

Markel Group (MKL)

At Recent Price, a 30-45% Discount to Intrinsic Value

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Executive Summary

Markel Group has a three-engine compounding architecture that has operated profitably for four decades. At the recent share price of \$1,818.67, investors are presented with an opportunity to acquire a consistent compounder of capital at a 30-45% discount to its intrinsic value.

The market's mispricing is rooted in Markel's analytical complexity. A single GAAP reporting framework systematically obscures the compounding reality of its privately held businesses, the retained earnings of its equity portfolio, and the structural leverage of its insurance float.

When deconstructed, four different views of Markel's valuation — sourced directly from the 2025 10-K and Q1 2026 10-Q — converge on the same conclusion.

Table 1 - Various Markel Valuation Metrics as of June 2026

Valuation Type	Per Share	Criteria	What It Measures
True Economic Book Value	\$1,765	1.03x* TEBV	GAAP book value corrected for four accounting distortions
Two-Step Intrinsic Value	\$2,617	30%* discount to IV	Management's own intrinsic value framework applied conservatively, but with no adjustment for market price bias
Look-Through Sum of the Parts	\$3,283	45%* discount to IV	Value = earnings multiple x (normalized underwriting earnings + equity retained earnings + dividends + operating business EBITA) + asset values from remainder of balance sheet (less debt)
Earnings Multiple	@\$1818.67	10.8x* Earnings	After-tax earnings multiple of current share price assuming: Op. Earnings, Fixed Income, Cash, & Underwriting (all taxed at 21%), as well as Retained Earnings taxed at 3%, and Dividends taxed at 10.5%

* - \$1,818.67 share price used for each valuation metric.

Management has *implicitly* confirmed this valuation disconnect through its continued share repurchasing activity, retiring ~9% of shares outstanding over the last four years, with another \$133.9 million in purchases — or ~0.5% of shares — during Q1 2026 alone.

Beyond the valuation gap, this paper presents forensic structural data demonstrating:

- **A 11.2% Baseline ROE:** Stripping out all equity market mark-to-market noise, Markel's three engines generate a 11.2% core operating yield on *total* GAAP equity.
 - **The Operating Engine Yields 26.0% Return on Tangible Capital:** Markel's private businesses generate excellent returns on *tangible* capital that are hidden by GAAP.
 - **The 1:1 Float to Equity Leverage Amplifies Returns:** Markel's 1:1 float-to-equity ratio means every dollar of float-funded investment return lands directly on a dollar of equity, delivering four times the proportional leverage of Berkshire Hathaway (0.24:1).
 - **Repurchases Act as the Catalyst:** Management is actively exploiting the market's misunderstanding. Over the last four years, Markel has deployed \$1.73 billion in operating cash flow to repurchase shares at a deep discount, permanently concentrating the compounding power for remaining owners.
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Introduction

Markel Group is a financial holding company that has spent four decades building something genuinely difficult to replicate: a specialty insurance operation that generates float at *negative* cost — paid by policyholders to hold their capital, a diversified investment portfolio funded by that float, and a collection of privately held businesses acquired and held permanently. Each engine reinforces the other two. The float funds the investments. The investments and the operating businesses generate the cash that funds acquisitions and share repurchases. The acquisitions grow the operating income that justifies a higher float-funded investment base.

This architecture is not unique. Warren Buffett built Berkshire Hathaway in the same manner, and it is arguably the most successful capital compounding structure in modern financial history. What makes Markel's version worth examining carefully is not that it copies the blueprint — it does, explicitly and without apology — but that it executes it at a scale where the mathematics of compounding work with a force that Berkshire's current size no longer permits.

Markel currently operates with \$18.8 billion in insurance float¹ against an equity base of \$18.6 billion (year-end 2025). That 1:1 float-to-equity ratio means every dollar of float-funded investment return lands directly on a dollar of equity. The compounding force is concentrated. At Berkshire, \$176.9 billion in float lands on \$727.2 billion of equity — a ratio of 0.24:1. The same investment discipline, applied through the same float-funded mechanism, produces *four times* the proportional impact on per-share value at Markel than it does at Berkshire.

To truly understand the *structural* advantage that Markel possesses, we start with the three engines that are at the core of Markel Group's architecture. We examine how each compounding engine works, why GAAP systematically obscures Markel Group's true economic

value, and how the three engines interact to produce compounding returns that exceed what any single engine could generate alone.

The Architecture: How Markel's Three-Engine System Works

The Power of Float

Markel is a financial holding company built from the ground up in much the same manner that Berkshire Hathaway developed. Berkshire began as a failing textile business — by Buffett's own admission, a capital allocation mistake he has called one of his *worst* investment decisions. To his credit, Buffett used the cash flows from the dying textile mills to acquire businesses with far better prospects. Among these was an insurance operation: National Indemnity.

That acquisition provided the float — the pool of premiums held before claims are paid — that became the foundation of Berkshire. Float is technically a *liability*, but it carries no contractual repayment schedule and, when underwriting is profitable, has no cost of capital. When an insurer is paid to hold other people's money, the math of compounding changes completely.

Markel has utilized this exact playbook. Since its 1986 IPO, Markel's insurance arm has focused on Excess and Surplus (E&S) and specialty lines, avoiding the pricing competition of commoditized auto or home insurance. By insuring unique risks — from summer camps to equine operations — Markel exerts pricing power in niches that standard carriers refuse to touch. This discipline has allowed Markel to maintain a combined ratio in the mid-90s for *decades*; consistently earning the right to hold other people's money at *negative* cost.

Valuing a Financial Holding Company: The Three Engines

This negative cost float serves as the capital that funds a diverse array of cash-generating assets, allowing Markel to construct a three engine system where each component reinforces the other two:

- **Underwriting:** Generates high-quality, negative cost float.
- **Investments:** Two pools of capital used for different purposes:
 - A portfolio of equities with growing retained earnings and dividend income
 - A duration matched fixed maturity portfolio to balance the insurance reserves
- **Operating Businesses:** A diverse stable of private companies providing durable, non-insurance cash flows

How does one value a business with an insurance company at its core, a portfolio of minority equity holdings and fixed maturity securities, as well as a collection of privately held businesses for which no quoted market price exists? Looking only at reported GAAP earnings is highly misleading. Since 2018, GAAP has required companies to include unrealized gains and losses from equity portfolios in net income, creating enormous year-to-year volatility. Markel's GAAP net income has swung from +\$2.7 billion (2023) to -\$252 million (2022), and *another* -\$212 million

in just the latest quarter — a \$3 billion swing driven almost entirely by stock market fluctuations, not operating performance.

To understand the actual cash-generating power, both Warren Buffett and Markel CEO Tom Gayner use custom non-GAAP metrics that strip out this noise. Berkshire calls this "Operating Earnings," Markel calls it "Adjusted Operating Income" (AOI). Although they sound different, they are economically identical: capturing recurring investment income, underwriting profits, and operating business earnings while *excluding* unpredictable capital gains.

We use Markel's adjusted operating income terminology to value the three fundamental components of compounding.

Component 1 - The Insurance Franchise

Just as within Berkshire, the insurance operation is the engine that enables the other two to execute with greater efficiency. The float it generates is the negative cost capital that funds the investment portfolio and provides the acquisition currency for the operating engine. Without the insurance franchise, the other two engines do not exist in their current form.

We value it by multiplying the most recent three-year average underwritten premiums earned by a normalized underwriting margin, capitalized at a multiple appropriate for a durable, low-cost insurance franchise.

Inputs, verified from the 2025 10-K:

- **Net Premiums Earned (3-yr average, 2023 - 2025) = \$8.18 billion**
- **Normalized Pretax Combined Ratio Margin: 4.5%** (consistent with Markel's long-term negative cost underwriting. We take the last eleven-year average of **~95.5%** in specialty and E&S lines and capitalize it)
- **Capitalization Multiple: 12x** (pre-tax)

Insurance Franchise Value: \$8.18B x .045 x 12x = \$4,417.8 million

This value puts a dollar figure on the level of underwriting skill — the ability to earn a 4.5% margin over a long period — as a standalone franchise capitalized at a 12x multiple. The investment returns generated by deploying this float are credited separately within the investment portfolio.

Table 2 - Markel Insurance Engine Metrics (2015 - 2025)

Year	Float	Combined Ratio
2015	\$8.1B	89%
2016	\$9.0B	92%
2017	\$10.2B	105%*

2018	\$11.3B	98%
2019	\$12.4B	94%
2020	\$13.6B	98%
2021	\$13.5B	92%
2022	\$14.9B	91%
2023	\$16.7B	101%**
2024	\$17.5B	96%
2025	\$18.8B	94.6%

*2017: Hurricane Harvey, Irma, Maria — catastrophic industry-wide loss year.

**2023: \$330M adverse casualty reserve charge, addressed proactively and corrected by 2025.

Component 2 - The Investment Portfolio

Markel's invested assets are the product of float deployed across the capital markets. To value this component without double-counting the insurance franchise, we *capitalize* the equity portfolio (2a) consisting of retained earnings and dividends rather than adding the marked to market asset value of it, and then include Non 13-F equities (2b) at face value as well as the asset value of the fixed maturity portfolio (2c) in *full* along with cash *less* all financial liabilities — producing the true residual asset value attributable to shareholders.

2a The Equity Portfolio Earning Power: \$7,267 million Instead of using the \$12.3 billion current market value of the equities, we measure the cash they generate. Using Q1 2026 Trailing Twelve Month (TTM) figures:

Table 3 - 13-F Equity Earning Power

Component	Gross	Tax Rate	After-Tax	Capitalized (15x)
Dividends Received	\$155.9M	10.5%	\$139.5M	\$2.09B
Retained Earnings	\$355.6M	3.0%	\$344.9M	\$5.17B
Total Equity Earning Power	\$511.5M		\$484.4M	

Tax Treatment Rationale:

- **Dividends (10.5%):** Qualified dividend income taxed at preferential rates. This cash doesn't sit idle — it funds acquisitions and reinvestment at returns far exceeding Treasury yields so we capitalize it at 15x.
- **Retained Earnings (3.0%):** A review of Markel's 2023–2025 Cash Flows reveals an average equity turnover rate of 2.5%, implying a 40-year average holding period. Discounting the 21% statutory capital gains tax over a 40-year horizon at a 10% cost of capital yields a present-value tax drag of less than 0.5%. Our 3% deduction acts as a conservative buffer, overstating the true economic friction of Markel's permanent capital structure.

Both streams are capitalized at 15x, reflecting the durable compounding nature of these earnings, (Berkshire, Alphabet, Amazon, Goldman Sachs, Deere, and Apple are the top positions) with nearly **50%** of the retained earnings coming from just these top six holdings.

Table 4 - 13-F Equity Holdings Retained Earnings and Dividends

Investee	Look-Through Earnings	Dividends	Retained Earnings
Berkshire Hathaway	\$91.9M	\$0	\$91.9M
Alphabet (GOOGL)	\$35.9M	\$2.8M	\$33.1M
Amazon (AMZN)	\$14.6M	\$0	\$14.6M
Goldman Sachs (GS)	\$18.4M	\$5.0M	\$13.4M
Deere & Co (DE)	\$16.2M	\$5.7M	\$10.6M
Apple (AAPL)	\$9.2M	\$1.3M	\$7.9M
Top 6	\$186.2M	\$14.8M	\$171.4M
Other 199 Holdings	\$325.3M	\$141.1M	\$184.2M

TOTAL	\$511.5M	\$155.9M	\$355.6M
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(Based on End of 2025 13-F Filing)

Total 13-F Equities: (\$155.9 million x (0.895) + \$355.6 million x (0.97)) x 15 = \$7,267 million

2b Remaining “Net” Investment Portfolio, consisting of:

Inputs (Q1 2026 10-Q, page 3):

- **Fixed Maturity Securities: \$17,943.8 million**
- **Cash & Restricted Cash & ST Investments: \$3,680.5 million + \$500.8 million + \$2,026.1 million = \$6,207.4 million**
- **Less: Senior Long-Term Debt and Other Debt: (\$4,382.8 million)**
- **Less: Redeemable and Non-Redeemable NCI: (\$519.8 million)**
- **Less: Deferred Tax Liability (20% of Investment DTL): (\$332.4 million)**
- **Plus: Non-Redeemable NCI: \$1.6 million**
- **Net Investment Portfolio Value= \$18,917.9 million**

2c Other Equity (Non 13-F)

- **Total Equities less 13-F = \$12,303 million - \$11,939 million = \$364 million**

Component 3 – The Operating Engine

Historically, investors viewed Markel's non-insurance businesses as a “black box” under the “Markel Ventures” operating engine umbrella. Because the capital-light, recurring revenue characteristics of certain businesses were indistinguishable from cyclical industrial operations, the market systematically undervalued the entire segment, applying a discounted insurance-adjacent multiple to the whole bucket.

In 2025, management broke this illusion. The formal re-segmentation into three distinct groups surfaced a truth that GAAP had obscured: Markel holds a highly efficient compounding machine that generated **\$844 million** in adjusted operating income during 2025. Crucially, the new "Financial" segment revealed that nearly **40%** of the entire operating engine's earnings derive from capital-light, fee-based services carrying zero underwriting risk (specifically State National and Nephila).

The 2025 disclosure did not create value; it revealed it. By providing the market with a roadmap of these distinct capital characteristics, we can apply rigorous, differentiated multiples to value the engine accurately.

Adjusting the Multiples

We apply differentiated pre-tax multiples to the segment adjusted operating income to value each properly according to capital requirements:

- **Industrial (9.5x):** Capital-intensive operations like Buckner HeavyLift Cranes wear out equipment that must be replaced. A 9.5x multiple applied to earnings *after* depreciation is the correct treatment for real capital consumption.
- **Financial (15.0x):** State National's program services and Nephila's ILS management generate income with minimal fixed assets. Fee businesses with contractual revenue trade at 15–20x in private markets; 15x is the conservative base.
- **Consumer & Other (11.5x):** Durable brands like Costa Farms and Lansing Building Products sit between the two in capital intensity; 11.5x reflects that intermediate character.

Table 5 - Markel Operating Engine Segment Valuation

Segment	FY2025	Multiple	Value
Industrial	\$343.2M	9.5x pre-tax	\$3.2604B
Financial	\$326.6M	15x pre-tax	\$4.899B
Consumer & Other	\$174.6M	11.5x pre-tax	\$2.0079B
Total	\$844.4M		\$10.1673B

The Math: A 12x Blended Multiple

Summing the segments yields a \$10.2 billion valuation on \$844 million of adjusted operating income — an effective blended multiple of **12.0x**.

This 12x average is intentional. It mirrors the historical multiple applied to the old "Markel Ventures" block before the high-margin fee businesses were revealed.

In addition, a 12x multiple is conservative for a diversified engine generating an overall **26% return on tangible capital**.

The Accounting Bridge: Adjusted Operating Income vs. GAAP

To see this \$10.2 billion of economic value, an investor must strip away the accounting noise. Markel's adjusted operating income is essentially EBITA — earnings before interest, taxes, and *amortization*.

(Note: For the 2015–2020 era, these segments were reported as a single block using "Segment Profit," which already deducted amortization. We manually add back the amortization charge to those years to achieve the EBITA-equivalent income that adjusted operating income provides today).

Amortization masks the true economic yield of the operating engine. With the true earning power of the three component engines now clearly mapped, we move on to why the broader market likely fails to recognize this yield: systematic distortions of GAAP accounting.

Valuation Method #1 - True Economic Book Value

GAAP accounting was designed as a standardized framework for auditable, legally defensible financial disclosure. It was not designed to measure intrinsic value. When applied mechanically to a compounding machine like Markel, GAAP introduces severe structural distortions that cause reported book value — and by extension, earnings power — to be understated.

Investors focused solely on reported GAAP book value will fundamentally misunderstand Markel's true asset base. To correct this, we define True Economic book value (TEBV) as the actual capital recovered once we reverse four specific and quantifiable accounting distortions.

Distortion 1: Intangible Amortization (+\$126 per share)

Under GAAP, acquired intangible assets (customer relationships, trade names, technology) are amortized over their estimated useful lives, reducing book value each year. However, for durable franchise businesses with recurring revenue and strong customer retention, these intangibles often don't economically depreciate — they may actually appreciate.

Since acquiring its businesses, Markel has recorded \$1.575 billion in cumulative intangible amortization, approximately \$1.26 billion from the operating engine and \$315 million from Insurance operations. This non-cash charge has systematically reduced book value without corresponding economic decline. The evidence: operating engine earnings have grown from \$77 million (2018) to \$844 million (2025) — an 11x increase — demonstrating the economic value of these intangibles has compounded rather than depreciated as GAAP implies.

To correct for this, we add back **\$126 per share** in amortization that represents economic value not reflected in GAAP book value.

Distortion 2: The Deferred Tax Liability (+\$115 per share)

GAAP records a \$1.95 billion deferred tax liability on Markel's unrealized investment gains — as if the company will liquidate its entire equity portfolio tomorrow and write a check to the IRS.

In practice, these taxes may *never* be paid. Like Berkshire, Markel rarely sells appreciated securities outright. The liability exists on the balance sheet but functions more like permanent capital — not dissimilar to insurance float.

Treating 80% of investment-related DTL as equity (recognizing most will never come due) and 70% of PP&E-related DTL (\$153.7 million of accelerated depreciation that perpetually defers):

- Investment DTL (80%): \$1.662 billion / **+\$106 per share**
- PP&E DTL (70%): \$154 million / **+\$9 per share**

Total hidden equity: **+\$115 per share**

Distortion 3: Unearned Premium Reserve Hidden Profit (+\$20 per share)

Unearned premium reserves (UPR) represent premiums collected for coverage periods not yet elapsed. GAAP records 100% of UPR (\$7.3 billion) as a liability — but this overstates the true economic obligation.

Markel's 10-year average combined ratio of ~95% means only 95 cents of every premium dollar is ultimately paid out. The remaining 5% is profit that GAAP won't recognize until policies earn out. Using a conservative 3.5% margin: $\$7,253 \text{ million} \times 3.5\% = \mathbf{\$254 \text{ million}}$, or **\$20** per share.

Is this real? Yes — every quarter, as policies expire, embedded profit flows to net income. This is deferred recognition, not a theoretical adjustment.

Is it perpetual? Yes. New policies continuously replace expiring ones. UPR has grown from \$2.2 billion (2015) to \$7.3 billion (2025) — a 12.8% CAGR. As long as Markel writes insurance, this hidden profit regenerates each policy cycle.

This is the liability-side equivalent of float: just as profitable underwriting makes float “free”, the UPR contains prepaid profit that GAAP timing rules haven't yet recognized.

Distortion 4: The Share Repurchase Penalty (+\$57 per share)

When Markel repurchases shares above GAAP book value, accounting rules mandate that total shareholders' equity is reduced by the full market price paid. This creates a paradox: the exact action that most effectively transfers intrinsic value to remaining owners mathematically suppresses the reported equity metric used to evaluate the company.

From 2022 through 2025, Markel deployed over \$1.7 billion to repurchase shares at prices averaging between \$1,248 and \$1,926. Because these were retired at a premium to accounting book value, a cumulative missing equity of approximately \$715 million — or **\$57 per share** — has been mechanically wiped from the reported financials.

The True Economic Book Value Conclusion: Buying Assets at a Discount

Correcting for these four balance sheet distortions produces a different picture of Markel's actual economic net worth:

Table 6 - GAAP Book Value Adjustments

Component	Per Share
GAAP Book Value (Q1 2026)	\$1,447
+ Intangible Amortization	+\$126
+ Deferred Tax Liability	+\$115
+ UPR Hidden Profit	+\$20

+ Share Repurchase Distortion	+\$57
True Economic Book Value	\$1765

Critically, this gap between GAAP and True Economic book value is structurally self-reinforcing. Each year the operating engine compounds above carrying cost, the equity portfolio gains value, and shares are repurchased, the invisible economic value widens further. GAAP does not correct for this compounding — it obscures it.

At the recent share price of \$1,818.67, Markel trades at just **1.03x** its True Economic book value. An investor at this price receives the entire specialty insurance franchise, the future alpha of the equity portfolio, and the full organic compounding capability of the operating engine for 3% above static book value.

The GAAP Disconnect

This discount is a recent phenomenon. Prior to 2020, Markel's share price traded at a modest premium to both GAAP and True Economic book value. However, the post-2020 divergence reveals the disconnect.

(Note: For the complete year-by-year chronological data reconciling GAAP to TEBV, see Appendix A)

As illustrated in **Figure 1**, the dollar amount between GAAP book value and True Economic book value is widening, leaving the share price decoupled from this economic reality.

Figure 1: Markel 2015-2026 Share Price vs. GAAP & True Economic Book Value ^{2,3}



The Widening Wedge

The trajectory of True Economic book value has clearly detached from GAAP book value. The difference between the two is widening, driven by amortization of intangibles of Markel's privately held businesses, the permanent nature of the DTL, and the compounding math of historical share repurchases.

Valuation Method #2: Management's Two-Step Intrinsic Value

In the 2025 Markel 10-K, CEO Tom Gayner provides a transparent guide for how Markel calculates intrinsic value. We include it here because it is the literal yardstick management hands to its shareholders.

The approach is a simple two-step model: capitalize the core operating earnings, and add the net balance sheet assets. We apply a conservative 12x pre-tax multiple to these earnings to establish management's baseline valuation.

Step 1: Capitalizing Adjusted Earnings

(Income statement inputs verified from the 2025 10-K, page 36)

- Operating Income: **\$3,195 million**
- **Add:** Amortization and impairment: **\$185 million**
- **Less:** Net investment gains: **(\$1,076 million)**
- = Adjusted Operating Income (AOI): **\$2,304 million**

To isolate the pure operating cash flow, we deduct equity dividends (**\$156 million**) and interest on cash (**\$228 million**), resulting in **\$1,919 million** of Adjusted Earnings. Per Gayner's recommendation, we use the three-year smoothed average to normalize underwriting volatility:

- 3-Year Average Adjusted Earnings: **\$1,598 million**
- **Capitalized Value (12x Multiple): \$19,178 million**

Step 2: Adding the Net Balance Sheet

(Inputs from Q1 2026 Balance Sheet)

- Equity Securities: **\$12,302 million**
- **Plus:** Cash & Restricted Cash & Short-Term Investments: **\$3,680.5 million + \$500.8 million + \$2,026.1 million = \$6,207 million**
- **Less:** Debt & Non-Controlling Interests (**\$4,382.8 million & \$519.8 million**)
- **Plus:** Non-Redeemable NCI contra-liability: **\$1.634 million**
- **Net Balance Sheet Value: \$13,609 million**

The Two-Step Conclusion

Adding the capitalized earnings (**\$19,178 million**) to the net balance sheet (**\$13,609 million**) yields a total intrinsic value of **\$32,785 million**.

- **Two-Step Intrinsic Value = \$2,617 per share** (based on 12.53 million shares)

Valuation Method #3: A “Look-Through” Sum of the Parts

A traditional sum of the parts (SOTP) model would value Markel’s equity portfolio at its marked-to-market valuation. This bakes market volatility and potential exuberance (Shiller CAPE is 39.58 as we write this, surpassed only during the internet peak bubble) directly into any intrinsic value calculation. To eliminate this price bias, we instead use a “look-through” sum of the parts methodology.

For the look-through portion, we first estimate the true earning power of *three* of the components, these being: the underwriting engine, the retained earnings/dividends of the equity holdings, and the operating engine itself consisting of the three segments recategorized in the 2025 10-K. We then capitalize this earning power to produce a valuation.

Finally, we add the value of the balance sheet’s remaining asset items less any debt to obtain the sum total for our model of valuation.

*Note, we have already defined how we value each component of the sum of the parts methodology within the **Valuing a Financial Holding Company: The Three Engines** section.*

The Look-Through Sum of the Parts Calculation

1. **The Underwriting Franchise:** We normalize the insurance underwriting exactly like we do when we value just the insurance engine profitability for 2025 at **\$368.15 million**, and then capitalize it with a 12x pre-tax multiple
 - **Underwriting Engine = \$4,418 million**
2. **The Investment Portfolio**, consisting of:
 - 2a. **The 13-F Equity Portfolio Earning Power:** This is the capitalized *retained* earnings and dividends, taxed at the appropriate rate
 - **13-F Equity Portfolio Earning Power = \$7,267 million**
 - 2b. **Other Equity (Non 13-F):** This is the balance sheet value of equities held outside of the 13-F Portfolio (at face value since don’t know the true composition of these holdings)
 - **Total Equities less 13-F portfolio = \$12,303 million - \$11,939 million = \$364 million**
 - 2c. **Duration-Matched Fixed Income & Surplus Liquidity:** This adds the remainder of assets and liabilities still on the balance sheet

- **Net Investment Portfolio Value = \$18,917.9 million**

Note: The \$12.30 billion Equity Portfolio is excluded here as its earning power is capitalized in Step 2a instead.

3. **The Base Operating Engine:** We capitalize the operating earnings of each of the three segments that comprise this core engine, each at its own appropriate multiple.

- **Base Operating Engine Value = \$10,167 million**

Total Look-Through Sum of the Parts Value

- Underwriting (\$4,418 million) + Equity 13-F (\$7,267 million) + Equity Non 13-F (\$364 million) + Fixed Income (\$18,918 million) + Operating Engine (\$10,167 million) = \$41,134 million

- **Look-Through Sum of the Parts Value Per Share = \$3,283 per share**

Two-Step and Look-Through Sum of the Parts Valuations Tell a Similar Story

Two intrinsic value methods come to the same conclusion : Markel is trading at a *widening* discount to its intrinsic value — a trend sustained for more than five years.

Figure 2: Share Price & Book Value vs. Intrinsic Value Measures 4



Source: Yahoo Finance, Internal Valuation Models

timothydoyle.com

Valuation Method #4: Earnings Multiple

Berkshire Hathaway uses operating Earnings to strip out GAAP noise and measure recurring economic performance. We apply the identical concept to each of Markel's four income streams: underwriting income, operating businesses, fixed income cash flows, and 13-F equity holdings — and then capitalize each stream at an appropriate multiple to arrive at a component valuation.

This method differs from the look-through sum of the parts in one important aspect: rather than carrying the fixed income and cash portfolio at balance sheet value, we capitalize its *income*. This treats the fixed income portfolio the way an owner-operator would — as a cash-generating asset valued by what it produces, not what it costs.

One deliberate choice: we do not normalize the fixed income income stream for interest rate changes. Short-term rates have ranged from near-zero to 5%+ over the past seventeen years, and we take no view on where they settle. We capitalize the 2025 figures as reported, treating current yields as our baseline rather than a floor or ceiling.

Because we are capitalizing the income produced by the fixed income portfolio rather than adding its balance sheet value, no double-counting occurs. The asset base has already been converted into an earnings stream.

Here are the five layers of after-tax *equivalent* income (2025 actuals) that we capitalize. Note that each of these layers has already been fully defined previously in the component or sum of the parts sections of this paper. We then apply an appropriate earnings multiple to determine the overall enterprise value:

- **Layer 1:** Underwriting income: **\$290.8 million** (after 21% tax)
- **Layer 2:** Operating Engine income: **\$666.9 million** (\$844.4 million AOI after 21% tax)
- **Layer 3:** Interest income of Fixed Income and Cash holdings: **\$657.8 million** (after 21% tax)
- **Layer 4 & 5:** Equity 13-F dividends & retained earnings: **\$484.5 million** (10.5% dividend tax rate & 3% EPS tax rate)
- **Total:** “Equivalent” after-tax income = **\$2,100 million**

Table 7 - Current Share Price at Different Earnings Multiples

Multiple	Total Value	Per Share
10.8x	\$22.76 billion	\$1,818
12x	\$25.2 billion	\$2,011
15x	\$31.5 billion	\$2,514

We exclude both the fixed income balance sheet and the **~\$1 billion** in non 13-F equity holding from this calculation. The fixed income exclusion is required by the income-capitalization

methodology — adding the asset value on top of the already capitalized income stream would double-count the same capital. The non-13-F exclusion reflects a lack of visibility into the composition of those holdings. Both exclusions are conservative; the income stream stands on its own without them.

These per share figures are *static* valuations. We project them forward through two scenarios.

High Price Scenario (Base Case)

This scenario projects a conservative continuation of Markel's last five years, during which intrinsic value has compounded at ~15% annually and owner economics ROE has averaged ~11.2%. Five structural factors support this continued trajectory, albeit at a slightly muted growth trajectory:

1. Underwriting profitability maintains its negative cost through disciplined E&S and specialty underwriting, trending downward from 95% to 93%. This float growth allows continuation of 1:1 leverage directly to the equity base — amplifying every percentage point of investment return across the equity base.
2. Over the last five years, the operating engine has reached critical mass, presently earning 26% returns on tangible capital across its three segments. While incremental earnings growth of the Industrial and Consumer segments has slowed to low single digits, the Financial segment continues to grow at double digit rates. Overall, we project operating engine earnings growth going forward of 5% or more.
3. Float income growth of 6% reflects expected balance growth as the insurance float expands with premiums. We embed no directional rate view — the portfolio's 3.9-year average duration means it substantially reprices within our projection window, making yield forecasting unnecessary. What drives long-term float income is float growth, not rate predictions.
4. The 13-F equity portfolio compounds through retained earnings, with each dollar retained by portfolio companies generating more than one dollar of share price appreciation historically. Both retained earnings and dividends should continue to grow at 6%, a growth rate consistent with long-term historic levels.
5. The flywheel reinforces itself: growing float funds growing investment income, which funds further acquisitions and equity purchases. Share repurchases at ~3% annually, executed at a persistent discount to intrinsic value, concentrate the various compounding streams into a shrinking share count.

Under this scenario, we apply the three earnings multiples to the \$2,100 million income base growing at approximately 6% annually. Through continued buybacks, the share count gets

reduced from 12.53 million to 10.68 million shares, concentrating the earnings growth over a smaller base, resulting in an annual growth rate of earnings of **10.7%**.

Low Price Scenario (Impairment Case)

This scenario assumes social inflation structurally impairs the underwriting engine — combined ratios of 100%, further amputations of long-tail casualty lines, and additional reserve charges. Under this impairment, underwriting profit is eliminated entirely and float cost turns modestly positive.

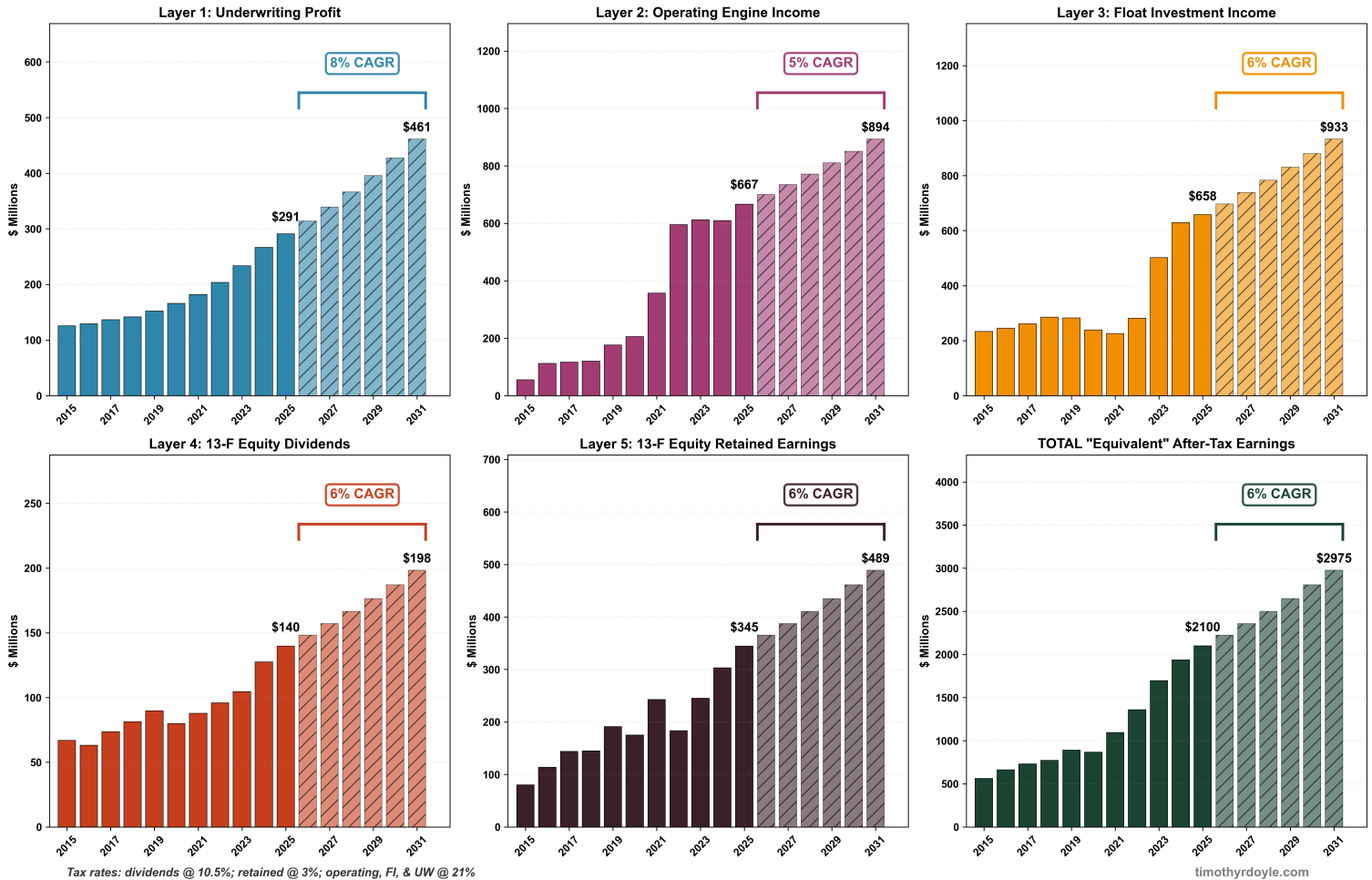
Given the largely uncorrelated nature of the earnings growth components possessed by Markel, together with the ability to *still* repurchase shares at significant levels given the strength of the cash flows always coming into Richmond, we assume an identical share count reduction as in the high price scenario.

We project a 100% combined ratio and \$0 of net profit over the next five years (a very low probability, but a true stress test scenario). The rest of the Markel engine still compounds shareholder value, and we assume the same growth rates of the other layer components as in the high price scenario.

Share repurchases could potentially *accelerate* under this scenario. A market that prices Markel as a permanently impaired insurer creates a wider discount for management to exploit — and the cash flows from the other two engines remain sufficient to fund continued buybacks at ~3% annually.

Under this scenario, we apply the three earnings multiples to the \$2,100 million income base growing at approximately 5% annually. Through continued buybacks, the share count gets reduced at the *identical* rate as the high price scenario, resulting in an annual growth rate of earnings of **7.1%**.

Figure 3: Market Earnings Growth Components: 2026 to 2031⁵

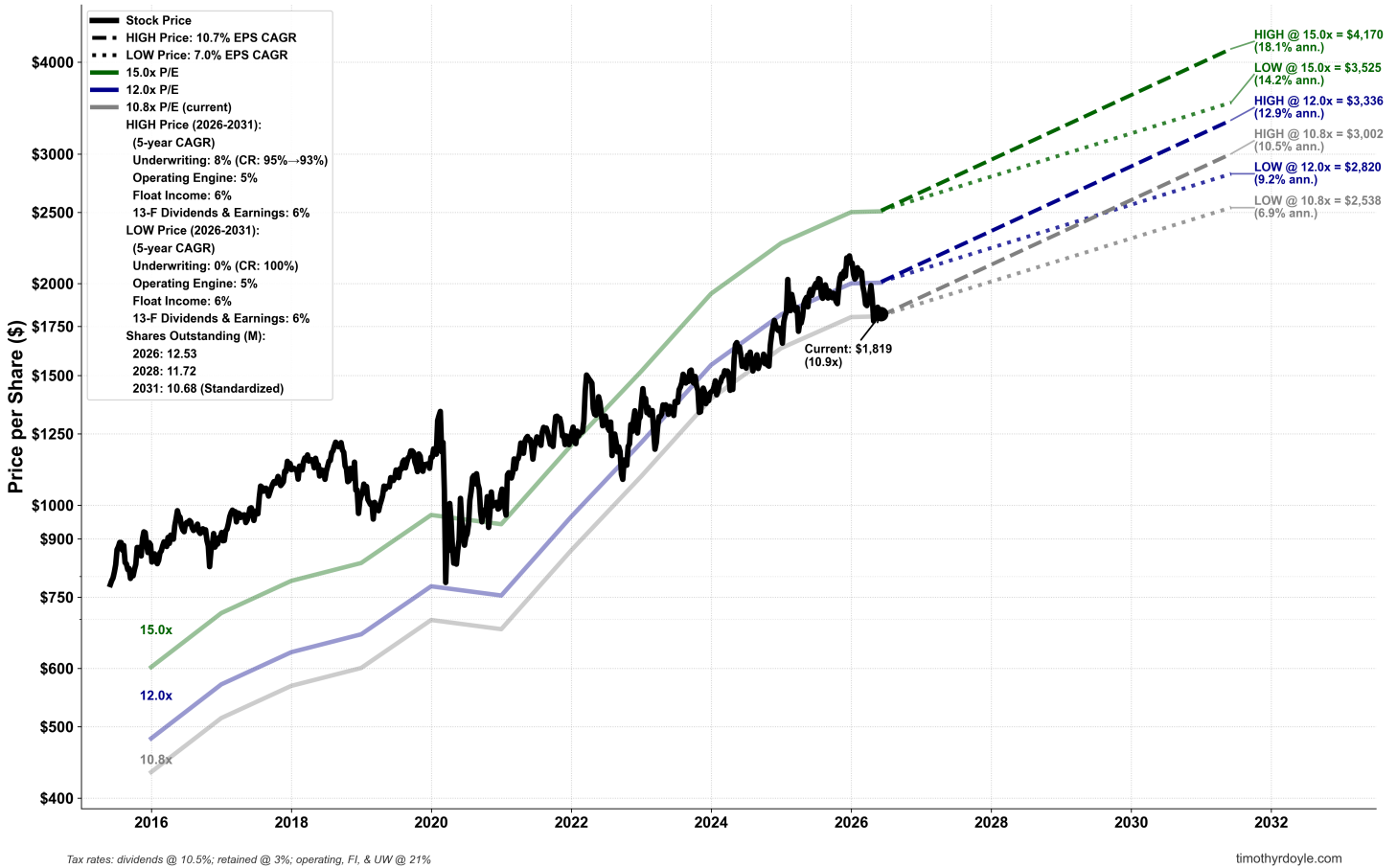


Share Price Projections

With two growth scenarios established, the analysis becomes a question of what earnings multiple the market applies over the next five years. Each of the three multiples below has a specific historical or fundamental anchor:

- **10.8x** is the implied multiple at the current share price, given the \$2,100 million owner-economics income base. It represents the entry-point valuation for an investor who sees what this paper documents — and sits near the low end of the range Markel has sold at over the past decade.
- **12x** approximates the average multiple at which Markel has traded over the last four years on this earnings basis. It remains well below the intrinsic value implied by both the Two-Step and Look-Through sum of the parts methodologies.
- **15x** reflects a normalized multiple for a business of Markel's earnings quality and durability, and is consistent with the valuation implied by management's own Two-Step calculation.

Figure 4: Market Share Price Projections to 2031⁶



The Mispricing

How is this mispricing possible? The answer lies in Markel's genuine analytical complexity. Unlike a simple operating business with a transparent income statement, Markel's three-engine architecture is consolidated under a single GAAP framework that systematically obscures the economic reality of all three components:

Balance Sheet Blind Spots: Acquired businesses amortize intangibles which do *not* impair the business and thereby suppress book value; share repurchases permanently suppress reported equity; and the deferred tax liability on \$8.9 billion of unrealized gains overstates true liabilities for an equity portfolio management intends to hold permanently.

Income Statement Noise: Retained earnings of the equity portfolio are entirely excluded, despite being highly accretive to long-term value (each dollar in retained earnings has thus far resulted in more than a dollar of share price appreciation). Meanwhile, non-cash intangible amortization is charged against earnings for years after acquisition, penalizing the income

statement for value that has in reality compounded, not eroded. Mr. Market is not one to explain his pessimism. He is either unaware of these accounting distortions, unconvinced of the durability of the underwriting results, or skeptical of the operating engine's cash flows. Markel meaningfully improved the transparency of its operating engine in 2025, restating segment economics back to 2021 — and yet, the market has failed to reprice the demonstrated earning power it revealed.

These are *perception* problems, not fundamental impairments. The discount exists because Markel is difficult to see clearly.

Share Repurchases: Addressing the Discount

When the market fails to accurately weigh this complex architecture, a persistent valuation gap opens up. Rather than bridging that gap with rhetoric, management bridges it with capital allocation.

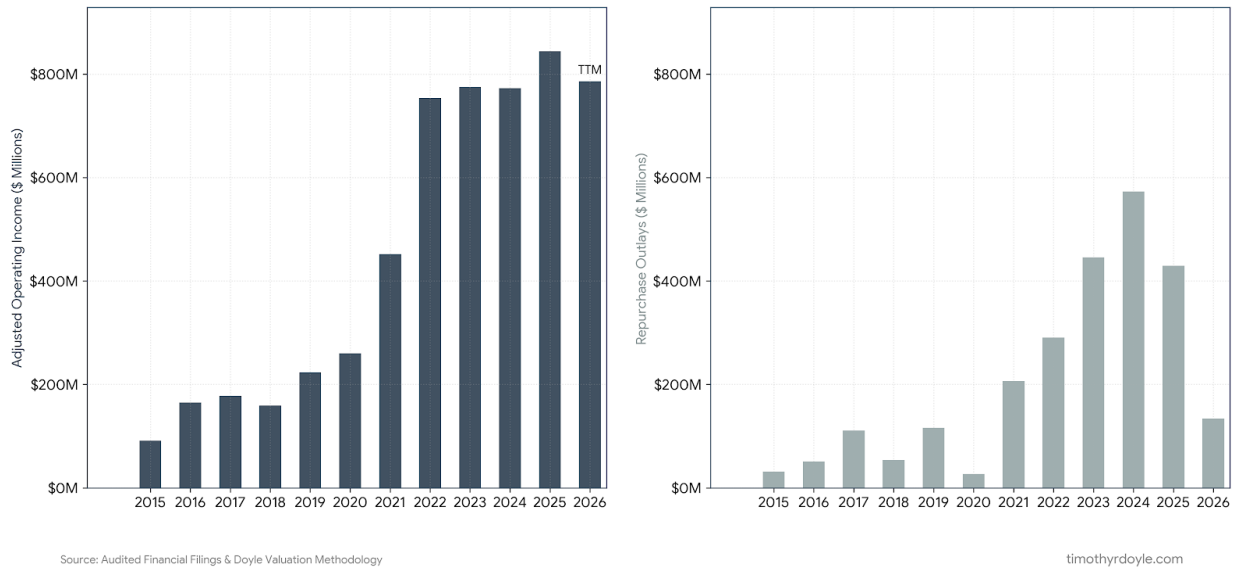
A steep discount to intrinsic value is merely a spreadsheet exercise until management exploits it. Tom Gayner is not waiting for the market to correct its misunderstanding; he is monetizing it. Over the last four years, Markel has deployed \$1.73 billion in operating cash flow to repurchase its own shares at prices averaging well below intrinsic value.

This is not a passive return of capital. When management buys a dollar of intrinsic value for 70 cents (or less), the 30-cent delta does not disappear — it is permanently transferred from the exiting shareholder to the remaining owners.

By executing consistent repurchases, Gayner has created a self-sustaining flywheel. The market's structural ignorance provides the depressed price, the operating engine, Insurance float, and equity dividends provide the cash flow, and management opportunistically converts that cash into concentrated ownership. So long as the discount persists, every share retired mathematically accelerates the per-share compounding rate.

Note: Directors and executive officers collectively own 1.1% of shares outstanding — approximately \$250 million at current prices — aligning their economic interests directly with outside shareholders.

Figure 5: Markel “Operating Engine” Income and Share Repurchases 2015 thru Q1 2026⁷



The repurchase trajectory over the past decade is management’s rational response to the valuation that Mr. Market has offered. As the operating engine generated increasingly durable cash flows, management simply redirected that cash to exploit the best opportunity set, the widening discount between share price and value:

- **2015–2017 (Capital Expansion):** Share repurchases were essentially dormant. Capital was prioritized for platform expansion, focusing on heavy insurance and service acquisitions (e.g., the \$919 million purchase of State National).
- **2018–2021 (Private Engine Acquisitions):** As the non-insurance engine’s adjusted operating income crossed the \$100 million milestone, the repurchase program began. By 2021, driven by the transformative acquisition of Lansing Building Products, adjusted operating income jumped to \$452 million, funding \$206 million in buybacks.
- **2022–Present (Growth Phase for Adjusted Operating Income):** As the operating engine scaled to record levels (reaching \$844 million adjusted operating income in 2025), the valuation gap widened, management responded in size. In just the four years from 2022 through 2025, Markel deployed **\$1.73 billion** of operating cash flow to retire shares. This disciplined execution continues, with another \$133.9 million deployed in Q1 2026 alone for repurchases.

The ROE Impact

The result of this sustained capital deployment is highly accretive. From 2020 through year-end 2025, Markel's outstanding share count declined from approximately 13.9 million to 12.6 million — a 9% total reduction, or roughly 1.9% per year.

This is where the valuation discount translates into tangible yield. The 11.2% ROE measures what the business earns on its equity. But because Markel systematically retires shares at roughly 70 cents on each dollar of intrinsic value, the per-share compounding rate exceeds the business-level return.

The math: While total after-tax earnings grew at approximately 10% annually over this period, earnings per share compounded at nearly 12% — the difference being the ~2% annual tailwind from share count reduction. Each repurchased share permanently concentrates the earnings power of all three engines into fewer hands.

The repurchase program is not a separate standalone strategy. It is the natural output of all three engines operating in concert, converting excess capital into accelerated per-share growth. The 11.2% ROE is what the business earns. The ~12% EPS growth rate is what owners earn.

As Buffett wrote in his 2012 annual letter: "*Indeed, disciplined repurchases are the surest way to use funds intelligently: It's hard to go wrong when you're buying dollar bills for 80¢ or less.*"⁸

The Float Multiplier: Markel's Structural Return on Equity

Markel's return on equity is best understood not as a single consolidated number but as the sum of *three* distinct return streams. Management measures capital performance over five-year periods. We adopt this discipline, but we apply the most appropriate normalization method to each income stream based on its specific volatility, and measure the return against Markel's total 2025 year end **\$18.6 billion** GAAP equity base.

Building the Return on Equity: Layer by Layer

Layer 1: The Operating Base (Underwriting + Operating Engine) This first layer captures what Markel earns strictly from its daily business operations, before a single dollar of investment return enters the picture.

- **Underwriting Profit:** We use the 11-year average combined ratio of 95.5%, applied to average of last three years of net earned premiums (\$8.18 billion). This produces a normalized pre-tax profit of **\$368.1 million**.
- **Operating Engine:** We use the 2025 adjusted operating income (**\$844.4 million**) to capture the current earning power.
- *The Math:* \$1,212.5 million pre-tax, after applying a 22% tax rate, generates **\$945.75 million** in after-tax income, contributing a baseline **~5.0% ROE**.

Layer 2: The Float Investment Income This layer adds the income generated by the float-funded fixed income portfolio. Because float inherently grows alongside the insurance business, the most recent year is the most accurate measure of current earning power.

- **Net Investment Income:** In 2025, the fixed income and cash holdings generated **\$832.6 million** in pre-tax income.
- *The Math:* Because the float funds this asset base at negative cost, this income lands directly on the equity base. After a 22% tax rate, this adds **\$649.4 million**, contributing an additional **~3.5% ROE**.
- *The Base Earnings:* Combined with Layer 1, Markel generates an **~8.5% ROE** (~\$1.595 billion) purely from structural, *recurring* cash flows. This earnings base exists regardless of equity market volatility, requiring no capital gains or other equity capital to achieve.

Layer 3: The Equity Portfolio Look-Through The final layer captures the recurring earning power of the \$11.9 billion 2025 year end value public equity portfolio—measuring not how the stocks *performed* in the market, but what the underlying businesses *earned*.

- **Dividends & Retained Earnings:** Using 2025 actuals, the public portfolio generated \$156 million in dividends and \$355.6 million in retained earnings. Retained earnings are invisible to GAAP but fully real; they are profits reinvested on Markel's behalf by companies like Berkshire and Alphabet.
- *The Math:* We apply a 10.5% tax rate to the pre-tax dividends and 3% to the retained earnings. This yields **\$484.46 million** in after-tax income, contributing **~2.6% ROE**.

The Owner Economics ROE

When stacked together, the three engines produce a total Owner Economics **ROE of ~11.2%**.

Table 8 — Markel Owner Economics ROE: Layer by Layer (2025)

Layer	Generating Engine	After-Tax Income	ROE Contribution
1. The Operating Base	Insurance Underwriting + operating engine	\$945.75M	5.0%
2. Float Investment Income	Fixed Income + Cash (Funded by negative cost float)	\$649.4M	3.5%
Stable, Earnings Base	Subtotal	\$1,595M	8.5%
3. Equity Look-Through	Public Equity Portfolio (Divs + Retained)	\$484.46M	2.6%

Total Owner Earnings	All Three Engines Combined	\$2,079.6M	11.2%
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This 11.2% represents the core earning power of the business, measured on total Markel equity. It is the true yield the company generates internally, entirely independent of how Mr. Market chooses to price the stock on any given day.

The Underwriting Engine: Discipline and Niche Stickiness

The durability of Markel's moat is in the data. Decades of negative cost float, with a combined ratio averaging 95.5% over the most recent eleven years in specialty and E&S lines, maintained through catastrophes, soft markets, and social inflation, is the financial signature of a business with genuine pricing power. Commoditized insurers cannot sustain those margins across a full cycle. Markel has — breaching 100% in only two of the last eleven years, both times for identifiable, non-recurring reasons. The float is not merely free. It is structurally negative cost.

Markel's reported combined ratio systematically understates true underwriting profitability. Management explicitly discloses that *"loss reserves generally exceed the calculated actuarial point estimate"* (2025 10-K, p. 61). As of year-end 2025, carried reserves of \$16.7 billion sat at the 74th percentile of the \$13.6B–\$17.8B actuarial range — approximately \$1 billion above the midpoint. This embedded conservatism explains why reserves have developed favorably for 21 consecutive years. When Markel reports a 95% combined ratio, the economic reality is likely closer to 93%.

Operational Rigor and the Cost of De-Risking

However, this discipline is currently being tested by the secular, industry-wide pressure of private equity-funded social inflation. Markel's own loss development data (sourced directly from Note 11d of the 2025 10-K) shows that initial loss picks in certain claims-made lines rose to historically elevated levels, while favorable reserve releases compressed from the company's historical norm of 4.6%–6.4% annually down to near-zero levels.

Rather than hoping this trend was merely cyclical, management responded with aggressive, structural action:

- **The 2023 Correction:** Markel proactively took a \$330 million adverse casualty reserve charge and aggressively pushed rate hikes across affected lines.
- **The 2025 Amputations:** Recognizing that social inflation fundamentally alters the risk-reward math in certain layers, Markel sold the renewal rights to the ~\$1 billion Global Reinsurance division, placed the legacy book into run-off, and entirely discontinued the volatile IP CPI product line.

These actions do not suggest catastrophic reserve failure. They suggest a business that took a necessary correction, is recovering toward historical norms, and is amputating future exposure where the math no longer works. The question now is whether the market's response to these actions is proportionate to the actual risk.

Risks to the Investment Thesis

Markel is far from riskless. The most significant risk — by far — is social inflation.

Risk 1: Underwriting Risk and Social Inflation

Markel operates in casualty lines that are directly exposed to social inflation — the rising cost of insurance losses driven by increased litigation, expanding legal theories of liability, and larger jury verdicts. A sustained deterioration here could convert Markel's negative cost float into expensive float. As of year-end 2025, Markel held \$30.85 billion in gross unpaid losses. A mere 3% deficiency in these reserves would result in an equity hit of approximately \$925 million, effectively wiping out an entire year of the operating engine's cash flow.

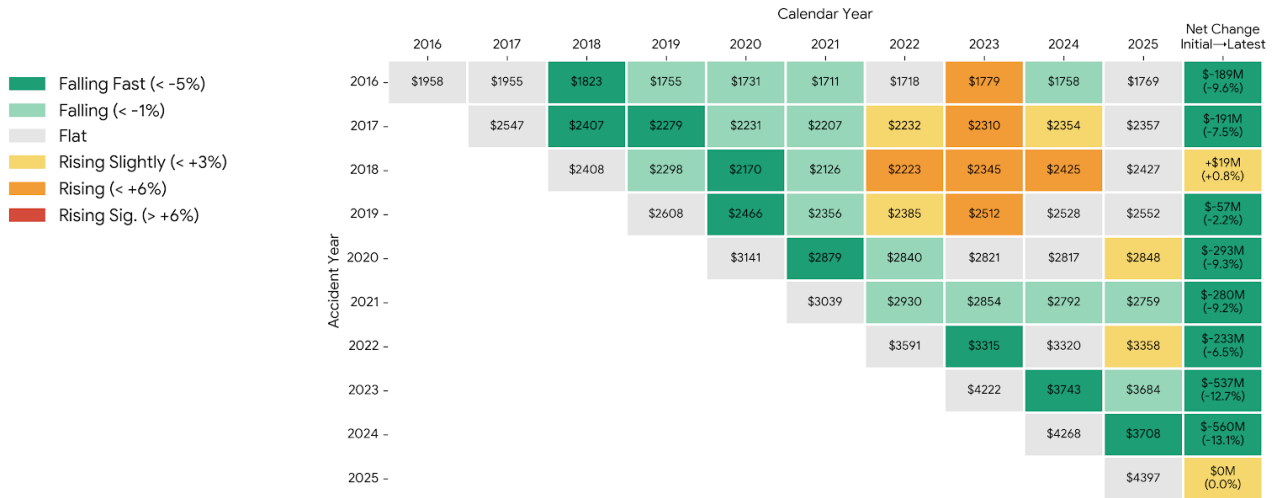
To evaluate the true severity of the social inflation risk, we abandon third-party industry estimates and use Markel's own historical loss development data as the control group.

The Invisible Arithmetic of Social Inflation

The data reveals that the 2016–2019 accident year vintages did not produce a catastrophic reserve failure. Markel's conservative reserving culture absorbed the brute force of the impact. What those vintages produced instead was a massive opportunity cost: a systematic suppression of the favorable development the business historically generates.

By comparing actual development against Markel's pre-social-inflation norm of 4.6%–6.4% annual favorable releases, we can quantify this hidden cost. Approximately \$2.8 billion in reserve releases — which would have occurred under historical development patterns — were indefinitely delayed by social inflation. This is not a recoverable asset; it represents the permanent opportunity cost of conservative reserving during an adverse claims environment.

Figure 6 - Markel Reserve Stack by Accident Year (2016 - 2025)⁹



Source: Markel 2025 10-K, Note 11d (Markel Insurance Segment) | timothydoyle.com

This suppression carried a second, compounding penalty. Because these reserves remained on the balance sheet rather than being released as earnings, the capital backing them was duration-matched in the fixed-income portfolio — earning bond yields (~2.8%) rather than compounding in equities or the operating engine at materially higher rates. This forced allocation to lower-returning assets resulted in an estimated **\$1.2 billion** in foregone value creation (or \$98 per share) over the past decade — a sunk cost that cannot be recovered, only avoided going forward through disciplined underwriting.

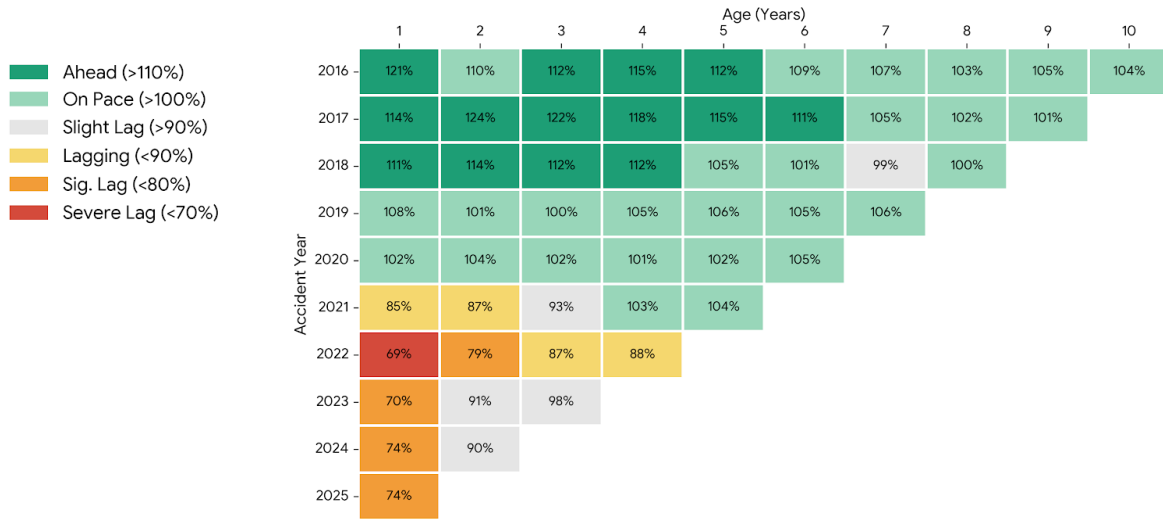
The Forensic Ledger: Is It Contained?

The central reserve uncertainty is not whether social inflation affected Markel's casualty book — management already acknowledged that. The question is whether their structural amputations in 2025 were sufficient to mitigate the long-tail risk. The observable evidence is mixed:

Evidence Suggesting Containment:

- **Rapid Release Recovery:** The reserve release rate rebounded from 0.3% to 3.1% in just two years.
- **Favorable Development:** 2025 generated \$488 million in net favorable development—the largest since before the crisis.
- **Vintage Resolution:** Peak-risk vintages (2016–2019) now show settlement lags above 1.0 (Figure 7), indicating cases are actively resolving.

Figure 7 - Markel Settlement Lag (2016 - 2025)¹⁰

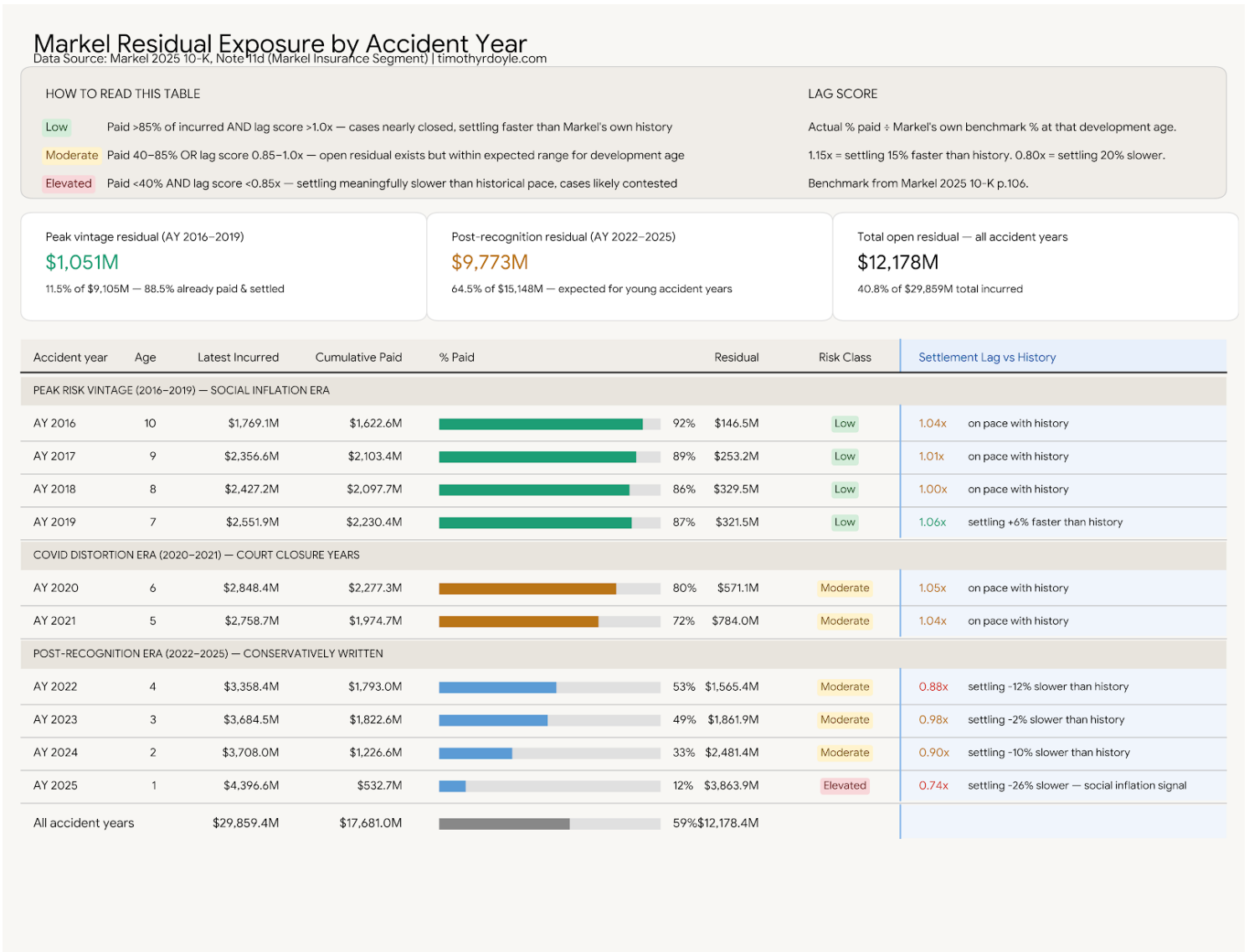


Source: Markel 2025 10-K, Note 11d (Markel Insurance Segment) | timothydoyle.com

Evidence Against Full Containment:

- **Below-Norm Releases:** Despite the recovery, the 3.1% release rate remains ~240 basis points below the historical norm.
- **Contested Run-Offs:** The Global Re settlement lags sit at a severe 0.60–0.62 (See Figure 6), consistent with contested, unresolved claims typical of run-off books.
- **New Adverse Development:** Fresh adverse development emerged in 2025 on post-recognition accident years (2022–2023) in U.S. professional liability lines.

Figure 8 - Markel Residual Exposure Risk by Accident Year (2016 - 2025)¹¹



The Verdict

Social inflation is real, and it requires rigorous, ongoing scrutiny. It could theoretically floor the combined ratio at 99% and permanently impair legacy reserves by 5%. However, the primary defense against this risk is not a valuation spreadsheet — it is management's operational response.

By amputating the most volatile exposures (Global Re, IP CPI), pushing aggressive rate hikes, and transitioning other segments to capital-light fee models, management has fundamentally restructured the risk profile. They have transitioned social inflation from an unquantifiable threat into a contained, managed exposure.

Risk 2: Key Man Succession

Tom Gayner is 64 years old and has served as the architect of Markel's investment portfolio and business acquisition strategy for over two decades. Markel's decentralized operating model provides meaningful structural protection for its legacy assets — the existing businesses run themselves.

However, Gayner's personal reputation as a permanent home for founders is Markel's greatest sourcing advantage. A sudden exit without a proven, culturally aligned successor does not just risk a temporary multiple contraction; it risks a permanent reduction in the operating engine's future compounding rate if Markel is forced into competitive bidding wars for new acquisitions. While existing businesses would continue operating, Markel's deal-sourcing premium could compress permanently without a culturally aligned successor. Succession of the primary capital allocator seat remains a genuinely unresolved and unquantifiable risk in this thesis.

Risk 3: The Interest Rate Dual-Edge

While social inflation threatens the liability side of the balance sheet, interest rate volatility creates mark-to-market risk on the asset side.

Markel's fixed maturity portfolio has an average duration of 3.9 years. A 100-basis-point unexpected increase in interest rates would result in a mark-to-market hit to equity of approximately \$680 million in the year it occurred.

This risk, however, is self-correcting. The same duration that creates short-term volatility ensures the portfolio reprices within four years. We take no view on terminal rates — the risk is real but transient, not structural.

Risk 4: Nephila AUM Attrition

The Nephila insurance-linked securities platform, now reported within the Financial segment of the operating engine, has experienced sustained headwinds. Assets Under Management AUM has contracted from a peak of \$12 billion to \$6.8 billion — a 43% reduction that has meaningfully compressed performance fee revenue.

This is not a hypothetical risk; it is an ongoing, observable drag already embedded in the Financial segment's AOI figures used throughout this paper. Our valuation assumes zero recovery to prior AUM high-water marks and assigns no value to future performance fees. Any stabilization or recovery of Nephila AUM is treated strictly as free optionality. The base case does not need it.

Risk 5: Equity Portfolio Concentration

Markel's largest single equity position is Berkshire Hathaway, and the concentration risk is real and quantifiable. A 30% decline in BRK — equivalent to its drawdown during the 2008 financial crisis — would produce an approximate \$600–700 million mark-to-market hit to Markel's

reported book value in the year it occurred, equivalent to one full year of operating engine cash flow.

This equity portfolio concentration is not an oversight. Gayner anchors the equity base in Berkshire precisely because the float multiplier's structural leverage requires a stable, non-volatile foundation beneath it. A portfolio anchored in a business that has navigated every major financial crisis of the past six decades without a permanent capital impairment is the correct instrument for that purpose. The objective is not to beat Berkshire in a stock-picking contest — it is to use Berkshire's fortress-level stability to protect the structural leverage that allows Markel to out-compound it on a per-share basis.

Risk 6: Macroeconomic Cyclicity and Tariff Exposure

Markel's operating engine — particularly the Industrial segment, which includes domestic manufacturing and construction services — is not immune to the economic cycle. Companies like Buckner HeavyLift and Metromont operate in capital-intensive industries where steel, concrete, and equipment costs are vulnerable to supply chain disruptions and tariff-driven input cost inflation.

While our three-year adjusted operating income smoothing methodology already absorbs normal business cycle cyclicity, a sustained inflationary environment or a deep recession could compress margins beyond what is currently modeled.

Conclusion: The Market is Pricing Permanent Impairment for Markel

Three independent valuation methods — Management's own conservative Two-Step valuation (**\$2,617**), a look through sum of the parts component valuation (**\$3,283**), and a current per share price that values Markel at **10.8x** after-tax earnings — converge on the same conclusion:

Markel's durable, three-engine compounding architecture is currently priced at a meaningful discount to its intrinsic value.

What Has to Go Wrong?

To mathematically justify the current share price, an investor must assume the following scenarios materialize simultaneously:

- Social inflation must permanently floor the combined ratio at 100+%, eliminating the underwriting margin entirely.
- Legacy reserves must continually show impairments, where each 1% deficiency in \$30 billion+ of reserve capacity leads to a \$300 million after-tax hit to the balance sheet.
- The operating engine must see its return on tangible capital compress significantly below its current 26% rate — an engine that produces the largest cash flows of any of the three engines.

What the Evidence Shows

The forensic data does not support the permanent impairment scenario. Our reserve analysis shows a business that took an adequately sized correction in 2023, whose peak-risk 2016-2019 vintages are now resolving *faster* than historical norms, and whose reserve release rate has recovered from near-zero to 3.1% in two years. Social inflation is contained, though not fully resolved. Management's structural response — exits, run-offs, rate hikes, and the sale of Global Re renewal rights — has been demonstrably effective in vintages where it has had time to work.

The market is pricing the unresolved portion of this risk as though it will permanently impair *all three* engines. The component valuation shows that even if social inflation persists, the other two engines are structurally independent and will continue to compound capital effectively.

Management's breakout of the operating engine economics within the 2025 10-K showed the high return and low capital needs of the entire private business segment. The ability to *re-direct* this high return capital to its next best use appears to be overly discounted by the current low earnings multiple being applied to the entire enterprise.

The Opportunity

Markel today presents precisely the asymmetry that value investing was designed to identify: a proven compounding architecture whose true economic worth is obscured by a single GAAP reporting framework. The evidence presented in this paper confirms the original thesis:

1. **A 11.2% Baseline ROE:** Stripping out all equity market mark-to-market noise, Markel's three engines generate a robust 11.2% core operating yield on total GAAP equity — a baseline return that requires absolutely *zero* cooperation from the stock market.
2. **Hidden Operating Yield:** The operating engine generates a 26% return on tangible capital, a return profile completely hidden by GAAP amortization charges.
3. **1:1 Float to Equity Leverage:** A 1:1 float-to-equity ratio means every dollar of float-funded investment return lands directly on a dollar of equity, delivering *negative cost* leverage that amplifies overall returns significantly.
4. **Accretive Capital Allocation:** Management has demonstrated both the awareness of the mispricing and the *willingness* to act on it, deploying \$1.73 billion over the last four years to aggressively repurchase shares, permanently concentrating per share compounding power for the remaining owners.

Markel is far from riskless. Casualty reserve uncertainty, key man concentration, and a cyclical operating engine are real exposures.

This investment is a bet on *structure*: negative-cost float at 1:1 to equity (four times Berkshire's leverage), a culture of conservative reinvestment, and four decades of disciplined, tax-efficient capital allocation. Markel has reached the scale where this flywheel sustains itself.

At the recent price of \$1,818.67 per share — Markel offers what value investing has always sought: a durable business at a price where the power of compounding works in your favor.

About the Author: *Timothy R. Doyle is an independent investor and researcher applying value investing principles and original quantitative analysis to equity securities and markets. **Disclosure: The author holds a beneficial long position in Markel Group (MKL).** This research is provided for informational purposes only and does not constitute investment advice. All valuations involve estimates and assumptions that may prove incorrect.*

Endnotes

¹ **Insurance Float:** Defined per Markel 2025 10-K, Item 1, Page 3: unpaid losses and loss adjustment expenses, unearned premiums, and payables to insurance and reinsurance companies, net of premium receivables, reinsurance recoverables, prepaid reinsurance premiums, and deferred policy acquisition costs. Three-year average: FY2023 \$16.733B / FY2024 \$17.519B / FY2025 \$18.827B.

² **Figure 1: Markel Share Price versus True Economic Book Value** - Source Data: Audited Markel Group 10-K Filings (2015–2025). Data points assume a stock price of \$1,818.67 (6-5-2026 closing price); GAAP Book Value per share as of 3-31-26 and 12,530,957 common shares outstanding, common stock repurchase outlays (Statement of Cash Flows), Markel Segment Operating Income (EBIT), and GAAP Carrying Value (Goodwill + Intangible Assets footnote).

Methodology: True Economic book value is reconstructed using a four-part adjustment to GAAP equity: First, correct for the distortion caused by the reduction in book value due to a yearly non-cash charge over the life of the asset. Second, the distortion due to the tax liability that is recorded on the balance sheet based upon the price appreciation of all equity holdings (This assumes a tax will be paid in full). Third, the distortion for UPR, which does not get properly attributed as an asset on the balance sheet. Fourth, the book value penalty that occurs when management repurchases shares *above* book value but *below* intrinsic value. The final True Economic book value per share equals this adjusted equity base value divided by year-end shares outstanding.

³ **Berkshire's Own Book Value Distortion:** It should be noted that Berkshire Hathaway suffers from a similar (though less acute) accounting illusion due to its plethora of wholly-owned subsidiaries, the largest of which are BNSF and GEICO, with many carried at *decades old* prior historical cost. However, because Berkshire's \$540B+ equity and cash portfolio represents a much larger percentage of its total value than its private operating earnings, the GAAP book value is a more reliable—if still conservative—valuation anchor for Berkshire than it is for Markel. The scenario analysis serves to value the cash flows of both companies' private subsidiaries identically, regardless of their carrying value on the balance sheet.

⁴ **Figure 2: Share Price & Book Value vs. Intrinsic Value Measures:** - Source Data: Markel Group 10-K filings (2015-2025), with the final 2026 datapoint sourced from 2026 1st quarter 10-Q.

Methodology: GAAP Book Value: Shareholders' equity per share as reported. **True Economic book value:** GAAP book value adjusted for hidden economic assets — accumulated intangible amortization, deferred tax liabilities (80% investment, 70% PP&E), embedded profit in unearned premiums (3.5%), and cumulative buyback premium transferred to remaining shareholders. **Two-Step IV:** Insurance operations valued at True Economic book value; Operating engine and investment portfolio marked to fair value. **Look-Through sum of the parts IV:** Each earnings layer capitalized at appropriate multiple and summed to total enterprise value. **Margin of Safety:** Percentage discount of stock price to intrinsic value.

Purpose: This figure tracks all five measures annually to illustrate the compounding of intrinsic value over the past decade. By comparing the trajectories — and the widening or narrowing gaps between them — the reader can observe how Markel's economic value creation has translated (or failed to translate) into share price appreciation, and assess the current margin of safety in historical context.

⁵ **Figure 3: Markel Earnings Growth Components: 2026 to 2031** - Source Data: Historical data sourced from Markel Group 10-K filings and annual 13-F filings (2015-2025). Projections (2026-2031, hatched bars) apply Base Case growth assumptions to the 2025 baseline.

Layer 1 – Underwriting Profit: Normalized underwriting income (8% projected growth; assumes combined ratio improves from 95% to 93%).

Layer 2 – Operating Engine: Markel operating engine operating income (5% projected growth).

Layer 3 – Float Income: Interest on fixed maturities and cash/short-term investments (6% projected growth; reflects balance growth with no directional rate view).

Layers 4 & 5 – 13-F Equity: Dividends received plus retained look-through earnings from the equity portfolio (6% projected growth).

After-Tax Adjustments: Each layer is tax-affected at its applicable rate — 21% for underwriting, operating, and float income; 10.5% for qualified dividends; 3% for retained look-through earnings (deferred until realization).

Purpose: This figure decomposes Markel's economic earning power into its constituent engines, revealing the relative contribution and growth trajectory of each. By visualizing the layers historically and projecting them forward, the reader can assess which engines drive value creation — and how resilient total earnings remain even if one layer (e.g., underwriting) becomes impaired.

⁶ **Figure 4: Markel Share Price Projections to 2031** - Source Data: Historical weekly stock prices from Yahoo Finance (2015-2026). Projections (2026-2031) derived from earnings model with two growth scenarios and three terminal P/E multiples.

Valuation Bands: 15.0x P/E: Full re-rating to Berkshire-level confidence (low probability). **12.0x P/E:** Modest re-rating reflecting sustained underwriting improvement. **10.8x P/E:** Current multiple — market prices in social inflation concerns.

Growth Scenarios: HIGH (10.7% EPS CAGR): Base case assumptions — underwriting profit grows 8% (CR: 95%→93%), Operating Engine 5%, Float Income 6%, Equity 6%. Share count declines from 12.53M to 10.68M via buybacks. **LOW** (7.0% EPS CAGR): Impaired case — underwriting profit eliminated entirely (CR: 100%), other engines grow at base rates. Buyback pace maintained, partially offsetting earnings drag.

Margin of Safety Annotations: Each endpoint displays the annualized return from current price (\$1,819) to 2031 target, allowing direct comparison across scenarios.

Purpose: This figure visualizes the asymmetric risk/reward setup. Even in the impaired scenario with no multiple expansion, returns remain acceptable (~7%). Meanwhile, any combination of earnings improvement or modest re-rating produces double-digit returns. The narrow gap between HIGH and LOW trajectories demonstrates business resilience — four of five earnings engines continue compounding regardless of underwriting outcomes.

⁷ **Figure 5: The Markel Operating Engine Cash Flows and Buybacks** - Source Data: Audited Markel Group 10-K Filings (2015-2025). Markel “Operating Engine” cash flows are sourced from the Markel Segment MD&A tables (Segment Operating Income / EBIT). Buyback numbers are sourced from the Consolidated Statement of Cash Flows under Financing Activities (Repurchases of Common Stock).

Methodology: This dual-panel visualization utilizes verified annual cash-flow and segment data to demonstrate the strategic synchronization of Markel's capital allocation. The left panel tracks the absolute annual operating income generation of the Markel “Operating Engine” cash flows, while the right panel tracks the corresponding annual cash outlays for share repurchases. The side-by-side structure quantifies the buybacks as a direct function of Markel's “Operating Engine's” increasing scale and maturity over the 11-year period.

⁸ **Berkshire 2012 Annual Report** - page 19; Buffett outlines share repurchase criteria. He uses this particular opportunity to modify the criteria under which he would consider repurchase as a % of book value, indicating that Berkshire was raising the level of book value that they would consider repurchasing at from 110% of book value to 120% of book value by the end of 2012.

⁹ **Figure 6 - Markel Insurance Segment excluding Global Reinsurance - Ultimate Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance** - Source Data: Markel 2025 10-K page 104. Modified with a heat map to show relative increases (yellow/orange) or decreases (green) to incurred losses year over year.

¹⁰ **Figure 7 - Markel Settlement Lag Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance** — Source Data: Markel 2025 10-K page 104; the reduction in losses is compared to Markel proprietary historical norms for loss payouts to establish - for each accident year - whether payouts are less than historical (<100%), equal (=100%), or greater (>100%) than prior cumulative paid losses payouts. Modified with a heat map to emphasize above and below historical loss payouts.

¹¹ **Figure 8 - Markel Residual Exposure Risk by Accident Year** - Source Data: Markel 2025 10-K page 104; Figure 6 and Figure 7 combined to show the residual loss exposure for each accident year. Settlement lags calculated for each accident year versus historical Markel norms for loss payouts.