

# Ball Corporation NYSE:BLL

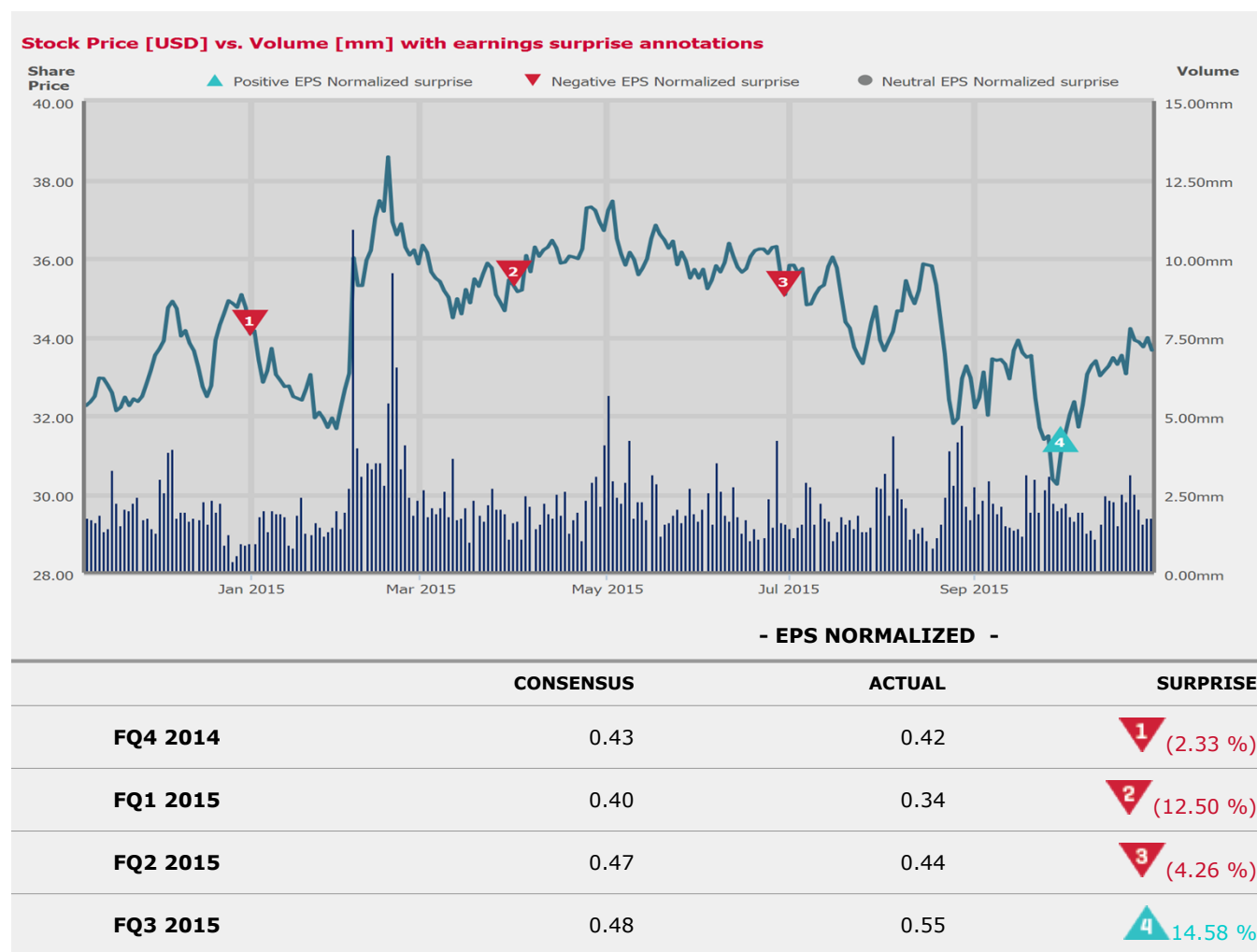
## FQ3 2015 Earnings Call Transcripts

**Thursday, October 29, 2015 3:00 PM GMT**  
S&P Global Market Intelligence Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	0.48	0.55	▲14.58	0.37	1.65	1.87
<b>Revenue (mm)</b>	2111.37	2097.00	▼(0.68 %)	1954.79	8173.02	8306.17

Currency: USD

Consensus as of Oct-29-2015 1:30 PM GMT



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# Call Participants

## EXECUTIVES

**John A. Hayes**

*Chairman, President & CEO*

**Scott C. Morrison**

*Senior VP & CFO*

## ANALYSTS

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**Anthony James Pettinari**

*Citigroup Inc, Research Division*

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*BofA Merrill Lynch, Research  
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**Mark William Wilde**

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**Matthew T. Krueger**

*Robert W. Baird & Co.  
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**Philip H. Ng**

*Jefferies LLC, Research Division*

**Tyler J. Langton**

*JP Morgan Chase & Co, Research  
Division*

# Presentation

## Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ball Corporation Third Quarter Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded, Thursday, October 29, 2015.

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

## John A. Hayes

*Chairman, President & CEO*

Great. Thanks, Lina, and good morning, everyone. This is Ball Corporation's conference call regarding the company's third quarter 2015 results.

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

Information regarding the use of non-GAAP financial measures may also be found on our website, and with regard to Ball's proposed offer for Rexam and consistent with the requirements of the U.K. Takeover Code, we will limit our comments regarding the transactions to: number one, what has already been made public via the 2/7 release; two, where we are in the regulatory process; and three, an update of ongoing economic hedging and debt activities related to the proposed transaction. Also note that there may be certain limitations regarding the depth of our business commentary and certain other items we would normally discuss on a quarterly earnings conference call due to the nature of the proposed transaction.

Given the nature of our proposed offer, today's issued press release, webcast and conference call are advertisements and should not be considered a prospectus. Investors should not make any investment decisions in relation to the new Ball shares issued in conjunction with the Rexam transaction, except on the basis of information in the prospectus and the Scheme Documents which are proposed to be published in due course. This presentation and transcription of comments are not for release in whole or in part in, into or from any jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction. For more information on Ball's proposed acquisition of Rexam, please visit the offer for Rexam page on our website at ball.com.

Now joining me on the call today is Scott Morrison, our Senior Vice President and Chief Financial Officer. I'll provide a brief overview of our company's performance, Scott will discuss financial and global packaging metrics and then I'll finish up with comments on our Aerospace business and the outlook for the remainder of 2015.

Our third quarter volumes and results from operations were in line with our expectations and a lower effective tax rate aided the quarter. The headwinds that we acknowledged throughout the year around earnings translation, project start-up costs and tough volume comps in North American food continued while others like aluminum premium headwinds and tough volume comps in Brazil started become slight tailwinds in the quarter. Scott will go into more detail in terms of quantifying these headwinds.

As we said in July, overriding these headwinds are the investments we are making to operationally and strategically position Ball for future growth. This week, we announced that Ball's Brazilian joint venture partners are exchanging their remaining 39.9% interest in the joint venture for 6 million Ball shares. This exchange will allow us to further streamline our business decision-making in the region and across the broader Ball Metal Beverage business as well as enable us to better serve our customer base and ensure that the beverage can remains a cost competitive package.

While we are making progress around the proposed acquisition of Rexam including ongoing work with the U.S. FTC, receiving the formal statement of objections from the European Commission and moving to the United States with the Brazilian CADE authorities, we continue to remain focused day-to-day on maximizing the value of what we currently do in generating strong free cash flow.

Growth capital projects that have become and/or that we expect will become operational and we expect will largely benefit 2016 and beyond include the next-generation aluminum bottle shaping technology in North America which has made its way up the learning curve. In fact, we were just there yesterday with our board and I want to thank all of the hard work by the folks in Conroe and elsewhere to help make this a success.

In addition, the new Oss, Netherlands specialty beverage can line and the addition of end manufacturing capacity in our existing Lublin, Poland facility which both helped serve European market growth in the quarter; the construction of our Monterrey, Mexico two-line aluminum beverage can facility which is on track and on budget and will become operational by early 2016; the construction of a new beverage can plant in Myanmar slated to open in early 2016; a new U.S. template aerosol can manufacturing technology that shipped its first commercial product earlier this month; the expansion of our aluminum impact extruded container business in the U.K. is expected to come online during the fourth quarter; and our new impact extruded aerosol facility in India celebrated its grand opening earlier this month. We began to cycle off difficult volume comparisons in Brazil and the aluminum premium comparisons in Europe in the third quarter and our continued focus remains on executing on the capital projects, implementing continued cost out initiatives in China and Europe and waiting award of a variety of aerospace proposals that are in the pipeline. I'm amazed by the amount of work being done by the Ball team. Everyone is contributing day in and day out to our future success.

And with that, I'll turn it over to Scott for a review of our third quarter numbers. Scott?

**Scott C. Morrison**  
*Senior VP & CFO*

Thanks, John. Ball's comparable diluted earnings per share for the third quarter 2015 were \$1.10 versus last year's \$1.10. As John alluded to, the following factors contributed to results in the quarter: \$0.07 of unfavorable currency translation, largely due to a weaker euro; \$0.04 of start-up costs associated with capital projects coming online in late 2015 and early 2016; an aluminum premium tailwind of \$0.03 and \$0.05 benefit from a lower year-over-year effective tax rate due largely to the impact of our economic hedges put in place for the Rexam transaction and on U.S. dollar borrowings in Brazil and some one-time discrete items.

In addition, as mentioned in prior quarters, metal food volumes remain challenging in the third quarter, previously disclosed loss of a major food can customer in North America. Much of the difficult comparisons for 2015 are behind us and free cash flow is now expected to be in the range of \$550 million, including approximately \$500 million of CapEx and excluding cash costs associated with the Rexam transaction. As we said earlier this year, our dividend will remain unchanged during the proposed acquisition process. However, we did opportunistically repurchase 2 million shares in the quarter. We will continue to view share repurchases as opportunity-dependent.

For the full year of 2015, here's an update on various financial metrics. CapEx will be in the range of \$500 million, a \$50 million increase due to timing on a number of projects being executed as we approach year-end. Interest expense will be roughly \$150 million, excluding debt refinancing and other costs. The full year effective tax rate on comparable earnings is now expected to be closer to 24% following the third quarter impact that I talked about previously. Corporate undistributed is estimated to come in just below \$90 million.

Our GAAP results in the third quarter were unfavorably impacted by the economic hedges we put in place to produce currency exchange rate exposure associated with the British pound denominated cash portion of the announced acquisition price for Rexam, and to mitigate exposure to interest rate changes associated with anticipated debt issuances, also in connection with the cash portion of this proposed acquisition.

These economic hedges allow us to lock in the transactions purchase price economics, though they will likely to continue to cause disruption to quarterly GAAP earnings and could accumulate to a sizable figure given currency rate volatility and the projected timeline associated with the proposed transaction. We will continue to break out these items to provide as much transparency as possible. Details on these economic hedges are provided in Note 2 of today's earnings release.

Credit quality and liquidity of the company remains solid with comparable EBIT to interest coverage of 5.6x and net debt to comparable EBITDA of 2.7x. The company has enough committed credit and available liquidity at quarter end to consummate the proposed transaction and provide ongoing liquidity for the company. For a complete summary of third quarter 2015 results on a GAAP and non-GAAP basis and details regarding the third quarter, please refer to the notes section of today's earnings release which includes a simplified table format summarizing business consolidation activities.

Now moving to operations. Our Metal Beverage Americas & Asia segment comparable operating earnings for the third quarter of 2015 were down just slightly year-over-year, mainly due to unfavorable pricing and slightly lower volumes in China and some project start-up costs in North America. Brazil volumes bounced back in the third quarter, up double digits versus an easy comp last year, and North America volumes were up just a bit versus the industry being up roughly 1% in the quarter.

Progress continues on our Monterrey, Mexico plant which will start up in early 2016. It appears our cost optimization initiatives in China cannot keep up with the further price erosion in that region. Much great work has been done by colleagues across the segment to support the cost out initiatives taken so far in China, and we will continue to monitor closely the situation as well as the political situation in Brazil. However, to date, Brazilian can demand has remained strong and we're off to a good start to their seasonal summer.

European beverage comparable earnings were down around \$3 million in the third quarter, and on a constant currency basis, they were up year-over-year. Mid-single-digit volume growth and a slight benefit from aluminum premiums in the quarter were almost enough to offset the negative translation impact. Food and Household comparable segment earnings were down in the quarter, as segment volumes declined mid-teens following the customer shift in U.S. food cans. Excluding the customer shift, our food can volumes were up slightly with better pet food and semi can volumes and upper Midwest vegetables faring well, offset by Midwest tomato yields being lower as the pack came to an end. This segment was also impacted by a couple million dollars of unfavorable earnings translation related to the European portion of the extruded aluminum aerosol business and a small amount of start-up costs related to capital projects across the segment. We continue to ramp up the next-generation steel aerosol can manufacturing technology and further grow our global extruded aluminum businesses which will all contribute to improving segment performance in 2016 and beyond.

In summary, our global packaging businesses are extremely focused on the things that they can control. Leveraging prior investments to serve the growing global demand for beverage cans and metal aerosol packaging as well as preparing for new capital projects to come in online in early 2016.

To employees listening on today's call, thank you for the energy, drive and enthusiasm and working together during what's been a very busy summer.

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

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

Great. Thanks, Scott. Our aerospace business reported a solid quarter given the difficult comps they were up against. Contracted backlog held steady ending the quarter at \$638 million. The aerospace team continues to perform well on existing programs and is focused on reducing its cost structure as it anticipates projects being awarded in early 2013. A side comment I might just mention that the recent budget agreements in Washington, D.C. actually helped us and takes away some of the ambiguity that we were facing into.

Now turning to the balance of the year. This message is consistent with prior quarters. It's all about executing on capital projects, generating cash flow, focusing on costs and reaching completion on the proposed offer for Rexam. Our outlook for the full year has not fundamentally changed since our last update and while currency translation start-up and preproduction costs will remain a headwind for the balance of the year, our business remains solid and is on track to generate a significant amount of free cash flow. Together, we are working hard to improve Ball in 2016 and beyond.

Now finally, I would like to acknowledge the contributions of and thank Mike Feldser and the excitement we have for Jim Peterson. As you know, earlier this quarter, we announced that Mike would be retiring after leading our food and household products segment for 10 years. His commitment and dedication to our company and to our people are above reproach and we will miss his drive. However, what we gained in Jim is a high-energy leader who grew up in the commercial side of our business and we are very excited to build on many of the initiatives begun to make that segment world class. We wish them both all the best on their new journeys.

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

# Question and Answer

## Operator

[Operator Instructions] Our first question comes from the line of George Staphos with Bank of America Merrill Lynch.

### George Leon Staphos

*BofA Merrill Lynch, Research Division*

Actually, congratulations both to Jim and Mike, and Mike did a great job after he took over and the food performance is a lot better subsequent to that. I would say, my first question is around operations. It sounds like China has maybe taken another step lower. Perhaps it's a mischaracterization but can you comment as to what kind of trend you saw sequentially 3Q versus 2Q?

### John A. Hayes

*Chairman, President & CEO*

Yes, maybe, George, I'll jump in and ask Scott to chime in. It's a -- I think the good news is the beverage can continues to grow and take share in China. The bad news is the pricing has gotten worse. We have not been putting any capital in, in China for several years. We don't intend to because we don't believe with new capital, you can make returns on it. So we are weathering the storm, we're battening down the hatches, we're taking out as much costs as possible just to try and keep up with the price declines, and it's challenging to do that as we sit here right now.

### Scott C. Morrison

*Senior VP & CFO*

Yes. I would just echo those comments and that's why our volume was down just a couple of points, George, is because we're not putting in additional capacity. So it's a tough environment and it continues to be tough and I think the outlook is challenging.

### George Leon Staphos

*BofA Merrill Lynch, Research Division*

Recognizing that this is always going to be the case in any quarter in the year, are you suggesting that there's maybe increased chance of capacity reduction because it sounds like you're having difficulty keeping up with the price compression through your own productivity?

### John A. Hayes

*Chairman, President & CEO*

Well, it's -- in terms of our own business, we're currently not contemplating that now. But it's -- I think the real issue is there's too much overcapacity in the industry and our industry is not alone in that. But the question is with outside of our walls, will the market grow into the existing capacity? Will new capacity stop coming on stream? And could existing capacity be taken off-line by other people? Those are the 3 things that we're paying close attention to.

### George Leon Staphos

*BofA Merrill Lynch, Research Division*

So recognizing that you're sold out there aren't higher cost operations that in theory, if you weren't running them, wouldn't help the P&L sufficiently, that's what I'm hearing.

### John A. Hayes

*Chairman, President & CEO*

Correct.

### George Leon Staphos



*BofA Merrill Lynch, Research Division*

Okay. A couple of quick ones, and I'll turn it over and try to come back in queue. You mentioned Monterrey being on track. Can you just remind us, do you have a contract in place for that facility? And I think you said first quarter but could you affirm when you start to -- when you expect to start producing commercially there?

**John A. Hayes**

*Chairman, President & CEO*

Yes, operation guys never want to get nailed down on it. We expect to be making cans starting up the line early in the first quarter and be producing commercial cans certainly by the end of the first quarter. When I say commercial cans, cans for sale. It might be a little quicker than that but that's the plan we have currently on the table. It is secured by a long-term agreement.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

Okay. And then you mentioned EBIT was up and your excluding foreign exchange. So we appreciate that color but is there any way to put a finer point on how much Europe would have been up x the foreign exchange?

**Scott C. Morrison**

*Senior VP & CFO*

We'll think about -- the currency effect I mentioned was \$0.07. Most of that -- the vast majority of that is in the beverage business. There's a little bit in the food and household business but a majority of that is in the beverage business.

**Operator**

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

**Anthony James Pettinari**

*Citigroup Inc, Research Division*

You -- in food and household, you referenced positive volume trends with pet food in the Midwest. I'm just wondering, x the large customer loss last year, are you seeing stability in the North American customer base? And in terms of your asset footprint in North America, are you comfortable where you are from a food and household perspective?

**John A. Hayes**

*Chairman, President & CEO*

Yes. Absent the loss of the customer, we are seeing stability. I think we talked last quarter on the conference call about the vast majority of our business tied up under long-term agreement and the overall market is holding in there. So again, absent the loss of that customer, yes, we see volumes. In fact, we were up just a little bit but don't go crazy with that. I'm sorry, your second question was?

**Anthony James Pettinari**

*Citigroup Inc, Research Division*

Just in terms of the footprint in North America. Are you comfortable where you are from the food side going into '16?

**John A. Hayes**

*Chairman, President & CEO*

Yes. Well, as you know, in light of the loss of the customer, we've actually made some footprint rationalizations relative to headcount and other things like that, and we're always looking at trying to optimize it. It's a challenging environment out there and so while we have nothing currently on the docket in terms of any major restructurings, we're looking at those types of things all the time.

**Anthony James Pettinari**

*Citigroup Inc, Research Division*

Okay, that's helpful. And then just a couple questions on Brazil. First, is there anything that motivated the timing of the acquisition of the remainder of the Latapack stake? And then, when you look at Brazil and the next year, the country's in a deep recession, do you expect volumes next year to be positive in Brazil given can continues to gain share? Or what are your thoughts about can demand given current market conditions in Brazil?

**John A. Hayes**

*Chairman, President & CEO*

Well, first with respect to your question about the timing of this, I don't think there was anything specific. Yes, we are in the midst of a regulatory approval and I can't go into that, but we've had a very good relationship with our partners for a very long time. And as the world has changed and as Ball has changed and as they have changed, it was just the right opportunity. It is -- we're quite excited about what our partners that they have a conviction in the future of Ball. It does allow us to streamline some of the decision-making and I think really, what -- said another way, what they're not doing is our partners are not exiting Brazil, they're not exiting Ball, they're not exiting the beverage can. Rather, they're taking a broader perspective in the investment for the betterment of all and so I think that's good. Getting to the volume side, and go -- as we go into 2016, the first half of 2015 was quite soft, and so I think the comps are relatively easy. Scott had mentioned our third quarter volumes were strong. The overall industry was up 11% and we were up a bit more than that. As we started in the fourth quarter, we see the similar trends continuing. So that's all good news. You're absolutely right that the Brazilian economy and the Brazilian political environment is a challenging one right now. I do know that less beer and less softdrinks are being consumed, but given that beer can growth continues, I think that's a good example of this constant theme we've been talking about of cans taking share in the packaging mix.

**Anthony James Pettinari**

*Citigroup Inc, Research Division*

Okay, that's helpful. And when you refer to political challenges in Brazil, are you speaking specifically around taxes on beverage? Or maybe a more difficult tax environment for Ball? Or what are the risks from a political perspective in Brazil?

**John A. Hayes**

*Chairman, President & CEO*

No, I was just specifically talking about the potential impeachment of the President and what that means in terms of a change of a guard around the political side of that and ultimately, what it means. We have no point of view on it but any time you have an unstable government, it's usually not healthy.

**Operator**

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

**Tyler J. Langton**

*JP Morgan Chase & Co, Research Division*

Just following up on sort of the Latapack deal. I guess, recognizing that you've seen a lot of -- so your earnings variability over the 2 years, just given the effects of the World Cup. Just can you talk about little about -- I mean, I guess, do you see this deal still hitting sort of the targeted level of returns [indiscernible] your 9% threshold. And any kind of thoughts in terms like the run rate level of earnings, if earnings can rebound from sort of the recent volatility, just any details there.

**Scott C. Morrison**

*Senior VP & CFO*

Yes. I would say that on the earnings volatility, it's been a pretty good, consistent, long-term increase in the earnings in that business. This business has done real well. It does get a little bumpy quarter-to-

quarter, and it is a more seasonal business but the overall long-term trajectory of that business has been very solid. I don't -- we don't see that necessarily changing. I don't think we need much in the way of capital down there. And in terms of returns, this does meet our typical hurdles that we always look at in terms of what we want to earn 9% after-tax within 3 years and this would do that.

**Tyler J. Langton**

*JP Morgan Chase & Co, Research Division*

Got it. Okay, great. And then just in Europe. Could you quantify, Scott, the impact of the metal premiums this quarter and then sort of premiums to stay where they are, what that benefit could be in the fourth quarter and then looking out to '16?

**Scott C. Morrison**

*Senior VP & CFO*

Yes. It was a \$0.03 positive impact in the third quarter. It should be a little bit more than that in the fourth quarter, and then we'll still get benefit in the first half of next year.

**Tyler J. Langton**

*JP Morgan Chase & Co, Research Division*

Got it. And then just final question for the North American bev can. I think you mentioned your rates growth were a little bit less than the industry. Can you just talk about how you're growing in beer and CSD? And is that the lower growth rate? Is that just sort of temporary customers sort of issues any detail there would be great.

**John A. Hayes**

*Chairman, President & CEO*

Yes, it is customer issues. On the softdrink, we're actually a little bit better than the market on the softdrink side. We're a little bit worse than the market on the beer side and all of our differential relative to beer would have to deal with one of our customers taking more of the business in-house.

**Operator**

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

**Philip H. Ng**

*Jefferies LLC, Research Division*

A quick question for Scott. To achieve your \$550 million free cash flow target was based around math, it's going to take \$200-plus million of working capital benefit. So where are you finding some of those opportunities? And as an early read through to next year, can help us kind of frame what are some of the major levers for free cash flow in '16?

**Scott C. Morrison**

*Senior VP & CFO*

Well, I'm just going to comment on '15. I'm not sure about your math because I have a working capital benefit this year a little bit less than last year's benefit. We have a lot of charges coming through noncash charges that maybe you're not accounting for correctly. Maybe we could take offline but we had a big pension benefit as well, I don't know if you're including that, that's part of the free cash flow. In terms of looking at next year, every year, we're constantly looking at our working capital, whether it's receivables, inventory, payables and figuring out what we can do better, where we could be more efficient. So it's too early to talk about next year, but rest assured, being an EVA company, we're always focused on that.

**Philip H. Ng**

*Jefferies LLC, Research Division*

Okay. That's helpful. And then, I guess, Europe, you guys called out a hit from some out of pattern freight. Do you expect that to dissipate in the coming quarters, especially with Oss ramping up a little more fully?

And then are you at a point where you need to add some capacity in Europe? And did you see some pricing just -- the market seems fairly tight at this point.

**John A. Hayes**

*Chairman, President & CEO*

Yes, it's getting back, we -- remember, it is more seasonal in Europe than the second, third quarter, certainly than even some other parts of the world, and we were just getting the Oss line up and running. And so as a result of that, right the peak, we didn't have full capacity so it did create out of pattern shipping. I say that because as we go forward, we expect that to become less as time goes on. You are right, the market is still tight. It remains tight, it's growing nicely. And as a result, we have to think of it longer term about if we need to add additional capacity into that. No final decisions have been made but we're certainly thinking about that.

**Philip H. Ng**

*Jefferies LLC, Research Division*

Okay, that's helpful. And just last one for me. Can you kind of help remind us what are some of the dates that we need to be mindful of in terms of the regulatory agencies as it relates to Rexam? And what are some of the -- what's the process and some of the next steps you guys are taking going forward?

**John A. Hayes**

*Chairman, President & CEO*

Yes. Maybe what I would ask is to take that off-line and give our Head of Investor Relations, Ann Scott, a call. Because every jurisdiction is a bit different and I wouldn't want to confuse people by misstating something here. But it's all in the various documents that she can guide you to.

**Operator**

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

**Mark William Wilde**

*BMO Capital Markets Equity Research*

I wondered, could you give us some sense of kind of what's been pushing up the CapEx numbers as we move through the year? I think start of the year, it was about \$400 million and we were \$450 million and now \$500 million?

**Scott C. Morrison**

*Senior VP & CFO*

Yes, sure. It's always -- CapEx is always a little bit tricky to predict because you always have plans and then the question is how fast are you actually paying for what you're putting in place. We've got some pretty big projects and John ran through the laundry list of projects. Monterrey is a big project, the next generation aluminum bottle is a big project, the plant build in Myanmar, the impact extruders in the U.K., the new India plant, the tin plate aerosol in the U.S. We have an unusual amount of projects, kind of a higher number of projects than we typically have. And frankly, the faster we can get these things up and running, the better. So I don't look at the CapEx spend as a bad thing, I actually see it as a good thing. And so we're just -- the projects are moving along pretty well, and so we're actually able to keep pace or even a little bit better pace than where we thought we would be, so that's why gone up. The same projects, there's nothing new.

**John A. Hayes**

*Chairman, President & CEO*

Exactly. I think said another way, it's some of the carryover that we thought would be going in the 2016 will probably be spent in 2015 because as we said, we're making good progress on many of these.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Yes, okay. So it's not like you've really had any big budget overruns on any of these projects contributing to that.

**Scott C. Morrison**

*Senior VP & CFO*

No. In fact, all of them, the businesses have done a very nice job of managing the budgets. And we generally tend to be on budget and on-time or even a little bit ahead of where we thought we would be.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Okay, second question. John, can you talk a little bit about sort of the implications of ABI, SAB and how that might affect you? It seems like particularly in Latin America, they're going to have a lot of market share.

**John A. Hayes**

*Chairman, President & CEO*

Yes. I need to be careful because they're in a regulatory mode as are we. They currently have a big market share in South America. So I just observe that. I probably shouldn't go into it but a lot of the things I read in the public around the United States, China, even Europe, I wouldn't disagree with anything that I've read so far.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Okay. Then the last question I had is, I just wondered, coming back to the Ball-Latapack. We can see what you paid for that 39.9%. I wondered if you could help us at all kind of get a range on what EBITDA down there has been running?

**John A. Hayes**

*Chairman, President & CEO*

Yes. It's a bit difficult because we don't -- it's buried within one of our segments. I would point you to noncontrolling interest on the P&L line which is their proportioned share of net income that we have to give back. And I think there's some other things in the public disclosure that Ann could probably help you with.

**Operator**

And our next question comes from the line of Alex Ovshey with Goldman Sachs.

**Alex Ovshey**

*Goldman Sachs Group Inc., Research Division*

A couple of questions around Mexico. Are you starting both lines up at the same time?

**John A. Hayes**

*Chairman, President & CEO*

No, there will be about a 3 to 5-month delay in the second line coming up relative to the first line.

**Scott C. Morrison**

*Senior VP & CFO*

Just to be clear, that was planned. It wasn't really a delay, it was -- that's how we staged the ramp up.

**Alex Ovshey**

*Goldman Sachs Group Inc., Research Division*

Got it. Got it, Scott. Okay, and then just the actual rate of capacity of each line and the expectation for how many cans you'll make this next year and in '17?

**John A. Hayes**

*Chairman, President & CEO*

Well, let me put it this way. The Mexican can market is growing quite strongly and we're actually more excited as we sit here today about the opportunities ahead of us than we were when we initiated the project. The land -- the facility is going to be a state-of-the-art facility and has capability of approaching a couple billion cans.

**Alex Ovshey**

*Goldman Sachs Group Inc., Research Division*

Just last one here on the Mexico side. Can you say how much of that couple of billion is contracted versus open, and how much is new can business versus a share shift from glass into can?

**John A. Hayes**

*Chairman, President & CEO*

Well it's a -- we feel real good about where we are and as we said, we make these investments tied to long-term agreements, so I'll stand by those words. There is a lot of growth. The demographics in Mexico are good. The consumption is good in Brazil and the package share shifts are good in Mexico. Excuse me, I mentioned Brazil, I meant Mexico. So you got those 3 forces kind of as tailwinds for us there in the industry.

**Alex Ovshey**

*Goldman Sachs Group Inc., Research Division*

Got it. And just 2 last ones for me. So in North America and the U.S., taking a step back, just looking at the CSD and beer trends over the last, call it, 6 to 9 months, do you think there's been any change in the trend? And then just quickly on the food can side in the U.S. given it's a smaller business, any thoughts around potentially exiting the food can to be a lot more focused on aerosol which is really where the growth fundamentally is?

**John A. Hayes**

*Chairman, President & CEO*

No. First, I'll answer that question. The answer is no. Recall, we've talked about this in the past that from a tinplate perspective, our food and tinplate aerosol business are co-mingled from a manufacturing perspective. Every one of our facilities where we make food, we also make aerosol containers as well. And so we've had some challenges in the food business, no doubt about that, but we actually think we've -- we are kind of cycling, starting to see some positive headwind in terms of the cost side of the business. It's not going to rebound quickly. We do continue to face challenges of overcapacity in that but I do think that when combined from a cost of goods sold perspective with our aerosol container business, it makes sense.

Getting to your question about North American trends, what we see over the last 6 or 9 months or so. I don't think anything really appreciably. I do think that you're continuing to see a very good strong growth in specialty. I think you're seeing that actually the beer industry doing a little bit better, particularly on the can side and I think can continues to take incremental share of the package mix there. I do think CSD is, while it's still declining, it's not declining at the rates it once was, so that's a positive. So I think all of this paints a picture that it's a bit more constructive today than it was perhaps, 9 months ago, but we're talking on the margin. I think a lot of it has to do with the economy. There's a lot of new housing builds, there's a lot of construction workers going into convenient stores, buying their energy drinks. Oil and the price of gasoline is cheaper which puts more disposable income in people's pockets. Typically, when we see situations like that, we see a little bit more stability in our end markets.

**Operator**

And our next question comes from the line of Ghansham Panjabi with Robert W. Baird.

**Matthew T. Krueger**

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

This is actually Matthew Krueger sitting in for Ghansham. First, can you guys talk about what effect the customer consolidation and antitrust-driven asset ownership shifts have on your business and the industry as a whole? And then how is Ball positioned to deal with that dynamic moving forward?

**John A. Hayes**

*Chairman, President & CEO*

Well, I guess just a couple of observations. And again, like I said earlier, I'll be a bit more general than perhaps, you'd like. But consolidation in our markets generally isn't new. Our customers have been consolidating, our suppliers have been consolidating, our competitors have been consolidating and we too have played a part of that consolidation. I do think in today's world, it's important to -- whether there's not as much growth around the world than there has been, I think people are looking for efficiency savings and the ability to pass those on to the end-user at the end of the day. And I think a lot of this consolidation is driven by that. So outside of that, this is a world that we've been living in for probably the past 20 years, if not longer than that.

**Matthew T. Krueger**

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

Okay. And then earlier, you mentioned one of your North American beer customers taking capacity in-house. Is this a dynamic that you guys expect to continue be forward in the industry, especially as consolidation accelerates?

**John A. Hayes**

*Chairman, President & CEO*

Yes. I think this is a unique situation, but I do think that as maybe some third party customers of that entity continue to be soft, they try and incrementally fill that in. So it's not a necessarily new phenomenon, nor one that's surprising to us.

**Matthew T. Krueger**

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

Okay, that's helpful. And then one last question. Can you guys provide any detail on intra-quarter trends by region? Anything that stood out?

**John A. Hayes**

*Chairman, President & CEO*

Intra-quarter, you mean...

**Scott C. Morrison**

*Senior VP & CFO*

Like full quarter trends year-over-year?

**Matthew T. Krueger**

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

Just kind of how things developed throughout the quarter. Did anything change meaningfully from the beginning to the end and kind of into October?

**John A. Hayes**

*Chairman, President & CEO*

I see what you're saying. Well, we mentioned kind of Brazil was -- we've seen decent growth in Brazil when people were expecting it and sequentially quarter-over-quarter, we saw through this year, Brazil getting stronger and it continues to. Again, some of it's off the weak comps of last year. Some of it's entering the summer. I think over in Europe, I think as the year has gone on, I think you've seen some strength. I do think that we're entering into a seasonally slow fourth quarter and so it's always difficult to

make predictions around that. But I don't think in Europe or North America, we've seen any appreciable deviations from any trends.

**Operator**

And our next question comes from the line Chip Dillon with Vertical Research Partners.

**Clyde Alvin Dillon**

*Vertical Research Partners, LLC*

Question has to do with the composition or the changing composition of the standard beverage can in North America or beverage cans in general. Could you talk a little bit about how much share you have seen the craft beer sector gets, at least versus glass and other substrates? Do you have any updated data on that? And where do your customers see that going? And then secondly, within CSD, are waters becoming a meaningful proportion? And I sense that you're underrepresented there and are there moves to address that?

**Scott C. Morrison**

*Senior VP & CFO*

Yes, maybe I'll take a stab and Scott can chime in here. First, on the craft market. We're very bullish and very excited about what's coming on in the craft market. I don't, off the top of my head, have all the exact data points that you're looking for but craft continues to be the fastest-growing category of the beer in North America. The can has a share. The package mix continues to increase. It's in the mid-single -- excuse me, mid-teens. And as we talked about in the past, that's up from virtually nothing a while back. It is a more complicated business because the run sizes are a bit smaller than others but we've spent a lot of time, effort and energy helping to support and helping to grow the craft market, and we are committed to that. I think it's a great longer-term opportunity for us and we're going to continue to try and do the most we can because any time you have a category that's winning and you have a container that's underrepresented, it provides opportunity. So that's the way we look at that. With respect to, I think you mentioned water and it's an excellent question. We have, and Ball been really focused on sparkling water in particular. Water, we are -- the can is underrepresented. On the still side of the market, candidly, it's quite challenging just because the price points of that water and PET has become so thin, it's almost like you're buying water out of a bag these days. And it's difficult for the can to compete into that. And furthermore, when the consumer thinks about the can, they think about carbonation. They don't necessarily think about still. And so our focus has been on the sparkling water category and we've had some wins in that.

**Clyde Alvin Dillon**

*Vertical Research Partners, LLC*

Okay, got you. And then I think I noticed on the release today that there was a very large, I think, hedging loss and I think that was tied to financing for Rexam. I didn't notice the U.K. pound moving that dramatically in the third quarter. Could you just talk a little bit about what gave rise to that?

**Scott C. Morrison**

*Senior VP & CFO*

Yes. It's mostly currency and some interest. We're hedging about GBP 2.3 billion of the purchase price that we have to pay in sterling. So you don't need big changes in rates to have a meaningful impact on the GAAP earnings. So it's really the hedges we put in place right after the transaction and the movement of the currency over -- in the first quarter or second quarter, we had a big gain, if you recall and then in the third quarter, had a big loss. So that was the volatility I was talking about in terms of impacting our GAAP earnings.

**Clyde Alvin Dillon**

*Vertical Research Partners, LLC*

Got you. And last question. You've been good to give us the details of the several projects or the numerous progress you all have going on around the world and the legacy Ball. Assuming things go as



planned with the closing of Rexam, would we expect to see a material slowdown with the expansion, I guess, in terms of thinking of the legacy Ball business? Or would we see that continue?

**John A. Hayes**

*Chairman, President & CEO*

Well, I think the best way to think about it is bandwidth. And as we move to close with Rexam, we want to make sure that it's a seamless and flawless day 1 and day 100 for our customers, and we're going to be really focusing on the execution and delivering on the commitments we set out for ourselves, our investors, our customers, et cetera. To the extent that there are capital investments that are good growth opportunities that meet or return our objection, we'll certainly consider that because remember, this acquisition is as much about trying to create an environment where we help the can be as sustainable as possible and leveraging the footprint of the combined entity so that we can service our customers even better. So if there's opportunities that fit within that window, we'd certainly look at them. But I do think if you said you have to prioritize, our prioritization is going to be on the execution of flawless day 1, flawless day 100 and flawless day 1,000.

**Operator**

And we have a follow-up question coming from the line of George Staphos with Bank of America Merrill Lynch.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

A couple of questions on the new projects. If you can comment at all in terms of the next gen aluminum bottle, what's unique to it? When do you think you we start seeing it to a larger degree the market? And then similarly, on the new tinsplate aerosol technology, if you're at a position right now to comment at all in terms of what's new, what it does for the customer, what it does for you in terms of process, supply chain, et cetera?

**John A. Hayes**

*Chairman, President & CEO*

Yes. Well, both of these are new technologies. They both have significant lightweight opportunities relative to the current out there. And even on the aluminum, it's -- we would have the ability to shape it. And so where we are right now is both of those are coming out of a start-up curve, but there is a whole supply chain filling that needs to occur. I think as time goes on and we're sitting here at the end of October, I think over the -- in the fourth quarter, you'll start to see more and more of each of these. And then I really think as you go into 2016 is really where you'll start to see the difference.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

And John, if I could, and I appreciate the details that you already relayed. On aerosol, what end markets would we possibly see this in?

**John A. Hayes**

*Chairman, President & CEO*

Well, it's an aerosol container, tinsplate aerosol container, so think that. And we've been able to lightweight it while maintaining the rigidity characteristics for allowing it to hold high-pressure.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

So you're saying, we'd see it pretty much in everything from WD-40 to spray paints, to starches to bug sprays? So it's basically the whole waterfront?

**John A. Hayes**

*Chairman, President & CEO*

Yes, it has that capability. I'd rather at this time, not get into the specific customer-by-customer but you're thinking about it correctly.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

Okay. I appreciate that. In terms of the aerospace backlog, it's been holding steady. Obviously, developments in Washington have been out of your control. Is your sense that where there has been an opportunity to gauge your progress that you are at least maintaining market share on awards that have been made? And if you could give a little bit more color on the recent agreement, why that helps you out in aerospace. You mentioned that takes away some uncertainty so if you can give a little bit more color in terms of how that uncertainty was impeding your progress there or at least your customers' willingness to commit?

**John A. Hayes**

*Chairman, President & CEO*

Yes. I think most Americans don't realize that if we had not gotten a budget deal, that the sequestering would have gotten worse, not better. And it would have reduced defense budgets, not maintain or even increase them slightly. And that's what this proposed new budget deal is, there's a slight increase into that. We haven't had a budget for I don't know, how many years and so, we've been working under a continuum of resolutions for so long which is kind of just status quo. This allows our government officials to mix and match a little bit more. And as I said on prior calls, we have more proposals in with our customers than I've ever seen at Ball Aerospace. And if we didn't have a budget deal, that would have put some of those at risk. And so that's why we feel pretty good about where we are. These, as you know, George, because this business is -- it's a bit -- it's a portfolio of you either win or you either lose. And so on a probability basis, we have the fact [indiscernible] these things, and so we look at it from a portfolio perspective. We have candidly not won one or two things this year that we are hoping to but not expecting to necessarily. But as we get more of these individual discrete programs awarded, I think the portfolio broadens out and we fully expect to win our fair share of the portfolio.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

Okay, I'll circle back maybe a little bit later on end markets here as well, but last question and I'll turn it over. Start-up costs, metal food, did you call that out? I know you mentioned it in the press release but if you mentioned the dollar amount, I missed it.

**Scott C. Morrison**

*Senior VP & CFO*

More of the start-up costs were on the beverage side but there was \$1 million or \$2 million of start-up on the food side as well.

**Operator**

And we have a follow-up question coming from the line of Mark Wilde with BMO Capital Markets.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Yes, just a couple of follow-ups and both related to questions George just had there. One, in the release you mentioned the stabilization in backlog at aerospace. John, can you give us a little more color on why your confident that's taking place?

**John A. Hayes**

*Chairman, President & CEO*

Well, it's stabilized because we were -- we had some big programs. And remember in 2014, that it all rolled off and we completed in that. We started the kind of the decline. We do think it's going to level off

and it's kind of at a steady state. And as I said, we have so many different programs that we're bidding on right now. I just don't -- it's difficult to be tied down to the exact timing of not only when you're awarded them, but then when you sign the contract. But we expect the next, call it, 3 to 6 months to be a very busy time around the bids and proposals we have outstanding with our aerospace business.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Yes, did you say that you'd either -- you had won a couple recently or that you hadn't won a couple recently?

**John A. Hayes**

*Chairman, President & CEO*

No, we had not won a couple recently.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Yes, okay. And then the other question I had is just when you think about sort of all these projects across Ball, is there any way to size sort of what the headwind from start-up costs is across all those these businesses in '15 and '16?

**Scott C. Morrison**

*Senior VP & CFO*

I think we've been calling it out each quarter in '15. So start up in the quarter was \$0.04 and for the year, it's about \$0.09 for '15.

**Mark William Wilde**

*BMO Capital Markets Equity Research*

Okay, yes. And would you want to make any stab of what that might look like next year, Scott?

**Scott C. Morrison**

*Senior VP & CFO*

That should come down. I mean, I think there'll be a little bit of ramp up in the first quarter as Mexico comes online and Myanmar comes online. We're bearing some of those costs today. So you're hiring people and training them in other plants. But as we move through next year, those costs should come down.

**Operator**

And we have a question from the line of Chris Manuel with Wells Fargo.

**Christopher David Manuel**

*Wells Fargo Securities, LLC, Research Division*

I have just actually 1 question. Most of them have been asked already. As you're now 8 months or so into the process of bringing together Ball and Rexam, you've previously said that, and even in your release cited first half 2016 as approximate time still for closing. So 2 questions related. One, perhaps now that you're this far down the path, do you have a better sense of when closing could be? Could it be more first quarter, second quarter or potentially slip to later in the year? And then second piece of the question is, you'd established a cap, I believe, of -- I think it was \$1.58 billion at the time. As you now are pretty far down the path again with agencies and folks in 3 different continents, do you have a sense as to perhaps, would you be higher or lower or how that might be progressing as well? And then any thoughts as to with respect to timing of potential divestitures, if there are any?

**John A. Hayes**

*Chairman, President & CEO*

Yes, I appreciate all of those questions and I'd love to answer them but quite honestly, and given U.K. Takeover Code, it's premature to update any of our guidance. And at the time that we think it makes sense to do so, we will do so. I know that's not the answer you want to hear but that's the truth.

**Christopher David Manuel**

*Wells Fargo Securities, LLC, Research Division*

No problem. I understand. The last question I have for Scott was -- and I know you've been asked this a couple different ways. A lot of the projects that you've undertaken and you move CapEx up a number of times, I think as someone else had noted, these sound like they're move ups as opposed to new projects being brought onstream. So as we kind of think about 2016, would it be unreasonable to assume that you don't have a big slew of new product announcements or new -- I'm sorry, new capacity announcements that you had this year, that CapEx shouldn't be appreciably lower?

**Scott C. Morrison**

*Senior VP & CFO*

Well, I would comp -- first, I would say that the changes to the CapEx, we did what we did -- it increased it by \$50 million in the last quarter and \$50 million in this quarter. It has more to do with the timing of the spend than the totality of the spend. The totality is not any different. There's more pull forward from '16 into '15 because these projects are moving along in a pretty good clip. And so when you have the number of projects that we have and the size of the projects we have, you're always hoping they would go well and frankly, they've gone pretty well. So the spend, we're getting the opportunity to get these things up and running a little bit quicker. I would -- those are the projects we have on the table right now. We haven't announced anything different or beyond that in '16. So it's premature to comment on '16 but we're spending a heck of a lot of capital this year. I would expect that to come down somewhat next year.

**Christopher David Manuel**

*Wells Fargo Securities, LLC, Research Division*

Okay, that's helpful. Last question, coming back to aluminum premium, and I think you did detail what it was in the quarter and the pluses and minuses for the year. But could you just remind us cumulatively, the last few years, what's your behind? And any change to the thought process that, I mean, you haven't changed the number of your contracts yet, I don't believe. Help us with -- help us triangulate around or make our guesses as to what the benefit might be in '16.

**Scott C. Morrison**

*Senior VP & CFO*

Well, in '14, it cost us about EUR 13 million. In 15, we've kind of detailed out each quarter. For the year, it's a negative \$0.06. For the quarter, it was a positive \$0.03. I said in the fourth quarter, it will be a little bit more positive than that, and then, we'll have more benefit in the first half of next year.

**Christopher David Manuel**

*Wells Fargo Securities, LLC, Research Division*

Do you remember what it was in '13 by chance as well? [indiscernible] behind coming out of '12 and into '13 if memory serves?

**Scott C. Morrison**

*Senior VP & CFO*

EUR 8 million to EUR 9 million.

**Operator**

And we do have a follow-up question coming from the line of George Staphos with Bank of America Merrill Lynch.

**George Leon Staphos**

*BofA Merrill Lynch, Research Division*

One quick one on aerospace. To the extent that you can and recognizing perhaps you can't just because of the confidentiality on some of these arrangements, your backlog and some of the projects you hoped to win, maybe saying it differently. Which areas of speciality or value add will we see these show up in relative to what Ball does well. I didn't phrase that well but you know what I mean. So is it more DOD? Is it more vision systems? Is it more deep space explorations? Is there any way to categorize where you're seeing more of the interest in what you do in aerospace?

**John A. Hayes**

*Chairman, President & CEO*

Yes, George. It's an excellent question and in some ways, it's around across the board. I mean, when you think about our aerospace business, we have a Services business which is really a -- sometimes the backlog, there really isn't that much of a backlog because it's an IDIQ type of arrangement but that business has been growing and the backlog visibility in that is kind of a close to a 12-month cycle than a 3- or 4-year cycle. On the NASA, NASA has been declining as an industry. The U.S. government hasn't been funding it to the level. We see some longer-term opportunity but that's probably not a lot in terms of what we see in the near term. Really, the near term gets around the DOD and whether it's in our satellite business or in what we call our Tactical Services business which has everything from the cameras to antenna work. And we see big builds on the horizon for some of those types of things and that's where the opportunities are coming from.

**Operator**

And at this time, there are no further questions.

**John A. Hayes**

*Chairman, President & CEO*

Okay Lina, well, thank you very much. We appreciate your help, and thanks for the support of everyone. We look forward to speaking with you as time goes on and a good finish to 2015. Thanks.

**Operator**

Thank you. Ladies and gentlemen, that does conclude today's conference call. We thank you for your participation, and ask that you please disconnect. Have a great day.

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