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Operator

Ladies and gentlemen, thank you for standing by, and welcome to Ball Corporation Second Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded, Thursday, August 2, 2018. I would now like to turn the conference over to John Hayes, CEO. Please go ahead, sir.

John A. Hayes
Chairman, President & CEO

Thank you, Malika, and good morning, everyone. This is Ball Corporation's conference call regarding the company's second 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 second 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 reconciliation of comparable operating earnings and diluted earnings per share calculations.

Now joining me on the call today are Scott Morrison, Senior Vice President and CFO; and Dan Fisher, Senior Vice President and Chief Operating Officer of our global beverage business. 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 the outlook for our company.

Momentum continues across our businesses. Comparable operating earnings were up 11% year-over-year as we continue to execute our strategies of achieving better value for our products through higher returns for our standard products and higher growth for our specialty products, aggressive cost-out programs in both our fixed and variable cost and completing several large growth capital projects. Our comparable operating earnings improvement was despite a number of headwinds, including higher U.S. freight rates; an 11-day Brazilian truckers’ strike that affected shipments in May, soft domestic U.S. beer volumes; and to a smaller extent, currency.

Our aerospace business continued to add to it already record high backlog and its prospects have only grown with time. In addition, in this quarterly announcement, we subsequently closed on the sale and formation of a joint venture for our U.S. tinplate food and tinplate aerosol business to Platinum Equity, where we received approximately $600 million in after-tax cash proceeds and will retain a 49% interest going forward. This transaction was the right thing for the business and for Ball Corporation, and it will allow us to immediately free up capital that was generating below our 9% after tax return on capital threshold while retaining future upside in the business. The transaction does not include our global aluminum aerosol business, which continues to win around the globe relative to other substrates.

Our LTM comparable EBITDA through June 30, 2018 was $1.87 billion, and we are making progress toward achieving both our EBITDA and free cash flow targets in 2018 and 2019. Our deleveraging has been ahead of schedule, and we've been actively repurchasing our stock and will continue to do so for the foreseeable future, a commitment we made when we embarked upon the global beverage can acquisition.

As we continue to leverage our scale to further promote aluminum packaging growth through sustainability initiatives, I invite you to read our biannual sustainability report scheduled to be released on August 7. We have an obligation to
educate consumers, customers, retailers and other stakeholders that aluminum packaging is the most sustainable package from an environmental, social and economic perspective and the choice for consumers of all generations. Our products are on the right side of the environmental debate, and that is certainly a tailwind for Ball, not only in beverage packaging, but also in our aerospace business, where much of our civil work is focused on creating and disseminating environmental intelligence.

Now moving on to the results for the second quarter. Our South American business delivered solid performance despite the truckers' strike in Brazil, which cost us approximately $10 million in comparable operating earnings. Our European business continued to sequentially improve on its performance through cost-out and volume growth. Though our lower North American business continue to incur out-of-pattern freight and start-up costs related to our new Goodyear Arizona facility and lower volumes due to softness in domestic beer, other categories like CSD, craft, sparkling water, import beer, energy drinks, wine and other emerging categories continue to grow. And we've begun to execute on our value over volume strategy to address the long stated need that our standard products do not generate the appropriate returns for the capital employed.

Anticipated cost savings were also realized in our G&A. Our Spain and Arizona startups and the plant optimizations in Birmingham, Alabama, and Cuiabá, Brazil are complete. Global aluminum aerosol volumes are up 5% in the quarter. And our tinplate food and aerosol asset sale was completed, as I mentioned earlier this week.

Lastly, our aerospace business continued to grow its contracted backlog and hiring continues at a very rapid pace. While the hiring surge and ramp-up of new programs had a bit of a drag in the second quarter, we expect material operating earnings improvement over the coming quarters.

So despite continued U.S. domestic industry volume declines and volatile volumes in AMEA, the strength of our business, its strong cash flow and EVA returns and the continued progress on our efforts and initiatives certainly offset any such headwinds. We remain confident that certain customer-specific volume softness will in no way impact our ability to achieve our near-term targets.

Within the last two weeks, we also received the good news that Ball was awarded exclusion from U.S. aluminum tariffs for certain countries' can sheet supply. Great work done by our sourcing and government affairs teams. As we go forward, we will continue to execute our long-term strategy of growing earnings over time through increasing revenues above our cost growth, driving more mix shift to specialty containers, actively managing our supply and demand, further developing innovative aluminum packaging products and expanding aerospace with an EVA and return to value to shareholder mindset. As fellow Ball shareholders, investors can count on us being good stewards of our capital and cash flow.

All in, excellent execution by our global teams. Thank you to all of our employees for delivering on our commitments while dealing with the complexity of numerous projects and process initiatives to position our company for consistent long-term growth and strong free cash flow. 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 9% year-to-date. As John mentioned, it was a busy and rewarding quarter across global beverage. Our team completed two plant start-ups on-time and on budget, and we kept up with strong demand for beverage cans across Europe, Russia and Brazil during World Cup despite a few transitory hiccups outside of Ball's control, like transportation strikes and brief CO2 shortages. Our global specialty mix remains at approximately 40% and network optimization activities to balance standard can production and geographically position the broader specialty can portfolio in the U.S are right on schedule, with Birmingham ceasing end production at the end of the quarter and Chatsworth and Longview slated to cease production by the end of third quarter. All of this is possible given the successful startup of Goodyear's two lines in the first half and the ongoing
startups of lines three and four by the end of August

Note that the U.S. network optimization just described results in no new net capacity. And Scott will address the CapEx to fully scale out the Goodyear plant. European process transformation projects to further improve our cost structure continue and additional network optimization through the closure of our one line, Cuiabá, Brazil plant will allow us to leverage equipment elsewhere in the South American network. Ultimately, we are aligning with the right customers and markets, expanding into new products and capabilities via our ever-expanding offering of specialty can sizes, leveraging our technical know-how around predictive maintenance, lightweighting and process improvement, and positioning our products as the most sustainable in the world.

The economic value creation the can brings our customers is real and growing. Moving to the individual segments. Ball's North American segment profits were up slightly despite shipments being down just over 3%, all consistent with our first quarter commentary. Growth in Mexican imports, craft, sparkling water, wine and energy is very healthy, but just wasn't enough to offset domestic beer volume declines, roughly 7 million of out-of-pattern freight and roughly $5 million to $7 million of startup expense in the quarter. Hats off to our North America team. There have been more headwinds than tailwinds this quarter, but that will flip in the second half. July beverage can shipments are strong, and our supply-demand balance is tight. With this more favorable volume trend and a moderation of startup costs and out-of-pattern freight, the segment is positioned for notable growth in the second half and will also benefit from fixed cost savings in late 2018 and beyond, following the previously mentioned plants closing late this quarter.

Our South American business wasn't able to claw back all of the impact of the 11-day truckers' strike. But given the scale and size of our Brazilian operations performing $3 million lower in the quarter versus 2017 was an accomplishment

Segment shipments grew nearly 5%, and as we've teed up since late last year, underperformed Brazilian industry trends in the quarter. Overall beer consumption trends in Brazil improved and our customers continue to emphasize cans across South America. Our business is positioned well for 2019 and beyond. The timetable for expansions in Argentina, Paraguay and Chile are on track, and we are excited about the can continuing to be embraced by customers and consumers across South America.

As we have acknowledged the past couple of quarters, 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. Tougher year-over-year volume comparisons and our value over volume response that played out late 2017. Thanks again to our South American colleagues. We appreciate how effectively the team responded to the truckers' strike and how quickly the business got back to normal.

The European business earnings were up 14% year-over-year and once again saw mid-single-digit volume growth, led by Russia and Continental Europe. Our new Spain facility is shipping cans and near and long-term initiatives to get segment performance back to where Ball's legacy business was are on track. The transformation projects are progressing nicely and will contribute to planned G&A savings in 2019.

In AMEA, demand volatility remains. Saudi continues to be difficult. And on the positive side, we are seeing a better operating and demand environment in Turkey and India. Our China business continues to be cash flow positive, and we'll continue to exercise a disciplined approach in this country.

In summary, significant projects are up and running. Supply-demand is tightening and contract renewals are on the horizon. Thank you again to all of our teams around the globe. You're doing a great job. With that, I'll turn it over to Scott.

Scott C. Morrison
Senior VP & CFO

Thanks, Dan. Comparable second quarter 2018 earnings were $0.58 versus $0.53 in 2017. Second quarter diluted earnings per share reflect solid operational performance across our packaging businesses 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 $6.8 billion, $200 million lower than first quarter and after a net share buyback of $175 million through the first 6 months. For 2018, we expect CapEx to be in excess of $700 million as excellent progress on major projects allows us to bring spending forward. The increased CapEx, along with the timing of the sale of the U.S. steel food and steel aerosol businesses at the seasonal peak of the working capital build, will put our free cash flow in the range of $800 million for the full year.

Full year 2018 interest expense is now expected to be just above $300 million. The 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 will just be under $110 million for the full year 2018.

Keep in mind that due to the sale of our steel food and steel aerosol assets versus the timing of using the proceeds to repurchase shares, it will be slightly dilutive to the second half earnings, likely in the range of $0.05. Prospectively, on a full year basis, the transaction will be neutral to slightly positive relative to diluted earnings per share due to the incremental share repurchase and definitely positive to EVA dollar generation in 2019.

The cash flow is strong. And year-to-date through yesterday, we have repurchased 8.34 million shares or $318 million worth of our stock, just over a 2% reduction in diluted weighted average shares outstanding. And by year-end, we expect our stock buyback to approach $700 million in addition to paying out roughly $140 million in dividends. It's exciting to be able to ramp up our return of value to shareholders. With that, I'll turn it back to you, John.

John A. Hayes
Chairman, President & CEO

Great. Thanks, Scott. Our aerospace business reported higher revenues and slightly lower second quarter operating earnings results, driven by solid contract performance and the continuing ramp-up of new contracts, offset by incremental labor costs while we rapidly scale-up our labor base. Our staffing levels continue to increase and year-to-date, we've hired approximately 540 new employees and anticipate adding another 200 to 400 employees over the next 12 months. The aerospace team has done an excellent job managing this large onboarding process 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.

With contracted backlog at record levels and our won not booked backlog at $4.3 billion, the future looks bright for aerospace for the next three to five years. And as I mentioned earlier, the compressed timing of onboarding such a large number of new employees temporarily compressed second quarter earnings, but we expect significant and material operating earnings improvement over the coming quarters.

Now as we look forward for our corporation, we are on track to achieve our targets. We're actively managing and oriented our asset base with an EVA accretive approach. We are leading the charge to ensure aluminum packages for beverage and aerosol, the most sustainable packages on the globe. And our aerospace business is operating from a position of strength as we ramp up and scale-out our people, processes and infrastructure. It's been over two years since we closed on the largest acquisition in our company's 138-year history. We've delivered through some pretty interesting global economic and political dynamics. It's time to look beyond 2019. And with that in mind, we are having our investor field trip in Colorado on October 1 and 2. So please reach out to Ann Scott if you're interested in meeting our broader team and learning more about the "and beyond." For now, our balance sheet leverage
is where we want it, the capital investments have been made, we're taking seriously the opportunities afforded us through our commercial manufacturing and supply chain activities, the outlook is on track and we're a buyer of all stock. There's probably not much more to say. So with that, we'll turn it over to Q&A. Malika, we're ready for questions.
Question and Answer

George Leon Staphos  
BofA Merrill Lynch, Research Division

I'll ask a few questions and turn it over and try to come back. I guess, in terms of the outlook and guidance in relation to the transaction with Platinum, I think you mentioned, John, that, or Scott, that the back half of the year will be diluted about $0.05 just because of timing and yet you're maintaining your outlook for '19, recognizing I'm shifting years a bit here. What within your ongoing fundamentals, your integration of Rexam, is going sufficiently well and you maintain the guidance even though this is a somewhat dilutive transaction initially anyway to earnings and to cash flow?

John A. Hayes  
Chairman, President & CEO

Yes, George, why don't I take the kind of '19, then I'll turn it over to Scott to give more color on 2018. But when we started a couple of years ago, we talked about the $2 billion and $1 billion in '19, and that included our tinplate business, as you know. As part of the transaction, it was announced that for the fiscal year 2017, it reported EBITDA of about $78 million. And as you know, '17 was not a good year in that business. So there was some growth. So embedded in the $2 billion was somewhat south of $100 million of EBITDA that we just divested. But despite that, things are going well. We are accelerating some of the capital that we're going to be able to generate that incremental value in 2019. And so we think we can close that gap and still maintain the $2 billion of EBITDA guidance and $1 billion of free cash flow despite losing just under $100 million of EBITDA and equivalent free cash flow from the food and aerosol business.

Scott C. Morrison  
Senior VP & CFO

And the dilutive nature of the transaction is really just timing because we'll start buying stock. We've got a lot of stock to buy in the back half of the year. And once we get to the end of the year, it should all be trued-up so on a full year basis it really won't be diluted going forward.

George Leon Staphos  
BofA Merrill Lynch, Research Division

Okay, appreciate that. I think next question I wanted just to review is contracts, commercial efforts and the like. And there are a couple of more, I think, references to value over volume in the press release. I know you can't go contract by contract or give a lot of detail. But can you give us all bit more in terms of the undercurrent, in terms of your progress there? And I think you mentioned in AMEA, you have a bit more in the way of contract renewals. Did I hear that right? And how are those related? And then lastly, if you can, Scott, back to the CapEx question. Going up $100 million can you comment at all other than the amount of spending increment where you're putting that capital?

John A. Hayes  
Chairman, President & CEO

Yes, thanks, George. This is John. I'll start. That was a mouthful, I think. First with respect to our commercial strategies, we have, for the past couple of years, we have been very consistent that said, that the returns that are generated on the
standard containers do not, for us, meet the hurdle rate to continue to reinvesting in that. And so we have talked for a while now about our value over volume strategy. We also talked over the last couple of conference calls that we have a couple rather larger contracts coming up in Europe at the end of '18 and in the United States at the end of '19. And that - - nothing has changed at all. We are in execution mode. And I will also say, though, that you also know it's Ball's policy that we don't negotiate nor talk about customer contracts in a granular level on investor conference calls. So the only guidance I can give you is we are right in the throes of what we've said for the last 2 years we'd be doing.

Scott C. Morrison  
Senior VP & CFO

And on the CapEx front, all of these things were planned, George. It was just a matter of the timing of them. But our teams have done an excellent job of executing in the big projects that we have going on. So we're able to accelerate the later phases of these programs. So Dan mentioned bringing up lines three and four here in the back half of the year in Goodyear, adding a second line to the Spain plant. We're adding a warehouse in Monterrey to support the growth in that business and to support our aerospace backlog, moving up some of the build-out of some of our test facilities. So these are all above-average return projects. And frankly, I'm usually a capital curmudgeon in terms of spending. But the faster we can do these things, the faster we'll get the returns and the longer we'll get to enjoy them.

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

And maybe I can add some color to the capital just for the beverage piece and I'll address your AMEA contract question. Goodyear, just the scale of Goodyear is approximately $250 million. Cabanillas, our Spain facility is approximately $150 million. We put up a fourth line, mega line, to support our 24 and 25-ounce growth in Conroe, that's approximately $60 million to $70 million. And then you've got ongoing M&R in the range of $100 million to $125 million. So it's obviously some significant one-time capital throes, but it's been contemplated. It's been executed against, and obviously, it's going to allow us to qualify customers sooner and get after some of the fixed cost savings maybe a quarter earlier than we had anticipated. So I'm really pleased with all that. And then in AMEA, George, I would frame AMEA similar to contract lengths in North America. Our AMEA business, as you know, is principally Egypt, Turkey, India and Saudi. And those contract durations are somewhere in the neighborhood of two to five years. So they don't turn over as frequently as, say, China and there's really no substantive changes in that market. It's consistent with the kind of where we entered the year and what we had contemplated a couple of years ago in the guidance that we gave.

Operator

And our next question is from the line of Brian Maguire with Goldman Sachs.

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

Just a question on the trends in North America. A lot of the volume headwinds have been well documented. And it seems like your comments imply a little bit of an improvement, I think even July, you said things are sort of improving there. Just wonder if you could kind of expand on that, kind of what are you seeing heading into Q3? And what gives you confidence that we might flip to growth at some point in your future in that segment?

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

Sure, yes. You heard correctly. We saw strength in June, and then that's followed through in July. April and May, there wasn't a ton of promotional activity by the major customers. You've seen a lot of innovation in terms of new products and new categories being pushed, especially in the mega beer customer. And so we're seeing those. And so we think there's probably a shift of Q2 softness into Q3 strength. So I think it's just a timing issue, if nothing else.
Okay, that makes sense. And then one question about the announcement on the can plant in Brazil you're going to shut down. The volumes have been really strong out of that region. Just wondering, why the need to close it? I know it's just a one line plant so I'm guessing some of it is efficiency gains. But any impact of that to overall volume? Do you think you'll be able to house those customers from other plants? And any color on any fixed cost savings or margin shift from it?

John A. Hayes
Chairman, President & CEO

Yes, you hit it on the head. Really, what we're doing is we're taking a one-line can plant, taking the fixed cost out of it, moving that equipment into other facilities. So we're not necessarily losing any capacity and we are taking out fixed costs. It's not -- in the grand scheme of Ball corporation it's not a huge deal. But any time you can take fixed costs out, that's what we look to do and that's what we're doing here.

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

Just had a question on South America. I guess, it seems is, versus our estimates, doing a little bit better, sort of in the second half, especially when you take out the strike. I mean, I guess, when you take the second half against the full year, I mean, is it doing a little bit better, I guess, than maybe you previously thought? Or just in, sort of, still in line?

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

I think it's largely in line. Q2 was so disruptive, the 11-day truckers' strike in terms of volume dynamics. But I would say volumes were better in Q1. Hard to distinguish what actually happened in Q2 from a volume trend perspective. But based on what we're hearing from our customers, we think the can will continue to win and we should do well in the second half. I would just reference my comments relative to the end's manufacturing agreement in the second half for year-over-year comps. I'm just speaking to volumes here.

John A. Hayes
Chairman, President & CEO

Yes, the only thing I'd add is let's not forget that there's an election in Brazil this fall. And elections, when they happen down in Brazil, they tend to create more volatility. So I think the caution you hear from us is really just more about an unknown than anything other than what Dan said that we know. It's just the -- these elections just create greater volatility and it's not until the beginning of the fourth quarter that we're going to have this election.

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

Okay, that's helpful. And I think, Dan, you said was a startup -- in North America startup cost were $5 million to $7 million this quarter and then freight was $7 million. Do you have a sense of how -- I know you said it would get better, but in the second half. I mean, it's just sort of higher freight rates is going to cause any pressure? Actually, I would think as the start-up cost go down, but just any details around that would be helpful.
Daniel W. Fisher  
*Senior VP & COO of Global Metal Beverage Packaging*

Yes, June was definitely a spike in freight rates. I would expect to see some of that continue in that $7 million out-of-pattern freight number that I indicated. Probably $2 million to $3 million of that was self-induced, really, just because of the startup costs. So think that, that number will be mitigated somewhat. But we'll continue to see headwinds on freight for the foreseeable future unless there are any kind of underlying changes. We should get the fixed cost savings, like I identified. The startups are going extremely well. Some of the competitors, I think, have recently said they are looking to broker additional cans. We'll be the beneficiaries of that, hopefully as a result of an excellent startup phase. So freight rates will continue, probably in line with what we've seen, but we've got a lot of tailwinds heading our way in the second half of the year in that business.

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

And just final question for Scott. Do you have -- now that you're putting forth some CapEx, and I know you've already used, sort of, $500 million roughly as a placeholder. I know it's early. But as you sort of look into '19, could you give any sort of thoughts on what CapEx could look like?

Scott C. Morrison  
*Senior VP & CFO*

Yes, I think we've been able to accelerate some of these programs that we had planned some quite some time ago. So I think we'll see a meaningful drop in CapEx as we get into '19.

John A. Hayes  
*Chairman, President & CEO*

Yes, I think just to amplify that. Dan did a good job of laying out the really big projects on the beverage side, and that added up to well in excess of $550 million. Later on, we're spending $125 million in aerospace alone this year, on building out our manufacturing footprint here. That's where you can see how we're getting to the $700 million. And when you think about, as we sit here today, those big projects that are going on in '19, most of what Dan referenced will not be there. Aerospace will still have some elevated expenditure, but not to the level it is now. So it should come down meaningfully from where it is of this year.

Scott C. Morrison  
*Senior VP & CFO*

I would expect it to be lower than depreciation next year.

Operator

And our next question is from the line of Adam Josephson with KeyBanc Capital Markets.

Adam Jesse Josephson  
*KeyBanc Capital Markets Inc., Research Division*

Dan, just one question on your North American commentary. You mentioned your system is tight at this point. I mean, the segment was down 3% on volume in the first half of the year, roughly. So I know you said July was better, but what exactly is causing the tightness given the volume declines you have experienced thus far?
Daniel W. Fisher  
*Senior VP & COO of Global Metal Beverage Packaging*

Yes, I would say reference my comments just previously. But in April and May, I mean, April and May was just a function. It's promotional spend. You see significant declines in April and May on promotional spend by the big, really, the big customers. That spend has come back in conjunction with them pushing candidly a number of different new innovative products, all of that needed additional time to be marketed and that's all selling through. And we've seen the benefits both in June, we saw it and this far through July and into early August. So I think it's more of a timing issue than anything just because of the promotional activity.

John A. Hayes  
*Chairman, President & CEO*

Yes. But don't forget going forward, Dan also mentioned about the closure of Chatsworth as well as Longview, Texas.

Adam Jesse Josephson  
*KeyBanc Capital Markets Inc., Research Division*

Right. The capacity actions will be neutral to your overall capacity, right?

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

That's correct. That's correct.

Adam Jesse Josephson  
*KeyBanc Capital Markets Inc., Research Division*

And then just on one more, I think what George was asking with the '19 EBITDA. If you're selling almost $100 million of EBITDA, I know it was $78 million in '17. I don't know what it is now, but call it $80 million, $90 million. You reference all the -- a number of external headwinds that the company has dealt with since you've closed the Rexam deal, yet you're -- it sounds like effectively increasing your underlying EBITDA guidance by almost $100 million despite all of these headwinds. So I'm just trying to better understand where that's coming from exactly. Is there a particularly region that's been kind of going markedly better than expected? Just a little more detail there would be helpful.

John A. Hayes  
*Chairman, President & CEO*

Yes, I think it's excellent execution across all the regions. When I think off the top of my head, Europe is still on its journey, but is delivering above what we initially expected. I think in North America, we still have a lot of on the come opportunities in terms of the fixed cost savings that Dan mentioned, but things are going well there. I think it's South America. I think our sourcing strategies is above where we were. So there's not just one or two specific buckets. I think across the board, our business has been executing quite well. That, combined with the aerospace business, is growing faster than what we expected as well. So yes, we have some headwinds. Yes, we're selling off $80 million to $100 million EBITDA. And yes, we still think we can still make the $2 billion of EBITDA in 2019.

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

I think another point that we commented on but maybe gets lost in this is and maybe we should be tooting our own horn a little bit more. The project startups in Goodyear in Spain, 6 lines in greenfield facilities, have gone remarkably well. And if those had not gone well, we would be having challenges in out-of-pattern freight, qualifications with customers. And I think as we sit here today, we're much more on our toes with regard to those 2 projects, which we banked a lot on
in terms of fixed cost savings in ’19.

Operator

And our next question is from the line of Anthony Pettinari with Citi.

Anthony James Pettinari
Citigroup Inc, Research Division

In the North American business, it seems like you might be set up for a good second half. When I think about last year, you had the hurricane and then kind of related freight and supply chain costs. Is it possible to size how much of a benefit you could get from the non-repeat of hurricane and, kind of, hurricane related costs?

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

And so what we said last year, and then it's really playing out and what we're anticipating as well, we had a $30 million headwind out-of-pattern freight, lost sales, inefficiencies from a production and absorption standpoint. Based on what we know today and what we're seeing out of the North America business, we should recover all of that and hopefully things continue to go well from an execution standpoint and volume comes through. We'll see that year-over-year.

Anthony James Pettinari
Citigroup Inc, Research Division

Okay, that's helpful. And then just switching gears. John, you talked in your prepared remarks about the environmental benefits of cans. And I'm wondering, with regards to some of the regulatory and media scrutiny on plastics, maybe especially in Europe, is this something that big customers are proactively coming to you about and you think could really drive incremental volumes this year or next year? Or is it more kind of a general observation or something that you think could gain traction further on? Just any kind of color you can give there will be helpful.

John A. Hayes
Chairman, President & CEO

Yes, I think it has both short-term and long-term implications. I think the opportunity is probably greater in long-term. Because in the short term, intermaterial substitutions, you don't see a lot of, but this does play into our commercial strategy that we said we're trying to anticipate and really push from a retailer perspective, an NGO and government perspective, a customer and consumer perspective, the benefits of the can. But we also have to be in a position to be willing and able to invest in it where the returns are good. And on the specialty, we've been doing a very good job there, and so we need to get the standard up. But I think in terms of what specifically what you're talking about around intermaterial shifts, I think in the short term, it's incremental. But I do think there's long-term benefits here if we play this right. And I'd encourage you to come to our October 1 and 2 Investor Day because we're going to be talking a lot more about the commercial reasons of why this is in our great interest to be pushing this.

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

On the long-term front, specific to the major customers, I can add just a little color. What we're doing now far more than we've done even a year ago is we're sitting down with our major customers and we are collaborating with them on science-based targets. And some of the targets have to do with 100% recycled packaging substrate. Now the targets these customers are putting out are 2025 and 2030. That's why saying longer term, absolutely, we know we're putting programs in place. How quickly that manifests itself? We need to just continue to push the message and work because especially in Europe, as you indicated, it's right now, it's happening and the conversations are shifting.
John A. Hayes  
*Chairman, President & CEO*

And just to give you a little teaser, come early October, we've looked at every major region in which we operate. And whether it's on the soft drink side, the beer side or the other categories, which is energy and sparkling waters, et cetera, we've looked at what a 1 percentage point share shift from another substrate to the can means, and it's meaningful bottom line improvement to our company. And that is why the economic case of trying to create these greater profit pools for our customers by using cans can be good for them and good for us.

Operator

And our next question is from the line of Scott Gaffner with Barclays.

Scott Louis Gaffner  
*Barclays Bank PLC, Research Division*

Scott, I just wanted to go back. I didn't quite catch all of your comments on share repo year-to-date or I don't know if you gave it by -- at the end of the quarter. And would your expectation on a go-forward basis be to go back to the, you want to call it, the old methodology where you did most of your share repurchases in 1Q on a go-forward basis?

Scott C. Morrison  
*Senior VP & CFO*

Well, so what we've purchased, what is in the Q, is $175 million for the year. Well, we purchased heavy since the end -- I'm sorry for 6 months, sorry, for the 6 months. But what we purchased year-to-date as of yesterday, so we put a program in place. We were blacked out for much of the quarter because of the food transaction. So once we were out of that, we repurchased heavy. And so as of yesterday, we repurchased $318 million worth of our stock or 8.3 million shares, just over 2%. For the rest of the year, we plan to approach $700 million. So it's another 3% of the shares or 10 million shares that should come out between now and the end of the year, as we basically spend the proceeds of the food transaction and our cash flow. Going forward, our leverage will be down to a point, we're almost there now, I think we're at 3.6x at the end of the quarter. We said when we're 3 to 3.5x, that we'll turn all of our free cash flow to buy back our stock and our dividend. So that's a lot of stock to buy over the course of the year, and we'll be opportunistic, we'll see how that plays out in terms of the timing, early in the year versus throughout the year. You could probably count on more in the first half of the year but buying throughout the year.

Scott Louis Gaffner  
*Barclays Bank PLC, Research Division*

Okay. Maybe splitting hairs a little bit. But when you had the announcement on the steel food, steel aerosol, JV -- John, you made the comment that the guidance for 2019 was going to be more challenging to achieve, but I would say you sound extremely confident today. Is there anything that changed in the last, whatever one and a half months that would give you significantly more confidence than you had at that point in time?

John A. Hayes  
*Chairman, President & CEO*

No, is the short answer. I think when we put together 2 years ago, the $2 billion EBITDA target for 2019, there was a lot of unknowns. We have derisked those unknowns, and we feel more confident. But having said that, when you're taking $80 million, $90 million, $100 million of EBITDA off the table through the sale of the food and aerosol business, you have an $80 million, $90 million, $100 million gap you need to fill. We have confidence that we have game plans to fill that, and that's exactly what we're doing. But there is still incremental risk. We still haven't realized the $50 million net savings here in North America around of the three plant closures. That's still on the come. And there's still other
programs like that, but we have a line of sight to what we need to do. That's the important part.

Scott Louis Gaffner  
*Barclays Bank PLC, Research Division*

Yes, I mean, that's a big EBITDA hole to fill. So good luck filling that with some of these improvements. Just lastly for me on the exclusion from the aluminum tariffs. Is that an industry issue? Or is that something Ball-specific that you were discussing there?

John A. Hayes  
*Chairman, President & CEO*

Well, that was a Ball specific. The industry cannot petition the Department of Commerce for exclusion. It has to be company-by-company. And we received last week the news that we received an important exclusion.

Operator

And our next question is from the line of Edlain Rodriguez from UBS.

Edlain S. Rodriguez  
*UBS Investment Bank, Research Division*

A quick question on beer consumption in the U.S. and for a while, Mexican imports were offsetting production in the U.S., but you saw the article yesterday in The Wall Street Journal regarding how Americans started drinking less beer, with younger people preferring cocktails and wine. Like how do you position the company for sustained decline in beer consumption, and that would include imports and everything else. So how do you position the company for something like that?

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

The data that you're referencing is nothing new over the last decade. I would say that, number one. And number two, you're talking about beer literage. You're not talking about the can. The can has disproportionately won share over that period of time. Craft beer continues to grow in the quarter, up 35%. I think we look to things like seltzers, waters, wine, we're getting into in a big way, energy. You've got to win in the categories that are winning, I think is the answer. But the can continues to win from a substrate standpoint. And overall, can volume for beer has grown slightly over the last five years. And if we continue to win in the markets that we're participating in, that's how we'll hedge our bet.

John A. Hayes  
*Chairman, President & CEO*

Yes, the only thing I'll add, is in reference to the article you mentioned, it was describing a slow decline of traditional beer. And that's correct. But as Dan just pointed out, the spiked seltzers and all the alternative categories that the beer makers are really pushing, we can tell you with great certainty that the spiked sparkling category this summer is growing faster than anyone anticipated. And so yes, that is taking share from what I would describe as traditional beer. It's still a malt beverage, which is the important part. And the can, by far, is disproportionately winning in that. So when Dan talks about focusing on wine and focusing on these new categories, spiked seltzer is a great example of that.

Edlain S. Rodriguez  
*UBS Investment Bank, Research Division*

That makes sense. And also, in terms of the profitability of the different products, like does it matter to you whether
those customers are selling more seltzer and other products versus beer?

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

Yes, I mean, a short answer, they are going into specialty cans, number one. And number two, there being sold in many instances in single-serve at higher profit pools. And if our customers are selling at a higher price, we have the opportunity to sell to them at a higher price. So the economic equation works really well in those introductory new beverage categories.

Operator

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

Arun Shankar Viswanathan  
RBC Capital Markets, LLC, Research Division

Two questions, just following up here on that same issue. I guess, first off, have you noticed any changes -- you referred to increased promotional spending. Is that like a structural shift amongst your customers? I imagine that they're not happy, the large brewers with the volume trends. Have they increased their spending at a sustained level from here on? And do you think that's going to have a material impact on mass beer volumes? And similar, I think we've noticed something similar on the CSD side. So has that actually happened? And do you think that's actually resulting in improved volume recovery?

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

I can't comment on the long-term promotional spend if it's going to be more social media, if it's going to be different outlets, if it's going to be a different dollar spend or a different target. I will tell you that the largest brewer in the world has made a comment that they want to shift their product mix from 80% traditional to 20% alternative. In that 20% space, it will overwhelmingly be new products and it will overwhelmingly be cans. And so I'm more interested in those new products, candidly winning and us winning at a disproportionate rate, than I am concerned about the promotional spend activity on the core brands. Another major brewer, just to add context, in North America, recently made wholesale changes in their marketing department. That marketing department was not concentrated on core brand innovation over the last handful years and their core products declined. And so I think there's some rethinking going on, different thought in some of the major brewers. And we will be there to help them from an innovation standpoint, and they will be knocking on our door first. But what happens going forward and where they spend their money is kind of yet to be determined, I think.

Arun Shankar Viswanathan  
RBC Capital Markets, LLC, Research Division

Okay. And then as a follow-up, are there other mechanisms you can take on the pricing side to offset any of those -- what it is you're seeing, whether you've got nonmetal, but like freight and so on? And then what's the appetite for that kind of an initiative? I mean, is it -- would it be more challenging given soft volumes in North America and Europe? Or is there a potential likelihood that you could actually achieve something like that?

John A. Hayes  
Chairman, President & CEO

Yes, we've talked about this a lot in past conference calls. And when you're talking about your commercial strategy, it's just not price. It's everything from terms. It's who bears the freight and how that mechanic work. It talks about call-off and
having call-off windows that if you’re at a 72-hour window, it's at one price and then there's a surcharge if you want to move it inside of that. And so there's a whole host of various things that's going on. And as I said, we're not going to negotiate or talk about any individual conversations with customers on our conference call. But I also said that we are in execution mode as we sit here right now.

**Operator**

And our next question is from the line of Ghansham Panjabi with Baird.

**Ghansham Panjabi**  
*Robert W. Baird & Co. Incorporated, Research Division*

I guess, going back to the second quarter, I know we talked quite a bit about 2019. And specific to Europe, how much of a benefit do you think you realized from the World Cup? How should we think about volumes in the region for the back half of ’18? And also, was there any of the mix impact during the second quarter that was unfavorable? Just trying to reconcile the 6% volume growth with the reported 5.7% sales increase.

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

Yes, I would say, there was definitely some benefit to us. And I think it had more to do with the fact that it was in Russia and we have a very strong footprint in Russia. So that had more to do with it. And the other thing that happened in Europe, Ghansham, that you're probably aware of is, in the north the weather was remarkably good. So there was a couple elements that really furthered that strength, I think. The overall European market was probably closer to that kind of 4% or 5% growth, and we were closer to 6%. And so I think that benefit had to do with our footprint candidly in Russia and the benefit of the World Cup.

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

And Ghansham, I'll just point out on the volume versus revenue line. Remember that we've talked about it in the first quarter that we still have a couple of contracts where it's year-over-year price declines that we inherited. And those end at the end of this year.

**Ghansham Panjabi**  
*Robert W. Baird & Co. Incorporated, Research Division*

Got it. That's helpful. And since you last reported, I mean, the foreign exchange environment has changed dramatically, particularly as it relates to the emerging markets. Some of the countries you operate in, Argentina, Turkey, et cetera. Can you just kind of help us think through any sort of risk in the back half of the year? Are you seeing anything different than the underlying trend in the first half in those 2 regions?

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

No, it was definitely more volatile. The markets, and John referenced this on his comments, from an operating/earnings standpoint, we had some headwinds definitely in Argentina, in Russia, in Turkey in the second quarter. We had some offsetting things as it relates on the corporate side. So the net impact was really when you get down to the earnings per share, it wasn’t very much. Going forward, volatility seems to be a little bit less. But we're pretty well-positioned to be able to deal with the currencies.

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

And I'll just add one other thing. Obviously, any time currencies relative to the dollar devalue, it makes our product more expensive because our products are typically dollar priced. So you never like to see that. Having said that, when we think about what we see right now in the places Scott just mentioned, Russia, Turkey and Argentina, can demand continues to be very strong there. Now Russia was World Cup. Turkey, it still has good economic growth. And even in Argentina, there's package share mix that's favoring the can there. But we keep our antenna up pretty closely to see if there's any adverse demand impact related to this, and we haven't seen anything yet.

Ghansham Panjabi
Robert W. Baird & Co. Incorporated, Research Division

Okay. Just one final one. Going back to the comments on beer in the U.S. Clearly, it has been impacted by changing consumer preferences in the U.S. Perhaps, this has some parallels with what soft drinks went through over a decade ago in this country as well. How do you think more broadly about portfolio risk, specifically U.S. with your beer exposure? I know craft beer has been growing, but if the category does start to slow more broadly, including craft beer, how should we think about your ability to perhaps do what you've been doing with tiering your customers on the soft drink side with specialty cans, et cetera? Is that an opportunity for you?

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

Yes, absolutely, the specialty can and the new categories. At the end of the day, the major brewers are going to have to figure out how to sell products the young consumer wants and I think they're learning that pretty quickly. And I think your correlation to CSD is a good one, just looking behind, just kind of innovation pipelines and what we see and what we're working with those customers on it looks a heck of a lot like five, six, seven years ago with the CSD folks. The other comment and some of it just has to do with our exposure to the core brands that are declining. We have a lot less exposure to that, just from a structural standpoint, North America, because the two major brewers are vertically integrated. And so a lot of that they're feeling on kind of the backs of their system. So we felt less of it, and the folks that the customers and the categories that we're dealing with, the craft side, et cetera, those continue to do really well. So we've gotten out ahead of that aspect or this aspect that we're talking about. And we've got just kind of the vertical integration buffer, if you will, just because of the North American market and how it's structured.

Operator

And our next question is from the line of Anojja Shah with BMO.

Anojja Aditi Shah
BMO Capital Markets Equity Research

I just wanted to go back to that aluminum tariff exclusion. Does it cover your entire portfolio? And is there any financial impact to you? Or is it more to your customers that you would pass it through to?

John A. Hayes
Chairman, President & CEO

No, first and foremost, we pass it through our customers. So it's about making sure that the beverage can is competitive. It doesn't affect all of our [ portfolio ] because the majority of our metal, we acquire it here in the United States, but there's not necessarily enough capacity to acquire 100% of it in the United States. And so we procure metal from a particular supplier in the Middle East and that is what we were given exclusion for.

Anojja Aditi Shah
Okay, that makes sense. And then my other question is the Brazilian truckers' strike. Do you expect any carryover impact in 3Q or 4Q?

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

I'll quickly handle that. No, is a short answer. One of the things that's just a washout generally is with these elections coming up, there's going to be lot of labor issues. We can't tell you what they are, but it just always happens this way when you have the economy in Brazil as it is and the political disruption as it is. Many of the unions put forth their strong views on certain things, and that's just to watch out. We know nothing specific, but those things can happen from time to time.

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

I think for full disclosure, the agreement that was reached was a temporary one, 90 to 120-day. So this all plays into the new election and what happens there. So based on what we've seen right now and how we're operating, we don't foresee any additional disruptions. But there's always that lingering event out there with the election and the fact that this wasn't a permanent agreement.

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Just one on the Middle East. I guess, notwithstanding geopolitical or volatility over there. Can you talk about sort of just underlying demand as we start to lap the sugar tax over there? And any response from the -- in the competitive landscape that you can speak of?

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

Sure. Just to reiterate, our AMEA region is Egypt, Turkey, Saudi and India. And Saudi, I would say it continues to be incredibly weak. And I would have anticipated a little bit more of a surge back to growth via innovation, and that hasn't come to fruition probably as fast as we've seen in other markets. So that continues to be a challenge year-over-year. But in Turkey, Egypt and India, those three regions are all growing and approaching double-digit growth for us. So they're very positive and the team is doing a great job cultivating can growth and new customers there. But Saudi continues to be a very challenging environment for us, and more importantly, our customers.

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Okay. And one just on Brazil. I guess, bigger picture. Your thoughts around sort of underlying demand. I know there was a lot of volatility with the truckers' strike and World Cup. But maybe just kind of looking out into 2019, it seemed like the economy down there was on an improved trajectory. Just do we still think about a, call it, 2% to 4% growth environment down there? Or is there anything that's changed from that perspective?
Daniel W. Fisher  
**Senior VP & COO of Global Metal Beverage Packaging**

Yes, and that 2% to 4% is probably 6% to 8% on beer and probably continues to decline on CSD to get to that 2% to 4%, to give you more color. The can continues to win. The majority player in that market continues to push cans because all of their competition is going after them with cans. So from a can perspective, I feel bullish. Obviously, John's comment around the election, the uncertainty there. But from our business and the can and the beer segment, things continue to look positive and we're seeing continuing investment by our customers in that region. So I think your number is a pretty good one.

Operator

And we do have a question from the line of Chip Dillon with Vertical.

Clyde Alvin Dillon  
**Vertical Research Partners, LLC**

A question I have is on -- I noticed that the equity income line, which is usually pretty material, $8 million, $10 million, was 0 this quarter. Was there anything new there that we should take into account?

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

No, it was exclusively the result of one-time, mostly timing issues and one of our Asian JV's and it will normalize going forward. And the only delta for the full year will be what happened in the second quarter. Nothing to be concerned about on an ongoing basis.

Clyde Alvin Dillon  
**Vertical Research Partners, LLC**

Okay. So that was part of the one-time takeaways that made that go down?

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

Yes.

Clyde Alvin Dillon  
**Vertical Research Partners, LLC**

Okay. And then I think it was great the detail you gave us on some of the CapEx. I believe you said the Arizona project was $250 million. And maybe I'm just rusty on my recollection. And of course, some of the -- there's a specialty component. But I thought a can plant was -- you build the first line, it was probably under $100 million and then the second line would be maybe $50 million or $70 million or something like that. Could you just help reconcile those 2 perceptions?

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

Sure, the -- I think I also -- this is Dan. I also referenced the Cabanillas plant, two line plant, $150 million. This is a four line plant for $250 million. Yes, if you reference, if you go back to even -- the Goodyear plant is more in line with what we would have done in Monterrey, if you reference some of that a couple of years ago.
Clyde Alvin Dillon  
*Vertical Research Partners, LLC*

Yes, exactly. And that's still holding at three lines that are running pretty fully now?

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

Correct. There is significant end investment, is the difference down in Monterrey.

Clyde Alvin Dillon  
*Vertical Research Partners, LLC*

Yes, I got you. And then looking back at aerospace. You mentioned hiring a lot of people, and it should improve in the second half. Would you expect the EBIT margin to get back into that 10%, 11% range in the second half?

John A. Hayes  
*Chairman, President & CEO*

Yes, I think 11% is probably a stretch. But certainly, 9% to 10% is not unrealistic at all.

Operator

And our next question is from the line of Debbie Jones with Deutsche Bank. [Audio Gap] We will continue with a queue follow-up question from the line of George Staphos with Bank of America.

George Leon Staphos  
*BofA Merrill Lynch, Research Division*

The one-way glass volume growth that one of, obviously, the largest glass companies was talking about in Brazil. Are you seeing that have much effect on industry can demand in Brazil? Didn't sound like that was the case, given your prior comments. That was my follow-up question.

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

George, I haven't and I would just point to the fact that it was such a disruptive quarter with the freight issues. We do continue to see the customers push cans and especially the major customer that does have returnable glass infrastructure. They are continuing to be forced into moving to cans because of retail outlets, et cetera. That's the best information I have right now.

Operator

And we have no further question at this time.

John A. Hayes  
*Chairman, President & CEO*

Okay, great. Thanks, Malika, and thank you, everyone for participating. And again, as I mentioned, October 1 and 2, we're having our investor field trip out here in Colorado. So please be in touch with Ann Scott if you'd like to participate.
And we look forward to seeing you all then. Thank you.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.
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