

Dear Shareholders of Biglari Holdings Inc.:

Biglari Holdings is a story of entrepreneurship. My journey began with a standing start of nearly zero (\$15,000 to be precise), morphing into a creation that now has about 22,000 employees and over \$1 billion in cash and investments. I believe we have the ideal vehicle to continue building an enterprise shaped by opportunity. Our structure affords us enormous flexibility in allocating capital, enabling us to enter into any industry, any company, any place. Our entrepreneurial odyssey has been grounded on a sound premise: maximizing long-term value by exploiting rich possibilities. The sophistication of our system lies in its simplicity.

Our style of operating is idiosyncratic. Much like a bespoke suit that a tailor creates from scratch to fit the person, your corporation has been designed to fit the skill set of the person behind it. As the architect of the corporate structure, my aim has been to build the enterprise in accordance with my own abilities as an entrepreneur and investor. Our model is not suitable for everyone — and conversely the methods of others may be unsuitable for us.

Although about 22,000 people are employed by Biglari Holdings, only 5 reside at headquarters. We centralize control of capital allocation but prefer to decentralize management at the business unit level. As the sole capital allocator, the decisions I make shape the company. In determining capital deployment decisions, I employ no staff in evaluating acquisitions or investments. We circumvent suffocating bureaucracy and thereby accelerate speed in decision-making. Our entrepreneurial flexibility is a competitive advantage in a corporate world awash with bureaucratic inflexibility.

Biglari Holdings grew from the amalgamation of two troubled restaurant chains: Western Sizzlin and Steak n Shake, both of which were failing in varying degrees at the time Phil Cooley, Vice Chairman of Biglari Holdings, and I took control of them. How were they going bankrupt? In Ernest Hemingway's words, "Two ways...Gradually and then suddenly." With each company — Western Sizzlin in 2006 and Steak n Shake in 2008 — we turned lemons into lemonade.

The shareholders we inherited at Western Sizzlin and Steak n Shake were at serious risk, particularly at Steak n Shake, which necessitated a transformation in all facets of the business. At the time of our takeover in August 2008, Steak n Shake was at the very edge of bankruptcy with \$1.6 million of cash, \$27 million in debt, and was losing about \$100,000 *per day in cash*. Turning setbacks into successes, both companies became prodigious cash generators, thus forming the base for the development of the parent company. By extracting a great deal of capital out of Steak n Shake — to the tune of \$344 million — we have transformed into a dynamic corporation, comprised of a growing collection of businesses and investments. In effect, we took a near-bankrupt company and used it to build a billion dollar enterprise. Here is the resultant effect on cash and investments, beginning with our assuming control:

(In Millions)

	2016*	2015*	2014	2013	2012	2011	2010	2009	2008
Cash and Cash-Equivalents...	\$ 75.8	\$ 56.5	\$ 124.3	\$ 94.6	\$ 60.4	\$ 99.0	\$ 47.6	\$ 51.4	\$ 1.6
Marketable Securities.....	26.8	23.8	21.5	85.5	269.9	115.3	32.5	3.0	—
The Lion Fund**.....	972.7	734.7	620.8	455.3	48.3	38.5	38.6	—	—
Total Investments.....	\$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 ending 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.

Biglari Holdings' structure is designed to pursue and exploit valuable propositions. Over the last eight years Biglari Holdings' cumulative pre-tax earnings (including investment profits) have totaled approximately \$630 million.

Biglari Holdings is a constellation of disparate businesses fused together by a common purpose. Think of Biglari Holdings as a museum of businesses. Our preference is to collect masterpieces, such as First Guard Insurance Company, an entrepreneurial success story. We are able to provide a permanent home whereby the business, its headquarters, and its personnel remain in place. In other words, we seek the *absence* of change. With prototypical acquisitions, managerial autonomy is not only what we offer, but what we seek. For instance, First Guard's founder, Edmund B. Campbell, III, has run the insurance company after the transaction as he did before.

Undoubtedly, the blueprint for an ideal acquisition is First Guard: an exceptionally well-managed business with uncommonly strong economics and purchased at an appropriate price. In such an acquisition, we are gaining a successful company along with successful management. With the purchase of First Guard we have been building a reputational advantage. The commercial advantage inherent in that reputation is critical to potential acquisitions. The primary way for a seller to assess how we will function in the future is to review our dealings with First Guard.

We offer what most business buyers — strategic or financial — do not or cannot offer family-owned and -managed businesses: continuity and permanency. We will not resell a business even if we receive an offer in excess of what we think it is worth. Because we immobilize capital, we must discern the kind of businesses we would like to become part of Biglari Holdings' family of companies. Indeed, we are drawn to associating only with honorable people. Our philosophy may be old-fashioned, but it resonates with like-minded entrepreneurs. It may appear ill-advised and ill-conceived to maintain a holding period in perpetuity, but not to us. Any ill-effects are more than offset by the benefits of associating with high-quality businesses and first-class managers.

Along with pursuing our favorite type of purchase — exceptional businesses combined with exceptional owner-managers — we are also interested in buying inefficiently managed businesses with the potential for value creation. We may even acquire, on rare occasion, a business hemorrhaging cash, but one in which we think we could engineer a successful turnaround. In both of these situations — unlike our preferred arrangement — we would assume direct management responsibility.

But our options for effective capital utilization do not end there. Whereas our preference is to acquire businesses in their entirety, the stock market frequently offers us better value through purchasing fractional business ownership. To maximize the efficacy of capital allocation, we survey a broad range of investment opportunities.

The overarching economic objective of Biglari Holdings is to maximize per-share intrinsic value.¹ Our operating and capital deployment decisions are driven by their long-term economic consequences. The combination of cash generated by operating subsidiaries along with my capital allocation work will stoke our corporate performance, which according to our criterion must outdo our benchmark, the S&P 500 Index. Over the last eight 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.

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.

Two components — investments and operating businesses — are critical in assessing the company’s progress. We now present the dual segments.

Investments

By the end of 2016, total investments (cash, marketable securities, and Biglari Holdings’ investments in The Lion Fund) amounted to about \$1.1 billion, of which over half were derived from investment gains. Our investment activities are largely conducted through The Lion Fund, whose origin dates back to the turn of the century when I started it.

Here is a breakdown of how Biglari Holdings started with \$1.6 million and entered the Three Comma Club:

	<u>2008-2016</u>
Cash & Investments as of July 2, 2008.....	\$ 1,621,000
Investment Gains (net of losses)	574,623,000
Operating Businesses	233,500,000
Acquisitions of Businesses	(68,111,000)
Net Increase in Subsidiary Debt.....	172,174,000
Equity Offerings	<u>161,468,000</u>
Cash & Investments as of December 31, 2016	<u>\$ 1,075,275,000</u>

Mark Twain maintained, “There are two times in a man’s life when he should not speculate: when he can’t afford it, and when he can.” We are owners of businesses, not speculators in stocks. When we purchase common stock, we view ourselves as part owners in a business. Moreover, Phil and I believe long-term investing is a competitive advantage in an age of short-termism. The world tends to overrate the one-year prospect and underrate the ten-year potential. When we can evaluate the long-term prospects of a business and buy it below intrinsic value, then we will achieve long-term prosperity.

Our approach — contrary to that of typical professional investors — is to make relatively few investments and concentrate holdings for the very long-term. Of course, with fewer transactions, knowledge per transaction must be exceptional. Over the last several years we have generated considerable investment profits from portfolio *inaction*. Activity is not correlated with achievement.

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 million from May 2011 through December 2012, with a dollar-weighted purchase date of December 2011. Over five years of ownership, we have never sold a single share. At the end of the year, the market value of our stake was \$791 million. Along the way we have also collected \$106 million in dividends, or 44% of our cost.

At year-end 2016, Biglari Holdings had a \$973 million investment in The Lion Fund partnerships, with net unrealized appreciation from the securities in the partnerships of \$552 million. As is evident in Biglari Holdings’ financial statements, we would owe taxes of \$156 million if the

partnerships liquidated their holdings at year-end values. Therefore, Biglari Holdings’ investment in the partnerships excludes accounting for the deferred income taxes on unrealized gains. The tax liability, we regard, is tantamount to an interest-free loan from the government for the company’s benefit.

Operating Businesses

We have four major controlled businesses, each 100%-owned: Steak n Shake, Western Sizzlin, First Guard, and Maxim. Biglari Holdings is a compounding cash machine, and its array of businesses generates considerable excess cash. Because cash production exceeds cash consumption, we redeploy surplus cash to diversify Biglari Holdings into a range of unrelated businesses. Our devotion to sensible acquisitions will fuel long-term cash flows.

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.

	<i>(In 000's)</i>	
	<u>2016</u>	<u>2015</u>
Operating Earnings:		
Steak n Shake	\$ 34,717	\$ 39,749
Western Sizzlin	2,506	1,849
First Guard.....	5,135	3,529
Maxim	(10,078)	(18,105)
Corporate and Other.....	<u>(10,147)</u>	<u>(13,167)</u>
Operating Earnings Before Interest and Taxes.....	22,133	13,855
Interest Expense	11,450	11,930
Income Taxes	<u>2,564</u>	<u>(400)</u>
Net Operating Earnings	8,119	2,325
The Lion Fund (net of taxes).....	<u>91,332</u>	<u>(18,168)</u>
Total Earnings	<u>\$ 99,451</u>	<u>\$ (15,843)</u>

Our reported earnings are materially affected by the volatility in the carrying value of The Lion Fund. We are indifferent about the 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. In addition, Phil and I evaluate our equity holdings within The Lion Fund based on their underlying operating results, not on their short-term changes in market price.

The net operating earnings of \$8.1 million in 2016 versus \$2.3 million in 2015 provide an incomplete evaluation of our performance. We measure business progress not on this year’s profits — or even on this year’s cash flows — but rather on the present value of future cash flows. We avoid

businesses in which net income appears robust but cash flows are illusory. Our view on earnings is that they are not real until they end up as cash. One cannot spend net income. Besides, companies do not go broke because they run out of earnings but because they run out of cash.

Restaurant Operations

Our restaurant operations consist of Steak n Shake and Western Sizzlin. The business models of each differ, with Steak n Shake primarily operating restaurants, totaling 590 locations, of which 417 are company operated. Western Sizzlin, on the other hand, is primarily engaged in franchising restaurants, with 67 units — all but 3 are franchisee run. Both chains generate substantial excess cash, which are dispatched to the parent company for higher and better use. Our owning and operating two cash-creating restaurant chains provides a solid foundation for Biglari Holdings.

My enthusiasm for our restaurant companies does not extend to the industry. The restaurant business too often resembles a cemetery. Investors' capital paying a visit can easily find itself inadvertently taking up permanent residence. The restaurant business is brutal, having had its share of distress, destruction, and disastrous bankruptcies. *Any* business with high operating risk and high leverage is certainly a risky enterprise, one wrong turn from the road to ruination.

Our introduction to the restaurant business was Western Sizzlin, a small, publicly-owned company with a market valuation of about \$10 million when The Lion Fund began purchasing shares in the summer of 2005. By March 2006, Phil and I took control of Western, our first publicly-owned company. We reallocated its capital into other unrelated but profitable investments: initially, with the purchase of Friendly Ice Cream Corp.'s common stock. However, in 2007 Friendly's was sold, netting Western about an 80% return, with the proceeds invested into the shares in then publicly-owned Steak n Shake, which were later distributed to Western shareholders. In March 2010 Biglari Holdings purchased Western for a net purchase price of \$21.7 million. Tracing the Western stock since Phil and I entered the scene, its shareholders have been richly rewarded.

Since Biglari Holdings' acquisition, Western's cash distributions to the parent company have totaled \$18.8 million, which we have gainfully redeployed into other opportunities. Western is a dependable money-earner.

* * *

When we took control of Steak n Shake in August 2008, we completely overhauled the company with a new vision. No one decision resuscitated this dying restaurant chain from its agony of losses into an enterprise cascading cash, an accomplishment initiated in the midst of the Great Recession. While the details of the turnaround are too lengthy to be enumerated here, I will share a worthy example.

For several years, prior management pursued a strategy (naturally, with the assistance of consultants) of diversifying the chain's product line to feature items such as chicken sandwiches, yogurt shakes, and an assortment of salads, which culminated into an eight-page menu. We abolished that lethal strategy by replacing an eight-page menu with a bi-fold. We completely stripped down the menu to its essentials. In doing so, we placed 80% of the emphasis on products that were generating 80% of the revenue: burgers, fries, soda, and shakes. But we made certain that what we did serve — delicious Steakburgers and hand-dipped milkshakes — were absolutely the best of the best. Exceptional products and prices along with exceptional customer experience were necessary to inject verve into the chain and

begin to attract more customers on a same-store basis. In 2016, each company-operated unit had 70,000 *more* customer visits than in 2008. Such a success is a tribute to the efforts and dedication of our approximately 22,000 associates.

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

Notes: Customer count is only for company-operated units.

The 2016 and 2015 data are presented for calendar years. The years 2008 through 2014 were fiscal years ending on the last Wednesday nearest September 30.

2016 represents a year in which overall sales and profits declined even though we had expected their advancement. Steak n Shake’s earnings before interest and taxes were \$34.7 million, down from \$39.7 million in the preceding year. In 2016, same-store sales declined by 0.4%. Our performance was not the result of poor economic or weather conditions — two industry favorites and frequently cited alibis — but the result of our own lack of execution. On the positive side, the franchise business progressed to our expectations. Despite the overall operating shortfall in 2016, Phil and I believe Steak n Shake’s intrinsic value increased moderately.

Our formula is exceedingly simple: Provide the highest quality burgers and shakes at the lowest possible profit per customer from an ever-increasing number of customers. What worked for Henry Ford with cars works for us with burgers. He wrote: “I hold that it is better to sell a large number of articles at a small profit than to sell a few at a large profit....We have had a small profit per article but a large aggregate profit.” By maximizing value for our customers, we maximize value for ourselves as owners.

We are an industrious organization steadfast on efficiency. By tightly controlling expenses, we pass most of the savings on to the customer. We thus build loyalty one customer at a time. Because of our customer-focused culture, we have achieved one of the most exceptional eight-year customer traffic gains in the industry, with a cumulative increase of 40%, notwithstanding the 1.2% decline in 2016.

To improve our operating performance henceforth we must outthink, outwork, and outexecute the competition. We have the drive and the determination to improve performance through the combination of our pricing philosophy, unwavering devotion to quality, plus expense control policies —

all necessary to provide excellent value to customers and thereby gain more of them on a same-store basis. We are guided by a straightforward credo: The more relevant we are to customers, the less relevant the competition becomes.

To become a very profitable enterprise, we are leveraging the Steak n Shake brand to capitalize on a franchise-based model, a noncapital-intensive strategy that generates high-return, annuity-like cash flows. Franchising is not only a business that can produce cash instead of consuming it, but can concomitantly reduce operating risk.

The first franchised unit opened in 1939, five years after Steak n Shake was founded. From 1939 to 2010, Steak n Shake grew at a snail’s pace — by an average of one franchised unit per year — the byproduct of an almost nonexistent franchise system. To fulfill our dream of becoming a global brand, we began developing a franchise system from scratch in 2010, allocating significant sums to build the infrastructure necessary to support franchise growth. For the period 2011 through 2015, the franchising business operated at a loss under accounting convention, but intrinsic value advanced. In 2016, we eked out a profit. We continue to allocate capital on the expectation of creating greater dollar value for each dollar spent. The impact of our investments is displayed below in the number of franchise units and the revenues derived from them:

(Dollars in 000’s)

	Number of Franchise Units	Franchise Revenue
2010.....	71	\$ 4,205
2016.....	173	16,057
Overall Gain	102	\$11,852

Over the last six years we have added 102 franchised units. System-wide sales, which include both company-operated and franchise-operated sales, now exceed \$1 billion, an increase of 50% over 2008.

Our prospects for domestic and international franchising remain bright. In 2016 we added 29 net units over the prior year and expect an even higher gain in 2017. As we continue to expand, franchise performance becomes paramount. After all, their success is our success.

Internationally, we have a counter-service model that has proven to be effective. After opening units in several countries, we concentrated our resources in France, a country in which no other competitor comes close to matching the combination of our quality, price, and productivity. We are teaming up with terrific franchisees who, like us, are dedicated to perfection. We are off to a solid start to seize the opportunity in France, to share the pleasure of the authentic Steakburger and milkshake. Thus far, we have locations in Cannes, Marseille, Toulon, Paris, Caen, Calais, Toulouse, and Bordeaux. *Vive la France! Vive le Steakburger!*

First Guard Insurance Company

Three years ago next month, on March 19, 2014, we entered the insurance business by purchasing First Guard Insurance Company and its affiliated agency. We could not have chosen a better entry into the industry than by acquiring one of its finest. Phil and I had high expectations when we purchased First Guard — and they all have been exceeded.

As a direct underwriter of commercial trucking insurance — no agent between the insurer and the insured — First Guard is positioned as a low-cost operator, engendering a substantial, sustainable competitive advantage. Because of its highly efficient operation, First Guard produces unusually high profitability. The creator of this marvelous system is Ed Campbell, III, who along with his outstanding team has unfailingly achieved underwriting profitability for 20 consecutive years, which places them in a league of their own.

Shown below are the results for the last three years. Do note 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)

	<u>Net Written Premium</u>	<u>Underwriting Profit</u>	<u>Combined Ratio</u> [*]
2014.....	\$ 10,757	\$ 2,293	78.7
2015.....	16,719	3,357	80.0
2016.....	22,397	4,913	78.1

* The combined ratio represents losses incurred plus expenses as compared to revenue from premiums. A combined ratio beneath 100 percent denotes an underwriting profit whereas a ratio above 100 percent presents a loss.

In 2016 First Guard achieved both a new volume and a new profit record. The company earned \$5.1 million pre-tax, an increase of 45.5% over the prior year. The two-year profit growth of 96.9% is the highest ever attained during any other two-year period in First Guard's 20-year history. First Guard is achieving superior results because it is a superior company. Ed has an A+ team that is highly seasoned, profit-minded, and destined in our view to continue producing A+ underwriting results.

I regard Ed's laser-like focus as central to creating his business masterpiece. He has shown mastery in the insurance business by designing a superior system, by occupying a special niche, and by displaying unwavering underwriting discipline. Phil and I admire not only Ed's abilities and performance but also the honorable manner in which he conducts his business.

Without question First Guard would have remained a first-class company had it remained independent, but, to be sure, it has become a far more valuable and substantial enterprise as a constituent company of Biglari Holdings. The parent company's ownership has created an environment that has unleashed management's potential by capitalizing on Biglari Holdings' financial strength. While we have the capacity to write more business, we are sufficiently disciplined to maintain high profitability. But, indeed, we do not mind bumps in annual performance if we expect long-term performance to be superior.

Maxim Inc.

When we purchased Maxim, it was a dying magazine, operating at a significant loss, but we viewed the opportunity with realistic optimism. We pinpointed Maxim as an underexploited brand that we could transform into a cash-generating business, notably through licensing related to consumer products, services, and events.

To attain our goals, we addressed both the traditional side of the business, publishing, as well as the emerging side of the business, licensing. When we assumed control of Maxim nearly three years ago, we began to implement our plan: focus on the reader, assume a long-term perspective, and invest decisively to emerge as a radically different company. Unlike many of our competitors that are advertiser-focused, we are reader-focused. A fixation on the former, we believe, after a while will inevitably attract fewer of either. Resultantly, we repositioned the brand to become aspirational and inspirational, thereby projecting style and sophistication. Today, we publish a luxury lifestyle magazine that appeals to a more affluent audience. In the process we transformed Maxim's business model, operating with just one-seventh of the staff we inherited. We have significantly reduced the high operating costs seemingly inherent in the media business — both print and digital — yet amplified the quality of the paper, photography, and content.

Because of the tireless efforts of the Maxim team, we attained our previously set goal of becoming profitable during 2016, albeit at the very end of the year. We are now working to achieve a level of profit that in relation to our total investment of \$43.9 million (purchase price plus aggregate after-tax losses) will generate a satisfactory return. But do not expect smooth results. The nature of the licensing business is predicated on projects that materialize with irregularity, but whose eventual outcome we expect to be favorable.

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. Because I am the controlling shareholder, we are under no pressure to conform to prevailing conventions. Moreover, we wish to provide all shareholders simultaneously with the same information. One-on-one meetings are neither productive nor practicable.

My intention in this report is to impart as much about our company as is reasonable. We readily acknowledge that we have many investors who have taken a simple approach by entrusting us with their capital because Phil and I have a track record of long-term wealth creation. Others are highly sophisticated investors who understand our approach but require highly detailed analysis, and we endeavor to provide the information they seek. Note that only like-minded shareholders in sync with our operating philosophy should own Biglari Holdings' stock.

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 2017 quarterly results after the market closes on May 5, August 4, and November 3. The 2017 annual report will be posted on our website on Saturday, February 24, 2018.

Our annual meeting will be held at 1:00 pm on Thursday, April 27, 2017 in New York City at the St. Regis Hotel. The meeting is just for our owners; to attend, you must own shares and show proof thereof. As an owner, you may bring up to two pre-registered guests with you. The bulk of the gathering is a question-and-answer session that usually lasts about five hours, covering myriad topics on shareholders' minds. Phil and I look forward to spending that time answering your questions. We find the annual meeting to be an effective channel to communicate with you.

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Biglari Holdings is a wealth-creating company. Phil and I derive immeasurable satisfaction from building and managing this multi-unit business. As owners and operators, we have the imagination and initiative to continue building a constructive, entrepreneurial enterprise.

We aim to make your journey with us a prosperous one.

Sardar Biglari
Chairman of the Board

February 23, 2017