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PRESENTATION

Operator

Greetings, and welcome to the Ball Corporation First Quarter 2022 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded Thursday, May 5, 2022.

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

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

Good morning, everyone. This is Ball Corporation's conference call regarding the company's first quarter 2022 results.

The information provided during this call will contain forward-looking statements. Actual results or outcomes may differ materially from those that may be expressed or implied. Some factors that could cause the results or outcomes to differ are in the company's latest 10-K and in other company SEC filings as well as company news releases. If you do not already have our earnings release, it is available on our website at ball.com. Information regarding the use of non-GAAP financial measures may also be found in the notes section of today's earnings release. The release also includes a table summarizing business consolidation and other activities as well as a reconciliation of comparable operating earnings and diluted earnings per share calculations.

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

Ball delivered strong first quarter results amid significant geopolitical and economic conditions. Our company remains deeply troubled by the war in Ukraine, and our focus is on the safety and well-being of our colleagues. In addition, our global employee giving program, and The Ball Foundation to date have provided in excess of $1 million of financial support for humanitarian aid. And our colleagues near the war zone are housing refugees as well as supporting each other in volunteer efforts in their local communities. We thank our employees and the broader global community for their acts of compassion and giving.

The Russian invasion of Ukraine has had a significant impact upon the global business environment. Late in the first quarter, Ball announced that it has suspended future investments in Russia and is pursuing the sale of its aluminum beverage packaging business located in Russia. As we noted in today's earnings release, our ability to achieve our long-term diluted earnings per share growth goal is dependent upon the outcome of our announced intention to sell our Russian business.

Note 1 in today's earnings release contains additional information about the Russia business.

To our team in EMEA, we are proud of your professionalism and your quality work during an unimaginable stressful and constantly evolving situation. We are thankful for your support of one another.

Looking beyond the challenges that 2022 has presented so far and focusing on the opportunities before us, let's remember the basics. We are the largest producer of sustainable aluminum packaging for beverages and personal care products in the world, and we deliver exquisite aerospace technologies that keep us safe, informed and inquisitive about what's happening on earth and in deep space. Ball has a proven track record of achieving success through leveraging customer focus, sustainability, our people and culture, operational excellence and innovation to drive profitable growth, EVA and cash flow.

No matter the economic climate or the ways of the world, we will adapt, remain agile and grow. Ball has 142 years of experience doing just that. Ball is a recession-resistant company that can effectively manage rising cost over time and will deploy capital to garner the highest possible EVA returns and value to shareholders. With our EVA discipline and Drive for 10 vision as our guide, we are keeping calm, carrying on and enabling a brighter future for our planet and our people.

Turning to first quarter performance. Global beverage can volumes were up 1.4%. Global aluminum aerosol volumes were up 10%. Aerospace backlog increased 28%. Comparable operating earnings increased 6%, and comparable diluted earnings per share increased 7%. And our teams were successful offsetting significant cost inflation through pass-throughs, cost recovery programs and procurement actions.

Our year-to-date business highlights include: our global beverage business ramping up new lines and breaking ground on 2 new facilities in North America and EMEA, our North America business growing comparable operating earnings 24% and growing volume over 3% by successfully ramping up new domestic can-making capacity while weaning ourselves off imports into North America, and the team effectively built inventory back to reasonable levels ahead of the busy summer selling season. In addition, the North America team achieved dual ASI certifications during the quarter.

Our EMEA volume growing 10% with operating earnings being flat year-over-year despite $7.5 million of foreign currency translation and late quarter cost inflation, not to mention the team navigating a volatile geopolitical environment across its operating footprint. Our South America business managing through 21% volume declines due to unfavorable customer mix economic volatility and poor weather in Brazil, diluting the volume strength that remains across other South American countries where we are deploying capital to enable can growth.

Our global aluminum aerosol team introducing reclosable aluminum bottles for new categories and increasing aerosol shipments by 10%. Our aluminum cups team, installing a new line in Rome, Georgia, to manufacture new 9- and 12-ounce cups with production starting in second quarter. Our cup achieving 90% recycled content, winning an Edison Award and signing a contract with Sodexo Live! to expand our cups' presence at stadiums and venues.

Our aerospace team expanding its backlog by 28%, completing its critical design review on SPHEREx and marveling at the on-orbit success of the James Webb Space Telescope with images for public consumption expected in the early summer. And Ball joining the UN Global Compact to demonstrate our commitment to aligning our business strategies and operations with universal sustainability principles.

As we indicated on prior calls and looking forward, our global businesses are absorbing nonaluminum inflationary headwinds and experiencing additional price/cost squeeze in advance of contractual cost recovery. In EMEA, inflationary headwinds accelerated late in the quarter. And going forward, our team is working hard to mitigate their impact through ongoing commercial cost recovery, hedging and energy efficiency and renewable energy initiatives. In North America, contractual price escalators based on PPI and other indices have been effective and will continue to phase in throughout the year.

We continue to rely on our supply chain for raw material inputs and look forward to additional alliances and investments being announced in 2022 to support domestic U.S. production of aluminum can sheet to further enable long-term growth and substrate shifts to sustainable aluminum packaging for new and existing categories.

Underlying demand for aluminum beverage cans remains strong. We exited 2021 with 12 billion units of new installed capacity, and we also have plans in place to exit 2022 with a similar level of new installed capacity available to sell-through in 2023 and beyond.

In summary, our global beverage team is preparing ourselves and our supply chains for long-term durable growth while managing notable volatility. Our customers are continuing to lean on the can as their package of choice. Year-to-date, carbonated soft drinks and energy drinks have accelerated their move into cans. And in beer, cans have maintained package mix share despite declines in total liquid consumption.

By region, trends are; in North America, following the broader reopenings of on-premise, cans continue to outperform all other packaging substrates in aggregate. Strength in energy drinks, Carbonated Soft Drinks and import beer has bolstered demand for cans. In South America, rising can demand and liquid consumption growth in countries outside of Brazil were unable to offset a 15% decline in total liquid beer consumption in Brazil, though cans maintain their share versus other substrates during the quarter. In EMEA, cans continue to outperform other packaging substrates, particularly in CSD and energy. And we continue to see the need for imports from our Saudi and Indian beverage can plants for the remainder of the year.

We are operating safely, controlling the things we can control, focused on executing at a high level and recovering costs, delivering high-quality cans to our customers supported by equitable contracts and closely monitoring and enabling global supply chains through alliances and investments in long-term contracts. We look forward to highlighting our long-term growth plans and management bench at our September 2022 Investor Day. We appreciate the amazing work being done across the organization and extend our thanks to all of our employees and external stakeholders.

With that, I'll turn it over to Scott.

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

Thanks, Dan. First quarter 2022 comparable diluted earnings per share were $0.77 versus $0.72 in 2021, an increase of 7%. First quarter sales were up due to the pass-through of higher aluminum prices, higher volumes with improved price/mix and higher aerospace performance, partially offset by currency translation. Comparable first quarter diluted earnings per share reflects strong results in North America metal beverage and aerospace offset by comparable operating earnings declines in South America, higher corporate costs and unfavorable earnings translation. Ball's balance sheet remains very healthy with ample liquidity and flexibility.

As we sit here today, some additional key metrics to keep in mind for 2022. Our full year effective tax rate on comparable earnings is expected to be in the range of 19%. Full year interest expense will be in the range of $280 million. Year-end net debt to comparable EBITDA is expected to be in the range of 3.5x, and full year corporate undistributed costs recorded in other nonreportable is expected to be in the range of $120 million.

At this time, and given our earlier public announcement about Russia, we expect 2022 total CapEx to be in the range of $1.8 billion and to return in the range of $1.75 billion to shareholders in the form of share buybacks and dividends in 2022. We continue to see a path to doubling our cash from operations by 2025 from year-end 2020 levels and look forward to more opportunities to invest in our businesses and to accelerate the return of value to shareholders. Rest assured, Ball continues to be good stewards of our cash. As fellow owners and through the lens of EVA discipline, we will manage the business as owners, partner with our supply chain and customers effectively to secure the best outcome for our shareholders.

Ball reached a few important milestones this year. 2022 marks the 30th anniversary of EVA. That discipline has served us well in the past, and it will serve us well in the current economic environment. 2022 marks the 50th anniversary of Ball's initial public offering. Last week, we announced that effective May 10, our stock ticker will change from BLL to BALL. Back in the 1970s, 4-letter ticker symbols were unavailable. And to ensure that the BALL ticker stays right at home with Ball Corporation, we're making this seamless change. With that, I'll turn it back to you, Dan.

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

Thanks, Scott. As I embark on my tenure as Ball's CEO, our Drive for 10 vision will continue to serve as our guide. We know who we are, we know where we're going and we know what is important. Great companies perform in uncertain economic times, and Ball is a great company. By providing actionable intelligence through our aerospace business, sustainable solutions through our aluminum packaging businesses, and honoring our disciplined capital allocation approach, our shareholders will be rewarded, and we will be doing our part to preserve our planet.

While our ability to achieve our long-term diluted earnings per share growth goal of 10% to 15% in 2022 is dependent on the outcome of our announced intention to sell our Russian business, our earnings, cash flow and EVA trajectories are in very good shape now and in 2023 and beyond as we increase returns on newly deployed capital and further enable and serve growth in our aluminum packaging and aerospace and technologies portfolio.

We are a world-class manufacturing company with a fabulous team, the most capable and agile global footprint, the confidence and the heart to continue to do well and do good. We are uniquely positioned to serve the decadal shift that will favor our packages. We look forward to continuing our journey and returning value to our shareholders.

We extend our well wishes to our employees, customers, suppliers, stakeholders and everyone listening today. And with that, Scott, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we do have a question from the line of Anthony Pettinari with Citi.

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

Dan, can you talk a little bit more about the time frame for recovering the costs in Europe? It seems like there's been a difference in the pass-throughs in North America versus EMEA. I don't know if you could talk a little bit more about opportunities to kind of close that gap? Or were you just more impacted by sort of hardship clauses given the sharp rise in energy in Europe? Any more color you can give there?

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

Yes. I'll give you a little high-level color and then maybe ask Scott to make some specific comments. One of the things is we did not experience a lot of inflation in Q1. It accelerated towards the tail end of the quarter. So it's a little bit more of what's yet to come versus what we've experienced. I will say how that plays into the cost recovery discussions that we initiated kind of November-December time frame with our customers is those conversations have been going well. But we haven't secured 100% short-term pricing pass-through. As you can imagine, these conversations are ongoing. We're trying to make those as equitable as we can moving forward in the event that we're moving into a more of a high inflation environment.

So there's more work to do. And I think it would be safe to say that I don't think we anticipated the level of inflation that we're now seeing in Europe. There's more work to do, but our contracts are sound. We will get this back. Europe may look a little bit more like North America did last year and then transitioning into this year relative to the pass-through. But Scott, I don't know if there's anything additionally you would add to that.

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

Yes. Anthony, I would just say that going into this year, 90 days ago, we saw opportunity for nice improvement in growth and profitability in Europe in 2022. But with the outbreak of the war in Ukraine and inflation and euro devaluation, I think it's going to be tough to make what we made last year, full year in Europe.

On the inflation side and this takes into account, inflation is probably running $50 million higher than what we originally anticipated. And similar to last year in the U.S., to Dan's comment, we'll get this back in the following year or so. No doubt it's a headwind for this year. And you're seeing that we're getting it back in North America, like we expected, which is partly why the results in the first quarter are up so much given some volume growth but a little lower volume growth.

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

Okay. That's very helpful. And then just shifting gears to Brazil. When you look at your volumes maybe versus what you were expecting at the beginning of the year, it seems like there's a few things going on with maybe consumer weakness and weather and maybe timing of Carnival. I think you indicated cans are holding share. Can you just kind of help bridge what's really driving the volume performance in Brazil and just kind of thoughts as we move into 2Q and back half of the year?

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

Yes. Thanks for that. One thing that you did indicate, just to be clear on this, liquid volume was down 15%. And so plus or minus that number is kind of where we ended up in terms of volume decline, and a lot of that has to do with discretionary spending power in Brazil because all of the other countries surrounding in South America performed really much better than Brazil, Southeast Brazil, in particular.

So I think rough math, what our colleagues in South America and Brazil specifically were telling us is your spending power was cut by 1/3 basically over the last 3 to 4 months. And on top of that, because these products are U.S.-denominated in terms of the aluminum profile of them, our customers were passing through price on top of that, so you could see a 30% to 40% impact on an end consumers' buying power relative to a package in Brazil.

The things that are going to be transitory relative to allowing recovery in the second half of the year and why we're a bit bullish on the back half of the year, in particular, a couple of things. Number one, it's an election year. It's an election year in Brazil. So what that means is there's a stimulus package coming. That will certainly help.

You referenced in your question timing in and around Carnival. As we sit here today, we believe that there will be a carnival reflective of what you've seen in years past, a street carnival. Somewhere in July is what's being contemplated. And the last thing is there's a World Cup, and the World Cup sits in a different time slot than it typically does. So a November World Cup, we should see the benefits of that. And that's what our customers are certainly building and discussing with us.

So I think you'll see a second half performance lift kind of versus where we anticipated. I don't know if that's all going to be able to make up for what we experienced in the first quarter. But I think there are plenty of things to point to that we'll see continued strong performance, not only in the extending surrounding South America countries, but in Brazil, in particular, where the decline was in the quarter.

Operator

Our next question is from Ghansham Panjabi with Baird.

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

Just in terms of your comments on consumer mobility, just kind of increasing and of course, here in the U.S., especially, how do you see that impacting demand for packaged beverage more broadly? I know you said that the can is gaining share, but is that a headwind from a just a shift standpoint that you're just going to have to cycle through as an industry in 2022?

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

Ghansham, you're talking specifically about the on-premise versus trade.

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

Exactly.

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

Yes. So we really weren't surprised by the returns to on-premise. Actually, I look at it slightly different than maybe the intonation of your question. I looked at it as positive that we were able to continue to grow share in can across all the substrates. And I think the other thing to keep in mind, especially in the Northern Hemisphere, is as our customers in the first quarter took price, they typically fight like heck in the peak season for volume and share. And so I think we're going to learn a lot about that question specifically and in about our volume trajectories heading into peak season in the Northern Hemisphere. But the underlying performance relative to can share penetration, I'm optimistic about coming out of Q1, despite I mean some of the lower unit volume levels.

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

Understood. And then in terms of aluminum, I mean, there's plenty of concern about aluminum availability, and many of the producers reported earnings over the last couple of weeks and they have all these nice charts that show inventory levels very low, et cetera. Is that starting to affect your customers in terms of new product development as they sort of look at the supply chain and sort of want to derisk away from aluminum supply issues, maybe not this year but certainly over the next couple of years? Or do you think the suppliers on the can sheet side are able to produce aluminum fast enough, just based on their own investments? How do you see that unfolding?

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

I think just the opposite. I think there's so much pressure on anti-plastic sentiment. So innovation conversations right now, Ghansham, they would be what's going to show up on the shelf in '24, '25 in terms of sort of new categories, new channels, new products. And those conversations are far more robust than they were a year ago. And as you already indicated, aluminum's a heck of a lot more expensive than it was a year ago, so let's see. Let's see how we get on. But I think the antiplastic pressure and sentiment is beginning to be palpable for a couple of large CPG customers, and they see aluminum as a solution to some of these recycling content percent increases they're going to have to achieve.

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

And we're starting to see investment in the aluminum supply chain in North America. So I think that's encouraging.

Operator

Our next question is from Chris Parkinson with Mizuho.

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

Just when you take a step back and just look at the overall theme affecting aluminum bev can demand, there's been a lot of money being thrown still at ready-to-drink cocktails. I mean the sales and marketing budgets would suggest that those consumer companies are fully dedicated to that. There have been a lot of conversions in energy drinks and so on and so forth.

When we look at the back half of the year and we look into 2023, what are the 2 to 3 things that you're most excited about? Has that changed given the current macro environment? And just how should The Street ultimately be thinking about that?

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

I would say your question highlights the areas that we're also bullish on. And then one is not necessarily innovation. It's just existing categories and existing channels that have plastic products. Plastic is our biggest opportunity, hands down. But I think ready-to-drink cocktails, I think energy drinks always surprises us to the upside in terms of growth. We've got some really good partners there. Those are the couple of areas.

And I think maybe not in terms of the back half of this year, but maybe bridging on my commentary from the previous question, there are some pretty significant categories with some pretty significant plastic that cans really don't play in that they will start to evolve in over time. So just about every kind of nutritional sports drink of some sort is basically in plastic. That's going to have to change, and I think there's opportunities there.

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

So just as a corollary of that, essentially the exact question. I mean you have, in fact, seen efforts in California, Colorado, New York, Miami Beach regarding switching over from plastic to aluminum. Availability has actually been an issue for some of those initiatives. I mean a few airlines have discussed it. I mean it doesn't seem like it's been a primary focus of the investment community quite yet. But do you have any updated thought process in terms of kind of the initial like knee-jerk reaction in some of those announcements? Obviously, they're small, but how easily would it be for any one of those to morph into something that could actually be material for your platform?

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

Yes. Great question, and thank you for drawing that out. I would say, if you look at airlines in particular, I can speak to that, they clearly have a sustainability challenge with the fuel. And so if they're going to get to some of their goals and objectives for the major airlines, one easy place to start is to get rid of plastic when you're onboarding the plane, when you're on the plane and when you're exiting the plane. And so we have not only single-use aluminum containers, though we have multiuse aluminum containers and we got cups. And we are having those conversations with airlines right now. And one, I think, has already announced in the Northwest that they're going to transition toward all aluminum. And so there are absolutely green shoots. And the first domino falls then it's a cascading effect, and then it starts to build on itself. So I think there's opportunity, certainly a lot of policy, a lot of shifts.

We saw New Jersey trying to move away from Styrofoam this summer, so that will be an opportunity set for our cups. And so these things are starting to build incrementally. And I think the entirety of our aluminum packaging portfolio will benefit from them, not just the beverage side. So thanks for that question.

Operator

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

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

So I wanted to come back to the guidance question just to make sure that we all were appropriately level set. So your ability to hit the 10% to 15% and your ability to execute on your plans in Russia. Basically, what you're saying is you can get into that range if you generate the capital that you can deploy from ultimately exiting Russia. Is that a fair summary? Or is that incorrect in anything that I've stated?

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

George, you broke up a little bit there, but let me take a shot at it. Our ability to grow in that 10% to 15% range this year depends on how long we continue to operate in Russia. Right now, if we continue to operate Russia at the current levels, we would expect to be in that 10% to 15% range for the remainder of the year. But that business makes $10 million-$11 million a month in operating earnings. So it's somewhat dependent upon that. And the timing under which a potential sale might happen, we're early in the process. These things, as you know, take time to execute. But it's an attractive business. It's a profitable business. We have a number of entities that are interested in it. And so it's really based on the timing of when something might happen on that front.

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

Understood, Scott. And apologies for the breaking up on the phone. If you can hear me now, I thought perhaps it was you would ultimately close on some sort of move, which would give you proceeds that you could redeploy, which in turn would enable you to get to the 10 to 15, but it's really more about how long you can hold on to it in the course of the year. Is that right?

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

No, it's really both those things, George. So you're exactly right. It's really proceeds and what we do with those proceeds and conversely, how long we operate. So right, either of those ways would give us paths to that 10% to 15% potential. I think you're thinking about that right.

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

And George, maybe Scott, you just want to comment on the $1.750 billion return to shareholder and how that's impacted by Russia or not.

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

Yes. Really, our plans are the same. We tend to not buy that much in the first quarter. We've got our working capital build. We tend to front-end-load our pension funding. So most of that happened in the first quarter. But obviously, given kind of the weakness in the share price, we expect to accelerate the return of value to shareholders here as we move through the rest of this year and out of the first quarter.

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

George, you've been following us. You know we're laser-focused on that number. The world is a little bit fluid right now, but we're going to be laser-focused on returning value to our shareholders.

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

Two other questions, and I'll turn it over, mostly around volume growth. So I think the last quarter conference call, you were targeting roughly double-digit growth in North America. And correct me if I'm wrong, we started at a reasonable rate in excess of 3%. How does the start to the year affect your overall outlook? And why was it somewhat slower perhaps than what you were targeting for the year?

And then of the initiatives that we've talked a lot about over the last couple of years that haven't yet materialized in size -- water, nutrition and the like -- have you signed any billion unit plus contract at this juncture in many of these bigger categories? And why do you think they will manifest themselves in potentially a weaker macro environment when CPG companies will maybe prefer to hold on to some of their marketing dollars?

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

Great. Thanks, George. Let me attack the last part of your question first. I think your comments relative to water, no significant appreciable contracts in and around either one of those categories. We won't go into specifics on customers or that. But no multibillion unit contracts have been secured on those 2 categories in particular.

I think there's more opportunity on the category of sports drinks, nutrition, et cetera, because it's at a higher price point. And there's a significant amount of plastic involved in those products. So that's a win-win on a number of levels for some of our customers that candidly just have to get out of plastic and significant plastic-weighted products.

I think water is going to take disruption. It's going to take a different package. It's going to take a different look and feel. But anti-plastic sentiment in some of the states, especially on the coast, is going to drive different behavioral patterns. It doesn't necessarily have to come out of our beverage business. It can come out of our impact extruded business. It can come out of our cups business. So we have avenues to play across the aggregate of our aluminum packaging space that may not show up in the billions of units here in the next 12 to 18 months. But we can do well during that time period on a number of fronts because of the aggregate nature of our product mix.

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

Do you want to talk about the 3.4% growth, first quarter?

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

Yes. And in North America, we still have a path to double-digit growth in North America. The first quarter was a little behind our internal expectations, and I can point to two things for that, which make a lot of sense to me.

Number one, our customers took up price a little bit more than we anticipated in the first quarter. And I think you've seen their earnings releases. They've all done extraordinarily well here in the first quarter.

And the other thing, as we transitioned in North America into these new contract for our ability to pass through the inflation in arrears as we spoke to in Q4, I do think there was some incremental pull forward of cans into Q4 from some of our customers trying to beat that price increase from us.

So I think that those 2 contributing, I don't know what the end result would have been in the quarter, we expected a little bit more than we actually delivered. And then we're excited about what we're seeing in terms of potential promotional activity in the second and the third quarter. That's when folks really start to fight for volume. And since our customers have gotten off to a decent start in terms of profit, I think they've got coffers full to do a little bit more aggressive work here in the second and the third quarter.

Operator

Our next question is from Mike Leithead with Barclays.

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

First, I want to circle back to George's first question, and I apologize for pressing here, but it's just an area we've heard a lot from investors in the past month. But I think your March press release talked about reducing operations immediately in Russia. So can you kind of square that with continuing to the sell cans? And obviously, Ball prides itself on being an ESG leader. So I guess, again, how do you square that with continuing to sell in Russia?

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

Well, let me start. We scaled back, but we're still operating at about 90%. We're dealing with customers that are paying us basically upfront where the business can sustain itself from a cash standpoint. From an ESG standpoint, we have 950 employees that work for us in Russia. And we provide well-being for those people and those families. And so finding an orderly transition for that business, I think is exactly the right thing to do as an owner. And so that's what we're doing.

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

Great. And maybe just for...

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

It takes time to exit a business, and we're working on the sale of that business, but that's not something that's done in a week time or a month's time. Those things take a little bit of time. And given the difficulty of operating in that environment, it's probably going to take a little bit of time to execute on that. But we think that is the absolute right thing to do.

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

Fair enough. And then maybe just quickly for Scott on the cash flow. Obviously, 1Q is a seasonal working capital build, but it's a bit steeper this year. So just where would you expect working capital to shake out for the full year in your guidance?

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

Yes. I think full year, there'll be a bit of a use of working capital, probably in the $150 million to $200 million range in total. First quarter, we intentionally built more inventory. We've been talking about the last couple of years kind of running hand-to-mouth in the summertime, and we wanted to avoid that. And so we intentionally built more inventory in the first quarter. So that's the big chunk of it. And then we did about 80%, even 90% of our pension funding for the full year in the first quarter. So those would be the big changes or the differences from last year.

Operator

And we have a question from Arun Viswanathan with RBC Capital Markets.

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

Great. I guess first off, in Europe, could you just describe some of the energy inflation headwinds that you're experiencing, maybe if there's a dollar impact and how the contracts need to be restructured potentially to account for some of that headwind, if that's part of any initiatives as well?

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

Sure. Energy, in a number of markets in Europe, they are regulated. And so we can hedge about 65% of the markets where we operate. And so we do that. But when you have extraordinary spikes in certain markets where things didn't go up 3%, 4%, 5%, they went up 100 multiples, 7, 8x what they were, and it's like you're not hedged. So these spikes are typically short-lived, but they're impactful in the near term.

And so we've seen extreme volatility at various times over the years in different commodities. If you get storms or a variety of things happen, it tends to revert back to some kind of mean pretty quickly. But when I mentioned that $50 million of inflation number, that's including energy, and we are working on contracts to better capture those things as we no doubt are entering into a more volatile world as we go forward. And so we'll have to contract appropriately to make sure that we have the right kind of pass-through mechanisms to recover that quickly.

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

Yes, that's okay. And understanding the market is pretty tight, I guess, and some of your competitors are going through recontracting there. Do you see kind of an environment maybe into next year where that business kind of obviously, you may not necessarily be experiencing that right now, but that business kind of is a little bit higher returns profile, again, just given what's going on in the competitive environment?

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

Yes, I'm not entirely sure it's higher return profile, so we'll certainly catch up the inflationary headwinds that we have this year.

Our business over the last 4 to 5 years has improved. Keep in mind that metals is a pass-through, so that can dilute if you're looking at this on a return on sales percentage. But when we look at contribution margin and we look at actual dollars being generated, it's a very profitable gross profit business, and you can have a bit of a drag in periods like this where you have a spike in inflation, that's what we're experiencing, that's what we're communicating to you. But I think you'll get that back next year. And if you return to some level of normalcy on inflation, you'll continue to see that 2-in-1 flow-through operating earnings versus unit sales growth. And that business is performing well.

I'm actually quite pleased with the fact that despite everything that's happening right now, our business produced like-for-like earnings year-over-year. That's a testament to the quality of that leadership team, that management team and how they're able to operate in a pretty challenging environment.

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

Today, it's kind of on the margin percentage, be careful, metal is up 60% year-over-year. So that's going to really impact your margin percentage on sales. But we're very happy with the performance in total.

Operator

And we have another question from Phil Ng with Jefferies.

Philip H. Ng - *Jefferies LLC, Research Division - Senior Research Analyst & Equity Analyst*

Sorry, just one more question on Europe. Appreciating your earnings will be down in Europe this year, just given the lag on inflation. But do you expect to make progress through the year as you kind of pursue these commercial efforts? And Russia aside when we think about 2023, should your earnings kind of get back to 2021 levels?

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

Yes. I think as we move through the year, we're still early in the year. So we got to wait and see how the summer season shows up in Europe and how volumes show up. But yes, we would expect a nice improvement as we kind of move through the year. And again, all these comments kind of absent Russia because that's a bit of the unknown. FX is again a bit of a drag. But if you look at it on an FX adjusted basis, we were up 7.5% in the first quarter. But on a dollars basis, it was flat. So FX could be a bit of a drag as we look through the year.

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

And Phil, on the cost recovery question, we are having conversations. They're ongoing. Our customers know that this needs to be equitable. These are unique times and circumstances. And so yes, depending on the outcome of those conversations, we could do a little better than what Scott indicated as we sit here today and what we know is in front of us in terms of contractual language.

Philip H. Ng - *Jefferies LLC, Research Division - Senior Research Analyst & Equity Analyst*

Okay. That's super. And then from a Russia standpoint, they're obviously a big exporter of raw materials, including aluminum. Any supply chain risk and availability of material that we should be mindful of?

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

Not really. I mean Russia was really, for us, is kind of a self-contained business, and there wasn't a lot of aluminum going in other places. Russia is a global supplier of aluminum. But right now, we're not seeing any more supply chain challenges that we've been facing in the last year or so.

Operator

Our next question is from Mike Roxland with Truist Securities.

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

Dan, Scott, just a quick question with respect to your Russian greenfield plant, is there any change that you're still liable for. So let's assume that you're able to sell the business next week or 2, hypothetical, equipment order, any contracts you've entered into? Is there anything that we should be mindful of that you still will be liable for if you're able to once you sell that business?

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

No. No, we stopped, as we mentioned, the Russian greenfield has been stopped. No equipment had been put in country yet anyway. So the dial down in CapEx is in part due to Russia. I would say majority due to Russia. And then anything else, we're moving to other places where we still need capacity. So there's no additional drag because of that.

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

Yes. I think the important comment there, I think you heard it, but we're growing everywhere. So there are opportunities to redeploy the capital, those lines in particular. And so we're just evaluating the prioritization list right now, but kind of excited where we could potentially deploy those assets.

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

Got it. That makes sense. And just one quick follow-up on supply chain for raw materials. Dan, you mentioned in your comments about supporting U.S. production of aluminum can sheet. How is the availability of aluminum can sheet for your greenfield plants? And given your comments, is there any concern that you have that is continue to grow we might not have the can sheet you need, so you're looking to diversify suppliers and to expand who you operate with -- who you work with?

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

So I think we might be having some technical difficulties. I heard most of what you said. It's a little choppy on this end. But let me talk about some additional commentary on my scripted comments as it relates to the U.S. domestic supply.

We've been really consistent that the market is tight. We're still importing from various parts around the world, mostly China, some from the Middle East but still coming in to support domestic growth.

As we sit here today, looking out 3 to 4 years, it becomes increasingly tight, but there's a path to get aluminum to support the growth that we've announced. There are going to be additional investments, some pretty significant that we believe are going to start to show up. And you'll hear more about those in coming days and weeks.

So we see really good line of sight, and we'll talk about it more at our Investor Day, heading out into 2030. And that's probably about as far as we can look right now with any kind of level of conviction with our customers.

But we're in a much better place in terms of the opportunity set that's in front of us and the level of commitment from the supply base than we were a couple of years ago. It was starting to be a little bit concerning for us. And I think it's far less of an issue when you look at the Pareto of challenges to keep pace with the growth in the supply chain. We're in a far better position as we sit here today.

Operator

And we have a question from Angel Castillo with Morgan Stanley.

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

Dan, just a quick one, I guess, in terms of the North American market. You talked about maybe 2Q, 3Q being a little bit stronger. But as we think about maybe the pull forward of those in 4Q, 1Q, some of the trade trends in North America perhaps coming in a little bit below your expectations, are you back in terms of inventories back to where you want to be in terms of a normal environment? And how do you kind of see imports in North America shipment growth for the full year in terms of percentage and the absolute value for imports?

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

Yes. I can comment probably more on the trends that we're seeing and the quality of the inventory. As we sit here today, we're in a much better position than we were a year ago. I will tell you that there's the aggregate inventory position that looks good, and then we still have can sizes that are incredibly tight and short, and we're going to have to manage through some of those aspects, but we're in a far better position as we step into Q2 and Q3. And that's really when you reflect back on the challenges that we might have had last year. In the Northern Hemisphere in particular, it was a tough go there for about 6 or 8 weeks in Q2 and the first half of Q3.

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

I think imports in total, you're going to see down. But remember, those import numbers, they always include Mexico which will be a consistent flow of Mexican beer into the United States.

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

One other comment, it was in the script. As it relates to some of our other joint ventures and our assets that we're exporting cans into the U.S., we're now exporting cans into other parts of the world, Europe, in particular. So the exports are still happening, but they may be showing up in other parts of the world because we've sort of leaned into the North America investments a little bit more than the time line of investments for Europe and for South America. And so as those foundational assets get put into place into Europe and South America, those regions may have to import a bit. Nothing to the extent of what we experienced in North America, but that's sort of how we're looking at the import/export world right now.

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

Got it. That's very helpful. And then as you think about the capacity additions, I think at your last Investor Day, you had laid out the kind of totals of in 2 phases of potential capacity additions, a good portion of which has been announced. But as you think about perhaps what hasn't been announced or hasn't been fully constructed yet outside of the Russia plant that you've already discussed. I guess any changes based on what we're seeing in this environment, the uncertainty as to how quickly you want to deploy that capital, how quickly you want to build or perhaps the mix as well as you kind of alluded to between regions? Just how is that kind of decision -- the capital deployment decision evolving?

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

Yes. We're always going to follow EVA. And so as that picture evolves, some of the assets may end up in a different place than we had originally anticipated back at the end of 2020. The good news is all of the growth, medium and long-term growth projections that we gave, they're still there for us, 3 years on from when we made those comments. We're a little ahead at this stage in terms of the capital that we deployed and the unit volume that we've installed.

And I think your comment is right. I mean the world is a pretty volatile place right now. And so there may be opportunities that present themselves that look different than they were a couple of years ago. And if we get the right terms and conditions with our customers, we get contracted volume and we get a good EVA return, we're going to deploy it to those areas.

Operator

We have a question from Mark Wilde with Bank of Montreal.

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

Scott, I wondered if you could just give us any color on getting cash and getting capital out of Russia. I know it's hard in the middle of the situation to get too granular, but just any color would be helpful.

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

I mean our historical profits have already been dividended out of Russia. So we don't really have much sitting in Russia other than our assets that are there. And so there's not like a bunch of trapped cash or anything like that. And so we'll have to see as we go through the process and the regulatory approval as to what that looks like, and that will play into our decision as to ultimately what we do.

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

And then just the sale proceeds, the expected sale proceeds?

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

Yes. I mean like I said, we're early in the process, and we'll update you as we get more information.

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

Okay. But do you see any issues in a prospective sale in getting the capital out of the country?

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

There are a variety of ways in which you can structure sales. So I'll just leave it at that.

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

Okay. All right. That's good. And then, Dan, just turning to the North American beverage can business. Can you give us some sense of where you're running from a kind of a manufacturing efficiency standpoint and sort of further gains that we may see as you move through the year with the ramp-up of new capacity and then into '23?

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

Yes. You broke up a little there. I think your question was in and around operational performance and the ability to improve. I can tell you in North America, in particular, what I was most excited about the results here in the first quarter was the performance in North America. Aerospace did wonderfully as well. So we're seeing some stability in those 2 businesses that, quite candidly, we haven't seen for the last 12 to 18 months. I think those will start to build on themselves.

We will get to a better asset utilization framework where we're not oversold, hopefully. And with that in tow and the management team with new contracts, new terms and conditions, a clearer line of sight in terms of supply chain, more efficient ability to run our plants, you should see continued incremental benefits. The learning curve in areas like spoilage, like M&R, those things are costly line items when you're starting up a plant, and we're seeing nice progression in all of those new assets.

And so I'm pretty bullish that the earnings profile regardless of whether we're 10% growth or 8% growth, I think you're going to like the results coming out of that business moving forward because to be brutally honest, we haven't necessarily been what we expected here the last couple of years. And I think we've got our arms around a really good team in place there, and we're going to get after that here in the back half of the year.

Operator

Our next question is from Curt Woodworth with Credit Suisse.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

First question just around the tightness in the can sheet substrate market. Obviously, conversion fees for that product are going up. So I just wonder if you could speak to your alignment with respect to pricing those contracts against your new capacity ramp and whether you would have any interest in potentially partnering or funding some of the upstream capacity going forward?

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

Yes. It's certainly tight. It's been tight. It will continue to be. Our supply base is making incremental investments or have the last 4 or 5 years in debottlenecking. And I think everyone believes in the growth at this point, maybe not everyone believed to the extent they needed to, to cut a $2 billion check, which is sort of ballpark what's required to build a new rolling mill. Those are going to start to happen. And we will participate in those, as you can imagine, as the industry leader. And the form of participation will vary. And we'll speak more to that in particular as those announcements become public.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

Okay. Understood. And then you kind of said that the CPG companies are feeling, I think, more palpable pressure around conversion recyclability and getting away from plastic. I mean it seems like the past several years, they've been moving in that direction pretty clearly. But are you seeing an acceleration in the thought process there? And then given the fact that you already have substantial capacity backlog through end of '24 at this point, do you feel like there's still decent interest level and bidding activity for new plants beyond that time frame? Do you feel like the CPG companies are kind of pausing with respect to digesting some of the capacity announcements that we've seen?

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

Yes. I believe it's more pointed. What you've seen is incremental shifts. And I think the conversations now are beginning to be category shifts of where cans aren't participating today. And so those are multiyear discussions. You've got to have the supply chain not just on our side but on their side, right? If they're going to shift out of plastic into cans in a big way, they're going to have to make those investments.

And so you start having conversations that are in the time frame that you alluded to much earlier and with much more intentionality. And so that's what gives me a great deal of confidence that we're early innings here still. And so yes, stay tuned.

Operator

We have a question from Kyle White with Deutsche Bank.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

In South America, if Brazil remains weak and doesn't rebound quite like you may expect in the balance of the year, is there an opportunity to export some of your production and cans elsewhere in South America? Did you do some of that this quarter? Or are those regions such as Argentina, Paraguay and Chile, are they already balanced from a supply demand standpoint? Just trying to understand any potential offsets you may have if Brazil remains weak here.

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

Yes, thanks for that. I think Brazil is our biggest business by a pretty significant amount. And so material offsets in the short term, I don't think those are significant. And having said that, we are constantly supporting other areas of growth. And so those will begin to accelerate, I think, the tail end of Q3 and Q4 with World Cup, et cetera.

So yes, if there's an inflection point or you don't see the robust pickup in volume that we're candidly expecting and our customers, more importantly, are expecting. Some of those customers, they all participate in these other countries. So we'll work with them and we can ship products and take advantage of other areas within the country or adjoining countries for growth. So...

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Got it. And then on the aluminum cups...

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

And where we are right now, I mean maybe we're feeling a little bit more confident than you are because we are already starting to see a little bit more growth here in April and the early parts of May, even with all of the things that I outlined previously. So I think you're starting to return to a little bit more normal shipment patterns for various reasons. And so I don't think we're going to be needing to pull the levers that you indicated, but let's see.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Sounds good. And then on the aluminum cups business, can you just provide kind of an update here as events are definitely coming back. I think you previously targeted being profitable by the end of this year for that business. But I'm really just kind of curious based on the customer discussions that you've had and kind of this early runway that you've had, how big of a business or earnings contribution do you think aluminum cups could be 5 years from now?

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

Oh, 5 years from now, my goodness. If you asked me if we were going to be in a land war in Europe 90 days ago, I would have said that's crazy. No, I appreciate the ask.

I think this business has a really good opportunity to exit the year with a profitable trajectory in lens heading into next year. The venues are open. The importance of the second line coming on board is 9.1 ounce cups and 12 ounce. We need the entire aggregate portfolio to get to the volume levels across all of the products that our customers want to sell. So that's going to tell us a lot. We are going to be in a number of retailers, every single retail outlet that they own. We're going to see that this summer. That's also going to give us more indication to better answer that question. It's the right question. We're asking the same one ourselves.

We're still very bullish as we sit here today on the business. We're going to be in a number of test markets and trials. We're starting to see things like Styrofoam cups being regulated. That wasn't in our thought process, even this time a year ago. So there's more room for opportunity in green shoots than there was this time a year ago. But we're going to have to see how we get on here this summer and how some of these tests go before I can really even indicate what '23, '24 and '25 look like.

Scott, we're a couple of minutes over. Maybe we take one more question.

Operator

Okay. We'll have a question from Adam Samuelson with Goldman Sachs.

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

I appreciate you squeezing me in. Maybe just thinking about North America and coming off of the first quarter where the volume shipments maybe weren't as maybe were a little bit light of where you had previously thought. And can you talk about where your product inventories are today? I think if I'm going back to last year and last summer, that was an area of real stress in the supply chain because your finished product inventories were very tight. And is that something that gives you real confidence about the summer and the peak drink season here that you can serve the customers in a way that might have been tougher and operationally more complex a year ago?

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

Yes. Thank you. We're definitely in a better spot than we were a year ago. And in the North America business, probably more so than any other one, depending on what our customers want to do from a mix perspective and a category perspective, what they want to promote. We may or may not have the right mix, but it's a heck of a lot more healthy, and it's going to give us a lot of ability to manage and execute.

We exited 2021 in incredibly low levels, and Q1 was tough. Q2 was tough. Q3 was tough as a result. I think our improved performance in Q1 should give you some belief -- it certainly does for us -- that we're in a better position to manage our business in a more proactive manner. And hopefully, that transitions throughout the balance of the year. But there's still an element of mix here that we have to keep our eye on, specifically in North America.

Well, I want to thank everybody for joining us, and we'll get on in the second quarter and look forward to talking to you again soon. Scott, was there anybody left in the queue?

Operator

No, not at this moment.

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

Thank you.

Operator

Thank you. That concludes the call for today. We thank you for your participation and ask that you please disconnect your line.

Forward-Looking Statements

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