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PRESENTATION

Operator

Greetings, and welcome to the Ball Corporation Second Quarter 2021 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded, Thursday, August 5, 2021.

I would now like to turn the call over to John Hayes, CEO of Ball Corporation. Please go ahead.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Thank you, Kathy, and good morning, everyone. This is Ball Corporation's conference call regarding the company's second quarter 2021 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 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 don't already have our earnings release, it's available on our website at ball.com.

Information regarding the use of non-GAAP financial measures may also be found in the notes section of today's earnings release. The release also includes a table summarizing business consolidation and other activities as well as a reconciliation of comparable operating earnings and diluted earnings per share calculations.

Now joining me on the call today are Dan Fisher, our President; and Scott Morrison, our Executive Vice President and CFO. I'll provide some introductory remarks. Dan will discuss packaging and aerospace performance and trends. Scott will discuss key financial metrics, and then I'll finish up with comments on the outlook for the company.

To all of our global employees, thank you for your hard work and for staying safe. We know the past 16 months have been trying on everyone, and it's not lost on us that we are not out of the woods yet. COVID is still with us, and the science of the vaccine speak for itself. Please get vaccinated if you can. If not for yourself, then for your loved ones and coworkers.

In addition, I also want to thank our packaging and aerospace customers, suppliers and their employees. Collectively, we continue to navigate our supply teams, COVID-related restrictions in certain regions due to the ongoing Delta variant, reopenings in other regions, and we are experiencing all of this while deploying new EVA-accretive investments, innovations and technologies that will increase the global availability of sustainable aluminum packaging as well as deliver national security, environmental and climate intelligence.

Our long-term prospects are right on track relative to our expectations. Our business has been very resilient, and we have an exciting future ahead of us. In the second quarter, comparable diluted earnings per share were up 32%, comparable operating earnings were up 22%, global beverage volumes were up 13%, global aluminum aerosol volumes were up 20%, and aerospace finished the quarter with record backlog.

Looking to the second half, growth continues across our global beverage businesses. Aluminum aerosol volumes continue to rise as regions reopen. Our cup team continues to roll out our Ball aluminum cup at more than 20,000 points of retail distribution and is working with even more stadiums and arenas to ramp up the food service side of the business.

Aerospace has multiple launches and hiring continues at an elevated pace to staff aerospace contracts and aluminum packaging manufacturing projects in the U.S., South America and Europe. While we are still working through several supply chain disruptions in our aerospace and North and Central American beverage packaging business that Dan will speak to, we are and will leverage existing contractual terms and conditions to recoup higher input costs in future periods in both our packaging and aerospace businesses.

We have an even greater conviction in our ability to significantly grow diluted earnings per share, EVA dollars, cash from operations and return the value to shareholders in 2021 and beyond. To that end, and as Scott will elaborate, we are accelerating our return of value capital allocation strategy given the conviction we have for our future performance.

Second quarter 2021 highlights include, Our global beverage businesses completing the start-up of 6 lines, including 3 in North America, 1 in EMEA and 2 in South America. Our global aluminum aerosol volumes increasing 20%, as I mentioned before. Our cups team executing national retail distribution of the Ball aluminum cup in all 50 states and providing 16-ounce, 20-ounce and 24-ounce aluminum cup to numerous sports and entertainment venues as COVID restrictions moderate. Our aerospace team winning new contracts to lift contracted backlog to a record \$3 billion, following a significant win late in the quarter.

Our 2030 sustainability goals announcement, including ambitions to achieve net 0 carbon emissions, 90% global recycling rates, an 85% recycled content as well as establishing regional D&I goals and a vision of circularity for the aluminum beverage can. Our business is hiring nearly 1,600 people net year-to-date to support our long-term growth and normal attrition due to retirements.

Our Board increased our quarterly dividend 33% and reiterated our 35 million share repurchase authorization, and we plan to purchase in excess of \$500 million of stock this year while deploying \$1.5 billion in EVA-accretive growth capital investments.

In summary, Ball continues to operate from a position of strength. Our team is executing at a high level, standing up new greenfield plants, speeding up lines in existing facilities, bringing new aerospace infrastructure expansions online to support our increasing backlog and hiring amazing talent to join our team. To everyone listening, best wishes to you and your families for good health and continued safety.

And with that, I'll turn it over to our President, Dan Fisher. Dan?

Daniel William Fisher - Ball Corporation - President & Director

Thanks, John. I echo your thanks to our employees, customers and suppliers. Our global HR, environmental health and safety professionals and our own personal actions continue to keep our team safe and vigilant. The teams are doing a great job managing accelerated growth, large-scale capacity additions and intermittent supply chain challenges.

We are entering the second half with a lot of momentum, a few manageable challenges and a visible path to strong performance throughout 2021 and beyond. Second quarter global beverage volume is up 13% versus 2020, and ongoing strength in EMEA and South America offset start-up costs in North America, retail marketing investments for our retail cup launch, the later-than-anticipated award timing for a new aerospace contract and higher year-over-year costs.

Demand for aluminum beverage cans continues to outstrip supply around the globe. Our global engineering and operations teams are executing at a high level. We are on track to exit 2021 with an additional 12 billion units of new installed capacity, and we recently announced global projects, all of which underscore our Investor Day commentary. Cans are in high demand, contracts are in place, and Ball is well positioned.

Our focus on speed to market, talent, training, systems and operational readiness is paying off as we continue to ramp up new capacity on time and on budget. To all the teams listening, our time is now, and you are making this happen. Keep up the great work.

As John mentioned, we have hired an additional 1,600 colleagues year-to-date, with the majority of them located in the United States. Our investment in talent, training and development and immersion into the Ball culture and EVA mindset is a vital part of near- and long-term success. We are blessed as an organization to attract this talent in the current environment and are committed to their success.

Can demand across all beverage categories remains strong. Our focus on improving customer experience by expanding can availability via new production coming online and providing our network latitude to build adequate inventory will continue to aid that trend.

We also continue to make significant progress in operationalizing and commercializing sustainability. Following EMEA's lead in 2020, our operations in South America and North America are on track to achieve ASI Certification by year-end 2021. And each of our global businesses set specific regional D&I goals as part of our 2030 sustainability goals announcement.

Proof points of our progress include women representing over 40% of the new team in one of our Brazilian plant investments, and in aerospace, over 40% of our summer interns and new hires representing ethnic and gender diversity. We commend our global colleagues' commitment to our sustainability journey and also wish to recognize our supply chain's recent investments and sustainability-focused initiatives.

As we discussed throughout 2020, growth in our global beverage business is accelerating, and our product portfolio continues to support our customers' new brands as well as broaden the addressable market for aluminum cans, bottles and cups.

Given market characteristics and our project execution, I continue to be very positive about our ability to achieve our goals and deliver low double-digit global volume growth and global specialty mix in excess of 50% in 2021. We continue to see the global industry growing at an annual rate in excess of 6% for the foreseeable future. Ball is well positioned to capture growth, given our scale and innovation in the world's largest can markets.

Looking out, contractual terms and conditions are favorable, and longstanding pass-through mechanisms are in place for aluminum and other items. And as we said on last quarter's earnings call, now we execute.

Now for a few brief comments on each region. In North America, beverage second quarter volumes were up 5% versus 2020 and up 6.4% versus 2019 during the quarter. Earnings were up slightly. And as expected, higher volume offset the combined effect of project start-up costs and operational efficiencies in plants brought about by unsustainably low inventory entering peak season.

Glendale and Pittston are both operational. And as of today, 3 lines are running in Glendale and Pittston's first-line is coming up its learning curve. Both plants will exit 2021 with 4 can manufacturing lines installed, and our Bowling Green ends manufacturing plant will start up early in the fourth quarter of 2021. The remaining half of the anticipated \$50 million in start-up costs will flow through in the second half of 2021.

Across our broad customer base, beverage can demand is strong in all brand categories: alcohol, soft drinks, energy and water. Despite recent chatter on hard seltzers, nothing has changed about our plans. We expect favorable growth trends across all categories to continue, which will drive more EVA-enhancing opportunities, supported by long duration contracts with strategic customers and large regional accounts.

In the near term, the work to build adequate inventory levels will offset some of the benefit of having new capacity online during the third quarter and position the business for success. Looking out longer term, Ball will build another beverage can manufacturing plant in the Southeast. Our new North Carolina facility is supported by long duration contracts with strategic global customers. We are excited to invest alongside our customers and anticipate the facility to come online in late 2023 or 2024.

In EMEA, segment volume for the second quarter was up 18% versus 2020 on easier comps given prior year's volume declines due to COVID onset timing and were also up due to customers adding new can filling investments. Versus second quarter 2019, volumes were up 9%. Across Ball's EMEA business, demand trends and positive momentum continues.

We foresee European beverage can volumes up high single digits throughout second half of 2021 and beyond. Future growth will be driven by new and existing categories utilizing cans and additional regional plant opportunities emerging to fulfill market demand in the biggest can markets across EMEA. Our new greenfield plants in the U.K., Russia and Czech Republic are supported by long duration contracts for committed volumes with global and regional key accounts. Our EMEA team is executing very well and fully prepared for these exciting investments.

In South America, second quarter volumes were up 15% versus 2020 and up 16% versus 2019, given easier comps due to the prior year's COVID impact and despite cooler-than-normal seasonal temperatures and delivery channels in large cities limiting alcohol purchases. We continue to see more earnings upside in South America. As John mentioned, 2 new lines ramped up in existing facilities in South America during the quarter, and the Frutal, Brazil plant is preparing for a late third quarter start-up. Additional investments both in Brazil and throughout the region are also anticipated.

Similar to our prior commentary, we anticipate can growth in the mid-teens for the full year, and additional growth will be possible once we have more capacity online.

In summary, our global beverage team did a terrific job navigating some uncontrollables during the quarter while also executing as well as we can on the things we can control. Our aluminum aerosol team did an excellent job supplying growth across EMEA, resulting in 20% higher volumes in the second quarter globally versus 2020 and 12% higher volume versus 2019 for the same period.

The team continues to manage varying degrees of reopening status in Brazil and India. In addition, the business continues to amplify the sustainability credentials of our extruded aluminum bottles to deliver innovation across multiple brand and product categories, including the second quarter rollout of refillable, reclosable personal care packaging at a leading U.S. mass retailer.

Our cups team continues to raise awareness, establish distribution, execute initial sell-through and invest for continued growth in 2021 and beyond. In addition to the 50 states retail launch John mentioned, the team continued to invest in the Party Starts Here marketing campaign to engage and educate consumers about infinitely recyclable aluminum cups. We continue to expect our cups business to turn a profit starting in 2022.

Turning to aerospace. The team continued to win contracts, and year-to-date contracted backlog is up 25%. The aerospace business dealt with lingering effects of inefficient supply chains. Though exiting the quarter, we saw notable improvement with key subcontractors, and we are excited to book a key contract win at the end of the quarter. This win and the trajectory of recent performance sets up the business for notable sales and earnings growth in the second half of 2021 and beyond in addition to margin improvement beyond 2021.

At Ball aerospace, we are managing challenges, nurturing our culture while capturing the future. We appreciate all of the amazing work being done by not only the aerospace team but everyone across the organization.

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

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

Thanks, Dan. Comparable second quarter 2021 diluted earnings per share were \$0.86 versus \$0.65 in 2020, an increase of 32%. Second quarter comparable diluted earnings per share reflect strong global beverage results, slightly lower interest expense and a lower effective tax rate, offset by previously discussed higher year-over-year corporate costs as well as labor and start-up costs to support business growth and marketing costs to drive the aluminum cup launch. Ball's balance sheet is very healthy with ample liquidity and flexibility.

As we sit here today, some additional key metrics to keep in mind for 2021. Our full year effective tax rate on comparable earnings will now be in the range of 17%. Full year interest expense will be in the range of \$270 million, and full year corporate undistributed costs recorded in other nonreportable are now expected to be in the range of \$95 million. We continue to see a path to doubling our cash from operations by 2025.

Our 2021 cash from operations will grow in line with earnings trajectory and be aided by a source in working capital. We expect 2021 total CapEx to exceed \$1.5 billion and returns on capital beyond our 9% after-tax hurdle rate will flow through as new growth projects become operational later in the year and in the years to come. Ball continues to be good stewards of our cash. As fellow owners, and in alignment with our EVA discipline, we will prudently balance real-time growth opportunities with consistent return of value to our shareholders via dividends and share repurchases.

Given the second quarter's strength and net leverage in our target range, we will return significant value to shareholders via dividends, as John mentioned earlier, and our ongoing 2021 share repurchase program of at least \$500 million. In 2021, we'll return approximately \$1 billion to shareholders, including dividends and buybacks, and we intend to double that total return to shareholders in 2022.

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

John A. Hayes - Ball Corporation - Chairman & CEO

Great. Thanks, Scott. In summary, our Drive for 10 vision serves us very well, whether it be broadening our geographic expansion, developing new customers, markets and products, in doing so with a commitment to being close to our customers and with uncompromising integrity. Following our strong year-to-date results and outlook for the remainder of the year, we are even better positioned to exceed our comparable diluted earnings per share long-term goal of 10% to 15% and exceed our EVA dollar growth goals of 4% to 8% per year in 2021 and beyond.

We'll work safely together to execute on projects, support our customers' growth, drive the circular economy and generate significant earnings, cash, EVA and return even more value to our shareholders.

And with that, Kathy, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Ghansham Panjabi with Baird.

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

Dan, maybe we can pick up on the hard seltzer comment. Obviously, the narrative in the market has changed quite a bit. Maybe you can give us a sense as to how many units you think hard seltzers will total for beverage cans in North America for -- as we exit 2021? What does that number look like for 2022? And then what gives you confidence that the momentum will continue in context of companies like Molson Coors already rationalizing some of their brands?

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

Thanks, Ghansham. I think for how we look at that category, and I think I've made this comment before, we look at sort of the ready-to-drink alcohol space. And maybe just to give you some context, for Ball Corporation, hard seltzers of our unit volume make up less than 5% [in North America]. Obviously, we participated in the growth of that space, but the underpinnings for the things that we've been talking about in terms of long-term securitization of contracts, EVA accretion, it's not on the backs of that category specifically.

And so I think it will continue to grow. It's clearly not going to grow at the rate it has been. I think what's been clear in that space is the folks that continue to innovate and innovate effectively are the ones that are taking share. And so from that perspective, we believe that we have a right to play in the innovation space, and I think we benefit from those customers in particular. And so that's where our focus is.

I'm leery to comment on unit volumes across the entire space for the back half of the year, but maybe that gives you a sense of how we at Ball kind of view that category. We're continuing to bet on the long-term trajectory of the can and can wins in every channel. This is one that has done really well over the handful of years, but we like a lot of other categories and a lot of other spaces equally.

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

Okay. That makes sense. And then if we switch to Europe and the big improvement versus 2019, I mean, obviously, you had an easy comp last year. But really, what is driving the margin improvement versus 2019, even with aluminum costs that are much higher and obviously dilutive? What's driving that improvement there?

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

This may be too simple an answer, but our team is executing really, really well, in some instances, a little ahead of our expectations even. We've got a really stable footprint over there. We're on the forefront of major greenfield expansions, but we've had the benefits of incremental speed ups and incremental line extensions. And that's a much easier operating environment, coupled with the fact that the team over there is doing a terrific job.

So I think solid contracts that we've leaned into and talked about globally, the team performing extremely well and the fact that they benefited from the incremental growth expansion as opposed to some of the large greenfield footprint. So I think the combination of those 3 and that team just continuing to perform exceedingly well.

Operator

And our next question comes from the line of Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Of your 12 billion can capacity expansion by the end of the year, how much of that volume is already committed?

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

Overwhelmingly, it's committed. I think we've been pretty consistent on the capacity we're putting in the ground, whether you've heard from Scott or John at other Investor Days and outlets, we haven't deviated from that position. They're long-term contracts. They're committed. They effectively, in many instances, have take-or-pay clauses in them, good terms and conditions and equilibrium of risk that's improved over the course of the last 4 to 5 years in terms of the contract integrity. But yes, they're overwhelmingly contracted. I'd say 85% to 90% of each one of the facilities is contracted.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. Great. And for my follow-up, I think your long-term projection for the growth in North American can market is 4% to 6%. So call it 5%. Of the 5% growth you expect on a normal basis, how much of the growth comes from alcoholic beverages and how much from nonalcoholic beverages to get to the 5%?

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

Yes. Good question. I think going back to 2019, when we had an Investor Day and we've laid out the growth trajectory, we've been pretty consistent that I believe it's going to be somewhere in the neighborhood of 2/3 alcohol, 1/3 other. It may be shifting a little bit more to 60% alcohol and 40%. And the reason for that is energy. The energy market continues to absolutely be on fire. And so that's the only fundamental change I see in like the underlying architecture.

The good news is that means volume is more than what we anticipated a couple of years ago. But that segment, in particular, and there's more fitness energy drinks coming online. You're an end consumer, you see all of this, and we're obviously going to benefit from it.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. I'll just add, let's not forget that, that 4% to 6% did not include any water, any stillwater. And even just driving in, in the car today, I actually heard a radio commercial about a new stillwater brand coming in. And it was delayed about a year because of COVID, but we are starting to see it. A little bit less so here in North America, but certainly in Europe, and we expect that to be upside to that 4% to 6% volume growth.

Operator

And our next question comes from the line of Anthony Pettinari with Citi.

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

John, Dan, after bringing up and ramping the additional lines in North America in 2Q, 3Q, would you expect to still be importing cans at year-end? Can you just kind of give a snapshot of where your global footprint stands from an import/export standpoint? And when do you get to a point where you no longer need to import into North America?

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

I think we'll be importing far less in the back half of the year. And having said that, the decadal growth, we're still in the early innings of growth. So as all our channels and all our markets continue to open up, and we lean more into new innovations, et cetera, those could spur some imports, but we're not planning on near as much to the extent that we saw in the first half of the year.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. But having said that, even going into '22, we still expect some imports as we kind of catch up with all this. If you go back probably, I'll call it, 18 months ago and asked us, we would have probably said the amount of imports in '22 would be negligible, if any, but we're seeing more just because of the overall demand growth, and we want to be prudent in our investments. And as Dan mentioned earlier, we make the investments based upon secured contracts. And so as those come through, that provides an underpinning. But I would expect that we're still doing some level of importing in 2022.

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

Absolutely.

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

Okay. That's very helpful. And then with the Delta variant, we're seeing some renewed lockdowns, I guess, maybe in some Asian markets where you don't participate as much. I'm just wondering if you're seeing or does your guidance anticipate any impact to on-premise demand in any of your global markets from renewed lockdowns?

John A. Hayes - *Ball Corporation - Chairman & CEO*

No. No, it doesn't because, as you know, I think it's actually only upside, certainly here in North America, less in Europe, but it does not skew towards the on-premise. And so I think as the on-premise comes on, I think they're upside because of the anecdotal evidence that we have seen and heard is that as the on-premise does begin to open up, the kegs are the ones at risk because they had to flush so much bad product because of the lockdowns. And so bar owners and restaurant owners are looking at much more flexible and adaptable supply chains within their own walls, and I certainly think that favors a can. So in fact, I think as things open or close, there's little downside but more upside.

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

Maybe just adding a comment to John's good take on-premise, I think we're also seeing the continued investment into the direct channel, and there have been behavioral changes that...

Operator

This is the operator. The mainline has disconnected. They will be dialing back in. So please stay on the line.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. Apologies for that. We seem somehow to have dropped off, but we're back. So Kathy, if you can perhaps like to take the next question.

Operator

And the next question comes from the line of Neel Kumar with Morgan Stanley.

Neel Kumar - *Morgan Stanley, Research Division - Equity Analyst*

So you mentioned several supply chain disruptions in the aerospace and North and Central America segments. Can you just quantify for us the impact in the quarter and what impact do you expect from these issues in the second half of the year?

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

Yes. On the aerospace side, I think we saw continued struggles early in the quarter. It got much better in the back half of the quarter, and we feel much better going forward that we're kind of beyond the challenges that we had in the supply chain.

In North and Central America, we're seeing increased costs as it relates to warehousing, coatings, all kinds of things. I think everybody is seeing that across their supply chain. Our teams have done a great job of making sure that we have metal to run our operations. So we haven't had any issues from that standpoint. But it's a challenging environment, but one that we're navigating through pretty well.

John A. Hayes - *Ball Corporation - Chairman & CEO*

I think in total, in aerospace, we think it costs in the range of probably \$5 million in the quarter. And I think in North America beverage, our start-up costs were in the \$12 million to \$13 million range and then all the other inefficiency costs that Scott alluded to. And don't forget, we entered the quarter with the lowest inventory we had. And so as you're going into a seasonally high period of time in North America, that's what created the disruption, but that costs us probably in the range of \$20 million, \$25 million.

And as Dan talked in his prepared remarks, a big focus in the second half of this year as this new capacity is coming online is getting our inventories back to a more normalized level so that we are not making to order, but we're making to stock, which is very important from a whole supply chain efficiency perspective.

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

It's important to add to that, that when we talk about we're doing an effective job controlling what we're controlling, especially within the 4 walls of our plants, it's exactly to John's comment. When you have historically low inventory levels, that just promotes more label changes and more turnover. So our folks are operating incredibly well. They're just doing it in challenging inventory level circumstances.

Neel Kumar - *Morgan Stanley, Research Division - Equity Analyst*

Great. That's helpful. And you mentioned aluminum cups being profitable in 2022. I was curious what the drag is in 2021 and how much CapEx has been invested so far? And can we just generally expect a greater than 10% return on that investment on an ongoing basis?

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

So I'll add a couple of comments and then maybe turn it over to Scott. Number one, we're having to see the market in terms of promoting and building the brand. And so you could see commercials and traditional media. You can see an awful lot of activity in that arena. So we're spending that money as we launch. You only have one time to launch in these 20,000 stores. So we've leaned in heavier in the second quarter even than probably what you'll see in the back half of the year in terms of investment to build the brand. And then it's a function of volume against the fixed cost, right? So as we're seeing volume continue to pick up and seeing some nice velocity turns in retail, we have pretty good line of sight into where we're going to be exiting the year and real good line of sight in terms of this is going to be able to transition into a profitable business in 2022.

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

We've invested around \$250 million so far, just in the Rome cups plant. And we expect to have returns, yes, well in excess of that 9% as it matures. To Dan's point, I think the team has done an amazing job, given COVID restrictions, of getting it to 20,000 retail locations in a really short period of time. That doesn't come without some additional investment, but we expect that investment to be well worth it as we get into 2022 and beyond and start to see those returns.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. And the one thing I'll just add on that is let's also not forget the food service side, the sports and entertainment venues, they're just in earnest over the last month or so just starting to open up even on the concert side. They're just starting as we speak. And so as we go into the second half of the year, that's going to be a big focus. And then assuming normal, no restrictions or very limited restrictions in 2022, that's where we see the road to profitability.

Operator

(Operator Instructions) And our next question comes from the line of George Staphos with Bank of America.

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

Hope you're doing well? So I wanted to hit again on innovation. And I think sometimes it's good to remember 6, 7 years ago, I think you all were talking about how, especially on the alcohol side, there was an innovation relative to CSD, and that's obviously changed a lot, and churn is good. When you look at your customers' new product pipeline, especially in alcohol, are you more or less confident looking out a year to 2 years than you were a year ago in terms of the innovation and what it will mean for your growth and return? And why or why not?

John A. Hayes - *Ball Corporation - Chairman & CEO*

I'll give a very high level view. I'm probably a little bit more excited. Why? It's not only just because of innovation. It seems like every new brand that's coming out is coming out in cans. And so the sheer number of new product inquiries we get from big customers, regional customers, small customers has been the greatest I've seen in my 20-plus years at Ball Corporation.

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

Building on that, George, versus 3 or 4 years ago, every large CPG company now is getting into the alcohol space. So just by virtue of that, we're seeing a lot more innovation on that side. And as John said, almost everything is going into cans. So I'm more bullish. I don't know which one is going to win, but we know that the can is going to win, and we continue to place our bets on that.

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

Are you seeing any innovation pipeline, any sort of mixture between previously separated categories? So energy drinks and alcohol, energy drinks and coffee and what that might mean for your can business going forward?

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

I think, yes, you're probably just scratching the surface on the hybrid. Anything you can get alcohol into is being contemplated. Same thing on the fitness side. Anything that can have fewer calories to give you energy or some benefits, there's no shortage of innovation there.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. George, just to give you a context, people have been talking a lot about spiked seltzer. What we're also not talking about is the ready-to-drink that is just totally booming as we sit here right now. As Dan mentioned, energy is going very strong, and we're seeing more and more coffee going in with all sorts of functional benefits, whether it's various oils being put into it or other things like that. So again, across the spectrum, that's what we're seeing.

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

Okay. Hopefully, no alcohol and milk drinks, but we'll see. I guess the last question...

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

There is such a thing called White Russian, George.

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

I forgot, I forgot. We'll look for that in a can at some point if it's not already out there. So you mentioned that you're going to look to double the value return next year versus this year, and I was wondering what is ultimately driving that, recognizing it's going to be a combination of things. Is that the confidence in the return that you're generating from your investments giving you the wherewithal to do that? Is that the implicit higher cost of equity now being put on Ball stock because of the way the stock has been performing? And so maybe it's time to pull back and reward shareholders, or is it, it doesn't sound like it, a lack of confidence in the growth outlook, and so maybe it's time to start redeploying that capital. And I recognize it's going to be probably something totally different, but wanted your thoughts there, and I'll turn it over from there.

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

Sure, George. I think it's more conviction and confidence in our business and the prospects of our business longer term. We're in a comfortable leverage. We said we want to be 3 to 3.5x year-end debt to EBITDA. We see our earnings growth over the next several years growing at a pretty good clip. And so we have the ability to basically borrow more money and keeping the leverage flat and returning a ton of that value to shareholders, kind of like what we've done in the past historically.

So I think it's conviction about all of those things that gives us the confidence to raise the dividend 33% a week ago and to ramp up the share buyback. And I think this year will be a good start, and I think we get a lot more of it as we go forward.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. And people who have been around Ball long enough over the last 20, 25 years know that this lather, rinse, repeat strategy of making good investments, getting your debt down to the optimal capital levels and then giving it back to shareholders, that is a tried and true model. And the key point that I was making in my prepared remarks is we had planned on really doing that in 2022, but we have enough conviction in the growth of cash flow, the growth of earnings and where our balance sheet is, as Scott said, that we're going to be accelerating that.

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

And we don't have to sacrifice growth investments. We're still able to invest heavily in the growth, supported by those long duration contracts that Dan talked about. And we're going to flow a lot of cash, and a lot of that extra cash is going to go back to the shareholders.

Operator

And our next question comes from the line of Mike Leithead with Barclays.

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

I wanted to circle back to the inventory conversation. So can you maybe just touch on kind of how far inventory levels currently are below where you want them? And relatedly, I assume just given the demand strength over the past couple of years, your North America plants have been running and producing at, I would otherwise say, probably almost unsustainably high rates.

So is it fair to say in a more normalized environment when you get all your new plants up and running, you would ideally like to dial some of those operating rates back just to keep things smoothly running? Or just how should we think at a plant level how you would like to operate steady state versus kind of how you're operating today to kind of make do?

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

Yes. At a high level, we are essentially running this business during peak season as a make to order instead of a make to stock business. And because of that, you see very different behaviors from end consumers in North America. So the volatility of what products win and what products win at a lesser degree, if you don't have safety stock available to lean into that, that manifests into more label changes and more conversions. And that's what our plants are up against right now.

We have known we've got some significant footprint investments coming online here. As I think both John and I mentioned in our prepared remarks, 3 lines came on in North America this quarter. They'll start to gain efficiency, and then we'll have built out in 2 facilities 8 lines by the end of this year. That will give us some much-needed breathing room.

And as those come online, and we can build to stock in the traditional December-January time periods, we will see the benefits in peak season next year in North America. And we're not done on expanding, obviously, to continue to make sure that we've got the appropriate asset utilization, and you'll see the efficiency levels pick up in our plants because they'll actually have a fighting chance to do what we're planning to do.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. Just to give you some numerical context around that. Historically, meaning over the last, I don't know, 5 to 7 years, we would run, on average, inventory days in North America in the mid-20s, call it. We're down this summer in the mid-single digits. To Dan's point, you can't efficiently run a system, a network like that when your inventory levels are so low.

What we're planning on doing in the second half of this year is get them back to the mid-teens, call it, 15-plus or minus, because that's where we think more optimal levels can be. I don't think we'll get back to the 25% because I think the world is a bit different, and the velocity, to Dan's point, of label changes is different. But certainly...

Operator

And this is the operator. Unfortunately, it did disconnect again. I will just wait for them to dial back in. So please just remain on the line.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. Sorry about that. We got dropped off again. But finishing up that saying, in this summer, we've been in the mid-single digits, and we expect to get back by the end of this year, hopefully, to the 15 days, which we think is a much more optimal level because otherwise, we're just stressing our system too tightly.

Operator

And our next question comes from the line of Adam Samuelson with Goldman Sachs.

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

Maybe first, I was hoping to get just some color on the aerospace business. And you alluded to some of the kind of subcontractor and supply chain challenges, labor issues there, but a much more constructive revenue outlook for the back half of the year and talked about margins and expanding in '22. Has there been any change in terms of the revenue outlook for the business for this year? Is anything slipping into next? And then I got a follow-up.

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

Not to the revenue and a little on the profit, but negligible. What 2 things that influenced it, as Scott already indicated, number one, and I think I've made a comment in a prior call, we were operating pre-COVID with about 80% of our employees co-located on campus. We exited Q1 at about 50%. We're exiting Q2 about 65%. So we're trending in a way that's allowing us to be a heck of a lot more efficient and collaborative in terms of our efforts. The same phenomenon is happening with our subcontractors.

So the combination of that gives us great confidence in the back half of the year and why we're bullish on the revenue outlook and why it's in line, and in reference to John's comments of nothing has changed, we did secure a significant project the last week of the quarter. And that will give us the ability to continue to execute in line with our previous comments and expectations on the business.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. And to that point, we had expected to put that in the backlog in the beginning of the second quarter but it was really more towards the end of the second quarter. And so that was, in some part, relative to our expectations, a little delay, but it was the right thing to do for a variety of reasons. But nothing has changed as we go forward. We're really excited about that business.

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

Okay. That's really helpful. And then to the earlier question point on the acceleration in cash return next year, and it's a big step-up, you announced the 33% dividend increase last week. Should we be thinking that dividend is an even bigger kind of component of that? Or do we think that still -- with where the dividend payout is now that's comfortably north of \$1.5 billion of buyback next year as the kind of base plan for the moment?

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

Yes. I mean we look at the dividend all the time. We don't adjust it on a regular basis. We look at it from time to time and then make larger, I guess, adjustments. Most of that return is obviously going to come in the form of share buyback, but we'll keep a balance between dividends and share buyback. But you're right, we're kind of at the front end of acceleration of both of those as we have more confidence as we look out into the future about our cash flow and EVA generation.

Operator

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

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

I think Neel asked earlier about the cup launch and the costs associated with it. And Scott, I think you addressed the capital costs but not necessarily the P&L cost. So could you just give us a sense of what perhaps the swing could be if you turn to profit next year compared to whatever drag you're experiencing this year?

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

Well, I think this year, we'll invest probably, in total, close to \$30 million in the start-up of the plants, of getting it into retail and all of that. I think the marketing costs that we're experiencing this year, mostly in the second quarter, but some also in the third quarter, will reduce greatly next year. And I think our volumes will grow quite a bit next year, as John mentioned, on-premise, food service, stadiums, venues, those kind of things come back. We're having nice success on the retail side, nice success online. And so I do think it would be a nice contributor year-over-year. I would expect it to be a nice swing.

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

Got it. Appreciate that, Scott. And Dan, I think Jeff was asking earlier about the composition of the expected long-term growth in the North American beverage can market. And you mentioned perhaps now you're thinking it's about 60% alcohol, and you've talked about hard seltzer and beer and ready-to-drink cocktails. Can you just talk about what's informing your view of how each of those categories will contribute to that growth? I mean what kind of foresight your customers would have about the rate at which each of those products is likely to grow over that period?

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

Sure. I mean in the simplest of terms, that's roughly the construction of our revenue now, and we're seeing it grow consistently across all product lines and channels at this point. And so we see that continuing. We're seeing equal number of innovations across all categories and all channels. I think the fact that a couple of the larger beverage companies are leaning into alcohol gives you some belief that alcohol will continue to represent a majority position of our volume concentration.

But as I think both John and I commented on this call, the wildcard within the 40% is going to be stillwater and the accumulation of that in the marketplace. So if the 40% grows at a higher clip, we're all going to like that because we still believe everything is going to grow in line with our expectations. It's been consistent. That just means that we're seeing further entrenchment and growth of new stillwater categories.

Operator

And our next question comes from the line of Arun Viswanathan with RBC Capital Markets.

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

I guess I wanted to go back to the market development around seltzer and just the whole ready-to-drink alcohol market. A lot of us are under the impression that the market is sold out until 2023 here in North America. And so when the seltzer market, I guess, moderates, how does that kind of affect the other categories? Do you think that there's a lot of new products that are pent-up that maybe get some cans? Does that give you a little breathing room? Just given the tightness that you've experienced over the last couple of years, is that something that's potentially welcomed? Maybe you can just kind of square away how to interpret the slowdown and the impact on other categories.

Daniel William Fisher - Ball Corporation - President & Director

Yes. Thanks for that. I would say, first off, I think you're hitting on an element that is still lost, the broader followership. But every single category, every single customer and every channel is on allocation in our 3 biggest markets. So there is an impact to growth. I don't know if it's disproportionate to one category because I don't know what the ultimate sell-through of those products are, but we are contributing to some of the end customer growth targets and rates just by virtue of the fact that if we had more capacity, we'd be selling it through. To the second question, maybe I'll turn it over to John to add commentary to that.

John A. Hayes - Ball Corporation - Chairman & CEO

What I was going to say is, don't forget, we've always taken a portfolio approach to this. And as Dan had mentioned earlier that hard seltzer itself represents 5% or less of our North American volume. And so we've always played on the mainstream beer side. We played on the import beer side. We played on the spiked seltzer side. We played wine and ready-to-drink alcohol. All of those, you have to look at it from a portfolio theory. And to Dan's point, from a portfolio theory perspective that we're on allocation, and all these things are growing. And so I do think the focus on hard seltzer is probably a bit overstated here because people are still drinking more alcohol from can products, period.

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

Great. And if I could, similar question, just outside of the U.S., what's the penetration and, I guess, momentum that you're observing in similar new products? Maybe you can just touch on Europe and Brazil. Have you seen any potential increase in some of these new categories in those regions at all?

Daniel William Fisher - Ball Corporation - President & Director

Yes. The new entrants that are coming into South America are 100% can entrants. And that's been happening over the last handful of years. And so their influence and maybe, more importantly, how the end consumer is consuming products through the smaller retail channels and the mini marts in that part of the world, they like cans a lot more than they like the historical returnable glass offerings.

And so we've seen a manifestation of to your point, if a new product is coming out, it's disproportionately coming out in cans. In Europe, that's the lowest can penetration market in terms of substrate penetration anywhere in the world for us outside of Mexico and much the same. I think there's ample growth in and away from plastic, from glass, from on-premise kegs through direct channels. So we're seeing that, we're seeing the can win.

I don't know that I could point to one particular category because we're seeing it across every category. So there's a heavier lean in terms of cans. And the thing that emboldens us and continues to, sort of echo John's comments at the outset that we're right in line with our expectations.

Nothing has changed. We continue to see the filling operators overweight to manufacturing can filling lines, and that's what's getting purchased, and that's what's getting implemented and installed everywhere around the world.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. To Dan's point on that, let me just amplify because not - 4 years ago, 1/3 of all new filling lines going in were for cans. Now it's closer to 2/3 of all new filling lines going in for cans. And to Dan's point, it's across all categories, whether it's beer, soft drink, energy, water, craft, wine, FABs, you name it, it's across the board.

Operator

And our next question comes from the line of Salvator Tiano with Seaport Research Partners.

Salvator Tiano - *Seaport Research Partners - Senior Analyst*

So firstly, very quickly, if I understood correctly from the very beginning that you mentioned \$1 billion in capital returns this year, and I think the dividend is \$200 million. So does it imply the excess of \$500 million buyback is actually \$800 million? Or did I miss any figures there?

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

The dividend is a little high with the dividend bump that we just did, the dividend will be a little higher than that. But the share buyback is kind of in that \$700 million to \$800 million range. Yes, that's correct.

Salvator Tiano - *Seaport Research Partners - Senior Analyst*

Okay. Perfect. And in Europe, can you provide us a little bit with some color on each market, U.K., Russia, Continental Europe, how you performed during the quarter?

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

Yes. I mean they're all consistently up in that mid- to high single digits. I think ever since the third quarter of last year, when things started to reopen, not as much as in the U.S., but folks have figured out a way through the direct channel or other avenues to get their beverage of choice. And so we've seen consistent growth across the continent.

John A. Hayes - *Ball Corporation - Chairman & CEO*

Yes. And if you think about the growth in Russia that we were on allocation, unfortunately, there because we don't have enough cans for the market. Think about the U.K. for all the things we talked about that Dan mentioned to earlier. This whole sustainability, we haven't talked much about this today, but you can clearly see in Europe a strategic mind changing as we speak. Let's not forget in 2025 the European packaging directive comes into full force in terms of recycled content and other things. And I think we're seeing changes in behaviors by not only the consumers but also our customers in anticipation of that.

Operator

And our next question comes from the line of Phil Ng with Jefferies.

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

John, you mentioned that Russia, you're on allocation. So curious, with the capacity you're adding on, one, do you have an anchor customer? And then I noticed one of your beer competitors in the region is adding more capacity. Does the market have enough demand to support that incremental supply?

John A. Hayes - Ball Corporation - Chairman & CEO

Without question. I'll turn it over to Dan. He can answer it more succinctly.

Daniel William Fisher - Ball Corporation - President & Director

Yes. We have long-term contracts with all the major players there, especially on the brewery side. And those contracts were entered in, in alignment with adding this capacity. And so the challenge is going to be the market's growing faster than when we were negotiating those terms a while ago. So we're constantly monitoring that marketplace.

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

Got it. And then, Dan, you mentioned that really great execution and running full out in Europe. Given some of the investments you're going to be making and ramping up, is that going to have an impact on your margins when we look out to next year for Europe in a meaningful fashion?

Daniel William Fisher - Ball Corporation - President & Director

The U.K. and the Russia facilities, they can't come online fast enough. I've got tremendous confidence in the team's ability to ramp those up. In terms of the Czech Republic, that market can sometimes be a little bit more volatile, but we've got, again, long-term contracts and a really good team executing there. I don't anticipate the weight of start-up costs to be in line with what we're experiencing in the U.S., simply because those facilities are a little smaller and the cost profile, obviously, in the Czech Republic and Russia are far different than a U.S. wage rate.

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

Got it. That's helpful. And in North America, really solid growth, but certainly lagging some of the other markets. Was that largely a function that you didn't have capacity? And then when some of the capacity you're investing ramp up in the back half, you expect to run a little fuller? Any color on how strong that volume could look like if you run full out in the back half this year?

Daniel William Fisher - Ball Corporation - President & Director

Yes. It's almost 100% capacity, and then not to belabor this point, but we were less efficient just simply because we didn't have any inventory to buffer when things took off and the product was outpacing some of our anticipated projections. So I would imagine we've left a couple of points of growth on the table in the second quarter because of the combination of that.

In the back half, as these lines ramp up, we've got really good contracts there. We are in constant conversations with the customers, and they can't wait to get those cans. So I would expect accelerated growth in the back half of the year because of the capacity we put in place.

Operator

Our last question comes from the line of Alton Stump with Longbow Research.

Alton Kemp Stump - Longbow Research LLC - Senior Research Analyst

I just want to ask about South America. Obviously, there's a lot of talk about capacity tightness here and also over, of course, in Europe as well. But how is the capacity situation that you see currently over the next 12 to 18 months, particularly as it pertains to South America?

Daniel William Fisher - Ball Corporation - President & Director

It's tight. Yes, obviously, they're in nonpeak season, getting ready to enter into peak season. And everything that we're seeing is going to put us in incredibly tight scenario. So that team is doing a marvelous job trying to build inventory right now in anticipation of that growth. But as I've commented in my prepared remarks, we're obviously starting up a new plant in Brazil, in this quarter, probably the back half of this quarter. There are other line extensions and investments all throughout the region that we continue to invest in. And it's going to continue to be tight, and we're adding volume and capacity for our strategic players.

I guess we're signaling high to middle teen growth in that region. And a lot of that is coming from this returnable glass to can shift. The can continues to win across all categories, and we will benefit from that here as this capacity comes online.

John A. Hayes - Ball Corporation - Chairman & CEO

Okay. Well, thank you all for your participation. As you can tell, there's an excitement here that we really do believe we're on the front edge of a meaningful capital allocation strategy to return it to shareholders. We see, as we sit here today, nothing has fundamentally changed from our Investor Day 9 months ago. And we're just excited.

I do wish and hope that everyone stays very safe and healthy. This Delta variant is a concern. But I think strategically, we'll be, as a globe, able to get beyond it. So thank you all for your participation, and we look forward to continued engagement.

Operator

Thank you. That does conclude the call for today. Thank you for your participation. Have a great day.

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