



MARAN CAPITAL MANAGEMENT

VALUEx Vail 2015

June 26, 2015

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Price is what you pay: \$410/sh (~\$850mm market cap)

Value is what you get:

| (\$ mms except per share items) | <u>Intrinsic Value (est)</u> |
|---|------------------------------|
| Cash/Investments | |
| Cash & Equivalents | 113 |
| Investments | 21 |
| Investment Partnerships | 717 |
| Treasury Stock owned but not retired | 81 |
| Deferred Tax Liability | <u>(158)</u> |
| Total Cash/Investments (net of deferred taxes) | 774 |
| Fully-Owned Businesses | |
| Restaurants | 750+ |
| Restaurant-level debt | (217) |
| Maxim | 25+ |
| First Guard Insurance | <u>25</u> |
| Total Fully-Owned Businesses (net of debt) | 583+ |
| Fair Equity Value | \$1.35bn+ |
| per share | 650+ |
| Shares Out, YE F2014 | 2.066 |

Source: March 31, 2015 10Q and Maran Capital Management estimates

Biglari Holdings (BH - \$410):

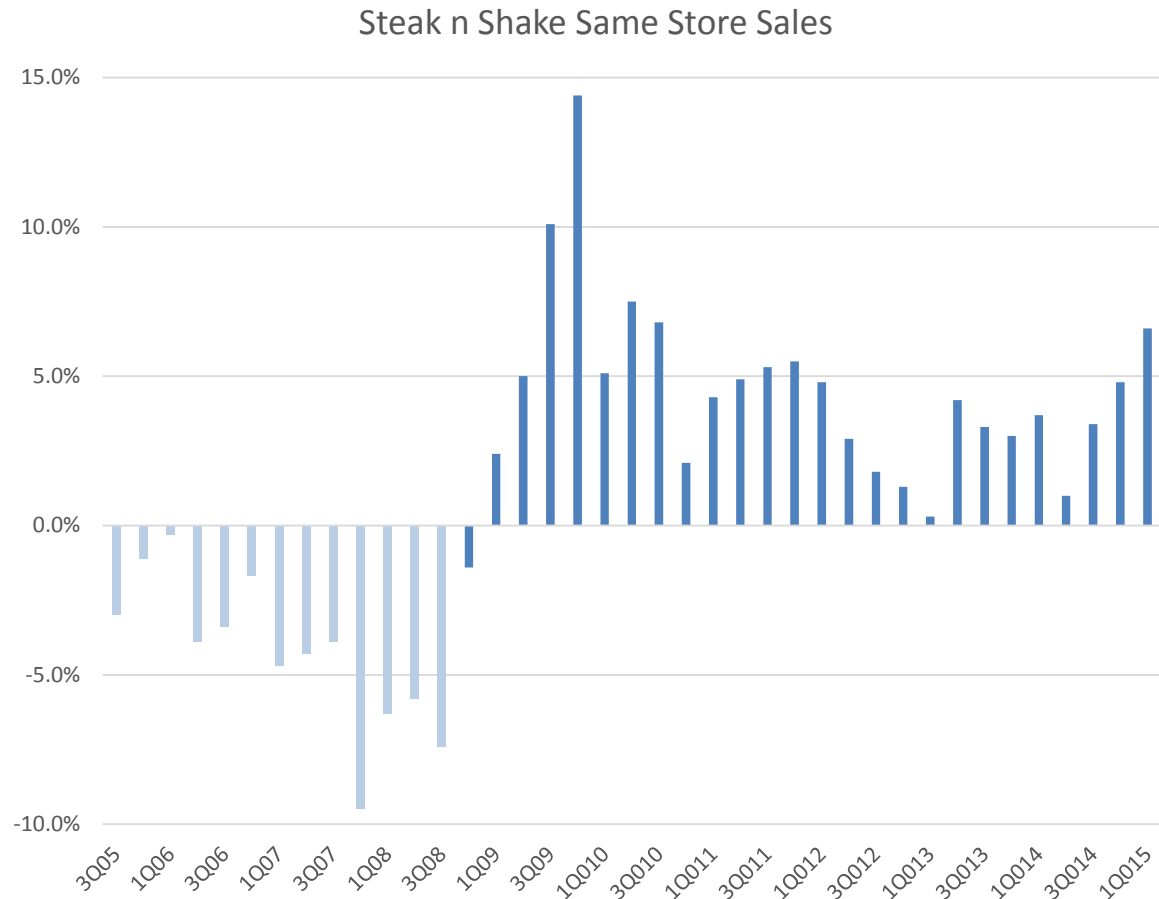
- Platform company comprised of cash, investments (largest holding: CBRL), and operating businesses Steak n Shake, Western Sizzlin', Maxim, and First Guard
- Run by Sardar Biglari: entrepreneurial CEO who is a proven operator and capital allocator
- Core operating business Steak n Shake undergoing resurgent growth through capital-light franchising and traffic-driven same store sales
- **Significant Margin of Safety:** the stock is trading close to cash/investments on the books net of all recourse debt and deferred tax liabilities
 - Investors are essentially getting Steak n Shake for free, and are paying nothing for any future capital allocation-driven upside
- Conservative intrinsic value estimate: \$650+ per share (and growing); potential for \$800+ within three years
- Opportunity created by complex structure, and controversy over corporate governance and executive compensation
- Recent tender for ~1/4 of outstanding shares at \$420/sh by fund controlled by CEO – he seems to think it is very cheap at these levels and is backing up the truck

- 81 year old iconic American brand
- \$765mm 2014 net revenue
- 417 company-owned stores (AUV: ~\$1.8mm)
 - Estimated company-owned restaurant EBITDA \$75-85mm/yr over last three years
- Renewed focus on franchising – 129 franchised stores, up from 71 in 2010
 - 239 franchises in the development pipeline at YE fiscal 2014



Steak n Shake – Same Store Sales

- Remarkable traffic-driven turnaround in same store sales by present management starting in 2009 – lowered prices, improved quality
- 25 consecutive quarters of positive same store sales
- ~30% cumulative increase in same store sales since 2009

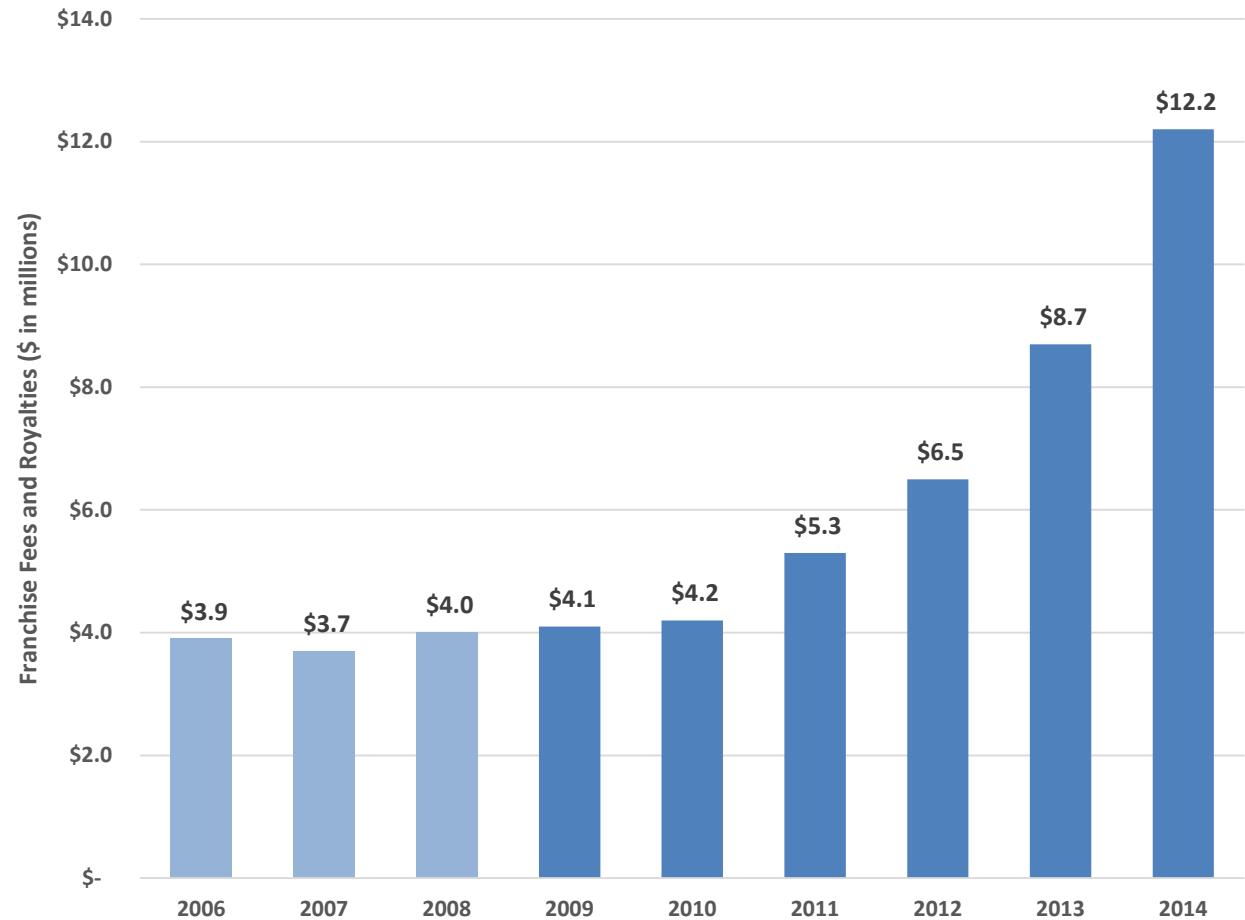


Source: BH 2014 Shareholder Letter, 2014 form 10KT, and 3/24/2015 8K

Steak n Shake – Franchise Business

- Franchise Fees and Royalties have grown at a 30.6% CAGR since the beginning of the franchising initiative (FY 2010)
- Estimated direct franchising expenses were \$10-12mm in 2013 and \$17mm in 2014 – the company is spending up front to build the business
- BH targets franchise initiative break-even in 2016

Franchise Fees and Royalties



Note: Fiscal year; Source: BH 2014 Annual Letter

Valuation Summary – Base Case:

Company-Owned – 8x run-rate EBITDA of \$75mm = \$600mm (~11 – 12x FCF)

Franchise – 20x steady state FCF contribution of \$7.5mm = \$150mm

Total SnS – \$750mm Enterprise Value

Higher Valuations are Possible:

Upside Case – \$85mm of company-owned EBITDA and \$15mm Franchise FCF stream a few years out:
fair intrinsic value could be \$950mm+

IPO Scenario – What would SNS trade at in these markets if it were IPO'd?

- Largest general interest men's magazine
- Strong brand - \$100s of millions have been spent advertising the brand over the years
- BH bought the brand for \$10-15mm after the prior owner had several deals fall apart in the \$25-28mm range
- The business previously traded hands in 2007 for \$250mm
- Still losing money, and outcome is uncertain, but risk-reward is skewed very positive
- Range of outcomes perhaps loss of \$10-20mm to gain of \$100mm+

Turnaround Effort Underway

- Cut cover price – \$5.99 to \$3.99
- Improved quality – larger and higher quality paper
- New editor/team – Editor Kate Lanphear formerly of NYT and Elle
- Ad pages up 63% on average 2015 YTD vs. 2014
 - 26 vs. 16 per issue on average
- March 2015 print ad revenue up 200%+ y/y

Value

- Base Case: \$25mm (BH has already received offers for Maxim for more than they paid for it)
- Downside Case: After tax loss of \$10-20mm
- Upside Case: \$100mm+



High Quality P&C Insurer

- Niche business focused on commercial trucking
- Low-cost operator; great efficiency
- Never registered an operating loss in its history
- 79.1% average combined ratio since formation in 1997
- Ability to lever BH balance sheet should accelerate premium growth from recent mid-teens level
- Provides platform for future acquisitions in insurance

Value

- Purchased for ~\$20mm
- Estimated current value of \$25mm based on 10x net earnings
- Should be a long-term compounder over time

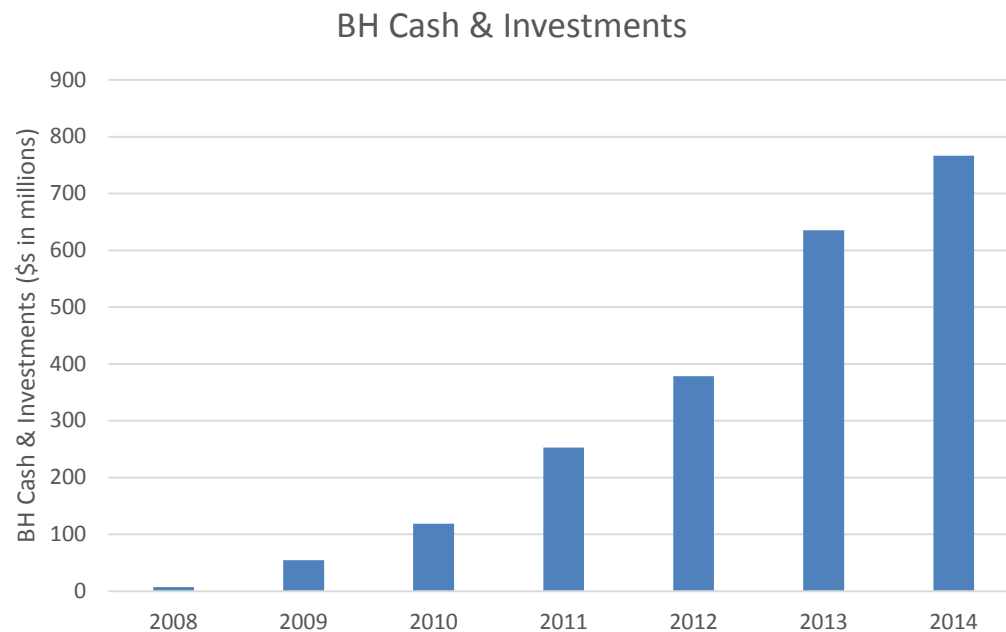
The majority of BH's cash and investments are invested in two hedge funds (The Lion Fund I and The Lion Fund II) that are managed by Sardar Biglari

BH Investment Track Record:

- 32.8% average annual gross return since inception (364% cumulative vs. 134% for the S&P 500)
- \$490 mm cumulative investment gains since inception

Primary Holdings in the Lion Funds:

- Cracker Barrel Old Country Store (CBRL): ~\$600mm+
- Biglari Holdings (BH): \$80mm+ (which is treated as treasury stock in consolidated financials, but the shares are still outstanding)



Note: Fiscal year; all organic except \$161mm from two rights offerings; Source: BH 2014 Annual Letter

| | | | | | | |
|----------|---------------|------------------------------|--------------------------------|---------------------------------------|------------|----|
| Overview | Steak n Shake | Other Fully Owned Businesses | Investment Partnerships & CBRL | Sardar Biglari & Corporate Governance | Conclusion | 11 |
|----------|---------------|------------------------------|--------------------------------|---------------------------------------|------------|----|

At \$50, CBRL was “being handed a straight flush” per S. Biglari, but what about now?

Current Valuation

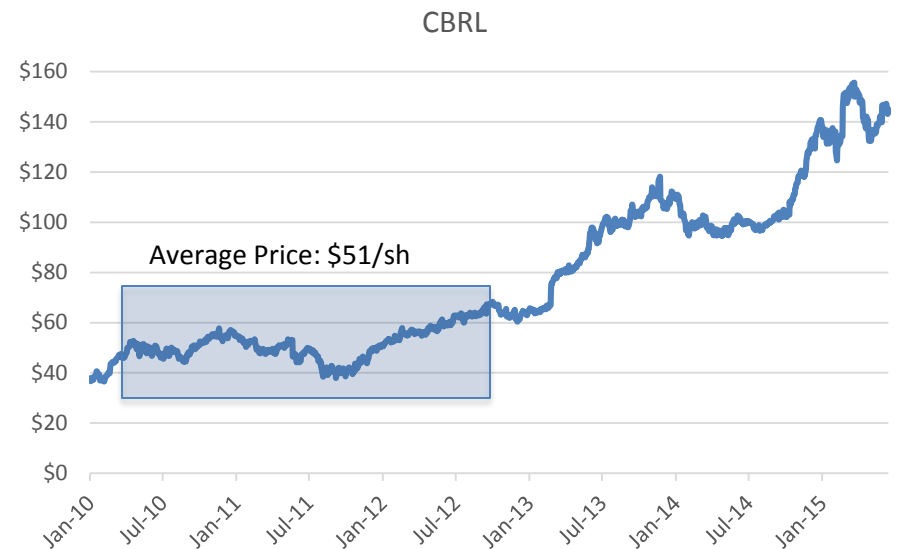
- 2015 P/E: 22x (per guidance)
- Dividend Yield: 3% regular + 2% special = 5%
 - 14.5% yield on BH cost basis

Hidden Assets and Room for Operational Improvement

- Owned real estate
- 2014 operating margin: 8%; prior peak: 13%
 - Company is targeting 9% by 2017

Biglari’s Preferred Strategy

- Cease development of company-owned units
- Grow in a capital-light manner
 - Franchise, license, same store sales
- Return more capital to shareholders



Jockey-Driven Stock – Who is Sardar Biglari?

Entrepreneur, operator, capital allocator

Background

- 37 year old, first generation immigrant – completely self-made
- Started first business in college with \$15k
- Launched hedge fund after graduation from college with seed capital from sale of his business

Successful activist investing track record

- Western Sizzlin’
- Friendly’s Ice Cream
- Steak n Shake
- Cracker Barrel

Successful operational track record

- Steak n Shake

Why the Opportunity Exists

Structure, Corporate Governance, and Executive Compensation

License Agreement

- Royalty-free license agreement that would pay S. Biglari 2.5% of SnS sales upon a change of control for a period of five years
- Acts as a poison pill to a change of control

Lion Funds

- \$700mm+ of shareholder capital is invested in funds S. Biglari controls
- 25% incentive allocation on profits over a 6% hurdle with claw backs
- S. Biglari likens it to publicly traded investment companies such as Steel Partners, Greenlight Re, Third Point Re, and Pershing Square Holdings
- S. Biglari has voting control over ~18% of the stock via BH stock held by the Lion Fund

Related Party Transactions

- S. Biglari sold the GP of the Lion Funds to BH in 2010 (for ~\$1), and re-purchased it in 2013 (for \$1.7mm)

Recent Proxy Vote

- Non-binding resolution in favor of executive compensation: 43% for; 37% against



It's not all bad

- Four of six directors are independent
- Three of six directors were formerly in adversarial positions to S. Biglari in his proxy campaigns
- Executive compensation is tied directly to value creation
- No share count dilution
- Biglari has essentially his entire net worth invested in BH (and, via the Lion Fund II, CBRL)
- Neither Biglari nor any board member has ever sold a share
- YTD, the Lion Fund, on behalf of Biglari as well as shareholders, purchased 45k shares for \$19mm (~2.3% of shares outstanding) at an average price of \$411/sh

*“Our company is, very simply, a vehicle for shareholders to invest in Sardar Biglari”
- BH presentation to shareholders,
March 2015*

Lion Fund II Announced a Tender Offer for 575k Shares (~25% of S/O) at \$420/sh

Assuming successful completion of full tender:

- Biglari is essentially offering to trade $\frac{1}{4}$ of the CBRL position for $\frac{1}{4}$ of BH
- On a look-through basis (and in consolidated results), the BH share count will be 1.285mm
- Sardar Biglari will control ~47% of BH voting stock
 - Further entrenches him
 - Should reduce costs and distractions from future proxy battles
- Lion Fund II will collect a carry on appreciation of the BH stock it holds
 - Worse for shareholders than an outright corporate buyback (where the shares would be cancelled)
 - Incentivizes Sardar Biglari to increase value of BH stock (and he controls numerous potential catalysts)
- Signals Sardar Biglari believes the stock is cheap at \$420/sh, and is essentially offering to buy all he can at these levels

There are numerous catalysts, many of which are under S. Biglari's control

- Steak n Shake franchise initiative profitability (expected 2016)
- Maxim profitability (expected 2016)
- Improved corporate governance and/or simplification of the structure
- Retirement of BH-owned treasury stock
- Successful activism at CBRL
 - Would allow Biglari to exert control and improve profitability
 - Potentially turn the deferred tax liability into “equity”
- IPO of Steak n Shake

“Instead of hoping p/v converges, we could do our part by initiating value-enhancing maneuvers to drive p/v conversion.”
- BH 2011 letter to shareholders
(Regarding activist investing, but I think it applies here as well.)

- Take-“under” at something well below current intrinsic value (ie, if S. Biglari teamed up with a capital provider and bid for the entire company at \$420 per share)
- Lack of p/v conversion given continued shareholder concerns surrounding structure, governance, and compensation
- Change of control that would trigger the license agreement (although presumably that would have its upsides as well)
- There is no key-man risk given the current p/v relationship

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Assume BH used all \$774mm of cash and investments to buy back stock at \$420/sh

- Share count would fall to 220k shares
- Assuming \$583mm of value for fully-owned businesses, intrinsic value would be \$2,650/sh (500%+ upside)
 - I think William Thorndike would approve

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