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Chairman, President & CEO

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Thank you, Meladin, and good morning, everyone. This is Ball Corporation’s conference call regarding the company's first quarter 2018 results.

The information provided during this call will contain forward-looking statements, including estimates related to the impact of the U.S. Tax Cuts and Jobs Act. Actual results or outcomes may differ materially from those that may be expressed or implied. Some factors that could cause the results or outcomes to differ are in the company’s latest 10-K and in other company SEC filings as well as the company news releases. If you don't already have our first quarter earnings release, it's available on our website at ball.com. Information regarding the use of non-GAAP financial measures may also be found in the notes section of today's earnings release. The release also includes a table summarizing business consolidation and other activities as well as a reconciliations of comparable operating earnings and diluted earnings per share calculations.

Joining me on the call today are Scott Morrison, Senior Vice President and CFO; and Dan Fisher, Senior Vice President and COO of Global Beverage. I'll provide some introductory remarks, Dan will discuss the global beverage packaging performance, Scott will discuss key financial metrics, and then we'll finish up with comments on our aerospace business as well as our outlook for the company.

Needless to say, we are pleased with our strong start to the year. Comparable operating earnings were up 26% year-over-year and comparable diluted EPS were up 32%, as we continue to execute on our cost out, value-in strategies in each of our business.

Beverage cans continue to win with consumers and our aerospace team has started to ramp up on new contracts. Our LTM comparable EBITDA through March 31, 2018 was $1.83 billion. And while we are well on our way to achieving both our EBITDA and free cash flow targets in 2018 and '19, our first quarter results as a corporation were a bit ahead of even our own expectations.

We continue to see good opportunities in front of us. And while our seasonally strong second and third quarters are ahead of us, the year is shaping up to be slightly better than expected. We are right on track with achieving our long-term financial goals.

The sustainability and environmental profile of our products continues to resonate with global consumers. Metal packaging is winning versus other packaging substrates. Environmentally, studies have confirmed that aluminum packages have by far the highest global recycling rate of all beverage packaging substrates, with more than 70% of all beverage cans recycled on a global basis versus less than 15% for plastic.

We have an obligation to educate consumers that the plastic that is collected for recycling from private households and commercially is actually not being recycled. The vast majority of plastic packaging that consumers are putting into their curbside bins actually goes to the landfill. So it's not just that a product is recyclable, it's about it actually being recycled after it's collected.
Helping the world understand the economic case for recycling aluminum in that certain products like plastic have low and in some instances, no value at the end of their useful life is important. This is why our landfills are filling with plastic and our oceans are drowning in it. Aluminum has even higher economic value today and is easily and cost effectively collected, sorted and recycled.

For example, one pound of aluminum can scrap from curbside collection in California at year-end 2017 was worth 7.4x more than PET, with glass actually having zero value. Generations young and old are being much more thoughtful about the impact of their purchasing decisions, and the can is well positioned.

Prior to our next quarterly earnings announcement, Ball will publish its biannual sustainably report, and you will have the opportunity to learn more about why the can is winning and how Ball is raising the bar on our environmental and social goals.

Now moving on to our results in the first quarter. We had a number of tailwinds as well as a few headwinds. Our South American business continued to deliver exceptional performance despite competitive pressures in Brazil, and our European business continued to progressively and sequentially improve on its performance, both of which Dan will get into later.

Our North American business faced the first quarter anticipated headwinds from higher freight and distribution costs as well as start-up costs related to our various new projects. In addition, lower volumes due to softness in mega beer continue to weigh on its potential. While we implemented certain disciplined decisions around standard 12-ounce business, CSD volumes were stronger than expected due to continued growth in specialty containers and growth in craft, sparkling water, import beer and other emerging categories also continued. Dan will discuss later why we continue to believe this segment will be up nicely for the balance of the year.

Our footprint activities in both Spain and Arizona are on schedule. Global aluminum aerosol volumes were up 7% in the quarter, and our tinplate food and aerosol businesses enjoyed improved operational efficiencies despite mid-single-digit volume declines.

Our aerospace business continued to benefit from improved revenues due to our contracted backlog. And lastly, anticipated cost savings were realized in our G&A and sourcing that Scott will speak about later.

While the declines in the U.S. domestic beer industry, soft volumes in AMEA due to devaluations and taxes, and softer-than-anticipated tinplate food and aerosol volumes, all are well-known, the strength of our business and positive momentum across all of our product lines certainly offset these. And we remain confident that such issues will in no way impact our ability to achieve our near-term goals.

As we go forward, we will continue to execute our long-term strategy of growing our earnings through focusing on our product mix, price cost, supply-demand and innovation management, generating higher free cash flow, reinvesting in EVA dollar value-creating growth projects that earn above 9% after tax returns, and returning significant value to our shareholders through dividends and share repurchases.

To that point, last week, our board approved a new 25 million share repurchase authorization. So as they say, so far, so good. And before turning it over to Dan, I want to clarify some questions about press articles related to a European Commission investigation on food cans.

First, we do not manufacture nor sell food cans in Europe. And second, we have not been contacted by any European authorities nor have any of our facilities been visited. Given these facts, it would be inappropriate for us to comment on this, as all of our information on this is from the same public sources as all of you. And with that, I'll turn it over to Dan.
Daniel W. Fisher  
_Senior VP & COO of Global Metal Beverage Packaging_

Thanks, John. Our global beverage business operating earnings were up 13% year-over-year. Our team is incredibly busy executing on plans to maximize the value in each of our regions, including a North America plant-network optimization and European process transformation projects to further improve our cost structure and supply-demand balance in advance of our upcoming contract renewals.

Broadening our geographic footprint with mid-2018 plant start-ups outside Madrid, Spain and in Goodyear, Arizona, specialty can line extensions in Argentina and Texas as well as a 2019 plant startup in Paraguay. Aligning with the right customers and markets with expanding into new products and capabilities via our ever-expanding offering of specialty can sizes. Leveraging our technical know-how around predictive maintenance, light weighting and process improvement and positioning our products as the most sustainable in the world.

I’m incredibly proud of our global teams. They are right on track with numerous growth projects, network optimization and cost-out efforts. The superior product protection that the can provides the beverage and its efficiency from a freight, distribution, warehousing and retail shelf perspective is vitally important. The economic value creation the can brings our customers is real and growing.

Moving to the individual segments. Ball's North America segment volumes were slightly below industry levels, largely due to our disciplined value over volume approach to standard 12-ounce packaging in select U.S. locations and the key U.S. mega beer brands’ under performance. Ball’s position with growing Mexican imports, craft, sparkling water and brands using specialty containers is very healthy. In short, cans continue to win share versus glass and other substrates.

Anticipated plant network disruptions to install specialty capacity in existing plants, start-up costs related to our new Goodyear plant and associated higher freight cost, coupled with our disciplined decisions around volume, were the reasons for a year-over-year decline in the quarter. These cost headwinds will abate as Goodyear comes online in late May and the network optimizations occur in the second half of the year. In other words, don’t read too much into the first quarter for North America.

We should see growth in operating earnings for the balance of the year. The team is performing at a very high level and the segment will benefit from fixed cost savings in late 2018 and beyond. We just need U.S. weather patterns to transition from winter nor’easters and spring blizzards to a nice sunny summer.

Our South American business had a really nice quarter. Segment volume grew 10%. Overall beer consumption and economic trends in Brazil improved and our customers continue to emphasize cans across South America. Given the growth outside of Brazil, the timetable for line expansions in Argentina has been accelerated, and we continue to make preparations for the beverage can plant in Paraguay, which will come online in late 2019.

In Brazil, our resulting value over volume response will likely lead to Ball's volume growing slower than the market rate during 2018. We continue to anticipate tougher year-over-year comps in the second half for our Brazilian business due to the profit recorded on the end’s manufacturing contract that supported the divestment business going away, challenging year-over-year volume comparisons and our value over volume response that played out in late 2017. It's great to see the Brazilian economy rebounding, and we appreciate how effectively the team in South America is responding.

The European business once again saw mid-single-digit volume growth, led by Russia and Spain. Our ongoing plant construction in Spain is right on track, with the plant likely starting up in late May, early June. Our near and long-term initiatives to get segment performance back to where Ball's legacy business was are on track, and as a reminder, the cost savings from the German plant closure will anniversary in early August.
Transformation projects are progressing nicely and will contribute to planned G&A savings in 2019. The European team has been dealing with some noise around recent Russia news headlines. And to make sure everyone is aligned, we have studied the sanctions and we do have the ability to source local metal as we have done in the past. So it's business as usual. In AMEA, demand volatility remains. Egypt and Saudi have been particularly difficult due to economic dynamics and the carbonation tax versus seeing a better operating and demand environment in India.

Our China business continues to be cash flow positive, and we will continue to exercise a disciplined approach in this market and prune larger chunks of capital when appropriate.

In summary, we're executing on capital projects and our U.S. standard container supply-demand is tightening. Thank you again to all of our teams around the globe, you're doing a terrific job. With that, I'll turn it over to Scott.

Scott C. Morrison  
Senior VP & CFO

Thanks, Dan. Comparable first quarter 2018 earnings were $0.50 versus $0.38 in 2017, a 32% improvement. First quarter diluted earnings per share reflect solid operational performance across every product line and lower corporate costs, offset by higher taxes and a slightly higher interest expense. Details are provided in the notes section of today's earnings release, and additional information will also be provided in our 10-Q.

Net debt ended the quarter at $7 billion, reflecting the normal seasonal working capital build in our business. For 2018, while it's only May, we feel good about where we're at and more importantly, about where we're headed. Free cash flow is expected to be in the range of $900 million after spending at least $600 million of CapEx. Full year 2018 interest expense is now expected to be in the range of $300 million, following the $750 million senior note issuance completed in March.

Full year effective tax rate on comparable earnings will be approximately 24% based on our current estimates of the impact of U.S. tax reform. And corporate undistributed should run under $110 million for full year 2018.

Keep in mind that the first quarter corporate undistributed was favorably impacted by lower pension expense and the FX impacts of hedges under the intercompany loans, which will be paid down throughout 2018, which will reduce the FX impact.

As I have mentioned before, the corporate undistributed cost will move around as we progress on various transformation efforts. So we'll give you an update as appropriate on those items.

Cash flow is strong, and we started buying back stock during the quarter. Year-to-date, through yesterday, we have repurchased over 2.7 million shares or just north of $107 million. By year-end, we expect to buy at least $350 million of stock in addition to paying out roughly $150 million in dividends. We are at the cusp of returning significantly more value to shareholders in 2019 and beyond, and the team is really pleased that, that time is here.

Before I turn it back to John, we've had a number of questions on the new revenue recognition rules. For Ball, the impact for full year is expected to be nominal. And in the first quarter, the impact was less than $0.01 or $2 million of operating earnings out of our $300 million. So not much to talk about. John?

John A. Hayes  
Chairman, President & CEO

Great. Thanks, Scott. Our aerospace business reported improved first quarter results, driven by solid contract performance and the continuing ramp-up on new contracts. Our staffing levels continue to increase, and year-to-date, we've hired close to 300 new employees. The aerospace team has done an excellent job managing this large onboarding process, from recruitment through retention, without taking their eyes off the execution of our business. We
continue to leverage our unique capabilities, world-class technology and the best talent in the industry to further grow
our aerospace business in 2018 and beyond.

Now as we look forward for our corporation, we are on track to achieve our 2019 targets, and longer term, we believe
that we have once in a generation opportunities in front of us right now. The strategic rationale of the beverage can
acquisition are being realized, and we are truly leaning into our efforts to ensure that the world understands with great
clarity that aluminum beverage cans are indeed the most sustainable package in the beverage world.

Our aerospace business is very well positioned, as technological shifts and resiliency play a more important role for our
intelligence communities as well as our war fighters. Our aluminum aerosol business is well positioned for continued
growth. And as Scott mentioned, we have began to deliver on our promise to return significant amounts of capital back
to our partners in the form of dividends and share repurchases.
And with that, Meladin, we are ready for questions.
Question and Answer

Operator

[Operator Instructions] And our first question is from Scott Gaffner with Barclays.

Scott Louis Gaffner
Barclays Bank PLC, Research Division

John, I know you don't want to update synergies on the acquisition at this point, but you are 21 months into, I think, the 42-month timeframe that you outlined in the long-term incentive plan around the acquisition, and you had a $832 million EVA goal associated with that, if I have the numbers correct. Could you maybe talk to us about where you are sort of halfway through that performance period around EVA generation?

John A. Hayes
Chairman, President & CEO

Yes, I think we're in good shape. We don't track EVA and report it externally on a quarterly basis. But you can see in the year-end 2017 where we ended up, and it was quite strong. In terms of synergies, as we said from the get-go, we're really not going to talk specifically about synergies, because we don't want to get into accounting discussion about what's a synergy and what's not a synergy. We just said focused on the EBITDA as a corporation. We started at $1.53 billion at the mid-2016, and we said we were going to get to $2 billion by the end of '19. And on an LTM basis, as I said in my prepared remarks, we're at $1.83 billion. I think that just speaks for itself that we're right on that track of getting there.

Scott Louis Gaffner
Barclays Bank PLC, Research Division

Okay. And one quick follow-up on metals. I mean, Dan, thanks for the comments on Russia and obviously, North America and Europe. But it sounds like no issues passing that through to the customers based on contractual obligations, but maybe that's misunderstood a little bit in the market. But the impact on working capital, how should we think about that in a rising metals environment and specifically, since you're so focused on free cash flow?

John A. Hayes
Chairman, President & CEO

Yes, Scott. This is John. Let me first just reiterate home what you were talking about on the pass-through nature, because, as you recall for everyone, our business is a pass-through model. With the tariffs, people have asked us many questions about it. But here in the U.S., over 90% of our metal volume is actually controlled by the customer, with the remainder being a straight pass-through. In other parts of the world, we control the metal, but we never signed a contract without having a matched book. Meaning, the sales price is either linked to a floating aluminum price where the risk is borne by the customer or the metal is hedged at the contracted price. We're not in the business of taking risk on aluminum. So all these changes in aluminum are truly a pass-through for us.

Scott C. Morrison
Senior VP & CFO

And on the working capital front, Scott, there shouldn't be much impact, because things that we're doing on the payables side will offset any of the increases on the receivable and inventory side.

Scott Louis Gaffner
Barclays Bank PLC, Research Division
Okay. And one last one on that just for Dan. Given the rise in metal prices, are you seeing any signs from any of your customers that they're switching away from cans to potentially other alternatives? I mean, there's been a lot from your customers around using the can as their value driver, so I wouldn't think so. But just any thoughts around that would be appreciated.

**Daniel W. Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

No, I think you read that right. I mean, it's such a valuable piece of the economic equation, especially on the beer side, that they're not going to move away. And historically, we've seen prices at this level and we didn't see any substrate change as a result of aluminum prices or raw material prices. So we're not seeing that.

**John A. Hayes**  
*Chairman, President & CEO*

Yes, Scott, one last thing. Remember, in the first quarter, the industry in the United States was roughly flat. I think it was down 3/10 of 1 point or something like that. Beer and mega beer is well-known that has been soft, but soft drink was actually up 2.5%. And so I think that just further reinforces that prices will go up and down, but we have seen no demand destruction.

**Operator**

And our next question is from Tyler Langton, JPMorgan.

**Tyler J. Langton**  
*JP Morgan Chase & Co, Research Division*

Just with South America. I think last quarter, you were kind of looking for maybe sort of 3% to 4% growth, I guess, more so in Brazil. I mean, obviously, it sort of did well this quarter. I mean, is -- do you think consumption in Brazil is going to be sort of better than your previous outlook? Or was the first quarter just a little bit stronger than expected? Just any details there will be helpful.

**Daniel W. Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

Sure, I can't really predict the back half of the year. But I would say, first quarter peak season and I think Brazil was roughly, from a market standpoint, in the 9% growth. That was certainly a little bit ahead of where we thought it would be heading into the year. We certainly benefited from that. I think a lot is going to play out here in the back half of the '18 relative to, it won't be peak season, but relative to World Cup. And I think also the presidential elections and heading into '19, we'll be watching that, but we're certainly off to a really nice start, and the teams perform really well. And then other parts of South America are also trending ahead of where we thought and ahead of where even our customers thought. So I think a lot of that has to do with the can versus a substrate mix. And then also, as I said in my opening comments, the economic landscape in Brazil, I think, is a little better than even our customers thought at this point.

**Tyler J. Langton**  
*JP Morgan Chase & Co, Research Division*

That's helpful. And then just sort of sticking with growth just with Europe. I think you mentioned volumes were up 6% on strength in Russia, India, Iberian Peninsula. I mean, is -- within Russia, I mean, is that -- if you can tell yet from like the World Cup our even to kind of talk a little bit about what's driving those gains and sort of how sustainable do you think they are?

**Daniel W. Fisher**
Senior VP & COO of Global Metal Beverage Packaging

Yes, first of all, our footprint is really strong in those two areas. So we benefited from the strength in those smaller regional aspects in Europe. While some of it is absolutely from World Cup rebuild, but there's also certainly a conscious movement away from plastic in that part of the world, Russia, in particular. And we're benefiting from new can sizes and really the strength of our customers winning from a substrate standpoint in that particular area of the world.

Operator

And our next question is from Mark Wilde, BMO Capital Markets.

Mark William Wilde
BMO Capital Markets Equity Research

Scott, I wondered if you could just help us in the first quarter by giving us a sense of how large both the start-up costs and the increased freight cost were.

Scott C. Morrison
Senior VP & CFO

Yes, if you look at the charge from last year, it's really tied to those things and the volume. There's not much of a difference from last year. But we said going into the quarter, we'd have some headwinds from start-up costs. But as Dan said, we expect to overcome those as we move through the year and improve performance throughout the rest of the year.

Mark William Wilde
BMO Capital Markets Equity Research

Is it possible for you to kind of help us just cadence those start-up costs as we move through the year, you're going to have Goodrich (sic) [Goodyear], you're going to have Spain?

Scott C. Morrison
Senior VP & CFO

Well, Goodyear should reduce as we get into the first quarter. We're already starting to make cans there, so that should come down. They should be operational here in May. And in Europe, more of the start-up cost will hit the second quarter than in the first quarter.

Mark William Wilde
BMO Capital Markets Equity Research

Okay. And then, Dan, I wondered you accelerated that Argentinian project. It sounds like maybe the market is shifting to kind of cans a little more rapidly than expected. Can you put a little color around that?

Daniel W. Fisher
Senior VP & COO of Global Metal Beverage Packaging

Sure. That's exactly what's happening. There was a conscious effort by one of the key market players down in South America to push cans more aggressively against an incumbent, returnable glass player. And that has created some nice tailwinds in that marketplace, and it's continuing to build in terms of the can's penetration just from a overall substrate mix. And we're continuing to make incremental investments just to keep pace with the market. We'll continue to do that as the can continues to win.

Mark William Wilde
And what would that penetration rate be in a country like Argentina right now?

**Daniel W. Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

Right now, it's somewhere north of 30%, and that trend is versus kind of high single digits 2.5 years ago.

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The next question is from Anthony Pettinari, Citigroup.

**Anthony James Pettinari**  
*Citigroup Inc, Research Division*

In the North American segment, is it possible to say how much volumes were down in the U.S. and maybe up in Mexico? And then in terms of the value over volume approach, is it possible to quantify how much of a drag that was on volumes in 1Q? And if there's any way to think about if that's an appreciable drag on volumes for 2Q or maybe even the full year.

**John A. Hayes**  
*Chairman, President & CEO*

Yes, I don't have the exact numbers in front of me, but let me give you some direction here. As an industry, the alcoholic segment beer was down almost 5% here in the United States. And given that we over-weight to that, that's a fair kind of baseline from where you want to think about what we did on the beer side here in North America. In addition to that, as I said in my prepared remarks, soft drinks on the specialty side, because of the launches, some rebranding of existing brands as well as just growth on the specialty side, that specialty growth was quite nice. But we did purposely choose not to move forward with supplying some standard 12-ounce containers. So overall, in that, we were down just a little bit. So we were down in North America a little bit more than 3%. But then the Mexican imports offset that to get to the down 3%.

**Anthony James Pettinari**  
*Citigroup Inc, Research Division*

Okay, that's helpful. And then, Dan, you talked about upcoming contract renewals. For North America and Europe, is it possible to say what percentage of your sales or volumes is up for renewal in the next 12 months? Or is the percentage of your business that's up for renewal, is it significantly higher or lower than maybe a normal year? Or are there maybe legacy Rexam contracts that roll off? Can you give us any kind of color on the, I guess, tenor of contract renewals?

**Daniel W. Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

I would say, on average, we're turning over contracts 15% to 25% in our aggregate portfolio. And there's really no significant variations to that.

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And then the next question is from Brian Maguire, Goldman Sachs.

**Brian P. Maguire**  
*Goldman Sachs Group Inc., Research Division*
John, I appreciate the comments about the European competitiveness investigation. I know it's early stages here, but should we just assume based on those comments that you view that as limited to the food can market at this point and no real impact on the beverage business there from what you can tell?

John A. Hayes  
*Chairman, President & CEO*

Absolutely.

Brian P. Maguire  
*Goldman Sachs Group Inc., Research Division*

And then just as it relates to Rusal in Russia, I guess, the -- glad to hear no -- it sounds like no disruptions to supply chain. Is that -- are there any changes to the timing of some of the sanctions that's driving that? Or any concerns that you might have some supply disruptions down the road? Or are you guys pretty confident that regardless of the outcome of all this, you'll be able to continue to process local aluminum?

Daniel W. Fisher  
*Senior VP & COO of Global Metal Beverage Packaging*

Yes, based on what we know today, we feel very confident that we won't have any disruptions in supply chain or impacts to the supply chain.

Brian P. Maguire  
*Goldman Sachs Group Inc., Research Division*

Okay. And can you just remind me about the currency there? Do you have a lot of ruble exposure, either translational or transactional that we should be aware of?

Scott C. Morrison  
*Senior VP & CFO*

Yes, it's most of that. We do have some ruble exposure. But it's really a dollar-based business and then it's invoicing in ruble, you could hedge some of that. So there's really not that big of an impact.

Brian P. Maguire  
*Goldman Sachs Group Inc., Research Division*

Just one last one for me. Any way you can kind of quantify the dollar impact from freight and weather in the quarter?

John A. Hayes  
*Chairman, President & CEO*

Upper single million dollars in North America.

Operator

And our next question is from Ghansham Panjabi with Baird.

Matthew T. Krueger  
*Robert W. Baird & Co. Incorporated, Research Division*

This is actually Matt Krueger sitting in for Ghansham. Can you provide some of the key elements to the year-over-year
operating profit bridge for the North and Central America segment in terms of freight, startup cost, price cost, volumes or any other major factors that we should be aware of? Just trying to get a sense as to the bridge there.

John A. Hayes  
Chairman, President & CEO  

Yes, for the full year?

Matthew T. Krueger  
Robert W. Baird & Co. Incorporated, Research Division  

Yes, for the full year would be great.

John A. Hayes  
Chairman, President & CEO  

Maybe I'll take a quick stab, and then I'll turn it over to Dan. But year-over-year, remember, we had in the third quarter last year, that we had the big hurricanes that was in excess of $30 million to that alone. And then we've also said with the Goodyear project that in the second half of this year, and it's probably going to be more late third quarter, early fourth quarter. Nothing has changed in terms of our expectations there, but we're going to start to realize the beginnings of that net annualized $50 million of savings. So those 2 things alone gets you kind of the upper 40s.  Really, then the pluses and minuses are the continued efficiencies that Dan talked about in terms of predictive maintenance and other things like that, the push on our specialty, the push on our value over volume. And then the biggest unknown, as we sit here right now, is we're going into what is our strongest selling season, the summer, the second quarter and third quarter. And so that's to be seen. The weather has not been helpful to date, as we all know, Dan referenced that. But as we get into the summer, I do think the can is winning. It's just a function of how our customers ultimately start to position their products. And we feel good as I said before, on the CSD side. There have been some tailwinds there. It's just the mega beer here in the United States has been a headwind.

Scott C. Morrison  
Senior VP & CFO  

Yes, I think the only thing I'd add to those comments is that we talked quite a bit last year that we weren't as effective in the pre-build inventory heading into peak season last year. And we've made a conscious effort on the supply chain to manage that with our customers. So if the sales show up, we should have a much more efficient supply chain cost to delivering those products.

Matthew T. Krueger  
Robert W. Baird & Co. Incorporated, Research Division  

That's very helpful. And then maybe a question for Dan. Given that you've seen CSDs and other beverages experimenting with alternative can sizes, have you seen or do you expect to see similar dynamics to develop with a number of your beer customers?

Daniel W. Fisher  
Senior VP & COO of Global Metal Beverage Packaging  

Yes, that's a great question. I think on one hand, you're seeing the traditional beer products and brands maybe not doing as well. So rest assured that our major mega beer customers have a lot of queue of innovative products that they're leading with cans, sleek cans, different channels. We're in those discussions. You've started to see some. I mean, you could reference things like Michelob ULTRA, that was a conscious decision on how they branded that, and that's done exceedingly well. But I would expect to see more and more of those things rolling out here over the next 18 months, and we should benefit from some of those discussions.
John A. Hayes  
*Chairman, President & CEO*

Yes, and it's not just the traditional beer, it's also spiked seltzers and other products like that, that are alcoholic extensions from the core beer business.

Operator

And our next question is from Edlain Rodriguez, UBS.

Unknown Analyst

This is [indiscernible] on for Edlain. In the food and aerosol business, do you believe we're done with the inventory restocking or destocking food? Or is there more of that going on?

John A. Hayes  
*Chairman, President & CEO*

No, that was largely a first quarter, because it carried over a year-over-year because that's how the pricing works.

Unknown Analyst

Okay. And then regarding the value over volume approach, how long do you expect to continue doing that? Or is that the long-term strategy there?

John A. Hayes  
*Chairman, President & CEO*

It's part of our long-term strategy.

Unknown Analyst

And then last one. You spoke considerably on the environmental concerns of plastic and why metal is favorable. Are you seeing that translate into direct -- I guess, the can taking away share from beverages that are typically in plastic and any progress that you [indiscernible]

John A. Hayes  
*Chairman, President & CEO*

Yes, absolutely. As I said, CSD cans, CSD here in the United States was up 2.5% in the first quarter. Dan mentioned in Europe that plastic has been on the hit list, not only in the U.K., which is ground zero today, but even in Russia, where they're banning larger sizes of PET. Dan also talked about the beverage can taking share from glass in the beer categories, down not only in Brazil, but also Argentina and other adjacent countries. So those are just a couple of quick proof points of what we were doing. It's based on our analysis. We believe, as we sit here right now, that the beverage can is the fastest growing substrate in carbonation beverages. I separate still water because PET is still growing in there. But in carbonated beverages, both on the alcoholic and nonalcoholic side, the aluminum beverage can is the fastest growing substrate in the world.

Operator

And our next question is from George Staphos, Bank of America Merrill Lynch.

George Leon Staphos
I want to come back to the beer question, because I've asked on custom cans, I've asked that for a while. Have you been surprised with the sort of longer tail in terms of some of these innovations showing up in can package and alcoholic beverages? Or is this what you normally would have expected if you go back to 2 years ago when some of this was initially being trialed?

**John A. Hayes**  
*Chairman, President & CEO*

Well, maybe I'll take the first stab and then turn over to Dan. Let's not forget that it's not just canned mega beer in the United States, it's all mega beer in the United States. And we look at the glass side as well, and it's equally soft there. Their supply chains are built on longer-cycle issues. So it does take longer than we would like. But having said that, maybe I'll turn it over to Dan. We have seen a lot of activity going on.

**Daniel W. Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

I think, George, the other thing just to keep in mind. I think you probably know this, but in the mega beer category in the U.S., you've also got vertically integrated assets from the two major players that they're going to leverage those as long as they can. And I think they're kind of waking up to, they need to be putting out new products that differ from the traditional beer category, and they need to do it in different channels with different packages.

**George Leon Staphos**  
*BofA Merrill Lynch, Research Division*

And I recognize this is more of a comment and one that maybe you initially can't piggyback on. But again, I'm a little bit surprised that we haven't seen more only because the volume trend in mega has been negative for a long time. And the example that you've seen in sparkling beverages that are nonalcoholic in terms of simulating growth from nontraditional packagings is pretty apparent. So anyway, but you're saying it's on the common. When will you start to see more of that in your volume do you think? You said 18, 24 months, but that's a long time. Is that something that shows up this year? Is it really more of a '19 and '20 phenomenon?

**Daniel W. Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

Yes, there will definitely be stuff that comes up this summer. The million dollar question is sort of to the magnitude of how does the end consumer believe in that product and purchase that product will be whether or not we have a significant volume lift or not.

**George Leon Staphos**  
*BofA Merrill Lynch, Research Division*

Turning to Europe. The performance was, it sounded like from your expectation, maybe a bit better than expected. You obviously had strong volume growth. On the cost side, can you give us some view in terms of how costs, the program that you've had underway performed over the course of the quarter. Was it a little bit ahead of your expectation? So I'm not asking for mark to market on synergies. But if it was better than expected, what was driving that? And I seem to remember there was a comment about SG&A reductions being more or less completed by '19. I just wanted to confirm that's what you said and obviously, as part of the Rexam program.

**Scott C. Morrison**  
*Senior VP & CFO*

Yes, I think Europe on the cost side is doing a very good job. They've had a program to get cost out, and they're tracking to that. There's more things to do, but they've had good success. They're also benefiting from some of the synergies.
original synergies that we baked into the deal. So I would say they’re performing pretty well.

Daniel W. Fisher  
Senior VP & COO of Global Metal Beverage Packaging

Yes, I would just say just on the operational side, one of the things that we've been really pleased with via the acquisition has been kind of the lean mentality that we acquired in really from the Rexam operational folks. And I think we've got two to three new Shingo-certified facilities over there. We're installing new supply chain software that's helping us kind of manage our freight and our supply chain better. And then the lean programs are slightly ahead. I mean, each of those aren't significant, but all of them added together, I think to Scott's point, Europe is really doing a nice job across-the-board on working all these efficiency programs.

Scott C. Morrison  
Senior VP & CFO

And George, as of being done in '19, I don't think we'll be done. I think we'll have completed a lot of what we wanted to do. But as you go through these things, you always find new opportunities. So there'll be more after '19.

John A. Hayes  
Chairman, President & CEO

Yes, I agree. Nothing has changed. Said another way, in that, George, nothing has changed on our expectations as we continue to drive SG&A. We are benefiting a little bit from pension this year and a couple of other little things, but we're also in the midst of transitioning to this global shared service concept. And nothing has changed relative to what we've spoken about in the past.

George Leon Staphos  
BofA Merrill Lynch, Research Division

And maybe one last one here, and I'll turn it over. And I recognize Europe is a more seasonally peaked region than North America, but -- and it's only the first quarter. Is Europe, at this juncture, tracking better than you would have expected back in February, when you last gave guidance? And then my last question, sorry about that. Just can you remind us what kind of cash outlays might you entail or put out for the Rexam integration this year?

Daniel W. Fisher  
Senior VP & COO of Global Metal Beverage Packaging

For Europe, I would say, George, that we saw some favorable mix just because of our regional positioning and footprint. So those benefits I'm not entirely sure will continue for the balance of the year. I think more we expect to be kind of in line with where we thought for Europe. But certainly, improved performance in Russia coming out of the gate was a little better than we anticipated.

Scott C. Morrison  
Senior VP & CFO

And for the cash outlays on the Rexam integration, we're not really looking at it that way, George. This is one integrated business now. So we're going to spend north of $600 million in CapEx. We got some severance things that are going to get paid for the closure that we announced in Europe. This is one business now, we're not looking at it as synergy capture spending or like that. It's just Ball.

Operator

And our next question is from Chris Manuel, Wells Fargo.
Christopher David Manuel  
Wells Fargo Securities, LLC, Research Division

I wanted to ask a question here. Look, you talked about in your press release, 40% of your mix now is specialty can. Could you maybe give us a sense as to how that is different by geographies? And as you think about -- I think you've only talked about doing better with some of the specialty products and the margins or our profitability versus others. You also referenced some contract negotiations and things that will be upcoming. Is that something you think can continue? Or do you anticipate perhaps some convergence there? Or how might we think about that in relation to the mix and stuff as well?

John A. Hayes  
Chairman, President & CEO

This is John. Why don't I take the first part of it and then Dan could talk about. Because I think it's core, this whole push of specialty is a core part of our strategy and you have to understand that. So it flows through everything we're doing, from contract renegotiations to our footprint, to the supply chain optimization Dan was talking about. When you go by region, when you think about it North America, it's in the mid-to upper 30s. It was a little bit less in the first quarter, but don't read into that too much because it's just seasonally slow. But generally speaking, in North America, it's kind of upper 30s, and it's growing quite nicely off a big base. Europe is about the same. And we think we probably have a little more incremental opportunity because a lot of our specialty in Europe is with a very important energy drink customer. And we think the other parts of the market have greater ability. South America is probably right around 50%. And we've see a lot of growth there, Argentina isn't nearly as far along with that and the other countries outside of Brazil, but I think they're catching up quickly. So the growth of that is moving very quickly. And then you go into places in like China, which is probably close to 10%, but it's growing quite quickly. And then you go to AMEA, where it's 75-plus percent. So in total, it's in that range of approximately 40%. And the question we often get asked is, do you think you can get to 50%? Short answer is yes, we do. It's just a function of time, and that function of time is partially dependent, as Dan said, on some of these new products and the receptivity of these new products and the push by our customers. But rest assured, this is core and part and parcel of our strategy.

Operator

And our next question is from Adam Josephson with KeyBanc.

Adam Jesse Josephson  
KeyBanc Capital Markets Inc., Research Division

Dan, just one question on Brazil. I think you mentioned the market was up about 9%. And presumably, that's a function of consumption growing and cans taking share. What I'm a bit just confused by is one of your glass competitors was up 30% in Brazil, and they said they were up 35% in beer. So it doesn't seem obvious that they're losing share to can. So can you just kind of help me understand what you think is going on from a market share perspective there? What you think actual beer consumption was up in the quarter? And then what your expectations for the Brazilian bev can market are for the year relative to the 9% up in 1Q?

Daniel W. Fisher  
Senior VP & COO of Global Metal Beverage Packaging

Yes, actual beer consumption was slightly down. So that's probably not going to help your calculation there if you're reverse engineering this. But the problem with returnable glass is, I mean, are they restocking inventory? I mean, I can't answer that question. I don't know what that is. For us, it's all incremental sales. And from what we've seen, this is not just on the mega beer or the big players in the market. There's an awful lot of craft beer now. There's an awful lot of different European malt-based products. All of those are coming in 100% cans. And they're taking share, and they're taking share from glass. I think that's where the genesis of my comments are coming from. I can't comment though, Adam, on the returnable glass mix or the restocking of inventory or the breakage or any of that in the supply chain for some of the beer folks.
So if consumption was slightly down, it doesn't sound like the economy is recovering that robust, at least, based on that. I mean, would you think otherwise? Or I'm just trying to make sense of that, because everyone is talking about the improving economy, but that wouldn't seem supportive of that notion?

John A. Hayes  
Chairman, President & CEO

Well, yes, it is an improving economy, but it's not a healthy economy. The GDP 18 months ago was down 3%, 4%, and now it's flat. Flat is a heck of a lot better than down 3% or 4%, but it's not like it's growing 3% or 4%. So yes, think of it in those terms.

Adam Jesse Josephson  
KeyBanc Capital Markets Inc., Research Division

And just one last one on Brazil, John or Dan. Just so if the bev can market was up 9% in the quarter, any rough expectations for the year compared to that 9% in 1Q?

John A. Hayes  
Chairman, President & CEO

I think Dan alluded to it earlier. We're entering now a seasonally slow period. And the visibility towards the second half in the second half of this year, particularly in the fourth quarter, that is the further you go out in these more emerging and developing economies, the more difficult it is. And that's our only hesitation. We continue to think the can is going to do very well. But the election is coming up in the fall in Brazil, and that will play an important part to the overall economic mood of the country.

Adam Jesse Josephson  
KeyBanc Capital Markets Inc., Research Division

And just one on the value over volume approach that you mentioned earlier. I don't think you've been quite as explicit about this on previous calls. So can you just kind of help me with any kind of change in approach or at least why you're speaking more explicitly about this than you have on previous occasions in the U.S., obviously?

Daniel W. Fisher  
Senior VP & COO of Global Metal Beverage Packaging

Well, it's specific to Q1 results year-over-year for North America, why we're down 3% versus the market being flat. That was a call out that was required for this call.

John A. Hayes  
Chairman, President & CEO

Yes, Adam, I think ever since we closed on the acquisition, we've talked about value over volume. And I remember talking about, it isn't just price, it's about tighter order call-offs. It's about helping our customers becoming more efficient using cans in their lines. It's about mix. The 12 ounces, very competitive. And where we compete with others, we're trying to be leaders, but you got to be realistic in terms of your customer alternatives. And what we've tried to do over the past couple of years and continue to do is actually help our customers expanded their profit pool and their product so that they can win. And whether it's better graphics on the craft beer segment, different can sizes that we've talked about for CSD, new can formats, sparkling water, energy drink or even on the beer side that we talked 10 minutes ago, and bottles play a part of that. If we can help our customers grow their profit pools, it will help us also.
Operator

And next question is from Chip Dillon with Vertical.

Clyde Alvin Dillon
*Vertical Research Partners, LLC*

First question has to do with the very small but volatile business that we can sort of back into, which is AMEA. And it looked like it had really fallen off a lot in the first quarter. Should we expect the next -- I get to $3 million in EBIT, should it stay in that ballpark for any -- or change much for the rest of the year, quarterly?

Daniel W. Fisher
*Senior VP & COO of Global Metal Beverage Packaging*

I would say from a year-over-year standpoint, you'll have a more normal pattern in Q2. As you may recall, and we mentioned this last year, the Saudi carbonation tax took place in Q2 last year. And so that hurdle continued all the way through Q1. But we will see a normalized pattern in the back half of the year. We saw a little bit weaker volumes in Egypt versus our expectations, coming out of the gate. But those are trending back to more in line with our expectations and our guidance. It's still a tough market. The macro environment is not great in there, and the carbonation taxes obviously have increased the price to the end consumer, but we still like that region. It's profitable. And we think, over the next two to three years, we'll return back to kind of a more normal demand profile versus what we acquired.

Clyde Alvin Dillon
*Vertical Research Partners, LLC*

Okay, that's helpful. And looking at the South American segment, you mentioned some of the volume shifts that will make the second half comps a lot tougher. And when we look at, again, the income that you expect from that region, whether it's EBIT or EBITDA, do you think that, that will still be above on a year-over-year basis in the second half? Just want to get a view of sort of how much compression you see after what was obviously a really great first quarter.

John A. Hayes
*Chairman, President & CEO*

No, that's right. Remember that we said on the last conference call, we expected it to be down year-over-year. We did have a first quarter that was much stronger. We expected it to be strong, not as strong as it was. So it exceeded our expectations. But again, the greatest uncertainty we have is the second half of the year. As we go in the second quarter, it's going to slow down. We had strong second quarter in South America last year. So relatively flattish is probably what we expect right now. But it's really the second half of the year which we don't have enough visibility into, because, as Dan mentioned, the World Cup, which is an off-season event down there, that could be a plus or a minus depending on how far a South American team is going. And then we've got this election coming up. And as we all know, when you have elections in Brazil in particular, the government spending that happens before and after play a meaningful impact to the overall economic health.

Scott C. Morrison
*Senior VP & CFO*

And we also have the benefit of the ends deal from the sale of the business in the first half of the year that goes away in the second half.

Clyde Alvin Dillon
*Vertical Research Partners, LLC*

Okay. And then just the last one. As we think about the free cash flow, both this year and next year, Scott, can you just update us as to where we expect the networking capital, either source or investment to be in that calculation?
Scott C. Morrison  
Senior VP & CFO

Well, there's still a bit of a benefit this year that we'll experience to get to the $900 million. We're going to spend more capital this year. And then, in '19, I think we'll probably spend less capital, because we've got a couple of big projects that we're building that will end of this year. And we expect a nice pop in earnings. And so it's really too early to call how much working capital will be part of that $1 billion of free cash flow in 2019.

Operator

And our next question is from Arun Viswanathan from RBC Capital Markets.

Arun Shankar Viswanathan  
RBC Capital Markets, LLC, Research Division

Just curious about the competitive landscape. There's been some issues with volumes, I guess, in developed markets. Are you guys seeing any issues with customer behavior as far as raising prices -- or I mean, not raising prices, but pushback against prices that you're charging for metal?

John A. Hayes  
Chairman, President & CEO

Well, remember, metal is a complete pass-through and so that we don't really control that metal. And every customer is different. Some have hedged long term, some have done it at the spot rate and everything in between. So I don't think, number one, we can generalize anything. And number two, all I can tell is really that is we work with our customers to optimize that. But the metal fluctuations, both positive and negative, when they occur, accrue to the benefit or detriment of the customer.

Arun Shankar Viswanathan  
RBC Capital Markets, LLC, Research Division

Yes, I didn't really characterize it correctly. I meant more on the conversion side, I guess. Has there been any pushback as far as you increase your penetration in specialty that rates are going down or changing in mix, i.e. non-12-ounce commanding any difference on premium?

John A. Hayes  
Chairman, President & CEO

No, nothing has changed from what we talked about in the past. As I mentioned earlier, though, what we're trying to do is actually help our customer's margin up their business by using specialty. And I think relaunch of a certain soft drink in the first quarter this year is a great proof point of that. When you look at the average retail selling price of the cans that they're using now versus the cans they were using before, it's been a great benefit to them.

Arun Shankar Viswanathan  
RBC Capital Markets, LLC, Research Division

And then lastly as a follow-up. Maybe you can just comment on category growth in nonbeer, water, tea, specialty areas, energy drinks, and so on. Have those kind of remained relatively robust? Or any changes you've noticed in those categories?

Daniel W. Fisher  
Senior VP & COO of Global Metal Beverage Packaging

No fundamental changes. Obviously, the star in the group is the sparkling water category. I think teas is kind of a
nominal growth opportunity. You see most of that through the peak season in the summer months. But craft beer, really good growth, continues in that 20% to 30% range, and that's mostly a substrate penetration, but also end consumers shifting their preference to that. But yes, we haven't seen any changes to the very positive trends in those categories, and we're still bullish on those for the foreseeable future.

Operator

And we have a follow-up question from Chris Manuel, Wells Fargo.

Christopher David Manuel
Wells Fargo Securities, LLC, Research Division

I just wanted to follow-up on a couple different things. One, I think -- actually, part of what I was trying to get at is you addressed the changes in mix for specialty, but thoughts about potential profitability each of those converging through time. Could you maybe go back and address that as well?

John A. Hayes
Chairman, President & CEO

I'm not sure I follow. Can you please elaborate a little bit more?

Christopher David Manuel
Wells Fargo Securities, LLC, Research Division

Yes, sure. I mean, I think historically, you guys have talked about the specialty cans having better profitability or conversion margin or what have you than do more standard can and the thoughts that through time, as that becomes a bigger piece, that potentially converging.

John A. Hayes
Chairman, President & CEO

The short answer is, no. We see nothing, and we don't necessarily expect for the reasons I said before. We're helping our customers grow. One of the things that we need to do a better job of, we make it sound like there's two cans, there's just a standard can and there's a specialty can. We make over 32 different sizes here in North America alone. Each one of those has a different contribution margin profile, having to do with volume, having to do with line loading, having to do with a whole host of things that partially are in our control about how we leverage our footprint and the ability to make multiple sizes in multiple locations in multiple geographies, combine that with the volume demand that we have from customers, both on a regional and national basis. You put all that together and it does create more complexity in our system. And given that we have a footprint that we can line load that much more effectively than we believe anyone else can, we're going to continue to do that, and we're going to continue to push for another 32 different can sizes if that helps our customers grow their profitability. So yes, you always see compression as volume grows and you have more competition in any given size. But when you're making over 30 different sizes, it's a very difficult question to answer.

Christopher David Manuel
Wells Fargo Securities, LLC, Research Division

You did a good job. Second question, I wanted to switch gears a second and come back to earlier comments regarding recycling and the value of -- value proposition of a can versus glass or versus plastic. Have you seen or have had discussions with customers in particular regarding their change of preference for filling capacity? Meaning, that they're investing more in filling capacity for cans or specifically, even abandoning or disinvesting in filling capacity for other substrates?

John A. Hayes
Chairman, President & CEO
For example, in the United States and Europe, we really haven’t, in the United States, we have not. There is excess filling capacity for all types of products here in the United States. In Europe, yes, we do have a small level. But to Dan's point, down in South America, off the top of my head, I can think of four or five new can filling lines going in some of these regions that we’ve been experiencing very strong growth. So we have seen, I don’t know if you want to call it a shift, but the incremental investment from the filling side has been going in the can.

Christopher David Manuel  
Wells Fargo Securities, LLC, Research Division

Okay, that's very helpful. And then last question I had on the aerospace side. Look, terrific growth in the backlog. It wasn’t that, that long ago that it was well under $1 billion. How do we see that beginning to monetize over the next couple of years? So how should we think about both revenue growth and profitability growth in that segment?

John A. Hayes  
Chairman, President & CEO

Well, I think, number one, profits will follow revenue. So I wouldn't expect any material margin expansion or contraction. And I think this past quarter was a good representative. I think the margins were relatively same. On the revenue line, we grew double digits, low double digits. I think that's a good way to be thinking about it. One of the things that gives us confidence, as you know, that's a long cycle business. So the visibility we have into that, literally, we can go out three, four, sometimes even five years and look at the visibility. Our won not booked, which is those projects that we have won, but we have not booked in the backlog because they haven't been funded yet, is at record highs as well. And that's what gives us confidence. As those programs get funded and move into our contracted backlog, that’s going to extend out this growth pattern that we see.

Operator

And gentlemen, those are all the questions we have.

John A. Hayes  
Chairman, President & CEO

Terrific. Well, we appreciate all the help here, and we appreciate all the questions. We look forward to speaking to you at the end of our second quarter. And as a reminder, we are going to have a Investor Day out here in Colorado in the very beginning of October. And if you have any questions, feel free to reach out to Ann Scott on that. Thanks, everyone.

Operator

And ladies and gentlemen, that does conclude our call for today. We thank you for your participation, everyone. Have a great rest of your day. And you may disconnect your line.
Forward-Looking Statements

This transcript contains "forward-looking" statements concerning future events and financial performance. Words such as "expects," "anticipates," "estimates," "believes," "targets," "likely" and similar expressions typically identify forward-looking statements, which are generally any statements other than statements of historical fact. Such statements are based on current expectations or views of the future and are subject to risks and uncertainties, which could cause actual results or events to differ materially from those expressed or implied. You should therefore not place undue reliance upon any forward-looking statements and any of such statements should be read in conjunction with, and, qualified in their entirety by, the cautionary statements referenced below. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Key factors, risks and uncertainties that could cause actual outcomes and results to be different are summarized in filings with the Securities and Exchange Commission, including Exhibit 99 in our Form 10-K, which are available on our website and at www.sec.gov. Additional factors that might affect: a) our packaging segments include product demand fluctuations; availability/cost of raw materials; competitive packaging, pricing and substitution; changes in climate and weather; competitive activity; failure to achieve synergies, productivity improvements or cost reductions; mandatory deposit or other restrictive packaging laws; customer and supplier consolidation, power and supply chain influence; changes in major customer or supplier contracts or a loss of a major customer or supplier; political instability and sanctions; currency controls; changes in foreign exchange or tax rates, including due to the effects of the 2017 U.S. Tax Cuts and Jobs Act; and tariffs or other governmental actions in any country affecting goods produced by us or in our supply chain, including imported raw materials, such as pursuant to section 232 of the U.S. Trade Expansion Act of 1962; b) our aerospace segment include funding, authorization, availability and returns of government and commercial contracts; and delays, extensions and technical uncertainties affecting segment contracts; c) the company as a whole include those listed plus: changes in senior management; regulatory action or issues including tax, environmental, health and workplace safety, including U.S. FDA and other actions or public concerns affecting products filled in our containers, or chemicals or substances used in raw materials or in the manufacturing process; technological developments and innovations; litigation; strikes; labor cost changes; rates of return on assets of the company's defined benefit retirement plans; pension changes; uncertainties surrounding geopolitical events and governmental policies both in the U.S. and in other countries, including the U.S. government elections, budget, sequestration and debt limit; reduced cash flow; ability to achieve cost-out initiatives and synergies; interest rates affecting our debt; and successful or unsuccessful joint ventures, acquisitions and divestitures, including with respect to the Rexam PLC acquisition and its integration, or the associated divestiture; the effect of the acquisition or the divestiture on our business relationships, operating results and business generally.

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