Arthur J. Gallagher & Co.

CFO Commentary

July 25, 2019

Arthur J. Gallagher & Co.
Non-GAAP Measures and Forward-Looking Statements

Information Regarding Non-GAAP Measures

In this CFO Commentary, we have provided information regarding Adjusted EBITDAC Margin (for the brokerage and risk management segments) and Adjusted Net Earnings Attributable to Controlling Interests (for the corporate segment) presented on a forward-looking and historical basis. Adjusted EBITDAC Margin is Adjusted EBITDAC divided by Adjusted Revenue (EBITDAC, Revenue (for the brokerage segment), and Revenue before Reimbursements (for the risk management segment), respectively, adjusted to exclude the impact of net gains realized on divestitures and costs relating to existing businesses, acquisition integration costs, workforce related charges, lease termination related charges, acquisition related adjustments and the period-over-period impact of foreign currency translation, as applicable (acquisition integration costs are related to certain of our larger acquisitions outside the scope of our usual tuck-in strategy)). EBITDAC is net earnings before interest, income taxes, depreciation, amortization and the change in estimated acquisition earnout payables. Adjusted Net Earnings Attributable to Controlling Interests is net earnings attributable to controlling interests adjusted to exclude the impact of U.S. tax reform and moving a legal entity within Gallagher's subsidiary structure. Management believes that both Adjusted EBITDAC Margin and Adjusted Net Earnings Attributable to Controlling Interests are meaningful indicators of our operating performance. The adjustments made to each measure are intended to improve the comparability of our results between periods by eliminating the impact of items that have a high degree of variability and, in the case of the legal entity restructuring and U.S. tax reform, are unlikely to recur during the next two years.

We have not reconciled the forward-looking Adjusted EBITDAC Margin information to the most directly comparable GAAP measure because certain material items that impact this measure, including the timing and exact amount of highly variable elements of revenue (such as acquired revenue), gains from the sales of books of business and divestitures and acquisition related adjustments, have not yet occurred or are out of management's control or cannot be reasonably predicted. Accordingly, a reconciliation of forward-looking Adjusted EBITDAC Margin to the corresponding GAAP measure is not available without unreasonable effort. Please see our most recent earnings release and page 3 of this CFO Commentary for reconciliations of historical non-GAAP information to the closest GAAP information. The non-GAAP information provided in this CFO Commentary should be used in addition to, but not as a substitute for, GAAP information.

Cautionary Statement Regarding Forward-Looking Statements

This CFO Commentary contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, for our brokerage and risk management segments, 2019 estimates of the impact of foreign currency on EPS and revenues, integration costs, adjusted EBITDAC margin, amortization, depreciation, change in estimated earnout payables, acquisition rollover revenues, the adjusted effective tax rate, earnings from continuing operations attributable to noncontrolling interests and the weighted average multiple paid for acquisitions. These forward-looking statements also include, for our corporate segment, estimates of the net earnings attributable to controlling interests impact of various items, including interest and banking costs, Gallagher's clean energy investments, acquisition costs and corporate expenses (including the impact of U.S. tax reform). We also make forward-looking statements relating to our clean energy investments, including the low and high ranges of potential 2019 annual after-tax earnings of the various clean energy plants, and Chem-Mod royalty income, net of noncontrolling interests.

Actual results may differ materially from the estimates set forth herein. 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. Statements regarding our clean energy investments and future effective tax rates could be materially impacted by various risk and uncertainties, including uncertainties related to political and regulatory developments, such as potential actions by Congress or challenges by the IRS eliminating, reducing or failing to extend the availability of tax credits under IRC Section 45 retroactively and/or going forward; the potential for divergent business objectives by co-investors and other stakeholders; plant operational risks, including supply-chain risks; utilities' future use of, or demand for, coal; the market price of coal; the costs of moving a clean coal plant; intellectual property litigation risks; and environmental risks. The other forward-looking statements referred to above could be materially impacted by various risks and uncertainties including litigation and regulatory liability (including related to our micro-captive advisory business); changes in the economy (for example, as a result of a prolonged government shutdown, trade wars or Brexit) or premium rates; changes in our acquisition pipeline and number of completed acquisitions; changes in our competitive position; changes in accounting standards; and fluctuations in global exchange rates. Please refer to Gallagher's filings with the SEC, including Item 1A, "Risk Factors," of its most recently filed Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q, for a detailed discussion of these and other factors that could impact its forward-looking statements. 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.

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	ACTUAL		ESTIMATES ON JUNE 13, 2019		ESTIMATES ON JULY 25, 2019	
BROKERAGE SEGMENT	**Q1 2019**	**Q2 2019**	**2019 Quarterly**	**Full Year 2019**	**2019 Quarterly**	**Full Year 2019**
Foreign Currency Impact on Earnings Per Share *(shown as an adjustment to prior year numbers)*	($0.01)	$0.00	Q2, Q3 & Q4: very little impact	very little impact	Q3 & Q4: very little impact	very little impact
Foreign Currency Impact on Revenues *(shown as an adjustment to prior year numbers)*	($21.0 million)	($16.0 million)	Q2: ($15 million) Q3: ($5 million) Q4: very little impact	Approx. ($40 million)	Q3: ($7 million) Q4: very little impact	Approx. ($45 million)
Integration Costs Per Share	$0.00	$0.01	Q2, Q3 & Q4: $0.02	Approx. $0.06	Q3 & Q4: $0.03	Approx. $0.07
Workforce & Lease Termination Costs Per Share	$0.03	$0.04	*nep*	*nep*	*nep*	*nep*
Adjusted EBITDAC Margin	Expanded 61 bpts over Q1 2018	Expanded 48 bpts over Q2 2018	difficult to expand margins if organic is below 3%		Organic < 3%, difficult to expand margins Organic > 4%, likely to expand margins Organic > 5%, approx. 50 bps or more of expansion	
Amortization - Recurring	$76 million pretax	$79 million pretax	$83 million pretax	$325 million pretax	$82 million pretax (1)	$319 million pretax (1)
Depreciation - Recurring	$16 million pretax	$16 million pretax	$18 million pretax	$70 million pretax	$17 million pretax	$66 million pretax
Change in Estimated Earnout Payable - Recurring	$5 million pretax	$6 million pretax	$6 million pretax	$23 million pretax	$7 million pretax	$25 million pretax
Rollover Revenues from Acquisitions	See table on page 5					
Adjusted Effective Tax Rate	25.0%	24.3%	24% to 26%		24% to 26%	
Earnings from continuing operations attributable to noncontrolling interests	$9.8 million	$5.1 million	Q2: $5 million Q3: $3 million Q4: $2 million	Approx. $20 million	Q3: $3 million Q4: $2 million	Approx. $20 million
RISK MANAGEMENT SEGMENT						
Foreign Currency Impact on Earnings Per Share *(shown as an adjustment to prior year numbers)*	$0.00	$0.00	very little impact	very little impact	very little impact	very little impact
Foreign Currency Impact on Revenues *(shown as an adjustment to prior year numbers)*	($3.2 million)	($2.7 million)	Q2: ($3 million) Q3: ($2 million) Q4: very little impact	Approx. ($8 million)	Q3: ($2 million) Q4: very little impact	Approx. ($8 million)
Workforce & Lease Termination Costs Per Share	$0.00	$0.01	*nep*	*nep*	*nep*	*nep*
Adjusted EBITDAC Margin (before reimbursements)	17.0%	17.5%	17.0% to 17.5%		17.0% to 17.5%	
Amortization - Recurring	$1 million pretax	$1 million pretax	$1 million pretax	$4 million pretax	$1 million pretax	$4 million pretax
Depreciation - Recurring	$11 million pretax	$12 million pretax	$11 million pretax	$44 million pretax	$12 million pretax	$47 million pretax
Adjusted Effective Tax Rate	26.3%	26.0%	25% to 27%		25% to 27%	
OTHER						
Weighted Average Multiple of EBITDAC for Acquisition Pricing	9.1x 8.3x (note 2)	9.3x (YTD) 8.1x (YTD) (note 2)	8.0x to 8.5x (2)		8.0x to 8.5x (2)	

Notes

Yellow highlighted rows will be presented as adjustments to GAAP earnings.

All estimates related to foreign currency are based on July 24, 2019 exchange rates.

(1) As we complete more acquisitions, for every dollar we spend, increase amortization by about 1% of the purchase price per quarter. In addition, interest expense will increase if the acquisition was financed, in whole or part, with debt.

(2) Excluding the larger international acquisitions closed this year.

nep = no estimate provided

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CORPORATE SEGMENT

	2018 RECONCILIATION OF REPORTED TO ADJUSTED			2019			2019 ESTIMATES ON JUNE 13, 2019		2019 ESTIMATES ON JULY 25, 2019	
	Pretax Earnings (Loss)	Income Tax Benefit (Expense)	Net Earnings (Loss) Attributable to Controlling Interests	Pretax Earnings (Loss)	Income Tax Benefit (Expense)	Net Earnings (Loss) Attributable to Controlling Interests	Net Earnings (Loss) Attributable to Controlling Interests Range Low to High		Net Earnings (Loss) Attributable to Controlling Interests Range Low to High	
1st Quarter										
Interest and banking costs (1)	$ (32.5)	$ 8.5	$ (24.0)	$ (41.1)	$ 10.7	$ (30.4)				
Clean-energy related (2)	(56.9)	109.4	52.5	(53.5)	115.0	61.5				
Acquisition costs	(2.0)	0.3	(1.7)	(3.9)	0.6	(3.3)				
Corporate (includes Impact of U.S. Tax Reform)	(14.1)	10.9	(3.2)	(21.9)	12.3	(9.6)				
Reported 1st quarter	**$ (105.5)**	**$ 129.1**	**$ 23.6**	**$ (120.4)**	**$ 138.6**	**$ 18.2**				
2nd Quarter										
Interest and banking costs (1)	$ (34.4)	$ 8.9	$ (25.5)	$ (46.0)	$ 12.0	$ (34.0)	$ (36.0)	$ (34.0)		
Clean-energy related (2)	(44.8)	59.2	14.4	(36.6)	44.8	8.2	5.0	7.0		
Acquisition costs (3)	(3.0)	0.4	(2.6)	(7.8)	1.3	(6.5)	(6.0)	(5.0)		
Corporate (includes Impact of U.S. Tax Reform)	(15.5)	1.1	(14.4)	(13.7)	7.7	(6.0)	(11.0)	(8.0)		
Reported 2nd quarter	**$ (97.7)**	**$ 69.6**	**$ (28.1)**	**$ (104.1)**	**$ 65.8**	**$ (38.3)**	**$ (48.0)**	**$ (40.0)**		
3rd Quarter										
Interest and banking costs (1)	$ (37.6)	$ 9.8	$ (27.8)				$ (37.0)	$ (35.0)	$ (37.0)	$ (35.0)
Clean-energy related (2)	(46.1)	75.8	29.7				17.0	21.0	13.0	20.0
Acquisition costs	(2.5)	0.1	(2.4)				(2.0)	(1.0)	(2.0)	(1.0)
Corporate (includes Impact of U.S. Tax Reform)	(18.2)	9.2	(9.0)				(11.0)	(8.0)	(11.0)	(8.0)
Reported 3rd quarter	**$ (104.4)**	**$ 94.9**	**$ (9.5)**				**$ (33.0)**	**$ (23.0)**	**$ (37.0)**	**$ (24.0)**
4th Quarter										
Interest and banking costs (1)	$ (37.4)	$ 9.7	$ (27.7)				$ (37.0)	$ (35.0)	$ (37.0)	$ (35.0)
Clean-energy related (2)	(40.3)	62.3	22.0				17.0	21.0	13.0	20.0
Acquisition costs	(6.4)	0.7	(5.7)				(2.0)	(1.0)	(2.0)	(1.0)
Corporate (includes Impact of U.S. Tax Reform)	(20.5)	46.5	26.0				(11.0)	(8.0)	(11.0)	(8.0)
Reported 4th quarter	**(104.6)**	**119.2**	**14.6**				**(33.0)**	**(23.0)**	**(37.0)**	**(24.0)**
Corporate legal entity restructuring (4)	-	(22.0)	(22.0)							
Impact of U.S. tax reform (5)	-	(8.9)	(8.9)							
Total Adjustments	**-**	**(30.9)**	**(30.9)**				-	-	-	-
Interest and banking costs (1)	(37.4)	9.7	(27.7)				$ (37.0)	$ (35.0)	$ (37.0)	$ (35.0)
Clean-energy related (2)	(40.3)	62.3	22.0				17.0	21.0	13.0	20.0
Acquisition costs	(6.4)	0.7	(5.7)				(2.0)	(1.0)	(2.0)	(1.0)
Corporate (includes Impact of U.S. Tax Reform)	(20.5)	15.6	(4.9)				(11.0)	(8.0)	(11.0)	(8.0)
Adjusted 4th quarter	**$ (104.6)**	**$ 88.3**	**$ (16.3)**				**$ (33.0)**	**$ (23.0)**	**$ (37.0)**	**$ (24.0)**
Full Year										
Interest and banking costs (1)	$ (141.9)	$ 36.9	$ (105.0)				$ (140.4)	$ (134.4)	$ (138.4)	$ (134.4)
Clean-energy related (2)	(188.1)	306.7	118.6				100.5	110.5	95.7	109.7
Acquisition costs	(13.9)	1.5	(12.4)				(13.3)	(10.3)	(13.8)	(11.8)
Corporate (includes Impact of U.S. Tax Reform)	(68.3)	67.7	(0.6)				(42.6)	(33.6)	(37.6)	(31.6)
Reported Full Year	**(412.2)**	**412.8**	**0.6**				**(95.8)**	**(67.8)**	**(94.1)**	**(68.1)**
Corporate legal entity restructuring (4)	-	(22.0)	(22.0)							
Impact of U.S. tax reform (5)	-	(8.9)	(8.9)							
Total Adjustments	**-**	**(30.9)**	**(30.9)**				-	-	-	-
Interest and banking costs (1)	(141.9)	36.9	(105.0)				$ (140.4)	$ (134.4)	$ (138.4)	$ (134.4)
Clean-energy related (2)	(188.1)	306.7	118.6				100.5	110.5	95.7	109.7
Acquisition costs	(13.9)	1.5	(12.4)				(13.3)	(10.3)	(13.8)	(11.8)
Corporate (includes Impact of U.S. Tax Reform)	(68.3)	36.8	(31.5)				(42.6)	(33.6)	(37.6)	(31.6)
Adjusted Full Year	**$ (412.2)**	**$ 381.9**	**$ (30.3)**				**$ (95.8)**	**$ (67.8)**	**$ (94.1)**	**$ (68.1)**

Notes:

(1) The 2019 estimates for interest and banking costs reflect an offering of $175 million of senior unsecured notes we closed on June 12, 2019. Please see our Current Report on Form 8-K filed on June 13, 2019 for information regarding these notes.

(2) Actual 2019 quarterly net earnings may differ materially from 2018 and these estimates. See further discussion of accounting for clean energy investments on the following page. Pretax earnings are presented net of amounts attributable to noncontrolling interests.

(3) Includes a hedge loss of approximately $3 million after tax due to the delayed closing of the JLT aerospace acquisition.

(4) Consists of the tax benefit related to the release of valuation allowances that resulted from reorganizing Gallagher's legal entity structure in the fourth quarter 2018.

(5) Consists of the book tax expense from adjusting December 31, 2017 initial estimates from the U.S. tax legislation passed in the fourth quarter of 2017, which among other changes lowered the U.S. corporate tax rate from 35% to 21% effective January 1, 2018.

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Clean Energy Investments

The following provides certain information related to Gallagher's investments in limited liability companies that own 34 clean coal production plants, which produce refined coal using proprietary technologies owned by Chem-Mod. We believe that the production and sale of refined coal at these plants qualifies to receive refined coal tax credits under IRC Section 45 through 2019 for the fourteen 2009 Era Plants and through 2021 for the twenty 2011 Era Plants. The underlying operations of those investments where Gallagher has a controlling ownership interest are consolidated.

($ in millions)	Gallagher's Book Value at June 30, 2019	Actual 2018 After-tax Earnings	Estimated (2) Low Range 2019 After-tax Earnings	Estimated (2) High Range 2019 After-tax Earnings
Investments that own 2009 Era Plants - 2019 Sunset (1)				
12 Under long-term production contracts	$ 2.5	$ 18.0	$ 13.0	$ 15.0
2 Not currently in active negotiations for long-term production contracts	-	-	Not Estimable	
Investments that own 2011 Era Plants - 2021 Sunset (1)				
19 Under long-term production contracts	36.2	77.2	58.0	67.0
1 In early stages of negotiations for long-term production contract	0.2	-	Not Estimable	
Chem-Mod royalty income, net of noncontrolling interests (3)	4.0	23.4	24.0	28.0

(1) The 14 plants which were placed in service early in December 2009 can receive tax credits through early December 2019. The 20 plants which were placed in service in November and December 2011 can receive tax credits through November and December 2021.

(2) Reflects management's current best estimate of the 2019 low and high ranges of after-tax earnings based on production estimates from the host utilities and preliminary investment partner assumptions. Host utilities have not, and may not, consistently utilize the fuel plants at ultimate production levels due to seasonal electricity demand, weather conditions, as well as many other operational, regulatory and environmental compliance reasons.

(3) Gallagher's investment in Chem-Mod generates royalty income from refined coal plants owned by those limited liability companies in which it invests as well as refined coal production plants owned by other unrelated parties. Estimates are based on production estimates provided by licensees.

All estimates set forth above regarding the potential future earnings impact of our clean energy investments are subject to significant risks. Please refer to the cautionary statement on page 1 of this communication and Gallagher's filings with the SEC, including Item 1A, "Risk Factors" in its most recently filed Annual Report on Form 10-K and any subsequently filed Quarterly Reports on Form 10-Q for a more detailed discussion of these and other factors that could impact the information above.

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Clean Energy Investments - Continued

Accounting for Clean Energy Investments

The quarterly GAAP accounting for Gallagher's tax advantaged clean energy investments is complex, but generally requires: (a) operating expenses associated with producing clean-coal to be recognized in the period of production; (b) tax benefits relating to (a) to be recognized in the period of production; but (c) associated tax credits to be recognized as a component of the tax provision based on the proportion of that quarter's consolidated reported pretax earnings to expected total consolidated reported annual pretax earnings, with certain modifications and without anticipation of future acquisitions.

The accounting for Gallagher's tax advantaged clean energy investments reflects a considerable amount of estimation, including tax credits to be produced for the full year, annual GAAP earnings and the seasonal spread of GAAP earnings between each quarter. After adopting the new revenue recognition standard, ASC 606, Gallagher's reported first quarter earnings from its core operations is higher than in the remaining three quarters of the year. This can result in a substantial number of tax credits being recognized in the first quarter for GAAP purposes, even before the tax credits being recognized have been produced. The following table shows credits produced compared to tax credits recognized for the first and second quarters of 2019, full year 2018 and full year 2017 as restated for the adoption of ASC 606.

	2016 Actual	2017 As Restated for Adoption of ASC 606		2018 Actual		2019 Actual	
(in millions)	Credits Produced	Credits Produced	Credits Recognized	Credits Produced	Credits Recognized	Credits Produced	Credits Recognized
1st Quarter	$ 40.7	$ 51.0	$ 93.9	$ 62.1	$ 94.6	$ 55.2	$ 101.1
2nd Quarter	41.3	56.6	34.1	61.8	47.6	40.9	35.2
3rd Quarter	63.2	66.7	55.6	72.8	63.8	*nep*	*nep*
4th Quarter	49.2	55.4	46.1	61.1	51.8	*nep*	*nep*
Full Year	$ 194.4	$ 229.7	$ 229.7	$ 257.8	$ 257.8	*nep*	*nep*

Other Commentary

Acquisition Rollover & Divested Operations' Total Revenues - Brokerage Segment

	Actual		Estimated (1)	
(in millions)	1st Quarter 2019	2nd Quarter 2019	3rd Quarter 2019	4th Quarter 2019
1st Quarter 2018 Acquisition Activity	$ 1.9	NA	NA	NA
2nd Quarter 2018 Acquisition Activity	34.2	18.4	NA	NA
3rd Quarter 2018 Acquisition Activity	13.5	13.7	2.0	NA
4th Quarter 2018 Acquisition Activity	21.2	22.1	20.0	8.0
1st Quarter 2019 Acquisition Activity	18.8	17.2	20.0	20.0
2nd Quarter 2019 Acquisition Activity	NA	25.9	35.0	65.0
3rd Quarter 2019 Acquisition Activity	NA	NA	2.0	4.0
Less: Divestitures (2)	(7.8)	(5.7)	(5.0)	(7.0)
Total - Acquisitions & Divestitures	$ 81.8	$ 91.6	$ 74.0	$ 90.0

Notes

(1) Values for 2019 represent the mid-point of forecasted revenues for acquisitions closed by July 24, 2019. No other future acquisitions are contemplated. Actual revenues may be different than forecasted. Also, forecasted acquisition rollover revenues are shown in U.S. dollars at foreign exchange rates as of July 24, 2019. Any future strengthening or weakening of the U.S. dollar will impact the amounts forecasted above.

(2) During the first quarter of 2019, we divested a travel insurance broker and four other smaller brokerage operations. The 2018 revenues associated with our divested operations are being shown as a reversal of revenues in the 2019 quarters for informational purposes.

nep = no estimate provided