

Ball Corporation NYSE:BLL

FQ1 2017 Earnings Call Transcripts

Thursday, May 04, 2017 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.35	0.38	▲8.57	0.55	2.09	2.48
Revenue (mm)	2449.90	2473.00	▲0.94	2785.78	10720.75	11121.01

Currency: USD

Consensus as of Apr-19-2017 10:58 AM GMT

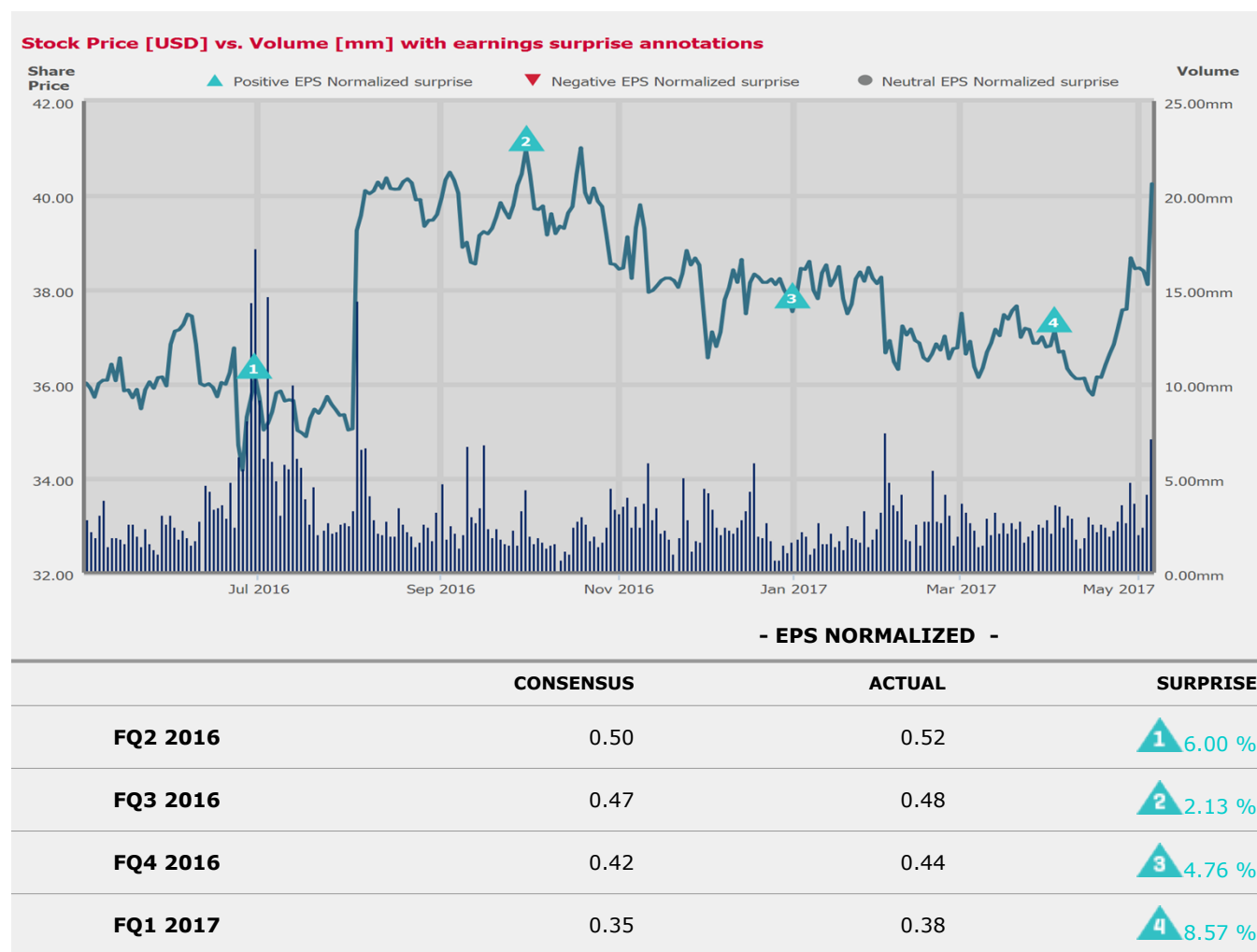


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Senior VP & CFO

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Scott Louis Gaffner

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Ball Corporation First Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded, Thursday, May 4, 2017.

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

Scott C. Morrison *Senior VP & CFO*

Great. Thank you, Kathy, and good morning, everyone. This is Ball Corporation's conference call regarding the company's first quarter 2017 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 first quarter earnings release, it's available at our website at ball.com.

Information regarding descriptions of our segment reporting and the use of non-GAAP financial measures may also be found in the note 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 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 2017 and beyond.

We had a strong first quarter operationally, with all of our reporting segments experiencing year-over-year improvement, and we are well positioned as we move into the seasonally strong quarters. 2017 is right on track.

Momentum is picking up in our businesses and the beverage can is winning versus other substrates around the globe. We are confident in our ability to capture planned cost savings and grow earnings, cash flow and EVA dollars in all of our businesses.

In addition to all of the great work being done, during the first quarter, our first quarter global beverage can volumes were up 51%, driven by the Russian transaction and related divestitures disclosed at the end of June 2016. On a pro forma basis and after taking into account the impacts of such transactions, global beverage can volumes were up approximately 2%, led by low- to mid-single-digit growth in North and Central America, South America and Europe, that were offset by declines in EMEA and China. Scott will get into more details in his comments.

We further improved operating efficiencies from our recently deployed growth CapEx projects in our Monterrey, Mexico beverage and end facility; our Canton, Ohio tinplate cutting and coating facility; our new Chestnut Hill, Tennessee aerosol line; and our devices U.K. and Velim, Czech Republic impact extruded aerosol expansions. We began preparations for the Reidsville North Carolina beverage can plant closure, which is still expected to close in mid-summer. We completed the complex IT system integration work in the North American beverage operations and embarked up -- on additional transformational cost-out projects. We completed the closure of our food and aerosol metal service center in Weirton, West Virginia at the end of March. We sold our former Hubbard, Ohio paint and general line container plant in an EVA-positive transaction. And our aerospace business won additional contracts, allowing our quarter end contracted backlog to stand firm at \$1.4 billion. Our multiyear value capture plans are on course, and

we will recognize the majority of the \$150 million of expected 2017 synergies in the second half of the year.

Before I turn it over to Scott, our board acknowledged a step change we expect in terms of a higher level of free cash flow in 2017 and beyond by increasing the quarterly dividend by 54% to \$0.80 per share annually on a presplit basis and declared a 2-for-1 stock split effective this quarter. These announcements represent the confidence in our expectations and is the initial step in returning value to shareholders.

Later in 2017, as we have line of sight towards a 3.5x net debt to comparable EBITDA leverage, we will look towards returning additional value through share repurchases with over 20 million post-split shares currently available for repurchase under existing authorization.

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

Scott C. Morrison

Senior VP & CFO

Thanks, John. As John said, we're pleased with our first quarter results. Ball's comparable diluted earnings per share for the first quarter 2017 were \$0.76 versus last year's \$0.59, a 29% improvement.

First quarter comparable diluted earnings per share reflect the benefit of last year's beverage can acquisition, solid operational performance in all of our businesses, increased global demand for both beverage and aerosol containers and the lower tax rate. These benefits were partially offset by higher compensation and project costs as well as higher interest expense and higher share count. Details are provided in Note 2 of today's earnings release and additional information will be provided in our 10-Q.

Our beverage packaging North and Central America segment comparable operating earnings for the first quarter 2017 were up year-over-year due to the contribution of the recently acquired plants in the U.S. and Mexico, plant efficiencies and continued specialty can growth.

Industry demand in the U.S. and Canada, as measured by the Can Manufacturers Institute, dipped just slightly in the first quarter, likely due to Easter slipping into the second quarter of this year and no leap year, while volumes in Mexico continued to grow in the beer sector. Overall, volumes in our North and Central America segment were up 5% on a pro forma basis.

Drivers for Ball's growth were craft beer, super premium beer and imported Mexican beer brands, coupled with robust demand for certain specialty cans in the CSD category. As a reminder, the acquired JVs in Guatemala, Panama and South Korea as well as our legacy Rocky Mountain Metal container JV are not consolidated and are reflected in equity earnings of affiliates along with our other equity investment in Vietnam. As you can see, these operations performed well in the quarter, largely due to strong can demand in these regions.

Our beverage packaging South America segment saw improving volumes as we went through the quarter. After a lower-than-expected January and February from a volume perspective, the industry saw strong March volumes and overall demand was up nearly 4% in the quarter, and we were up roughly in line with the industry.

For the full year, the South American team feels much more constructive about the market and economy. Our customers are using specialty cans to grow their business and deliver what the consumer is looking for. It may be too early to call, but the Brazilian government appears to be taking action to stimulate their economy. And while there are many challenges for the economy to overcome, it appears that the economic situation in Brazil is starting to improve.

Results for the beverage packaging Europe segment reflect the typical seasonality and performed in line with our expectations. As we mentioned in January, our European beverage segment has work to do on its margins, and certain initiatives to support multiyear plans have been initiated to improve revenue and cost management via repositioning it to sleek, slim cans as well as the previously announced intention to close the Recklinghausen Germany facilities. In the near term, cost savings benefits in the region, including better operational performance, will bolster second half performance.

Industry supply/demand is healthy. Specialty demand remains favorable, and construction of our new Spain plant is progressing as planned. Our Other includes Ball's legacy Asia Pacific business, the acquired EMEA business and corporate undistributed cost.

Note 2 of the press release references approximately \$45 million of corporate undistributed costs in the quarter, which is higher than the fourth quarter run rate, largely due to 3 equal items, including the relocation of certain pension costs that have formerly resided in the legacy Europe segment, higher stock-based compensation in the quarter and incremental project costs that will benefit the corporation in the long term. After netting off the corporate costs, you can see that the operations in Asia and the Middle East performed well.

Moving to food and aerosol. Comparable segment earnings were up year-over-year due to continued growth in global aerosol, up 6% in the quarter, largely due to strong aluminum aerosol growth, offset by U.S. food can demand declining 6% in the quarter.

Starting in the second quarter, the segment will benefit from the cost savings associated with the West Virginia metal service center closure and anticipated growth for aluminum aerosol products. In summary, our global packaging businesses posted strong results and everyone is extremely focused on keeping this momentum going, beating demand and effectively managing their invested capital base to drive EVA dollars from the combined business.

Thank you, again, to all our operations teams around the globe. You will notice that our first quarter net debt came in around \$7.5 billion. This is right on top of our plan, and the debt will begin to come down as we move to the back half of the year.

As we think about 2017, our previously communicated goals remain intact. We expect full year 2017 comparable operating earnings in the range of \$1.3 billion to \$1.4 billion, excluding the amortization associated with acquired customer intangibles. After spending in the range of \$500 million of CapEx, 2017 free cash flows is expected to be in the range of \$750 million to \$850 million. The full year weighted average diluted shares outstanding for 2017 will be closer to 179 million shares, given the dilutive effects of recently adopted accounting guidance for stock-based compensation plans and the absent -- and absent the impact of timing of share repurchases.

Full year 2017 interest expense will be in the range of \$280 million. The full year effective tax rate for 2017 on comparable earnings is now expected to be in the range of 26% due to a more favorable foreign rate differential. Corporate undistributed will now run about \$140 million for the full year 2017. The difference from our previous estimate of \$115 million is divided pretty equally across 3 buckets. The first bucket is the inclusion of both the onetime true-up in stock-based compensation as well as accruing for higher incentive compensation this year. The second bucket has to do with some project costs related to more transformational projects now underway since the first stage of integration is behind us. And the third bucket is the inclusion of inactive retiree pension expenses moving to corporate from the legacy European beverage can business no longer owned by Ball.

With that said, the operational performance is certainly enough to offset this full year increase. At current FX rates, we continue to expect year-end net debt to be in the range of \$6.2 billion to \$6.3 billion. As you begin to think about the progression from the first quarter to the second quarter, there will be a nice step-up in profitability due to the normal seasonal ramp-up. And moving into third quarter, we need to phase in the closure of Reidsville as well as the phase in of synergies.

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

John A. Hayes

Chairman, President & CEO

Great. Thanks, Scott. Our aerospace business reported improved first quarter results, driven by solid contract performance and the initial ramp-up related to our growing backlog. Congratulations again to the entire aerospace team for winning even more work since our last call despite continued government contracting issues. Our aerospace business will see a nice step-up quarter-to-quarter as we roll in the new contracts.

Now across the company and as we look forward, our team continues to be focused on achieving the financial benefits from the acquisition; optimizing our packaging, manufacturing, network and beverage food and aerosol; and managing the growth and investment in our aerospace business.

Scott mentioned our 2017 goals, and nothing has changed since our January call that would warrant any changes to our targets. By 2019, we continue to aspire to generate \$2 billion of comparable EBITDA and generate in excess of \$1 billion of comparable free cash flow. For those of you who have known Ball over the years, we lever up to get a deal done, rapidly delever, spend any necessary growth capital on high returning projects and then return our free cash flow to our fellow shareholders through share repurchases and dividends. And that time-tested financial strategy is exactly what we plan to do. And with that, Kathy, we're ready for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Anthony Pettinari with Citi.

Anthony James Pettinari

Citigroup Inc, Research Division

In North and Central America bev, you talked about overall volume is up 5%. I was wondering if it's possible to parse that out between U.S. and Mexico, and maybe other markets. And you talked about some of the reasons why the CMI data might have been a little bit weaker this quarter for the U.S. I was just wondering if you could talk about the U.S. market in terms of the tightness of the market and maybe how your CSD and beer customers seem to be doing early in the year.

John A. Hayes

Chairman, President & CEO

Yes. Anthony, this is John. I'll try and tackle that. It's -- we've run it as a system. So sometimes it's difficult to parse it up, but I'll give you a couple of observations. Recall that this time last year, we were really just getting our Monterrey, Mexico facility up and running. So we were actually shipping cans from the United States into Mexico to backfill that ramp up. With Monterrey up and running right now, that's not happening. And so when you look at CMI data that excludes Mexico, it doesn't include shifts like that, that you would see. The second thing I would say, here in North America, you -- excuse me, here in the United States, what you're seeing is, as we talked about, we're having very strong -- continued strong growth in the craft segment. We're up 26% or so in the first quarter. A lot of the mainstream brands by the domestic producers continue to be off a couple of percent. Soft drink, despite 12-ounce, continue to be declining, overall as a segment and for us it was up, driven by the specialty containers, which is good. And so Mexico has been growing relatively strong for us, just because we're on the back of many of our customers down there that are doing quite well. So hopefully, that gives a little flavor of it all.

Anthony James Pettinari

Citigroup Inc, Research Division

Yes. That's very helpful. And then just one more. At the Analyst Day, I think you talked about footprint opportunities as being separate from the core \$300 million plus synergy number and -- the closures of Reidsville and Recklinghausen, I guess on our math, could be over \$50 million in cost savings. I'm wondering, as you think about going forward, should we think about kind of a \$350 million-plus number as opposed to a \$300 million-plus number? Or there are offsets? Or is that the right way to think about it?

John A. Hayes

Chairman, President & CEO

Well, recall from the very beginning, we said we're not going to get into this parsing out, because we're not going to have a bunch of accountants running around trying to track down everything. We -- I think the best way to say it is, we stand by what we talked about in terms of our targets around 2017 and 2019. And we did talk about that we're going to be chasing. We're economically incentivized for all of us to be chasing as many of the costs and revenue synergies that we can get at, and you should expect that's exactly what we're going to do.

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 Matt Krueger sitting in for Ghansham. So given the comments in the release that the 1Q results exceeded your expectations, can you provide some additional color on what this refers to specifically? Was it regional volumes, integration efforts or was it something entirely different?

John A. Hayes

Chairman, President & CEO

I would say, yes. Yes to all that. As we were -- as we kind of came into the year, obviously it's a seasonally slow quarter. And from a volume perspective, we were having -- we finished the year in Brazil a bit softer. It really started to come back in the second half of the quarter, which was quite strong. I mentioned some of the trends in North and Central America, very strong beer volume, particularly down in Mexico. Even CSD volumes on the specialty side, offsetting many of the declines in the [indiscernible]. And even in Europe, while there is nothing overly exciting in Europe, it was kind of as an industry and as Ball, we were growing a couple of percent, which is right in line. And so I think that was part of it. And then our integration efforts continue to go well. We've got -- still have a lot of work in front of us. Maybe I'll turn it over to Scott in a minute from a G&A and the integration and talking about some of the investments we're making that will help us pull out some of the G&A as we go forward. But I think, overall, from a cost perspective, from a best practice sharing perspective, from a sourcing perspective, from G&A, I think we're making progress there.

Scott C. Morrison

Senior VP & CFO

Yes, and even the aerospace backlog -- I mean, it continues to be incredibly strong, and we chase more work. I think on the -- some of the projects that we're going after, as it relates to corporate costs, I think we're finding a lot of opportunities to streamline, centralize, standardize things. And those types of things will take a little bit more time to have a benefit, but we're feeling really good about those opportunities. And on the working capital front, our sourcing teams, treasury, the operations, I think we're finding a lot of opportunities to get after. It's just a question of when those things will show up, will we get benefit in '17 or how much benefit will we get in '17 and how much will we get beyond?

John A. Hayes

Chairman, President & CEO

Yes. And just to amplify a little bit on what Scott said on the G&A side and centralizing some of this. When you go to centralize and take things out of the various facilities, [it] would have been done much more locally and/or regionally, sometimes you have redundant costs because you first have to set up a centralized capability before you can look at taking some of the costs out of the plant level, and that's the process we're in right now.

Matthew T. Krueger

Robert W. Baird & Co. Incorporated, Research Division

Okay. That's helpful. And then piggybacking on that question, given the first quarter outperformance, do you feel better about how you're tracking within your 20% to 30% earnings growth target for 2017? And would you maybe comment on if you feel yourself drifting towards the higher end of that range at this point?

John A. Hayes

Chairman, President & CEO

No. Yes, I think it's -- to be honest, it's too early to tell. We are right where we expected. And as I said in my prepared remarks, relative to what we talk -- told the world in January, nothing has changed at all. I do think that, as you all know, that we make a fair amount of our money in the second and third quarter. And so the next couple quarters will largely determine where we'll be in the range. But I think it's premature to speculate about what part of that range we're going to be in.

Operator

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

Scott Louis Gaffner

Barclays Bank PLC, Research Division

Scott, I was hoping you could just help out for a minute. Just on the European margin. You said you took some of the pension expense -- it sounded like stranded pension expense from assets you sold and moved it into the corporate line. Was that in the fourth quarter number? And maybe -- just trying to figure out what that was so that we could see the sequential improvement in Europe versus just moving the pension out.

Scott C. Morrison

Senior VP & CFO

No. We -- and you're comparing -- it's not helpful to compare Europe year-over-year because we have 2 different businesses.

Scott Louis Gaffner

Barclays Bank PLC, Research Division

I just meant, yes, sequentially 4Q to 1Q, I was trying to figure that out.

Scott C. Morrison

Senior VP & CFO

There was just -- there is a difference in interest rate assumptions that impacted what -- that will impact 2017 going forward. Our pension costs in total, if you think about the company in total, it's not dramatically -- it's not at all different than we thought. It's just in different buckets.

Scott Louis Gaffner

Barclays Bank PLC, Research Division

Okay. And if I look at the -- in South America -- two questions on South America. One, is 2Q the seasonally weakest quarter of the year? And how should we think about the progression there into the second half, mostly from a volume and earnings perspective? And then just the other part would be on substrate substitution. I mean, are you seeing anything that would lead you to believe that cans or glasses, one of the other is gaining or losing market share there?

John A. Hayes

Chairman, President & CEO

Yes, I will -- Scott, I'll take this. With respect to your first question, yes, the second quarter and even the third quarter are the 2 seasonally slow quarters in that. It depends year to year which one is a little bit slower. So it's too premature to tell. But as Scott has mentioned in his remarks, are we at the bottom in terms of overall economic growth in Brazil? Perhaps too early to tell. But the tone and tenor feels a bit better now than it did 3 months ago.

In terms of your question about package mix, I can tell you the can continues to take share. And -- again, just to give you some facts here. The beer consumption in the first quarter in Brazil like we -- like happened in last year, it decreased 2.1%. But despite that, the aluminum can was up almost 4% in there. So by definition, we are taking share. Soft drink, it declined 9%. The can was off about that much as well. So I don't think there's a lot of movement. But we do continue to see the can taking share relative to other substrates in Brazil, particularly on the beer side.

Operator

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

Tyler J. Langton

JP Morgan Chase & Co, Research Division

Just with Europe. I think in the past you've talked about your efforts there to sort of improve the margins via sort of like mix and cost and that, I think you expected some progress in '17 and more in '18. Can you

just, I guess, give any more details on how you're doing with that and if your expectations have changed at all?

John A. Hayes

Chairman, President & CEO

No. I think what you just described is exactly what we're doing. We're focusing on mix and we're focusing on the cost side. And on the mix side, that we've got a great network of specialty that we believe is underlevered. And so as we go to really push and take the strategy that we've done in North America and move it over to Europe to really creating greater profit pools for our customers by using our specialty network, that's one area of value that we're focused on. The other one is on the cost side. And whether it's on everything from operating costs to SG&A cost, to plant efficiencies, to sourcing, we're focusing on all those things. And we said it's going to take -- be a multiyear program. We're right in the midst of it. We see nothing that changes what our aspirations and goals are around that.

Tyler J. Langton

JP Morgan Chase & Co, Research Division

Great. And then just -- for South America, I think you may have -- on last chorus call, you kind of talked about how it many in Brazil. The hope was for bonds to be flat, maybe up a little bit. I guess -- I know Q3 -- sorry, this quarter is a smaller quarter, but -- I mean, do you have any sense as whether you kind of keep those expectations and whether lines could be up a little bit better than sort of flat to up 1%?

John A. Hayes

Chairman, President & CEO

Yes. I honestly think it's -- all of us are looking into a crystal ball. It's -- economically, it's volatile there. The middle class continues to struggle. Employment is around -- unemployment, excuse me, is around 13%, and it really hasn't moved all that much. I know retail sales are flat to down a little bit. That really means to change in the second half of the year. And I'm no economist, but speaking to people there, most people think that the worst is behind us. The question is, will there be a rebound or will it just be stagnant? And that's the \$24,000 question.

Operator

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

Brian P. Maguire

Goldman Sachs Group Inc., Research Division

Just sticking with Brazil for a minute. I think you said in the release the volumes were up mid-single digits. I wasn't sure if that was for the quarter or that was the run rate as you exited the quarter. And it sounded like the trends definitely accelerated through the quarter. So I was hoping you could maybe provide your view on kind of how you exited the quarter. I know there was some shift with Carnival and Easter, but just trying to think of it on an apples-to-apples basis.

Scott C. Morrison

Senior VP & CFO

Yes. No, the first -- the number we -- I gave was the full quarter number. It was actually down in January, February, then it bounced back in March. So it would actually -- coming out of the quarter was at a much higher run rate than that.

John A. Hayes

Chairman, President & CEO

Yes, we continue to -- the volumes continue to be reasonably strong. But don't read into too much. Any time you have -- given the supply chain, months and months, particularly in environments like Brazil can shift relatively quickly there. So don't -- I know you're trying to look at the acceleration of momentum. I'd temper you a little bit there because we are entering into a seasonally slow period of time.

Brian P. Maguire

Goldman Sachs Group Inc., Research Division

Okay, that helps. And Scott, just on the corporate change. It sounds like we're thinking it's a little -- maybe \$25 million higher than before. But the full year guide -- nothing -- sounds like nothing has really changed. Just wondering what the offsets are. Is it maybe Latin America being a little bit better or progress on Europe margins...

Scott C. Morrison

Senior VP & CFO

The tax rate -- I mean, if you think about it. I gave a little bit lower tax rate by a couple -- 100 basis point versus the original tax base or the tax rate would offset it.

Brian P. Maguire

Goldman Sachs Group Inc., Research Division

But also...

Scott C. Morrison

Senior VP & CFO

[Operational] performing there, too.

John A. Hayes

Chairman, President & CEO

Yes. And with the volume trends that we see not only now but obviously we need to have the right weather this summer. But in all the various regions that we laid out before, we continue to see good volume trends in that, and that will be a big determinant. But as we sit here right now from both an operating earnings perspective and, as Scott said, from an EPS perspective, we don't think the added undistributed costs really impact anything we said.

Brian P. Maguire

Goldman Sachs Group Inc., Research Division

But do you think you can end the year kind of at the same run rate you were at or some of these costs seem like they may be front-loaded in the year?

Scott C. Morrison

Senior VP & CFO

Yes. I think they were higher in the first quarter. They will come down as we move through the back half of the year. It was -- it's not going to run at the same pace as the first quarter.

John A. Hayes

Chairman, President & CEO

Yes. And remember that the first quarter relative -- Scott mentioned, that there is kind of 3 buckets. 2 of the 3 arguably were onetime items and -- or 1 -- certainly, the higher stock-based incentive was a onetime kind of catch up. And then the -- as I said, we're kind of pre-investing at a centralized G&A level to take things out of the regions. And then the third thing in terms of legacy pension, that will continue.

Operator

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

Mark William Wilde

BMO Capital Markets Equity Research

John, I wondered just -- you're working your way through Rexam. You've had a lot of new projects come online over the last year. If we look out 2 or 3 years, what are the opportunities for kind of further expansion look like to you, in terms of, perhaps, new plants or whatever?

John A. Hayes

Chairman, President & CEO

Yes. I think we talked a lot about this at the -- our Investor Day back in December. Nothing has really changed. I think there is great opportunity in all 3 of our product lines, the beverage can, the food and aerosol and the aerospace. On the beverage can side, a lot of the trends over the first couple of years, we said we're really going to be focusing on going after the value capture that we identified, but there's still growth. We talked about Spain as a good example. And this continued move into specialty, where we've got a footprint that we think we can leverage to the benefit of our customers. And that is exactly what we're going to be doing.

Beyond that, that we talked earlier on the call about can -- the can is winning relative to other substrates. We see that as a secular movement, and we're going to try and do as best we can to take full advantage of that in every region that we operate and continue to look at other emerging regions that we think the can could perform well there.

On the aerosol side, as we mentioned, aerosol volumes in the quarter, I think, were good representation. We were up very strongly in that. The only place we were a bit down was down in Argentina, and that largely had to do with the Zika virus a year ago when we weren't selling as many disinfectant cans. And then on the aerospace side, we've -- we continue to do some great things and win some great work. And as we talked about, as the programs start up, some of the margins start to go down a little bit only because the way the accounting works. But we're very well positioned for having a multiyear run in that business. So all those things, you never know what happens in the global environment and the global economy, but as we look out 3 years, 4 years, 5 years, we continue to see all those trends developing in a way that we're going to try and take full advantage of.

Mark William Wilde

BMO Capital Markets Equity Research

Okay. And I know it's not a huge part of the portfolio, but can you talk about what you saw in the first quarter, both in China and in EMEA?

John A. Hayes

Chairman, President & CEO

Yes. Those are both volatile types of places. We've had our own challenges in China, as you know, over the past couple of years. Volumes were down in that segment, low double digits, kind of 10%, 11%. But that was, again, seasonally slow and had to do a little bit with Chinese New Year and some other things like that. We see no fundamental changes going on in that. I know the overall market was little flat. But we chose not to make cans that we would be losing money on.

And then on EMEA, it's -- so many different regions, everywhere over from Turkey, to Egypt, to Saudi and other places. That was down as well. But again, that was -- I think that was more one-time related in terms of some of the political issues we've seen. So I don't read into that too much, and we still think that area shows some promise.

Scott C. Morrison

Senior VP & CFO

And despite softer volumes, the financial performance was right in line with what we expected there. Both those regions are going to do a good job of cost-out. So the financial performance will be fine.

Mark William Wilde

BMO Capital Markets Equity Research

Okay. And then finally, just on aerospace, your backlog was steady quarter-to-quarter. I wondered if you could talk about just sort of what the pipeline of bids and potential wins looks like right now.

John A. Hayes

Chairman, President & CEO

Well, it's great that our government was able to get to a budget resolution, at least for the next 5 months, which is good and -- because stability in terms of predictability around those things help. Through any transition, we've gone -- the government has gone through a pause because there's a lot of turnover on the people side of it. And we're a little bit behind the curve and having new people in seats. But as we look out, like we said over the last couple of quarters, we see the most amount of opportunities I've ever seen in my time here at Ball Corporation for aerospace, and we're going to continue to bid on those types of things. But it's all predicated on us executing very well, and we have been doing that. Great execution, great opportunities, and that's where we sit right now.

Operator

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

Victoria Elizabeth Madsen

BofA Merrill Lynch, Research Division

This is actually Victoria Madsen sitting in for George. So first of all, can you just discuss volume trends in key businesses so far in the second quarter?

John A. Hayes

Chairman, President & CEO

Yes. I think we've discussed almost all of them. And so I just ask you, maybe when the transcript comes out, you can review it again and see -- if there are any questions, you can give us a buzz, because we did largely cover them. But overall, I think we're relatively pleased with the volume trends we've seen to start of the beginning of the year.

Victoria Elizabeth Madsen

BofA Merrill Lynch, Research Division

Okay. And while it may be a little bit too early, can you comment thus far on your efforts to pursue commercial benefits, particularly as contracts come up for renewal?

John A. Hayes

Chairman, President & CEO

Well, I think the acquisition -- nothing has changed relative to the acquisition of what we've always tried to do and will try and do. We've discussed in the past that we always try and give value for our products and services and everything that we do and that could include price, it include tighter order call-offs, it could include helping our customers becoming more efficient using cans on their lines, it could include mix that I talked about earlier on the call. As we all know, 12-ounce is a very competitive package and where we compete with others. We're trying to be the leaders, but you got to be realistic in terms of our customer's alternatives. What we try to do over the past number of years, particularly here in North America, and we're spreading it out. South America is doing well. In Europe, we still have more work to do. It's try and help our customers expand the profit pools of the product so that we can all win. Whether it's better graphics in the craft beer segment, different can sizes in CSD, for example, that are going well so far this year; new can formats; penetration like sparkling water; energy drink markets or even bottles for [indiscernible] and nonalcohol areas. If we can help our customers grow their profit pools, it's going to be helpful to us as well.

Victoria Elizabeth Madsen

BofA Merrill Lynch, Research Division

Okay, great. And just one last quick one, and apologies if I missed it. But can you go over how much of your synergy target was achieved in the first quarter, given that assuming it'll be a relatively -- comparatively low amount given that we're early in the year and integration? But if you could have any commentary around that.

John A. Hayes

Chairman, President & CEO

Yes, what we said earlier on the call, but we also said 9 months ago, that we're not going to get into parsing out of synergies because you have to get more accountants to track that down. What we stand by is what our targets are in terms of 2017, 2019 and beyond related to our comparable EBITDA as well as our free cash flow. And we did say that, in 2017, the majority of the synergies would be coming in the back half of the year and we stand by what we said.

Operator

[Operator Instructions] And our next question comes from the line of Philip Ng from Jefferies.

Philip H. Ng

Jefferies LLC, Research Division

Can you give us -- I guess, my question for Scott. Can you give us a refresher on how to think about the cadence of the synergy capture this year, and the big buckets as you layered them in? And I know it's a little bit more back half-loaded versus front half. Is it like a 30-70 split, 40-60? Any color will be helpful.

Scott C. Morrison

Senior VP & CFO

We'll get more in the back half than they will in the front half. I mean, we're going to get -- the 150 run rate is still going to -- is still good. We haven't seen much of that other than the closure of Millbank in the first part of the year. And then a lot of the other things that we've been working on start to run through our P&L in the second quarter, but you're not going to see the benefit of those things until we get to the third and fourth quarter.

John A. Hayes

Chairman, President & CEO

Yes, and just to amplify on Scott, remember that we announced the closure of the Charlotte facility that kind of happens midyear. So that's really the third and fourth quarter. We talked a lot about the -- in prior calls, about the sourcing side of it, where we really didn't get any benefit in the first quarter. We're going to get some but not a full run rate benefit in the second quarter. And as we move to the third and fourth quarter, that's when it really starts to show up. I think a lot of the operational improvements in terms of best practice sharing at the plants, those take time to mobilize and rally the people, and it really gets down to the manufacturing side. And as you know, our high season are second and third quarter. So as we go through the year, we're going to get more and more of that. So qualitatively, those are the types of things while we continue to say it's going to be in the second half. But we don't want to get pinned down, is it 30-70 or 40-60, because the reality is it's driving real hard to show up with the comparable EBITDA and free cash flow that we set for 2017 and 2019 and beyond.

Philip H. Ng

Jefferies LLC, Research Division

Okay, that's helpful. And it's becoming less -- I mean, a smaller segment for you. But North America's [food], seemed like volumes for you lagged the market little bit. Was there any share shift in there, thoughts on the vegetable pack? And I guess lastly in that segment, you talked about how -- there is some cost savings that are going to start rolling more fully in 2Q. Can you help us -- can you remind us what the opportunity could be in terms of the magnitude of the savings?

John A. Hayes

Chairman, President & CEO

Yes. First with respect, we were down more than the overall market, but there was no share loss. All of our customers -- every customer is a bit different, but it's a very seasonally slow quarter and some of our quarter -- our customers just weren't pulling as much as we had expected. So I wouldn't read into that too much. As for the package, [indiscernible] go the summer, it's too early today. It's beginning of May and plantings are just starting to go in many of our customers. And so we'll be able to update you as we go through the summer on that. And then your last question about cost savings, remember we had a very big cost saving, a big project about a closure of our Weirton, West Virginia facility and investment on the cutting and coating site in the Canton, Ohio. Weirton, West Virginia didn't officially close until the end of March. So we've gotten no benefits of that. So as we go forward, that's where we see a lot of the improvement to come from.

Philip H. Ng

Jefferies LLC, Research Division

Okay. Just one last one for me on aerospace. Backlogs, obviously they have been pretty strong. How should we think about the ramp-up phase in terms of these new wins from a revenue and margin standpoint in the next few quarter? And then big picture, what's been the big catalyst for some of these recent wins? I mean obviously, you guys are taking share?

John A. Hayes

Chairman, President & CEO

Yes. In terms of the ramp-up, it's really no different than historically what we've seen. And remember, we really do have 3 businesses in that. We've got a, I'll call it, a traditional satellite business. We've got a components business, which is the tactical products, things that go in the Joint Strike Fighter, for example. And then we have a services businesses. The first 2, the satellites and the tactical products is really where we've been lending the preponderance of the work. And within majority of those types of things, it's spread out, but a majority of them are cost plus in nature. And so as you get started on these new programs, the margins that show up are a little bit less because as you derisk the programs, that's when the margins start to increase. And so I think our margins in the first quarter are slightly down relative to last year. That was wholly expected because of these new start-ups. And as we go through over the next couple of years, you should see an improvement in those margins as we derisk these programs that are just starting now. In terms of the opportunity set, it's -- we've talked about this in the past. Some of our capabilities are exactly what the U.S. government needs right know. A lot of it is in the classified world, so we can't talk about it. But when you think about the needs for intelligence, surveillance and reconnaissance, and you also see in terms of the budgets being relatively restricted. They need more for less and the exquisite maybe important, but sometimes we can do something at a cost basis that's a little bit less than what other people can do. And I think the government in this environment is looking for new ways of doing business with them and that's where it falls into our sweet spot.

Operator

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

Adam Jesse Josephson

KeyBanc Capital Markets Inc., Research Division

John or Scott, is there a way to help us with how much Rexam contributed to EBIT in the quarter?

Scott C. Morrison

Senior VP & CFO

We're running it as a system. So -- I mean, the obvious would be to look at Brazil, where we acquired a much bigger business than what we had before. So the vast majority of that would be what we acquired. In Europe, we exchanged a large degree -- a new business and sold our old business, so it's an apple and a pear there. And then North America, there's -- we're running it from an integrated standpoint; we're not looking at it as these are Rexam earnings and these are Ball earnings, they're all Ball earnings.

Adam Jesse Josephson

KeyBanc Capital Markets Inc., Research Division

Okay. Why the decision to split your stock?

Scott C. Morrison

Senior VP & CFO

That was really -- we've done this historically a number of times when we get to this range. And it's -- splitting the stock without a nice juice of the dividend doesn't really do much. So it was really about confidence in our cash flow going forward and liquidity in the shares. We will continue to be, once we delever to the point we've talked about, we will be an aggressive acquirer of our shares so creating more liquidity in the stock helps. So splitting the stock and bumping the dividend is a sign that we feel pretty good about where we're at and where we're going.

Adam Jesse Josephson

KeyBanc Capital Markets Inc., Research Division

And on working cap -- I know you said last call, you expected it to -- expected it to be a source of \$100 million this year. Is that still the case?

Scott C. Morrison

Senior VP & CFO

I think it could be -- I think it'll be better than that. I think -- our teams, treasury, sourcing and operations are all working great together. And -- we're an EVA company. We acquired pretty big businesses that didn't focus on EVA and didn't focus on the capital base. And when you get people focused on working capital and what we can do and people get paid off of EVA, I think we're finding no shortage of opportunities. It's really a question of the execution of -- the timing of the execution of those opportunities and how much will show up in '17 and then how much will show up beyond '17.

Adam Jesse Josephson

KeyBanc Capital Markets Inc., Research Division

And just of that \$100 million plus, how much roughly is coming from which bucket, if you can go into that level of detail?

Scott C. Morrison

Senior VP & CFO

There is all kinds of buckets. I mean, every component of working capital we're looking at. So receivables, payables, inventory. I mean, every -- I'm not going to get by region, by segment. We run it in total.

John A. Hayes

Chairman, President & CEO

Yes, but let me give you an example. I think someone asked earlier about [indiscernible] Rexam earnings. In North America here, we're running it as a North and central, we're running it as a system. And so we've moved volumes around into the various plants to optimize that from a freight and logistics perspective. And as we do that, we realize that there's inventory opportunities, both on the raw materials side as well as the finished goods side. And so that's just one area in addition to focusing on the receivables and focusing on the payables.

Adam Jesse Josephson

KeyBanc Capital Markets Inc., Research Division

And just one last one on working cap. If you get the 100-ish this year, is there more where that came -- would you expect a comparable level of benefits next year?

Scott C. Morrison

Senior VP & CFO

I think the benefit over the next few years will be well in excess of the \$100 million.

Operator

And our next question comes from the line of Debbie Jones with Deutsche Bank.

Deborah Anne Jones

Deutsche Bank AG, Research Division

I have just 2 questions, one on South America and one on Russia. Just kind of broadly speaking, if we look at South America, I think the long-term expectation is for growth, probably one of the reasons you've seen another player move into that market. Can you talk about your customer mix and whether that allows you to kind of grow in line with the market? And then does that matter? And then, two, kind of the impact of any potential new capacity that would be coming on in the region?

John A. Hayes

Chairman, President & CEO

Yes. Well, first, we've got a relatively -- not relative, we have a large position down on South America, and we do business with every major customer down there. And so I think it's safe to say as the market goes, so do we. So I wouldn't really focus on overweighted one customer relative to the other because we're big with many of the customers down there. With respect to the new competitor coming in, as I said, the overall -- the market was down a little bit last year. It's actually come back strongly, particularly as we moved through the first quarter. It's obviously going into a seasonally slow, but we see some tightness in there and -- I don't want to comment on what the customer activity is, we're focusing on what we can do. The other thing we really haven't talked about is we always focus just on Brazil. We also acquired a business in other regions as well, including Argentina and Chile and have the ability to serve multiple markets in that and the can continues to gain share in those markets as well. And so that's one of the areas we're also focused on.

Deborah Anne Jones

Deutsche Bank AG, Research Division

Okay, that's helpful. And then Russia, I just -- I don't think you talked about trends there, forgive me if you have. But can you just kind of give us an update on how things are going in Russia? Where you see the market heading this year and utilization, if possible?

John A. Hayes

Chairman, President & CEO

Yes. Well -- again, Russia is -- the first quarter is a seasonally slow -- Russia is going okay right now. It's -- there's nothing magical about it. It's a slow quarter. [But thing] -- it was up a little bit in the first quarter. We expect for the full year it to be up modestly as a lot of the trends we talked about earlier. And our capacity, I think it's in reasonably good shape right now. And so as we look to it, it is different than the business in Europe that we used have because it is more weighted to the second and third quarters than it was in the first and fourth quarters. And we're just about to enter into that seasonally strong period. But nothing -- no big deviations from expectations. That's the best way to say it.

Operator

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

Clyde Alvin Dillon

Vertical Research Partners, LLC

John, as you look at the volumes in the first quarter, which seem to be pretty strong, do you expect to see that kind of progress? And I know it's tricky with the pro forma computations, but do you think we will see -- certainly, as we get into the second half and your footprint is similar year-to-year, does the mid-single digits number in most of these regions look sustainable?

John A. Hayes

Chairman, President & CEO

Well, mid-single-digit sounds a touch high to me, but let's take a step back and think about all the trends that we've talked about, because there is -- it's really in line with some of the long-term trends we talked about. We talked about in North America is relatively flat. You've got 12-ounce declining, but you have specialty increasing. We talked about Mexico doing quite well, in part because of domestic consumption and in part because of the exports to the United States. That continues to go. We talked about long-term, South America being in kind of the 3% to 5% range. That's kind of right where the first quarter was. We talked about Europe kind of in the 2% to 4% range, 1% to 3% depending on what location in Europe. That's exactly where it's coming in. I think what was a little bit soft was EMEA and China. But again, those are volatile markets, so you never really look quarter-to-quarter. And structurally, what's -- we see is nothing fundamentally different there. So I don't think anything was way out of line. And as we go forward and lap, if you will, the closing date of the acquisition, I think some of those trends longer-term are -- remain intact. Now will any given quarter be a deviation from one of those things for some reason or another? I'm sure it will. But I think as a system around the world, we continue to believe that the can is going to take share from other substrates.

Clyde Alvin Dillon

Vertical Research Partners, LLC

Got you. And by the way, when you were going at the beginning of the call, I think you mentioned some volume numbers, and I might have just missed them. But that seemed to be different from the press release. For example, I think the press release said Europe was up low single-digits, and I think you mentioned it might have been down. Maybe you were talking about a different comparison. And also, I think you referred to low- to single mid -- sorry, low- to mid-digit increases in North and South America and Central America, when the press release sort of implied -- or said mid-single digits. I don't mean to split hairs, but could you just put some light on that?

John A. Hayes

Chairman, President & CEO

Yes, for the avoidance of doubt, our European business was up 2.5% -- 2.8% or so, our South American business was around 3% increase and our North and Central America was up about 5%. And I think Scott mentioned that. So...

Scott C. Morrison

Senior VP & CFO

EMEA and Asia there.

John A. Hayes

Chairman, President & CEO

Yes. And then EMEA and Asia were down, as I mentioned. Asia -- excuse me, China was down about 10%, 11%, and EMEA was down as well.

Clyde Alvin Dillon

Vertical Research Partners, LLC

Got you. Okay. And then the last thing is, it's interesting that you all are actually quite -- I think terrific that you gave us this forecast or guidance back in, I think, late July, early August last year for 2017, and you're holding to it, for example, the \$750 million to \$850 million in EBITDA. And if you think about it, you all are -- and that -- and I don't mean to do a math lesson here, but it looks like you sit at the low end of your guidance that you would have like \$651 million in net earnings attributable to Ball. But that, when we do your adjusted earnings like you did this quarter, we should add back the after-tax impact of the amortization of customer payable. So given that that's somewhere in the zone of \$128 million a year and you -- tax affects this at the new tax rate of 26%. Basically what I'm seeing is something like \$746 million at the low end. And that seems to be exactly where the consensus is of [417]. And I just didn't know if you had a comment that you believe that that's because The Street, in aggregate, definitely thinks you're only going to -- maybe get to the low end? Or do you think there might be some people treating your amortization of intangibles differently and that might be affecting the computation.

John A. Hayes

Chairman, President & CEO

I'm still trying to go through the math. I got to be honest, I don't think my computer could work that fast. But in all seriousness, we stand by everything we said, which is 20% -- what we said was \$1.3 billion to \$1.4 billion. It's too early to say where we're going to end up in that. It's -- we've got most -- our strongest quarters coming in front of us over the next 2 quarters. So it's premature to really talk about that. But we laid out what we thought for interest expense, what we laid out for the tax rate, what we laid out for the share count. And when you do -- and then we also talked about 20% to 30%. When you kind of do all that math, I don't disagree with exactly what you said.

Clyde Alvin Dillon

Vertical Research Partners, LLC

I mean, it's pretty simple. It's 651 plus the 95, which is the tax affected 130 -- 128, and you divided that by 179, which, by the way, means no buybacks and you get to 417 just for those listening. But I appreciate the clarification.

Operator

And Mr. Hayes, there are no further questions at this time. I'll turn the call back over to you.

John A. Hayes

Chairman, President & CEO

Great. Thank you, Kathy. Well, thank you all for your interest, and we look forward to talking with you as we go forward and looking forward to next quarterly conference call as we enter this important summer season. Thank you.

Operator

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

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