



# EVA<sup>®</sup>

# Measuring our Long-Term Success

Revised March 12, 2019

*Charts are only illustrative for use in helping explain EVA via these tutorial slides and should not be used for deriving exact EVA dollar amounts or historical correlations in any particular year or period.*

# EVA<sup>®</sup> at Ball Corporation

Adopted EVA<sup>®</sup> incentive compensation in 1992

## Overall Objective:

- Maximize shareholder returns

## EVA<sup>®</sup> Plan Objectives:

- Better align incentive compensation with shareholder value creation
- Break the link between operational planning and incentive compensation planning – “the negotiation”; payouts based on “actuals” versus “budgets”
- Provide a longer-term perspective to managing our businesses
- Creates engaged, empowered workforce



# The EVA<sup>®</sup> Formula

$$\text{EVA}^{\text{®}} = \text{Net Operating Profit After-Tax ("NOPAT")} \text{ minus } \text{Capital Charge (the Amount of Capital Invested by Ball multiplied by Ball's After-Tax Hurdle Rate of 9\%)}$$

EVA<sup>®</sup> is the residual economic wealth to Ball and its shareholders after paying (1) taxes and (2) the required rate of return for the use of capital invested in our business.



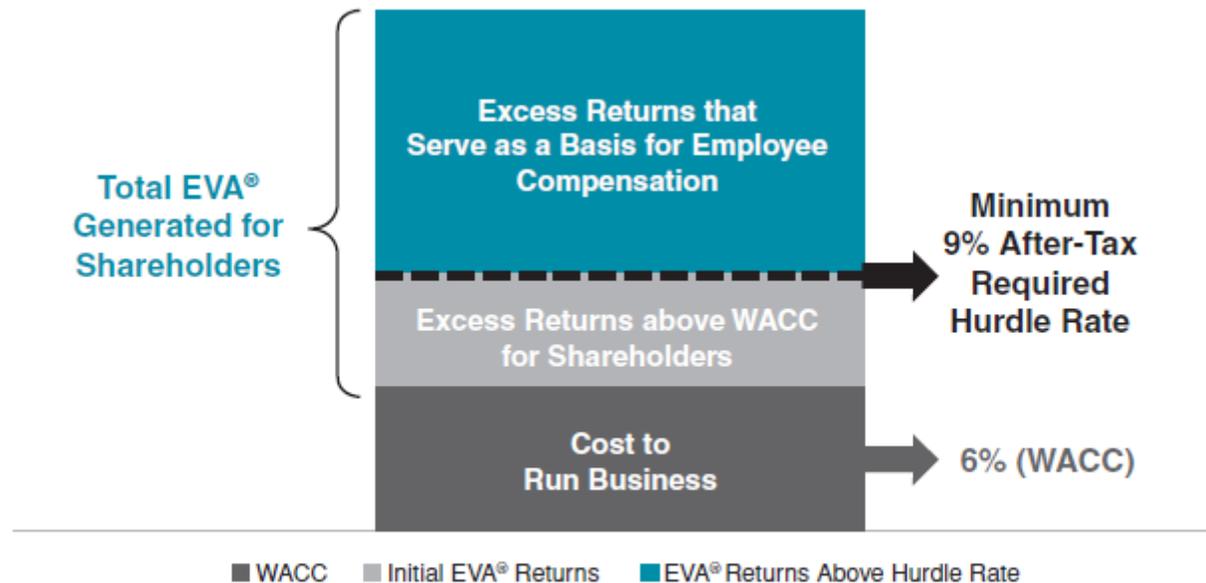
# Ball's EVA<sup>®</sup> Plan Governance

- EVA<sup>®</sup> Committee – reviews and approves EVA<sup>®</sup> calculations and related adjustments based on the plan and historical precedent of over 20 years, sets leverage factors, EVA<sup>®</sup> tax rates, capital charge rates
- The Board of Directors reviews and approves changes to the Plan proposed by the EVA<sup>®</sup> Committee
- Set to level the playing field, so that each segment has an equal chance to increase payout on incremental improvement



# Formulaic EVA<sup>®</sup> Target Setting

- Ball Corporation follows a best practice approach to short-term incentive goal-setting by using a consistent, objective, formulaic methodology that continuously focuses on EVA dollar growth. This process is core to EVA mechanics and the same formula has been used by Ball for more than 25 years. Ball finds that this methodology removes the subjectivity that is sometimes found in other goal-setting methods, avoids unnecessary internal budget negotiations, requires consistent incremental value creation, allows for transparency with employees and shareholders, and enables direct employee engagement in achieving desired results that are aligned with shareholder interests.



# EVA<sup>®</sup> Target

- **EVA<sup>®</sup> Target** is the sum of the target for the prior year's EVA<sup>®</sup> plus or minus 1/2 of the difference between the prior year's actual EVA<sup>®</sup> and the prior year's EVA<sup>®</sup> target

	Increasing Target	Decreasing Target
Current Year EVA Target	\$ 10.0	\$ 10.0
Current Year Actual EVA	<u>\$ 20.0</u>	<u>\$ 5.0</u>
Better (Worse) than Target	\$ 10.0	\$ (5.0)
1/2 of delta forward	\$ 5.0	\$ (2.5)
Add to current year target	<u>\$ 10.0</u>	<u>\$ 10.0</u>
New target for following year	\$ 15.0	\$ 7.5



# EVA<sup>®</sup> Mechanics – Operational Matters

Below are ways we can improve EVA\$ in our operations:

## NOPAT

- Cost Reductions
  - Competitive pricing review in service contracts
  - Utilize equipment/systems more efficiently (faster, less resources)
  - Providing operations visibility into waste and best practices
  - Optimize through best practices and innovation
  - Reduce waste and spoilage

## Invested Capital

- Optimize capital spending (improved infrastructure spend)
- Utilize or eliminate idle equipment and/or systems (rationalization)
- Reduce inventory levels



# EVA<sup>®</sup> Mechanics – Commercial Matters

Below are ways to improve EVA\$ in our commercial efforts:

## NOPAT

- Increase Revenues
  - Grow customer volume, including through innovation
  - Cost pass-through (inflation and understanding of actual costs including overhead)
  - Improve pricing
- Maximize Profitability
  - Lower costs of materials

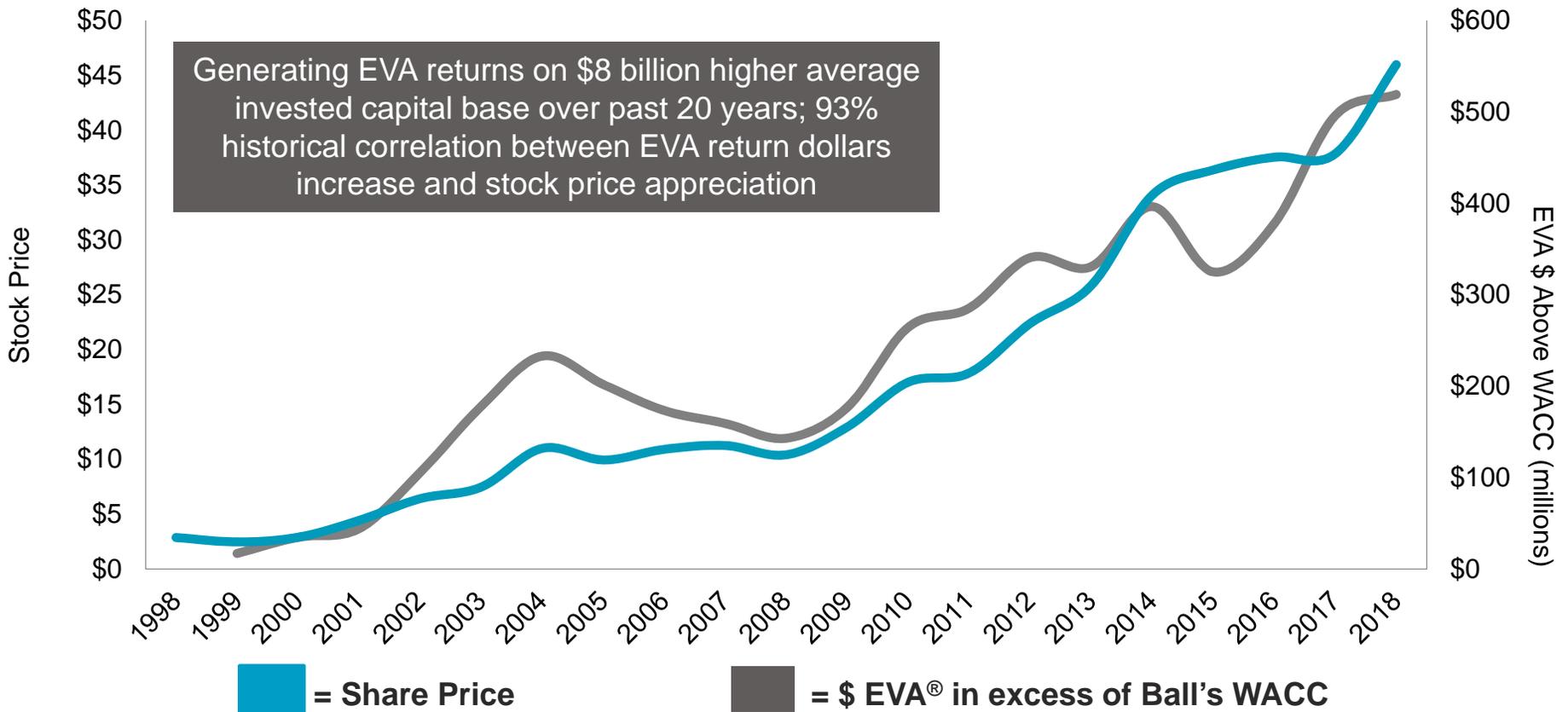
## Invested Capital

- Reduce Working Capital
  - Reduce Accounts Receivables (customer terms)
  - Increase Payables (service terms)
- Spend Ball money like it was your own
- Invest in growth capital projects for returns greater than 9% after-tax



# EVA\$ Improvement Drives Share Price Higher

Sustainable EVA® Growth Above WACC Across Increasing Average Invested Capital Base Drives Long-Term Value Creation



Stock prices adjusted for the February 22, 2002, August 23, 2004, February 15, 2011 and May 16, 2017, two-for-one stock splits. Average invested capital base grew from approximately \$2 billion in 1998 to approximately \$10 billion in 2018. Chart reflects the 6-month, partial-year increase associated with the Rexam acquisition which closed on June 30, 2016, net required divestment; therefore, 2017 reflects the full-year notable increase in returns on the company's average invested capital base. EVA\$ historical correlation calculated over the 1999 to 2018 period. Ball WACC (weighted average cost of capital) approximately 6% at year-end 2018. Chart is only illustrative for use in helping explain EVA via these tutorial slides and should not be used for deriving exact EVA dollar amounts or historical correlations in any particular year or period.

