Dear Shareholders of Biglari Holdings Inc.:

Biglari Holdings is an entrepreneurial enterprise that possesses formidable strengths. In August 2008, we took control of a company on the brink of bankruptcy and then built Biglari Holdings into a collection of operating companies, plus investments of over $1.0 billion. Our economic objective — the guiding principle underpinning Biglari Holdings — is to maximize per-share intrinsic value.[1]

To achieve our economic objective, our preference is to amalgamate excellent businesses under the ownership of Biglari Holdings. We endeavor to add streams of cash by annexing unrelated businesses to the parent company. In union lies strength.

We think of Biglari Holdings as a museum — not of art but of businesses. As business collectors, distinct from art collectors, we depend on the flow of cash to determine the value of an investment and need not depend on the whims of future buyers. Therefore, our interest lies in owning cash-producing assets.

To achieve uncommon success we have fashioned an organization with uncommon advantages. Phil Cooley, Vice Chairman of Biglari Holdings, and I believe it necessary for all shareholders to gain an understanding of Biglari Holdings' substantial advantages, which afford us opportunities for commercial gain.

The solidity of Biglari Holdings is inherent in its corporate architecture. The adoption of capital allocation policies enabling maximum flexibility has accounted for much of our economic gain. Indeed, we constantly compare one opportunity against a multitude of others in determining capital utilization. We are, therefore, not constrained by structure, tradition, or convention. Much like an art museum that claims Monets as well as Rembrandts, our economic museum has no allegiance to any one industry.

Although about 21,000 people are employed by Biglari Holdings, only 5 reside at corporate headquarters. We centralize control of capital allocation but seek to decentralize management at the business unit level. As the sole deployer of capital, I employ neither analysts nor advisors in evaluating acquisitions or investments. Our method of operation — seizing remunerative business and investment opportunities — has led us to turn $1.6 million into $1.0 billion. Here is the year-by-year development in Biglari Holdings' meteoric rise in investments:

(In Millions)

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

* *Data are for calendar years. The years 2009 through 2014 were fiscal years that ended on the last Wednesday nearest September 30. The 2008 data is for the fiscal quarter ending on July 2, 2008, the nearest fiscal quarter prior to present management assuming control.*

** *These sums are Biglari Holdings' investments in The Lion Fund, L.P. and The Lion Fund II, L.P. The interests of the other limited partners are not included. Both partnerships throughout this letter will be referenced as The Lion Fund.*

[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.

With the upsurge in investments, we developed another advantage: financial strength. Regardless of the economic climate, we will plow ahead like a powerful ship in a stormy sea. We have no debt at the parent company level, and our financial strength provides a safety net to buffer against major shocks and managerial miscalculations. Unlike many public corporations ill-prepared to cope with extreme market and economic conditions, we are built to endure. We have arranged our affairs in order to maintain freedom from external capital markets.

Biglari Holdings' balance-sheet strength is a decided advantage in acquisitions. For instance, when we purchased First Guard Insurance Company, the epitome of an ideal acquisition, our financial strength and long-term perspective removed constraints on earnings by accepting volatility for higher expected profits over time. Following our acquisition, First Guard's large reduction in insurance premiums ceded to its reinsurer led to substantially higher earnings.

Furthermore, our edge over other acquisitive firms is most evident in our willingness and ability to provide a permanent corporate home. Biglari Holdings' commitment to sellers of permanent ownership is unassailable since I am the controlling shareholder of the corporation. Sellers can rest assured that Biglari Holdings will not experience a change of control.

Biglari Holdings is appealing to entrepreneurs who have an interest in monetizing their holdings — e.g., because of estate tax or diversification — and who are desirous of continuing to run their business. Our management system is adaptable; that is, we adapt to the realities of each business unit. Owner-managers can continue to run their own show as part of Biglari Holdings' group of companies. Continuity serves as a competitive advantage, one we intend to maximize. This philosophy was essential to the founder and CEO of First Guard, Edmund B. Campbell, III, who deeply cared about his creation and the people who helped build it. He found a new corporate home, and we found an admirable owner-operator who continues as CEO. His motivation is derived not from financial need but from the thrill of continued accomplishment.

To be sure, we can develop our enterprise significantly through acquisitions. However, for the last several years Biglari Holdings' economic domain has not grown through external expansion. We bide our time. Most potential acquisitions do not come close to passing our threshold of acceptability. For every hundred businesses we review for acquisition, only one or two may interest us. We readily acknowledge that acquisitions are an easy way to *lose* money — finding masterpieces *and* not overpaying for them is the trick of the trade. We will wait as long as necessary to unearth uncommon value. Biglari Holdings' ascendency will depend on sidestepping folly yet seizing strong cash-flow generators.

When we began managing the enterprise in August 2008, Steak n Shake was suffering staggering *losses*, at a rate of $100,000 *per day*. However, since 2009 Steak n Shake has generated substantial earnings and paid $345.7 million in cash to its parent company, Biglari Holdings, to fund our growth. Over the last nine years, we have acquired three businesses in their entirety and made significant investments in securities.

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

Investments

By the end of 2017, total investments (cash, marketable securities, and Biglari Holdings' investments in The Lion Fund) amounted to about $1.0 billion, of which over half were derived from investment gains through the stock market. Our investment activities are largely conducted through The Lion Fund, whose origin dates from the year 2000 when I founded it.

In 2008 we started with a little over a million dollars and ended 2017 with a little over a billion dollars. Here is how:

	2008-2017
Cash & Investments as of July 2, 2008	$ 1,621,000
Investment Gains (net of losses)	533,179,000
Operating Businesses	227,473,000
Acquisitions of Businesses	(68,111,000)
Net Increase in Subsidiary Debt	155,978,000
Equity Offerings	161,468,000
Cash & Investments as of December 31, 2017	**$ 1,011,608,000**

The cash production from our operating businesses supplied the capital for investments, which generated an even greater amount of profit. Our operating and capital allocation strategies are logical to us but unconventional in corporate America. Most firms do not even consider fractional ownership of businesses via the stock market, thereby restricting themselves to the purchase of entire businesses in negotiated transactions — and typically within the industry they occupy. We view stocks as ownership in a business. Within a wide universe of investment possibilities, our scope of activity is limited only by our scope of knowledge.

In selecting stocks of businesses, we are adherents of simplicity and concentration. We do not believe in the diversification of equities, an established canon of investment theory. We hold the view that the disadvantages of diversification exceed the disadvantages of concentration. Loss is caused not by inadequate diversification but by inadequate knowledge. We have the ability — operating as a permanently capitalized vehicle — along with the temperament to handle vicissitudes with equanimity. Because we command capital, we command a competitive advantage. We have adopted a strategy that is long-term, value-oriented, and extraordinarily concentrated. The art of concentrating in common stocks is the art of knowing what to ignore. We search for no-brainers. To put investing in poker parlance: When you hold a royal flush, go all in.

The Lion Fund's largest common stock holding is 4,737,794 shares of Cracker Barrel Old Country Store, Inc., a 19.7% equity interest. We purchased stock in Cracker Barrel for $241.1 million from May 2011 through December 2012, with a dollar-weighted purchase date of December 2011. Over six years of ownership, we have not sold a single share. At the end of 2017, the market value of our stake was $752.8 million. Along the way we have also collected $144.6 million in dividends from Cracker Barrel, or 60% of our cost. In effect, adjusted for dividends, we paid about two times last year's earnings per share.

At year-end 2017, Biglari Holdings had a $925.3 million investment in The Lion Fund partnerships, with net unrealized appreciation from the securities of $510.3 million. 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 $95.3 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. Because of the recent change in the corporate tax rate from 35% to 21%, our deferred tax liability related to unrealized gains on marketable securities was reduced by $53.5 million, with a corresponding increase in shareholders' equity.

The decrease in the level of taxation translates into a double benefit. Our equity holdings' earnings power increases (subject to some qualifications) because these corporations pay lower taxes on their earnings. The earnings they retain, judiciously reinvested, eventually translate into market appreciation, resulting in another benefit: Our share of the capital gains is assessed at the new corporate tax rate. We note that the benefits of lower corporate taxes will be principally passed on to a corporation's owners and its customers — higher profits to owners versus lower prices to customers, depending on the economic dynamics of the business.

Operating Businesses

Biglari Holdings' collection of operating businesses comprises four constituent companies, each 100%-owned: Steak n Shake, Western Sizzlin, First Guard, and Maxim. The subsidiaries generate cash beyond their needs, forming a river of cash that flows to the parent — the faster it flows, the faster we grow as a multi-industry company. Whereas we pursue a concentrated approach in investments, the acquisition of controlled businesses will continue to diversify the parent company.

Because we are driven by intrinsic value, not by an income statement, in our view our reported earnings do not properly represent a meaningful measure of our economic progress. Nevertheless, 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)	
	2017	**2016**
Operating Earnings:		
Steak n Shake	$ 431	$ 34,717
Western Sizzlin	1,860	2,506
First Guard	4,770	5,135
Maxim	(439)	(10,078)
Corporate and Other	(15,437)	(10,147)
Operating Earnings Before Interest and Taxes	(8,815)	22,133
Interest Expense	11,040	11,450
Income Tax Expense (benefit)	(58,846)[1]	2,564
Net Operating Earnings	38,991	8,119
The Lion Fund (net of taxes)	11,080	91,332
Total Earnings	$ 50,071	$ 99,451

(1) Includes $53.5 million in income tax benefit derived from a reduction in deferred tax liability related to unrealized gains on marketable securities.

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. We simply separate changes in the partnerships' values from those in operating businesses when we report Biglari Holdings' earnings. As value-focused investors, not quotation-focused speculators, we evaluate our equity holdings within The Lion Fund based on their underlying operating results, not on their short-term changes in market price. Speculators make short-term bets whereas investors make long-term commitments on long-term outcomes.

The net operating earnings of $39.0 million in 2017 versus $8.1 million in 2016 provide an incomplete evaluation of our performance. We measure business progress on the present value of future cash flows. The logical approach for shareholders to appraise Biglari Holdings is through reviewing the performance of each operating subsidiary.

Restaurant Operations

Our restaurant operations consist of Steak n Shake and Western Sizzlin for a combined 677 restaurants. However, the business models of each differ. Steak n Shake primarily operates restaurants, totaling 615 locations, of which 415 are company operated. Western Sizzlin, on the other hand, is primarily engaged in franchising restaurants, with 62 units — all but 4 are franchisee run.

The Western Sizzlin team continues to produce commendable cash flows. In March 2010 Biglari Holdings purchased Western Sizzlin for a net purchase price of $21.7 million. Since then, Western Sizzlin's cash distributions to the parent company have totaled $20.8 million, which we have redeployed into more gainful opportunities. Western Sizzlin will continue to pile up cash for Biglari Holdings, consistent with our cash-generating philosophy.

* * *

Here is a review of Steak n Shake's results since 2008:

(Dollars in 000's)

	Net Revenue	**Operating Earnings**	**Number of Customers**	**Same-Store Sales**	**Number of Company Stores at Year-End**	**Operating Earnings Per Store**
2008	$ 610,061	$ (30,754)	85,000,000	(7.1%)	423	$ (72.7)
2009 (53 weeks)....	628,726	11,473	91,000,000	4.1%	412	27.8
2010	662,891	38,316	101,000,000	7.5%	412	93.0
2011	689,325	41,247	105,000,000	4.2%	413	99.9
2012	718,010	45,622	110,000,000	3.8%	414	110.2
2013	737,090	28,376	112,000,000	2.2%	415	68.4
2014	765,600	26,494	114,000,000	2.9%	416	63.7
2015	805,771	39,749	118,000,000	3.6%	417	95.3
2016	804,423	34,717	116,000,000	(0.4%)	417	83.3
2017	792,827	431	111,000,000	(1.8%)	415	1.0

Notes: Customer count is only for company-operated units. The 2017, 2016, and 2015 data are presented for calendar years. The years 2008 through 2014 were fiscal years that ended on the Wednesday nearest September 30.

Last year can be summarized, in contrast to Sinatra's lyric: It was *not* a very good year. The company's earnings before interest and taxes were about breakeven, the lowest experienced under current management. Steak n Shake's lugubrious performance does not make us crestfallen but rather determined as an organization to unleash the potential in the brand.

For many years we bucked industry trends with an exceptional trajectory in customer traffic and same-store sales. In 2008 we overcame innumerable difficulties by repositioning the brand to one successfully competing in the burger category. For seven straight years we profitably gained market share, despite fierce rivalry among our competitors. In recent times, our lack of performance was caused by our own lack of execution.

Since 2008, the number of customer visits has grown by 26 million — from 85 million to 111 million — all through the same stores. However, over the past two years, we have lost 7 million in customer visits. Increasing customer traffic *profitably* through existing stores — and leveraging fixed restaurant-level costs — enhances value more than any other concept. The opposite is also true: Decreasing customer traffic diminishes value.

Despite recent lackluster results, our formula for success remains unchanged: Provide the highest quality burgers and shakes at the lowest possible profit per customer from an ever-increasing number of customers. We are subscribing to Henry Ford's motto: "To make money, make quantity." In 2017, because we lost quantity — that is, customer traffic — we made less money. We lost customers because we failed to execute on delivering a superior value proposition vis-à-vis our competition. When faced with a decision to improve short-term profits by reducing product quality and customer experience, we opted to do the opposite, which, in the near term, contracts profit margins.

We do not just sell burgers and shakes; we also sell an experience. The entire organization is therefore working assiduously to become exceptional in operations. We are injecting verve into the company by allotting significant resources to improve the customer experience. It is a truism that if a business does not evolve, it will eventually devolve.

Far too often, I have seen restaurant chains that experience declining customer traffic and earnings resort to raising menu prices as well as cutting the quality of products and service levels, with some even compounding the error by continuing to open new units rather than addressing the problems in existing ones. A solution centered on boosting short-term profits usually creates an even greater long-term problem. Following that erroneous pathway has led many great American success stories to become great American failures. With so many chains becoming members of the Restaurant Casualty Club, I am reminded of Groucho Marx's adage: "I don't want to belong to any club that will accept me as a member."

We persist as an industrious organization where cost control is imperative to achieving competitive superiority. We labor unremittingly to achieve cost efficiencies that are largely passed on to customers in the form of higher quality products and lower selling prices. Low operating costs facilitate low prices, which in turn draw in customers. An extremely strong value proposition benefits the masses. Steak n Shake is a brand for everyone, enriching the lives of millions.

While the performance of the traditional side of our business, company-operated units, was subpar, the emerging side of our business, franchising, continued to progress profitably. We leverage the Steak n Shake brand to capitalize on a franchise-based model, a non-capital-intensive strategy that generates high-return, annuity-like cash flows. Franchising is a business that not only produces cash instead of consuming it, but concomitantly reduces operating risk.

We have long believed that Steak n Shake is a brand that can become ubiquitous. To make this dream a reality, we have been investing significant sums to advance our franchising initiatives. The impact of our investments is displayed below in the number of franchise units and the revenue derived from them:

(Dollars in 000's)

	Number of Franchise Units	**Franchise Revenue**
2010	71	$ 4,205
2017	200	18,226
Gain	129	$14,021

The first franchised unit opened in 1939, five years after Steak n Shake was founded. From 1939 to 2010, Steak n Shake grew by an average of one franchised unit per year. Phil and I are long-term thinkers, but a one-unit-per-year pace, even by our standards, is one to which we are unaccustomed. We built a franchise system from near scratch by allocating the capital necessary to support franchise growth. Over the last seven years we have added, net of closures, 129 franchised units, or an average of about 18 units per year. For the period 2011 through 2015, the franchising business operated at a loss, but intrinsic value advanced. In 2017, franchise operations generated a profit of $4.0 million, despite net unit growth falling short of our expectations.

Our prospects in franchise operations — domestic and international — look bright. Moreover, the modularity of Steak n Shake's design has permitted us to adapt to and thus expand into universities, casinos, airports, sports arenas, and gas stations, among other venues.

First Guard Insurance Company

First Guard has been a dream acquisition. Finding Ed Campbell was like discovering oil — only better, because my association with him has been enjoyable on a personal level.

First Guard is a direct underwriter of commercial trucking insurance — with no agent between the insurer and the insured — rendering the company a low-cost operator with a sustainable competitive advantage. A low-cost method of distributing trucking insurance makes for a sound insurance business. The Campbell family has gained an edge by honing their craft in trucking insurance for over half a century. Ed took an important concept — direct marketing to truckers — to fruition. Under his steady hand, he has guided the insurer with an unmatched track record: First Guard has achieved underwriting profitability for 21 consecutive years, a truly remarkable achievement.

We purchased First Guard and its affiliated agency on March 19, 2014. Shown below are the results for the last four 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)

	Net Written Premium	**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

** 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.*

First Guard has been an island of underwriting profit in a sea of industry losses. The First Guard team produces first-class profits because of its first-class operation. The company's four-year combined ratio is an impressive 79.7%. Since Biglari Holdings acquired ownership, an aggregate of $15.8 million in pre-tax profits has been created. First Guard is an exemplar of what brains and hard work can produce: unusually high profitability that continually adds to its unusually high liquidity.

First Guard is proof that bigger is not better, but rather, better is better. Unequivocally, First Guard is the best in its line of business.

Maxim Inc.

Maxim was acquired when it was an unprofitable, moribund company. We prevented Maxim from becoming roadkill on the publishing highway by transforming its business model. We found safety in a bargain purchase price along with the opportunity to convert a dying magazine company into a profitable business. Thus, we bought Maxim *not* to be in 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.

As an initial step in implementing our underlying concept, we repositioned the brand to become aspirational and inspirational with a periodical depicting style and sophistication. The publication of a luxury lifestyle magazine is a springboard for developing high-margin lines of business built around the Maxim name.

Our operating philosophy is to view *all* expenses as variable. We assumed control of Maxim nearly four years ago. Between year-end 2014 and year-end 2017, productivity advanced by 253%; employee count dropped by 88%. In other words, revenue per employee increased from $242,381 to $856,449. True, we inherited a bloated cost structure centered on legacy print publishing. However, we emerged as a radically different company with a highly efficient system. Credit the creative, cost-conscious team for its ability to operate effectively with a fraction of the staff of its competitors.

Clearly, Maxim is no longer exclusively a magazine. In 2017, licensing generated $3.2 million, up from $2.1 million in the preceding year. In sum, for the year we operated at near breakeven and now expect to build profits throughout 2018. As licensing revenue increases, we expect profits to follow.

Proposed Recapitalization

We will be proposing to shareholders at a Special Meeting in the near future the approval of a recapitalization of Biglari Holdings to create a holding company with a dual class structure. If adopted, our common stock will be designated class "A" common stock and class "B" common stock. Each share of B common stock will have rights equivalent to one-fifth of a share of A common stock, except that class B shares will have no voting rights.

To effect the creation of two classes of stock, current shareholders will receive, for every ten shares of existing common stock they own, (i) ten shares of Class B common stock and (ii) one share of Class A common stock. We expect both shares to be listed on the New York Stock Exchange. A proxy statement will be mailed to all shareholders detailing the proposal.

The purpose of creating two classes of stock is to enable the issuance of stock in future acquisitions without risking a change of control. To maximize optionality for the benefit of all shareholders, we think it is necessary to create a dual class structure.

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 managing the business. 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 2018 quarterly results after the market closes on May 4, August 3, and November 2. The 2018 annual report will be posted on our website on Saturday, February 23, 2019.

Our annual meeting will be held at 1:00 pm on Thursday, April 26, 2018 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.

* * *

At headquarters we operate with a modicum of personnel. I am grateful to my team of four at our corporate office, who demonstrate that a business can perform effectively without employing a battalion. Our organization is designed to permit the efficient administration of a much larger enterprise. Our structure is the antithesis of a paper-shuffling bureaucracy.

In business and investments we are often going against the views of the majority. We rely on our own reasoning and judgment, not on consensus or consultants. Facts steer us, not the tide of prevailing opinion. Taking a contrary position often incites dissent and disdain to which we pay no attention. However, we are not contrarian for its own sake. Our decisions are aimed at building strength and value behind each share that you own.

Our entrepreneurial odyssey, tracing its roots to a concern founded in 1996 with $15,000, has led to the creation of a billion-dollar, multifaceted enterprise. The story of Biglari Holdings — guided by logic and a farsighted perspective — is one of entrepreneurship. Phil and I look forward to continuing our prosperous journey with you, our long-term shareholders.

Sardar Biglari
Chairman of the Board

February 23, 2018