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PRESENTATION

Operator

Greetings, and welcome to the Ball Corporation 2Q 2020 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded Thursday, August 6, 2020. I would now like to turn the conference over to John Hayes, CEO. Please go ahead.

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Thank you, Kelly, and good morning, everyone. This is Ball Corporation's conference call regarding the company's second quarter 2020 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 don't already have our second quarter earnings release, it's available on our website at ball.com. Information regarding the use of non-GAAP financial measures may also be found in the Notes section of today's earnings release. The release also includes a table summarizing business consolidation and other activities as well as a reconciliation of comparable operating earnings and diluted earnings per share calculations. In addition, the press release financials include descriptions of new segment reporting for our EMEA and other nonreportable segments.

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

Second quarter results were strong and candidly, came in stronger than we expected, which is just another proof point of the long-term resiliency of our various businesses. At a time that the world experienced the worst economic and social crisis in our lifetimes, our second quarter and year-to-date comparable diluted earnings per share increased 2% and 12%, respectively, and were driven by our North and Central American



beverage business where improved commercial terms, better manufacturing performance, increased volumes and the absence of metal scrap headwinds all contributed to a very strong quarter. Dan Fisher will elaborate more on our other beverage segments in a moment but over the course of this quarter, sequential monthly improvement in each of our packaging segments improved from the lows we experienced in late May and early April. North American beverage can demand continues to outstrip supply and despite the initial pandemic-related demand impact in Europe and South America, demand in these regions has accelerated meaningfully since these regions began to reopen in mid-May. And our beverage can business in each region is sold out in advance of new capacity coming online. We are encouraged by the start-ups of our new lines in Fort Worth, Texas and Rome, Georgia, and the rest of our growth projects around the world remain in good shape.

During the quarter, global beverage volumes were down 3% with low single-digit growth in North America, unable to offset weak volumes in April and, to a lesser extent, May, in both South America and EMEA. However, we did experience much stronger year-over-year growth in the month of June, about which Dan will elaborate more later.

In our aerospace business, we continue to see strong growth with quarterly year-over-year revenues up 16% and our won-not-booked backlog up 10% since first quarter 2020. We did experience, however, a \$13 million reserve for the failure of a key subcontractor component and a large classified program that more than offset an otherwise strong quarter. We expect this to be a onetime event and believe our supplier and our program team have the issue isolated and under control.

Other highlights in the quarter include: our aluminum aerosol business was down slightly for the quarter after customers took anticipated downtime and increased demand for sanitizing sprays were unable to offset lower demand for deodorants. We continue to make progress on our aluminum aerosol manufacturing plant acquisition in Brazil. We expect this transaction to close in the third quarter. Construction and hiring for our first dedicated aluminum cups manufacturing facility remains on track. Despite the current fan attendance restrictions at major sporting, music and other events, our outlook for 2021 is perhaps even a bit stronger than when we began the year as we have accelerated our retail go-to-market strategy with the signing of a number of various letters of intent executed with both retail partners as well as venue operators. Starting this fall, consumers will be able to purchase our cups on major online platforms which will then feed into more presence in the physical stores as our production capabilities ramp up towards the end of this year. During the quarter, we announced our national partnerships with Acosta and Blue Ocean, thereby positioning the Ball aluminum cup for retail success.

Across our businesses, year-to-date, we've hired over 1,000 new employees and invested approximately \$450 million in growth projects that we and our investors will enjoy in the years ahead.

Now before I turn it over to Dan and Scott, I do want to give a big shout out to all of our colleagues here at Ball for caring for one another and for living our culture. Your dedication and hard work to support our customers, our communities and the global economies where we operate is second to none. In true Ball fashion, throughout this crisis, our company and employees have provided millions of dollars of financial support to over 300 organizations in the local communities in which we live and operate. At the same time, these same people were able to continue to execute successfully our strategy, grow our business, control the things we can control and invest in our future. So a big thank you.

In summary, Ball has adapted well to this new environment. Despite contractions in some of our markets early in the quarter, we exit the quarter with good momentum and are excited to bring additional capacity online as quickly and safely as possible and continue to believe that the overall strength of our businesses will allow us to grow operating earnings in the second half of this year and beyond. We also want to extend our well wishes to everyone, our customers, our suppliers, our first responders, our governments and indeed, all of our stakeholders who are persevering through all of this, and we wish all of you listening for your continued safety and good health. And with that, I'll turn it over to Dan.

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

Thanks, John. I also want to thank our employees, customers and supply chain for their collaboration to maintain our industry's ability to serve consumer demand. In addition, our HR leadership and our environmental health and safety professionals continue to keep our Ball family safe and vigilant about our well-being as communities, offices and schools begin to open up.



Looking forward and given the increasing demand for sustainable aluminum packaging, it is going to be an exciting beverage can market for the next several years. To bolster the growing demand for aluminum packaging and true circularity, we recently published our peer-reviewed life cycle assessments and biennial sustainability report. Visit ball.com/sustainability to learn more about what Ball is doing to advance the circular economy and its operations and across our industries, while also supporting diversity and inclusion initiatives.

As we discussed on the first quarter call, consumer behavior varies by region. In North America, consumers are able to access multiple shopping channels, stock up and store bulk packages of our products. In late March, this led to a surge in beverage can demand as those occasions that occurred in the on-premise and convenience channels shifted to the at-home or off-premise channels. Following March volumes being up 12%, April slowed a bit, then returned to single-digit growth in May and June. Demand has continued to outpace supply and inventory levels are low. In particular, year-to-date through July, we have seen IRI can demand in the nonalcoholic category growing 11%; domestic beer, up 4%, that includes up 13% in the second quarter, craft growth of 20% and FMBs up in the range of 80% to 90%.

As we look forward, we are thankful that our new line in Fort Worth started up a couple of weeks ago and that our new Rome, Georgia beverage can line is on track to start-up next week. In advance of those lines and our 2 new plants coming online in early 2021 for Glendale, Arizona and in mid-2021 for our northeastern plant, our global plant network outside of the U.S. will supply additional cans when possible. For the full year, we anticipate North America beverage can growth of at least 4%, with half of that growth coming from inventory drawdown and imports.

In EMEA, segment volume was down nearly 8% for the quarter as borders remained closed. Tourism was restricted and shopping hours were limited across many countries through much of the quarter. During the quarter, strength in the U.K. and Russia were unable to offset softer demand in Southern Europe, Egypt and Turkey. Across Ball's EMEA business, demand trends improved late in the quarter, with April volumes down 11%, May volumes down 16% and then June volumes up 4%. This positive momentum continued into July with volumes up mid-single digits. Additional capital projects across Europe continue and we foresee European beverage can volumes up low single digits in 2020.

In South America, after seeing a nearly 60% decrease in Brazilian can shipments in April, due to the temporary closing of smaller grocery stores, gas stations and convenience stores, our demand rebounded sharply, up 7% in May, and the progress continued in June with volumes up nearly 40%. Beverage cans have been very resilient, with store owners leveraging recyclable aluminum cans over other substrates. Exiting the second quarter, package mix for beer on the shelf was 70% cans versus a rate of 50% at the end of the first quarter 2020. Following discussions with customers, we anticipate can mix on the shelf remaining high beyond 2020. And we intend to move forward with previously discussed line additions in Brazil.

From a segment operating performance perspective, Ball's North American segment earnings were up 34%. More equitable customer contracts, operational improvements and volume growth benefited the quarter. Partially offsetting this were higher end costs associated with the new manufacturing lines ramping up in the second half of 2020 and unfavorable mix associated with certain can sizes sold through the convenience store channel. Our initial plan is to add 6 billion units of capacity in our North American business by the end of 2021 have been adjusted upward following recent contract discussions. We proceed fully scaling out our new facilities in Arizona and the northeastern U.S. sooner rather than later. As of today, our capital growth projects are on track, and earnings growth is expected to continue across North America in 2020 and beyond.

In our EMEA segment, negative demand trends resulting from the pandemic, lower absorption and FX headwinds pressured segment results for the quarter. Our EMEA team's close to the customer approach and support from our North American business positions the business for strong second half performance.

Turning to South American segment. Second quarter earnings were down primarily driven by the abrupt contraction in Brazilian demand early in the first half of the quarter, which led to lower absorption over multiple weeks. Similar to our EMEA segments, our team's close to our customers' approach will bolster second half results. In our other nonreportable results, the company's Myanmar, Indian and Saudi beverage can manufacturing results continue to be dampened by production downtime. In addition, other includes an annual \$20 million P&L investment to stand up our aluminum cup business. As John referenced earlier, we are on track with our aluminum cup plant construction and our push into retail is picking up steam.



In summary, global beverage can demand was very resilient during the second quarter, and momentum is building for the third quarter and beyond. Thank you again to all of our teams around the globe. 2020 has provided us all with unprecedented challenges, and you've risen to the occasion time and time again. Your leadership has been nothing short of remarkable. Keep it up and stay safe. With that, I'll turn it over to Scott.

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

Thanks, Dan. Comparable second quarter 2020 diluted earnings per share were \$0.65 versus \$0.64 in 2019. Second quarter comparable diluted earnings per share reflects strong North America beverage segment results, a lower share count and lower corporate costs, offset by lower EMEA, South America and aerospace results due to the short-term demand and supply chain impacts. Due to the pass-through of lower aluminum costs and the 2019 sale of the Argentine Steel aerosol business and Chinese beverage can assets and lower second quarter packaging demand outside of North America, revenues for the second quarter were down. Ball's balance sheet is healthy, and we have focused near-term on maintaining ample liquidity and flexibility in the current environment. Year-to-date, we experienced our seasonal working capital build, which was more sizable than typical due largely to the timing of metal payments. As a result of this timing and ongoing growth initiatives and raw materials supply to support them, we anticipate the full year 2020 working capital investment to be a use in the range of \$300 million, which is slightly higher than previously anticipated due to accelerating growth conditions.

As we sit here today, some additional key metrics to keep in mind. Our full year effective tax rate on comparable earnings will be in the range of 18%; full year interest expense will be in the range of \$270 million; and full year corporate undistributed costs recorded in Other Nonreportable are now expected to be in the range of \$55 million. Our 2020 cash from operations will continue to be strong. We will be investing in working capital and even more growth CapEx to expand aerospace facilities, beverage can production capacity, while also completing construction on our first aluminum cups manufacturing facility. Contrary to past sizable M&A deals, Ball is embarking on a multiyear phase of internal investments to serve organic growth for beverage cans and support new contracted volumes. At this point, 2020 CapEx will likely exceed \$900 million, and 2020 free cash flow is expected to be in the range of \$400 million. Ball has always been focused on being good stewards of our cash and prudently balancing real-time growth opportunities with consistent return of value to our shareholders. Given our strong cash flow, we are managing the business appropriately for the long term, investing capital with an eye on EVA returns, managing our balance sheet effectively and consistently returning value to our long-term shareholders. With that, I'll turn it back to you, John.

John A. Hayes - Ball Corporation - Chairman, President & CEO

Great. Thanks, Scott. Our aluminum aerosol business saw global volumes in the quarter decline 6%, driven primarily by flat volumes in North America, single-digit declines in Europe and strong double-digit declines in India as a result of multi-week country lockdowns and regional fillers downtime. Looking ahead, we're excited to expand our aluminum aerosol business' geographic reach into South America and expect the acquisition of the Tubex facility to close in the third quarter.

Our aerospace business reported approximately 16% revenue growth and lower-than-expected segment earnings due to a supply chain issue on a key fixed price project. Adjustments to testing schedules have been made and the items necessary from the supplier are forthcoming. The team has done a good job managing the process with our customers despite difficult circumstances. Looking ahead, the growth trajectory of this business is even stronger with won-not-booked backlog reaching \$5.3 billion.

In addition, our year-to-date aerospace headcount has increased by nearly 450 employees, and we anticipate hiring an additional 550 employees by year-end. Our HR team has done a great job onboarding these new employees and running our summer internship program remotely. In this business, we continue to enhance our infrastructure, build out testing and manufacturing facilities in 2020, and ensure all projects are on track and on budget. Current indications reflect that the business will be able to grow profitably in excess of 15% per year over the next several years given the scale and type of recent contract wins.

In summary, Ball continues to be uniquely positioned to lead and invest in sustainable growth in global aluminum packaging and aerospace while delivering significant value to our shareholders. As we sit here today, our ability to grow comparable diluted earnings per share in 2020 is higher than previously thought. Our teams will do everything possible to outperform while being keenly focused on working safely and executing capital



investments. Beyond 2020, we look forward to driving our business to deliver long-term diluted earnings per share growth of at least 10% to 15% and achieve our EVA dollar growth goals of 4% to 8% per year on our growing invested capital base. Especially during these times, we are thankful for one another and the opportunities in front of Ball for an even brighter future.

Now lastly, as a reminder, Ball will host its biennial Investor Day on October 6. We look forward to your attendance at this virtual event. And with that, Kelly, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Anthony Pettinari with Citi.

Anthony James Pettinari - *Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst*

I think you indicated you're sold out in all your major regions exiting the quarter. And I'm wondering if it's possible to quantify maybe how much volume you may have left on the table, either in 2Q or potentially for the year. And then just a related question, is it possible to say what quantity of cans you might export/import cross-region in 2020?

Daniel William Fisher - *Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging*

Yes. I think it's difficult to answer what it would leave on the table. I think, clearly, in Europe, negative almost 8% growth, that should have been in the 3% to 5% growth range. So I would steer you in that direction. And then for South America, again, we should have probably grown in the mid-to-high single-digits for the quarter. And we were obviously a little shy due to the April decline. It's all North America support. I would expect for the year, somewhere in the neighborhood of a couple of billion cans. 1 billion of that is coming from places that typically we wouldn't be shipping from: Europe, India, Brazil, for instance, and then where we can get some relief, and we benefited from that in the second quarter, specifically in Mexico, as the brewery industry was deemed nonessential, we were able to use some of our excess capacity in Mexico to ship up. So that's sort of how I would frame where those imports are coming from.

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Yes. But Anthony how many would we have been able to sell if we had capacity? That's a tough question to answer. We don't know. Dan pointed out, when you hear some of those IRI statistics. And just in the second quarter alone, you had carbonated soft drink cans up 14%, you had big beer cans up 14%, you had total FMBs up nearly 150%. Those are very big categories and very strong. We obviously are not unable to keep up with that because we had not anticipated that. And so as Dan had mentioned, our inventories are at all-time lows. We've been importing as many cans as possible. I know that doesn't answer your question, how many were left on the table because it's too difficult to know. What I do believe, though, it underpins many of these longer-term investments because the growth we're seeing, yes, some of it has to do with the stay-at-home rules but a lot of it still has to do with sustainability that we've talked about over the past couple of years.

Anthony James Pettinari - *Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst*

Okay. Okay. That's very helpful. And then you talked about some benefits from new contractual terms. And I'm wondering if it's possible to put any finer point on the contribution from that? Does that roll through over a number of years if these are multiyear contracts? And understanding you're probably limited in what you can say, can you give any color in terms of how these terms are different than maybe conventional or legacy contracts?



John A. Hayes - Ball Corporation - Chairman, President & CEO

No. This has been well described in the past, and I'm not going to say other than what we've talked about. We normally don't talk about these things, but we did have a number of contracts renew at the end of 2019 and we had told people that the phase-in on some of these new commercial terms would probably be multiyear, it's not just 1 year. And so that's about all we can say right now.

Operator

Our next question comes from Neel Kumar with Morgan Stanley.

Neel Kumar - Morgan Stanley, Research Division - Equity Analyst

Great. You mentioned fully scaling out the North American capacity additions in Arizona and Northeastern U.S. Can you just give us a sense of how much incremental capacity is expected to be added in North America versus the 6 billion units that was initially planned? How should we think about the ramp in this capacity following the start-up of the facilities in mid-2021?

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

Yes. It's all going to be dependent on executing contractual negotiations. And we will continue to update that number for you as those things become more firm. And it's clearly reliant on execution, hiring employees and ramping up lines, but got to have contracts on the back of it, and some of those contract negotiations are still ongoing.

John A. Hayes - Ball Corporation - Chairman, President & CEO

Yes. But the 2 new facilities we're building, remember, we're scaling them that they have the capability of being the biggest in our system.

Neel Kumar - Morgan Stanley, Research Division - Equity Analyst

Okay. That's helpful. And then we recently saw an announcement that a new entrant coming into U.S. market. What impact, if any, do you see to market dynamics from the announcement? And what level of demand growth do you think is necessary over the next several years in the North American market for it to remain basically balanced given all the new industry capacity that's being brought on?

John A. Hayes - Ball Corporation - Chairman, President & CEO

Yes. We've talked about this in the past. And the long story short is, let's put this in context. The market is approximately 100 billion cans. Realistically, this year, it's been growing well above the 4% to 6% we talked about. Whether it's been 8 or 10, it's unclear because we have left cans on the table as we were talking a few minutes ago. So you're talking about upwards of 8 to 10 billion incremental cans in 1 year alone. Now this is a unique year. I get that. But we think as we go forward, that 4% to 6%, based on what we see, it's trending to the upper part of that range. So that's in the range of approximately 6 billion cans a year. That's why we're accelerating our growth investments. And as we've discussed previously, this is a growing business. This is a scale business, and this is a business if you run it right, you can generate decent economic returns. And so I'm not surprised. People have been looking at it, but I think the growth of the overall market is more than sufficient to absorb this capacity. And as a result, given our 20-plus plant network, we have many levers that we can pull relative to any other smaller competitors that just have 1 or 2 levers to pull.

Operator

Our next question comes from George Staphos with Bank of America.



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

I wanted to piggyback on some of the questions from Neel and from Anthony to extent possible. Again, recognizing you're not going to be able to really quantify or maybe even enumerate, can you talk to whether your customers, in North America or anywhere else, given what they're seeing in terms of demand and your need to supply more capacity, are being willing to accept more creative terms, different terms than maybe what was even put into contracts in '19? Any desire or willingness to maybe share in some of the risks and costs to make sure that capacity is on the ground when the demand is there? Anything that you can talk to on that question.

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

Yes. I believe that is an accurate depiction of where we are right now. There are a number of categories and a few customers, George, that are viewing this as a real opportunity to grow for the first time in years. And those customers and those categories are being aggressive. They want to move quickly. And yes, we're having any number of much more creative discussions with those folks. It's not everyone, but certainly, you can imagine in the seltzer categories. And when you see big beer and nonalcoholic categories growing at this rate, that's a real opportunity for some of our customers to step into some growth profiles that they haven't seen in a while, and they're using the can and innovative packs to do that. And yes, different dialogues are certainly happening right now as a result.

John A. Hayes - Ball Corporation - Chairman, President & CEO

Yes, George, just to give you an example, we've talked about this in the past, but historically, at least in North America, many of these larger contracts were based on requirements that you'd have to fulfill 100% of the requirements of any given filling location. And over the last couple of years, we've rejiggered that. Because all the risk was then on us, to the upside and the downside, quite honestly. But so what we've rejiggered that is, think of it more of a fixed amount, plus or minus, a window. Call it, a 5% window or a 10% window, whatever was agreed to. And they've got to take those cans. And if they need more cans, then it's a separate discussion. And so the most important thing we're trying to do, though, is make sure we can fulfill as much of the can demand that our customers are seeing. And I think because of COVID, it call everyone offguard a little bit. People knew the growth. We've been talking about this growth for several years, and there are some customers that were more understanding of it than others. But I think this overall shift to off-premise has been a great help for us, but it's also pointed out the fact that making sure that you have your supply chains in good order is important. So we're trying to keep up with our customers as best we can.

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

Okay. 2 questions then I'll turn it over. To the extent that the capital spending has continued to move higher, I mean, we understand the logic why because of the demand that you see that you're trying to meet. Is there a way to, I don't know, quantify or qualitatively talk about the return you expect to get what these incremental spending numbers look like relative to what had been perhaps the base capital spending a few years ago, whatever, \$500 million, \$600 million, and correct my number there, if it's wrong, on what the base number had been. And then on aerospace, if you could talk a bit further, I realize it was a project in the black, but can you talk a bit about what the issue was in terms of the subcontractor, why you believe it's resolved? And should we expect the earnings for aerospace to continue at what had been the trajectory you were expecting third quarter and beyond?

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

Yes, George, let me take the first part on the returns, and then I'll turn it over to John on the aerospace one. We are still at, first and foremost, an EVA company. So any capital we'll put into work, we have to get 9% within the first 3 years of putting that capital to work. These projects are better-than-average because they tend to be a higher percentage of specialty cans than standard containers. So we're going to like the returns on these projects over the course of the next several years. And so I would say our return profile has gotten better and compounded with the growth that we're seeing. So I think we're in a pretty good place. And frankly, spending \$900 million, the faster we can get some of these assets up and running, the faster we can enjoy the returns on them.



John A. Hayes - *Ball Corporation - Chairman, President & CEO*

And George, with respect to aerospace, we had a test failure of a key component from one of our sub-suppliers. That was late in the program's life. As you know, when you're building a program like this, you assemble everything and at the tail end, you test everything. Well, we had a failure of one of the key components there, which pushed out the delivery date and therefore, cost us money related to reworking the problem and getting a new part from the supplier as well as our marching army costs, if you want to call it that, keeping the program team intact and moving it out, in this case, approximately 6 months or so. As I said in the prepared remarks, this was a onetime event. Very few times do things like this happen, but they do happen from time-to-time. But I think both our supplier as well as our program team have the issue isolated and under control. So even with that, they had a pretty good quarter. But without that, they had a very good quarter. And we expect, as I said, as we march forward to have 15% or more earnings growth in that business.

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

All right. Good luck in the quarter.

Operator

Our next question comes from Arun Viswanathan with RBC.

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

Great. I guess, I just wanted to ask, first off, about Europe. Maybe you can just provide your thoughts on the business there. Obviously, a slightly different situation as far as the opportunity for pantry loading. So how are you thinking about kind of Europe bev can volume in the second half as well as next year?

Daniel William Fisher - *Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging*

Yes. Well, as in the prepared comments, we exited June as borders started to open up, then as folks were able to get out of their house, can consumption picked up. And we were on a growth trajectory exiting June year-over-year, and we expect that to continue to build at this rate. Obviously, I have to preface that with we don't know what's going to happen, second wave of COVID, et cetera. But right now, we're anticipating to end the year despite being down 8% in the second quarter with slight growth for the year, and that means that the second half has to be up fairly appreciably in the mid-to-high single digits.

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

It's interesting. This might be helpful for the second quarter. In beer, in Europe, this is across Europe, beer cans grew 10%, but softdrink was down 17%. And softdrink is bigger. And it makes a lot of sense when you think about it because all the pubs were closed but people will still drink beer, so they're drinking more beer at home. But much of the softdrink in cans is actually sold in the on-the-go convenience channels. Whether it's a kiosk, at the beach or somewhere else like that, with all of those closed, we saw a retrenchment there. And those are the types of things that are now opening up that Dan was referring to.

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

That's helpful. And I guess, maybe we can just ask a related question here. So have you thought about anything about changing consumption habits? It seems that as people are returning to on-premise consumption, looks like bars may be more up to hold bottles and cans rather than kegs, just because they're not sure what their take rates are going to be. So I guess, does that affect your business? And then similarly, you had talked a



little bit about the new beverages going into cans, moving from 35% several years ago, maybe to 70% a year ago. Have you seen continued growth in that trajectory? And maybe you can just offer your thoughts longer term, just on new categories in beverage cans as well as maybe changing consumption habits amongst customers.

Daniel William Fisher - *Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging*

Sure. Yes. And for the first part, this is when I really wish I had a sociology degree, so I could really capture the changing behaviors in consumption patterns. But it is clear in conversations with a number of our customers that they believe that cans will certainly be, at least in the medium term, a beneficiary of everything that's happening as it relates to folks working from home more. In those areas and your dining, the food service experience, all of that, tends to lead itself to more packaged products and more cans. And from there, we think that there's even potentially some upside on the growth rates that we shared 6 months ago. That's early indications. I think a lot of our customers are still working through what all of that means specifically. But at a 30,000-foot level, it certainly lends itself to more cans and more packaged goods. In your second question, we're continuing to see cans winning. I referenced what was happening in South America. That was a substantial increase in pack mix in the beer category, but continue to see growth and movement into cans in North America, kind of north of that 70% rate. And I don't see that slowing down anytime soon. The innovations that we're hearing, the brands that are getting pushed into cans, that rate seems to have some teeth to it, some staying power. And I could see it continuing to tick up modestly here over the next 3 to 5 years.

Operator

Our next question comes from Ghansham Panjabi with Baird.

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

So John, back to your favorite topic on North American capacity additions. If we sort of total up the announcements by you and your peer groups over the next couple of years or so, it looks like capacity will be added in the mid-teens in terms of units, up 100 billion base. And obviously, the industry is seeing very strong growth at current. But can you just give us a sense for how long the contracts typically are from a duration standpoint, specific to the new capacity you, as the industry leader are kind of bringing on at this point?

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Well, every customer and every conversation is different. But what I would say is there's a tendency for us to think more long term about these things because that's what we've always done. You followed us a very long time, and I reflect back at the things we did in South America when we were building new plants. That mindset is what we're doing here. And so it's a long ways out. Also remember that number you cited, that's not going to be all in place at one time. These are all ramp-ups and they start over time. So I wouldn't disagree with your number, but that's probably over the next 3 years type of number. And when you see the growth, one of the things I think about is, is that even enough? I could make a very compelling argument right now, given the growth rates we're seeing, that, that will create a shortage in the can market in 2022 or 2023 as well. So it's a very dynamic environment right now, and we're very focused on making sure we're doing the right thing for the long term for our company and our shareholders and our customers.

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

And then second question, on the beverage packaging segment for North America and Central America, I should say. Can you help us with the operating profit bridge between 2Q of this year versus last year? Were there any temporary savings that perhaps inflated that margin that could reverse as business kind of normalizes? Or is that not case?



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

Well, the absence of the scrap that we had last year, but the business is operating better. The manufacturing performance is better. We're making every can that we can possibly sell, so absorption is good. But beyond that, there's nothing that's that unusual kind of year-over-year. I would say that the scrap is probably the biggest absorption.

John A. Hayes - Ball Corporation - Chairman, President & CEO

Yes, Ghansham, remember at the beginning of this year, we talked about the bridge year-over-year, and we talked about we're going to have the commercial terms, the benefit of new commercial terms. We talked about we needed to execute better. We talked about the absence of scrap. But then we also talked about headwinds related to the start-up costs of all these new things. All of those, in general, are happening as we anticipated. The only surprise to the positive, in my mind, is the operating performance is actually better. We are ahead of our plans for 2020. I think our manufacturing folks are doing a very good job. They've got a ton on their plate, too. Because given the tightness of the market and then with all this new capital coming on, they're being stretched pretty thin. But despite that, they're performing candidly better than we expected.

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

We'll have more start-up in the back half of the year as these other plans get closer to fruition, too. So I wouldn't take the second quarter as being kind of a normalized number. It was exceptionally good.

Operator

Our next question comes from Mike Leithead with Barclays.

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

Great. Two on the imported cans into North America. You mentioned in the release about needing to ship cans in from Europe, which I can imagine, isn't cheap. So I guess, first, I know contract pricing is annual. So does that incremental cost fall on Ball or its customers? And second, how do you think this evolves as we head into '21 versus this year because I assume as you're starting up plants here in the U.S., you can get cans to customers for cheaper while transferring some of that value, hopefully to your own P&L?

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

Yes. The first part of your question, essentially, what we're doing is we're allowing the customer to take the product at the facility and they're basically on the hook for the freight. So we're not exposed on that. And as John referenced, we're stepping away with an awful lot of our contracts, away from requirement contracts to more fixed volume. And then as a result of that, you're not on the hook for getting those cans shipped and absorbing the cost. It's a much more equitable contract and relationship. And right now, as you can imagine, for the folks that don't have a revenue stream on-premise, they're trying to buttress their revenue stream with product off-premise, and they are happy to pay for that additional cost. Moving forward, this is the real challenge for us is when we look at our IRI data. We believe that the growth that we saw in the second quarter and year-to-date, that still has some teeth regardless of whether we're in a COVID environment or not. Sustainability continues to drive, new product launches and cans continue to drive that growth profile. And I think as the previous question was centered around, a lot of capacity is going to be coming online but as we all know, it's all related to how effectively you get it put up and how you execute against those start-up curves. And so for the next 2 to 3 years, long story short, I think there will be a continued reliance on some level of imports. Probably not to the extent we've seen this year, but 2021 is shaping up to be incredibly tight again. And I think you'll hear more reference to import cans at least for the next 12 to 18 months. Beyond that, we'll have to see.



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

Great. That was helpful. And then just one on the aluminum cups, particularly you're shifting it more into a retail focus right now. Can you talk about the potential price point for your cups relative to, say, a standard solo cup? And I'm assuming both you and your retail partners have done a bunch of consumer market analyses as you're preparing for this launch. So can you just talk about what your observation so far have been and their excitement around the product?

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Yes, why don't I take a first stab and then let Dan chime in. Let me take a step back, too, because it's important to remember. Our strategy all along was kind of getting the venues first, create awareness and then follow-up through the retail, because that's where the size of the prize is really on the retail side. The bad news is, because of COVID, many of those venues were shut down. The good news is we did a tremendous amount of research and testing, and we realized that the awareness is already there. In fact, many people, when they have already seen them, are very well versed of its attributes and its positive attributes. So as we go to the retail channels and sell it, there's 2 observations I'd point out. Observation number one is we don't have to "sell it" because we can feel the demand being there. And number two, I don't think it's as much of a relative to a plastic cup as we thought it was. This is a whole new product with a whole different proposition, and as a result, a whole different price point. And so I'm not going to get into right now about what the various price points are. You will see them in the near future when you see them on the shelf, but they are going to be a premium to what's out there today because consumers have told us they're willing to pay a premium for this product.

Daniel William Fisher - *Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging*

Some of the more specific conversations we've had in and around the cup that may help you, at least on the retail side is, almost universally, the folks we're talking to view this as innovation. And that, in and of itself, creates a very different discussion and dialogue in terms of the process to get it in the store, to get it on the shelf and the price point. And they're leaning in many instances, these retailers are leaning on a lot of the research we've done to look to us to what the appropriate price is. So that's been very favorable. And the other thing that's been really exciting is some of the larger retailers have a real focus on reducing their plastic in store, and this is a wonderful opportunity for them to do that. And so those are the learnings, the biggest learnings and the biggest takeaways that might allow you to have a little perspective on maybe the success we may be having or are gearing up for as it relates to that product.

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

The other thing we're doing, and more and more, and you'll see it as we go through 2020, but particularly in 2021, it's more on the marketing side as well, creating awareness for this. I give our cups team, Dan and the rest of his team, a tremendous amount of credit. We're being very creative. Things that, candidly, we haven't done in the past, but creating awareness for this that's going to actually help maintain the price position we're aiming for.

Operator

Our next question comes from Brian Maguire with Goldman Sachs.

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

Just wanted to better understand the raised CapEx outlook. I don't think you were announcing any new lines or new location for capacity with it. So is it just simply pulling forward some of the investments you would have otherwise made next year? And then as we think about looking into 2021, should we expect CapEx to decline meaningfully? And related to that, the working capital build this year, do you have any initial thoughts on where working capital might go next year, more investments to support the growth? Or do we see it flattening out a little bit?



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

Yes. I think the pace of CapEx is really pulling forward as much as we can because we see the demand is there now, as Dan talked about. So the faster we can get these assets up and running, the better. So some of that is pull-forward. I think as you look into next year, I think if these growth percentages, if they're going to continue at this kind of pace, we'll probably spend more capital than what we had originally anticipated in 2021, but we will also be making a lot more money. On the working capital front, the growth from where I said previously for this year is due to that acceleration of the growth. I think next year, it will stabilize somewhat, but I could still see a small use of working capital next year, but it's too early to tell.

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

And Brian, the only thing I'd add to that is, while on one hand, we didn't announce any new capital, in fact, we did. Because what Dan said was we are going to accelerate the build-out, the ultimate build-out of our plant in Arizona and Northeast U.S.

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

Okay. So should I interpret that, initially, there were a certain number of lines and then...

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Correct.

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

Potential room to build more lines and now we're going ahead with those second phase kind of plants at this point?

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

That's correct.

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

Makes sense. Just one additional question, if I could. Was there any impact on the U.S. margins from mix in the quarter? I know you talked about some shifting maybe to more of the club stores and the multi-packs. Does that have a material impact on mix? And then any thoughts on restarting the share repurchase program now that it seems like the macro has kind of lifted a little bit of the fog for your ability to forecast the business?

Daniel William Fisher - *Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging*

I'll take the first part of those questions. It wasn't a material impact. But yes, we did have some dampening of margins because the convenience store channels with a higher specialty mix and higher price points for our customers, that was down a bit, especially in April and the first part of May. Not entirely sure that, that's all going to come back. Just depending on return-to-work, at least for the next 6 months. And what folks are going to do in the U.S., the less frequently you're driving, the less frequently you're stopping in, in a convenience channel, and that was certainly a difference in terms of behavior pattern that dampened our mix a bit in the second quarter.

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

And on the share buyback front, we're going to continue to return significant value to shareholders with over \$200 million in dividends this year. We've already bought some stock early in the year. And we'll see how the year progresses and are not ruling out buying some shares in the back half of the year.

Operator

Our next question comes from Phil Ng with Jefferies.

John Robert Dunigan - Jefferies LLC, Research Division - Equity Associate

This is actually John Dunigan on for Phil. Congrats on the strong performance. I just had one question, I guess, related to kind of Dan's comments on packaging mix shift, particularly you had noted the shift in grocery. I think you said 50% beer within cans in 1Q and that have moved to 70% this quarter. I was just hoping you could talk about kind of what caused that? Was that mostly driven by people not wanting to go to the stores and get a reusable glass bottle? And what you think is the actual stickiness in the longer-term for picking up that share of the shelf? And then in the release there's also talk about an acceleration of substrate mix towards cans in EMEA. Maybe you can also discuss what's driving that and how that is going to be held on to in the longer-term as well?

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

Sure. The first part of your question as it relates to South America, there's a couple of things that you certainly have to pay attention to. One, we've seen for the last, I would say, 3 to 5 years has been the reluctance by the smaller retailers and it's all throughout South America to carry returnable glass, the perishable nature of it. They don't have a lot of square footage, buying behavior in those areas is smaller stores, it's gas stations. It's much more in convenience channel. And those retailers are demanding cans. And so I would continue to see that moving forward. And the other part is in a lot of these South American markets, there's a dominant returnable glass player. And when they make a conscious decision or when they're losing share to cans, at some point, in all the markets that we're participating in, they will make a conscious decision to move into cans. And I think the combination of those 2 things have happened in Brazil. And I would suspect that, that would continue for the foreseeable future.

John Robert Dunigan - Jefferies LLC, Research Division - Equity Associate

And you're saying that it was also accelerated because of the pandemic you.

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

Absolutely.

John Robert Dunigan - Jefferies LLC, Research Division - Equity Associate

And that was the big shift, particularly in 1Q outside of, obviously, the trends that we've been seeing for a while?

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

Yes. When the on-premise is closed, the incumbent that is relying on returnable glass, they either fight with cans or they're losing share. And I would suspect that they've made such a conscious effort on that front. And the retail movement is a lot bigger of an issue, I think, than what a lot



of people have discussed previously. So I think that's sort of here to stay. Whether it's 70% this quarter, 65% next, it's appreciably going to be higher moving forward.

Yes, in Europe, as John referenced, we're seeing, and we will continue to see as pubs and on-premise is less and less open, there'll be more cans pushed. And typically, I think, because of the sustainable nature of the package and as folks move into filling those cans and if they have success with that, I think it will be a boon. To what level and what extent in the medium and long term, that's yet to be determined. But I would certainly assume that it will be a lift for us moving forward.

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Yes. Just to put a finer point on that, on the beer side in Europe, that hasn't been the issue at all. It's really been on the softdrink, the nonalcoholic. And without going into any particular names, whether it's energy, whether it's soft drink, because those are typically sold in the immediate consumption channel, that's what's been soft. It's gotten better. But it will continue to be soft just because the tourist trade in Europe is down year-over-year this summer for the reasons we all know.

Operator

Our next question comes from Mark Wilde with Bank of Montreal.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

I've got just a couple of them real quickly. Can you talk about any bottlenecks that you may be encountering either from COVID or from just equipment suppliers being stretched as you ramp up because there are a lot of can projects around the world? The other one, John, we've seen some different numbers out there for kind of recycling and recovering rates on aluminum beverage cans. And I wondered if you could just share your perspective on those rates in the different regions around the world.

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Yes, first, let me try and quickly take both of them, maybe Dan can chime in. Let me talk about not only just beverage channel, let me talk to aerospace as well. All of our projects, our folks have done a herculean job to make sure that they are all on track. There was a couple in Europe that we slowed down. There was one in particular in Brazil that we consciously slowed down just because of the volatility of those markets. We've restarted them up. But kudos to our folks here in North America, whether it's the cups build-out, whether it's Fort Worth, whether it's Rome, whether it's all the building we're doing up where we are here in aerospace, all of them have been going extremely well, and that requires very close collaboration and communication with the various supply chain, whether it's equipment suppliers, whether it's construction companies, et cetera. So no impact on that for us other than the things that we consciously chose to slow down and have now restarted. Second with your recycling, we could spend hours on this. What I might refer you to, and happy to take it offline because we had addressed this very directly, because it varies by country, it varies by region. And the solves for each of the countries and regions are different. But if you go to our new sustainability report, at as I think Dan mentioned ball.com/sustainability, it will all be laid out there in a very transparent way, and we'd be happy to engage with anyone on this because I think that's what continued success of the beverage can means. We have to continue improving the already good recycling rates because from an LCA perspective, it positions the can even stronger relative to PET and relative to glass.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

Okay. Just one other one for me on the capital spending side. I think Dan mentioned that the practical size of these 2 new plants maybe bigger than anything else you've got here in the states. I think typically, we think of kind of 4 lines is about the biggest beverage can plants out there. Is there any kind of practical limit to the size of a beverage can plant that you would want to put in? I mean, could that number be 6 or 7?



John A. Hayes - *Ball Corporation - Chairman, President & CEO*

It could. But remember, then you got to factor in shipping. And you could make it all in one place and ship it thousands of miles and lose all that money to the freight company. So there's a balance. But theoretically, you could build something as big as you want. You got to look at where you're supplying.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

So what is the practical limit, do you think, John?

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

It depends by region. In the Northeast, for example, Northeast and Southwest, where we're talking about doing it, is the population, that's where the biggest and/or it's growing the fastest, so it makes sense. If you were to, say, to do it in Iowa, wouldn't make sense. So it very much depends.

Operator

And our final question is from Gabe Hajde with Wells Fargo Securities.

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

I hope everyone is doing well.

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Yes. Thank you. You too.

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

I want to come at the U.S. question from a little bit of a different angle. I know you guys don't typically talk about utilization rates, but I've heard the term full out from virtually everyone. So I'm assuming that's somewhere in the upper 90s. And I think maybe safe utilization, you guys have talked about before where you feel comfortable is something more 95%. And so if I take a differential of 3%, that implies that maybe you guys have already made 3 billion cans more than you otherwise would from higher utilization rates. And if you're bringing in as an industry, 2.5 billion units, you're actually short 5.5 billion such that this 15 billion, 16 billion units of capacity coming to the market is actually not that big of a deal. Is that what you were trying to get at, John, before in terms of building this case?

John A. Hayes - *Ball Corporation - Chairman, President & CEO*

Yes, as an industry, don't forget there's been new capacity by some of our competitors over the last 18 months. So they've been benefiting from that. But you're absolutely right. We are running full out. And as a result, the way you're thinking about it strategically, I think, is the right way to think about it.

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

The only other lever that you didn't indicate is working with our customers on lowering safety stock levels. So that's the other lever where you can get more volume out.

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

Okay. And then I guess transitioning over to Europe. You mentioned in the release that you're adding multiple lines to support market recovery as well as capacity for the North American market. And I'm assuming that wasn't the intent necessarily when these lines were planned. So I guess, does that imply sort of a protracted recovery in Europe? And I'm trying to marry it up, I thought I heard you say, Dan, kind of mid-to-high single-digit volume growth in the back half of the year. And then as a quick follow-up to that, as some, I guess, energy during production migrates across different parts of the globe, does that free up some capacity for you guys next year as that ramps up?

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

Yes, the 5% to 8% on the back half of the year in Europe is correct. You heard that right. It's yet to be determined on the bounce back of energy drink or through the convenience channel. I think that's more or less where you were headed with that question. Some of those companies they'll go to where they can sell their products. So you might see more multi-packs, right? You might see that showing up in retail, different than the convenience store channel there.

John A. Hayes - Ball Corporation - Chairman, President & CEO

Yes. But on your capital side, I just want to clarify, we're not putting capital in Europe to export into the U.S. This is for the long-term growth in Europe. And whether it's the growth we've seen in the U.K. or in Russia or parts of Eastern Europe, that's where that's going. And I think you were also referencing in terms of energy, it's not as if certain customers are moving filling from Europe to other places. They're actually adding in other places and keeping what they have in Europe because they see the growth opportunity in front of them.

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

Okay. Kelly, do we have any final questions?

Operator

No, we have no further phone questions at this time, sir.

John A. Hayes - Ball Corporation - Chairman, President & CEO

Okay. Great. Well, thank you, Kelly, and thank you, everyone, for your participation. Everyone stays safe, stay well, and we look forward to hopefully seeing many of you virtually at our Investor Day on October 6. Take care.

Operator

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



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