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# EDITED TRANSCRIPT

BLL - Ball Corp at Bank of America Merrill Lynch Global Agriculture Conference

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## CORPORATE PARTICIPANTS

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Scott C. Morrison Ball Corporation - Senior VP & CFO

## CONFERENCE CALL PARTICIPANTS

George Leon Staphos BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

## PRESENTATION

George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

(technical difficulty)

Pleased to once again welcome Ball Corporation to our conference. Here from Investor Relations, our old friend, Ann Scott, who heads up Ball's impeccable Investor Relations effort, and new to the team, Brandon Potthoff. Welcome, Brandon. And for the formal remarks, we have Dan Fisher and Scott Morrison. Scott Morrison has served as Ball's Senior Vice President and Chief Financial Officer for the company since 2010. And Dan Fisher has been Chief Operating Officer of Global Metal Beverage and Senior Vice President for the company since December of 2016, having served also as VP of Finance and Planning since joining the company in 2010. Gentlemen, welcome.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Thank you.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Thank you.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

So what we've been doing for all of these presentations to start, some nuts and bolts questions to get out of the way. Apologies in advance for that. I hope we get into some more meaty and more interesting questions later. But as you look back last year, what was the 1 or 2 surprises that from the year from which there are learnings for 2019? And then as you look at 2019, we're almost 2 months done, what gives you the most encouragement about the outlook for 2019 at this juncture?

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

So I'll start, then I'll let Dan chime in. We don't have a forward-looking statement but folks should read our forward-looking statement about the outcomes may be different than what we talk about today. I would say from a surprise standpoint, we were able to execute on a lot of capital projects probably at a faster pace than what I originally thought. We had some issues in North America as it related to freight and how tight this summer was and then some metal issues in the fourth quarter, which are now kind of behind us. But I think the rest of the world, I believe, was pretty much on track. Saudi Arabia has been a challenge but the rest of EMEA is good. And us being able to complete the tinplate transaction and sell that for 51% interest in that and gets to kind of \$1 million is a really good thing. The announcement of our China transaction I think is a good thing for us.



George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Was it a surprise or were you working on that, if I can ask?

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

No, we knew we had a lot of capital tied up that was a challenge and it was to figure out what do we do with this, right? And so I guess it's not really a surprise. But whenever you can structure something and get something done that's pretty attractive from a shareholder return perspective, I guess as a finance guy, I'm always surprised.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

But probably operationally, as it relates to the beverage business, what surprised us, and it's good, is kind of the second half demand profile on both our European business and North America. George, you've been following this business long enough. If you don't have the cans on the floor kind of in March and April, doesn't matter how strong the peak season is in those 2 markets, you're operating at such slim daily inventory levels. I mean, you can't catch up. And so we've had to have some very different conversations with our customers, things like spiked seltzer in North America could've been far better outcomes, both for us and for our customers in the end consumer pull through had we had better indications as to how big this could have been. And breaking some paradigms with our customers on some folks still operate with the just-in-time inventory. You cannot do that in a market that's now in Western Europe and North America growing on the second half north of 6%. We need bandwidth, we need time, we need to get stock on the floor, we need to help them manage their infrastructure and supply chain in a different way. And I think those things, you couple that with the fact that price -- oil prices or diesel prices surged, and freight rates were higher, all of those things kind of compound an underlying theme which is like we were oversold and we were out of capacity in those 2 markets. And that was a surprise, but obviously a very good surprise so you can deal with that. And I think we've got a better position relative to stocking levels in both those 2 businesses. And the million-dollar question is do you have the right stuff on the floor at this point. We're feeling pretty good and we're working with our customers in a very different way as a result of that.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Aside from the stocking levels, is there anything else that you can manage differently in '19 relative to some of the unavoidable but exogenous things that happened last year in terms of freight and aluminum or is it just stocking that will make you have some cushion.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

We had -- obviously we made a point of publicly in Q4, we did not perform in our North and Central America segment largely as a result of some supply chain disruption with one metal supplier. So I think we spent a lot more time over the course of the last 3 or 4 months working to kind of tighten specs and power and to make sure that not only do we have surety of supply, but we have supply that's going to run and it's going to yield kind of intra-market efficiency levels which is going to be required in a growing market now. It's much more acute as opposed to flat to declining volumes if you don't have a good product and good material coming in, you're not going to be able to set any of these opportunities. So we think there's been a lot of work done operationally engineering, innovation and supply chain to kind of get some of the sins of the past with a less technical approach that we may have used given we had flat capacity and flat operational tolerance levels. So we've tightened a lot of that and look forward to furthering our discussions with our suppliers and continue to benefit from better process in their shops.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

We don't have to spend a lot of time on it but we're 2 months into the quarter. First quarter's not terribly meaningful, it's more a quarter where you're building. But if you would you remind us some of the key factors we should be remembering about your cadence this year, your comparison issues. If there's anything you can put in the public domain, we take it. But obviously, we respect your right on that.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Well, I think people should just recognize that we're going to have a -- the first half of the year won't start that strongly because we've got tougher comps. We sold the tinplate business, which we had in our numbers in the first half last year. And then we had the ends contract that we were selling ends related to the Rexam acquisition and divestiture in South America, and that ends agreement completed in the second quarter of last year. So what was in the first quarter numbers, a little less than the second quarter numbers. So those are kind of 2 sizable headwinds. And then Europe had a very strong first quarter ramping up for World Cup last year and that won't repeat. But then as we get into the second quarter and transition through the year, we expect our numbers to -- we said the \$2 billion of EBITDA and \$1 billion of free cash flow are still our goal. And we have line of sight to those numbers. But it'll accelerate as we get through the first quarter and then it'll start to pick up in the second, third, fourth quarter.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Thank you, Scott. Any questions from the audience? If not, how would you define Ball's strategy for the next 3 years in a minute? You have a lot of, in a good way, irons in the fire. You have a lot of opportunity. What do you want the PM or analysts listening to this presentation, either here or elsewhere, to take away in terms of what your strategy is?

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

We're at an exciting time. This tailwind from sustainability in our beverage business is specifically in North America are predominately in North America and Europe, I think, is a tremendous opportunity for us. So I would say that and then our aerospace business is also -- every quarter, we talk about it's the best it's ever been and we continue to win additional work there. And I think that the trajectory of that business for the next 3 years is fantastic. So we're at a really good spot. And what we're spending a lot of time doing is making sure our -- both everybody in organization and our whole supply chain understands this opportunity so that we don't let it pass by. I don't know if Dan wanted to...

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Yes. Building on that I would say, which is probably a fundamental change, is we're not [just] looking at the next 3 years. We're looking at the next 5, 7, 10. A lot of that, at least on the beverage side, has to do with how big is the tailwind on sustainability. We've gone on record saying for 2019, our 3 biggest markets that we participate are all going to grow in excess of 4%. For folks that have followed us for a long time, those are very different numbers than what you would've heard if the conversations that we're having and intensity of conversations we're having with customers that are making choices to move from other substrates in the cans materializes, we're going to be really excited, really happy and we will need an entire supply chain that's used to 1% to 2% growth to step into can lead dynamics with more like the growth industry. And so that will be a challenge culturally, that'll be a challenge for everyone involved. But this is, again, a once-in-a-lifetime opportunity. And it's here and we're feeling it and I think that's how I'd be looking at Ball here over the next year to 2.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Dan, on that point, recognizing there are confidentiality issues. Can you give us a feel for maybe what some of the next conversion opportunities are? Where are people actually doing some spade work now that who would've thought 1 year or 2 ago might be going to -- consider going into cans?

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Yes. I -- We know for a fact -- so just piggybacking on Scott's comment. The intensity and the veracity of sustainability of discussions are in Western Europe and in the United States. I get it in places like South Africa where there's 40% unemployment, that PET/can debate is probably not top of mind for everybody. So it's going to move at different rates in different parts of the world. But in Western Europe, in particular, we know a pretty



sizable customer, a pretty sizable market participant is shifting a double-digit percentage of their PET portfolio into other substrates over the next 18 to 24 months. And they're making sizable investments. And we've been talking to them about making sure that we have capacity in line with supporting that. We don't make those comments when we talk about some of our investments specifically in Western Europe, but you can probably draw a pretty tight correlation of probably what you'll see in a few years relative to why we're doing some of the things we're doing.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Some of this, I called it spade work, so we'll use that phrase, on stuff that hasn't been formally announced but you're working on. Is that in the capital numbers or would that be -- this is in a good way, right?

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Yes.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Your high-class problem, the CapEx number have to go up a bit.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Yes. It might be in future capital numbers. The \$600 million that we kind of laid out for this year, we know where most of that's going, and there's still \$350 million-plus of growth CapEx in that number. So those are for identified projects that are already starting -- we're moving [third] or we're putting in line. If other opportunities get solidified this year, and we have to then start looking at additional capital either this year or next year, then we would let you folks know when that occurs.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Understood. Question at the back. If you can just wait for the microphone. Thank you, [Linda].

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Unidentified Analyst

Dan and Scott, just real quick. I don't know if you guys had a chance to debrief after the PET recyclable session that George and Steve hosted at lunch yesterday. I don't know if you even heard -- but the gist of that was we get that there's not enough recycling of PET but we're working really hard, we're trying to convince governments to do right thing, et cetera, and we're going to take this thing that's at 30% or so, round numbers, to something approaching 60, 70 over x amount of time frame. I mean, what are your thoughts on that? Because obviously a lot of the sustainability argument is that PET continues not to get recycled at the same rate as aluminum does.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Where you go, you got 100% right here [cans] today. So you can work on the 30% and have plans for the 30%. But this [cans] works today as a pretty good answer, a pretty good solution.



Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

You should go on YouTube and look at a recently published [Volvo] commercial. I don't have to talk about the ills of plastic because every other person on the world on social media is talking about it. There's a reason for that. If people fundamentally think that the ocean might be too far gone today, how can you put any logic or rationale behind, give us a little bit more time and we'll figure this out? So that's Dan's personal view. The business side of it is, I like where we are and this is infinitely recyclable, and we're on the right side of that. And I think other people, retailers end consumers and most of our customers, even the ones that might not promote that, they know that that's the reality, and they're going to have to deal with it at some point. This thing has already left. I mean, that debate has been lost. How quickly are we going to get around the fact that we need to change something now? And we can. I -- John -- our CEO, our boss is going to be in Abu Dhabi next week. He's the keynote speaker at the World Ocean Summit. You'll hear a lot of this. It's amazing how protectionists and the greenwashing and the dollars that go into telling these stories that are really -- if 29% recycling rate gets people excited, then yes, and we spent decades trying to figure that out then yes let's continue to see how many more decades it's going to take 2035, 2040, 2050, we have an answer now. And I think that's we do a better job stepping into and telling the public.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Dan, what's the name of the summit again in Abu Dhabi? It was World Ocean...

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

World Ocean Summit, sponsored by The Economist. So you'll see some public remarks from him after next Wednesday.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

I mean, I think from some of the presentations yesterday -- I'm not trying to a side on this right now, just stating the fact, I think the other substrates producers who were here, when I brought the question of recycling and the economics behind it, the answer was, well, governments have to step in help and support subsidize. So...

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Yes, that's a great strategy to have the government help us. It wouldn't count on that. But the reality is this makes -- this [cans] is the only thing that has value. The problem the other substrates have, and I don't know how you fix that, is their economics don't work. And so this [cans] works. That's why this [cans] will win in the end because the economics simply work.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

But I agree, the positive legislation. I mean, we've been asked to partner on a number of those by a number of our customers. And the reality is they don't know how you go and ask, candidly, broke municipalities and governments for additional tax revenue to go and subsidize something that is fundamentally litter when you need more money for schools, education on and on and on. It just seems like that -- that doesn't make a whole lot of sense other than for one particular niche group of businesses. And so we've kind of allowed them to go off and do what they want to. But we've got a pretty good story, a good recycling system in motion. We just need to do more of it. And recycling for us is going to be the answer kind of to all the challenges that we have.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Piggybacking maybe one more question, off and on topic, again, what we've heard from other producers is that they have the uniquely best-positioned substrate when you look at carbon emissions and sustainability and certainly aluminum cans, industry think that as well. So when you look at the analysis

out there, how can somebody say plastics -- and I'm not trying to take a side here if it sounds like I am. I'm not. But how do you, as a plastic producer, have data that says your better position has the -- the can industry say we have data that says we're better positioned. How does that disconnect from what you've seen?

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

So yes. I think you bring up a great point. I think what we all need to do is get in a room and have life cycle analysis that applies to apples. But the fundamental disconnect is -- I think the argument is then, yes, we consume a ton of energy depending on how prevalent the UBC and recycling stream is by region, et cetera. How much bauxite mining is done. The bauxite mining and the smelting is a significant energy drain and that's something that we understand and we're attempting to address. But the reality is if you look at one single-use PET bottle versus thinking that this [cans] is only used one time, then we're going to lose that argument because of the smelting side of that equation. But the fact of the matter is this [cans] is infinitely recyclable. So if you take that into consideration on your life cycle analysis, we feel like we'll probably win every single one of the debate. And so one of the things that we need to do is get folks to authorize a consistent life cycle analysis. And I suspect NGOs and third parties that can get some type of auditing certification will eventually get to a point where we're having an apples to apples and a logical conversation. Because you're right, it's intellectually dishonest and everyone's got self-preservation in mind when they're making their arguments. And based on the way they define the argument, in many instances, I agree with their analysis. The problem is that's not actually how our business works.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Thanks you, Dan.

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Unidentified Analyst

Great information. In terms of volume, in terms of size of container, of course, we've seen the 12-ounce, the 16-ounce, now some 20-ounce. How large are you able to get? And have you begun to sort of look at full-liter sizing, for example? And where does that kind of stand because, of course, that's going to be a constraint that your brand owners and your consumers are going to be interested in, in having access to larger sizes.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Great question. The biggest -- so there are fundamentally 2 different technologies that relates to aluminum with our aerosol business and our basically DNI business, which is the rolled aluminum. We make a 32-ounce can and that's principally sold in Canada and in Russia for beer. We can make -- this [aluminum bottles] package promotes a much bigger size format. We could move this into, say, 750 milliliters. This or our other aerosol technology, it's going to matter how much metal is used. The challenge for us is not can we make that. It's how much metal do we have to use to make it. And then is it an economically viable solution for our customers? But it's a great question. We're in a number of conversations. Look, 750ml certainly seems like a pretty good size for the wine space, for instance. And so we've got a lot of bright folks that are working on these types of sizes and packaging packages. But finding the specific niche, I think, in the Russia beer market, there's been a lot of regulation. There's a lot of consumption that relates to the large PET format, so 2-liter and 1.5-liter have now been regulated out. So maybe there's an opportunity to step in, in a bigger way in those types of structures and formats. Yes, that's a great question. I think, a lot of those bigger sizes will fall probably into the categories of alcohol, beer, wine, things of that nature. But we have 2 technologies that could work for those types of size formats. It's incumbent on us then to structure it in a way that makes economic sense for our customers.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Dan, Scott, one question that just was prompted by the dialogue with [Ron], not asking the size in terms of revenues by x date. But of your new product conversations you're having with customers, what percentage is not beverage? Like can you take your technology, either from aerosol -- beverage and take it into markets that aren't wine or sparkling beverages or CSDs and actually have it as a viable package commercially?

Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Yes, we -- that's a great question. I think the answer to that is yes. Obviously, we're laser focused on the here and now in the beverage categories in expanding that because there's ample opportunity. But the conversations can and will shift, and we are having some random questions asked us as we talk to retailers in Western Europe, the U.K. in particular, and great. Fundamentally, if you win the beverage argument on those 2 aisles in the grocery store, there's another 10 aisles of conditioner, shampoo, on and on and on, that if you know how to bend metal and you know how to create apertures that work for that particular product, there could be something there. But fortunately for us, our aerosol business deals with P&G, deals with Unilever on a regular basis. So understand those folks and I think yes, could there be a specialty products division here in the next 5 to 10 years that's working on things like -- yes, there may well could be.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

So with -- going to beverage, beverage being roughly 40% now specialty, however you want to define that. At some point, if the business becomes 80% specialty, is it special anymore? And do you risk then it becoming saturated and then losing that aura that it had? There'll be a high-class problem to get there.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

It would still be special to us. But it's on the eye of the beholder and it's all relative. No, you make a good point. I mean, the thing is it's like -- I think you all appreciate it. Specialty in the U.S., what that means is we make 32 different containers. So it's 1 can versus 31. And so are our competitors able to make 15 can sizes? 20 can sizes? 30 can sizes? No. They don't do that. They make a handful. And so some products are more special than others. Some of our children we love a little bit more than others. Some of them are more profitable, and intentionally, our competitors probably stay away from throwing 4 and 5 sizes on a single line and dealing with all of that complexity. So I agree that some cans will be less -- but the 16-ounce can has been around for 30 years. It's classified as specialty but everybody makes it. So it's really not as special but by definition, that's a simplified answer, and we kept to that. I think the more complexity that we embrace, the more customers, the more label changes, that will create the barrier for others to act in a market the way we are, and that's really what we're stressing. Whatever the end consumer wants, we want to make sure that we're there first with whatever that offering is, and I think that will be still a compelling differentiator for us 10 years from now today, tomorrow.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

You don't have to go too much into detail on this one of...

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

I'm good at going into detail. Scott's saying shut up.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

You're on a roll.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

So first quarter earnings. So at the Analyst Day, you said a 1% mix shift out of plastic could be 24 billion units over time, I think, was the number. My guess is you feel fairly affirmed in that number. Do you feel more confident in that number given what you've seen in the last 6 months? And are there some hurdles that come along with that, that you hadn't anticipated?



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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

The -- so the 24 billion unit number was something that our CEO and Chairman referenced at our Investor Day back in September. And what that number represents is a 1% share shift in substrate penetration in the markets that we serve. And at that time, it still included China. So in the markets that we serve, you probably subtract 6 billion off that 24 billion and you're in the 18 billion to 19 billion range. Now keep in mind, there's South America in that number and there's some other regions that aren't going to move as quickly in this debate. But to answer your question, the intensity of the conversations we're having with our customers I am emboldened by the number specific to the U.S. and to Europe in and around that. And the reality is if this thing moves appreciably, it won't be a 1% shift. And so that is the question that we're waking up and trying to ask every day, how big it could be. And that's why we're looking, at in much longer time frames, in terms of what the supply chain needs to look like and what do we need to do as the market leader to continue to activate this shift.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

Thanks, Dan. Any questions from the audience?

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Unidentified Analyst

Just on the execution side which you referenced yourself earlier. Learnings from last year, I mean, obviously, freight was a big one. You had hurricanes to deal with, you had a new plant coming up. I mean, never say never but is that all sort of behind you at this point? And obviously, you can't predict Mother Nature but how do you look at it.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Yes, good question. The biggest challenge that we had for '18 that's no surprise that we didn't give public guidance for '18 was the shuttering of multiple facilities and the ramp up of four-line mega plant in Goodyear. What happens during all of that is some of those facilities candidly were union shops. Could you have disruptions? Could you have labor disruptions? You have massive levels of qualification. I don't think I can underemphasize the fact that in our North America business, we have 800 customers. So 1 plant can serve 300 customers, and those 300 customers could be 300 qualification runs. And so managing all of that, and if you get behind a week on a 1-line ramp up when demand is now moving and outpacing all of your plans, all of those challenges, I believe, are behind us in terms of the footprint navigation. And it happened both in Spain, in parts of Europe and in North America. North America potentially didn't manage it as well as probably Europe did, and you saw that in the numbers. But where we're at heading into January is we have a stable footprint. We yes, we'll make minor speedups and do the typical things but we're not doing massively disruptive 3 plants closing, 5 new lines coming online, all the qualifications that go with that. So I think we're in a better position for planning that and managing that.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

From my side, melding together 4 totally unrelated questions. You see that from the conference calls. One, can you remind us what the cadence of contract renewals, that's your favorite question, is the next several years? Number one. Number two, just e-mailed to me, can you remind us what directional percentage, however, you want to discuss it if at all, benefit you get this year from nonmetal sort of PTI catch ups? Third question, kind of a bigger picture question that I've been saving. From my vantage point, Ball has been working on data analytics, figuring out cost to serve logistics at least as long if not longer than most of the packaging companies that I track. When did you really begin getting into this from your vantage point? And how helpful or not has that been in some of your discussions with your customers because I think it's an important point?

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Do you want to get the last one?



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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Sure.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Let's say -- and then -- probably 8 years ago, 9 years ago is kind of when these integrated business planning tools and supply chain tools from a technology standpoint were coming to the forefront. It was really a North America on the heels of our MOC acquisition that we started to -- and maybe even before that with the Reynolds acquisition. So we had a specialty portfolio and we kind of saw that -- and believe that, that was the way forward. And we believed in the power of the network, and that network effect was a kind of a seminal change in terms of, at least in the can space, like plant A, B, C serves these 6 customers in this area. It's like not necessarily if we go to different can sizes. It won't be charged appropriately. We could ship from other facilities. And so figuring out that pattern, that network and where to invest, all of that lends itself to we need to better understand and have tools that allow us to analyze the data to make those decisions and it plays into our capital investment and where we drop in specialty line or at least it had for the last decade. So all of the those things played into that and the beauty of the Rexam deal and kind of the underlying thesis there is like we're acquiring the biggest network in South America, and we're acquiring the biggest network in Europe. And it didn't appear as if they were being run similarly to our North America business. And I think -- so we stepped into that and we've expanded kind of this view. What's happened at the same time is complexity has grown exponentially. So absent those tools, we would probably have taken decidedly different strategic paths because we wouldn't have been able to manage it. And I think in North America last year, we did 51,000 label changes. So that is, I think, 4x what we did 5 years ago. So the number of conversions, the number of label changes, these things we all do it to ourselves because we want what we want and we want it at the price point of the retail channel. And so if you can manage that, you're going to need systems and data to make the appropriate decisions. And I think we've benefited from that probably disproportionately in this space.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

On your PPI question. So I gave a bridge on the call of \$125 million EBITDA improvement in North America, and the buckets were -- the fixed cost savings from the closing of the 3 plants, that was the biggest chunk. We said we need to make and sell 2 billion more units in North and Central America this year, that was the next biggest chunk. And then the last chunk was mix and PPI. Now what was the first question, I forgot...

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Contract renewal.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

The contract renewal.

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Daniel William Fisher - Ball Corporation - Senior VP & COO of Global Metal Beverage Packaging

Your favorite.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Yes. The big contract that we talked about -- the pricing of 12-ounce -- the issue was really -- that was a North American issue, really a United -- a U.S. issue, and we renegotiated with one of our larger customers that contract that will kick in -- the pricing -- the new pricing mechanisms will kick in, in 2020. And then after that, you have a cadence of 15% to 20% a year kind of renewing as you go out. The contract length is still about what it



has been a little bit -- kind of 3 to 5 years in Europe and the U.S. And in some other places, sometimes shorter, sometimes longer. But that's kind of -- 3 to 5 is a good approximate to use.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

And on aerospace, the strategy of the company, as you talked about at the Analyst Day, has evolved. It's obviously been successful. What do you think the risk that the one booked backlog, winds up not making its way into revenue and aside from just continuing with the game plan, are there certain steps that you're taking right now to manage the staff that you need to make sure that you execute on the -- this other opportunity? I mean, Ball has always been the same Ball from one standpoint. It's always been, going back 15, 20 years, focused on capital and capital prudence and EVA. But unlike the last number of years, you've got a hell of a lot of growth in aerospace, you got a hell lot of growth in beverage cans. It's not a bad place to be if you execute. So do you execute?

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Great question. And we are still very focused on capital. But we are, going back to the kind of once-in-a-lifetime opportunity, we really have both on the packaging side and on the aerospace side so you don't want to miss that. And so I think all the capital -- we're spending a lot of capital in Aerospace. We spent \$125 million last year, we'll spend another \$130 million this year to ramp up facilities, test facilities, production facilities. Because we see the runway of that business out several years into the future that we really like. And so where we can deploy capital and get the kind of returns we get in aerospace, we're happy to do that. The won't be booked number, I feel pretty confident that all that work will show up. It may not be what's in there today and so there may be shifts of things over time, but I have a lot of confidence. John and I spent a few hours with our aerospace folks last week looking kind of longer term of what we have today and what those opportunities ultimately can become. And so I think kind of like the sustainability question, the momentum is increasing, not decreasing in that business. So we feel really good about the long-term prospects. And then again not to kind of -- so we do a 3-year strategic plan. We're staying with things well beyond that 3-year cycle that we're really excited about.

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George Leon Staphos - BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research

It's a long way from Muncie. Without further ado, I want to say thank you, Dan. Thank you, Scott. Great presentation. Everybody, please join me in thanking Ball Corporation.

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Scott C. Morrison - Ball Corporation - Senior VP & CFO

Thank you, George.

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## **Forward-Looking Statements**

This release contains "forward-looking" statements concerning future events and financial performance. Words such as "expects," "anticipates," "estimates," "believes," "targets," "likely," "positions" 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 any of such statements should be read in conjunction with, and, qualified in their entirety by, the cautionary statements referenced below. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Key factors, risks and uncertainties that could cause actual outcomes and results to be different are summarized in filings with the Securities and Exchange Commission, including Exhibit 99 in our Form 10-K, which are available on our website and at [www.sec.gov](http://www.sec.gov). Additional factors that might affect: a) our packaging segments include product demand fluctuations; availability/cost of raw materials and logistics; competitive packaging, pricing and substitution; changes in climate and weather; competitive activity; footprint adjustments and other manufacturing changes; failure to achieve synergies, productivity improvements or cost reductions; mandatory deposit or other restrictive packaging laws; customer and supplier consolidation, power and supply chain influence; changes in major customer or supplier contracts or a loss of a major customer or supplier; political instability and sanctions; currency controls; changes in foreign exchange or tax rates, including due to the effects of the 2017 U.S. Tax Cuts and Jobs Act; and tariffs or other governmental actions in any country affecting goods produced by us or in our supply chain, including imported raw materials, such as pursuant to section 232 of the U.S. Trade Expansion Act of 1962; b) our aerospace segment include funding, authorization, availability and returns of government and commercial contracts; and delays, extensions and technical uncertainties affecting segment contracts; c) the company as a whole include those listed plus: changes in senior management; regulatory action or issues including tax, environmental, health and workplace safety, including U.S. FDA and other actions or public concerns affecting products filled in our containers, or chemicals or substances used in raw materials or in the manufacturing process; technological developments and innovations; litigation; strikes; labor cost changes; rates of return on assets of the company's defined benefit retirement plans; pension changes; uncertainties surrounding geopolitical events and governmental policies both in the U.S. and in other countries, including the U.S. government elections, budget, sequestration and debt limit, including the partial government shutdown; reduced cash flow; interest rates affecting our debt; and successful or unsuccessful joint ventures, acquisitions and divestitures, including with respect to the Rexam PLC acquisition and its integration, or the associated divestiture; the effect of the acquisition or the divestiture on our business relationships, operating results and business generally.

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