

Ball Corporation: What should come next for Aerospace?

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On August 3, 2023, Ball Corporation reported second-quarter results and told investors that it was considering options for its Aerospace business. Management said the options could better position the business to provide value to shareholders and customers. It also emphasized that no formal decision was certain. The company had disclosed no buyer, offer, price, timetable, or selected transaction structure. [2, p. 3]

The statement put a strategic question into public view. Ball had spent years investing in beverage can capacity and in Aerospace programs. Packaging plants, customer supply contracts, satellite engineering, and government programs did not share an obvious operating logic. Yet both businesses required expertise, capital, and management attention, and each could offer distinct growth opportunities.

For this classroom exercise, assume you are a strategy adviser asked to recommend how Ball should frame its Aerospace options assessment. This is a hypothetical role; the case does not imply that Ball retained an adviser or opened a formal sale process. Your task is not to price an undisclosed deal. Recommend whether Ball should retain and invest in Aerospace, pursue a separation or partnership, or defer a decision while gathering more evidence. Explain what would change your recommendation.

A portfolio with different operating logics

Ball's 2022 Form 10-K described four reportable segments: beverage packaging in North and Central America, EMEA, and South America, plus Aerospace. Beverage packaging made cans for large beverage customers under long-term relationships and multi-year supply contracts. Aluminum-price changes were generally passed through contract terms, though the company also faced nonmetal inflation and operating risks. The plants were capital intensive and typically needed to run continuously to operate profitably. [1, Item 1, pp. 4-10]

Ball's "Drive for 10" strategy, launched in 2011, emphasized improving current businesses, adding products and capabilities, choosing customers and markets, expanding geographically, and using technology. Its stated financial strategy included long-term comparable EPS growth of 10%-15%, cash generation, and Economic Value Added. Cash could fund operations and growth capital, service debt, or return to shareholders. In its public disclosures, Ball said it periodically evaluated possible transactions, including acquisitions, divestitures, or equity investments; it did not identify Aerospace as a predetermined sale. [1, Item 1, pp. 4-5]

Exhibit 1. Ball reported segment results, 2022

Reportable segment	Net sales (\$m)	Comparable operating earnings (\$m)	Comparable operating earnings / sales
Beverage packaging, North and Central America	6,696	642	10%
Beverage packaging, EMEA	3,854	358	9%
Beverage packaging, South America	2,108	275	13%
Aerospace	1,977	170	9%

Source: Ball 2022 Form 10-K, Item 7, pp. 29-32. Earnings and percentages are Ball's "comparable" segment measure; the company reports these percentages rounded to whole points. Ratios independently derived from earnings ÷ sales also round to these values. This is not a comparison of segment cash flow, return on invested capital, or standalone profit. The four reportable segments' sales total \$14.635 billion; consolidated sales were approximately \$15.35 billion because other/nonreportable activities and eliminations also exist. [1]

Aerospace represented 13% of Ball's 2022 consolidated sales. Its work included spacecraft, instruments and sensors, radio-frequency systems, engineering services, and other technologies for civil, commercial, and national-security markets. Most contracts ran one to five years. In 2022, U.S. government agencies funded 98% of segment sales. Contracts included both cost-type arrangements and fixed-price work, which expose contractors differently to cost and performance outcomes.

The company reported \$2.97 billion of Aerospace backlog at December 31, 2022. It expected \$1.52 billion of that backlog to be recognized as revenue in 2023; \$1.61 billion of backlog was subject to annual funding. Ball cautioned that backlog comparisons were not necessarily indicative of future operations because delivery milestones, program funding, and award timing vary. Government budgeting uncertainty could delay or cancel some programs. The company also described intense competition and long operating cycles in aerospace and defense. [1, Item 1, pp. 10-11; Item 7, pp. 31-32]

What the latest results did-and did not-show

Ball's Q2 release offered a snapshot of both sides of the portfolio. In the three months ended June 30, 2023, Aerospace recorded sales of \$499 million and comparable operating earnings of \$54 million, compared with \$490 million and \$36 million in the year-earlier quarter. Backlog was \$2.6 billion; contracts won but not yet booked into backlog totaled \$6.0 billion, up \$1.0 billion year to date. Management cited program wins and improving supply-chain conditions. Won-not-booked contracts were not the same as backlog or revenue, and Ball did not promise that these opportunities would be funded, awarded, or earned at a specified margin. [2, p. 3]

Packaging results were mixed. North and Central America sales were \$1.54 billion and comparable earnings were \$175 million, versus \$1.78 billion and \$164 million a year earlier. Volume declined 8.5%, particularly in the domestic mass-beer category. Management attributed improved earnings to inflation recovery and operational performance, which offset lower volumes. EMEA comparable earnings were \$98 million on \$920 million in sales, compared with \$129 million and \$1.13 billion; the comparison included the Russian business sale and start-up costs at two new facilities. South America reported \$30 million in comparable earnings on \$405

million sales, compared with \$52 million and \$534 million, citing volume and mix pressure. The company adjusted production at selected sites to balance supply and demand. [2, pp. 2-3]

Ball's CEO described several years of investment, organic growth, and Aerospace program wins. The CFO said that reducing capital expenditures toward depreciation levels was expected to increase free cash flow, support deleveraging, and allow shareholder returns in 2024 and beyond. For 2023, management forecast about \$750 million in free cash flow. These were management statements and outlook, not achieved results. They did not disclose how much Aerospace capital was required, what packaging investments would earn, or whether proceeds from a transaction were needed. [2, pp. 1, 4]

Packaging: scale and utilization

North and Central America was Ball's largest segment, accounting for 44% of 2022 consolidated sales. Ball said it shipped about 52 billion cans in the region, an estimated 37% of aggregate shipments, and that five manufacturers produced substantially all cans across the United States, Canada, and Mexico. Ball's own estimates suggest scale and a broad plant network, but regional market-share figures are company estimates. [1, Item 1, p. 8]

Can manufacturing is capital intensive, and Ball said plants generally must run continuously to be profitable. Cans compete with glass in beer and PET in soft drinks and water. A large network and long-term customer relationships could support low-cost service and capacity flexibility, but low demand at a site can weaken fixed-cost absorption. Aluminum pass-through clauses also do not remove every input-cost or margin risk. [1, Item 1, pp. 8-9]

Competitor disclosures sharpened the uncertainty. Crown Holdings said its strategy was to invest in beverage-can capacity to support expected customer demand and new products. It also reported that aluminum and steel together represented 53% of 2022 cost of products sold before depreciation and cautioned that it might not fully recover input-cost increases. Ardagh Metal Packaging said more than 80% of its 2022 revenue was backed by multi-year contracts, but warned that expansions by it and other manufacturers could create oversupply if demand failed to keep pace. These are competitors' own disclosures, not Ball estimates. They suggest that contracts can support customer relationships while capacity and input recovery remain consequential. [3, Items 1 and 1A; 4, pp. 15, 45-47]

The arguments around scope

Selling or separating a business can sometimes let management sharpen focus, move an asset to an owner with a better fit, and improve the performance of what remains. John and Ofek studied 321 large operating-unit sales announced from 1986 to 1988. They found post-sale performance improvement concentrated among transactions that increased seller focus. Their sample excluded spin-offs and partial divestitures, and the firms choosing to sell were not randomly selected. The result offers a mechanism to test, not a forecast for Ball. [5]

Evidence on diversification is also sensitive to how the research handles company choices. Campa and Kedia's study of 8,815 firms and 58,965 firm-years found that a baseline diversification discount became smaller-and sometimes a premium-after methods that accounted for firms' endogenous decisions to diversify. The authors also found refocusing decisions were endogenous. That cautions against using a generic "conglomerate discount" as a stand-alone reason to sell Aerospace. [6]

Another possibility is that common ownership improves allocation of funds across businesses. Stein's theoretical work describes "winner-picking" by headquarters-moving resources to stronger projects-and notes that a more focused set of businesses may help headquarters do

this well. The article is a theoretical model, not evidence that Ball's corporate center creates such benefits. The relevant question is whether Ball can demonstrate concrete allocation or coordination benefits that outweigh complexity and capital competition. [7]

The decision

Ball's public statement left the choice unresolved. The record supported multiple interpretations: Aerospace might have strategic value in government and space markets, or its different customer and contract system might sit outside Ball's packaging focus. Packaging scale and sustainability positioning offered an investment rationale, while volume weakness, utilization, regional differences, new capacity, and competitor expansion complicated that rationale. The available disclosures did not identify the businesses' standalone cash generation, required capital, corporate-cost allocation, transaction value, or buyer synergies.

Prepare a recommendation for Ball's hypothetical options assessment. Choose one path-retain and invest, seek a separation/partnership, or defer while gathering specified evidence-or recommend a conditional sequence. Address:

1. What is Ball's strongest strategic rationale for retaining Aerospace? What is the strongest rationale for separation?
2. Which reported facts meaningfully inform the choice, and which are insufficient or easy to misread?
3. What evidence should Ball require before making an irreversible commitment? How would you compare value under continued ownership with value under a different owner?
4. Which stakeholder, customer, employee, contract, funding, and execution risks could change the decision?
5. What observable conditions would cause you to revisit your recommendation?

Avoid treating backlog or won-not-booked contracts as certain revenue, comparable operating earnings as cash flow, or a theoretical/empirical average as Ball's expected return. Any additional numeric scenario you introduce must be clearly labeled hypothetical.

Source notes

1. Ball Corporation, 2022 Form 10-K, filed February 21, 2023, [issuer-hosted filing](#), Item 1 pp. 4-11; Item 7 pp. 29-32; Note 3.
2. Ball Corporation, "Ball Reports Second Quarter 2023 Results," August 3, 2023, [Exhibit 99 to Form 8-K](#), pp. 1-4.
3. Crown Holdings, 2022 Form 10-K, [SEC filing](#), Items 1 and 1A.
4. Ardagh Metal Packaging, 2022 Form 20-F, [issuer-hosted filing](#), pp. 15, 45-47.
5. Kose John and Eli Ofek, "Asset Sales and Increase in Focus," *Journal of Financial Economics* 37, no. 1 (1995), pp. 105-126, [full text](#).
6. José Manuel Campa and Simi Kedia, "Explaining the Diversification Discount," *The Journal of Finance* 57, no. 4 (2002), pp. 1731-1762, [article PDF](#).
7. Jeremy C. Stein, "Internal Capital Markets and the Competition for Corporate Resources," *The Journal of Finance* 52, no. 1 (1997), pp. 111-133, [journal abstract](#). The theoretical paper is identified here as a conceptual lens, not an empirical estimate.