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CORPORATE PARTICIPANTS

Daniel William Fisher *Ball Corporation - President & CEO*

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

CONFERENCE CALL PARTICIPANTS

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

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

Angel Castillo *Morgan Stanley, Research Division - VP*

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

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

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

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

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

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

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

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

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

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

PRESENTATION

Operator

Greetings and welcome to the Ball Corporation 3Q 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded Thursday, November 3, 2022.

It is now my pleasure to turn the conference over to Dan Fisher, Chief Executive Officer. Please go ahead.

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

Thank you. Good morning, everyone. This is Ball Corporation's conference call regarding the company's third 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. Historical financial results for the divested Russian operations will continue to be reflected in the Beverage Packaging EMEA segment. See Note 1, Business Segment Information, for additional information about the sale agreement and a quarterly breakout of Russia's historical sales and operating earnings.

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 brief business performance commentary. Scott will discuss key financial metrics, and then we will finish up with closing comments and Q&A.

Let me begin by thanking those of you who attended our biannual Investor Field Trip in late September. It was great spending time with many of you in-person. We sincerely appreciate you taking time to meet our team to listen to Ball's unwavering strategy for our agile aluminum packaging portfolio and our aerospace technology security, science and sustainability solutions; to learn from our continued transparency on macroeconomic dynamics, impacting our industry; and to engage with us on the actions we have taken to deliver improved results, cash generation and EVA in 2023 and beyond.

For those of you that could not attend, a transcript of the management briefing and slides as well as contact information of our Investor Relations team are available on ball.com/investors under the Presentations tab.

In Q3, we successfully divested the Russian beverage can business, executed on our previously disclosed company-wide cost-cut plan; further oriented our business plan to serve our customers' needs from an optimized, lower-cost footprint; and reported our third quarter results. Scott and I will strive to provide additional clarity on the 2022 baseline, and bridge to 2023 based on what we know today in the fourth quarter and beyond.

Our year-to-date and third quarter comparable net earnings reflect resilient global demand for our products, offset by the historic rise in inflation interest rates and headwinds associated with the sale of our Russian operations and earnings translation.

Relative to resilient demand trends and to be efficient with our business commentary, here is a summary of our year-to-date and third quarter global and regional shipments.

Global beverage can shipments, excluding Russia, increased 3.1% year-to-date and 5.7% in the third quarter. North America beverage can segment shipments increased 1.9% year-to-date and 2.5% in the third quarter. EMEA beverage can segment shipments, excluding Russia, increased 7.8% year-to-date and 8.3% in the third quarter.

South America beverage can segment shipments decreased 7.2% year-to-date and increased 5.2% in the third quarter. And with the continuing support of EMEA demand, our other nonreportable beverage can shipments increased 48.1% year-to-date and 46.7% in the third quarter.

Our global extruded aluminum bottle and aerosol business continues to benefit from new refillable, reusable bottle offerings, including our recent alliance with Boomerang and other water brands and higher recycled content aluminum bottles for personal care products. Shipments in this segment increased 11.2% year-to-date and 12.2% in the third quarter.

Other recent activities include our global beverage business continuing construction on 2 facilities in EMEA; our North American team successfully completing effects bargaining associated with our August announcement to permanently cease production in our Phoenix, Arizona and St. Paul, Minnesota facilities in fourth quarter '22 and first quarter of 2023, respectively.

Our aluminum cups team introducing 9-ounce and 12-ounce cup sizes at retail and in stadium venues. Our aerospace team delivering solid program execution; a robust backlog of $3 billion and won-not-booked backlog of $4.6 billion; and the scheduled mid-November launch of the Ball-built Ozone Mapping Profiler Suite instrument aboard the joint NASA and NOAA, JPSS-2 Earth observation satellite.

And on the sustainability and community front, favorable substrate mix shift is continuing across Ball's aluminum product businesses. Our aluminum aerosol facilities achieved ASI certification, and our Velim, Czech Republic plant received an award from the Red Cross, recognizing their response to the Ukraine refugee crisis. Thank you again to our employees across the globe for supporting their communities and each other.

In summary, our customers continue to lean on aluminum as their package of choice. We also reiterate our Investor Day global volume growth opportunity. Near-term volumes may be pressured in certain regions as everyday consumers are feeling the pinch of inflation.

Our global beverage teams have positioned their businesses for slower growth in the fourth quarter, inclusive of preparing for temporary actions to achieve year-end inventory goals, keeping supply/demand tight and preparing for optimal financial improvement in 2023.

We appreciate the work being done across the organization and extend our well wishes to our employees, customers, suppliers, stakeholders and everyone listening today.

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

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

Thanks, Dan. Year-to-date 2022 comparable diluted earnings per share were $2.34 versus $2.52 in 2021, and third quarter comparable diluted earnings per share were $0.75 versus $0.94 in 2021. Year-to-date and third 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 and inflation in Europe.

Comparable year-to-date and third quarter diluted earnings per share reflects strong results in North America and aerospace, and a lower share count, offset by higher interest expense, higher comparable effective tax rate, comparable operating earning declines in EMEA attributable to the sale of our Russian business, cost inflation and unfavorable earnings translation and lower comparable operating earnings in South America continued to be driven by regional customer mix.

I'd like to take the opportunity to proactively address working capital and why cash flow will be better next year. During 2021, we ramped up our metal purchases to meet what we expected would be strong 2022 growth in North America. We did this at a time of rising metal prices. And while we are protected for metal price changes in our P&L due to our effective inventory hedging program, it does impact the cash flow and the amount of metal payables.

Earlier this year, when we saw that volumes would not materialize as expected in 2022, we began to reduce metal purchases. This also coincided with declining metal prices, which reduced the metal payables even further. Again, no P&L impact due to Ball's effective inventory hedging. The net result is less billed in the accounts payable than originally planned. The end result will be a use of around $800 million in working capital for full year 2022.

This will normalize next year as both metal prices and our take should stabilize. We are focusing our attention on generating cash as we move forward.

Other reasons why cash flow will be better next year include $500 million less in CapEx, the expectation of meaningfully less pension contributions needed, $90 million less in cash outflow for incentive compensation due to lower incentive comp payments from 2022, and we'll have much less working capital pressure and also increasing our focus on selling terms. I'll give you more direction during our fourth quarter earnings call once all of our planning is complete.

As we sit here today and following the completion of our Russian business sale, some key metrics to keep in mind for 2022. We ended the quarter in a solid liquidity position with $500 million in cash and $1.5 billion in committed credit availability.

Our full year effective tax rate on comparable earnings will be in the range of 20%. Full year interest expense will be in the range of $315 million, and full year corporate undistributed costs in other nonreportable are still expected to be slightly above $100 million.

CapEx will finish the year in the range of $1.7 billion. Given year-to-date results and the key metrics cited, Q4 shipment trends, estimated inflation and euro translation headwinds and including the sale of our Russian business, we will likely end the year with operating earnings in the range of 8% less than last year's full year 2021 comparable earnings of $1.585 billion, and full year 2022 comparable D&A likely to be in the range of $540 million.

As a result, year-end net debt to comparable EBITDA is expected to remain at current levels, which is higher than where we would like it to be. And we have prioritized debt reduction in the near-term as we move into 2023.

Last week, Ball declared its quarterly cash dividend and in alignment with our Investor Day commentary after we navigate fourth quarter and early 2023, we'll address the path to resuming share repurchases. Rest assured, as fellow owners, we will manage the business through the lens of EVA and cash stewardship.

And we'll effectively manage our supply chain and customers in this current economic climate to secure the best cash, earnings and EVA outcome for our shareholders. I'm looking forward to exiting 2022, and I'm excited for 2023.

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

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

Thanks, Scott. Appreciate your help as always. In my best Scott Morrison impersonation minus the expletives, "The world is in a really challenged state, but we're not." Geopolitical unrest, rapidly changing business conditions and unprecedented macroeconomic trends are unsettling. So here's what I know.

During 2022 and since assuming the role of CEO, we have endeavored to be transparent and decisive. In doing so, it has led to an uncomfortable yet necessary set of actions, which have impacted colleagues and communities. Yes, 2022 has been an unprecedented time and at Ball, we are going forward with what we know: our Drive for 10 strategy and EVA discipline. In addition, our well-capitalized footprint is serving resilient demand for our products and technologies.

We will benefit from contractual pass-through of inflationary costs; the cost-out actions already implemented or nearing completion; a more conservative short-term view of volume growth; the focus on cash; and we have the best team to navigate change, unlock value; and beyond 2022, achieve our long-term diluted earnings per share growth goal of 10% to 15%, inclusive of the divested Russian operating earnings headwind.

Thank you to everyone listening today. And with that, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from George Staphos of Bank of America.

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

I guess you've given us some of the outlook for fourth quarter, Scott, and we appreciate that. Trying to adjust for Russia in Europe, should we expect more or less the same type of year-on-year trajectory across the other segments? How should we consider whatever sort of inventory reduction you may need to see, and how that will hit the segments? We would guess it'd be North America in particular, if you had a couple of quick thoughts there? And then I've got a couple of follow-ons after that.

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

Yes. I think most of the inventory, kind of the absorption hit, will be in North America as we adjust inventories down. Through 9 months, we saw North American can shipments increase just under 2%, kind of full year, we think it's going to be flattish.

In Europe, Russia will be the big drag, taking out roughly $30 million of earnings. Inflation is a bit higher in Europe so we'll see a comparable inflation impact in fourth quarter as we did in third quarter, which was about $10 million. And we've got some start-up costs, too, as we ramp up Kettering and the Czech Republic. So that will be a bit of a drag.

When we look at aerospace, they had an incredible fourth quarter last year. That won't repeat. They will be more normalized this year. And then in South America, we're not quite seeing the bump from World Cup that we had expected. We thought we could get back to even, and that probably won't be the case when we look at South American volumes.

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

Second question I had for you is, is there any update on the net commercial and price/cost outlook that you initially relayed to us at the Analyst Day as you look at '23? Has anything moved of significance that you'd want to relay as we're, again, trying to build and bridge to '23 off the '22 basis that you've given us?

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

Sure. I think we're having the most progress in Europe for '23. The team has done a remarkable job. They've been doing that since the outset of the year.

So I think we're in a really good spot to not only benefit from our contractual pass-through that's already built in to our contracts that have the most meaningful impact, obviously, in Europe, Western Europe and in North America.

And on an ongoing basis, I think you're hearing this from other participants in the industry. If there are things that are extraordinary in the contracts, especially from a supply chain standpoint, those are going to have to be passed through immediately.

And so that's the stance we will be taking moving forward. We're not going to continue to chase inflation of an extraordinary nature, specifically Europe energy prices.

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

Okay. So maybe, Dan, I recognize it is tough to say on live mic, but should we assume those pluses and minuses are kind of balancing, and therefore, the outlook you gave us remains the outlook into '23 on that front?

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

Yes. George. I think what as we sit here today, and Scott will give more context to this, we're steering based on the baseline we just gave you on '22, to the high end of our 10% to 15% for next year as we sit here today.

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

Okay. And then my last one, you talk about a near-term, more conservative view on growth. And looking back over the last 4, 5 quarters and as you're hearing from your customers going forward, what are they saying about their volume expectations into '23, and maybe a little bit past that?

And what are they saying in terms of cans relative to some of the new growth initiatives that are out there, whether it's nonalcoholics or ready-to-drink? And then in turn, how are you, for lack of better term, haircutting that commentary in terms of your growth outlook, not just near-term, not just fourth quarter, but playing with real capital dollars over the next 2, 3 years?

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

I think it's a good news, bad news story for North America. I mean the reality is what we're seeing, and I'll give you the most recent data that we have, kind of the prior 12 weeks.

Total consumption is down total literage consumption is down in the U.S. The good news is that when we look at that relative to the can, the can is significantly stronger than tetra, glass and plastic combined. So our declines are muted compared to what everyone else is experiencing in terms of substrate mix.

The areas that continue to grow, it's probably easier to talk about what's still growing, and we have nice exposure to those areas. Our energy is continuing to grow in the prior 12 weeks. Import beer continues to grow, cider, F&Bs continue to grow, and craft beer is flat. Everything else is a modicum of decline.

And if I were to bracket the 2 big buckets right now, this is just can volume. Nonalcoholic, down about 1%; and total alcohol, down a couple percent. You can double and triple those declines for the other packages and substrate mix. So feeling really bullish about the circularity story for the long-term. But inflation is clearly hitting the end consumer right now. And that is absolutely in our thinking.

And Scott, maybe you want to talk just at a high level in terms of 2023 and some of the higher-level assumptions you have. But the one thing I will say that gives me room for optimism is we are a recession-proof business, a resistant business. What we've been experiencing is inflation. As we transition into the recession piece, there's a very good likelihood that the can starts to get promoted.

With the interest hikes on credit cards, mortgage rates, it will impact the consumer. That said, at some point, the can will get promoted. But as long as the elasticity curve remained somewhat strong with the price increases, that's what we've experienced to date. And I think we're kind of on the precipice here, George. We're not counting on upside, but we're right on the precipice of seeing a decline, and that decline manifesting potentially in a better outlook for cans.

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

Yes. I would just add, George, I have a real sense of optimism as we move forward from where we're at right now. Last quarter, you probably could hear the challenges and the tough actions we needed to take in my voice.

Well, we've done all those. We've taken the actions on plant closures. We've reduced SG&A meaningfully. We're scrutinizing all of our investments to a greater degree as we move forward. And all of these actions will help us ensure that we have improved results in 2023 and a more modest base of growth that we're expecting.

So we see nice improvement across all of our business units moving into next year. The contractual pass-throughs on inflation will help, and the cost-cut actions will definitely help. So as we sit here today, I feel really good about us moving into '23.

Operator

The next question comes from Adam Samuelson of Goldman Sachs.

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

So want to continue on the discussion on North America and demand. And you just gave some comments on promotions, and that's obviously being important into 2023.

I guess given the capacity actions that you've taken, but also maybe the capacity utilization that you didn't fully take advantage of earlier in the year in your own system. Just to clarify, can Ball North America can shipments be up in 2023 from where you sit today?

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

Yes, we have ample dry powder. Keep in mind, the big investments that we've made, we're still on the journey of increasing the efficiency curve and the start-up range. So yes, we can grow mid-single digits here for the next couple of years in North America without any additional investments.

We're just building a plan that's more conservative, and we'll have the ability to toggle up if our customers need that demand.

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

Are you actually planning for your shipments to be up mid-single digits next year? Or that's what you have the capability for? I just want to clarify that point.

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

No. That's what we have the capability for. We're planning for flattish to slight growth.

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

Got it. Okay. That's really helpful. And then I guess as a follow-up in Europe. Obviously, there's a lot of noise in the accounting with Russia, but we stripped that out. Where do you think you are today on price discussions with customers and recouping some of the energy and other inflation that you've been absorbing and kind of visibility that, that can maybe potentially flip to a tailwind at some point in 2023?

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

Yes, on energy specifically, we're in a pretty good spot. We've got 95% of the energy that we can hedge has been hedged. So while energy will go up next year, we feel like we're in a pretty good position to control how much it goes up, and we're having active dialogue with our customers on that front of them absorbing those costs because we're not going to absorb them.

Operator

The next question comes from Ghansham Panjabi of Baird.

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

I guess, first off, on your comments on metal sourcing in 2021. For 2022, obviously, prices have changed between then and now. Did you secure that additional metal specifically for customers based on contracts? Because I'm trying to understand why customers would pay you yesterday's prices in context of lower prices today for metal.

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

We hedge our inventory, Ghansham. So we don't take P&L hit. So we bring in inventory with an expectation of when it gets sold, and we hedge that price risk. That's why it's not showing up in our P&L. It's just really a cash flow hit.

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

Got it. And you said, just to clarify, $800 million hit in terms of working capital year-over-year for '22? And if so, what is the base-case expectation for free cash flow this year? And what kind of reversal could we see next year on working capital?

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

So, if you take $800 million use of working capital and the CapEx we're spending, we'll have negative free cash flow of over $1 billion. Next year, we expect the working capital element to be greatly reduced. And we expect we're going to reduce our CapEx. We have reduced incentive comp payments that go out next year and we don't need to fund our pension plans. Our pensions are in really good shape.

So there's a bunch of other elements of cash flow that we'll be able to generate next year versus what we experienced this year. And we'll have more earnings.

Operator

Your next question comes from Mike Leithead of Barclays.

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

First question, I just wanted to ask about Europe or EMEA. Obviously, you guys are still posting pretty strong growth there. Relatedly, I would think the inflation pain there for the consumer is much worse just given where the economy is. So can you maybe just talk through kind of what you're seeing there, and maybe some of the resilience relative to the inflation pain mark?

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

Yes. One of the things that we've seen, I commented earlier in the call, but we have seen a shift from on-prem to off-prem, which has benefited the can. So the end consumer is absolutely squeezed, their energy bills in their homes, are impacting their discretionary spend. And they are already making choices.

The areas of strength continue to be beer and continue to be energy drinks, which we have a really nice portfolio. So we may be benefiting a little bit from mix. But the end consumer has been quite resilient to this point. We are seeing the beginnings of shifts, but those shifts are manifesting in more resiliency and more of a shift toward the can.

Obviously, I think the anecdotes I can bring you from Europe are folks aren't as concerned about this winter as they are about next winter with the natural gas reserves. We'll see how that manifests in terms of additional inflationary pressure moving forward.

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

Great. And then just briefly, Scott, I just wanted to clarify on your cash flow answer to Ghansham just now. I know it's hard to -- who knows where metal prices will be next year. But just as we sit here today, this year, we're going to have an $800 million hit to cash from working capital. Should working capital be a source of cash? And roughly, how much do you think you could get back next year, as all else equal?

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

Well, if you go back to 2021, we had a big source. So it started in 2021, and we got the benefit of bringing in more metal and the metal payables being higher in 2021. So we saw that benefit in '21. We're giving that back essentially in '22.

So that's why, next year, we're not going to build a plan based upon that much volume growth. So our metal shipments will be more measurable, if you will, more controllable. And so we don't expect this kind of swing from a working capital standpoint. We see it much more balanced next year.

Operator

The next question comes from Christopher Parkinson of Mizuho.

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

Just to circle back on the plan. The initial planning for 2023, you just hit on Europe and hit on some comments in North America. What about just Latin America just given, obviously, some of the headwinds that were incurred during the first half of the year, the World Cup being in the fourth quarter, a normalized Carnival and some more customer-specific issues? So if you could just hit on that -- the region holistically, it would be very helpful.

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

Sure. I think, as Scott already indicated, if you're thinking about sort of high-level volume assumptions as we sit here today, we're thinking flattish in North and Central America. We think we'll be in that kind of 4% to 6% range in both South America and in Europe.

South America, keep in mind that we walked from a major customer in the beginning of 2022. And so our comps begin to be much easier, if you will, relative to that dislocation.

So a like-for-like business, we should be growing in that 4% to 6%. And we don't anticipate any more customer dislocations heading into the year.

Brazil beer consumption has continued to get better throughout the year. The can is continuing to win. And I think what you'll see is a much more stable South America region in general, with the exception of Argentina is always a wildcard. So we expect a modicum of growth everywhere inclusive of Brazil heading into next year.

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

Got it. And just given all the noise and the kind of the puts and takes on some of the various substrates and demand categories, could you just comment on your overall wins in terms of aluminum cans for new launches? I mean, is that still relatively in line with what you've been discussing over the last few analyst days? If you could hit it on plastic and containerboard, that would be quite helpful.

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

Yes. So a real quick trip around the world. The can is underpenetrated in Europe, the lowest substrate penetration of the 3 big regions with the most regulation mounting in Central and Western Europe here heading into 2025 with some producer responsibility bills.

The most pent-up demand in terms of new can filling lines is in Europe because of those regulations and because of the steer toward aluminum. In South America, we're still winning. Ex Brazil, there's still a huge shift from returnable glass into aluminum, and aluminum continues to win.

And in North America, the new product introductions are still coming out in cans. The thing that's muting that, as I said earlier in the call, is overall consumption is down. And so that's really the biggest issue, there's nothing that's changed in our circularity story or the fundamentals underlying our belief in the medium to long-term. But the inflation has caught up to the end consumer, and we're seeing less consumption across the board in North America.

Operator

The next question comes from Mike Roxland of Truist.

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

First off, you mentioned, Dan, that shipments grew 2.5% in North and Central America. Is there any way to parse that between the 2 regions?

What did North America grow in 3Q versus Central America? And the reason I'm asking is because you just bear in your commentary, you mentioned slower beer demand. I think some of your peers have called that out as well. And some of the beer companies themselves in their earnings calls have noted volume weakness given consumer inflation.

So given that beer is a pretty important end market for you in North America, just trying to figure out what North America did standalone versus the combined North and Central America?

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

I think overall, similar level of resiliency in both. The things that were advantageous for us are probably our energy mix in our portfolio, which is stronger; our import beer mix in our portfolio, which is probably stronger. So those are the 2 things that have given us some underpinnings.

And our strategic partners in both the nonalcohol space and the alcohol space are winning. So those 3 things have given us probably a modicum of growth that's in line or a little ahead of what the industry has.

Not a great deal of difference between North America and Mexico, Central America.

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

Got it. And then just wanted to get your perspective on what you think it's going to take ultimately for the industry to have better volumes. Is it just a matter of the fillers and beverage companies realizing they need to drive increased throughput, as you mentioned earlier? Is it a matter of just ultimately seeing payer inflation that should drive better better consumer spending? What do you think ultimately gets you over the hump despite seeing those better volumes?

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

Again, when I look at the substrate mix, the can is winning, the problem is overall literage declining. So there is clearly pressure on the end consumer relative to inflation, credit card debt, raising interest rates. There has to be some level of stability in the economy. And then I think we transition back to what we saw prior to the heightened inflation pressures.

It is true that when we've entered recessions historically, the can has been promoted because there has been a shift from on-prem into more off-prem. And we haven't seen that yet. So I think there's been a lot of pent-up enthusiasm because we haven't been able to go out over the last couple of years and people are spending their money, and they're in the on-premise channel.

That feels as if it's beginning to shift and the most recent data here in the 1- and the 4-week data backs that. That will help the can, but fundamentally, I think a return to a normalized inflation and interest rate environment provides consumer confidence, and then the can wins on the circularity notes.

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

I think also the thing that will help is aluminum is off almost $2,000 from its high. And so while all input costs for our customers are going up, the reality is the actual aluminum has gone down.

And so that gives them the ability to do a little more price promotion and not give up margin because aluminum has come down so much. So I think that's a positive.

Operator

The next question comes from Phil Ng of Jefferies.

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

Scott, at your Investor Day, I think you called out about $200 million of net pricing benefit, which accounts for inflation from some of the PPI escalators. Is that still a good way to think about it, just because inflation is obviously pretty dynamic here?

And I think, Dan, you mentioned how you're making pretty good progress on renegotiating pricing and trying to recoup some of the inflation you're seeing in Europe. Any color on how much of an uplift that could be next year?

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

Well, I think on the PPI it's going to be greater than $200 million across all the different segments because inflation has run pretty hot this year. We're starting to see input inflation moderate, which would be helpful. So we should get a lift on the pass-through to kind of catch-up some of the pain we've had to feel.

This year, it's been mostly in Europe with energy and inflation. Last year, it was North America. So I think we feel pretty good about those contracts We did get the price pass-through in North America and in Europe that we expected this year. The problem is we offset in Europe by currency and by more inflation. We'll get a lot of that inflation back next year.

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

Okay. And just one last one for me. Remind us how the promotion cycle usually works in North America? I believe it's heavier during the summertime. So if your customers do come back and want to step up promotional activity to kind of drive demand in North America, when would the earliest pocket be?

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

You see a small amount for the Super Bowl, a real small amount. And then you see Memorial Day, Fourth of July, Labor Day. And 2 weeks prior to each one of those events is when you typically see it. And if you get lucky, you might get some around the holiday period, which we're not planning on.

Operator

The next question comes from Angel Castillo of Morgan Stanley.

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

I just was hoping we could unpack fourth quarter a little bit better. I guess, just want to make sure I'm understanding correctly. So the bridge that was given for operating income seems to suggest, and correct me if I'm wrong, roughly kind of $307 million for the quarter.

Could you just give us a sense for how you're thinking about that by the kind of segments and regions? And also included in that, what your volume expectations are embedded within that?

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

I'm sorry, what was the number you gave me?

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

$307 million. I just basically took 8% off of the 1,585 and then less what you've done year-to-date.

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

Okay. Yes. I mean the things I mentioned were absorption in North America and lower volumes than last year. We had a tough comp from last year. We grew 5% last year. We've grown 2% year-to-date through 9 months. We expect that to be flat for the year.

South America, we had the loss of the customer from last year. That will be a bit of a drag. Europe, obviously, we sold our Russia business. It's in the press release, about $30 million of profitability in the fourth quarter.

Inflation is running kind of similar to where it was in the third quarter, which is about a $10 million drag, and we'll have some start-up costs related to our new facilities. Beverage packaging others should still be strong as we continue to import into Europe to meet demand. And our aerospace business had a record fourth quarter last year, which likely won't repeat. So I think where you're landing is directionally correct.

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

And then I just wanted to also revisit the prior question on destocking a little bit more.

So I guess there was a couple of customers that may be mentioned some potential kind of pull-forward ahead of pricing initiatives in October. So can you just talk a little bit more about kind of what you've seen from a September standpoint in terms of shipments in North America, and whether there was any kind of pull-forward that you kind of anticipate to be unwinding in the fourth quarter?

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

No. We didn't see any of that in September. What we're seeing through the last 4 weeks, in particular, is further consumer decline in overall beverage consumption. So we didn't feel the impacts of a September pull-forward.

And we're monitoring very closely the promotional activity here in the fourth quarter, because as the end consumers stop buying beverages across the board in any setting and if there's a shift from on-prem to off-prem, the can typically will be promoted more and there will be reason for upside. We have not seen that through the first 4 weeks of the quarter.

Operator

The next question comes from Anthony Pettinari of Citi.

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

Just wondering, equity earnings, I think, were negative in the quarter after being up, I think, mid-single digits in 1Q and 2Q. Can you just give some color on what drove that? And maybe just remind us what's in that line after the Metalpack sale.

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

Yes. We had a onetime good guy in the second quarter, and then those kind of reversed in the third quarter. So we'll have more normalized equity earnings as we look to the fourth quarter. And the things that are in that are mainly our JVs with Rocky Mountain Metal Container, Guatemala and Vietnam. It was kind of spread across those 3 basically.

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

Got it. Got it. And then the $150 million in fixed and variable cost reductions that you outlined for '23, I'm just wondering, if there's any finer point you can put around, maybe the cadence of that kind of savings flow-through.

And just generally, when we think about kind of quarterly comps next year, and obviously, a lot of moving pieces, any reason why you'd expect earnings growth might be more first half-weighted or second half-weighted? Just overall thoughts there.

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

I mean it should come relatively evenly, but we won't get all of the benefit in the first quarter. As Dan mentioned, one of the plant closures doesn't happen until the first quarter. And some of the folks that are departing won't depart until the first quarter. So we'll start to see more of that benefit kind of Q2 going forward. But it should run relatively evenly.

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

And was your question specific to the $150 million? Or were you looking for phasing of earnings?

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

I guess both.

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

So the inflation pass-through mechanism, the net $200 million that Scott talked about, that will come through in contractual chunks. So January 1, you'll have some; April 1, you'll have some; July 1, you'll have some. And then we will have an FX drag of $15 million to $20 million, mostly in the first 4 to 5 months of the year.

Operator

The next question comes from Adam Josephson of KeyBanc.

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

Just one clarification on the full year guidance. So I think, Scott, you said North America shipments flattish for the year. And forgive me if I missed this, does that imply about down 5% to 6% in the fourth quarter? And if so, is that about consistent with what you've seen thus far in October?

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

No. I don't think it will be down that much.

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

Okay. Closer to 4-ish, I guess. Okay.

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

I don't think it will be down that much. I mean we can play that game, but I don't think it will be down that much.

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

Okay. Just because I know 4Q is typically a lighter quarter volume-wise.

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

We had a really good quarter last year. We grew like 5% last year. It's not going to grow like that.

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

Got it. Okay. And if I think about just flattish shipments this year and similar next year, can you just compare that to '09? I think organically, you were down a bit because I think you bought the 4 plants from AB InBev, if memory serves, such that shipments were down a bit organically.

Dan, could you just compare what you're expecting this year and next to what you saw in '09? I know you said that one difference is that there's a lot more inflation now than was the case then? Are there any other differences that you would point to now versus then?

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

Yes. In '09, we were actually up a couple of percent. That's after being down in '08 like 5%. So in my 22 years here, if you get a short-term hit on volumes, it comes back pretty quickly. I mean the can is pretty resilient. To Dan's point on all the benefits that the can have, none of that has changed.

And so you might see things in a particular quarter given pressures on the consumer or pricing actions on the customer, those things tend to balance out over time.

And so I think we're in that period right now where it is a little more uncertain, a little more volatile. But we still believe, and our customers still believe, which is even more important, in the benefits of the can. And so we feel really good about as we get into 2022. This year has definitely been choppier, and we feel really good about moving into '23.

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

Yes. Adam, your question is a really good one in that what we've talked about and the question that you're posing really has to do with the recession. We've had inflation and interest rates rising, and we've got customers that haven't really lost volume on the top line. And so they've continued to leverage the price mechanism.

If we shift into a recession, that's when the can's resiliency shows up. It doesn't necessarily show up in 50-year inflationary times, depending on the promotional activity and the pricing from our customers.

A little bit more optimistic tone from Scott and I on this topic because I think we're heading there, and end consumers' behavioral patterns and what we're seeing in the data is they will prefer the can in that environment.

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

Yes. No, understood. I appreciate that. And just one other one along similar lines. With the benefit of hindsight, growth shot up in 2019 with sparkling water and then hard seltzer. And that was the one of the biggest growths here in a very long time for the industry. And then the pandemic hit, and that kind of skewed everything. And it was unclear, how much was specific to beverage cans, how much was the pandemic inflating demand for everything. And we've seen that deflate now.

So with the benefit of hindsight, how much of the growth over the past, call it, 3 years, would you attribute to the pandemic versus growth in hard seltzer, sparkling water, et cetera? And how is that informing your view of what you think the long-term rate of growth is?

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

I can remember in our 2018 Investor Day, Adam, that we talked about the growth of that. We were already starting to see it in 2018. So it was well before the pandemic. It wasn't just 2019. So we started to see the growth. We started to see really the sustainability story start playing out in North America, and you had new product introductions. It went from 30% 5 years before to 70% at that time in 2018. Now we're seeing it even higher.

And so definitely, there were some distortions because of COVID, and there's some distortions like unwinding COVID and now we've got inflation and some other things to deal with. But that's where I think long-term, all the benefits of the cans still exist. And so that's why we feel very confident and very comfortable about how we're moving forward into '23.

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

Yes. Adam, I think at a really high level, we're paying attention to a basket of countries like the U.S. that pushed significant stimulus into their economies. And if you go back a handful of years, we talked about this in the Investor Day. I mean there's been 20 billion to 25 billion of additional cans added to the U.S. market over about a 3- to 4-year period. That can volume isn't going backwards. So it's there.

Now what's the growth rate on top of that is a very fair question. We believe because of the circularity story because this volume has stuck that we're poised for a really nice lift kind of in that medium- and long-term range, but we just need a modicum of stability in the economy. And we've seen that in places like Chile was up 25% in 2021. They haven't gone backwards. So they've maintained that can penetration on the shelves.

And I think the underpinnings of the circularity story are the biggest reason why those have stuck. So I'm much more in the half-glass-full standpoint than I am that this thing is going to go a different direction.

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

Right. Can half full, Dan.

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

Yes. Yes, good call. Fair enough.

Operator

The next question comes from Kyle White, Deutsche Bank.

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

I go into North America. Can you just talk about the competitive dynamics there in that market, just given the change in near-term demand profile? Have you seen any changes on the competitive environment? Or is this more of a kind of a wait-and-see as contracts come up for renewal?

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

There aren't a great deal of contracts that come up for renewal each year. I think we believe that we've got somewhere in the neighborhood of 80% to 85% of our contracts locked in for the next handful of years. So we're in a really good spot.

There are always contracts that come up that volume could move on the fringes, but it's such an efficient market and so much has to do with freight that I don't see a lot of movement in the marketplace. I think it's a very rational marketplace.

We're continuing to lead, we believe, that supply-demand will continue to be tight for the foreseeable future given the growth prospects of the business. And so I'm feeling good that the pricing and the terms that we've locked in here over the last couple of years will maintain.

So we're feeling like it's an increasingly disciplined market. Things will remain tight, and everyone should benefit from that moving forward.

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

Got it. That sounds good. And then on the Russia sale, can you just talk about the call option there? What led you to that decision? Any kind of range of what exercise price is relative to the sale price?

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

It was a great business that we didn't really want to sell. And we would love to get back there if Russia ever normalizes their behavior, leadership and activities. So we have a call option that starts in year 3 and goes through year 10. And the price depends on the performance of that business at the time we exercise the option.

So we thought it was absolutely the best outcome we could achieve by getting $530 million in cash off into our bank accounts, and then have an option to return if things normalize and we're able to do that. But obviously, right now, that's not terribly likely in the next few years.

Operator

The next question comes from Arun Viswanathan from RBC Capital Markets.

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

So I guess, first on beverage cans. I just wanted to understand the contracting process a little bit more. Are your customers essentially signing up for volume? Or is it a range of volumes? Or is it min/max? Just curious because there was kind of a swift slowdown, and our understanding was that most customers were kind of required to take certain levels of volume. So could you just flesh that out for us a little bit?

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

I mean it's a range of things. There is no one contract structure. So it's everything from fixed volumes with probably some range, 5% range, up or down. There are some that are fixed for a period of time over a multiyear period. So if you're short in one period, you're going to need to make it up in a different period.

The old requirements kind of contracts are becoming fewer and fewer, and that's where you were more exposed to volatility. But those are becoming fewer as time goes on. We've gotten rid of a lot of those requirements-based contracts, which caused more of the volatility.

But you're never going to have something that is 100%. We're usually talking around the last few percent of volume, and that can matter.

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

Got it. And then on aerospace, our understanding is that '22 is kind of a transition year to the next, say, 2- or 3-year range of backlog. Is that right? And so maybe '23 to '25, do you expect kind of 10% to 15% EBIT growth for that business? Or how should we think about aerospace?

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

Over that period, yes. And north of 15% next year is what we're looking at.

We'll do 1 more question.

Operator

The question comes from Mark Wilde of Bank of Montreal.

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

I just wondered, Dan, is there any updates and thoughts on CapEx and expansion plans as we move toward '23?

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

Yes. I mean, I think as we go into '23, we expect CapEx to drop by about $0.5 billion. And I would say, given growth rates we see in the near-term, I mean we're going to finish building in Czech Republic, and those have really good contracts supporting those investments. And we obviously have enough capital in North America for the next couple of years. So I don't think we need to do anything meaningful on that front. So I would expect it to come down again in '24.

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

Okay. So that sounds pretty similar to what you were talking about 6 weeks ago at Investor Day.

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

Yes. Correct.

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

Okay. Dan, just one other one, and I know this is a little bit challenging on a public conference call, but it does sound like you've taken a different tacks in terms of cost pass-through over in Europe. And so as best you're able to, can you give us some sense of that? Because it sounds like there's going to be no eating of energy costs going forward?

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

I think we're getting out ahead of the risk profile that Europe will present for the next 12 to 18 months. That's how I would characterize it.

We understand fully that they're going to have to get their act together on the European continent in terms of transitioning to a more secure and stable energy source.

And our supply base feels it first, then we feel that the end consumer feels it, our customers feel it. And if the costs go up, they're going to need to be passed through to the end consumer straight away. There won't be a lag on these things. And I think that's the momentum and the understanding and the equilibrium that the industry needs to have. And we're happy to take the leadership position on that.

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

Thanks, everybody, for participating. We're really encouraged and upbeat heading into 2023. We'll navigate the choppy environment here in the next 90 days, and look forward to the next conference call.

Operator

Thank you. This does conclude the conference call for today. We thank you for your participation, and ask that you please disconnect your lines. Thank you and have a good day.

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. Ball 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 Ball’s Form 10-K, which are available on Ball’s website and at www.sec.gov. Additional factors that might affect: a) Ball’s 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 Ball’s supply chain and its ability to operate in Europe, the Middle East and Africa regions 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 Ball or in its supply chain, including imported raw materials; b) Ball’s aerospace segment include funding, authorization, availability and returns of government and commercial contracts; and delays, extensions and technical uncertainties affecting segment contracts; c) Ball 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, environmental, social and governance reporting, competition, environmental, health and workplace safety, including U.S. Federal Drug Administration and other actions or public concerns affecting products filled in Ball’s 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 Ball’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 Ball’s debt; and successful or unsuccessful joint ventures, acquisitions and divestitures, and their effects on Ball’s operating results and business generally.