Dear Shareholders of Biglari Holdings Inc.:

The governing aim of Biglari Holdings is to grow its collection of businesses without allegiance to a specific industry but with an unyielding allegiance to maximizing per-share intrinsic value.[1] As a multifaceted enterprise, Biglari Holdings advances by way of opportunism. We weigh each opportunity against a multitude of others in determining capital allocation.

Our holding company structure provides the ideal vehicle for acquisitions and investments; its flexibility enhances the efficacy with which capital is redeployed. To achieve our economic objective, our preference is to purchase businesses in their entirety, but partial ownership via the stock market usually offers a better value-per-dollar investment. As the architect of our corporate structure, I have designed a system whose virtue lies in its simplicity.

Much in the way an art museum counts Matisse and Picasso among its collection, Biglari Holdings counts an insurance company and a restaurant chain among its holdings. We continually seek the economic equivalents of Renoirs, Cézannes, and Rembrandts. Our economic museum enables us to assemble the best pieces, just as an art collector selects masterworks. Phil Cooley, Vice Chairman of the company, and I derive great pleasure from acquiring profitable businesses under the aegis of Biglari Holdings.

There is a clear advantage in amalgamating operating businesses. By controlling individual enterprises, we are in a position to reallocate the excess cash our subsidiaries generate. The possibilities for reinvestment become far greater when a company becomes a constituent of Biglari Holdings. After all, we are under no constraints to reinvest the money where it was earned; rather, we operate in a wider sphere of activity — surveying a broad range of investment opportunities — which invariably improves the allocation of capital.

Despite the centralization of capital deployment at the parent company, we employ extreme delegation of operating decisions at the subsidiary level. Our main contribution is to stay out of the way. We place great trust in our managers to run their operations.

After five and a half years devoid of an acquisition, we purchased Southern Oil Company and, subject to regulatory approval, will complete the acquisition of Southern Pioneer Property & Casualty Insurance Company. The former closed in fall 2019, and the latter is scheduled to close by the end of the first quarter. Both businesses will continue to diversify our sources of earnings. (It is mere coincidence that both firms have the word *Southern* in their name.)

Over the last eleven years we have built Biglari Holdings — the parent company of Steak n Shake Inc., Western Sizzlin Corporation, First Guard Insurance Company, Maxim Inc., Southern Oil Company, and in due course, Southern Pioneer Property & Casualty Insurance Company — into a mosaic of operating subsidiaries along with substantial investment holdings. This gives Biglari Holdings the decided edge of diversified cash flows and abundant liquidity.

Despite operating in a corporate world populated by managers overly concerned with the next quarter, we make decisions concerned with the next quarter century. Our interest lies in creating wealth, not in generating reported earnings. There is no sense turning our advantage into a handicap by

[1] Intrinsic value is measured by taking all future cash flows into and out of the business and discounting the net figures at an appropriate interest rate.

participating in a short-term performance derby. The adoption of capital allocation policies with maximum flexibility has accounted for much of our economic gain. By seizing remunerative business and investment opportunities over the past eleven years, Biglari Holdings' cash and investments grew from $1.6 million to $778.8 million — even while allocating funds toward the acquisition of businesses.

Here is the year-by-year development of cash and investments:

	(In Millions)			
	Cash and Cash Equivalents	**Marketable Securities**	**The Lion Fund**	**Total Investments**
2008	$ 1.6	$ –	$ –	**$ 1.6**
2009	51.4	3.0	–	**54.4**
2010	47.6	32.5	38.6	**118.7**
2011	99.0	115.3	38.5	**252.8**
2012	60.4	269.9	48.3	**378.6**
2013	94.6	85.5	455.3	**635.4**
2014	124.3	21.5	620.8	**766.6**
2015	56.5	23.8	734.7	**815.0**
2016	75.8	26.8	972.7	**1,075.3**
2017	58.6	27.7	925.3	**1,011.6**
2018	48.6	38.3	715.1	**802.0**
2019	67.8	44.9	666.1	**778.8**

Notes: The years 2015 through 2019 were calendar years. The years 2009 through 2014 were fiscal years that ended on the last Wednesday in September. The 2008 data is for the fiscal quarter ending on July 2, 2008, the nearest fiscal quarter prior to present management assuming control.

Biglari Holdings' investments in The Lion Fund, L.P. and The Lion Fund II, L.P. do not include other limited partners' interests. Both partnerships throughout this letter will be referenced as The Lion Fund.

With no debt at the parent company, the corporation is constructed to weather economic storms. Our emancipation from external capital markets for funding emanates from our financial strength. We are not debt-averse so long as debt does not compromise the company under *any* economic or market conditions. Besides, we have long held the view that to achieve prosperity, one must be prepared for adversity.

Operating the headquarters with a staff of five, we sidestep layers and layers of personnel and their associated costs. We eschew the typical departments, such as public relations, investor relations, legal, and acquisitions. For example, the responsibility for capital allocation is highly centralized and managed exclusively by me rather than through a committee. Additionally, we employ neither analysts nor advisors in the evaluation of acquisitions or investments. Biglari Holdings does not suffer from the diseconomies of scale caused by a bloated corporate bureaucracy, which invariably chokes responsiveness. It turns out that the bureaucracy of others is our opportunity.

Among the reasons for our swiftness in decision-making concerning acquisitions is our avoidance of the deep-rooted standard practice of "due diligence." Biglari Holdings is an old-fashioned sort of place. We rely on our own judgment, measuring not everything that is measurable but only that which we deem meaningful.

An absolutely critical factor in acquisitions is the character of the people with whom we associate. The ideal purchase is First Guard, an outstanding business operated by an exceptional manager. Edmund B. Campbell, III, the virtuoso behind the enterprise, is responsible for First Guard's creation and its first-class operation. Here is a man who has no financial need to work but he does so for the love of the business and the thrill of achievement.

Our association with First Guard was beneficial when, in late November 2019, we agreed to purchase another family business, Southern Pioneer Property & Casualty Insurance Company. Much as with First Guard, we are uniting with a skilled, honorable family in joining with the Hynemans. The transaction appeals to the Hynemans because it diversifies the family's holdings. Yet the family will continue to run the company just as it did before the ownership change. We were spoiled in the First Guard acquisition — and we just got spoiled again with Southern Pioneer.

We offer what most business buyers — financial or strategic — do not or cannot offer family-owned and -managed businesses: continuity and permanency. We are able to provide such companies a permanent home — without any changes to their operations, their headquarters, or their personnel. Our capital is permanent, unlike that of exit-driven private equity firms. Indeed, we buy to own indefinitely. Because I am the controlling stockholder of Biglari Holdings, we can promise sellers there will be no change in control.

Our idiosyncratic approach has the added benefit of appealing to strong-willed, like-minded entrepreneurs who are accustomed to running their own show. But for such a rare breed of owner-operators to join our union, we must provide them with unusual managerial freedom. Extreme autonomy is not only what we offer but also what we seek. With the purchase of First Guard and now Southern Pioneer, we continue to build on our reputational advantage. We expect other uncommon entrepreneurs to join Biglari Holdings' family of companies.

Many who engage in acquisitions soon share the sentiments of a trapped mouse squealing, "The hell with the cheese; get me out of here." To avoid being caught in the same trap, we are quite discerning. Logic backed by long experience indicates that to succeed in the business of acquisitions we need the advantages of structure, capital, and reputation working in our favor. Creating value through acquisitions is far from easy. For that reason, it is exceedingly infrequent that an acquisition opportunity meets our high standards. In the words of Dutch philosopher Baruch Spinoza, "All things excellent are as difficult as they are rare." For every hundred businesses we review, only one or two may interest us. When we do find one that meets our criteria — strong economics, solid management, and a sensible price — we press forward expeditiously.

Our corporate performance is the result of cash generated by operating subsidiaries along with capital allocation work, which according to our criterion must outdo the S&P 500 Index. Over the past eleven years we believe Biglari Holdings' gain in per-share intrinsic value has far outstripped the S&P 500. Two components are critical in assessing the company's progress: its investments and its operating businesses.

Investments

By the end of 2019, total investments (cash, marketable securities, and Biglari Holdings' investments in The Lion Fund) amounted to $778.8 million; most of that sum came from investment profits. Our investment activities are largely conducted through The Lion Fund, whose origin dates from the year 2000 when I founded it.

Through The Lion Fund, we have invested the corporation's capital, *your* capital, in select common stocks. Below are The Lion Fund's unaffiliated common stock investments, each with a year-end market value of more than $50 million. Also shown are the total investment profits — realized and unrealized gains, including dividends — derived from securities related to these holdings.

		(Dollars in 000's)	
Number of Shares	**Company**	**Market Value**	**Investment Profits**
2,000,000	Cracker Barrel Old Country Store, Inc.	$307,480	$747,628
375,000	Tiffany & Co.	50,119	36,309

As indicated in the table above, at year-end The Lion Fund's largest common stock holding was Cracker Barrel Old Country Store, Inc. Between 2018 and 2019 we decreased our holding in Cracker Barrel from 19.7% to 8.3% of the company's outstanding shares. We originally purchased 4,737,794 shares of Cracker Barrel for $241.1 million from May 2011 through December 2012, with a dollar-weighted purchase date of December 2011. At last year's dividend of $8.10 per share, the pre-tax yield is 15.9% on our average cost per share of $50.89.

By year-end 2019, we received proceeds of $472.7 million from the sale of Cracker Barrel stock (including derivative positions), $208.5 million in dividends, plus we held a remaining stake of $307.5 million. In sum, over an eight-year period, our investment in Cracker Barrel of $241.1 million turned into $988.7 million in value.

In selecting common stocks, we concentrate on very few investments. We do not substitute diversification for a lack of knowledge. By raising our level of knowledge, we lower the possibility of loss. Clearly, a concentrated approach engenders volatility — accentuating the vicissitudes inherent in common stock ownership — which we blissfully accept, as long as the ultimate verdict is increased long-term profit. Our investing style, we acknowledge, is unorthodox. But it is not a matter of being contrarian; it is a matter of being correct on the basis of facts and logical reasoning.

The art of shrewd investing in equities depends on the art of skillful business appraisal. Twentieth-century economist Joseph A. Schumpeter, in his book *Capitalism, Socialism and Democracy*, coined the term "creative destruction" to describe the process by which entrepreneurs, through their innovations, destroy old business paradigms to make room for the new. We concern ourselves not with the early identification of creative destructors, but with whether the businesses we are interested in owning are vulnerable to destruction themselves. We therefore start with a clear conception: To achieve a superior long-term result in a specific company, the business must possess superior long-term prospects. Of course, one can overpay for competitive superiority, negating the merits of the investment. We are willing to wait as long as necessary for an outstanding business, operating with a built-in advantage, to be priced in the market below our appraisal of its intrinsic worth.

At year-end 2019, Biglari Holdings had a $666.1 million investment in The Lion Fund partnerships. Biglari Holdings' investment in the partnerships excludes deferred income taxes on unrealized gains. As is evident in Biglari Holdings' financial statements, we would owe taxes of $56.5 million if the partnerships liquidated their holdings at year-end values. The tax liability, we regard, is tantamount to an interest-free loan from the government for the company's benefit. We are gaining the upside of leverage without its associated downside. Hence, we control $56.5 million more in assets funded by liabilities carrying no cost, no covenants, and no maturity date — except the loan must be paid as assets are sold. Plainly, the character of deferred tax liabilities is a source of value.

The high growth rate in investments has created funds for the acquisition of operating businesses. Let us review the two companies we agreed to acquire in 2019, both of which will add to the earning power of Biglari Holdings.

Southern Oil Company

We struck oil — and better yet, we did so *after* it was discovered, with production in full swing.

On September 9, 2019, we acquired Southern Oil of Louisiana Inc. for $51.5 million in cash. It operates through our wholly owned subsidiary Southern Oil Company. From the date of acquisition through year-end 2019, the company generated $8.0 million in pre-tax earnings, and sent us, its parent company, $3.2 million in cash. We purchased a business in which we benefit from large capital expenditures made prior to our arrival. In fact, the producing wells we purchased should more than cover our acquisition cost.

Southern Oil primarily operates offshore in the shallow waters of the Gulf of Mexico. Its assets can be traced to the former publicly owned company RAAM Global Energy Company, which filed for Chapter 11 bankruptcy in October 2015. The aftermath was that its senior lender acquired the assets under a newly formed entity a few months later. The new owners subsequently pursued a sale. Since Wall Street was steering clear of the industry, possibilities emerged for Biglari Holdings. Southern Oil is a good fit for us because we like the assets, the people operating it, and the price we paid.

We took ownership of an established business whose offshore platforms, in combination with developed pipelines, will readily permit oil and gas production from new wells. We have the operational capabilities to build oil and gas reserves. However, we aim to team up with outside partners to pursue exploration on our properties.

It should be noted that our interest in the oil and gas business sprang not from a master plan but from an emergent opportunity. We judge Southern Oil's economic performance not by the amount of oil produced or the level of profit; rather, we measure results based on cash generated relative to capital invested.

Southern Pioneer Property & Casualty Insurance Company

As mentioned in last year's report, we have been seeking to acquire additional insurance companies in an endeavor to construct a formidable insurance operation. Because the insurance business is a tough one — owing to the competitive pricing of a commodity-like product — we look to partner with highly skilled operators. Many have entered the insurance business expecting mouthwatering profits only to experience hard-to-swallow losses. To avoid the fate of the irrational optimist, we have been biding our time to discover gems in the industry.

Southern Pioneer was chartered in 1981 with $500,000. As principal owners of Southern Pioneer for about four decades, Hyneman brothers Ben and Hal built the business by underwriting garage liability, commercial property, and dealer license bonds for independent auto dealers, a specialty they perfected in their home state and then in four contiguous states. Along with the company's other lines of insurance, in 2019, net written premium totaled $23.4 million. The Hynemans have displayed unwavering underwriting discipline, staying within certain niches and registering a lifetime combined ratio below 100%.[2]

Ben serves as Southern Pioneer's Chairman of the Board and Hal as its President. In the steady hands of the Hynemans — Ben, Hal, Brian, Matt, and Hunter — the company has flourished. The family runs the business as one cohesive unit, and while each is extremely able, their collective strength exceeds the sum of their individual talents.

I first spoke with the family on November 18. At my request they agreed to meet with Phil and me the following day in their hometown of Jonesboro, Arkansas. (When you find something special, why wait?) It was immediately clear that the Hynemans care deeply about the business and its people — and that unstinting devotion created a great company. Southern Pioneer was not on the market, nor was the family contemplating a sale. Notwithstanding, about a week later, on the day before Thanksgiving, we struck a deal. The rest is mere formality. Once we receive regulatory approval, we will close on our purchase of Southern Pioneer Property & Casualty Insurance Company and its affiliated agency, Southern Pioneer Insurance Agency.

Over the years the Hynemans had been approached by other potential buyers, but the idea of putting their creation under the control of a strategic acquirer or private equity firm had no appeal because of the disruptions such owners would cause for the business and its employees. Just as with First Guard, we were in an advantageous position because we did not merely want to buy the business; we wanted the entire team to continue to operate in the future as they had in the past. The only exception is Biglari Holdings assuming responsibility for the investment portfolio.

By joining the Biglari Holdings family of companies, Southern Pioneer can benefit from the parent company's enduring financial strength, a new potential the team is sure to maximize. We are honored to be associated with the Hynemans and Southern Pioneer.

Operating Businesses

Biglari Holdings was created from two allied companies: Steak n Shake and Western Sizzlin. The holding company now has five major controlled businesses, each 100%-owned: Steak n Shake, Western Sizzlin, First Guard, Maxim, and Southern Oil, with Southern Pioneer soon to become the sixth. By reallocating funds unneeded at our subsidiaries into other businesses, new streams of cash are added with each acquisition.

Because we are driven by intrinsic value, not by an income statement, in our view our reported earnings do not represent a meaningful measure of our economic progress. We assess business performance not on a single year's profits or cash flows but rather on the present value of future cash

[2] The combined ratio represents losses incurred plus expenses as compared to revenue from premiums. A combined ratio below 100 percent denotes an underwriting profit, whereas a ratio above 100 percent denotes a loss.

flows. As a first step in evaluating Biglari Holdings' performance, the following table delineates an unconventional breakdown of our earnings in a form that Phil and I find more useful than the conventional one in our consolidated statements.

	(In 000's)	
	2019	**2018**
Operating Earnings:		
Steak n Shake	$ (18,575)	$ (10,657)
Western Sizzlin	1,756	2,046
First Guard	7,103	6,215
Maxim	742	1,068
Southern Oil	8,032	–
Corporate and Other	(9,608)	(10,651)
Operating Earnings Before Interest and Taxes	(10,550)	(11,979)
Interest Expense	12,442	11,677
Income Taxes	(7,599)	(9,808)
Net Operating Earnings	(15,393)	(13,848)
The Lion Fund (net of taxes)	60,773	33,240
Total Earnings	$ 45,380	$ 19,392

Our reported earnings are materially affected by the volatility in the carrying value of The Lion Fund. Yet we are indifferent to variability in reported earnings triggered by the accounting of the investment partnerships. To correct the resultant distortions in our earnings figures, we simply separate changes in the partnerships' values from those in the operating businesses when we report Biglari Holdings' earnings.

Last year's performance was dismal because our largest subsidiary, Steak n Shake, was once again a drag on results. Our net operating loss of $15.4 million in 2019 compares with a loss of $13.8 million in 2018. Whereas Steak n Shake was the engine of compound growth from 2009 through 2016, in the last two years it has recorded significant losses.

Nevertheless, we have been consistent in our view that such annual figures provide an incomplete evaluation of our performance. Although we do not disregard yearly earnings, neither do we regard them as vital. As a corollary, the logical approach for shareholders to take when appraising Biglari Holdings is to review the performance of each operating subsidiary.

Restaurant Operations

Our restaurant operations consist of Steak n Shake and Western Sizzlin for a combined 662 units. However, the business models differ. Steak n Shake, totaling 610 locations, primarily operates restaurants but continues its shift toward franchising. Western Sizzlin is primarily engaged in franchising restaurants, with 52 units — all but 4 are franchisee-run.

Western Sizzlin Corp.

Phil and I trace our introduction to the restaurant business back to Western Sizzlin Corp., a then publicly owned company that we took control of in March 2006. Robyn Mabe serves as the company's CFO, a position she has held since 1999. For the past decade she has been responsible for the entire operation. And what an extraordinary job she has done. Biglari Holdings acquired Western Sizzlin on March 30, 2010, for a net purchase price of $21.7 million. Under Robyn's skilled leadership, the company has been a cash machine, with distributions to Biglari Holdings totaling $25.7 million.

Steak n Shake Inc.

Present management took over Steak n Shake on August 5, 2008. From 2009 through 2019, Steak n Shake dispatched nearly $300 million of cash to Biglari Holdings, which fueled the holding company's growth. Steak n Shake prospered for eight years despite brutal competition. Over the past three years, however, results have gone from bad to worse. Here is a review of Steak n Shake's performance since 2008:

(Dollars in 000's)

	Operating Earnings	Same-Store Sales	Number of Company-Operated Units	Number of Franchise Partner Units	Number of Traditional Franchise Units
2008	$ (30,754)	(7.1%)	423	–	75
2009 (53 weeks)	11,473	4.1%	412	–	73
2010	38,316	7.5%	412	–	71
2011	41,247	4.2%	413	–	76
2012	45,622	3.8%	414	–	83
2013	28,376	2.2%	415	–	104
2014	26,494	2.9%	416	–	124
2015	39,749	3.6%	417	–	144
2016	34,717	(0.4%)	417	–	173
2017	431	(1.8%)	415	–	200
2018	(10,657)	(5.1%)	411	2	213
2019	(18,575)	(6.9%)	368	29	213

Notes: The years 2015 through 2019 were calendar years. The years 2008 through 2014 were fiscal years that ended on the last Wednesday in September.

Steak n Shake has 610 restaurants, of which 213 are operated by traditional franchisees. In 2019, we took decisive steps to address Steak n Shake's problems. These measures include reducing the company-operated base of stores; we temporarily closed 107 units in order to fix issues that led to the operating shortfall. We refused to keep any unit open that could not deliver excellent customer service.

Our staunch dedication to high-quality products and low prices was not matched by the type of equipment and kitchen design necessary for high-volume production. The combination of labor-intensive, slow production with high-cost table service has led our overall labor costs to be 6 to 8 percentage points above those incurred by our competitors. As a result, most of the temporarily closed units will reopen, but with counter service rather than table service.

A monumental change underway at Steak n Shake is our franchise partnership program, which has provided clear and convincing evidence of success. Let us first review how the program works, because it is not the typical franchise arrangement. Our franchise partner agreement stipulates that the franchisee make an upfront investment totaling $10,000, a modest figure for the opportunity. Because of our significant investment in the business, including the construction of the restaurant and its equipment, we assess a fee of up to 15% of sales as well as 50% of profits. Under our arrangement, a franchise partner is able to earn considerable sums, which is the way we want it.

In the end, nothing is as important as the way our customers are treated. It takes the right leadership in a unit for customers to be served in a warm, caring, and hospitable manner. To achieve our goal, we are building a culture of ownership at the unit level. For operators to think and act like owners, we believe they must be owners. We are on our way to becoming a company of owners, changing the culture of the organization in our quest for service excellence.

Thus far, we have converted 29 company-operated units into single-unit franchise partnerships. Same-store sales for franchise partners increased by 2.2% last year, compared with a decrease of 6.9% for company-operated units. Moreover, our 50% share of profits from these units exceeded the sum they generated in the prior year, when we claimed 100% of profits. I should emphasize that this group of entrepreneurs is a rare breed of the most resourceful, able, and energetic individuals ever assembled as restaurant operators.

To become a franchise partner is no easy task. The road to the summit is steep. In the process of admitting the 29, we received roughly 17,000 applications from franchisee candidates, which represents an acceptance rate of 0.17%. To put that in perspective, last year Harvard University had an acceptance rate of 4.5%. Doubtless, our success will come from selecting men and women of extraordinary character and competence.

The financial effect for a franchise partner can be substantial. Some of our 29 franchisees are on their way to earning north of $200,000 in their first year. A good number of our franchise partners will become millionaires. But make no mistake: We are not minting millionaires but are merely providing the means — they are earning every penny.

The American dream is alive and well at Steak n Shake. Becoming a franchise partner does not involve great capital but it does require great talent. The touchstone of our program is performance, an opportunity available to all based on ability rather than birthright, race, religion, or any other arbitrary characteristic. Steak n Shake offers equality of opportunity — distinct from equality of outcome — the very concept that created an increasingly productive American society. Our ideals match up with the same ideals that built America.

Steak n Shake's franchise partnership system is about putting the interests of our people first. And they in turn place the interests of our customers first. The franchise partnership is a federation of individualist entrepreneurs. Our job is to provide central direction to maintain uniformity in product quality, but we rely on our remarkable partners to provide the gold standard in service.

In last year's report I estimated that it would take about three years to transition to a network of franchise partners. Although we do not anticipate that our acceptance rate will change materially, by virtue of the successful new franchise owners in the system, we expect program enrollment to gain momentum.

Steak n Shake now has two franchise arrangements: (1) franchise partner, outlined above; and (2) traditional franchisee, which is our means of growing unit count. The latter is a traditional franchise-based model that allows us to grow without a major capital outlay. Here, the funding necessary to expand the brand is borne by third parties. The noncapital-intensive strategy of traditional franchising generates high-return, annuity-like cash flows. Thus, it is a business that not only produces cash instead of consuming it but concomitantly reduces operating risk.

Beginning in 2010, we invested substantial sums to advance our traditional franchise business. Displayed below are the number of franchise units and the revenue derived from them:

(Dollars in 000's)

	Franchise Royalties and Other Fees (A)	**Franchise Marketing Contributions (B)**	**Franchise Revenue (A) + (B)**	**Number of Franchise Units**
2010*.................	$ 4,316	$ 6,516	$ 10,832	71
2019..................	16,956	7,815	24,771	213
Gain	$ 12,640	$ 1,299	$ 13,939	142

** Franchise royalties and other fees have been adjusted to reflect the accounting standard adopted in 2018.*

Phil and I disregard the franchise marketing contributions because the vast majority of these are advertising dollars spent on behalf of the franchisees, as required by our contractual obligations. Our attention is instead centered on franchise royalties and other fees we receive from franchisees.

Steak n Shake was founded in 1934 in Normal, Illinois, and the first franchise unit opened in 1939. From 1939 to 2010, Steak n Shake grew by an average of one franchise unit per year. Over the last nine years, on average, we have increased unit count by more than 15 per year, changing the company's trajectory and expanding its reach. Steak n Shake continues to grow in universities, casinos, airports, gas stations, shopping centers, and other arenas. Our international operations now account for nearly one-seventh of our traditional franchise units.

For the period 2011 through 2015, the franchise business operated at a loss but intrinsic value advanced. We allocated capital to develop the franchising business with the expectation of creating greater dollar value for each dollar spent. Our traditional franchise business — domestic and international combined — is now a prodigious cash generator. In 2019, franchise operations posted a record profit of $8.5 million.

Steak n Shake comprises both restaurant operations and franchise operations, the latter profitable and the former unprofitable. The Steak n Shake team is working assiduously to achieve profitability in both divisions — and in short order.

First Guard Insurance Company

Ed Campbell designed First Guard like a Swiss watch — with a craftsmanship and quality that is built to last. First Guard is a direct underwriter of commercial truck insurance — with no agent between the insurer and the insured — rendering the company a low-cost operator with a sustainable competitive advantage. First Guard is not our biggest subsidiary, but it is the brightest jewel in the collection of business gems we have assembled for Biglari Holdings.

Many dream of creating a business masterpiece but few actually do so. What separates Ed from the rest of the insurance industry is that he has been generating significant underwriting profit year after year. He and his team have been able to achieve a truly remarkable feat, underwriting profitability for 23 consecutive years, a record writ large in the annals of the American property and casualty industry.

Shown below are First Guard's underwriting results for the last six years. Note that 2014 is presented as a full year, that is, as if we had owned the company throughout the year rather than from the date of acquisition:

(Dollars in 000's)

	Premiums Earned	**Underwriting Profit**	**Combined Ratio**
2014	$ 10,757	$ 2,293	78.7
2015	16,719	3,357	79.9
2016	22,397	4,913	78.1
2017	24,242	4,518	81.4
2018	26,465	5,634	78.7
2019	28,746	6,477	77.5

Since Biglari Holdings acquired First Guard in 2014, it has earned $29.1 million pre-tax. In 2019, the company generated an underwriting profit of $6.5 million, or 22.5% of premiums, a far superior profitability compared with the industry average. Moreover, First Guard grows because it is the best insurer for truckers.

First Guard's investment income continues to benefit from an accumulation of invested assets. Our policy has been to retain all earnings within our insurance company for additional capital strength. We have arranged our affairs to meet contractual commitments under any scenario.

When we entered the insurance business on March 19, 2014, Phil and I could not have asked for a better company than First Guard or a better owner-operator than Ed Campbell. Purchasing one of the most profitable insurers in the industry, as measured by underwriting margin percentage, has created a rock-solid foundation from which to build our insurance operations. With the addition of Southern Pioneer, Biglari Holdings' insurance group should experience a near doubling of premiums. To be sure, we prioritize underwriting profit over premium volume, a discipline critical to our insurance business. We look forward to finding our next insurance company while we marvel at the performance of First Guard and Southern Pioneer.

Maxim Inc.

In February 2014, we purchased Maxim, one of the most recognizable magazine properties, not with the intention of entering the magazine business per se; rather, we purchased an underexploited brand with the intention of generating nonmagazine revenue, notably through licensing, a cash-generating business related to consumer products, services, and events.

We first addressed the cost structure of the traditional side of the business, print publishing, while creating a sophisticated periodical that is aspirational and inspirational. We greatly amplified the quality of paper, photography, and content and have repositioned the brand with a luxury lifestyle magazine and an online presence that together provide a launching pad for high-profit lines of business.

The ability to build profits will rest mainly on our licensing business. Our results are sure to be uneven because licensing projects themselves materialize with irregularity. Although Maxim is a profitable enterprise, it must continue to improve for us to obtain a satisfactory return on our total investment.

Shareholder Communications

My communications with shareholders are generally limited to the annual report and the annual meeting. We do not provide earnings guidance, nor do we hold quarterly conference calls because neither activity would be consistent with our ethos and style of management. Moreover, we wish to provide all shareholders simultaneously with the same information. One-on-one meetings are neither productive nor practicable.

Past Chairman's Letters are also essential to help you gain more knowledge of our business. These letters can be easily accessed on our website, biglariholdings.com. To keep you abreast of the company, we will issue press releases concerning 2020 quarterly results after the market closes on May 8, August 7, and November 6. The 2020 annual report will be posted on our website on Saturday, February 27, 2021.

Our annual meeting will be held at 1:00 pm on Thursday, April 23, 2020, in New York City at the St. Regis Hotel. The meeting is just for our owners; to attend, you must own shares and show proof thereof. As an owner, you may bring up to two pre-registered guests with you. The bulk of the gathering is a question-and-answer session that usually lasts about five hours, covering myriad topics on shareholders' minds. Phil and I look forward to spending that time answering your questions. We find the annual meeting to be an effective channel to communicate with you.

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Biglari Holdings is a dynamic corporation with significant capital strength. Heavy leverage is inimical to us, for we have witnessed far too many speculatively capitalized businesses become casualties of economic strife, a situation we do not wish to experience ourselves. Besides, it would be unimaginable for us to exploit profitable opportunities without the backing of ample liquid resources.

Phil and I possess an irrepressible drive to create value for our long-term shareholders, whom we view as partners. It will be our pleasure to see many of you at the next annual meeting.

Sardar Biglari
Chairman of the Board

February 21, 2020