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## PRESENTATION

### Operator

Greetings, and welcome to the Ball Corporation Third Quarter 2020 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded, Thursday, November 5, 2020.

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

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

Thank you, Dmitra, and good morning, everyone. This is Ball Corporation's conference call regarding the company's third 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 third 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.

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

Let me begin by thanking those of you who joined our Virtual Investor Day in early October. We appreciate the high level of attendance and engagement. The event was a great opportunity for us to highlight our culture, sustainability leadership and capabilities, while laying out our long-term investment plans to address sustainable organic growth in our businesses and deliver the Ball equation of at least 10% to 15% diluted earnings per share growth over the long-term, while meaningfully growing our EVA dollars. If you were unable to join the Virtual Investor Day, a webcast replay of the event as well as a transcript and supporting slides and resources are available at [www.ball.com/investors](http://www.ball.com/investors), under the Presentations tab.

Now moving on to today's commentary. Third quarter results were very strong and the positive momentum across our businesses continues. Ongoing strength in global beverage volumes and future expected growth, supported by numerous long-term contracts are proof points for an increased CapEx in 2020 and beyond. Our focus remains on working safely, executing on numerous capital projects and investing in talent, training, processes and systems to deliver our long-term growth.

Our third quarter comparable operating earnings grew 14% and comparable diluted earnings per share increased 27%, driven by our North and Central American beverage business, our EMEA beverage business and our aerospace business. Dan Fisher will elaborate more on our beverage segments in a moment, but over the course of the quarter, global beverage can demand, which was up 9% in the quarter, continues to outstrip supply and our beverage can businesses in each region are sold out in advance of new capacity coming online. We are thankful to all of our colleagues and contractors executing start-ups of new lines and facilities across our global network.

In our aerospace business, we continue to see strong growth with quarterly year-over-year revenues up 21%, comparable operating income up 26% and our won-not-booked backlog up 14% since the second quarter of 2020. Significant progress has been made on the previously disclosed aerospace supply chain issue, and we believe our supplier and our program team have the matter under control.

Now last night, we announced the well-deserved retirement of Rob Strain as Senior Vice President of the corporation and President of our aerospace business, as well as the promotion of Dave Kaufman, currently Chief Operating Officer of our aerospace business, to succeed him. Rob has done a fantastic job of leading and growing our aerospace business over the past 8 years, and we are excited for him as he enters his new phase of life. He's done a great job in preparing Dave for these new responsibilities, and we all are very excited for Dave to continue to drive the business for greater success.

Other highlights around the company include: our aluminum aerosol business successfully closed on the aluminum aerosol manufacturing plant acquisition in Brazil, we welcome the Itupeva team to the Ball family. Our first dedicated aluminum cups manufacturing facility will be starting up very shortly here during the fourth quarter, and our cups Amazon platform and accelerated retail launches are at or above our expectations.

While our aerospace business has hired approximately 750 people to date, our global beverage business has hired over 1,250 year-to-date, and we have significantly increased our efforts around employee onboarding, training and development to ensure smooth start-ups of our various projects. And since the Investor Day and to further enhance getting the word out about our sustainable aluminum packaging solutions, Ball announced its global partnership with Kroenke Sports & Entertainment at 3 marquee venues in Denver, which is now the Ball Arena, Los Angeles and London.

Our partnership's shared vision is to advance sustainability in sports and entertainment by strengthening recycling, providing fans with an enhanced environmentally friendly experience and showcasing aluminum beverage packaging as the most sustainable choice. Denver's Ball Arena will become the first ever professional sports venue with exclusively aluminum packaging, whether it'd be cans, cups or bottles for its cold beverages.

Before I turn it over to Dan and Scott, I do want to thank our colleagues here at Ball for being who they are, caring for one another, being vigilant with their physical and mental well-being and living our culture. Your dedication and hard work to support our customers, our communities and the local economies where we operate is forever appreciated. Thank you.

So in summary, Ball continues to operate from a position of strength in this new environment. Despite the rise in global confirmed cases of COVID-19 recently, we exit the quarter with continued momentum and are excited to bring additional capacity online as quickly and as safely as possible,

and continue to believe that the overall strength of our business will allow us to further grow operating earnings this year and beyond. We also want to extend our well wishes to everyone for persevering, and we wish all of you listening for your continued safety and good health.

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. I also want to thank our employees, customers and supply chain for their collaboration to maintain our industry's ability to serve consumer demand. In North America and EMEA, we would typically see a seasonal slowdown by this time in the year. However, our global beverage teams in all regions continue to operate at maximum capacity. Our operations, HR and environmental health and safety professionals continue to keep our Ball family safe and vigilant, which will enable our ability to respond to our customers' and consumers' growing demand.

As we laid out at our Virtual Investor Day, it is an exciting beverage can market with more customers and consumers choosing sustainable aluminum packaging for their beverage of choice. By 2025, we expect the global beverage can industry to grow by approximately 100 billion units. To serve Ball's approved and contracted demand for sustainable aluminum beverage packaging, our team will be adding at least 25 billion units of capacity by year-end 2023. And by 2025, we see opportunities to add as much as 45 billion units of capacity.

As we discussed on recent investor calls, our work to drive true circularity and diversity and inclusion initiatives is having a profound effect on our business. As John mentioned, Ball is hiring a significant amount of new employees, and these initiatives as well as Ball's culture are attracting incredibly talented next-generation employees to Ball.

As we look forward, we are thankful that our new lines in Fort Worth and Rome have ramped up successfully and our 2 new plants in Glendale, Arizona and in Pittston, Pennsylvania are well on their way to provide much needed capacity by mid-2021 and beyond. In addition, our global plant network outside of the U.S. has expanded capabilities in the U.K. and Eastern Europe, and our new 2 line beverage can plant in Frutal, Brazil will supply additional cans to the fast-growing Brazilian can market.

In North America, beverage can third quarter volumes grew 6%, with half of that growth coming from inventory drawdown and imports. Going forward, we see volume growth greater than 6% over the next 3 to 5 years. And since the Investor Day, we have executed additional customers' contracts, which are longer in duration than the average 3- to 5-year time frame.

In EMEA, segment volumes were up 6% for the quarter due to strength in the U.K., Nordics and Russia. Across all the EMEA business, demand trends improved throughout the quarter and positive momentum continued into the fourth quarter. Additional capital projects in the U.K. and across Eastern Europe provided needed capacity, and we foresee European beverage can volumes up mid-single digits in 2020 and beyond.

In South America, volumes were up 30% in the third quarter, driven by increased package mix for aluminum cans in the beer category. Year-over-year earnings growth in the quarter was dampened due to adverse customer mix that will moderate by 2021, and higher cost inventory being carried over from second quarter created by curtailed lines during the height of the pandemic.

Beverage cans have been very resilient, with store owners leveraging recyclable aluminum cans over the other substrates and package mix on the shelf remains in the 60% range versus a rate of 50% at the end of the first quarter of 2020. Following discussion with customers in Brazil, we anticipate can growth in the mid- to high teens, and can mix on the shelf remaining high beyond 2020, and we will bring numerous line additions online in mid-2021. Given our recent Virtual Investor Day, I'll save some extra time to take your questions during Q&A.

In summary, global beverage can demand was very strong during the third quarter, and momentum is building for the remainder of 2020 and beyond. Thank you again to all of our teams around the globe. 2020 has provided us all with unprecedented challenges, and you've risen to the challenge time and time again. Your leadership has been nothing short of remarkable. Keep it up and stay safe during the holiday season.

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

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

Thanks, Dan. Comparable third quarter 2020 diluted earnings per share were \$0.89 versus \$0.70 in 2019. Third quarter comparable diluted earnings per share reflects strong North America beverage, EMEA beverage and aerospace segment results and a lower share count, offset by higher corporate costs and start-up costs related to our new cups business.

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 not as high in comparison to unit volume growth. Ball's balance sheet is healthy, and we have focused near term on maintaining ample liquidity and flexibility in the current environment.

Year-to-date, we experienced our seasonal working capital build, which was more sizable than typical due largely to previously disclosed timing of metal payments. As a result of this timing, ongoing growth initiatives and raw material supply to support them, we anticipate the full year 2020 working capital investment to be a use of cash in the range of \$350 million, which is slightly higher due to accelerating growth conditions.

As we sit here today, some additional key metrics to keep in mind. Our full year effective tax rate on comparable earnings will be in the range of 17%, full year interest expense will be in the range of \$275 million and full year corporate undistributed costs recorded in other nonreportable are now expected to be in the range of \$55 million.

Our 2020 cash from operations will continue to be strong. And longer term, we see a path to doubling our cash from operations by 2025. We will be investing even more growth CapEx to expand aerospace facilities, beverage can production capacity in North America, EMEA and South America, while also investing in our aluminum cups business. With this growth, we also anticipate working capital to be a use of cash, but it's too early to quantify the amount at this time.

Contrary to past sizable M&A deals, Ball is embarking on a multiyear phase of internal investments to serve organic growth for beverage cans and support new contracted volumes. At this point, 2020 CapEx is expected to exceed \$900 million. Ball continues to be good stewards of our cash and will prudently balance real-time growth opportunities with consistent return of value to our shareholders. Given our strong operating cash flow, we are managing the business appropriately for the long term, investing capital with an eye on EVA returns, managing our balance sheet effectively and consistently returning value to our long-term shareholders.

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

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

Great. Thanks, Scott. Our aluminum aerosol business saw global volumes in the quarter decline to low teens, driven primarily by double-digit growth in India, offset by double-digit declines in Europe and North America. Looking ahead, we welcome our new colleagues from the Tubex acquisition in Brazil, and we look forward to integrating the plant into our global aerosol operations.

As mentioned previously, our aerospace business reported approximately 21% revenue growth and 26% segment earnings growth due to strong contract performance, offset by some continued operational inefficiencies created by the COVID-19 environment. Looking ahead, the growth trajectory of the business is even stronger with contracted backlog growing 14% since second quarter and won-not-booked backlog at \$4.9 billion. We continue to be very excited about the long-term prospects of the business as well.

In summary, Ball continues to be uniquely positioned to lead and invest in sustainable growth while delivering value to our shareholders. As we sit here today, our ability to grow comparable diluted earnings per share greater than our long-term goal of 10% to 15% in 2020 is certainly in our reach. Our teams will do everything possible to outperform this while being keen focused on working safely and executing capital investments.

Beyond 2020, we look forward to driving our business to deliver long-term diluted earnings per share growth of at least 10% to 15%, and achieve or exceed our EVA dollar growth goals of 4% to 8% per year on our growing invested capital base.

Our time is now, and we are thankful for one another and the exciting opportunities in front of us at Ball.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Ghansham Panjabi with Baird.

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

I guess, just first off, given how tight supply/demand will be in 2021 in North America, how should we sort of think about the impact of out-of-pattern production relative to normal seasonality in 4Q and perhaps in 1Q? I mean I assume you'll try to minimize seasonal downtime. So just any color you could provide on that.

And then a second part of that question is on the imports of cans into North America, which regions did you ship in from? And how does that dynamic impact your segment profitability specific to 3Q?

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

Okay. Thank you. I guess the first part of the question is, I guess, you get the sense that we're going to be running all out. Little things that, I think specifically the North America team has been doing in particular, is I think we've gone to much deeper into statistical models on how to run our M&R. So we're actually hoping to pick up a day or two in terms of less downtime heading into next year. But there is really no seasonality relative to curtailments or typical downtime. We're just going to continue to run all out.

And one of the things that I think most of the folks on the call understand is in second and third quarter, there's really no ability to ramp up via our customer networks. They're already traditionally running full out. So at times like now, where they have filling capacity for cans, we will be stepping into that, and there's some momentum and hope for a little stronger fourth quarter than is normal, just with the desire to move some of the can filling and getting away from just-in-time inventory constraints that a lot of our major customers are enabling.

And then the second question. Traditionally, for us, we continue to partner with a lot of our joint ventures around the world where we have minority stakes. And we're tapping into a much more global supply chain process and forecasting process. So cans are coming from Southeast Asia. They're coming from Korea. They're coming from Africa. They're coming from Central America. The majority of what we're shipping, though, is continuing to balance, and a lot of it has to do with year-over-year that the beer market was really deemed nonessential in Mexico.

So we used, in the second quarter and even the third quarter, we probably have a higher concentration of shipments coming up from Mexico. We will continue to use every route available around the world now that we have a much better process, a much more agile process, and there will continue to be imports heading into next year. But hopefully, the faster we're ramping up, obviously, the domestic supply and the domestic cans that don't burden our customer base with the longer inventory supply chain and the higher freight cost is all going to be hugely helpful. So we're trying to manage a much more disconnected, much more fragmented supply chain. But our customers will be the beneficiaries of this domestic supply coming online, and we hope to get it to them sooner than we're planning right now.

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

Okay. And then just second question. Do you feel that supply chain inventory levels in Europe were relatively aligned as you exited 3Q? And how do you sort of think the second set of lockdowns will impact you in the region relative to the first one?

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

Yes. Right now, the lockdowns aren't as constrained, if you will, as the early parts of the spring, in general, with Europe. I think last Friday, we saw the Nordics and Germany, that border has been shut. Our plan right now is to continue to run full out. The demand profile is still right in line from a shipment basis to what we expected entering the quarter.

Our workforce is mirroring a lot of the hotspots within areas of Europe. But up to now, we're still running. We still plan to run. Our projects are on time. And worst-case scenario, we have a small build of inventory, which we probably need heading into next year. But right now, I'm not seeing much change from what we anticipated from a forecast standpoint, even 6 to 8 weeks ago from a demand standpoint.

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**Operator**

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

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

This is actually Bryan Burgmeier sitting in for Anthony. Brazil obviously did quite well in the quarter. But we've seen some comments from brewers saying they want to try to get back to their pre-COVID pack mix of about 50-50 between glass and cans. Is that consistent with what you're seeing so far in 4Q? And do you think you can kind of offset that with just the underlying demand in the region?

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

Two things: we're not seeing it in terms of the current pack mix and we're also not hearing that. We're hearing the opposite, actually, from the strategics that would really move the needle in that arena. And so yes, that's somewhat news to us. And in fact, the trends all throughout South America, whether it's Chile, whether it's Peru, Ecuador, the move toward cans from returnable glass, it's being driven as much by the retailers not wanting to carry the inventory swell of glass and the perishable nature of it.

If you really look at a number of the customers in Brazil specifically that are winning, they are winning with specialty can introductions and a different recipe of beer that's moving away from the corn base. And so those are the conversations we're having with our large customers, and that's what we're investing behind. So not aligned 100% with those comments.

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

Got it. That's helpful. And do you anticipate any impact from rising freight costs in North America in either 4Q or 1Q? And can you remind us how you pass along those costs after your recent round of contract renegotiations?

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

Yes. That would have been an issue probably 36 months ago. I think we've corrected those types of pass-through where we're burdening the inefficiencies on our system and our supply chain on about 80% of the contracts. There's still a little bit of exposure there, but most of what we're seeing now is, given how tight it is, if we're talking about spot freight arrangements, we're able to negotiate even with the 20%

that hasn't been fully corrected in longer-term contracts. We're able to have very different freight discussions, if we have to shift to a different can size or a location that hasn't been forecast ahead of time. So it's very minimal. We're keeping our eye on it, though.

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**Operator**

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 North and Central America, operating earnings grew about 33%, I guess, on mid-single-digit volume increase. So can you just help bridge for us how much of the earnings improvement came from improved operational efficiency, lack of scrap headwinds and perhaps some benefits on the new contractual terms? And how should we think about the level of earnings improvement in the segment in the fourth quarter?

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

Yes. This is Scott. They had really good margin performance. A lot of it is much more efficient in the production processes that we had versus a year ago. I would say the one thing to think about in the fourth quarter is we'll have more start-up than we had last year. We had virtually no start-up costs in the fourth quarter last year. And as we ramp up Glendale and Pittston, we'll see some of that in the fourth quarter. So I wouldn't expect that margin performance to remain in the fourth quarter, but it will still be good.

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

Yes. And I do think that what you're seeing particularly in the third quarter, you're seeing, as Scott mentioned, good operating performance, but you're also seeing the benefits of long term, what we talked strategically from a commercial point of view as well. Whether it's mix, whether it's terms, whether it's the freight that we were just talking about, it's a whole host of things. And our North American beverage can team is hitting on all cylinders, which is exciting.

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

One thing to keep in mind as you're transitioning in the fourth quarter, and we talked a lot about it last year, was the scrap headwinds, they lapsed basically at the beginning of the fourth quarter. So what you saw in Q1, 2 and 3 with improved contracts, we had nice year-over-year benefits in all 3 of those quarters. That benefit won't be as pronounced in the fourth quarter because metal moved closer to the scrap differential.

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

Okay. That's all very helpful context. And then in South America, you mentioned adverse customer mix and higher cost inventory impacting earnings for the quarter. Can you just quantify how much of an impact each of that had on 3Q segment results? And do you expect any lingering impact in the fourth quarter?

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

Yes. I would say what we've characterized, and we don't have a professional process to earmark COVID impacts, but what we believe it's somewhere in the neighborhood of \$4 million of higher cost inventory that rolled from Q2 into Q3. And with the rate we're selling right now in Q3, I believe all of that inventory would have been consumed in the third quarter.



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

Yes. The real thing issue, though, has to do with the mix of both size and customer. And in the fourth quarter, yes, we expect some of that to continue. But as Dan said in his prepared remarks, going into 2021, particularly as we go through 2021 and beyond, we feel pretty confident that we're going to be able to get that margin profile back to if not historic levels, much better than it was in the third quarter.

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**Operator**

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

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

I also wanted to ask about performance in Europe. You were slightly ahead of us there. Could you just contextualize that maybe you don't see as many headwinds from COVID-related shutdowns, what else could you do, I guess, to add to the performance in Europe?

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

It's almost the counter of what happened in South America. We actually benefited from some more favorable regional mix and customer mix there. That was the big driver.

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

Okay. Appreciate that. And then, I guess, there have been obviously a lot of capacity announcements. You guys talked about the opportunity to add 25 (billion units) and then potentially even 45 (billion units). You've made some announcements about new plants as well. How should we think about the phasing in of that capacity? Could you just remind us of the cadence of how that evolves over the next couple of years?

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

Sure. Let's focus on 2021 for now because the other items that we've earmarked, we're still working on the plans and the execution phase. But what we've communicated previously is we should exit the year 2021 with an incremental 6 billion units of capacity being put into North America. That number can increase. I think there have been comments that we've shared relative to the fact that we're building candidly bigger structures. So the speed and the timing where we can execute longer-term contracts, we will then be able to move pretty quickly on the process equipment, and we've demonstrated we can hire at a very fast rate. So the 6 billion could be higher. And as we make those decisions to invest in additional lines, we'll certainly comment on that. It could be as much as 10 billion.

In Europe, we're investing, and we've commented on that, in the U.K., in Eastern Europe, and we're executing against our short-term growth plans in Russia. We've also added some end capacity in Poland. So all of those things are happening to keep pace with the higher end of the growth rates that I discussed at the Investor Day for Europe. And we've commented on about 2 billion units of additional capacity coming online by the end of the year (2021) in South America. Those are the most, I think, succinct comments and the most concrete volume lifts. Rest assured, we've been having ongoing conversations with customers, and we have a number of opportunities to speed the rate of volume increase, but most of that will probably happen for 2022. And as those come to fruition, we'll certainly be communicating those.

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

Great. That was great detail. And then lastly, just on the buyback front, is there any concrete plans you could share for '21 as to how much you'd be deploying into buybacks?

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

No. As we've talked about before, we're in a growth mode, so we'll probably orient more of that free cash flow or more of our cash flow to be investing in our business. So at this point, we'll buy enough so that we're not issuing shares as it relates from option plans and things like that. But at this point, we don't have any defined buyback plans for '21.

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

One of the things I'll just add to it that we talked a fair amount internally is, even after all this internal growth CapEx, we're still generating free cash flow. And with the earnings growth on a net leverage basis, we're actually deleveraging in that way. And so we're very cognizant. We're all big shareholders, so we're very cognizant of that fact. And whether it's every quarter with our Board talking about dividends, talking about share repurchases, we have those discussions each and every quarter.

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

And as it relates to that, we don't expect to delever. So you think about the plug being share buyback and dividends.

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

Yes.

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**Operator**

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

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

Scott, a couple for you. Just one on free cash flow. I think you indicated working cap would be an additional use of 50 compared to what you communicated 3 months ago. Are you updating your free cash flow guidance just based on that? Or are you keeping it in that in the range of \$400 million?

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

No. I think we're increasing both the CapEx spend that we're going to spend over \$900 million this year, and we're also going to have a little more investment in working capital. So think of the difference year-over-year. About half of the difference from last year will be increased capital spend and the other half being increased working capital.

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

Got it. Okay. One more on CapEx, Scott. So you talked about growth CapEx being in excess of \$1 billion over the next couple of years and over the next 5 years, for that matter. Can you talk about just in light of how big the growth CapEx will be, what you're expecting maintenance to be at least over the next year or 2?

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

Yes. I think maintenance ramps up a little bit as you bring on new plants, but it's still in the \$275 million to \$300 million range. And think of a new plant that comes online, these are bigger plants, so you might have \$3 million of maintenance a year in a plant like that.

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

Right. Got it. Okay. On the import topic, Dan or John, can you talk about how high you expect North American imports to be this year? 4 billion? 5 billion? Whatever you think the number is? And how much lower you think they'll be next year? And just relatedly, you talked about the market being short 10 billion at your Analyst Day. How much unmet demand do you think will have been the case upon the conclusion of this year?

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

Yes. The unmet demand is pretty hard to couch, and why I am hesitant to give you a number there. I can tell you that the speed with which innovations are coming in the alcohol space, that's what has been curtailed. And so the success rate of those new products, it's hard to earmark. But that's really where we're seeing it. I think you'd see a much greater proliferation of new product launches all in cans, all in specialty containers. And I'm hesitant to make a call on how big those could be.

Yes. I think we referenced about 10 million units being undersold. My belief is that 2021 will look similar in terms of the number of imports just because a lot of these ramp-ups will be happening throughout the year. And depending on when our customers, especially in the alcohol space, get comfortable that they can launch these new products and then put can volume behind it if they're wildly successful, that will be a contributing factor to just how long that import number kind of sits in that same range.

I would think it starts to moderate by 2023 and '24, but again, so much of this is going to be how much more space are retailers going to provide in North America, for alcohol. It seems like there is a real discernible belief that that's driving a lot of foot traffic. And as that continues to grow, there's a space for it. There'll be an ability for new products to be launched. And again, those are going to be in cans. It's so difficult to make a call on the imports. But I would foresee 2 to 3 years at least at a pretty high level, maybe similar to what we're seeing now.

**Operator**

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

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

John, Dan, Scott, this is actually John on for Phil. Congrats on the strong print. I first wanted to ask on Europe, you noted in the release that it provided minimal cans into North America. Could you give us little more detail on that? Is that because the local demand got tighter? Or maybe North America was a little bit less than you had expected to warrant those imports from that region?

And then maybe you can kind of touch on how you're thinking of that region going forward? You talked about a little bit with the buildup of inventory, hopefully, in 4Q, maybe with some of the lockdowns. But is this potentially setting up for a tighter environment in EMEA? And could that be positive for pricing negotiations maybe as you go through next year?

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

Yes. Let me try to take the first question about exports from Europe. There's 2 things. And number one, yes, it's been incredibly tight as referenced to our kind of historical performance here in Q3 and what we're seeing in terms of growth rates in Q4, even with the lockdown. The can sizes are

slightly different, not to get too technical. So you've got to have the right cans in the right spot, able to run the right labels in order to ship them and then fill them in North America. And the folks that are fundamentally able to do that are folks, big CPG companies that are in control of their primary filling. And so you're not talking to every customer about those opportunities. You're talking to the few that can actually execute.

And to your very good point, I mean, we need all the cans and then some in Europe. So we're doing our best to make sure that we are managing allocations in an equitable way, in a fair way. And where there are pockets of opportunity for us to run a few cans for export, we will do that. It's just you've got to have all the stars lined up to make sure that supply chain is able to absorb and fill them and get them into the retail outlets.

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

Yes. Let me give you a little additional color around it. The overall packaged liquid volume was down in Europe. It was down low to mid-single digits, but yet the can was up, we think, in and around where Ball is, 6%, 7% increase. So the can is clearly taking share. And so I say that as we go into the fourth quarter, we see those trends still continuing. So what Dan was talking about is, if things slow down because of these lockdowns in Europe, our inventories are so low right now, we're just going to be replenishing inventory. So we're not concerned about that. As you go into first quarter, second quarter, if these lockdowns continue, well, then, obviously, you're going to have to revisit that. But as we sit here right now at early November looking into towards the end of the year, we should be in pretty good shape.

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

And your last question on pricing. The Eurozone is not a monolith. So yes, there are tighter markets and economics would dictate that supply-demand it works and it should provide us with some opportunities. We haven't had those conversations as of yet, but we're entering into some different dialogue.

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

Got it. And then just one more for John. I think you mentioned that you're seeing some longer-term customer contracts, I believe you're saying in North America. Is that just at the higher end of the 3- to 5-year range that you take over your customer contracts? Or is that going well beyond that? And is that something that you think you could see more of going forward as demand is going to be tight or expected to be tight for the next 3 to 5 years?

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

Yes. I think it was actually, Dan, who said that, and he said longer than the typical 3 to 5 years. So what I would say, yes, it's kind of trending more towards 5 to 7 years depending on what the customers and for exactly the reason you said that we've been talking about. When we have environments like this and we've been talking with our customers for a couple of years that we see, because of the sustainability trends, because we see the new product growth, because of the consumer demanding more sustainable packaging, we think this is a long-term secular thing. And our customers are beginning to see that as well as understanding it. And so they're going a bit longer, and we're delighted to help them with that, particularly as we make these new investments.

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

John, keep in mind that the 3- to 5-year historical context is coming in a North America market that had excess capacity. And so we're completely full and any conversation that we're having right now to grow requires investment, and I think that's a lot of times when Scott's referencing, these are good contracts. But they look different. They look different in terms of length of the contract and they look different in terms of the economics associated with them.

**Operator**

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

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

I think in your release, you called out SKU rationalizations with certain customers. Curious if that's more driven by you being selective in terms of what you can or are able to serve your customers? Or rather it's your customers being more selective in terms of what they want to emphasize or put into the market? And relatedly, does that positively or at all impact your business mix at all?

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

Great question. I would say it's ultimately our customer's call. We work with them and some of the conversations would basically boil down to if you have those 3 can sizes on 1 line, and you want to launch those different labels, we can give you X cans or you can constrain it and we can give you Y cans. And in this environment, Y being more, they're taking fewer labels to get more volume because they don't have the pub and bar infrastructure to sell through, as John has indicated earlier on the call. This is the opportunity and this is the market they have. So constraining the marketeers on product launches and SKU proliferation is benefiting, and I think you could see a lot of the big CPG companies that took that to heart early in the pandemic. Their results were extraordinarily strong, I think, in the last press releases.

Mix, I think it can have an impact. But this quarter, it was favorable in Europe, and it was negative in South America. So net-net, to Ball as a whole, we're not seeing much movement one way or another. Now there may be a quarter where I reference a lot more positives, and there might be a quarter where I reference a little bit more negative. So that can have an impact. We haven't fundamentally seen it over the last couple of quarters in our results.

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

And then the only thing I'd add is, let's not forget in the beginning of this pandemic, it was as much about trying to get product on the shelf. And so the retailers played an important part of it. And so they were trying to reduce the number of SKUs that they were loading on the shelf. So it really was a true supply chain effort working hand-in-hand with each other.

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

Great. That's super helpful. And maybe a related question to tie into kind of U.S. imports of cans. Obviously, as you just mentioned, the market, I think, was a bit caught by surprise with the level of strength this year. You got a bit lucky with spare international capacity during COVID, and your customers probably paid a bit higher freight, just to get any can they could. As we kind of get ready for 2021, which you assume to be another oversold year, has there been more preparation or dialogue with your customers about how to efficiently serve them with imports next year? And does that create any incremental value capture for you with that?

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

That's a great question. There has been much more dialogue. It has been wonderful from that perspective. Is there more value capture? Not necessarily, simply from the fact that there may be more (value) for our customers because they're not in as much of a reactionary position as it is we're being proactive with them, finding those pockets of additional can opportunity around the world. Yes, we're helping as the industry leader, getting folks in cans. So we don't necessarily view those as opportunities to margin up, if you will.

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

Just to give you a context, though. We have, as you know, we have a new plant in Glendale, Arizona. We haven't made cans yet. In fact, we're still installing equipment. We will be for the next couple of months. We're already talking about building that out to the brim in terms of the bricks-and-mortar and being done within 12 to 18 months of doing that.

When we announced that plan, that was more of a 36-month plan to do that. And so we've accelerated because that reduces the number of imports. But as this growth continues, what we've realized is not only will we be filling out that plant, but they also need those import cans, and that's what Dan has been talking about a bit, and that's why we are moving as fast as we can in terms of these new capacity startups.

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**Operator**

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

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

Congratulations on the progress. I wanted to come back to the question on the contracts. Now obviously, it is a very tight market. And your customers are coming to you because you have, or will be able to provide capacity. What else are you offering in these contracts in exchange for longer term? So maybe it's just availability of cans. And a question that we've asked, I think was touched on earlier on this call as well, I know you won't line item it for us, but what additional benefits qualitatively or just in general, are you getting on contracts now relative to what you're getting, say, a year or 2 or 3 ago?

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

Yes, George, this is John. Maybe I'll let Dan take the second part in a minute, and I'll try and attack the first part because you've been around this industry a long time. At the end of the day, it's surety of supply is what their what they are relying on. And in an environment where supply exceeds demand, it's very easy to cherry-pick and have annual tenders and move your volume around because you know there's enough excess in the system that you can play that game. When it's tight and the outlook says it will not only continue to be tight or perhaps get even tighter, surety of supply matters. And we've been talking about this for over 2 years now, in fact, probably 3 years now and it's here. And some customers decided early on that they saw what we saw and moved forward under long-term agreements, and others didn't. And the others who didn't are the ones scrambling a bit more today.

We continue to work with our customers because at the end of the day, we want the can to be growing and we want our customers to win because when our customers win, we win. And so to that point, what we've been saying is we've got the surety of supply for you. It's important in today's environment and let us work with you to make sure that you have long-term availability at your disposal. Maybe I'll turn it over to Dan to talk about the second part.

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

Yes. I think we're definitely hearing this in North America and to a lesser extent in South America. But who we partner with, George, and you know this is the CPG companies that are big innovators. And on the alcohol side, we are finally starting to see the large CPG companies really start to put out products that are winning in the market. And so what I think they appreciate about our network and what we're offering is we're offering agility and flexibility for their marketing teams and for them. And that agility and flexibility is something, coupled with the immediate need of the surety of supply, that's a really compelling reason why you want to partner with Ball. And so we're seeing that be an excellent path into much longer, much more strategic dialogue. And the same thing goes with our supply base.

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

Understood. Whatever it was, 2 years ago, 3 years ago, we used to talk on this call about how the alcoholic beverage companies were not really doing innovation that they needed to do, and it's obviously done a full 180, and you're seeing that in your returns. Back then, it was the carbonated soft drink companies and nonalcoholic companies who were pushing innovation. I don't know if you would agree with this view or you would disagree, are you seeing the CSD companies loading up the next pipeline of new products? I imagine it's going to be in cans, but how you see that playing out?

And related to that, back then, call it the '16 Analyst Day, you talked a lot about how the can, hopefully, was going to create greater profit pools for your customers. If you look back over the last 4 years, I think it was really more of a soft drink comment. Was it successful in doing that? And in turn, does that mean leverage for more growth in cans looking out?

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

Yes. Why don't I jump into that because I distinctly remember the 2016 Investor Day, it was focused on soft drink, but it was also focused on beer. The can in the alcohol segment is a very profitable segment, and so I think it's done both. And on the CSD side, I think the answer is yes. Now it depends by country and depends by region, but you have seen the nonalcoholic companies use the can portfolio to differentiate and create different price points. That is abundantly clear, and I can give you plenty of different examples offline.

On the alcohol side, you've seen the same thing as well. But the difference is they've also pushed new products. I think what we see today, 2 big trends and I'll turn it over, Dan. Number one, there's a blurring of these lines, where it used to be alcohol companies and nonalcohol companies, and you're seeing a blurring of that because I think you're seeing a blurring from a consumer and a retailer perspective. And then the second point I would say is, on the nonalcoholic side, you are continuing to see a proliferation. And just think about sparkling water and where it was in 2016 and where it is today. It's still growing 20% a year, even pre-COVID, and it's accelerated from COVID. And all different types of sparkling water, not just flavor, but you actually have real fruit flavors in some of these types of things. And so you are seeing, I don't know if I'd call it brand extensions, but you are seeing new products in that CSD, and you're going to continue to, along with that blurring. Dan?

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

Yes. I think the comment that John made about some of these companies transitioning into "beverage companies". By doing that, they were able to go into a number of bigger profit pools. And we've stated that statistic time and time again over the last couple of years about just new product launches in North America are almost exclusively going into cans. So all of that's kind of breathing on itself.

I would not characterize the innovation pipeline potentially in the CSD side as robust as maybe what we're seeing from the alcohol side right now, but part of that has to do with can supply. Candidly, if we had more cans, I think you'd see a lot more introductions from the CSD side of the house. And I know there's 1 aforementioned big product launch that was called out a couple of months ago by one of the large CSD providers. And I think if that's wildly successful, then, George, I think your theory may play out.

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**Operator**

Our next question comes from the line of Salvator Tiano with Seaport Global.

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**Salvator Tiano** - Seaport Global Securities LLC, Research Division - Research Analyst

Yes. Firstly, I was wondering, building on the previous discussion, if you can discuss a little bit about the announced capacity additions and the ones that you have not yet disclosed. How does your customer mix look there in terms of existing customers versus new ones? Usual end markets versus new ones? I think we all expect that there's a higher weight in hard seltzer and other products like that. But can you provide some more color?



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

Yes. Overwhelmingly, there are existing customers and existing customers with products that are winning disproportionately in the marketplace. And why I say that you can kind of mirror some of our customers' investments and filling operations and new breweries, et cetera, those opportunities are the ones that we're having conversations with disproportionately versus new entrants. And some of those, as it relates to North America, some of those products aren't necessarily in Europe. They're not necessarily in some other parts of the world. So they can be customers that we're dealing with that we're helping in other parts of the world potentially. Still, I would characterize that as an existing customer.

**Salvator Tiano** - Seaport Global Securities LLC, Research Division - Research Analyst

Yes. And actually, that was setting up for the follow-up, which is the hard seltzers have been such a good tailwind for you in North America. How do you see the market in Europe expanding there? Do you see demand for hard seltzers in the next few years in Europe? And would it be mainly cans you think? Or could we see a packaging split between cans and potentially glass?

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

Yes. I would say I think this data point is quite helpful as it relates to the spiked seltzer market. 2 years ago, the top 2 category leads in the spiked seltzer market had roughly 75% of market share with 10 to 12 SKUs. Fast forward to today, those 2 category leaders still have 75%, except for there's 120 different products in the marketplace. So I think the leaders in the market are probably the ones that lead elsewhere in the world. They have figured out how to grow, maintain their category position. And typically, what we've seen is new product introductions happen much, much faster in North America than they do in other parts of the world. So that's how I would potentially see the seltzer market playing out. It is hard for me to believe that you're not going to be drinking beer in Austria and Germany, but who knows?

**Salvator Tiano** - Seaport Global Securities LLC, Research Division - Research Analyst

Okay. Perfect. And a very quick one on the aluminum cup production. You mentioned that the new plant in Rome, Georgia is up and running. I'm just wondering how is the manufacturing process and the start-up going so far? Is it as efficient as you expected?

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

We're not yet running. We believe that we will be running here at the end of the year, heading into 2021. Every indication, though, every step of the way on the start-up, on the testing of the equipment, it's all in line with what we expected. And there's no reason to believe that we won't be exiting next year at kind of the annualized run rate that we anticipated in our business case.

**Operator**

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

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

Curious about the capacity additions and line additions that you talked about in Europe, specifically. Maybe I missed it, I don't recall you guys kind of calling that out before. But a couple of your other competitors have talked about maybe the market not being as attractive and probably throttling back maybe capital or just in a holding pattern until returns get a little bit better. I know we can't paint Europe with a broad brush, but just curious what you're seeing that's different maybe from some of your competitors?



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

Yes. I think it's your very last comment, you can't paint it with a broad brush. Where we're investing, we like the economic profile and the returns. In the U.K., from that perspective, it's a huge tailwind on sustainability. Similar in many instances in Russia and a very difficult place to do business. So we've already got a great team and a great footprint there. So we've been able to benefit with the growth in that marketplace. And then other pockets where it's made sense for us to expand, expand quickly at good EVA returns, we're taking advantage of that. But yes, I would say, if you characterize the investments and look at what we've called off, we're investing more in North America, to a lesser extent, in South America and Europe, but it's not as a result of you can't find really good business opportunities there.

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

And I guess last one would be on what you guys talked about at the Investor Day, The Source, I mean, other than kind of outside perspective of being an ordering platform that maybe is more robust than what you had before. Any early wins that you can talk about? And maybe, Dan, this plays into what you talked about kind of sharpening the pencil with more statistical data to go about M&R and other things.

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

Yes. I would say in an earlier conversation on this call it's like having data at your fingertips to work across all of our regions to try to keep folks in cans, having 1 set of the truth, if you will, to respond in a quicker fashion. Those have been the most important early wins. We're still at the early outset. There's an awful lot you can do with these tools, as you can imagine. So right now as opposed to embarking on more in terms of module adaptation, as John said, a surety of supply is everything right now. So we're really focused on those aspects of the tools.

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

And to make the customer experience better.

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

Yes.

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

Dmitra, we have time for 1 more question, if there is one.

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**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

I'll try to keep this short. I wonder, Dan Fisher, if you can just give us a general sense with the new contracts that are being put in place, what are the elements of uncertainty with those contracts for Ball? I mean are you locked up for 100% of the volume? Or what are the things that you don't know going forward about the business around those contracts?

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

Yes. Good point. With what we've characterized today and what I talked about on this phone call, those are all anchored with long-term contracts. And we understand very well what the products are. There's a home for them. And probably, for the next year, when we talk about any investment, you're talking about simply moving import cans into domestic can production. So not a lot of risk, not a lot of unknowns. And, yes, you can characterize it as a pretty rigid set of terms in terms of forecasting, even production runs, even deliveries throughout the year with these anchor tenets.

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

Okay. All right. And then just one other one on the new capacity. Just the challenges for either the equipment suppliers or Ball as you think about adding all this capacity in a fairly short period of time?

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

Yes. If you remember, our biggest concern, it hasn't been the supply chain because we've been big believers of the growth and the sustainability message for several years now. So we ensured that we got ahead of a number of those from a supply chain standpoint, metal coatings, all of the things that you can control with your supply base. The biggest challenge and the biggest question mark we had, and I know John and Scott had echoed these as well is can we hire the people with the appropriate skill mix at the right time, get them trained and start-up in line with our expectations and our customers? And I have really been blown away by all of our cross-functional teams that have figured out a way to hire over 1,250 people thus far this year. So that has been a terrific win for us and that has largely derisked a lot of our projects at this point.

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

So you're not running into anything just with the equipment suppliers themselves being kind of overloaded or backlogged?

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

No, we're keeping our eye on it. There are certain pieces of equipment that, yes, there's potential for things to move out. And I give our engineering and our procurement organization a lot of credit. We have been managing that, managing the supply chain, doing what we need to make sure that we're, candidly, maybe a little further ahead on the prioritization list. So not right now, but at the rate we continue to see things grow, we're all going to have to be investing at a similar pace.

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

Okay, Dmitra? Well, I want to thank you all for your participation. As always, if you have any follow-up questions, feel free to reach out to Ann Scott, and she'd be happy to address them as appropriate. Everyone have a good and safe holiday season, and we look forward to talking to you early next year. Thank you.

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**Operator**

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

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