

# 2020 BULKERS



**2020 Bulkera Ltd.**

Investor Presentation

29 August, 2019

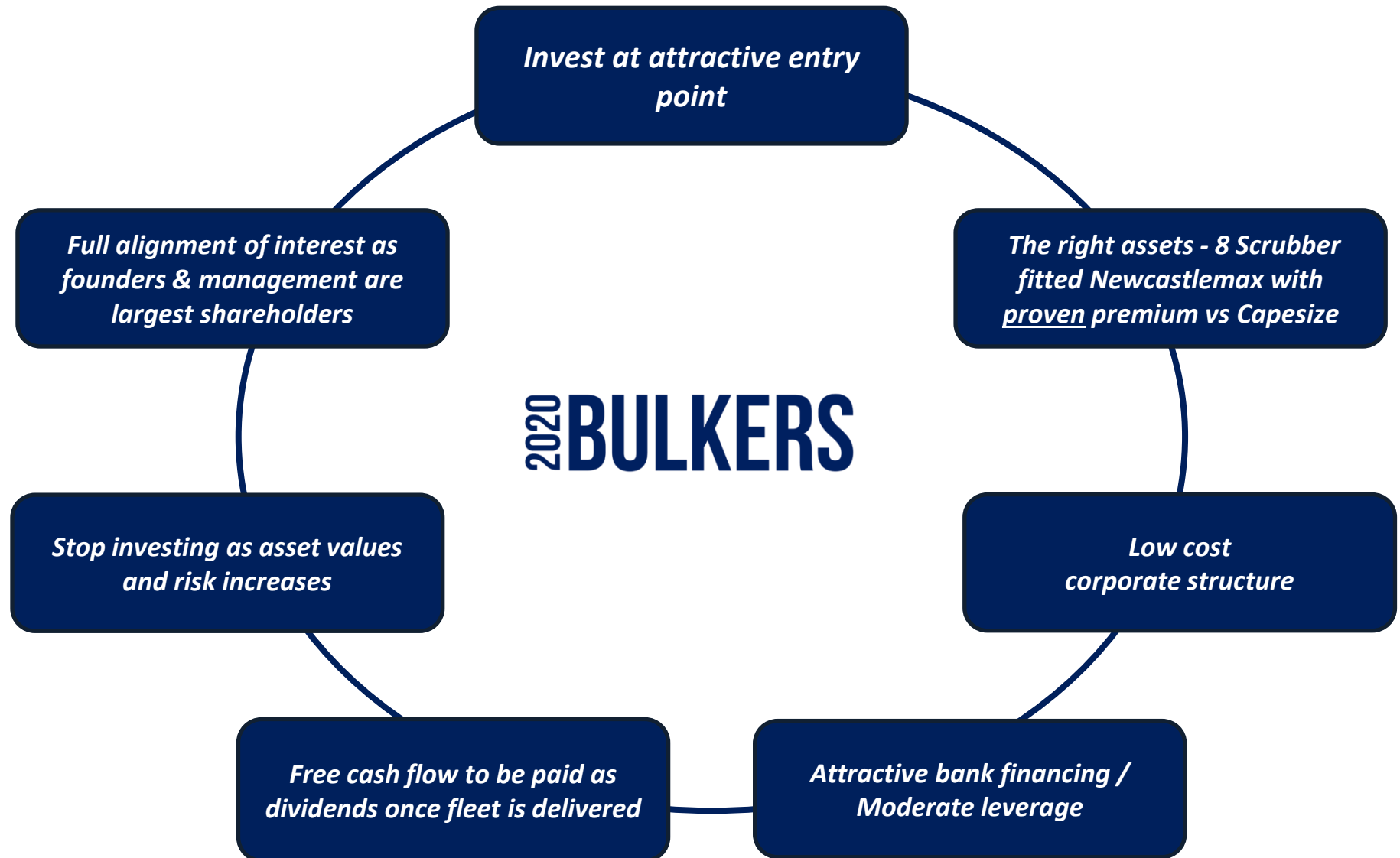
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## Fleet status

## Earlier deliveries accelerates free cash flow generation

- Bulk Sandefjord delivered on 7 August, entering 3-year index linked timecharter with rate at commencement ~USD 35,000 per day. Bi-weekly rate adjustment with current spot market implying TCE of USD ~43,000 per day<sup>1)</sup>
- Eight months earlier delivery of Bulk Santiago, Seoul, Shanghai, Shenzhen and Sydney, compared to original schedule
- Significant interest from charterers for remaining vessels (mainly considering index-linked tc and CVC charters)

Name	Built/Delivery	Charter terms	Charterer
Bulk Sandefjord	August, 2019	3 years index-linked timecharter with share of scrubber profit	Koch Supply & Trading
Bulk Santiago	September, 2019	12-15 months timecharter @ usd 19,525 per day	Koch Supply & Trading
Bulk Seoul	October, 2019	12-16 months timecharter @ usd 22,250 per day	Koch Supply & Trading
Bulk Shanghai	November, 2019		
Bulk Shenzhen	January, 2020		
Bulk Sydney	January, 2020	3 years index-linked timecharter with share of scrubber profit	Koch Supply & Trading
Bulk Sao Paulo	April, 2020		
Bulk Santos	May, 2020		

**7,25 ship years on the water in 2020**

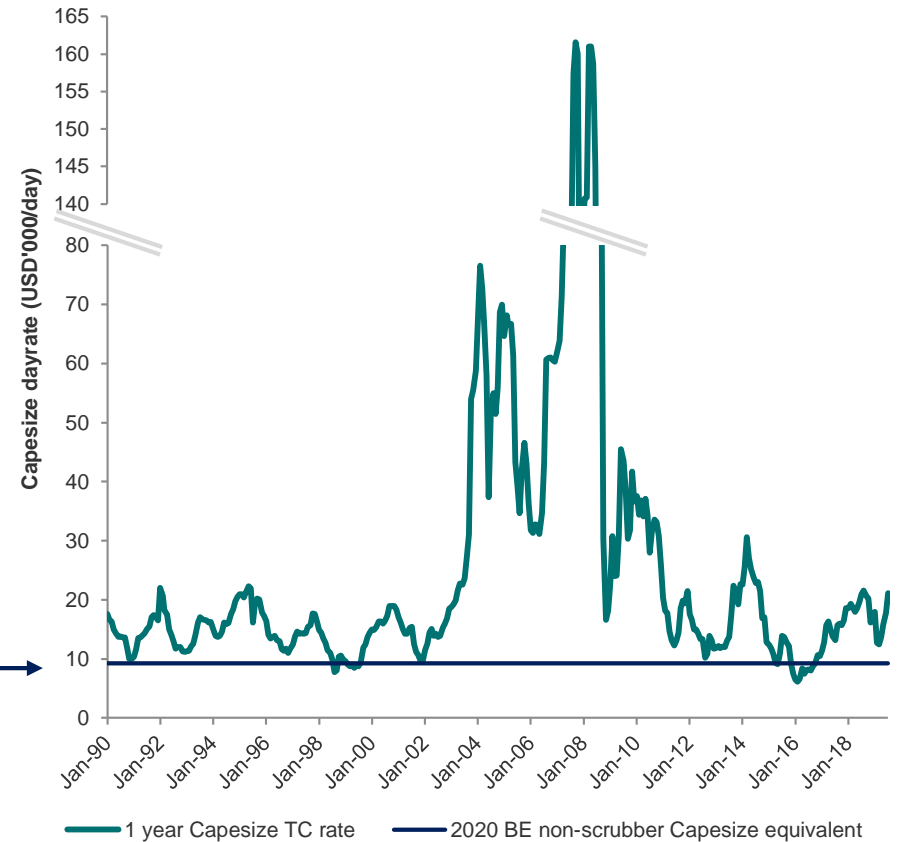
(1) Gross TCE rate based on Baltic 5TC index on 28 Aug, 2019

## Robust Cash Breakeven

### Normalized cash break-even per vessel, per day

Opex	USD/d	4 750
G&A	"	1 000
Debt amortization	"	4 566
Interest expense <sup>(1)</sup>	"	3 822
<b>2020 Bulkers Cash Breakeven (CBE) @ 100% utilization</b>	"	<b>14 138</b>
- 5% commission	"	(744)
- 60% share of scrubber profits @ USD 200 per ton spread	"	2 840
- Newcastlemax premium (35% vs Baltic type Capesize)	"	3 122
<b>= Standard Capesize rate<sup>2)</sup> required for index linked Newcastlemax to earn CBE</b>		<b>8 920</b>

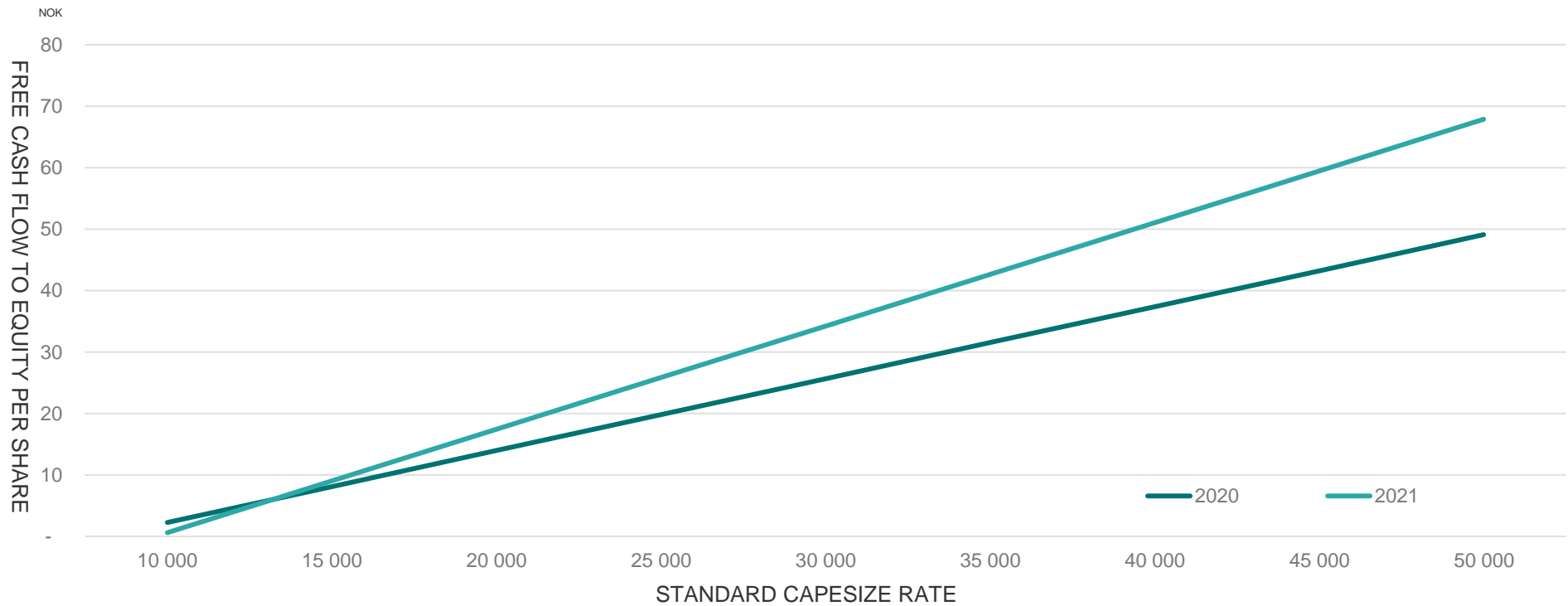
### Capesize historical rates<sup>(3)</sup> vs 2020 cash breakeven



Since 1990, Capesize rates have been above 2020 Bulkers' cash breakeven indexed to a Baltic Type Capesize ~95% of the time<sup>(3)</sup>

(1) Does not include interest on revolving credit facility. Assumes 3M Libor of 2.15%.  
 (2) Baltic reference Capesize 180,000 DWT without scrubbers  
 (3) 1 year TC for Baltic reference Capesize 180,000 DWT without scrubbers. Monthly data.  
 Source: Company, Clarkson Research Services Limited (SIN)

# Potential free cash flow to equity per share



- Assumes open ships chartered at Baltic Capesize Index + 35% and 60% profit share of scrubber economics
- Free cash flow to equity = revenues – normalized free cash flow
- All calculations are indicative and no guarantee can be given for actual achieved results

## Market update

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- Shipments of Iron ore are recovering after 1H disruptions:
    - 30 out of 92 million tons of production closed after dam accident in Brazil is already back, with another 30 million tons of production expected back by year end
    - Normalized production after weather related production issues in the Northern system in Brazil as well as cyclone in Australia during Q2
    - Additional capacity coming on stream should lead to 30 million tons per year higher Brazilian production volumes end 2020 vs end 2018
  - Limited new ordering keeps orderbook at a reasonable level. Current capesize/newcastlemax orderbook at ~12%
  - IMO impact will reduce effective supply in 2H 2019 and 2020
    - 140 Capesize to be scrubber fitted in 2H 2019 vs 60 fitted in 1H 2019
    - Tank cleaning for non scrubber fitted vessels will typically lead to 3-5 days offhire
  - Falling iron or prices are good for Chinese steel margins and should eventually lead to restocking of chinese iron ore inventories that are currently 25% down YOY
  - China has recently annouced measures to stimulate infrastructure investments
-

## Key reasons for investing in 2020 Bulkiers

- Assets with proven earnings premium at attractive point in the cycle
- 2020 Bulkiers' vessels earn their cash breakeven when a standard Capesize earns ~USD 9,000 per day
- Solid Balance sheet with <55% Loan to Value
- Significant dividend yield capacity driven by low cash breakeven combined with performance of Newcastlemax:
  - The Company chartered out two vessels at levels yielding average USD 2 mill annual free cash flow to equity per vessel during market lows in April 2019
  - Current spot rates imply >NOK 30 per share free cash flow to equity 1)
- 2020 Bulkiers aims to pay monthly dividends once full fleet is delivered, targeting payout from Q1 2020
- Sponsors and Management are the largest shareholder and are focus on capital discipline and shareholder alignment
- Favorable supply demand balance near term:
  - Iron Ore production and export volumes recovering after 1H 2019 disruptions
  - Expected supply side inefficiencies driven by scrubber retrofits and lower speed as IMO 2020 regulations are implemented

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1) Mark to market - assuming 8 Newcastlemax trading spot at Index linked charter reflecting Baltic 5TC Index + 35% with 60% share of scrubber economics based on HFO vs LSFO spread of USD 200 per ton.

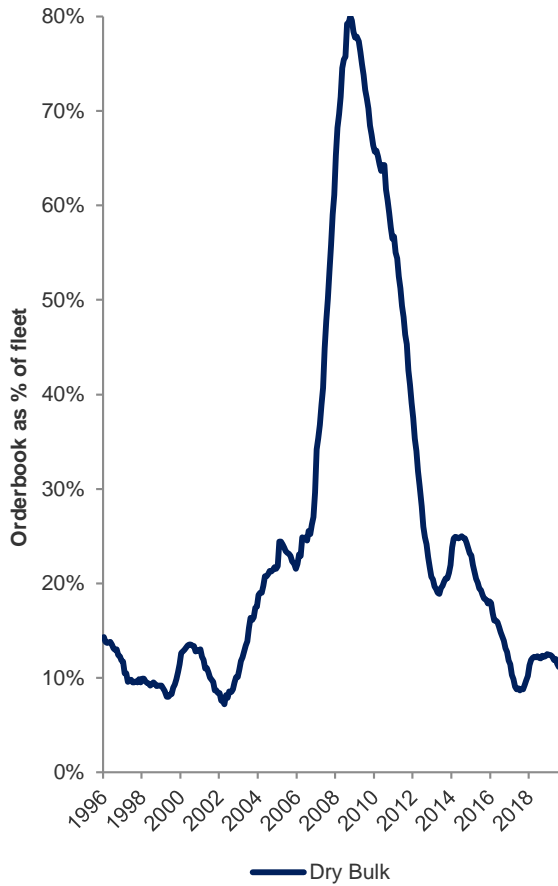


# Appendix

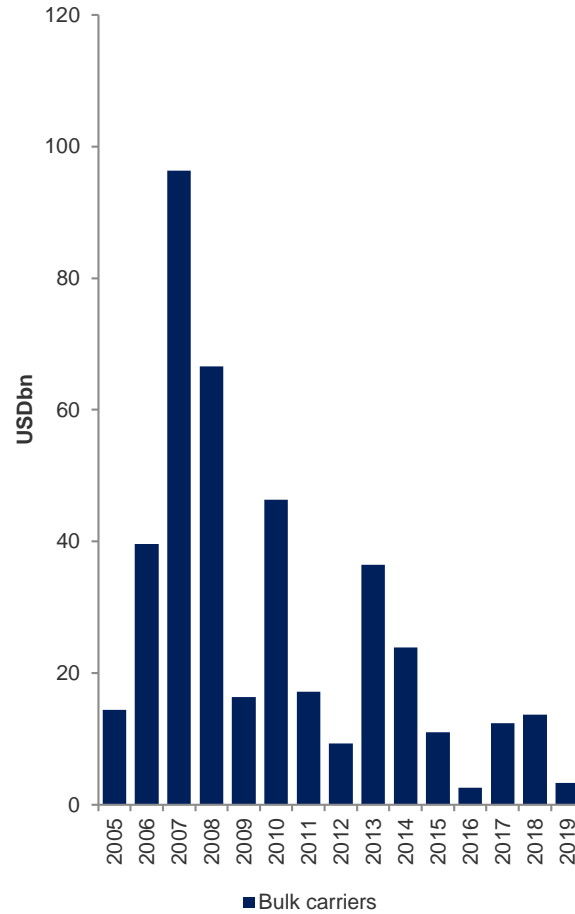
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## Limited supply growth on the horizon

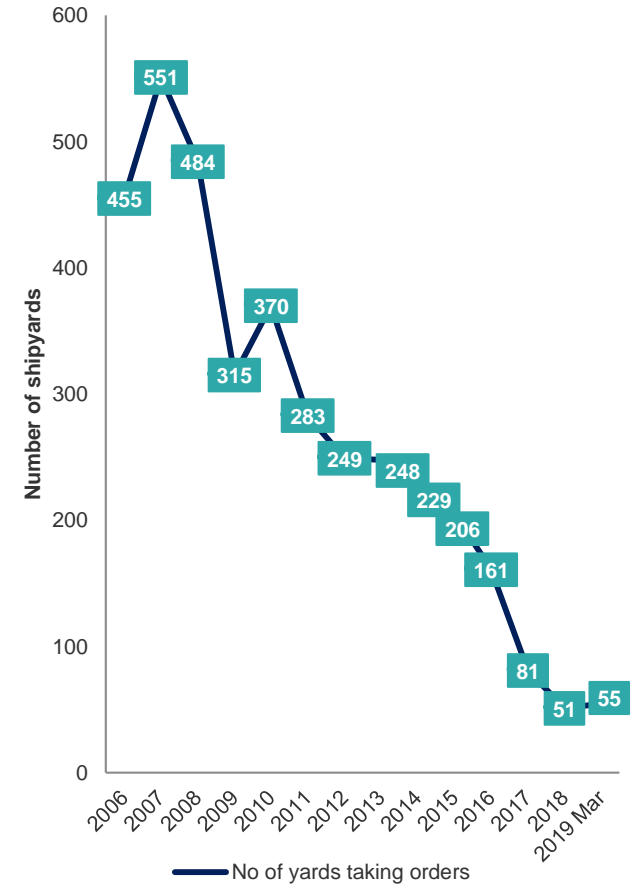
### Dry bulk orderbook as % of fleet



### Dry bulk Newbuild contracts<sup>(1)</sup>



### Number of active shipyards<sup>(2)</sup>



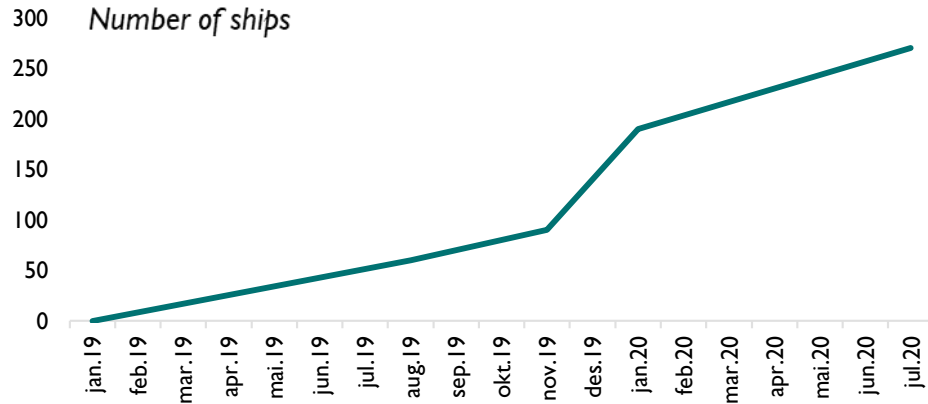
(1) For vessels larger than 20,000 dwt

(2) With at least one order larger than 1,000 GT on order, includes merchant and ship-shaped offshore vessels

Source: Clarkson Research Services Limited

## Impact of IMO 2020 regulations will reduce effective supply

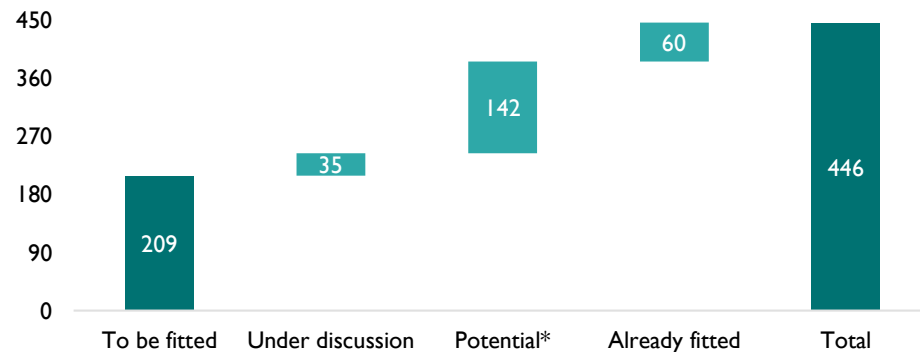
### Capesize scrubber retrofitting timeline



### Increased reports of delays for scrubber retrofits

- Average retrofit times estimated around 40 days, with reports of some retrofits taking up to 60 days
- Some repair yards have overbooked their capacity
- Reports of delayed deliveries of scrubbers from manufacturers

### Capesize scrubber installations by end 2020



### Higher fuel prices will reduce speeds for ships without scrubbers

#### Impact on non scrubber fitted Capesize vessels

Decrease in optimal speed	-7,50 %
Portion of fleet without scrubber YE 2020	80 %
Avg time at sea	65 %
<b>Reduction in effective supply</b>	<b>-3,9 %</b>

#### Impact on scrubber fitted Capesize vessels

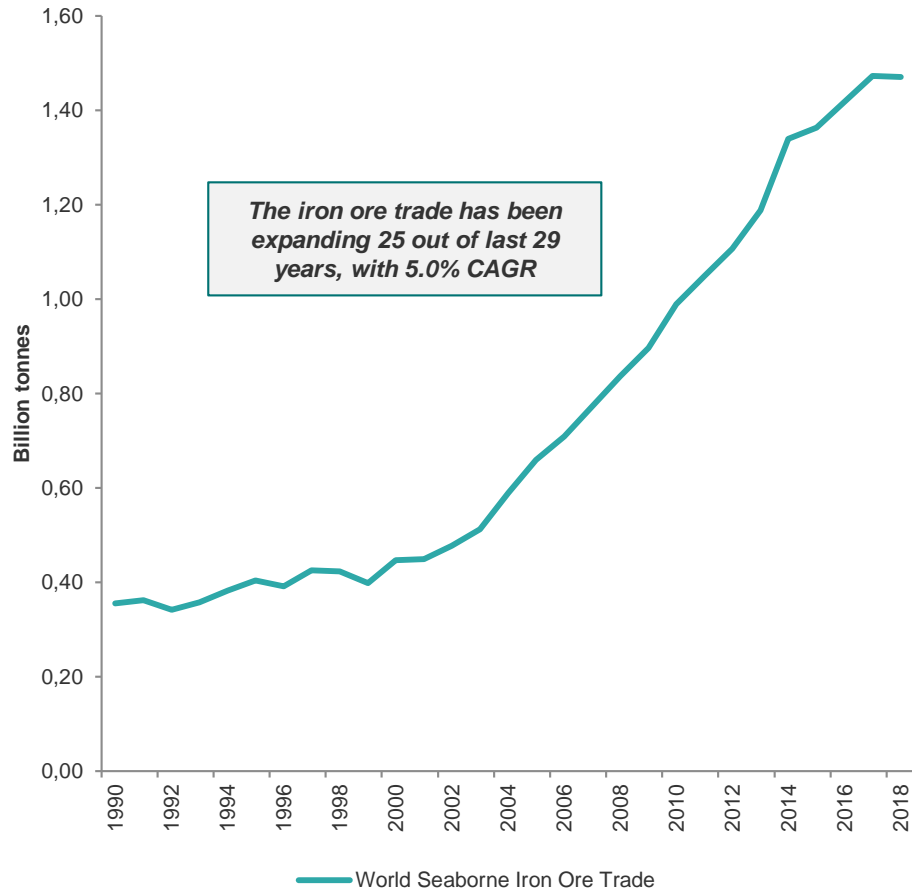
Increase in optimal speed	3,60 %
Portion of fleet with scrubber YE 2020	20 %
Avg time at sea	65 %
<b>Increase in effective supply</b>	<b>0,5 %</b>

**Net reduction in effective Capesize supply** **-3,4 %**

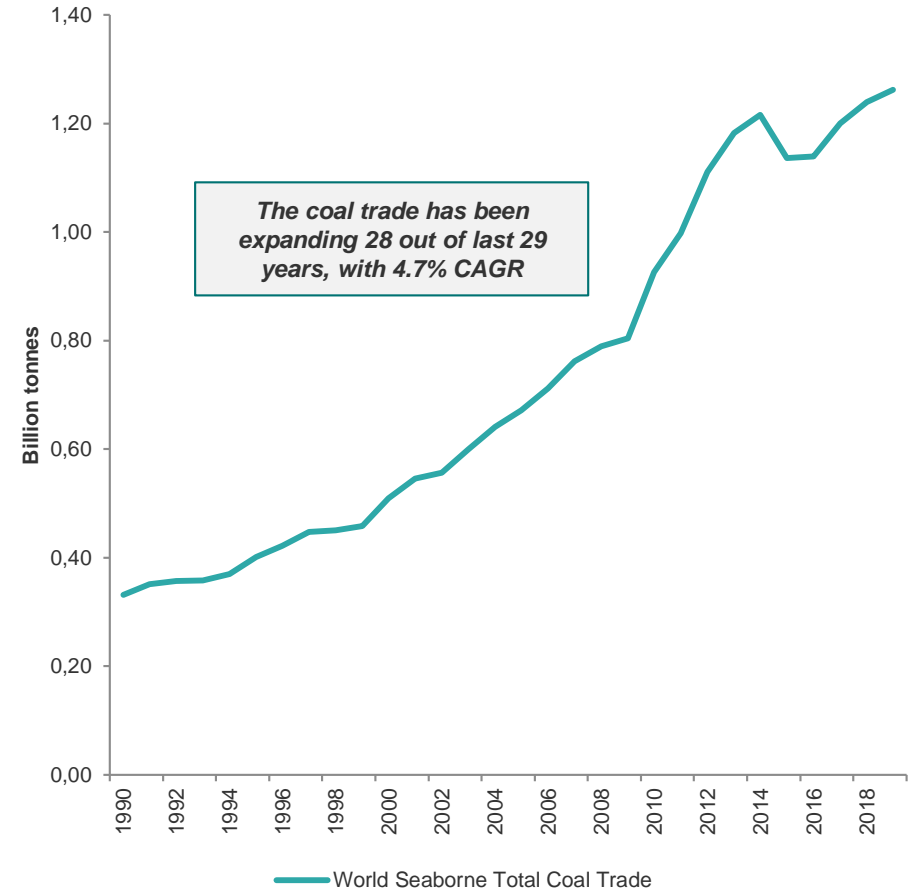
Source: Arrow Shipbrokering group  
Calculations: Company

# Trade growth for key commodities traded by Capesize and Newcastlemax has been strong and relatively stable historically

### World seaborne iron ore trade (28.2% of dry bulk trade in 2018)



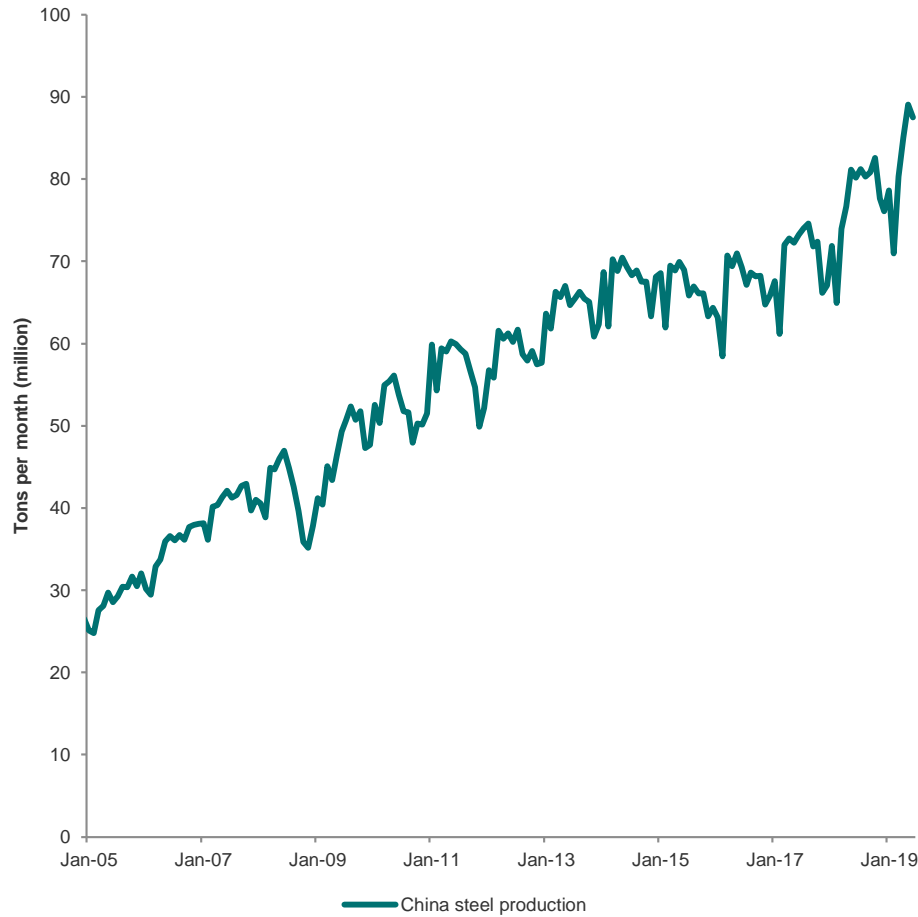
### World seaborne coal trade (23.8% of dry bulk trade in 2018)



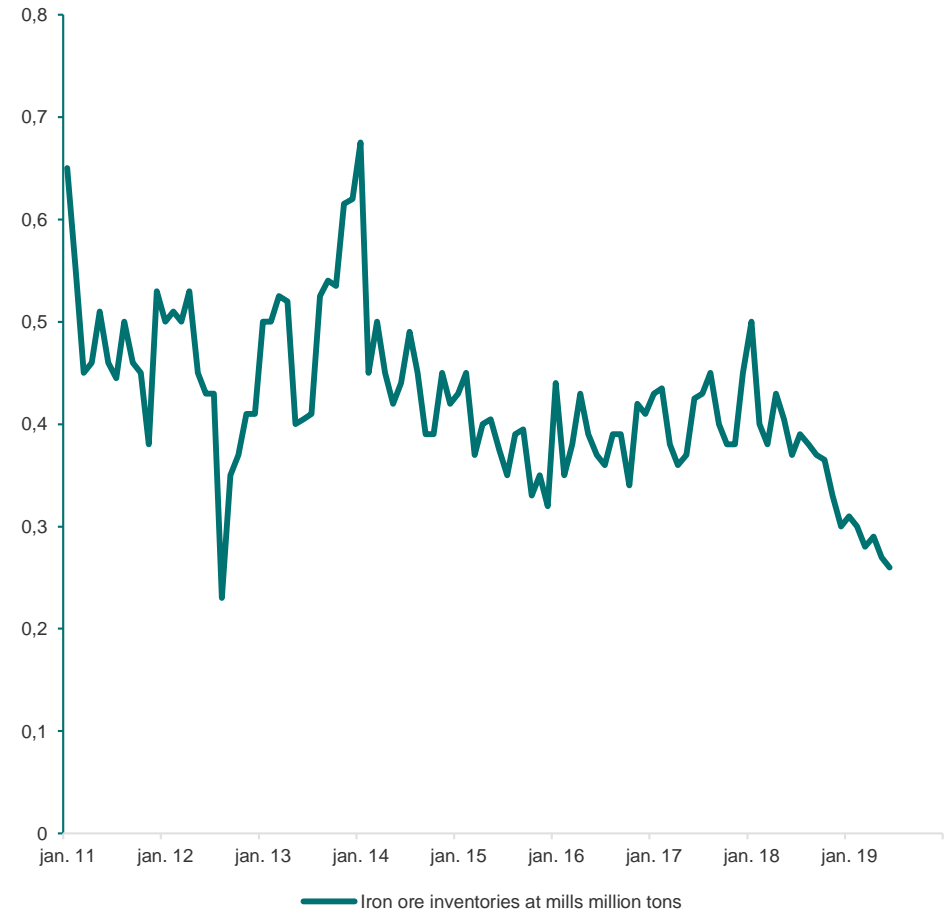
Source: Clarkson Research Services Limited (SIN)

# China will eventually need to restock iron ore inventories

**Chinese steel production remains strong...**



**While Chinese mills have been destocking iron ore inventories<sup>1)</sup>**



(1) Inventory shown as average per mill based on survey sample of 64 mills, representing ~30% of Chinese steel output  
 Source: MySteel, Bloomberg, J.P. Morgan, Reuters, Company, Clarkson Research Services Limited (SIN)

# Iron ore shipments are recovering after 1H disruptions

**Brazilian iron ore shipments**

Million tonnes, 3-week moving average



**Australian iron ore shipments**

Million tonnes, 3-week moving average



Source: Arrow Shipbroking Group

## Brazilian production will eventually grow beyond 2018 levels

### Key Brazilian production impacts

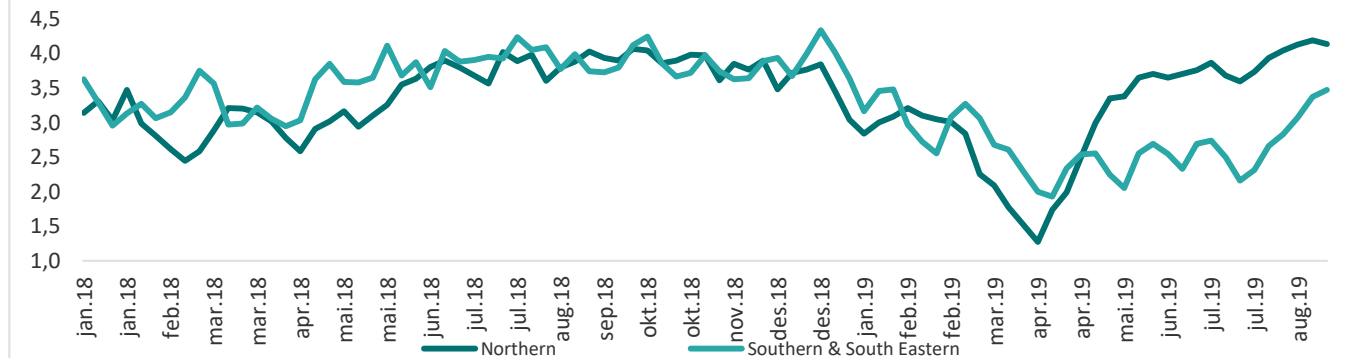
	MTPA	Expected timing
Lost production after Brumadinho accident	-93	1H 2019
<b>Restarts and new capacity</b>		
Brucutu restart	30	2Q 2019
Various Vale dry processing capacity restarts	30	2H 2019
S11D	20	ramp up
Minas Rio	15	ramp up
Samarco restart	30	during 2020
<b>Total restarts and new capacity</b>	<b>125</b>	

Total expected production increase  
YE 2018- YE 2020

32

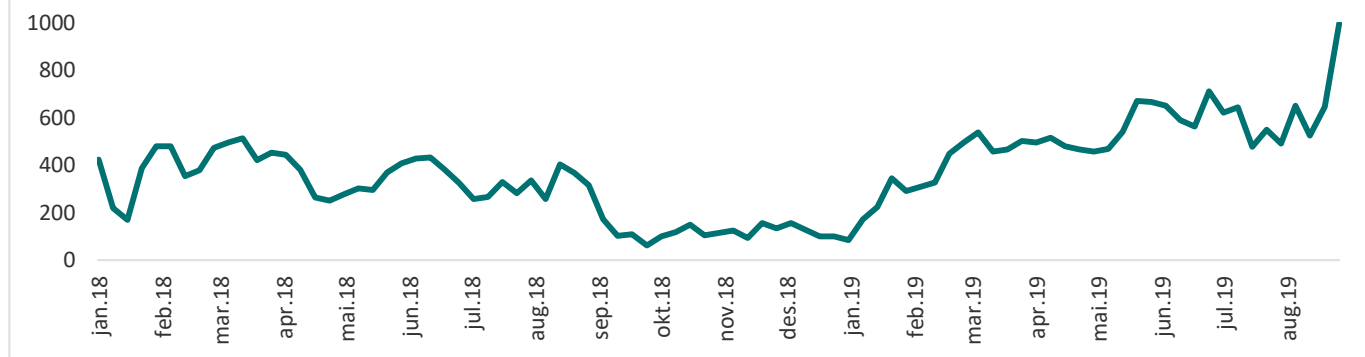
### Vale iron ore shipments by system

million tonnes, 3-week moving average



### Brazil Iron ore shipments ex-Vale

thousand tonnes, 3-week moving average



### Comments:

- Brazilian production expected to grow by at least 30 million tons year end 2020 vs year end 2018.
- This does not include 30 million tons of production closed after the dam accident where Vale has said timing for resumed production is 2-3 years out
- For April 2019 total Vale shipments was down 7 million tons, which corresponds to annualized disrupted volumes of 120 capesize equivalents

# China is stimulating infrastructure spending

BUSINESS NEWS AUGUST 26, 2019 / 5:16 AM / 2 DAYS AGO

## China to lower capital requirement ratio for infrastructure projects: state planner

2 MIN READ  

BEIJING (Reuters) - China plans to ease capital requirement for infrastructure projects in the second half this year, in a bid to boost investment and fend off rising headwinds in the slowing economy, the state planner said.







Economics

## China Considering Increasing Local Debt Sales to Boost Stimulus

Bloomberg News  
19. august 2019, 12:23 CEST *Updated on 20. august 2019, 03:24 CEST*

- ▶ Policy makers may raise special bond quota from \$305 billion
- ▶ Morgan Stanley sees increase worth 0.75-1 ppt of GDP


Quicktake

## China's Belt and Road Is Getting a Reboot. Here's Why


Bloomberg News  
14. august 2019, 08:13 CEST



ion site in Sihanoukville, Cambodia

 **Maybe Warren Buffett Is Warning Us About Something**  
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NEXT STORY 

**Bloomberg**

BUSINESS NEWS JULY 16, 2019 / 3:12 AM / A MONTH AGO

## China boosts local government bond issuance to \$104 billion in June to spur economy

Kevin Yao, Stella Qiu 5 MIN READ  

BEIJING (Reuters) - China's local governments sharply accelerated their bond issuance in June as they looked to ramp up infrastructure spending to support economic growth that slowed to a 27-year low.



# Why Newcastlemax? Higher cargo intake gives higher earnings

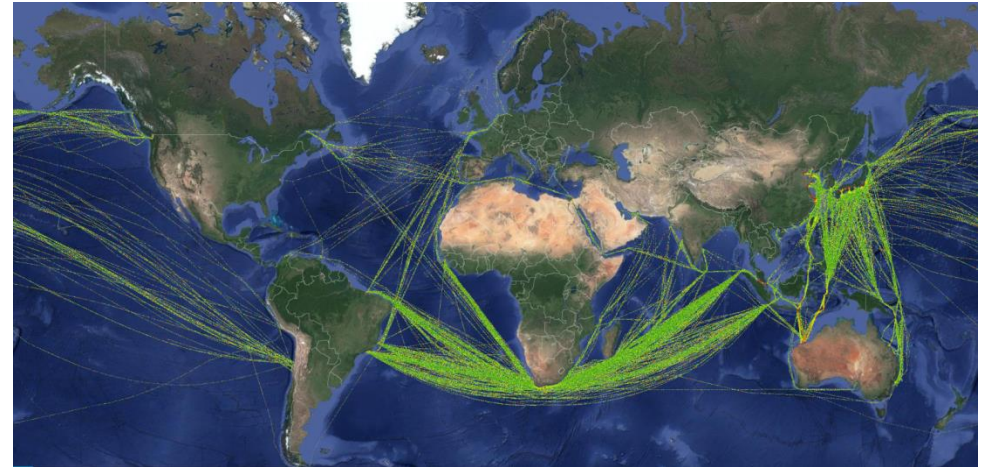
## Greater cargo intake yields higher earnings

Simplified Voyage economics Newcastlemax vs Capesize		
Additional cargo loaded (actual)	MT	25 000
Freight rate for C5 (W Australia – China)	\$	8,35
Addition revenue per voyage (net of commission)	\$	216 250
Additional fuel, broker's fees	\$	-25 000
<b>Additional cash flow per voyage</b>	<b>\$</b>	<b>191 250</b>
Voyage per year	X	10
<b>Additional cash flow per year (adj for 95% utilization)</b>	<b>\$</b>	<b>1 816 875</b>
Discount rate	%	15 %
<b>Present value of additional cash flow</b>	<b>\$</b>	<b>10 372 423</b>

### Sensitivity

Discount rate		Present value
10 %		USD 15,5 mill
15 %		USD 11,4 mill
20 %		USD 8,9 mill

## Newcastlemax can perform all key Iron Ore trades



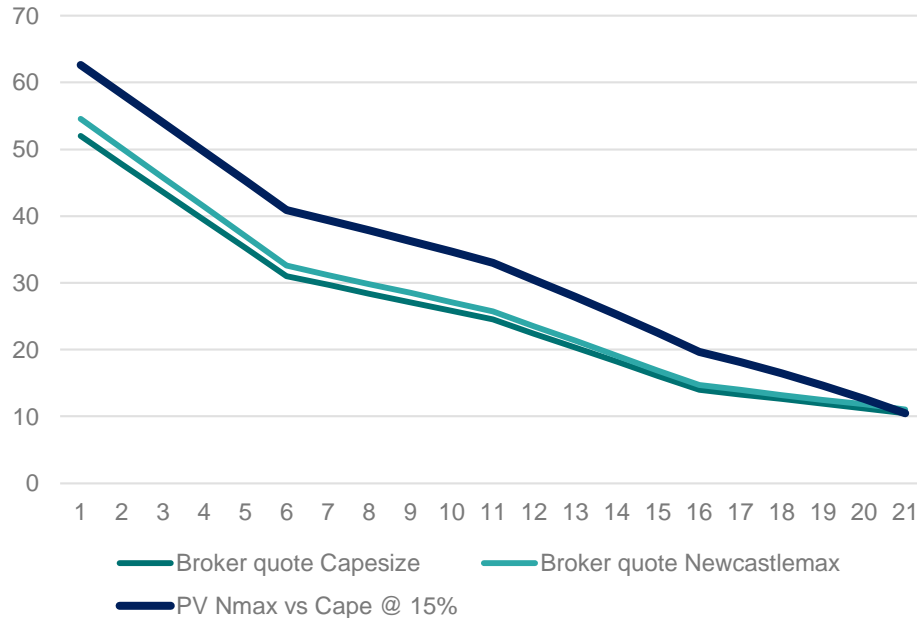
- 17% higher cargo capacity for USD 2,5 - 3m incremental capex compared to Capesize newbuilds
- Drybulk freight is priced on a USD/ton basis, meaning a Newcastlemax can be expected to earn significantly higher time charter equivalent earnings compared to a standard Capesize while performing the same trade
- At 2020 FFA freight rates a Newcastlemax trading in the spot market would earn around USD 1,7 million higher time charter equivalent earnings per year, compared to a standard Capesize
- Present value of USD 1,7 mill incremental cashflow over a 20 year expected life is USD 10 million if discounted at 15%

Note: Illustrative economics showing present value of additional revenue compared to Capesize earnings calculated over 20 years. Additional DWT capacity vs a Capesize is 28,000 DWT, however calculation assumes 25,000 in actual additional cargo loaded. Calculation assumes 1 ton per day higher fuel consumption for Newcastlemax vs Capesize

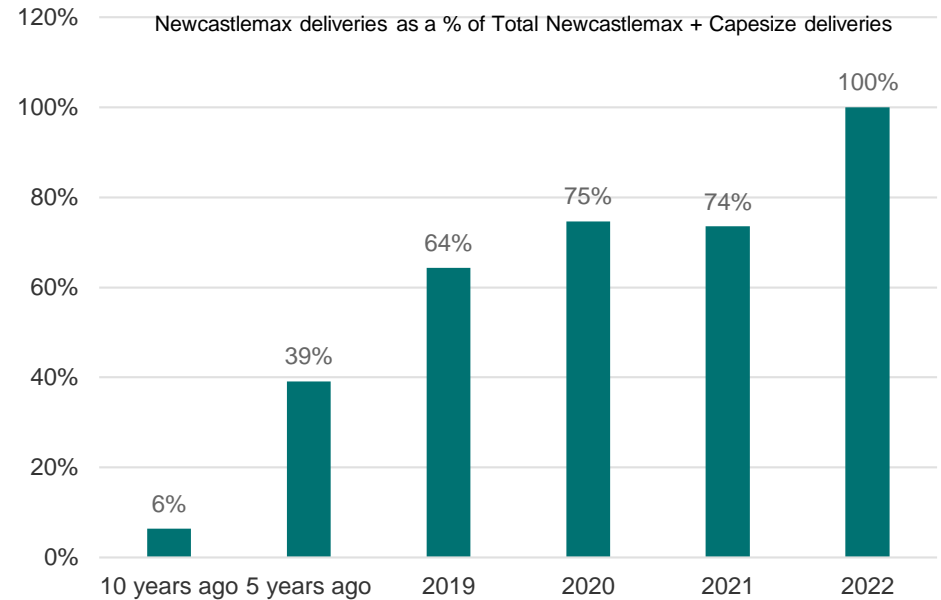
Source: Company, Clarksons Platou SeaNet

# Newcastlemax are undervalued vs a standard Capesize

## Current newbuild prices undervalue the cash flow of a Newcastlemax relative to a standard Capesize



## Evident by Newcastlemax taking market share vs Capesize



- The differential in Newbuild prices between a Newcastlemax and a Capesize is approximately USD 2,5 mill and reflects the additional steel and labor cost
- Based on 2020 FFA prices for West Australia – China in USD per ton a Newcastlemax would over a 20 year life be expected to earn approximately USD 34 mill more than a Capesize
- Broker valuation curves are based on depreciated newbuild prices and do not reflect the incremental earnings power of a Newcastlemax, compared to a Capesize

Source: Company, Clarksons Platou

# Scrubber investment expected to yield strong returns

## IMO 2020 Sulphur regulations

- New IMO regulations with take effect on January 1<sup>st</sup> 2020
- The regulation restricts maximum SO<sub>x</sub> (Sulphur Oxide) content in emissions for shipping vessels to be reduced from 3.5% to 0.5%
- Three ways for a ship owner to comply:
  - ✓ Install scrubbers
    - Enables ship to keep running on HFO
    - Current Capex of around USD 2,5 million for a Newcastlemax vessel
    - Short payback time
    - More complicated for retrofits and may need to take ship out of service
  - ✓ Run ships on MGO or other compliant Low Sulphur Fuel
    - Easiest way to comply, as well as the only way to comply without significant Capex to owner
    - MGO for 2020 is significantly more expensive than HFO
    - May require increased engine maintenance
  - ✓ Burn LNG as fuel
    - Significant Capex (adds around 20% to newbuilding cost)
    - Long-term attractive solution as LNG has broken parity with oil and LNG also addresses CO<sub>2</sub> emissions

## Simplified analysis of scrubber investment

### Illustrative scrubber savings, W Australia - China RV

Tons HFO consumed	852
LSFO-HFO spread (2020)	200
RV days	36
Share of fuel savings	50%
Daily Savings	2 354
Discount rate	10 %
PV (5 years)	3,3

## Scrubber investment sensitivity

		<i>LSFO-HFO spread USD/t</i>		
		<b>Fuel spread USD/tonne</b>		
		<b>200</b>	<b>350</b>	<b>500</b>
<b>Discount rate %</b>	<b>10 %</b>	3,4	6,0	8,6
	<b>15 %</b>	3,0	5,3	7,6
	<b>20 %</b>	2,7	4,7	6,8

Source: Company

# Fuel efficiency, scrubber and cargo intake gives superior earnings power versus standard Capesize

## Illustrative TCE Comparison Baltic type Capesize vs 2020 Bulkers Newcastlemax with scrubber trading on voyage charter

	Baltic C5	2020 C5	Delta	Comment
<b>Key variables</b>				
USD/ton (FFA for 2020 WA-China)	8,65	8,39	-3 %	Discount for Newcastlemax
Cargo Intake (tonnes)	175 000	205 000		Assumed actual intake
Consumption laden - 12 knots	43,0	37,2		
Consumption balast 13 knots	43,0	33,7		
HFO Price (2020 fwd price)	NA	300		
LSFO Price (2020 fwd price)	500	500		
<b>TCE calculation</b>				
Net Freight	1 438 063	1 634 050	14 %	Higher cargo Intake, 3% lower USD/ton rate
HFO cost	0	-255 359		
LSFO cost	-554 713	-43 773		
<b>Total Fuel Cost</b>	<b>-554 713</b>	<b>-299 132</b>	<b>-46 %</b>	Lower consumption, burning HFO vs LSFO
Port costs	-270 000	-270 000		
Misc Costs	-20 000	-20 000		
<b>P&amp;L</b>	<b>593 350</b>	<b>1 059 290</b>		
<b>TCE net</b>	<b>17 342</b>	<b>29 453</b>	<b>70 %</b>	

**Assumptions:** Input as of July 22, 2019: 2020 FFA market of USD 8,65 per ton for C5 (West Australia – China round voyage). 2020 forward fuel prices (Singapore)

## Simplified Sources and uses

Uses of funds until delivery of first vessel	USDm
8 x Newbuildings, including building supervision	376
Working capital, stores, spares, bunkers, G&A	6
<b>Total uses of funds</b>	<b>382</b>

Sources of funds	USDm
Equity raised to date	142
Bank financing	240
<b>Total sources of funds</b>	<b>382</b>

## Comments

### Uses:

- Total cost for 8 Newbuildings of USD 376m, including building supervision (USD 47m per vessel)

### Sources:

- Equity raised to date of USD 142m
- Secured bank financing at attractive terms:
  - USD 240m bank financing in place (USD 30m per vessel)
  - 18 year profile
  - 5 year maturity
  - Libor + 250 bps
- USD 5,5m revolving credit facility from largest shareholder for working capital purposes

2020 Bulkera' newbuild program is fully financed

# Shareholder alignment – Management and Board with significant equity exposure

2020 **BULKERS**

## Management

### Magnus Halvorsen | Chief Executive Officer

• 1,531,968 shares  
• 400,000 options\*

- Chairman of 2020 Bulkera from September 2017 to January 2019
- Partner at Magni Partners from May 2017 to August 2018
- Partner and Head of Capital Markets at Clarksons Platou Securities / Platou Markets (2009-2016), Member of Executive committee
- Partner and Head of US Sales at Pareto Securities (2003- 2009), Chairman of the Board for Nordic Partners - Pareto's US Operations

### Vidar Hasund | Chief Financial Officer

• 75,000 options\*

- Chief Accounting Officer at Borr Drilling during 2017-2018
- Financial Officer and International Tax Accounting Manager at PGS between 2008-2017
- Financial controller at BW Gas ASA between 2005-2007
- Auditor at KPMG between 2002-2004

### Olav Eikrem | Chief Technical Officer

• 100,000 options\*

- Technical Director at Frontline Management AS between 2006-2018
- General Manager at Golar Management Ltd between 2003-2006
- Senior Manager and Director at Thome Ship Management between 1997-2003
- Fleet Manager at Knutsen OAS Shipping between 1993-1197
- Fleet Manager, Assistant Fleet Manager, Superintendent at JO Management / J.O. Odjell between 1988-1993

## Board of Directors

### Alexandra Kate Blankenship | Director

• 75,000 options\*

- Chief Accounting Officer and Company Secretary at Frontline Ltd between 1994-2005
- Board member in numerous companies, including as Director and Member of Audit Committee at North Atlantic Drilling Ltd. (2011-2018), Archer Limited (2007-2018), Golden Ocean Group Ltd (2004-2018), Frontline Ltd. (2003-2018), Avance Gas Holding Ltd (2013-2018), Ship Finance International Ltd (2003-2018), Golar LNG Ltd (2003-2015), Golar LNG Partners LP (2007-2015), Seadrill Ltd (2005-2018), and Seadrill Partners LLC (2012-2018)
- Member of the Institute of Chartered Accountants England and Wales

### Jeremy Kramer | Director

• 331,369 shares  
• 20,000 options\*

- Member of Board of Directors of Golar LNG Partners and its Conflicts Committee
- Member of Board of Directors of DHT Holdings and Chairman of its Audit Committee
- Senior Portfolio Manager at Straus Group at Neuberger Berman between 1988-1994 and 1998-2016
- Portfolio Manager at Alliance Capital between 1994-1998.

### Jens Martin Jensen | Director

• 175,972 shares  
• 50,000 options\*

- Partner at Pillarstone Europe since November 2016
- Director at Frontline Corporate Services (Nov 2014 – Nov 2015), CEO/Managing Director (Apr 2008 – Nov 2014) and Commercial Director (Sept 2004 – Apr 2008) at Frontline Management AS, Board Member at Frontline, Frontline 2012, Flex LNG, Frontline Shipping, Frontline Management (Bermuda), Seateam Ship Management
- Partner/Director at Island Shipbrokers (Sept 1996 – Sept 2004)
- Various positions at A.P Moller / Maersk Group (Apr 1985 – Sept 1986) in Copenhagen, Mexico City, Tokyo and Singapore

### Georgina Sousa | Director & Company Secretary

• 20,000 options\*

- Head of Corporate Administration at Frontline Ltd. (2007-2018)
- Director and Company Secretary at various companies between the periods of 2005 and 2018, including: Frontline Ltd., Ship Finance International Ltd., North Atlantic Drilling Ltd., Sevan Drilling Ltd., Northern Drilling Ltd., FLEX LNG Ltd., Seadrill Ltd., Knightsbridge Shipping Ltd., Golden Ocean Group Ltd., Golar LNG Ltd., Seadrill Partners LLC
- Vice President of Corporate Services and Manager of Corporate Administration at Consolidated Services Ltd. (1993-2007)
- Company secretary at Cox & Wilkinson (1982-1993) and Appleby, Spurling & Kempe (1976-1982)

**Experienced management and board incentivized to distribute free cash flow to shareholders**

\* Strike price for all outstanding options is USD 10 per share



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