S&P Global
Market Intelligence

Ball Corporation NYSE:BLL

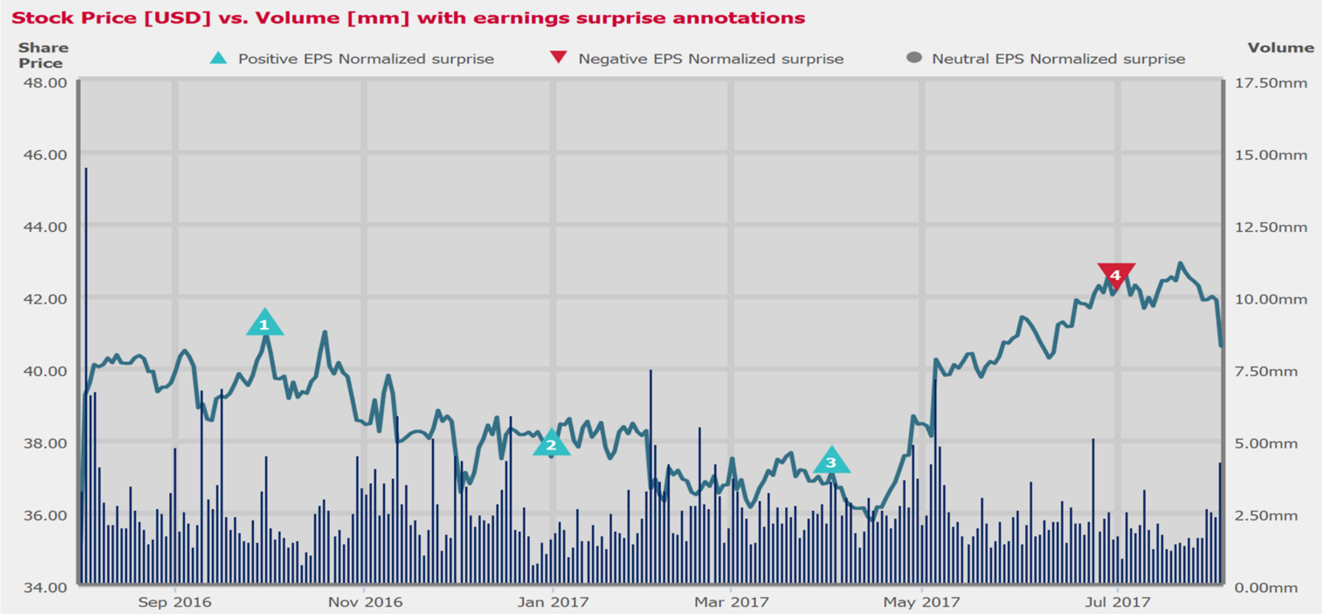
FQ2 2017 Earnings Call Transcripts

Thursday, August 03, 2017 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.55	0.53	▼(3.64 %)	0.64	2.12	2.54
Revenue (mm)	2805.83	2855.00	▲1.75	2894.75	10768.70	11091.28

Currency: USD
Consensus as of Aug-02-2017 9:00 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.47	0.48	▲1 2.13 %
FQ4 2016	0.42	0.44	▲2 4.76 %
FQ1 2017	0.35	0.38	▲3 8.57 %
FQ2 2017	0.55	0.53	▼4 (3.64 %)

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Call Participants

EXECUTIVES

Ann T. Scott
Director of Investor Relations

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

John A. Hayes
Chairman, President & CEO

Scott C. Morrison
Senior VP & CFO

ANALYSTS

Adam Jesse Josephson
KeyBanc Capital Markets Inc., Research Division

Anthony James Pettinari
Citigroup Inc, Research Division

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

Christopher David Manuel
Wells Fargo Securities, LLC, Research Division

Clyde Alvin Dillon
Vertical Research Partners, LLC

Deborah Anne Jones
Deutsche Bank AG, Research Division

George Leon Staphos
BofA Merrill Lynch, Research Division

Mark William Wilde
BMO Capital Markets Equity Research

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

Philip H. Ng
Jefferies LLC, Research Division

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

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ball Corporation Second Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded, Thursday, August 3, 2017.

I would now like to turn the conference over to John Hayes. 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 second quarter 2017 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 the company news releases.

If you don't already have our second quarter earnings release, it's available at our website at ball.com.

Information regarding descriptions of our segment reporting, year-to-date depreciation catch-up recorded in the second quarter that relates to the finalization of the fixed asset values associated with last year's beverage acquisition and 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 is Scott Morrison, our Senior Vice President, Chief Financial Officer. And also, we are welcoming Dan Fisher to our quarterly earnings calls. Dan assumed the role of Chief Operating Officer of our Global Beverage business late last year, and he's doing a fantastic job leading this.

Given where we are and where we're going, we felt important for you to hear from him on many of the activities that are occurring in this business. I'll provide some brief introductory remarks and comments on our food and aerosol segment. Dan will discuss of the global beverage packaging performance. Scott will discuss key financial metrics, and then I'll finish up with comments on our aerospace business and the outlook for the back half of 2017 and beyond.

Our second quarter results from operations were right on top of our expectations despite challenging U.S. tinplate performance. Volumes in our U.S. food can business declined low double-digits in the quarter and tinplate manufacturing inefficiencies lead to lower absorption and redundant cost in the quarter related to the closure of our Weirton, West Virginia cutting and coating facility and contemporaneous start-up of our new Canton, Ohio cutting and coating facility. We're disappointed about the performance we experienced in this segment. However, we believe the underperformance is behind us and expect each of the remaining quarters for our food and aerosol business to be up year-over-year due to the incremental progress we've seen in our Canton metal service center, improving manufacturing metrics and the ramping up of new aluminum aerosol capacity in Europe and India to keep up with our customers' growth.

Supply and demand is very tight in the global aluminum aerosol business, and our team is [living tantamount] during the second quarter, lending support across regions to one another as they try to keep pace with the expansion of our highly sustainable and lightweight ReAl product line.

Going forward, we will continue to generate cash from our tinplate operations and continue to invest in our growing global aerosol business. I'll let Dan Fisher review the global beverage can business in a moment. However, one year into the largest acquisition of our company's history, we're seeing the growth in comparable EBITDA and free cash flow materialize in global beverage. Initial transformational actions are driving synergies and cash flow is on the rise.

We're not without our challenges, particularly in some of the more volatile regions in which we operate, but our 3 largest regions, North and Central America, Europe and South America, are all on track. So far, so good.

Combining the expected improvement in both food and aerosol and our continued progress in global beverage, and then layer on current and expected growth in our aerospace business over the next several years and we remain confident in our team's ability to deliver in our commitments while behaving as owners to ensure the best long-term outcomes for our company. With Dan, Jim Peterson and Rob Strain at the helm of these businesses, we're in very good shape.

To highlight some of the work being done during the second quarter, we further improved our G&A cost structure with the ramp down of the Charlotte, North Carolina regional support center. We seized beverage can production in Reidsville, North Carolina. We negotiated the works Council -- with the Works Council in Recklinghausen, Germany and [ceased] production of beverage cans and ends at those facilities on July 31. We saw month-on-month improvement at our Canton, Ohio metal service center and our aerospace business cleared critical program milestones, hired more staff to service contracts that will ramp up through the second half of 2017 and stayed on time and on budget with facility expansions.

Our multiyear value capture plans are on course. And as previously mentioned, we expect to recognize $150 million of the expected synergies by the end of 2017 and balance sheet optimization programs are producing benefits equal to or better than our expectations.

Our plan for 2017 and beyond are right on track to capture planned cost savings and grow comparable EBITDA, cash flow and EVA in all of our businesses. And with that, I'll turn it over to Dan.

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Thanks, John. It's a real pleasure to join the earnings calls and have the opportunity to highlight all the very good work being executed by our global teams. I want to recognize Carlos Medeiros, who moved from our South America operations to replace me here in North and Central America. And Carlos Pires, who took over for Carlos in South America. We have high expectations for both gentlemen and are excited to have these -- them in these new roles.

As John said, we're pleased with our second quarter results. Pro forma global beverage can volumes grew in the quarter. The beverage can is winning in traditional and craft beer, sparkling water, energy drinks, teas and wine, and we're leveraging our industry leadership role to further position the can as the most sustainable package from an environmental, social and economic perspective for our customers, consumers and communities.

Our North American volumes grew just over 2%, largely driven by imported beer demand, growth in craft and sparkling water and consumer demand for smaller sizes of their favorite traditional beverages. And in South America, John and Scott mentioned on the first quarter call that the South America team was feeling much more constructive about the market and it materialized.

In the second quarter, our South America segment volume grew 4% with Brazil being up in the low single-digits and continued growth in other South American countries.

The European business saw growth of approximately 1%, which was in line with industry demand. Demand for sleek cans continued and our ongoing plant construction in Spain is right on track. We still have much work -- much to work on in terms of improving the margins in the business and it will take some time. However, we have a variety of initiatives both near and long-term we are executing on that will help bridge the gap between the business we acquired and our expectations for this segment over the next couple of years.

The EUR 40 million annualized cost savings from the recent Recklinghausen enclosures is a very good start, and we have a variety of other initiatives underway to make the business more competitive from a cost and flexibility perspective. You may have noticed in the release financials that the contribution from our equity investments grew quarter-over-quarter. The acquired beverage can JVs in Guatemala, Panama and South Korea as well as our legacy Rocky Mountain Metal Container JV and our Vietnam investment, all performed well in the quarter due to better volume and mix.

We are not without our challenges, including the political and economic unrest in Turkey and Egypt and the carbonation tax in Saudi Arabia that are hurting consumer demand in that region. In the second quarter, our China volumes were flat versus the market growing at roughly 6%. With China's overcapacity situation, Ball has and will continue to exercise a disciplined approach.

Despite these regional challenges, the managers in these regions in the entire global beverage organization is executing at a very high level and every division is on track to increase the EVA dollars being generated on the invested capital they have employed. Our global beverage sales, engineering, innovation, manufacturing and finance teams have a roadmap lined with initiatives to leverage our specialty portfolio, to existing and new customers, foster best practice sharing and process improvement and drive innovation while optimizing our plant networks and existing equipment.

In summary, our global beverage business posted strong results and everyone is laser focused on keeping this momentum going, meeting demand and effectively managing their invested capital base to drive EVA dollar growth. We're right on track in the next wave of transformational work to ensure we are fit from a supply/demand, cost and flexibility perspective will accelerate in the second half of 2017.

Thank you again to all of our teams around the globe. With that, I'll turn it over to Scott.

Scott C. Morrison
Senior VP & CFO

Thanks, Dan, and welcome to the calls going forward. Comparable second quarter 2017 earnings were $0.53, which includes expense of $0.04 for the 2017 first quarter catch-up, an additional second quarter depreciation, related to the finalization of the fair values and useful lives for the assets acquired in the Rexam acquisition versus last year's $0.52, which was right on top of our plan prior to the final acquisition accounting getting recorded.

To keep the update as simple as possible, I would add $11 million of depreciation per quarter and making the offsetting change to segment earnings with $8 million per quarter in Europe and $1 million each quarter in North America, South America and other for EMEA. Refer to Note IV of the press release financials for further explanation and catch-up depreciation reconciliation as of June 30, 2017.

Second quarter comparable diluted earnings per share reflect the benefit of last year's beverage can acquisition and solid operational performance for both beverage and aerospace. These benefits were partially offset by higher interest expense and a higher share count. Details are provided in Note 2 of today's earnings release and additional information will also be provided in our 10-Q.

Net debt ended the quarter at $7.1 billion, which was right on top of our plan and a decrease of $300 million since the end of the first quarter due to strong operational performance and working capital management despite our normal seasonal working capital build. That debt will continue to come down as we move through the back half of the year.

At current FX rates and given our euro debt exposure, our year-end net debt will likely trend closer to $6.3 billion. But this will not impede our plan to return value to shareholders via share repurchases and dividends during the second half. As we think about the remainder of 2017, nearly all of our previously communicated goals remain intact. We expect full year 2017 comparable EBITDA in the range of $1.75 billion, free cash flow to be in excess of $850 million after spending an excess of $500 million of CapEx.

Post-split, the full year weighted average diluted shares outstanding for 2017 will be closer to 359 million shares, excluding the impact and timing of any share repurchases. Full year 2017 interest expense will be in the range of $280 million. The full year effective tax rate on comparable earnings will be in the range of 26%, and corporate undistributed will be in the range of $140 million for full year 2017. And as I mentioned earlier, year-end net debt could be at the higher end of the $6.2 billion to $6.3 billion range due to the strength of the euro.

The cash is really showing up, and we feel really good about where we are at midyear. With that, I'll turn it back to you, John.

John A. Hayes
Chairman, President & CEO

Great. Thanks, Scott. Our aerospace business reported improved second quarter results driven by solid contract performance and the continuing ramp up on new contracts. The team cleared a couple of significant program milestones and some big programs during the quarter. And even though the contracted backlog is down slightly, please don't read anything into that as the U.S. government has not been making decisions on outstanding proposals as it continues to focus on other priorities and backfill open decision making positions in the various defense and intelligent communities.

Our aerospace business is winning in the marketplace and we'll see a nice step up in the segment earnings year-over-year during the second half. Now as we look forward, we are on track to achieve the financial benefit from the acquisition. Our aerospace business is hiring people at a rapid clip to staff the work won to date. And our food and aerosol team has a mandate to attack cost and improve manufacturing efficiencies to the Ball standards that we expect.
As Scott mentioned, our 2017 comparable EBITDA and free cash flow goals are intact and will be driven by a global beverage demand, synergies and aggressively managing the balance sheet. By 2019, we continue to believe that we can generate $2 billion of comparable EBITDA and an excess of $1 billion comparable free cash flow. When we announced our intentions to acquire Rexam that we said that we would rapidly delever, capture synergies, spend necessary growth capital on high returning projects and then return our remaining free cash flow to our fellow shareholders through share repurchases and dividends, and that is exactly what we are doing. And with that, Malika, we're ready for questions.

Question and Answer

Operator

[Operator Instructions] And our first question is from the line of George Staphos with Bank of America Merrill Lynch.

George Leon Staphos
BofA Merrill Lynch, Research Division

Congratulation on the progress. I guess, I wanted to drill into the guidance a bit to see if there are any subtleties that we should be mindful of over the rest of the year. So I think in the last investor conference, Scott, you said EBITDA would be $1.750 billion plus. In this press release, it's in the range. And the 20% to 30% EPS growth target hasn't, I don't think, been explicitly mentioned. I'm guessing, issues in EMEA, food cans and obviously, the depreciation increase are some factors that are maybe weighing on the guidance. But if you could affirm that or correct anything that's wrong there, I'd appreciate it, and I had a couple of follow-ons.

Scott C. Morrison
Senior VP & CFO

Yes. Now, George, I think you have it exactly right. If you look across the businesses and the performance, North and Central America, Europe, South America are all on track as well as China in aerospace. Food is trailing our expectations and EMEA is more volatile region and right now, they're experiencing some tougher times. Given that and the $90 million of additional depreciation and non-steel related amortization, I think we'll be low that -- we'll be below that 20% to 30% EPS range that we gave, but above our long-term goals. And our focus has always been on driving cash and EVA dollars, and we're doing great on those fronts. So that's kind of the story I think you have it exactly.

George Leon Staphos
BofA Merrill Lynch, Research Division

All right. And Scott, just you said above the low end of the 20% to 30% goal, did I hear that correctly?

Scott C. Morrison
Senior VP & CFO

Well, I said below the 20% to 30%, but above our long-term range. Our long-term goal is that 10% to 15%.

George Leon Staphos
BofA Merrill Lynch, Research Division

Understood, understood. And then, Dan, I guess, welcome to the call as well. Some questions for you to the extent that you can comment. Realizing EMEA is volatile and therefore by definition, can be hard to project. Are you seeing any change in trends early in the quarter that would suggest some improvement? And then to the degree that you've been working on this, how are you finding the company's ability to sell complexity and generate return from selling the complexity to your customers, any willingness for them to use a more sophisticated, more complex packaging mix in the future?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Yes, I would say and I'll ask John to maybe comment on the second part of that. But for EMEA in particular, the way we're -- in Saudi relative to the carbonation tax, we've seen different sorts of tax and different sorts of revenue grabs from governments in the past. Then there's always a short-term inflection point until you can work through exactly that impact in terms of substrate mix, pack size, and supply chain and retail prices. And there hasn't been -- here we are 3, 4 weeks into the third quarter, I haven't seen significant change to what we experienced in June. Keep in mind that tax went into effect basically the first week of June. So it's still very early. But historically, whether it's sugar taxes or anything along these lines, we see the demand profile come back in markets like the Middle East, where we like the long-term and midterm trajectory.

John A. Hayes
Chairman, President & CEO

And George, to answer your question about the customers and profit pools, I think that's where you're really going. Yes, I mean, yes, we continue to see our customers using our containers particularly in the specialty side to change the profit pool opportunities that they have in front of them. And whether it's soft drink here in North America, whether it's beer both large and South -- large and small in South America and even Europe, we continue to see that. And we continue from a -- from our position, we continue to try and push that because I think it's important that we're driving value and volume into our customers because if we can help them with the price points that they have and improve their profitability, it's better for the can and it's better for Ball Corporation.

Operator

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

Adam Jesse Josephson
KeyBanc Capital Markets Inc., Research Division

Just, Scott, one on the cash flow guidance. Obviously, you're getting better at working capital. Can you just talk about what exactly has improved along those lines? What you're working capital expectation has changed by? And how sustainable whatever those improvements are?

Scott C. Morrison
Senior VP & CFO

Sure. I think we are -- as we move through the year, it's been really fun to see the alignment and energy all of our teams have in getting after whether it's managing inventories, payable terms, receivables. Having EVA as our primary financial metric is a powerful tool. And if you get people aligned around that, and what it means, and the different levers you can pull. It's fun to see with our folks, whether it's treasury, sourcing, operations, legal, IT, all working together to drive the improvement. So we're seeing it really across the board. And we're 6 months into this year and feel better about the cash flow that will show up this year.

Adam Jesse Josephson
KeyBanc Capital Markets Inc., Research Division

Can you -- is there any particular bucket that you would focus on? Receivables, payables, inventories?

Scott C. Morrison
Senior VP & CFO

It really is, Adam. It's across the board, and it's different geographies and different opportunities. What's exciting to see is it's kind of leaving no stone unturned. So I think we're going to see nice benefits this year and more of that will flow into '18 as well.

John A. Hayes
Chairman, President & CEO

Yes, I think just to give you context, so let's just focus on the inventory for a moment. The demand side of our business has been good in those 3 main regions. We have, as Dan said, some volatility in some of the other regions. But the ability to use our system as a network, and the plant floor systems that we talked about in being able to optimize the days on hand, of only raw coils but also finished goods and having better capability being able to predict the demand profile of our customers. That has all helps drive down inventories.

On the receivables, we've done some creative things with some of our customers to help drive DSO in there. And then on the payables side, we've been working with our suppliers to do it. So it really is all across the board.

Adam Jesse Josephson
KeyBanc Capital Markets Inc., Research Division

Okay. And just a couple of others. One on European beverage margins. If I add back the $16 million of additional D&A or depreciation, margins would still have been quite a bit lower than a year ago, appreciating that the asset mix has changed. Were those margins ex the higher depreciation as you were expecting? And if so, why were they so much lower than last year?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Yes, they are in line with expectation. I think we've commented on this. I mean, the business that we acquired had a different capability mix in line with that, has a different profitability mix. We're changing both the flexibility and the capabilities in Europe. I think first step was closure of a high cost basically obsolete capability footprint in Recklinghausen. So if you add that back to your first half run rate that we experienced this year, you're getting a lot closer to where we have been historical. And as I said in my comments, we're not done yet. It's going to -- it just takes a little longer in Europe given Works Council constraints and things of this nature from a structural standpoint. But we're right in line with where we think.

Adam Jesse Josephson
KeyBanc Capital Markets Inc., Research Division

And just one on Brazil. 2 of the biggest brewers were both down in the quarter. In one case, high single-digit. And one of them said the beer market was down almost 3% in the quarter. Yet the can makers and the bottle makers were all up in the quarter. Can you help me understand why there might have been this disconnect between the packagers' volume and the brewers' volume in Brazil?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Yes, the actual literage consumption for the brewers was down roughly 3% in the market. And so for us, again, we continue to experience the benefit from substrate penetration on can versus returnable glass. And then depending on which customer you're looking at, they all had a different success story, as they always do, from quarter-to-quarter depending on the promotional activity. So we benefited from mix and we benefited from the can and the penetration against returnable glass.

John A. Hayes
Chairman, President & CEO

I'll just add on to that, that Dan raised a very good point because while overall literage was down, we've seen smaller pack sizes on the can go into Brazil at a higher rate than some of the larger sizes. So that's one thing. On the glass, obviously, we're not in the glass business. We shouldn't comment on it. But we do know that, as Dan had said, that the can is up while the overall beer market was down.

Operator

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

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

This is actually Matt Krueger sitting in for Ghansham. Just wanted to ask, how does the recent weakening of the U.S. dollar impact your EBITDA and free cash flow outlook for 2017 versus prior guidance? And then given the lowered EBITDA guidance for 2017, how does this change the timeline for your ability to deliver on the targeted $2 billion in EBITDA for 2019?

John A. Hayes
Chairman, President & CEO

Yes, let me just jump out ahead of that and Scott can talk about the euro. But I want to be clear here. A year ago, when we gave out those ranges of free cash flow and EBITDA, we said that if things go our way and get some tailwind, that we'll be at the upper part of that range. And if things -- if we start to encounter some headwinds, we could be at the lower end of the range.

We talked about the 3 largest regions, North and Central America, Europe and South America, all doing well and on track. Where we're having our diffi -- in aerospace as well, where we've been having our challenges, quite frankly, is in the food and aerosol side, where we are down year-to-date when we expected to be up. And that's not an immaterial amount.

We expect it to get better, but we got to get some giddyup on the manufacturing side of that business. And then on the EMEA side, Dan just talked about the 50% consumption -- carbonation tax in Saudi Arabia. There's been a 40% increase in retail price points in Egypt because of the devaluation. Those are material headwinds to us. And despite that, we still think that we're going to be in the $1.75 billion range in EBITDA.

As it translates into cash, it gets down to, you have to look at interest expense and all those things that mutes some of the impact on the euro exchange and a lot of the working capital and just running our balance sheet much more efficiently with this combined organization, that's where we're getting the benefit there. So with that, Scott, if you want to say anything more about the euro?

Scott C. Morrison
Senior VP & CFO

No, those are the big drivers. The euro has a bit of a benefit from an operating earnings standpoint. But like John said, it's got negatives, too, in terms of leverage and interest expense and other things. So net-net, the business is pretty much in line with what we would expect. Absence some of the softness were seeing in a couple of segments and performance is really generating, and on track and cash flow is ahead.

John A. Hayes
Chairman, President & CEO

Yes, and we expect to -- all the synergies -- synergies plans are on track, and we expect to accelerate those plans in the second half, as we said in our earnings release.

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

Okay, that's understandable and very helpful. And then given all the concern over the Brazilian economy's health, can you describe the South American intra-quarter trends by month for the second quarter and then how is this region performed thus far during the third quarter?

John A. Hayes
Chairman, President & CEO

Typically, we're not going to get into that. And quite candidly, I don't think it's helpful because every region that has a level of volatility and certainly, South America does when you think about politically what's going on there. But what we've seen is steady progress despite economic and political difficulty down there.

As you know, the second quarter and even the third quarter, are seasonally slow quarters. But -- and I don't, off the top of my head, have month-to-month and I don't think it would be relevant anyways. But the can, we wish it was stronger, quite honestly, but to be up a few percent in a seasonally slow quarter in a place where the economic and political discord continues, we'll take that. It's a little bit better than what we had anticipated 6 months ago.

Operator

And our next question is from the line of Tyler Langton with JPMorgan.

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

Just have some questions on the closures. I guess, I know you mentioned the EUR 40 million for Recklinghausen. And can you just, I don't know if you've given any updates for the savings from Reidsville and Charlott. And then could you also just remind us in terms of when the savings from those closures should start to show up?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Well, both of those facilities closed at the tail end of the second quarter. And as you said, the EUR 40 million that's been guidance given and at our Analyst Day in December, we commented that typically, a closure in North America and/or Europe, if it's a reasonably sized can plant, it's in the $25 million to $35 million range, and it's going to be right in that range.

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

And for Reidsville?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Correct.

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

Okay. And then so kind of for those 3 kind of, I think, Q3 and beyond is when those savings should start to flow through?

John A. Hayes
Chairman, President & CEO

Yes, usually -- because remember Recklinghausen for example, didn't stop producing until the end of July. There's always -- when you close a plant, there's always a couple of months thereafter when you get some kind of cost tail, if you want to call it that. So I would think about Reidsville, we'll get a little bit in the third quarter, a little bit in the fourth quarter. Recklinghausen is probably more in fourth quarter. But more importantly, it's 2018 and beyond.

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

Okay. Now that's helpful. Then just South America, and I know it's not -- the year-over-year comparables aren't great. But I guess margins were strong and kind of equal to sort of -- a seasonally stronger fourth quarter levels of a year ago. So I don't know if you can comment on sort of what's driving those margins and kind of how you think about them if they continue to improve as you go into the stronger second half.

John A. Hayes
Chairman, President & CEO

Yes, we talked about this before. It's unfair to look at that because it's an apple and a pear because we have a network now. In the past, we only had several plants. And so the on-season versus off-season fluctuation and margins was greater because when you're spreading your G&A and your fixed costs over smaller amounts of plants, it just becomes more volatile.

When you have a network of 13 plants all throughout South America, it becomes a little bit more consistent. Obviously, we just lapped the 12 months of the acquisition. So I think as we go forward, that would become more clear as you see looking forward.

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

Okay, great. And then just final question, Scott, just on working capital. I think, previously, you said better than $100 million. I don't know if you have any sort of updated forecast for that number?

Scott C. Morrison
Senior VP & CFO

No, it will be better than $100 million and we think the total free cash flow will be better than $850 million. There's a bunch of other puts and takes, that's why I'm not giving you any specific answer.

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 following up on Tyler's question. I'm wondering if at this stage there's any other footprint optimization that you're looking at? Or anything that we could expect going forward there as we kind of look at these markets as they've evolved over the last year or so?

John A. Hayes
Chairman, President & CEO

Yes, well, in December of last year when we had our Investor Day, we did talk about that we have a multiyear program -- Dan, to look at and optimizing our footprint from a cost and flexibility point of view, and none of that has changed. Dan talked about, even in Europe, in Recklinghausen, it allows us to get more flexibility and while take a high-cost plant out. We think there's more opportunities like that going forward. And we've also said that our plans are going to be accelerating at this point in time -- as we go into the second half. And so conceptually, we're continuing to look at these things all the time.

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

Okay. And in the past, you've talked about getting back into the market, getting into share repurchase program as you get more of a line of sight to the leverage metrics that you're targeting. I guess relative to last quarter's call, has that timing, in your minds, been pushed out or pulled forward? Or is it still kind of roughly the same?

Scott C. Morrison
Senior VP & CFO

Like we always said, as we got better line of sight the second half of the year, and we're in the second half of the year and I think we have better line of sight. So I would expect that we're right on plan with what we thought we're going to do before.

Operator

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

Anthony James Pettinari
Citigroup Inc, Research Division

John, you talked about challenges in U.S. tinplate and the operational headwinds as you transition out of Weirton and start-up Canton. Is it possible to quantify how much of a hit those transition costs were in the quarter relative to your initial expectations?

John A. Hayes
Chairman, President & CEO

I'd hesitate a bit because then you'd play left pocket, right pocket, but what I can tell you was -- is we expected the second quarter to be flat to up relative year-over-year and we were not. And the vast majority of that was related to cost and efficiencies.

Anthony James Pettinari
Citigroup Inc, Research Division

Okay, okay. And then at the Analyst Day, you discussed commercial opportunities that could create value in excess of the synergies. And I'm just wondering, in the time since the Analyst Day, as you've spoken with customers, how is the commercial opportunities playing out relative to your expectations? Are there any kind of early wins that you can point to in terms of packages that are gaining acceptance or new offering? Or is this maybe a little bit more of a longer-term process?

John A. Hayes
Chairman, President & CEO

Well, it definitely is a longer-term process. And recall at the Investor Day what we talked about is -- I mentioned even earlier on this call about profit pools and improving the profit pool. Those are wide variety of ways you can do that. Obviously, different can sizes, price, tighter call loss, ordering call offs with our customers, there are a whole host of things. To answer your question directly is on the specialty side, back not 6 months ago, I think we told the world in North America, we are making, and don't hold me on this, but approximately 25 different types of cans. We're at 30 now. We're at 30 because we continue to see growth in the opportunities of really differentiating on behalf for our customers and on behalf of our customers.

I would tell you, so we're having some good success there. And the standard 12-ounce containers on a global basis. As you know, that's a very competitive spot where we compete with others, we're trying to be leaders in that. But you also have to be realistic. And I think it's a much more longer term. As contracts come up, we have to recognize the regional supply and demand and the regional competitive dynamics of that. But it is on the standard containers. It is more competitive. But as I said on the specialty, we are seeing more and more opportunities. You just have to be a hunter for that.

Operator

And our next question is from the line of Mark Wilde with BMO Capital Markets.

Mark William Wilde
BMO Capital Markets Equity Research

Dan, I wondered if you could just talk a little bit about what you saw in the second quarter in terms of seasonal pick up in Russia, in the Nordic region? I think when you bought Rexam, you said that there were pronounced seasonal pattern there?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Yes, we saw and I think we commented in the first quarter, we were slightly down year-over-year, but it's not a robust quarter in terms of volume, in terms of the seasonality. And we were about mid single-digits up in Russia in the second quarter. So right in line or a little bit ahead of kind of where we thought. The business is performing well. They're right on track, really no news to report there.

Mark William Wilde
BMO Capital Markets Equity Research

Okay. And then you really kind of hinted at potentially more footprint adjustment in Europe. And I just -- I'm always conscious in a lot of countries in Europe, things are not as flexible from a labor standpoint as maybe we have here in North America. And I wondered if you're seeing any challenges with that, that are different than you might have expected.

Daniel William Fisher

Senior VP & COO of Global Metal Beverage Packaging

The challenges are consistent with what we've experienced historically when we've done this. Yes, I think in my prepared comments, we are constantly -- as the market leader, we're constantly looking at supply/demand balance, how we have historically. We're looking at market opportunities because there are parts of Europe that continue to grow. And we've made the comments on our investments in Spain.

And we continue to see growth in areas like Russia in Central and Eastern Europe. So we'll continue to make sure that our footprint is fit for purpose to capture the growth and benefit our customers and attack those profit pools, as John mentioned. And there maybe changes to the footprint in order to get that.

Mark William Wilde
BMO Capital Markets Equity Research

Okay. And then last question I had. There's been sort of lot of back-and-forth over the last couple of quarters whether we're seeing any signs of improvement in China, and I wondered if you could comment on that.

John A. Hayes
Chairman, President & CEO

It's -- the short answer is there's no facts that we can point to that says there's been meaningful improvement in China in terms of the oversupply situation. I think, anecdotally and from a tone perspective, it feels more constructive. But I wouldn't -- it's premature to declare any kind of victory there. We do know that the can market continues to grow, particularly in the beer side, but we're also seeing more can penetration in alternative drinks, whether it's herbal teas or energy drinks, et cetera. We know that very little, if any new capacities, have been brought on stream. And so we've slowly been whittling away at that overcapacity.

As we look out several years, it's up to us to be able to try and push some of these new categories because that's going to create the incremental demand that will soak up the excess capacity. So while nothing meaningful has changed as we see here right now, I think our tone, as we look out over the next 3 years, feels a little bit better today than it did, say, 6 or 9 months ago.

Operator

And our next question is from the line of Phil Ng with Jefferies.

Philip H. Ng
Jefferies LLC, Research Division

Question for Scott. The free cash flow generation for this year is obviously -- is looking pretty strong, and a big part of that sounds like its working capital savings this year. Do you kind of view the upside [of -- are you finding] your working capital this year more of a pull forward from '18? Or are you just finding just a larger basket of opportunities over the 3-year horizon you've talked about?

Scott C. Morrison
Senior VP & CFO

Well, I think it's probably a bit of both, Philip. So I think we got -- we've gone after a lot of different programs and they're coming to fruition probably a little quicker than what we initially expected. But I think we're also finding broader pockets of opportunity to go after. So I don't think it's necessarily to steal in from '18 into '17. I think the total pool will be bigger over time as well.

Philip H. Ng
Jefferies LLC, Research Division

Okay, that's helpful. And I guess, on the food can business, did you see any increased competition, because it did seem like you walked away from a little business during the quarter? How should we think about your volume trajectory in the back half assuming a normal path?

John A. Hayes
Chairman, President & CEO

Yes. No, it's a good question. No, we did not see any meaningful competitive pressure. Let me talk about the volume declines because I think it's important to parse out. There's really 3 fundamental things that lead to the food can declines. Number one, there's some timing with some customers that I wouldn't read into too much. We typically, quarter-to-quarter, have timing issues on this and it actually was a headwind to us in this corner, but we expect to make it up. Another one, we have a large customer experimenting with an alternative substrate and it's premature to say if that's going good or bad, and it's not for us to do that. But that really started [hitting]. It's not in the traditional fruit and vegetable categories that we talked about. So that was a hit. And I would expect certainly, through the balance of this year, that we're going to continue in that specific situation that volumes are going to be a bit soft as they experiment with this alternative substrate.

And then, we have another large customer in the private label area that's been experiencing their own difficulties, which has been impactful. So what I would tell you is that as we sit here right now, we got a kind of headwind in a couple of different things. One of them, meaning, the timing of it will, I would not worry about, but the other 2 that we are keeping our eye on it, and we expect volumes to be down. But there is a no competitive issue relative to other food can suppliers.

Philip H. Ng
Jefferies LLC, Research Division

Got you. And then just from a operational standpoint you certainly had some issues. Do you plan -- I mean, do you expect to kind of get back on track on the back half outside of volumes on -- at food business? And longer-term, do you need to do more cost takeout just given the fact that volume has been a little bit weaker-than-expected?

John A. Hayes
Chairman, President & CEO

Yes and yes. And what I mean by that is we had -- we were investing a new technology in our Canton, Ohio facility, and that was coming up at the same time that we were shutting down our Weirton, West Virginia facility. And what happened was we ended up not coming up in Canton as nearly as fast as we were expecting to or would have liked, and that created the redundant cost. That is largely behind us.

And as I said in my prepared remarks, we expect the second half, the quarter-over-quarter improvements to start showing up on that. In terms of longer-term, this is a business that structurally is not growing and you have to recognize what it is and who you are. I mentioned that we're running that business for cash and we continue to have opportunities to take out cost.

Let's not forget, though, however, even though year-to-date, we're down a little bit, we expect to be up quarter-over-quarter. And the margins in the business are not terrible. It still generate returns in excess of our cost of capital. It doesn't generate returns at our 9% after tax threshold, but we see a line of sight of being able to get to that, and that's where the additional longer-term cost takeout will continue to occur.

Philip H. Ng
Jefferies LLC, Research Division

Okay, that's helpful. And just one last one for me. In your press release, you guys alluded to investing to accelerate synergy capture in 2018 and beyond. Can you expand a little bit on that? And if there's -- any color on how we should think about seeing that flow through. Is that more of an '18 event or more of a '19 event?

John A. Hayes
Chairman, President & CEO

I think it's a bit of both and I think it's premature to talk about that. I think if you go back and read the transcript of the call in its entirety, you'll get a sense of the various areas we're looking at. We talked about G&A. We talked about footprint. We talked about commercial. We talked about plant floor systems and the operating side of it, so I think it's all in -- we're right on track relative to what we thought we knew. It takes some time particularly, in Europe, as Dan alluded to, on certain initiatives. We knew it would take some time to transfer some of the G&A and our focus on reducing the G&A. And so all that plans that we talked about this time last year are largely coming to fruition.

Operator

And our next question is from the line of Debbie Jones with Ball Corporation.

Deborah Anne Jones
Deutsche Bank AG, Research Division

This is Debbie with Deutsche Bank. I wanted to just go back to Europe. I know it's been addressed a couple of times here and you can put the numbers around the closure, but it seems to me like there's just a lot of opportunities from switching from the Rexam business model to the Ball business model. Can you talk about -- and now you've had this for about a year, what are the main priorities or things that you need to get done beyond the rightsizing of the footprint that you think can be done?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Yes, I think there's -- keep in mind in our legacy Ball European business, we made some investments to create capabilities in line with innovation and customer needs to help attack those profit pools, as John's said. I think the historical Rexam business did less of that. And so that's what we're attempting to address in our footprint changes. That's principally the biggest thing is to innovate and have capabilities that are fit for the market and the growth and profit pools.

John A. Hayes
Chairman, President & CEO

The other things, obviously, we're working on, as Dan said from a cost perspective, the optimization of that manufacturing is the most important. But there's a bunch of surrounding G&A that, Debbie -- remember back, Debbie, you will remember this back in 2013 plus or minus, that Ball went through and we reorganized ourselves within Europe to go from a regional structure where we had 4 and 5 pools of G&A to a centralized that had one European G&A. We are doing the same thing right now, and that affects all the back-office support things and we have a shared center office that we've opened up in Belgrade, Serbia that we're going to be moving a lot of the transactional processing to that. There's a whole host of other things. But Dan is right the most important is get the cost-of-goods sold-line right. And then the also the other thing that we haven't talked about, which was important, the way we think about this is really leveraging the specialty and growing the specialty and creating those profit pools for our customers where we have much more of an emphasis on that than the business we acquired historically did.

Deborah Anne Jones
Deutsche Bank AG, Research Division

That's helpful. And my second and last question on Brazil or LatAm, you've had this business now for a year, and I think it's been a little hard to determine, over on this side, the seasonality of that business, given that there is [a report, it has] before. So could you speak to kind of how the production schedule kind of shift in the back half of the year? And then part of my conclusion when I look at that is that you should see a higher roll through if you're getting the synergies in the back half just given that, that is a bigger part of the season for you on an annual basis.

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Yes. So it's similar to our previous business. I think we've commented previously, publicly that it's a heavier weight to the second half, kind of 2/3, 1/3, it might be closer to 60-40, but somewhere in that range. So you should expect higher volumes in the second half as the ramp-up for peak season and then the peak season really hits in Q4.

John A. Hayes
Chairman, President & CEO

Yes, I think, Debbie, from -- when you look at the seasonality, the business we have now is not different than the business we used to have. It's just bigger, and that's what Dan is alluding to.

Operator

And our next question is from the line of Chris Manuel with Wells Fargo.

Christopher David Manuel
Wells Fargo Securities, LLC, Research Division

Sorry, can you hear me now?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

Yes, we can.

Christopher David Manuel
Wells Fargo Securities, LLC, Research Division

Sorry, I hit the wrong mute button. I wanted to just kind of center around 2 things. First, when we think about, Scott you answered earlier, we're kind of getting back into the repurchase element. But my question is, if we look at where your long-term targets are, $2-ish billion of EBITDA, as you come as a run rate out of '19, essentially, you'll be at your leverage targets as you improve the business. Do you feel like you want to reduce a little bit along the way? Or can you essentially shift gears into repurchase mode from here on a go-forward basis?

Scott C. Morrison
Senior VP & CFO

Well, what we said originally was that when we had line of sight to get our leverage down to 3.5x, that's when we would start buying back stock. So I think you'll see. We've got more deleveraging to go this year. But we see line of sight to get down into that range by the end of the year and there will be more cash flow and deleveraging next year. But we'll be opportunistic about it. I saw this morning before I came in here, it looks like it was on sale. So stay tuned.

John A. Hayes
Chairman, President & CEO

Yes, Chris, I'll just add on to that. Forget about the journal entries of all the accounting that goes around the acquisition. This is a great cash generative business full stop. Nothing has changed by that. And it's very consistent in terms of its cash-generation capability. That's why a year ago, we said with confidence that we are going to integrate these companies, we're going to drive the synergies, we're going to flow cash in the absence of good investments, and we've had some good investments, and we'll continue to -- we're going to give it back. Nothing has changed in that perspective. And we have a line of sight. As Scott said, we said once we have a line of sight, but you can look out over the next 12, 18, 24 months in terms of the cash generative nature, and you see how quickly our leverage comes down.

Scott C. Morrison
Senior VP & CFO

Yes, I'd say the only thing that has changed, Chris, is we're a year into this and we feel more confident about where we're at and where we're going.

Christopher David Manuel
Wells Fargo Securities, LLC, Research Division

No, that's fair. I mean look at the concept isn't that -- we understand that the EBITDA is growing and it's natural deleveraging, I was just thinking you're trying to absolutely reduce the debt level or not. It's kind of really where I was going.

Scott C. Morrison
Senior VP & CFO

Well, I think we'll have an absolute reduction in debt, but I think we'll also -- like we've done in the past, because we generate so much cash, we're able to reinvest in our business for growth opportunities. We're able to bump our dividend from time to time and we're able to buy back our stock and we see all those things hold true as we move forward.

Christopher David Manuel
Wells Fargo Securities, LLC, Research Division

That's helpful. Okay. So my follow-up question is around, where you are seeing further growth opportunities? So on a global basis, it feels like you're bev business was up a couple of points. You are or have taken up some capacity in very targeted location. What are you at with utilization across other facilities? Have you been able to free up capacity as part of what you're doing with integrating the Ball system into Rexam systems? Or do you still feel that you see some whitespace out there to add capacity similar to what you've done in, say, Mexico or other places, mainly I'm thinking about swaps perhaps in Europe or more in Southeast Asia or other places. So could you kind of give us a sense of where you're still seeing targeted opportunities?

John A. Hayes
Chairman, President & CEO

Yes, why don't I take that first, you really had to go around the globe. I'll let Dan talk about the opportunities in terms of geographies and where we see future demand growth that can help, but we continue, as you all know over the last decade here in North America, for example, we've actually been able to take much of our 12-ounce capacity and capability that was underutilized and converted it to specialty. We're finding that the facilities we acquired and we knew this, but it's a little bit more difficult to do it in the existing walls of the facilities we acquired. And so we are taking a fresh look, not only here in North America, but also in Europe as well. That's why when Dan talked about Recklinghausen, and it was old capacity that was very difficult to convert. That was one of the reasons why we did that, but you should rest assured, that we're going to continue to invest because there is growth even in some of these, quote, "more mature markets" that we're going to have opportunities because whether it's sparkling waters, whether it's teas here, and [if they] continue to grow energy drinks, even wine, as Dan alluded to. We continue to see good opportunities here in North America and in Europe and kind of outside of that, maybe Dan, I'll turn it over to you and let you talk about geographic growth.

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

And so just a follow-up on John's comments. So when you hear us talk, you're hearing craft beer, you're hearing import, you're hearing wine, you're hearing seltzer water. You're talking about categories. So there's growth everywhere and there will be investments in and around that from an innovation perspective everywhere. But if you're going to talk about geographic and just overall market growth, Southeast Asia continues to be a very exciting place, a lot of growth there. We've been there. We continue to look at what's the right investment. Obviously, our Myanmar facility is coming on line.

We've talked about -- and you've read recently kind of the rebound in the economic situation in Spain, that looks to be a very attractive place for us. Eastern Europe continues to grow. There are other markets that are probably medium and long-term that we're constantly evaluating. Africa, subcontinent Africa, and other places, so what's the right time to get in and with what customers. Our customers typically lead us into these markets. If we don't push them there from an innovation standpoint. So -- and then, we've acquired a really big business, a very good business, in South America and the can continues to win in that market.

So there's -- there are different aspects of the growth profile. There is substate penetration. There is overall market growth, then there's profit pool and segmentation growth. So any number of investment opportunities are in front of us, and we like the category. We like the beverage can on the foreseeable future and it will present a lot of opportunity for us to continue to invest in and grow.

Operator

And our next question is from the line of Chip Dillon with Vertical.

Clyde Alvin Dillon
Vertical Research Partners, LLC

My question has to do with how you guys might be thinking about the euro given this dramatic rise, especially in the last couple months or so. And I mean, I guess what you're kind of suggesting is that maybe some of the headwinds you mentioned in a few of the segment's might be offsetting any benefit you see there. And then maybe also, Scott, you could talk a little bit about how the currency change may or may not be changed, shifting what you expect from a working capital contribution this year.

Scott C. Morrison
Senior VP & CFO

I mean, the euro strengthening will help some. It's partially offsetting some of those negatives that we talked about, but it's not a huge impact. And if you look at from an EPS standpoint, it's virtually no impact because of the debt that we have in Europe, the way we placed the debt. So we actually have less volatility in our earnings per share now than we used to have before the transaction.

John A. Hayes
Chairman, President & CEO

And even -- yes, I'll go step further. Even if you think about our Russian business, that's fundamentally a dollar-denominated business. And so it's helpful on the margin, but it's also -- you mentioned the steep rise over the last couple of months. Who's to say, it's not going to reverse itself in the near term as well. So there is some benefit to it. We're not counting on, perhaps, where it is today. All that benefit showing up. And so there could be a little upside there. But the currency market just has been very volatile recently.

Clyde Alvin Dillon
Vertical Research Partners, LLC

Okay. And then, secondly, John, you mentioned that there's been a little bit of chop in the backlog in aerospace, which up to now has certainly seen a pretty good last 12 months when we looked at the backlog. Do you feel or have you seen any change in tone with your contract with the -- with your obvious customers given some of the higher emphasis on at least, from what I read in the papers, on defense spending?

John A. Hayes
Chairman, President & CEO

Well, number one, there has been no chop. What I said in my prepared remarks, just so we're clear, is we had $1.4 billion in backlog and it's off about $150 million or so just because we've been burning that down as we've been working on that work. We haven't been awarded new contracts just because of the government priorities. There's a number of senior staff level people that the positions haven't been filled yet. And so that's been -- has slowed down and push to the right the formal award-winnings.

As I mentioned in previous calls, we have more opportunity in front of us than we've ever seen at Ball Corporation with our aerospace business. Nothing fundamentally has changed with a customer, meaning the U.S. government, other than the decision-making in the government [bowels], so to speak, has been a little slower than it has been in the past.

Operator

And our next question is a follow-up question from the line of George Staphos with Bank of America Merrill Lynch.

George Leon Staphos
BofA Merrill Lynch, Research Division

First of all, if we think about the food can business and recognizing it's obviously, not the biggest piece of the Ball portfolio when you're running it for cash. It is still not earning your cost of capital. And, John, it has been a source of recurring, I don't know, maybe use the word you'd like, the one that comes to my mind is disappointment over -- not just a couple of years but several years, is there a time at which, maybe the strategy there needs to be rethought? Or do you really see a, a clear avenue to getting returns above cost of capital and a great existing fit with your aerosol business? So some thoughts on that would be helpful.

And then the second question I had. Scott, just in terms of corporate. I think you are piggyback -- -- or you were talking a little bit about this with Debbie's question. As you look at it, and on the one hand, cost are coming down but some of those cost are coming out of the business units and being allocated back to corporate. If you were in our seat trying to model that out for the next couple of years, are there any guard rails you can give us relative to the $140 million this year. Should corporate come down next year? Or does it stay relatively flat because it's basically inheriting cost that used to be at the business level?

John A. Hayes
Chairman, President & CEO

George, let me hit the food business head on. First and foremost, you got to play the cards that you're dealt. And this is a business that as you said, let's put this in context. We could have great improvement on that. It doesn't really move the needle at Ball Corporation. Having said that, we own it, and we got to do the best we can with it, unless there's something left to do -- something else to do. We think the best course as we sit here right now is to continue to drive out of the cost and continue to [run] up for cash. We do see a line of sight getting to the 9% after-tax. But remember, that really has more to do with our compensation system, so we're well aligned on that. It's generating a returns for our shareholders because it's generating returns in excess of our real cost to capital. We are always looking at our business about how to maximize it. Recall, that we've been in a variety of businesses, and we've gone into businesses and we've gotten out of businesses. We are dispassionate about it. We need to perform. We do think there's a line of sight to getting there and that's the strategy we are currently pursuing.

Scott C. Morrison
Senior VP & CFO

On the corporate undistributed, George. What we're trying to do is drive down total SG&A cost across the company. So you're right. Over time, some of those cost could move from a business into corporate undistributed. But what we're looking at is kind of a total cost to serve and total SG&A cost. So I can't give you a real great line of sight to what that looks like over the next couple of years, but what we hope is that we drive down the total SG&A cost.

Operator

And I'm showing no further questions at this time, sir.

Ann T. Scott
Director of Investor Relations

Okay, great. Thank you, Malika, and thank you, everyone, for participating, and we look forward to talking to you as we go forward.

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.