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PRESENTATION

Operator

Greetings, and welcome to the Ball Corporation Third Quarter 2023 Earnings Call. During the presentation, all participants will be in a listen-only mode. As a reminder, this conference is being recorded on Thursday, November 2, 2023.

I would now like to turn the conference over to the Chairman and CEO, Mr. Dan Fisher. Please go ahead.

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

Thanks, Frank. Good morning, everyone. This is Ball Corporation's conference call regarding the company's third quarter 2023 results. The information provided during this call will contain forward-looking statements. Actual results or outcomes may differ materially from those that may be expressed or implied. Some factors that could cause the results or outcomes to differ are in the company's latest 10-K and in other company SEC filings as well as company news releases. If you do not already have our earnings release, it is available on our website at ball.com.

Information regarding the use of non-GAAP financial measures may also be found in the Notes section of today's earnings release. Historical financial results for the divested Russian operations are reflected in the beverage packaging EMEA segment. See Note-1, business segment information. For a quarterly breakout of Russia's historical sales and comparable operating earnings. In addition, the release includes a summary of noncomparable items as well as a reconciliation of comparable net earnings and diluted earnings per share calculations.

Before we dive into our discussion about Ball's solid third quarter earnings and cash flow performance, I would like to reference some important announcements made recently by the company. On August 17, the company announced an agreement to sell its Aerospace business to BAE Systems, Inc. for $5.6 billion in cash proceeds, achieving a premium multiple for a premium business. The transaction is subject to regulatory approvals and customary closing conditions and adjustments. Therefore, prospective estimates for certain financial metrics provided in today's earnings release and conference call commentary exclude any potential impact of the Aerospace business sale. The process to achieve necessary regulatory approvals is underway and when appropriate, a progress announcement will be made.

Also, in early September, the company announced Scott Morrison's well-deserved retirement as Ball's CFO; and Howard Yu has assumed the role of EVP and CFO. To ensure a smooth transition and to enable a successful close to the aerospace transaction, Scott has agreed to stay on with Ball as an adviser until September of 2024. It is a pleasure to have both Scott and Howard joining me on the call today. I'll provide some brief introductory remarks and provide Howard an opportunity to introduce himself. Scott will execute his last earnings call for Ball and discuss key financial metrics, and then we will finish up with closing comments and our outlook for the remainder of 2023 and Q&A.

First, let me begin by taking a few minutes to thank Scott for his 23 years of service to Ball and his 13 years of serving as Ball's CFO. Some of you may not know that Scott has been an integral part of every Ball M&A deal since 1998. Pre-Ball, he was actually one of our outside bankers arranging the financing for the Reynolds Metals acquisition. In 2000, Scott joined Ball as our Treasurer and the rest is history. He has executed multiple transformative M&A and record-setting bond deals, successfully navigated Ball through numerous economic cycles, always stepped up when called upon and he's completed 55 of these wonderful earnings calls now. Scott is sailing off into the sunset, literally. Our company is better because of Scott Morrison and personally I am thankful to have worked with him since 2010. At my request, Scott agreed to stay on a bit longer as CFO than he originally planned. And I'm so grateful he did.

Nothing like a multi-year global pandemic, land wars, the steepest rise in interest rates and inflation since the '70s and helping on-board a new CEO to finish off your incredibly successful career. Scott, thank you for your commitment to Ball, for being a friend, a trusted leader, for being a candid mentor, a leader who surrounded himself with a capable team and someone who bled Ball blue. On behalf of the entire team, we wish you a long, happy and healthy retirement.

I'm excited to introduce Howard Yu. Ball welcomed Howard as our new CFO in late September. Howard joins Ball with a wealth of experience as a public company CFO, and packed with global experience and fresh eyes to unlock even more value for our stakeholders. Howard's focus on continuous improvement and passion for operational excellence will help lead us for the next decade. Howard, I'll turn it over to you to say a few words.

Howard H. Yu - *Ball Corporation - Executive VP & CFO*

Thank you, Dan, and the entire Ball team for your warm welcome. Scott, congratulations on your retirement, and I really appreciate your insights and introductions during the first 30 days. My onboarding and immersion have been excellent, meeting with leaders across 3 continents, participating in the recent Board meetings and touring several manufacturing facilities. I look forward to meeting many of you in person at future investor events and industry conferences. We have a packed investor relations schedule to close out 2023, including a reception at the New York Stock Exchange on November 14. Reach out to Ann and the Investor Relations team for details about our upcoming outreach schedule.

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

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

Thanks, Howard. Our team delivered strong third quarter results, improved operational efficiencies, inflationary cost recovery, the benefits of cost-out actions and a lower effective tax rate offset the impact of tough year-over-year volume comparisons. $43 million of higher interest expense and a $14 million operating earnings headwind from the Russian sale. I'm proud to say that our team did an excellent job of managing both costs, working capital and isolated volatility across supply chain partners in our packaging and aerospace businesses during the quarter.

Our overweight positions to the ongoing mass beer brand demand disruption in the U.S. and past regional customer mix decisions are evident in Ball's volume performance. Double-digit volume growth in Brazil and better than industry volume performance in EMEA helped to offset some of the North American headwind resulting in our global shipments being down 3% in the third quarter, a sequential improvement versus second quarter 2023, which was down 5%.

Moving forward, our actions to tighten supply demand domestically, lower costs, improve operational efficiencies, leverage the sustainability attributes of our innovative aluminum packaging portfolio and our ability to lean into our well-capitalized low-cost plant assets will position Ball to win commercially and improve returns on invested capital. In addition, our actions to unlock value via the announced sale of our aerospace business and utilize net proceeds to rapidly delever in the range of 3x, strengthen the balance sheet and return substantial value to shareholders via share repurchases and dividends will provide financial flexibility and drive value creation now and in the years to come.

I would also like to extend my gratitude to our employees for working with the utmost level of respect, care and concern for one another while adapting to the recent company decision to sell aerospace and further reduce fixed costs across our plant network. We're beginning to see some sequential improvement in our global beverage shipments, particularly in Brazil, as we head into their busy summer selling season. Given the current in-consumer demand trends in North America and EMEA, we will continue to run the business for cash and with an eye on reducing fixed costs and being fit for the future in the current macroeconomic environment.

In our aerospace and aluminum aerosol businesses, demand for our products and technologies continues to grow. In aerospace, our backlog and one not booked backlog both increased. And in our global aluminum aerosol business, third quarter shipments increased 10.4%. Our growing extruded aluminum business continues to serve new categories and offer reuse, refill bottle innovations to a broader set of customers and occasions, emphasizing aluminum over other substrates. Very late in the quarter and as mentioned in the press release, Ball experienced a fire at its Verona, Virginia aluminum slug manufacturing facility, which is part of our extruded aluminum aerosol business. We are thankful that all plant personnel were evacuated safely during the incident and that no injuries occurred while first responders extinguish the blaze.

Unfortunately, the fire damaged 95% of the plant's equipment and the structure is a complete loss. The extruded aluminum team continues to support the well-being of our colleagues and is also working very hard to try to meet our customers' demand from our remaining global aluminum slug facilities. Insurance coverage will handle the majority of the financial impact. However, we have determined that going forward, we will be unable to operate at the current site. Employees and key stakeholders were notified of this decision yesterday evening. Consistent with our prior commentary, we remain positioned to deliver on our cash flow, deleveraging and return of value to shareholder goals.

Based on our current expectations for end consumer demand trends in EMEA and North America, and other activities and items referenced on today's call, we anticipate growing comparable diluted EPS low to mid-single digits in 2023. And look forward to discussing our growth targets for 2024 on our February earnings call. We appreciate the work being done across the organization and extend our well wishes to our employees, customers, suppliers, stakeholders and everyone listening today.

With that, and for the last time, I'll turn it over to Scott.

Scott C. Morrison - *Ball Corporation - Senior Advisor*

Thanks, Dan. Third quarter 2023 comparable diluted earnings per share were $0.83 versus $0.75 in the third quarter of 2022. Third quarter sales decreased compared to the same period in 2022, primarily due to the pass-through of lower aluminum prices, lower volumes in the sale of our Russian business in the third quarter of 2022, offset by the pass-through of inflationary costs and currency translation.

In the third quarter, comparable net earnings increased compared to the same period in 2022 primarily due to the contractual pass-through of inflationary costs, a lower tax rate, fixed cost savings and benefits of prior year SG&A cost-out initiatives, offsetting notably higher interest expense, the headwind from the sale of our Russian business in the third quarter of 2022 and lower volumes. To reiterate our prior earnings call commentary, we have proactively managed supply demand across our system of plants and significantly reduced raw and finished goods inventory. Including our most recent actions to close Kent, permanently ceased plans to build North Las Vegas and defer the Concord facility into 2028. North America supply-demand has tightened up significantly, and we are lowering costs across our well-capitalized plant network.

As a result, we are positioned to improve returns on invested capital, deliver our customers' pack size and reclosability innovation at scale across a national footprint. And in future years, when end customer demand inflects more favorably utilize the operational efficiencies we are achieving now to serve our customers' future growth without spending significant growth capital.

In EMEA, the business has successfully lapped its last quarter of Russian business sale headwinds and is on track in 2023 to fill the $86 million of comparable operating earnings hole from the business sale. The team continues to operate at a high level as they navigate varying consumer and demand conditions, particularly in the U.K.

In South America, our volumes increased 14.1% in the quarter as we teed up on our prior earnings call, regional product mix and the volatility in Argentina weighed on segment earnings during the quarter. The busy fourth quarter summer selling season is underway and segment earnings are anticipated to inflect very favorably in the fourth quarter. As we sit here today, some very consistent commentary and key metrics, we ended third quarter in a very solid liquidity position with approximately $3 billion in cash and committed credit facilities. Cash on hand will be used to address the mid-November bond maturity. 2023 CapEx will be in the range of $1.2 billion, driven by cash outflows related to prior year's projects. 2024 CapEx is targeted to be much lower than and in the range of GAAP D and A levels. We anticipate generating free cash flow of approximately$750 million in 2023 and our 2023 full year effective tax rate on comparable earnings is expected to be in the range of 17% to 18%.

For clarity, it's important to note that an R&D tax credit benefited our third quarter ETR, so modeling the fourth quarter ETR in the low 20% range is appropriate. Full year 2023 interest expense is expected to be a touch higher than what we said last quarter in the range of $460 million. Full year 2023 corporate undistributed cost is recorded in other nonreportable will be in the range of $75 million we had previously said $80 million. And taking into account demand trends experienced so far in the fourth quarter, fourth quarter comparable operating earnings are on track to be consistent with third quarter results. We continue to expect year-end 2023 net debt to comparable EBITDA to trend in the range of 3.7x. And following the receipt of net proceeds from the aerospace sale, we intend to drive leverage in the range of 3x. Last week, Ball declared its quarterly cash dividend, and as Dan mentioned, reducing leverage and getting back to share repurchases are top of mind.

As I wrap up my comments, I want to express what a privilege it has been to be part of Ball for so long. Thank you again for all your banter on the 55 earnings calls. I've shared with Dave, Ray, John and Dan over the years. I'm pretty sure you won't miss me, and it's great to be leaving the company and you in great hands of Dan, Howard and the team.

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

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

Thanks, Scott. We continue to believe that the actions we have taken in 2023 and will continue to execute in 2024 and beyond will improve earnings, generate cash flow enable low-carbon best value innovative aluminum packaging offerings on a global scale and will expand shareholder value creation for many years to come. Thank you to everyone listening today.

And with that, Frank, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Scott and Howard, congratulations on the next chapters and Scott, really on behalf of, frankly, all the analysts and the investors on these calls over the last number of years, I just want to thank you for all the support you've given everyone's research and trying to understand the industry and understand Ball, so thank you.

Scott C. Morrison - *Ball Corporation - Senior Advisor*

Thank you.

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

It's been a pleasure. I want to get to the capacity closures and how it might impact your prior comments on the fact that you had a couple of years of capacity, maybe I'm paraphrasing a little bit there, but I don't think too much, to grow into at the time that you made those comments. So in a couple of years, or let me say it differently, do you still have a couple of years of capacity to grow into even after these closures, is the market now tighter, and so you have less than a couple of years to grow into? And if it's still the two, then have any of your longer-term growth rate expectations by region changed at all? And if so, any color there would be helpful.

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

We have dry powder in North America, probably more so in North America, but it's not just the capacity shuttering and the capitalization. It's also the fact, and like I've mentioned this a couple of times publicly, George. But the number of folks from about 2017 to 2020, we had over 1,500 retirements within our North America labor force. So you're onboarding a bunch of new folks plus setting up new facilities, another 700 to 800 new employees and our efficiencies dipped 3%, 4%, 5% in some instances in terms of the efficiency curve between 2020 and 2021. So I've got the combination of folks getting up to speed, performing much better. You're seeing it in the results. So we're going to get productivity gains that won't require capital.

And then obviously, the new facilities are all ramping up in line with our expectations, maybe a little ahead of that. The growth trajectory, that you commented on, it's obviously slower in '23, and it will be a little slower in '24 than what we anticipated a couple of years ago. So I think the combination of those two, we feel really confident about not having to spend the capital in order to match the growth here for an extended period of time, maybe 3 to 4 years to put it in perspective.

So that's how we're thinking about it, and that's how we're managing our capital outlays and allocations. There's always going to be opportunity to innovate and do some different things, but that's well within our GAAP D and A number. So we'll be able to grow. We'll be able to margin up on new innovative products, and we won't have to spend outside of D and A. And in some instances, in some periods, we might be able to spend below that for the next 2 to 3 years.

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

Dan, that's great. I had two other questions and I'll turn it over. One, Brazil turned very quickly for you, and that's good news. Can you talk a bit about what was driving that? Obviously, you're laying the tracks in the second quarter and prior. But if there's anything that you could add in terms of color how much you can continue that, what kind of earnings trajectory you think you will see in the fourth quarter, you talked about it been inflecting?

And then the release talked to some lighter weight returnable or reusable package, I believe, in the aluminum aerosol side, where you're using the technology there. Can you give us a bit more color on that, how you might use that within beverage and how it may affect your trajectory down the road? Good luck in the quarter.

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

Thanks, George. Yes. So very much in line with what our previous commentary was in Brazil. Our major strategic partner certainly had a hedge position that was unhelpful in terms of the aluminum cost of their products in the marketplace, that rolled off. And that economy is just getting better. Interest rates are coming off, growth is better, they continue to uptick the GDP projections in that area. The inflationary pressures are coming off. We also saw a couple percentage points of substrate shift out of returnable glass into aluminum.

So all of those things that we forecast have happened. I mean the good news is it's happening. So there's stability in that marketplace, which is inconsistent with what's happening, for instance, in Argentina, but Brazil is in a good spot. And we're turning on at least one additional line to try to keep pace with demand in the fourth quarter, and that will extend, we believe, into the first quarter. So we're feeling good about, basically every place in South America with the exception of what's going on in Argentina, we're feeling much better.

So I would imagine that will continue. We will see a significant step-up in earnings just what we had in Q3. So that will be in line again with that second half hockey stick, which we've had a number of questions on that throughout the year, and it's playing out with the exception of Argentina right in line with what we thought at the beginning of the year.

And then the reuse, refill, I think the commentary in and around this, it's small, it's small volumes. These are bottles, they're refillable bottles, so think personal care space and think water. So there is an element here where we can do some things within the beverage platform to offer reuse, refill opportunities with our aerosol product line. And because of the weight and the construction and the rigidity of that package, it plays better in a reuse environment than the can design characteristics.

So yes, we're bullish about that. Obviously, a lot of reuse conversations happen in Europe, and we want to make sure that we've got product offerings, and we're in the conversation because it's all white space for us. So certainly a nice opportunity step, but still off a very small base.

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

Dan, yes, or no, could it help your single-use in water and other beverages down the road? I'm sorry for the triple dip here.

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

No, thank you. Absolutely. So I think once you get the conversion, to the smaller sizes, and you're seeing it play out in mountain towns and the anti-plastic sentiment on the beaches. You could step into the smaller product offerings with the reuse, refill. You get the end consumer that understands the water tastes really good and the product is really good, and it's good for the environment. So I think there is a bridge here. But as I indicated, we're in the infancies of this transition.

Operator

Our next question comes from Mike Leithead with Barclays.

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

Scott, congratulations going forward and Howard, I look forward to working with you going forward. First question I wanted to ask, your North American, South American volumes were obviously much different than your 2 public competitors. And I appreciate looking at just 1 quarter isn't perfect. There's differences of customer and product category. But just in both regions, can you help us better understand if it's all really attributable to product and customer mix? Or are there underlying market share shifts with customers going on in each region?

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

Yes. Thank you for that. Start with South America. South America is actually a much easier market. If you're looking at it quarter-to-quarter, you're going to see swings and it is 100% a result of who's partnered with who. Big volumes from very few players and in the case of us, our strategic partner won in the marketplace in Q3. So we have a big position with them. They won in the market, our volumes look better.

In North America, it's less about share shift in terms of contract movement, and it's more our exposure to mass beer. I mean, that's just it in a nutshell. And we had a very strong Q3 last year whereas some of our competitors had a very weak Q3. Destocking, inventory movement started about the third quarter last year and some of us have had impacts from that point until now. And when you look at year-over-year comps, it can be a bit noisy. All of that is, I think, is normalizing. So as you're moving forward in Q4 and beyond, what you're going to see, I think, across the industry, writ large, is customer mix in alignment with scanner data. I think it will be a much more transparent way to look at the marketplace and volumes for that matter.

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

And then just on the aerospace sale, I know you touched on it briefly. But could you just update us where the regulatory approvals currently stand? And just maybe what your latest assumption is on when you think that deal should close?

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

Yes. I can't give too much detail, but I would characterize it as constructive where we're at with our discussions. And we signaled first half '24 closure. We still believe that is well within executing boundaries. We referenced that number based on the most recent transaction that took place about 7 to 8 months ago. So we're hopeful that we don't have as much overlap as that deal did and it will be a more efficient process. But I think the guidance of first half '24 is the appropriate one at this stage.

Operator

Our next question comes from Ghansham Panjabi with Baird.

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

I just want to echo my congrats to you, Scott, and Howard as well. Best wishes to you both for the future.

Dan, going back to what we witnessed over the last couple of years, so quite a bit has been done in terms of permanent capacity reduction at your end in North America between last year and this year. And I'm just trying to reconcile, your footprint has been modernized to some extent.

The market has recalled for different reasons and so on and so forth. And are you just anticipating that the market sort of resets for a while before we start the re-acceleration and to sort of support that re-acceleration, you'll be doing a lot in between with productivity to match up against that to support that growth eventually. Is that the right way to think about it?

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

We'll absolutely there will be a more stable operating environment from a volume perspective. So maybe I'll give you a little bit of color on how we're thinking about it. We signaled this, as you know, Ghansham, we're like, listen, there's not going to be any different pricing behavior until we get to Q4 because there's great tailwinds from our customers on inflection, on earnings and top line revenue. It gets tougher now in Q4 for everybody. And then you also saw private label begin to take share. Those are the things we needed to see to construct a different pricing behavior. And so I think we're going to return to prior to COVID in terms of methodical pricing in and around CPI for our customers. In that environment, we're going to make more money and flow more cash.

So then the other question is, tell me about top line. So top line for me is 100% about the depth with which the promotions are going to happen against a weaker end consumer. And so that is something that is a question mark in terms of what the actual volume increases are. But what's not a question is exactly to your point, we're going to run our business better, more productive, focus on operational excellence, be more agile, take the working capital out, flow more cash and buy back shares. That's what we're going to be doing until you see a little bit more of an inflection in top line. And then we'll be levering up really, really nicely off this more efficient cost structure that we've got in place.

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

Okay. And then for my second question, just in terms of Europe, I think this was the first negative volume quarter since the second quarter of 2021, if I looked at the model correctly.

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

Correct.

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

Yes, what's happening, I think you called out the U.K. maybe just jog us through the different subregions of Europe.

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

Yes. We actually won in the market even on those lower volumes. Can continues to win even on the lower volumes. There was a bit in the quarter on cooler, rainier weather across Central Europe and the U.K. in particular. But this is a function of a weaker end consumer fundamentally. And we'll be living with that here into the first half of '24. We still see growth, but the combination of all those impacts, I think were writ large across Europe. Energy costs are higher, that's embedded in our P&L and our competitors' P&L. So weaker end consumer there for a period of time is the main driver for volumes coming off a bit.

Operator

Our next question comes from Arun Viswanathan with RBC Capital Markets.

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

I guess my first question is just on the footprint. And would you think that after all of these industry moves, including your own, I think you've noted that the industry will continue to grow at a low rate. Would you think that at some point, just given the low barriers to entry that there could be some new entrants as well and potentially some further capacity additions, I mean, we are seeing some strength in ready-to-drink in some other categories? Or is it still absorbing capacity, I guess.

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

Yes. I don't foresee new entrants, 3 or 4 of them that have entered are not having any fun right now, and I don't know that they will candidly be around much longer. So it will be a handful of players that absorb the growth moving forward and we'll be one of them. The volume that's reflected currently is not necessarily the volume that's being won and will show up here over the next couple of years. So we feel really good about the footprint we have today, how we'll be able to optimize that and how we'll be able to make more money off of that footprint moving forward.

I would also challenge the low barrier of entry, can plants cost about $300 million. And when interest rates are in the 6s and 7s, it's not a fertile ground for folks to jump in.

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

And then I also wanted to just get your thoughts on post the aerospace sale I think that the plan was to use the proceeds for deleveraging as well as for buybacks. Is that still the plan? Would you be considering metals investments as well to secure more aluminum can sheet? Or how are you thinking about the proceeds used at this point?

Scott C. Morrison - *Ball Corporation - Senior Advisor*

I think largely still in line. We'll use about half the after-tax proceeds to pay down debt, and get our leverage back in the range of 3x and then the other half to buy back shares. And then the cash free flow next year, a lot of that will be able to go to buy back shares.

In terms of investment, I think the supply chain is making pretty good investments. So we always are looking at things opportunistically if we can create a competitive advantage. But I don't see a lot of need for big investments from that standpoint.

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

Scott, thanks for all your help over the years.

Scott C. Morrison - *Ball Corporation - Senior Advisor*

Thank you.

Operator

Our next question comes from Mike Roxland with Truist Securities.

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

Scott, congrats on your well-deserved retirement and Howard welcome to the Ball team.

Dan, you mentioned Ball and the broader industry really having excess capacity in North America, and you kind of highlighted the mass beer issue troubling the company. If net beer, let's call it out your Bud Light remains weak. Can you help us think about how the company will compensate for a potential permanent volume loss? And could some of that be offset by the recent deal that Bud Light entered into with UFC?

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

That's a great comment. I'm not a big UFC fan. So I don't know if those are huge, Bud Light drinkers or not, if that's a white space, but in all seriousness. It's going to take a period of time, the beer on shelf in retailers in C-stores will be there. And so folks like Constellation, they continue to grow, they continue to add capacity, and they're a big partner of ours. We're partners with all the major brewers and so as they step into taking share and taking volume, it will be somewhat of a natural offset.

Obviously, the fastest return for volume for Ball is that Bud Light or Budweiser figures out, something to put on the shelves it sells in place of that. There's a minor reset that happens in the fall with retailers. So we're seeing some uplift in terms of a favorable mix with some of the other brewers, but it's not going to substantiate until the first half of next year when there's bigger resets. So that will be indicative of how folks within the industry and the space are going to play that.

I do think the amount of money being spent by Budweiser on Bud Light, they've said it publicly, they're spending a lot more reestablishing that brand and yet to be determined, but over 12 to 18 months, I think the beer space, ready-to-drink cocktails, all of these will start to find their way on to those shelves and we'll benefit from that, we'll benefit from that disproportionately as we have been adversely impacted by Bud Light.

So I think our recovery is going to look good. It will start in the second quarter of next year, second, third and fourth quarter will become easier comps for us. The first quarter will be challenged because of Bud Light, in particular, did well, Budweiser did well in the first quarter. But I don't think we're going to have to make any further network changes. I think we're in a really good spot. We're managing that and we've got dry powder for what we believe will be a resurgent top line here over the course of the next 2 to 3 years. So that's probably more than you wanted, but I know it's a big topic, and it's certainly a big topic for Ball.

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

No, that's great color, Dan, I really appreciate it. And my follow-up question. Can you just remind us of some of the drivers that you have at your disposal to offset the earnings dilution from the Aerospace sale when it occurs in the first half of next year?

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

The biggest one is going to be reduction in interest expense.

Scott C. Morrison - *Ball Corporation - Senior Advisor*

We should say, with a couple of billion dollars plus debt reduction, we'll say over $100 million of interest costs next year. Buying back the shares. Obviously, if you're going to buy back a couple of billion dollars’ worth of shares, that takes a little bit of time. So you don't get the benefit of that immediately you'll get it over a period of time. I would say those are the kind of the first things that you will see.

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

Yes, interest expense and improved operating earnings out of our core business, we'll give you more detail. I mean, we're certainly going to be shooting for offsetting that as soon as we can in terms of the run rate. So you'll have a far better cash-generative business on the sales output. We'll be spending a lot less capital and then we'll be buying back a lot of stock and so the combination of those should be great return of value to our shareholders moving forward.

Scott C. Morrison - *Ball Corporation - Senior Advisor*

And the last several years, all the free cash flow that we generate usually really comes out of the beverage business, not the aerospace business. So it doesn't change our cash flow profile very much.

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

Got it. Thanks very much, and good luck in 4Q.

Operator

Our next question comes from Phil Ng with Jefferies.

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

Well, Scott wanted to echo the same sentiment. Thanks for all the help over the years. And Howard, welcome, looking forward to working with you.

My first question is around the Kent facility that's coming out. How much capacity comes out? And from an operating rate standpoint in North America where are you at this point? You guys have obviously taken some actions outside of Kent capacity and fixed cost out of things. Any color on how much cost savings we should expect to see that's incremental going to 2024?

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

Yes. So with the Kent facility, maybe I'll give you a little bit about that facility. It's a leased facility. We acquired this, as you know, as part of the Rexam acquisition. It was started in 1971. We've got 126 folks there, 2 lines, 12-ounce standard and this will cease operation in the first half of '24.

Typically, a facility of this size is in the $20 million, $30 million savings range. We'll offset some of that savings with a little bit of additional freight. So yes, somewhere in that neighborhood of $20 million next year, $20 million to $30 million is how you should be thinking about it for a half year of that, I've given you an annualized number.

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

Okay. And based on some of the cost savings and the buybacks and reduced interest expense, can you guys get back to 10% to 15% EPS growth next year?

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

That's a great question. The timing of the close will matter and how fast we buy back shares will matter. But as we sit here today, that is certainly our goal is not just to get back in that range but to exceed that.

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

Okay. And just one last one for me, a cleanup question. The slugs facility that is down. How is that going to impact your EBITDA in 2024? I know there's some offset from an insurance standpoint. Do you plan on rebuilding that facility, help us think through some of the moving pieces?

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

No, right now, we have enough supply to manage. So from an EBITDA standpoint, we'll be in good shape. We are thinking about what we do with that footprint because this is something, Phil, where you can send this product over very long distances. So not to go down a rabbit hole there, but we're going to evaluate that and the insurance proceeds will be more than enough to potentially recapitalize that facility. We just need to figure out what's the best place to do that and serve our customers.

Operator

Our next question comes from Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I think you have $1 billion coming due in the fourth quarter and maybe $790 of low-cost debt in the first quarter of '24. How do you plan to approach that?

Scott C. Morrison - *Ball Corporation - Senior Advisor*

Yes. We've got $1 billion coming due in a couple of weeks. We did a bond deal back in May, turned out to be a very opportune time. So we have a lot of cash on our balance sheet, and we'll use the proceeds from that bond offering and cash on the balance sheet to take care of the one in November here in a couple of weeks. And then the one in March, that's a very low cost maturity. So we will pay that off on the last day that we possibly can from cash that we'll generate here in the fourth quarter and then maybe a little bit of revolver to retire that.

And then once we close on the aerospace transaction, we'll pay down debt to the tune of $2 billion plus, and we'll determine at the time which pieces of debt we retire at that point. So I think we're in a really good place from a maturity standpoint and being able to deal with any upcoming maturities. We've got $3 billion of cash and committed credit too.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

When you sell the Aerospace business, does it perfectly carve out? Or are there stranded costs that are left over or opportunities to reduce overhead?

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

Almost perfectly carved out, we will absolutely take a look at the Ball business structure, all of those things moving forward and make sure that we're efficient and fit for purpose for the markets we're going to participate and how we win in the marketplace with our customers. So but it's minimal in terms of the overhang. It's really a business that whether it's the IT, the firewalls, the construction, I think we've got overlap of an HR system and a little bit on the financial at the corporate level. So very little overhang.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So like $10 million or $20 million?

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

I haven't seen the most recent number, you're probably not that far off. It's insignificant.

Operator

Our next question comes from Gabe Hajde with Wells Fargo Securities.

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

I'll echo other analysts have said to Scott and Howard, respectively.

You said a lot, Dan, in terms of expectations for top line, specifically volumes, and there's a lot of things that can impact when we're talking about weather, whether we're talking about promotions and Bud Light, et cetera. But you made a specific comment that you would expect volumes to kind of track below, I think what you've communicated in the past of what you'd expect, specifically North America to track. So call it, I think you guys have said 2% to 4%. So I'm curious if that's an industry comment or a Ball comment, and that's sort of based on what, meaning contracts and things that you have in your hand.

And then secondarily, I guess, similar volume question, but in Europe, is this based on your customer interactions and obviously, kind of maybe expectation for the consumer to continue to be pressured that you're a little bit more negative on volume in the short term here, i.e., the next 6 months?

And then South America, again, relative to our modeling was a little bit short. When I look at profitability versus history, it's a little bit below. But I don't know if that's a competitive issue. I know you called out some regional and customer mix. I also know ends are a little bit more profitable down there depending on when they're sold. I know there's a lot in there to unpack, but just for clarity, sort of what bulk specifically is expecting in those 3 arenas?

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

Okay. Let's start with South America. So South America we were down slightly versus our expectations because of Argentina. That's what it is. So I wouldn't read much more into it. The volumes were in line in Brazil, maybe a little better. Our earnings were in line, maybe a little better in Brazil, but it's just the deterioration of Argentina and some unique taxes also that the government put in place. So we're going to be dealing with a little bit of volatility there for a period of time.

But like I said, we'll have a significant inflection in Q4. South America is in a much better shape, obviously, than it was even at the beginning of the year. So we're very constructive on South America with the exception of the carve out of Argentina. In Europe, the volumes are going to be a little bit softer. I'd say the biggest difference between what we called out at the end of the second quarter and what we're calling out today is a weaker Europe, and I think you're hearing that from all of our competitors as well. It's a bit softer end consumer. I'm not overly concerned. It doesn't take much for growth. That market has grown for 20-plus years consistently, and it will return to growth, but the end consumer is a little weaker right now. And I do think the periodic shift 6 months is your characterization. I don't think you're far off there.

And then in North America, I do believe, just to parse out my comments. We're not growing at 2% to 4% in the industry. It's 0% to 2% in that range right now. And it's because, obviously, the pricing behavior that we experienced in the last 18 months and a significantly weaker end consumer, which everyone is commenting on. So I do believe there's a return to the 2% to 4% growth. But whether it happens in 2024 or the second half of '24 or in '25, I'm just being completely honest depends on where the end consumer is right now and what the pricing behaviors with our customers are.

Good news is, like I've said, we're running for the lower end of that range, both from an industry and from a Ball specific perspective, and we'll make more money and we'll flow more cash. But until that end consumer gains a little strength returning to the growth levels that I indicated a year or 18 months ago. I don't see that in the near term.

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

On the cash flow side, if I did the math right, and I think, Scott, you were talking about, I want to say, directionally, a $300 million working capital inflow this year. I wanted to confirm that, see if anything has changed there. And then when we start thinking about next year, and you guys have talked a lot about basically $4 billion of proceeds earmarked, I think there's directionally $800 million to $1 billion of AR factoring out there.

I don't know if you guys would think about transitioning that to more permanent financing or using part of the proceeds to pay that down as well, because again, giving you guys credit for cash flow next year, I'm coming up with a different leverage number than sort of 3. Just curious.

Scott C. Morrison - *Ball Corporation - Senior Advisor*

Yes, you're directionally right on the working capital number. And actually, one of the things that Howard and I and our team has talked about is unwinding some of that factoring. So that could be part of the whole use of proceeds. End of the day, leverage is leverage, whether it's on balance sheet or off balance sheet. So we may take an opportunity to do some of that.

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

Yes. I will echo those comments. And I do think it's time to start retiring some of these programs. And we've got a couple that are more expensive than we'd like. And I think we've got a targeted list that we'll go after. And the return of proceeds as we indicated back when we made our public comments, there's still $400 million, $500 million that we said we'd hold on to on the balance sheet, that would be used for things exactly like you've indicated.

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

Okay. I apologize for the early crystal ball...

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

Never apologize for wanting to ask questions about an exciting can business.

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

Just real quick. The crystal ball on working capital then for next year, if kind of things play out the way you'd expect?

Scott C. Morrison - *Ball Corporation - Senior Advisor*

I think it's way too early to talk about that. It's going to look wonky because we're going to get all these proceeds from the sale of the transaction and the tax payments on those proceeds is going to flow through operating cash flow. So we'll have to break out and explain exactly what we're doing but at the end of the day, I think you'll get a clear picture of what our balance sheet is going to look like and what the P&L is going to look like going forward, once we get to completion of the aerospace transaction, and what the business looks like going forward. So the cash flow will look lumpy next year.

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

So there's the cash flow comment, which I totally agree with Scott, and our balance sheet is going to be in great shape at the end of the year. In terms of the working capital, so if you're looking at DSO, DPO, ITO, that's how we run our day-to-day, our average working capital level will be significantly less next year than our average this year because of all the great work the teams have done to get our balance sheet in order. And that's how I get paid at the end of the day. So that's how EVA works.

So yes, I don't know endpoints if we'll be able to improve much. I think the focus will be to get better, whether it's spare parts, inventory or finished good or coil stock or on and on and on. But the average will be better, significantly better year-over-year.

Operator

Our next question comes from Adam Samuelson with Goldman Sachs.

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

There's been a lot of ground covered. Maybe just as we think about especially North America and Europe, a lot of discussion on beer. Is there any more distinction by customer category you would make in terms of actual pockets of strength versus areas where you've been surprised at where demand has surprised the downside apart from just the regional point on Europe, specifically and mass beer, obviously, in the U.S.?

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

Yes. I think Europe is a little easier. It's just a weaker end consumer right now across the board. Literally everything is down to varying degrees. If I give you a little bit more detail into the U.S. market, I commented on this earlier on the call, and we anticipated this heading into the third quarter. So we saw private label actually grow in the CSD category to the tune of about 3% in the third quarter. It's not a surprise, but it has happened. So I think they have taken share against a couple of the bigger players. So that was an important distinction, I think, within the quarter. Your ready to drink cocktails are still growing at nearly 50%. So it's a staggering growth trajectory there.

Hard seltzers are still declining off of a really good high here a couple of years ago. Import beer grew, which is filling the hole a bit from Bud Light, domestic beer down in that kind of 4.5%, 5%, which is largely in line with what we expected. Q4 is where you would hope to see a bit of an inflection and some movement and I think that's still a wait and see relative to the really big customer in the North America marketplace. But nothing really surprised us. I think the things that have momentum continue to have momentum with the exception of a trade down, really that happened in the CSD area from the premium brands down into private label.

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

And then in the other non-reportable business, you talked about the growth in aerosol, obviously, there's the main issue with the manufacturing plant in Virginia. I'm not sure I heard anything about kind of where things stand with the cups business and the march of that business towards profitability and kind of how close you're maybe getting to some bigger customers that could fill up that capacity.

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

Yes, still having conversations with regard to cups. You need the big inflection point to come out of food service. We're bullish on the conversations, but a couple of those transactions and wins need to happen for us to really inflect toward break even, we're doing better this year than last. We'll do better next year. I need for one or two significant wins for us to get back to break even. But it's not that far away. But until you execute that trade, it's not in the near term.

Operator

Mr. Fisher, there are no further questions at this time.

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

All right thank you, Frank. We look forward to talking to you at year-end. Hope everybody has a healthy and safe holiday season. We're certainly thankful and appreciative for everything that Scott has done for the company. I look forward to introducing more of you to Howard here in the near future. So enjoy the holidays, and hopefully, we'll see most of you here in the next couple of months. Be well.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line. Have a great day, everyone.

Forward Looking Statements

This transcript contains “forward-looking” statements concerning future events and financial performance. Words such as “expects,” “anticipates,” “estimates,” “believes,” and similar expressions typically identify forward-looking statements, which are generally any statements other than statements of historical fact. Such statements are based on current expectations or views of the future and are subject to risks and uncertainties, which could cause actual results or events to differ materially from those expressed or implied. You should therefore not place undue reliance upon any forward-looking statements, and they should be read in conjunction with, and qualified in their entirety by, the cautionary statements referenced below. Ball undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Key factors, risks and uncertainties that could cause actual outcomes and results to be different are summarized in filings with the Securities and Exchange Commission, including Exhibit 99 in Ball’s Form 10-K, which are available on Ball’s website and at www.sec.gov. Additional factors that might affect: a) Ball’s packaging segments include product capacity, supply, and demand constraints and fluctuations and changes in consumption patterns; availability/cost of raw materials, equipment, and logistics; competitive packaging, pricing and substitution; changes in climate and weather and related events such as drought, wildfires, storms, hurricanes, tornadoes and floods; footprint adjustments and other manufacturing changes, including the startup of new facilities and lines; failure to achieve synergies, productivity improvements or cost reductions; unfavorable mandatory deposit or packaging laws; customer and supplier consolidation; power and supply chain interruptions; changes in major customer or supplier contracts or loss of a major customer or supplier; inability to pass through increased costs; war, political instability and sanctions, including relating to the situation in Ukraine and its impact on Ball’s supply chain and its ability to operate in Europe, the Middle East and Africa regions generally; changes in foreign exchange or tax rates; and tariffs, trade actions, or other governmental actions, including business restrictions and orders affecting goods produced by Ball or in its supply chain, including imported raw materials; b) Ball’s aerospace segment include funding, authorization, availability and returns of government and commercial contracts; and delays, extensions and technical uncertainties affecting segment contracts; failure to obtain, or delays in obtaining, required regulatory approvals or clearances for the proposed transaction; any failure by the parties to satisfy any of the other conditions to the proposed transaction; the possibility that the proposed transaction is ultimately not consummated; potential adverse effects of the announcement or results of the proposed transaction on the ability to develop and maintain relationships with personnel and customers, suppliers and others with whom it does business or otherwise on the business, financial condition, results of operations and financial performance; risks related to diversion of management’s attention from ongoing business operations due to the proposed transaction; the impact of the proposed transaction on the ability to retain and hire key personnel; and c) Ball as a whole include those listed above plus: the extent to which sustainability-related opportunities arise and can be capitalized upon; changes in senior management, succession, and the ability to attract and retain skilled labor; regulatory actions or issues including those related to tax, environmental, social and governance reporting, competition, environmental, health and workplace safety, including U.S. Federal Drug Administration and other actions or public concerns affecting products filled in Ball’s containers, or chemicals or substances used in raw materials or in the manufacturing process; technological developments and innovations; the ability to manage cyber threats; litigation; strikes; disease; pandemic; labor cost changes; inflation; rates of return on assets of Ball’s defined benefit retirement plans; pension changes; uncertainties surrounding geopolitical events and governmental policies, including policies, orders, and actions related to COVID-19; reduced cash flow; interest rates affecting Ball’s debt; successful or unsuccessful joint ventures, acquisitions and divestitures, and their effects on Ball’s operating results and business generally; and potential adverse effects of the announcement or results of the proposed transaction on the market price of Ball Corporation’s common stock.