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PRESENTATION

Operator

Greetings, and welcome to the Ball Corporation 1Q 2023 Earnings Conference Call. As a reminder, this conference is being recorded, Thursday, May 4, 2023.

It is now my pleasure to turn the call over to Dan Fisher, Chairman and CEO. Please go ahead.

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Thank you, Tina, and good morning, everyone. This is Ball Corporation's conference call regarding the company's first quarter 2023 results.

The information provided during this call will contain forward-looking statements. 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 company news releases. If you do not already have our earnings release, it is 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. Historical financial results for the divested Russia operations will continue to be reflected in the beverage packaging EMEA segment. See Note 1 Business Segment Information, for additional information about the sale agreement and a quarterly breakout of Russia's historical sales and comparable operating earnings.

In addition, the release also includes a summary of noncomparable items as well as a reconciliation of comparable operating earnings and diluted earnings per share calculations.

Joining me on the call today is Scott Morrison, our Executive Vice President and CFO. I'll provide some brief introductory remarks then Scott will discuss key financial metrics, and then we will finish up with closing comments, our outlook for the remainder of 2023 and Q&A.

Let me begin by thanking our employees for working safely and efficiently, while fulfilling our customers' needs. Collectively, we delivered strong first quarter results amid tough year-over-year comparisons, driven largely by business divestments executed in 2022.

In the first quarter, every business either achieved or exceeded their operating plan. Our aluminum beverage and aerosol shipments were in line with our regional expectations, and our aerospace technologies continue to be in high demand. Notable inflation recovery, benefits of cost-out actions, improved operational efficiencies and performance in every business offset higher interest expense and taxes. With near-term macroeconomic conditions continuing to pressure consumer demand, Ball's year-to-date global beverage can volumes were down 1.4% in the first quarter, in line with our expectations.

Looking ahead, the breadth of retail summer promotional activity across our customer mix in North America, and the continuing successful ramp-up of our two new facilities in EMEA, will be the key drivers of our ultimate 2023 shipment growth. We started 2023 with a conservative view on annual global beverage shipment trends, and we maintained that conservative second half weighted view. We have a lot of the year ahead of us, and we look forward to serving our customers' needs.

As we sit here today, in advance of seeing quantifiable promotional activity, we are proactively managing our beverage operations in North and South America for cash and supply-demand balance, as we continue to bring down raw coil and finished goods inventories and return to our just-in-time supply chain management versus the just-in-case supply chain requirement during the pandemic and extended period of higher-than-planned growth for beverage cans.

Around the globe, beverage cans continue to win relative to other substrates, and we continue to leverage our customer mix, scale, regional plant networks, innovation and capable teams across the organization to ensure the best near-term, medium-term and long-term outcomes for all our stakeholders.

In our aerospace and aluminum aerosol businesses, operational performance and demand for our innovative products and technologies are accelerating. In Aerospace, our technologies are well positioned to deliver unimpeachable data and monitoring capabilities for both environmental and national security needs. And in our global aluminum aerosol business, we continue to serve new categories and offer reuse, refill bottle innovations to a broader set of customers and occasions. As we look ahead, all of our businesses will continue to unlock additional value for Ball stakeholders in 2023 and beyond.

Consistent with our prior commentary, in 2023, we remain positioned to deliver our long-term goal of 10% to 15% diluted earnings per share growth, inclusive of the Russian business sale headwind, and we remain well positioned to generate strong free cash flow to deleverage and return value to our fellow shareholders.

As we indicated in our prior call, the second quarter will remain choppy in North and South America metal beverage as we continue to work through higher inventory and manage regional production with an eye on cash. In addition, the positive momentum in our EMEA, aerospace and aluminum aerosol businesses will continue. During the Q&A, Scott and I will strive to provide additional clarity on the external environment and cadence for 2023 based on what we know today.

Our global beverage teams continue to position our business to deliver the year and have an eye on the future. For the full year and incorporating year-to-date trends, our customer mix and excluding Russia, we now estimate low single-digit global volume growth for Ball, with North America being slightly down, South America volume up mid-single digits, EMEA volume up mid-single digits plus and our other non-reportable beverage business volumes up mid- to high single digits.

We appreciate the work being done across the organization and extend our well wishes to our employees, customers, suppliers, stakeholders and everyone listening today.

With that, I'll turn it over to Scott.

Scott C. Morrison - Ball Corporation - Executive VP & CFO

Thanks, Dan. I'd like to congratulate Dan on his election to Chairman of the Board, and thank John for his service as Chairman. Dan was battle-tested on many fronts in 2022, and he has the skill set and drive to take the company to new heights.

First quarter 2023 comparable diluted earnings per share were \$0.69 versus \$0.77 in the first quarter of 2022. And excluding the notable Russian aluminum packaging business sale headwind, first quarter comparable diluted earnings per share were flat versus the prior year. First quarter sales decreased compared to the same period in 2022, primarily due to the sale of our Russian business in the third quarter of 2022, currency translation, lower volumes and the pass-through of lower aluminum prices, partially offset by the pass-through of inflationary costs.

In the first quarter, net comparable earnings decreased compared to the same period in 2022, primarily due to the sale of our Russian business in the third quarter of 2022, lower volumes in North and South America and increased interest expense, partially offset by fixed cost savings, lower depreciation expense and SG&A cost-out initiatives as well as the contractual pass-through of inflationary costs.

To reiterate our prior earnings call commentary and to help frame some of Dan's earlier comments about choppy second quarter performance in North America and South America's segment earnings, we have been and will continue to proactively manage regional supply-demand balance across our system of plants in the near term. After July, segment earnings will reaccelerate when the majority of the contractual inflation recovery begins and a larger portion of summer selling volume flows through segment results.

Also remember, the virtual power purchase agreement settlement recorded in North America's first quarter results will not replicate in the second quarter. However, we estimate that North America's second quarter segment results will be relatively in line with \$183 million first quarter segment results reported today.

In South America, customer and product mix is unfavorably influencing the seasonally slower second quarter. And consistent with our prior commentary, we anticipate a more robust second half in Brazil as customer hedges roll off and the fourth quarter summer selling season kicks in.

As we sit here today, some very consistent commentary and key metrics. We ended the first quarter in a solid liquidity position with an excess of \$1.5 billion in cash and available credit facilities. 2023 CapEx will be in the range of \$1.2 billion, driven by cash outflows related to prior year's projects. 2024 CapEx is targeted to be in the range of GAAP D&A levels. We are targeting free cash flow in the range of \$750 million in 2023 and focusing on deleveraging. Our 2023 full year effective tax rate on comparable earnings is expected to be in the range of 20%.

Full year 2023 interest expense is expected to be in the range of \$425 million, while the first quarter corporate costs appear lower than the expected run rate. We continue to anticipate full year 2023 corporate undistributed costs recorded in other nonreportable to be in the range of \$90 million, with the second quarter costs being higher year-over-year, driven by announced key employee retirement costs.

Including the \$86 million Russia business sale, operating earnings headwind, comparable operating earnings should increase nearly \$200 million and full year 2023 comparable D&A will likely be in the range of \$550 million. As we look forward in incorporating near-term demand trends, year-end 2023 net debt to comparable EBITDA is expected to trend in the range of 3.7x, and in future years, we'll drive that lower.

Last week, Ball declared its quarterly cash dividend. And as Dan mentioned, reducing leverage is our key focus prior to resuming share repurchases in 2024. Rest assured, as fellow owners, we will manage the business through the lens of EVA and cash stewardship, and we will effectively manage our supply chain and customers in this current economic climate to secure the best cash, earnings and EVA outcome for our shareholders.

With that, I'll turn it back to you, Dan.

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Thanks, Scott. Given the economic environment and global dynamics impacting our world, it's a great time for investors to get up to speed on Ball. Our significantly improved plan following a challenging 2022 is kicking in.

We produce products that consumers use daily. We deliver unique technologies to analyze, observe and defend what we value most. And employee owners are showcasing incredible resiliency, while delivering earnings, free cash flow and high-quality innovative solutions to our customers and consumers. And as leverage comes down and free cash flow expands, our return of value to shareholders will grow in 2024 and beyond.

Thank you to everyone listening today. And with that, Tina, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

Our first question comes from Ghansham Panjabi of Baird.

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

Dan, maybe you can just start off with how the volume outlook by region has changed relative to your forecast 3 months ago. I mean, clearly, a lot has changed in the last few weeks, months. Consumer spending in certain regions, including the U.K., seem to be much weaker. So just curious as to how that's impacted your thought process for the year?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Thanks, Ghansham. Where we're at today, it's been largely in line the first quarter, and even what we're anticipating in the second quarter. Things that have moved around in regions have been largely related to customer mix. So the industry is largely in line.

There's been movement in quarters. Some have benefited, some haven't. We've done a little better than the market in Europe. We were a little behind in South America, and we were a little behind in North America. The benefits of what we saw in terms of the things within our control, we outperformed almost in every category, and improved operational efficiency. So that all helped us to effectively manage our earnings profile in the first quarter.

We came into the year with a conservative view on things like promotional activity in the first half. We believe that you will see some benefits in the second half from that. But again, we haven't seen it. And we're not counting on a lot of it.

We put in place a very conservative volume plan at the outset of the year to underpin our earnings and our cash generation. And that's what our focus is. So we'll continue to focus there. I don't know if that helps you. But we're not seeing a lot of difference. We're seeing some movements and some share shifts by customer and by category, but it's largely in line with what we anticipated heading into the year, at least for what we know in the first half.

In the second half, I think this business, as you know, requires volume. We're a volume business. So we'll need a little bit of that uptick in the second half of the year, but we got a lot of things breaking our way and the things that we can control that will enable us to hold the cash and hold the earnings profile here for the majority of the year.

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

Okay. Perfect. And then just so I understand this correctly. So you are benefiting from inflation recovery this year versus last year, right?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Correct.

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

Maybe you can touch on how inflation is tracking this year, 2023 versus 2022? And if there is any element of deflation, would that mean that in 2024, you would pass it on to your customers? Just to clarify.

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Yes, I'll take a shot at it. Just at a high level, we are definitely seeing some improved inflation in terms of the run rate and the cost structure. And to your point, the way these contracts work, keep in mind that the majority of our PPI benefit, specifically in North America, isn't going to come until the second half of the year. That will carry forward until it laps into the second half of next year.

We will maintain the overwhelming majority of the lift that we're seeing on all of these inflationary pass-throughs as catch-ups. Right now, as we're looking at the year-over-year components, it doesn't look like there will be much movement one way or another, absent what we're counting on for the catch-up from '22 into '23, but this will be evolving throughout the year depending on where the headwinds or tailwinds on inflation manifest.

Scott, anything?

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

There's not deflation typically built in our contracts. There might be something unique in certain contracts where it's tied to maybe an energy index somewhere. But in general, we're not seeing deflation. We're seeing inflation slow down. That's usually a really good environment for us.

Operator

The next question comes from Christopher Parkinson of Mizuho.

John Timothy Heilenbach - *Mizuho Securities USA LLC, Research Division - Associate*

This is John on for Chris. Can you expand on the promotional trends that you're seeing around the globe, particularly in North America? And then also, can you please break down the various categories that you expect to drive growth going forward?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Sure. Promotional activity is really a thing in North America specifically, given the pantry stuffing effects and the larger case packs. We're not seeing much of any right now. I think it's reflected in the performance of our customers in terms of the revenue growth they're seeing and volume being flattish.

And so we're sort of tied to that volume being flattish component. The one thing that is clear in the last 12 to 18 months is the folks that have taken less price versus inflation or have held pricing, they're the ones growing share.

And as share becomes more important, which we believe as the year moves on, there will be an opportunity for folks if they're more focused on share gain, then you will see more activity. And I would expect to see, given the performance of beer being down, they have more impetus and need to push volume than what I'm seeing out of the energy and the non-alcohol spaces.

So I anticipate a little bit in the second half of the year across the board, but I don't anticipate much. And if there's one area where you could see or anticipate some, it will probably be in the area of the alcohol categories, in beer specifically, because share of stomach is down in that category.

Operator

The next question comes from George Staphos of Bank of America.

George Leon Staphos - BofA Securities, Research Division - MD and Co-Sector Head in Equity Research

So I wanted to come back to the question on end markets and trends you'd expect for the rest of the year, to the extent that you can comment. One, are there any categories, without giving away information as proprietary, that you expect will be particularly helpful and particularly a headwind to your volume outlook for the rest of the year?

Relatedly, you mentioned, Dan, the beer category, and there's been lots of news there. What are you seeing in terms of your relative share of beer relative to what is happening to perhaps your mix or your customer mix? And then I had a couple of follow-ons.

Daniel William Fisher - Ball Corporation - Chairman & CEO

Let me take the second part of the beer question first. As you know, George, you've been following us a long time. We have an overweight in beer, and we love all our beer customers. And we serve that market.

So net-net-net and I know the specifics, and I'm not going to go into the specifics relative to customers. But I will tell you this, how you should look at Ball's portfolio as it relates to beer is we win when folks drink beer. And so if there's a mix impact, we may have one customer that's up, in a short period of time, there may be a share shift. We pick up both sides of that equation generally.

So what we are more interested in is the health of the entire category. And we believe that beer is going to need to galvanize itself and push in the second half of the year. They're going to have to promote across the entirety of the industry.

George Leon Staphos - BofA Securities, Research Division - MD and Co-Sector Head in Equity Research

And on the end market trends?

Daniel William Fisher - Ball Corporation - Chairman & CEO

In the category space, I don't anticipate any significant wins or significant losses by category. In my prior answer to the prior question, I will reiterate, I think there will be a share shift that happens in each category, depending on the approach that each brand owner takes.

And so folks that have decided to not pass on price increases, aggressively, if you will, have done better on share gain over the last 12 to 18 months. So if they've taken a posture where they're going to pass-through a portion, but not pass-through what everybody else in the category is doing, they're the ones that are winning share.

And so depending on what decision you're making within the category, I think it's going to be a share shift within the category. I think every category is going to do well. And some will do a little better than others, but it's really going to be the customers that win within categories. That will be the determining factor on our volume versus our competitors' volume.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

George, the only thing I would add is, long term, the best positive here is the can is winning. New product introductions are still heavily weighted to cans. And so that bodes well for the can in the long run. We're playing a long game here.

George Leon Staphos - *BofA Securities, Research Division - MD and Co-Sector Head in Equity Research*

Understood. Two questions, and I'll turn it over. One, on aerospace, can you talk to the degree that you can sustain the performance that you saw in 1Q, after what was obviously a little bit of a challenging '22, whether this is kind of a one-off, 1 quarter hit or benefit? Or you think you can maintain that into the rest of the year and hopefully '24?

And then back to beverage cans and capacity, can you talk to what you think operating rates will be this year? And Scott, should we really be expecting CapEx in '24 in the range of \$550 million to \$600 million based on what you said on D&A?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

I think the way you think about Aerospace is that I wouldn't do a run rate on sequential improvement, meaning quarter 2 being better than quarter 1. But I would say the quarters year-over-year will be improved.

There is real underlying improvement in performance. In the second half of last year, we had some pretty significant supply chain disruption so that has been fixed. And then what you saw in the first quarter was a really nice performance execution and a couple of nice breaks in terms of just efficiency gains and just a better run enterprise there in the first quarter.

So I think that will continue to be a tailwind in each quarter. It won't be sequential lifts. It will be dependent on the projects and the mix, but that business is poised to have an exceptional year this year.

And I'll let Scott tackle the efficiency question.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

Sure. On the D&A, I said GAAP D&A for CapEx.

George Leon Staphos - *BofA Securities, Research Division - MD and Co-Sector Head in Equity Research*

Okay.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

Not the comparable operating earning ones.

George Leon Staphos - *BofA Securities, Research Division - MD and Co-Sector Head in Equity Research*

Okay. Got it. Got it. And operating rates this year?

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

Operating rates, we're running our plants. I mean we are taking downtime, and we're taking more of it in the second quarter to make sure that we're operating at pretty high levels of above 90%. So we'll take downtime in Q2 in North America and South America.

South America, that's pretty typical given the seasonality of that business. But we're really focused in Q2 on getting our inventories to the right level. And so we can run it and run at fairly high operating rates for the year. And so that will be a bit of a drag in Q2.

Operator

The next question comes from Angel Castillo of Morgan Stanley.

Angel Castillo - *Morgan Stanley, Research Division - VP*

Sorry. Can you hear me?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Yes, Angel.

Angel Castillo - *Morgan Stanley, Research Division - VP*

Just wanted to follow up on the commentary around downtime in 2Q. Could you quantify what the drag will be from that? And kind of related what do you think about the kind of operational leverage that your business has to volumes potentially improving as kind of promotional activity returns.

Just could you talk about maybe the degree to which some of that is maybe variable and comes back as you bring assets back online versus how much is just operating leverage that would be upside to our volume?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Sure. Well, first of all, congratulations on being a new dad. And I don't know how quickly Mila can start drinking out of cans. That will help to answer the downtime question.

But in all seriousness, Scott laid it out really well. So in South America, you're entering in the off-peak seasons. So you typically do curtail and there is curtailment due to maintenance. So it's plant maintenance. So you're going to have that for certain.

And then in North America, our plants performed extraordinarily well in Q1. And volumes were a little down versus our expectation. So we carried in a little bit more inventory in the second quarter, and we're going to manage that. We're going to manage that tightly here for the balance of the year for cash-generative purposes.

We've got a lot of flexibility in our lines as you know. The curtailment question for us is harder to answer. Angel, I think you know this about us, because we have multiple can sizes on every line. There is one can size that certainly has excess capacity, largely in the North and Central American market. We do have exposure to that, but it's limited.

And so the next question, I think, that you were leaning into this, depending on what the brand is or the product is that's innovating and that's winning, we can flex to that and we can turn that on. We're in a really healthy position in terms of safety stock. And we're in a healthy position in terms of performing a heck of a lot better than we have in the last couple of years in running our business.

So if things suddenly shift, we've got dry powder. And we've got dry powder in a number of can sizes that gives us flexibility to move into whatever the winning product and whatever the winning brand is going to be. So I'm not concerned about us stepping into upside. And we're going to manage inventory positions and safety stock levels really with a lot of discipline here in the second quarter.

Scott C. Morrison - Ball Corporation - Executive VP & CFO

And Angel, just to give more granularity in the prepared comments, I said, in North America, we'd essentially be flat sequentially first quarter to second quarter, given the downtime of things that we're going to do and getting our inventories right.

In South America, the negative will be larger than that. Given the volume, the mix and the absorption, it will be softer than it was in Q1. And then we expect to be in a better position as we move into the busier second half of the year.

Angel Castillo - Morgan Stanley, Research Division - VP

That's very helpful. And then just maybe following up on the strength in the other segment. Curious, you talked about corporate. You reiterated the guidance there. Just maybe some of the other pieces, some of the strength you're seeing in Aerospace? And just what the underlying expectations for that segment will be kind of for the full year?

Scott C. Morrison - Ball Corporation - Executive VP & CFO

Our aerosol business is doing really well. We continue to win business. We continue to have nice volume growth. That business during COVID was really impacted, and we're seeing that really come back nicely.

And new products and innovation is driving a lot of that, both kind of in the typical aerosol personal care space, but also in the water space and the refill and reusable side. And in Aerospace, I think somebody mentioned, we had a choppy year last year. We had supply chain challenges that cost us money. And the business is performing exceptionally well.

They're stepping into these newer contracts that we were confident would be good, and they are good. And we'll see the benefits of that for the full year. So we're really excited about those businesses.

Operator

The next question comes from Cleve Rueckert of UBS.

Cleveland Dodge Rueckert - UBS Investment Bank, Research Division - Associate Director and Associate Analyst

A couple of quick follow-ups from me. I'm just curious, just digging into the inventories a little bit. I'm just curious where inventories are, both from a finished product and raw material standpoint, where they stand versus your target, I guess, as of the end of the quarter? And if you were building inventories or if you're starting to work them down at this point?

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

In North America and in South America, we're working them down. So that's why you see a big swing in payables. We're not ordering as much metal, both finished goods and coil, raw material. And so we've got another quarter of that to deal with in Q2, and then we think we'll be in a much better position from an inventory standpoint.

In Europe, we're turning on a couple of plants, so it's a very different dynamic there. But in North America and South America, it's about getting our inventories down.

Cleveland Dodge Rueckert - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

Right. And is that more on the raw material side? I mean you mentioned coil, is there finished product inventories as well?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

It's both and in North America, we're talking days of finished good inventory. The raw material piece is still a bit of an overhang from last year because we were bringing in a lot and anticipating growth at this time last year.

So we've held on to larger raw material stores, and we've been working that off. We're continuing to work that off. And the finished goods, it's not significantly different than what we anticipated heading into the year. But a few days of additional curtailment is meaningful in a quarter. And I think that's what Scott's signaling to you.

Cleveland Dodge Rueckert - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

Yes. Yes, I think that's very clear. And then just like a quick follow-up. Did you import any cans into North America in the first quarter?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

No.

Cleveland Dodge Rueckert - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

Okay. That's very clear. And then one last one from me. On the promotional activity...

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Maybe this will help for further Q&A regarding that question. We didn't last year either. So there was a '21 to '22 bridge at each quarter for that, but we've originated all that production last year. For North America specifically, we did have a little bit of Saudi into Europe last year, and that's now gone away and we've got origination production now in Europe.

Cleveland Dodge Rueckert - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

Okay. And then just the last one for me is on promotional activity, and I appreciate the conservative tone that you're taking and the plan. But just when do you expect to gain visibility? I mean is there still at this point in the year, the potential for promotional activity to pick up and have a material impact on volumes?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Yes. I mean, absolutely. Promotion works really well for us from a volume perspective. The degree to which the promotion is, I think, is the big question. We're really not trying to avoid this question, but I think here's the backdrop that we're facing relative to going into much detail or fully understanding the real impacts of what a promotion would look like and how it would react consistent with kind of historical norms.

If you look at a 12-pack of CSD cans, 3 years ago, it was about \$4 on average. Today, it's \$8. So is \$1 off going to move it? Is \$2 off going to move it? So it's not just promotion, it's the elasticity in and around the price of the promotion that is very difficult for us to characterize. And I think it's difficult even for our customers probably to understand.

So at this point, we need to plan to deliver cash and deliver earnings. And the end consumer strength or weakness is also something that's very difficult to understand right now just given the stimulus packages and higher interest rates and all of those things.

It's ambiguous and difficult to quantify right now. So we're running for cash and we're managing what's in front of us. And until something changes substantively, I think that's the best tone for our corporation and our employees to manage to.

Operator

The next question comes from Anthony Pettinari of Citi.

Bryan Nicholas Burgmeier - *Citigroup Inc., Research Division - Associate*

This is actually Bryan Burgmeier filling in for Anthony. \$28 million tailwind from the power agreement settlement in 1Q, was that part of full year guidance originally? I don't remember hearing that on the 4Q earnings call.

And when you talk about North America being kind of flat quarter-to-quarter, I assume this means it will actually be like an apples-to-apples basis because I don't expect this tailwind to repeat in 2Q? Is that accurate?

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

You are correct. It will be up year-over-year, but flat with the first quarter. In terms of the virtual power purchase agreement and when we had our previous call, we were negotiating the settlement of it. So we weren't really going to discuss it.

Part of that was built into our first quarter numbers because we knew we were going to settle it, we just didn't know what the amount would be. And that amount would have run through our P&L over time and in last year, but the provider wanted to exit the contract, and we were able to extract a very favorable outcome for us.

And all of that outcome benefited us in the first quarter, but that will not repeat. We've entered into other virtual power purchase agreements to make up for the lost clean energy that we were buying. And so we're in a pretty good spot.

Bryan Nicholas Burgmeier - *Citigroup Inc., Research Division - Associate*

Okay. Understood. And last question for me. In March, you announced you were having some discussions about the possible closure of the Wallkill plant. I'm just wondering how are those discussions going? And based on what you know right now, what you can say right now?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Yes. I would say in terms of filling out your model, I wouldn't count on anything in 2023 relative to an uptick in fixed cost savings. We said we were entertaining closing it. I think we are committed to closing that facility now. That's a subtle change.

And the other thing is there's just not a lot to talk about at this point because we're entering into effects bargaining now. As we know more, we'll update you. But you'll see capacity coming out at some point this year, and you'll see that tailwind in '24 is what I would anticipate, but I don't know the specifics of it at this time.

Operator

The next question comes from Arun Viswanathan of RBC.

Arun Shankar Viswanathan - *RBC Capital Markets, Research Division - Senior Equity Analyst*

Congrats on the strong quarter. I guess, first off, in North and Central America you were able to kind of hit very high levels of segment income in Q1 that I thought would be more likely to materialize in Q2.

So just wondering now as you look into Q2, do you expect kind of flat performance there? And maybe you could comment also on Brazil. Obviously, we've seen some inroads on the glass side. But what are your expectations, I guess, as far as substrate mix as you look into Brazil for the rest of the year?

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

Yes, I'd say North and Central America, what you're seeing is all the hard work from last year in terms of cost out, you see our SG&A is much lower. The plants are operating better. I think we're getting our groove back with how we operate. So it performed at or above our expectations, too.

We expected softer volume, and our game plan is to perform very well even if volumes are soft. And so that's exactly what you're seeing. We got a benefit of that virtual power purchase agreement in the first quarter that won't repeat so we'll keep earnings relatively flat, and that's due to improved performance across the business.

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

In terms of the glass versus aluminum substrate penetration or shift that we've seen here in the last 12 to 18 months, it's in line with what's happened historically. In a higher inflationary environment, you do see a return to returnable glass, somewhere in that 5% to 6%, 7% share shift. That's what we saw last year.

As Scott indicated in his comments at the outset, and I think we characterized what we believe too in the second half, as inflation dissipates and some of the actual cost and hedge positions of our customers down in Brazil allow them to step into what the true cost of aluminum are, we're anticipating a strong peak season that will show up in the second half of Q3 and Q4 for us.

We're not hearing anything different. I'll actually be down in South America next week. So I anticipate to hear more of the same. But I don't see it as a permanent shift, I guess, would be the answer if that's the underlying question there.

Arun Shankar Viswanathan - RBC Capital Markets, Research Division - Senior Equity Analyst

Great. And then as a follow-up on Europe. I guess, was there any work done on your side to renegotiate contracts for energy or any other cost items? Is there any extra work you have to do on that side or not necessarily?

Scott C. Morrison - Ball Corporation - Executive VP & CFO

A lot of that was already done. The European business has done a really good job both on the commercial front and the supply chain front to manage our costs. So you're seeing that in their performance, too.

Daniel William Fisher - Ball Corporation - Chairman & CEO

I think both in that business and equally excellent job by our aerosol business, which has a significant presence in Europe. So both of those businesses and both of those management teams have done an extraordinary job to work as partners with our customers to get to a good medium- and longer-term outcome as we manage through a very different energy and inflationary backdrop in Europe so I think we've done the right thing by our customers and our teams have done the right thing by our stakeholders.

Operator

The next question comes from Mike Roxland of Truist.

Michael Andrew Roxland - Truist Securities, Inc., Research Division - Research Analyst

Dan, Scott, congrats on a solid quarter given the results there.

Just some quick ones for me. Just in terms of the EBITDA for North America what type of volume growth does that embed? Does that embed slightly down you expect for the year? And if so, could there be upside to the forecast if you do have to start to see some promotional activity?

Daniel William Fisher - Ball Corporation - Chairman & CEO

Yes, you were a bit choppy there. But I think the question is kind of what's the underlying demand profile or assumption built into our current North America projection. And you're correct. We believe it will be slightly down at this point as we look out over the course and the balance of the year given really very little insight into the actual decision for process related to pricing and volume.

It's a volume business at the end of the day, and we're going to need some. All of the cost actions we took all of the fixed cost actions that we took as difficult as those were, all of those give us the ability to execute against our earnings and our cash profile more importantly, based on kind of a flat to slightly down volume profile. And that's what we currently anticipate, and that's what's in our model.

Second half weighted in terms of things like the PPI pass-through mechanisms and even some additional cost savings that we anticipate in the second half of the year. But yes, second half weighted plan, whether volume moves meaningfully off of our current run rate, that would be upside. Correct.

And we look forward to seeing that upside. We can step into it, as I commented earlier in the call on we have safety stock and improved operational efficiency. So there's room for upside, but we need to see improved consumer health and pricing behavior that will play a role.

Michael Andrew Roxland - *Truist Securities, Inc., Research Division - Research Analyst*

Got it. And then just one quick follow-up in terms of South America, and you mentioned, Dan, being a little bit behind the market. Was part of that being behind the market due to the bankruptcy of a large beer producer down there? And then if you were behind the market, just any updated thoughts on the plants that you've idled in Brazil and whether they can ultimately become permanent closures?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

We have only announced one permanent closure. So we've got dry powder in that marketplace. Some of these assets are being contemplated to open back up depending on what happens in the market. As you indicated, there was share shift in Q1.

And one of our competitors benefited because they had outweighed exposure to one of the beer brands there. A weaker beer customer or beer mix may shift around as it does from time to time. We believe that the customer relationships that we have there, are excited about the second half of the year, more so for the cost shift and their hedges rolling off and us being able to step into our aluminum profile. But yes, it was a little choppier because of customer mix for us in the first quarter.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

We didn't have any exposure to the customer that went bankrupt.

Operator

The next question comes from Phil Ng of Jefferies.

Philip H. Ng - *Jefferies LLC, Research Division - Senior Research Analyst & Equity Analyst*

Congrats on a solid quarter and a pretty tough demand environment.

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Thank you.

Philip H. Ng - *Jefferies LLC, Research Division - Senior Research Analyst & Equity Analyst*

Dan, I think it would be helpful to kind of give us some color in terms of how intra-quarter volume trends kind of sell throughout North America and Central America. How April is kind of shaping up? And do you expect more of the same effectively in 2Q in terms of the volume trends?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Yes. I do. In fact, it's probably a little softer than Q1, but that's anticipated. And we're managing against that. But yes, as we sit here today, there's not a lot of movement by the customer base to shift what's currently happening.

April is usually not the month that you usually see activity. So you get to the second half of May and June, that becomes really important as you head in the peak season. But as we sit here today, I think the way you characterize it is correct. It's largely in line with Q1 and depending on customer mix, may be a bit softer.

Philip H. Ng - Jefferies LLC, Research Division - Senior Research Analyst & Equity Analyst

Got you. And then for Latin America, you're expecting if I heard you correctly, Dan, mid-single-digit growth. So that would imply a pretty sizable ramp in the back half. Part of this, it sounds like it's predicated on the view that maybe your customers lean into loan hedges rolling off.

How much line of sight do you have? I mean, just promotions in North America, it's been tough to predict. How much line of sight do you have that your customers would behave as such and will help you kind of jump start that demand backdrop because it's been pretty choppy in Brazil?

Daniel William Fisher - Ball Corporation - Chairman & CEO

No, I think it's a great question. We built our plan on it second half loaded because of everything that you just outlined and indicated, the conversations that we're having with our customers, I'll be down there next week and you should count on that. That's what they're planning for, but plans aren't absolute.

So at this point, I haven't heard anything. I don't have any insight that would suggest anything other than what we've laid out, what we've characterized. But I think your point is valid. I mean there's certainly risk in a significantly elevated volume position. But our contracts also have backstop provisions in there that give us a little bit more teeth than maybe in years past.

Philip H. Ng - Jefferies LLC, Research Division - Senior Research Analyst & Equity Analyst

Okay. And sorry, just to sneak one more in. North America, you're expecting volumes to be flat to down a little bit. Any color on the back half what that assumes? Is it more like flat? Is it still down a little bit or maybe inflect a little bit up in the back half of North America?

Daniel William Fisher - Ball Corporation - Chairman & CEO

How we get there is slight declines in the first half and flattish in the back half. I think there's opportunity for more to have in the back half, but that's not what's built in our current plan.

Operator

The next question comes from Mike Leithead of Barclays.

Michael James Leithead - Barclays Bank PLC, Research Division - Research Analyst

I just wanted to actually follow up on Phil's last question there, just thinking about the North America earnings cadence for the year. I think Scott, you were fairly clear on the 2Q outlook. So just how should we think about the magnitude of the second half step-up just as you think about the new contracts rolling in?

Scott C. Morrison - Ball Corporation - Executive VP & CFO

Well, we get more of the PPI in the back half of the year. And let's face it, the Q4 comp was pretty easy for last year. So we should do meaningfully better than Q4 of last year, which was not very good.

But I would say we had a pretty good third quarter last year really in terms of performance in North America. So it's definitely back half weighted, with most of it in the fourth quarter.

Michael James Leithead - Barclays Bank PLC, Research Division - Research Analyst

Got it. Fair enough. And then second, briefly, you talked a lot about North America and South America earnings outlook. But could you maybe speak to the earnings outlook for EMEA into the second quarter and beyond?

Scott C. Morrison - Ball Corporation - Executive VP & CFO

Yes, we've got the headwind of Russia. So that was \$32 million in the first quarter. It's \$40 million in the second quarter, it moderates to \$14 million in the third quarter. So you have that headwind each of the next couple of quarters, second quarter being the largest headwind, because Russia performed really well last year in '22.

But all of the things that they've been doing from a cost standpoint, from a contract standpoint, from an inflation pass-through standpoint, have been positive. And they're seeing nice volume, and we've got new plants coming up. So we feel really good about the European business for the full year.

Daniel William Fisher - Ball Corporation - Chairman & CEO

Yes. I think how you look at Europe is FX stabilized, inflation stabilized, big headwind first half of the year in terms of operating earnings from the divestment of Russia and then you step into the two new facilities in the second half of the year. And we're still seeing growth in that business on improved contractual terms.

So it will be continued improved performance once you step out of the second quarter with the drag from a \$40 million Q2 in Russia.

Operator

The next question comes from Kyle White, Deutsche Bank.

Kyle White - Deutsche Bank AG, Research Division - Research Associate

I wanted to focus on beverage can new product introduction, a lot of uncertainty in the economy. Are you seeing any reduction in new product offerings or introductions from your customers? Understanding that the can obviously wins a greater share of this, but some of these new products in energy, alcoholic and ready-to-drink space have been key to the growth. So just curious what you're seeing there.

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Yes, Kyle, first of all, congratulations. A lot of the information we're getting on new product innovation is coming from Vonn, your new baby girl boy, sorry.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Yes. No worries.

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

I'm sure what he's going to be wanting is ready-to-drink cocktails and nutritional energy drinks. But in all seriousness, lots of innovation still happening and continuing to see share gains from our ready-to-drink cocktails.

I think a couple of customers have really benefited in that space. And there's almost a forcing mechanism here. Like if beer is declining, those alcohol companies or new beverage companies are going to have to step into things to sell. And they're innovating at the fastest rate.

And then we've seen some of the historical CSD companies that have introduced alcoholic beverage, and they've really done well. The other part of this is there's a greater opening as the price increases have been the lever with which folks have pulled, our customers have pulled.

It creates a disruptive space for innovation to come in. That's always what we've seen. And so it's ripe for more innovation and more disruption and you're starting to see that. And now that we have cans available, cans will win, and those tailwinds will manifest here.

More in the medium term, but we're having all those conversations. So I think that will continue to be a benefit and a tailwind for the can, still seeing new product introductions at those 70-plus percent levels. So nothing's changed in terms of that. The can continues to win. So we're excited about the future prospects and new product introductions.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

And in fact, Kyle, today, we have one of the leading beverage innovation houses is actually visiting us here in Colorado today. So we're really excited to be working with them and all kinds of folks with new ideas and new beverage categories.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Got it. And I appreciate the remarks. Maybe a soft sell-through here for the little guy here shortly. But next question I want to focus on the start-ups related to Europe. Just curious how the U.K. and the Czech Republic plant are doing? How is the ramp-up going? And any start-up costs to call out?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

I'll leave it to Scott. I don't think anything meaningful in the start-up cost. But they're right on track. The teams have done a great job. We've got sister plant concepts in terms of training. So we brought folks in. They're helping us out in the other local facilities. So they'll be well trained and ready to step in on day 1 when we have production and operation.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

We probably had about \$5 million of start-up cost in the first quarter. There'll be more of that in the second quarter. But I was just looking last night actually at the start-up curve for each of those plants, and it's been phenomenally well executed. We're right on where we thought we would be, and we're really happy with the performance and the execution of those projects.

Operator

The next question comes from Gabe Hajde of Wells Fargo.

Gabrial Shane Hajde - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Congrats. I have a question about the full year and then the second quarter cadence. I feel like there's a decent amount of noise and sort of just underlying performance but North Central America profit being up almost 2x from 4Q, and I appreciate that was an odd quarter. But Scott, the math you gave us on being 3.7x levered by the end of the year, if I subtract out \$750 million of cash plus the \$260 million of dividends, that implies 2,150 of EBITDA. Is that the right way to think about it? And then sequentially, would you expect EBITDA to be up or down relative to the first quarter?

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

For the first side of your question, I would say you're directionally correct where you're coming out. On the second part are you speaking to the second quarter EBITDA?

Gabrial Shane Hajde - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Correct.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

The second quarter EBITDA will be down. And then it will accelerate in the back half of the year. And we explained we got a \$40 million drag from Russia. We're getting our inventories right in South America. So we'll take absorption hits. We'll have negative mix in the second quarter.

In the second quarter in North America, the plants will perform very well. And we'll make more money than we did last year, but we don't have the VPPA thing that we had in the first quarter. So I think I explained exactly how it should shake out.

Gabrial Shane Hajde - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Understood. And then, Scott, probably one for you on the balance sheet and cash flow that you're talking about. Unless my model is wrong, your days payable are at 130, which is pretty good. I mean I expect you guys wouldn't want to extend it out that long yourselves.

Is there anything that we should be mindful of thinking about that being a potential drag on cash flow in future years? And then I think you have \$1 billion of debt due in November. Is any change in the potential rate on that included in the \$425 million of interest expense?

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

No. The \$425 million is kind of built in with any actions that we would take and whether we would take those actions to deal with the maturity in November. We'll generate a lot of cash in the back half of the year.

So our debt pay down really doesn't happen. This is kind of the peak leverage right now in April, May time frame, stays fairly even through June, and then it starts to come down, but most of it will come down in the fourth quarter. So that interest expense assumed kind of anything we might do on the debt front. What was the other part of the question?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

And I think implied in that statement is, yes, we recognize that we'll be retiring cheaper debt than we'd be stepping into at this point in November, and that's anticipated in Scott's number.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

Yes. And then next year, we're going to delever more. I think we can both delever and start buying back some stock next year. But sure, in the higher interest rate environment, you probably want a little less debt. The world has started to stabilize, so that's good. But I'm a hell of a lot older than you Gabe, but these rates are still not that scary. I was around when we were doing 8%, 9% debt. So 6% debt is really not that bad. It's something we have to deal with, but it's not something that changes the direction or changes what we're doing.

Gabrial Shane Hajde - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Right. Understood. And then the other question was on the days payable or just working capital in general. I'm seeing days payable at 130 days.

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

Yes. I think we got to manage both the supply side and the customer side from a working capital standpoint, and we do that every day. And every new contract negotiation, those are key points. It's not just about price and volume, terms matter. And so we focus on that every day, and we have meetings on cash flow every month. So we're very keen and focused on it. But yes, in a higher interest rate environment, anything that has a time element of money is more expensive.

Operator

Our final question comes from Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

There's a lot of ground covered. Maybe just going back to EMEA. I appreciate the kind of noise on a year-on-year basis with Russia and the prior year results. You have disclosed what the non-Russia EBIT was in the prior year.

So how do we think about that business on an organic profit or on a like-for-like profit basis progressing over the balance of the year? And as we think about the new capacity in Czech Republic and the U.K. layering in, in the second half, kind of the implicit underlying volume growth that carries over into '24 without broader market kind of expansion?

Scott C. Morrison - *Ball Corporation - Executive VP & CFO*

The game plan really for Europe this year is to be able, on a euro basis, to replace those Russian earnings that we had for 9 months last year. So if we can do that, that's a hell of an accomplishment because Russia was a very nice profitable business.

And so if they can do that, I think that's victory. They've done a great job of managing their cost structure, managing their contracts, managing the supply chain. And so we're really happy with the performance of the EMEA business.

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

Yes. I think in the simplest terms, the plan that we've set out this year, inclusive of Russia, would be we're going to make significantly more money on less volume, and we're going to generate more cash. And a lot of that is coming from Europe's ability to offset the \$80-plus million of comparable operating earnings in Europe.

So they've got a significant plan for improvement, and they're off to a good start executing against that. They've done extraordinarily well here since we acquired that business from Rexam. They've continued to deliver against plan. And the only time I think we didn't was when we had a global pandemic. So we're feeling pretty confident in that team's ability to deliver.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Got it. And the carryover on volume into '24 from the new facilities?

Daniel William Fisher - *Ball Corporation - Chairman & CEO*

It would be in the range of 2 billion units.

And I think with that, we look forward to talking to you here in another quarter. Thanks for everybody's attention and participation today on the call.

Operator

Thank you. This does conclude the conference for today. We thank you for your participation and ask that you please disconnect your lines. Thank you. Have a good day.

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