is in fact the Chinese domestic iron ore qualities are very low compared to international commercial mining standards. Therefore, the additional cost of the process is needed for Chinese iron ore to become commercially acceptable, make its final cost skyrocket. These Chinese mines cannot be seen as sustainable long-term sources of iron ore, because once new cost effective supply becomes available from other sources, these mines will be uncompetitive and therefore face survival issues. In other words, we believe that even with zero growth in iron ore and steel demand, there is lots of room for growth in Chinese iron ore imports from the substitution of domestically mined with imported iron ore.

On the bottom right hand graph you can see how Chinese imports and exports of coal have developed over since 2005. It is obvious that China's increased energy needs have turned the company from a traditional coal exporter to the single biggest coal importer in the world. As China has grown fast, we expect the need for energy in general and coal fired energy as a consequence to continue growing as well. The growth of this trade is nothing short of spectacular. From a coal trade surplus of 46 million tons in 2005, we have come to a coal trade deficit of around 200 million launched during the last 12 months.

What is more impressive is a future growth potential of this trade. China's coal production during the last 12 months was more than 3.6 billion tons, so as you can understand the 200 million tons of net imports represent only around 5% of the total. The potential for additional coal imports is large and we believe that once the additional mining capacity that is under construction comes online, we will see rapid growth in this trade. I believe it is also important to take a look at part of the Chinese trade that doesn't involve Capesize vessels.

In the bottom left graph you can see accumulated imports and exports of grains, agribulk, fertilizers, steel products, metal minor bulks, and mineral minor bulks, as found in the Clarksons Shipping Intelligence website.

As you can see there is a very strong upward trend in imports coupled with a sideways to downward trend in exports. This means that on average vessels will have to travel more miles [unclear] when visiting China and thus we will have to travel more miles to carry the same tons. This decrease in carrying efficiency of the fleet is positive for freight rate as it effectively increases overall demand.

Non-Capesize trade is of particular importance for Star Bulk at this moment as our exposure in the Capesize market is limited. There has been lots of talk about possible Chinese slowdown and actually Chinese GDP figures have been declining in recent quarters. On the other hand I'm sure that everyone is aware that there is a lot of uncertainty in the global economy, mainly due to Greece and various issues surrounding the stability and future of the Eurozone.
We believe that it's is only natural for a big exporting company like China to be effected by such issues. Furthermore, the Chinese government has shown its effectiveness in stimulating the economy at times of trouble like the recent Lehman crisis. However, as I mentioned earlier there is a great potential for substitution of domestic iron ore and to a certain extent coal that would allow for trade growth without increasing the overall consumed quantities of this commodity.

I addition, there have been talks recently about the new Chinese stimulus package that would ensure that economic growth does not fall below the 7, 7.5% that is needed to continue its urbanisation process without social unrest risks.
Concluding, I'd like to mention that China is not the only emerging economy in the world, many other emerging economies have been increasing the imports of dry bulk raw materials to support their urbanisation and industrialisation plans. More importantly many emerging economies have been increasing their exports of raw materials in order to fuel and fund their future plans.
And now I'd like to pass the floor back to Mr. Capralos for his closing remarks.

Spyros Capralos

Thank you, Simos. In conclusion as u can see on Slide 17, we believe that Star Bulk is well positioned from a financial and operation point of view to not only sustain the company but also take advantage of the opportunities in the dry bulk markets. On top of our high quality modern fleet, Star Bulk also has one of the most diverse groups of high quality charter in the sector.
As we discussed earlier in our presentation, our campaign to bring our fleets management in-house has provided tangible result as it has led to a meaningful increase in our efficiency and transparency while consistently lower operating cost.

We have a moderately leveraged balance sheet and healthy liquidity profile and experience and dedicated management team. Most importantly we believe that our financial condition is strong. We currently have no capital expenditures related to new buildings, we have 42 million of cash in the banks, we are compliant with our loan covenants.

From an operational perspective, our Capesize fleet is mostly covered for the next two to three years and as above market charter levels while our operating expenses are being continuously optimized. We believe we have all of the elements in place to continue with our fleet growth and renewal strategy.

Without taking anymore of your time, I will now pass the floor over to the operator. In case you have any questions, both Simos and myself will be happy to answer them.

Questions and Answers

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request please press the # key. Your first question comes from the line of Natasha Boyden from Global Hunter Securities. Please go ahead.

Natasha Boyden

Few questions here, first off wanted to ask you about your plans for the Star Sigma here, it's a '91 [bill], so could we see some of our outcome as we have seen with the Star Ypsilon?

Spyros Capralos

Well, let me say quickly about Star Sigma, yes Star Sigma is a 21 year old vessel; she is a quality vessel because commercially it's one of the largest old Capes of 180,000-something deadweight tons which is very good commercially. On the other hand, she has approximately a little bit than a year until or next dry dock. Therefore, we think that for the time being we will operate in the market and we will decide later whether it's worth selling her; take her for dry dock depending on the market developments.

Natasha Boyden

And just on that same note, as you look across your fleet, the dry bulk fleet, are there any more ships that you would be interested in selling perhaps on top of the Star Sigma or at this point are you looking growth opportunities as opposed to selling off vessels?

Spyros Capralos

We have one more vessel in the markets, one of the Supramax vessels, which is our only Chinese made vessel to Star Cosmo, and then what we are looking forward is not to sell at this market levels but actually we are thinking of growing further our fleet, taking advantage of some of the [distressed] assets or even going for a renewal of the fleet with newbuildings.

Natasha Boyden - Global Hunter Securities

And looking at newbuildings and/or second hand opportunities here, how do you look at potentially financing those assets; obviously I'm assuming there will be some debt component, but would you look to go to the market at all to raise equity at his point?

Spyros Capralos

Well, we will have all of our options open, we don't want to commit today on what we want to do, because first we need to find the right opportunities, what we know for sure is that our lending banks have good faith in our company and they have come to us saying that, they are ready to finance the acquisition of new vessels.

Natasha Boyden - Global Hunter Securities

If I can just move over to the macro picture right now. After your comment on the Chinese growth of iron ore etcetera in the presentation, there has been a lot of talk about a potential slowdown in Chinese economic activity and the lack of sort of huge stimulus package that they had a couple of years ago and there has also been talk about the cancellation of cargo; what are you seeing on that front and what are your thoughts generally regarding your Chinese economic growth?

Simos Spyrou

Well, as I said before, we have been listening about the previous stimulus in China and there are some recent talks about new stimulus package; apart from that we have not seen anything, but we still believe that even without any growth or even a slowdown in China all of these basically statistics from the coal trade and the iron ore favorable for the dry bulk market.

Spyros Capralos

We are not talk about no growth in China; we are talking about a growth of 7, 7.5% which is quite substantial.

Operator

Thank you. Your next question comes from the line of Tamas Eisenberger of Blue Shore. Please go ahead.

Harsha Gowda

This is actually Harsha at Blue Shore. I have a few questions for you, number one, can you explain, we spoke earlier this year you mentioned you are looking at interest rate swaps; with rates going even lower, what are you thinking about locking in rates or what's your view on that?

Spyros Capralos

Well, since last time we talked interest rates are even lower and therefore we are happy we haven't done it yet. And seeing the situation in the Eurozone we believe that interest rates may go further down, therefore, we are not locking yet our positions but of course, the intention at the certain point to lock some of our cost especially for the longer maturities over debt in order to take advantage of the low interest rate environment, but not yet. With the uncertainty we think that we can wait to get better results.

Harsha Gowda

Number two, any of you know with Supras going in decent rates earlier this year, there were times I believe you could have raised that $12,000 mark that you mentioned in earlier presentations for the breakeven. Why is it that you chose not to lock them in for the whole year or little bit longer? It looks like that is still moving more on the spot market, what is that?

Spyros Capralos

Because when we have the right price, probably the right charter is not there, because as you know we always try when we charger longer term to make sure that the charter would be of high quality like we have done with most of our fleet. So, we are waiting for some hikes in the market and whenever we can, we charter for longer terms like we did recently with one of our vessels, we chartered her for four to six months at 11,750, that was only last week. And so we wait to see. It will not make such a huge difference; therefore, we are trying to make sure that we charter our fleet in the best possible rates. And you know sometimes you see the market is 12,000, but if your vessel is not positioned at the right place, you cannot get that 12,000.

Harsha Gowda

And what is your view on Supramax, Supra's rates later on this year going forward, do you still think that they will maintain their strength overall?

Simos Spyrou

The forward curve is not that doing well, but of course they have not been as volatile as the Capes or Panamaxs; they felt much better than the other classes and therefore, being on the spot market has not punished us; while on the other side on the Capes having fixed them for longer period of time, we feel much better for that.

Harsha Gowda

And we also feel much better that you did that. One last issue is with your expansion plans, with the current cash on hand and with the prospective debt financing that you could get and also maintaining your balance sheet strength, how many vessels and at what size levels could you expand right now, capacity?

Spyros Capralos

Well, this is a big and very long question to answer, because we are starting the different classes from Supramax's, their prices range now from 25 million, to Capes could be around 45 million. And it depends whether you talk about Chinese, Korean or Japanese ship yards. So they range. So, we have cash in hands 40 million and so you can make your calculations and usually probably what we would like to do is if we were to put in order for newbuildings to put for a couple of them.

Harsha Gowda

And one last point, I think one reason why the share price is so significantly below net asset value and also considering how well financed and secure the company is, I think there is a big fear of dilution and therefore the equity raising is happening across the sector and I think that's one big worry that lot of investors have, so I hope you consider that before any plans like that are made, because I think these companies has done a great job, I know you have done a great job, but that's something that worries everyone when the share price is dropping and we have pretty big dilution potential there.

Spyros Capralos

Point noted, we will continue doing our job in the best possible way, but we have to take advantage also of the current low prices in the vessels and if we want to grow further the company.

Operator

Thank you. We have a question comes from the line of Tony Polak from Maxim. Please go ahead.

Tony Polak

Could you give us a little more background on the debt situation, what maturity is and what's the Dollar amount on the maturities are?

Simos Spyrou

Basically as we said before we have 243 million outstanding debt, and the amortisation plan for the following years, the remaining for 2012 is 17 million; 2013 is 32 million; 2014 is 33 million; 2015 is 28 million; 2016 is 85 when we have in the fourth quarter the first [balloons].

Tony Polak

And what are the interest rate structures on the [step]?

Simos Spyrou

Well I'd say on average the interest rate is around 2.2%, the lowest margin is 125 basis points and the highest is 300.

Tony Polak

You're saying the average is only about 2.2%.

Spyros Capralos

Yes, over LIBOR.

Operator

We seem to have no further questions gentlemen; I'd now like to pass the floor back to Mr. Capralos for closing comments. Thank you.

Spyros Capralos

Thank you, ladies and gentlemen for taking the time to join us today for our earnings conference call. Our company, Star Bulk, is focused on future for stability and growth, and to continue rewarding our shareholders with a dividend. Again thank you very much for your interest in our company and have a good day.

Operator

Thank you, ladies and gentlemen that does conclude our conference for today. Thank you all for participating and you may now disconnect.