Dear Shareholders of Biglari Holdings Inc.:

The Biglari Holdings collection of businesses was built company by company. Our operating businesses are the keystone of the corporation's arch, and our central aim is to build per-share intrinsic value guided by opportunity.[1] The growth of Biglari Holdings has been an entrepreneurial odyssey that has led to the creation of a multifaceted enterprise.

The growing collection of operating companies began in 2008, when present management gained control of Steak n Shake, the business that became the nucleus of the holding company. Over the years, we added Western Sizzlin Corporation, Maxim Inc., First Guard Insurance Company, Southern Oil Company, and Southern Pioneer Property & Casualty Insurance Company, listed in order of acquisition. We do not integrate subsidiary operations — just their profits. In 2021, Biglari Holdings garnered pre-tax operating earnings of $24.9 million from its six first-line businesses.

Under the aegis of the holding company, our mosaic of businesses operate independently from one another and, to a great extent, from the parent company. The basic idea is to scale the enterprise by combining many profitable concerns into one dynamic corporation while maintaining a small staff at headquarters. To meet our objective, we generally avoid turnaround opportunities despite the fact that Biglari Holdings' own creation began with the successful turnaround of a failing restaurant operation. Our interest lies in acquiring healthy businesses with robust economics. Unlike those who specialize in the purchase and operation of turnaround businesses, we have no desire to become a hospital for sick companies.

Our management system combines decentralized operations with centralized financial decision-making. For instance, the insurance subsidiaries we acquired continue to be overseen by the same families responsible for their founding. Both companies have retained their management teams, their headquarters, and their names. Our contribution to their operations has been to stay out of the way. By adhering to a basic creed of extreme autonomy, we pursue an expansionist course while avoiding the common nonsense of bureaucracy.

The vast majority of acquisitive competitors, whether private equity firms or strategic buyers, are unable or unwilling to offer the continuity of management and the permanency of ownership that we seek. The gulf between many buyers' rhetoric and reality remains a very real danger for sellers who care about their business and their people. By contrast, Biglari Holdings creates a rare environment for those with whom it associates. Most owner-operators would not work for anyone but themselves, and most are independently wealthy, with no financial need to work. They do not view their business as work but as a creative endeavor. Hence, our economic museum becomes an ideal place for entrepreneurial founders to keep painting their masterpieces. The upshot: They possess an uncommon commitment to their respective operations and to Biglari Holdings.

Whereas our subsidiaries operate in their respective theaters, the holding company itself spans the business spectrum. Our corporate structure is justified when our acquired business units function better than they did when operating independently, and when our ownership improves capital allocation. Naturally, an operating business may have limited reinvestment opportunities. Because we are under no constraint to reinvest money where it was earned, any portion of earnings a business unit is unable to utilize at a satisfactory rate is distributed to Biglari Holdings, to be redeployed elsewhere to grow our shareholders' wealth.

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[1] Intrinsic value is measured by taking all future cash flows into and out of the business and discounting the net figures at an appropriate interest rate.

The corporation's business architecture is formidable. By design, it allows us to buy businesses to make money, which in turn allows us to buy more businesses to make even more money. The group of businesses assembled over the years did not follow a well laid-out blueprint but developed from a few basic ideas fixed firmly in our minds. For one, we have an old-fashioned respect for cash — lots of it, dispatched by the subsidiaries to the parent corporation for reallocation. We also hold dear the precept that opportunity rather than any preordained notion dictates capital allocation, such that flexibility is one of our greatest strengths. Major capital allocation decisions remain in the hands of your Chairman, which circumvents the disadvantages of decision by committee, consultation, or consensus.

The freedom to build the company in any way we choose makes the course we chart a fundamentally creative process. From this vantage point, the enterprise is analogous to a work of art. Although I have a clean canvas on which to paint and a nearly unlimited palette of colors from which to choose, last year I used the paintbrush only sparingly, and solely in the purchase of partial business ownership through the stock market.

When seeking total ownership of a business, we narrow the acquisition possibilities to companies whose future economic prospects we can evaluate, a condition that eliminates a great many of them, especially those in rapidly changing industries. Despite our proclivity for operating in prosaic industries, we still endure dull stretches of inactivity, because in every potential business purchase we seek strong economics, sound management, and a sensible price.

Fortunately, we are not limited to negotiated transactions exclusively, as the stock market provides an array of opportunities for partial business ownership. Indeed, we constantly compare one investment alternative against a multitude of others in determining capital utilization. As a consequence of our seizing remunerative business and investment opportunities over the past thirteen years, Biglari Holdings' cash and investments grew from $1.6 million to $599.6 million — even while allocating funds toward the acquisition of businesses. In the tabulation below is 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**

Notes: The years 2015 through 2021 were calendar years. The years 2009 through 2014 were fiscal years that ended on the last Wednesday in September. The 2008 data is for the fiscal quarter ending on July 2, 2008, the nearest fiscal quarter prior to present management assuming control. Biglari Holdings' investments in The Lion Fund, L.P., and The Lion Fund II, L.P., do not include other limited partners' interests.

There was a reduction in total investments in 2021 because we paid off Steak n Shake's $152.5 million of debt. As a result, the entire enterprise — the holding company and its operating businesses — carries no debt. Debt per se is neither desirable nor undesirable. The inherent stability of operations must dictate the soundness of the debt structure. Broadly speaking, capital structure risk should vary inversely with business risk. We have arranged our affairs to withstand unforeseen economic chaos and market shocks. We are not opposed to injecting moderate leverage into the balance sheet, but only when there is no possibility of it threatening the well-being of the corporation. Although we do not predict adversity, we do prepare for it. Where others see only sunshine, we plan for thunderstorms.

We have built the company with our earnings. Over the last thirteen years, our aggregate pre-tax earnings from operations and investments (excluding our own stock) total $691.2 million. Any money we borrowed, we paid back. And any Biglari Holdings stock we issued, we purchased in greater quantity through The Lion Fund to hold as investments.

If The Lion Fund distributed the shares of Biglari Holdings it owns to its limited partners, the parent company's shares outstanding would be reduced to 304,081 Class A equivalents.[2] Correspondingly, the value of total investments would be adjusted to $375.8 million, which is the carrying value as opposed to the fair value ($599.6 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.) From this perspective, the 304,081 Class A equivalent shares at year-end 2021 are comparable to 424,325 shares outstanding on July 2, 2008, the fiscal quarter-end prior to the time present management assumed responsibility.

Continuing this approach in regard to share count, which adheres to generally accepted accounting principles, at year-end 2021, the per-share book value of our Class A stock was $1,933. Book value, or net worth, represents owners' capital, as shown on the financial statements; the accounting figure is reached by adding all assets and subtracting all liabilities. In effect, book value represents what has been put into the business, which in our case is mainly retained earnings. But what really matters — the *sine qua non* of wealth creation — is intrinsic value, a present-value estimate of cash that can be taken out of the business. As we never tire of repeating, we measure progress based on per-share intrinsic value.

Two components are critical in evaluating the company: its investments and its operating businesses. At year-end, our total investments per share stood at $1,236. And our 2021 pre-tax operating earnings per share were $76.31, which excludes the dividends, interest, and capital gains produced by our investments. 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.

In 2008, we began with a restaurant base that was generating operating losses; it held $4 of cash per share but also $63 of debt per share. Over the ensuing thirteen years — that is, since present management took control — we have acquired five businesses through negotiated transactions, paid in cash, and allocated funds toward investments. During this time, Biglari Holdings transformed large losses into earnings, grew investments substantially, and eliminated the debt. Phil Cooley, Vice Chairman of Biglari Holdings, and I will do our best to achieve satisfactory growth in both operations and investments, as measured in decades and on a per-share basis.

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[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.

Our corporate performance is the result of cash generated by operating subsidiaries along with capital allocation work, which according to our criterion must outdo the S&P 500 Index. Because of our rate of progress in operations and investments over the past thirteen years, we believe Biglari Holdings' gain in per-share intrinsic value has far outstripped the S&P 500.

Investments

By the end of 2021, total investments (cash, marketable securities, and Biglari Holdings' investments in The Lion Fund) amounted to $599.6 million; most of that sum came from investment profits. Our investment activities are largely conducted through The Lion Fund, whose origin dates from the year 2000 when I founded it.

Through The Lion Fund, we have invested the corporation's capital, your capital, in select common stocks. At year-end, The Lion Fund's largest common stock holding was Cracker Barrel Old Country Store, Inc. We originally purchased 4,737,794 shares of Cracker Barrel for $241.1 million from May 2011 through December 2012, with a dollar-weighted purchase date of December 2011. Between 2018 and 2019, The Lion Fund reduced its holding in Cracker Barrel to 2,000,000 shares. In March 2020, however, Biglari Holdings purchased an additional 55,141 shares for its insurance subsidiaries. All in all, we now control 8.8% of Cracker Barrel's outstanding stock at an average cost per share of $51.25.

By year-end 2021, we received proceeds of $471.1 million from the sale of Cracker Barrel stock, $227.4 million in dividends and derivative gains, plus we held a remaining stake of $264.4 million in market value. In sum, over a ten-year period, our investment in Cracker Barrel of $245.5 million turned into $962.9 million in value.

Our stock selection is not predicated on the judgment of others but on our own. It takes an independent mind to assess value and arrive at well-founded conclusions that may differ from those in vogue. Our investment style, which is logical to us but also unconventional, centers on concentrating holdings for the very long term. If our reasoning is superior, so too will be our investment results.

To compensate for our ignorance of the future, our attention is focused on business prospects, not market prospects. We shun market analysis because we cannot predict the near-term direction of the stock market, the economy, or interest rates. By restricting ourselves to business valuation, we remove significant analytical baggage from the equation. In essence, we employ a similar approach to buying stocks as we do to buying businesses, because stocks are business purchases too, just partial rather than whole. When we find a marketable stock that meets our criteria, we concentrate the employment of capital.

We are owners of businesses, not speculators in stocks. We engage in investment, which is the exchange of our cash for the present value of future cash flows. Even so, we live in a world populated by speculators whose primary interest is making money easily and swiftly by attempting to predict short-term changes in stock prices. With the epidemic of speculation, the true investor is in the minority.

Regardless of how others behave, we resolutely disregard any approach that lacks a logical path to value. For anyone deploying capital without the rational expectation of future cash flows, slot machines would do just as well. In 1776, Adam Smith captured a central aspect of human nature in his seminal book *Wealth of Nations*: "The overweening conceit which the greater part of men have of their own abilities is an ancient evil remarked by the philosophers and moralists of all ages. Their absurd presumption in their own good fortune has been less taken notice of." Times change but man's desire for quick riches, and his tendency to overestimate his abilities, remains the same. Yet the market instability borne of speculation can be exploited, transferring wealth from the hopeful speculator to the knowledgeable investor.

Biglari Holdings had a $474.2 million investment in The Lion Fund at the end of 2021. In addition, the corporation had $83.1 million in marketable securities outside the partnerships. 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 $45.4 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 $45.4 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.

Operating Businesses

Biglari Holdings has six major controlled businesses, each 100%-owned: Steak n Shake, Western Sizzlin, Maxim, First Guard, Southern Oil, and Southern Pioneer. 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)	
	2021	**2020**
Operating Earnings:		
Restaurant Operations:		
Steak n Shake	$ 13,524	$ (4,587)
Western Sizzlin	931	(765)
Insurance Operations:		
Underwriting—First Guard	10,573	9,379
Underwriting—Southern Pioneer	1,744	620
Investment Income and Other	2,118	2,432
Maxim	814	1,784
Southern Oil	9,713	2,018
Corporate and Other	(13,383)	(12,432)
Interest Expense	(1,121)	(9,262)
Operating Earnings Before Taxes	24,913	(10,813)
Income Taxes	3,166	(2,453)
Net Operating Earnings	21,747	(8,360)
Investment Gains/Losses*	13,731	(29,629)
Total Net Earnings	$ 35,478	$ (37,989)

* *Investment gains/losses are reported on an after-tax basis and include 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 2021, the corporation had net operating earnings of $21.7 million. Each of the six business units produced a profit. 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 date, we have not sold a single operating subsidiary, nor have we had any intention of doing so.

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 577 units. However, their business models differ. Steak n Shake, with 536 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 41 units — all but 3 are franchisee-run.

Western Sizzlin Corporation

Biglari Holdings acquired Western Sizzlin on March 30, 2010, for a net purchase price of $21.7 million. The acquisition included $2 million of marketable securities and undeveloped real estate purchased in 2007 for $3.8 million. Western Sizzlin has been a success because of Robyn Mabe, the company's CEO. Phil and I became involved with the company in 2006, and the best managerial decision we made was putting Robyn in charge of the chain. She converted a haphazard buffet business into a coherent operation that generates dependable, distributable profits. Through year-end 2021, Western Sizzlin's cash distributions to Biglari Holdings totaled $26.6 million.

Steak n Shake Inc.

Steak n Shake is back in the black.

In recent years, Steak n Shake was struggling. From 2018 to 2020, its aggregate pre-tax loss before corporate interest was $33.8 million. Its notable business problems are now in the rearview mirror, and the company is once more a profitable operation. In 2021, Steak n Shake produced pre-tax operating earnings before corporate interest of $13.5 million.

The ownership of Steak n Shake has been a net cash generator for Biglari Holdings. In 2008, we started with a company that had $1.6 million in cash, owned 164 properties, and carried $27.0 million of debt. At year-end 2021, Steak n Shake owned 166 properties and carried no debt. Over the past thirteen years, the chain has generated net cash of about $150 million for the parent company, which employed it gainfully elsewhere.

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

Notes: The years 2015 through 2021 were calendar years. The years 2008 through 2014 were fiscal years that ended on the last Wednesday in September.

As I explained in last year's report, Steak n Shake was in an era of radical transformation. Change was necessary because Steak n Shake was built in the 20th century on a 20th-century business model. The company suffered from labor-intensive table service combined with outmoded kitchen equipment in its production line. Simply put, the economics of a full service model offering high-quality, low-priced burgers and shakes did not work in the modern era. Therefore, after 86 years in business, Steak n Shake eliminated table service. Today, customers in the dining room order at a kiosk rather than at a counter or with a server. They could also use our app, which I recommend you download if you have not already. Try it and I will throw in one of our legendary milkshakes with a cherry on top.

Since its birth in 1934, Steak n Shake has had a pairing customers love: the Steakburger and milkshake. We needed to discard any elements that prevented us from delivering our famous burgers and shakes with fast, hospitable service at a great value. Michelangelo is quoted as saying, "The sculpture is already complete within the marble block, before I start my work. I just have to chisel away the superfluous material." Likewise, we removed the superfluous elements, from breakfast items and chicken sandwiches to silverware and table service, to name a few, in order to sculpt a better business model. We Michelangelo'ed Steak n Shake.

Transforming the business required approximately $50 million in capital expenditures. Through year-end 2021 we spent $40 million, and plan to spend another $10 million this year, to remodel the interior of the restaurant, introduce a new point-of-sale system, and install self-order kiosks. The capital outlay per unit has averaged about $160,000. These expenditures are already paying off. Of course, only after a few years can our capital investment be proved warranted. Although in 2021 Steak n Shake required capital from its parent company to pay off debt and fund additional capital requirements, we expect the chain to finance all of its business needs internally in 2022, and to resume the distribution of cash to Biglari Holdings later in the year.

With self-service, dining rooms turned into walk-throughs with economics nearly as robust as the economics of our drive-throughs. Our innovations have become a major source of rising productivity. Under the old model, annual sales per employee, measured on a full-time-equivalent basis, were about $64,000; now they are nearly $118,000. The resultant cost savings have largely been passed on to customers through low prices and to associates through higher wages.

Our pricing philosophy is not to maximize profit per customer but to offer products at the lowest possible prices to stimulate higher aggregate profits from an ever-increasing number of customers. Our most popular item, the original double Steakburger with cheese and a side of fries, sells for $3.99, the same price it sold for in the year 1997. Although we increased prices recently on most other products, we have generally maintained lower prices than our competitors.

Productivity gains through the self-service model have also allowed company and franchise restaurants to set higher wages. Where we were once a minimum-wage employer, we are now becoming a *maximum*-wage employer in our category. 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.

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.

Steak n Shake's franchise partnership program, launched a little over three years ago, is now in high gear, and it has provided clear and convincing evidence of success. It is important to review how the program works, because it is not the typical arrangement. Our franchise partner agreement stipulates that the franchisee make an upfront investment totaling $10,000, a modest figure for the opportunity. Because of our significant investment in the business, including the construction of the restaurant and its equipment, we assess a fee of up to 15% of sales as well as 50% of profits. We generate most of our revenue from our share of the profits. 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.

Under this franchise arrangement, an owner-operator is able to earn considerable sums, which is the way we want it. Over the last two 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 2021, we had converted 159 company-operated units into single-unit franchise partnerships, an increase of 73 partners from the prior year. We launched the program in late 2018, and by the end of that year, we had just two partners.

In the process of admitting the 159, we received roughly 52,000 applications from franchisee candidates, which represents an acceptance rate of 0.31%. Strenuous efforts are undertaken to choose franchise partners based on their managerial skill set and their demonstration of the gold standard in service. This franchise opportunity cannot be purchased, only earned. Our program is designed for those long on ability but short on capital. Motivated men and women are making a difference at Steak n Shake.

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. They are America's ablest operators, and their stories are illustrations of the American dream.

Our franchise partnership is living proof that the American dream is still with us 90 years after the term was coined by James Truslow Adams in his book *The Epic of America*: "that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement." In this land of unparalleled opportunity, no person need fail for any reason relating to the circumstances of their birth or environment, or to their race, religion, gender, or any other identity characteristic.

Our system of meritocracy, an economic opportunity based on entrepreneurism, has resulted in one of the most diverse franchise operations in the country. Minority- and women-owned businesses account for 60% of all franchise partnerships as of year-end 2021. In particular, Black-owned enterprises constitute 21% of our entire franchise partnership system. We did not set out to attain this achievement. We simply removed all the barriers facing our potential partners. The touchstone of our program is performance. By building a system based on the principles of equal opportunity, we have assembled an extraordinary group of enterprising owner-operators.

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. Beginning in 2010, we invested substantial sums to advance our traditional franchise business. Displayed below are the number of franchise units and the revenue derived from them.

(Dollars in 000's)

	Franchise Royalties and Other Fees (A)	**Franchise Marketing Contributions (B)**	**Franchise Revenue (A) + (B)**	**Number of Franchise Units**
2010*	$ 4,316	$ 6,516	$ 10,832	71
2021	13,058	6,795	19,853	178
Gain	$ 8,742	$ 279	$ 9,021	107

** 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.

Steak n Shake's first franchise unit opened in 1939. For the next 71 years, Steak n Shake grew by an average of one franchise unit per year, which contrasts with an increase of 107 units in the last 11 years.

For the period 2011 through 2015, our franchise business operated at a loss but intrinsic value advanced. We allocated capital to develop the franchising business with the expectation of creating greater dollar value for each dollar spent. Our traditional franchise business — domestic and international combined — is now a prodigious cash generator. In 2021, traditional franchise operations posted a profit of $9.9 million.

Insurance Operations

What Picasso was to painting and Rodin was to sculpture, the Campbells and the Hynemans are to insurance. We view them as maestros in the art of insurance underwriting, and you will quickly see why.

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

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 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. We own two exceptional companies that rank at the very top of their class, as measured by underwriting profit margin. In fact, we have had property and casualty underwriting gain in each year since we entered the field with our acquisition of First Guard Insurance Company in 2014, augmented by our acquisition of Southern Pioneer Property & Casualty Insurance Company in 2020. Under our ownership, aggregate pre-tax underwriting profits totaled $49.0 million through year-end 2021. Here is the record of our insurance business over a near eight-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

First Guard is a direct underwriter of commercial truck insurance — with no agent between the insurer and the insured — rendering the company a low-cost operator with a sustainable competitive advantage. Through its extreme operating efficiency, First Guard built a system that has, over the course of 25 years, made an average of 23 cents of underwriting profit for every dollar of premium it took in.

Last year its founder, Ed Campbell III, turned over the CEO reins to Drew Toepfer, who has been with the company for 11 years. With his incomparable knowledge of every facet of the business, Drew has demonstrated diligence and devotion in his extraordinary management of First Guard. Ed will continue to serve as First Guard's executive chairman, and at my invitation, he joined the board of Biglari Holdings at last year's annual meeting. I have no doubt that First Guard's team will lead the company to ever greater heights in the field of commercial truck insurance.

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 addition, the company is involved in other product lines, such as liquor liability and collateral protection insurance. Its founders, Ben and Hal Hyneman, alongside their respective sons Brian and Matt, and Hunter, manage the company collectively. They are men of great business acumen who work together with a common aim. Where the Hynemans discovered a need in the market, they filled it. They have shown enormous dexterity in entering the right lines at the right time and managing them effectively. Regardless of the insurance product, they price policies to make a profit rather than to generate volume.

Behind Southern Pioneer's success lie old-fashioned virtues. The Hynemans provide high-caliber management and disciplined underwriting, stay within their area of expertise, and remain alert to the next pocket of underwriting opportunity. The loyalty of their employees has undoubtedly contributed greatly to the success of the business. We are honored to be associated with the Hynemans and the people of Southern Pioneer.

Our insurance domain — First Guard and Southern Pioneer — was assembled with care and forged through our ideal association with family-managed enterprises. They each run operations producing dependable underwriting gains, while I seek opportunities for the funds they deliver to Biglari Holdings. It is a division of labor that suits them and me.

When reviewing the Biglari Holdings-controlled insurance companies, it is important to note not only that First Guard and Southern Pioneer are well capitalized, with $97.3 million of tangible net worth, but also that behind our insurance group lies a parent company with considerable capital strength.

We endeavor to build an ever greater collection of insurance businesses.

Southern Oil Company

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

True oilmen have never seen a dollar of capital they would not spend on drilling. Because Phil and I did not come from the industry, we suffer from no such compulsion. Instead we benefit from large capital expenditures made prior to our arrival.

From the time of acquisition through the end of 2021, Southern Oil paid Biglari Holdings $40.7 million in cash. Based on year-end crude oil and natural gas prices, the value of the company's producing wells continues to exceed the sum we paid for the company.

The people of Southern Oil run a high-quality operation. They manage the assets responsibly, press on every front to reduce costs and cut waste, and solve problems expertly as they arise. And we spare our employees the predicament, too often seen at other petroleum companies, of working for a distressed employer with an overleveraged balance sheet.

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

Maxim Inc.

In February 2014, we purchased Maxim, one of the most recognizable magazine properties, for $12.6 million. We did so not with the intention of entering the magazine business per se; rather, we acquired an underexploited brand with the intention of generating nonmagazine revenue, notably through licensing, a cash-generating business related to consumer products, services, and events. In 2021, Maxim earned $814,000 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

Biglari Holdings is a lifetime commitment of mine. Our ownership structure allows us to operate much like a partnership, where Phil and I are the general partners and our stockholders are the financial partners. To ensure a long-lasting partnership for those who join us, it is our beholden duty to communicate clearly our approach, objectives, and operations, in an effort to align expectations.

If we were a private partnership, the absence of a public security market would not bother us, for we do not measure the company's yearly progress by the gain in its stock price but by the gain in its per-share intrinsic value. In the long run, both figures will meet at nearly the same place. However, unlike in a partnership, we do not set entry or exit prices — shareholders do. But we can promote harmony between market price and per-share value through our communications and practices. 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 2022 quarterly results after the market closes on May 6, August 5, and November 4. The 2022 annual report will be posted on our website on Saturday, February 25, 2023.

The annual meeting will be held at 1:00 pm on Thursday, May 26, 2022, at San Antonio's Majestic Theatre, a venue that lives up to its name. We hope you are able to turn the trip into a revelatory weekend of enjoyable activities. 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. Phil and I look forward to spending our time together answering your questions. We find the annual meeting to be an effective channel to communicate with you. And of course, we will try to give you our best performance. The meeting is just for our owners; to attend, you must own shares and show proof thereof. As an owner, you may bring up to two pre-registered guests with you.

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As a diversified corporation, Biglari Holdings' profits are derived from its operating businesses and investments. We are intent upon growing our collection of businesses with just a modicum of personnel at headquarters. Our small team at the holding company does the work of a group many times its size. In addition to handling the important accounting, regulatory, and tax matters, they also handle routine administrative tasks including arranging the annual meeting. I owe them my deepest gratitude.

The structure of our enterprise is an entrepreneur's dream, as it enables us to enter any company in any industry, anywhere in the world. Phil and I relish our pursuit of opportunistic corporate expansion and are fully committed to making your journey with us a prosperous one.

Sardar Biglari
Chairman of the Board

February 26, 2022