Dear Shareholders of Biglari Holdings Inc.:

The ancient pyramids were built stone by stone; we are building Biglari Holdings company by company. Inspired by the endurance of those monuments, we aim to construct a corporation that will last for generations. Each building block of Biglari Holdings was chosen with the objective of maximizing per-share intrinsic value.[1] Its corporate architecture is expressly designed to scale the enterprise with the acquisition of outstanding companies.

Biglari Holdings is a creative endeavor — a work of art. We view the corporation as our canvas and capital allocation as our means of artistic expression. Because we seek acquisitions or investments that are significant in relation to our capital, each brushstroke is consequential. As the deployer of capital, I have a nearly unlimited palette of colors from which to choose. The only self-imposed restriction is that I will only consider businesses whose future economic prospects I can evaluate. Our predilection is for well-established companies with competitive advantages, in stable industries. Indeed, the appeal of the businesses we own lies in their predictability.

Our growing collection of operating companies began in 2008, when present management gained control of Steak n Shake, a then profitless restaurant chain, and turned it into the profitable base of a new holding company. From that small foundation, Biglari Holdings grew through a series of acquisitions. Over the years, we added Western Sizzlin Corporation, Maxim Inc., First Guard Insurance Company, Southern Oil Company, Southern Pioneer Property & Casualty Insurance Company, and Abraxas Petroleum Corporation, listed in order of acquisition. In 2023, Biglari Holdings garnered pre-tax operating earnings of $43.2 million from its seven first-line businesses.

Profit alone, however, is an inadequate means of assessing operating performance; rather, profit must be measured in relation to the capital that produced it. The restaurant industry is characterized by low returns on capital. During the course of our ownership, our restaurant operations, which originally represented Biglari Holdings' entire net worth, impeded overall returns. Nevertheless, in recent years, we have improved the capital efficiency of our restaurant operations. More critically, we have reallocated capital into other businesses whose return on capital as a group has exceeded that of the Fortune 500, which has averaged about 15% annually over the last decade.

This may be a good place for me to share a semi-philosophical thought: The ideal business is one that earns very high returns on capital and continues to generate high returns on incremental capital. But businesses of this sort are exceedingly rare, and it is even rarer to purchase one at a reasonable valuation. (It bears mentioning that an exceptional business purchased at too high a price will be a poor investment.) However, there is also a class of businesses that earns satisfactory returns — and substantial cash — but lacks the opportunity to generate returns of similar magnitude on incremental capital. The architecture of Biglari Holdings makes such businesses appealing because we can reallocate the excess cash they generate to buy other businesses. In effect, our corporate structure allows us to replicate the very economics of the ideal business.

Despite the powerful structural advantages we enjoy, our corporate form alone is insufficient to achieve our objectives; it merely sets the stage for business and investment activity. Deploying capital intelligently is the essence of our business. The upshot is that none of our subsidiaries need to grow in order for the holding company's capital to grow.

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[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.

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 fifteen years, Biglari Holdings' cash and investments grew from $1.6 million to $592.7 million — even while allocating funds toward the acquisition of businesses. The tabulation below shows the year-by-year development of cash and investments. The third column represents our interests in two affiliated investment partnerships, The Lion Fund, L.P., and The Lion Fund II, L.P., which throughout this letter will be referred to as The Lion Fund.

(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**
2021	42.3	83.1	474.2	**599.6**
2022	37.5	69.5	383.0	**490.0**
2023	28.0	91.9	472.8	**592.7**

Notes: Data are for calendar years with these exceptions: 2008 ended on July 2, 2008; 2009 through 2014 ended on the last Wednesday in September. Biglari Holdings' investments in The Lion Fund, L.P., and The Lion Fund II, L.P., do not include other limited partners' interests.

Our corporation's financial strength is an operational advantage and its substantial investment holdings serve as a source of capital for acquisitions. A strong balance sheet is capable of withstanding extraordinary adverse market and economic conditions, whereas a speculative capital structure places a firm at the mercy of others. By retaining a decided edge in capital structure, Biglari Holdings is positioned to capture opportunities, thereby expanding and solidifying its domain.

When assessing the corporation's capital structure, it is important to keep in mind that since 2015 The Lion Fund has allocated more than $300 million to purchase the company's stock.

As presented in recent reports, if The Lion Fund distributed the shares of Biglari Holdings it owns to its limited partners, the corporation's shares outstanding would be reduced to 284,696 Class A equivalents (as opposed to the 620,592 shares outstanding) at year-end.[2] Correspondingly, the value

[2] All per-share figures used in this report apply to Biglari Holdings' A shares. The B shares have an economic interest equal to 1/5th that of the A shares.

of total investments would be adjusted to $319.0 million, which is the carrying value as opposed to the fair value ($592.7 million) presented in the preceding table. (The difference between fair value and carrying value is the sum of Biglari Holdings stock owned by the corporation through The Lion Fund.) Continuing this approach in regard to share count, which adheres to generally accepted accounting principles, at year-end 2023, the per-share book value of our Class A stock was $2,105. Our per-share book value increased by 12.5% in 2023, yet underperformed the S&P 500 Index by 13.8 percentage points. What matters, however, is not per-share net worth but per-share intrinsic value, with the latter's advancement measured against the performance of the S&P 500.

Book value represents the capital invested in the company by its owners, as shown on the financial statements; it is an accounting term that reflects the capital that has built up in the corporation, which in our case has mainly been retained earnings. Intrinsic value, on the other hand, is an economic concept: the discounted present value of cash that can be taken out of the business over its corporate life. The difference between book value and intrinsic value is akin to the difference between looking in the rearview mirror and looking through the windshield.

Between 2008 and 2023, Biglari Holdings metamorphosed from a dying restaurant business whose per-share intrinsic value was far less than its per-share book value into a diversified corporation worth more than its book value. Of course, intrinsic value, by its nature inexact, will be greatly impacted by the redeployment of future retained earnings, a factor that can enhance or diminish the corporation's value.

Let us examine the two quantitative figures we believe to be critical for evaluating the company: its investments and its operating businesses. It is as if Biglari Holdings were split in two, with one side holding the corporation's investments (cash, marketable securities, and investments in The Lion Fund) and the other its operating businesses, where all interest and corporate expenses are incurred. To calculate pre-tax operating earnings per share, we exclude the dividends, interest, and capital gains produced by our investments.

	Investments Per Share	**Pre-tax Operating Earnings Per Share**
2008	$ 4	$ (82.07)
2021	1,236	76.31
2022	899	117.23
2023	1,121	138.36
Annual Growth Rate, 2008-2023	43.8%	N.A.
One-Year Growth Rate, 2022-2023	24.7%	18.0%

In 2023, our investments per share increased by 24.7% to $1,121, and our pre-tax operating earnings per share from businesses increased by 18.0% to $138.36. Last year we had a good increase in operating earnings but major, sensible acquisitions will be needed to advance from this level henceforth. Our acquisition activity undoubtedly impacts the growth rate of investments and operating earnings in any given year. Phil Cooley, Vice Chairman of Biglari Holdings, and I will do our best to achieve satisfactory growth in both operations and investments, as measured in decades and on a per-share basis.

Since 2008, our compounded annual increase in investments per share has been 43.8%. On a per-share basis, the company had just $4 of cash and $63 of debt on July 2, 2008, the third fiscal quarter-end prior to our assuming responsibility for the company on August 5, 2008. Over the ensuing fifteen years, we have acquired six businesses through negotiated transactions, paid in cash, and allocated funds toward investments; we ended the year with no debt.

To digress for a moment, the 284,696 Class A equivalent shares at year-end 2023 are comparable to 424,325 shares outstanding on July 2, 2008, a near 33% reduction in share count over the course of our tenure. Every 1% of the company an investor owned then is 1.49% of the company today. Consequently, the original shareholders now own a 49% larger portion of the Steak n Shake assets, plus all the new assets — the six businesses and over $300 million of total investments at carrying value.

Investments

By the end of 2023, total investments (cash, marketable securities, and Biglari Holdings' investments in The Lion Fund) amounted to $592.7 million at fair value; 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.

The following table shows our unaffiliated marketable equity holdings with a market value of more than $50 million at year-end. The number of shares represents the sum of The Lion Fund's common stock investments plus those held by Biglari Holdings and its subsidiaries.

Shares	**Company**	*(In 000's)* **Market Value**
2,069,141	Cracker Barrel Old Country Store, Inc.	$159,489
402,000	Ferrari N.V.	135,661
1,137,300	Jack in the Box Inc.	92,838

At year-end 2023, our three major investment holdings — Cracker Barrel Old Country Store, Inc., Ferrari N.V., and Jack in the Box Inc. — had a market value of $388.0 million. Adjusted for the corporation's weighted 90.2% interest in its investment partnerships, they represented 58.6% of the net worth of Biglari Holdings. Our total equity holdings, including the aforementioned stocks, accounted for 61.0% of the corporation's net worth at year-end.

As indicated in the table above, at year-end our largest common stock holding was Cracker Barrel. 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. Since 2020, however, Biglari Holdings has purchased an additional 69,141 shares for its insurance subsidiaries. All in all, we now control 9.3% of Cracker Barrel's outstanding stock at an average cost per share of $51.32. Over the years of our ownership, we have received aggregate dividends per share of $62.60, which exceeds our cost per share.

From 2011 through year-end 2023, we received proceeds of $471.1 million from the sale of Cracker Barrel stock, $248.8 million in dividends and derivative gains, plus we held a remaining stake of $159.5 million in market value. In sum, over a twelve-year period, our investment in Cracker Barrel of $246.7 million turned into $879.4 million in value.

Our second largest common stock holding at year-end was Ferrari. A luxury brand in the form of an artisanal automobile manufacturer, Ferrari is more than just the ne plus ultra of cars; it is a club of sorts. Ferrari is an exceptional business run by an excellent management team. With this combination, our attitude toward owning a part interest in Ferrari is analogous to that of owning 100% of a business such as First Guard. In other words, our intent is for Ferrari to be a permanent holding.

From our point of view, we are owners of businesses, not merely holders of stock certificates. Basically, our position resembles that of a minority owner of a private corporation. The stock-market quotation, however, may be relevant if it allows us to increase our ownership at a price we deem attractive. To us, evaluating stocks is tantamount to evaluating businesses, because stocks are business purchases, just partial rather than whole.

One fallacy many equity market participants share is the indiscriminate use of deceptively simple multiples — price-to-sales, price-to-book, or price-to-earnings — to estimate the value of a company. The approach is fast and easy but also faulty, since value is not a function of any such multiple. There are hazards associated with such mental shortcuts, but their use can create golden opportunities for the investor who has the ability, the sound judgment, and the courage to capitalize on them. It takes the right mental equipment and the right type of temperament — if either is lacking, disappointment or worse will ensue.

We concede that the path we have embarked on remains an uncommon one. But we would rather sustain the consequences of being unconventional than suffer a permanent loss of capital. John Maynard Keynes wrote in his seminal book, *The General Theory of Employment, Interest, and Money*, "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally."

All of that said, simply adopting a contrarian approach is a fool's errand; the key is to be *correct* on the facts and the reasoning. We are investors, not speculators, a distinction that is all-important. The speculator's attention is on stock price and its short-term fluctuations, whereas the investor's attention centers on the enterprise and its long-term business prospects. In times of market chaos, the speculator folds while the investor focuses. When fear pervades the scene, fundamental business economics still dominate our thinking.

Operating Businesses

Biglari Holdings has seven major controlled businesses: Steak n Shake, Western Sizzlin, Maxim, First Guard, Southern Oil, Southern Pioneer, and Abraxas Petroleum. Though the group is diverse, the operating subsidiaries share a common denominator: All of them generate cash that advances the development of the holding company.

In Aesop's fable of the bundle of sticks, an old man imparts a life lesson to his sons by demonstrating that individual sticks are easily broken, but when bound together they become unbreakable. Although most of our seven subsidiaries could have prospered had they remained independent, the collective, with the diversity of its earnings, engenders strength for the holding company.

To better convey the performance of the entire corporation, we have rearranged the consolidated data to reflect the way Phil and I think about Biglari Holdings' disparate businesses. The following table exhibits a breakdown of our earnings. Naturally, the total net earnings shown in the table conform to those in our audited financial statements.

	(In 000's) 2023	2022
Operating Earnings:		
Restaurant Operations:		
Steak n Shake	$ 26,170	$ 11,478
Western Sizzlin	1,793	1,484
Insurance Operations:		
Underwriting—First Guard	9,492	6,578
Underwriting—Southern Pioneer	(1,038)	(1,277)
Investment Income and Other	4,629	4,603
Oil and Gas Operations:		
Abraxas Petroleum*	22,410	652
Southern Oil	3,356	24,539
Maxim	11	1,760
Corporate and Other	(22,946)	(13,099)
Interest Expense	(681)	(399)
Operating Earnings Before Taxes	43,196	36,319
Income Taxes and Noncontrolling Interests	(4,625)	(8,694)
Net Operating Earnings	38,571	27,625
Investment Gains/Losses**	16,377	(59,643)
Total Net Earnings	$ 54,948	$(32,018)

* *From the date of acquisition, September 14, 2022.*

***Investment gains/losses are reported on an after-tax basis and include realized real estate gains and 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 2023, the corporation had net operating earnings of $38.6 million. Better yet, those earnings translated into greater amounts of cash. It should be clear from past reports that we loathe operating losses. Our managers do too. 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.

To fully assess the economic performance of the corporation, the logical approach for shareholders to take is to review the performance of each major operating subsidiary.

Restaurant Operations

Our restaurant operations consist of Steak n Shake and Western Sizzlin for a combined 492 units. However, their business models differ. Steak n Shake, with 457 locations, is primarily engaged in company-operated and nonconventional franchise restaurants. Western Sizzlin, on the other hand, is a traditional royalty-based franchise business, with 35 units — all but 3 are franchisee-run.

If we had acted like a traditional company and utilized our retained earnings in the same restaurant businesses that produced them, we would have destroyed capital. To understand the brutality of capitalism, one need only study the history of the restaurant industry, which too often resembles a graveyard of failed businesses. Combining ease of entry with ready access to financing is a recipe for failure. When a business is in decline, trying to bring back its greatness through capital investment is usually a mistake.

We took a divergent path by investing the earnings not needed within our restaurant businesses in areas such as insurance companies and oil and gas concerns, among others. Although neither of our restaurant companies has produced record net operating earnings, their parent company has. That is the beauty of the Biglari Holdings system — namely, the rational allocation of capital.

Western Sizzlin Corporation

Biglari Holdings acquired Western Sizzlin in 2010, for a net purchase price of $21.7 million. The acquisition included $2 million of marketable securities and undeveloped real estate purchased for $3.8 million in 2007. Through year-end 2023, Western Sizzlin's cash distributions to Biglari Holdings totaled $29.3 million.

The achievements of Western Sizzlin can be traced to the company's CEO, Robyn Mabe. Phil and I discovered a valuable franchise business that, under Robyn's skilled leadership, has remained a dependable money-earning concern.

Steak n Shake Inc.

Steak n Shake is a company that has gotten off track at various times since its creation in 1934. Present management took control of Steak n Shake in August 2008, when the company had only $1.6 million of cash on hand, debt of $27 million, and losses of approximately $100,000 per day. Although we were swimming upstream, we were able to turn the business around, and by the end of 2009 we were generating $100,000 per day. Details of the turnaround are covered in prior letters.

In 2020, after suffering back-to-back yearly losses, we radically transformed the business model from full service to self-service while implementing a new owner-operator program. Under a superior economic model, we were back to generating profits. Over the last three years, the company has produced aggregate pre-tax operating earnings of $51.2 million.

Admittedly, it is not a sign of strength for a business to repeatedly encounter emergencies that cause it to rise from the ruins, phoenix-like, stronger than before. In future acquisitions, we will try to steer clear of businesses presenting multiple high-degree problems in a tough industry.

Here is a recap of Steak n Shake's performance 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
2021	13,524	199	159	178	536
2022	11,478	177	175	154	506
2023	26,170	148	181	128	457

Notes: Data are for calendar years with these exceptions: 2008 through 2014 ended on the last Wednesday in September.

In 2023, Steak n Shake produced pre-tax operating earnings of $26.2 million. Our pre-tax cash return on capital fell a few percentage points short of our goal of 20%. To meet our objective, we will continue to improve the company's cash earnings while reducing our investment in fixed assets.

Steak n Shake was able to successfully transform its business model in 2020 by introducing a new point-of-sale system, installing self-order kiosks, reducing operating hours and menu items, and embarking on a journey to become a company of owners. This transformation required a capital investment of about $50 million, which improved unit economics mightily.

By converting our operation from a full-service to a self-service format, our breakeven point declined by about 40%, obviating our dependence on high unit sales to register a profit. All company and franchise partner units have been fully converted to self-service.

The transformation has led to *triple*-digit gains in productivity. Under the old model, annual unit sales per employee, measured on a full-time-equivalent basis, were about $64,000 in 2019; they were nearly $135,000 in 2023. With few exceptions, store operating hours were reduced from 24 to 14 hours a day. Although overall sales per unit fell, sales per operating hour increased by 50.7%. Simultaneously, the average number of employees working per operating hour decreased by 28.5%. As a result, productivity grew 111%. The resultant cost savings have largely been passed on to customers through low prices, and to associates through higher wages.

I have reviewed the financial figures for all listed publicly owned restaurant companies in the U.S., and the comparative changes in gross margin over the last few years should arouse your interest. Since 2019, Steak n Shake's improvement in gross margin — namely, the profit after deducting food and labor costs as a percentage of net sales — has been better than that of every other publicly owned restaurant company. Our prime costs, which are the combined costs of food and labor, were 69% of net sales in 2019 but fell to 56% of net sales in 2023. And yes, we started out way behind the pack. But that 13-percentage-point improvement altered Steak n Shake's destiny.

We continue to seek avenues to enhance the customer experience through innovation. For instance, we are in the process of adding face pay to our kiosks. Once customers opt in, the facial recognition technology will vastly speed up self-service ordering. We are also upgrading the technology of the drive-through with new digital menu boards, which will improve the guest experience in similar fashion. We will keep refining our operating system, from ordering to food assembly, to increase the speed of service while making our products more uniform.

A restaurant chain numbering in the hundreds of stores is an extraordinary exercise in management. For the typical company, it is, above all, a business of supervision whose key requirement is control. Such is the conventional management structure, and that is what we inherited. But we eventually replaced it with a new management system in order to cultivate a superior culture. This takes me to the importance of unit-level leadership.

We were determined to rely on hundreds of enterprising operators to become the most productive, hospitable restaurant company in the industry. Although we set the standards for the brand and centralize such functions as purchasing and training, we also confer the authority to make operating decisions on those who have earned the designation of franchise partner, freeing them from layers and layers of bureaucratic control. We have therefore structured the organization to achieve uniformity while building a culture of ownership at the unit level. For operators to think and act like owners, we believe they must be owners. In becoming a company of owners, we are changing the culture of the organization in our quest for service excellence.

We now have more units operated by franchise owners than we do units operated by the company. Eventually, we expect to place all units in the hands of owner-operators. Steak n Shake's franchise partnership program, launched a little over five years ago, is succeeding. 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. It is worth noting that with company-operated units transitioning to franchise ownership, Steak n Shake will appear to be a much smaller company than before from a revenue perspective but not from a profit perspective. Accounting convention dictates that in company-operated units, sales to the end customer are recorded as revenue; but for franchise partner units, only our share of the restaurants' profits, along with certain fees, are recorded as revenue.

The franchise partnership system resembles a federation of legally and administratively separate enterprises. Our single-unit franchise partners display a consummate commitment to their respective restaurants. Absentee ownership is neither desired nor permitted. Our partners are responsible for managing the day-to-day operations of their restaurant, setting wages, and building their business one customer at a time. Under this franchise arrangement, an owner-operator is able to earn considerable sums, which is the way we want it.

Over the last four years, the average franchise partner made about $137,000 per annum, which was more than the average accountant, architect, or engineer in America earned. 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.

In the late 19th century, the tales of Horatio Alger captivated the public for the way his characters overcome adversity. Our franchise partners are the flesh-and-blood Horatio Alger heroes of the 21st century. It is a reminder that when opportunity knocks, all one needs is a knack for seizing chances and for putting one's all into the work at hand.

The program has been a success story because it was founded on the basic principle of equality of opportunity. As of year-end 2023, minority- and women-owned businesses accounted for 63% of all franchise partnerships, while Black-owned enterprises represented 21%. We did not set out to win any diversity awards; nor did we ever develop a diversity program. The word "diversity" is frequently used to force an outcome. The goal is laudatory but it often misses its mark. We simply focused on individual skills and effort, and it resulted in a diverse group of immensely industrious and ambitious owner-operators. We will continue to search for talent, not diversity, and by getting the former we will end up with the latter, not the other way around. Our system of meritocracy is about placing the right people into positions of power and ownership.

By year-end 2023, we had converted 181 company-operated units into single-unit franchise partnerships, a net increase of six partners from the prior year. We launched the program in late 2018, and by the end of that year, we had just two partners. From the beginning of 2019 through the end of 2021, the program grew at an average rate of 52 partners per year, but in the past two years the rate slowed to just 11 per year. In 2023, we had the fewest franchise conversions, partly because we tightened our standards and partly because the remaining company-operated stores have low sales volumes and marginal profits. Reversing the performance of these units will not be an easy task but we have dedicated the resources required to effectuate an upswing in their earnings. The good news is that our best units are in the hands of our best operators.

In addition to our nontraditional franchise partnership program, we also have a traditional franchise business. Because Steak n Shake underwent a radical change in its business model, it will take some time to spur traditional franchise growth after several years of decline. We are developing a new prototype that should inject verve into this segment and achieve satisfactory unit economics for franchisees. The traditional franchise business is an important dimension of Steak n Shake because the funding necessary to expand the brand is borne by third parties.

Phil and I believe Steak n Shake is on solid footing.

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 theory is easy to enunciate but difficult to execute, as demonstrated by the industry's underwriting performance. In fact, over the last ten years, the industry has generated a cumulative underwriting loss. The average property and casualty insurance company continues to generate low returns on equity as compared to the Fortune 500. We attempt to be an exception to the rule by owning exceptional companies whose managers are even more exceptional.

Our subsidiaries excel in an insurance world populated by property and casualty insurance companies whose overall profits derive mainly from their investment income rather than their underwriting income. By contrast, our insurance companies pursue nothing but underwriting income, while the parent company handles the investments. By focusing on underwriting results, not premium volume, we take a different approach from that of most other companies.

We entered the industry with our acquisition of First Guard Insurance Company in 2014, augmented by our purchase of Southern Pioneer Property & Casualty Insurance Company in 2020. Our insurance operations have had property and casualty underwriting gain every year, with aggregate pre-tax underwriting profits totaling $62.8 million through year-end 2023. Here is the record of our insurance business over a near decade-long span.

(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
2021	55,411	12,317	77.8
2022	59,949	5,301	91.2
2023	61,225	8,454	86.2

**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 signifies a loss.*

As soon as Phil and I learned of First Guard, we knew it was a gold mine.

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 creator, Ed Campbell, III, had the ingenious idea of selling insurance directly to the trucker. As a niche writer of commercial truck insurance, First Guard has produced an average underwriting profitability of 23.2% over a 27-year period. Such a record is nearly unheard of.

First Guard was a great company before our purchase and has remained so ever since. In 2021, the CEO reins were handed to Drew Toepfer, who has done a sensational job managing the company. Drew started with First Guard when he was in high school, working first in the mailroom, then in each of the company's departments, and ultimately as CEO. Many of the employees have followed a similar career development path, owing to the unusual program Ed devised.

In insurance, one way to sidestep the commodity-like economics is to be a low-cost operator. First Guard displays unusually high profitability because a great idea has been executed with engineering-like precision. If an insurance company is not a low-cost operator, then it must be guided by a managerial mindset that is exceptionally discerning in its risk selection. That leads me to Southern Pioneer, an insurer offering a range of niche products in personal, commercial, and financial lines.

Southern Pioneer is a specialist in providing commercial coverage to non-franchised automobile dealerships, holding a commanding share in its four core states — Alabama, Arkansas, Missouri, and Tennessee. In 2023, it also expanded into Mississippi. The company's other offerings include homeowners, dwelling fire, collateral protection, and liquor liability insurance. Its products are marketed largely through independent agents and financial institutions. By specializing in particular areas, Southern Pioneer has produced an exceptional underwriting record since its creation in 1981. Its founders, Ben and Hal Hyneman, alongside their respective sons Brian and Matt, and Hunter, manage the company collectively. The Hynemans have integrity and skill. We are fortunate indeed to be associated with them.

In 2023, Southern Pioneer had a combined ratio of 104.2, which did not meet our collective expectations. Our lines of insurance are priced to be profitable absent unusually severe weather activity, which has in fact occurred in each of the last two years. Nonetheless, we believe our insurance underwriting transactions carry with them the mathematical expectation of profit.

Phil and I are intent on building an ever greater collection of insurance businesses under the aegis of the holding company. The corporation's sound financial position and controlled ownership structure enables us to provide a superior proposition to entrepreneurs who seek to monetize their lifetime creation yet also wish to continue to run their business. Biglari Holdings can provide such businesses a permanent corporate home, whereas the vast majority of acquisitive competitors are unable or unwilling to make similar commitments. We offer our operating managers an incomparable degree of autonomy. Both insurance subsidiaries we have acquired are overseen today by the same families responsible for their founding. They have retained their management teams, their headquarters, and their names. However, they also benefit from being part of a much larger corporation with a strong capital position.

Oil & Gas Operations

In 2023, our oil and gas operations were an important contributor to Biglari Holdings' overall operating results, with $25.8 million of pre-tax earnings. Do not expect an encore in 2024. Oil is a depleting asset, and we are primarily in the business of extraction, not exploration.

Our oil and gas operations consist of Southern Oil Company and Abraxas Petroleum Corporation, whose 73 combined producing wells averaged approximately 2,800 barrels of oil equivalent per day in 2023. Southern Oil is a different type of operation from that of Abraxas Petroleum, insofar as Southern Oil primarily operates offshore in the shallow waters of the Gulf of Mexico, specifically in Louisiana state waters, while Abraxas Petroleum is a land-based producer in the prolific Permian Basin of West Texas. The two companies operate independently of each other but they share the common characteristic of making barrels of cash.

We acquired Southern Oil in 2019 for $51.5 million. From the time of its acquisition through the end of 2023, Southern Oil paid Biglari Holdings $75.8 million. In 2022, we acquired 90% of

Abraxas Petroleum, purchasing the remaining 10% of the company in 2023, for a total cash consideration of $85.4 million. From the time of the initial acquisition through the end of 2023, Abraxas Petroleum paid Biglari Holdings $52.8 million.

Our oil business is predicated not on discovering hydrocarbons but on extracting them from the ground. Unlike many oil producers, we rarely spend our cash on the drilling of new wells. The typical petroleum company has limited options to deploy its capital and replaces its depleted reserves through costly exploration and drilling operations. Because our holding company has a universe of investment possibilities — and because of the capital intensity and risks associated with development — we are opting to team up with others in order to shift the financial responsibility. In 2023, we were successful in obtaining a partner for some of Abraxas's undeveloped acreage. We not only realized a gain of $13.6 million on the transaction but the royalty-based arrangement also increased our proved undeveloped reserves by $8.8 million. Therefore, we will share proportionately in the performance of the new wells but take none of the drilling, operational, or financial risks.

It should be further noted that our oil companies carry no debt. Many a petroleum company has experienced the toxicity of mixing oil with debt. An enterprise becomes vulnerable when the predictability of interest payments on debt collides with the unpredictability of its revenue streams. (The prices of crude oil and natural gas are notoriously skittish.) For equity holders, any decline in the value of oil and gas assets is magnified by the use of financial leverage.

Maxim Inc.

We purchased Maxim in 2014 for $12.6 million. But we did so not with the intention of entering the publishing 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 2023, Maxim had a breakeven year, as its results were impacted by the shift of an important licensing arrangement to the current calendar year. In the preceding five years, Maxim produced aggregate pre-tax earnings of $6.2 million.

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.

Maxim is a royalty-based business with a magazine attached. We continue to seek licensing opportunities where we bear little to no downside risk yet share in the upside opportunity. Through the licensing business, we are, in effect, engaged in a venture capital operation — one that is entirely funded by others. (Venture capital is not our game but we happily accept free options for licensing the Maxim brand.) As a consequence, there is option value embedded within this component of our business, with a payoff that can range from zero to a material sum. To maximize our chances for the latter, we are working to improve the pipeline of potential licensing partners.

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

By retaining all our earnings and skillfully increasing our ownership of other businesses, we will grow our shareholders' wealth. Phil and I expect such an accretion of value to eventually be reflected in the market price. Therefore, we will focus our efforts on gain in per-share business value, knowing that in the long term, market price will eventually arrive at about the same destination. Of course, in the interim, the divergence between market value and business value may be significant. During such a period, which can go on for some time, there is a transfer of wealth among shareholders, a situation Phil and I dislike. Ideally, a shareholder's results align with the business's results.

Stockholders collectively prosper in concert with the prosperity of the corporation. (They also suffer in concert with its failings.) Although we are not responsible for the price you pay for the corporation's stock, we are responsible for the per-share intrinsic value we create during the period of your ownership.

The material contained in this report is designed to provide you with the information necessary to arrive at the corporation's per-share intrinsic value — information we would want to know if our roles were reversed. Our goal during your period of ownership is to build per-share value that exceeds the rate of return of the S&P 500 Index. The longer a shareholder's holding period, the greater the alignment between the corporation's business performance and its stock performance. We hope your time horizon is expressed in decades.

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.

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.

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 2024 quarterly results after the market closes on May 10, August 9, and November 8. The 2024 annual report will be posted on our website on Saturday, March 1, 2025.

The annual meeting will be held at 1:00 pm on Wednesday, April 17, 2024, at San Antonio's Majestic Theatre, a venue that lives up to its name. We hope you enjoy the city to the fullest. We have obtained discounts at several hotels that are posted on our website. The bulk of the gathering is a question-and-answer session that usually lasts several hours, covering myriad topics on shareholders' minds. Last year, many shareholders traveled from afar to be with us, and once again we expect a greater number to join us this year. 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.

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Biglari Holdings is a dynamic, multifaceted enterprise. Phil and I are implementing the basic idea of combining many profitable companies into one powerful corporation. We have the capability to channel resources anywhere, enabling us to move in any direction, in any industry, in any part of the world. By revering logic and operating without conventional constraints, we hold the advantages necessary to maximize the per-share value of the company.

We are fully committed to making your journey with us a prosperous one.

Sardar Biglari
Chairman of the Board

February 24, 2024