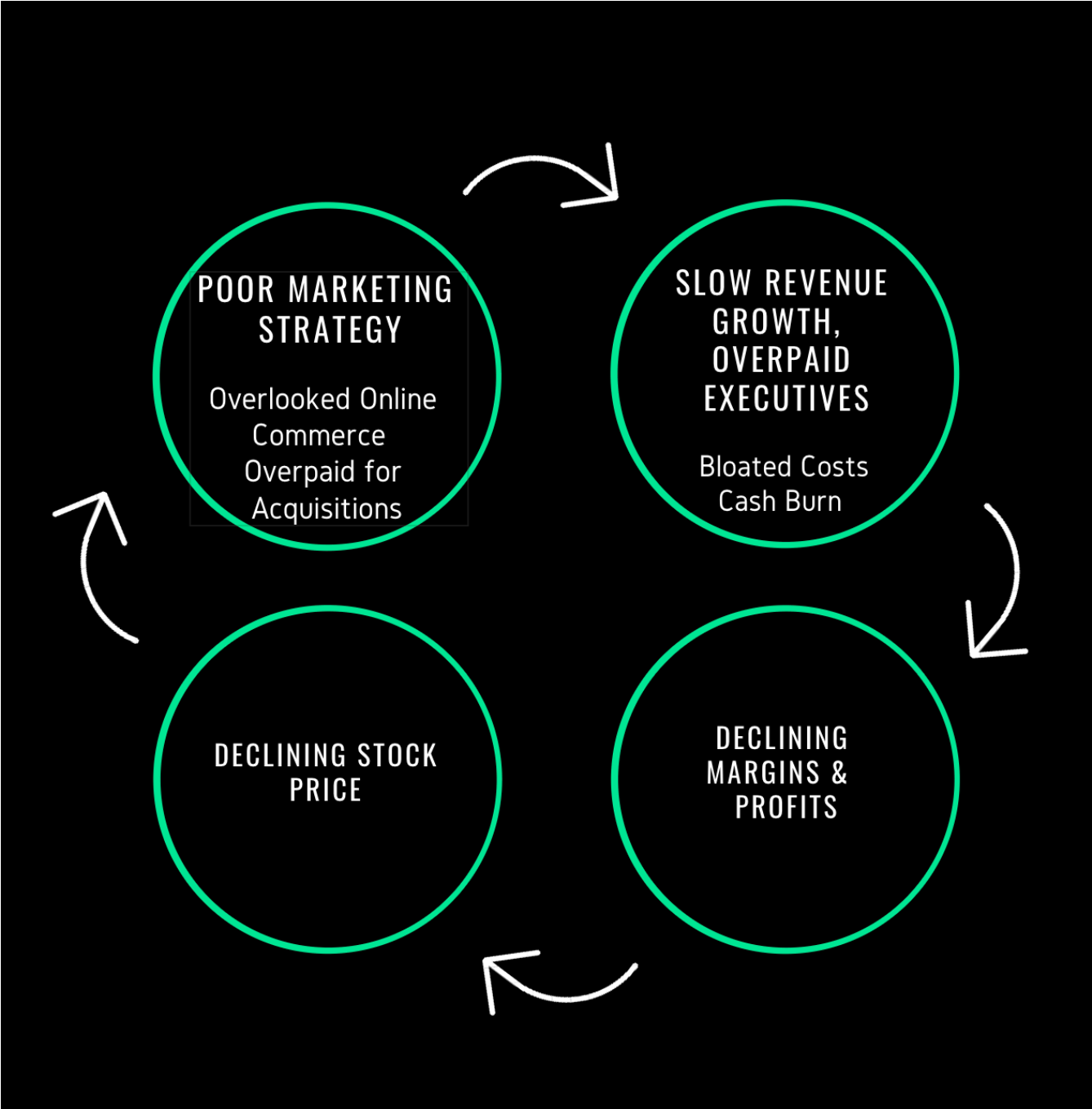


Recrafting CSS Industries & Unbundling Shareholder Value



Varana Capital, LLC
March 2019

CSS Cycle of Failure



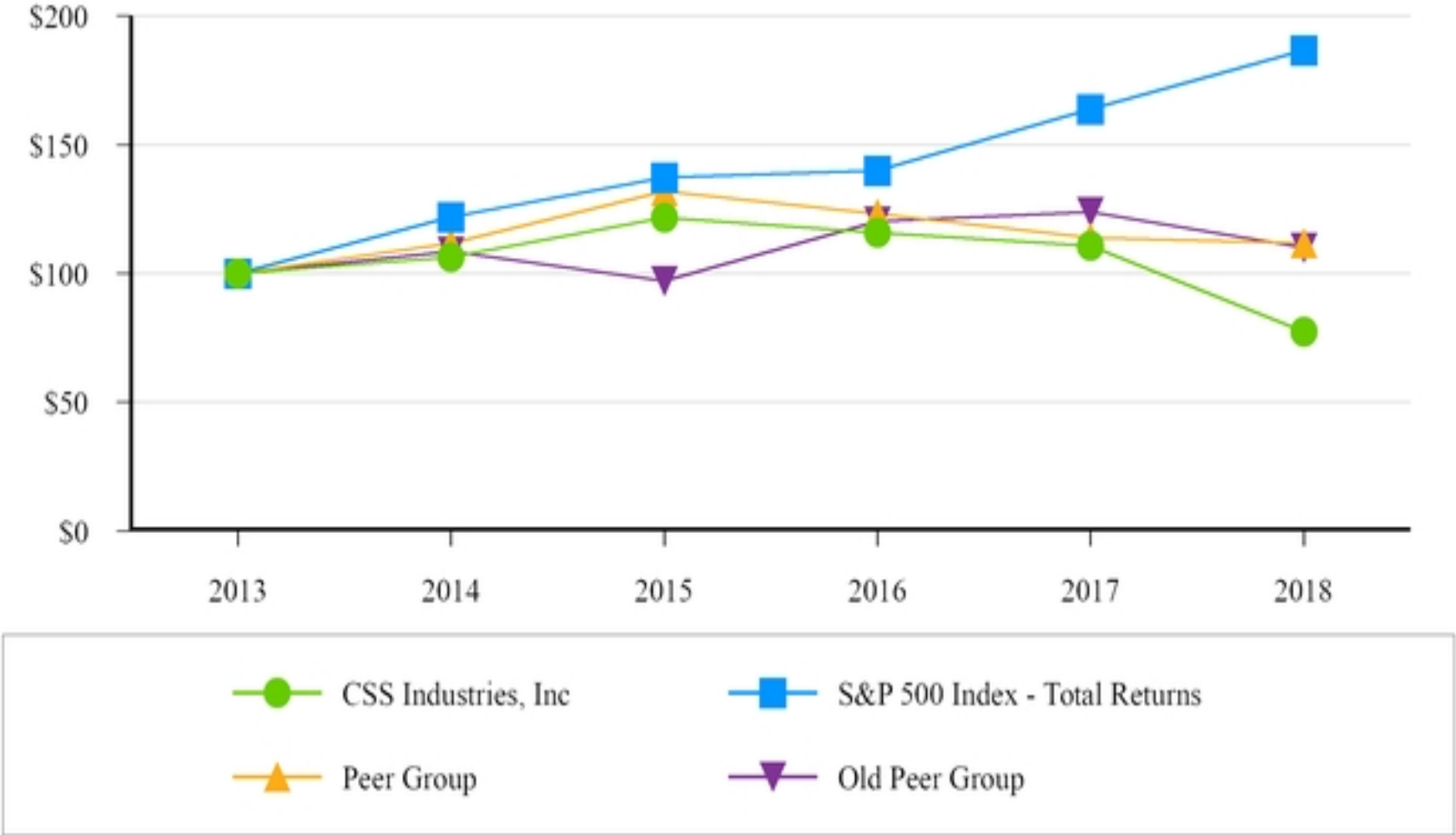
Poor Stock Price Performance

In the last year, the stock price has declined by more than half.



Poor Stock Price Performance

CSS's stock price has under-performed the S&P 500 Index, the new CSS peer group and the old CSS peer group.



Poor Financial Performance

In spite of revenue growth, in the last 5 years, CSS's operating performance has steadily declined.

(\$ in millions)	Years Ended March 31,					Nine Months Ended December 31,	
	2014	2015	2016	2017	2018	2017	2018
Net sales	320.5	313.0	317.0	322.4	361.9	280.4	310.3
Gross profit	103.2	101.7	102.3	93.1	92.8	75.9	69.8
Operating income (loss)	28.0	26.6	26.2	9.7	(45.7)	2.8	(20.8)

Top Line Challenges: Declining Revenue Growth Rate

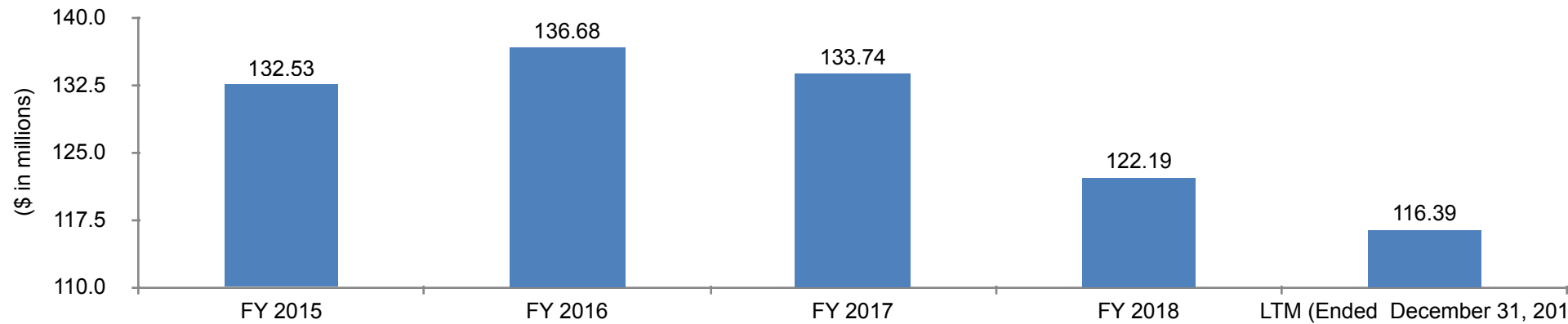
The rate of revenue growth is declining rapidly. In Q3 2019, organic sales declined 4% year-over-year, driven primarily by lower craft and gift sales.

(\$ in millions)	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Net sales	81.5	64.1	112.9	133.2
Growth %	39%	33%	11%	2%

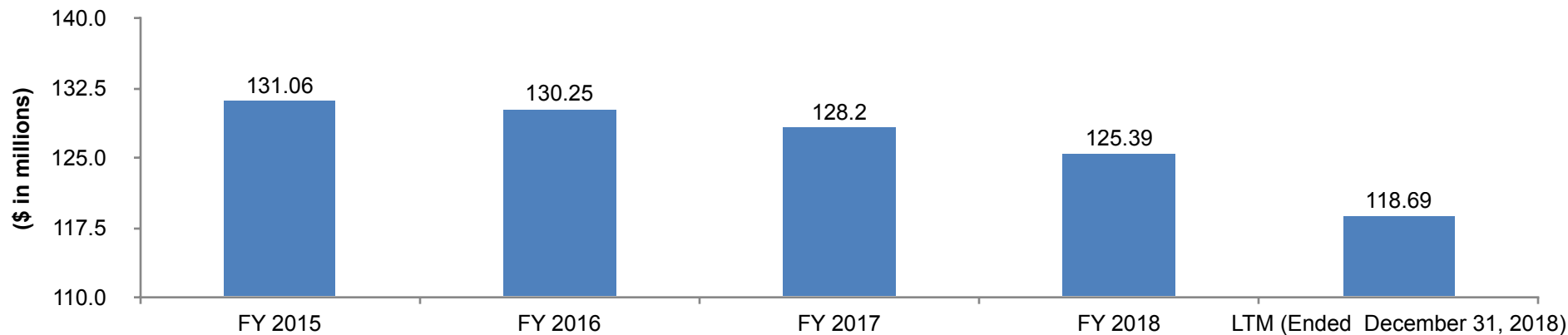
Top Line Challenges : Core Segments are Declining

In the last few years, CSS's two major segments have declined rapidly

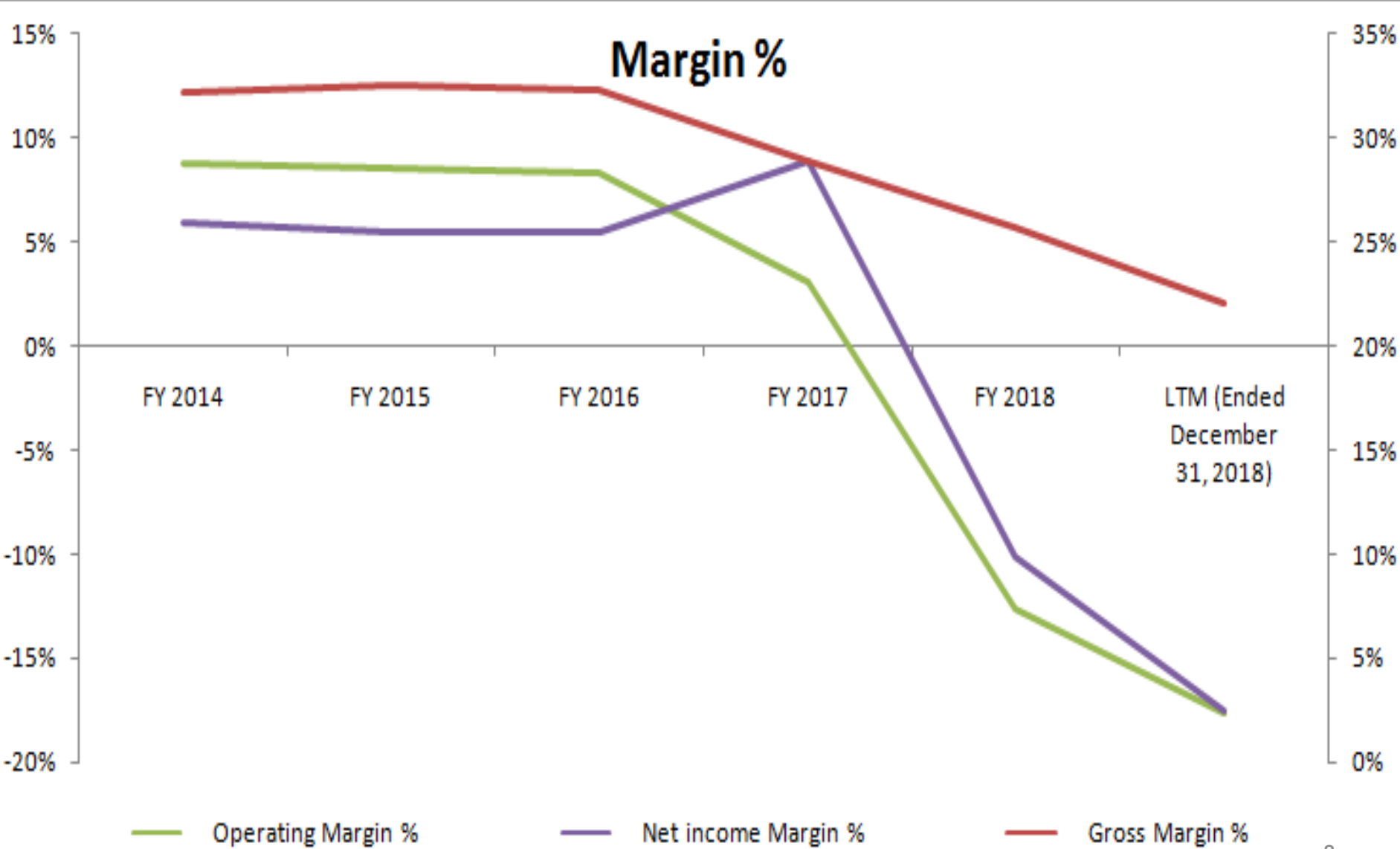
Seasonal - Revenue



Gift - Revenue



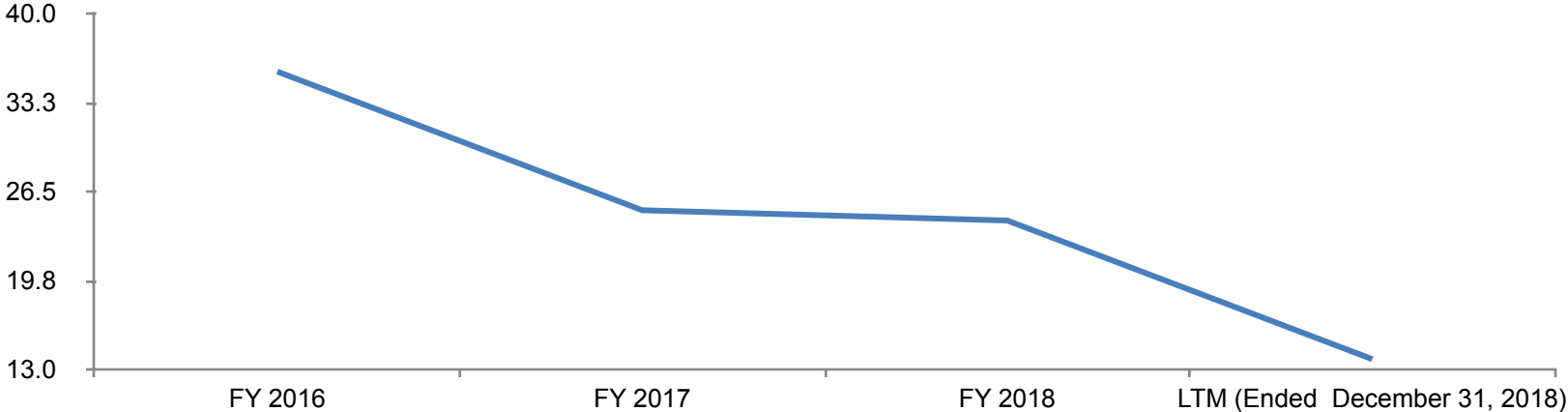
Declining Profitability



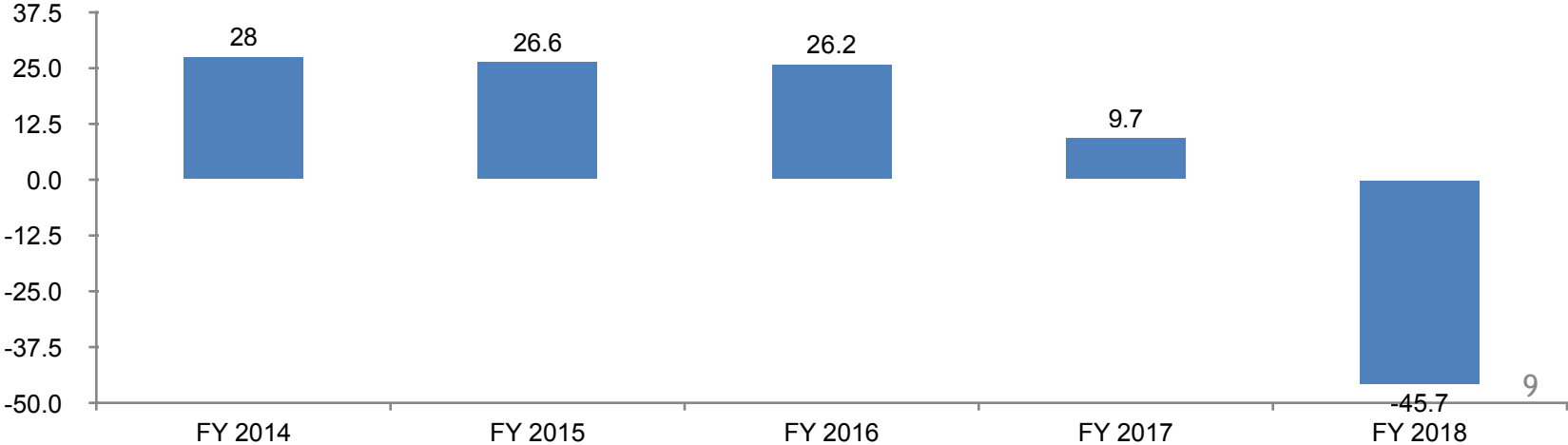
Declining Profitability

In the last few years, operating income and Adjusted EBITDA has declined rapidly.

Adjusted EBITDA

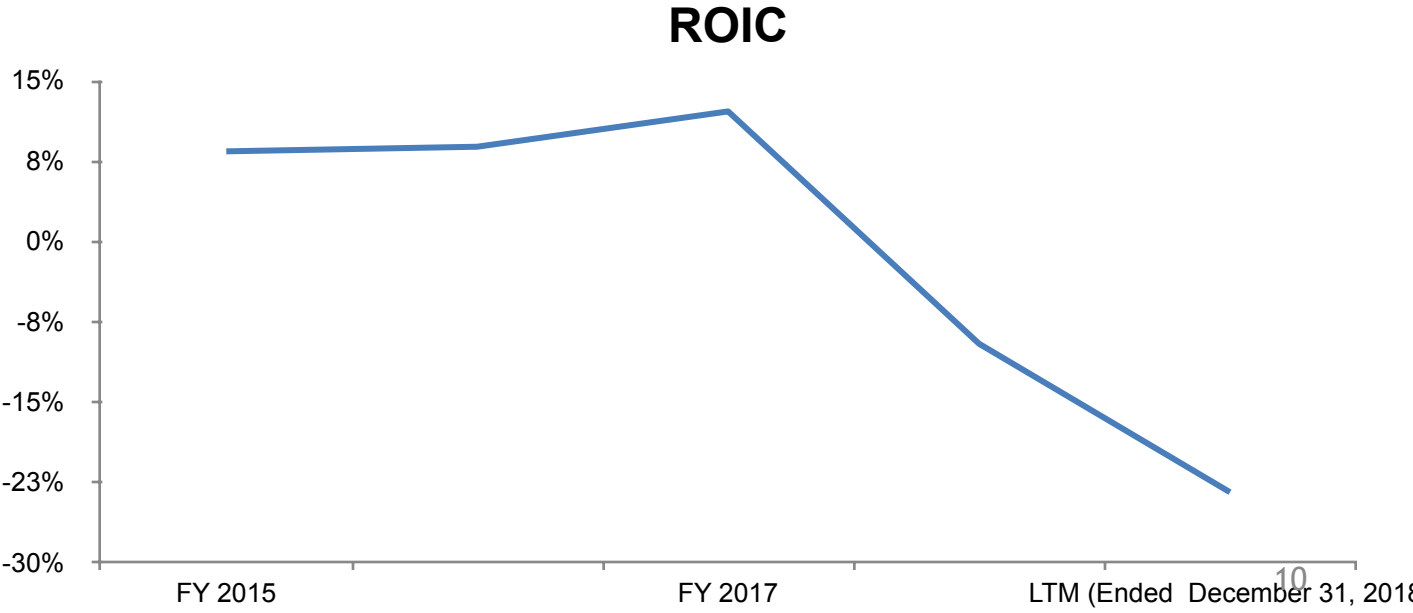
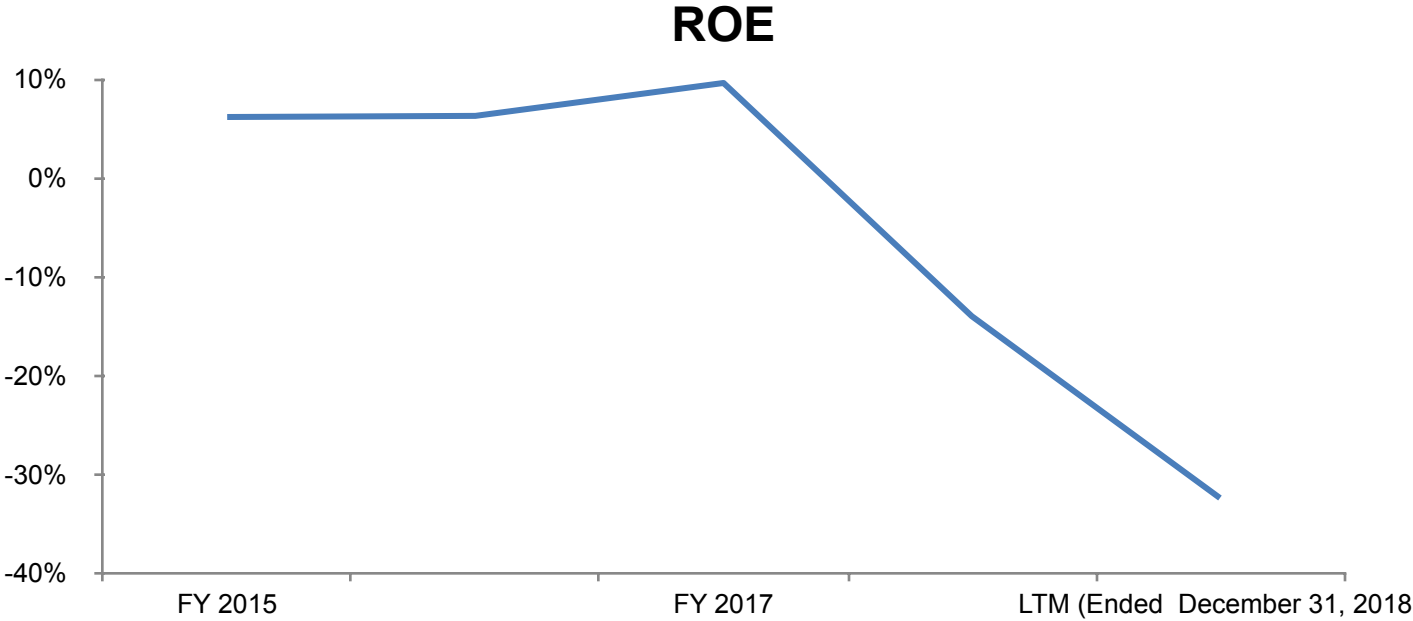


Operating income (loss)



Poor Capital Allocation

In the last few years, ROE and ROIC has declined rapidly.



Bloated Cost Structure

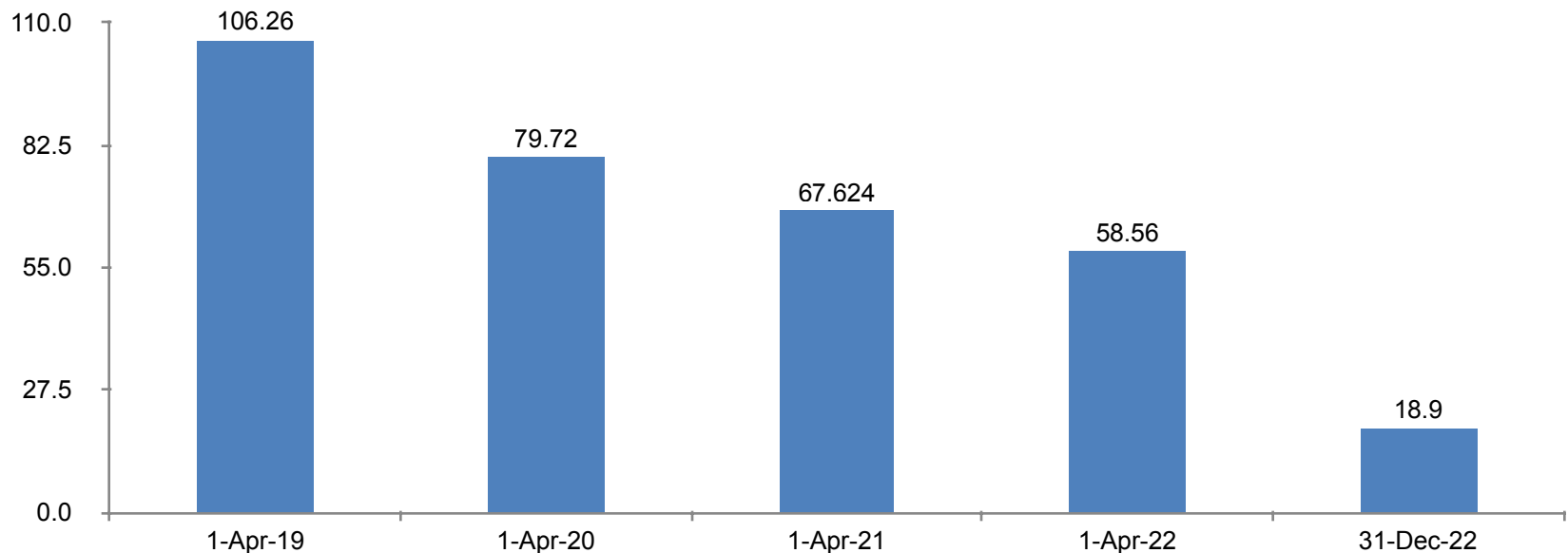
- In the last 3.9 years, SG&A cost increased by a whopping 57% or \$43 million.
- During the same period, SG&A growth outpaced revenue growth by more than 100%.
- Given the fact that CSS's gross margin is under pressure, the rising SG&A is affecting the company's bottom line.

	FY 2015	FY 2016	FY 2017	FY 2018	LTM Dec '18	9M Dec 2017	9M Dec 2018
Net sales	313.0	317.0	322.4	361.9	391.8	280.4	310.3
SG&A	75.1	76.0	83.4	105.2	118.1	44.0	57.3
SG&A as a % of revenue	24%	24%	26%	29%	30%	29%	32%

Significant Cash Burn

- In the last 4.9 years, CSS's cash balance has been reduced by a staggering 82%.
- If the current burn rate continues, the company will be forced to raise debt or equity. Both of these scenarios could affect the already depressed stock price.

Cash and short-term investments



Poor Capital Allocation

Overpaying for Acquisitions

- Under the current CEO's tenure, 7 out of 12 acquisitions' goodwill are impaired.
- Goodwill impairment for the recent acquisitions are happening at a much faster pace.
 - In November 2017, CSS acquired Simplicity for ~\$70 million. In Fiscal 2018, CSS impaired \$9.6 million of goodwill.
 - In June 2018, CSS acquired Fitlosophy for \$4.1 million. In the subsequent

Date	Target company name	Total Value (\$, mm)	Goodwill	Impairment
				Sep 2018 quarter
Jun-18	Fitlosophy	4.1	1.39	
Nov-17	Simplicity Creative Group	69.6	9.6	Fiscal 2018
		19.6	4.1	Fiscal 2018
Feb-16	Blumenthal Lansing Company			
		12.9	0.7	Fiscal 2018
Feb-15	Hollywood Ribbon Industries			
		5.2	0.6	Fiscal 2018
May-14	Carson & Gebel Ribbon Co.			
Aug-08	Hampshire Paper Corp.	9.7	0.9	Fiscal 2018
Dec-07	C.R. Gibson	73.8	17.4	Fiscal 2018



**Poor Business
Strategy**

Lack of Online Strategy

- If there is one mistake that has affected CSS considerably, it is the lack of an online presence.
- E-commerce websites changed the way Americans shop. The US gift industry is no exception.
- Walmart, the retail giant, started selling online in 2000 when it recognized the growing shift from retail to online.
- In spite of the shift in the industry dynamics, CSS continued to sell its product through mass-market retailers and ignored the online channel. In fact, in Q1 2019 Earnings Conference Call ([source](#)), the CEO acknowledged that CSS was expected to generate less than 5% of its revenue from online by the end of fiscal 2019 fiscal. The incumbent Directors overlooked the importance of reaching out directly to customers via online stores like Amazon.com.
- In fact, until the fiscal 2017 10-K, there is no mention of online sales.

Lack of Online Strategy

- According to a March 2018 Internet Retailer and Bizrate Insights survey, more consumers are buying gifts online each year. For instance, 76% of US shoppers said they purchased at least 25% of their gifts online in the last holiday shopping season (November to December).
- According to an IBISWorld report published in November 2018, over the past five years, the number of Gift Shops and Card Stores in the US has declined by -1.0% to reach revenue of \$17bn in 2018.
- The Board narrow-mindedly focused on acquisition for their revenue growth and ignored the industry's changing dynamics. In the last seven earnings calls that Mr. Munyan has participated, executives and analysts on the calls have said the word "acquisition" 94 times, nearly five times as often as the word "online."

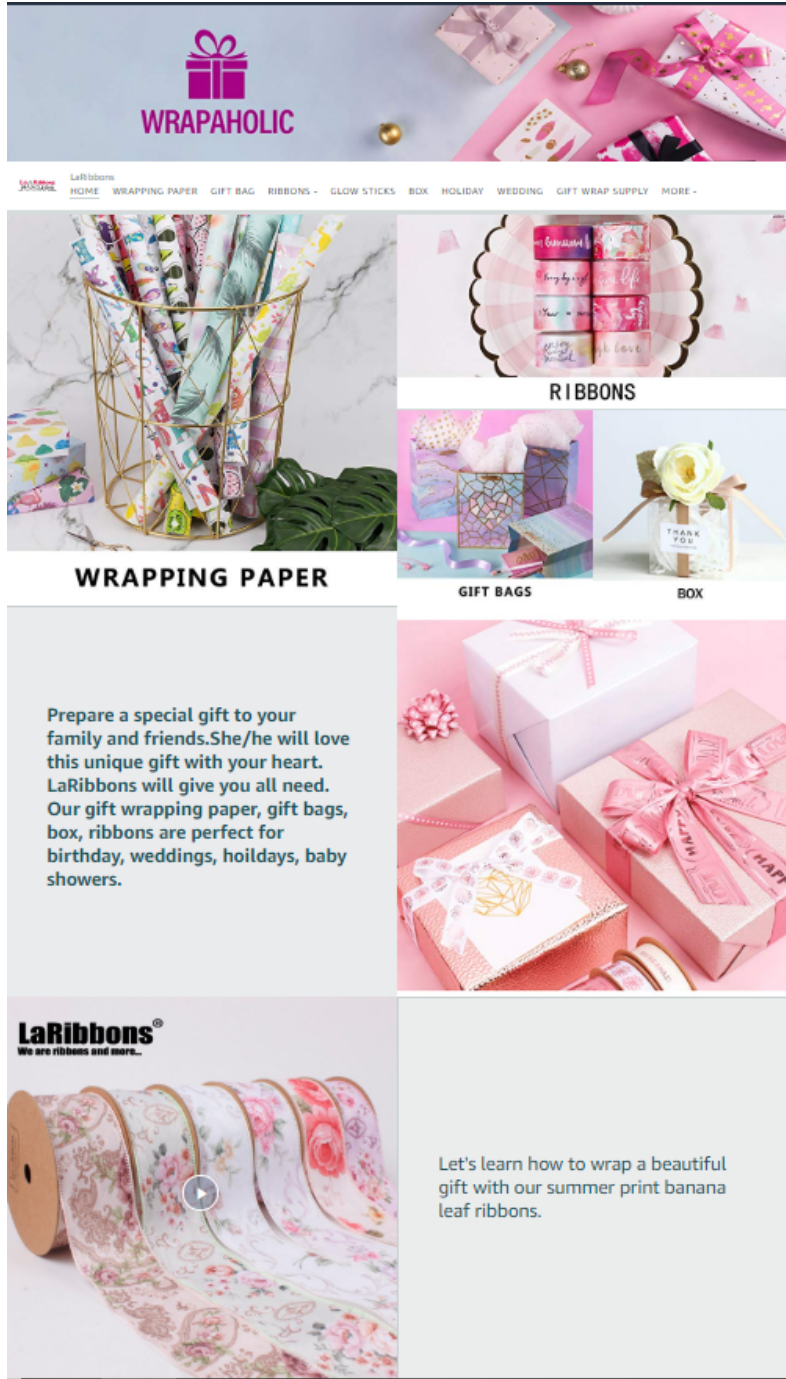
No meaningful brand presence on Amazon

- In spite of being in the industry for more than three decades, CSS has no meaningful brand presence on Amazon.
- None of CSS's products is in the top 100 best selling products for Arts, Crafts & Sewing or Greeting Cards.
- CSS's highest ranking ribbon product (Berwick ribbon) is in #12th position.
- Even in the small sub-set of products like Latch Hook, Cross Stitch, Embroidery, Needlepoint, Needle-felting and Buttons, CSS's product is not in the top 5 best selling products list.

Why should CSS increase sales on Amazon?

As of July 2018, Amazon's share of the US e-commerce market was 49%. Not selling products through Amazon is a huge mistake.

No meaningful brand presence on Amazon



CSS Industries does not have a Amazon Stores Page

Amazon Stores allow brand owners to design and create multipage stores to showcase their brands and products on Amazon. It's basically like creating your own ecommerce website on Amazon.

Even though this feature launched in 2012, CSS Industries is yet to embrace this option.

This is the Amazon page of LaRibbons, a competitor for CSS Industries on Amazon

Confusing Brand Name Competition

CSS owns a number of brands that appear to be competing for customers. CSS should consolidate to one or two brands

	<u>Instagram</u>	<u>Facebook</u>	<u>Pinterest</u>	<u>Website</u>	<u>Twitter</u>
CSS Industries		1,400 followers		cssindustries.com	
Lion Ribbon	1,800 Followers	5,300 followers	22,000 monthly views	lionribbon.com	366 Followers
Offray Ribbon	1,200 Followers	5,500 followers	35,000 monthly views	offray.com	
Berwick Offray		1,300 followers		berwickoffraywholesale.co m	
Hampshire Paper		188 followers			
Berwick Offray Ribbon Outlet		2,700 followers			

Streamline Brand Names

- Amazon is selling at least eight CSS brands under separate online brands and amazon stores

Brand

< Clear

- Paper Mart
- HipGirl
- Berwick**
- LaRibbons**
- American Crafts
- Topenca Supplies
- BakeBaking
- Schiff Ribbons
- David accessories
- Creative Ideas
- Feyarl
- Fun Express
- Ribbon
- Offray**
- QingHan
- Lion Ribbon**
- Simplicity**
- Wright's**
- New Look**
- Vogue Patterns**
- McGinley Mills**

[See more](#)

**Huge
Compensation**

In the last decade, the Board richly rewarded the CEO

The CEO enjoys huge and increasing compensation.

1. Salary hike

CEO received base salary hikes in 11 out of 12 years.

Year	Salary (\$)	Salary hike %
2018	654,491	2.0%
2017	641,658	2.5%
2016	626,008	3.0%
2015	607,775	3.0%
2014	590,073	3.0%
2013	572,886	3.0%
2012	556,200	3.0%
2011	540,000	2.9%
2010	525,000	0.0%
2009	525,000	9.4%
2008	480,000	6.7%

2. Discretionary bonus

In 12 years, the Board awarded discretionary bonuses to the CEO for 8 years.

Year	Bonus
2018	\$186,530
2017	—
2016	\$81,380
2015	\$72,933
2014	\$59,007
2013	\$93,761
2012	\$96,223
2011	\$137,760
2010	—
2009	—
2008	\$297,973

3. Performance bonus

The Board rewarded the CEO with performance awards during 2013 - 2016, during which the share price remained stagnant.

CSS Industries Reviews

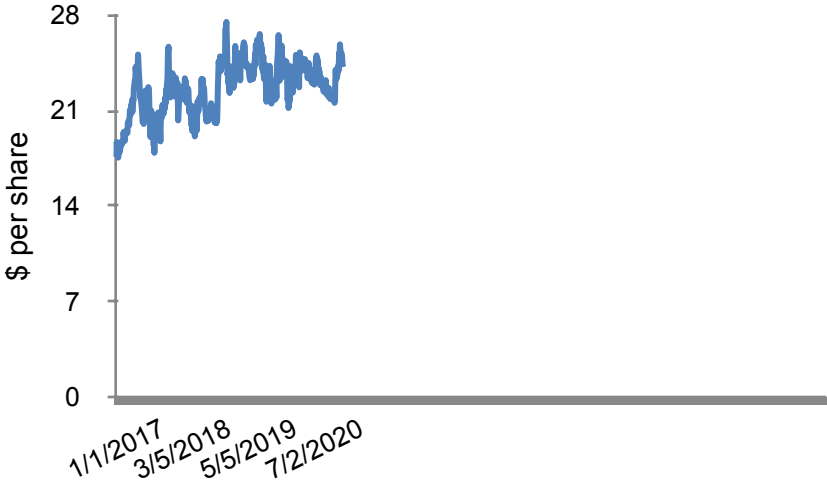
2.9 Rating Trends

43% Recommend to a friend

52% Approve of CEO



CSS Share price



In the last decade, the Board richly rewarded the CEO



- X Personal use of company car
- X Car allowance
- X Company-paid parking fees



- X Reimbursement of medical and prescription costs not covered by insurance
- X Supplemental life insurance policy premiums



- X Matching contributions under tax-qualified 401(k) and profit sharing plans

Fringe benefits

The pampering did not stop at pay hikes and discretionary bonuses, Mr. Munyan is also showered with various “other benefits.”

In the past three years, CSS spent roughly \$28,000 every year towards “other benefits”.



- X Business club dues
- X Health club dues
- X Professional association dues

Absurd practices by the Human Resources Committee to determine CEO's compensation

Question #1

CSS claims that “Mr. Munyan did not make recommendations as to his own compensation.”

If the above statement is true, why does Mr. Munyan provide his own self-evaluation to the Human Resources committee which determines the compensation?



On an annual basis, and otherwise as deemed appropriate by Mr. Munyan or as requested by the Human Resources Committee, Mr. Munyan provides the Human Resources Committee with his evaluation of the performance of our named executives, including Mr. Munyan's own self-evaluation.

Question #2

For a CEO who has led for more than ____ years, what is the relevance of the below criteria?

- Experience relative to the needs of CSS.
- Tenure in current position
- Salary history
- Expected future contributions to the company



In determining Mr. Munyan's base salary for fiscal 2017, the Human Resources Committee considered both his and CSS' performance during fiscal 2016, his skill set and experience relative to the needs of CSS, his tenure in his current position, his salary history, his expected future contributions to CSS, and the Company's overall budget for fiscal 2017 salary increases.

Picked Wrong Peer Groups for Executive Compensation

Company Name	FY 2017 / FY 2018 - Base salary (\$, mm)	M.Cap (\$, mm)	EV (\$, mm)
Neenah Paper, Inc.	0.830	1,210	1,570
Knoll, Inc	1.009	955	1,430
Lannett Company, Inc.	0.735	302	966
National Presto Industries, Inc.	0.575	772	563
Ennis, Inc.	0.915	548	503
Lifetime Brands, Inc.	0.990	195	492
Libbey Inc	0.770	71	452
Hooker Furniture Corporation	0.415	326	341
Destination Maternity Corporation	0.350	27	76
CSS Industries	0.654	58	99

- Most of the peer group companies reported in the proxy statement are at least two times larger than CSS. Notably, two companies are roughly 10 times bigger than CSS Industries.
- How can the Human Resources Committee use this data to set the compensation of the CEO?

Rebecca Matthias: Overpaid Chairman & Web Of Connections

- Ms. Matthias's Board fee is a whopping \$0.483 million in FY 2018. We believe this fee exceeds that of a full time senior executive of CSS.
- Why does the Board award huge compensation to Ms. Matthias?

Year	Fees earned or paid in cash (\$)	Stock awards (\$)	Options awards (\$)	Total Compensation
2018	214,500	268,200	0	482,700
2017	216,185	265,400	0	481,585
2016	177,683	272,700	25,520	475,903
2015	128,250	0	34,440	162,690
2014	58,750	0	47,080	105,830
2013	61,173	0	29,880	91,053
2012	62,500	0	27,132	89,632
2011	52,000	0	26,880	78,880
2010	47,000	0	25,798	72,798
2009	45,000	0	52,221	97,221
2008	40,000	0	52,438	92,438

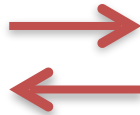
Rebecca Matthias: Overpaid chairman & web of connections

Ms. Matthias founded Mothers Work and served as President from 1982 to 2010.

During her tenure at Mothers Work, Mr. Hitchner served as a Director and the law firm where he worked as a Partner provided legal services to CSS. In addition, Mr. Miller also served as a Director of Mothers Work from 1992 to 1999.

William L. Rulon-Miller

- William L. Rulon-Miller became a Director of Mothers Work in 1992.
- Director at CSS since 2016



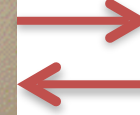
Rebecca C. Matthias

Ms. Matthias is a Director since 2003.

Ms. Matthias founded Mothers Work (now Destination Maternity) in 1982 and served as President from inception until 2010 and as a Director from inception until February 2011.

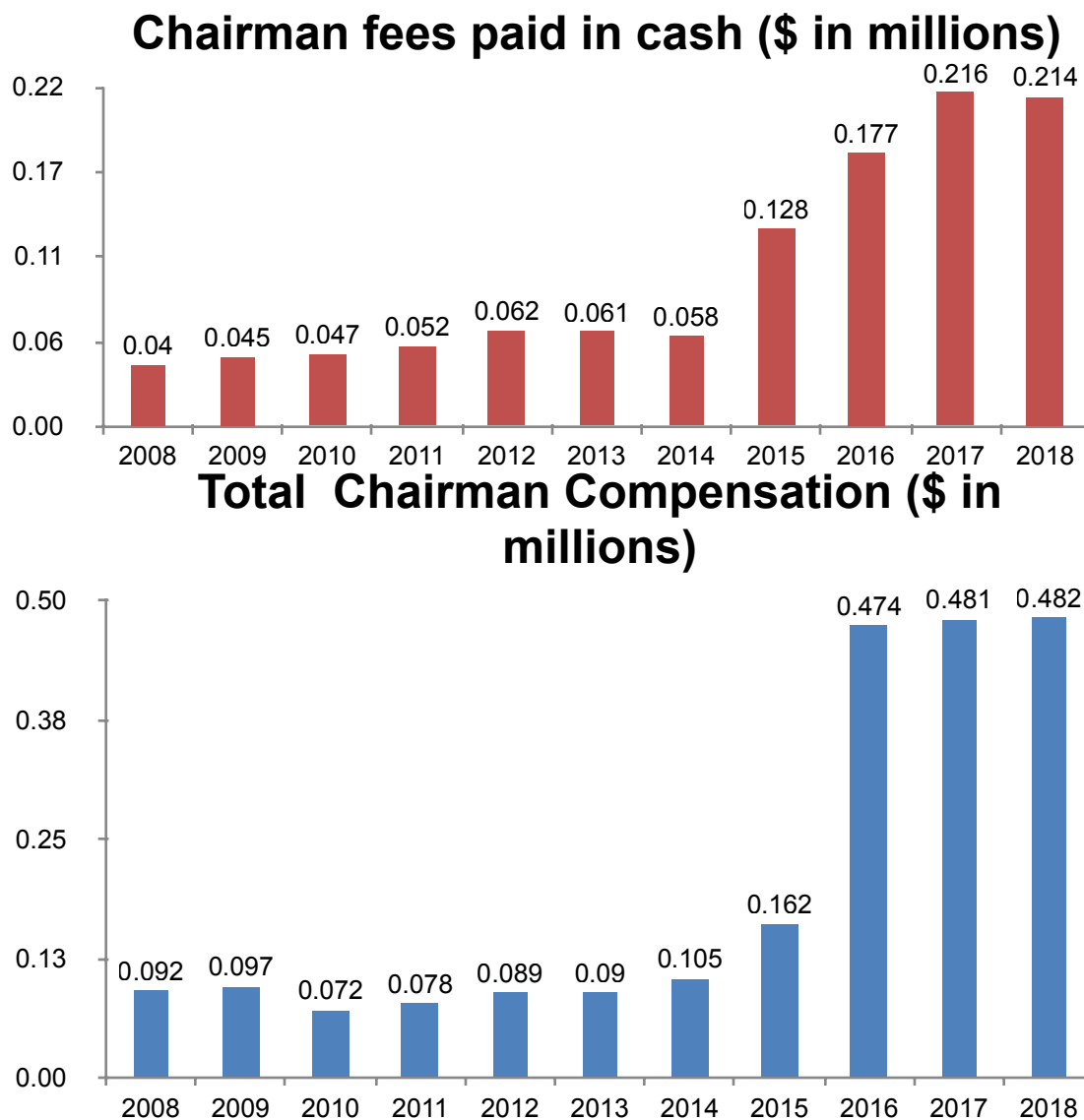
Elam M. Hitchner

- From April 1987 to May 1992, Mr. Hitchner was a Partner of the law firm of Braemer Abelson & Hitchner, which provided legal services to Mothers Work.
- Since May 1992, Mr. Hitchner has been a Partner of the law firm of Pepper Hamilton LLP, which provided legal services to Mothers Work.
- Director at CSS since 2013



Ms. Matthias's prior connection help hear earn huge Board fees ??

- The Human Resources Committee reviews and makes recommendations to the Board regarding the compensation of Board Chair.
- Mr. Hitchner, Chairman of Human Resources committee, has previously provided legal services to Mothers Work, which was founded by Ms. Matthias.
- Given the fact that the Ms. Matthias earns huge compensation, we believe Mr. Hitchner's prior business relationship with Ms. Matthias is affecting his judgment.



Pepper Hamilton

Pepper Hamilton provides legal services to CSS Industries. Current Director and current executive has prior relationship to Pepper Hamilton.

- **Elam M. Hitchner, III**, current Director, is a retired former Partner of the law firm Pepper Hamilton, LLP. He was a Partner of Pepper Hamilton from May 1992 to June 1999, and returned to the firm in January 2001 as a Partner and subsequently as “of counsel” through 2004. From 2005 until December 2015, he provided consulting services to Pepper Hamilton.
- **Lori White**: The current VP (Licensing & Intellectual Property) and former Corporate Counsel is a former attorney of Pepper Hamilton, LLP.

Low Director Ownership

4 out of 7 Directors own fewer than 5,000 shares.

Name	Director Since	Tenure	Current Position(s)	Ownership (excluding option)	Total Shares
Rebecca C. Matthias	2003	15	Non-executive Chair of the Board since July 2015	1.04%	94,821
Christopher J. Munyan	2006	12	President and CEO since July 2006	0.88%	80,274
Robert E. Chappell	Sep-2012	6	Director	0.13%	11,702
Elam M. Hitchner, III	May-2013	5.6	Director	0.05%	4,702
William Rulon-Miller	Mar-2016	2.8	Director	0.05%	4,702
Harry J. Mullany, III	Feb-2017	1.9	Director	0.03%	2,864
Stephen P. Crane	Mar-2018	9 months	Director	0.00%	—

- As per Institutional Shareholder Services (ISS), a Director's tenure of more than 9 years is considered excessive. CSS Industries has two long standing Directors, Matthias and Munyan, who have served on the Board for more than a decade.
- At the 2015 AGM, ISS, a proxy advisory company, recommended that shareholders withhold votes from three Board candidates - Rebecca Matthias, Scott Beaumont and Lee Hitchner.

Name	Age	Director Since	Tenure	Current Position(s)
Rebecca C. Matthias	65	2003	16 years	Non-executive Chair of the Board since July 2015
Christopher J. Munyan	53	2006	13 years	President and CEO since July 2006



**Other
Indicators**

Next Steps

Possible next steps for CSS Industries

- Mentor senior management on aggressively pursuing an online strategy.
- Undertake an in-depth review of CSS's business lines.
- Improve corporate governance, including redeeming the rights issued under the poison pill plan.
- Adopt measures designed to optimize cost structure and maximize operating efficiencies.
- Ensure that compensation for directors and officers is tied to **CSS earnings and stock price**

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Our Nominees

Robert “Bob” Kelman

Robert “Bob” Kelman is currently the CEO and JV Partner in FE Trading Group. FE Trading Group LLC is a scrap trading and brokerage company based in NY, trading ferrous scrap between producers and steel mill consumers throughout North America.

Bob has worked in the scrap metal recycling industry for over three decades and in his current role since May of 2017. Today he is considered one of the top scrap metal/recycling executives in the world. Throughout Bob’s career he has worked in every aspect of the business. Starting right out of college in operations, he moved into commercial and then management positions, from Superintendent to President and COO. Bob’s intellect, integrity, honesty and creativity are traits well known to his former Sims Metal Management Board, CEO and peers. He has a reputation for being a thoughtful problem solver; tough but fair, and as has a record of success in all of his prior endeavors.

Prior to his current position as CEO and JV partner in Fe Trading Group, Bob lived in London where he worked as Managing Director of the Sims MM European Scrap business. It was in this role that Bob gained a valuable global perspective on the Scrap Metal business. Prior to London Bob was based in NY where he was Sims MM President of North America Metals. As President Bob was the chief architect and manager of CSS’s long-term contract with New York City to recycle curbside post-consumer metals, plastic and glass - returning curbside recycling to the city. He was the key executive responsible for integrating the Sims and Metal Management executive leadership teams in 2008/2009 while navigating the aftermath of the global financial crisis. Prior to the 2005 merger of Hugo Neu Corporation and Sims Group, Bob was Senior Vice President and General Manager of Hugo Neu Schnitzer East. After Sept 11, 2001 Bob worked directly with the City of New York to safely process and recycle over 286,000 tons of steel and metal recovered from Ground Zero.

Bob’s career has allowed him to travel the world and to move from the suburbs of New Jersey to Los Angeles, New York and London. He graduated from SUNY Maritime College in 1986 with a Bachelor of Science Degree in Marine Engineering and Naval Architecture. Bob has received a number of recognition awards and strong endorsements for his commitment to sustainable development and protection of the environment from the NY League of Conservation Voters and The Natural Resource Defense Council. Bob presently lives in NYC with his wife Linda and their youngest daughter Grace. Linda and Bob have two other adult daughters living in Washington, DC and Brooklyn, NY.

Jerry Bailey

Jerry Bailey is an independent director on the Rabobank North America Board of Directors and Utrecht-America Holdings Board of Directors. Mr. Bailey has no former affiliation with Rabobank. He is the chairman of the Rabobank North America Board Audit Committee and Utrecht-America Holdings Board Audit Committee.

Mr. Bailey brings four decades of experience in positions across the financial services industry. He served as Chief Financial Officer-Institutional Clients Group at Citigroup Inc. from August 2011 until his retirement in October 2014. Mr. Bailey served in 2008 and 2009 as Chief Financial Officer and Chief Information Officer of Equiniti Ltd., a UK-based provider of administrative, processing and payment solutions. Mr. Bailey has also served as Chief Operating Officer and Chief Financial Officer of the New York Mercantile Exchange, as Chief Financial Officer of Marsh, Inc., as Executive Vice President and Chief Financial Officer at Dow Jones, as Chief Financial Officer at Salomon Inc. and Salomon Brothers, and Controller at Morgan Stanley. Mr. Bailey began his career at Price Waterhouse in 1974, with progressive responsibilities culminating in a partner role in the National Office managing SEC interaction and related document review for Financial Services clients.

Mr. Bailey was previously on the Board (and Chair of the Audit Committee) of DST Systems (which was acquired by SS&C Technologies in April, 2018). He is a Certified Public Accountant and has a B.S. with distinction from the University of Nebraska.

David Silver

David Silver is the CEO of Buffalo Bay Capital, an investment management firm in New York City. Prior to that, David Silver served as the Chief Financial Officer and Executive Vice President of Hugo Neu Corporation , a recycling, real estate and investment firm. Prior to that, Mr. Silver served as Vice President of Stern Stewart & Company Inc. and was responsible for advising clients on financial strategy and transactions, as well as design and implementation of the EVA financial management system. During his tenure at Stern Stewart & Co., Mr. Silver worked in Switzerland, Spain, and the U.S. for Continental Grain Company, Swiss Bank Corporation, and Donaldson, Lufkin & Jenrette. He is also a member of Financial Executives International. He serves as a Director of EVA Dimensions, LLC. Mr. Silver holds an MBA from the Yale School of Management and is an BA Graduate of Harvard College.

Brian Richards

Brian Richards is the Founder and Managing Partner of Squarefield Capital, which makes equity and debt investments in the media, entertainment and consumer industries.

Prior to founding Squarefield, Brain was Founder and Managing Partner of MESA, a premier investment bank specializing in transactions in the Media and Entertainment industries. MESA completed more than \$5 billion of transactions before being acquired by Houlihan Lokey in 2015.

As a leader of MESA, Brain was involved in more than 100 transactions over 15 years, across all sectors of traditional and digital media. Brain has a M.B.A. from Wharton, J.D. from University of Pennsylvania Law School and B.A. from Tufts.

Annexure

Compensation restructuring

Case study: Destination Maternity

Restructuring of CEO compensation

- Activists Nathan Miller and Peter O'Malley, took control of the Board in early 2018 and appointed a new CEO.
- On November 1, 2018, the revamped Board set the CEO's base salary to \$350K and tied the incentive compensation to adjusted EBITDA.

Reason for considering Destination Maternity

- (a) CSS picked Destination Maternity as a peer company in its proxy statement.
- (b) Three Directors of CSS Industries have previously served on the Board of Destination Maternity.
- (c) Ms. Matthias, the longest serving Director in CSS Industries (15 years) is the founder of Destination Maternity.

