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PRESENTATION

Jon Feeney - *Consumer Edge Research - Analyst*

I'm Jon Feeney, Co-Chairman of CAGNY from Consumer Edge Research. And before I introduce Chief Executive Officer, Denise Morrison and her team, I'd like to say thank you to Campbell for their long time support of CAGNY, including the fantastic lunch we're going to be treated to after this and have been for many years. And at that lunch, management will be able to take your questions, just like we've done in prior years. Thank you very much.

Campbell is a vastly different company than when Denise Morrison took over as CEO in 2011. During her tenure, she has reshaped the company's portfolio to drive long-term sales and earnings growth through strategic acquisitions in health, well-being and snacking, shedding slower growing businesses and strengthening its core with a focus on recipes and ingredients that are relevant to a new generation of consumers. She has enabled this by reorganizing the company into three divisions with portfolio roles, while leading the way on important food industry issues like transparency, health and well-being. Denise, welcome, thank you and take it away.

Denise Morrison - *Campbell Soup Company - CEO*

Thank you, Jonathan. Good morning, everybody. It's great to be back here in Florida with all of you. Let's take a moment to think about the changes in our industry and in our world since the last time we convened at CAGNY. The surprises, the unexpected mergers and acquisitions, the once far off trends that arrived sooner than expected. Last Friday, it seemed like one of those days. Andrew Lazar put it best, another day like no other in the food industry. Look beyond food, a year ago, almost no one would have predicted Brexit, likewise very few polls expected Donald Trump would become President of the United States. And talk about unpredictable, the Chicago Cubs actually won the World Series. And what about Super Bowl 51, the 4th Quarter and the Patriots, unbelievable. We all know the world is turbulent, fast moving and complex. Across every industry and every organization, the pace of change is unpredictable, unrelenting and unforgiving; especially for the ill-prepared and the unprepared. You all know the saying, it's tough to make predictions especially about the future. At times, it's difficult to get your footing in the present. It seems like the earth is literally shifting beneath your feet. The real question we must ask ourselves, is it possible to prepare for a volatile and uncertain future? Today, I'll discuss the actions that Campbell has taken to be successful in this increasingly complex era as we focus forward on our consumers, our Company and our industry. In many respects, the future is already here. It's often imperceptible as we move through our daily lives. But look closely, the future is in plain sight if you pay close enough attention to the signals. Preparing for the future starts with an understanding of the present and how we arrived at the world we operate in today. Our present has been molded by a series of powerful forces that have fundamentally altered the food industry. What I've repeatedly called the seismic shifts. They include transformative demographic shifts as Baby Boomers give way to Millennials and Generation Z. And the world grows more urbanized and multi-cultural. They include a renewed focus on health and well-being, partly in response to health concerns and partly driven by the lifestyle choices of aging Baby Boomers and younger generations who hold widely divergent views on its meaning. They include the lightning fast pace of change of technology advancements from digital communications, automation and e-commerce to data analytics, artificial intelligence, and virtual and augmented reality. As a result, we now stand on the cusp of what Klaus Schwab has called the Fourth Industrial Revolution, where the digital world connects to the physical one to transform business models and operations. And finally, these shifts include profound socio-economic forces with the shrinking middle class in mature markets and a burgeoning one in developing markets. These shifts are real. They are deep. Individually, they are substantial. Collectively, they've had a dizzying effect on consumers and their acceleration and convergence have sown the seeds of systemic distrust that are leading to the rejection of large established institutions including media, government, business and as I've said before, food. Earning and keeping trust needs to be on top of everyone's to-do list, myself included. All of us, regardless of industry, operate in a dynamic environment that requires both responsive and responsible leadership. The demands has to be constantly prepared to address change. Consequently, we all find our companies under enormous pressure, let's face it, consistent and sustained revenue growth remains elusive for big food companies, especially those competing in center store categories. In this low growth environment, I expect to see further consolidation and aggressive cost savings.

As a reminder of these facts, last week, we reported our second quarter and first half results and I said at that time, I am not satisfied with our sales performance in the quarter. While sales of US soup and Pepperidge Farm snacks increased, those gains were more than offset by declines in Campbell Fresh and V8 beverages. Anthony will summarize the results during his part of the presentation. Despite the challenges in the quarter, we reaffirmed our fiscal 2017 guidance and announced that we expect to achieve our $300 million cost saving goal a year ahead of schedule. We also announced an additional $150 million in cost savings by the end of fiscal 2020.

As I said then, and I'll say again now, our progress should not solely be measured by short-term performance, sure it matters. But it's also important to view our performance an evolution over the long term. When I became CEO in 2011, Campbell was facing a multitude of business challenges. Since then, we've made aggressive changes to fundamentally transform our company. Let's quickly review. We improved our execution across our core businesses leveraging all the drivers of demand. We closed underutilized plants consolidating our supply chain and exited or restructured challenged international businesses in Russia, Europe and Mexico. We acquired new businesses in faster growing spaces to change our center of gravity and to develop future-oriented growth platforms. We declared our purpose, real food that matters for life's moments. We defined our real food philosophy and we re-examined and restated our values as a Company. These principles now serve as our true north. We focused on strategic imperatives to drive growth including real food transparency and sustainability, digital and e-commerce, health and well-being and snacking. We formed three divisions with clear portfolio roles to drive differentiated investments. And we created a shared service organization to maximize our effectiveness and efficiency while also building new capabilities. Finally, we overhauled our cost structure and began implementing zero-based budgeting. At the midpoint of fiscal 2017, we have generated $275 million in savings, some of which we're reinvesting in our business. As a result of these actions, by nearly every measure, Campbell is a stronger company with a more advantaged position to profitably grow than it was in 2011. Since then, we've completely remade our employee base in our Company. Today, Millennials make up 33% of our salaried workforce compared to 15% in fiscal 2011. We've also shifted our center of gravity. At the end of 2016, soup represented 34% of our net sales compared to 42% in fiscal 2011. And we continue to make steps to diversify our portfolio with an eye on the next generation of consumers. I'm proud of these accomplishments, but I am not satisfied. Despite these achievements, our progress has been uneven. And we have not achieved all of our goals, particularly as it pertains to sustainable profitable net sales growth. So you may be thinking what will it take to fully unlock Campbell's performance and how do large established food companies tap into the pockets of growth in the food industry. The answers to those questions bring me back to our central theme, anticipating and preparing for the future. We all find ourselves in unfamiliar territory. We live in an interdependent world no longer governed by linear change, overall being reshaped in ways that simply cannot be viewed or understood in isolation. One thing I know for sure, the future of food world will be more complex and more challenging. But with changing complexity comes opportunity, especially for those who recognize the forces at play and are attuned to them. I'm here to tell you that's exactly who we are.

So how do companies anticipate the major shifts that will drive future growth and create value? The answer is strategic foresight. Strategic foresight is a process of establishing future-oriented perspectives to help fuel long-term planning, decision making and innovation. Foresight is a mindset, it's a journey, but it's also an outcome. Think of it as an advanced radar system. It's a systemic approach to understanding and anticipating how changes taking place today will present disruptions and opportunities for businesses tomorrow. Last spring, we embedded a dynamic foresight capability into our long-term planning process to look beyond a typical five-year planning horizon and establish well-informed perspectives on opportunities and disruptions driven by the intersection of real food, health and well-being and technology. Guided by our purpose and our strategic imperatives, we set out to identify clear and compelling growth opportunities. We gathered and synthesized marketplace consumer, culinary and technology trends along with cultural and ethnographic data. We conducted extensive interviews with futurists, academics, chefs, designers, nutritionists and anthropologists. This is not the way we used to do things at Campbell, but it's the way we must do things in the future.

Through this process, we evaluated numerous futures. In the end, several truly compelling growth platforms emerged, some are near-in opportunities, while others are further out. Our team prioritized those platforms, based on which ones would have the greatest impact on Campbell and lead to significant growth opportunities over the next decade. Today, I'll share four strategic foresights that we believe hold the greatest promise for Campbell's, they are, Future Commerce, My.Moments, Better.Me and Limitless Local.

As it's been widely discussed, e-commerce will transform the food industry, as it's already done with entertainment and apparel. Consumer buying behaviors have changed rapidly and as you can see, 41% of American consumers visit cooking websites to find recipes and 64% of people who try online shopping find it more convenient. Between 2016 and 2021, we project e-commerce sales of food and beverages to reach $66 billion, a compound annual growth rate of 38%. In response to these changing consumer behaviors, our existing customers and new players in food are making significant investments in technology, new fulfillment centers and last mile delivery systems. A diverse e-commerce ecosystem is being built that includes delivery services, click and collect options and subscription-based meal services. And it will require companies like Campbell to develop more customized, demand driven supply chains with increased focus on speed and agility. In his presentation, Anthony will describe investments we're making to create an agile and flexible distribution network capable of delivering late stage differentiation. The virtual and real worlds are blending together, creating a new landscape for consumer engagement. Consumer expectations are shifting from centralized locations and platforms to diverse omnichannel experiences. This is a game changer for consumers, food makers and retailers alike. This movement is irrevocable and irreversible. As more people turn to mobile devices and digital channels for food discovery, selection, curation and delivery. Campbell has initiated many digital and e-commerce programs including meal kits, buy now capabilities, recipe integration with leading recipe sites and dash buttons to name a few. But future commerce will be driven by emerging mobile and digital technologies, including artificial intelligence, Bots, augmented and virtual reality, new forms of currency and methods of transaction. These will fundamentally alter how consumers interact with and experience brands and how they purchase food. Consumers will insist that future commerce be frictionless. Consumer needs will be met anywhere, anytime. Every day grocery staples will automatically be refilled based on consumption habits, purchase data and calendar apps. Through the Internet of Things, connected kitchens will alert consumers when they are running low on broth and when their salad dressing needs to be replenished. The key is to make sure that that's Swanson broth and Bolthouse Farms salad dressing. Essentially, this constitutes a new architecture, an always on shopping environment that provides consumers with instant and omnipresent ratification and will be free of inconvenience and delays. Shopping for and preparing meals will be flexible, fully automated and even anticipatory.

Let's turn now to the second growth platform, My.Moments. The lines between snacks and meals are blurring. The jam-packed nature of our lives and the conflicting priorities of career, family, social life and health and well-being are changing the way we eat. Snacking occasions are increasingly expanding, even to traditional meals. 90% of consumers snack multiple times per day. For some, snacks serve as a reward, for others, snacks are fuel to get them through the day. It's clear that the adage of three square meals a day is giving way to entirely new behavior. More than 50% of all US eating occasions are snacks and nearly half of US consumers replace meals with snacks at least three to four times a week. It's no wonder that snacking is an $89 billion market in the United States with a compound annual growth rate of almost 3%.

As we look at the science and strategy of snacking, we see a tremendous opportunity to expand our snacking business across many of our categories. Today, more than two thirds of all snacks are of the mindless munching variety. In other words, purchased to satisfy cravings. The snacks of tomorrow will be more deliberate with a specific purpose, they will be more accessible, affordable and high quality and they will be customizable and offer functional benefits. Purposeful snacking has a role beyond satisfying a craving or fueling. Snacks can impact well-being and even one's mental state. People are just beginning to zero-in on how the right nutritional snack at the right moment can keep them going mentally, emotionally and physically. This type of purposeful snacking can benefit many types of consumers, commuters seeking nutrition on the go, office dwellers keeping a stash in their desk drawer or anyone enduring long hours on the job. The end game is to keep purposeful snacking that provide a specific functional benefit from the physical to the emotional, a burst of energy from Garden Fresh gourmet hummus, increased mental acuity or even a sense of reward from a Milano moment. We'll initially focus our efforts in our global biscuits and snacks division and leverage our 3 leading brands; Goldfish, Kelsen, Tim Tams. In the short term, we'll do this in three ways. First, grow our core business with enhanced marketing focused on key consumer insights. For instance, increasing the emphasis on overall well-being and goodness qualities of our Goldfish crackers or highlighting the unique texture of a Tim Tam. Second, expand the portfolio into new innovation platforms. Here we're focused on building our internal innovation pipeline and our priorities, opportunities such as increasing our real food credentials by adding ancient grains to our popular Vita-Weat crackers. And third, we'll continue to complement our internal innovation with external development in the snacking space. Longer term, we're focused on dialing up the functional benefits of our existing snacks while also selecting real food ingredients that can address specific needs such as in endurance, mood and energy management. Ultimately, our goal is to create entirely new snacking platforms that are true to our purpose. To recap, snacking is an increasingly attractive growth space and important for Campbell's future. We understand the consumer snacking behavior at a molecular level. We're clear on where the opportunities lie both in the short and long term and we're creating a blueprint to unlock smacking growth across our company. That takes us to our third growth platform, Better.Me. The emergence of nutrition systems that leverage biometric data to provide personalized food options. As I mentioned at the outset, some of these opportunities are a bit further out, but I wanted to share the thinking with you. As you've heard me discuss before, the food industry is being transformed by the fusion of food, well-being and technology, and it will have a profound impact on consumers' food choices. Signals have been visible for some time now. First, manifesting themselves in the consumer wearables and quantified lives trends. Look around, the population is aging. Health issues are compounding. And the financial cost of healthcare is on the rise. 82% of smartphone users say that technology has improved the way they eat, six in 10 American adults say they restrict at least one nutritional component from their diets. Meanwhile, science and technology are giving us unfettered access to more granular information about our bodies, our health and how we metabolize food. This is moving us away from the long-held belief about one size fits all diets. We've all read about the age of personalized medicine. Now, the age of personalized nutrition is upon us. This evolution of eating is being led by many developments, including, understanding our bodies at a cellular level, the creation of affordable and accessible biometric testing and monitoring tools and expanded options for curated food preparation and delivery. The next frontier in nutrition will be about re-configuring diets according to an individual's specific physiology, lifestyle and health goals.

We're all different shapes and sizes and genders, and we all have different lifestyles. We're quickly moving to bespoke diets than enabled tailored and informed nutritional choices. It's this foresight that inspired us to fund a new startup company called Habit, founded and led by Neil Grimmer, the entrepreneur who also created our Plum Organics business. Habit is positioned at the intersection of health, technology and food and is poised to lead the personalized nutrition revolution. Let me show you the short video to bring it to life. (Video Playing) It starts with the purchase of an at-home Habit Nutrition Test Kit that is sent to a certified lab. Habit's proprietary and patent pending approach will then synthesize the data and create a personalized diet. A nutrition coach will help you define your goals. And you can order nutritious and delicious chef inspired meals that are designed specifically for you. Habit is the ultimate consumer empowerment tool to make customized choices that enhance individual health and well-being. Do you think that sounds too far off, well, there was a time when no one heard of personal trainers or personal shoppers. But they are routine parts of many people's lives today. Think about Habit as your personal nutritionist, eating coach, chef and concierge food delivery service, all wrapped up in one. And I know I put myself through each of the components of this program as we were starting up this company. And I had the coaching lessons and all the feedback and not only did my numbers move, but I lost 18 pounds. The Habit team is 5 weeks into their launch. And there is already a waiting list. The service is currently being tested in the Greater San Francisco area. We'll be using this regional launch to test, learn and optimize the service for scale with an eye on urban centers. It's very early days. And multiple business models can emerge. Based on our research and the market test, we believe that the approach to personalized nutrition linked to customized nutritious and delicious snacks and meals will resonate with consumers seeking to lead healthier lives. The final growth platform I want to discuss with you is called Limitless Local, a movement that embraces smaller more regional farming and food production models, and fosters new narratives around quality, community and place. Over the last few years, distributed agriculture models such as urban vertical farms, subterranean greenhouses and even Oceanic farming have proliferated. Today, we can farm in the middle of cities or in the middle of oceans. These emerging models hold the promise to bring people closer to the source of their food while reducing stresses placed on farmland.

As I've said before, consumers today have grown more knowledgeable about food and more skeptical about the claims from food companies, they desire fresh, high-quality food that's produced in a transparent way. Consumers also create an authentic story that brings them inside where, how and by whom their food is made. That's what motivated us to invest in fresh food over the last several years through the acquisitions of Bolthouse Farms and Garden Fresh Gourmet.

So what's driving the Limitless Local trend. First, increased urbanization is causing people to seek a stronger connection to nature and they can do this through food. Second, globalization, consumers have greater access to more varieties of food more frequently than any time in human history. Fruits and vegetables that were once seasonal are available all year round and while wonderful, it makes people wonder where, how and under what conditions their food was grown. And the third driver is how food production is being challenged by environmental sustainability. This realization is changing some consumers' expectations of food companies and these consumers are voting with their dollars and choosing purpose-driven brands and local foods, which they believe are more sustainable.

Signals of this movement are ubiquitous. For example, between 2008 and 2014, the number of farmers' markets in the United States more than doubled and 15% to 20% of the world's food is now produced by urban farms. At Campbell, our purpose, real food that matters for life's moments and our real food philosophy are closely linked to the Limitless Local movement. We believe real food is food we're proud to serve at our own tables. Real food has roots, it should be made with recognizable desirable ingredients from plants or animals. Real food is prepared with care, it should be crafted using ethical sourcing and sustainable practices that safeguard our natural resources. Real food should be accessible to all, it should always be delicious, safe and available at a fair price, all three without compromise. And finally, we believe transparency is the single most important ingredient in the recipe for consumer trust.

Limitless Local fosters a more intimate relationship to food, where it comes from, how it's made and who are the people behind it. At Campbell, we're already incorporating this growth platform in our product development with brands like 1915 by Bolthouse Farms, Well Yes! soup and Prego's Farmers' Market. The best illustration, however, is what we call the Campbell original project, where we made a small batch of one of our original tomato soups. You see a passionate team of our employees brought this to life, literally reaching back into our archives, to find Dr. John Dorrance's 1915 recipe for beef steak tomato soup. The recipe is specifically called for actual local New Jersey beef steak tomatoes. This proved to be challenging. In the early 20th century, Campbell sourced our tomatoes from New Jersey and the surrounding area. Today, we source most of our tomatoes from California. But the team truly wanted to honor Dr. Dorrance's original recipe. After a long hard search, they finally located a third generation farm in Hammonton, New Jersey, that Exit 4 of the New Jersey Turnpike for anyone wondering. Anyway, this farm could supply 20,000 pounds of beef steak tomatoes and in a twisted way, the current owners Ed and August delivered their grandfather's tomatoes to the Campbell plant when they were teenagers.

The 1915 beef steak tomato recipe illustrates exactly what we're talking about when it comes to Limitless Local, sourced locally, made in a transparent way with a compelling narrative displayed right on the label. It delivers on consumers' desire for fresh quality food with an accessible story and a sense of place and you'll all get to try it at lunch. Limitless Local is an area rich in opportunity for Campbell and we have only begun to scratch the surface. Think about our history of working with American family farmers for more than a century, and our heritage of making simple, affordable and accessible delicious foods that are priced within the reach of most pocketbooks. These facts uniquely position us to leverage this growth platform in a more meaningful way.

These four growth platforms should not be viewed in isolation, each builds on the other creating a multiplier effect. As we pursue these interconnected growth platforms unearthed by our foresight work, we are guided by our purpose in our growth agenda, committed to our strategic imperatives and confident in our ability to define the future of real food. As I've said before, this demands fresh-thinking and an ecosystem of innovative partners. It will require us to pursue several new models of innovation. Our framework includes thoughtful M&A in faster growing spaces such as snacking and health and well-being, complementing our R&D by leveraging strategic partners; expanding our participation in venture capital, through Acre Venture Partners, by investing in innovative new companies such as Juicero, Farmers Business Network and Back to the Roots. Pursuing innovation incubators and accelerators, and launching startups such as Habit. We'll fund the growth opportunities that proved to create the most value by reinvesting a portion of our successful multi-year cost saving initiatives. As we look ahead, we recognize the need to be more vigilant about costs and to continue to identify new sources of savings both to become more efficient and to reinvest in these promising growth platforms. As the writer William Gibson once said, the future is already here, it's just not evenly distributed. To truly prepare for the future, you must pay close attention, think beyond typical planning horizons. And above all, do not miss the signals. That's why translating strategic foresight into action is so important. It is the single most important thing we can do to drive sustainable profitable net sales growth. And in turn, it will create new opportunities for our employees, lead to more affordable and delicious real food for our consumers, build a better world for our neighbors and drive increased shareholder value for our investors. In closing, Campbell has what we need to meet the challenges of this new world. If you look closely at the 148-year history of Campbell, we are not only a company that has proven ourselves capable of dealing with profound change, we are a company with a history of leading profound change. We are a company that's thrived in periods of profound change. I'm confident that we can and will do so again in the future. Thank you.

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

Thanks, Denise. Good morning. It's a pleasure to be back at the CAGNY Conference, and have the opportunity to share with you our plans at Campbell. I'll begin with our second quarter results and 2017 guidance. Then I'll review our division structure, the role each business plays in the portfolio and discuss our cost savings program. I'll illustrate our cost savings have contributed to recent margin expansion and funded reinvestments in the business. Lastly, I'll discuss our priorities for the uses of cash and then wrap up. Briefly recapping our second quarter results, net sales on an as reported basis declined by 1% to $2,171 million. Excluding the favorable impact of currency translation, organic net sales declined 2% driven by declines in Campbell Fresh and in our V8 juice business. Adjusted EBIT declined 1% to $417 million, reflecting lower sales and higher marketing and selling expense partly offset by a higher adjusted gross margin percentage. Benefiting from a lower tax rate, adjusted EPS increased 5% to $0.91 per share. For the first half as reported and organic net sales both declined by 1% compared to the prior year and also reflects declines in Sea Fresh and V8. Adjusted EBIT was comparable to the prior year as a higher gross margin percentage and lower administrative expenses were offset by increased marketing and selling expenses and volume declines. Adjusted EPS of $1.92 was up 5% benefiting from a lower tax rate and share repurchases. Consistent with our earnings call last week, we are affirming our full-year 2017 guidance. We expect sales to grow by 0% to 1%, adjusted EBIT to grow by 1% to 4%, and adjusted EPS to grow by 2% to 5%. In sight of these ranges, the expected impact of currency translation is nominal. We expect to deliver approximately $85 million in cost savings this fiscal year, exceeding our original target of $50 million. And together with favorable cost inflation, is funding incremental investment in marketing and offsetting weaker-than-expected performance in our Campbell Fresh division. We expect our gross margin percentage to end the year at about 38%, almost a point better than last year. Our EPS guidance reflects an effective tax rate of approximately 32% and the benefits from share repurchases over the course of the year. In the first-half under our strategic share repurchase program, we bought back $200 million. I'll take a minute to review our business and division structure. In total, for 2016, Campbell had annual sales of just under $8 billion and generated $1.5 billion in adjusted EBIT. At the beginning of fiscal 2016, we reorganized our enterprise structure to align our businesses with our core growth strategies. Our largest division, Americas Simple Meals and Beverages, includes our soup, simple meals and beverage units in the US, Canada and Latin America. The division includes many iconic brands including Campbell's, Swanson, Prego, Pace, V8 and Plum. In fiscal 2016, the division generated 55% of our sales and with above-average margins, it generated most of our operating earnings.

Global Biscuits and Snacks includes a number of leading brands, Pepperidge Farm in the US; Arnott's, the number one biscuit brand in Australia and New Zealand, and the Kelsen business, which extends our geographic reach into China. This division contributed about one third of company sales with margin slightly below the company average.

The Campbell Fresh division or C-Fresh gives us presence in the growing packaged fresh category and includes Bolthouse Farms for refrigerated beverages and salad dressings, Campbell's retail refrigerated soup business and Garden Fresh Gourmet, salsa, hummus, dips, chips and soup. In addition, C-Fresh includes our fresh carrot and carrot ingredient business. In fiscal 2016, the division generated about 13% of our sales and 4% of our operating earnings. Recently, sales and margins have been negatively impacted as we rebuild capacity following the recall of our protein plus drinks last year, from share losses in our carrot business and from volatility due to weather.

Importantly, each of our three divisions has a clear portfolio role. In Americas Simple Meals and Beverages, we're targeting moderate sales growth consistent with the growth in its categories. We are also targeting margin expansion as we benefit from our cost savings program, net price realization and supply chain productivity improvements. While sales have declined slightly, the division has delivered strong margin gains, increasing 330 basis points in 2016 and another 180 basis points in the first half of 2017.

In Global Biscuits and Snacks, we will invest to grow our business in our existing markets, principally Pepperidge Farm in the US, and Arnott's in Australia and leverage the brands in our portfolio with broader geographic potential, namely, Goldfish, Tim Tams and Kelsen. We plan to expand our business in developing markets like Indonesia and China where we have small businesses today. The GBS division is delivering against its portfolio role with organic sales growth and double-digit earnings growth in 2016. In the first half of 2017, we've seen a modest decline in earnings as we're wrapping 20% EBIT growth in last year's first half. Looking ahead to the second half, we expect to see improved top and bottom line performance.

In our C-Fresh division, our strategy is to build scale in packaged fresh by growing in our existing CPG categories and by expanding into adjacencies both organically and through external development. Recent performance in C-Fresh has been negatively impacted by capacity constraints following the recall of protein drinks and share losses on carrots related to quality and execution issues in the second half of last year. In addition, our Garden Fresh Gourmet business has experienced distribution losses, mostly private label and has fallen short of its distribution expansion objectives. As a result of performance below expectations and our revised outlook for sales and earnings, we recognized impairment charges in the second quarter on both the carrot and carrot ingredient and Garden Fresh Gourmet reporting units. Despite the short-term challenges, we remain confident in our strategy as these fresh categories are growing faster than center store and are on trend with changing consumer preferences for health and well-being. We have a new leadership team in place. They have undertaken a strategic review and developed compelling strategies for the business. Looking ahead to fiscal 2018 and beyond, we are confident in our ability to turn this business around and deliver profitable growth.

While each of our three division plays a unique role, they each have powerful brand equities, with strong positions in their categories that span both shelf stable and fresh simple meals, beverages and snacks. As a reminder, here are our long-term targets. On the topline, we are targeting organic sales growth of 1% to 3%. We will continue our efforts to drive growth through accelerated innovation, including some of the areas, Denise mentioned earlier, and leverage organic growth opportunities in existing and new markets. We will also look to improve our growth profile by reshaping our portfolio through external development targeted at higher growth spaces. We are also focused on addressing the challenges in our

V8 Juice business and recovering from the recent issues in Campbell Fresh. Our long-term earnings growth targets, which exclude the impact of currency translation, have adjusted EBIT growing 4% to 6% and adjusted EPS benefiting from cash flow growing by 5% to 7%. These bottom line growth targets, which exceed our targeted sales growth imply continuing margin expansion and our cost savings program is key to delivering this performance. We are very pleased with the progress on our cost savings program. We now expect to reach $300 million in annual cost savings by the end of fiscal 2017. This is $100 million higher and a year earlier than the target we first announced at this conference 2 years ago. As we announced last week, we are raising our cost savings target to $450 million, about 6% of sales which we expect to achieve by the end of fiscal 2020. We have generated savings by reducing layers of management and increasing spans of control. We have changed our operating model by creating an integrated global services organization. And we are implementing a comprehensive zero-based budgeting process, which is delivering savings across both simple and more complex cost categories. Looking ahead, while our current initiatives will generate in excess of $300 million in savings. We believe there are additional opportunities, which in aggregate will get us to $450 million. While we have more work to do, we are confident in our ability to achieve this higher goal. First, in our supply chain, we will look for opportunities to further optimize our network, primarily in North America. I'll give you an example in a moment. Second, we will continue to evolve our operating model to drive efficiencies and focus resources on our most significant growth opportunities. And lastly, we'll more fully integrate our recent acquisitions to generate cost synergies and improve our effectiveness by leveraging both our enterprise scale and capabilities. As we've said before, this cost saving program is incremental to our ongoing supply chain productivity program, in which we target annual savings equal to 3% of cost of product sold. Savings from this program will provide investment funding for growth and contribute to margin expansion. We are making good progress on expanding our gross margin percentage. On an adjusted basis, our gross margin percentage increased 170 basis points in 2016 to 37.1% and we anticipate almost another point of gross margin gains in 2017 to approximately 38%. The margin improvement reflects a combination of benefits from our cost savings program, improved supply chain performance and net price realization, while our cost inflation has moderated. Delivering against its portfolio role, Americas Simple Meals and Beverages has been the primary driver of this gross margin expansion.

Our recent EBIT margin gains have improved our position relative to our peers in the S&P packaged food group. Over the last four quarters, our adjusted EBIT margin of 18.5% is very competitive and now ranks number four of the 12 companies in the peer group. Two years ago, this same chart would have shown us at the median. While we have been successful in expanding our margin, our strategy is to reinvest a portion of our savings to drive growth. We're increasing marketing support on our key brands, funding a number of new product launches and investing against our real food initiative. We are also making investments in long-term innovation. Our investments to support the Acre Venture Fund, Habit and innovation in the packaged fresh category are all good examples.

Geographic expansion is also a critical area. For example, we are expanding our sales and distribution capabilities in China to grow our biscuit business and we are building our capabilities in areas like digital and e-commerce. Now, I'll go into a little more detail on some of these investments. Our new product activity is focused on the areas of health and well-being and snacking. In the health and well-being space, which is tightly linked to the Better.Me foresight, we are launching Well Yes!, a clean label soup made with simple, desirable ingredients, which are on trend with today's consumers. We are fully supporting the launch with an integrated marketing campaign to achieve broad distribution and drive trial and awareness.

Other new product investments include the launch of Prego Farmers Market, a clean label pasta sauce and Plum Organics baby formula, which extends the brand into the underdeveloped organic segment of that category. In C-Fresh, we're introducing line extensions of 1915, our cold-press refrigerated juice offering. We're also testing Bolthouse Farms MAIO, a new line of refrigerated, yogurt-based spreads made with clean ingredients and launching a line of Bolthouse farms' alternative milk, milks made with pea protein. This alternative milk has nine to 10 grams of protein versus one gram in traditional nut-based milks. As Denise discussed in the My.Moments foresight, snacking is a growing global behavior and a key growth platform for Campbell. Example for new products in this space include the launches of Pepperidge Farm Goldfish made with organic wheat and also whole grain Goldfish. Both of which are off to a strong start. New varieties of Milano cookies and the launch of Farmhouse thin crisp cookies are other examples from Pepperidge Farm. Another promising initiative is the launch of our iconic Tim Tam cookies in the US. And we are rapidly building distribution as we speak. As Denise mentioned, the lines between snacking and meals are blurring and we see this as a growth opportunity across the portfolio. Beyond the Global Biscuits and Snacks division, many of our brands are well positioned to capitalize on this opportunity, including Plum and especially Garden Fresh Gourmet where fresh offerings of sauces, dips and soups are uniquely advantaged. We are introducing organic salsa and hummus as a point of differentiation. From a strategic perspective, investing in fewer, bigger, focused innovation efforts will continue to be an opportunity for us. We've talked to you about our Company purpose, real food that matters for life's moments. True to the Limitless Local movement, we continue to make investments to deliver against our real food initiative. We have and will continue to increase the amount of vegetables, whole grains and proteins in many of our products. Today, Campbell serves 11 billion servings of vegetables and 4 billion servings of whole grains annually to consumers. We designed our Well Yes! soups with chicken with no antibiotics. And over time, we'll expand the usage across the portfolio. By the end of fiscal 2017 in the US, we will have removed BPA from our steel cans. We're also working to remove artificial colors, flavors and preservatives from the limited number of products that still contain them. As I mentioned earlier, here's an example of a supply chain initiative, which will both build our capabilities while delivering cost savings. Consumers are shopping in new ways. Retailers are demanding increased customization and channels continue to proliferate, especially with the growth of e-commerce. To compete and thrive in this new environment, we need to evolve our supply chain.

Today, manufacturing and warehousing are combined in our plants. Product is delivered from these warehouses to customers, then to stores and ultimately to the consumer. In our operation today, we are unable to cost effectively meet the requirements of the multiple channels we serve, particularly for customization. We'll invest in a network of distribution centers decoupling our logistics and distribution from manufacturing. This will give us a more agile and flexible distribution system capable of late-stage differentiation and well-positioned to meet evolving customer and consumer needs. This capability will enable us to capitalize on the future commerce Denise mentioned, including e-commerce, which we expect will experience significant growth. Now, changing topics, I'd like to review our priorities for the use of cash, a discussion which starts with our ability to consistently generate a significant level of cash from operations, including a record $1.5 billion in fiscal 2016. Over the last two years, we've made a step change in our cash flow generation driven by significant increases in cash earnings and improved working capital performance. While we expect to sustain the improvements in working capital, we do not expect to see the same levels of contribution from further reductions.

In addition to our ongoing cash flow generation, our balance sheet metrics are strong as we've repaid much of the debt incurred to support recent external development. This provides us with significant financial flexibility to pursue our strategies, including external development. At the end of fiscal 2016, interest coverage was 16 times and net debt to adjusted EBITDA was just 1.8 times. Our priorities for the uses of cash have not changed since we last discussed them with you in July. First, we will make capital investments to support and grow our existing businesses. Second, we target a competitive dividend payout ratio. Third, we will focus our M&A effort in health and well-being and snacking and fund acquisitions, when we are confident they are strategically compelling, improve our growth profile and will create shareholder value. Lastly, to the extent there is excess cash generated and we are comfortable with our leverage ratios as we are today, we will use share repurchases as a flexible and effective means of returning funds to shareholders.

In the first half of fiscal 2017, we repurchased $200 million of shares under our strategic program, a rate we expect to continue in fiscal 2017 absent further M&A or other factors. On average, we spend about 4% to 4.5% of sales on capital expenditures. This includes amounts to maintain our asset base and importantly on projects which generate an economic return by increasing capacity or by reducing cost. Over the last few years, about half of our CapEx have been on projects that generate an economic return. Recent spending has included projects to add capacity, to support the growth of Pepperidge Farm Goldfish, and Bolthouse Farms beverages. Capacity additions for Swanson aseptic broth, and Prego white sauces have allowed us to repatriate third-party production at a lower cost and to support growth. On the cost side, we are completing our Soup Common Platform initiative. This allows us to vary the height of our cans and provides additional capacity at a lower cost. For example, we'd leverage this capability to produce Well Yes! soups in a 16-ounce can on the same line used for our existing 19-ounce product, which has helped to maintain our margins. For fiscal 2017, we expect capital spend to be approximately $325 million. We're investing in Flexible Packaging capabilities to expand our multi-pack offerings in Australia. And we will be investing in the distribution network, I mentioned. Our second priority is to return cash to shareholders through dividends. Following growth in adjusted EPS of 11% in 2016, we announced a 12% increase in our quarterly dividend last September to an annualized rate of $1.40 per share. Over the past decade, our dividend has increased at a 6% compound annual rate. Our objective is to maintain a competitive payout ratio and to increase the dividend over time consistent with the earnings growth. Today our payout ratio is just below 50%. At Campbell, we are very focused on creating value for our shareholders over the long term. We start with that portfolio of powerful brands. And as Denise has discussed, we have a clear understanding of the dynamics facing us in the marketplace. In the current environment in which the industry has been challenged to deliver growth, we have responsibly managed our cost structure. And as discussed, we have now increased our savings target designed to fund investments and expand margin. We have a strong balance sheet and generate significant cash flows with clear priorities for the uses of cash. And we had the financial flexibility to pursue our strategies, all designed to create value for our shareholders. Before concluding, I need to mention two items. In our presentation today, we made forward-looking statements that are based on assumptions and estimates. This slide lists a set of factors that could cause our actual results to vary materially from those anticipated in these forward-looking statements. We've also used non-GAAP measures in this presentation. For reconciliations, please refer to the Investor page of our website. Thank you and I look forward to seeing many of you at the lunching.

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