Dear Shareholders of Biglari Holdings Inc.:

Biglari Holdings is a multifaceted enterprise, a collection of businesses built through acquisitions. We are owners of businesses, and the task we perform is that of capital allocation. In constructing the corporation, our paramount economic objective is to maximize per-share intrinsic value.* Capital allocation guides our steps, and the light that shows the path ahead is the light of rationality. Because this rational approach challenges conventional norms, Biglari Holdings is *ipso facto* an unconventional company.

The parent corporation, Biglari Holdings, derives strength from its diverse union of operationally independent companies: Steak n Shake Inc., Western Sizzlin Corporation, Maxim Inc., First Guard Insurance Company, Southern Oil Company, and Southern Pioneer Property & Casualty Insurance Company, listed in order of acquisition. Together these six business units form a stronger foundation upon which to build as compared to twelve years ago, when all our capital was committed to a restaurant company.

Our subsidiaries generate cash beyond their capital requirements and dispatch it to Biglari Holdings to fund its growth. A dollar received from a restaurant company is as good as a dollar received from an oil company. By channeling cash into acquisitions, the corporation widens the variety of its earnings streams.

Our pursuit of a broad range of acquisitions conforms to no master plan. Opportunity rather than any preordained notion dictates capital allotment concerning the businesses or industries we may enter. The flexibility of this approach enables us to add new businesses unconstrained by institutional impediments stemming from precedent, convention, or structure. Besides, rules are a poor substitute for rational decision-making.

In addition to considering various business acquisitions, we also evaluate opportunities available through the stock market. Indeed, we constantly compare one investment alternative against a multitude of others in determining capital utilization. As a consequence of our seizing remunerative business and investment opportunities over the past twelve years, Biglari Holdings' cash and investments grew from $1.6 million to $710.3 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**
2020	24.5	94.9	590.9	**710.3**

Notes: The years 2015 through 2020 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.

* 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.

The financial strength of Biglari Holdings is a notable advantage. Over the years, far too many corporations carrying significant debt have encountered distress and destruction, a fate Phil Cooley, Vice Chairman of Biglari Holdings, and I have no desire of experiencing. The financial architecture we have designed separates the obligations of each subsidiary from those of the parent company. Despite the parent company remaining debt-free from its founding, in early 2021, we also eliminated Steak n Shake's debt, which will account for a major reduction in our cash and investments at the end of the first quarter of 2021. Today, the entire enterprise — the holding company and its operating businesses — is devoid of debt. We are not opposed to injecting moderate leverage into the balance sheet, but only when there is no possibility of it threatening the well-being of the corporation.

When the COVID-19 pandemic engulfed the global economy, Biglari Holdings' capital structure proved its soundness. We neither relied upon nor required the assistance of financial institutions. What we cannot predict, we can prepare for with a conservatively constructed corporation capable not only of withstanding economic shocks but also capitalizing on acquisition opportunities.

With just five employees at the holding company and capital allocation centralized — managed exclusively by me — we create an efficient means of corporate resource allocation. We employ no analysts or advisors. Indeed, our system repudiates all kinds of administrative inefficiencies and costs associated with typical departments, such as public relations, investor relations, human resources, and acquisitions. By sidestepping bureaucracy, we are able to advance with agility and speed.

Since the corporation is being shaped by my capital allocation, Biglari Holdings is akin to a work of art. I have a canvas on which to paint and a nearly unlimited palette of colors from which to choose. Still, by design, we restrict ourselves to businesses whose future economic prospects we can evaluate, which frequently leads us to shun those in industries undergoing rapid change.

Although major financial decisions are centralized at the parent company level, we employ extreme delegation of operating decisions at the business unit level. We impart the highest degree of autonomy to the businesses we acquire; thus, we seek out skillfully operated, profitable companies, with the full expectation that they will remain so after the change in ownership. It is anathema for Biglari Holdings to purchase an operating company whose management must be supplied. Our aim, by way of analogy, is to buy good horses with great jockeys. Then Phil and I cheer them on.

When we joined with Ed Campbell at First Guard and the Hynemans at Southern Pioneer, we had no need to be involved with their respective operations. In fact, their performance could be hurt if we were. Plainly, we do not impart expertise to our acquirees — they arrive with it. Ed Campbell and the Hynemans are extraordinary businessmen of high character and high competence who attain exceptional results. Phil and I are honored to be associated with both families.

By acquiring family-owned and -managed businesses, we have developed a reputation for transacting with individuals who would not otherwise sell to private equity or strategic buyers. We are ideally suited for operators who care about their business and their employees, and value a permanent home for their corporate masterpiece. Most financial or strategic buyers are unable or unwilling to commit to continuity in personnel or permanency in ownership. Because I am the controlling shareholder of the corporation, we are able to make such promises and keep them. This differential engenders an advantage vis-à-vis our acquisitive competitors.

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 twelve 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 2020, total investments (cash, marketable securities, and Biglari Holdings' investments in The Lion Fund) amounted to $710.3 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.

At year-end, The Lion Fund's largest common stock holding was Cracker Barrel Old Country Store, Inc. 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. Between 2018 and 2019, The Lion Fund reduced its holding in Cracker Barrel to 2,000,000 shares. In March 2020, however, Biglari Holdings purchased an additional 55,141 shares for its insurance subsidiaries. All in all, we now control 8.7% of Cracker Barrel's outstanding stock at an average cost per share of $51.25.

By year-end 2020, we received proceeds of $471.1 million from the sale of Cracker Barrel stock, $221.3 million in dividends and derivative gains, plus we held a remaining stake of $271.1 million in market value. In sum, over a nine-year period, our investment in Cracker Barrel of $245.5 million turned into $963.5 million in value.

We adhere to long-term selective investing. And we have no exit strategy in mind — namely, date or price — at the time of purchase. The mere presence of a market quotation does not redirect our attention from business performance to stock performance. Rather, quoted market prices of businesses we own in part provide us with the option to either acquire additional shares or sell the shares we hold. Of course, we are not compelled to do either.

An alluring consequence for true long-term, concentrated investors is that price volatility often represents opportunity rather than risk, defined as the possibility of the permanent loss of capital. Because we command permanent capital, an element of vital importance, we are not forced to liquidate marketable securities in times of financial stress. By contrast, most investment firms risk redemptions by their clients. Our permanently capitalized structure engenders advantages, *inter alia*, the ability to favor a strategy of concentration. To be sure, it also takes a certain temperament to maintain a concentrated position through all vicissitudes. If we are correct about the facts, time becomes the dominant factor, for it transforms investment risk. The longer our holding period, the lower our investment risk, as long as the per-share intrinsic value of the business in question increases at an acceptable rate.

Biglari Holdings had a $590.9 million investment in The Lion Fund partnerships at the end of 2020. The company's investment in the partnerships excludes deferred income taxes on unrealized gains. As is evident in Biglari Holdings' financial statements, we would owe taxes of $44.8 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 $44.8 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.

Operating Businesses

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

We assess business performance not on a single year's profits or cash flows but rather on the present value of future cash flows. As a first step in evaluating Biglari Holdings' performance, the following table delineates a breakdown of our earnings.

	(In 000's) 2020	2019
Operating Earnings:		
Restaurant Operations:		
Steak n Shake	$ (4,587)	$ (18,575)
Western Sizzlin	(765)	1,756
Insurance Operations:		
Underwriting — First Guard	9,379	6,477
Underwriting — Southern Pioneer	620	–
Investment Income and Other	2,432	626
Maxim	1,784	742
Southern Oil	2,018	8,032
Corporate and Other	(12,432)	(9,608)
Operating Earnings Before Interest and Taxes	(1,551)	(10,550)
Interest Expense	9,262	12,442
Income Taxes	(2,453)	(7,599)
Net Operating Earnings	(8,360)	(15,393)
Investment Gains/Losses*	(29,629)	60,773
Total Earnings	$ (37,989)	$ 45,380

** Investment gains/losses are reported on an after-tax basis and include unrealized gains and losses arising from changes in market prices on investments in equity securities as well as changes in the value of The Lion Fund partnerships.*

Our reported earnings are materially affected by the volatility in the carrying value of The Lion Fund and other investments. Yet we are indifferent to variability in reported earnings triggered by the accounting of these investments. Of course, over the very long term, profits from investments and profits from operations are equally important. However, yearly fluctuation in the value of investments makes those figures meaningless for analytical purposes. As such, the vagaries of our investment performance obscure our operating performance. To correct the resultant distortions in our earnings figures, we simply separate changes in investment values from the earnings of the operating businesses when we report Biglari Holdings' results.

In 2020, the corporation had a net operating loss of $8.4 million. Although Steak n Shake powered Biglari Holdings from 2009 through 2016 with its high earnings, a period of losses followed from 2018 through 2020. Nonetheless, in 2021, we expect each of the six business units to produce profits. It is our policy that every subsidiary must hold the prospect of generating long-term earnings for it to remain a permanent constituent of Biglari Holdings.

Much like the parable of the blind men and the elephant, in which six blind men each feel a different part of the pachyderm and thus fail to arrive at a complete picture of the animal before them, reviewing only the "bottom line" of our company is an incomplete method of assessing its economic performance. Not unlike the elephant, Biglari Holdings is a creature with a multitude of parts. To fully assess the economic picture of the corporation, the logical approach for shareholders to take 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 598 units. However, their business models differ. Steak n Shake, with 556 locations, primarily operates restaurants but continues its shift toward a nonconventional franchising model. Western Sizzlin, on the other hand, is primarily engaged in traditional franchising, with 42 units — all but 3 are franchisee-run.

Western Sizzlin Corp.

Phil and I entered the restaurant business when we took control of Western Sizzlin Corp., then a publicly owned company, in March 2006. Robyn Mabe was the CFO when we arrived on the scene. Today she is the company's CEO. Under her steady leadership, Western Sizzlin has delivered considerable value for Biglari Holdings.

On March 30, 2010, we acquired the company for a net purchase price of $21.7 million. For the decade under Biglari Holdings' ownership — until March 2020, when the pandemic caused a temporary government-mandated shutdown of dining rooms — Western Sizzlin was a moneymaker, with distributions to the parent company totaling $26.0 million. However, operating a buffet business in the midst of a pandemic is not for the faint of heart. Nevertheless, Robyn displayed uncanny judgment by aggressively adjusting the business such that the company registered an operating loss of only $765,000 in 2020. Based on current trends, we expect Western Sizzlin to be reasonably profitable in 2021.

Steak n Shake Inc.

Steak n Shake, born in 1934 on Route 66, is as American as apple pie. It is the originator of the Steakburger and a legendary milkshake, which together have been the company's gustatory stars for 87 years…and counting.

Present management took over Steak n Shake on August 5, 2008. From 2009 through 2020, Steak n Shake sent nearly $300 million of cash to Biglari Holdings, which fueled the holding company's growth. As previously noted, in early 2021, Steak n Shake paid off the remaining balance of a $153 million term debt with capital provided by Biglari Holdings. Over the duration of our ownership, net cash to the parent company, adjusted for the recent transaction, is about $150 million. The upshot is that Steak n Shake no longer carries debt.

Steak n Shake prospered for eight years despite brutal competition. The last three years have been hard for the company. Yet hard times are nothing new for capitalist enterprises. Of course, we are desirous of stable, durable earnings from Steak n Shake, but before we discuss how we expect to achieve that laudable objective, let us first review the company's earnings since fiscal 2008.

(Dollars in 000's)

	Operating Earnings	Number of Company-Operated Units	Number of Franchise Partner Units	Number of Traditional Franchise Units	Total Number of Units
2008	$ (30,754)	423	–	75	498
2009	11,473	412	–	73	485
2010	38,316	412	–	71	483
2011	41,247	413	–	76	489
2012	45,622	414	–	83	497
2013	28,376	415	–	104	519
2014	26,494	416	–	124	540
2015	39,749	417	–	144	561
2016	34,717	417	–	173	590
2017	431	415	–	200	615
2018	(10,657)	411	2	213	626
2019	(18,575)	368	29	213	610
2020	(4,587)	276	86	194	556

Notes: The years 2015 through 2020 were calendar years. The years 2008 through 2014 were fiscal years that ended on the last Wednesday in September.

Note that when we assumed management responsibility in August 2008, we halted the expansion of company-operated units. When the fiscal year ended in September 2008, we had 423 company-operated units but their dismal performance caused the company to hemorrhage losses of $100,000 per day that fall. We turned the business around swiftly, which resulted in earnings of $100,000 per day a year later. Notwithstanding, many units remained only marginally profitable. The onset of an operating shortfall a few years ago led us to take decisive steps to address it, including permanently closing units that had become unprofitable and temporarily shutting any that could not deliver excellent customer service.

The combination of labor-intensive, slow production and high-cost table service was a faulty business model. Simply put, the operation of dining rooms with table service was a money loser. Pre-pandemic, our labor costs had been running at 38.5% of net sales, placing us at a 6 to 8 percentage point disadvantage vis-à-vis the competition. What I had previously assessed as a sustainable competitive advantage proved to be anything but when our labor expenses continued to rise over the last several years. The Achilles' heel of increased labor costs in the dining room negated our other advantages, resulting in an overall handicap. By eliminating the unprofitable business our dining rooms generated, we effectively reduced revenue by one half. Yet Steak n Shake's labor now runs at around 29% of net sales, albeit at a lower sales volume. The dining room with table service was undoubtedly a revenue center, but it was not a profit center.

Steak n Shake is in an era of radical transformation. One aspect involves fully transitioning to a quick-service restaurant — speeding up the production process and changing the service model from full service to self-service. The other is the conversion of our system to a franchise partnership model, with a single-store owner running each restaurant. Despite the innovations underway, what is fundamental to the company — Steakburgers and milkshakes — remains the same. But let us untangle each initiative.

The modernization centers on achieving simplicity and speed in the way Steak n Shake's products are made and the way they are delivered to guests — without a diminution of quality. Although most of our dining rooms are currently closed, we are not dispensing with them altogether; rather, we intend to equip units with advanced self-service. What will be most evident to our returning patrons is that instead of ordering at the table, or even at a counter with an attendant, our guests will now initiate their transaction at a kiosk. We are embracing efficiency and transitioning the service model to empower our guests to place and pick up their own orders.

Certainly, the off-premises business — drive-through, delivery, and takeout — has propelled Steak n Shake over the years. For most of 2020, off-premises *became* our business. We increased off-premises sales for comparable stores by 14.3%, generated cash from operations, and effectively turned the business around during the pandemic. By reopening the dining rooms, we expect to amplify profits and achieve a satisfactory return on incremental investment.

A conversion to a bona fide quick-service restaurant chain will, we believe, enhance the company's economics. A refusal to invest, however, would mean that our competitors would retain their edge. It should be noted that while we had a plan to convert to a self-service model prior to the pandemic, it was one that would have taken several years to implement. We therefore made the decision to emerge from the public health crisis with a different service model for the entire system. In effect, the pandemic hastened the inevitable.

The confidence we have in the new service model and our resolve to implement it means that the majority of the earnings we expect to generate in 2021 will not be available to Biglari Holdings. Indeed, considerable sums will be absorbed by capital expenditures. The capital outlay per unit is between $100,000 and $200,000 to remodel the interior of the restaurant, introduce a new point-of-sale system, and install self-order kiosks. These expenditures will be phased in by prioritizing units that possess exemplary leadership — namely, those owned and operated by franchise partners, who invariably provide the gold standard in service. This takes us to the other critical initiative.

A monumental change underway at Steak n Shake is our franchise partnership program, which has provided clear and convincing evidence of success. It is important to review how the program works, because it is not the typical 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. We generate most of our revenue from our share of the profits. Under this 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 becoming a company of owners, changing the culture of the organization in our quest for service excellence.

By year-end 2020, we had converted 86 company-operated units into single-unit franchise partnerships, an increase of 57 partners from the prior year. We launched the program in late 2018, and by the end of that year, we had two partners. We are on our way.

To become a franchise partner is no easy task. The road to the summit is steep. In the process of admitting the 86, we received roughly 35,000 applications, which represents an acceptance rate of 0.25%. For those chosen, the financial reward can be substantial. In 2020, our partners earned, on average, $161,079; some are even on track to make more than $300,000 in their first year. Doubtless, a good number of our partners will become millionaires. But make no mistake: We are not minting millionaires but are merely providing the means — they are earning every penny.

By paving the way for franchise partners to live the American Dream, we are providing them an opportunity to attain financial liberty. A salient point for those who become America's ablest restaurant operators is that neither birth nor pedigree, ethnicity nor religion is an obstacle to success. A franchise partnership is a passport that cannot be purchased but only earned. It takes talent along with the passion to serve others, a rare combination that is woven into the character of each individual we accept.

An owner-operator of Steak n Shake harbors a deep sense of identification with his or her restaurant and understands well why it pays to be productive. An efficient enterprise with highly productive associates can pay higher wages than one that is not. Conversely, an enterprise that cannot make money cannot continue to do business. The true owner-operator never clocks out of work. The franchise partnership system is based on the enlightened self-interest of enterprising operators. We provide central direction to maintain uniformity across the brand, but we rely on our remarkable partners to provide the gold standard in service.

One metric by which to judge the culture of an organization is its turnover. Last year, the voluntary turnover rate of our franchise partners was 1%. Steak n Shake's culture is shaping into a distinctive and powerful one.

In the 2018 letter, I estimated that it would take about three years to transition to a network of franchise partners. I was overly optimistic with my timeline, but we have no intention of lowering our standards to meet it. Whether it takes us an additional year or two is less important than ensuring that everyone entering the system is no less talented or driven than those we have assembled to date.

Circling back to our remodeling efforts, each of the 86 franchise partners is on a different schedule for reopening their dining room with self-service. In 2021, we expect our partners to post another banner year of earnings. The better their earnings are, the better our performance will be. The combination of building a franchise network of enterprising operators and completing our conversion to a quick-service restaurant model will, we expect, transform the company and augment its value.

Steak n Shake now has two franchise arrangements: (1) the nontraditional franchise partner program, outlined above; and (2) the traditional franchise system, 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. As such, 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
2020	12,505	5,193	17,698	194
Gain	$ 8,189	$ (1,323)	$ 6,866	123

** Franchise royalties and other fees have been adjusted to reflect Accounting Standards Codification Topic 606 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's first franchise unit opened in 1939. From 1939 to 2010, Steak n Shake grew by an average of one franchise unit per year. The addition of 71 units in 71 years contrasts with an increase of 123 units in the last 10 years.

Our international operations represent approximately 18% of the sales of our traditional franchise system. We have concentrated our international resources in the French market, where Steak n Shake occupies a niche. Most of Europe's 38 units are located in France. As a sample of our uncompromising commitment to quality, we have established our own farm in Ramatuelle, which is situated in the Côte d'Azur. Some of the produce we grow, such as tomatoes and strawberries, supplies our units in France and Monaco. We have adapted to the sensibilities of the local culture.

When travel reopens, visit any of the Steak n Shakes in France or the one in Monaco and you will be impressed by our unmatched quality and service. Hervé Poirier is the CEO of Steak n Shake France. I cannot overemphasize the strength of his leadership. What he accomplishes with his small team is outstanding.

For the period 2011 through 2015, our 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 2020, traditional franchise operations posted a profit of $6.9 million despite the disruption of the pandemic.

Insurance Operations

Our insurance business enhances Biglari Holdings' financial base and is a durable source of earnings. The reason we endeavor to construct a formidable insurance operation arises from our attraction to the financial dynamics of the property and casualty insurance business. Premiums are collected before claims are paid out, such that funds from policyholders are, in the interim, available for investment. Naturally, if the sum total of eventual losses and expenses does not exceed premiums, the company produces an underwriting profit, which, in effect, provides investment funds financed at sub-zero cost. Any investment gains or losses on these funds accrue to the insurance company's owners. The idea of sound underwriting supplying cost-free investment funds is simple in theory but difficult in practice, for the insurance-underwriting business has rarely proved highly profitable. In actuality, the property and casualty insurance industry often sustains underwriting losses.

However, we do not own ordinary insurance companies. Our entrance into the insurance field began with First Guard Insurance Company and its affiliated agency on March 19, 2014. Six years later, on March 9, 2020, we purchased Southern Pioneer Property & Casualty Insurance Company and its affiliated agency. Over our near seven-year history in the insurance business, we have produced underwriting profits every year, totaling $36.7 million pre-tax. Our underwriting superiority can be traced to our having teamed up with superior operators.

(Dollars in 000's)

	Premiums Earned	**Underwriting Profit**	**Combined Ratio**
2014*	$ 8,719	$ 1,797	79.4
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
2020**	49,220	9,999	79.7

** First Guard from date of acquisition, March 19, 2014.*
*** Includes Southern Pioneer from March 9, 2020.*

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. Its founder, Ed Campbell III, is responsible for building a marvelous business. His matchless insight, combined with his incomparable knowledge, arose in part from his familiarity with the insurance agency purchased by his father, Ed Campbell Jr., in 1965; in 1969 it was dedicated exclusively to truckers. Ed III purchased the agency in 1991, and in 1997 he created a direct underwriter, First Guard Insurance Company.

The company, led by Ed III with the fine, able assistance of company president Drew Toepfer, set an earnings record in 2020. First Guard registered an underwriting profit of $9.4 million, or 31.0% of premiums, continuing its streak of underwriting profitability for the 24th consecutive year, a truly remarkable feat.

Any capitalist would be fortunate to become the owner of one such business in a lifetime. But last year we had another stroke of good fortune with the purchase of Southern Pioneer, an insurer operating in several niche lines, the most important of which is providing commercial coverage to non-franchised automobile dealerships. In this particular line, Southern Pioneer holds a commanding share in its four core states: Alabama, Arkansas, Missouri, and Tennessee. In 2020, the company had an outstanding year, with a combined ratio of 94%. (The combined ratio represents losses incurred plus expenses as compared to premiums.) Southern Pioneer also supplied investment capital from liabilities tied to policyholders' funds, which engendered even more investment income. And because the company produced an underwriting profit, the cost of these funds was below zero.

Southern Pioneer was started in 1981 by two brothers, Ben and Hal Hyneman, who alongside their progeny — Brian, Matt, and Hunter — run the company with integrity and intelligence. The Hynemans are superb performers: They achieve non-commodity economics in an industry that sells commodity-like products, remaining ever alert to the next profitable niche. Yet they also possess a willingness to reduce premium volume in order to underwrite profitably. If there is one factor that elicits the team's pride, it is underwriting discipline. By forging strong relationships and developing a culture of first-rate service, the Hynemans have built an exceptional business that is sure to endure.

Although the insurance industry is beset with poor economics, both First Guard and Southern Pioneer buck the trends. Ed Campbell and the Hynemans produce terrific underwriting results because they are careful, conservative, and competent. It takes economic sophistication to operate as skillfully as First Guard and Southern Pioneer. In each acquisition, we gained both human and financial capital.

One of the virtues of the Biglari Holdings system is that the businesses we purchase do not need to grow for the parent company to expand its domain significantly. We aim to utilize our earnings to purchase other insurance masterpieces, uniting them under the ownership of one dynamic corporation. While identifying and purchasing an insurance gem is not easy, the upside potential can be extraordinary. Having now acquired two insurance companies run by first-class families, we have a reputation that will, over time, build by word of mouth. Phil and I welcome other uncommon owner-managers to contact us if they are interested in placing their prized possession within our holding company to become part of our insurance family.

Southern Oil Company

We entered the business of producing oil and gas on September 9, 2019, upon acquiring Southern Oil for $51.5 million in cash. The company primarily operates offshore in the shallow waters of the Gulf of Mexico, specifically in Louisiana state waters.

Our purchase of Southern Oil occurred on the eve of one of the worst years in the oil and gas industry, with an ensuing pandemic-induced plunge in oil demand that caused prices to collapse. Despite the episodic stress on the petroleum industry, the situation underscored the benefit of having built a sizable margin of safety into the price we paid. As it turned out, we needed the safety — a margin that would absorb unfavorable developments.

Because of Southern Oil's debt-free balance sheet, it is also under no financial obligation to produce and deliver oil and gas at depressed prices. When energy prices dropped precipitously, we curtailed production. In addition, the leadership of Southern Oil operates with inexorable efficiency, as demonstrated by a nearly 50% reduction in general and administrative expenses. The team is up to the challenge of solving problems as they arise while maximizing productivity.

The typical oil and gas operator spends substantial capital on drilling operations to replace, and potentially increase, its reserve base. We certainly possess the operational capabilities — offshore platforms, developed pipelines, undeveloped leases, geologic support — needed to conduct exploration. Because of the capital intensity and risks associated with such activity, we are opting to team up with others, shifting the financial responsibility, in our endeavor to build oil and gas reserves. There is no guarantee, of course, that we will be successful in obtaining partners; nor was our acquisition predicated on procuring them.

From the time of acquisition through the end of 2020, Southern Oil paid Biglari Holdings $20.3 million in cash. Based on year-end crude oil and natural gas prices, the value of the company's producing wells continues to exceed the sum we paid for the company.

Maxim Inc.

In February 2014, we purchased Maxim, one of the most recognizable magazine properties. We did so *not* with the intention of entering the magazine business per se; rather, we acquired an underexploited brand with the intention of generating nonmagazine revenue, notably through licensing, a cash-generating business related to consumer products, services, and events. In 2020, Maxim earned $1.8 million and paid that amount to Biglari Holdings.

When we acquired Maxim, 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. Maxim is a profitable enterprise, and we intend to unearth the latent value of the brand in order 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 or hold quarterly conference calls because neither activity would be consistent with our style of management, whose aim is to attract informed long-term investors, not short-term speculators. Because we follow rational policies, we expect rational investors to populate the stock ownership. Moreover, we wish to provide all shareholders with the same information simultaneously. One-on-one meetings are neither productive nor practicable.

We remain attentive to long-term owners who think for themselves and make long-term investments based on their own assessment. It is this constituency to whom I write the Chairman's Letters, covering the business in reasonable detail, and for whom we hold annual meetings covering matters of substance. We undertake these unorthodox practices because we care about the kind of shareholders who own our stock. Since our decisions are based on rationality, not optics, we frequently depart from the zeitgeist regarding corporate governance. Those seeking a conventional firm to invest in have thousands of publicly owned companies from which to choose. But those who find our *modus operandi* appealing are welcome to join our club, admission to which is available through the New York Stock Exchange, where our stock is listed. We believe in treating you the way we would wish to be treated if our roles were reversed.

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 2021 quarterly results after the market closes on May 7, August 6, and November 5. The 2021 annual report will be posted on our website on Saturday, February 26, 2022.

Last year's annual meeting was unusual because of the pandemic, which caused us to hold it for the first time in our hometown of San Antonio instead of New York City, a hotspot for the coronavirus at the time. Some loyal, long-term shareholders applauded the move and proposed that we routinely hold the meeting in San Antonio, an idea that also appeals to Phil and me. Thanks to their suggestion we will return to San Antonio's Majestic Theatre, a venue that lives up to its name. This year, staff from the City of San Antonio will be present at a booth to inform you of various attractions you can visit while you are in the country's seventh largest city. We hope you are able to turn the trip into a revelatory weekend of enjoyable activities. And of course, we will try to give you our best performance.

The annual meeting will be held at 1:00 pm on Thursday, May 27, 2021. 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 several 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 was created from scratch. In organizing the corporation, we equipped it with a solid financial position that can not only handle adversity but also turn it into an advantage. When others are mired in apprehension — financially or emotionally — we can advance aggressively. Our sound structure permits the opportunistic expansion into sound investments and acquisitions.

As an entrepreneurial enterprise, Biglari Holdings is intent upon growing its collection of businesses with just a modicum of personnel at headquarters. Our small team at the holding company does the work of a group many times its size. My deepest gratitude goes to them.

Phil and I are excited about the prospects of Biglari Holdings, and our pursuit of building the enterprise is a source of immeasurable satisfaction. We are fully committed to making your journey a prosperous one.

Sardar Biglari
Chairman of the Board

February 26, 2021