

ARTHUR J. GALLAGHER & CO. ANNOUNCES FIRST QUARTER 2022 FINANCIAL RESULTS

ROLLING MEADOWS, IL, April 28, 2022 — Arthur J. Gallagher & Co. (NYSE: AJG) today reported its financial results for the quarter ended March 31, 2022. Management will host a webcast conference call to discuss these results on Thursday, April 28, 2022 at 5:15 p.m. ET/4:15 p.m. CT. To listen to the call, and for printer-friendly formats of this release and the “CFO Commentary” and “Supplemental Quarterly Data,” which may also be referenced during the call, please visit ajg.com/IR. These documents contain both GAAP and non-GAAP measures. Investors and other users of this information should read carefully the section entitled “Information Regarding Non-GAAP Measures” beginning on page 9.

Summary of Financial Results - First Quarter

Segment	Revenues Before Reimbursements		Net Earnings (Loss)		EBITDAC		Diluted Net Earnings (Loss) Per Share	
	1st Q 22	1st Q 21	1st Q 22	1st Q 21	1st Q 22	1st Q 21	1st Q 22	1st Q 21
	(in millions)		(in millions)		(in millions)			
Brokerage, as reported	\$ 2,122.6	\$ 1,610.2	\$ 464.3	\$ 364.4	\$ 786.4	\$ 618.4	\$ 2.17	\$ 1.82
Net gains on divestitures	(1.4)	(4.1)	(1.1)	(3.2)	(1.4)	(4.1)	(0.01)	(0.02)
Acquisition integration	-	-	35.0	3.2	43.8	4.1	0.17	0.02
Workforce and lease termination	-	-	5.0	5.5	6.2	5.2	0.02	0.03
Acquisition related adjustments	-	-	16.4	12.7	9.0	6.1	0.08	0.06
Amortization of intangible assets	-	-	93.7	74.2	-	-	0.44	0.37
Levelized foreign currency translation	-	(14.8)	-	(3.0)	-	(4.3)	-	(0.01)
Brokerage, as adjusted *	<u>2,121.2</u>	<u>1,591.3</u>	<u>613.3</u>	<u>453.8</u>	<u>844.0</u>	<u>625.4</u>	<u>2.87</u>	<u>2.27</u>
Risk Management, as reported	259.1	220.3	23.9	18.0	44.1	39.8	0.11	0.09
Workforce and lease termination	-	-	0.5	0.5	0.7	0.7	-	-
Acquisition related adjustments	-	-	-	1.8	0.1	-	-	0.01
Amortization of intangible assets	-	-	1.2	1.2	-	-	0.01	0.01
Levelized foreign currency translation	-	(2.3)	-	(0.1)	-	(0.3)	-	-
Risk Management, as adjusted *	<u>259.1</u>	<u>218.0</u>	<u>25.6</u>	<u>21.4</u>	<u>44.9</u>	<u>40.2</u>	<u>0.12</u>	<u>0.11</u>
Corporate, as reported	22.8	302.1	(49.1)	11.3	(48.2)	(43.4)	(0.23)	0.01
Transaction-related costs	-	-	14.6	-	15.8	-	0.07	-
Income tax related	-	-	(5.0)	-	-	-	(0.02)	-
Corporate, as adjusted *	<u>22.8</u>	<u>302.1</u>	<u>(39.5)</u>	<u>11.3</u>	<u>(32.4)</u>	<u>(43.4)</u>	<u>(0.18)</u>	<u>0.01</u>
Total Company, as reported	<u>\$ 2,404.5</u>	<u>\$ 2,132.6</u>	<u>\$ 439.1</u>	<u>\$ 393.7</u>	<u>\$ 782.3</u>	<u>\$ 614.8</u>	<u>\$ 2.05</u>	<u>\$ 1.92</u>
Total Company, as adjusted *	<u>\$ 2,403.1</u>	<u>\$ 2,111.4</u>	<u>\$ 599.4</u>	<u>\$ 486.5</u>	<u>\$ 856.5</u>	<u>\$ 622.2</u>	<u>\$ 2.81</u>	<u>\$ 2.39</u>
Total Brokerage & Risk Management, as reported	<u>\$ 2,381.7</u>	<u>\$ 1,830.5</u>	<u>\$ 488.2</u>	<u>\$ 382.4</u>	<u>\$ 830.5</u>	<u>\$ 658.2</u>	<u>\$ 2.28</u>	<u>\$ 1.91</u>
Total Brokerage & Risk Management, as adjusted *	<u>\$ 2,380.3</u>	<u>\$ 1,809.3</u>	<u>\$ 638.9</u>	<u>\$ 475.2</u>	<u>\$ 888.9</u>	<u>\$ 665.6</u>	<u>\$ 2.99</u>	<u>\$ 2.38</u>

* For first quarter 2022, the pretax impact of the Brokerage segment adjustments totals \$192.3 million, with a corresponding adjustment to the provision for income taxes of \$43.3 million relating to these items. For first quarter 2022, the pretax impact of the Risk Management segment adjustments totals \$2.4 million, with a corresponding adjustment to the provision for income taxes of \$0.7 million relating to these items. For first quarter 2022, the pretax impact of the Corporate segment adjustments totals \$15.8 million, with a corresponding adjustment to the benefit for income taxes of \$6.2 million relating to these items and the other tax items noted on pages 8 and 9. A detailed reconciliation of the 2022 and 2021 provision (benefit) for income taxes is shown on pages 13 and 14.

“We had a fantastic start to 2022!” said J. Patrick Gallagher, Jr., Chairman, President and CEO. “Our core brokerage and risk management segments combined to post 30% growth in revenue, including more than 10% organic revenue growth and \$380 million of acquired rollover revenues. Our bottom line results were equally as strong with net earnings growth of 28%, adjusted EBITDAC growth of 34% and adjusted EBITDAC margin expansion of 55 basis points.

“During the quarter, we completed 5 new tuck-in mergers with approximately \$32 million of annualized revenue, and we were recognized by the Ethisphere Institute as one of the World’s Most Ethical Companies for the 11th year in a row!

“Overall, first quarter rate and exposure increases were broad-based, driven by firm global P/C rates across nearly all geographies and lines of business, and our clients’ continued growth. First quarter 2022 global P/C renewal premium increases of 8% were consistent with fourth quarter levels adjusting for line of coverage seasonality. Additionally, the extremely tight labor market is favorably impacting our benefits and HR consulting business, resulting in more project work and higher covered lives as well as contributing to increased new arising claims for our risk management business.

“Looking ahead, we see robust demand for our services continuing as clients look to manage their risk and human capital challenges. Our team has the expertise, the service capabilities, and the desire to help clients and prospects navigate the current environment!”

Impact Related to Ukraine/Russia Conflict

Gallagher does not have any offices or direct operations within Ukraine or Russia. While we had a small number of clients that were based in or had operations within Russia, we have suspended those relationships and are no longer providing services to these clients. We have also implemented robust procedures designed to ensure that we are in compliance with all applicable sanctions laws.

We currently estimate these actions will adversely impact full year 2022 brokerage segment annual revenues by up to \$10 million and full year 2022 net after tax earnings by up to \$0.03 per share, with a \$0.01 adverse impact in first quarter of 2022. The indirect impact of the ongoing conflict is difficult to estimate, but we currently believe it will not be significant to our full year 2022 financial results.

Brokerage Segment Reported GAAP to Adjusted Non-GAAP Reconciliations (dollars in millions):

<u>Organic Revenues (Non-GAAP)</u>	<u>1st Q 2022</u>	<u>1st Q 2021</u>
<u>Base Commissions and Fees</u>		
Commissions and fees, as reported	\$ 1,957.2	\$ 1,459.0
Less commissions and fees from acquisitions	(377.2)	-
Less divested operations	-	(1.8)
Levelized foreign currency translation	-	(13.1)
Organic base commissions and fees	\$ 1,580.0	\$ 1,444.1
Organic change in base commissions and fees	9.4%	
<u>Supplemental Revenues</u>		
Supplemental revenues, as reported	\$ 74.3	\$ 66.8
Less supplemental revenues from acquisitions	(1.0)	-
Levelized foreign currency translation	-	(0.6)
Organic supplemental revenues	\$ 73.3	\$ 66.2
Organic change in supplemental revenues	10.7%	
<u>Contingent Revenues</u>		
Contingent revenues, as reported	\$ 71.6	\$ 63.3
Less contingent revenues from acquisitions	(0.8)	-
Levelized foreign currency translation	-	(0.3)
Organic contingent revenues	\$ 70.8	\$ 63.0
Organic change in contingent revenues	12.4%	
Total reported commissions, fees, supplemental revenues and contingent revenues	\$ 2,103.1	\$ 1,589.1
Less commissions, fees, supplemental revenues and contingent revenues from acquisitions	(379.0)	-
Less divested operations and program repricing	-	(1.8)
Levelized foreign currency translation	-	(14.0)
Total organic commissions, fees, supplemental revenues and contingent revenues	\$ 1,724.1	\$ 1,573.3
Total organic change	9.6%	
<u>Acquisition Activity</u>	<u>1st Q 2022</u>	<u>1st Q 2021</u>
Number of acquisitions closed *	5	5
Estimated annualized revenues acquired (in millions)	\$ 32.2	\$ 89.7

* In the first quarter of 2022, Gallagher did not issue any shares of its common stock in connection with acquisitions.

Brokerage Segment Reported GAAP to Adjusted Non-GAAP Reconciliations (continued) (dollars in millions):

<u>Compensation Expense and Ratios</u>	<u>1st Q 2022</u>	<u>1st Q 2021</u>
Compensation expense, as reported	\$ 1,096.4	\$ 821.7
Acquisition integration	(30.3)	(3.6)
Workforce and lease termination related charges	(5.5)	(4.5)
Acquisition related adjustments	(9.0)	(6.1)
Levelized foreign currency translation	-	(8.5)
Compensation expense, as adjusted	\$ 1,051.6	\$ 799.0
Reported compensation expense ratios using reported revenues on page 1	* 51.7%	51.0%
Adjusted compensation expense ratios using adjusted revenues on page 1	** 49.6%	50.2%

* Reported first quarter 2022 compensation ratio was 0.7 pts higher than first quarter 2021. This ratio was adversely impacted by increased integration costs related to the reinsurance operations acquired in December 2021, acquisition earnout related adjustments, workforce related charges, the resumption of merit wage increases and higher incentive compensation expense related to stronger organic growth. This ratio was favorably impacted by a lower compensation ratio related to the seasonality of the acquired reinsurance operations and savings in base compensation related to workforce adjustment actions taken in prior periods.

** Adjusted first quarter 2022 compensation ratio was 0.6 pts lower than first quarter 2021. This ratio was favorably impacted by a lower compensation ratio related to the seasonality of the reinsurance operations acquired in December 2021 and savings in base compensation related to workforce adjustment actions taken in prior periods. These savings were partially offset by the resumption of merit wage increases and higher incentive compensation related to stronger organic growth.

<u>Operating Expense and Ratios</u>	<u>1st Q 2022</u>	<u>1st Q 2021</u>
Operating expense, as reported	\$ 239.8	\$ 170.1
Acquisition integration	(13.5)	(0.5)
Workforce and lease termination related charges	(0.7)	(0.7)
Levelized foreign currency translation	-	(2.0)
Operating expense, as adjusted	\$ 225.6	\$ 166.9
Reported operating expense ratios using reported revenues on page 1	* 11.3%	10.6%
Adjusted operating expense ratios using adjusted revenues on page 1	** 10.6%	10.5%

* Reported first quarter 2022 operating expense ratio was 0.7 pts higher than first quarter 2021. This ratio was adversely impacted by increased integration costs related to the reinsurance operations acquired in December 2021, the return of advertising, travel, entertainment and other client-related expenses, as well as additional investments in technology, offset in part by savings from office consolidations and a lower operating expense ratio related to the seasonality of the acquired reinsurance operations acquired in December 2021.

** Adjusted first quarter 2022 operating expense ratio was 0.1 pts higher than first quarter 2021. This ratio was adversely impacted by the return of advertising, travel, entertainment and other client-related expenses, as well as additional investments in technology, mostly offset by savings from office consolidations and a lower operating expense ratio related to the seasonality of the reinsurance operations acquired in December 2021.

Brokerage Segment Reported GAAP to Adjusted Non-GAAP Reconciliations (continued) (dollars in millions):

Net Earnings to Adjusted EBITDAC (Non-GAAP)

	<u>1st Q 2022</u>	<u>1st Q 2021</u>
Net earnings, as reported	\$ 464.3	\$ 364.4
Provision for income taxes	154.1	115.9
Depreciation	24.2	22.1
Amortization	123.0	103.6
Change in estimated acquisition earnout payables	20.8	12.4
EBITDAC	786.4	618.4
Net gains on divestitures	(1.4)	(4.1)
Acquisition integration	43.8	4.1
Workforce and lease termination related charges	6.2	5.2
Acquisition related adjustments	9.0	6.1
Levelized foreign currency translation	-	(4.3)
EBITDAC, as adjusted	\$ 844.0	\$ 625.4
Net earnings margin, as reported using reported revenues on page 1	21.9%	22.6%
EBITDAC margin, as adjusted using adjusted revenues on page 1	39.8%	39.3%

Risk Management Segment Reported GAAP to Adjusted Non-GAAP Reconciliations (dollars in millions):

Organic Revenues (Non-GAAP)

	<u>1st Q 2022</u>	<u>1st Q 2021</u>
Fees	\$ 255.3	\$ 217.3
International performance bonus fees	3.7	2.9
Fees as reported	259.0	220.2
Less fees from acquisitions	(7.9)	-
Levelized foreign currency translation	-	(2.3)
Organic fees	\$ 251.1	\$ 217.9
Organic change in fees	15.2%	

Acquisition Activity

	<u>1st Q 2022</u>	<u>1st Q 2021</u>
Number of acquisitions closed	-	1
Estimated annualized revenues acquired (in millions)	\$ -	\$ 14.0

Risk Management Segment Reported GAAP to Adjusted Non-GAAP Reconciliations (continued) (dollars in millions):

Compensation Expense and Ratios

	1st Q 2022	1st Q 2021
Compensation expense, as reported	\$ 158.7	\$ 134.1
Workforce and lease termination related charges	(0.3)	(0.4)
Acquisition related adjustments	(0.1)	-
Levelized foreign currency translation	-	(1.6)
Compensation expense, as adjusted	<u>\$ 158.3</u>	<u>\$ 132.1</u>
Reported compensation expense ratios using reported revenues (before reimbursements) on page 1	* <u>61.3%</u>	<u>60.9%</u>
Adjusted compensation expense ratios using adjusted revenues (before reimbursements) on page 1	* <u>61.1%</u>	<u>60.6%</u>

* Reported first quarter 2022 compensation ratio was 0.4 pts higher than first quarter 2021. Adjusted first quarter 2022 compensation ratio was 0.5 pts higher than first quarter 2021. These ratios were primarily impacted by higher temporary help, increased base compensation relating to the resumption of merit wage increases and higher incentive compensation expense related to stronger organic growth.

Operating Expense and Ratios

	1st Q 2022	1st Q 2021
Operating expense, as reported	\$ 56.3	\$ 46.4
Workforce and lease termination related charges	(0.4)	(0.3)
Levelized foreign currency translation	-	(0.4)
Operating expense, as adjusted	<u>\$ 55.9</u>	<u>\$ 45.7</u>
Reported operating expense ratios using reported revenues (before reimbursements) on page 1	* <u>21.7%</u>	<u>21.1%</u>
Adjusted operating expense ratios using reported revenues (before reimbursements) on page 1	* <u>21.6%</u>	<u>21.0%</u>

* Reported first quarter 2022 operating expense ratio was 0.6 pts higher than first quarter 2021. Adjusted first quarter 2022 operating ratio was 0.6 pts higher than first quarter 2021. These ratios were adversely impacted by the return of advertising, travel, entertainment and other client-related expenses, increased professional fees and a litigation settlement, partially offset by savings from office consolidations and reduced technology expense.

Net Earnings to Adjusted EBITDAC (Non-GAAP)

	1st Q 2022	1st Q 2021
Net earnings, as reported	\$ 23.9	\$ 18.0
Provision for income taxes	8.4	6.1
Depreciation	10.1	11.5
Amortization	1.6	1.6
Change in estimated acquisition earnout payables	0.1	2.6
EBITDAC	<u>44.1</u>	<u>39.8</u>
Workforce and lease termination related charges	0.7	0.7
Acquisition related adjustments	0.1	-
Levelized foreign currency translation	-	(0.3)
EBITDAC, as adjusted	<u>\$ 44.9</u>	<u>\$ 40.2</u>
Net earnings margin, as reported using reported revenues (before reimbursements) on page 1	<u>9.2%</u>	<u>8.2%</u>
EBITDAC margin, as adjusted using adjusted revenues (before reimbursements) on page 1	<u>17.3%</u>	<u>18.4%</u>

Corporate Segment Reported GAAP Information (dollars in millions):

	2022			2021		
	Pretax Loss	Income Tax Benefit	Net Earnings (Loss) Attributable to Controlling Interests	Pretax Loss	Income Tax Benefit	Net Earnings (Loss) Attributable to Controlling Interests
1st Quarter						
Components of Corporate Segment, as reported						
Interest and banking costs	\$ (64.5)	\$ 16.8	\$ (47.7)	\$ (49.2)	\$ 12.3	\$ (36.9)
Clean energy related (1)	(2.7)	0.7	(2.0)	(29.0)	62.4	33.4
Acquisition costs (2)	(18.4)	1.4	(17.0)	(1.5)	0.1	(1.4)
Corporate (3) (4)	(27.1)	45.0	17.9	(26.1)	32.5	6.4
Reported 1st Quarter	(112.7)	63.9	(48.8)	(105.8)	107.3	1.5
Adjustments						
Transaction-related costs (2)	15.8	(1.2)	14.6	-	-	-
Income tax related (3)	-	(5.0)	(5.0)	-	-	-
Components of Corporate Segment, as adjusted						
Interest and banking costs	(64.5)	16.8	(47.7)	(49.2)	12.3	(36.9)
Clean energy related (1)	(2.7)	0.7	(2.0)	(29.0)	62.4	33.4
Acquisition costs	(2.6)	0.2	(2.4)	(1.5)	0.1	(1.4)
Corporate (4)	(27.1)	40.0	12.9	(26.1)	32.5	6.4
Adjusted 1st Quarter	\$ (96.9)	\$ 57.7	\$ (39.2)	\$ (105.8)	\$ 107.3	\$ 1.5

- (1) Pretax loss for the first quarter is presented net of amounts attributable to noncontrolling interests of \$(0.3) million in 2022 and \$9.8 million in 2021.
- (2) In first quarter 2022, Gallagher incurred transaction-related costs, which include legal, consulting, employee compensation and other professional fees associated with our acquisition of the Willis Towers Watson treaty reinsurance brokerage operations.
- (3) In first quarter 2022, Gallagher increased its state effective income tax rate, which resulted in the overall U.S. effective income tax rate increasing from 25% to 26% and caused Gallagher to have additional income tax benefit during the quarter and recognized a one-time benefit related to the revaluation of certain deferred income tax assets.
- (4) Corporate pretax loss includes a net unrealized foreign exchange remeasurement gain of \$3.1 million in first quarter 2022 and a net unrealized foreign exchange remeasurement loss of \$4.1 million in first quarter 2021.

Interest and banking costs and debt - At March 31, 2022, Gallagher had \$1,600.0 million of borrowings from public debt, \$4,448.0 million of borrowings from private placements and no short-term borrowings under its line of credit facility. In addition, Gallagher had \$173.4 million outstanding under a revolving loan facility that provides funding for premium finance receivables, which are fully collateralized by the underlying premiums held by insurance carriers, and as such are excluded from our debt covenant computations.

Clean energy - Consists of the operating results related to our investments in clean coal production plants and royalty income from clean coal licenses related to Chem-Mod LLC. The production of IRC Section 45 clean energy tax credits ceased in December 2021, which reduced the royalty income received by Chem-Mod LLC and net earnings generated by our investments in clean coal production plants. Additional information regarding these results is available in the "CFO Commentary" at ajg.com/IR.

Acquisition costs - Consists mostly of external professional fees and other due diligence costs related to acquisitions. On occasion, Gallagher enters into forward currency hedges for the purchase price of committed, but not yet funded, acquisitions with funding requirements in currencies other than the U.S. dollar. The gains or losses, if any, associated with these hedge transactions is also included.

Corporate - Consists of overhead allocations mostly related to corporate staff compensation, other corporate level activities, and net unrealized foreign exchange remeasurement. In addition, includes the tax expense related to partial taxation of foreign earnings, nondeductible executive compensation and entertainment expenses and the tax benefit from vesting of employee equity awards.

Income Taxes

Gallagher allocates the provision for income taxes to its Brokerage and Risk Management segments using the local country statutory rates. Gallagher's consolidated effective tax rate for the quarters ended March 31, 2022 and 2021 was 18.3% and 3.6%, respectively. In first quarter of 2022, Gallagher increased its state effective income tax rate, which resulted in the overall U.S. effective income tax rate increasing from 25% to 26% and caused Gallagher to incur additional income tax expense during the quarter and recognized a one-time benefit related to the revaluation of certain deferred income tax assets to the higher income tax rate. In addition, the production of IRC Section 45 clean energy tax credits ceased in December 2021.

Webcast Conference Call

Gallagher will host a webcast conference call on Thursday, April 28, 2022 at 5:15 p.m. ET/4:15 p.m. CT. To listen to this call, please go to ajg.com/IR. The call will be available for replay at such website for at least 90 days.

About Arthur J. Gallagher & Co.

Arthur J. Gallagher & Co., an international insurance brokerage and risk management services firm, is headquartered in Rolling Meadows, Illinois, has operations in 68 countries and offers client-service capabilities in more than 150 countries around the world through a network of correspondent brokers and consultants.

Cautionary Information

This press release contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this press release, the words "anticipates," "believes," "contemplates," "see," "should," "could," "will," "estimates," "expects," "intends," "plans" and variations thereof and similar expressions, are intended to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements regarding changes in our expenses in the next several quarters; the impact of the Ukraine/Russia conflict; the impact of the COVID-19 pandemic recovery; anticipated future results or performance of any segment or the Company as a whole; the premium rate environment and the state of insurance markets; and the economic environment.

Gallagher's actual results may differ materially from those contemplated by the forward-looking statements. Readers are therefore cautioned against relying on any of the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include changes in worldwide and national economic conditions, including the pace of economic recovery following COVID-19; our actual acquisition opportunities; or other factors like the military conflict between Russia and Ukraine; trade wars or tariffs; political unrest in the U.S. or other countries around the world; changes in premium rates and in insurance markets generally; and changes in the insurance brokerage industry's competitive landscape.

In particular, the global spread of COVID-19 has created significant volatility and uncertainty and economic disruption that may impact our forward-looking statements. The extent to which the pandemic impacts our business, operations and financial results will depend on numerous evolving factors, many of which are not within our control and that we may not be able to accurately predict, including: its duration and scope; governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic; the impact of the pandemic on economic activity and actions taken in response; the effect on our clients and client demand for our services; the ability of our clients to pay their insurance premiums which could impact our commission and fee revenues for our services; the number of new arising workers compensation and general liability claims; and the long-term impact of employees working from home, including increased technology costs, and employees' holistic wellbeing.

Please refer to Gallagher's filings with the SEC, including Item 1A, "Risk Factors," of its Annual Report on Form 10-K for the fiscal year ended December 31, 2021, its subsequently filed Quarterly Reports on Form 10-Q for a more detailed discussion of these and other factors that could impact its forward-looking statements. The COVID-19 pandemic currently amplifies, and in the future could continue to amplify, the risks, uncertainties and assumptions, reflected in such risk factors. Any forward-looking statement made by Gallagher in this press release speaks only as of the date on which it is made. Except as required by applicable law, Gallagher does not undertake to update the information included herein or the corresponding earnings release posted on Gallagher's website.

Information Regarding Non-GAAP Measures

In addition to reporting financial results in accordance with GAAP, this press release provides information regarding EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, diluted net earnings per share, as adjusted (adjusted EPS), adjusted revenue, adjusted compensation and operating expenses, adjusted compensation expense ratio, adjusted operating expense ratio and organic revenue. These measures are not in accordance with, or an alternative to, the GAAP information provided in this press release. Gallagher's management believes that these presentations provide useful information to management, analysts and investors regarding financial and business trends relating to Gallagher's results of operations and financial condition or because they provide investors with measures that our chief operating decision maker uses when reviewing the company's performance. See further below for definitions and additional reasons each of these measures is useful to investors. Gallagher's industry peers may provide similar supplemental non-GAAP information with respect to one or more of these measures, although they may not use the same or comparable terminology and may not make identical adjustments. The non-GAAP information provided by Gallagher should be used in addition to, but not as a substitute for, the GAAP information provided. As disclosed in its most recent Proxy Statement, Gallagher makes determinations regarding certain elements of executive officer incentive compensation, performance share awards and annual cash incentive awards, partly on the basis of measures related to adjusted EBITDAC.

Adjusted Non-GAAP presentation - Gallagher believes that the adjusted non-GAAP presentations of the current and prior period information presented in this earnings release provide stockholders and other interested persons with useful information regarding certain financial metrics of Gallagher that may assist such persons in analyzing Gallagher's operating results as they develop a future earnings outlook for Gallagher. The after-tax amounts related to the adjustments were computed using the normalized effective tax rate for each respective period. See page 13 and 14 for a reconciliation of the adjustments made to income taxes.

- **Adjusted measures** - Revenues (for the Brokerage segment), revenues before reimbursements (for the Risk Management segment), net earnings, compensation expense and operating expense, respectively, each adjusted to exclude the following, as applicable:
 - Net gains on divestitures, which are primarily net proceeds received related to sales of books of business and other divestiture transactions, such as the disposal of a business through sale or closure.
 - Acquisition integration costs, which include costs related to certain large acquisitions, outside the scope of the usual tuck-in strategy, not expected to occur on an ongoing basis in the future once Gallagher fully assimilates the applicable acquisition. These costs are typically associated with redundant workforce, extra lease space, duplicate services and external costs incurred to assimilate the acquisition with our IT related systems.
 - Transaction-related costs associated with its acquisition of the Willis Towers Watson treaty reinsurance brokerage operations. These include costs related to regulatory filings, legal, accounting services, insurance and incentive compensation.
 - Workforce related charges, which primarily include severance costs (either accrued or paid) related to employee terminations and other costs associated with redundant workforce.
 - Lease termination related charges, which primarily include costs related to terminations of real estate leases and abandonment of leased space.
 - Acquisition related adjustments, which include change in estimated acquisition earnout payables adjustments, impairment charges and acquisition related compensation charges. For first quarter 2022, this adjustment also includes the impact of an acquisition valuation analysis and corresponding adjustments.
 - Amortization of intangible assets reflects the amortization of customer/expiration lists, non-compete agreements, trade names and other intangible assets have been acquired through the company's merger and acquisition strategy.
 - The impact of foreign currency translation, as applicable. The amounts excluded with respect to foreign currency translation are calculated by applying current year foreign exchange rates to the same period in the prior year.
 - Income tax related, which represents the impact in first quarter 2022 of a one-time income tax benefit related to the revaluation of certain deferred income tax assets as a result of a change in our state effective income tax rate.
- **Adjusted ratios** - Adjusted compensation expense and adjusted operating expense, respectively, each divided by adjusted revenues.

Non-GAAP Earnings Measures

- **EBITDAC and EBITDAC margin** - EBITDAC is net earnings before interest, income taxes, depreciation, amortization and the change in estimated acquisition earnout payables and EBITDAC margin is EBITDAC divided by total revenues (for the Brokerage segment) and revenues before reimbursements (for the Risk Management segment). These measures for the Brokerage and Risk Management segments provide a meaningful representation of Gallagher's operating performance for the overall business and provide a meaningful way to measure its financial performance on an ongoing basis.
- **Adjusted EBITDAC and Adjusted EBITDAC Margin** - Adjusted EBITDAC is EBITDAC adjusted to exclude net gains on divestitures, acquisition integration costs, workforce related charges, lease termination related charges, acquisition related adjustments, transaction related costs, legal and income tax related costs and the period-over-period impact of foreign currency translation, as applicable and Adjusted EBITDAC margin is Adjusted EBITDAC divided by total adjusted revenues (defined above). These measures for the Brokerage and Risk Management segments provide a meaningful representation of Gallagher's operating performance, and are also presented to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability.
- **Adjusted EPS and Adjusted Net Earnings** - Adjusted net earnings have been adjusted to exclude the after-tax impact of net gains on divestitures, acquisition integration costs, the impact of foreign currency translation, workforce related charges, lease termination related charges, acquisition related adjustments, transaction related costs, amortization of intangible assets, legal and income tax related costs and effective income tax rate impact, as applicable. Adjusted EPS is Adjusted Net Earnings divided by diluted weighted average shares outstanding. This measure provides a meaningful representation of Gallagher's operating performance (and as such should not be used as a measure of Gallagher's liquidity), and for the overall business is also presented to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability. This is the first quarter we have excluded amortization of intangible assets from adjusted EPS, and we have provided the same adjustment for the prior period for comparability.

Organic Revenues (a non-GAAP measure) - For the Brokerage segment, organic change in base commission and fee revenues, supplemental revenues and contingent revenues exclude the first twelve months of such revenues generated from acquisitions and such revenues related to divested operations in each year presented. These revenues are excluded from organic revenues in order to help interested persons analyze the revenue growth associated with the operations that were a part of Gallagher in both the current and prior period. In addition, organic change in base commission and fee revenues, supplemental revenues and contingent revenues excludes the period-over-period impact of foreign currency translation to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability. For the Risk Management segment, organic change in fee revenues excludes the first twelve months of fee revenues generated from acquisitions in each year presented. In addition, change in organic growth excludes the period-over-period impact of foreign currency translation to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability.

These revenue items are excluded from organic revenues in order to determine a comparable, but non-GAAP, measurement of revenue growth that is associated with the revenue sources that are expected to continue in the current year and beyond. Gallagher has historically viewed organic revenue growth as an important indicator when assessing and evaluating the performance of its Brokerage and Risk Management segments. Gallagher also believes that using this non-GAAP measure allows readers of our financial statements to measure, analyze and compare the growth from its Brokerage and Risk Management segments in a meaningful and consistent manner.

Reconciliation of Non-GAAP Information Presented to GAAP Measures - This press release includes tabular reconciliations to the most comparable GAAP measures, as follows: for EBITDAC (on pages 11 and 12), for adjusted revenues, adjusted EBITDAC and adjusted diluted net earnings per share (on page 1), for organic revenue measures (on pages 3 and 5, respectively, for the Brokerage and Risk Management segments), for adjusted compensation and operating expenses and adjusted EBITDAC margin (on pages 4, 5 and 6, respectively, for the Brokerage and Risk Management segments).

Arthur J. Gallagher & Co.
Reported Statement of Earnings and EBITDAC - 1st Qtr Ended March 31,
(Unaudited - in millions except per share, percentage and workforce data)

	1st Q Ended Mar 31, 2022	1st Q Ended Mar 31, 2021
Brokerage Segment		
Commissions	\$ 1,565.3	\$ 1,125.4
Fees	391.9	333.6
Supplemental revenues	74.3	66.8
Contingent revenues	71.6	63.3
Investment income and net gains on divestitures	19.5	21.1
Total revenues	<u>2,122.6</u>	<u>1,610.2</u>
Compensation	1,096.4	821.7
Operating	239.8	170.1
Depreciation	24.2	22.1
Amortization	123.0	103.6
Change in estimated acquisition earnout payables	20.8	12.4
Expenses	<u>1,504.2</u>	<u>1,129.9</u>
Earnings before income taxes	618.4	480.3
Provision for income taxes	<u>154.1</u>	<u>115.9</u>
Net earnings	464.3	364.4
Net earnings attributable to noncontrolling interests	<u>0.7</u>	<u>1.8</u>
Net earnings attributable to controlling interests	<u>\$ 463.6</u>	<u>\$ 362.6</u>
EBITDAC		
Net earnings	\$ 464.3	\$ 364.4
Provision for income taxes	154.1	115.9
Depreciation	24.2	22.1
Amortization	123.0	103.6
Change in estimated acquisition earnout payables	20.8	12.4
EBITDAC	<u>\$ 786.4</u>	<u>\$ 618.4</u>
Risk Management Segment		
	1st Q Ended Mar 31, 2022	1st Q Ended Mar 31, 2021
Fees	\$ 259.0	\$ 220.2
Investment income	0.1	0.1
Revenues before reimbursements	259.1	220.3
Reimbursements	30.8	32.4
Total revenues	<u>289.9</u>	<u>252.7</u>
Compensation	158.7	134.1
Operating	56.3	46.4
Reimbursements	30.8	32.4
Depreciation	10.1	11.5
Amortization	1.6	1.6
Change in estimated acquisition earnout payables	0.1	2.6
Expenses	<u>257.6</u>	<u>228.6</u>
Earnings before income taxes	32.3	24.1
Provision for income taxes	<u>8.4</u>	<u>6.1</u>
Net earnings	23.9	18.0
Net earnings attributable to noncontrolling interests	-	-
Net earnings attributable to controlling interests	<u>\$ 23.9</u>	<u>\$ 18.0</u>
EBITDAC		
Net earnings	\$ 23.9	\$ 18.0
Provision for income taxes	8.4	6.1
Depreciation	10.1	11.5
Amortization	1.6	1.6
Change in estimated acquisition earnout payables	0.1	2.6
EBITDAC	<u>\$ 44.1</u>	<u>\$ 39.8</u>

See "Information Regarding Non-GAAP Measures" beginning on page 9 of 14.

Arthur J. Gallagher & Co.
Reported Statement of Earnings and EBITDAC - 1st Qtr Ended March 31,
(Unaudited - in millions except share and per share data)

	1st Q Ended Mar 31, 2022	1st Q Ended Mar 31, 2021
Corporate Segment		
Revenues from consolidated clean coal facilities	\$ 22.3	\$ 283.1
Royalty income from clean coal licenses	0.4	17.9
Loss from unconsolidated clean coal facilities	-	(0.4)
Other net revenues	0.1	1.5
Total revenues	22.8	302.1
Cost of revenues from consolidated clean coal facilities	22.9	309.1
Compensation	26.9	19.8
Operating	21.2	16.6
Interest	63.9	48.1
Depreciation	0.9	4.5
Expenses	135.8	398.1
Loss before income taxes	(113.0)	(96.0)
Benefit for income taxes	(63.9)	(107.3)
Net earnings (loss)	(49.1)	11.3
Net earnings (loss) attributable to noncontrolling interests	(0.3)	9.8
Net earnings (loss) attributable to controlling interests	\$ (48.8)	\$ 1.5
EBITDAC		
Net earnings (loss)	\$ (49.1)	\$ 11.3
Benefit for income taxes	(63.9)	(107.3)
Interest	63.9	48.1
Depreciation	0.9	4.5
EBITDAC	\$ (48.2)	\$ (43.4)
Total Company		
	1st Q Ended Mar 31, 2022	1st Q Ended Mar 31, 2021
Commissions	\$ 1,565.3	\$ 1,125.4
Fees	650.9	553.8
Supplemental revenues	74.3	66.8
Contingent revenues	71.6	63.3
Investment income and net gains on divestitures	19.6	21.2
Revenues from clean coal activities	22.7	300.6
Other net revenues - Corporate	0.1	1.5
Revenues before reimbursements	2,404.5	2,132.6
Reimbursements	30.8	32.4
Total revenues	2,435.3	2,165.0
Compensation	1,282.0	975.6
Operating	317.3	233.1
Reimbursements	30.8	32.4
Cost of revenues from clean coal activities	22.9	309.1
Interest	63.9	48.1
Depreciation	35.2	38.1
Amortization	124.6	105.2
Change in estimated acquisition earnout payables	20.9	15.0
Expenses	1,897.6	1,756.6
Earnings before income taxes	537.7	408.4
Provision for income taxes	98.6	14.7
Net earnings	439.1	393.7
Net earnings attributable to noncontrolling interests	0.4	11.6
Net earnings attributable to controlling interests	\$ 438.7	\$ 382.1
Diluted net earnings per share	\$ 2.05	\$ 1.92
Dividends declared per share	\$ 0.51	\$ 0.48
EBITDAC		
Net earnings	\$ 439.1	\$ 393.7
Provision for income taxes	98.6	14.7
Interest	63.9	48.1
Depreciation	35.2	38.1
Amortization	124.6	105.2
Change in estimated acquisition earnout payables	20.9	15.0
EBITDAC	\$ 782.3	\$ 614.8

See "Information Regarding Non-GAAP Measures" beginning on page 9 of 14.

Arthur J. Gallagher & Co.
Consolidated Balance Sheet
(Unaudited - in millions except per share data)

	Mar 31, 2022	Dec 31, 2021
Cash and cash equivalents	\$ 528.6	\$ 402.6
Restricted cash	4,110.1	4,063.7
Premiums and fees receivable	21,608.1	11,753.1
Other current assets	1,272.5	1,451.0
Total current assets	27,519.3	17,670.4
Fixed assets - net	505.1	500.8
Deferred income taxes (includes tax credit carryforwards of \$1,024.3 in 2022 and \$1,074.0 in 2021)	1,169.4	1,228.5
Other noncurrent assets	980.2	966.5
Right-of-use assets	382.2	358.6
Goodwill	8,727.7	8,666.2
Amortizable intangible assets - net	3,877.6	3,954.0
Total assets	<u>\$ 43,161.5</u>	<u>\$ 33,345.0</u>
Premiums payable to underwriting enterprises	\$ 23,175.4	\$ 13,845.6
Accrued compensation and other current liabilities	1,968.2	1,895.1
Deferred revenue - current	577.8	520.9
Premium financing debt	173.4	228.4
Corporate related borrowings - current	250.0	245.0
Total current liabilities	26,144.8	16,735.0
Corporate related borrowings - noncurrent	5,760.9	5,810.2
Deferred revenue - noncurrent	64.5	58.7
Lease liabilities - noncurrent	333.3	309.3
Other noncurrent liabilities	1,814.9	1,871.7
Total liabilities	34,118.4	24,784.9
Stockholders' equity:		
Common stock - issued and outstanding	210.1	208.5
Capital in excess of par value	6,232.0	6,143.7
Retained earnings	3,213.0	2,882.3
Accumulated other comprehensive loss	(665.7)	(726.1)
Total controlling interests stockholders' equity	8,989.4	8,508.4
Noncontrolling interests	53.7	51.7
Total stockholders' equity	9,043.1	8,560.1
Total liabilities and stockholders' equity	<u>\$ 43,161.5</u>	<u>\$ 33,345.0</u>

Arthur J. Gallagher & Co.
Other Information
(Unaudited - data is rounded where indicated)

	1st Q Ended Mar 31, 2022	4th Q Ended Dec 31, 2021	1st Q Ended Mar 31, 2021
OTHER INFORMATION			
Basic weighted average shares outstanding (000s)	208,991	207,797	194,642
Diluted weighted average shares outstanding (000s)	213,519	212,864	199,076
Number of common shares outstanding at end of period (000s)	210,068	208,454 *	195,887
Workforce at end of period (includes acquisitions):			
Brokerage	30,337	29,869	25,870
Risk Management	7,392	7,308	6,451
Total Company	39,876	39,174 **	34,061

* Gallagher completed a follow-on public offering of 10,350,000 shares of its common stock on May 17, 2021 and used the net proceeds to fund a portion of the acquisition of Willis Towers Watson treaty reinsurance brokerage operations that was completed in December 2021.

** The acquisition of the Willis Towers Watson's treaty reinsurance brokerage operations added approximately 2,200 employees in December 2021.

Reconciliation of Non-GAAP Measures - Pre-tax Earnings and Diluted Net Earnings per Share (Unaudited)

(Unaudited - in millions except share and per share data)

	Earnings (Loss) Before Income Taxes	Provision (Benefit) for Income Taxes	Net Earnings (Loss)	Net Earnings Attributable to Noncontrolling Interests	Net Earnings (Loss) Attributable to Controlling Interests	Diluted Net Earnings (Loss) per Share
1st Q Ended Mar 31, 2022						
Brokerage, as reported	\$ 618.4	\$ 154.1	\$ 464.3	\$ 0.7	\$ 463.6	\$ 2.17
Net gains on divestitures	(1.4)	(0.3)	(1.1)	-	(1.1)	(0.01)
Acquisition integration	43.8	8.8	35.0	-	35.0	0.17
Workforce and lease termination	6.3	1.3	5.0	-	5.0	0.02
Acquisition related adjustments	20.6	4.2	16.4	-	16.4	0.08
Amortization of intangible assets	123.0	29.3	93.7	-	93.7	0.44
Brokerage, as adjusted	<u>\$ 810.7</u>	<u>\$ 197.4</u>	<u>\$ 613.3</u>	<u>\$ 0.7</u>	<u>\$ 612.6</u>	<u>\$ 2.87</u>
Risk Management, as reported	\$ 32.3	\$ 8.4	\$ 23.9	\$ -	\$ 23.9	\$ 0.11
Workforce and lease termination	0.8	0.3	0.5	-	0.5	-
Amortization of intangible assets	1.6	0.4	1.2	-	1.2	0.01
Risk Management, as adjusted	<u>\$ 34.7</u>	<u>\$ 9.1</u>	<u>\$ 25.6</u>	<u>\$ -</u>	<u>\$ 25.6</u>	<u>\$ 0.12</u>
Corporate, as reported	\$ (113.0)	\$ (63.9)	\$ (49.1)	\$ (0.3)	\$ (48.8)	\$ (0.23)
Transaction-related costs	15.8	1.2	14.6	-	14.6	0.07
Income tax related	-	5.0	(5.0)	-	(5.0)	(0.02)
Corporate, as adjusted	<u>\$ (97.2)</u>	<u>\$ (57.7)</u>	<u>\$ (39.5)</u>	<u>\$ (0.3)</u>	<u>\$ (39.2)</u>	<u>\$ (0.18)</u>

See "Information Regarding Non-GAAP Measures" beginning on page 9 of 14.

Reconciliation of Non-GAAP Measures - Pre-tax Earnings and Diluted Net Earnings per Share (Unaudited) - Continued

(Unaudited - in millions except share and per share data)

	Earnings (Loss) Before Income Taxes	Provision (Benefit) for Income Taxes	Net Earnings (Loss)	Net Earnings Attributable to Noncontrolling Interests	Net Earnings (Loss) Attributable to Controlling Interests	Diluted Net Earnings (Loss) per Share
1st Q Ended Mar 31, 2021						
Brokerage, as reported	\$ 480.3	\$ 115.9	\$ 364.4	\$ 1.8	\$ 362.6	\$ 1.82
Net gain on divestitures	(4.1)	(0.9)	(3.2)	-	(3.2)	(0.02)
Acquisition integration	4.1	0.9	3.2	-	3.2	0.02
Workforce and lease termination	7.0	1.5	5.5	-	5.5	0.03
Acquisition related adjustments	16.1	3.4	12.7	-	12.7	0.06
Amortization of intangible assets	97.2	23.0	74.2	-	74.2	0.37
Levelized foreign currency translation	(3.8)	(0.8)	(3.0)	-	(3.0)	(0.01)
Brokerage, as adjusted	<u>\$ 596.8</u>	<u>\$ 143.0</u>	<u>\$ 453.8</u>	<u>\$ 1.8</u>	<u>\$ 452.0</u>	<u>\$ 2.27</u>
Risk Management, as reported	\$ 24.1	\$ 6.1	\$ 18.0	\$ -	\$ 18.0	\$ 0.09
Workforce and lease termination	0.7	0.2	0.5	-	0.5	-
Acquisition related adjustments	2.4	0.6	1.8	-	1.8	0.01
Amortization of intangible assets	1.6	0.4	1.2	-	1.2	0.01
Levelized foreign currency translation	(0.2)	(0.1)	(0.1)	-	(0.1)	-
Risk Management, as adjusted	<u>\$ 28.6</u>	<u>\$ 7.2</u>	<u>\$ 21.4</u>	<u>\$ -</u>	<u>\$ 21.4</u>	<u>\$ 0.11</u>

See "Information Regarding Non-GAAP Measures" beginning on page 9 of 14.

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