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PRESENTATION

Operator

Greetings and welcome to the Ball Corporation 2Q 2022 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded Thursday, August 4, 2022.

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

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

Thank you, Chris, and good morning, everyone. This is Ball Corporation's conference call regarding the company's second quarter 2022 results.

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

Information regarding the use of non-GAAP financial measures may also be found in the notes section of today's earnings release. 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.

Joining me on the call today is Scott Morrison, our Executive Vice President and CFO. I'll provide some introductory remarks and business performance commentary. Scott will discuss key financial metrics, and then we will finish up with closing comments and Q&A.

Ball delivered stable second quarter comparable operating results amid ongoing inflation, earnings translation headwinds and regional demand volatility, largely driven by North American customers' retail price-over-volume actions. Global beverage can volumes increased 3.3% in the quarter. Aluminum aerosol volumes increased 11.3%, and we, along with NASA and industry partners, celebrated the successful initial images from the James Webb Space Telescope.

We are actively managing the company to meet the world where it is at by re-phasing capital and re-basing costs while also enabling packaging innovation, aluminum supply chains and sustainability initiatives to support long-term growth and significant returns to shareholders. The Russian invasion of Ukraine has had a significant impact on the global business environment. In March, Ball announced that it has suspended future investments in Russia and is also pursuing the sale of its Russian operations.

As we noted in today's earnings release, during the quarter, a noncash, long-lived asset impairment for the Russian operations was recorded in business consolidation and other activities. Note 1 in today's earnings release contains additional information about the Russia business. The company continues to support humanitarian aid, and we thank our colleagues near the war zone for housing refugees as well as supporting each other in volunteer efforts in their local communities.

Recent highlights and activities include:

Our global beverage business continuing construction on 2 new facilities in EMEA, announcing a new facility in Peru and re-phasing previously announced North American capital projects to balance the near-term effects of higher retail prices for canned beverages versus long-term growth for sustainable aluminum packaging.

Our North America business, pivoting its cost and capital focus to align with the near-term volume deceleration and localized supply-demand imbalances in certain North American markets, including today's announcement to cease production in our Phoenix, Arizona and St. Paul, Minnesota facilities, while also enabling multiple aluminum supply chain projects to domesticate and broaden sustainable aluminum coil supply and recycling capability across the U.S.

Our EMEA volume, growing 7.7%, with operating earnings up 4% year-over-year despite \$9 million of foreign currency translation headwinds, while navigating an ongoing volatile geopolitical environment across its operating footprint.

Our South America business, managing through 2.9% volume declines due to unfavorable regional customer / product mix, diluting the volume strength that remains across the other South American countries, where we are deploying capital to enable growth.

Our global aluminum aerosol team, introducing next-gen ReAL aluminum bottles for new categories and increasing aerosol personal care shipments. Our aluminum cups team, growing our cups presence at stadiums and venues. Our aerospace team, completing a critical design review for the NOAA Space Weather Follow-on Lagrange 1 spacecraft.

And on the sustainability front, Ball joined the World Economic Forum's First Movers Coalition, encouraging value chain collaboration to drive decarbonization in the aluminum sector; our partnership to introduce electric trucks with Fleetmaster, Volvo in Fort Worth, Texas.

As we indicated on prior calls and looking forward, our global businesses are absorbing non-aluminum inflationary headwinds and experiencing additional price/cost squeeze in advance of contractual cost recovery. We also have a responsibility to do the hard things first by controlling what we can control. And all corporate functions are actively addressing their SG&A costs, and the operations are taking the opportunity to become more efficient.

In EMEA, our team is working hard to mitigate ongoing inflationary headwinds through commercial cost recovery, hedging, energy efficiency and renewable energy initiatives. In North America, additional contractual price escalators based on PPI will phase in starting on July 1, and our work to address localized supply-demand imbalances will deliver fixed cost savings over the near term.

It is also important to understand in this environment that cans continue to win in the fastest-growing beverage categories, and underlying demand for aluminum packaging continues to be resilient despite retail shelf price increases by our customers ranging as high as 20%. Early indications are that North American customers will continue to emphasize price over volume during the second half of 2022.

And in South America, demand trends should strengthen due to the timing of the World Cup and a seasonally strong fourth quarter. Incorporating year-to-date shipments, we anticipate global volume growth in the range of 5% for the full year 2022.

In summary, our global beverage team is preparing for additional demand volatility, inflation and regional customer anomalies given global economic conditions. Our customers are continuing to lean on the can as their package of choice and over the long term, our sustainability-driven growth thesis and long-term 4% to 6% global growth CAGR for aluminum beverage cans remains intact. Carbonated soft drinks, North American import beer, energy drinks and new categories like ready-to-drink cocktails also continue to grow in cans.

We are controlling the things we can control. In addition, we are focused on executing at a high level, rebasing the cost structure, delivering high-quality cans and enabling global supply chains through alliances and investments in long-term contracts. We appreciate the work being done across the organization and ask for your support as we navigate necessary actions.

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

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

Thanks, Dan. Second quarter 2022 comparable diluted earnings per share were \$0.82 versus \$0.86 in 2021. Second quarter 2022 included \$0.02 impact of unfavorable earnings translation.

Second quarter sales were up due to the pass-through of higher aluminum prices, higher volumes with improved price/mix and higher aerospace performance, partially offset by currency translation. Comparable second quarter diluted earnings per share reflects strong results in EMEA, other metal beverage and aerospace and a lower share count, offset by comparable operating earnings declines in North America and South America, higher interest expense, higher comparable effective tax rate and unfavorable earnings translation.

In June, the company completed new credit facilities maturing in 2027. Ball's balance sheet remains very healthy with ample liquidity and flexibility. As we sit here today and inclusive of operating Russia for the rest of 2022, some key additional key metrics to keep in mind.

Our full year effective tax rate on comparable earnings is expected to be in the range of 19%. Full year interest expense will be in the range of \$290 million. Year-end net debt to comparable EBITDA is expected to be below current levels, and full year corporate undistributed costs recorded in other nonreportable is expected to be in the range of \$110 million.

At this time, and given our earlier announcements about exiting Russia and other plant capital decisions, we expect total CapEx to be in the range of \$1.7 billion in 2022 and 2023 CapEx to be down meaningfully from 2022 levels. The earnings impact of volume deceleration and a higher use of working capital have led to lower-than-anticipated operating cash flow. We now anticipate returning approximately \$1 billion to shareholders in the form of share buybacks and dividends in 2022 and accelerated returns to higher levels in 2023.

Rest assured, Ball will be good stewards of our cash as fellow owners. And through the lens of EVA discipline, we will manage the business effectively, partner with our supply chain and customers effectively and, when necessary, pull levers available to secure the best outcome for our shareholders. We look forward to addressing our plans to grow the business, enable the supply chain, expand innovation and increase returns and answer questions why Ball Now and Beyond at our September investor field trip.

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

Daniel William Fisher - Ball Corporation - President, Director & CEO

Thanks, Scott. Our Drive for 10 vision will continue to serve as our guide. We know who we are, we know where we're going, and we know what is important. Great companies showcase their resiliency and discipline in uncertain economic times and the company has an actionable plan to address costs, capital and improve returns. By providing actionable intelligence through our aerospace business, sustainable solutions through our aluminum packaging businesses and honoring our disciplined capital allocation approach, our shareholders will be rewarded, and we will be doing our part to preserve our planet.

While our ability to achieve our long-term diluted earnings per share growth goal of 10% to 15% in 2022 has been impeded by the recent deceleration in volume growth, earnings translation headwinds, ongoing inflation and the pending sale of our Russian business, our earnings, cash flow and EVA trajectories are in very good shape for 2023 and beyond.

We are rebasing our cost structure in preparation for the Russia business sale and to meet the world where it's at today. We continue to focus on increasing returns on capital deployed and to further enable growth across our global aluminum packaging and the aerospace and technologies portfolio.

We are uniquely positioned to serve the decadal shift that will favor our packages and aerospace technologies. We look forward to continuing our journey and returning value to our shareholders.

We extend our well wishes to our employees, customers, suppliers, stakeholders and everyone listening today. We look forward to discussing more about Ball Now and Beyond by highlighting our long-term growth plans and global management bench at our September 2022 Investor Day.

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

QUESTIONS AND ANSWERS

Operator

And the first question is from the line of Ghansham Panjabi with Baird.

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

Starting off with North America. Dan, maybe just give us a bit more color in terms of which categories in particular showed deceleration? And then how are you approaching the cessation that you called out in terms of production in Arizona and Minnesota? Is this temporary idling of capacity? If so, how long? Where are we on that?

Daniel William Fisher - Ball Corporation - President, Director & CEO

I'll start with the first question relative to category impacts in the second quarter. Total alcohol, was down 3%, mostly driven by domestic beer. I'm sure that's not a surprise to you given our customers' penchant for taking price versus volume. Non-alcohol was a bit more resilient. CSD, in particular, and energy drinks grew. Total non-alcohol was up 1%; CSD flat to up 1%; energy drinks up 8%; sparkling water down 5%. Import beer was up, craft beer was down. Import beer was up double digits 13%; craft down low single digits; hard seltzer, down nearly 20%; FMB was up 20%; and ready-to-drink cocktails was up 60%, off of a lower base. So net-net, basically flat for can penetration, and it's very consistent with our customers' earnings releases as well.

Relative to the 2 facilities that were shuttered, please keep in mind, Ghansham, that we announced those closures late last night so it's very raw, very sensitive right now for a number of our employees. These are permanent shutterings. One was built in 1969, the other was built in the mid-70s. These are landlocked facilities. They are both really old facilities. The net capacity is approaching 4 billion units, so think about removing that.

Relative to our ability then to step into the 4% to 6% growth we have plans in place and facilities that continue to increase efficiencies in terms of their start-up. So we'll be able to step into our growth projections and goals, both from the medium and long term and this is just a step that we've consistently done throughout our history relative to optimizing our footprint, and that's how you should be interpreting this.

Maybe I'll just turn it over to Scott to give some context in and around fixed cost savings, which is typically something that we would refer back to in times like this.

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

Just to clarify, when Dan said 5% growth, that was a global number he was referring to. That wasn't any particular region. I'm not going to talk about the fixed cost of these particular facilities but historically, when we've closed facilities of this size, 2 or 3 lines, think about roughly \$30 million of fixed cost for each facility that will come out as we close those, one probably later this year and one in early next year.

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

Okay. That's very helpful. And then as it relates to the comments on volume outlook for the full year, the 5%, how does that break down by region, the way you see it at this point?

Daniel William Fisher - Ball Corporation - President, Director & CEO

You can appreciate very volatile times right now trying to anticipate customer pricing in North America. We're seeing the second half play out to growth trajectory in South America, in line with our commentary a quarter ago. North America is going to be dependent on ongoing pricing behaviors from our customers and Europe has been incredibly resilient. I was just there last week and have been over there multiple times, same with South America, to keep a pulse on what's going on in those markets. I feel confident that we'll be within the 4% to 6% range globally. Difficult to parse out specifics quarter-to-quarter right now, to be candid with you, Ghansham.

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

Okay. Just as a follow-up to that, Dan. Is North America tracking negative, thus far, in 3Q?

Daniel William Fisher - Ball Corporation - President, Director & CEO

No, flat to slight increase through July.

Operator

Our next question is from the line of Adam Samuelson with Goldman Sachs.

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

We are halfway through the year, any way to help us narrow in on where earnings growth actually is looking this year? And if there's any kind of key buckets by region to think about bigger headwinds or against that, that would be very helpful.

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

This is Scott. I think given in total the softer outlook that we see in North America versus what we had initially thought, given what our customers' pricing strategies and mix have been, the loss of the customer in South America, what inflation is doing around the world, the timing and sale of our Russia business as well as euro earnings translation, I think it's going to be tough to match last year's comparable operating earnings in 2022. So the comment about next year is off that kind of base.

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

Okay. That's very helpful. And I guess then you still talk about optimism long term on 4% to 6% kind of volume growth. But I guess, would it be fair to say the actions in North America that you're taking, you're seeing from a customer and market perspective this year, especially may be relative to prior plans, is that to get to that 4% to 6% kind of longer-term volume growth, it might be skewed considerably more heavily towards international markets than you might have thought 12 or 24 months ago and how you think about the regional composition of that growth over the medium term, if that's changed at all.

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

Yes. I think that's fair. To be clear, we entered the year thinking that we would have grown in North America double digits, and we've clearly come off of that given the first and the second quarter and the pricing decisions from our customers. Much of the growth trajectory relative to what we said, the underlying tenets relative to the medium and long term 4% to 6% growth, still hold for every market and we need our customers to return to a semblance of pricing strategy, which they've implied and implored over decades.

Right now, they're pushing price in excess of inflationary costs, and they're margining on that. So if there's a modicum of return to a different pricing strategy, we will benefit from that in terms of an uptick in volume in North America. We've had a resilient Europe business that continues to grow. We're investing in that business.

South America entered into a recession well in advance of the other markets. They seem to be turning the tide in that region of the world. So stepping into '23, we will see some benefits of growth, hopefully, tailwinds coming out of the fourth quarter and into the first quarter. We're certainly seeing early signs of that.

And in Europe as I said, we've been over there several times. We're concerned about what's going on, as every business is, relative to energy and what's going to happen with natural gas pipeline flows but the underpinnings of what we're hearing, both from our customers, substrate penetration and aluminum investment, coupled with the fact that a lot of our customers continue to push cans in that part of the world, gives us belief that it's not a matter of if, it's when.

Operator

Our next question is from the line of Christopher Parkinson with Mizuho.

Christopher S. Parkinson - Mizuho Securities USA LLC, Research Division - MD and Senior Industrials Equity Research Analyst

You did this a minute ago, but can you just break out just kind of your intermediate-term views for the substrates? You mentioned alcoholic, nonalcoholic, energy drinks, RTD off of perhaps a lower basis. How should we be thinking about bridging what's happening right here right now versus, let's say, the first half of '23, specifically North America?

Daniel William Fisher - Ball Corporation - President, Director & CEO

Very difficult to comment on a bridge to the beginning of '23 because these numbers have a direct impact on our customer pricing strategy. Our customers have taken year-over-year north of 20% price, and their volumes are flat. So if that were to moderate back to less price take and more interest in volume, all of these numbers will be improved.

That as a backdrop, I'll go over the categories again. For total alcohol category, it was down 3%; domestic beer, down 5%; import beer, up double digits; craft, down slightly 3%; hard seltzers, down nearly 20%; FMB, up 20%; and ready-to-drink cocktails, up nearly 60% off of a very small base.

The nonalcoholic categories grew slightly, 1%; CSD, 1%; energy drinks, 8%; and sparkling water was down 5%. So in total, that nets out to 0 growth for the industry in the quarter. How that translates into the second half of the year, just refer back to my pricing comments on the customers. That will drive end consumer behavior, and it will drive volume, which is what we're most interested in relative to our customer commentary.

Christopher S. Parkinson - Mizuho Securities USA LLC, Research Division - MD and Senior Industrials Equity Research Analyst

Understood. And just a quick follow-up on Latin America, and specifically, Brazil. Obviously, there's some choppiness in the fourth quarter. It seems like it's abating a little bit. There's some optimism for the World Cup in the fourth quarter this year. Just how should we think about that bridge and your confidence in that boost towards year-end based on what you're hearing right here, right now in the alcoholic category?

Daniel William Fisher - Ball Corporation - President, Director & CEO

Thank you. Q4 and Q1 were down significantly and as I mentioned, the end consumers purchasing power was up 30% to 40% in Q4 and Q1 from prior period. In Q1, volume per hectoliter was down nearly 20% in that market. We saw a return to a modicum of flat in Q2. That was in line with our expectations.

What we saw in the early parts of the third quarter is we're returning to double-digit growth year-over-year for us in South America. As you mentioned the world is incredibly volatile. One month does not make a quarter, but it's in line with our anticipation heading into both an election, further stimulus in Brazil and the World Cup falling in a winter quarter.

Operator

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

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

Dan, if you could help us understand, to the extent possible, what was going on in North Las Vegas and what your plans are there and kind of the background there. Will you need to supply the customers that should have been supplied by that facility from other facilities or not?

Daniel William Fisher - Ball Corporation - President, Director & CEO

The answer is no at this point. We have put a pause. We've had conversations with the anchor tenants there. Think about this as a 6- to 9-month rephasing. We can engineer. We can put the lines in. The phasing impediment right now would just be the speed with which we could hire the labor. So this is absolutely going to happen. It's just the rebasing and rephasing of timing.

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

Okay. And then this question has come up a couple of times with my peer analysts, and I want to take another try at it. So you're still guiding to a long-term 4% to 6% growth rate for the can. You mentioned it's very difficult to determine at this juncture, and we understand what the growth might look like this year because part of it is driven by what the promotional strategy will be from the customers and you obviously can't speak for or know exactly what the customers are going to do. So with that as a backdrop, how can you have confidence, what gives you confidence, if there's a way to quantify at all, in the 4% to 6% and how it might vary across the regions?

Daniel William Fisher - Ball Corporation - President, Director & CEO

Yes. It'd be difficult to parse out the regions. I will tell you, on a global basis, I'll reaffirm, we believe that we'll be growing at mid-single digits for the year. And George, probably much like yourself, I've never seen a geopolitical, an inflationary environment, a macroeconomic environment as unstable as the one we have right now, and we're growing in the range.

A couple other things to point to. We are in constant contact with our customers. We are in constant contact with our suppliers of filling equipment and there have been 3 multi billion rolling mill investments announced in the last 90 days.

So parsing out 2023 relative to the regional dynamics, a bit difficult to discuss right now. We'll have a clearer picture of that at our Investor Day. We'll be entering our budget conversations. All of us will be out on the road talking to customers in different parts of the other world on an ongoing basis to stay close to this. But I have a firm underpinning and belief in the variables that will drive the circularity story and the sustainability story that allow us to get to that growth thesis that we outlined a couple of years ago. It still holds.

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

George, I think everybody given how volatile the world is has a bit of a recency bias to kind of say, "Okay, what have we seen in the last 90 days and what's going to happen going forward?" Nothing has changed if you think about the sustainability benefits of the can and the long-term attractiveness of the package.

There's a plan for 118 filling lines by our various customers across Europe over the next several years. So the customers are looking at this as a long-term proposition. They're doing some things in the short term that are disruptive, that are not helpful from a volume standpoint in North America but long term, the can is going to continue to win.

In 2018, at the Investor Day, we said that 4% to 6% growth. Then growth accelerated, and now it's moderating a bit, but it's still back to that 4% to 6%. and so I think if everybody takes a step back and looks forward, all the benefits of the can are intact, none of that's changed. We've got to do things in the near term because we have localized supply-demand imbalances that we're going to fix and we've got focus, frankly, on our SG&A costs that have probably gotten ahead of where they need to be so we're going through department by department and figuring out what things do we really need to be spending money on and what things don't we need to be and

that's going to put us in a position that when this inflation moderates and when we get the escalators in our contracts that eventually happen, we're going to like the results of that combination a lot.

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

Sure. Scott, I appreciate that. So with that as a backdrop and given your input to take a longer-term view relative to a last, whatever, 30-, 90-day view, you also reduced your value return target from \$1.75 billion to \$1 billion. Can you help us bridge how you get there? What were the consideration in terms of dropping that?

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

Thanks, George. We're going to make less money than what we thought originally when we came into the year. We're going to use about \$350 million of working capital. If you look in the second quarter we were building inventories for what we thought would be a more robust season here in North America that didn't show up. So we're going to have to focus on that in the back half of the year, but we're still going to have a use of working capital in the range of \$350 million.

We're still too early in the process to know what the sale of our Russia business will yield us. So we're being cautious around that front and we've got a customer issue in South America who defaulted on their contract and isn't paying us.

So all those things kind of lead us to reel in the share return for right now. But trust me, in the long term, our focus on that has not changed at all so that's when we look at capital for next year. We see a meaningful reduction of growth capital because we can put it in more slowly over a longer period of time, dial it back and be in a position to be able to ramp up the return of value to shareholders.

Operator

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

Anthony James Pettinari - *Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst*

We're coming off a number of years where North America was sold out and we were importing cans from all over the world. I just want to understand how you think the North American market sits or maybe where your system sits once these closures are completed. Could there still be some slack in the North American market? Will you be back to essentially running full out? I'm just wondering, directionally, if you could talk about where North American operating rates may be exiting the year.

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

Yes. Thank you. There's a confluence of events that are happening, and the short-term or near-term answer is there could be flat capacity for the simply because we're ramping up large asset bases: Pittston, Glendale and we've made further line investments over the last couple of years. So the efficiencies of all of those lines are improving really nicely. So they were anticipating a higher volume number.

I think in the next 6 to 9 months we have to wait to see the dynamics relative to supply-demand. But rest assured, we have an industry leadership position. We understand. We've taken a view to optimize the network. We've consistently done that over the last decade. We have a strong belief in the medium to long term, but we need to meet the world where it's at right now, and those are the decisions that we took yesterday.

Anthony James Pettinari - Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst

Okay. That's very helpful. And then just as a follow-up to that, I mean, is the situation in North America solely that your customers are seeing lower volumes with promotional strategies and tougher inflation environment? Or are you walking away maybe from some business that doesn't meet the current thresholds? Or is it some combination of those 2 things? I'm just wondering what you can share there.

Daniel William Fisher - Ball Corporation - President, Director & CEO

Well, we're not walking away. We've historically always walked away if we don't have an EVA return but that's not a recency bias. This is 100% our customers putting up price in advance of inflation, and their volume is 0 and we are impacted by the 0 volume growth.

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

Anthony, I would just add, in terms of the customers, we've entered into some new contracts recently and we like the economics on those contracts a lot. We'll start to see those benefits as we get into '23.

Operator

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

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

I appreciate all the detail, especially by category, in North America. First, is there any update you can provide on the Russia divestment? And Scott, just to be clear, when you gave an earlier answer or commentary about this year's EPS, are you assuming some sort of sale of Russia within fiscal '22?

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

No. Well, one, I gave direction on comparable earnings, not EPS. Russia was inclusive of those numbers for the full year. We have a pretty robust process going on currently, and it continues to progress, and we'll see where we get to in the end. So that's kind of what I can tell you right now. Hopefully, we'll have more information when we get to our Investor Day in later September as to where we're at in the process and what's happening and time frame and all of that.

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

Great. I appreciate that. And second, I just kind of wanted to go back to North America and I appreciate customer behaviors are a little bit different the past -- or a lot different the past 3 months. But between the 2 plant announcements last night and the delayed new plant, I mean, it feels like a pretty big deviation from where we're all thinking for '23 and even about 2% or 3% of North America market.

But just as you mentioned, you take these decisions quite seriously. So I mean, is it fair to say your growth conversations are changing quite a bit with the customers? I guess, I'm just trying to square your medium-term confidence swells, kind of shrinking your plans there a bit.

Daniel William Fisher - Ball Corporation - President, Director & CEO

Yes. So just one clarification. The pricing behavior hasn't happened over the last 3 months. We've had, in aggregate, each quarter over the last 4 quarters, our customers have taken up, on average, 7% price increases. So you're getting to a point now where, year-over-year, you're looking at

20%, almost 30% price increases in some of these products. That absolutely has an impact on discretionary and consumer buying and we're looking at that, and we're making adjustments. We're optimizing our footprint.

This is a near-term balance for us. We've optimized the efficiencies across our system. We're constantly looking at this. I'll remind you that these 2 plants, 1 was built in 1969, 1 was built in 1975. So that should give you some thought in terms of what we need to do relative to what we've seen over the last year in terms of the pricing behavior from our customers.

Operator

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

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

So I wanted to drill down further into the demand outlook here. So obviously, we've gone through a period of very robust growth. It looks like we're normalizing into a more historical range. What's it going to take to kind of reaccelerate to maybe a slightly higher rate of growth?

You noted seltzers were down 20%, and we've all been seeing the data there. But have you seen any pickup in either the amount of new beverages that are going into cans? Or any trends, as far as still water or anything else, that would potentially drive growth back or accelerate growth as we look out into the next year or so?

Daniel William Fisher - Ball Corporation - President, Director & CEO

Yes. Thank you. So just one major point of clarification. Our historical growth rates were 1% to 2% for 20 years heading into '19. We just communicated, I think, multiple times in this call that we believe we'll grow at 5% this year. So we're 2 to 3x what the historical growth rate is and in line with our long-term investment thesis for growth.

As it relates to categories and innovation, absolutely. We're seeing ready-to-drink cocktails growing at 60% off of a small base. We're seeing energy drinks continuing to grow at high single-digit growth rates. If you refer back to several calls over the last quarters, I have said multiple times, our business doesn't move quarter-to-quarter. It moves over 6- to 9-month digestion period.

So retail shelf space, filling locations, promotional activity to push around things like RTD cocktails, those things, as they start to happen, they will fill out the retail sales and rebase areas that are seeing modicums of decline. So yes, I'm very bullish on ready-to-drink cocktails. I'm bullish on energy drinks continuing.

CSD, that is a plastic-to-aluminum substrate shift and despite the 20-plus percent price increases we've seen in those areas, it's still very resilient to flat to a slight growth. So all of those things give me comfort that what we're seeing in terms of an appreciable differentiated, higher growth rate versus historical norms will maintain and continue for an extended period of time.

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

Okay so I understand that the facilities that you're shuttering are potentially on the higher end of the cost curve and a little bit older relative to your rest of your production base. So I guess, how should we think about capital from here on? I know your growth projects are still on track. But maybe if you could lay out how you're thinking about CapEx over the next several years. I know that, obviously, you've moderated the capital return, but are there other levers you can pull on CapEx to potentially get that capital return back up?

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

I mentioned that we expect this year to be paying for in the back half of the year things that are in the ground. We have pretty good favorable payable terms on most of the capital. So that's why we can't change it a heck of a lot this year. I think we've taken it down about \$100 million from what we thought 3 months ago. So it's like \$1.7 billion.

I would expect, as we look at 2023 we'll update you. As Dan mentioned, we'll be doing our planning here over the next couple of months, and we'll be able to give you a better number at the Investor Day but I would expect our capital to come down meaningfully in 2023, just because the growth has moderated, but it's still in that mid-single digits, but it's not the double digits that some people thought we would hit this year. So we're able to dial back that capital, and that gives us more opportunity to return value to shareholders.

Operator

Our next question is from the line of Angel Castillo with Morgan Stanley.

Angel Castillo - Morgan Stanley, Research Division - VP

So Dan, I just wanted to, I guess, dig in a little bit more into 2023. I appreciate we're going to get more details at the Investor Day, but any sense for that CapEx reduction, roughly where that might be coming from? I assume maybe within North America -- or just as you think about the future plans that you've kind of laid out where that, I guess, reduction might be sourced from.

Daniel William Fisher - Ball Corporation - President, Director & CEO

Sure. Thank you. There's been an awful lot of focus on volume on this call. I think if you reflect on Scott's comments relative to the downturn in earnings that we anticipated 60, 90 days ago, keep in mind, there's been a hell of a lot of headwinds on inflation. That inflation is going to come back to us next year. That number is higher than what we anticipated coming into this year.

So earnings should be reflective of an improved PPI mechanism. Keep in mind, we pass through inflation in both Europe and North America a year in arrears. So that will be, as we sit here today, a good guy and we will further document that and bring more specificity to that number a month from now as we do our homework there and then relative to capital and some of the other comments, I'll turn that over to Scott but we're good stewards of capital. The stuff that has been going into the ground, we're paying for that now and then we should be reflecting and rephrasing capital over the next year if we continue to see our customer pricing strategy. Scott, if there's anything I missed there.

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

Our aerosol business continues to grow. Our aerospace business continues to grow. We're really scrutinizing all of our capital. We were just on a call yesterday with some of our colleagues and we're progressing on both European projects that we have. We built the Paraguay plant a couple of years ago. We're liking the results of that, and we're going to do another plant in Peru.

So it's not like the growth has stopped. It's definitely slowed down, and frankly, at a more moderate pace, which will be better. So we're looking at capital and our costs at every part of the overall business.

Angel Castillo - *Morgan Stanley, Research Division - VP*

That's very helpful. As we think about maybe the medium to longer term, I wanted to maybe revisit a couple of things you mentioned. One was maybe on the inventories front, and then I think there was a mention of kind of a customer default that we were kind of dealing with. So as you think about maybe 2022 and what some of these items that might be kind of onetime and we should recover from and should get back to kind of growth next year and give you comfort of returning back to growth, anything else outside of those 2 or others that you can kind of point to that are maybe more specific to Ball or just kind of to this year that we can then look at as we think next year and industry growth returning back, anything with market share or, again, with the inventory levels, et cetera?

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

No. Those are the big ones. I've been around for 22 years, and you never want to scale back your production until you get to the summer season because if you're not ready to service your customers in the summer, those are sales that are lost. So we built inventory for the first half of the year expecting more robust growth than what we've seen. So now we've got to be a little more focused on inventory for the back half of the year and bring that down to more reasonable levels. And the customer default, I've been here 22 years, that's the first time I've ever seen a customer that we have a legal contract with that has chosen not to complete that contract. So I think that's a bit of a one-off. So those are the big things that are changing, and we're going to make less money than we thought in total. So that's why we're having to be cautious about the return of value to shareholders in the near term, but we think we're setting ourselves up really nicely for 2023 to improve all of those things.

Operator

Our next question is from the line of Mike Roxland with Truist Securities.

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

Wanted just to take a dig a little further into North America. You provided a lot of great comments. Just one of your peers mentioned volume growth in North America of 1% in 2Q, was guiding 2023 to be up double digits. I know that peer mentioned growth in North America of -- in 2Q of mid-single digits. Would it be a fair comment to say that maybe you overestimated growth somewhat in the southwest region relative to demand?

You guys do have a fair amount of capacity in that region with I think you have 4 lines; Glendale, it could be 3 or 4 lines. So maybe relative to the demand that actually occurred in that region, you're being a little bit too aggressive with your capacity expansion?

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

No. I appreciate the question and the thoughtfulness of the question. It's inaccurate. In fact, the southwest is performing in line with our expectations. Keep in mind, and this has been disclosed in previous calls, we have an anchor tenant in Glendale that we do business globally with and they continue to grow significantly and in line with our expectations in that facility in particular.

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

I would also point out that everyone in the industry probably has a bit of a different customer mix so that could account for some differences in what people talk about.

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

Got it. Okay. And one quick follow-up. Dan, you mentioned retail prices being up 20%, 30%. Your customer volumes are flat. So it could be that ultimately consumers are trading down to some extent given these price increases. Could you remind us of your private label exposure? And any push possibly to increase your private label exposure given the current environment?

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

In general, I think we have like-for-like comparables probably with the rest of the industry participants in that area. A lot of it just has to do with what filling partners you have relationships with and those private labels, it's very hard to parse that out. You'd have to look at IRI scanner data because what will happen is you'll be shipping cans with labels into filling locations that are all full.

So they may be trading out there. We'd be sending can volume into a customer that's really a filling location for an end consumer and sometimes those aren't even graphics on cans, they are shrink sleeves. So difficult to parse that out.

I agree with you on trading down. We have seen trading down. Typically, where you see that is in rural areas first versus urban areas. We saw that going back to the later part of the first quarter. So what you'll see is a 12-pack versus a 12-pack and a trade-down, and then you'll eventually see volumetric trade-downs so not as much of the category shifts as much.

Exactly to your point, you would see base labels, high-end labels being traded down to medium, to lesser labels being traded down to share of stomach. We haven't hit the share of stomach trade-down across the landscape but as price increases continue at this rate that would be the concern that you may start to see the volumetric trade-down.

Operator

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

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

This is John Dunigan on for Phil. I wanted to stay on North America for a second. Now the tightness that we've seen in the market up until really this year led to a lot of favorable contract renegotiations, which I thought had volume requirements baked in. Is that not the case? Or is some of that just getting pushed out for your customers?

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

Yes. I'll start and then turn it over to Scott. I would say the new contracts are performing in line with what our expectations were. Keep in mind, that's not the majority of our business. Scott, anything else?

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

Yes. So all the new assets we put in the ground and the contracts that support those are progressing. If you take a step back, every contract is going to have some range of what they can do month-to-month. Nobody gets their forecast 100% right. So in our case, where we're at, it's kind of like 95% right. So that 5%, we're feeling that. But that's kind of normal. The contract provisions that we've been talking about for the last couple of years are definitely showing up in what we're seeing.

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

Okay. And then in terms of like maybe a bull case scenario, you're shutting about 8% of the North America capacity for Ball and pushing out another, say, 4%. So in this bull case where you maybe return to that 4% to 6% CAGR quicker than expected here in North America, do you have any capacity to meet that demand with the ramp-up of your other projects? And maybe you can give some insight on kind of how operating rates look in broad terms.

Daniel William Fisher - Ball Corporation - President, Director & CEO

Yes, absolutely. We have dry powder to step into. We were going to, on an annualized basis, add 12 billion units this year. We're saying we're going to take 4 billion from that. But keep in mind, the knock-on effect from efficiency builds moving forward will enable us to step into growth in excess at the high end of the 6% range, if it shows up.

The other thing is we're in constant conversation with anchor tenants and the previously disclosed greenfields that we're anticipating in North America could very quickly move into engineering and executing against those. So this doesn't have an impact really for us to be able to step into really nice growth in '23 and beyond.

Operator

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

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

I want to just turn at the end of the call here from volume over to the cost. We are in a higher inflation environment than we haven't seen for 4 decades. Can you talk about what you might be doing or trying to do in some of the contract renegotiations to both speed the pass-through of non-aluminum costs and then also to maybe match up the escalators that you use so that they better square with the actual costs that you're incurring?

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

The PPI and CPI, various escalators that we've used over time, have been pretty effective in most environments and what we're feeling right now is a bit of a short-term squeeze because inflation has been accelerated at a pace we haven't seen in 40 years. So we don't want to be too reactionary to the changes of what's worked in this business for a long time.

However, I will say, we are looking at a variety of things in contracts to make them tighter so that there is less leakage and there's quicker response to big changes in costs. But those things take time to implement. So in some places that have experienced high inflation, think of like a lot of emerging markets that we operate in, they do have very effective and quick cost pass-throughs because they've experienced hyperinflation for a long period of time.

In North America and Europe, that hasn't been the case. So the annual pass-through has worked and we're seeing the benefits it's just that we've had another round of inflation to the tune of \$100 million this year that we're having to choke down.

Let me also add the SG&A side, that's something that is different. We're going through every support function and looking at things that we need to stop doing and things where we can take out costs to get our SG&A in line. Now we're already seeing that SG&A feel from most of those that have incentive compensation.

And one of the reasons the corporate line looks better is we're not going to get paid as much this year. So we're kind of in line with what the shareholders are seeing and so we're very focused on our corporate costs and our support costs, and we expect to recoup a lot of cost savings out of those areas. That's something we haven't had to do in a while.

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

Mark, we're spending a lot more time on our supply contracts, and what's embedded in those supply contracts are extraordinary clauses. Think about our ODMs on the chemical side. We need to ensure that the supply contracts mirror our customer contracts, and that would be an area where we would pass through cost more expeditiously, but we wouldn't be absorbing costs that are decoupled from our customer contract and that has a margin improvement ability to it as well.

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

Okay. That's helpful. Listen, one other just real quick one, and I think I know the answer here but this lower growth you're seeing in North American beverage cans, this is not going to have any impact, is it, on these planned can sheet expansions or the timing around those expansions, particularly the Mana project?

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

The answer as of today is no. We don't anticipate that. Again, these assets will come online 3 and 4 years from now. We were actually just with a number of folks earlier this week having those conversations, and it was all go forward. They believe strongly in the circularity message, as do we. So yes, thanks for that question. No, I think people are very bullish about continuing to invest in and around the circularity story of aluminum and beverage packaging.

Operator

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

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

Can you just talk about the visibility you have into North American demand? So I mean, for 2 years, the industry was caught short and now you're, in effect, caught long. Can you just talk about what your normal visibility is? How many months of it you have compared to what it might be now?

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

That's a great question. It's actually much longer than it used to be historically because of the fear of missing out relative to our customers being able to step into cans with innovation. The big challenge here for us is what we don't have access to to pricing strategies by our customers. That's the big dislocator right now in terms of what we're seeing from a volume standpoint and that is something they hold very close to their vest.

So you get a revisit point probably every 6 to 9 months with your customers but if they've decided to go much stronger on price in a 120- or 180-day period, you can have dislocation like we're experiencing right now on volumes.

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

What I would say, the thing where we have more visibility today than we had 6, 7 years ago is the mid- and long-term strategy of our customers, what they're planning to do with their mix, with their package mix and sizes and all of that and the investments that they're making on the filling side. We have better visibility into that. It's the near-term stuff that's a little bit more challenging.

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

Got it, and I appreciate that. And Dan, just along somewhat similar lines. You mentioned in the release that you saw the deceleration in demand late in the second quarter. But as you mentioned earlier, your customers have been raising prices for, call it, a year now. So I guess, why would it all have seemingly come to a head quite recently. Did growth just hit a wall, seemingly so, at least?

Daniel William Fisher - *Ball Corporation - President, Director & CEO*

Yes. There's certainly a recency bias. I don't know if I had a specific answer to that. However, for us, there's always been Memorial Day to 4th of July promotional activity, and consumers were anticipating that. It didn't come through. There's less going into everyone's grocery basket right now. So I think there's a recency bias. I don't know, Scott, you've got a thought on that?

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

Yes. I mean, we've been looking at a lot of economic data and what's been happening most recently, if you look at some of the most recent things, you're starting to see the consumer get pinched more. The second quarter, you had fuel prices rising. Now the good thing is that fuel prices are coming off a little bit.

But all the stimulus money that was pumped into the economy, I think a lot of that has been spent through in the first part of the year and now you're starting to see delinquencies tick up as it relates to student loans, to credit cards for people that are 20 to 35. So you're starting to see that consumer get pinched more recently because a lot of that stimulus money has now been spent through the economy.

So we'll see. What you used to see is if they raised price 2%, their volumes would decline 1% or 2% and for a period of time, that hasn't happened. But I think we're going to start to see that in their volumes, and that's where we're more bullish. As we look out long term and things normalize, we think we'll get back to kind of a more normal situation.

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

And just lastly on that, you've always talked about beverage cans as pretty recession-resistant, and everyone has. Is it any less so now than has been the case historically just because of the magnitude of this inflation and these extraordinary price increases that you just --the demand elasticity just takes over at some point, and there's nothing anyone can do about it?

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

No. I don't think it's changed in terms of recession-resistant. I mean, if you take a step back everybody's kind of digesting these numbers real time, right? We've had a little bit of time to look at it and digest it. The world is a mess and our earnings are holding up reasonably well. I mean, it's not anywhere near where we want them to be. We're disappointed in where we're at. But if you look at the world, it's not that bad.

So I think this is still a recession-resistant business, but it is clearly not immune to shocks when you have 40-year inflation, a land war in Europe, euro deflation. You're going to feel short-term knocks from those things. Energy prices are skyrocketing in Europe. You're going to feel short-term knocks.

But the long-term beauty of this business is it will grow, it will flow cash, and it will get nice returns so I think we feel pretty good about where we're at. We're not happy with where we're at so we are going to do a bunch of things that we need to do in the near term to address a lot of these things, but the long term is still intact.

Daniel William Fisher - Ball Corporation - President, Director & CEO

Adam, one thing to pay attention to, if you look at our customers that are simply passing through inflationary costs and not margining up, they are growing significantly so it is hugely resilient. What's decoupled right now is customers putting up significant price over and above inflationary cost pressures and margining up. So that's going to have a volumetric impact. That's not recession. That is a pricing strategy. So I just refer back to customers that have taken a middle-of-the-road pricing approach and just pass through cost. They're growing, and we're growing with them.

We'll talk to everybody again in 90 days.

Daniel William Fisher - Ball Corporation - President, Director & CEO

The investor conference is going to be on September 22. Look forward to seeing as many of you as can make it.

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

Thank you.

Operator

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

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