Star Bulk Carriers Corp.
Second Quarter 2024 Financial Results Conference Call
August 7, 2024

<u>Presenters</u>
Simos Spyrou, Co-CFO
Nicos Rescos, COO
Charis Plakantonaki, Chief Strategy Officer
Petros Pappas, CEO
Hamish Norton, President
Constantine Nanopoulos, Deputy CFO

<u>Q&A Participants</u>
Omar Nokta - Jefferies
Bendik Folden Nyttingnes - Clarksons Securities
Prinella (Ph) - Stifel

Operator
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the Second Quarter 2024 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; Mr. Nicos Rescos, Chief Operating Officer; and Mrs. Charis Plakantonaki, Chief Strategy Officer of the company.

At this time, all participants are in 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 office is being recorded, today.

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

Simos Spyrou
Thank you, Operator. I am Simos Spyrou, Co-Chief Financial Officer of Star Bulk Carriers, and I would like to welcome you to our conference call regarding our financial results for the second quarter of 2024. Before we begin, I kindly ask you to take a moment to read the safe harbor statement on Slide #2 of our presentation.

In today's presentation, we will go through our second quarter results, cash evolution during the quarter, actions taken to create value for our shareholders, an update on our Eagle Bulk

Integration, vessel operations, fleet update, the latest on the ESG front, and our views on industry fundamentals, before we open up for questions.

Let us now turn to Slide #3 of the presentation for a summary of our second quarter 2024 highlights.

For the second quarter 2024, the company reported the following.

Net income amounted to $106 million with adjusted net income of $89 million, or $0.81 per share adjusted earnings. Adjusted EBITDA was at $153 million for the quarter. For the second quarter, as per our existing dividend policy, we declared a dividend per share of $0.70, payable on September 6, 2024.

Since 2021, dividend distributions are over $1.25 billion, or $12.20 per share and share buybacks of over $420 million. Our total liquidity today stands strong at $516 million Meanwhile, our total debt stands at $1.38 billion.

On the top right of the page, you will see our daily figures, per vessel, for the quarter. Our time charter equivalent rate was $19,268, per vessel, per day. Our combined daily OpEx and net cash G&A expenses, per vessel, per day, amounted to $6,690. Therefore, our TCE, less OpEx, and less cash G&A, is around $12,578, per day, per vessel.

The Eagle Bulk transaction was completed on April 9 and the Eagle Bulk vessels contributed 83 days each during the second quarter.

Cash received from the Eagle Bulk merger amounted to $104.3 million. Eagle Bulk's convertible notes, which matured on August 1, 2024, converted to 5,971,290 shares of Star Bulk common stock; 1,341,584 shares of Star Bulk have been loaned out as part of a share lending agreement with Jefferies Capital Services in connection with the Eagle Bulk convertible notes and have been returned to Star Bulk and cancelled.

The fully diluted share count, as of today, stands at 118,825,307 shares.

Currently, we have 159 vessels on a fully delivered basis, including the five new building Kamsarmax vessels we have announced.

During 2024, we have sold 10 vessels for a total gross proceeds of $180 million. Two of these vessels, namely Star Iris and Star Hydrus, are expected to be delivered during the third quarter to their new owners.

As of June 30, 2024, the equity left aside from vessel sales and the ATM after the share buybacks and $18 million of new building installments stands at $74 million. During the third quarter, the above equity will increase by $24 million from the sale of the two sold vessels and will be reduced by $8 million of new building down payments.

Slide #4 graphically illustrates the changes in the company's cash balance during the second quarter. We started the quarter with $373 million in cash, out of which $104 million were received from the Eagle Bulk transaction.

We generated positive cash flow from operating activities of $143 million. After including debt proceeds and repayments, CapEx payments for ESD and ballast water treatment installations, and the first quarter dividend payment, we arrived at a cash balance of $486 million at the end of the second quarter.

Slide #5 provides an overview of the company's capital allocation policy over the last three years and the various levels we have used to create shareholder value. On the top left, we show our net debt evolution. Since 2021, we have reduced leverage in the company by approximately 34%. Our average net debt per vessel has decreased from 11 million to 6 million per vessel.

Star Bulk has been creating value for its shareholders through consecutive fleet buyouts by issuing shares at or above NAV. Over the same period, we have declared consecutive quarterly dividends of over $1.25 billion. We have taken advantage of historically elevated S&P values to sell some of our older and less efficient vessels, using equity proceeds to buy back our shares at attractive valuations.

Since 2022, we have bought back $423 million worth of Star Bulk stock. Combining all of the above, we see that we have focused on returning capital to our shareholders while, at the same, time deleveraging the balance sheet and buying back shares when there are opportunities to do so, accretively. In total, since 2021, we have taken actions of $2.3 billion to create value for our shareholders.

I will now pass the floor to our COO, Nicos Rescos, for an update on Eagle Bulk transaction integration and our operational performance.

Nicos Rescos
Thank you, Simos. Slide 6 illustrates a summary of the Eagle Bulk transaction integration. Integration with Eagle Bulk is underway and upon completion, it will allow us to leverage our strong global presence of the combined entity with offices in Singapore, the U.S., Greece, Denmark, and Cyprus.

The respective Singapore offices' operations have merged into one entity and continue as a commercial and technical management hub, aligning ship management practices covering the Asia-Pacific.

The Stanford office continues operations both on commercial and technical management covering the Atlantic and the U.S. Together with the Athens corporate headquarters in Europe, we maintain presence in Copenhagen for chartering operations covering the Atlantic and the continent.

We are nearing completion of the integration of our commercial teams for the Supramax and Ultramax vessels, managing the second largest Ultramax/Supramax fleet, globally, combining our trading capabilities, aiming to improve our TCE performance.

We are further rebalancing our sector employment strategy to include voyage business and optimizing our fleet distribution between the Atlantic and the Pacific basins.

We have introduced our planned maintenance, procurement, and cost control processes across the Singapore and Stanford offices and towards realizing operational and cost reduction synergies. Significant synergies are expected, from the centralization of the procurement of all stores, spare parts, bunkers, and lubricants for the combined fleet. Crewing is gradually taken in-house, with the expected cost reduction of $600 per vessel, per day, to be realized by Q2, 2025.

Dry docks of 12 ex-Eagle Bulk vessels are planned following the merger, and benefiting from Star Bulk competitive pricing agreements with service providers and shipyards, globally. Marine Safety Quality and Technical Maintenance standards, process, policies, and systems are being applied across the combined fleet, aligning with the Star Bulk flagship safety score and port state control performance.

Please turn to Slide 7, where we provide an operational update. Operating expenses was at $5,319 for Q2 2024. That's net cash G&A expenses at $1,371, per vessel, per day, for the same period. In addition, we'll continue to rate at the top amongst our listed peers in terms of RightShip safety score.

Slide 8 provides a fleet update and some guidance around our future dry bulk and the relevant total off-hire days.

On the top right of the page, we provide our expected dry-dock expense schedule which, for the remaining 2024, is estimated at $34.8 million for the dry-docking of 38 vessels. In total, we expect to have approximately 966 off-hire days for the same period.

On the bottom of the page, we have our CapEx schedule illustrating our new building CapEx and vessel energy efficiency upgrade expenses with 100% of our fleet by now being ballast water treatment fitted.

Based on our latest construction schedule, our new building vessels are expected to be delivered in Q4 2025, Q2, and Q3 2026.

In line with EEXI and CII regulations, we continue investing in upgrading our fleet with the latest operational technologies available aimed in improving our fuel consumption and reducing our environmental footprint, further enhancing the commercial attractiveness of the Star Bulk fleet.

Regarding our energy-saving devices program, we have completed 36 installations with 11 more vessels planned for retrofit by the end of the year. The above numbers are based on current estimates around dry-dock, retrofit planning, vessel employment, and yard capacity.

Please turn to Slide 9 for an update on our fleet sales. On the vessel sales front, we'll continue disposing of vessels, opportunistically, at historically attractive levels, having agreed during Q2 to sell two vessels for a total gross profit of 30 million, reducing our average fleet age and improving overall fleet efficiency.

Following the rollover of Eagle Bulk existing chartering contracts, we now have a total of 10 chartering vessels. We have five firm shipbuilding contracts with Qingdao Shipyard, with the construction of 82,000 Kamsarmax shipbuilding vessels, and with the first vessel delivering during Q4, next year.

Considering the aforementioned changes in our fleet mix, we operate one of the largest dry-bulk fleet amongst U.S. and European listed peers, with 159 vessels on a fully delivered basis and an average age of 11.3 years.

I will now pass the floor to our Chief Strategy Officer, Charis Plakantonaki, for an ESG update.

Charis Plakantonaki
Thank you, Nicos. Please turn to Slide 10, where we highlight our continued leadership on the ESG front. During the second quarter of 2024, we completed the measurement of the company's 2023 Greenhouse Gas Emissions. Scope 1, Greenhouse Gas Emissions were reduced by approximately 4%, while the respective CII of our fleet reduced by approximately 5.7%, compared to 2022.

Scope 3 Emissions, measured for consecutive years, were approximately 9.5% lower than the previous year. This performance will be published in our new ESG report, during the third quarter of 2024.

Moving forward, we're working on setting science-based targets for the company to help clearly define the path to further reduce our fleet's carbon footprint, in line with the Paris Agreement goals. On the regulatory front, we are preparing for compliance with the fueling to Maritime Regulation, coming into force on 1st January, 2025, and the Mediterranean Sea Emission Control Area for sulfur oxide and particulate matter, taking effect from 1st May, 2025.

A gap analysis related to the EU's Corporate Sustainability Reporting Directive is underway to identify and address differences between the directive and the company's ESG reporting processes.

In July, 2024, startup systems, both in the office and on the vessels, were affected by the CrowdStrike worldwide incident caused by a bug during an anti-virus shuffling. Immediate action by the company restored the systems in the office a few hours later and on the vessels, 1-2 days later.

On the society front, the employment of female cadets on our vessels continues, along with the deployment of Starlink on board and the implementation of the CyberOwl technology, which monitors vessel systems' performance and security. Star Bulk was awarded Sustainable Development in the Maritime Industry Credit Award, recognizing the company's continuous efforts to lead by example in sustainable development in the shipping industry.

I will now pass the floor to our CEO, Petros Pappas, for a market update and to close the meeting.

Petros Pappas
Thank you, Charis. Please turn to Slide 11 for a brief update of supply. During the first half of 2024, a total of 18.8 million dead weight was delivered and 2.1 million dead weight was sent to demolition for a net fleet growth of 16.7 million dead weight, or 1.7% year to date, and 3% over the last 12 months.

Uncertainty on future green propulsion, high shipbuilding costs and limited shipyard capacity until late 2026, due to increased competition from other vessel types have helped keep new orders under relative control.

The order book has slightly increased during the last two years, but still stands at the comparatively low level of 9.8% of the fleet. Furthermore, vessels above 20 and 15 years of age stand at 9% and 21.9% of the fleet, respectively, while scrap prices have stabilized at elevated levels and should induce demolition of overage and energy inefficient tonnage during seasonal downturns, over the next years.

The average steaming speed of the dry-bulk fleet has stabilized at lower levels between 11.1 and 11.2 knots during the last six months due to inflated bunker costs and environmental regulations, including EEXI and CII, that increasingly incentivize slow steaming and retrofits and should moderate supply, over the next several years.

During the first half of 2024, global port concession has fully normalized on all sizes, following a strong reduction over the last two years that gradually inflated available supply by approximately 6%.

Recent trends of global Supramax congestion, as well as dry-bulk tonnage at Chinese ports, indicate that there is a high probability for congestion to increase year-over-year, during the second half of 2024, with a positive effect on the supply and demand balance.

Moreover, rising tensions in the Red Sea, since late 2023, continue to cause strong inefficiencies for trade, despite the partial recovery of dry-bulk crossings in the Panama Canal that are expected to fully recover, by the end of the year. As a result of the above trends, nominal fleet growth is unlikely to exceed 3% per annum over the next couple of years, even under the assumption that demolition activity remains at current low levels.

Let us now turn to Slide 12 for a brief update of demand. According to Clarkson's, total dry-bulk trade during 2024 and 2025 is projected to expand by 2.6% and 0.7% in tons and by 4.4% and 0.5% in ton miles, respectively.

During the first half of 2024, total dry-bulk volumes increased by 5.8%, year over year, on the back of record iron ore, coal, and minor bulk exports, while ton miles increased at a faster pace, supported by canal and geopolitical inefficiencies and strong exports from Latin America, West Africa, and the U.S.

The IMF is projecting global GDP growth of 3.2% for 2024 and 3.3% for 2025, at the same pace as in 2023, and upgraded its forecast for China to 5% and 4.5%, respectively. Chinese GDP increased by 4.7% in Q2, missing initial expectations, due to the struggling property market and a slowdown of household spending.

Nevertheless, recent comments from government officials highlighted that the country has the ability and confidence to achieve its full year growth target of around 5%, supported by strength in infrastructure, manufacturing, and exports, while demand for dry-bulk commodities remains strong as import volumes increased by 7.5%, year-over-year, during the first half of 2024.

Dry-bulk demand from the rest of the world is experiencing a recovery over the last three quarters that is expected to continue amid lower commodity prices and expectations of easing monetary policies. During the first half, imports were up by 4.3%, year-over-year, with the increase coming mainly from India, the Middle East, and Southeast Asia.

Meanwhile, Western economies are also moving higher, following two years of contraction and geopolitically related disruptions.

Iron ore trade is expected to expand by 3.1% in tons and by 5.6% in ton miles, during 2024. China's steel production declined by 2.2% year-over-year, during the first half, while domestic production and imports of iron ore increased by 15.3% and 6.1% respectively, increasing port stockpiles by approximately 30 million tons versus last year. Weak domestic consumption has forced China's steel makers to export excess output and has prompted some economies to raise tariffs as a response.

On the other hand, steel production from the rest of the world has been on a strong upward trend since September and increased by 4.4% during the first half, driven by strong demand in India and a gradual recovery of Atlantic production.

It is worth highlighting that the medium-term outlook of Atlantic iron ore exports is promising, as Vale is expected to achieve the upper end of their 2024 production guidance that was set at 310 to 320 million tons. Moreover, Vale is expected to ramp up production to 340 to 360 million tons by 2026, while the Simandou iron ore project in Guinea will deliver the first quantities, by the end of 2025.

Coal trade is expected to marginally expand by 0.6% in tons, but contracts by 0.5% in ton miles, during 2024. Global focus on energy security during the last years has inflated coal trade, but most of the growth has come from short-haul Indonesian exports. Chinese imports increased further during the first half and stand at record levels, supported by a 1.9% year-on-year decline in domestic coal production and a 2.2% year-on-year increase in thermal electricity generation.

Nevertheless, during the last two months, a reversal of this trend is taking place, following the seasonal strength of hydropower, a directive from provinces to increase production and a stabilization of prices.

During the last quarters, India is emerging as a leading buyer of coal as domestic consumption has outpaced production growth and, along with inland infrastructure constraints, has led to a strong increase in import requirements.

Grains trade is expected to expand by 4.4% in tons and by 10% in ton miles during 2024. Exports from Latin America increased by approximately 12% during the first half, as Argentinian volumes experienced a strong recovery.

Moreover, Ukraine grains exports to the highest level since the start of the war but at the same time, Russian wheat exports have been affected by frost, droughts and heat waves at key production areas. Total grain trade was flat, year-over-year, during the first half of 2024, but export volumes growth is expected to increase during the second half of 2024. Lower grain prices, improved outlook for the forthcoming U.S. crop and increased focus on food security are expected to support grain trade in the medium term.

Minor bulk trade is expected to expand by 3% in tons and by 4.1% in ton miles, during 2024. Minor bulk trade has the highest correlation to global GDP growth, and the recent trend in the container market provides a positive indicator for short-term prospects for smaller sizes. The positive price arbitrage continues to incentivize Chinese steel exports and backhaul trades, while bauxite exports out of West Africa continue to expand at a high pace that generates strong ton miles for the cape size sector.

As a final comment, despite the global geopolitical uncertainties, we're constructive about the medium-term prospects of our industry, given the favorable order book, an aging fleet and upcoming rigorous environmental regulations. Star Bulk has built a diverse, scrubber-fitted fleet that is well-positioned to operate efficiently and take advantage of attractive opportunities to create value for its shareholders.

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

Operator
Thank you. We will now conduct a question-and-answer session. If you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2” if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys. Once again, that’s “*”, “1”, at this time. One moment while we poll for the first question.

The first question comes from Omar Nokta with Jeffries. Please proceed.

Omar Nokta
Thank you. Hi, guys. Good afternoon. Thanks for the update. And I have a couple of questions for me I wanted to ask, perhaps some of your just market-related. And Petros, you just gave an overview of the different markets. I just wanted to touch a bit more on that. Clearly, as we're looking in the market today, dry bulk rates, they've been holding up quite well. And your realized figures thus far into the third quarter show continued steady earnings, I would say.

Obviously, there's volatility, but it looks like things aren't too crazy different. But this is happening somewhat of a softer steel environment, at least in terms of steel prices when we look at where they are, globally. And so, just wanted to ask, given that the steel backdrop and how it looks a bit softer, are you seeing this having any effect on the dry bulk market at the moment? And then also, are you a bit surprised, perhaps, that capes are earning north of 20 in this type of environment?

Petros Pappas
Hi, Omar. Thanks for the question. Well, we're actually positive for the second half of 2024, for a number of reasons. First of all, we see that the Red Sea and the Ukrainian war are not finishing any time soon. So this will continue to create inefficiencies. And this has an effect in the market. Then the environmental regulations are starting to bite. And you see that the fleet is basically slow-steaming at around 11.1 knots. So this is going to get worse, going forward.

Then we see Vale increasing their exports, their iron ore exports. And we see Guinea increasing or keeping at a high level their bauxite exports. We think we will see much stronger grain trade. We believe that China will not let up and will try to keep the 5% GDP growth, going forward. We also see new building deliveries slowing down. So, and judging from the past, the second half of every year is much stronger than the first half.

There's much more exports. So overall, we think that the decent market will remain for the next six months, at least. And it's not just related to whether there's going to be more production of steel or less production of steel in China, where we think that it will remain strong going forward, especially because of the manufacturing reasons and because they will continue to export for as long as they can. So from all respects, we expect to be seeing a decent market for the second half of the year.

Omar Nokta
Got it. Okay, that's all for Petros. Thank you. And maybe just kind of a follow-up and thinking more about the mid-size segment this time. I think one of the themes, say, late last year and coming into this year, had been the expectation that capes would outperform the Ultra and Kamsarmax segments. And that, I think, was the case, earlier. But it feels like, or it looks like, the mid-size segments have done quite well here, somewhat under the radar, perhaps. What's driving that sort of stronger performance on the mid-size, would you say?

Petros Pappas
Well, all sizes are interconnected, actually. So it's not like one size will go up and the rest will lag. So, I would say that if we see very strong capes, charters will try to cover by splitting cargos, for example, or the other way around, from Supramaxes to the mid-size.

So actually, whenever the two edges, the capesize and the Supramax are doing better, you will see cargoes flowing into the middle sector, the Panamax, Kamsarmax. In any case, I mean, I think all types of businesses with strong capes have remained, on average, I think above $25,000, which is pretty strong. Supras have done well because the containership sector is doing pretty well.

And I have to admit that I'm pretty surprised that our Kamsarmaxes have been fixed for the next quarter, a bit above $18,000 on average. Probably because coal trade in the first half of the year was relatively strong, maybe because there's cargoes from the other two types of vessels. But we also expect they will be doing pretty well going forward because we foresee higher trade on the grain side.

Omar Nokta
Understood. Well, Petros, thank you for the color. That's it for me. I'll turn it over.

Petros Pappas
Thank you, Omar.

Operator
Thank you. Our next question comes from Bendik with Clarkson Securities. Please proceed.

Bendik Folden Nyttingnes
Hey guys, just want to touch upon capital allocation. You have quite a significant portion of cash now. How are you looking at share buybacks, going forward?

Hamish Norton
Well, Hamish Norton here. We spent $380 million in the fall buying back 20 million shares of stock. Oaktree was the seller but, frankly, from the shareholder's point of view, it doesn't matter who the seller was, but what the price was. And it was substantially below that asset value and below today's market value. So it was a big benefit to the shareholders. And we pretty much feel like we're exhausted by the effort of buying back those shares.

At that time, let us recover our breath and figure out, you know, what to do. We're paying out a big dividend, and we do have a bunch of cash after that. We, as you might recall, have a policy of keeping 2.1 million of cash, per vessel, on the balance sheet, permanently. And we've got some cash in excess of that, but it's not a huge amount. So I don't think we're under pressure to figure out what to do with that cash for the moment, not until it builds up to something more substantial.

Bendik Folden Nyttingnes
That's great color. And maybe just to follow up on that, how are you looking at growth? And if you were sort of forced to choose a segment to grow in, which one would it be?

Hamish Norton
Well, we really like being diversified. And we've just bought a bunch of Supramax and Ultramaxes. So, ideally, if we find a merger partner, we would like to find a merger partner who's got capes and larger ships, generally. So, you can't always get what you want but, hopefully, we get what we need.

Bendik Folden Nyttingnes
Okay, that's perfect. Thank you.

Operator
Our next question comes from Ben Nolan with Stifel, please proceed.

Prinilla
Hi, this is actually Prinilla (Ph) on for Ben. But wanted to ask, since secondhand asset values have been sort of plateauing recently, what direction do you see this, moving forward?

Petros Pappas

The ship values, Constantine, do you want to talk about ship values?

Constantine Nanopoulos
Well, ship values have increased substantially during the first half of this year. We are seeing a stabilization over the last one, two months. We believe that the ship values should, as you mentioned, plateau and probably remain at these levels, but a lot will depend on how the market performs towards the end of the year, when we expect the freight market to be stronger.

Unidentified
Yes, and I guess the shipyards are still quite full.

Constantine Nanopoulos
Yes, shipyard capacity for 2026 is actually almost all gone, and we--especially for the larger sizes--and we are now, are starting to see 2027 slowly being filled. So this is definitely something that will be a supporting prices of modern vessels, since we haven't seen such conditions for a few decades, actually.

Unidentified
Yeah, but overall, we believe that prices have actually reached a pretty high price, and they will plateau from here, unless, of course, there is a huge upside in the market at some point. Otherwise, if the market remains where it is, we think this is--we're very close to the highs of the high values for the vessels.

Prinilla
All right, appreciate the color. Thank you. Turn it over.

Operator
Once again, ladies and gentlemen, to ask a question at this time, please press “*”, “1” on your telephone keypad. That’s “*”, “1” to ask a question, at this time. There are no questions in queue. I would like to turn the call back to management for closing comment.

Petros Pappas
No further comments, Operator. Thank you very much, and have a great summer, everybody.

Operator
Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.