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Ball Corporation (BLL) CEO John Hayes on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.7 misses by $-0.02 | Revenue of $2.95B (0.24% Y/Y) misses by $-95.14M

Earning Call Audio

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Ball Corporation (NYSE:BLL) Q3 2019 Results Earnings Conference Call October 31, 2019 11:00 AM ET

Company Participants

John Hayes - Chief Executive Officer

Scott Morrison - Chief Financial Officer

Daniel Fisher - Chief Operating Officer

Conference Call Participants

George Staphos - Bank of America Merrill Lynch

Brian Maguire - Goldman Sachs

Ghansham Panjabi - Baird

Anthony Pettinari - Citi

Tyler Langton - JPMorgan

Adam Josephson - KeyBanc Capital Markets

Chip Dillon - Vertical Research Partners

Arun Viswanathan - RBC Capital Markets

Neel Kumar - Morgan Stanley

Mark Wilde - BMO Capital Markets

Gabe Hajde - Wells Fargo Securities

Debbie Jones - Deutsche Bank

Operator

Greetings and welcome to the Ball Corporation Third Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this conference is recorded, Thursday, October 31, 2019.

I would now like to turn the conference over to John Hayes, CEO. Please go ahead.

John Hayes

Great, thank you Malika and good morning everyone. This is Ball Corporation's conference call regarding the company's third quarter 2019 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 the company news releases. If you don't already have our third quarter 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 Scott Morrison, Senior Vice President and CFO; and Dan Fisher, Senior Vice President and Chief Operating Officer of our Global Beverage businesses. I'll provide some introductory remarks. Dan will discuss the Global Beverage packaging performance. Scott will discuss key financial metrics and then we'll finish up with some comments on our aerosol and aerospace businesses, as well as our outlook for the company.

Growth in our businesses continue to exceed our expectations and our demand outlook heading into 2020 and beyond remains quite strong. During the quarter, overall global beverage volumes were up 4%. Our aerospace revenues were up more than 30%. We successfully launched our lightweight aluminum cups business. We completed the sale of two underperforming businesses and we consistently executed share buybacks, including dividends, and as of today, we have returned an excess of $900 million to shareholders.

During the quarter and year-to-date, our volume growth in our beverage can businesses actually been hampered by tight inventory levels, tight capacity conditions and some manufacturing inefficiencies. Across the globe, we are actively investing in new aluminum packaging production to serve increasing demand for aluminum cans, bottles and now cups.

In our earnings press release, we announced additional beverage can expansion plans that Dan will get into shortly. New product introductions and sustainability are the key drivers for us, as customers seek out aluminum packaging solutions. In an environment of strong demand, particularly in our portfolio of specialty can sizes as well as tight inventories, we continue to experience short-term cost to serve this growth, particularly in our North and Central American packaging business. And we are focused on building our capacity to catch up with this growth.

Our customers plans to convert more packaging to aluminum and consumers environmental consciousness are supporting our decision to deploy high returning capital at a responsible pace. Scott and Dan will discuss these opportunities across our various geographies and businesses.

In aerospace the team continues to deliver on its growth ambitions. Hiring is up, backlog is up and additional capital investments are ongoing in this business to keep up with the strong growth. From an earnings perspective, our comparable results were up 25% despite tough year-over-year comps given FX headwinds, the July 2018 steel food can business sale and wind down of the end sales agreement in South America.

Our North and Central American segment continued to feel the impact of previously discussed U.S. aluminum scrap headwinds and product, project start-up costs. All other segments were at or above our expectations. We continue to expect year-over-year improvement in each of our main geographies going forward.

Now key highlights for the quarter include, as mentioned previously, overall global beverage can growth of approximately 4% was driven by 10% specialty can growth. Today specialty cans represent over 42% of our mix on a global basis. The growth was prevalent in our largest markets with North and Central America up approximately 3% year-over-year, South America up 5% and Europe up 4%, while EMEA returned to grow. We completed the sale of our China beverage can business and we expect to receive the cash proceeds in the fourth quarter. We announced the sale of our Argentine steel aerosol business and subsequently closed on the sale in late October.

Our aerospace revenues, as I mentioned, were up over 30% and operating earnings were up 35%, while we don't expect this level of growth to continue in the fourth quarter due to a difficult year-over-year comp, we do expect our aerospace revenues and earnings to grow over the next several years at strong double-digit rates. And aluminum aerosol was up low single-digits with investment for new product innovation we're continuing.

Our focus areas continue to be maximizing the value and performance of the investments we've made to-date, in order to capture as much growth as we can manage. Continuing to proactively invest in our beverage can business to service the growing needs of our customers. Hiring, training and mentoring the most talented people to capture this growth in all of our business. And lastly, raising awareness and educating consumers, governments and other stakeholders on the facts of sustainability, including but not limited to the infinitely recyclable nature of aluminum products as well as carbon footprint benefits that recycled aluminum has over all other substrates.

So in summary, we continue to see strong growth in, at the company, and while we continue to have some previously articulated short-term cost challenges to serve this growth, we believe these headwinds will moderate over time as additional new assets ramp-up going into 2020 and beyond. We will continue to execute our long-term strategy of deploying capital against growth opportunities, increasing EVA dollars and earnings over time through higher revenues above our cost growth, driving more mix shift to specialty containers, growing new innovative packaging products like the cup and expanding aerospace, all with the return of value to our shareholders mindset.

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

Daniel Fisher

Thanks, John. As John alluded to, new product launches and substrate conversions to aluminum packaging in the beverage industry are still in the early stages. In addition to multiple customers announcing trials of still water in cans and or publicizing an increase of aluminum packaging in their overall beverage portfolio mix, we successfully launched our new infinitely recyclable brandable aluminum cups. With an addressable market of 93 billion units globally, a third of which are in the U.S., we are incredibly excited about this new product in our recently announced multi-year investment plans to construct a dedicated aluminum cup manufacturing plant in Rome, Georgia, with the first commercial cups expected off the line within 12 to 15 months.

Across our global operations, our team continues to manage tremendous growth complexity and incredibly tight supply demand conditions. As we prepare for an acceleration of products converting from PET to cans, while supporting to the best of our ability, new categories leveraging aluminum packaging, we are providing additional resources to our plant operations in the areas of talent, training and mentoring.

As John said, until we have more assets up and running, cost to serve the surging growth may linger over the next quarter or two in North America's performance, given the U.S. aluminum scrap situation and leveraging the fourth quarter to rebuild inventory levels heading into 2020. Further investments will be required to overcome the greater than anticipated specialty growth of approximately 10% plus over the past 18 months. Our operations need a bit of breathing room to return to historical operational leverage on incremental sales. We believe the expansion announcements in our Q2 release along with today's announcements will get us there over the course of the next 12 to 24 months.

Turning to growth. Our third quarter global beverage can shipments were up 4% and comparable operating earnings increased only slightly year-over-year, given the U.S. aluminum scrap, continuous U.S. line of inefficiencies, final wind down of the South America ends manufacturing agreement as well as euro FX earnings translation headwinds in Argentine Peso volatility. All-in, these issues impact the comparable global beverage earnings $40 million to $45 million in the quarter.

As we mentioned last quarter, the unfavorable impact of U.S. aluminum scrap, logistics and customer order and complexities, have largely been addressed and contracts renewing in 2020.

Moving to the individual segments. Ball's North American segment volumes were up 3% in the quarter. Sold out customer conditions in spiked seltzers, double-digit growth in wine, craft beer, new water brands, energy drinks, spirits and premix cocktails in cans led to 4% year-over-year growth in specialty despite tight conditions for cans. We are thankful we made the investments we did in 2018 and year-to-date 2019. We just wish we would have done more.

Inventory levels continue to be low in every plants in our network is running at maximum utilization. Conversions, line speed ups and additions at existing facilities in Georgia and Texas are largely on track. As John noted in our press release, we are excited to announce the construction of a new facility, excuse me, a new specialty beverage can manufacturing facility in Glendale, Arizona to support the new can filling facility for a major customer as well as other third parties.

Initially a high speed, two line facility, we expect this plant to come online in early 2021 and will have the capability to be further scaled as demand dictates. We are finalizing plans for new capacity in the Northeast and actively exploring further capacity expansion across the region, as our customers continue to invest in their can filling businesses.

We look forward to the multi-year opportunity of offering new products and more specialty aluminum can, bottle and cups capability to support our customers growth. Following these investments, our plant and sales teams will gain some headroom across the system, allowing us to get cost in line, better serve our existing and new customers, and with previously negotiated contracts favorably resetting at the beginning of 2020, I fully expect strong earnings momentum across North America as we close out 2019 and accelerate profitability in 2020 and beyond.

Turning to our South American segment. Our volumes were up 5% in the third quarter. Year-over-year quarterly earnings were impacted by the final wind down of the ends agreement, FX headwinds related to the Argentine peso, start-up costs related to our new plant in Paraguay as well as incremental warehousing and logistics costs related to customer mix and preparedness in advance of the seasonally strong fourth quarter.

Operating earnings are expected to improve year-over-year in the fourth quarter. Our new plants in Paraguay started up on schedule in late October. Chile is performing in line with expectations and despite economic volatility in Argentina, can demand is holding up well in the region. And similar to North America, overall South America industry trends remained strong with cans, new product and brand launches for beer, wine, energy and still water in cans, as well as multiple brewery expansions will support additional investment across the industry.

European beverage earnings were up 7% in the third quarter due to volume growth and improved year-over-year operational performance. Despite a $4 million unfavorable operating earnings translation impact in the quarter, on a constant currency basis, comparable operating earnings were up more than 12%. Volumes increased 4% in the third quarter, despite mixed weather during the quarter. Our customers operations continue to add new can filling lines which will benefit industry growth in 2020 and beyond.

Looking ahead, we will leverage our existing Continental Europe network with near term line speed ups and we are in the process of finalizing a near and long-term capacity expansion strategy in Russia, in other areas of Europe to support customers growth.

Turning to EMEA. The demand environment net expectations in the quarter, operationally, the plants continue to focus on their cost and post the sale of China. We will continue to assess opportunities to prudently invest if the economics justify. With all the growth across our largest regions, we will be laser focused on prioritizing capital for the best long-term economic outcome and on improving execution.

In summary, global beverage can demand momentum has continued in our three largest regions of North and Central America, South America and Europe. Supply demand globally for cans is tight. Our sustainability, commercial, engineering and talent management teams have a full court press on supporting our plant teams. Aligning with the right customers, leveraging our innovation in product portfolio, EVA returns improvement, managing a proper pace of spend relative to customers' long-term needs and building out a complete cups business make for interesting and exciting work. Thank you again to all our teams around the globe.

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

Scott Morrison

Thanks, Dan. Comparable third quarter 2019 diluted earnings per share were $0.70 versus $0.56 in the third quarter of 2018. Details are provided in the Notes section of today's earnings release and additional information will also be provided in our 10-Q.

Third quarter comparable diluted earnings per share reflects strong global beverage can shipments, very solid aerospace performance, a lower effective tax rate and lower corporate costs offset by the sale of our U.S. steel food and aerosol business, euro earnings translation headwinds and lower year-over-year and sales performance in South America and U.S. cost that Dan just outlined.

In addition, global beverage revenues reflect a 6% unfavorable impact from the pass-through of lower cost aluminum. Net debt ended the quarter at $6.5 billion and reflects our typical seasonal working capital build and ongoing share buyback. We continue to anticipate year end 2019 net debt to remain around $6 billion as we buy back stock, invest in our businesses and pay dividends. Close to 90% of Ball's balance sheet debt is at fixed rates and we've reached our target leverage levels. Ball's balance sheet is healthy and provides ample opportunity and flexibility to service growth and shareholder value return needs.

As we close out 2019 and prepare for 2020, our comparable EBITDA we'll exit this year in essentially a $2 billion run rate. In the quarter, we made an incremental $75 million contribution to our pension plans that along with higher than initially anticipated CapEx spend to support our growth, we see, that we see 2019 free cash flow is now being in the range of $900 million. Full year interest expense will be a little more than $310 million and the full-year effective tax rate on comparable earnings will be in the range of 18% to 19%, and corporate undistributed will likely run just under $60 million representing benefits from strong overall cost management, some favorable FX impacts and true ups for various benefit and compensation plans in the quarter.

Through today, we have executed nearly $800 million of net share repurchases and paid out approximately $130 million of dividends. We will continue to flow meaningful amounts of free cash flow, we have great opportunities to invest in cans, cups and aerospace, which will require more capital than we thought a year ago. Like always, we will invest capital with an eye on EVA returns, managing our balance sheet effectively and consistently repurchasing stock and paying dividends for the benefit of our long-term shareholders.

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

John Hayes

Great. Thanks, Scott. In our aluminum aerosol business, global volumes grew nearly 4% in the quarter. We continue to see opportunities to broaden our product and customer portfolio and global footprint through either bolt-on, M&A or Greenfield investment. We look forward to being able to discuss additional innovation and sustainability initiatives as we move forward.

As mentioned, our aerospace business reported 30% revenue growth and 35% operating earnings growth on solid contract performance, partially offset by incremental labor costs. Year-to-date through nine months, we've welcome 840 new aerospace employees and we anticipate by year-end total aerospace headcount will increase by 1,000 employees. On boarding new employees, providing mentors, further expanding of our Colorado facilities, whether it'd be offices, manufacturing, test and clean room space and executing on our strong backlog continue to be the main focus.

Looking forward, the program as recently won are vital to the intelligence for connascence and surveillance as well as the climate change and weather prediction needs of our country. These projects provide valuable challenging work for our incredibly talented employee base over the next few years, where we should be able to grow profitability in excess of 15% per year during that time. In addition, there are either, even greater future program opportunities that we are pursuing that would position us even more nicely, if we are able to secure them.

Our long-term prospects have never been brighter. Ball is uniquely positioned to lead and invest in sustainable growth in global aluminum packaging and aerospace, while delivering significant value to our shareholders. We look forward to driving our business to meet or exceed our long-term diluted earnings per share and EVA dollar growth goals. Have you've heard, as you've heard me say before, our ability to succeed is because of our people, our culture, our EVA mindset, a healthy balance sheet and exceptional product and technologies. We will continue to responsibly invest do what is best for Ball and our shareholders' long-term success.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question is from the line of George Staphos with Bank of America.

George Staphos

I just want to get to the growth that you're seeing and the line speed of activity that you're seeing relative to what you were talking about last quarter. And this is before the new plant in Glendale and the potential plant in the Northeast. I think you said last quarter that you were looking at an additional 4 billion to 5 billion cans by mid '21.

And if I read or heard correctly it's now in excess of 5 billion in 12 to 18 months, which would suggest that you're ahead of schedule in numbers and also in terms of timing. Is that correct or am I missing something there and where are you finding that incremental capacity relatedly, the new plant in Glendale, the one you're looking at, perhaps in the Northeast. Can you comment to the extent possible, how much of that volume might be committed to already or it would be presumably committed to with an existing customer or to contracted such it's not spot capacity in the market, and how you're using that leverage in commercial opportunities? And I had a couple of follow ons. Thanks.

Daniel Fisher

Sure. George, I guess relative to the Northeast, we're in the final legs of contract negotiations. We don't regularly talk about customer negotiations but safe to say we wouldn't be contemplating a Greenfield facility if we didn't have line of sight into a large portion of that volume, and that would also, we're also contemplating a scalable facility as well there, much like what we've indicated in the comments here relative to Glendale. And your 5 billion, 5 billion plus excess comment I'd say yes, I think we see line of sight into growth rates and capacity expansion that would get in excess of 5 billion and a lot of it just simply has to do with the growth rates that continue to kind of outpace candidly our expectation, specifically on the specialty can growth side.

George Staphos

But Dan is it sort of necessity is the mother, invention so as the demands come in you have found ways to tweak the lines even I guess more quickly and to create a little bit more incremental capacity and you thought you'd have otherwise, or you just want to get a little bit at where that delta has come from?

John Hayes

Yes, I think more of its just relative to the investments that we're contemplating and suggesting. I think, this is, we can do some things, certainly in a lot of our facilities to increase efficiencies, but to get in the neighborhood of 5 billion additional cans, is going to come from new capital overwhelmingly.

Daniel Fisher

And George I'd just add on to that, there is a lot of speed ups that we do in our existing facilities. So we don't regularly talk about, that's also included as well and so we're debottlenecking every conceivable line in our system.

George Staphos

Okay. My two last follow-ons. I'll ask them in sequence and turn it over. I know you have a lot of other questions. Can you comment at all in terms of what market data, what consumer reaction, what your customers are saying about the aluminum cup? And what's seemingly viable enough, sufficiently viable for you to build a new plant in Rome and Georgia. How does consumer see it? And then there was a fairly big swing in working capital quarter-on-quarter, on a year-on-year basis. I'm assuming some of that's the pension funding, but if you could provide a bit more detail there Scott, I'd appreciate it. Thank you.

Daniel Fisher

Yes, on the cup side, George, I would say there is definitely line of sight into kind of on-premise large venues, concerts, the cups already, as you probably are well aware in NHL, NBA, NFL, the news concert venues on college campuses, so that customer base is a handful of really large customers that manage tens of thousands of venues, and we're having very productive conversations there for this product, and I think John as probably alluded to this at times. For this to be a much bigger business then you're going down the retail avenue and we're starting conversations there. Those are early innings there but we feel really good about the amount of capital we put in place in Rome and the customer activity in the fact that we're going to have a pretty full line and pretty short order.

Scott Morrison

And on the working capital front, George the pension is part of it, but the biggest part year-over-year was the impact of the sale of the tinplate business last year, where we essentially collected all of that working capital when that business was sold. So that's the biggest difference.

Operator

Thank you. Our next question is from the line of Brian Maguire with Goldman Sachs.

Brian Maguire

You obviously played out a little bit differently then you thought and you did provide some 2019 guidance many years ago, that you're close to hitting but falling a little bit shot. I, just wonder if you could provide a little bit of an, update us now on kind of where we sit at some of the issues that you've had in 2019 that are non-repeats, and really just trying to set us up for kind of what we should be expecting in 2020. Obviously, you have the pricing kicking in the volumes, a lot of these one-time cost will be gone. Just trying to kind of set some of the noise and get a better sense of kind of how you're thinking about 2020 shaping up at this point?

Scott Morrison

Sure. Well, I think its probably helpful when we put those numbers out there 2016, the world has changed a lot. It's actually going to be exiting this year, about a $2 billion run rate, if you look at what will generate go back half of the year. But you look since 2016 we had the sale of the tinplate food business and now China, we have the class of the Egyptian economy, a few years ago. Global FX volatility, so we're pretty happy where we're at. We've had scrap issues this year and more start-up costs. I think we've talked about the scrap issues getting fixed in new contracts. as we enter 2020 and new volume. And so I see nice growth ahead. I think we're at a point here where some of the headwinds that we've had are going to get behind us and as our plan start to run better we start to sell more put more of this capacity in. We are going to like the results of that. So I see a nice improvement next year from earnings and cash flow standpoint, earnings standpoint.

Brian Maguire

Okay, great. Last question from me just, I know the two big still water brands have been trialing cans moving from PET to cans. I'm sure there's been, other customers looking at that also. I'm just wondering if you have any early feedback on, not those customers in particular, but just generally what the feedback has been on still water in cans and then related to that, are you seeing any other beverages that are traditionally been in PET start to pursue some trials in cans, whether it's juices or sports drinks or things like that?

Daniel Fisher

I'd say, on the trials and cans and I think we've commented on this a couple of times, probably over the last three or four quarters. The one metric that really lends itself to more products and more categories moving into cans is new product introductions and the new product introduction number in North America from a substrate composition, was cans historically new products would come out about 35% to 40% of the time in cans and in the last quarter were north of 70%.

We are having conversations with more brand teams and more marketing teams, about moving more product in a bigger way in the cans. Now, they're not 100% in plastic or 100% in a substrate, but we're seeing more and more appetite to move product into cans with some of the larger CPG customers. On the still water front, we're seeing a lot of aggressive product launches by a number of emerging brands, in the still water space. And I would say that will be the catalyst for more of the larger folks to move, they will force the move of the larger CPG companies.

We're having some intensified conversations in Europe, probably even more so now than North America but continued to see an awful lot of still water brands, emerging brands coming out and they are coming out in all different shapes of cans and bottles because it's such a disruptive space right now. But a lot of momentum there is still small volumes, but I would see that momentum continuing to build.

John Hayes

Yes, Brian, this is John just put a finer point on the first part of Dan's answer, I'm looking at some market data here in every category the can is up. CSD its up, big beer it's up, energy it's up, water it's up, craft it's up, wine it's up, FAB is up and so we're seeing a broad based across the board migration and that's why we're excited about where we are right now.

Brian Maguire

Okay. I mean, in the context of capacity constraints, that's all very impressive. Yes, thanks again for taking the questions.

Operator

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

Ghansham Panjabi

I guess in your press release, in your comments you noted specific North America that you had very tight low inventory levels. I guess on that how are you adjusting production schedules as you think about 2020 to give you system or flexibility, and I guess on that, are you changing some of the contract terms for newer customers to bias toward take or papers requirements, in the past you've talked about customers changing ordering patterns last minute and I'm wondering how that's changed, if at all given the tight supply in the industry?

Daniel Fisher

We will, we are continuing to adjust contracts to try to buy a little bit more level load, little bit more disciplined from the customer in terms of last minute requirements, last minute orders. Requirement contracts are starting to become a thing of the past. We need all of those to kick-in and unfortunately, it will take us a handful of years to get all of that in sync. And yes, we are definitely having conversations more a kin to kind of take-or-pay with our customers, which is a massive step change from even two years ago. So all of that's in the fall, but the reality is, those are getting us incremental benefits and with growth especially on the specialty side of 10% plus, we just need to get some significant capacity put in place here over the next 12 to 24 months before we can really get kind of the breathing room we need to operate efficiently.

Ghansham Panjabi

Okay. And I guess going back to John in your comments on category growth, just kind of stepping back, what do you think the regions are going to shake out from a growth standpoint. The major regions for 2019 from a volume standpoint. I mean it looks like Brazil exploded to the upside and so on. And how are you thinking about 2020 from an industry standpoint? And then how should we kind of overlay the capacity you have coming on over the next 12 to 18 months?

John Hayes

We, it's tense here that 2019 question first. As you know anything north of equator is a seasonally slow quarter. So we got to put that in context. And what we're doing is actually using this opportunity. Dan mentioned it in his prepared remarks, that because it is a seasonally slower we are using that trying to kind of rebuild our inventories. We knew going into the third quarter that we were already low on inventory. And so you, my point is, you can only sell what you actually have on the floor or can make.

And so as we go into 2019, we don't see any appreciable differences in the fourth quarter in terms of the growth rates that we've been seeing. And as we go into 2019, I think growth is just a function of how many cans we're able to make. And as Dan had mentioned, we're trying to keep up as much as we can. But this kind of caught us off guard to the upside. And I think if there is any, if we're able to get our manufacturing efficiencies back to where we are, that's where a lot of focus is going on right now. I think the growth rates that you've seen in 2019 are going to be the same in 2020 with a bias to the upside if we have the cans to sell.

Operator

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

Anthony Pettinari

In the last quarter's release, I think you'd cited mix as being a potential driver of earnings in North America in the second half. But I think today you referenced it is a headwind. And I'm just wondering is something sort of changed relative to expectations or if you could quantify the mix hit and if this negative kind of mix impact lingers in the 4Q?

Daniel Fisher

Yes. I would say, I don't expect it to linger moving forward. The low inventory levels that we entered into Q3, were largely in and around the growth categories. The higher margin categories in the specialty cans, and we just didn't produce at the rates that we hope we were anticipating. Those inefficiencies, I think Scott's commented on and I've comment on John's comment that's the combination of the inefficiencies the facilities translate into adverse customer mix versus what we anticipated.

Anthony Pettinari

Okay. That's helpful. And then on the aluminum cup. Are there any thoughts you can share on maybe expected returns or margins relative to a greenfield bev can lant and then the timeline of how long you would expect the ramp up in Rome to go for and maybe kind of start-up cost relative to a bev can plant, anything you can share there?

John Hayes

Yes, I think, first on the return side. This is, as you know, this is a proprietary technology, and we expect this to be among the higher return projects that we have on our plate right now. Obviously, it's as much about the ramp-up of that and given its a new product that we're trying to be as balanced and realistic as possible in terms of the learning curve and ramp up, and so that's why Dan had mentioned earlier that there's really two end markets, is going to be servicing number one on the food service side, which is the big venues on-premise, think of it that way. And then the second one is retail. I think it's probably premature to talk about what this specific learning curve will be. But I would not expect as we sit here right now it to be to appreciably different than say specialty can line but we'll update people more as we get into this because, we're making it as you know in our test lab right now and we have designed and we are starting to execute on the building of a full-scale facility.

Operator

Thank you. Our next question is from the line of Tyler Langton. Please go ahead. And you are with JP Morgan.

Tyler Langton

I think Dan, just had a question on costs. I think you said aluminum scrap cost of sort of a high growth and FX is kind of $40 million to $45 million hit in the quarter. I mean, do you have a rough sense for, I guess just for the aluminum scrap in the cost side, what that was in the quarter and kind of a rough estimate of kind of what you expect for the year for those items?

Daniel Fisher

Sure. I think $11 million, $10 million to $11 million on the scrap in the quarter and that's level loaded throughout the balance of the year. So it will be in the area of $40 million when we exit 2019. Manufacturing inefficiencies in North America alone were probably in the neighborhood of $20 million. Then we talked about the South America ends that contract running out of approximately $5 million and then net, net, net $7 million from FX in the quarter.

Tyler Langton

Great. That's helpful. And then just Scott on free cash flow. I think you said, free cash for this year of around $900 million. Do you have sort of details on sort of working capital, CapEx sort of in that assumption?

Scott Morrison

Yes. I think CapEx will be over $600 million, that's why, that's in part why the free cash flow numbers coming down. And then working capital will be a slight, it will be close to a push, but maybe a slight use of working capital, by the end of the year.

Tyler Langton

And then just the $75 million pension contributions this year. What's kind of, do you have sense for what the normal run rate going forward?

Scott Morrison

That was around year-to-year, but that was really just incremental to what our initial plans what had been laid out in January, but in total will fund like $150 million full year.

Operator

Thank you. Our next question is from the line of Adam Josephson with KeyBanc Capital Markets.

Adam Josephson

Scott, I was just following up on one of the last questions about the one timer's for this year, excuse me, Dan. I think you said $40 million of scrap cost $20 million of manufacturing inefficiencies and then there were start-up costs this year, but it presumably will mostly go away next year. So it's $40 million, $20 million and then something else for the start-up?

Daniel Fisher

The scraps $40 million, I was, $40 million for the year, but the $20 million for North America inefficiencies was a quarter number. It's a bridge for the $40 million that we discussed, so the start-up costs with Paraguay and some other things related to Goodyear plus the inefficiencies, it's probably closer to the $40 million to $50 million number.

Adam Josephson

Okay, plus the scrap of $40 million. So you're talking one timer's of close to $100 million this year?

Daniel Fisher

Yes. I would also suggest that going forward, it's start-up costs will continue as we put new facilities in place. So I don't necessarily think those are one-time in the balance of year-on-year.

Adam Josephson

And then I guess similar on the inefficiencies, I think you said Dan they'll bleed into 1Q, there'll be in 4Q and bleed into 1Q, but presumably thereafter they will lessen in magnitude, is that right?

Scott Morrison

Yes, this is Scott. I would just look at it, it's a different bucket. So we have some in efficiency, but there's also some start-up cost. Start-up costs are necessarily going to go away because we are going to start some new plants next year too. So that's around. The inefficiencies in the system out of pattern freight, those kinds of things, not having the right inventory in the right places, those kind of things we think we can get ahead of as we get into next year. But the start-up costs we'll continue to highlight start-up costs as we go forward, because I think it will become, it will have it as we build these new plants.

Adam Josephson

Right. Yes. Dan, I think you talked about some of your contracts favorably resetting next year. I know you talked at the Analyst Day about a year ago about capitalizing on commercial opportunities with 15% to 20% of your contract volumes to be renegotiated by the end of this year. Can you go into any more detail about that Dan, in terms of the impact on next year?

Daniel Fisher

No, I think it's still consistent with what we've said over the last couple of earnings calls. It's still in the neighborhood of 20% year-on-year.

Adam Josephson

Okay, just one on the foodservice expansion. So that's typically a low margin or a lower margin business for packaging companies. Plastic cup margins for example are quite low and there are hardly any public packaging companies that are in that business. So what kind of margin business do you expect this to be for you, just given that it seems to be a fairly low margin business for the packaging industry as a whole?

John Hayes

No, it will maybe, but not in this case. Number one, this is priced at the economics of a compostable cup, number one. Number two, it has built more so they, our customers, meaning the venues can sell sponsorship on that. So it's a net revenue generated for them in all of our experience to date where it has been in market. They have been extremely happy with that. The demand for spend is extremely strong, and I stand by my words I said earlier, from a return project perspective for Ball Corporation that will be among the better return projects that we have on our plate right now.

Operator

Thank you. Our next question is from the line of Chip Dillon with Vertical Research Partners.

Chip Dillon

We, first question I had is, if you could just verify I think it was mentioned that the volume growth in Europe was up 4% and then I think I heard 7% was that the specialty component?

John Hayes

Europe was up for the quarter up 4%. No, I think in terms of your, I'm not sure where the 7% came from.

Chip Dillon

Okay. I must have just misheard that. And then I know in the second quarter call, you said the backlog in aerospace was up a little over $2 billion, now it's up to $2.2 billion that's contracted. Back then you said the non, I guess the one but not contracted was $4.8 billion. And I guess two questions. Where would that number stand now? And secondly, I just want be clear that's in addition to what is contracted. So for example, in the second quarter, you actually had visibility of close to $7 billion if all the one but not contracted turns into actual business?

Daniel Fisher

That is correct. It's, we break it out in two. The contracted backlog is money good as I like to describe it, because it's contracted. And then the won not book is we have won programs, but they have, we haven't signed the contract yet. In total, you're absolutely right, it's about $7 billion. That number quarter-over-quarter really hasn't changed all of that much in total. The difference is the funded backlog. The money good is actually up a little bit and the one not booked is down just a little bit only because we didn't, there weren't any big contracts that we were awarded in the third quarter, but yet some of the ones that we were awarded previously we have now signed the contracts.

Chip Dillon

Okay. And then last one, and good morning, Dan. I think Dan you mentioned that the market for I guess cups, I think you mentioned a 90 billion unit number. I just wanted to make sure I heard that right and what you were referring to. I think when you were in your prepared comments about the new Rome plant. And by the way do you have a capacity figure for that plant that you can share with us?

Daniel Fisher

Not right now. We're still transitioning from pilot to a fully engineered plant, but you could say it's probably close to a standard, output for a standard line. Maybe a little less. The 93 billion units is the total global. Non-reusable cup volume and a third of that is in the domestic U.S. and that's primarily our focus right now. Then one clarifying comment is on specialty growth in Europe, it was 15% plus in the quarter.

Chip Dillon

I got you. And again for the company overall, it was 10%...

Daniel Fisher

That's correct.

Chip Dillon

Everywhere. Okay, got you. Very helpful, thank you.

Daniel Fisher

You bet.

Scott Morrison

This is Scott. Just to clarify Adam's question before on the start-up cost and inefficiencies if you think about it, we've got like $50 million this year in North America on the scrap. $40 million to $50 million in scrap and another $40 million in manufacturing efficiencies. A good chunk of the scrap will go, most of that scrap will go away. And then, a good chunk of those manufacturing inefficiencies should reduce next year. Just to clarify.

Operator

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

Arun Viswanathan

I just wanted to follow-up on that last point with, let's say, you get a good portion of the scrap back, and how is the mechanism that coming back is that is still your contracts if you alluded to earlier. And then, let's say, you do get a good portion of that back, you still have it coming on your start-up costs, will the volume kind of cover the rest of the shortfall. So you're essentially made whole or how should we think about that? Thanks.

Daniel Fisher

So on the scrap it is yes. Overwhelmingly, it'll be contractually fixed starting in 2020 and then moving forward. And then the inefficiencies are simply I think as we've indicated previously Goodyear is probably about six months behind where we thought in terms of the ramp-up curve, that coupled with kind of unplanned double-digit growth on specialty, can we lost basically five to six month of peak season, created more turnover, more label changes, inventory in the wrong spots and we think that where we're running right now in Goodyear and the investments, we're putting in place we will be able to better manage our portfolio in our network going into next year. So, those inefficiencies will subside.

Arun Viswanathan

I guess the volume growth, would that essentially cover the rest of that $100 million or so that you saw this year?

John Hayes

Not sure we understand the question.

Arun Viswanathan

Well, it just that you mentioned about $100 million headwind from these items as far as scrap and efficiencies and start-up costs. The volume growth that you're seeing next year, if you see some $70 million or $80 million offset of that $100 million, does the volume growth cover the other $20 million or $30 million shortfall things this year?

John Hayes

Well, here is another way we look at it.

Arun Viswanathan

The volume growth that you expect next year, yes.

John Hayes

Yes. In the volume growth, we're spending this capital to actually get out ahead because we don't have, we don't, the inefficiencies are created by this volume growth. So it's, in some ways it's embedded. It's actually servicing this volume growth at a much more efficient way. I think that's what Dan was saying a minute ago.

Daniel Fisher

And there are real, in Scott comment on this and I attempted to cover, there are real start-up costs associated with building new facilities, hiring people in advance of actually putting a bit of work on commercialized products. Those costs as we lay and more new lines and we build Greenfield facilities, I'm not sure the growth will offset all of those start-up costs we're going through our strategic planning period right now, we will know more over the next 90 days. But given the size and scale of the investments we're making, those start-up cost could very well be bigger going forward in the next couple of years at least. And I think that's what Scott was alluding to, that what we experienced this year, just with the magnitude of the capital investment.

Arun Viswanathan

Okay, that's helpful. I mean, lastly, just on the cash side, maybe you can just discuss how your cash flow expectations are changed given these growth opportunities especially for 2020? Thanks.

Scott Morrison

So our tax rate, I mean I said for this year it should be between 18% and 19%. We don't see a meaningful difference as we start to look at next year.

Arun Viswanathan

I was actually asking about the cash flow. Sorry.

Scott Morrison

I mean we are not paying out any U.S. tax right now. And we see that...

Arun Viswanathan

No, no. I was actually asking the cash flow. How the cash flow outlook has changed given these greater investments?

Scott Morrison

Going forward.

Arun Viswanathan

Yes.

Scott Morrison

I mean, I think we'll have, we'll continue to have capital spend in excess of $600 million for the next couple of years. So I think we're going to have elevated capital. We've gotten a lot of benefits out of working capital in the last couple of years, that's kind of run its course. I don't see that continuing. So I think there'll be a little bit more pressure. But I think also the earnings are going to tick up nicely. So it's a little too early to give you specifics, but I think big picture that's the direction.

Operator

Thank you. Our next question is from the line of Neel Kumar with Morgan Stanley.

Neel Kumar

Given that you have several different opinion uses for capital including cans, cups and aerospace, do you see a sense of how you're choosing the prioritize your capital. And do you think you'll still be able to reach a target of $1 billion in buybacks, with the higher CapEx?

John Hayes

This is John. Let me take it. We think about this in the long-term, and our job is pretty straightforward, it's to generate as much operating cash flow as possible, and then invest it where we think the greatest returns are that could be in CapEx, in any one of our businesses or and/or it also can be giving it back to our shareholders. And there's always a balance between all those various things, because you want to make sure that you're investing for growth, while at the same time you're giving back to your shareholders and we tend to do both of that. So we're talking on the margin here.

I think in terms of our CapEx, we see in all of our businesses on the aluminum side as well as aerospace side, we see great growth opportunities and we've mentioned many of those things already, whether it's the Glendale facility, whether it's continue speed ups, Dan had mentioned in his prepared remarks in Russia that we're looking to make investments. Whether it's on the cup side and building the new Rome facilities as well as spending

$100 million or so on the Colorado campus for the aerospace. So once after all that, then we take the free cash flow there and give it back to our shareholders in terms of dividends and share repurchases.

And so it's of right now as we sit here today, I think we have a little bit more as Scott said, elevated CapEx because of all these growth opportunities, but rest assured, that we're going to be giving back all the capital after these CapEx projects back to our shareholders.

Neel Kumar

And then just had a Goodyear. Can you just talk about whether you've seen any progress with the two final lines ramping up there? Is it currently operating levels that you want?

Daniel Fisher

In the last nine weeks, we've seen, it return to our expected or planned efficiency levels. So I think heading into the fourth quarter of 2020 we're in a good spot.

Operator

Thank you. And our next question is from the line of Mark Wilde with BMO Capital Markets.

Mark Wilde

Dan, I wondered if you can just help us with this sort of $5 billion of additional capacity over the next 12 to 18 months. I just want to understand kind of what the big buckets are there? I assume that things like this plant in the Northeast are not included in that?

Daniel Fisher

Correct. So I would say the announcements we made in the previous earnings call in, so you're seeing great growth in Brazil, continued substrate penetration there. There is probably in the neighborhood of 20% of that number would be coming from there. 60% of it will be coming from North America and the other 30% is going to come from Europe.

Mark Wilde

Okay. And then I wondered, Dan, we had an announcement a couple of months ago from a customer that's going to do some self manufacturing in Brazil. And I just wondered what you make about how we should read that?

Daniel Fisher

Yes. It's a great question. I think they have threatened that, a myriad of times and they've even had press releases over the last four, three to four years, saying they were going to do that. Early stages, I don't think it's going to be a large-scale facility, based on what we know. But the biggest issue for that particular customer is they have a dominant returnable glass position in that country, and they are moving appreciably toward cans. And I think it's in a surety of supply play more than anything, just making sure that they can continue to move at the pace they need to in cans, and so I think it's early innings here and we'll see how it plays out with that particular customer in the marketplace.

Mark Wilde

Okay, all right. That's helpful. Last one I had. John, on the aluminum cup expansion. I assume that because you're dealing with some big on-premise providers that you can make recycling of those aluminum cups pretty efficient. Can you talk about any particular moves you're making to make sure that these cups are not just recyclable but actually are recycled?

John Hayes

Well, as you know aluminum has scrap value. So by definition, they are going to be recycled. But one of the beauties of out of the on-premise experiences, there are receptacles right there. So your point that they actually control. So it's not like going to a gas station buying a container and then you don't know where it goes. It is very contained. And so, as part of the rollout, whether it's at the College, Universities we've done so far, or the NBA, the NHL that we've done so far, they have very, its part of the whole rollout, they have worked with their waste management companies to make sure that they're capturing the value of the aluminum that is being recycled, because effectively unless people are taking those cups home, they are going to be recycled on, they are going to be collected on-premise there and so they can capture it in a much more efficient way.

Operator

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

Gabe Hajde

I was looking at Latin America, and I appreciate you guys don't necessarily look at it this way. But if I compare TTM earnings versus the same period of the prior TTM, it's down to the tune of around $90 million and I know this ends contract had come to close. But I was curious if you could address if there is any other structural issues within, I guess the geography and then from a margin perspective, again, I know you guys don't necessarily think about it directly by margin because of the impact from aluminum on revenue, but is there opportunity for that to improve going forward?

John Hayes

Yes, this is John. I'll take that. I think the vast majority of that was related to the end sales. Remember, it wasn't only just end sales in the economics around that there were some also some accounting adjustments related to the amortization of those end sales. So I think between the two, I don't have the number of top of my head, but it was a far and with the vast majority of it. I think as we go forward, now that it's more at a steady state baseline particularly going into the fourth quarter, you're going to see it's going to be a function of the volume growth and the regional volume growth, whether it's in Brazil, Paraguay, Chile, Argentina and the pricing and mix thereof.

Gabe Hajde

Okay. Thank you. And Scott, two part question on taxes. I know it's a fluid subject. But can you talk at all about the potential impact to your global tax strategy in a Brexit scenario, what that might look like? And then working capital, you had mentioned that there could be some pressure there. I'm assuming, given the growth that you are experiencing that can in fact be a use of cash or do you think you can hold the line there and keep it flat?

Scott Morrison

On the second part of that question. You mean as it relates to tax or other things?

Gabe Hajde

Two mutually exclusive questions. One is working capital given the growth that you're seeing, will we reasonably expect that to be a use of cash. And then separately, given Brexit and I think your overall global tax strategy could that change?

Scott Morrison

No, the Brexit we don't really think as much of an impact unless they completely changed rates later on, but we're not expecting Brexit to have any particular impact from a tax perspective. On the working capital front, we've been really good at getting a lot of money out of the working capital last several of years and I mentioned I think we've kind of done with that. But as the supply chain gets more complicated in terms of the number of other programs that we have around the world as the business grows, I could see some growth in working capital, but not appreciably at this point.

Operator

Thank you. And our next question is a follow-up question from the line of George Staphos with Bank of America.

George Staphos

Hi, everyone. Two quick questions from me. The first one, I just, I missed the point you're making about rebuilding inventories when you're going to, given the opportunities from a seasonal standpoint. You were commenting about South America, who are obviously going into a busier period now, and I just wasn't clear where that was going. And then I had a follow-on. If you could provide a bit more detail on that, I'd appreciate it.

John Hayes

Yeah, George. This, this is John. And I'm going to separate it in the northern hemisphere and southern hemisphere, because as you point out, they are different seasonalities. But in the Northern Hemisphere, as we went, we take a step back and go back nine months. We started late 2018 and going into 2019 was stronger than expected volume growth, and then as we went in the second quarter, it was even stronger. And as a result, our inventories were depleted as we are going in the very busy summer selling season. And so, literally the inventories were extremely low and we were making literally shipping what we are making at that time. That's why we knew as we looked into the third and fourth quarter we didn't have any inventory to sell, and we're making what we were selling. And so the inventories were quite low.

As we go into the fourth quarter. Now we have a little bit more breathing room. We have some of these new lines in the speed ups coming along, as well as a seasonally slow, so we're able to rebuild working with our customers on specific labels. We're able to rebuild, begin to rebuild the depleted inventories in Northern Hemisphere. And I really mean Europe and North America, there.

The opposite is the true in South America, over the last six months or so, it's been more of the winter. The volume has been quite strong. So inventories in a perfect world are not as high as we would like them, but we used the summer to kind of rebuild as best we can in South America. The start of Paraguay plays a part of that and that's important. So as we go into the fourth quarter and the first quarter, which they're busy summer selling seasons. It's really a function of how fast the markets are going to be growing and relative to where we are in inventory. Is that helpful?

George Staphos

It was. Thank you. I appreciate that. If you run as you would like and I know that's a broad sort of term or phrase there because who's to say. Nonetheless, what kind of volume growth should we see globally in beverage cans for Ball Corp in 2020?

John Hayes

Good question and I would say probably in the 4% to 5% to 6% range that we're seeing, and it really depends so much upon mix George, because we also specialty is just a different, there's 30 plus different sizes in specialty. So 12 sleek, 16 ounce, 24 ounce for a very strong this year, we expect them to be next year, but with the new emerging categories about water and other things it very normally be a different type also. So it is a function of mix. Whether we are at the upper end or the lower end.

George Staphos

My last quick one. I'll turn it over. I recall from last quarter's call, the 4.5 billion to 5 billion, 5 billion plus did not include anything appreciable for water, still water conversion. Is that a correct recollection and given some of the projects that you've now announced today, do you expect that that will change and still water actually could be an appreciable amount of your new capacity and new volume going forward. Thank you and good luck in the quarter.

Daniel Fisher

Your recollection is correct, not a lot built in there, some, but not a lot. It's still over the next two to three years, it could be wrong, but it doesn't. We're not planning on an appreciable move in still water. We're definitely looking at a number of different customers and different can sizes but for it to be appreciable we will probably announce that along with a facility expansion.

John Hayes

I think we'll take one more question, we'll take one more question if there is.

Operator

Perfect. Our next question is from the line of Debbie Jones with Deutsche Bank.

Debbie Jones

Just one question for you guys. The repeated theme here is the growth for you in the industry and I imagine one of the challenges, it's going to navigate through this and bring people into the company to start up these facilities and then retain them and this is a much bigger cash than maybe it has been in the past. And so I'm just wondering how you do that? Do you do things differently than you were doing before. And how do you kind of ensure that you to sound cliched and preserve the culture at all?

John Hayes

Yeah, it's a great question. Let me start by saying we're actually working more than we ever have across as one Ball. In the aerospace side, as you know, 50% of the people at Ball, in the aerospace business weren't here two years ago. And so we talked earlier in our prepared remarks, a lot about training and development but also about mentoring and instilling the Ball culture. We're taking that mindset that we've done over the last couple of years in aerospace and bringing into the beverage can side. So we are in a much more proactive way then, we have, bringing people on earlier.

So one of the lessons learned in terms of Goodyear, for example, is it, we cannot think about bringing people on three, four months ahead of time and no, think that they're going to be able to manage as complexity. So we're looking at six, bringing them six to nine months in and using a plan concept from a mentoring perspective. And really using that as the opportunity to instill the values that we, values and skill sets that we think are critical to the future.

John Hayes

Okay. Malika. Well, thank you very much. We thank you all for your participation and we look forward to a very healthy fourth quarter and a good start to 2020. Thank you.

Operator

Thank you. Ladies and gentlemen that does conclude the call. We thank you all for your participation and ask that you please disconnect your line.