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# EDITED TRANSCRIPT

BLL - Q1 2019 Ball Corp Earnings Call

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## PRESENTATION

### Operator

Greetings. Welcome to the Ball Corporation First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is recorded on Thursday, May 2, 2019.

It's my pleasure to turn the conference over to John Hayes, CEO. Please go ahead, sir

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

Great. Thank you, Pehma, and good morning, everyone. This is Ball Corporation's conference call regarding the company's first quarter 2019 results.

The information provided during this call will contain forward-looking statements. Actual results or outcomes may differ materially from those that may be expressed or implied. Some factors that could cause the results or outcomes to differ are in the company's latest 10-K and in other company SEC filings as well as company news releases.

If you don't already have our first quarter earnings release, it's available on our website at ball.com. Information regarding the use of non-GAAP financial measures may also be found in the notes section of today's earnings release. The release also includes a table summarizing business consolidation and other activities as well as a reconciliation of comparable operating earnings and diluted earnings per share calculations.



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

Overall, we were pleased but not satisfied with our quarterly results, with overall global beverage can demand up over 8%, which is the highest it's been on a very long time; and our aerospace business continues to deliver on its growth ambitions. Offsetting this growth were the previously mentioned conclusion of the end sales agreement as part of the Rexam acquisition in South America and some short-term incremental costs that weighed on results in North America. Dan will address these transitory costs related to efficiency headwinds for 2 of our new lines in our Goodyear, Arizona facility and the impact of aluminum scrap costs in his comments later. We expect volume growth to continue while the costs become more in line as we move through the year.

Now key highlights for the quarter include: as mentioned previously, overall global beverage can growth of approximately 8% with specialty can growth of approximately 20%; and standard cans flat, further highlighting that our focus on specialty cans is paying off. In fact, specialty cans now represent over 43% of our mix on a global basis, which is up from 30% in 2016.

The growth was across the board with North and Central America up approximately 6% year-over-year; South America up a bit more than that; and Europe and AMEA up in the low to upper teens, respectively. Our customer discussions about shifting products into cans from glass, plastic and multilayer paper-based containers have only accelerated, and Dan will go into more detail about what we see going forward.

In addition, we received the antitrust approval of the sale of our China beverage can business, and we are on track for second half 2019 closing.

Aerospace revenues were up over 20%. And while we don't expect this level of growth to continue, we do expect revenues to be up over 15% for the full year.

Finally, aluminum aerosol was up low- to mid-single digits as the sustainability discussions migrate to this segment as well. Now speaking of sustainability, Ball focused on a variety of efforts over the past number of months to raise awareness on sustainability, educate consumers on the benefits of aluminum packaging, aid customer shift to cans and proactively improve our own environmental footprint.

Key initiatives that we have focused on year-to-date include: engaging with customers, governments, NGOs and others on the sustainability advantages of aluminum packaging, including presenting at the World Ocean Summit in Abu Dhabi; supporting employee-led recycling and community cleanup events around the world and launched new events in Argentina and the Persian Gulf, just to name a few; launching a campaign to educate youth about recycling: if you can, choose a can; facilitating various sports and cultural venues to shift to aluminum packaging, including utilizing Ball's reclosable aluminum bottles for still water; developing new infinitely recyclable, brandable aluminum cups for use in stadiums, venues, colleges and other channels where plastics cups are used; and to make Ball and our products even more sustainable, announcing agreements to transition 100% of our North American energy usage to renewable sources by the end of 2021, making Ball one of the largest corporate buyers of renewable energy in the U.S.

As we go forward, we see the momentum growing in each of our businesses throughout this year. We'll continue to execute our long-term strategy of growing EVA dollars and earnings over time through increasing revenues above our cost growth by focusing on our value-over-volume strategy, driving more mix shift to specialty containers, further developing innovative aluminum packaging products and expanding aerospace, all with the return of value to our shareholders mindset.

And with that, I'll turn it over to Dan.

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

Thanks, John. As John has already highlighted, we had some pluses and minuses to start the year. On the plus side and without a doubt, sustainability is having a favorable impact on customer demand. And given customer conversations, it will in the future as well. On the minus side, certain

inflationary costs to respond to the surging volume growth cannot be fully offset in the U.S. given the aluminum scrap market spreads and a couple of new lines not quite hitting our targets.

Turning to growth. Our first quarter global beverage can volumes were up 8%, though comparable operating earnings were down 6.5% year-over-year due to the \$33 million impact of the previously disclosed completion of the South America end manufacturing agreement, which will anniversary in mid-2019, and the late year 2018 U.S. line in efficiencies continuing in the first quarter. We can and we'll do better going forward.

Across the globe, our teams kept pace with tremendous growth in Europe, Brazil and North America, which in some regions, created some operational logistical inefficiencies given the tight U.S. industry and higher-than-anticipated growth in Brazil. The impact of widening aluminum scrap spreads in the U.S. has highlighted an area of exposure in certain customer contracts, which will be or has already been addressed for agreements renewing in 2020.

Moving to the individual segments. Ball's North America segment volumes were up 6% in the quarter. New categories led the way with wine, spiked seltzers, energy, craft and water experiencing double-digit growth and lower-calorie light beer being stronger year-over-year. Given the strong growth, we experienced higher-than-anticipated line conversions in our new Goodyear, Arizona facility which, in a start-up environment, created higher costs than anticipated. This, combined with the aluminum scrap issue described earlier, dampened our results. And while headwinds related to scrap will continue until we can fully pass these on, we expect our operating performance to improve as the year goes on.

Turning to our South American segment, volumes were up 11% in the first quarter, led by incredible strength in Brazil. As mentioned earlier, the completion of the ends manufacturing contract required, as part of the Rexam transaction, led to the lower first quarter earnings and higher-than-anticipated Brazilian volume growth led the pockets of suboptimal logistics patterns to honor customer demand. Comps will improve as we move forward with second quarter segment earnings will be down just slightly to reflect the mid-year anniversary of the end's agreement completion.

Our expansion in Paraguay is on track for late 2019 start-up, and the 2018 expansions of Argentina and Chile are contributing to results. Overall, the South American industry trends remained strong with cans being the favored package in the beer, tea, energy and hard alcohol categories. Looking forward, we see additional customer conversions from returnable glass to cans, aiding growth in 2020 and beyond.

European beverage earnings were up nearly 7% in the first quarter on difficult year-over-year comps given the timing and location of the 2018 World Cup, a \$5 million unfavorable operating earnings translation impact and start-up costs associated with the 2 new lines and multiple specialty line conversions in the quarter.

Volumes increased 10% in the first quarter, continuing the momentum from 2018. Cans are winning as customers shift their package mix into cans. As a result of new can filling lines being installed across our customer's operations, we look forward to continued good market growth. For 2019, contributions from our new lines, the year-over-year impact of our 2018 G&A improvement and plant cost initiatives will provide further year-over-year earnings growth and margin expansion as we progress through 2019.

Turning to AMEA and Asia. The demand environments in Turkey and India improved, and the operating performance in our Saudi joint venture stabilized. And in China, Ball has secured antitrust approval for the Chinese manufacturing plants sale to ORG.

In summary, global beverage can demand remains robust in our 3 key regions of North and Central America, Brazil and Europe. Supply/demand globally for cans is tight, and commercial and sustainability initiatives will benefit Ball going forward.

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

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

Thanks, Dan. Comparable first quarter 2019 diluted earnings per share were \$0.49 versus \$0.50 in the first quarter of 2018. First quarter 2019 results reflect \$0.03 dilutive impact of the July 2018 sale of our U.S. steel food and steel aerosol business. Details are provided in the notes section of today's earnings release and additional information will also be provided in our 10-Q.



First quarter comparable diluted earnings per share reflect strong global can volumes and solid aerospace contract growth, a lower effective tax rate than expected offset by the sale of the U.S. steel food and aerosol business and lower year-over-year end sales performance in South America and U.S. cost inflation, as Dan just outlined.

Net debt ended the quarter at \$6.5 billion and reflects our typical seasonal working capital build and ongoing share buyback. We continue to anticipate year-end 2019 net debt to remain around \$6 billion as we continue to actively buy back stock and pay dividends throughout 2019.

Close to 90% of Ball's balance sheet debt is at fixed rates, and we've reached our post-Rexam target [leverage] levels. We have an additional \$850 million of stock to buy back by the end of 2019. And in 2019, we'll pay roughly \$185 million in annual dividends, which reflects last week's dividend increase.

Looking forward, the company remains committed to repurchasing the shares issued to execute the Brazilian JV and Rexam acquisitions, and we'll closely monitor growth trends and growth CapEx returns to determine how much additional growth CapEx will be spent beyond 2019. Ball's balance sheet is healthy and our recent amend and extend of our credit agreement provides ample opportunity and flexibility to service growth and shareholder value return needs.

As we think about 2019, we continue to strive for full year comparable EBITDA of \$2 billion; free cash flow in excess of \$1 billion after CapEx in the range of \$600 million; full year interest expense a little north of \$300 million; with full year effective tax rate on comparable earnings will be in the range of 22%; and corporate undistributed should be just under \$100 million.

By investing in our businesses, pursuing bolt-on M&A, repurchasing stock and paying quarterly dividends, we continue to put the cash machine to work for the long-term benefit of our fellow shareholders.

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

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

Great. Thanks, Scott. In our aluminum aerosol business, now reflected in other nonreportable results; and as I mentioned earlier, global volumes grew 4% in the quarter, we continue to see opportunities to broaden our global footprint. Sustainability is also a driver in this business as some consumer product companies pursue aluminum alternatives to plastic. We're proud of the progress our team is making on innovation, operational improvements and employee engagement to further improve this high-returning business.

Our aerospace business, as I mentioned earlier, reported 24% revenue growth and 20% operating earnings growth on solid contract performance, partially offset by incremental labor costs and the start-up of many of these new contracts. In addition, we welcomed 300 new aerospace employees in the quarter, and we anticipate adding another 600 employees over the next 12 months. Our total aerospace headcount recently surpassed 4,000 people. Our focus remains on onboarding these new employees, readying the facilities for further expansion, and most importantly, executing on our strong backlog.

Now as we look forward for the company, we're one quarter of the way through the year. And while we still have much to do to achieve our 2019 financial goals originally laid out mid-2016, our longer-term prospects continue to be bright. Ball is uniquely positioned to lead sustainable growth in global aluminum packaging and aerospace while also continuing to return significant capital to shareholders, following the Board's announcement to raise the quarterly cash dividend by 50% last week as well as our recent 50 million share repurchase authorization.

We still expect to acquire \$1 billion of stock in 2019, and we look forward to exceeding our long-term 10% to 15% diluted earnings per share growth goal. All of this is possible because of our people and our culture. We'll continue to do what's best for Ball and our shareholders' long-term success.

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



## QUESTIONS AND ANSWERS

### Operator

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

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**Anthony James Pettinari** - *Citigroup Inc, Research Division - VP and Paper, Packaging & Forest Products Analyst*

John, you've got a couple of quarters where it seems like you've had some growing pains in terms of meeting a stepped-up pace of demand. And I'm wondering just from a big picture perspective if we're moving to a world where bev can vols are maybe closer to mid-single-digit growth than low single digit. How confident are you that -- not only Ball but really the entire supply chain, whether it's the aluminum producers or your freight providers, are going to be able to kind of meet that higher level of demand?

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

Yes. It's a good question. Two things. First as it relates to Ball, recall the acceleration of this growth has happened really right as we were in the midst of optimizing our footprint. So we had a number of plants that we were taking down over the last year or so and a number of lines, in fact, 11 lines [coming online], I believe, across the world over the last 18 months or so. And so any time you have this growth much higher than you're anticipating, when you're going through change, it adds risk to it. That's a little bit of what's happened. We're largely out of it as we look forward. We probably will have a little bit more in the second quarter. But as we move to second half of this year, we really expect to see all the benefits that we said.

On a broader basis, from a supply chain perspective, you raised an excellent point. Because I'm confident in our ability to make the cans, but what we are increasingly focused on is on the filling side of our business, making sure there's enough filling capacity to fill the cans; and more importantly on the metal side, making sure there's sufficient metal globally but even regionally, particularly here in North America. The tariffs that were implemented about 9 months ago haven't helped the situation. And we've gone from a situation where we had 4 or 5 metal suppliers that we relied on increasingly, we've doubled or tripled that, if not quadrupled that, given the shortage of aluminum -- rolled aluminum here in North America. So that's added complexity into the whole system. And we've been working very diligently with all of our key suppliers to make sure that they have sufficient capacity realized, that the growth is endurable, it's sustainable and it's here right now.

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**Anthony James Pettinari** - *Citigroup Inc, Research Division - VP and Paper, Packaging & Forest Products Analyst*

Okay. That's very helpful. And then is it possible to size the earnings drag from the scrap spread issue that we could see in 2Q or maybe the remainder of 2019? And then I think Dan indicated the issue will be addressed or has been addressed in customer contracts. Is it possible to say how far along you are in that? And you have some contracts that are 3 to 5 years. Is it something that's going to take multiple years? Or just any thoughts on that one?

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

Yes. Anthony, this is Scott. On the drag on the first quarter, the scrap issue was probably about \$10 million in the U.S. And it's really only a U.S. issue. That will continue in the second quarter, but it gets better in the second half as some of our supply gets switched to different suppliers and becomes a little more competitive.

And I'll let Dan talk about the customer side.



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

Yes. Anthony, I'd say on the customer side, I'd say about 25% to 1/3 of our North America business has this exposure in 2019; two-thirds of that has already been contracted. The other are basically annual contracts that get renewed at the beginning of 2020. So it's within our control to re-up those contracts with a very different pass-through mechanism.

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**Operator**

Our next question comes from the line of Edlain Rodriguez with UBS.

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**Edlain S. Rodriguez** - UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals

Quick one on sustainability. As you look ahead over the next couple of years, and if we believe you, as the can gains market share, like how do you take advantage of that given that you're practically sold out? Are you contemplating capacity expansion projects in all the regions? Like how do you take advantage of the higher growth?

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

Yes. Well, we actually have seen this coming for the last 18 months. We've been talking about it for a couple of years, and we truly believe the acceleration of it is actually going faster than we had thought. But recall, as I've mentioned a couple of minutes ago, we've invested meaningfully in our business to prepare for it. And so as we sit here in the short term, we're very confident that we have the capacity. What we're more focused on is actually the whole supply chain, as I said earlier, the filling side as well as the metal side. I think, longer term, meaning beyond 2020 going into 2021 to 2023, we see a variety of opportunities, but we're only going to be investing in that capital if we can get the appropriate returns.

So maybe I'll let Dan talk a little bit about the granularity there.

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

Yes. And I think just to piggyback on that, and maybe it's a more nuanced view, John has talked multiple times even at the Investor Day about our customers in PET that need to move [to cans], they also need to make sure that they get profit pools reestablished. And so when you look at our specialty growth just on the first quarter year-over-year, that's where a lot of that movement is happening. And we're up 20% in the globe on our specialty volume growth.

Remember, over the last 2 years in the footprint reestablishment, we have taken out 12-ounce capacity and we've added back in specialty in anticipation of selling this through to our customers. And it's starting to come to fruition. Now it's happening, candidly at a faster rate than we anticipated. And to John's point, we're constantly looking at our footprint for investment opportunities with customers, and the returns have to be there in order for us to step into those.

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

And just to give you one last context. As part of our planning process, Dan and his team has really looked out not only 2, 3 years but looked out 10 years, and really looked -- went into every one of our facilities and said where are those areas -- low-hanging fruit, if you like to call it, we can speed up lines? What are those facilities that we can add lines into the existing bricks-and-mortar? And then what are those areas that we need to look outside? So we have a very good idea of short-term and long-term incremental capital and big capital, where we could invest if we get the appropriate returns.



**Edlain S. Rodriguez** - UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals

Okay. And one quick one on Brazil. Like are you gaining market share at the expense of glass? Because it seems like there are some dispute between what you say and what the biggest glass competitor is saying over there?

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

Yes. What -- the answer is, yes, from returnable glass. And what is happening in that market is that market is transitioning to premiumization. There's been a couple of new market entrants over the last couple of years that have moved to pure malt, that have upgraded their ingredients profile, and they have exclusively gone into cans. So the predominant player in that marketplace that overwhelmingly has a majority of returnable glass share is having to change their ingredient profile and their beer composition, and they're having to address the -- from a competitive response standpoint, they're having to move to cans. And that is going to be an appreciable movement over the next 3 to 5 years. And so that is a -- in the comments, when we said demand was ahead of what we thought, it's all playing into the response from the incumbent there and moving more into cans.

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

Yes. One other data point just on the first quarter, and this is Nielsen data, but overall beer consumption increased a little over 1% in Brazil while can demand increased 20% plus. That's just on the beer side. On the soft drinks side, consumption declined a couple of percentage points and can demand actually increased 1%. So that, by definition, means the can is taking share from other packaging substrates.

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**Operator**

Our next question comes from the line of Ghansham Panjabi with Baird.

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**Matthew T. Krueger** - Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst

This is Matt Krueger on for Ghansham. So first, I was just hoping that we could take a jog around the globe and just take a look at what your budgeted volume growth outlook looks like by region for 2019 and if there's any notable factors that we should consider as we move just in terms of the quarterly cadence of layering in that growth.

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

Yes. I think where we were this time, 100 days ago, was we thought kind of mid-single digits in Europe, South America and maybe a little north of that in North America. I think North America is more or less in line with what we thought. Of course, we're in April here heading into peak season -- or May, sorry, beginning in May. South America has moved a little bit ahead of that and so has Europe: South America, based on the comments I made on the last question as it relates to the beer and the premiumization and the shift to cans in the Brazilian market; and then in Europe, it was really an energy [drink] movement and continued shift, I think, in sustainability and all that. I don't have a lot of data points to suggest that. But the growth rate certainly was ahead of what we anticipated. As long as weather holds in the northern part of Europe, we feel like we're poised for some decent growth ahead of that 4% or mid-single-digit growth.

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

Yes. Matt, your question is also, I think, is a more important one longer term because I think the megatrend is around sustainability. This is not just a 2019 event. I say that because we have had more conversations with existing customers talking about converting from other substrates into cans. But more importantly, we've had the most number of conversations with new customers that have never been in cans that want to convert,





whether it's the spiked seltzers, whether it's some of the categories Dan mentioned or even still water, which we're seeing very strong interest in as this whole sustainability issue rises to the top. And so I think this is a multiyear, if not decade, type of conversion that will play out.

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**Matthew T. Krueger** - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Great. And then understanding that you're entering this higher growth phase in the business, can you talk about what your targeted operating leverage is across these new sales volumes that you're seeing? And then how do you think you're performing currently with all the start-up costs, et cetera, versus your ultimate kind of operating leverage goal on that new business?

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

Yes. Well, I think in North America, as we said, I think we can do better. I would think we should be at historical levels, if not a little better, if we can extract the kind of the commercial benefits that you should see with the supply/demand market that's as tight as we have. The challenge fundamentally in North America, just to take a step back and walk through what we've done in the last 2 years, we've closed multiple facilities and we've started up 7 new lines during the last 18 months. And that's not an insignificant challenge. You throw on top of the fact that -- what John just indicated, where we probably moved from a half dozen metal supply programs into roughly 20 that's coming from all parts of the world. So I think managing that, focusing more on the supply chain, getting that stabilized, and as you said, moving into this kind of growth paradigm, not only with our supply base but our internal employees and our processes, I think we should be performing at historical leverage fall-through.

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**Operator**

We now have a question from the line of Tyler Langton with JP Morgan.

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

Just on, I guess, Europe and South America. I mean if the growth is kind of mid-single-digit plus this year, can your -- with your current capacity, can you support that for the full year? Or would you need to add or speed up lines? And sort of would you expect if you had to do that -- I mean are there any sort of cost headwinds associated with that?

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

No. Great question. We fundamentally have gotten through it from a capacity standpoint because keep in mind, we're just leaving peak season [in South America]. So as we head into the fourth quarter [this] year, that will really be kind of pre-build, et cetera. And so we'll be fine for the next 6 to 7 months. I'm actually heading down there in the next 2 weeks to go through a pretty extensive footprint analysis on that very question. But as John already indicated, if we're not going to get the returns, we're not going to add capacity.

But yes, we will certainly -- heading into next year, if we see growth rates at this particular juncture, we're going to have to look at incremental speedups, et cetera, potentially on the backs of this movement or the substrate mix that continues to kind of be a surprise a little to the upside.

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

Yes. Don't forget also that -- Dan's comments were directed largely towards Brazil, but don't forget that we invested in new line in Argentina as well as Chile last year. And we will, in Paraguay, have a new facility start up late this year. So that's actually helping us to bridge some of that gap.



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

Okay. No. That's helpful. And then just with Goodyear. I know sort of the -- like 2 of the lines are taking a little bit longer to ramp up. Can you, I guess, give a rough estimate of how much that's costing you in sort of executions for the balance of the year? And then does that -- I know it was always -- the goal was to get \$50 million of benefits from Goodyear this year. I mean is that something you can still achieve for the year? Or with these pressures, does it get pushed out a little bit?

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

Yes. I think the cost drag in the first quarter is \$5 million, and that should decline as we move through the second quarter and hopefully will run well as we get to the back half of the year.

Full year, the \$50 million, we're a little bit behind in where we wanted to be. But we have every intention and every expectation that we'll be able to realize the net benefit when we get up and running. And remember, the 2 lines were overcomplicated by having to switch sizes on those lines too. So that's difficult when you're starting out and you got a new workforce. So as we smooth out that production capability, I think all of that gets better and gets to our original expectations.

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**Operator**

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

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

So I guess the first thing I wanted to do is come back to the comment, and it's been touched on a few times with the other questions and answers, I think, Scott, you said monitoring CapEx relative to returns. So I think in some ways that's self-evident, what you're saying. But can you talk about how that might play into the other cap allocation goal that you have for the next couple of years, including the buyback that you've talked about? And when would we see from you that you have enough visibility one way or another in terms of monitoring that CapEx and what it means for 2020 and 2021?

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

Yes. I don't see that our CapEx needs are going to change our return of capital to shareholders. We should be -- we have a nice bump in earnings this year. We're going to get a nice bump in earnings next year. Our leverage is down at 3x by the end of the year. So we could definitely spend more capital and still buy \$1 billion of stock. I'm not overly concerned about that. We have the good fortune -- George, you've been around a long time, where we've been able to invest in our business, do M&A and return a lot of value to shareholders. And I think now we just have a bigger cash engine to be able to do that with.

So we're not -- and in terms of incremental capital, Dan talked about his trip to Brazil. We've got another meeting here in the next week to talk about all that, to John's comments about incremental capacity, where we could speed up lines. So it's too early to tell, but -- where that might be and what that might result in. But rest assured, we will be putting capital in the ground where we're going to get sufficient returns. And I think it's going to add to that earnings machine that allows us to continue to buy back and return a lot of value to shareholders.

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

Yes. And let's not forget, George, also just our goals for 2019 is \$1 billion of free cash flow and that includes \$600 million of CapEx. And that \$600 million -- our maintenance, state of the art maintenance CapEx is probably in the range of [\$250] million. So embedded in even the \$1 billion of free



cash flow is [\$350] million of growth. And so if you just extrapolate that out with a growing cash flow from the earnings, you can see how -- it may be plus or minus a little bit, but it's not a big mover.

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

Okay. That's very clear. The second question I had, and again, it's been touched on a little bit in some of the other Q&A, very helpful. On the one hand, we hear from the other substrates about how they're finding they need to educate the consumer. And this has been our premise. It's kind of a battle for the hearts and minds of the consumer here that's important in terms of plastics versus paper versus glass versus aluminum. How do you, if you buy the premise of this, how do you maintain aluminum's advantage when everyone else is now ramping up their "education process"? What makes you comfortable that you don't lose what's been an advantage to date?

And relatedly, Anthony touched on this in his question, how do you maintain the security on the supply chain? And specifically, what are the aluminum companies telling you right now about their willingness to invest in more can sheet capacity, when the last few years, they've talked a lot about auto and other things that they claim to make more money on but obviously are a little bit more cyclical?

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

Yes. George, let me take the first part and then I'll turn it over to Dan on the aluminum supplier side. Let's remember this to the consumer. This is not about cans versus glass versus plastic versus paper. This is about sustainability and doing right for the world. The aluminum beverage can, far and away, is the most sustainable from a recycling point of view, both in terms of its ability to be recycled in the economics about recycling. The consumer gets that. So unless something fundamentally changes there -- and we keep our ears to the ground and eyes to the ground quite often on this, unless fundamentally something changes there, I think the aluminum can is always going to win out, and I believe the consumer is seeing that.

Now as it relates to the aluminum supply and aluminum suppliers, Dan, why don't you take that?

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

Yes. George, good question. As you can imagine, we're having a number of conversations with our supply base. And I think the comment that you introduced in there is something that they're very well aware of. Maybe they weren't aware over the last 2 to 3 years, but the movement into automotive, it's massively cyclical. There is a slowdown afoot. And I think there is a growing desire to find another diversification outlet to put capital to work. Some have a -- it's a more difficult discussion than others because they're so wedded publicly with some of the automotive statements. But it's clear that there are a number of folks that are absolutely willing. And keep in mind the return thresholds on that in a tighter supply/demand market. We're having very different conversations with them, longer-term conversations. And I think they're seeing a very different tone and tenor out of us. They see the upside of the sustainability message. And I think folks are going to be willing to put some capital to work.

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

My last question and I'll turn it over. When we look at some of the incremental costs that you've incurred this quarter and expecting it until the second quarter because of the growth in the can, thank you for parsing the details on the aluminum credit and the like, is there any embedded cost that is nonvariable and for which you could not get out of easily? In other words, have you needed to hire more people? Is there more fixed costs that you've built into the beverage can business because of the growth outlook that doesn't necessarily step down quickly 3Q and 4Q?

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

George, the short answer to that is no. There's nothing structurally that has changed related to that. These are -- as you rightly pointed out, these have been just short-term growing pains.

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**Operator**

And our next question comes from the line of Neel Kumar with Morgan Stanley.

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**Neel Kumar** - *Morgan Stanley, Research Division - Equity Analyst*

In terms of your customer conversations, has there been any changes in terms of the customer order patterns this year versus last year, where it seems some money was left on the table because the industry was placing more adjustment on time and inventory orders?

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

Yes. There's definitely been. And I think there's a couple of beer companies and alcohol companies that have substantially outperformed expectations. They have changed their buying pattern in North America. We've had a number of really good conversations. We're carrying, you can even see it on the balance sheet, we're carrying kind of record levels of inventory right now [meaning in volume terms] in anticipation of peak season. So we're in a much better position. Now whether or not we have placed the right bets with our customers on which products they're going to sell through from Memorial Day through Labor Day, well, that's kind of always the gamble, right, in terms of peak season in North America. But I think we're in a lot better position heading into peak season than we were on previous years.

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**Neel Kumar** - *Morgan Stanley, Research Division - Equity Analyst*

That's helpful. And I mean, related to the beer market. We saw a pretty strong pickup in alcohol in can shipments in North America the past couple of quarters. Has there been any improvement in the underlying beer market that you've seen? Or is that really just been driven by substrate-switching?

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

Not a lot of improvement in the beer market. There was one -- one of our customers that probably did a little bit better branding and pass-through and had some easier comps year-over-year. And they've also changed their -- you can see it in their advertising. They've changed to multiple can sizes in specialty and sleek format. So I think that's all helping. But what we are seeing is, and we've talked about it probably for the last couple of years, the big beer houses, they have woken up to the fact that they need to sell what the end consumer wants. And they've done a really nice job of pushing out new innovative products, alcohol-related. But whether it's the seltzers or different kombuchas or different types of spiked cocktails or mocktails, all of those are continuing to win in the marketplace. And I see more innovation, not less innovation, as John indicated, more in the cans. And so we're excited about all of that going forward.

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**Operator**

Our next question comes from the line of Scott Gaffner with Barclays.

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**Scott Louis Gaffner** - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Dan, as we look at the volume growth in North America, first quarter and sort of second quarter -- I'm sorry, fourth quarter of last year, obviously accelerated. How much of that -- because it is coming, a lot of it, from new product launches. How much of that is really based on underlying end market demand versus your customers filling the channels based on these new product offerings? Just trying to get an understanding of the sustainability of the growth at that particular level.



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

Yes. It's -- I think it's definitely selling through. Good question. It's not channel stuffing. And the other thing, and I think John indicated this as it relates to sustainability. A couple of years ago, new product launches in North America, the can would take roughly 30% to 35% of the share of all new products from a package mix standpoint. It's now moved closer to 70%. And so it's not just the new products. It's that the new products are overwhelmingly going into cans. They are selling through.

Now some will fall through and some won't, right? And we'll have to deal with that added complexity. But the reality is it's like where we see the most appreciable sign of the sustainability movement. It's not necessarily a shift from existing products that have been regulated out. It's all the new products that are coming out. They're innovative. They're new. They work well with various can portfolios and different applications from that standpoint. And that's where we're benefiting from. But right now, it's overwhelmingly the spiked seltzers and things that have gained a lot of traction last summer. It has distribution space and it's selling through. I would continue to see that through the summer.

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**Scott Louis Gaffner** - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Okay. And then when you look at the manufacturing footprint, I mean, going back to one of the previous questions on operating leverage on new volume. I mean, clearly -- or not clearly, but maybe you can just tell us -- I mean, Goodyear, I would assume, is one of your largest, if not the largest facility that you have. Is there opportunity on a go-forward basis, as you continue to invest capital in some of these regions, to have more centralized production such that you could maybe leverage some of the volume growth a little bit better than you have historically?

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

There is definitely an opportunity to do that. It's all going to be about -- that all relates to what is the product and what's the end market price point of that product and how much freight can that product absorb. So if it's \$3 a unit on a shelf and it's an energy drink, they can absorb a heck of a lot more than a \$0.99 still water product. And so that comes into the equation on that.

But leveraging fixed cost, multiple lines, multiple conversions, leveraging your staff, leveraging your overhead structure, and candidly, leveraging your supply chain and your inventory levels, all of those things will become more and more embedded in how we think about expansion moving forward.

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

Yes. And Scott, this is John. The other thing that we like where we are, and we've talked about this, in all the 3 major regions: North America, Europe and South America, our footprint -- our network of footprint is by far larger than anyone else. And so we have the ability to look at incremental speed-ups in those 20 or so facilities in North America versus a new line and where to put that. So you have a network effect of all those things. It gives us more options and more levers to pull as we're thinking about where to make product and where to ship product.

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**Scott Louis Gaffner** - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Just lastly, John, I think in your prepared remarks you mentioned lack of filling capacity -- or filling capacity coming online slower than maybe demand for cans is coming up from the consumer. Intra-quarter, there was an announcement about you investing -- co-investing with one of your customers around filling capacity. I mean, should we start to see that more and more co-investing on filling capacity so that you could ramp up your customer's capacity at the same rate that the market is ramping?



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

Yes. Well, a couple of thoughts. Number one is what you're specifically referring to, recall that we -- Ball is not really putting any real capital in. It's -- what we're doing is creating enablement: enablement for our customer to be filling and enablement for us to actually have the cans to be filled. And so I would expect that -- much like we talked about the whole supply chain, I would expect that you should think that we're thinking about the whole supply chain on the filling side and on the metal side as well. Whether or not the investment -- we make investments into that is all about our core businesses: making and selling and marketing cans. So it's an enabler and can on a standalone basis generate good economic , returns, we'd certainly consider that.

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**Operator**

Our next question comes from the line of Brian Maguire with Goldman Sachs.

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**Connor Daniel Robbins** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is actually Connor Robbins sitting in for Brian Maguire. I just wanted to go back to the 2019 reiterated guidance there. Obviously, you mentioned some headwinds with Goodyear as well as some of the aluminum scrap stuff and then maybe tracking a little bit less than that \$50 million benefit that you expected from Goodyear. Just wondering if there was any other offsets that you guys expect in the maybe another segment to bridge to that?

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

Yes. For the full year, I think aerospace is -- continuing to do extremely well and probably has an upside from what we originally thought. I think the European market is doing really well. We're getting hurt a little bit from a currency standpoint as it translates back into dollars in Europe, but I think that will do well. We're seeing -- very strong demand we saw in South America. And AMEA and Asia are doing okay. So I think across the board, our businesses are probably in better shape now, absent the softness that we had in North and Central America. But all the other businesses, including aerosol, are probably better across the board than where we were coming into the year.

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

Yes. And I'll just make one final comment on it. When we -- obviously, we put out our 2019 goals way back in 2016. We're not running the company only for 2019. We're running it for 2022, 2024, 2030. This is a long-term sustainability play. While we wish some of these short-term headwinds related to the aluminum as well as the Goodyear start-up had not hit us, they did, and it's reality. But we're focusing on maximizing the opportunity both short and long term for our stockholders.

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**Connor Daniel Robbins** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. Great. That's very helpful. And then just one other on some of the specialty can growth. It seems like you guys mentioned there's some pretty strong growth there. And then -- but you did mention in the press release the mix metal costs to serve some of the double-digit specialty can growth in that North and Central America segment. Just wondering if this is more related to operational items or is there maybe not enough capacity that you guys have that's outpacing some of the demand expectations you have. Or just kind of a little bit more color there.

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

No, the 2 lines in Goodyear have multiple can sizes on them. And yes, we're not running as we anticipated, and that certainly contributed to some challenges in terms of needing to get those cans from other locations, out-of-pattern footprint, running more over time in locations. So a collective drag by not having those 2 specialty can lines running where we thought they would, entering the year.



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**Operator**

And now we have a question from the line of Arun Viswanathan with RBC Capital Markets.

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

I guess I just wanted to get your thoughts on where we are in the sustainability adoption period. I guess it appears that growth has been a little bit quicker than expected. I guess what are your expectations for volume growth across different regions, I guess, going forward? Do you see that moderating? And has there been, say, a pull-forward on the sustainability front?

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

Well, I think we covered this a couple of times earlier on this call. It's -- we think we're in the early stages of a long-term secular change because of sustainability. And I do think that as we look forward over the next period of time, and we can debate whether it's 3 years, 7 years, 10 years, you're going to see a lot more of the sustainability debate in front of us. And it's our job to try and capture with them the most sustainable package in the world, capture as much of the incremental growth from new products Dan was talking about as well as conversions, whether on still water or other things that have a very, very low exposure to cans currently. There's a huge long-term opportunity for us in every region.

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

Yes. So it's fair to assume that, I guess, global bev can growth should kind of remain in the 3% to 4% range for a little while. Is that fair?

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

No. I think we have said over the past year we think over the long term, without sustainability, depending on region, it's anywhere from 2% to 4% growth. So what we're saying is, at a minimum, that's just the upper end of that growth, and it could be a little bit more depending on how things break.

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

Okay. Great. And then just a quick question on capacity. I guess this aluminum can sheet has been tight for a while, and it looks like it will be again just given this growth. And I guess same with can capacity as well in North America. Where do you guys kind of come out on investments there? Do you think more investments on the can sheet side will be coming? And similarly on the can side itself, how do you kind of view supply/demand right now in -- or the supply in North America?

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

Well, I mean, supply from a rolling metal standpoint, we're importing metal right now. So yes, there needs to be capacity increases. There's plenty of metal capacity, but managing boats in different supply chain levers all around the world is not the most efficient, the most agile way to do that. So we're in a number of conversations to help our metal supply base, figure this out along with us. We will continue to invest in this. We've seen it for a couple of years. The reason, again, that we're up 20% in specialty growth is we've made significant investments over the last 36 months on specialty line investments. So we're able to step in at some of these opportunities. As John has indicated and as Scott's reiterated and I'm telling you again, we're looking at EVA-accretive opportunities and investments, and there are a number of conversations going on with the customers right now. We'll continue those. We're not going to put any money in the ground unless we get an appropriate level of return.



**Operator**

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

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

John, I wondered, first of all, if you could just put a little more color on exactly how that 3-way joint venture in Arizona is working. I think I heard you say you weren't actually putting any capital into that business.

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

Yes. I'll only -- let me tell you what I can in a public forum. There's been a great relationship between this customer, their filling partner and us as a can partner. And so we've entered into a filling operation. And you know any time you make a manufacturing facility, the best way to optimize the economics is think about the throughput and maximize the throughput of that. I think there's going to be third-party filling capability in this as the customer ramps up and that third-party filling capability, We know those customers that need to fill cans that may not be the customer that's investing, and they are allowing us and the joint venture to pursue those. So we are in charge of the third-party filling of the demand from that filling location.

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

Okay. That's fair. And when I think about just Red Bull and juices, which I think are kind of the 2 products that have been announced, is it fair to say that, that plant is probably going to be running a very high proportion of specialty cans?

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

Yes.

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

Almost exclusively.

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

Okay. And then when we were out in Boulder in early November, I think you made a real point of talking about how the can manufacturers need to help replace the kind of the profitability that a beverage company might have in other packaging formats, like PET bottles right now, which are very profitable for the soft drink companies. Where are you in that process, you think, of convincing them that these alternative formats that you've got can replace those profit pools so that they end up being made whole?

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

Well, I think the greatest proof point we can talk about is the 20% global growth in specialty and flat standard 12-ounce volumes. And so your question is really better answered by our customers that are actually putting it on the retail shelf. But we have given them -- there's a reason why we make over 40 different sizes, and it's giving our customers variety so they can look at whether the package is right in a 7.5-ounce container, a 10-ounce container, a 12-ounce, a 14-ounce, a 16-ounce and everything in between. And so we're going to continue to do that. And that's going to mean, as Dan has mentioned earlier, that's going to mean more complexity. And we need to get paid for that complexity. But if it's helping the customers improve the profit pool of aluminum as the consumer is demanding more aluminum, good things typically should happen.

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

Okay. And last thing along this line. It just seems like the craft beer market has moved pretty rapidly into cans, and it seems like they've held their pricing. So I'm just curious, do you think this is having an effect, let's say, on these Mexican beer companies that are still shipping to the U.S. predominantly in glass? That they look at what's going on with craft. Craft has gone into cans and its held premium pricing such that maybe we'll see more of the Mexican beer moving into cans?

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

Yes. I think the one particular customer that you're probably talking about, we have a really strong relationship with them. Keep in mind, there's a ton of -- there's an iconic image associated with that particular bottle. And I think there's some real -- they believe there's some real market value associated with that. That being said, almost all of their new products that they're introducing are all in cans. And so it may not move appreciably the one core product that's in glass, but everything else that they're launching from an innovation standpoint is coming in cans. And we're in constant contact with them on an innovation standpoint. So your point is valid. I just think some of these iconic shapes are very difficult for a marketing organization to move from appreciably.

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

Yes. Understood. I know what that image is.

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**Operator**

We now have a question from the line of Debbie Jones with Deutsche Bank.

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**Deborah Anne Jones** - *Deutsche Bank AG, Research Division - Director*

I wanted to switch gears a bit and ask about aerosol. A couple things on that. You mentioned kind of a low- to mid-single-digit growth. I'm assuming that's in line with kind of industry trends. We haven't talked about it a lot in a while here so I wanted to get an update on that. And then what do you think the opportunities are from the sustainability perspective in terms of categories that -- where you could see growth from that?

And then lastly, just -- as this switch into your portfolio, is this something where you would expect it to become a bigger part of Ball over the next 2 or 3 years or are the opportunities in beverage cans really dominating the capital allocation from an EVA approach?

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

Yes. Let me try and tackle those quickly. Number one, yes, it's in line with, overall, the industry growth that we're seeing as best as we can tell. Number two, I do think the whole category that aluminum aerosol plays in is probably further behind the sustainability journey than the beverage world. And I say that for a couple of reasons. There still is a tremendous amount of plastic in the personal care markets. That plastic is even more difficult to recycle because it's often different resins and multiple resins. And so I do think that the opportunity for the aluminum aerosol category to grow, relative to the other substrates, is even perhaps a greater in that. But it hasn't caught on yet as much as beverage. And last but not least, it's difficult to answer your question about will it become a bigger part of our company or not. From a pure organic point of view, there is -- a couple of years ago, I would have said yes, probably. But when you have 8% global beverage can growth, we look at it as a bottoms-up issue, not a top-down issue. So we don't target things to get bigger or smaller. I would have said aluminum aerosol has relative growth profile that was better than beverage cans. But if I said that several years ago, I would have been proven wrong.



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

And Debbie, building on John's comment there. We are -- you go into a grocery store within North America. You got 2 aisles that are beverages. You got 15 aisles of cosmetics. They're all in plastic. We have a number of conversation with retailers on they see the issue. They see it coming, and they need help. And so I think there will be more and more opportunities in spaces that are tangential, that we -- can bend metal and we can handle different apertures, et cetera, that we can step into. Those are -- to John's point, it's not moving as fast as the beverage side of things, but stay tuned.

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**Deborah Anne Jones** - *Deutsche Bank AG, Research Division - Director*

Okay. That's helpful. And I guess I wanted to ask about the comment you made about the aluminum cup. I guess that it's pretty early stages, but you did mention it on this conference call. So I was wondering if there's any encouraging signs that you're seeing, and also just to get a sense of what type of capital is involved with something like this.

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

Aluminum cup.

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

Oh the aluminum cup. Dan, do you want to take that?

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

Yes. We're making really good progress from a development standpoint. We've got -- we've made investments from a pilot standpoint, Debbie. We'll be launching it into a -- we'll be commercializing it this fall on some college campuses and some entertainment venues. Moving forward, there is a ton of conversations and commercial appetite for it. We have hired a dedicated general manager for that business, and we're building a team in and around that. It's full speed ahead.

It's similar in terms of the economics to a can line, maybe a bit more. But -- and almost very similar to the output of a can line just in terms of the economics. This is very early stages. We haven't solidified that. But in the engineering, drawings and things that I'm seeing to really step up the capital investment, the good news is we'll have an opportunity to leverage some of our existing infrastructure and overhead structure to pilot that.

I'll let John fill in more on some of the other things that are happening on that.

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

Yes. Strategically, we're very excited because on its own merit, there's a huge opportunity. But there's also a lot of leverage because many of those venues, whether it's college campuses or sports stadiums or museums or other things, as they talk about trying to go plastic-free, cups are a big part of it and beverage containers are a big part of it. And they don't want to just do one or the other. They want to go plastic-free. This provides us a portfolio where they can completely dedicate their beverages to going plastic-free, and that's what's exciting about this.

**Operator**

And now we have a question from the line of Adam Josephson with KeyBanc Capital Markets.

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**Adam Jesse Josephson** - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Just one more on sustainability, Dan or John. Do you know what the recycled content of the aluminum you're buying is, and consequently, what the recycled content of the cans you're selling is? I've seen some data on Can Central and the like, but I'm just wondering if your suppliers actually give you that information.

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

Yes. It's not the right way to be looking it, to be quite honest. Because aluminum is fungible. So you can take an aluminum can, melt it down, and it can go into a bicycle frame or it can go into a window frame. And so I do know that the -- to answer your question directly, well over 50%. It depends upon the supplier. But well over 50% is recycled content. But I'd strongly encourage everyone not to be thinking of that because 100% of aluminum is recyclable and can go into a wide variety of products. And that's why there's such a great benefits -- recycling benefits of aluminum.

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**Adam Jesse Josephson** - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

John, I think you said on the last call, your customer negotiations for next year were nearly complete. Could you give us an update on the status of those negotiations, and consequently, what type of commercial benefit you're expecting next year and beyond, if possible?

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

Yes. There really is no update relative to what we said 90 days ago. And I said we're still in the documentation [stage]. So when we have something to tell you that's more than what we have, we will tell you.

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**Adam Jesse Josephson** - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

And Scott, I think you mentioned earlier, you're expecting earnings to be up nicely this year as well as next year. Can you just give us a little more context for that comment? Is that just based on volume expectations? Otherwise, just -- I think you talked about next year as well and I just wanted to flesh that out a little bit.

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

Yes. I think we'll be able to fix the issue that we're having around scrap, then next year, with the contracts that we're entering into. I think we'll get out beyond the learning curve of some of these start-up lines and plants that we are experiencing this year. I think we'll see more volume and more growth across the business and weighted more towards specialty. And some of those new commercial contracts kick in next year. So I think all of those things lead to improved results -- nicely improved results as we get into 2020 and 2021 and 2022. And so we're in a pretty good spot and we're pretty excited about the future.

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**Operator**

We actually do have one final question. This comes from line of Chip Dillon with Vertical Research Partners.



**Clyde Alvin Dillon** - *Vertical Research Partners, LLC - Partner*

No one, I don't think, unless I missed it, asked about aerospace. And you talked about such a huge potential backlog. And it looks like this year, a reasonable place to be -- last year, you did \$1.2 billion in revenues, maybe this year is over \$1.3 billion. What kind of years could we see in 2020, 2021, when you talk about especially that shadow \$4.9 billion [won not booked backlog]? I know it's lumpy and it gets spread out. But how -- can you give us some parameters around that?

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

Yes. Thanks, Chip. You're a good wing man for us because aerospace is very -- it's an exciting time. And you know that's a long-cycle business. And what I mean by that is the visibility is much further out because of the won not booked and because of the contracted backlog. What I'd tell you is the growth profile we see this year, we see continuing for the next couple of years at a minimum. And that's kind of over the next 3 to 4 years. So you should expect kind of a 15%, 20% growth and with comparable margins as we go forward on that. So it's really exciting. We continue to bid on things at a rate faster than we ever have before. We continue to grow the people and the facility side at a rate faster than we've ever done before because we see the opportunity set as we moved from components and sensors to full satellite, become a full mission partner for our customers. Those trends are only continuing. So for the -- as far out as we can see, these trends will continue.

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**Clyde Alvin Dillon** - *Vertical Research Partners, LLC - Partner*

And will the mix either in terms of type of customer, and I know mostly that's U.S. government, will that change? And will the character of the contracts be materially different, that is the mix of fixed price versus cost plus?

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

No. I don't think so. I don't think so. You always have nuances, but from a strategic point of view, they should not.

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**Operator**

And Mr. Hayes, I'll turn it back to you to continue your presentation or for your concluding remarks. Thank you, sir.

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

Great. Thank you, Pehma. Thank you for everyone participating. We look forward to accelerating our momentum as we move to the second half of this year, and we appreciate your continued interest.

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**Operator**

Thank you so much. Ladies and gentlemen, that does conclude the conference call for today. We thank you all for your participation and ask that you please disconnect your lines. Thank you. Have a great day.



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