

# Ball Corporation NYSE:BLL

## FQ2 2016 Earnings Call Transcripts

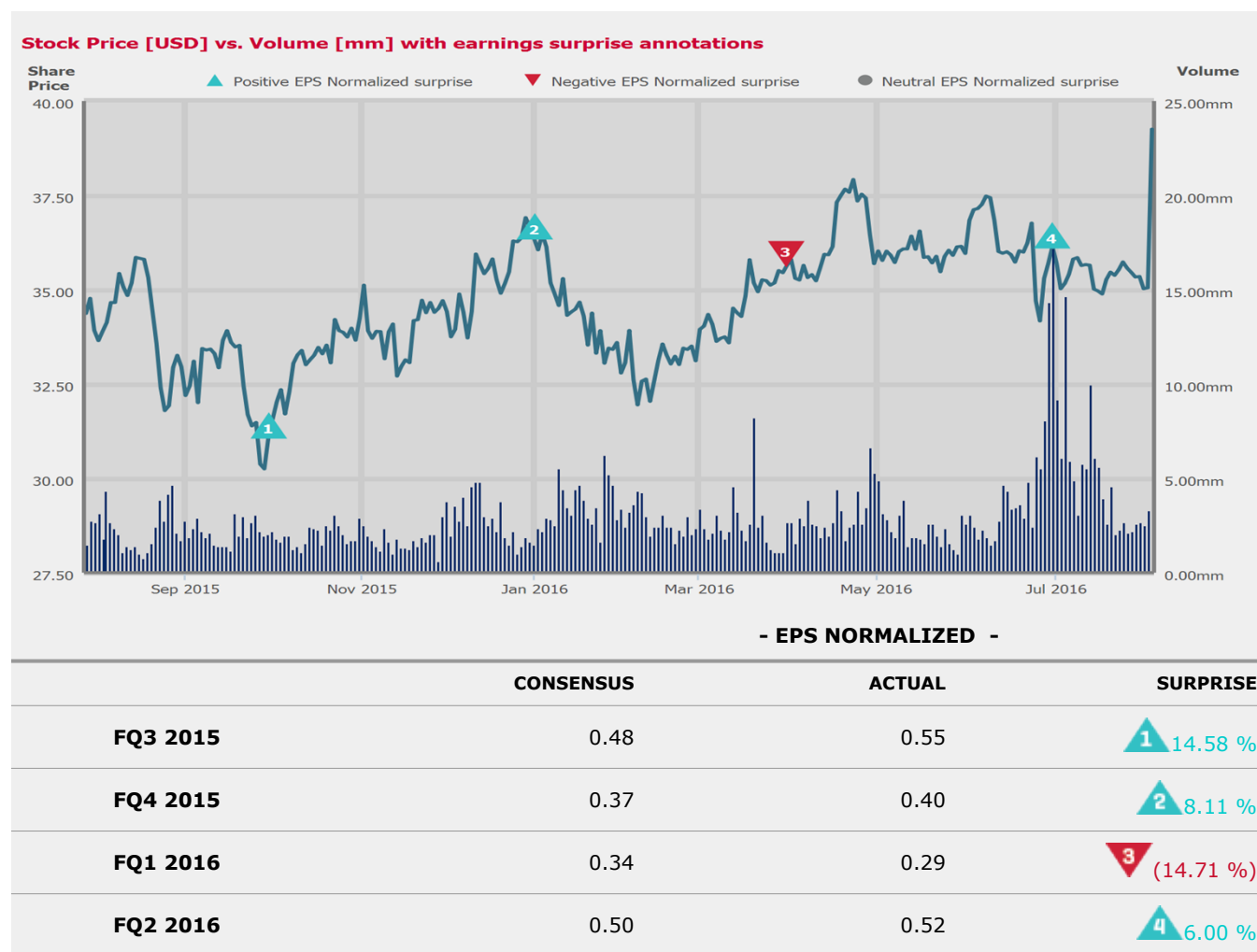
Thursday, August 04, 2016 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.50	0.52	▲6.00	0.51	1.74	2.18
Revenue (mm)	2175.76	2030.00	▼(6.70 %)	2884.94	9636.97	11155.95

Currency: USD

Consensus as of Aug-04-2016 1:06 PM GMT



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# Call Participants

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*Chairman, President & CEO*

**Scott C. Morrison**

*Senior VP & CFO*

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**Ghansham Panjabi**

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# Presentation

## Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Ball Corporation Second Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded, Thursday, August 4, 2016.

I would now like to turn the conference over to John Hayes, CEO. Please go ahead, sir.

## John A. Hayes

*Chairman, President & CEO*

Great. Thank you, Dmitra, and good morning, everyone. This is Ball Corporation's conference call regarding the company's second quarter 2016 results.

The information provided during this call will contain forward-looking statements. Actual results or outcomes may differ materially from those that may be expressed or implied. Some factors that could cause the results or outcomes to differ are in the company's latest 10-K and in other company SEC filings, as well as the company news releases. If you don't already have our second quarter earnings release, it's available on our website at ball.com.

Information regarding the pro forma's reference in today's presentation and the use of non-GAAP financial measures may also be found on our website and in today's webcast slides.

Joining me on the call today is Scott Morrison, our Senior Vice President and CFO. I'll provide a brief overview of our company's performance, Scott will discuss financial and global packaging metrics, and then I'll finish up with comments on our aerospace business.

In addition, while we normally do not give short-term guidance. Given the complexity related to the simultaneous acquisition of Rexam and divestment of those assets required by the various regulatory agencies, as well as the purchase accounting and transaction-related activities related to such, we will be providing more assistance than typical on the outlook over the next couple of years from an earnings and cash flow perspective. In his comments, Scott will give you some visibility as to where we are and what we see over the next 18 months at our company. And I'll talk a bit about our aspirations with respect to the earnings and cash flow generation capabilities over the long term.

The momentum in our business is visible from today's earnings release. Our strong second quarter results were operations led. We couldn't be prouder of our team to execute on our existing business, while planning for the integration. As we had mentioned on the past couple of conference calls, we expected to gather earnings momentum as the year went on, and this is exactly what is happening.

We have strategically and operationally positioned Ball for a multi-year value compounding period of growth on all key financial measures. Now in the second quarter, we began producing cans on our second line in our new Monterrey, Mexico beverage facility, serving our growing customers under long-term contracts. We began production on our new Myanmar facility. We improved operational performance in our food and aerosol business. We grew our aerospace-contracted backlog to over \$1 billion. And we closed on the acquisition of Rexam, while completing the required sale of the divestment business. Now that's one heck of a first half. The second half and beyond is where the real fun begins. It feels really good to finally have the steering wheel firmly in our grip following 17 months of external oversight and regulatory reviews.

Rest assured that our people executing our integration and value-capture initiatives have skin in the game, and we are all aligned with our fellow shareholders from an EVA and share ownership perspective.

I'll share more about our exciting future in my closing comments. So Scott will now talk a bit about the second quarter performance, the baseline to work off, and some key financial metrics, so that the

strength and trajectory of our businesses and cash flow can be seen through the fog of purchase and acquisition accounting. Scott?

**Scott C. Morrison**

*Senior VP & CFO*

Thanks, John. I'll try to keep this as simple as possible, and we ask that the folks following our company aligned with our framework and financial metrics that we're able to provide at this time. I plan to bucket my comments in 3 areas: where we have been, where we are now, and we are going. Let me start with where we have been.

Ball's comparable diluted earnings per share for second quarter 2016 were \$1.05 versus last year's \$0.89, an 18% increase. Second quarter comparable diluted earnings per share reflects strong year-over-year operational improvement, lower aluminum premiums, and a more normal level of corporate costs, partially offset by higher interest costs, a higher share count, and the tail-end of startup costs related to recently completed projects.

Our GAAP results for the first half were impacted by transaction-related hedging, purchase accounting, and other customary closing adjustments. Details are provided in Note 2 of today's earnings release, and additional information will also be provided in our 10-Q expected to be filed next week. For a complete summary of second quarter results on a GAAP and non-GAAP basis and details regarding the second quarter, please refer to the Notes section of today's earnings release, which includes a simplified table format summarizing business consolidation activities.

Our metal beverage Americas and Asia segment comparable operating earnings for second quarter 2016 were up year-over-year, due to solid volumes and operational performance in North America and Brazil and cost-out initiatives in China, which is helping to offset some of the impact of price compression in that region. The segment also saw a few million dollars of net startup costs in the quarter.

Now that we've completed the legacy capital projects, we do not expect any notable comments on startup costs for the rest of the year. Segment volumes in the quarter were up just over 2%, with China volumes being down upper single-digits, as weather impacted demand and we proactively managed our business, due to competitive industry pricing in that country.

Americas volumes were up 4.5% in the second quarter, and specialty volume continues to grow nicely, with specialty being up just over 10% in the first half. European beverage comparable earnings were up nicely in the quarter, due to the final benefit of aluminum premium tailwinds and low single-digit volume growth. The Europe market continues to grow, industry's supply/demand remains tight, and specialty demand remains strong.

Food and aerosol comparable segment earnings improved in the quarter, due to strong global demand for aerosol containers, and improved operational performance offset by high single-digit food can volume declines, due to timing of the Midwest pact related to our customer mix.

Initiatives to further improve production efficiencies are on track and set to benefit early 2017 performance. In summary, our global packaging businesses continued to be extremely focused on integrating the new assets, achieving their synergy goals and driving EVA dollars from the recent capital and efficiency projects. Thank you again to all of our global packaging people.

Now as we speak about our results going forward, we will adjust for and identify our one-time items impacting free cash flow and operating earnings. Things like fees associated with the transaction, severance and accelerated compensation payments, the special onetime tax payment on the estimated gain on sale, et cetera, so that the underlying strength of the business is clear.

Making no mistake, we have a cash machine on our hands. The business we acquired is not fundamentally different than our legacy business. It has great potential to generate cash. In 2016, the free cash flow will be clouded by all the one-off impacts and how much working capital we can squeeze out of the newly combined business in the back half of the year. Regardless, we see no deterioration and definitely potential

in the comparable pro forma business. As we look at where we are now and for the remainder of 2016, we'll start with the baseline.

Using the U.S. pro forma's filed in early July and today's reported first half performance, on a last-12-months' basis, the business would roughly have been \$1.53 billion of comparable EBITDA, which represents \$1.1 billion of comparable operating earnings, plus \$430 million of depreciation and amortization. This comparable EBITDA excludes amortization of customer-related intangibles of approximately \$140 million annually and approximately \$60 million of onetime inventory step-up. Our baseline adjusted net debt is approximately \$7 billion, which takes into account the repayment of Rexam's revolver, private placement, and hybrid debt, settlement of derivatives, the U.K. change of control pension payment, and the cash payment to the Rexam shareholders. As we think about the second half of 2016, here are some key metrics to keep in mind.

We expect full year 2016 comparable operating earnings just north of \$1 billion. And to be clear, our comparable EPS going forward will exclude the amortization associated with acquired customer intangibles, which should be in the range of \$70 million for the second half of 2016. Also excluding from comparable EPS, will be roughly \$60 million of inventory step up, most of which will occur over the remainder of 2016. The full year weighted average diluted shares outstanding for 2016 will be in the range of 161 million shares, which reflects the half year impact of the 32 million shares issued for the acquisition. For third quarter and fourth quarter, weighted average diluted shares outstanding will be approximately 177 million.

Full year 2016 interest expense will be in the range of \$230 million. Given the negative carry associated with the timing of when the acquired revolver, private placement, and hybrid debt came out, third quarter interest expense should run about \$7 million higher than fourth quarter. The full year effective tax rate for 2016 on comparable earnings is now expected to be in the range of 28%, taking into account, the earnings distribution of the combined company going forward.

Corporate undistributed is estimated to be in the range of \$105 million for full year 2016, which includes second half incremental costs of approximately \$30 million to support the integration from locations such as Milbank, Rexam's formal global headquarters location, which we will exit by December 2016. As we referenced in the debt reconciliation, are included in our earnings release, the funded status of acquired pensions was improved by the change of control payment made to the U.K. pension plan at the closing of the transaction.

With the remainder of 2016, approximately \$50 million of pension funding will occur in the U.S. plans. And given the size of the remaining cash-transaction-related payments to be made during the remainder of 2016, we do not anticipate a meaningful reduction in net debt by year-end.

So now, where are we going? As you can view on the reconciliation backup slide provided on our website and based on current operating conditions and FX rates, our preliminary target for 2017 comparable operating earnings is a range of \$1.3 billion to \$1.4 billion, excluding the effect of approximately \$140 million of intangible amortization.

For 2017, we expect interest expense of approximately \$280 million, a 28% effective tax rate, and full year weighted average diluted share count of approximately 177 million. Given that we are just 35 days post-close, our early estimate for full year 2017 free cash flow, after \$500 million of CapEx, is that we will be in the range of \$750 million to \$850 million, excluding one-time items related to the transaction, which is a great step towards our goal of free cash flow being in excess of \$1 billion by 2019.

And with that, I'll turn it back to you, John.

**John A. Hayes**

*Chairman, President & CEO*

Okay. Thanks, Scott. Our aerospace business reported second quarter results that were relatively flat with last year. However, I'm happy to report that our contracted backlog closed the quarter at over \$1 billion, with approximately 70% under cost-plus approach and 30% more of a fixed price nature, which provides a good balance going forward.

We are ramping up and staffing up for all of the new contracts which will benefit second half and future year's performance. We are excited about the prospects of this business, and politics aside, we have more opportunities for growth, assuming the government does not go into any prolonged continuing resolution.

Now across the company, and as we look forward, as Scott mentioned, by year-end 2017, we currently believe we should achieve \$150 million of synergies for the year, and grow our operating earnings even greater than that on the back of our prior capital growth projects, and show improvement in all of Ball's businesses.

While recognizing it is early days in the integration processes, we have more visibilities into the opportunities we thought possible. And while no doubt there will be challenges, we still expect to generate in excess of \$300 million of synergies by the end of 2019.

And as Scott said, we are also tracking towards our goal to grow our comparable annualized free cash flow to in excess of about \$1 billion. And when our leverage gets to the 3 to 3.5x debt to EBITDA range, we are poised execute a more robust share repurchase program.

In summary, our company is taking a step change forward, as a result of this acquisition. And whether it be in the commercial arena, our cost-out efforts, our supply chain and footprint work, our innovation efforts, positioning the can as the most suitable package in the beverage world and/or any other area, we are going to take our responsibility as a leader seriously. And with our current aspiration of generating \$2 billion of comparable EBITDA, and in excess of \$1 billion of comparable free cash flow by 2019, we see a clear path to growing EVA dollars, which will allow us to double our long-term goal of 10% to 15% comparable diluted earnings per share growth over each of the next several years. And with that, Dmitra, we're ready for questions.

# Question and Answer

## Operator

[Operator Instructions] Our first question comes from the line of Ghansham Panjabi with Baird.

### Ghansham Panjabi

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

On the LTM EBITDA at the end of 2Q of \$1.53 billion and the \$1.8 billion midpoint for '17, obviously, synergies alone should be \$150 million based on your parameters. Can you, John, give us some of the other assumptions, volume growth by region, and also the benefit from the growth initiatives, Monterrey and Myanmar, and also some of the growth that Rexam was also executing upon?

### John A. Hayes

*Chairman, President & CEO*

Yes. Well, you're absolutely right, when you look at what we have just said, there is year-over-year on an -- relative to LTM. We expected \$200 million to \$300 million more of operating earnings -- comparable operating earnings. \$150 million of that's from the synergies we expect to realize, and the balance of it comes from a variety of things, but let's not forget, over the last 18 months to 2 years, we have spent a fair amount of growth capital, whether it's building a new facility in Monterrey; the contra bottles, Myanmar; Lublin ends; India, impact extruded; our new G3 technology devices or other things, we expect to get the returns on that capital employed. And I think that makes up the back half of that.

### Ghansham Panjabi

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

So just to quantify on the volume side. What do you think the various regions would look like?

### John A. Hayes

*Chairman, President & CEO*

Well, I think let's take a step back, and see where the various regions are. United States, actually, has had 2 quarters as an industry of positive volume growth. We've had a little bit more than that just because of our customer mix and some of the new Monterrey facility, which is great. The can continues to win in the United States. I'd say that, as we hear in the summer months, it's slowed up a little bit over the last month or so, but nothing appreciably. But if you assume flat -- relatively flat growth in the United States, that's probably a good parameter. Down in Brazil, it's been relatively flat, down a little bit. Ball's, again, because of our customer mix has been done fairly well, but we're expecting, the second half of this year and going into 2017 to be relatively flat. It could be down a little bit at the second half of this year, after the Olympics are finished up, only because the economy is challenged. Europe continues to be a growth area. It's up a couple of percent year-to-date, and we expect that. And then, when you look at Asia, you have to look at China, and as well as Southeast Asia. China continues to grow strong, but we actually have been declining, in part because we're trying to rationalize our business and not make these cans for practice. Southeast Asia continues to grow mid- to upper single-digits. And then, in some of the newer regions that we're getting our hands around, whether it's the Middle East, whether it's even Russia, I think Russia is doing regionally okay. The Middle East is a mixed bag. We could talk about what's going on in Turkey. We can talk about the challenges of Egypt is having with their currency. You can talk about some other places. But I think those fundamentals that I've just laid out, we don't expect appreciable differences. But I do expect, and we do expect, as we go forward, the can's going to continue to do well relative to other substrates.

### Ghansham Panjabi

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



Okay. And just one question for Scott on the projection of net debt of 6.3 by the end of '17, basically a \$700 million reduction versus 2Q. Can you bridge that for us? How much in combined cash restructuring are you estimating? And also working capital contribution?

**Scott C. Morrison**

*Senior VP & CFO*

At this point, there is not a huge amount of working capital. If you just kind of bridge from the pro forma to that debt reduction next year, you'll have some element of working capital reduction, but really, it's too early to call, how much working capital. And then we just -- \$500 million for CapEx is kind of a good marker at this point. But as we get further into this year, and as we get probably to the January call, we'll give a lot more clarity, as to what we think the cash flow would look like.

**John A. Hayes**

*Chairman, President & CEO*

Yes, the only other thing, Ghansham, I would add is, let's not forget also, we pay a dividend. And so in that net debt range at the end of '17, that also is included.

**Operator**

Our next question comes from the line of Tyler Langton with JPMorgan.

**Tyler J. Langton**

*JP Morgan Chase & Co, Research Division*

Just on the 2019 free cash flow guidance. I know, Scott, it's a little early to know the exact timing of working capital gains. But should we assume that there's working capital gains in that number? Or should it largely be achieved in '17 and '18?

**Scott C. Morrison**

*Senior VP & CFO*

No, I think, if you look at what we've been able to do on our balance sheet, we've been able to get working capital out for a number of years in a row. And while it's way too early to talk about 2019, being an EVA company, we focus on our balance sheet every day. And so that tends to lead itself to all kinds of opportunities, a lot of which we probably don't see at this point. But I think we have good alignment with the new folks that have joined our company. And it'll be an ongoing process to get after that on a year-over-year basis for the next few years.

**Tyler J. Langton**

*JP Morgan Chase & Co, Research Division*

Got it. Okay, and then the EPS guidance for sort of from '17 to '19 for EPS to kind of double your long-term goal of 10% to 15%, does that include any share repurchases in those numbers?

**John A. Hayes**

*Chairman, President & CEO*

Well, as I said in my comments, that once we get to 3 to 3.5x range, we will be dedicating our cash flow to a share repurchase program. So by definition in '17, really, it's unclear. It really get -- depends on when we get to those targets. But the sooner we can get to that 3 to 3.5x range, the sooner we'll be buying back our stock.

**Tyler J. Langton**

*JP Morgan Chase & Co, Research Division*

The final question just with -- staying with the special incentive plan and then the positive program you laid out in the 8-K earlier in the week. Just provide some detail, I guess, on number people who are eligible. How deep it'll extend into the organization? Any details around that would be great.

**John A. Hayes**

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*Chairman, President & CEO*

Yes, good questions. 2 programs there. And like I talk about, we all have skin in the game. That's what I was referring to. There is a special incentive program that actually does go pretty deep in the organization, gets into the plant level. It's broad-based, distributed. The measurements are very similar to what we've done in the past, that is tried and true. It's based on EVA dollar generation and on free cash flow generation, relative to our expectations and what our Board signed up on the acquisition. And so that's a -- it's a 3.5-year program. And it's paid out in stock, which is another important component of that. The second one is the deposit-share program. It's a bit more limited for -- we have done a number of these programs, a number, 3 or 4 of these over the past 15 years or so. The concept is up to a certain amount by individual, that individual has to buy their own stock, and then would get a restricted stock that lapses over a period of time. In this case, I believe, it's 4 years, so as long as they hold onto the existing stock. So you have to put your own money in, and then you'll be matched up to a certain point. And we think both of those have been serviced very well over the past 15, 20 years. And it's just a reaffirmation that we're making sure that we, as people within Ball Corporation are completely aligned with all of our shareholders.

**Operator**

Our next question comes from the line of Anthony Pettinari with Citi.

**Anthony James Pettinari**  
*Citigroup Inc, Research Division*

Regarding the \$150 million synergies by the end of '17, do you have any thoughts on which buckets might be driving those synergies in the next 12, 18 months in terms of procurement, G&A, best practices versus which buckets may be a little bit more back-end weighted? And then in terms of big moving pieces with the synergies, you obviously identified the London headquarters closure. Are there other kind of big projects we should think about or big components of the synergies?

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

Well, let me just preface it by, Scott said, we're 35 days into our 90-day review. And -- but what I -- you're really getting at kind of a timing issue. And I do think that G&A is more a front-end loaded. You mentioned, Millbank, which is a good example, which is not immaterial at all. From a sourcing perspective, there are certain things we can get at, after right away. There are some things that we have to wait for contracts to renew. And so that's in process. But whether it's those, whether it's about being more disciplined from a commercial perspective, that's probably a longer-term multi-year game plan. Managing our networks more efficiently effective from where you make/where you ship perspective that we can probably do that more short-term or around our overall fixed cost leverage, and some of that can be short-term, some of it can be longer-term. I really do think that we are going to be looking at a multi-year plan, as you all know, but I do think there's some low-hanging fruit upfront. What we aren't going to do is hire an army of accountants to manage what bucket is generating to the million dollars happening where. We're confident that we can reach in excess of \$300 million, by the end of 2019. And as we said, we're pretty confident, that we can get at least \$300 million during -- or excuse me, \$150 million during 2017.

**Anthony James Pettinari**  
*Citigroup Inc, Research Division*

Okay, that's very helpful. And then, John, just following up on one of your earlier comments. Rexam had invested in some regions like Middle East, Russia, India, where Ball had chosen not to. And now that you've been able to get a closer look at Rexam's assets -- I guess you'd call them frontier markets -- how would you characterize the return levels there? And are there areas or regions, where further capacity adds makes sense or alternately, or maybe the returns met the Rexam threshold, but not the Ball threshold, and you might consider pruning capacity, as you have in China?

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

We're getting -- we're still getting our hands around that, as part of a 90-day program. And some of the things you have to look at the growth the market. And then some of the things you have to look at is around risk. And whether it's political risk or economic risk or currency risk. And, some of the areas that we've acquired, and we hadn't been into are actually better than perhaps we thought. Some of them are not as good as we thought. So it is a mixed bag. We'll -- as we get to October and into our January conference call, we'll have much more visibility and conviction around our point of view on those things. So please, just give us a little bit of time.

**Operator**

Our next question comes from the line of George Staphos with Bank of America Merrill Lynch.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

Congratulations on the results, and then closing the deal in the first quarter out. First question I had for you, John, is there anything that you can relate to us at this juncture about what you might have done differently in your plants that's an opportunity as you bring in the Rexam facilities and vice versa that, in turn, gives you comfort in the synergy target that you provided? The related question I had is on the corporate expense figure that you gave us for -- on a pro forma basis. Does that figure, do you think once you bring on the U.K. headquarters folks or the -- and the services related to that, do you think that figure has an opportunity to be lessened over time -- to be reduced over time? And my last question, and I'll turn it over, on capital spending of \$500 million, is there some implied -- are there some implied growth projects in that figure that you're not in a position to talk about? Or do you think that's a good number, and growth would be additive to that?

**John A. Hayes**

*Chairman, President & CEO*

Yes. Let me jump on the first one, and then I'll have Scott weigh in. In terms of what we're seeing and how we might do things similar or different from the old Rexam. One of the things, I'll point out, we are very excited about the engagement of the people, or the people that we acquired. I think this has reenergized everyone at our company. But also, our new employees that are coming in. And anyone who runs businesses know, that if you have the engagement of the people, that is a big chunk of it. So we're very, very excited. When you talk about the assets, you really have to go by region. And so I'll start in South America. They've got some great assets down there. They've got some great people down there. And we're very excited about that. In Europe, they've recently been doing some restructuring in Europe, which is actually helping them there. And I think the asset base there is very good. Obviously, we had to divest our -- a majority of our old asset base. But I think the -- on apples-to-apples, it's relatively comparable. In the United States, we think there's opportunity. I think the level of housekeeping, the level of safety, we're going to have to think about putting a little bit of capital, and I'm talking about \$3 million to \$5 million per plant, not wholesale capital, but to get it up to our standards from a quality perspective, from an efficiency perspective, from an out-purpose perspective. And then in many of the other regions that we talked about, many of those assets are relatively new. So while we're getting our hands around that, I think it really more has to do is -- with -- a question was asked earlier upon the risk adjusted return basis. Would we have done some the things that they had done? And it's -- let's look forward, not back, and we're going to manage these things as best we possibly can. On the CapEx, and then I'll turn it over to Scott to talk about corporate unallocated. Remember that it's very preliminary. And Scott said the \$500 million is a placeholder. What I would tell you is, as we think about it, the CapEx really falls in the 3 or 4 different buckets. Number one, we have a level of maintenance CapEx. We always talked about, Ball's was a \$150 million to \$175 million. You ought to think probably adding about \$50 million to \$75 million on to that for the totality of what we acquired. But then the additional capital is, like we always do, and it's a tried and true at Ball, it's a bottoms-up approach, and it falls into 3 of our drive for 10 buckets. It's about, number one, maxing the value, existing value of what we do. I talked a little bit about some of the opportunities we have in North America. It also talks about geographic growth, where, as you know, we're just -- in the last 12 months, we've started up in Mexico and we started up in Myanmar. There's probably some opportunities there, but we're going to be very judicious about that. And then last, but not

least, in terms of new customers and new products, our specialty continues to grow very strongly. We've been successful in converting our facilities into specialty containers. Rexam hasn't done nearly as much. And so there's some probably opportunities along that path. But that's going to be customer and specific opportunity by opportunity. So that's a holistic context, the way to think about our capital, as at least the way we are thinking about our capital going forward. And maybe I'll turn it over to Scott now.

**Scott C. Morrison**

*Senior VP & CFO*

Yes, the corporate costs, George, I mentioned \$30 million incremental in the second half of the year. So that's a kind of a \$60 million run rate. We would expect to get a big chunk of that here as we -- as a lot of that has to do with Millbank that closes by the end of the year. But we've got to get through that 90-day review to have a better idea of what that corporate cost looks like on an ongoing basis as we get into '17.

**Operator**

Our next question comes from line of Adam Josephson with KeyBanc.

**Adam Jesse Josephson**

*KeyBanc Capital Markets Inc., Research Division*

John or Scott, just one on the EBITDA target for '17. It sounds like you're expecting about a \$150 million of synergies from now to then, and then there's underlying EBIT growth of about \$200 million. It sounds like primarily coming from the recent growth projects. Can you just remind us how much you spent on those projects? So what kind of return on those projects this EBIT or EBITDA target implies?

**John A. Hayes**

*Chairman, President & CEO*

Yes, Adam, the one thing I'll point out, when we said there's \$200 million to \$300 million of operating earnings growth year-over-year on a comparable basis, not I think you said, \$350 million or something. So I just wanted to level set you on that, of which \$150 million will be coming from it. But if you go back and look at our CapEx, over the last couple of years, we probably spent around \$300 million, \$350 million plus or minus on some of these projects. And if you say that we're an EVA-based company and you've got to earn 9% after tax, you can quickly do the math on that, and see it's approaching \$75 million or so. And then we also have continued efficiency gains and other things that the daily life that we do at Ball in terms of improving our business day-on-day.

**Adam Jesse Josephson**

*KeyBanc Capital Markets Inc., Research Division*

Just a couple of others. The 2019 free cash flow target. What EBITDA growth is implied from '17 to '19 in that target roughly?

**John A. Hayes**

*Chairman, President & CEO*

Well, we gave in -- on that slide, we gave what we believe to be comparable EBITDA in 2000 -- or actually I said in 2019, I said, you might have missed me, we're approximately \$2 billion of comparable EBITDA.

**Adam Jesse Josephson**

*KeyBanc Capital Markets Inc., Research Division*

In 2019? Okay. And just one on Brazil. Can you just talk about what you're seeing there? And to your knowledge, is there additional capacity being added there at the moment?

**John A. Hayes**

*Chairman, President & CEO*

Yes, well, we probably like you. It sounds like, we've heard that there has been discussions about potential capacity additions in that area. Let's not forget, this year, the can market has been slightly down actually,

but not appreciably, down a couple of percent maximum over it. But the can penetration still continues to go real strong. There has been a bit of a pause here. We'll have to wait and see what happens, if there is new capacity put on. I don't want to speculate at all. But we are very much focused on maximizing the value of what we do down there. We've got a great team. We're very excited about the people there, their knowledge of the business, their knowledge of the industry, their knowledge of the customers, and their knowledge of the asset base.

**Operator**

Our next question comes from the line of Mark Wilde with BMO Capital Markets.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

I wondered, Scott, first of all, free cash flow guidance for next year, just to be clear, you said that didn't assume any big shifts in working capital?

**Scott C. Morrison**

*Senior VP & CFO*

Well, there's still -- there is some working capital -- I would bucket it with a bunch of things. Working capital, what happens with deferred taxes, what happens in pension. To get to that number, there is another category beyond just operating earnings growth that you need to get to get to that number.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Yes, okay. I guess, one of the questions people have had, is just, you guys have done a very effective job of factoring out a lot of your receivables. Rexam hadn't done that. So I'm just curious about how you're thinking about that and what the timeline on that might be?

**Scott C. Morrison**

*Senior VP & CFO*

Well, we're going to look at all the things that we've done over the last number of years, whether it's factoring supply-chain, finance, managing our inventories better, payable terms. Every lever that we have to pull from a working capital standpoint, we're going to relook at all of those, with the newly acquired business and apply those things. Some of them do take time to put in place, and that's why I think there'll be incremental benefits over a period of time -- over a couple of year period. But everything is on the table. That review -- that 90-day review that we talked about is getting into more detail on all of those things and figuring out, okay, what are the opportunities? What are the timing of those opportunities? And then how do they sequence over the next few years?

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Okay. And then, John, I'm just curious the -- with the closing of the deal, has this led to any new kind of fresh conversations with kind of customers, and maybe even talking about different tenors in terms of your relationships with some of the customers?

**John A. Hayes**

*Chairman, President & CEO*

Well, absolutely. I mean, as you know, we pride ourselves on being customer-focused. I do think that the engagement with the customer base right now, because there's a lot of change going on, is quite active. And it varies by region. It varies by customer and it varies by segment. But rest assured, we are very much focused on being the best in terms of making the can the most sustainable package from an economic perspective, while at the same time, being very disciplined from a commercial perspective, ensuring we get paid for our innovation, we get paid for our quality, we get paid for our service. And so more to come on this. But rest assured, we're always actively engaged with our customers.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Okay. And then just final question. Any thoughts on sort of further pipeline in the aerospace business in terms of kind of bids that are out there?

**John A. Hayes**

*Chairman, President & CEO*

Yes, as you know, we still have a number of one -- not-booked type of things out there. But what I was saying indirectly in my comments is, we're entering the election season, and we're not anticipating many new wins to be booked, just because the ambiguity of the election cycle right now. I think the continuing resolution risk is still out there. And so realistically, it's difficult to assume any meaningful new wins during this election cycle. But we feel really good about the long-term prospects of that business.

**Operator**

Our next question comes from the line of Chris Manuel with Wells Fargo Securities.

**Christopher David Manuel**

*Wells Fargo Securities, LLC, Research Division*

Wanted to kind of 2 points I wanted to hit on. One, Scott, and again, I appreciate you're still working through the review, and don't have everything all exactly ticked and tacked yet. But when we think about the timing of the \$280 million spend, clearly, if you want to get after a good slug of those synergies flowing through next year, there's probably a good component of that coming this year. Would you maybe want to hazard a guess or help us a little bit with the timing of that? I mean, I'm guessing probably close to half goes out over the balance of this year, and would the bulk of the rest probably go out in '17? How would we think about that?

**Scott C. Morrison**

*Senior VP & CFO*

Well, I mean, big chunks that I know will go out. So there is a big chunk of severance for folks that -- who are leaving the organization. There is a chunk for compensation for people that were divested to Ardagh. I mentioned some of that pension funding. There's lots of fees and things that have to get paid, and then the biggest chunk would be taxes that have to get paid, the gain, which we think is around \$250 million. So those are the big chunks that will happen probably by the end of this year, and each quarter, we'll highlight kind of the unusual or onetime, if you will, impacts of those.

**Christopher David Manuel**

*Wells Fargo Securities, LLC, Research Division*

Okay, that's helpful. And then, John, if I could kind of drill into a couple of years within the can business. Maybe if we could talk about Mexico for a second, and then also talk about China. Within Mexico, you -- it sounds like you got the second line up and running. I know you built that for 3. I mean, do you feel that -- how are things going, as you sit today? Do you feel that you'll be able to get a third line in there at some point over the next couple of years? And then with respect to China, I know that's been a hotspot, where you've had some problems, I think you spent a good bit of time talking about that last quarter. But I think you're going in, putting the full diagnostic suite to work of opportunities to take cost out. What perhaps can be the -- you think can be the outcome in China?

**John A. Hayes**

*Chairman, President & CEO*

Yes. Well, first, with respect to Mexico. Everything in Mexico is going quite well. The volume growth in Mexico that we're seeing, not only for the Mexican market, but for the export out of Mexico is going very, very well. Our customer's doing quite well. And so we're excited about that. I'd rather not put specific timing on new capacity in Mexico. But rest assured, the market continues to grow, and we think we've aligned ourselves with the right folks down there, so more to come on that. But it's -- nothing has

changed from what we've talked about in prior conference calls around our long-term prospects about Mexico. With respect to China. Probably the same holds true. We are executing very well on our cost-out program, if you recall in the last call, I talked about in excess of \$30 million of cost-out, and we are right on track with that. And I give our folks a tremendous amount of credit because without that, it would be a very, very challenging situation in China. The bigger question is, as you look forward, what does that mean? Because you can't save your way to prosperity. We think the industry needs a level of consolidation in the China market. There's too many independent players out there. The strategic question is how that occurs and when it occurs. And I can't go into detail, but we are taking it very seriously. Because as you look through, there is -- just from a supply demand perspective, there is too many suppliers chasing too few customers. And every time we -- in the history of our company, in the beverage can business, when we see that, it speaks to consolidation. How that looks, when it looks, what it looks like, too early to tell.

**Operator**

Our next question comes from the line of Chip Dillon with Vertical Research Partners.

**Clyde Alvin Dillon**

*Vertical Research Partners, LLC*

First question is just on the timing of the synergy capture. I just want to make sure I get this right. You're saying for the year '17, you expect \$150 million. And so what would there -- and I guess, at the end of '19, it would be in excess of \$300 million. So I just want to clarify that. I guess that would suppose you would be somewhere hoping to be in the higher 200 -- or higher 100s by the end of '17 on a run rate basis?

**John A. Hayes**

*Chairman, President & CEO*

No, we said, we would generate \$150 million in 2017, in excess of \$150 million in 2017.

**Clyde Alvin Dillon**

*Vertical Research Partners, LLC*

Got you. So that means you would end the year at a higher level, obviously?

**John A. Hayes**

*Chairman, President & CEO*

Well, I understand where you're going at, and I'd rather not go there, because we're not going to be, as I said before, we're not going to be tracking all this. All I know is, we have our own goals and aspirations, and we're going to generate in excess of \$150 million in 2017. And our goal is to generate in excess of \$300 million by the end of 2019.

**Clyde Alvin Dillon**

*Vertical Research Partners, LLC*

Okay. And then just looking at the corporate expense. Scott, you mentioned sort of day one, the incremental impact would be around \$60 million, which, I guess, in rough numbers takes you to 130 to 140. How much of that do you think can go away over the next year? And let's say, if you were to make a guess or bracket what 2018 corporate expense would look like, would it -- could it be down closer to 100 by then? Would you -- would that be reasonable?

**Scott C. Morrison**

*Senior VP & CFO*

I'm not giving a '17 number yet. As I said, we have to go through the 90-day review. And you're right, that's a \$60 million run rate. I think a lot of that will come out, between now and the end the year. And so the run rate will be lower than that. How much lower, it's too early to tell yet.

**Clyde Alvin Dillon**

*Vertical Research Partners, LLC*

Okay. And then the last question. John, you mentioned, the start -- or I think, Scott, sorry, the startup costs are largely behind you. And I guess, my question is, I believe you guys have a project in the Czech Republic that starts up late this year. And I didn't know maybe that's just too small to matter if I have that right. And then you look at the CapEx for next year being about double that new maintenance level. I would suppose that -- certainly, not to the extent you saw this year, in the first half, but should we expect some startup experience next year given that CapEx number?

**John A. Hayes**

*Chairman, President & CEO*

It's -- you raised a fair point. First and foremost, we are expanding our Czech Republic impact extruded business, and it is expected to come on either later this year or early next year. It is -- from the totality of Ball Corporation, I think the startup expense related to that will probably not be material. Within the food and aerosol segment, it could be. But I wouldn't get too concerned about that. And then as we go forward on it, the only reason that over the last 18 months, we've talked about the startup expenses because we have such a compression in preponderance of these growth capital projects. I mentioned Monterrey, contra bottle, G3, Lublin ends, India, devices. It always happening at once. And so we felt we needed to point that out. As we go forward, if that were to happen again, which I'm not saying it will, but if that were to happen again, we'd be as transparent as we can. But I wouldn't get too worried about startup expenses as you look forward.

**Clyde Alvin Dillon**

*Vertical Research Partners, LLC*

Okay, real quickly. 28%, is that your best guess of your long-term tax rate?

**Scott C. Morrison**

*Senior VP & CFO*

Yes, for right now, that's a good thing to use.

**Operator**

Our next question comes from the line of Philip Ng with Jefferies.

**Philip H. Ng**

*Jefferies LLC, Research Division*

The free cash flow guidance for 2017, does that figure include any of the cash cost to realize the synergies and the line conversions, as it relates to Ardagh?

**Scott C. Morrison**

*Senior VP & CFO*

Yes, what we're going to do is, as we get into next year, we'll highlight any cash costs related to getting after synergies. We'll break things out so that you can decipher exactly kind of what our run rate free cash flow would be versus our onetime cost to get after some of those synergies.

**John A. Hayes**

*Chairman, President & CEO*

Yes, just to give you a sense of it, if we were talking about severance, for example, cash flow severance, we'll point that out because that's one more -- that's more one-time in nature. If we're looking at converting a standard line to a specialty line, that's more operating from our perspective. And so, as Scott said, as we go forward, we will lay that out as -- with as much transparency, as we're able.

**Scott C. Morrison**

*Senior VP & CFO*

And, Phil, with your question, you said something related to Ardagh, I didn't quite...

**Philip H. Ng**

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*Jefferies LLC, Research Division*

Yes, I thought there were some part of the divestiture process you had to greet on converting some lines. I think steel aluminum in Germany. Is that in the CapEx guidance for '17? And I just want to make sure. So the free cash flow guide for '17 does strip out potentially some of these are more one-offs in nature, like cash items such as severance, right? Is that how we should be thinking about it?

**John A. Hayes**

*Chairman, President & CEO*

Yes, and with respect to other things, let's just assume it's behind this, not in front of us.

**Philip H. Ng**

*Jefferies LLC, Research Division*

Okay. Okay. And then are there any big selection contracts up for renewal over the next few years, and change of control dynamics that we should be mindful of?

**John A. Hayes**

*Chairman, President & CEO*

From a -- as we go region by region, certainly, not over the next 12 months or so. We always have contracts coming up for renewal. But there are some in different regions that over the next few years we'll be coming up. From an overall perspective, I think the vast majority of our business is under long-term contract.

**Scott C. Morrison**

*Senior VP & CFO*

Any change in control issues were dealt with prior to closing.

**John A. Hayes**

*Chairman, President & CEO*

Right.

**Philip H. Ng**

*Jefferies LLC, Research Division*

Okay, that's great. And just one last one from me. North America, on the bev can side, growth has been pretty stable. Are you seeing any mix shifts on the CSD side from PET into cans, just because it's leveled off quite a bit?

**John A. Hayes**

*Chairman, President & CEO*

Yes, it has leveled off a little bit. I do think that the -- when you really look at CSD, we have to think about fountain versus PET versus cans. Fountain's been actually the 1 most hit by the declines more recently. PET has been doing a little bit better than cans. But can's been holding their own, to your point. The thing that still continues to go very well is on the craft beer side. In our business alone, it's up year-to-date 30%. And as you -- as a consumer, you go out there, and you can see cans continuing to take a greater share of the package mix in the craft industry. And then last, but not least, the overall beer category is up -- the overall category itself is up almost 2%, just under 2%, and can volume is up over 4%. So we continue to take share from glass even in some of the more mainstream brands as well.

**Scott C. Morrison**

*Senior VP & CFO*

And soft drink specialties. Specialty sizes is doing reasonably well, too. So...

**Operator**

[Operator Instructions] Our next question comes from line of Debbie Jones with Deutsche Bank.

**Deborah Anne Jones**

*Deutsche Bank AG, Research Division*

So obviously, this deal makes you a much bigger beverage company, but I know that I think a lot of people are expecting your food and aerosol business to improve looking into 2017. But can you talk about how you feel about the food and aerosol business in your -- how it fits into your portfolio right now, and kind of the capital you think you're going to need to spend in that business going forward? And then lastly, just kind of the volume trajectory here, as we think about there being the idea that there is excess capacity in North America right now specifically on the food can side?

**John A. Hayes**

*Chairman, President & CEO*

Yes, well, as I mentioned, I think, on the last conference call, it's a food and an aerosol business, and those are different end markets. The aerosol business in that is actually bigger than the food business, and that's important to note. And we continue to see good growth, whether it's on the tinplate side, here in North America or down in South America, where we exist, or on the impact extruded side, where we're here in North America and also over in Europe. We continue to see very good supply dynamics -- supply/demand dynamics. We continue to see good growth. We consider -- continue to see good economic opportunities for investment on that side. On the food side, that's where the challenge has been. And it's no secret that there is -- has been overcapacity in there. We've taken our lumps over the last couple of years in that business. Some of it was market related from a pricing perspective. Some of it was self-inflicted related to the cost side. We are 70%, 80% of the way through completing a project that is going to have significant cost reduction in that business to make us more competitive. And that's where I think, Debbie, because of the growth in the aerosol and because of the cost out we have in the food, that's why we, as well as many other people do expect a better 2017 relative to 2016. I think longer-term, I just laid out really what the strategies of those 2 different segments is. It's continue to grow with the aerosol and continue to be the supplier of choice for our big multinational customers in the aerosol side. And then the food can side, service our existing customers as well as possible and recognize that's a cash business.

**Deborah Anne Jones**

*Deutsche Bank AG, Research Division*

If I could just move to the Americas segment, and you said, I think, you saw like 10% growth in specialty in the quarter. Could you talk about specifically what's driving that? How sustainable it is? And how you think about that when you put the 2 businesses together, Ball and Rexam?

**John A. Hayes**

*Chairman, President & CEO*

Oh, gosh, it comes from a variety of things. Our bottle strategy and bottle technology continues to go well. As Scott mentioned, on the CSD side, some of the smaller sizes continue to go well. Some of the larger sizes on the beer category continue to go well. Energy drinks, sleek cans, really -- there's not just one area, I think it's across the board, and I do think, part of our strategy has been, as the 12-ounce declines either through absolute declines or through cannibalization, we want to grab that cannibalization by having specialty cans. And that's -- there is a good chunk of the loss at 12-ounce being captured by specialty cans. And that's why we've been focused on it.

**Operator**

[Operator Instructions] We have a follow-up question from the line of George Staphos with Bank of America Merrill Lynch.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

On the subject of the market dynamics, post the Rexam deal, have you seen any change, perceptible change, in the level of competitive activity post deal? Has it been fairly status quo within your various regions? I know it's a very broad question, but I figured I would throw that out to you nonetheless.

**John A. Hayes**

*Chairman, President & CEO*

Yes, it is a very broad question. And remember, we're 30, 35 days into this, George. And this is a time of year, where you're really not having discussions around price with our customers. And so quite candidly, we've been very much focused on getting our folks aligned over what our strategic objectives are.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

Okay, fair enough. Now next question I had, more in terms of the portfolio and strategy. You talked earlier about China, and the parallels with other case studies in your time at the company and Ball's just development. If an appropriate consolidation opportunity arose in the next couple of years, do you think you could manage that while also integrating Rexam? Do you have enough depth to manage that? And the related -- well, let me stop there, and then I had one more question.

**John A. Hayes**

*Chairman, President & CEO*

Okay. Well, let me remind you that our folks in Asia have been doing a wonderful job in terms of the cost-out programs in managing a challenging situation, but they haven't really been affected at all by the Rexam transaction. They have not been involved in the integration just because Rexam had no presence over there. And so as we look -- your question is about bandwidth. We're quite cognizant from a corporate perspective of the bandwidth issues. But from a management people on the ground issues over there, we've got a very good team. The biggest question from my -- our perspective, George, on that is, is one consolidation enough to really change the dynamics? And you've heard us be pretty consistent that we're not just -- we're not going to be investing in China to become the biggest. If there is an opportunity to make us better, and meaningfully better as part of that, then we'll evaluate it. But that's the criteria by which we will look at it.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

Understood. The last question I had and, again, recognizing this is not the steak in the middle of play. It's more of the vegetables or maybe the dinner roll. Again, in food and household, that's been a business that's been struggling. Again, as you mentioned, I think to Debbie's question, 2 separate markets, 2 separate sets of dynamics. Does there come a point where the food business, recognizing that you have every intention of improving the performance next year, get such -- so challenged, that it begins to impair your ability to compete in aerosol? Said differently, again, using what you said about China, does there come a point, is there an opportunity perhaps, where combining businesses might make sense in the food market. And I'll leave it there.

**Scott C. Morrison**

*Senior VP & CFO*

Yes, thanks, George. We've talked about this in prior quarters. Recall, though, that from a manufacturing footprint perspective, we make tinplate food cans in the same facilities, as we make aerosol tinplate. And so when you talk about separating it out, it does become more challenging. But on the flip side of that, that provides the leverage of that. And so if the food can business continued to decline, we would be taking out a line here, a line there, an existing plant. But I don't think you can necessarily separate those 2. But having said that, we don't believe nor do we see exactly what you're talking about. And that's why I said you got to understand who you are, and in that part the business, it's a cash business, so treat it as such.

**Operator**

There are no further questions registered at this time.

**John A. Hayes**

*Chairman, President & CEO*

Okay, great. Well, thank you, Dmitra, for your help, and we look forward to talking to everyone on our third quarter conference call, which is at the end November -- end of October, excuse me. Thank you, everyone.

**Operator**

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

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