

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

BLL - Q1 2020 Ball Corp Earnings Call

EVENT DATE/TIME: MAY 07, 2020 / 3:00PM GMT

Document includes important disclaimers at the conclusion of transcribed comments.



CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Bryan Nicholas Burgmeier *Citigroup Inc, Research Division - Associate*

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

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

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

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

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

Michael Miki Slutsky *Morgan Stanley, Research Division - Research Associate*

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

PRESENTATION

Operator

Greetings and welcome to the Ball Corporation First Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded, Thursday, May 7, 2020.

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

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

Thank you, Rita, and good morning, everyone. This is Ball Corporation's conference call regarding the company's first quarter 2020 results.

The information provided during this call will contain forward-looking statements.

Actual results or outcomes may differ materially from those that may be expressed or implied. Some factors that could cause the results or outcomes to differ are in the company's latest 10-K and in other company SEC filings as well as company news releases. If you don't already have our 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.

In addition, the press release financials include descriptions of new segment reporting for our EMEA and other nonreportable segments.



As we all know, coronavirus has had a profound impact upon the global business environment. Countries around the world have issued stay-at-home orders and instructed nonessential businesses to temporarily close. Ball provides key aluminum packaging products and services to the consumer beverage, household and pharmaceutical markets as well as aerospace technologies and services to the U.S. government. Consequentially, the operations of Ball and of its principal customers and suppliers have been designated as essential businesses across our key markets. This designation allowed Ball to continue to operate its manufacturing facilities without significant disruption throughout the first quarter of 2020.

Ball is humbled by our ability to operate in this environment. Throughout our 140-year history, we have relied on our people, our culture and our businesses' resiliency to navigate tough times, while also envisioning and investing in a brighter future, and that is what we are doing.

I would like to personally thank our frontline employees as well as those manning the front lines of our suppliers and customers. Their dedication to working safely while delivering the necessary goods and services have been critical in our support of our communities across the globe and has played a large role in serving the critical missions and programs of the U.S. government.

On behalf of our entire company, we extend our heartfelt thanks to the global health care community as well as the dedicated professionals and volunteers providing social services to those in need.

At Ball, no matter what the circumstances, we always strive to do well, while also doing good. At the onset of the crisis, we sought to do our part by providing hospitals and agencies with donations of masks and protective gowns through our aerospace operations, canned drinking water from our global beverage operations and aluminum cylinders used for the construction of ventilators from our global aluminum aerosol business.

In addition, we stepped up our support for the Red Cross, Red Crescent Society and have empowered our local employees to dedicate an additional \$5 million to those critical areas in the communities in which we operate so that we can continue to be an active part of our communities that have been impacted by the COVID-19 crisis. I'm happy to share that at the same time, we were able to execute our strategy, continue investing in the future, maintain our dividend and consistently return value to shareholders.

Undoubtedly, there will be effects on our business from COVID-19, and we will continue to manage our company appropriately to ensure employee safety, support of our customers and ample liquidity for our company. We are controlling the things that we can control, and Ball is well positioned for the near and long term.

Now joining me on the call today are Scott Morrison, our Senior Vice President and CFO; as well as Dan Fisher, our Senior Vice President and Chief Operating Officer of Global Beverage.

I'll provide some introductory remarks. Dan will discuss the global beverage packaging performance and trends. Scott will discuss key financial metrics, and then we will finish up with comments on our aerosol and aerospace businesses as well as our outlook for the company.

First quarter results were strong. And in mid-March, we were able to transition effectively our nonmanufacturing employees to working remotely due to global collaboration across our IT, HR, operations, corporate and global business service teams. First quarter comparable diluted earnings per share increased 24%, and comparable operating earnings for the corporation were up 12%, with global beverage packaging operation earnings up 5% and aerospace operating earnings up 33% year-over-year.

The company continues to operate with ample liquidity, including \$800 million in cash on hand at the end of the quarter, \$550 million in committed lines available and another \$500 million in uncommitted lines. This, in addition to our strong annual cash flow, allow us to execute our strategy and stay on track with multiple growth projects.

During the quarter, global beverage volumes were up 4%. Our aerospace won-not-booked backlog increased 14%, and we announced our intent to acquire an aluminum aerosol manufacturing facility in Brazil. As we reflect on year-to-date 2020 performance and the long-term resiliency of our company, our team is well equipped operationally and organizationally to navigate the current environment and deliver growth and value creation for our shareholders. And the core tenet of our culture has never been clearer, we know who we are, we know where we're going, and we know what's important.



Our strategy of investing in the growth opportunities across our various business remain intact. And while the short-term visibility is strained due to the virus and its near-term impact on the various economies, our long-term outlook has not changed. In good times and bad, consumer demand for our packaging products has always remained resilient, and the needs for intelligence, surveillance and reconnaissance for our government customers has never been stronger.

Dan and Scott will discuss the current state of our end markets and the opportunities and risks as we see in the near term, including dislocations to date. Due to the volatility of regions and businesses, we will limit our comments to facts, as they exist today, for it'd both imprudent and unwise to prognosticate or extrapolate the near future with any degree of precision.

Now key highlights for the first quarter include, overall global beverage volume grew 4%. North America was up 4% due to a late quarter surge and at-home consumption and would have been up even higher, if not for the very tight supply conditions in North America, that we have discussed previously.

European volumes were up 5% and were up 8% after the first 2 months, with March being down meaningfully, in Southern Europe and the Nordic countries.

South American volumes were up 1% and were up mid-single digits after the first 2 months, with March being significantly down, particularly, in Brazil and Paraguay. Dan will give more color around these trends and the trends we've been seeing in April in his remarks.

Our aerospace business continues to execute well and was up over 30% in operating earnings. We continue to win work and believe that despite the current environment, most, if not all of our short- and long-term goals in this business for 2020 and beyond remain intact.

Our aluminum aerosol business was relatively flat for the quarter after experiencing similar trends that our beverage can business experienced, and we announced our intent to acquire an aluminum aerosol manufacturing plant from Tubex in Brazil. We expect this transaction to close in the third quarter.

Construction and hiring for our first dedicated aluminum cups manufacturing facility remains on track. Despite the current curtailments of all major sports and entertainment venues, our outlook for 2020 continues to be strong, with letters of intent executed for next year, actually ahead of our plans. And we've also used this time to accelerate our retail go-to-market strategy for 2021 and beyond.

In summary, we had a strong first quarter that would have even been much stronger, if corona had not hit us. Our second quarter, like most companies will be soft, particularly, in South America and to a lesser extent, in Europe.

We believe at this time that the overall strength of our remaining businesses will allow us to grow operating earnings over the year, and it obviously will be dependent upon the overall impact of the virus and the timing of the opening of our economies in the second half this year.

Thank you to all of our colleagues here at Ball for caring for one another. Your dedication in the face of circumstances we cannot control, and your hard work to support our customers, our communities and the global economies where we operate is truly inspiring. We extend our well wishes to all of you listening and for your continued safety and good health.

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

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

Thanks, John. And I echo those sentiments. And in addition to thanking our amazing manufacturing teams, I also want to thank our customers, our suppliers and logistics providers for their collaboration to maintain our industry's ability to serve consumer demand. Last and certainly not least, I have to applaud both our HR leadership and our environmental health and safety professionals. This is an unprecedented time, and they have not missed a beat in helping to keep our Ball family safe.



Earlier this year, during our previous call, I set the stage for 2020 and beyond. My comments focused on demand growth, still water shifting to cans, new customer contracts in North America, our ability to serve market growth in advance of new capacity additions, hiring and training to serve growth, operational excellence, aluminum supply, new product introductions and our sustainability progress to position Ball as a partner of choice. Those near-term external forces have focused additional time and energy to adapt to new safety protocols. Our team's desire to execute on each of these important initiatives has not wavered.

We recently announced approval of our science-based targets to reduce our carbon emissions as well as those of our value chain and also achieved ASI Certification across our European operations, both industry firsts and vitally important, to positioning Ball and our packages as a partner of choice for sustainability.

Today, my goal is to provide as much information and transparency into our near-term operating environment as possible, while encouraging all of you to focus on our long-term plans and prospects for growth, which even under the current environment, we feel strongly that aluminum packaging will continue to benefit from the sustainability tailwinds we benefited from entering the pandemic.

Across our global operations, our teams have been nimble and collaborative. From the onset of the pandemic, daily calls with management, Global Presidents, supply chain, sales, operations, HR and corporate support teams have kept everyone informed, supported and aligned with local and regional mandates and focus on the best outcomes possible for our colleagues and our customers from a safety and business continuity perspective.

Across our supply chain, we have supported one another, shared best practices when necessary, align procedures for managing brief periods of downtime when a customer supplier or Ball have experienced COVID cases in our operations. We are thankful that our employees impacted by the virus are on the mend or back at work, following the recovery.

Today, we continue to manage sporadic operational disruptions as well as tremendous growth, complexity and incredibly tight supply/demand conditions, particularly in North America. Consumer behavior varies by region.

In North America, consumers are able to access multiple shopping channels, stock up and store bulk packages of our product. This led to a short-term surge in beverage can demand, as those occasions that occurred at the on-premise and convenience channels shifted to the at-home or off-premise channels. While this trend has diminished somewhat in April, we generally expect higher-than-anticipated volumes to continue until such time the on-premise begins to open up. The biggest challenge for us will be supplying such demand, until we can get our additional capacity online.

The additional challenge we faced is that the volume is coming largely from more traditional packs for home consumption, and that has not been the focus of our capacity adds in the short term.

In Europe, volume remained relatively normal throughout the quarter, save for Southern Europe, including Turkey, where relatively more beverage containers are consumed on-premise and on-the-go than in other regions due largely to the tourism trade, and the Nordics where the usual cross-border transactions were curtailed due to travel restrictions.

In April, we are seeing those trends continue, and we're turning our attention to what consumption patterns might be impacted further in Russia, where areas like Moscow have been quarantined far later than most of Europe.

In South America, we saw seasonally strong demand through early March across the region, followed by a significant slowdown in Brazil and Paraguay.

To give context, we saw an approximate 60% decrease in can shipments in Brazil in the last 2 weeks of March alone, due to the temporary closing of many of the smaller grocery stores, gas stations and convenience stores, where over 60% of beverage cans are purchased.

In April, those trends continued, although over the past 2 weeks, we have seen an improvement closer to an approximate 20% to 30% decline as some of these stores have reopened.



Chile and Argentina have been much more resilient, given that nearly 85% of cans are purchased for the off-trade. From a segment operating performance perspective, Ball's North American segment earnings were up 24%. Favorably negotiated customer contracts, operational improvements across the network and volume growth benefited the quarter and were partially offset by hiring costs associated with new manufacturing lines ramping up in the second half of 2020 and mix associated with certain can sizes sold through the convenience store channel.

As previously announced, line additions in our existing Rome, Georgia and Fort Worth, Texas beverage can manufacturing facilities as well as our new 2 line specialty beverage can plant in Glendale, Arizona are on track to come online in the second half of 2020 and the first quarter of 2021, respectively.

As of today, we're still moving forward with our plans in the Northeast with an expected start-up in the second half of 2021.

Despite c-store traffic slowdown in April, which has limited growth in the energy drink category and higher costs associated with the pandemic to support self-isolation protocols when needed, I fully expect strong at-home consumption trends across most categories and earnings momentum across North America in 2020 and beyond.

In our EMEA segment, despite the negative demand trends resulting from the pandemic in Italy, Spain and France, we were able to operate our facilities nearly continuously across the segment during the quarter. We thank our colleagues across Europe for their dedication and ability to support 5% volume growth during the quarter, while managing various country mandates.

Our volumes remain strong in Russia, the U.K. and Egypt, while we saw upper single-digit declines in Southern Europe, the Nordics and Turkey.

First quarter EMEA segment earnings were down slightly due to \$2 million of euro earnings translation headwinds, higher freight and warehousing costs due to sales demand shifts by region and intermittent line downtime late in the quarter and absorption associated with integrating the Turkish and Egyptian operations into this segment. We remain focused on long-term growth opportunities and are leveraging the segment's plant network to add lines to our existing facilities, in preparation for our customers' installation of additional can filling lines.

Due to recent travel restrictions between European countries, certain projects have shifted to the right slightly and will not impact our near-term customer commitments.

Historical quarterly comparisons for our EMEA and other nonreportable segments have been adjusted accordingly to reflect the company's existing facilities in Cairo, Egypt and Manisa, Turkey, being consolidated into the EMEA segment and out of other nonreportable.

Turning to our Southern American segment. First quarter earnings were down slightly, driven by regional customer mix and the abrupt contraction in Brazilian demand in late March. Ball is the largest producer of beverage cans in South America with 9 plants in Brazil and 1 each in Chile, Argentina and Paraguay. Even with our plants in Chile, Paraguay and Argentina continuing to operate, we expect our second quarter South American segment operating earnings to be down meaningfully year-over-year.

It is important to note that this is a seasonally slower quarter, and our team is staying close to our customers and managing our assets and costs appropriately to ensure the best outcome.

As we look forward, Brazilian consumers are beginning to see gas stations and convenience stores reopen near their homes, and we will closely monitor their ability to make purchases.

The company's Myanmar, India and Saudi beverage can manufacturing results continue to be reported in other nonreportable. The plants continue to operate and were similarly impacted by intermittent downtime in late March and early April.

In addition, other includes a \$20 million P&L investment to stand up our aluminum cup business.



In summary, global beverage can demand momentum continues in the majority of regions where we operate. Our teams are actively hiring to support our anticipated growth in North America and are focused on maintaining and supporting our skilled labor base across our other operating regions.

Thank you again to all of our teams around the globe.

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

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

Thanks, Dan. Comparable first quarter 2020 diluted earnings per share were \$0.61 versus \$0.49 in 2019. Dan commented on the other nonreportable segment changes in the quarter. Please note that other includes aluminum aerosol operating earnings and results from our beverage can plants in Myanmar, India and Saudi Arabia, offset by undistributed corporate costs and investments to stand up our new aluminum cups 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 reflects solid global aluminum beverage and aerosol shipments, strong aerospace performance, a lower share count and lower corporate costs, offset by foreign exchange headwinds and a slightly higher effective tax rate.

Due to the pass-through of lower cost aluminum and the 2019 sale of the Argentine steel aerosol business and Chinese beverage can assets, revenues for the first quarter were flat despite global beverage can growth of 4% and higher aerospace revenues.

Ball's balance sheet is healthy. Debt has been termed out at low rates. We have no debt maturities until 2022. Our credit agreements go out until 2024, and we have focused near term on maintaining ample liquidity and flexibility in the current environment.

Year-to-date, we experienced our seasonal working capital build, which was more sizable than typical, due largely to the timing of metal payments in the first quarter. Given our ongoing growth initiatives and a somewhat longer raw material supply chain to support them, we anticipate the full year 2020 working capital investment to be a use of cash in the range of \$275 million.

As we look to the remainder of 2020, here are some additional key metrics to keep in mind. Our full year effective tax rate on comparable earnings will be in the range of 20%. Full year interest expense will be in the range of \$280 million, and full year corporate undistributed costs recorded in other nonreportable are now expected to be in the range of \$65 million.

Our 2020 cash from operations will continue to be strong. We will be investing in working capital and growth CapEx to expand aerospace facilities, beverage can production capacity in North America, while also completing construction on our first aluminum cups manufacturing facilities.

At this point, we may approach full year 2020 CapEx of \$800 million. Given the near-term challenging business conditions in Brazil and the investment in working capital I mentioned above, we now expect 2020 free cash flow in the range of \$500 million.

Ball has always been focused on being good stewards of our cash and prudently balancing real-time conditions with consistent return of value to our shareholders.

Given our strong cash flow, we are maintaining our quarterly dividends, just as we have done since becoming a public company in 1972.

Like always, we will focus on managing the business appropriately for the long term, investing capital with an eye on EVA returns, managing our balance sheet effectively and consistently returning value to our long-term shareholders.

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



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

Great. Thanks, Scott. Our aluminum aerosol business saw global volumes up 2% in the quarter, driven primarily by strong double-digit demand in North America and India, which offset mid-single-digit declines in Europe. With the vast majority of aluminum aerosol packaging consumption tied to at-home, personal care and health, our aluminum aerosol team has been busy supporting personal care and pharmaceutical packaging needs.

While our plants remain busy throughout the quarter, we do expect a few regional fillers to experience intermittent downtime during the second quarter that could affect us.

Looking ahead, we are excited to expand our aluminum aerosol business' geographic reach into South America and expect the acquisition of the Tubex facility to close in the third quarter.

In addition, our new innovative Infinity bottle continues to attract interest from customers looking for a sustainable, reclosable and reusable solution for personal care products, including shampoos and lotions. We look forward to growing this global business and improving performance in 2020 and beyond.

Our aerospace business reported approximately 33% revenue and operating earnings growth, resulting from solid contract performance. Similar to our global packaging business, our aerospace business has been deemed an essential business, supporting our national security, defense and other services. The team has done an outstanding job of transitioning the majority of colleagues to working remotely, organizing program teams and shifts, and completing key project milestones remotely.

In addition, during the first quarter, the aerospace business total contracted backlog was \$2.3 billion. Our won-not-booked backlog increased 14%, and our headcount increased by over 250 employees.

With over 50% of our aerospace employees new to Ball since 2018, we continue to be impressed by their seamless immersion into the Ball culture. Their ability to execute and take on exciting work is appreciated. In this business, we continue to enhance our infrastructure, build out testing and manufacturing facilities in 2020, and ensure all projects are on track and on budget.

We continue to win new work, and current indications reflect that our aerospace business will be able to grow profitability in excess of 15% per year over the next several years, given the scale and type of recent contract awards.

While we, and the rest of the world are experiencing short-term dislocation, our long-term prospects remain bright, and we are focused on bridging the short-term dislocation with the long-term opportunities.

Ball continues to be uniquely positioned to lead and invest in sustainable growth in global aluminum packaging and aerospace, while delivering significant value for our shareholders.

Beyond 2020, we look forward to driving our business to deliver long-term diluted earnings per share growth of at least 10% to 15% and achieve our EVA dollars growth of 4% to 8% per year on our growing invested capital base. This has not changed. Especially during these times, we are thankful for our successes to date and the opportunities of the future. We will continue to responsibly invest and do what is best for Ball, our employees, our customers, our communities and our shareholders' long-term success.

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



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Neel Kumar from Morgan Stanley.

Michael Miki Slutsky - *Morgan Stanley, Research Division - Research Associate*

This is actually Michael Slutsky sitting in for Neel. Just could you maybe address, what gives you confidence in a late 2020 rebound in Brazil? Just based on past recessions and weaker macro environments, have you seen more sensitivity from Brazilian consumers in terms of demand and consumption habits?

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

Yes. I appreciate the question. I'd be leery to prognosticate on what exactly is going to happen in the second half of the year. But consistent with my comments in the script, we have seen channels opening back up over the last couple of weeks. The market was off, at least in our business, somewhere in the neighborhood of 60% year-on-year. And as we sit here today, it's running closer to 20% off, year-on-year. And a lot of that, candidly, is slowly but surely depending on city-by-city, state-by-state in Brazil, some of these channels are opening up. And as soon as they've opened up, our customers, most of the brewers, have started to fill them, and we're paying very close attention to that. But Brazil is not operating as a homogenous marketplace. It's still quite scattered, and we've really got to see this continue to take root, hopefully, build some momentum before we can, say with any level of certainty that we can gauge the second half of the year. That being said, some positive signs here over the last couple of weeks.

Michael Miki Slutsky - *Morgan Stanley, Research Division - Research Associate*

Okay. Yes. That's helpful. And then just one follow-up, I guess. Are you seeing any impact from the pandemic in Mexico? I think you mentioned that it's about 10% of segment volumes. Is that still about accurate? And are you planning on sending any cans from Mexico into North America to kind of support the growth environment there?

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

Yes. Good question. We didn't comment on any declines and largely because our Mexican manufacturing does go north. The beer percentage has slowed at the end of March, early April, just because of some of the laws that have been put in place by the Mexican government there. But as you've indicated in your comment, North America, we started the year in an oversold environment, we're still in an oversold environment. And so some of the declines in the beer production have really opened up an opportunity for us to candidly run more CSD and ship that north. And so those plants are all full. They're running full. They're running a different mix, different label SKU than we anticipated at the beginning of the year, but we're absolutely using that as an opportunity to keep cans on the shelves in North America right now.

Operator

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

Bryan Nicholas Burgmeier - *Citigroup Inc, Research Division - Associate*

This is actually Bryan Burgmeier sitting in for Anthony. What was the total impact of the onetime costs in EMEA bev, such as freight, warehousing and integration? And do you expect any of those costs to carry into the second quarter?



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

In EMEA?

Bryan Nicholas Burgmeier - *Citigroup Inc, Research Division - Associate*

Yes.

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

The costs in the first quarter probably were not that great. I mean we've had some intermittent downtime with some plants, but maybe €5 million. And I think the second quarter will feel more of the impact in EMEA and obviously, in South America. And then hopefully, things get back to some normalization more in the third quarter. But I think the impact in the second quarter will be great.

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

Yes. would say, in every one of our major regions, the first 8 to 10 weeks of the year, we were growing in excess of what we thought heading into the year, and some of that contributed to the typical out-of-pattern freight, not having cans in the right locations in Europe. Given the pullback in demand, I can't foresee a lot of those costs showing up, specifically, in the second quarter as we sit here today.

Bryan Nicholas Burgmeier - *Citigroup Inc, Research Division - Associate*

Great. Yes. That's helpful. And as a follow-up, just considering the economic conditions right now, can you summarize the financial health of some of your smaller craft beer customers? And do you think it's possible that working capital could be impacted, if those customers perform worse than they had anticipated?

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

Yes. That's something we're watching very closely. Obviously, we have a lot of craft beer customers. A lot of the really small ones, they're actually kind of cash in advance. So from a credit exposure perspective, there really isn't that much credit exposure. And we're working with some of the other larger ones that, to be honest, are looking at this as an opportunity to grow their footprint. And so we're working selectively with our customers to help in situations where they think they can grow their business and be supportive of that.

Operator

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

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

Yes. I guess back to Brazil, I mean, the region has seen torrid growth for many quarters now. And now you have this pandemic event that obviously led to an abrupt slowdown. How much of the 60% decline in the back half of March do you think came from inventory destocking, just along the supply chain? I mean your customers are big and levered also, and I assume, started to focus on cash aggressively. And what's an appropriate decremental margin to use for the South America region for 2Q? And maybe, just comment on the same thing for Europe as well.



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

Yes. Ghansham, this is John. I'll try and take that. In the second half, there was such an abrupt slowdown, but it really was as Dan had mentioned, the closure of a lot of these channels where the products were sold. Obviously, and then that has a ripple-on effect because inventories then start to build for our customers that already were brewing beer, for example, and other things like that. As we go and talk about second quarter, I'm hesitant to throw out any numbers because that's just imprudent. We started at the beginning of April, as Dan had said, off 60%, and it's improved. So the trend line is improving. We will be down meaningfully in the second quarter. But let's not forget about the longer-term prospects here. And we do expect the world to open up a little bit more in the second half, even in Brazil. And as we go into 2021 and beyond, as we sit here today, I don't think fundamentally much has changed. And so that's why in my prepared comments, we talked about this is really a bridge from the short-term dislocation that the world is facing to the long-term opportunities that still remain on our plate.

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

Okay. And then just for my second question, I guess, on free cash flow. So basically, last quarter, you said \$600 million of free cash flow. Now you're saying \$500 million, and the delta really seems to be working capital. So does that imply then that you based expectations for the full year are more or less intact? I mean obviously, there's variability across the regions, but is that a fair statement?

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

Well, there's a lot of moving pieces on free cash flow. So let's talk about the working capital side first. We had a larger-than-typical build in the first quarter. Most of that had to do with the timing of metal payments in Q1 as we built up additional inventory in metal in Q3 and Q4 to support the growth really in North America. And as I've mentioned before, we've got a longer supply chain than we used to have. And so when we paid for that metal in first quarter, that was a big impact.

We've also had several instances globally of VAT taxes being held up by various governments around the world that are essentially shut down. So we've got about \$100 million build in VAT taxes that we're waiting to receive, which is just the timing issue.

And then as we go through the year, with the growth of our business, we see a use of working capital of about \$275 million. And I think in the year-end call, I said it would be about \$150 million. So a little bit larger than I thought at the beginning of the year. And from a free cash flow standpoint, we still think we can get to around \$800 million of CapEx, and we found some other things that we think will be positive from a free cash flow standpoint. It goes back to that \$500 million of free cash flow.

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

Yes. And Ghansham, this is John. The only thing I'd add is when I think from a free cash flow, and I think from an operating earnings perspective, virtually every segment we have save for South America is large and on track. Europe may be a little bit softer than we thought 3 months ago, but South America will be softer. It's just how much we don't know right now. And obviously, those earnings kind of translated into free cash flow as well.

Operator

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

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

Thanks for all you're doing with COVID as well. I wanted to hit a bit of a longer-term question. And John, you mentioned that you obviously remain confident in the longer-term picture for Ball Corp. When we've seen significant disruption from an economic standpoint, I think COVID

would stand up to that test. Sometimes, not always, you'll see changes in consumer behavior, changes in consumer purchasing patterns. I don't know if you have any data on this, but what makes you comfortable that cans will continue to grow at the rate they've been growing, that the sort of value of the consumer will be the same? And specifically in some of the non-North American markets where you have more competition from returnable glass, what makes you comfortable that returnable glass, at least for a period, wouldn't show up in a larger way in consumer pantries versus cans? And then I have a couple of follow-ons.

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

Yes. Let me take that, and then I may actually turn it over to Dan. So there's a couple of questions embedded in that. I think the first one is -- and let's not forget, this is a significant economic dislocation. Let's not kid ourselves. We, as a society, have gone through that as well, and 2008 was one of them, back in early 2000s was another one of them. We have gone back over the past 25, 30 years and looked at what has happened to our business. And I'll just focus on '08 since it was closest to what we're experiencing here. We had a quarter of down volumes, and then everything bounced back, from a free cash flow perspective, we continued to generate good cash flow. From an earnings perspective, you had a 1 quarter, but it did bounce back. And so that's one data point to give you context and also to answer your second question, which gets to we have seen there are some facts that we can point to that particularly from a sustainability perspective that show the can is winning.

Dan had mentioned some of those things. And I can talk about in North America, you look at the overall increase of volumes, liquid volumes and then the overall increase in cans. In every major category, cans are outgrowing the overall liquid growth. And so that means cans are taking share. You can do the same thing in Europe. And as we talked before, Southern Europe is a bit different than Northern Europe. But nonetheless, cans are doing well. I think it has to do with sustainability, but it also has to do with shelf life. That is important because we know the alternate products, they don't have a good shelf life. In South America, and particularly as it relates to your question about returnable, our facts are based upon conversations we've been having with our customers about the growth of cans relative to other packages. And so it's a bit of fact, it's a bit of conversations with our customer, and it's a bit of sustainability, but it's all grounded in the fact when you look at the overall liquid volume trends and then you overlay that on what's happening with cans, cans appear to be taking share.

So Dan, do you have anything else to add?

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

I would say, George, that the most confidence that I can give you or point to are more in line with the conversations that we're having real-time with our customers. And those customers are moving forward even faster with their can line expansions and investments, and we're having negotiations with them to support that and those investments. And as Scott indicated when we're looking to manage our cash flow so intently, we're having those conversations frequently with those customers to make sure that we're not getting out ahead of them, and we're still consistently applying these sustainability trends in line with what they're going to promote and what they're going to push. So at least for now, George, it's as good, if not better, than what I would have anticipated at this time.

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

Dan, that's great. I appreciate all the color from you on that. Second question, the company talked about I forgot exactly how you said it, but the supply chain -- you don't see any issues in the supply chain. There's been, again, the more recent discussion on trade war scuttlebutt, obviously, between the U.S. and China. How do you feel about your ability to continue to get can sheet given some of the more recent chatter there? And there's been some discussion about CO2 shortages for different reasons, obviously. What are your customers saying about that? And then my last question to Scott, and I'll turn it over. Obviously, we're looking at, from what you said, earnings per share growth this year based on what you can see and I think you said EVA dollar growth as well. Is there a way that you can directionally dimensionalize that? Do you think EVA dollars grow more quickly than EPS this year? Or any other color there would be helpful.



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

Yes. Let me try to address the metal piece. Obviously, we've got some temporary relief on some of the tariffs as it relates to inbound metal from China. I think the larger story versus where we were 90 days ago is that with the steep falloff in auto sales and even as it relates to Boeing and Airbus, their demand starting to fall off pretty significantly. I think there's an awful lot more available can sheet or willingness to convert some lines to can sheet than there was 90 days ago. And so from a domestic supply chain standpoint, it looks like a much better environment for us right now than it did even 90 days ago. And we can step into that. So it's not just a theory, and we're waiting for something. We can absolutely step into some of those in a meaningful way right now.

The CO2, George, I have not heard any issues right now in our supply chain as it relates to CO2 shortages, but that will give me something to dig into a little bit more. And I was recently in conversations as early as this week with the 2 large CSD players, and nothing along that came up in our supply discussion.

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

On the earnings per share growth in 2020, I think, George, we had a nice growth in the first quarter. I think we'll give that back in the second quarter. And then I think we have a chance to grow earnings in the back half of the year. From an EVA dollar standpoint, I do not think we grow EVA dollars in 2020, but we will in 2021. Given the investments that we made last year and this year and the hit we're taking on earnings in Brazil, I don't think EVA dollars grow this year, but we're confident that the long-term is still intact.

Operator

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

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

Just had a question on North America. I know sort of last quarter, the idea that sort of the aluminum scrap issues were behind you and some of the inefficiencies from higher growth were behind you. Obviously, things have changed a little bit. And you also talked about maybe, I guess, mix being a little bit weaker in North America just with the higher level of at-home consumption. I guess, could you just talk about where we are now with those issues, with the aluminum scrap and inefficiencies from last year and just, I guess, potential offsets from COVID sort of more recently?

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

Sure. Yes. I think the scrap issue is largely behind us. And I think we made a comment to that effect, at least the last 2 calls. I'd say 80% of the issue we saw last year, we resolved that in a contract that started Jan 1 this year. So you will see consistent performance in and around that scrap line for the balance of the year because of that contract change.

Yes, we saw nice productivity improvement in the first quarter out of our North American business. They did a really nice job. And we saw some of that reflect in some of the absorption benefit even with an incredibly strong sales performance. So I've seen a lot of positive signs and positive movements in that business across all of our plants. The number of plants that had production records in the quarter was, I think, all but 2. So I think that the team has really galvanized their focus on the right things, and we're seeing a lot of benefits there.

We absolutely do need to get these projects executed on in North America. Nothing has changed in that regard. And in fact, we exited Q1 with some of the lowest inventory levels we've ever had in Q1 because of that pantry stocking phenomenon that took place and continued in the first part of April. So good news there is the projects, Fort Worth, Rome, Glendale, they are on track, if not maybe slightly ahead. So quite a way to go. The biggest challenge we've got, candidly, is typically you do on-job training, and so with social distancing trying to get 50 or 60 employees into another facility to run can lines and learn on the fly. So we're spending a lot more time on classroom, online training, virtual training, and the team has done a hell of a job and been very creative in trying to get those folks up to speed so they can hit the ground running.



But really pleased with the overall progress in North America. If I said anything, I'd say we're a little bit ahead of where I thought we'd be at this time really on multiple fronts there.

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

Yes. Tyler, this is John. I'll just add my 2 cents on that. I completely agree with everything, Dan. And it could have been so much better. I mean we had \$7 million or \$8 million of currency headwind just because of the Mexico peso devalued at a rate the fastest ever happened in history. We had start-up costs in the range of kind of \$8 million plus or minus related to all the start-up things Dan had mentioned there. So when you look at the year-over-year there we had talked about that business having a chance of being up \$100 million year-over-year in a seasonally slow first quarter, it being more than 1/4 of that, and we had those various headwinds in addition to the mix headwind Dan talked about with the convenience channel slowing down abruptly in the month of March, you can see why there's been a lot of great work going on in that business.

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

Okay. Perfect. No, that's helpful. And then I guess, Scott, on working capital. I know you mentioned some of that obviously was from sort of the longer supply chains and buying metal. Should we think about this as more of a onetime hit where you're sort of making sure you have enough metal? Or is it something where the longer supply chain could have an impact sort of going forward, creating elevated working capital more on a longer-term basis?

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

Good question. The first quarter impact was definitely more of a onetime. We wanted to make sure we had plenty of metal given the growth we were seeing in our business in North America. So we really ramped up our take of metal in the third and fourth quarter, and we paid for that in the first quarter. That's kind of normalized. And I would say the longer supply chain is built into my number where I've said working capital would be a use this year of \$275 million. That longer supply chain is accounted for in that number.

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

Yes. And I think beyond 2020, I don't think that's more of a onetime. Obviously, it depends upon the growth, right?

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

Yes.

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

But because of what Dan just said with the auto and commercial aircraft declining, we probably have an opportunity as we go forward to bring more domestic supply online, which has always been our preference and now that kind of stars are lining up. So I think from a longer-term perspective, it probably is more of a onetime.

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

Yes. I'd agree.



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

Okay. Perfect. And then just last question on aerospace. And obviously, you continue to see strong growth. I mean, I guess -- and I'm guessing sort of just the -- all the hiring that you're doing that's kind of still weighing on margins. And in terms of CapEx, you're sort of still spending to grow that business. Just post-2020, is there a way to think about what CapEx looks like in 2021 and sort of should cost for all the hiring start to ease a little bit?

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

Well, remember that the cost, it depends upon the mix of business, but we get a little bit of a drag from the growth, but it's really just a timing issue at the end of the day. So I wouldn't focus too much on that. And on the CapEx, the big bubble is in 2020 right now. As we go into 2021, it will ramp down. But we're putting a fair amount of capital for the next 5 years plus in that business. So I would expect that to come down. As I said in my prepared remarks, the business is going quite well. We're bidding on tremendous amount of work right now. Work seems to be accelerating, not decelerating. And so we feel good about that business. And that's why I said we remain confident that, that business can continue to grow kind of 15-plus percent over the next few years.

Operator

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

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

Great. I guess, firstly, just wanted to ask about capital return plans for this year. Obviously, I understand preserving cash is probably the first priority, but could you just kind of reiterate your position on share repurchases as well?

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

Sure. This is Scott. We acquired some stock in Q1 before the impact of COVID was really seen, and then we suspended repurchases for the time being and focused on preserving our liquidity. We have ample liquidity and committed credit. And we're really just now at our seasonal working capital build. So as we move through the rest of the year, our liquidity and our cash generation will get better. And we still expect to generate \$0.5 billion of free cash flow.

So as we progress through the year, we'll see if we have opportunities to return more value to shareholders in the back half of the year. But let me be clear, our capital allocation strategy has not changed at all.

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

Okay. And I guess I just wanted to get back to North America. So 2 questions here. First, pricing has been part of the story, I guess, last year and this year catching up to prior inflation and resetting some of these contracts that the returns really aren't up to desired levels. So I guess do you expect that to continue?

And then secondly on volume in North America. I just wanted to clarify, maybe you could just explain again what we should expect from a percent volume growth expectation, just because you guys do face a little bit tougher comps than the industry growth. And again, your sold out position is a little different, and so that should evolve in the second half of the year. So how should we think about both price and volume, I guess, in North America?

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

Yes. I think in North America, not much has changed in terms of kind of the guidance we gave for the short term, 2020, in particular. I would expect 3% to 5% growth, somewhere in that neighborhood. And it's largely going to be contingent on our ability to execute these line expansions in the back half of the year. So we definitely need to step into well-executed start-ups and fill those lines. I don't think there will be a problem filling those lines. So I'm feeling quite bullish about what we entered the year with in terms of volume in North America.

And as I mentioned in my comments, the only thing that's moving around on us, quite honestly, is somewhat on the mix side. More historical packaging for the at-home multipack and with the C-store channels not fully open, that obviously can change some of our -- specifically Ball's mix.

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

And do you think that at all is potential to be a structural change i.e., specialty can growth has really driven a lot of the growth the last couple of years, non-12-ounce that is? So as we revert back to 12-ounce growth, is that something that we should change and incorporate into our view on profitability for you from a medium-term standpoint?

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

I think it's a great question. And I really wish we had some sociologists on the payroll right now to try to figure out consumer behavior patterns. But in all candor, an awful lot of the folks that purchase in c-store channels are really tied to the service industry. So think about people working multiple jobs in the restaurant space. As they come back, I don't think there will be a change in consumption pattern, but it will be tied to employment, it will be tied to what's open. That's more going to be the impact and the thing to watch there.

I'm very bullish on innovation moving forward. We're still engaged with a number of customers on new product launches. Right now, most folks are just trying to get cans into the channels and multipacks because of the increased velocity. But folks aren't going to move away from innovation on the can. So I don't think that will be a permanent trend by any stretch of the imagination.

Operator

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

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

First question, I just wanted to follow on that mix comment in question. Obviously, more shifting to the standard 12-ounce can and probably a lot through the club stores. You talked about customers sort of rationalizing SKUs. From your own production point of view, does that help you eke out a little bit more throughput on your plants running more standard lines and not having to do as many changeovers? And then as you think about the mix impact just on profitability, whether it's margins or returns of capital. Does it change materially between one and the other?

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

No, I think it's a great question. So if you're looking at this from a year-over-year comp perspective, you're entering a period where you're sold out, every single line sold out. So just hitting the mix question first. If now, I have a 12, 16-ounce line, and I'm running a 100% 12-ounce versus 16-ounce, that will have an impact during that period. But we're sold out, I mean the volumes there. Your other question as it relates to, do we have the ability to gain efficiencies. I think labels make a bigger difference, especially when you're running full. And we've seen a greater willingness by some of our customers from an historical perspective. To get stuff on the shelves, they'll run fewer labels right now. And that is benefiting us from an efficiency standpoint. So hopefully, that continues through the balance of the year. And as that continues, my 3% to 5% growth number may be impacted by that.

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

Okay. And then you talked about the opportunity to maybe move some cans from Mexico a little bit north. Just wondering if you'd see some increased freight along with that. And then Brazil obviously not running anywhere near normal operating rates. I know the freight is going to be pretty expensive, but any opportunities to move some stuff from there or even further north to the U.S. given how sold out you are?

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

I think that's a great question. And I think over the years -- and I think someone just mentioned pricing. One of the things to keep in mind is we have really done, I think, a solid job here over the last couple of years of restructuring our contracts in a way that puts the onus equal parts on our customers and us to forecast appropriately, to manage their supply chains. And so we're sharing in the risk. And one of the benefits of that is right now, if you're pulling more than you anticipated at the beginning of the year and we need to ship from Mexico, for instance, that freight burden doesn't lie on us. And so it's not price, but it's a relief of cost. And so yes, it's more cost, but it's more cost to the supply base, not necessarily Ball.

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

Yes. And your question about South America is a good one, and we are in active discussions with certain customers on does it make sense from an economic perspective to bring cans up from Brazil. But it's too premature to declare anything there.

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

Okay. Just last one, just real quick for me. On EMEA, I think you said 2Q will be down mid-single digits, but then just wondering what factors will cause that to flip to growth in the second half of the year. I think you indicated it should be up nicely or notably in the second half of the year.

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

Yes. I mean right now, most everything needs to be couched with it all depends on what happens in shelter-in-place rules and social distancing. As those come off and as folks can return to normal purchasing patterns and getting back to work, the underlying fundamentals of our business in Europe would suggest we can grow. But until those fundamentals change, it's hard to know exactly what that looks like.

Operator

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

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

John or Dan, just a question on the economic sensitivity of the beverage can markets in which you participate. It seems as if the U.S. is the least. You're having this mix issue, of course, with people not going to convenience stores as much, but nonetheless, your volumes held up quite well. Europe seems obviously more economically sensitive based on your comments about consumption taking a hit. And then Brazil, obviously, seems extremely economically sensitive. So can you just talk about the at-home versus on-premise mix by region, if possible? And then how economically sensitive you would characterize each market as?



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

I would agree with your comments in and around North America, full stop. I would couch maybe Europe and South America slightly different. And in particular, as channels aren't open and as folks aren't employed, and there's not as much of a social safety net in South America, Brazil in particular, that can create some pretty significant volatility in demand there. And the other thing to keep in mind, which I think everybody understands pretty well, it's like the earnings profile also has quite a lot of tax associated with it. So when you're not running volume across your assets, you're also not able to take advantage of some of the tax benefit. So a little bit more sensitivity, I believe, in South America because of that.

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

Yes. This is John. In terms of Europe, I don't think there's huge differences between North America and Europe. Really what it is, is how the can is consumed.

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

Yes.

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

And where the impacts we're seeing right now, as Dan alluded to, is largely Southern Europe where that is a tourist trade. And there is no tourism going on right now. And so as the kiosks and what's called the HoReCa market where it's effectively the convenience store, those are all shut down. And whether it's Italy, Spain, France, all along the Mediterranean, Turkey, we talked about, and that plays a very important part. Even in the U.K., which in the month of April has been soft. A lot of that has to do with urban city, i.e., London tourism. When you see people that take it home, we have not seen any trends that are fundamentally different than what we've seen in the past. Now there is less pantry stuffing, if you will, in Europe just from a cultural perspective. But it really has to do in Europe with how the beverage can is consumed in less with economic vitality of the individual consumer.

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

And one on Brazil. I mean, I think Ghansham referred to the fact that your volume growth there in recent years has been really extraordinary. I mean the industry has been just breathtakingly good, and then all of a sudden, it goes down 60%. Now it's leveled obviously down 20%, it sounds like. But how difficult is it to plan and manage that business given these really just extreme fluctuations in demand patterns there?

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

It's a great question. And just to be clear, the first 8 to 10 weeks (of Q1), we still saw that accelerated growth rate trajectory in the entire region. I mean, candidly, the team down there that's the environment over a 20-year period, the level of volatility, the ups and the downs.

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

Yes.

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

They're more nimble. We stretch our capital further. We have a far greater and entrenched lean discipline there. One of the things that enables you to react more nimbly also, Adam, is there's far fewer customers that you're dealing with. And I think you're further embedded in their



supply chains than maybe you see in Europe or North America, and that also allows you to move much quicker up and down in terms of adding or lessening capacity.

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

And Scott, just one last one on the receivables side. Obviously, someone earlier mentioned that you have some large customers that are pretty levered and have cut their dividends in some cases. Are you seeing any changes on the receivable side, and for that matter, on the payable side that may be marked differences from what you've normally experienced?

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

No. The large customers we continue to operate business as usual with them.

Operator

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

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

First question I had is for Dan, and just one more on Brazil. You've got a beverage producer down there that's adding capacity, I think, a couple lines and then an end line as well. Can you just help me think about how you expect that to help impact the market?

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

Yes. Good question. So, full stop, in the first 8 to 10 weeks and even in peak season, the entire market was short. So the market returns at the rates it was running, it needs more capacity. The other point is that particular customer of ours that you're talking about has stated that they're putting that project on hold, and the opening of that will be moved to the right given the current circumstances. So again, I think in many respects, it's needed because of the volume growth. And it still continues to be we're seeing further can capacity invested in all the customer base, a movement from large-format glass and an acceleration toward the trends and the sustainability tailwinds, all throughout that region. So I think it will be negligible.

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

Yes. Okay. Well, the real point is, it's not going to start up this year, and they'd be running at full and trying to displace other suppliers.

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

Correct.

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

Okay. That's good. And then I wondered Scott, there were a couple of special items in the quarter. One was a pretty significant goodwill write-down, and the other was a couple of items related to Ball MetalPack. And I wondered if you could talk about both of those.

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

Sure. The goodwill had to do with as kind of reorganized other and moved to Turkey and Egypt into Europe, what was remaining in those other segments had goodwill that obviously those businesses are not as profitable. And so that's a cleanup of the goodwill related to those Saudi Arabian, Indian, those other businesses. And then on the MetalPack, we currently make containers for them out of one of our beverage can plants, and we have the ability to, if you will, buy out that manufacturing agreement. And so we chose to do that so that we can free up capacity in that plant a couple of years down the road to be able to produce more beverage cans in it versus food containers. And then wls0 both the partners in MetalPack made an advance into that business in the quarter.

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

Okay. Is there any potential you're on the hook for any other kind of capital in the MetalPack this year?

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

No. We don't have any obligation to do any capital contribution. This was voluntary and both partners felt it was in the best interest of the venture to do that.

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

Okay. All right. And then the last one I had is for John Hayes. John, there's been some talk over the last probably 4 to 6 weeks about whether COVID is putting kind of plastic packaging in kind of new light potentially for some customers. Have you got any thoughts on that? Have you seen anything along those lines in your conversations?

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

No. There's been a variety of conversations. I think Dan hit it well. I think from a customer perspective over the long term, I do think nothing has changed at all from a sustainability point of view. In fact, even I think this past weekend, the Wall Street Journal had a big article about this topic. I think in the short term, one could argue both sides of the coin. I think it's beneficial here in North America because cans and the shelf life relative to PET. On the other side of that, I know that the use of one-way bags, plastic bags in grocery stores have more relief on that, you're not allowed to use reusable because of the COVID crisis. But I think that's more of a temporary thing.

I do believe that this pandemic crisis is going to put on the forefront of people's minds about what we are doing in the world in which we live because the practices we perhaps have been employing are not sustainable over the long term. I think it's premature to declare it has had a profound impact one way or the other. But I can tell you this, our conversations with customers around long-term sustainability initiatives have not changed one iota relative to this. And then as Dan mentioned in his prepared remarks, we even announced that our science-based targets have been approved by ASI. And so we continue to move forward, and I think it's going to be more important from a societal perspective as we go forward.

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

Okay. Just one kind of follow-up on that. Does the fact that we've got such kind of a crisis in the recycling industry here in North America and that a lot of this stuff is going into landfills rather than actually being recycled right now, how do you think about that issue?



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

I think it is a ticking time bomb. It's just a function of when. This earth was not built to landfill things. And so I think the reuse, recycle concept is going to be more important. Now this whole reuse thing is being thrown into question because of how you can contract and how COVID is carried, but the recycling doesn't change at all. And because aluminum has economic value in the recycling system, I think it's important. Getting back to the whole plastic side of it, I know there's a variety of people continuing to look at technologies, but they're much more costly than what's happening now. And it's much more costly than the aluminum can. And so given an environment where budgets are squeezed and people are focusing on cost, nothing has changed with respect to aluminum packaging in terms of the cost of that. But if you start to think about recycling is going to become more important, there is going to be added burden of cost on recycling plastic.

Operator

Our next question comes from the line of Mike Leithead with Barclays.

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

I'll just keep it to one because we're over the hour here. But just 2 of the factors you called out in your North American business, the SKU rationalization and more at-home consumption. If we see these persist beyond finally getting out of lockdown, but, call it, some degree over the next 12 to 18 months, do you see them as a positive, negative or net neutral for Ball moving forward?

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

Yes. I think it's a long-term positive, I think there's a question post just more specifically we've got 400 craft beer customers. The craft beer customers that are going to win throughout this have made can filling investments. They're not selling on-premise. They're not selling through kegs. They've got a portfolio that's much more sustainable and reliable. And so I think folks and even our large CSD customers, I think their view is the can will take a bigger percentage of their portfolio moving forward because it's more nimble, it's more agile. The shelf life is better. And so I view it as a positive sign. Whether it's 12-ounce cans, 16-ounce cans, 12 Sleek or whatever the can of the future is, it's going to be good in a macro sense for the can.

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

Rita, this is John Hayes. If there's one more question, we'll take that. And then given that we're so past the hour, we'll wrap up.

Operator

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

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

I was hoping to maybe put a little bit of a more fine point on bev, North America, Central America. If I look at the volume growth, and I put a normalized 20% to 25% contribution margin on that, it leaves maybe \$30 million of incremental profit improvement if I take into account, John, what you said about FX. So is it fair to characterize this maybe half as price/mix and half from productivity, things like Goodyear performing better? And then relatedly, there was a comment in your press release about dampened c-store and on-premise consumption and costs impacting price/mix. I would think most of this is isolated to mix component because pricing is kind of fixed at the beginning of the year. Can you confirm that and perhaps quantify the elevated costs through the remainder of the year? And if I'm limited to one, if I can ask Scott, do you have a targeted net debt or leverage target for the end of the year?



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

Dan, why don't you take the first one?

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

Yes. I think if you refer back we were up \$26 million-ish operating earnings year-over-year in North America, and there's easily another \$15 million there relative to start-up costs and the exposure to foreign exchange. So yes, your comments in and around price/mix favorability, volume and better performance in the plants where we I think we produce fairly sizably improved production units year-over-year for improved absorption even on the higher sales throughput. All of that's consistent with what your comments were.

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

Yes. The only thing I'd add to that is we've made some good work on the improved efficiencies. We still have a long way to go.

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

Absolutely.

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

There's a lot of opportunity in front of us. And the additional costs, it's a little difficult to look out because we're in such a changing environment. We have had higher costs, our absenteeism was up. So the overtime that we are paying has been up. You think about all the benefits that we've been giving on top of everything as a result of COVID is another cost. We have had some out-of-pattern freight that has costs. As Dan said, past times, it would have been 100% on us. It's not 0% on us. We're now splitting it with the customers. And so there's issues like that. It's not huge numbers, but over time it adds up. And if we had a better sense of what, I hate to use the term new normal, but what 6 months looks like in terms of protocols, safety protocols, people protocols and the demand, how that is shaping up, we'd have a much better ability to answer your question, but I think it's just it's premature to answer that cost side.

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

And on the net debt to EBITDA, we'll still be in the range that kind of 3 to 3.5 range by the end of the year.

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

All right. Well, thank you all. We appreciate the time and thought it was important to give some extra time given the changes that are going on. I do, again, want to particularly thank our frontline workers, our customers, our suppliers and to the overall health care people out there. They are truly the heroes to all of us. So I hope you all stay safe and well. Let's be very judicious in how people think about returning to a more normal environment, and we will keep you updated as we go forward. Thank you all.

Operator

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



DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.

Forward-Looking Statements

This transcript contains "forward-looking" statements concerning future events and financial performance. Words such as "expects," "anticipates," "estimates," "believes," "targets," "likely," "positions" and similar expressions typically identify forward-looking statements, which are generally any statements other than statements of historical fact. Such statements are based on current expectations or views of the future and are subject to risks and uncertainties, which could cause actual results or events to differ materially from those expressed or implied. You should therefore not place undue reliance upon any forward-looking statements and any such statements should be read in conjunction with, and, qualified in their entirety by, the cautionary statements referenced below. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Key factors, risks and uncertainties that could cause actual outcomes and results to be different are summarized in filings with the Securities and Exchange Commission, including Exhibit 99 in our Form 10-K, which are available on our website and at www.sec.gov. Additional factors that might affect: a) our packaging segments include product capacity, supply, and demand constraints and fluctuations; availability/cost of raw materials and logistics; competitive packaging, pricing and substitution; changes in climate and weather; footprint adjustments and other manufacturing changes, including the startup of new facilities and lines; failure to achieve synergies, productivity improvements or cost reductions; mandatory deposit or other restrictive packaging laws; customer and supplier consolidation; power and supply chain interruptions, including due to virus and disease outbreaks; potential delays and tariffs related to the U.K.'s departure from the EU; changes in major customer or supplier contracts or a loss of a major customer or supplier; political instability and sanctions; currency controls; changes in foreign exchange or tax rates; and tariffs, trade actions, or other governmental actions, including business restrictions and shelter-in-place orders in any country affecting goods produced by us or in our supply chain, including imported raw materials, such as those related to COVID-19 and those pursuant to Section 232 of the U.S. Trade Expansion Act of 1962 or Section 301 of Trade Act of 1974; b) our aerospace segment include funding, authorization, availability and returns of government and commercial contracts; and delays, extensions and technical uncertainties affecting segment contracts; c) the company as a whole include those listed plus: the extent to which sustainability-related opportunities arise and can be capitalized upon; changes in senior management, succession, and the ability to attract and retain skilled labor; regulatory action or issues including tax, environmental, health and workplace safety, including U.S. FDA and other actions or public concerns affecting products filled in our containers, or chemicals or substances used in raw materials or in the manufacturing process; technological developments and innovations; the ability to manage cyber threats and the success of information technology initiatives; litigation; strikes; disease; pandemic; labor cost changes; rates of return on assets of the company's defined benefit retirement plans; pension changes; uncertainties surrounding geopolitical events and governmental policies both in the U.S. and in other countries, including policies, orders and actions related to COVID-19, the U.S. government elections, budget, sequestration and debt limit; reduced cash flow; interest rates affecting our debt; and successful or unsuccessful joint ventures, acquisitions and divestitures, and their effects on our operating results and business generally

