Dear Shareholders of Biglari Holdings Inc.:

We view Biglari Holdings as a museum of businesses — an eclectic collection of controlled and noncontrolled enterprises. Because we are collectors of businesses, as opposed to collectors of art, our central interest lies in owning productive assets. We endeavor to build upon this collection with companies possessing excellent economics, operated by exceptional management. The art we practice is that of collecting and building businesses. Andy Warhol captured the essence of our sentiment when he wrote, "[M]aking money is art and working is art and good business is the best art."

The history of Biglari Holdings has been an entrepreneurial journey of corporate growth through business combination. Once we gained control of Steak n Shake in 2008, the restaurant chain became the nucleus of Biglari Holdings. In due course, Steak n Shake's burgeoning trove of liquid assets allowed us to carry out our acquisition strategy. Over the years, we added Western Sizzlin Corporation, Maxim Inc., First Guard Insurance Company, Southern Oil Company, Southern Pioneer Property & Casualty Insurance Company, and, most recently, Abraxas Petroleum Corporation, listed in order of acquisition. In 2022, Biglari Holdings garnered pre-tax operating earnings of $36.3 million from its seven first-line businesses.

Our catalogue of products — ranging from burgers to barrels — share the common characteristic of generating cash because they are wanted or needed by our customers. Our subsidiary businesses send us the money they earn after meeting their capital requirements. Cash is cash, whether derived from the operation of restaurants or oil wells. Such a perspective transforms every enterprise into an economic equivalent, as measured on the basis of its intrinsic value.[1] Biglari Holdings' principal objective is to maximize its per-share intrinsic value.

Behind our corporate configuration lies not some inscrutable intention but an alertness to opportunity, resulting in capital deployment across multiple industries. If Biglari Holdings is the wheel, the parent company is its hub and the subsidiary businesses its spokes. When a major acquisition is made in one of our established areas — insurance, oil and gas, or restaurants — that spoke is reinforced, while a new spoke is added when we enter a new industry. We possess a readiness to enter almost any industry, provided we can obtain the right business, the right people, and the right price.

The quest to develop a multi-industry corporation is unpopular in many quarters. Yet we concern ourselves with profits rather than popularity. An acquisitive corporation devoted to one field alone will invariably find limited options within its domain, and usually at unattractive valuations. By adopting the unorthodoxy of a diversified corporation, we are able to efficiently move capital wherever and whenever it makes the most economic sense. We do not shrink the universe of acquisition possibilities through the arbitrary roadmaps of tradition or convention; nor do we let such dictates circumscribe our actions. Rather, our limitations are based solely on our ability to evaluate the future economics of a potential business purchase. Powered by opportunism, our capital allocation vehicle undertakes acquisitions in an effort to advance per-share value.

To build its collection of companies, Biglari Holdings combines decentralized operations with centralized financial decision-making. The operating businesses we have acquired — such as First Guard and Southern Pioneer — are overseen today by the very families responsible for their creation. By granting an unusual degree of managerial autonomy, avoiding involvement in the day-to-day matters of the subsidiaries, we preserve the entrepreneurial spirit. The main area we assume responsibility for is capital allocation, which is managed exclusively by your Chairman. In carrying out my duties, I employ neither analysts nor advisors in the evaluation of acquisitions or investments. We seek to benefit from economies of

[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.

scale while sidestepping the diseconomies of scale that arise from unnecessary corporate bureaucracy. It is a system in pursuit of ever greater expansion, with the added benefit of swift decision-making regarding acquisitions. After all, sellers love a buyer who can move fast.

When assessing capital allocation opportunities, in the main we seek full ownership, but partial ownership of businesses via the stock market often offers uncommon value vis-à-vis negotiated transactions for entire businesses. Because of our attitude toward equity markets, viewing stocks as ownership interests in businesses, our range of investment options is magnified exponentially. The world is our market.

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. We must deploy capital *intelligently*. Of course, our search is aided by maximizing the number of competing opportunities within which our capital will find its home. Over the years, we have built a reservoir of knowledge in evaluating different kinds of businesses and marketable securities. Our opportunistic expansion into an array of businesses has accounted for much of our progress to date. Time and again, flexibility with respect to capital allocation has proved to be one of our greatest strengths.

As a consequence of our seizing remunerative business and investment opportunities over the past fourteen years, Biglari Holdings' cash and investments grew from $1.6 million to $490.0 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**

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.

Biglari Holdings' operations are diverse and its capital structure sound, factors that ground the company and engender ample margins of safety. Indeed, one of the most durable advantages of associating with Biglari Holdings is its capital strength. The conservative principles guiding the corporation are what make it resilient in difficult economic environments. Phil Cooley, Vice Chairman of Biglari Holdings, and

I have observed far too much insouciance among managers when it comes to corporate debt — to the detriment of their stockholders, as adverse conditions inevitably arise. A prepared mind, backed by a rock-solid balance sheet, positions us to be aggressive when others are mired in apprehension.

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 postulated in last year's report, 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 292,196 Class A equivalents (as opposed to the 620,592 shares outstanding) at year-end.[2] Correspondingly, the value of total investments would be adjusted to $262.7 million, which is the carrying value as opposed to the fair value ($490.0 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 2022, the per-share book value of our Class A stock was $1,872. Our per-share book value declined 3.2% in 2022, outstripping the performance of the S&P 500 Index by 14.9 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.

The two quantitative figures that we believe are critical for evaluating the company are 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
Annual Growth Rate, 2008-2022	45.3%	N.A.
One-Year Growth Rate, 2021-2022	(27.3)%	53.6%

In 2022, our investments per share decreased by 27.3% to $899, and our pre-tax operating earnings per share from businesses other than investments increased 53.6% to $117.23. The decrease in investments per share is mostly the result of shifting capital to acquire Abraxas Petroleum but is also due to the performance of our investments. Since 2008, our compounded annual increase in investments per share has been 45.3%, a figure distorted by the initial measurement period. Then again, the cash at the start does represent the liquid assets we had to work with at the time. On a per-share basis, the company had just $4 of cash and $63 of debt at the fiscal quarter-end prior to August 5, 2008, the date we took control.

Biglari Holdings, born as a company with all its capital tied to a moribund restaurant chain, has transformed itself into a multifaceted enterprise. We started with a restaurant base that was generating operating losses and had a great deal more debt than cash. Over the ensuing fourteen years, we have acquired six businesses through negotiated transactions, paid in cash, and allocated funds toward investments. At year-end, the corporation carried just $10 million of debt, or $34 per share. Phil 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.

[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.

Investments

By the end of 2022, total investments (cash, marketable securities, and Biglari Holdings' investments in The Lion Fund) amounted to $490.0 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.

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
2,055,141	Cracker Barrel Old Country Store, Inc.	$194,704
360,000	Ferrari N.V.	77,106
1,041,461	Jack in the Box Inc.	71,059

As indicated in the table above, at year-end our 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 9.3% of Cracker Barrel's outstanding stock at an average cost per share of $51.25. Our income from Cracker Barrel dividends alone was $10.7 million last year. Our 9.3% interest in Cracker Barrel is tantamount to owning 100% of a restaurant and retail chain generating about $300 million in annual revenue.

From 2011 through year-end 2022, we received proceeds of $471.1 million from the sale of Cracker Barrel stock, $238.1 million in dividends and derivative gains, plus we held a remaining stake of $194.7 million in market value. In sum, over an eleven-year period, our investment in Cracker Barrel of $245.5 million turned into $903.9 million in value.

Although we now own two new marketable stocks of note, we continue to concentrate our holdings. Our practice is value-oriented, long-term, and devoid of unnecessary diversification. The vicissitudes inherent in shareholding, combined with our policy of concentration, has had a great year-to-year effect on our net worth. At year-end, our three major investment holdings — Cracker Barrel, Ferrari, and Jack in the Box — had a market value of $342.9 million. Adjusted for the corporation's weighted 89.1% interest in its investment partnerships, these three securities represented about 56% of the net worth of Biglari Holdings.

We regard noncontrolled positions in stocks as akin to the minority ownership of private businesses for which no market quotation exists. Continuing this conceptual framework, our attention is on long-term business performance, not short-term stock performance. Over the long run, per-share business value and stock price will meet at nearly the same place.

Because entering and exiting marketable securities can be done with such ease, equity participants often engage in a miasma of speculation. Those who place an emphasis on the short term create exploitable possibilities for long-term investors since (1) value is the determining factor in the long run and (2) deviations in price from value are self-correcting over time.

It is also not uncommon for our recent purchases to remain lackluster in stock performance for a period of time — a circumstance we welcome, for declining prices may give us an opportunity to increase our economic interests. Because of the factors that led to the undervaluation, it may take considerable time for their reappraisal in the market. Besides, we seldom venture into possibilities where the sun shines. But when the clouds eventually lift, prices blossom.

Biglari Holdings had a $383.0 million investment in The Lion Fund at the end of 2022. In addition, the corporation had $69.5 million in marketable securities outside the partnerships. To be sure, there are disadvantages for a corporation that holds minority interests in other corporations, *inter alia*, the tax expense. But the tax disadvantage is more than offset by the advantages of the stock market, which occasionally serves up partial ownership interests in excellent enterprises, at reasonable — or preferably, unreasonably low — valuations.

Naturally, if Biglari Holdings and The Lion Fund do not sell their appreciated securities, a factor emerges that will mitigate the disadvantage of our corporate form. The company's investments, including those made through affiliated partnerships and subsidiaries, exclude deferred income taxes on unrealized gains. As is evident in Biglari Holdings' financial statements, we would owe taxes of $23.4 million if all investments were sold 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 $23.4 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.

Our overall investment gains have provided us with the funding necessary to make acquisitions when opportunities have presented themselves.

Abraxas Petroleum Corporation

We struck oil — again! Our only business acquisition of 2022 was the $80 million purchase of a controlling interest in Abraxas Petroleum. Specifically, we bought preferred stock, which was subsequently exchanged for common stock representing 90% ownership of the company.

The preferred-stock structure was negotiated between the company and its former lender, Angelo Gordon & Co., an investment group that had later determined to divest itself of its fossil fuel holdings. I sent Angelo Gordon a one-page letter on September 5, and nine days later we closed on the transaction. We were able to purchase the preferred stock from the firm in large part because we proceeded faster than any other suitor.

Abraxas Petroleum is a producer of oil and gas that operates in the Permian Basin of West Texas. I have followed the company, headquartered in San Antonio, for nearly a quarter century. As was the case with Southern Oil, large capital expenditures were made at Abraxas Petroleum prior to our arrival. The company also shares the distinguishing characteristic of owning producing wells that should more than cover our acquisition cost.

Operating Businesses

Biglari Holdings has seven major controlled businesses: Steak n Shake, Western Sizzlin, Maxim, First Guard, Southern Oil, Southern Pioneer, and Abraxas Petroleum. Every time we add a new business, a new source of cash is created for the holding company. Or in the words of the singular Benjamin Franklin, "Money can beget money, and its offspring can beget more, and so on."

Our seven constituent businesses are all high-grade operations, and that is a credit to the people who run them. All the progress these businesses have achieved springs from human effort.

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)	
	2022	**2021**
Operating Earnings:		
Restaurant Operations:		
Steak n Shake	$ 11,478	$ 13,524
Western Sizzlin	1,484	931
Insurance Operations:		
Underwriting—First Guard	6,578	10,573
Underwriting—Southern Pioneer	(1,277)	1,744
Investment Income and Other	4,603	2,118
Oil and Gas Operations:		
Abraxas Petroleum*	652	—
Southern Oil	24,539	9,713
Maxim	1,760	814
Corporate and Other	(13,099)	(13,383)
Interest Expense	(399)	(1,121)
Operating Earnings Before Taxes	36,319	24,913
Income Taxes and Noncontrolling Interests	(8,694)	(3,166)
Net Operating Earnings	27,625	21,747
Investment Gains/Losses**	(59,643)	13,731
Total Net Earnings	$(32,018)	$ 35,478

**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 2022, the corporation had net operating earnings of $27.6 million. In 2023, we expect our seven business units to generate substantial cash with no need for obligatory reinvestment, which will be available for the purchase of new businesses. 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 545 units. However, their business models differ. Steak n Shake, with 506 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 39 units — all but 3 are franchisee-run.

Western Sizzlin Corporation

Western Sizzlin had nearly 140 restaurants when Phil and I took control of the company in March 2006. With just 39 units today, we have therefore presided over a 70% reduction in the number of restaurants. The same year Phil and I took over Western Sizzlin, one of its competitors, Buffets, Inc., acquired Ryan's Restaurant Group to become the nation's largest buffet restaurant chain at the time. With a combined 675 restaurants, Buffets, Inc., was nearly five times bigger than Western Sizzlin in unit count. Over the past 16 years, Buffets has filed Chapter 11 bankruptcy four times — a.k.a. Chapter 44 — and as a consequence Western Sizzlin is now about ten times bigger than Buffets in unit count. But the most notable difference between the two companies is that ours has generated considerable wealth for its owners over the same period. Between 2006 and 2010, Western Sizzlin shareholders earned a satisfactory return, as have Biglari Holdings shareholders since the acquisition.

Nearly 13 years ago, on March 30, 2010, Biglari Holdings purchased Western Sizzlin for a net purchase price of $21.7 million, which included $2 million of marketable securities and undeveloped real estate that today would command a multiple of its $3.8 million purchase price. Since then, Western Sizzlin has sent $28.0 million in cash to its parent company, Biglari Holdings. Furthermore, Western Sizzlin continues to produce dependable cash for the holding company.

Our strategy runs counter to the convention that a corporation must reinvest money where it was earned. Most managers sitting in our seats would not have done what we did: take Western Sizzlin's restaurant earnings and deploy them in unrelated but more productive investments. The flexibility with which we can move capital based on opportunity demonstrates an essential advantage of our holding company. Our experience with Western Sizzlin underscores the proviso that a declining business can remain a good investment if rationality guides capital allocation. Of course, the success of any sound idea is only as good as its execution. The individual responsible for Western Sizzlin's cash generation is Robyn Mabe, the company's CEO. She started in the accounting department back in 1993 and has done a sensational job in every position she has held. We are lucky to have Robyn.

Steak n Shake Inc.

When present management took control of Steak n Shake in August 2008, it was during an economic tsunami in global markets. And it felt like we had just become captain of the *Titanic*. We had only $1.6 million of cash on hand, debt of $27 million, and losses of approximately $100,000 *per day*. As that tsunami's wake demolished other restaurant companies, 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.

Steak n Shake has gone through both a turnaround (2008-2009) and a transformation (2018-2020) in our fourteen years of ownership. A turnaround is when a failing company is able to succeed again by restoring what it had once done successfully. A transformation is when a company alters its business model in response to major shifts in its industry.

Despite starting with a shaky foundation, from 2009 through 2017 Steak n Shake managed to produce aggregate pre-tax operating earnings before corporate interest of $266 million. But in 2018, Steak n Shake was back to registering losses, which eventually led to an aggregate pre-tax loss of $33.8 million by the end of 2020. So we radically transformed the business model to avert ruinous losses. Starting in 2021, the company became profitable once again.

Here is a recap of the company'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

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

In 2022, Steak n Shake produced pre-tax operating earnings of $11.5 million. However, Steak n Shake is not yet earning a return commensurate with the capital employed in the business. Its accounting net worth is around $194 million, but we expect this figure to decline to about $150 million as we distribute cash and reduce our investment in fixed assets. Our goal is to achieve a minimum pre-tax cash return on capital of 20% per annum.

Before our transformation, Steak n Shake was an old buggy-whip restaurant company. Its original business model did not work in the modern era. The company suffered from labor-intensive table service combined with outmoded kitchen equipment in its production line. Thus, we made the decision to eliminate Steak n Shake's table service in 2020, after offering it for 86 years.

The capital outlay needed to transform the business was approximately $50 million. The expenditures included remodeling the interior of the restaurant, introducing a new point-of-sale system, and installing self-order kiosks. The heavy commitment to capital improvements is behind us. If we had not invested in innovation, our competitors would have retained their advantage.

For the past few years, customers in the dining room have ordered at a kiosk rather than at a counter or with a server. Overwhelmingly, our customers have embraced the seamlessness of the experience. Our transformation is a textbook case of adjusting the business model rather than accepting fate.

Converting our operation from a full-service to a self-service format has led to a boost in per-restaurant productivity. Under the old model, annual sales per employee, measured on a full-time-equivalent basis, were about $64,000; now they are nearly $131,000. The resultant cost savings have largely been passed on to customers through low prices, and to associates through higher wages. We are following Henry Ford's dictum: "There is one rule for industrialists and that is: Make the best quality of goods possible at the lowest cost possible, paying the highest wages possible."

The gain in productivity has allowed us to increase per-hour wages by over 70% since 2019. We are no longer the minimum-wage employer in our category. Phil and I shun the outmoded notion that the restaurant industry's success depends on a reservoir of inefficient but cheap labor. Even as inflation has besieged the industry, Steak n Shake is committed to making efficient use of talented staff while pursuing the designation of *maximum*-wage employer in its respective communities. Although our self-service model has led to productivity gains, we have made a conscious decision to enhance meaningful interactions with our guests through the addition of hospitality hosts.

Paying the best, attracting the best, retaining the best, and giving the best to our customers is our formula. We take care of our people, they in turn take care of the customer, and the results take care of themselves. And the *right* people are Steak n Shake's most important asset. Our aim is to be the most productive, hospitable restaurant company in the industry.

Only exemplary leadership in a restaurant can create an environment where customers are 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. 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 four 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 three 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.

By year-end 2022, we had converted 175 company-operated units into single-unit franchise partnerships, a net increase of 16 partners from the prior year. We launched the program in late 2018, and by the end of that year, we had just two partners. Our rate of conversion slowed in 2022, which was intentional to ensure our high standards were not compromised. This franchise opportunity cannot be purchased, only earned. Our program is designed for those long on ability but short on capital.

Ingenuity is the hallmark of business. Our franchise partnership system is the story of enterprising men and women who meet the challenge of delivering the gold standard in service with determination and optimism. We will grow franchise partnerships on the basis of cooperation: recruiting self-starters and letting them operate with a minimum of bureaucratic rules. Although we set the standards, the authority to make operating decisions must remain in the field, rather than emanate from Steak n Shake's headquarters.

In addition to our nontraditional franchise partnership program, we also have a traditional franchise business, which is our means of growing unit count. This segment 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. Despite the reduction of traditional franchise units in recent years, this segment of our business remains a prodigious cash generator. Between 2010 and 2015, 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
2022	11,246	6,386	17,632	154
Gain	$ 6,930	$ (130)	$ 6,800	83

**Franchise royalties and other fees have been adjusted to reflect the 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.

We expect Steak n Shake to achieve its target return on capital by transitioning to a combination of conventional franchise operations and nonconventional franchise partnerships.

Insurance Operations

Insurance companies utilize the premiums paid by customers who have not incurred losses to indemnify those who have suffered them. One group indemnifies another against losses, with the insurance company as the intermediary. Because of the anonymity an insurance company provides, the cash exchange is imperceptible to the insured.

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. But grasping the benefit of being paid to hold other people's money is not the equivalent of discovering King Solomon's mines — what is recognized by us is also recognized by others.

Abundant capital sloshing around in an industry with commodity economics is a hazard to shareholder wealth. To be sure, intense competition places a lid on industry profit. Measured as a return on capital, the insurance industry's rate of profit continues to be below that achieved by the Fortune 500. The prospects of the industry are sub-par, but our own prospects are bright.

Our success in the insurance business is largely due to the exceptional group of people we work with: individuals of character and competence who share the common aim of building successful enterprises. 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.

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 $54.3 million through year-end 2022. Here is the record of our insurance business over a near nine-year 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

**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.*

We consider First Guard a *Mona Lisa* in our collection of businesses.

Since commencing operations in 1997, First Guard has never registered an underwriting loss. It 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. As a niche writer of commercial truck insurance, First Guard has produced an average underwriting profitability of 22.9% over a 26-year period. The creator of this business masterpiece is Ed Campbell, III.

In 2022, First Guard delivered exceptional results — a routine occurrence for the insurer — producing an underwriting profit of $6.6 million on $35.9 million of earned premiums. It is a rarified group of companies indeed that have achieved such results. First Guard is the golden thread in what is otherwise a drab industry. Under the skilled leadership of CEO Drew Toepfer, First Guard continues to exceed all prior expectations.

Moreover, First Guard is in the process of broadening the scope of its insurance coverage for truckers. By expanding its product offerings, the insurer is on its way to becoming a full-service truck insurance company. We certainly have the capacity to write a lot more business, but we also have the discipline not to write unprofitably. Ed continues to provide strategic oversight in his role as First Guard's executive chairman. Drew has developed the operational capabilities to take the company to ever greater heights. We look forward to seeing how far the team can go. Phil and I are cheering them on.

Southern Pioneer is an insurer offering a range of niche products. It 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 January, Southern Pioneer also expanded into Mississippi. The company's other lines of business 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 are gentlemen, exemplifying integrity, courtesy, and honor. They also possess admirable business skills. Phil and I have enormous respect for the family.

Insurance underwriting is a business that will lose money in a given month or quarter or year, but if transactions carry with them the mathematical expectation of profit, then the result will be an aggregate underwriting gain. In 2022, Southern Pioneer had a combined ratio of 105.3. Unsatisfactory underwriting is a state to which the Hynemans are unaccustomed. They therefore took decisive steps to address the underwriting performance by significantly repricing business that was unprofitable. With the adjustments they have made, the expectation is for better operating results in the coming year. Even amid tough industry dynamics, the Hynemans know how to swim against the tide.

Our insurance companies form a strong foundation upon which we intend to build. We are ideally suited for owner-managers who care about their business and their employees and who value a permanent home. Our ownership structure ensures that every seller will be treated in the same manner we treat our two family-managed insurance companies. Most financial or strategic buyers are unable or unwilling to commit to continuity in personnel or permanency in ownership. Phil and I welcome other founding entrepreneurs to place their insurance gems with Biglari Holdings and join our extraordinary family of insurance companies.

Southern Oil Company

We acquired Southern Oil on September 9, 2019, 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. The company's wells are concentrated and generate high-margin production. Equally important is Southern Oil's capable management, which has a fervor for efficiency.

From the time of its acquisition through the end of 2022, Southern Oil paid Biglari Holdings $68.6 million in cash. Based on year-end crude oil and natural gas prices, the value of the company's wells, producing and nonproducing, continues to exceed the sum we paid for the company.

The typical oil producer spends substantial capital every year on new leases and wells to compensate for the depletion of reserves through production. Not us. Because of the capital intensity and risks associated with such activity, we are opting to team up with others in order to shift the financial responsibility. There is no guarantee, of course, that we will be successful in obtaining partners; nor was our acquisition predicated on procuring them.

We do not subscribe to the axiom in the oil and gas industry that there is nothing wrong with a petroleum company that the discovery of a big new oil field will not cure. The essence of our success in the business lies not in finding oil but in finding and securing profitable opportunities. In the annals of the oil business, our approach is unquestionably unconventional.

Maxim Inc.

Publishing is publishing, profit is profit, and nowadays the twain seldom meet.

We purchased Maxim in February 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 2022, Maxim earned $1.8 million and paid about 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

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 2023 quarterly results after the market closes on May 5, August 4, and November 3. The 2023 annual report will be posted on our website on Saturday, February 24, 2024.

What good are annual meetings? That question is frequently on the minds of shareholders, partly because management sees them as a nuisance and partly because some participants seek to self-aggrandize in front of a crowd, usually to push a self-interested agenda. I have personally attended the annual meetings of a number of companies, and too often it has felt as though the meeting's main purpose was to adjourn. That is not the impression Phil and I wish our shareholders to walk away with from our meeting. We invite you to come and see for yourself how enthusiastic Phil and I are about spending time and sharing our perspectives with the owners of the company.

The annual meeting will be held at 1:00 pm on Thursday, April 20, 2023, at San Antonio's Majestic Theatre, a venue that lives up to its name. We hope you are able to turn the trip into an enjoyable weekend. 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 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.

* * *

Biglari Holdings grew from an idea to the present collection of companies guided by rational thought and the fervent desire to build a solid enterprise. We intend to further strengthen the corporation through sensible acquisitions and sound investments while retaining a small staff at headquarters. Armed with a strong balance sheet, Biglari Holdings will continue to advance company by company.

Phil and I derive great satisfaction from building a dynamic corporation to grow your wealth. We are fully committed to making your journey with us a prosperous one.

Sardar Biglari
Chairman of the Board

February 25, 2023