

Edited Transcript

Ball Corporation - Q2 2023 Earnings Call

Event Date/Time: August 3, 2023

9am MST

Conference Call Participants

Dan Fisher – Ball Corporation - Chairman and CEO

Scott Morrison – Ball Corporation - EVP and CFO

George Staphos - BofA Securities, Research Division

Bryan Burgmeier - Citigroup Inc., Research Division

Adam Samuelson - Goldman Sachs Group, Inc., Research Division

Christopher Parkinson - Mizuho Securities USA LLC, Research Division

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

Michael Roxland - Truist Securities, Inc., Research Division

Arun Viswanathan - RBC Capital Markets, Research Division

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Daniel Fisher - Ball Corporation - Chairman and CEO

Good morning, everyone. This is Ball Corporation's conference call regarding the company's second quarter 2023 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 comparable operating earnings.

In addition, the release also includes a summary of non-comparable items as well as a reconciliation of comparable operating earnings and diluted earnings per share calculations.

Late in the quarter, the company also announced that it is considering options for its aerospace business. There are limitations regarding the depth of commentary we will provide on that topic today. If and / or when additional comments are necessary, they will be made via a separate public press release.

Joining me on the call today is Scott Morrison, our executive vice president and CFO. I'll provide some brief introductory remarks. Scott will discuss key financial metrics and then we will finish up with closing comments, our outlook for the remainder of 2023 and Q & A.

Let me begin by thanking our employees for working safely and with the utmost level of agility while fulfilling our customers' needs. On our first quarter call we said that our second quarter would be choppy and that was the case. Our team delivered solid second quarter results amid tough year-over-year comparisons including \$47 million of higher interest expense, the \$40 million operating earnings headwind from the Russian sale and global beverage volumes down 11 percent driven by the Russian sale impact and a notable domestic beer brand experiencing demand disruption in North America.

I'm proud to say that our team did an excellent job of managing both costs and working capital levels to deliver the quarter and position the business for a stronger second half.

Looking forward, we will continue to benefit from notable inflation recovery, cost-out actions and improved operational efficiencies. Our inventory levels are in good shape with plans to improve further, our North America team is managing in real-time the balance of the U.S. mass beer brand boycott and our improved demand forecasts of other customers which should unlock additional opportunities during the second half, cash flow is kicking in and we are studying opportunities to accelerate deleveraging and the multi-year return of value to shareholders while also developing additional innovative packaging solutions to grow the business going forward.

Around the globe, beverage cans continue to win relative to other substrates and we continue to leverage the

contributions of our two new facilities in EMEA, our customer mix, scale, plant footprint, innovation and capable teams across the organization to ensure the best outcomes for all our stakeholders.

In our aerospace and aluminum aerosol businesses, operational performance and demand for our products continues to grow. In aerospace, our won not booked backlog increased \$1 billion and the unique technologies we provide to support environmental and national security needs remain in high demand. And, in our global aluminum aerosol business, we continue to serve new categories and offer reuse, refill bottle innovations to a broader set of customers and occasions. As we look ahead, all of our businesses will continue to unlock additional value for Ball stakeholders in 2023 and beyond.

Consistent with our prior commentary in 2023, we remain positioned to deliver approximately \$750 million of free cash flow to deleverage and return value to shareholders and in 2023, we anticipate the potential of achieving the low-end of our long-term goal of 10 to 15 percent comparable diluted earnings per share growth, including the Russian business sale headwind and exceeding that long-term comparable diluted EPS growth goal excluding the Russian sale headwind.

During the Q&A, Scott and I will strive to provide additional clarity on the external environment and cadence for the remainder of 2023 based on what we know today.

Our global beverage teams continue to position our businesses to deliver the year and have an eye on the future. For the full year and incorporating year-to-date trends, our customer mix and excluding Russia, we now estimate flat global volume growth for Ball with North America being down low-single digits, South America volume up mid-single digits and EMEA volume up mid-single digits.

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 Morrison - Ball Corporation - EVP and CFO

Thanks, Dan.

Second quarter 2023 comparable diluted earnings per share were 61 cents versus 82 cents in the second quarter of 2022. Second quarter sales decreased compared to the same period in 2022 primarily due to the sale of our Russian business in the third quarter of 2022, lower volumes, currency translation and the pass through of lower aluminum prices partially offset by the pass-through of inflationary costs.

In the second quarter, net comparable earnings decreased compared to the same period in 2022, primarily due higher interest expense, the headwind from the sale of our Russian business in the third quarter of 2022 and lower volumes as well as higher corporate costs partially offset by the contractual pass through of inflationary costs, fixed cost savings, lower depreciation expense and SG&A cost-out initiatives.

To reiterate our prior earnings call commentary, we have been and will continue to proactively manage regional supply/demand balance across our system of plants in the near-term. Starting in the third quarter, segment earnings in North America will accelerate due to the majority of the anticipated contractual inflation recovery having kicked in July 1st.

In EMEA, the business will lap its last Russian earnings headwind in the third quarter and then accelerate to an improved level of earnings in the fourth quarter as they move beyond this multi-quarter headwind and the start-up costs for the two new plants.

In South America, customer and product mix which has unfavorably influenced the seasonally slower second quarter will reverse and consistent with our prior commentary, we anticipate a more robust second half in Brazil as customer hedges roll off and the fourth quarter summer selling season kicks in.

As we sit here today, some very consistent commentary and key metrics. We ended second quarter in a very solid liquidity position with approximately \$2.65 billion in cash and committed credit facilities. In 2023 CapEx will be in the range of \$1.2 billion, driven by cash outflows related to prior years' projects. 2024 CapEx is targeted to be in the range of GAAP D&A levels. We are targeting free cash flow of approximately \$750 million in 2023 and focusing on deleveraging,

Our 2023 full-year effective tax rate on comparable earnings is expected to be in the range of 19 percent. Full-year 2023 interest expense is expected to be in the range of \$450 million. We anticipate full-year 2023 corporate undistributed costs recorded in "other" non-reportable to be in the range of \$80 million,

Including the \$86 million Russian business sale operating earnings headwind, comparable operating earnings should increase *nearly* \$200 million and full-year 2023 comparable D&A will likely be in the range of \$550 million. As we look forward and incorporating near-term demand trends, year-end 2023 net debt to comparable EBITDA is expected to trend in the range of 3.7 times and, in future years, we will drive that lower

Last week, Ball declared its quarterly cash dividend and as Dan mentioned, reducing leverage is our key focus prior to resuming share repurchases.

As fellow owners, we continue to manage the business through the lens of EVA and cash stewardship, and we will effectively manage our supply chain and customers in this current environment to secure the best cash, earnings and EVA outcome for our shareholders.

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

Daniel Fisher - Ball Corporation - Chairman and CEO

Thanks, Scott.

We continue to believe that given the economic environment and global dynamics impacting our world, it is a great time for investors to get up-to-speed on Ball. Our improved results following a challenging 2022 is progressing, our products and technologies are resilient and provide solutions for our customers. Our focus remains on delivering earnings, free cash flow and high-quality products to our customers and consumers. And, as leverage continues to come down and free cash flow expands, our return of value to shareholders will grow in 2024 and beyond.

Thank you to everyone listening today. And with that we are ready for questions.

George Staphos - BofA Securities - Research Division

Good morning, congratulations on the performance. Can you talk about full year volume guidance I haven't tried to reverse engineer the full year volume guidance relative to the year-to-date, but what kind of volume trends are you seeing early in the third quarter across the regions and are there any regions that are left with notable filled product that needs to be destocked. How would you have us think about that?

Daniel Fisher - Ball Corporation - Chairman and CEO

Thank you. In the mass beer space you have to look at that on a net basis. Clearly there is one customer that has more filled goods right now than the others and I think they have commented on that. There is a little bit in our portfolio in terms of the energy space where we are working through some inventory. Our largest energy customer in our space is growing at a slower rate than the balance of that space. The scanner data is reflecting more growth than our shipment sales. We believe that normalizing in Q4 based on the projections that we have. Nothing notable. We are in a good spot inventory wise you can see that reflected in our cash generation in Q2.

This is a softer period in South America, so there really is nothing of news there. We expect to start building inventory here in the quarter to execute against the back half of the quarter and then peak season for that part of the world. So absent the obvious mass beer player, not as much.

George Staphos - BofA Securities - Research Division

So what I was getting at is in South America from your vantage point not a big amount of destocking or anything that needs to get done at the customer level, would that would be fair?

Daniel Fisher - Ball Corporation - Chairman and CEO

That is correct. There is nothing meaningful in South America. You are always doing maintenance and there is always a level of curtailment in Q2. So there is not a lot of room to run additionally to build inventory because you are already planning that you are going to be running full out in Q3. The inventory build typically shows up at the end of our fiscal year down in South America. If things are not selling through in Q4 you usually have a bit more inventory heading into Q1. So we are in a really good position inventory wise. That was something that we commented on heading into the quarter. The plants handled that change tremendously even with the mass beer inflection that showed up in the quarter and persisted throughout the quarter.

George Staphos - BofA Securities - Research Division

Okay, Dan, I want to come back to part of the question I asked and ask a follow up then I'll step down just to be fair to everybody else. So what trends are you seeing early in the quarter volume-wise across the regions, if you can talk about that, if possible. And then from our research and contacts, we've seen an

uptick in promotional activity. We haven't necessarily seen a pickup in consumption yet. How would you have us think about the efficiency and the yield on promotion and the level of promotion that you're seeing into 3Q? And are we beginning to see some finally some uptick in beer just based on what we're seeing out of the scanners and why, if that's the case, would you be confident about that continuing the rest of the year?

Daniel Fisher - *Ball Corporation - Chairman and CEO*

Yes. That's a good question. Let me see if I can parse out elements of that. Let's look at South America. There's nothing really to report in terms of inflection one way or another in South America because it's still winter there. We wouldn't see that behavior until the second half of Q3. So nothing to report other than the conversations that we're having with our customers are they're planning to deliver against what we've modeled in right now, which is a pretty nice inflection in volume heading into Q4.

Bullish on Brazil because Brazil was the first to go into a recession and experience inflation and higher interest rates, they're starting to relieve some of that. So the combination of that plus previously disclosed comments in and around hedge positions. All of that is playing out as we would hope. The only thing in South America, obviously, is the question mark in and around Argentina. But Brazil is stronger, and we still believe that what we've contemplated for the back half of the year is going to manifest.

In North America, both Scott and I have been very public with our comments on what we were seeing throughout the second quarter relative to the mass beer dynamic. And they have been confirmed by our customers. One is our beer customers are always running full out in the second quarter and even most of the third quarter. So if there's a mix shift that's taking place, it's going to come from working capital or filled goods.

So the scanner data won't be necessarily a one-to-one reflection of what we're experiencing. We believe that there will be resets at retailers. Some of the customers that have opportunities to step into elevated positions or more velocity on shelves or a bigger shelf space on shelves. They're gearing up for that. You won't really see that until the fourth quarter is how we're contemplating it in our numbers.

And in terms of promotion, I think the way you characterize it is correct. There has been promotion, but keep in mind the promotions are coming off in many instances on top of staggering price increases over the last 2 years. So it's not about promotion as much as it is the intentionality of volume momentum.

What we've seen in the CSD category is we have seen private label gain share. And that is something new relative to what we've seen in the last couple of years. That is generally a catalyst to drive more volume and volume momentum. And we've always thought that given Q4 comps for certain of our customers, they will be more inclined to push volume in the fourth quarter. Conversations with those customers would signal that they're thinking about it similarly. But until it happens and until they find the right price elasticity and volume momentum trigger, I think they're doing a lot of activity, I see the same data. It's not having the intended results of driving volume. I think it means that they will need to be more aggressive. And I know that they don't like to be losing share to private label.

So that's a lot there, but that's how we're viewing it, and that's how we've modeled it. And we don't expect to

see a great deal of uplift in Q3 from a sequential standpoint with the exception of, we believe, mass beer within our portfolio will continue to be negative.

Europe continues to grow. Slight growth in Q2. We had a very good second quarter last year. I'm commenting excluding Russia. We will continue to grow as our plant system ramps up. The new capacity was needed for us to really step into growth in the mid-single digits, but everything is still in alignment with us delivering against that over the back half of the year.

Operator

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

Bryan Burgmeier - Citigroup Inc - Research Division

It's actually Bryan Burgmeier on for Anthony. Dan, Scott, you've been asked about the possibility of selling or spinning aerospace for many, many years. So why now for the strategic review, did something change for Ball for the aerospace business. Is it about capital allocation or returns? Just any detail you can add there and maybe why this is happening now.

Daniel Fisher - Ball Corporation - Chairman and CEO

Yes. Why now is if you look back 5 years ago versus today, the business is much bigger, much healthier, much more profitable, and it could fundamentally stand on its own. Those are the key cruxes for why you could potentially do something else with this business. It's really a manifestation that business has performed tremendously and gotten to a point where it's an incredibly valuable asset. We believe that was the case. And so we ran a process to validate that. Early indications are it is a valuable business.

If and when I've got more to talk about, I'll let you know. It's really nothing about capital allocation and return thresholds. It is just that it's a valuable asset. It's increasingly so, and we always need to look at our shareholder value equation and make sure that that asset is sitting in the right spot for long-term generation.

Bryan Burgmeier - Citigroup Inc., Research Division

Understood. One quick follow-up here. Dan, during the quarter, I think you talked about kind of retail points and the supply chain being displaced by the customer mix developments in U.S. beer. Do you have a sense of where we are kind of in that process? And maybe when we could start to see the benefits of being exposed to some of the other brewers that are doing very well right now.

Daniel Fisher - Ball Corporation - Chairman and CEO

There's been very minimal movements in terms of retail displacement. I know those questions are being posed. There's a significant reset that happens kind of tail end into Q3 heading into Q4 across most of the major retailers. So you will see this net impact fully manifest, probably not until the first half of '24 will all of the shakeout happen. So I'm not looking at anything appreciably changing in Q3. But the customers that have the opportunity to take a broader position in retail, they will be gearing up their supply chains, they will be entering into these new retail positions over the course of the third quarter, and then you will start to see Q4, first half of '24, where things start to settle out.

Operator

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

Adam Samuelson - Goldman Sachs Group, Inc - Research Division

Maybe just a starting point on as we think about the guidance and I think there was a new kind of qualifier this quarter around kind of the potential to be at the low end of the 10% to 15% long-term kind of range. Is it just a volume question more in the back half of the uncertainty with some easier comps and the magnitude of balance that drives kind of the introduction of that qualifier or is it further disruption in U.S. beer? Or just help me think about range of outcomes that drive potential versus actually achieving?

Daniel Fisher - Ball Corporation - Chairman and CEO

I wouldn't characterize it as further deterioration of mass beer. It's going to be persistent through the third quarter. And so yes, from a volume standpoint, the third quarter from a mass beer standpoint, what we anticipated at the beginning of the year versus what we're experiencing, it's softer. And nothing is going to change here probably in the next 90 days meaningfully to inflect.

The good news is everything that we set out to accomplish in terms of our operational performance, the PPI pass-through, the tailwinds of some inflationary benefits, the SG&A actions, the fixed cost savings, all of that is allowing us to have a line of sight to that low end. We wouldn't be able to characterize our belief in that low end without the performance of the operations right now. And in every one of the regions, we believe there's an inflection in the fourth quarter in volume. We've talked about the CSD market. We've talked about, I think, what's going to happen in mass beer and then also peak season in South America with an improved economic environment in Brazil. All of those things have to come through, but they were already baked in. What wasn't baked in is mass beer in North America.

Adam Samuelson - Goldman Sachs Group, Inc - Research Division

Got it. Obviously, some of the market share shifts could present incremental opportunities. And I guess as you think about the mass beer channel in '24 volumetrically. If that rebounds, do you think you've gained disproportionately from that? Or is some of that potentially go back to one of the captive can makers that known by one of the big customers.

Daniel Fisher - Ball Corporation - Chairman and CEO

No, I don't believe the captive can makers will benefit. They're going to prioritize in the short term, their assets. One in particular that's having the marketing issue, we've come to an agreement that we've got stable go-forward position where we understand what the bottom is. And so we should see inflection off of that if they're able to turn around.

And then to your point, we are with everyone in the beer space, so we should see net benefits into '24. I would characterize Q2 and Q3 as a bit of a trough for us right now. So relative to that and then what happens in the mass beer space, and clearly, the economy, writ large, there's reason for optimism for sure, in '24 and beyond.

Operator

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

Christopher Parkinson - Mizuho Securities USA LLC - Research Division

Just I want to circle back to the Brazilian market and everything going on. There's been kind of some macro volatility debates about glass recycling, the relative cost of various packaging substrates. Obviously, the rebound is highlighted in the potential for the rebounds highlighted in your press release.

Can you just take a step back and just how should we be thinking about that evolution during the kind of the fourth quarter that you already highlighted and into 2024 in terms of kind of like the normalized progression there just because it seems like there's just a plethora of moving parts which we have to consider.

Daniel Fisher - Ball Corporation - Chairman and CEO

So what we've stated is in an inflationary environment, recessionary environment, which is clearly what Brazil has been saddled with here the last couple of years. Two or three times when we've had similar macro events in that country, we've seen share shift to returnable glass in the 5 to high single-digit range. We experienced the same thing from second half all the way through today. As a lot of it has to do with the economics, a lot of it has to do with the per unit price point of aluminum and aluminum packaging and the hedge positions that were constructed by our customers.

The cost of aluminum has come off, the hedge positions have come off. The economy is rebounding, Inflation is declining. Interest rates are coming off. So all of those things point to we should normalize back to mid-50%, low 50% can penetration in Brazil. So we're betting on can penetration improving in Q3, Q4 and stabilizing in Q1 for '24. We haven't done a ton of work on '24 right now, but it's principally an improved economy and a returnable glass shift that took place during inflationary period, which has always come back to cans because that's the preferred choice of our customers. We expect the same thing to happen. It's too early in the process and in the year. Given it's winter there to see much movement, if anything. But we anticipate that tail end into Q3 and into Q4, more in Q4. Hopefully, that helps.

Christopher Parkinson - Mizuho Securities USA LLC - Research Division

Of course. Understood. And just a very quick follow-up on the North American market regarding your volume commentary there. There's been a lot of start and go on various promotional expectations this year and euphoria then kind of waning. How should we think about that in the mass beer market? I mean, there's been some competitor commentary and optimism for at least a little bit. But what are you actually seeing from your customer base? And how is that actually flowing into your outlook for the second half?

Daniel Fisher - Ball Corporation - Chairman and CEO

Yes. We began the year with the expectation that we would see promotional activity, but promotional activity does not generate volume momentum. We thought volume momentum would come in Q4 when there are more challenging comps. We still anticipate that. We didn't build in much in terms of volume momentum happening in the first 3 quarters of the year.

And even though you're right, there's increased activity on promotion. It hasn't been enough to move volume. There has been share shift from the major CSD players into private label over the last 4 weeks. That is usually a light bulb that goes off, and folks behave differently as a result of that. But I'm encouraged that what we've built into our plan heading into the year will manifest in the fourth quarter. I don't see any appreciable movement in the third quarter because the promotion, to your point, is happening, but it's not manifesting in volume momentum yet.

Operator

Our next question is from the line of Ghansham Panjabi with Baird. .

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

Obviously, a lot going on. So if we were to just kind of step back in the first quarter, beverage packaging North and Central America, volumes were down roughly 5% and then in 2Q, down 8.5% Is that delta purely mass beer? Or is there anything else that perhaps was a little bit worse on a year-over-year basis?

Daniel Fisher - Ball Corporation - Chairman and CEO

I think you characterized it correctly. It's the net beer impact in the second quarter. There were pretty stable trends across everything, and it kind of lends into my previous comments on the CSD sector. Almost all the categories are performing year-over-year in line with the exception of mass beer and that fell off. I think net, there was negative 2.5 points of growth in the first quarter net minus 4.5 points. And obviously, our mix would have weighted us further down.

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

Okay. And then in terms of the curtailment that you're doing in terms of managing supply, et cetera, across multiple regions. What was that number for 2Q? And how are you thinking about that for the back half of the year as well?

Daniel Fisher - Ball Corporation - Chairman and CEO

The curtailment in South America is exactly what we planned. I mean, candidly, it's negligible in terms of the curtailment that we planned in Q2 versus what actually happened. You could say the delta that you just confirmed in volume, that was additional curtailment that we took in the second quarter. Apart from that, we've got a little bit more curtailment that will manifest throughout the third quarter versus what we entered the year with because of the mass beer phenomenon, apart from that everyone's in alignment with what we entered the year with and what we expected.

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

Got you. And then just one final one. You seem generally constructive on Europe on the beverage packaging side based on what you've seen so far this year. Just judging by the commentary and just some of the macro news. It seems like the European consumer is just much weaker in terms of spending and trade downs and so on and so forth. Has your view changed at all in terms of the outlook for Europe specifically as it relates to the beverage can? Or is it pretty much the same?

Daniel Fisher - Ball Corporation - Chairman and CEO

The outlook for the long term and the medium term is just a wealth of opportunity for us in terms of substrate shift given our current position. The end consumer is absolutely weaker than where we entered the year because of everything you cited. The can generally benefits from the on-prem, off-prem shift, even some of the trade downs are beneficial. We've got a more diversified portfolio that has helped us, heavier energy, heavier CSD. From a pan-European standpoint, beer has been the softer category there. But I think our portfolio has helped us. And so we see a little bit more opportunity given that, then maybe some of the other commentary that's been put out there. Consumer in the second half of the year, softer. We're still going to see nice growth, and we're still going to perform extremely well.

Operator

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

Michael Roxland - Truist Securities, Inc - Research Division

Thank you. Just how are you just thinking about the portfolio and your end market exposure going forward. So you made a comment that you could see some share shift later this year into 2024. So you could see mass beer improved and then your volumes will probably possibly net out.

But if there isn't that recovery in mass beer what happens to your volumes then? And so I guess the question really is, one, let's assume that doesn't recover volumes. And two, are you actually considering trying to shift your production to other product categories? I know you made a comment in the press release that you said you're trying to align yourself with customers that are experiencing higher growth. So that means you're trying to really shift or minimize your exposure to mass beer relative to other categories that maybe have more potential on a go-forward basis.

Daniel Fisher - Ball Corporation - Chairman and CEO

This is all North America related, I'm assuming. So I'll start there. Let's just talk about the categories because we're spending an awful lot of time on the domestic beer category, which is down, and I believe we're at a trough, so it will recover from this point. And it's consistent with all of the customer commentary within that space.

But domestic year is down 4.5% last 12 weeks, versus 52 weeks, down nearly 3%. So there's an acceleration of the decline, obviously, because of the marketing issue. But import beer is up 11%. Nonalcoholic beer is up 27%. Cider is up 8%, F&B is up 15%. Ready-to-drink cocktails are up 41%.

As we've seen the evolution of our customers' transition to beverage companies, they're going to be forced to put stuff on the shelf that sells. We've only experienced this phenomenon here for the past weeks. And there's a lot that is going to be repositioned. And given we participate with everyone in the market, we should win with whatever is going to win in the market. At what percentage, it's a great question. We don't know. But the trough that we're experiencing now in the second quarter and the third quarter will improve, we should benefit from that. In the first half of '24, I would expect continued benefit throughout that first half of the year. But there's a lot of questions. I'm confident that our customers understand their world real well, and they know that they need to be putting stuff on the shelf that's going to sell. And folks will find a home. Nothing's going to change candidly from that import beer number. The Hispanic population continues to grow. They already have all the plans to lean into that to add more capacity. So there's an ability for those folks to accelerate. And Obviously, we're very close to them. So I'm encouraged from today moving forward, I'm encouraged what's going to show up in the first half of '24 and beyond.

Michael Roxland - *Truist Securities, Inc - Research Division*

Got it. Recently, you started production in the Brazil plant that was curtailed. So I'm wondering I think that plant was taken down due to the weak macro and also because you lost a customer contract. So wondering, did you bring the mill up or we started the plant because your anticipation of better Brazil demand? Did you win new business? Just wondering why you started I think it was done within the last month or so.

Daniel Fisher - *Ball Corporation - Chairman and CEO*

Yes. We're bringing it up for the other customers in that market that are winning, and we anticipate that they will win further and take further share as a result of the one brewer who filed for bankruptcy at the tail end of Q1. But we're not bringing that up for the customer that we originally built it for.

Operator

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

Arun Viswanathan - *RBC Capital Markets - Research Division*

I guess I just wanted to ask a little bit more on two things. So first off, when you look into the back half of the year and into next year, you do have relatively easier comps for next year already down mid-single digits on the volume side and high single digits for North America. So would that allow you to get back into, say, that low single-digit range for next year's volume growth? And are there any other capacity considerations we should consider when thinking about higher volumes evolving and maybe settle into that low single-digit range?

Daniel Fisher - *Ball Corporation - Chairman and CEO*

Thanks for the question. As we sit here today, we haven't spent a whole lot of time on '24. I think for both Europe and South America. Given they're growing, we continue to believe that that growth will persist. So the question mark will obviously be North America. But as I stated several times on this call, I think Q2 and Q3 were at a trough. So we should see improved volumes over these periods. I believe that will be enough to push us into growth territory.

And so the aggregate position and the answer to your question is yes, I believe we will be in that low single-digit growth for 2024. We've also stated several times that the capacity we put in place over the last 2 to 3 years is enough to grow into at that range. And so we should see a nice lift in terms of profitability and performance without having to spend additional growth capital. We've spent the growth capital we need, and I don't anticipate much in the beverage business over the next 2 years from a growth CapEx standpoint.

Arun Viswanathan - RBC Capital Markets - Research Division

And so with that comment, I guess, when you think about free cash flow, I imagine it could be nicely up over the next couple of years from that 750 base. Could you just touch on that opportunity as well as the capital that you plan to spend?

Scott Morrison - EVP and CFO

It gets better. No, you're exactly right. I mean we're going to spend less capital in 2023 totaling \$1.2 billion. Next year, we expect it to go down closer to GAAP depreciation. So all that freed up cash flow can go back to shareholders. So I think it gets better.

Operator

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

John Dunigan - Jefferies LLC - Research Division

Thank you guys for taking the time and providing all of the details. This is John on for Phil.

I know it's kind of been beaten to death a little bit, but with the North American volumes down 8.5% in the quarter, obviously much worse than the overall market. I mean you called out, obviously, that's vastly driven by the mass beer declines. But with the additional capacity that's now in the market over where demand has kind of fallen to and supply chains, obviously, ease globally. Have you been experiencing any customer shifts or pressure on your contracts at this point in time in the North America business?

Daniel Fisher - Ball Corporation - Chairman and CEO

No pressure on the contracts at this point. I think a good reflection of that commentary would be the fact that we're passing through the inflationary mechanisms. So if you weren't seeing that come through, I think you could probably see that there has been some negotiation that's taken place, and that's not the case.

The way I would look at volume, I think we're in a short term dislocation for the second quarter and the third quarter because of mass beer. That correction relative to curtailments or decline shipments will revert in the second half of the year, but more meaningfully in the first half of 2024. The other thing that we've done is we've managed our inventory. So we built too much inventory last year. We've worked that off. So there's been an elevated level of curtailments relative to 2022. We'll be running much closer to scanner data in 2024. And in Q4, likely to be a lot closer to scanner data. So those are the things that are well understood within the industry and with our customers. I think the theoretical excess capacity versus the reality versus the intentionality of running to cash. All of those things stabilize heading into '24 what I believe, is a much tighter marketplace with growth underpinning every industry participant moving into '24.

John Dunigan - Jefferies LLC - Research Division

Understood. And then I think if I heard you correctly in the early part of the call, you said you were still exploring opportunities to accelerate deleveraging efforts. Could you maybe just talk a little bit more about what you're referring to, if that maybe meant some smaller divestitures or other actions that you're taking for that deleveraging efforts?

Scott Morrison - EVP and CFO

No. What we're referring to is we've generated a lot of cash here in the back half of the year. We're sitting on a lot of cash. And so we have the flexibility to pay down whatever pieces of debt we want to pay down. And so that's really what that's about.

Operator

Our next question is from the line of Gabe Hajde with Wells Fargo Securities.

Gabe Hajde - Wells Fargo Securities, LLC - Research Division

Dan, Scott, I appreciate that there's been a lot of ground covered here. But maybe just because we don't have access to the industry data anymore and a perfect, I guess, lens into what the market is. Can you parse out the maybe 8.5% decline in the second quarter and sort of what's embedded in the second half? I mean, between share shift, the market being soft and then maybe kind of what's going on with the beer disruption. And then another volume-related question in Europe. I think volumes decelerated in the second quarter. I'm curious if that's a function of not having the capacity that you need. You talked about, obviously, the U.K. and the check facility ramping up. So I'm just curious if that's what's driving your optimism for the second half to recover. You talked about your largest energy customer maybe being a little bit weak based on sell-through in North America, they're a pretty big customer over in Europe. Is that part of what's driving the optimism? Or just help me understand because I'm assuming the business in Europe is sort of contracted?

Daniel Fisher - Ball Corporation - Chairman and CEO

Yes. Maybe let me start with Europe. Everything is coming in line with what we anticipated heading into the year. inclusive of the large energy player. The one area that's softer is beer. I think that's related to the macro environment there. So the higher single digits that we anticipate having in the year are going to be

closer to mid-single digits, but still nice growth. And it's not a function of bringing on the capacity. The capacity that's being brought on is in the growth areas, it's going to be the capacity that's a little less utilized in the beer space. That's what's happening in Europe.

Relative to North America, we had a decline, as you mentioned, of roughly 5% in the first quarter. We are in that 8.5% range for decline in the second, we will see declines in the third quarter with a return to some volume momentum in the fourth. What happens in the mass beer space will be the indicator of is it growth. But fundamentally, it is the mass beer impact, and it is the fact that we're overweight in the beer space and overweight one customer within that space. So that's the delta.

Gabe Hajde - Wells Fargo Securities, LLC - Research Division

Okay. Maybe I didn't ask the question explicitly. Do you have any sense for what the market was down in North America? And then last one, if I can slip it in. I think there was a year-over-year improvement embedded in for the cups business. I think there was some basketball championship that was a good thing for that product. Can you talk about sort of how that business is evolving and maybe expectations going into '24?

Daniel Fisher - Ball Corporation - Chairman and CEO

Yes. I think the overall marketplace in North America down slightly. And so the delta between that and our customer mix is really the delta there. And then on the cup side, we're seeing incremental improvements I think an L.A. Boston series versus Denver, Miami Series would have helped the cup a little better, believe it or not. But making good ground and good traction in the food service space. Things are breaking our way in terms of the regulatory environment as well on that product with Hawaii and now the Mid-Atlantic either banning or contemplating banning single-use plastic cups. So we're looking for trajectory over the second half of the year. I would not say that we will make a \$20 million improvement in that business year-over-year but we will continue to improve against it more in the \$10 million range.

Operator

And at this moment, I'm showing no further questions on the phone lines.

Daniel Fisher - Ball Corporation - Chairman and CEO

All right. Thank you very much. We will look forward to talking to you again in the third quarter. Everybody, enjoy the rest of your summer.

Operator

Thank you, ladies and gentlemen. That does conclude today's call. We thank you for your participation and ask that you please disconnect your lines. 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 and related events such as drought, wildfires, storms, hurricanes, tornadoes and floods; 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 orders 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.