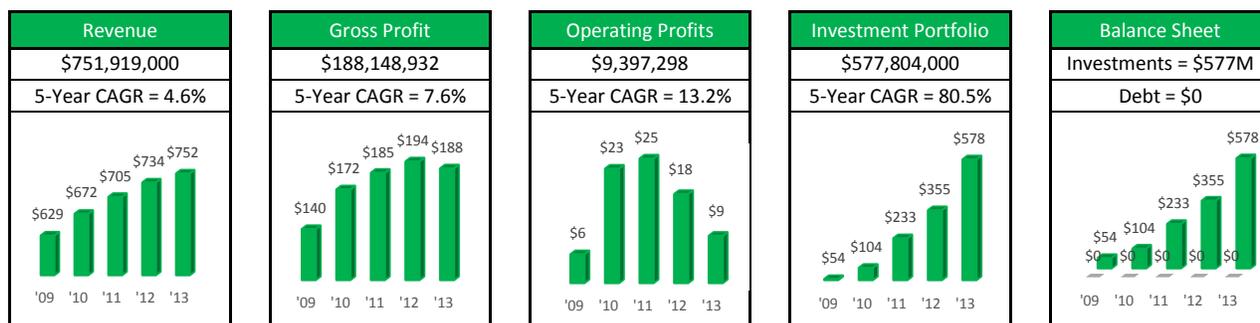




Biglari Holdings
July 8, 2014

General Overview

Biglari Holdings (BH) is a diversified holding company run by Sardar Biglari. The corporation operates as a parent company with operating subsidiaries and as such there are two divisions: Operating Businesses and Investments. The operating businesses generate profits and remit those earnings to the parent company for Sardar to invest. Sardar allocates this capital by purchasing additional operating companies or purchasing shares in publically traded stocks through the investment portfolio. The vision for the company is to build a business empire similar to Berkshire Hathaway.



Purchase Logic

Our purchase logic for BH was based on three factors: Impressive leadership performance, substantial discount to value, and limited downside risk. In the last 5 years, since Sardar Biglari assumed control, the company has allocated capital brilliantly to build wealth for shareholders. The investment portfolio has grown from \$54 million to more than \$577 million today. The investment portfolio was built by the profits of the operating businesses, a special dividend from Steak N Shake through non-recourse debt, one rights offering, and investment gains. Over the last half decade these decisions demonstrate that Sardar is skillful at allocating capital. We value the operating businesses and investments separately to arrive a combined value for the enterprise. The operating businesses, namely Steak N Shake, earn roughly \$32 million per year before franchising activities and would be valued at more than \$400 million in a private transaction. The investment portfolio currently stands at more than \$550 million. The combined value - \$950 million. This compares favorably to our purchase price of \$650 million. As an investment BH has the potential to generate investment gains rapidly if the gap between intrinsic value (\$950 million) and our purchase price (\$650 million) were to close. However, should the discrepancy continue we would be content to hold the company over many years as Sardar grows the business through capital allocation decisions and outstanding business execution.

Key Drivers

Shareholders of BH will have their future wealth primarily determined by the investment decisions of Sardar Biglari. The key drivers to monitor success include the value of the investment portfolio, the earnings of the operating businesses, and the strength of the parent company's balance sheet. We will examine each below.

Investment Portfolio

Sardar has created an investment portfolio by sending profits from the operating subsidiaries to the parent company. This investment portfolio should continue to climb through two primary sources: 1) Profits from the operating businesses that are paid to the parent company, and 2) Investment gains. The investment portfolio will fluctuate year-over-year, but over longer periods of time the investment value per share should climb upward.

Operating Businesses

In addition to a large investment portfolio BH currently is the parent company of three operating businesses. The number of wholly owned subsidiaries that operate under the BH parent company should continue to climb as Sardar makes additional acquisitions. As more businesses are acquired and the operating performance of existing companies improves we anticipate the earnings of the operating businesses to rise.

Balance Sheet

The capital structure of BH is relatively complex and will likely become more complex over time. The financial statements as filed with the SEC consolidate all debt held by the parent company's subsidiaries, but the bulk of this debt is non-recourse and as such the parent company effectively operates debt free.¹

Historical Performance of Key Metrics

Year	'09	'10	'11	'12	'13
Total Revenue	\$628,736,000	\$671,879,000	\$705,403,000	\$733,905,000	\$751,919,000
<i>Gross Profit</i>	\$140,243,337	\$171,557,584	\$184,698,489	\$193,659,182	\$188,148,932
Operating Businesses	\$5,725,289	\$22,743,822	\$24,758,143	\$17,702,353	\$9,397,298
Investment Portfolio	\$54,396,000	\$103,583,000	\$233,091,000	\$355,483,000	\$577,804,000
<i>YoY Portfolio Growth</i>	694%	90%	125%	53%	63%
Investments Per Share	\$38	\$74	\$162	\$247	\$403
Parent Company Debt	\$0	\$0	\$0	\$0	\$0

Investment Portfolio

Since 2009, when Sardar assumed control, the investments per share have climbed from \$38 to \$403. This rapid ascent represents an annualized growth of 80.4% per year. This growth rate was achieved starting from a relatively small investment base by contributing operating profits to the investment portfolio, a special dividend payment of roughly \$180 million from non-recourse debt borrowed by Steak N Shake, and a homerun investment in Cracker Barrel Old Country Stores.

The current investment portfolio is held in a hedge fund control by Sardar known as The Lion Fund. The Lion Fund is highly concentrated in Cracker Barrel Old Country Stores, but it is our expectation that over time Sardar will continue to diversify into other industries as the operating companies continue to send profits to the parent. We anticipate the investment portfolio will fluctuate annually between -30% and +30%. Over longer periods of time we expect an average annual increase of 12% through investment gains and profits from the operating businesses.

Operating Businesses

The earnings of the operating businesses are primarily driven by the results of Steak N Shake. Since Sardar assumed control in 2009 Steak N Shake has gone from a money losing franchise to a business with potential earning power in excess of \$30 million per year. In the last 2 years profits from the operating businesses have declined as Sardar has invested into franchising efforts for future growth. These efforts reduced the reported profits by approximately \$17 million per year, but should yield increased gains as franchise locations come online in the upcoming years.

¹ BH Chairmen Letters – www.biglarholdings.com. Page 4, 2011.

The growth of the subsidiary companies is inherently difficult to predict, but it is our expectation that the profits would increase relatively consistently year-over-year and over the next 10 years the operating businesses would be generating earnings in excess of \$80 million. There is a high probability that the journey to \$80 million would be accomplished through a limited number of timely acquisitions.

Balance Sheet

It is our expectation that the parent company will continue to operate with little or no debt.

Summary of Key Metrics

Metric	Expectations
Investment Portfolio	One year growth ranging from -30% to +30% Average of 12% over 10 years
Operating Businesses	Continuous growth in earning power Earning power in excess of \$80 million in 10 years
Balance Sheet	Little or no debt at the parent company

The Moat Around The Metrics

The moat around BH is relatively narrow compared to most businesses we purchase. Similar to Berkshire Hathaway the competitive advantage of BH is the man at headquarters – Sardar Biglari. We believe that Sardar is uniquely talented as a businessman and capital allocator. The businesses that have been purchased by Sardar across a variety of industries have seen significant operational improvement once acquired – costs have been reduced and profits have soared. In addition to a strong track record of success Sardar writes an annual report to shareholders that clearly outlines his intentions with the investment portfolio and operating businesses. These intentions are laid out with clarity and executed to perfection. Typically we desire a wider economic moat than a single talented individual, but we made an exception for Sardar for several reasons. First, Sardar has nearly 100% of his net worth in BH stock and his executive compensation package requires him to use his earnings to purchase additional shares on the open market. It is very clear that Sardar is interested in owning and building BH into an empire. This aligns his interest and talents with long-term shareholders. Additionally, the steep discount to intrinsic value and limited downside risk made the risk / reward profile for the investment attractive. At our purchase price we believe that owning a portion of Sardar’s talents was a wise investment decision. To learn more about the man behind the moat visit <http://www.biglariholdings.com/letters.htm>.

Risks

As a diversified holding company the risks associated with BH vary across several industry sectors. The primary focus of this section is to highlight the risks that have the potential to permanently alter the value of BH as an enterprise.

Short-Term Risks

- **Executive Compensation Package.** Sardar Biglari is uniquely compensated with a pay package that awards him 25% of all gains in excess of a 6% increase in book value for the firm (subject to high water mark). This payment package has been hotly contested by shareholders and is not viewed favorably by Wall Street. Any changes to the pay package may be negatively received by Wall Street and could adversely affect the price of the stock in the short-term. In the long-term we view this pay package and compensation structure as equitable.

- **Fluctuations in the Investment Portfolio.** The investment portfolio is highly concentrated and will fluctuate greatly in value year-over-year. These fluctuations could adversely affect the stock price in the short-term. We are not concerned with the short-term price fluctuations of the portfolio, but will continue to carefully monitor the quality of the businesses in which Sardar invests. Our expectations is for satisfactory results over an extended period of time.
- **Proxy Battles.** Sardar is an activist investor and typically acquires majority stakes in businesses in which he invests. These proxy battles can be time consuming and the ultimate result unknown. It is possible that in the short-term a few of these proxy contests will end poorly for BH. A negative result for control in a potential target could adversely affect the stock price. We expect some of these battles to be lost, but the majority to create shareholder value overtime.
- **Management Buyout.** It is possible that Sardar could launch a leveraged buyout of BH at a tender offer price that is not full value. In the event of a management buyout below intrinsic value we would have little recourse and may not receive full value for our shares.

Long-Term Risks

- **Poor Capital Allocation.** It is possible that luck has contributed to Sardar's success more than skill. If this is the case then future capital allocation decisions may be poor and would greatly decrease the value of the business. We view this possibility as remote based on the chairmen letter's written by Sardar. These letters demonstrate an excellent investment philosophy and an extremely high level of talent. We anticipate Sardar to continue to excel as a businessmen and investor.
- **Sardar Biglari Dies.** In the event of Sardar's death we would likely exit our position. This would be unfortunate.

Conclusion

Sardar Biglari is an extremely talent visionary that is rapidly building a diversified holding company through intelligent capital allocation decisions. We see many parallels to the story of Berkshire Hathaway. At 36 years of age Sardar has demonstrated incredible business savvy and outstanding investment acumen. We purchased BH at \$650 million dollars which compares favorably to an intrinsic value of \$950 million for the enterprise. It is our expectation that the gap between our purchase price and intrinsic value will close for a quick gain or we will compound wealth based on Sardar's ability to grow the company for years into the future.

Works Cited

- 1) *BH Annual Report - SEC Filing 10-K.* EDGAR, 2013.
- 2) *BH Chairmen Letters* – www.biglariholdings.com. 2011.

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