Arthur J. Gallagher & Co. | 2020 Annual Report

# Culture.
# Community.
# Confidence.

Gallagher

Insurance | Risk Management | Consulting

# Culture.

Since Gallagher was founded in 1927, there's been one constant that has guided us: our culture. Instilled by Arthur J. Gallagher at the beginning, defined by Bob Gallagher in 1984 and put into practice every day by over 32,000 colleagues around the globe, The Gallagher Way serves as the foundation of ethics and service in our ever-changing business. It's one of the many reasons we are the only insurance broker to have earned recognition as one of the World's Most Ethical Companies for 10 consecutive years.

# Community.

Our trust and connection to one another has always been at the heart of what we do and who we are. You'll often hear us saying this is the greatest business in the world, and that's because, at the end of each day, we're working on what matters most: being there for businesses when they need it, helping people as they put their lives back together and always giving back to our communities to help them face whatever comes next.

# Confidence.

Our focus is rooted in our company purpose: helping people and businesses move forward with confidence. It's what drives the expertise, solutions and technology we bring to our clients to help them prosper. Our ability to deliver exceptional service would not be possible without the hard work and dedication of our greatest asset—our people. And by supporting one another, day in and day out, we will continue building confidence together.

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

## FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2020**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from ___________________ to**

**Commission file number 1-09761**

# ARTHUR J. GALLAGHER & CO.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **DELAWARE** | **36-2151613** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification Number)** |
| **2850 Golf Road Rolling Meadows, Illinois** | **60008-4050** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant's telephone number, including area code (630) 773-3800**

Securities registered pursuant to Section 12(b) of the Act:

| **Title of each class** | **Trading Symbol(s)** | **Name of each exchange on which registered** |
|---|---|---|
| Common Stock, par value $1.00 per share | AJG | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 726(b)) by the registered public accounting firm that prepared or issued its audit report Yes ☒ No ☐.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

The aggregate market value of the voting common equity held by non-affiliates of the registrant, computed by reference to the last reported price at which the registrant's common equity was sold on June 30, 2020 (the last day of the registrant's most recently completed second quarter) was $16,249,616,000.

The number of outstanding shares of the registrant's Common Stock, $1.00 par value, as of January 31, 2021 was 193,740,000.

**Documents incorporated by reference:** Portions of Arthur J. Gallagher & Co.'s definitive 2021 Proxy Statement are incorporated by reference into this Form 10-K in response to Part III to the extent described herein.

**Information Concerning Forward-Looking Statements**

This report contains certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations or forecasts of future events. Such statements use words such as “anticipate,” “believe,” “estimate,” “expect,” “contemplate,” “forecast,” “project,” “intend,” “plan,” “potential,” and other similar terms, and future or conditional tense verbs like “could,” “may,” “might,” “see,” “should,” “will” and “would.” You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. For example, we may use forward-looking statements when addressing topics such as: market and industry conditions, including competitive and pricing trends; acquisition strategy including the expected size of our acquisition program; the expected impact of acquisitions and dispositions; the development and performance of our services and products; changes in the composition or level of our revenues or earnings; our cost structure and the size and outcome of cost-saving or restructuring initiatives; future capital expenditures; future debt levels and anticipated actions to be taken in connection with maturing debt; future debt to earnings ratios; the outcome of contingencies; dividend policy; pension obligations; cash flow and liquidity; capital structure and financial losses; future actions by regulators; the outcome of existing regulatory actions, investigations, reviews or litigation; the impact of changes in accounting rules; financial markets; interest rates; foreign exchange rates; matters relating to our operations; income taxes, expectations regarding our investments, including our clean energy investments; human capital management, including diversity and inclusion initiatives; environmental, social and governance matters, including climate-resilience products and services and carbon emissions; and integrating recent acquisitions. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors.

Potential factors that could impact results include:

- The ongoing COVID-19 pandemic, including its effect on the economy, our employees, our clients, the regulatory environment and our operations;
- The current or a future economic downturn or unstable economic conditions, whatever the cause, including the effects of the COVID-19 pandemic, or other factors like Brexit, worsening international relations, tariffs, trade wars, political violence and unrest in the U.S. or around the world, or climate change and other long-term environmental, social and governance matters and global health risks;
- Volatility or declines in premiums or other adverse trends in the insurance industry;
- Competitive pressures, including as a result of innovation, in each of our businesses;
- Risks that could negatively affect the success of our acquisition strategy, including the impact of current economic uncertainty on our ability to source, review and price acquisitions, continuing consolidation in our industry and growing interest in acquiring insurance brokers on the part of private equity firms and newly public insurance brokers, which could make it more difficult to identify targets and could make them more expensive, the risk that we may not receive timely regulatory approval of desired transactions, execution risks, integration risks, poor cultural fit, the risk of post-acquisition deterioration leading to intangible asset impairment charges, and the risk we could incur or assume unanticipated liabilities such as cybersecurity issues or those relating to violations of anti-corruption and sanctions laws;
- Failure to successfully and cost-effectively integrate recently acquired businesses and their operations or fully realize synergies from such acquisitions in the expected time frame;
- Cyber attacks or other cybersecurity incidents including the ransomware incident referred to elsewhere in this report under “Update on Ransomware Incident”; improper disclosure of confidential, personal or proprietary data; and changes to laws and regulations governing cybersecurity and data privacy;
- Risks arising from changes in U.S. or foreign tax laws, including the current U.S. president’s administration’s potential reversal of all or part of the U.S. Tax Cuts and Jobs Act 2017 (which we refer to as the TCJA) and related regulations;
- Uncertainty from the expected discontinuance of LIBOR;
- Our failure to attract and retain experienced and qualified talent, including our senior management team, and the risk of our CEO or another senior executive contracting COVID-19;
- Risks arising from our international operations, including the risks posed by political and economic uncertainty in certain countries (such as the risks posed by Brexit), risks related to maintaining regulatory and legal compliance across multiple jurisdictions (such as those relating to violations of anti-corruption, sanctions and privacy laws), rising global tensions and protectionism, and risks arising from the complexity of managing businesses across different time zones, languages, geographies, cultures and legal regimes that conflict with one another at times;

- Risks particular to our risk management segment, including reduced economic activity due to COVID-19 further reducing claim activity, any slowing of the trend toward outsourcing claims administration, and the concentration of large amounts of revenue with certain clients;
- Risks particular to our benefit consulting operations, including reduced economic activity due to COVID-19 further reducing fee revenue from special projects and risks to the business posed by potential changes to health legislation under the current U.S. president's administration;
- The higher level of variability inherent in contingent and supplemental revenues versus standard commission revenues, particularly in light of the changed revenue recognition accounting standard;
- Sustained increases in the cost of employee benefits;
- A disaster or other significant disruption to business continuity; including natural disasters and political violence and unrest in the U.S. or elsewhere around the world;
- Damage to our reputation including as a result of environmental, social and governance (ESG) matters;
- Climate risks, including the risk of a systemic economic crisis and disruptions to our business caused by the transition to a low-carbon economy;
- Our failure to apply technology effectively in driving value for our clients through technology-based solutions, or failure to gain internal efficiencies and effective internal controls through the application of technology and related tools;
- Our failure to comply with regulatory requirements, including those related to governance and control requirements in particular jurisdictions, international sanctions, or a change in regulations or enforcement policies that adversely affects our operations (for example, relating to insurance broker compensation methods);
- Violations or alleged violations of the U.S. Foreign Corrupt Practices Act (which we refer to as FCPA), the U.K. Bribery Act 2010 or other anti-corruption laws and the Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act (which we refer to as FATCA);
- The outcome of any existing or future investigation, review, regulatory action or litigation;
- Unfavorable determinations related to contingencies and legal proceedings;
- Significant changes in foreign exchange rates;
- Changes to our financial presentation from new accounting estimates and assumptions;
- Risks related to our clean energy investments, including intellectual property claims, utilities switching from coal to natural gas or renewable energy sources, environmental and product liability claims, environmental compliance costs and the risk of disallowance by the Internal Revenue Service (which we refer to as the IRS) of previously claimed tax credits;
- The risk that our outstanding debt adversely affects our financial flexibility and restrictions and limitations in the agreements and instruments governing our debt;
- The risk we may not be able to receive dividends or other distributions from subsidiaries;
- The risk of share ownership dilution when we issue common stock as consideration for acquisitions and for other reasons; and
- Volatility of the price of our common stock.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including the risk factors referred to above, and are currently, or in the future could be, amplified by the COVID-19 pandemic. Our future performance and actual results may differ materially from those expressed in forward-looking statements. Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of, and are based on information available to us on, the date of the applicable document. Many of the factors that will determine these results are beyond our ability to control or predict. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Forward-looking statements speak only as of the date that they are made, and we do not undertake any obligation to update any such statements or release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect new information, future or unexpected events or otherwise, except as required by applicable law or regulation.

A detailed discussion of the factors that could cause actual results to differ materially from our published expectations is contained under the heading "Risk Factors" in this report and any other reports we file with the Securities and Exchange Commission (SEC) in the future.

**Arthur J. Gallagher & Co.**
**Annual Report on Form 10-K**
**For the Fiscal Year Ended December 31, 2020**
**Index**

## Part I

### Item 1. Business.

### Overview

Arthur J. Gallagher & Co. and its subsidiaries, collectively referred to herein as we, our, us or Gallagher, are engaged in providing insurance brokerage, consulting, and third-party property/casualty claims settlement and administration services to businesses and organizations around the world. We believe that our major strength is our ability to deliver comprehensively structured insurance, insurance and risk management solutions, superior claim outcomes and comprehensive consulting services to our clients.

Our brokerage segment operations provide brokerage and consulting services to businesses and organizations of all types, including commercial, not-for-profit, and public entities, and, to a lesser extent, individuals, in the areas of insurance placement, risk of loss management, and management of employer sponsored benefit programs. Our risk management segment operations provide contract claim settlement, claim administration, loss control services and risk management consulting for commercial, not-for-profit, captive and public entities, and various other organizations that choose to self-insure property/casualty coverages or choose to use a third-party claims management organization rather than the claim services provided by an underwriting enterprise.

We do not assume underwriting risk on a net basis, other than with respect to de minimis amounts necessary to provide minimum or regulatory capital to organize captives, pools, specialized underwriters or risk-retention groups. Rather, capital necessary for covering events of loss is provided by "underwriting enterprises," which we define as insurance companies, reinsurance companies and various other risk-taking entities, including intermediaries of underwriting enterprises, that we do not own or control.

Since our founding in 1927, we have grown from a one-person insurance agency to the world's fourth largest insurance broker/risk manager based on revenues, according to *Business Insurance* magazine's July/August 2020 edition, and one of the world's largest property/casualty third party claims administrators, according to *Business Insurance* magazine's May 2020 edition. We have three reportable segments: brokerage, risk management and corporate, which contributed approximately 74%, 14% and 12%, respectively, to 2020 revenues. We generate approximately 68% of our revenues from the combined brokerage and risk management segments in the United States (U.S.), with the remaining 32% generated internationally, primarily in the United Kingdom (U.K.), Australia, Canada, New Zealand and Bermuda. All of the revenues of the corporate segment are generated in the U.S.

Shares of our common stock are traded on the New York Stock Exchange under the symbol "AJG", and we had a market capitalization at December 31, 2020 of approximately $24.0 billion. Information in this report is as of December 31, 2020 unless otherwise noted. We were reincorporated as a Delaware corporation in 1972. Our executive offices are located at 2850 Golf Road, Rolling Meadows, Illinois 60008-4050, and our telephone number is (630) 773-3800.

### Operating Segments

We report our results in three segments: brokerage, risk management and corporate. The major sources of our operating revenues are commissions, fees and supplemental and contingent revenues from our brokerage operations, and fees, including performance-based fees, from our risk management operations. The corporate segment generates revenues from our clean energy investments.

Our business, particularly our brokerage business, is subject to seasonal fluctuations. Commissions, fees, supplemental revenues and contingent revenues, and our costs to obtain and fulfill the service obligations to our clients, can vary from quarter to quarter as a result of the timing of contract-effective dates. On the other hand, salaries and employee benefits, rent, depreciation and amortization expenses generally tend to be more uniform throughout the year. The timing of acquisitions, recognition of books of business gains and losses and the variability in the recognition of tax credits generated by our clean energy investments also impact the trends in our quarterly operating results.

### Brokerage Segment

The brokerage segment accounted for 74% of our revenues in 2020. Our brokerage segment operates through a network of more than 480 sales and service offices located throughout the U.S. and more than 170 sales and service offices in 49 countries, most of which are in the U.K., Australia, Canada, New Zealand and Bermuda. Most of these offices are fully staffed with sales and service personnel. We also offer client service capabilities in more than 150 countries around the world through a network of correspondent brokers and consultants.

**Retail Insurance Brokerage Operations**

Our retail insurance brokerage operations accounted for 82% of our brokerage segment revenues in 2020. Our retail brokerage operations place nearly all lines of commercial property/casualty and health and welfare insurance coverage. Significant lines of insurance coverage and consultant capabilities are as follows:

| | | | |
|---|---|---|---|
| Aviation | Disability | General Liability | Products Liability |
| Casualty | Earthquake | Health & Welfare | Professional Liability |
| Claims Advocacy | Errors & Omissions | Healthcare Analytics | Property |
| Commercial Auto | Exchange Solutions | Human Resources | Retirement |
| Compensation | Executive Benefits | Institutional Investment | Surety Bond |
| Cyber Liability | Fiduciary Services | Loss Control | Voluntary Benefits |
| Dental | Fine Arts | Marine | Wind |
| Directors & Officers Liability | Fire | Medical | Workers' Compensation |

Our retail brokerage operations are organized and operate within certain key niche/practice groups, which account for approximately 64% of our retail brokerage revenues. These specialized teams target areas of business and/or industries in which we have developed a depth of expertise and a large client base. Significant niche/practice groups we serve are as follows:

| | | | |
|---|---|---|---|
| Affinity | Equity Advisors | Law Firms | Real Estate/Hospitality |
| Automotive | Financial Institutions | Life Sciences | Religious |
| Aviation | Food/Agribusiness | Marine | Restaurant |
| Construction | Global Risks | Not-for-Profit | Technology |
| Energy | Healthcare | Personal | Trade Credit/Political Risk |
| Entertainment | Higher Education | Private Client | Transportation |
| Environmental | K12 Education | Public Entity | |

Our specialized focus on these niche/practice groups allows for highly-focused marketing efforts and facilitates the development of value-added products and services specific to those industries. We believe that our detailed understanding and broad client contacts within these niche/practice groups provide us with a competitive advantage.

We anticipate that our retail brokerage operations' greatest revenue growth over the next several years will continue to come from:

- Mergers and acquisitions;
- Our niche/practice groups and middle-market accounts;
- Cross-selling other brokerage products to existing clients; and
- Developing and managing alternative market mechanisms such as captives, rent-a-captives and deductible plans/self-insurance.

**Wholesale Insurance Brokerage Operations**

Our wholesale insurance brokerage operations accounted for 18% of our brokerage segment revenues in 2020. Our wholesale brokers assist our retail brokers and other non-affiliated brokers in the placement of specialized and hard-to-place insurance. These brokers operate through approximately 170 offices primarily located across the U.S., Bermuda and through our approved Lloyd's of London brokerage operation. In certain cases we act as a brokerage wholesaler, and in other cases we act as a managing general agent or managing general underwriter distributing specialized insurance coverages for underwriting enterprises. Managing general agents and managing general underwriters are agents authorized by an underwriting enterprise to manage all or a part of its business in a specific geographic territory. Activities they perform on behalf of the underwriting enterprise may include marketing, underwriting (although we do not assume any underwriting risk), issuing policies, collecting premiums, appointing and supervising other agents, paying claims and negotiating reinsurance.

More than 79% of our wholesale brokerage revenues comes from non-affiliated brokerage clients. Based on revenues, our domestic wholesale brokerage operation ranked as the largest managing general agents/underwriting managers/Lloyds coverholders according to *Business Insurance* magazine's September 2020 edition.

We anticipate growing our wholesale brokerage operations by increasing the number of broker-clients, developing new managing general agency and underwriter programs, and through mergers and acquisitions.

**Risk Management Segment**

Our risk management segment accounted for 14% of our revenues in 2020. Approximately 63% of our risk management segment's revenues are from workers' compensation-related claims, 29% are from general and commercial auto liability-related claims and 8% are from property-related claims in 2020.

Risk management services are primarily marketed directly to Fortune 1000 companies, larger middle-market companies, not for profit organizations and public entities on an independent basis from our brokerage operations. We manage our third party claims adjusting operations through a network of more than 65 offices located throughout the U.S., Australia, the U.K., New Zealand and Canada. Most of these offices are fully staffed with claims adjusters and other service personnel. Our adjusters and service personnel act solely on behalf and under the instruction of our clients.

While this segment complements our brokerage and consulting offerings, approximately 90% of our risk management segment's revenues come from clients not affiliated with our brokerage operations, such as underwriting enterprises and clients of other insurance brokers. Based on revenues, our risk management operation ranked as one of the world's largest property/casualty third party claims administrators according to *Business Insurance* magazine's May 2020 edition.

We expect that the risk management segment's most significant growth prospects through the next several years will come from:

- Program business and the outsourcing of portions of underwriting enterprise claims departments;
- Increased levels of business with Fortune 1000 companies;
- Larger middle-market companies and captives; and
- Mergers and acquisitions.

**Corporate Segment**

The corporate segment accounted for 12% of our revenues in 2020. The corporate segment reports the financial information related to our debt, clean energy investments, external acquisition-related expenses, other corporate costs and the impact of foreign currency translation. The revenues reported by this segment result almost solely from our consolidated clean energy investments.

We own 35 commercial clean coal production facilities that are qualified to produce refined coal using Chem-Mod LLC's proprietary technologies. These operations produce refined coal that we believe qualifies for tax credits under Internal Revenue Code (which we refer to as IRC) Section 45. The law that provides for IRC Section 45 tax credits expired as of December 31, 2019 for 14 of our plants and will expire on or before December 31, 2021 for the other 21 plants. Chem-Mod LLC (described below) is a privately-held enterprise that has commercialized multi-pollutant reduction technologies to reduce mercury, sulfur dioxide and other emissions at coal-fired power plants. We own 46.5% of Chem-Mod LLC and are its controlling managing member. We also have a 12.0% noncontrolling interest in dormant, privately-held, enterprises, C-Quest Technology LLC and C-Quest Technologies International LLC (which we refer to as together, C-Quest), which own technologies that reduce carbon dioxide emissions created by burning fossil fuels. At this time, it is unclear if C-Quest will ever become commercially viable.

**International and Other Brokerage Related Operations**

We operate as a retail commercial property and casualty broker throughout 46 locations in Australia, 46 locations in Canada and 34 locations in New Zealand. In the U.K., we operate as a retail broker from approximately 116 locations. We also have specialty, wholesale, underwriting and reinsurance intermediary operations in London for clients to access Lloyd's of London and other international underwriting enterprises, and a program operation offering customized risk management products and services to U.K. public entities.

In Bermuda, we act principally as a wholesale broker for clients looking to access Bermuda-based underwriting enterprises and we also provide management and administrative services for captive insurance entities.

We also have strategic brokerage alliances with a variety of independent brokers in countries where we do not have a local office presence. Through this global network of correspondent insurance brokers and consultants, we are able to serve our clients' coverage and service needs in more than 150 countries around the world.

**Captive underwriting enterprises** - We have ownership interests in several underwriting enterprises based in the U.S., Bermuda, Gibraltar, Guernsey, Isle of Man and Malta, that primarily operate segregated account “rent-a-captive” facilities.  These “rent-a-captive” facilities enable our clients to receive the benefits of participating in a captive underwriting enterprise without incurring certain disadvantages of ownership.

We also have a wholly owned underwriting enterprise subsidiary based in the U.S. that cedes all of its insurance risk of loss to reinsurers or captives under facultative and quota-share treaty reinsurance agreements.  See Note 18 to our 2020 consolidated financial statements for additional financial information related to the insurance activity of our wholly owned underwriting enterprise subsidiary for 2020, 2019 and 2018.

## Competition

### Brokerage Segment

The insurance brokerage and consulting business is highly competitive and there are many organizations and individuals throughout the world who actively compete with us in every area of our business.

We believe that the primary factors determining our competitive position with other organizations in our industry are the quality of the services we render, the personalized attention we provide, the individual and corporate expertise providing the actual service to the client, and the overall cost to our clients.  We provide sophisticated data analysis to help our clients make insurance decisions. Through our electronic platform, SmartMarket, we also provide insurance carriers with individualized preference setting and risk identification capabilities, as well as performance data and metrics.  We believe these capabilities provide a growing competitive advantage with respect to many of the smaller organizations with which we compete.

### Risk Management Segment

Our risk management operation currently ranks as one of the world’s largest property/casualty third party claims administrators based on revenues, according to *Business Insurance* magazine’s May 2020 edition.  We believe that the primary factors determining our competitive position are our ability to deliver better claim outcomes, reputation for outstanding service, cost-efficient service and financial strength.

## Business Combinations

We completed and integrated 583 acquisitions from January 1, 2002 through December 31, 2020, most of which were within our brokerage segment.  The majority of these acquisitions have been smaller regional or local brokerages, agencies, or employee benefit consulting operations with a middle or small client focus and/or significant expertise in one of our niche/practice groups.  The total purchase price for individual acquisitions has typically ranged from $1.0 million to $100.0 million.

Through acquisitions, we seek to expand our talent pool, enhance our geographic presence and service capabilities, and/or broaden and further diversify our business mix.  We also focus on identifying:

- A corporate culture that matches our sales-oriented and ethics-based culture;
- A profitable, growing business whose ability to compete would be enhanced by gaining access to our greater resources; and
- Clearly defined financial criteria.

See Note 3 to our 2020 consolidated financial statements for a summary of our 2020 acquisitions, the amount and form of the consideration paid and the dates of acquisitions.

## Clients

Our client base is highly diversified and includes commercial, industrial, public entity, religious and not-for-profit entities.  In 2020, our largest single client represented approximately 1.0% and our ten largest clients together represented approximately 3.0% of our combined brokerage and risk management segment revenues.

## Human Capital

In 2020, the COVID-19 pandemic had a significant impact on our human capital management. Of our nearly 1,000 office locations, nearly 400 are open, but most of those at reduced capacity. Accordingly, the vast majority of our employees continue to work remotely for some or all of their work week. We have instituted safety protocols and procedures for employees when they are in an office and have not had any office-wide outbreaks of COVID-19.

As of December 31, 2020, we had 32,401 employees, with approximately 50% in the U.S. and 50% outside of the U.S. Approximately 76% of our employees work in our brokerage segment and 20% in our risk management segment. Our remaining employees work in our corporate segment, primarily in our home office and financial services division, as well as in our service centers in India and elsewhere around the world. In 2020, our total compensation expense was $2,882.5 million for the brokerage segment and $517.5 million for the risk management segment, representing 55.8% and 63.0%, respectively, of brokerage and risk management segment revenues. Additional information regarding compensation expense, both on a reported and an adjusted basis, can be found elsewhere in this report under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

While many of our new employees come to us through mergers and acquisitions and traditional hiring, "growing our own" has long been a key part of our human capital strategy. Our summer internship program began more than fifty years ago with a single intern. Since then, our program has grown globally and we employed more than 400 interns each summer in 2018 and 2019 (we had fewer interns in 2020 due to the COVID-19 pandemic). We provide our interns with professional development and on-the-job sales training that gives them the opportunity to cultivate expertise and accelerate their full-time sales career growth.

As of December 31, 2020, approximately 59.8% of our employees were women, including 47.3% of managers and 40.2% of producers. In the U.S., approximately 23.6% of our employees were racially/ethnically diverse, including 14.4% of managers and 18.9% of producers.

## Regulation

Many of our activities throughout the world are subject to regulatory supervision and regulations promulgated by bodies such as the SEC, the Department of Justice (DOJ), the IRS, the Office of Foreign Assets Control and the Federal Trade Commission in the U.S., the Financial Conduct Authority in the U.K., the Australian Securities and Investments Commission in Australia and insurance regulators in nearly every jurisdiction in which we operate. Our retirement-related consulting and investment services are subject to pension law and financial regulation in many countries. Our activities are also subject to a variety of other laws, rules and regulations addressing licensing, data privacy, wage-and-hour standards, employment and labor relations, anti-competition, anti-corruption, currency, reserves and the amount of local investment with respect to our operations in certain countries.

The global nature of our operations increases the complexity and cost of compliance with laws and regulations, including increased staffing needs, the development of new policies, procedures and internal controls and providing training to employees in multiple locations, adding to our cost of doing business. Many of these laws and regulations may have differing or conflicting legal standards across jurisdictions, increasing further the complexity and cost of compliance. In emerging markets and other jurisdictions with less developed legal systems, local laws and regulations may not be established with sufficiently clear and reliable guidance to provide us with adequate assurance that we are aware of all necessary licenses to operate our business, that we are operating our business in a compliant manner, or that our rights are otherwise protected. In addition, major political and legal developments in jurisdictions in which we do business may lead to new regulatory costs and challenges.

Regulations promulgated by the U.S. Treasury Department pursuant to FATCA require us to take various measures relating to non-U.S. funds, transactions and accounts.

## Available Information

Our executive offices are located at 2850 Golf Road, Rolling Meadows, Illinois 60008-4050, and our telephone number is (630) 773-3800. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available free of charge on our website at http://investor.ajg.com/sec-filings as soon as reasonably practicable after electronically filing or furnishing such material to the Securities and Exchange Commission. The Securities and Exchange Commission also maintains a website (www.sec.gov) that includes our reports, proxy statements and other information. Unless expressly noted, the information on our website, including our investor relations website, or any other website is not incorporated by reference in this Form 10-K and should not be considered part of this Form 10-K or any other filing we make with the SEC.

## Item 1A. Risk Factors.

Please carefully consider the following discussion of significant factors, events, and uncertainties that make an investment in our securities risky. The events and consequences discussed in these risk factors could, in circumstances we may not be able to accurately predict, recognize, or control, have a material adverse effect on our business, growth, reputation, prospects, financial condition, operating results (including components of our financial results such as revenues and net earnings), cash flows, liquidity, and stock price. These risk factors do not identify all risks that we face; our operations could also be affected by factors, events, or uncertainties that are not presently known to us or that we currently do not consider to present significant risks to our operations. In addition, the global economic climate amplifies many of these risks.

### Risks Relating to our Business Generally

**The ongoing COVID-19 pandemic has and could continue to adversely affect our business, results of operations and financial condition.**

The global spread of COVID-19 (including potentially more contagious strains of COVID-19 such as those recently detected in the U.K., South Africa and Brazil) has created significant volatility and uncertainty and economic disruption. 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 which we may not be able to accurately predict, including: its duration and scope; the ultimate availability, administration and effectiveness of vaccines, and our employees' and the general population's willingness to receive them; 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; our ability to sell and provide our services, including limitations on travel and difficulties of our clients and employees working from home; the ability of our clients to pay their insurance premiums which could impact our commission and fee revenues for our services; the nature and extent of claims impacting the ability of underwriting enterprises to pay supplemental and contingent commissions; the decrease in new arising workers' compensation and general liability claims; the long-term impact of closing our offices and our employees working from home, including increased technology costs; the impact of lost revenue on our employees' variable and base compensation levels; the impact of uncertainty related to salary raises and future compensation levels; the impact of reduced investments and postponements related to business modernization projects; the impact of furloughed or terminated employees; and the impact of reduced advertising and sponsorship investments.

- **Economy-related risks.** The decline in economic activity caused by COVID-19 has already adversely affected, and in future periods, could materially adversely affect our business, results of operations and financial condition. Continued reductions in our clients' exposure units (such as headcount, payroll, properties, the market values of their assets, and plant, equipment and other asset utilization levels, among other factors) will reduce the amount of insurance coverage and consulting and claims administration services they need. In addition, with unprecedented levels of unemployment and business closures during the past year, the number of newly arising workers' compensation and general liability claims, which directly impact our fee revenues in our risk management operation, declined materially. Certain of our industry niches, such as hospitality, transportation, manufacturing and construction, have been significantly affected by the economic decline. The decline in economic activity due to COVID-19 has caused some of our clients to become financially less stable, and if this trend continues and clients enter bankruptcy, liquidate their operations or consolidate, our revenues and the collectability of our receivables will be adversely affected. Clients with losses due to COVID-19, in addition to suing underwriting enterprises for insurance coverage under business interruption and other policies, may also sue us for improperly failing to procure coverage, and some clients have already done so. In addition, in our risk management operation, we inform claimants of insurance coverage and compensability determinations on behalf of our third-party claims administration clients (including, during the past year, with respect to numerous COVID-19 related claims) on the basis of client direction or written opinions from outside counsel. Claimants who have been denied coverage and sue our clients may also bring actions against us. While we do not believe any such actions against us generally have merit, they could result in significant costs, damage our reputation, and/or harm our relationships with clients.

- **Regulatory risks.** To mitigate the economic impact caused by COVID-19, certain governmental entities have proposed requiring underwriting enterprises to pay business interruption and workers compensation claims for COVID-19 losses despite applicable policy exclusions. Retroactively expanding business interruption or other coverages could materially negatively affect underwriting enterprises, reduce the availability of insurance coverage, and negatively affect our ability to generate commission revenues from such policies as well as supplemental and contingent commissions from underwriting enterprises. While some have proposed liability protections in the U.S. for companies bringing employees back into the office following the pandemic, the chances of such legislation being adopted under the current U.S. president's administration and Democratic-led Congress may have diminished.

- **Risks related to remote work.** Many of our employees continue to work from home. While we have not experienced any significant operating difficulties since our work-from-home practices began, the inability to meet potential and existing clients face to face has, in some cases, negatively impacted our ability to sell and provide our services. Contingency plans related to our service center in India depend upon the normal functioning of our other offices around the world, and until that is the case, we face elevated risk in the event of a crisis rendering the India service center inoperable. The stresses of remote work for some of our employees may decrease their productivity or make them feel detached from colleagues and the organization. In some cases, this may make them more vulnerable to solicitations by competing firms. In addition, our increased reliance on work-from-home technologies and our employees' more frequent use of personal devices and non-standard business processing may increase the risk of cybersecurity or data breaches from circumvention of security systems, denial-of-service attacks or other cyber-attacks, hacking, "phishing" attacks, computer viruses, ransomware, malware, employee or insider error, malfeasance, social engineering, physical breaches or other actions. While we do not believe the ransomware incident referred to elsewhere in this report occurred because of remote work, it serves as an important illustration of the heightened risk.

COVID-19 and the volatile regional and global economic conditions stemming from the pandemic, as well as reactions to future pandemics or new strains or resurgences of COVID-19, could also precipitate or aggravate the other risk factors that we identify in this report, which in turn could materially adversely affect our business, financial condition, liquidity, results of operations (including revenues and profitability) and/or stock price. Further, COVID-19 may also affect our operating and financial results in a manner that is not presently known to us or that we currently do not consider to present significant risks to our operations.

**An economic downturn, as well as unstable economic conditions in the countries and regions in which we operate, could adversely affect our results of operations and financial condition.**

Apart from the impact of COVID-19, a decline in economic activity for any other reason (including climate change, or the uncertainty caused by political violence and chaos) could adversely impact us in future years as a result of reductions in the amount of insurance coverage and consulting services that our clients purchase due to reductions in their headcount, payroll, properties, and the market values of assets, among other factors. Any such reduction or decline (whether caused by an overall economic decline or declines in certain industries or in certain countries and regions in which we operate) could adversely impact our commission revenues, consulting revenues or revenues from managing third-party insurance claims. Some of our clients may experience liquidity problems or other financial difficulties in the event of a prolonged deterioration in the economy, which could have an adverse effect on our results of operations and financial condition. If our clients become financially less stable, enter bankruptcy, liquidate their operations or consolidate, our revenues and collectability of receivables could be adversely affected.

**The exit of the U.K. from the European Union (Brexit) could adversely affect our results of operations and financial condition.**

The U.K. formally left the European Union (EU) on January 31, 2020 and an agreed implementation period ended on December 31, 2020. Although the U.K. and the EU reached a trade and customs agreement, this agreement did not extend to insurance brokerage services. Accordingly, while our European Economic Area (EEA) client base is a small part of our U.K. operations, we have now transferred those clients to a Swedish subsidiary, authorized in the EEA. Some services will be provided through staff working in a U.K. branch of the subsidiary. Although this "reverse branch" model is typical of other brokers of a similar size, there can be no assurance that the approach of EU regulators will not change, potentially requiring us to adjust our plans in relation to the U.K. branch and causing further management distraction and cost. In such an event, our results of operations and financial condition could be adversely affected.

**Economic conditions that result in financial difficulties for underwriting enterprises or lead to reduced risk-taking capital capacity could adversely affect our results of operations and financial condition.**

We have a significant amount of receivables from certain of the underwriting enterprises with which we place insurance. If those companies experience liquidity problems or other financial difficulties, we could encounter delays or defaults in payments owed to us, which could have a significant adverse impact on our consolidated financial condition and results of operations. The failure of an underwriting enterprise with which we place business could result in errors and omissions claims against us by our clients. Further, the failure of errors and omissions underwriting enterprises could make the errors and omissions insurance we rely upon cost prohibitive or unavailable. Any of these developments could adversely affect our results of operations and financial condition. In addition, if underwriting enterprises merge or if a large underwriting enterprise fails or withdraws from offering certain lines of coverage, for example, because of large payouts related to climate change or other emerging risk areas, overall risk-taking capital capacity could be negatively affected, which could reduce our ability to place certain lines of coverage and, as a result, reduce our revenues and profitability.

**We have historically acquired large numbers of insurance brokers, benefit consulting firms and, to a lesser extent, claim and risk management firms. We may not be able to continue such an acquisition strategy in the future and there are risks associated with such acquisitions, which could adversely affect our growth and results of operations.**

Our acquisition program has been an important part of our historical growth, particularly in our brokerage segment, and we believe that similar acquisition activity will be important to maintaining comparable growth in the future. Failure to successfully identify and complete acquisitions likely would result in us achieving slower growth. Continuing consolidation in our industry and growing interest in acquiring insurance brokers on the part of private equity firms, private equity-backed consolidators and newly public insurance brokers (one of which has a partnership tax structure that gives it an advantage in pricing acquisitions) has in some cases made and could in the future make appropriate acquisition targets more difficult to identify and more expensive. Even if we are able to identify appropriate acquisition targets, we may not have sufficient capital to fund acquisitions, be able to execute transactions on favorable terms or integrate targets in a manner that allows us to realize the benefits we have historically experienced from acquisitions. When regulatory approval of acquisitions is required, our ability to complete acquisitions may be limited by an ongoing regulatory review or other issues with the relevant regulator. Our ability to finance and integrate acquisitions may also decrease if we complete a greater number of larger acquisitions than we have historically. See Note 3 to the consolidated financial statements elsewhere in this report for information regarding the size of transactions in the reporting period.

Post-acquisition risks include poor cultural fit and risks relating to retention of personnel, retention of clients, entry into unfamiliar or complex markets or lines of business, contingencies or liabilities, such as violations of sanctions laws or anti-corruption laws including the FCPA and U.K. Bribery Act, risks relating to ensuring compliance with licensing and regulatory requirements, tax and accounting issues, the risk that the acquisition distracts management and personnel from our existing business, and integration difficulties relating to accounting, information technology, pay equity, human resources, or employee attrition, some or all of which could have an adverse effect on our results of operations and growth. The failure of acquisition targets to achieve anticipated revenue and earnings levels could also result in goodwill impairment charges.

We own interests in firms where we do not exercise management control (such as Casanueva Perez S.A.P. de C.V. in Mexico) and are therefore unable to direct or manage the business to realize the anticipated benefits, including mitigation of risks, that could be achieved through full integration.

**We face significant competitive pressures in each of our businesses.**

The insurance brokerage and employee benefit consulting businesses are highly competitive and many insurance brokerage and employee benefit consulting organizations actively compete with us in one or more areas of our business around the world. Three of the firms we compete with in the global risk management and brokerage markets (two of which are in the process of merging, subject to regulatory approval) have revenues significantly larger than ours. In addition, many other smaller firms that operate nationally or that are strong in a particular country, region or locality may have, in that country, region or locality, an office with revenues as large as or larger than those of our corresponding local office. Our third party claims administration operation also faces significant competition from stand-alone firms as well as divisions of larger firms. Over the past decade or more, private equity sponsors have invested heavily in the insurance brokerage and third party claims administration industries, creating new competitors and strengthening existing ones. Across all of our operations, Insurtech and technology-based start-ups are entering the business. In most cases, these businesses complement or enhance our offerings, but in some cases they compete with us.

We believe that the primary factors determining our competitive position with other organizations in our industry are the quality of the services we render, the personalized attention we provide, the individual and corporate expertise of the brokers and consultants providing the actual service to the client and our ability to help our clients manage their overall risk exposure and insurance costs. Losing business to competitors offering similar services or products at a lower cost or having other competitive advantages would adversely affect our business.

Consolidation among our existing competitors (such as the pending merger between Aon and Willis Towers Watson) could create additional competitive pressure on us as such firms grow their market share, take advantage of strategic and operational synergies and develop lower cost structures. In addition, any increase in competition due to new legislative or industry developments could adversely affect us.

These developments include:

- Increased capital-raising by underwriting enterprises, which could result in new risk-taking capital in the industry, which in turn may lead to lower insurance premiums and commissions;
- Underwriting enterprises selling insurance directly to insureds without the involvement of a broker or other intermediary;

- Changes in our business compensation model as a result of regulatory developments;
- Federal and state governments establishing programs to provide health insurance (such as a single-payer system being discussed by some in the U.S.) or, in certain cases, property insurance in catastrophe-prone areas or other alternative market types of coverage, that compete with, or completely replace, insurance products currently offered by underwriting enterprises;
- Climate-change regulation in the U.S. and around the world moving us toward a low-carbon economy, which could create new competitive pressures around climate resilience consulting services and innovative insurance solutions;
- Continued consolidation in the financial services industry, leading to larger financial services institutions offering a wider variety of services including insurance brokerage and risk management services; and
- Increased competition from new market participants such as banks, accounting firms, consulting firms and Internet or other technology firms offering risk management or insurance brokerage services, or new distribution channels for insurance such as payroll firms and professional employer organizations.

New competition as a result of these or other legislative or industry developments could cause the demand for our products and services to decrease, which could in turn adversely affect our results of operations and financial condition.

**Volatility or declines in premiums or other adverse trends in the insurance industry may seriously undermine our profitability.**

We derive much of our revenue from commissions and fees for our brokerage services. We do not determine the insurance premiums on which our commissions are generally based. Moreover, insurance premiums are cyclical in nature and may vary widely based on market conditions. Because of market cycles for insurance product pricing, which we cannot predict or control, our brokerage revenues and profitability can be volatile or remain depressed for significant periods of time.

As underwriting enterprises continue to outsource the production of premium revenue to non-affiliated brokers or agents such as us, those companies may seek to further minimize their expenses by reducing the commission rates payable to insurance agents or brokers. The reduction of these commission rates, along with general volatility and/or declines in premiums, may significantly affect our profitability. Because we do not determine the timing or extent of premium pricing changes, it is difficult to forecast our commission revenues precisely, including whether they will significantly decline. As a result, we may have to adjust our budgets for future acquisitions, capital expenditures, dividend payments, debt repayments and other expenditures to account for unexpected changes in revenues, and any decreases in premium rates may adversely affect the results of our operations.

In addition, there have been and may continue to be various trends in the insurance industry toward alternative insurance markets including, among other things, greater levels of self-insurance, captives, rent-a-captives, risk retention groups and non-insurance capital markets-based solutions to traditional insurance. While historically we have been able to participate in certain of these activities on behalf of our clients and obtain fee revenue for such services, there can be no assurance that we will realize revenues and profitability as favorable as those realized from our traditional brokerage activities. Our ability to generate premium-based commission revenue may also be challenged by the growing desire of some clients to compensate brokers based upon flat fees rather than a percentage of premium. This could negatively impact us because fees are generally not indexed for inflation and might not increase with premiums as commissions do or with the level of service provided.

**Contingent and supplemental revenues we receive from underwriting enterprises are less predictable than standard commission revenues, and any decrease in the amount of these forms of revenue could adversely affect our results of operations.**

A meaningful portion of our revenues consists of contingent and supplemental revenues from underwriting enterprises. Contingent revenues are paid after the insurance contract period, generally in the first or second quarter, based on the growth and/or profitability of business we placed with an underwriting enterprise during the prior year. On the other hand, supplemental revenues are paid up front, on an annual or quarterly basis, generally based on our historical premium volumes with the underwriting enterprise and additional capabilities or services we bring to the engagement. While underwriting enterprises generally maintain supplemental revenues in the current year at a pre-determined rate, that rate can change in future years as described above. If, due to the current economic environment or for any other reason, we are unable to meet an underwriting enterprise's particular profitability, volume or growth thresholds, as the case may be, or such companies increase their estimate of loss reserves (over which we have no control), actual contingent revenues or supplemental revenues could be less than anticipated, which could adversely affect our results of operations. In the case of contingent revenues, under revenue recognition accounting standards, this could lead to the reversal of revenues in future periods that were recognized in prior periods.

**If we are unable to apply technology effectively in driving value for our clients through technology-based solutions or gain internal efficiencies and effective internal controls through the application of technology and related tools, our operating results, client relationships, growth and compliance programs could be adversely affected.**

Our future success depends, in part, on our ability to anticipate and respond effectively to the threat and opportunity presented by digital disruption and developments in technology. These may include new applications or insurance-related services based on artificial intelligence, machine learning, robotics, blockchain or new approaches to data mining. We may be exposed to competitive risks related to the adoption and application of new technologies by established market participants (for example, through disintermediation) or new entrants such as technology companies, "Insurtech" start-up companies and others. These new entrants are focused on using technology and innovation, including artificial intelligence and blockchain, to simplify and improve the client experience, increase efficiencies, alter business models and effect other potentially disruptive changes in the industries in which we operate. We must also develop and implement technology solutions and technical expertise among our employees that anticipate and keep pace with rapid and continuing changes in technology, industry standards, client preferences and internal control standards. We may not be successful in anticipating or responding to these developments on a timely and cost-effective basis and our ideas may not be accepted in the marketplace. Additionally, the effort to gain technological expertise and develop new technologies in our business requires us to incur significant expenses. Investments in technology systems (for example, technology and cybersecurity investments we are making in response to the ransomware incident referred to elsewhere in this report) may not deliver the benefits or perform as expected, or may be replaced or become obsolete more quickly than expected, which could result in operational difficulties or additional costs. If we cannot offer new technologies as quickly as our competitors, or if our competitors develop more cost-effective technologies or product offerings, we could experience a material adverse effect on our operating results, client relationships, growth and compliance programs.

In some cases, we depend on key third-party vendors and partners to provide technology and other support for our strategic initiatives. If these third parties fail to perform their obligations or cease to work with us, our ability to execute on our strategic initiatives could be adversely affected.

**Damage to our reputation could have a material adverse effect on our business.**

Our reputation is one of our key assets. We advise our clients on and provide services related to a wide range of subjects and our ability to attract and retain clients is highly dependent upon the external perceptions of our level of service, ability to protect client information, trustworthiness, business practices, financial condition and other subjective qualities such as culture and values. Our success is also dependent on maintaining a good reputation with existing and potential employees, investors, regulators and the communities in which we operate. Negative perceptions or publicity regarding the matters noted above, including our association with clients or business partners with damaged reputations, or from actual or alleged conduct by us or our employees, could damage our reputation. Our reputation could also be harmed by negative perceptions or publicity regarding ESG matters including concerns with environmental matters, climate change, workforce diversity, pay equity, harassment, racial justice, cyber security and data privacy. Any resulting erosion of trust and confidence could make it difficult for us to attract and retain clients, employees or investors, result in lower ESG ratings and exclusion of our stock from ESG-oriented indices or investment funds, or harm our relationships with regulators and the communities in which we operate. Any of these matters could have a material adverse effect on our business, financial condition and results of operations.

**Our future success depends, in part, on our ability to attract and retain experienced and qualified talent, including our senior management team.**

We depend upon members of our senior management team, who possess extensive knowledge and a deep understanding of our business and strategy. We could be adversely affected if we fail to plan adequately for the succession of these leaders, including our chief executive officer, or if one or more of them contracts COVID-19. We could also be adversely affected if we fail to attract and retain talent and foster a diverse and inclusive workplace throughout our organization. Competition for talent in rapidly developing fields such as artificial intelligence and data engineering is particularly intense. In addition, our industry has experienced competition for leading brokers and in the past we have lost key brokers and groups of brokers, along with their clients, business relationships and intellectual property directly to our competition. We enter into agreements with many of our brokers and significant client-facing employees and all of our executive officers, which prohibit them from disclosing confidential information and/or soliciting our clients, prospects and employees upon their termination of employment. The confidentiality and non-solicitation provisions of such agreements terminate in the event of a hostile change in control, as defined in the agreements. Although we pursue legal actions for alleged breaches of non-compete or other restrictive covenants, theft of trade secrets, breaches of fiduciary duties, intellectual property infringement and related causes of action, such legal actions may not be effective in preventing such breaches, theft or infringement. Our failure to adequately address any of these issues could have a material adverse effect on our business, operating results and financial condition. See also "Risks related to remote work" in our COVID-19 risk factor above.

**Our substantial operations outside the U.S. expose us to risks different than those we face in the U.S.**

In 2020, we generated approximately 32% of our combined brokerage and risk management revenues outside the U.S. The global nature of our business creates operational and economic risks. Adverse geopolitical or economic conditions may temporarily or permanently disrupt our operations outside the U.S. or create difficulties in staffing and managing such operations. For example, we have substantial operations in India that provide important services for other parts of our global organization. To date, the dispute between India and Pakistan involving the Kashmir region, rising tensions between India and China, incidents of terrorism in India and general geopolitical uncertainties have not adversely affected our operations in India. However, such factors could potentially affect our operations there in the future. Should our access to these services be disrupted, our business, operating results and financial condition could be adversely affected.

Operating outside the U.S. may also present other risks that are different from, or greater than, the risks we face doing comparable business in the U.S. These include, among others, risks relating to:

- Maintaining awareness of and complying with a wide variety of labor practices and foreign laws, including those relating to export and import duties, environmental policies and privacy issues, as well as laws and regulations applicable to U.S. business operations abroad. These and other international regulatory risks are described below under "Regulatory, Legal and Accounting Risks";
- The potential costs, difficulties and risks associated with local regulations across the globe, including the risk of personal liability for directors and officers (for example, in the U.K.) and "piercing the corporate veil" risks under the corporate law regimes of certain countries;
- Difficulties in staffing and managing foreign operations. For example, we are building our Latin American operations (which contributed $45.8 million in revenue from 18 locations in 2020) through acquisitions of local family-owned insurance brokerage firms. If we lose a local leader, recruiting a replacement locally or finding an internal candidate qualified to transfer to such location could be difficult;
- Less flexible employee relationships, which in certain circumstances has limited our ability to prohibit employees from competing with us after they are no longer employed with us or recover damages, and made it more difficult and expensive to terminate their employment;
- Some of our foreign subsidiaries receive revenues or incur obligations in currencies that differ from their functional currencies. We must also translate the financial results of our foreign subsidiaries into U.S. dollars. Although we have used foreign currency hedging strategies in the past and currently have some in place, such risks cannot be eliminated entirely, and significant changes in exchange rates may adversely affect our results of operations;
- Conflicting regulations in the countries in which we do business;
- Political and economic instability (including risks relating to undeveloped or evolving legal systems, unstable governments, acts of terrorism and outbreaks of war);
- Coordinating our communications and logistics across geographic distances, multiple time zones and in different languages, including during times of crisis management;
- The transition away from LIBOR to the Secured Overnight Financing Rate as a benchmark reference for short-term interest rates;
- Unfavorable audits and exposure to additional liabilities relating to various non-income taxes (such as payroll, sales, use, value-added, net worth, property and goods and services taxes) in foreign jurisdictions. In addition, our future effective tax rates could be unfavorably affected by changes in tax rates, discriminatory or confiscatory taxation, changes in the valuation of our deferred tax assets or liabilities, changes in tax laws or their interpretation and the financial results of our international subsidiaries. The Organization for Economic Cooperation and Development continues to issue reports and recommendations as part of its Base Erosion and Profit Shifting project (which we refer to as BEPS), and in response many countries in which we do business are expected to adopt rules which may change various aspects of the existing framework under which our tax obligations are determined. For example, in response to BEPS, the U.K., Australia and New Zealand adopted rules that affect the deductibility of interest paid on intercompany debt, and other jurisdictions where we operate may do so as well in the near future. Many jurisdictions adopted stimulus measures in response to COVID-19, many of which offered continued employment benefit subsidies, payroll tax deferrals or tax refunds that have various tax impacts for businesses;
- Legal or political constraints on our ability to maintain or increase prices;

- Cash balances held in foreign banks and institutions where governments have not specifically enacted formal guarantee programs;
- New pandemics (in addition to COVID-19) at a regional or global level; and
- Lost business or other financial harm due to protectionism in the U.S. and in countries around the world, including adverse trade policies, governmental actions affecting the flow of goods, services and currency, and governmental restrictions on the transfer of funds to us from our operations outside the U.S.

The trade and military policies of the U.S. government could further develop in ways that exacerbate the risks described above, or introduce new risks for our international operations. If any of these risks materialize, our results of operations and financial condition could be adversely affected.

**We face a variety of risks in our risk management third-party claims administration operations that are distinct from those we face in our insurance brokerage and benefit consulting operations.**

In 2020, the COVID-19 pandemic caused a reduction in the number of claims we processed, negatively impacting our third party claims administration operations to a greater degree than the rest of our business. This disproportionate negative impact could continue into 2021. Our third party claims administration operations also face a variety of additional risks distinct from those faced by the rest of our business, including the risks that:

- The favorable trend among both underwriting enterprises and self-insured entities toward outsourcing various types of claims administration and risk management services will reverse or slow, causing our revenues or revenue growth to decline;
- Concentration of large amounts of revenue with certain clients results in greater exposure to the potential negative effects of lost business due to changes in management at such clients or changes in state government policies, in the case of our government-entity clients, or for other reasons;
- Contracting terms will become less favorable or the margins on our services will decrease due to increased competition, regulatory constraints or other developments;
- We will not be able to satisfy regulatory requirements related to third party administrators or regulatory developments (including those relating to security and data privacy) will impose additional burdens, costs or business restrictions that make our business less profitable;
- Volatility in our case volumes, which are dependent upon a number of factors and difficult to forecast accurately, could impact our revenues;
- If we do not control our labor and technology costs, we may be unable to remain competitive in the marketplace and profitably fulfill our existing contracts (other than those that provide cost-plus or other margin protection);
- We may be unable to develop further efficiencies in our claims-handling business and may be unable to obtain or retain certain clients if we fail to make adequate improvements in technology or operations; and
- Underwriting enterprises or certain large self-insured entities may create in-house servicing capabilities that compete with our third party administration and other administration, servicing and risk management products, and we could face additional competition from potential new entrants into the global claims management services market.

If any of these risks materialize, our results of operations and financial condition could be adversely affected.

**We face a variety of risks in our benefit consulting operations distinct from those we face in our insurance brokerage operations.**

Our benefit consulting operations face a variety of risks distinct from those faced by our brokerage operations. The portion of our revenue derived from consulting engagements and special project work is more vulnerable to reduction, postponement, cancellation or non-renewal during an economic downturn than traditional insurance brokerage commissions, and we did experience such a reduction in 2020. If the economy is slow to recover in 2021, we could experience further deterioration in these sources of revenue. Certain areas within our retirement consulting practice may attract a higher level of regulatory scrutiny due to regulators' historical interest in such matters, including pension-related products and investment advisory and broker-dealer services. In addition, we have made significant investments in product and knowledge development to assist clients as they navigate the complex regulatory requirements relating to employer-sponsored healthcare. New laws or regulations reducing employer-sponsored health insurance could impact clients' demand for our services. If we are unable to adapt our services to changes in the legal and regulatory landscape around employer-sponsored healthcare, our results of operations could be adversely impacted.

**Sustained increases in the cost of employee benefits could reduce our profitability.**

The cost of current employees' medical and other benefits, as well as pension retirement benefits and postretirement medical benefits under our legacy defined benefit plans, substantially affects our profitability. In the past, we have occasionally experienced significant increases in these costs as a result of macro-economic factors beyond our control, including increases in health care costs, declines in investment returns on pension assets and changes in discount rates and actuarial assumptions used to calculate pension and related liabilities. A significant decrease in the value of our defined benefit pension plan assets, changes to actuarial assumptions used to determine pension plan liabilities, or decreases in the interest rates used to discount the pension plans' liabilities could cause an increase in pension plan costs in future years. Although we have actively sought to control increases in these costs, we can make no assurance that we will succeed in limiting future cost increases, and continued upward pressure in these costs could reduce our profitability.

**Business disruptions could have a material adverse effect on our operations, damage our reputation and impact client relationships.**

Our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our business. Such a disruption could be caused by a cybersecurity incident (for example, see details regarding a ransomware incident we experienced in 2020 in the cybersecurity risk factor below), human error, capacity constraints, hardware failure or defect, natural disasters, fire, power loss, telecommunication failures, break-ins, sabotage, intentional acts of vandalism, acts of terrorism, political violence and unrest in the U.S. or elsewhere around the world, or war. Our disaster recovery procedures may not be effective and insurance may not continue to be available at reasonable prices and may not address all such losses or compensate us for the possible loss of clients or increase in claims and lawsuits directed against us. See our COVID-19 risk factor above.

For example, our third party claims administration operation is highly dependent on the continued and efficient functioning of RISX-FACS®, our proprietary risk management information system, to provide clients with insurance claim settlement and administration services. In addition, we are increasing our use of cloud storage and cloud computing application services supported, upgraded and maintained by third-party vendors. A disruption affecting RISX-FACS®, third-party cloud services or any other infrastructure supporting our business, including key customer relationship management software, could have a material adverse effect on our operations, cause reputational harm and damage our employee and client relationships.

**Climate risks, including the risk of an economic crisis, risks associated with the physical effects of climate change and disruptions caused by the transition to a low-carbon economy, could adversely affect our business, results of operations and financial condition.**

The U.S. Federal Reserve recently identified climate change as a systemic risk to the economy. It also reported that a gradual change in investor sentiment regarding climate risk introduces the possibility of abrupt tipping points or significant swings in sentiment, which could create unpredictable follow-on effects in financial markets. If this occurred, not only would we be negatively impacted by the general economic decline, but a drop in the stock market affecting our stock price could negatively impact our ability to grow through mergers and acquisitions financed using our common stock.

The transition to a low-carbon economy could harm specific industries or sectors such as oil and gas in ways that could impact our business. Our clients in such industries could go out of business or have reduced needs for insurance-related or consulting services, which could adversely impact our commission revenues, consulting revenues or revenues from managing third-party insurance claims. Negative publicity arising from our clean coal investments or our association with clients in disfavored businesses or industries, or the perception that we are not sufficiently focused on climate risks facing Gallagher or on reducing our own carbon emissions, could damage our reputation with investors, clients, employees and regulators. In addition, the transition to a low-carbon economy could give rise to the need for innovative insurance and risk management solutions for entirely new industries and companies, as well as advice and services to bolster climate resilience for existing companies. If we fail to innovate in response to these changes, we could lose market share to our competitors or new market entrants that do.

We do not assume net underwriting risk, other than with respect to *de minimis* amounts necessary to provide minimum or regulatory capital, and thus do not experience direct material financial implications related to extreme weather events. In addition, we are a professional services firm with people as our most important asset and limited physical operations. However, if underwriting enterprises fail or withdraw from offering certain lines of coverage because of large payouts related to climate change, overall risk-taking capital capacity could be negatively affected, which could reduce our ability to place certain lines of coverage and, as a result, reduce our revenues and profitability.

See our risk factors further below related to our investments in IRC Section 45 clean coal operations for information regarding the potential risk of liability for environmental damage, which could be exacerbated by a heightened focus on climate change.

**Regulatory, Legal and Accounting Risks**

**Improper disclosure of confidential, personal or proprietary information and cybersecurity attacks could result in regulatory scrutiny, legal liability or reputational harm, and could adversely affect our business, financial condition and reputation.**

We maintain confidential, personal and proprietary information relating to our company, our employees and our clients. This information includes personally identifiable information, protected health information, financial information and intellectual property.

We rely on information technology and third party vendors to support our business activities, including our secure processing of confidential, sensitive, proprietary and other types of information. Cybersecurity or data breaches of certain of the systems on which we rely have occurred, although to date we have not been materially impacted by any such breach. In the future, breaches of any such third-party system may result from circumvention of security systems, denial-of-service attacks or other cyber-attacks, hacking, “phishing” attacks, computer viruses, ransomware, malware, employee or insider error, malfeasance, social engineering, physical breaches or other actions.

We have from time to time experienced cybersecurity incidents, such as computer viruses or unauthorized parties gaining access to our information technology systems, and privacy incidents, such as loss or inadvertent transmission of data, which to date have not had a material impact on our business. See “Update on Ransomware Incident” elsewhere in this report for information regarding an incident that occurred in 2020.

Additionally, we are an acquisitive organization and the process of integrating the information systems of the businesses we acquire is complex and exposes us to additional risk as we might not adequately identify weaknesses in the targets’ information systems or information handling, privacy and security policies and protocols, which could expose us to unexpected liabilities or make our own systems and data more vulnerable to attack.

In the future, any material cybersecurity or data incidents, or media reports of the same, even if untrue, could cause us to experience reputational harm, loss of clients and revenue, loss of proprietary data, regulatory actions and scrutiny, sanctions or other statutory penalties, litigation, liability for failure to safeguard clients’ information or financial losses. Such incidents could result in confidential, personal or proprietary information being lost or stolen, used to perpetuate fraud, maliciously made public, surreptitiously modified, or rendered inaccessible for a period of time. As we experienced in connection with the 2020 ransomware incident referred to above, during a cyber-attack we might have to take our systems offline, which could interfere with services to our clients or damage our reputation. Such losses may not be insured against or not fully covered through insurance we maintain.

We maintain policies, procedures and technical safeguards designed to protect the security and privacy of confidential, personal and proprietary information. Nonetheless, we cannot eliminate the risk of human error or malfeasance. It is possible that our security controls and employee training may not be effective.

We have invested and continue to invest in technology security initiatives, policies and resources and employee training. The cost and operational consequences of implementing, maintaining and enhancing further system protections measures could increase significantly as cybersecurity threats increase and as technology changes. As these threats evolve, cybersecurity and data incidents will be more difficult to detect, defend against and remediate. If we are unable to effectively maintain and upgrade our system safeguards, including in connection with the integration of acquisitions, we may incur unexpected costs and certain of our systems may become more vulnerable to unauthorized access.

Any of the foregoing may have a material adverse effect on our business, financial condition and reputation.

With respect to our commercial arrangements with third party vendors, we have processes designed to require third party IT outsourcing, offsite storage and other vendors to agree to maintain certain standards with respect to the storage, protection and transfer of confidential, personal and proprietary information. However, we remain at risk of a data breach due to the intentional or unintentional non-compliance by a vendor's employee or agent, the breakdown of a vendor's data protection processes, or a cyber attack on a vendor's information systems.

**Changes in data privacy and protection laws and regulations, or any failure to comply with such laws and regulations, could adversely affect our business and financial results.**

We are subject to a variety of continuously evolving and developing laws and regulations globally regarding privacy, data protection, and data security, including those related to the collection, storage, handling, use, disclosure, transfer, and security of personal data. These laws apply to transfers of information among our affiliates, as well as to transactions we enter into with third party vendors. Significant uncertainty exists as privacy and data protection laws may be interpreted and applied differently from country to country, which may create inconsistent or conflicting requirements. Some of these laws provide rights to individuals to access, correct, and delete their personal information and to obtain copies at the expense of the business entities that process their data. Some of these laws carry heavy penalties for violations, e.g., fines of up to 4% of worldwide revenue under the European Union General Data Protection Regulation (GDPR) and to $7,500 per intentional violation under the California Consumer Privacy Act (CCPA). In the U.S., there is pending federal legislation and several states have proposed their own comprehensive data privacy bills similar to the GDPR and CCPA.

In addition, in the U.S., legislators are continuing to enact comprehensive cybersecurity laws. For example, we are subject to the New York State Department of Financial Services Cybersecurity Regulation for Financial Services Companies and CCPA. India and other countries where we have operations outside the U.S. have also proposed sweeping new data protection laws, in some cases including data localization laws that may require that personal data stay within their borders.

Complying with enhanced obligations imposed by various new and emerging laws is resulting in significant costs of developing, implementing or securing our servers and is requiring us to allocate more resources to new privacy compliance processes and to improved technologies, adding to our IT and compliance costs. In addition, enforcement actions and investigations by regulatory authorities related to data security incidents and privacy violations continue to increase. The enactment of more restrictive laws, rules, regulations, or future enforcement actions or investigations could impact us through increased costs or restrictions on our business, and noncompliance could result in regulatory penalties and significant legal liability.

**We are subject to regulation worldwide. If we fail to comply with regulatory requirements or if regulations change in a way that adversely affects our operations, we may not be able to conduct our business, or we may be less profitable.**

Many of our activities throughout the world are subject to regulatory supervision and regulations promulgated by bodies such as the SEC, the DOJ, the IRS, the Office of Foreign Assets Control and the Federal Trade Commission in the U.S., the Financial Conduct Authority in the U.K., the Australian Securities and Investments Commission in Australia and insurance regulators in nearly every jurisdiction in which we operate. Our retirement-related consulting and investment services are subject to pension law and financial regulation in many countries. Our activities are also subject to a variety of other laws, rules and regulations addressing licensing, data privacy, wage-and-hour standards, employment and labor relations, anti-competition, anti-corruption, currency, reserves and the amount of local investment with respect to our operations in certain countries. This regulatory supervision could reduce our profitability or growth by increasing the costs of compliance, restricting the products or services we sell, the markets we enter, the methods by which we sell our products and services, or the prices we can charge for our services and the form of compensation we can accept from our clients, underwriting enterprises and third parties. As our operations grow around the world, it is increasingly difficult to monitor and enforce regulatory compliance across the organization. A compliance failure by even one of our smallest branches could lead to litigation and/or disciplinary actions that may include compensating clients for loss, the imposition of penalties, and/or the loss of our authorization to operate. In all such cases, we would also likely incur significant internal investigation costs and legal fees.

The global nature of our operations increases the complexity and cost of compliance with laws and regulations, including increased staffing needs, the development of new policies, procedures and internal controls and providing training to employees in multiple locations, adding to our cost of doing business. Many of these laws and regulations may have differing or conflicting legal standards across jurisdictions, increasing further the complexity and cost of compliance. In emerging markets and other jurisdictions with less developed legal systems, local laws and regulations may not be established with sufficiently clear and reliable guidance to provide us with adequate assurance that we are aware of all necessary licenses to operate our business, that we are operating our business in a compliant manner, or that our rights are otherwise protected. In addition, major political and legal developments in jurisdictions in which we do business may lead to new regulatory costs and challenges. For example, China recently adopted a "blocking" statute similar to that of the EU prohibiting compliance with certain U.S. laws. While we do not have operations in China, rising global tensions and protectionism may lead other countries where we do have operations to adopt similar measures, which could make it more difficult and costly for us to expand our operations globally. See also "The exit of the U.K. from the European Union (Brexit) could adversely affect our results of operations and financial condition" above.

Changes in legislation or regulations and actions by regulators, including changes in administration and enforcement policies, or the failure of state and local governments to follow through on agreed-upon state and local tax credits or other tax related incentives, could adversely affect our results of operations or require operational changes that could result in lost revenues or higher costs or hinder our ability to operate our business.

For example, the method by which insurance brokers are compensated has received substantial scrutiny in the past because of the potential for conflicts of interest. The potential for conflicts of interest arises when a broker is compensated by two parties in connection with the same or similar transactions. The vast majority of the compensation we receive for our work as insurance brokers is in the form of retail commissions and fees. We receive additional revenue from underwriting enterprises, separate from retail commissions and fees, including, among other things, contingent and supplemental revenues and payments for consulting and analytics services we provide them. Future changes in the regulatory environment may impact our ability to collect these amounts. Adverse regulatory, legal or other developments regarding these revenues could have a material adverse effect on our business, results of operations or financial condition, expose us to negative publicity and reputational damage and harm our relationships with clients, underwriting enterprises or other business partners.

On December 22, 2017, the U.S. enacted tax legislation commonly referred to as the TCJA, which significantly revised the U.S. tax code by, among other things, lowering the corporate income tax rate from 35.0% to 21.0%; limiting the deductibility of interest expense; implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. In light of the results of the recent U.S. presidential and congressional elections, the U.S. may pass legislation reversing part or all of the TCJA and corresponding regulations, and our tax rate could increase.

**We could be adversely affected by violations or alleged violations of laws that impose requirements for the conduct of our overseas operations, including the FCPA, the U.K. Bribery Act or other anti-corruption laws, sanctioned parties restrictions, and FATCA.**

In countries outside the U.S., a risk exists that our employees, third party partners or agents could engage in business practices prohibited by applicable laws and regulations, such as the FCPA and the U.K. Bribery Act. Such anti-corruption laws generally prohibit companies from making improper payments to foreign officials and require companies to keep accurate books and records and maintain appropriate internal controls. We operate in some parts of the world that have experienced governmental corruption. In such parts of the world, in certain circumstances, local customs and practice might not be consistent with the requirements of anti-corruption laws. In addition, in recent years, two of the five publicly traded insurance brokerage firms were investigated in the U.S. and the U.K. for improper payments to foreign officials. These firms undertook internal investigations and paid significant settlements.

Our policies mandate strict compliance with such laws and we devote substantial resources to programs to ensure compliance, including investigating business practices and taking steps to address the risk that our employees, third party partners or agents will engage in business practices that are prohibited by our policies and/or such laws and regulations. We use third party partners and agents in certain jurisdictions where it is common industry practice to do so. Violations by us or a third party acting on our behalf could result in significant internal investigation costs and legal fees, civil and criminal penalties, including prohibitions on the conduct of our business, and reputational harm. Although we have not been materially impacted by any such violations, within the past year, we investigated certain business practices that violated our policies and terminated those found to be involved.

We may also be subject to legal liability and reputational damage if we violate trade sanctions laws of the U.S., the EU and other jurisdictions in which we operate. In addition, FATCA requires certain of our subsidiaries, affiliates and other entities to obtain valid FATCA documentation from payees prior to remitting certain payments to such payees and our failure to do so properly could result in penalties.

**We are subject to a number of contingencies and legal proceedings which, if determined unfavorably to us, would adversely affect our financial results.**

We are or have been subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business. Such claims, lawsuits and other proceedings include claims for damages based on allegations that our employees or sub-agents improperly failed to procure coverage, (including with respect to business interruption or other potential coverage for COVID-19 losses), report claims on behalf of clients, provide underwriting enterprises with complete and accurate information relating to the risks being insured, or provide clients with appropriate consulting, advisory, pension and claims handling services. There is the risk that our employees or sub-agents may fail to appropriately apply funds that we hold for our clients on a fiduciary basis. Certain of our benefits and retirement consultants provide investment advice or decision-making services to clients. If these clients experience investment losses, our reputation could be damaged and our financial results could be negatively affected as a result of claims asserted against us and lost business. Where appropriate, we have established provisions against these matters that we believe are adequate in light of current information and legal advice, and we adjust such provisions from time to time based on current material developments. The damages claimed in such matters are or may be substantial, including, in many instances, claims for punitive, treble or other extraordinary damages. It is possible that, if the outcomes of these contingencies and legal proceedings were not favorable to us, it could materially adversely affect our future financial results. In addition, our results of operations, financial condition or liquidity may be adversely affected if, in the future, our insurance coverage proves to be inadequate or unavailable or we experience an increase in liabilities for which we self-insure. We have purchased errors and omissions insurance and other insurance to provide protection against losses that arise in such matters. Accruals for these items, net of insurance receivables, when applicable, have been provided to the extent that losses are deemed probable and are reasonably estimable. These accruals and receivables are adjusted from time to time as current developments warrant.

As more fully described in Note 17 to our 2020 consolidated financial statements, we are a defendant in various legal actions incidental to our business, including but not limited to matters related to employment practices, alleged breaches of non-compete or other restrictive covenants, theft of trade secrets, breaches of fiduciary duties, intellectual property infringement and related causes of action. We are also periodically the subject of inquiries and investigations by regulatory and taxing authorities into various matters related to our business. For example, our micro-captive advisory services business has been under investigation by the IRS since 2013. In addition, we are defending a lawsuit (along with Chem-Mod LLC and other defendants) asserting infringement of patents held by Midwest Energy Emissions Corp. and MES Inc. We cannot reasonably predict the outcomes of these or other matters that we may become involved with in the future. An adverse outcome in connection with one or more of these matters could have a material adverse effect on our business, results of operations or financial condition in any given quarterly or annual period, or on an ongoing basis. In addition, regardless of any eventual monetary costs, any such matter could expose us to negative publicity, reputational damage, harm to our client or employee relationships, or diversion of personnel and management resources, which could adversely affect our ability to recruit quality brokers and other significant employees to our business, and otherwise adversely affect our results of operations.

**Changes in our accounting estimates and assumptions could negatively affect our financial position and operating results.**

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (which we refer to as GAAP). These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We are also required to make certain judgments and estimates that affect the disclosed and recorded amounts of revenues and expenses related to revenue recognition and deferred costs - see Note 4 to our 2020 consolidated financial statements. We periodically evaluate our estimates and assumptions, including those relating to the valuation of goodwill and other intangible assets, investments (including our IRC Section 45 investments), income taxes, revenue recognition, deferred costs, stock-based compensation, claims handling obligations, retirement plans, litigation and contingencies. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in our consolidated financial statements. Further, as additional guidance relating to the TCJA is released or if the current U.S. president's administration takes action to reverse portions of the TCJA, our estimates related to the TCJA may change. Additionally, changes in accounting standards (such as the changed lease standards - see Note 2 to our 2020 consolidated financial statements) could increase costs to the organization and could have an adverse impact on our future financial position and results of operations.

**Risks Relating to our Investments, Debt and Common Stock**

**Our clean energy investments are subject to various risks and uncertainties.**

Our ability to generate returns, claim tax deductions and avoid write-offs in connection with our IRC Section 45 and IRC Section 29 investments is subject to various risks and uncertainties including those set forth below. Our IRC Section 45 investments' ability to generate additional tax credits is scheduled to end in December 2021.

- **Environmental, political and regulatory concerns**. Environmental concerns about greenhouse gases, toxic wastewater discharges and coal combustion waste have led to public pressure to reduce or regulations that discourage the burning of coal, even refined coal treated by technologies such as The Chem-Mod™ Solution. In recent years there has been some negative publicity around our IRC Section 45 investments and clean coal generally, and certain members of Congress have raised questions about the methodologies clean coal refiners use to validate emission reductions under IRC Section 45. Negative publicity of this kind could exacerbate the risk referred to above or call into question the validity of existing tax credits. Additionally, several states have enacted mandates that electric power generating companies purchase a minimum amount of power from renewable energy sources such as wind, hydroelectric, solar, nuclear and geothermal. If utilities burned less coal as a result of any such regulation, including state or federal laws that otherwise limit coal-fired generation, our ability to generate additional tax credits would be reduced.

- **Market demand for coal.** When the price of natural gas and/or oil declines relative to that of coal, some utilities may choose to burn natural gas or oil instead of coal. Market demand for coal may also decline as a result of an increase in the use of power from renewable sources, trade protection measures, an economic slowdown (including the current economic slowdown caused by the COVID-19 pandemic) or mild weather and a corresponding decline in the use of electricity. If utilities burn less coal or eliminate coal in the production of electricity, our ability to generate additional tax credits would be reduced.
- **Intellectual property and litigation risks.** There is a risk that foreign laws will not protect the intellectual property associated with The Chem-Mod™ Solution to the same extent as U.S. laws, leaving us vulnerable to companies outside the U.S. who may attempt to copy such intellectual property. In addition, other companies may make claims of intellectual property infringement with respect to The Chem-Mod™ Solution. Such intellectual property claims, with or without merit, could require that Chem-Mod (or us and our investment and operational partners) obtain a license to use the intellectual property, which might not be obtainable on favorable terms, if at all. On July 17, 2019, Midwest Energy Emissions Corp. and MES Inc. (together, Midwest Energy) filed a patent infringement lawsuit in the United States District Court for the District of Delaware against us, Chem-Mod LLC and numerous other related and unrelated parties (some of whom are seeking indemnification from Chem-Mod LLC). The complaint alleges that the named defendants infringe patents held exclusively by Midwest Energy and seeks unspecified damages and injunctive relief. We dispute the allegations contained in the complaint and intend to defend this matter vigorously. Litigation is inherently uncertain and, accordingly it is not possible for us to predict the ultimate outcome of these matters. While we believe the probability of a material loss is remote, if plaintiffs prevail on the infringement suit, or defendants cannot obtain necessary licenses on reasonable terms, that may limit the use of The Chem-Mod™ Solution by certain licensees.
- **IRS audits.** Several of the refined coal partnerships in which we are an investor are under audit by the IRS. One of these partnerships received a notice from the IRS disallowing our co-investors from claiming tax credits. The partnership defended its position in tax court and prevailed in August 2019. The IRS is appealing this ruling. Litigation is inherently uncertain and accordingly it is not possible for us to predict the ultimate outcome of this proceeding or other IRS audits, and their potential impact on us.
- **Operational risks.** Chem-Mod's multi-pollutant reduction technologies (The Chem-Mod™ Solution) require chemicals that may not be readily available in the marketplace at reasonable costs. Utilities that use the technologies could be idled for various reasons, including operational or environmental problems at the plants or in the boilers, disruptions in the supply or transportation of coal, revocation of their Chem-Mod technologies environmental permits, labor strikes, force majeure events such as hurricanes, or terrorist attacks, any of which could halt or impede the operations. Long-term operations using Chem-Mod's multi-pollutant reduction technologies could also lead to unforeseen technical or other problems not evident in the short- or medium-term. A serious injury or death of a worker connected with the production of refined coal using Chem-Mod's technologies could expose the operations to material liabilities, jeopardizing our investment, and could lead to reputational harm. We could also be exposed to risk due to our lack of control over the operations if future developments, for example a regulatory change affecting public and private companies differently, causes our interests and those of our co-investors to diverge. Finally, our vendors responsible for operation and management could fail to run the operations in compliance with IRC Section 45. If any of these developments occur, our investment returns may be negatively impacted.
- **Incompatible coal.** If utilities purchase coal of a quality or type incompatible with their boilers and operations, treating such coal through a commercial refined coal plant could magnify the negative impacts of burning such coal. As a result, refined coal plants at such utilities may be removed from production until all the incompatible coal has been burned, which could reduce their ability to generate tax credits.

We began generating tax credits under IRC Section 45 in 2009. As of December 31, 2020, we had generated a total of $1,512.7 million in IRC Section 45 tax credits, of which approximately $534.9 million have been used to offset U.S. federal tax liabilities and $977.8 million remain unused and available to offset future U.S. federal tax liabilities. Our ability to use tax credits under IRC Section 45 depends upon the operations in which we have invested satisfying certain ongoing conditions set forth in IRC Section 45. These include, among others, the "placed-in-service" condition and requirements relating to qualified emissions reductions, coal sales to unrelated parties and at least one of the operations' owners qualifying as a "producer" of refined coal. While we have received some degree of confirmation from the IRS relating to our ability to claim these tax credits, the IRS could ultimately determine that the operations have not satisfied, or have not continued to satisfy, the conditions set forth in IRC Section 45. Similarly, the law permitting us to claim IRC Section 29 tax credits (related to our prior synthetic coal operations) expired on December 31, 2007. At December 31, 2020, we had exposure with respect to $108.0 million of previously earned tax credits under IRC Section 29. We believe our claim for IRC Section 29 tax credits in 2007 and prior years was in accordance with IRC Section 29 and four private letter rulings previously obtained by IRC Section 29-related limited liability companies in which we had an interest. We understand these private letter rulings were consistent with those issued to other taxpayers and we have received no indication from the IRS that it will seek to revoke or modify them. In addition, the IRS audited certain of the IRC Section 29 facilities without requiring any changes.

While none of our prior IRC Section 29 operations are currently under audit, several of the IRC Section 45 operations in which we are invested are under audit by the IRS. See "IRS Audits" above. The IRS could place the remaining IRC Section 45 operations and any of the prior IRC Section 29 operations under audit. An adverse outcome with respect to our ability to claim tax credits under any such audit would likely cause a material loss or cause us to be subject to liability under indemnification obligations related to prior sales of partnership interests in IRC Section 29 tax credits.

**The IRC Section 45 operations in which we have invested and the by-products from such operations may result in environmental and product liability claims and environmental compliance costs.**

The construction and operation of the IRC Section 45 operations are subject to federal, state and local laws, regulations and potential liabilities arising under or relating to the protection or preservation of the environment, natural resources and human health and safety. Such laws and regulations generally require the operations and/or the utilities at which the operations are located to obtain and comply with various environmental registrations, licenses, permits, inspections and other approvals. There are costs associated with ensuring compliance with all applicable laws and regulations, and failure to fully comply with all applicable laws and regulations could lead to the imposition of penalties or other liability. Failure of The Chem-Mod™ Solution utilized at coal-fired generation facilities, for example, could result in violations of air emissions permits, which could lead to the imposition of penalties or other liability. Additionally, some environmental laws, without regard to fault or the legality of a party's conduct, impose liability on certain entities that are considered to have contributed to, or are otherwise responsible for, the release or threatened release of hazardous substances into the environment. One party may, under certain circumstances, be required to bear more than its share or the entire share of investigation and cleanup costs at a site if payments or participation cannot be obtained from other responsible parties. By using The Chem-Mod™ Solution at locations owned and operated by others, we and our partners may be exposed to the risk of being held liable for environmental damage from releases of hazardous substances we may have had little, if any, involvement in creating. Such risk remains even after production ceases at an operation to the extent the environmental damage can be traced to the types of chemicals or compounds used or operations conducted in connection with The Chem-Mod™ Solution. Increasing attention to global climate change has resulted in an increased possibility of regulatory attention and private litigation. For example, claims have been made against certain energy companies alleging that greenhouse gas emissions constitute a public nuisance. In addition to the possibility of our being named in such actions, we and our partners could face the risk of environmental and product liability claims related to concrete incorporating fly ash produced using The Chem-Mod™ Solution. No assurances can be given that contractual arrangements and precautions taken to ensure assumption of these risks by facility owners or operators, or other end users, will result in that facility owner or operator, or other end user, accepting full responsibility for any environmental or product liability claim. Nor can we or our partners be certain that facility owners or operators, or other end users, will fully comply with all applicable laws and regulations, and this could result in environmental or product liability claims. It is also not uncommon for private claims by third parties alleging contamination to also include claims for personal injury, property damage, nuisance, diminution of property value, or similar claims. Furthermore, many environmental, health and safety laws authorize citizen suits, permitting third parties to make claims for violations of laws or permits. Our insurance may not cover all environmental risk and costs or may not provide sufficient coverage in the event of an environmental or product liability claim, and defense of such claims can be costly, even when such defense prevails. If significant uninsured losses arise from environmental or product liability claims, or if the costs of environmental compliance increase for any reason, our results of operations and financial condition could be adversely affected.

**We have debt outstanding that could adversely affect our financial flexibility and subjects us to restrictions and limitations that could significantly impact our ability to operate our business.**

As of December 31, 2020, we had total consolidated debt outstanding of approximately $4.5 billion. The level of debt outstanding each period could adversely affect our financial flexibility. We also bear risk at the time our debt matures. Our ability to make interest and principal payments, to refinance our debt obligations and to fund our acquisition program and planned capital expenditures will depend on our ability to generate cash from operations. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control, such as an environment of rising interest rates. A small portion of our private placement debt consists of floating rate notes and interest payments under our senior revolving credit facility are based on a floating rate (in both cases currently based on LIBOR, which is expected to transition at the end of 2021 to the Secured Overnight Financing Rate), which exposes us to the risk of a changing or unknown rate environment. Our indebtedness will also reduce the ability to use that cash for other purposes, including working capital, dividends to stockholders, acquisitions, capital expenditures, share repurchases, and general corporate purposes. If we cannot service our indebtedness, we may have to take actions such as selling assets, issuing additional equity or reducing or delaying capital expenditures, strategic acquisitions, and investments, any of which could impede the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. Additionally, we may not be able to effect such actions, if necessary, or refinance any of our indebtedness on commercially reasonable terms, or at all.

The agreements governing our debt contain covenants that, among other things, restrict our ability to dispose of assets, incur additional debt, engage in certain asset sales, mergers, acquisitions or similar transactions, create liens on assets, engage in certain transactions with affiliates, change our business or make investments, and require us to comply with certain financial and legal covenants. The restrictions in the agreements governing our debt may prevent us from taking actions that we believe would be in the best interest of our business and our stockholders and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional or more restrictive covenants that could affect our financial and operational flexibility, including our ability to pay dividends. We cannot make any assurances that we will be able to refinance our debt or obtain additional financing on terms acceptable to us, or at all. A failure to comply with the restrictions under the agreements governing our debt could result in a default under the financing obligations or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could cause our obligations with respect to our debt to be accelerated and have a material adverse effect on our financial condition and results of operations.

**We are a holding company and, therefore, may not be able to receive dividends or other distributions in needed amounts from our subsidiaries.**

We are organized as a holding company, a legal entity separate and distinct from our operating subsidiaries. As a holding company without significant operations of our own, we are dependent upon dividends and other payments from our operating subsidiaries to meet our obligations for paying principal and interest on outstanding debt obligations, for paying dividends to stockholders, repurchasing our common stock and for corporate expenses. In the event our operating subsidiaries are unable to pay sufficient dividends and other payments to us, we may not be able to service our debt, pay our obligations, pay dividends on or repurchase our common stock.

Further, we derive a meaningful portion of our revenue and operating profit from operating subsidiaries located outside the U.S. Since the majority of financing obligations as well as dividends to stockholders are paid from the U.S., it is important to be able to access the cash generated by our operating subsidiaries located outside the U.S. in the event we are unable to meet these U.S. based cash requirements.

Funds from our operating subsidiaries outside the U.S. may be repatriated to the U.S. via stockholder distributions and intercompany financings, where necessary. A number of factors may arise that could limit our ability to repatriate funds or make repatriation cost prohibitive, including, but not limited to the imposition of currency controls and other government restrictions on repatriation in the jurisdictions in which our subsidiaries operate, fluctuations in foreign exchange rates, the imposition of withholding and other taxes on such payments and our ability to repatriate earnings in a tax-efficient manner.

In the event we are unable to generate or repatriate cash from our operating subsidiaries for any of the reasons discussed above, our overall liquidity could deteriorate and our ability to finance our obligations, including to pay dividends on or repurchase our common stock, could be adversely affected.

**Future sales or other dilution of our equity could adversely affect the market price of our common stock.**

An important way we grow our business is through acquisitions. One method of acquiring companies or otherwise funding our corporate activities is through the issuance of additional equity securities. The issuance of any additional shares of common or of preferred stock or convertible securities could be substantially dilutive to holders of our common stock. Moreover, to the extent that we issue restricted stock units, performance stock units, options or warrants to purchase shares of our common stock in the future and those options or warrants are exercised or as the restricted stock units or performance stock units vest, our stockholders may experience further dilution. Holders of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our stockholders. The market price of our common stock could decline as a result of sales of shares of our common stock or the perception that such sales could occur.

### Item 1B. Unresolved Staff Comments.

Not applicable.

### Item 2. Properties.

The executive offices of our corporate segment and certain subsidiary and branch facilities of our brokerage and risk management segments are located at 2850 Golf Road, Rolling Meadows, Illinois, where we own approximately 360,000 square feet of space, and can accommodate 2,000 employees at peak capacity.

Elsewhere, we generally operate in leased premises related to the facilities of our brokerage and risk management operations. We prefer to lease office space rather than own real estate related to the branch facilities of our brokerage and risk management segments. Certain of our office space leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of our leases contain annual escalation clauses generally related to increases in an inflation index. See Notes 15 and 17 to our 2020 consolidated financial statements for information with respect to our lease commitments as of December 31, 2020.

### Item 3. Legal Proceedings.

Please see the information set forth in Note 17 to our consolidated financial statements, included herein, under "Litigation, Regulatory and Taxation Matters."

### Item 4. Mine Safety Disclosures.

Not applicable.

### Information About Our Executive Officers

Set forth below are the names, ages, positions and business backgrounds of our executive officers as of the date hereof:

| Name | Age | Position and Year First Elected |
|---|---|---|
| J. Patrick Gallagher, Jr. | 68 | Chairman since 2006, President since 1990, Chief Executive Officer since 1995 |
| Walter D. Bay | 58 | Corporate Vice President, General Counsel, Secretary since 2007 |
| Richard C. Cary | 58 | Controller since 1997, Chief Accounting Officer since 2001 |
| Joel D. Cavaness | 59 | Corporate Vice President since 2000, President of our Wholesale Brokerage Operation since 1997 |
| Thomas J. Gallagher | 62 | Corporate Vice President since 2001, Chairman of our International Brokerage Operation 2010 - 2016, President of our Global Property/Casualty Brokerage Operation beginning in 2017 |
| Douglas K. Howell | 59 | Corporate Vice President, Chief Financial Officer since 2003 |
| Scott R. Hudson | 59 | Corporate Vice President and President of our Risk Management Operation since 2010 |
| Vishal Jain | 59 | Corporate Vice President since 2016, Chief Service Officer since 2014 |
| Christopher E. Mead | 53 | Corporate Vice President, Chief Marketing Officer since 2017; Managing Director - Marketing Division, CME Group, 2005 - 2017 |
| Susan E. Pietrucha | 54 | Corporate Vice President, Chief Human Resource Officer since 2007 |
| William F. Ziebell | 58 | Corporate Vice President since 2011, regional leader in our Employee Benefit and Consulting Brokerage Operations 2004 - 2016, President beginning in 2017 |

With the exception of Mr. Mead, we have employed each such person principally in management capacities for more than the past five years. All executive officers are appointed annually and serve at the pleasure of our board of directors.

## Part II

### Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange, trading under the symbol "AJG."

As of January 31, 2021, there were approximately 1,000 holders of record of our common stock.

### (c) Issuer Purchases of Equity Securities

The following table shows the purchases of our common stock made by or on behalf of us or any "affiliated purchaser" (as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of us for each fiscal month in the three-month period ended December 31, 2020:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3) | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (3) |
|---|---|---|---|---|
| October 1 through October 31, 2020 | 1,811 | $ 106.28 | — | 7,287,019 |
| November 1 through November 30, 2020 | 2,583 | 111.80 | — | 7,287,019 |
| December 1 through December 31, 2020 | 13,742 | 125.73 | — | 7,287,019 |
| Total | 18,136 | $ 121.80 | — | |

(1) Amounts in this column include shares of our common stock purchased by the trustees of trusts established under our Deferred Equity Participation Plan (which we refer to as the DEPP), our Deferred Cash Participation Plan (which we refer to as the DCPP) and our Supplemental Savings and Thrift Plan (which we refer to as the Supplemental Plan), respectively. These plans are considered to be unfunded for purposes of federal tax law since the assets of these trusts are available to our creditors in the event of our financial insolvency. The DEPP is an unfunded, non-qualified deferred compensation plan that generally provides for distributions to certain of our key executives when they reach age 62 or upon or after their actual retirement. Under sub-plans of the DEPP for certain production staff, the plan generally provides for vesting and/or distributions no sooner than five years from the date of awards, although certain awards vest and/or distribute after the earlier of fifteen years or the participant reaching age 65. See Note 11 to our 2020 consolidated financial statements in this report for more information regarding the DEPP. The DCPP is an unfunded, non-qualified deferred compensation plan for certain key employees, other than executive officers, that generally provides for vesting and/or distributions no sooner than five years from the date of awards. Under the terms of the DEPP and the DCPP, we may contribute cash to the trust and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions. In the fourth quarter of 2020, we instructed the trustee for the DEPP and the DCPP to reinvest dividends on shares of our common stock held by these trusts and to purchase our common stock using cash that we contributed to the DCPP related to 2020 awards under the DCPP. The Supplemental Plan is an unfunded, non-qualified deferred compensation plan that allows certain highly compensated employees to defer compensation, including company match amounts, on a before-tax basis or after-tax basis. Under the terms of the Supplemental Plan, all amounts credited to an employee's account may be deemed invested, at the employee's election, in a number of investment options that include various mutual funds, an annuity product and a fund representing our common stock. When an employee elects to have some or all of the amounts credited to the employee's account under the Supplemental Plan deemed to be invested in the fund representing our common stock, the trustee of the trust for the Supplemental Plan purchases shares of our common stock in a number sufficient to ensure that the trust holds a number of shares of our common stock with a value equal to all equivalent to the amounts deemed invested in the fund representing our common stock. We want to ensure that at the time when an employee becomes entitled to a distribution under the terms of the Supplemental Plan, any amounts deemed to be invested in the fund representing our common stock are distributed in the form of shares of our common stock held by the trust. We established the trusts for the DEPP, the DCPP and the Supplemental Plan to assist us in discharging our deferred compensation obligations under these plans. All assets of these trusts, including any shares of our common stock purchased by the trustees, remain, at all times, assets of the Company, subject to the claims of our creditors in the event of our financial insolvency. The terms of the DEPP, the DCPP and the Supplemental Plan do not provide for a specified limit on the number of shares of common stock that may be purchased by the respective trustees of the trusts.

(2) The average price paid per share is calculated on a settlement basis and does not include commissions.

(3) We have a common stock repurchase plan that the board of directors adopted on May 10, 1988 and has periodically amended since that date to authorize additional shares for repurchase (the last amendment was on January 24, 2008 and approved the repurchase of 10,000,000 shares). The repurchase plan has no expiration date and we are under no commitment or obligation to repurchase any particular amount of our common stock under the plan. At our discretion, we may suspend the repurchase plan at any time.

**Item 6. Selected Financial Data.**

The following selected consolidated financial data for each of the five years in the period ended December 31, 2020 have been derived from our consolidated financial statements. Such data should be read in conjunction with our consolidated financial statements and notes thereto in Item 8 of this annual report.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | (In millions, except per share and employee data) | | | | |
| **Consolidated Statement of Earnings Data:** | | | | | |
| Commissions | $ 3,591.9 | $ 3,320.6 | $ 2,920.7 | $ 2,641.0 | $ 2,409.9 |
| Fees | 1,957.9 | 1,911.1 | 1,756.3 | 1,591.9 | 1,491.7 |
| Supplemental revenues | 221.9 | 210.5 | 189.9 | 158.0 | 139.9 |
| Contingent revenues | 147.0 | 135.6 | 98.0 | 99.5 | 97.9 |
| Investment income and other | 933.2 | 1,478.6 | 1,827.5 | 1,622.6 | 1,409.0 |
| Revenue before reimbursements | 6,851.9 | 7,056.4 | 6,792.4 | 6,113.0 | 5,548.4 |
| Reimbursements | 151.7 | 138.6 | 141.6 | 136.0 | 132.1 |
| Total revenues | 7,003.6 | 7,195.0 | 6,934.0 | 6,249.0 | 5,680.5 |
| Total expenses | 6,132.7 | 6,568.9 | 6,454.6 | 5,889.2 | 5,346.9 |
| Earnings before income taxes | 870.9 | 626.1 | 479.4 | 359.8 | 333.6 |
| Benefit (provision) for income taxes | 12.8 | (89.7) | (196.5) | (157.1) | (96.7) |
| Net earnings | 858.1 | 715.8 | 675.9 | 516.9 | 430.3 |
| Net earnings attributable to noncontrolling interests | 39.3 | 47.0 | 42.4 | 35.6 | 33.5 |
| Net earnings attributable to controlling interests | $ 818.8 | $ 668.8 | $ 633.5 | $ 481.3 | $ 396.8 |
| **Per Share Data:** | | | | | |
| Diluted net earnings per share (1) | 4.20 | 3.52 | 3.40 | 2.64 | 2.22 |
| Dividends declared per common share (2) | 1.80 | 1.72 | 1.64 | 1.56 | 1.52 |
| **Share Data:** | | | | | |
| Shares outstanding at year end | 193.7 | 188.1 | 184.0 | 181.0 | 178.3 |
| Weighted average number of common shares outstanding | 191.0 | 186.0 | 182.7 | 180.1 | 177.6 |
| Weighted average number of common and common equivalent shares outstanding | 195.0 | 190.1 | 186.2 | 182.1 | 178.4 |
| **Consolidated Balance Sheet Data:** | | | | | |
| Total assets | $ 22,331.4 | $ 19,634.8 | $ 16,334.0 | $ 14,909.7 | $ 13,528.2 |
| Long-term debt less current portion | 4,273.0 | 3,823.0 | 3,098.0 | 2,698.0 | 2,150.0 |
| Total stockholders' equity | 6,232.7 | 5,215.5 | 4,569.7 | 4,299.7 | 3,775.5 |
| **Return on beginning stockholders' equity (3)** | 16% | 15% | 15% | 13% | 11% |
| **Employee Data:** | | | | | |
| Number of employees - at year end | 32,401 | 33,247 | 30,362 | 26,783 | 24,790 |

(1) Based on the weighted average number of common and common equivalent shares outstanding during the year.
(2) Based on the total dividends declared on a share of common stock outstanding during the entire year.
(3) Represents net earnings divided by total stockholders' equity, as of the beginning of the year.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### Introduction

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included in Item 8 of this annual report. In addition, please see “Information Regarding Non-GAAP Measures and Other” beginning on page 34 for a reconciliation of the non-GAAP measures for adjusted total revenues, organic commission, fee and supplemental revenues and adjusted EBITDAC to the comparable GAAP measures, as well as other important information regarding these measures.

We are engaged in providing insurance brokerage and consulting services, and third-party property/casualty claims settlement and administration services to entities in the U.S. and abroad. We believe that one of our major strengths is our ability to deliver comprehensively structured insurance and risk management services to our clients. Our brokers, agents and administrators act as intermediaries between underwriting enterprises and our clients and we do not assume net underwriting risks. We are headquartered in Rolling Meadows, Illinois, have operations in 49 countries and offer client-service capabilities in more than 150 countries globally through a network of correspondent brokers and consultants. In 2020, we expanded, and expect to continue to expand, our international operations through both acquisitions and organic growth. We generate approximately 68% of our revenues for the combined brokerage and risk management segments domestically, with the remaining 32% generated internationally, primarily in the U.K., Australia, Canada, New Zealand and Bermuda (based on 2020 revenues). We expect that our international revenue as a percentage of our total revenues in 2021 will be comparable to 2020. We have three reportable segments: brokerage, risk management and corporate, which contributed approximately 74%, 14% and 12%, respectively, to 2020 revenues. Our major sources of operating revenues are commissions, fees and supplemental and contingent revenues from brokerage operations and fees from risk management operations. Investment income is generated from invested cash and fiduciary funds, clean energy investments, and interest income from premium financing.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains certain statements relating to future results which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Please see “Information Concerning Forward-Looking Statements” at the beginning of this annual report, for certain cautionary information regarding forward-looking statements and a list of factors that could cause our actual results to differ materially from those predicted in the forward-looking statements.

### Prior Year Discussion of Results and Comparisons

For information on fiscal 2018 results and similar comparisons, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K for the fiscal year ended December 31, 2019.

**Summary of Financial Results - Year Ended December 31,**

See the reconciliations of non-GAAP measures on page 30.

| | Year 2020 | | Year 2019 | | Change | |
|---|---|---|---|---|---|---|
| | Reported GAAP | Adjusted Non-GAAP | Reported GAAP | Adjusted Non-GAAP | Reported GAAP | Adjusted Non-GAAP |
| | | | (In millions, except per share data) | | | |
| **Brokerage Segment** | | | | | | |
| Revenues | $ 5,167.1 | $ 5,172.9 | $ 4,901.5 | $ 4,820.7 | 5% | 7% |
| Organic revenues | | $ 4,854.4 | | $ 4,706.1 | | 3.2% |
| Net earnings | $ 866.0 | | $ 717.3 | | 21% | |
| Net earnings margin | 16.8% | | 14.6% | | +213 bpts | |
| Adjusted EBITDAC | | $ 1,691.4 | | $ 1,375.1 | | 23% |
| Adjusted EBITDAC margin | | 32.7% | | 28.5% | | +418 bpts |
| Diluted net earnings per share | $ 4.42 | $ 4.91 | $ 3.68 | $ 3.72 | 20% | 32% |
| **Risk Management Segment** | | | | | | |
| Revenues before reimbursements | $ 821.7 | $ 821.7 | $ 838.5 | $ 838.0 | (2%) | (2%) |
| Organic revenues | | $ 813.6 | | $ 836.3 | | (2.7%) |
| Net earnings | $ 66.9 | | $ 66.2 | | 1% | |
| Net earnings margin (before reimbursements) | 8.1% | | 7.9% | | +24 bpts | |
| Adjusted EBITDAC | | $ 149.5 | | $ 146.0 | | 2% |
| Adjusted EBITDAC margin (before reimbursements) | | 18.2% | | 17.4% | | +77 bpts |
| Diluted net earnings per share | $ 0.34 | $ 0.38 | $ 0.35 | $ 0.37 | (3%) | 3% |
| **Corporate Segment** | | | | | | |
| Diluted net loss per share | $ (0.56) | $ (0.57) | $ (0.51) | $ (0.45) | | |
| **Total Company** | | | | | | |
| Diluted net earnings per share | 4.20 | $ 4.72 | $ 3.52 | $ 3.64 | 19% | 30% |
| **Total Brokerage and Risk Management Segment** | | | | | | |
| Diluted net earnings per share | $ 4.76 | $ 5.29 | $ 4.03 | $ 4.09 | 18% | 29% |

In our corporate segment, net after tax earnings from our clean energy investments was $69.8 million and $88.5 million in 2020 and 2019, respectively. Our current estimate of the 2021 annual net after tax earnings, including IRC Section 45 tax credits, which will be produced from all of our clean energy investments in 2021, is $60.0 million to $75.0 million. We expect to use the additional cash flow generated by these earnings to continue our mergers and acquisition strategy in our core brokerage and risk management operations.

The following provides information that management believes is helpful when comparing revenues before reimbursements, net earnings, EBITDAC and diluted net earnings per share for 2020 and 2019. In addition, these tables provide reconciliations to the most comparable GAAP measures for adjusted revenues, adjusted EBITDAC and adjusted diluted net earnings per share. Reconciliations of EBITDAC for the brokerage and risk management segments are provided on pages 37 and 42 of this filing.

**Year Ended December 31 Reported GAAP to Adjusted Non-GAAP Reconciliation:**

| | Revenues Before Reimbursements | | Net Earnings (Loss) | | EBITDAC | | Diluted Net Earnings (Loss) Per Share | | |
|---|---|---|---|---|---|---|---|---|---|
| **Segment** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **Chg** |
| | (In millions, except per share data) | | | | | | | | |
| Brokerage, as reported | $5,167.1 | $4,901.5 | $ 866.0 | $717.3 | $1,597.4 | $1,359.1 | $ 4.42 | $ 3.68 | 20% |
| Net loss (gains) on divestitures | 5.8 | (75.3) | 4.7 | (47.5) | 5.8 | (62.3) | 0.02 | (0.25) | |
| Acquisition integration | — | — | 19.3 | 16.1 | 25.1 | 20.4 | 0.10 | 0.08 | |
| Workforce and lease termination | — | — | 34.0 | 35.1 | 43.9 | 44.8 | 0.17 | 0.19 | |
| Acquisition related adjustments | — | — | 39.7 | 5.8 | 19.2 | 16.8 | 0.20 | 0.03 | |
| Levelized foreign currency translation | — | (5.5) | — | (2.6) | — | (3.7) | — | (0.01) | |
| Brokerage, as adjusted * | 5,172.9 | 4,820.7 | 963.7 | 724.2 | 1,691.4 | 1,375.1 | 4.91 | 3.72 | 32% |
| Risk Management, as reported | 821.7 | 838.5 | 66.9 | 66.2 | 141.6 | 137.9 | $ 0.34 | $ 0.35 | (3%) |
| Workforce and lease termination | — | — | 6.0 | 5.2 | 7.9 | 7.9 | 0.04 | 0.03 | |
| Acquisition related adjustments | — | — | 0.4 | (1.0) | — | — | — | (0.01) | |
| Levelized foreign currency translation | — | (0.5) | — | (0.1) | — | 0.2 | — | — | |
| Risk Management, as adjusted * | 821.7 | 838.0 | 73.3 | 70.3 | 149.5 | 146.0 | 0.38 | 0.37 | 3% |
| Corporate, as reported | 863.1 | 1,316.4 | (74.8) | (67.7) | (142.2) | (201.4) | $ (0.56) | $ (0.51) | |
| Clean energy related adjustments | — | 3.0 | — | 11.7 | — | 14.9 | — | 0.05 | |
| Income tax related and workforce | — | — | (1.1) | 2.3 | — | 3.0 | (0.01) | 0.01 | |
| Corporate, as adjusted * | 863.1 | 1,319.4 | (75.9) | (53.7) | (142.2) | (183.5) | (0.57) | (0.45) | |
| Total Company, as reported | $6,851.9 | $7,056.4 | $ 858.1 | $715.8 | $1,596.8 | $1,295.6 | $ 4.20 | $ 3.52 | 19% |
| Total Company, as adjusted * | $6,857.7 | $6,978.1 | $ 961.1 | $740.8 | $1,698.7 | $1,337.6 | $ 4.72 | $ 3.64 | 30% |
| Total Brokerage and Risk Management, as reported | $5,988.8 | $5,740.0 | $ 932.9 | $783.5 | $1,739.0 | $1,497.0 | $ 4.76 | $ 4.03 | 18% |
| Total Brokerage and Risk Management, as adjusted * | $5,994.6 | $5,658.7 | $1,037.0 | $794.5 | $1,840.9 | $1,521.1 | $ 5.29 | $ 4.09 | 29% |

* For 2020, the pretax impact of the brokerage segment adjustments totals $125.8 million, with a corresponding adjustment to the provision for income taxes of $28.1 million relating to these items. The pretax impact of the risk management segment adjustments totals $8.5 million, with a corresponding adjustment to the provision for income taxes of $2.1 million relating to these items. There is no pretax impact of the corporate segment adjustments, but there is an adjustment to the provision for income taxes of $1.1 million. For the corporate segment, the clean energy related adjustments are described on page 47.

For 2019, the pretax impact of the brokerage segment adjustments totals $6.9 million, with no corresponding adjustment to the provision for income taxes relating to these items. The pretax impact of the risk management segment adjustments totals $5.6 million, with a corresponding adjustment to the provision for income taxes of $1.5 million relating to these items. The pretax impact of the corporate segment adjustments totals $17.9 million, with an adjustment to the benefit for income taxes of $3.9 million. For the corporate segment, the clean energy related adjustments are described on page 47.

**Reconciliation of Non-GAAP Measures - Pre-tax Earnings and Diluted Net Earnings per Share**

**(In millions except share and per share data)**

| | Earnings (Loss) Before Income Taxes | Provision (Benefit) for Income Taxes | Net Earnings (Loss) | Net Earnings (Loss) Attributable to Noncontrolling Interests | Net Earnings (Loss) Attributable to Controlling Interests | Diluted Net Earnings (Loss) per Share |
|---|---|---|---|---|---|---|
| **Year Ended Dec 31, 2020** | | | | | | |
| **Brokerage, as reported** | **$ 1,142.3** | **$ 276.3** | **$ 866.0** | **$ 4.9** | **$ 861.1** | **$ 4.42** |
| Net losses on divestitures | 5.8 | 1.1 | 4.7 | — | 4.7 | 0.02 |
| Acquisition integration | 25.1 | 5.8 | 19.3 | — | 19.3 | 0.10 |
| Workforce and lease termination | 43.9 | 9.9 | 34.0 | — | 34.0 | 0.17 |
| Acquisition related adjustments | 51.0 | 11.3 | 39.7 | — | 39.7 | 0.20 |
| Brokerage, as adjusted | $ 1,268.1 | $ 304.4 | $ 963.7 | $ 4.9 | $ 958.8 | $ 4.91 |
| **Risk Management, as reported** | **$ 89.4** | **$ 22.5** | **$ 66.9** | **$ —** | **$ 66.9** | **$ 0.34** |
| Workforce and lease termination | 7.9 | 1.9 | 6.0 | — | 6.0 | 0.04 |
| Acquisition related adjustments | 0.6 | 0.2 | 0.4 | — | 0.4 | — |
| Risk Management, as adjusted | $ 97.9 | $ 24.6 | $ 73.3 | $ - | $ 73.3 | $ 0.38 |
| **Corporate, as reported** | **$ (360.8)** | **$ (286.0)** | **$ (74.8)** | **$ 34.4** | **$ (109.2)** | **$ (0.56)** |
| Income tax related impact | — | 1.1 | (1.1) | — | (1.1) | (0.01) |
| Corporate, as adjusted | $ (360.8) | $ (284.9) | $ (75.9) | $ 34.4 | $ (110.3) | $ (0.57) |
| **Year Ended Dec 31, 2019** | | | | | | |
| **Brokerage, as reported** | **$ 946.5** | **$ 229.2** | **$ 717.3** | **$ 17.2** | **$ 700.1** | **$ 3.68** |
| Net gains on divestitures | (62.3) | (14.8) | (47.5) | — | (47.5) | (0.25) |
| Acquisition integration | 20.4 | 4.3 | 16.1 | — | 16.1 | 0.08 |
| Workforce and lease termination | 44.8 | 9.7 | 35.1 | — | 35.1 | 0.19 |
| Acquisition related adjustments | 7.5 | 1.7 | 5.8 | — | 5.8 | 0.03 |
| Levelized foreign currency translation | (3.5) | (0.9) | (2.6) | — | (2.6) | (0.01) |
| Brokerage, as adjusted | $ 953.4 | $ 229.2 | $ 724.2 | $ 17.2 | $ 707.0 | $ 3.72 |
| **Risk Management, as reported** | **$ 88.4** | **$ 22.2** | **$ 66.2** | **$ —** | **$ 66.2** | **$ 0.35** |
| Workforce and lease termination | 7.9 | 2.7 | 5.2 | — | 5.2 | 0.03 |
| Acquisition related adjustments | (2.4) | (1.4) | (1.0) | — | (1.0) | (0.01) |
| Levelized foreign currency translation | 0.1 | 0.2 | (0.1) | — | (0.1) | — |
| Risk Management, as adjusted | $ 94.0 | $ 23.7 | $ 70.3 | $ - | $ 70.3 | $ 0.37 |
| **Corporate, as reported** | **$ (408.8)** | **$ (341.1)** | **$ (67.7)** | **$ 29.8** | **$ (97.5)** | **$ (0.51)** |
| Clean energy related adjustments | 14.9 | 3.2 | 11.7 | 2.5 | 9.2 | 0.05 |
| Workforce | 3.0 | 0.7 | 2.3 | — | 2.3 | 0.01 |
| Corporate, as adjusted | $ (390.9) | $ (337.2) | $ (53.7) | $ 32.3 | $ (86.0) | $ (0.45) |

**COVID-19 Impact**

In our property/casualty brokerage operations, during fourth quarter 2020, (a) our customer retention remained at pre-pandemic levels, (b) new business generation was above pre-pandemic levels, offset somewhat by non-recurring business that was below pre-pandemic levels, (c) renewal exposure units (i.e., insured values, payrolls, employees, miles driven, etc.) declined; however, premium rates across most geographies and lines of coverage have continued to increase, effectively mitigating exposure unit declines, and (d) net positive mid-term policy modifications were slightly higher than fourth quarter 2019.

Thus far in the first quarter of 2021, property/casualty customer exposure unit renewals showed improvement compared to lows seen in April and May 2020, as our customers' businesses continue to recover and economic activity increases. Full policy cancellations have remained similar to pre-pandemic levels, and we continue to see property/casualty premium rates move higher overall which may partially, or fully, offset future declines in exposure units, if any.

In our employee benefits brokerage operations, during the fourth quarter of 2020 we saw a decrease in new consulting and special project work, while covered lives on renewal business were similar to the third quarter of 2020. Our January 1, 2021 health and welfare renewals have shown covered lives being consistent with levels seen in the fourth quarter of 2020, although still not at pre-pandemic levels. Consulting engagements and special project work improved slightly from fourth quarter levels, but are still below pre-pandemic levels. We believe revenue softness related to reduced covered lives and lower frequency of special project work could persist over the next few quarters, and even deteriorate further, if the economy is slow to recover.

In our risk management operations, we began seeing a meaningful decline in new claims arising during the last two weeks of March 2020, which persisted into April. From May to December 2020, we saw an improving trend in new claims arising and higher COVID-related workers compensation claims; yet the current level of weekly new claims so far in 2021 is still below pre-pandemic levels. A slower recovery or reversal in the number of workers employed could cause fewer claims to arise in future quarters.

Throughout 2020 and in the fourth quarter of 2020, our clean energy investments experienced the impact of lower electricity consumption in the U.S., when compared to the same periods in 2019, due to reduced economic activity (as well as, unrelated to COVID-19, milder temperatures, other than some brief periods of unusually warm weather, falling natural gas prices, and increased use of renewable energy sources). We expect reduced U.S. electricity consumption could persist at least through the first half of 2021, and could even continue throughout all of 2021.

Of our nearly 1,000 office locations, nearly 400 are open, but most at reduced capacity. Accordingly the vast majority of our employees continue to work remotely for some or all of their work week. We believe our service levels are unchanged from pre-pandemic levels. We have not had any office-wide outbreaks of COVID-19, and fewer than 300 confirmed cases among our 32,401 employees - all of which we believe contracted the virus outside of our office locations.

Given the deterioration in economic conditions, since the first quarter of 2020, we are actively managing costs by limiting discretionary spending such as travel, entertainment and advertising expenses, adjusting our real estate footprint, reducing capital expenditures, limiting use of outside labor and consultants, increasing utilization of our centers of excellence, and we have adjusted portions of our workforce where volumes have declined significantly and normal attrition was not sufficient.

The cost saving impact of these actions in the second, third and fourth quarters of 2020 was substantial; with estimated quarterly savings of approximately $65 million to $70 million pretax compared to the same quarters in 2019, as adjusted for pro forma full-quarter costs related to acquisitions. Offsetting these savings were severance and lease termination costs related to these actions. We believe savings in the first quarter of 2021 compared to the first quarter of 2020 could again total approximately $60 million to $65 million pretax after adjusting for pro forma costs related to acquisitions. Offsetting possible future savings would be additional implementation and execution costs, which we estimate could total approximately $12 million to $15 million pretax. Future net savings may be lower if the economy recovers faster than we are forecasting or our costs to implement changes exceed our estimates.

We have not seen any meaningful decline in cash receipts from our clients to date and we have more than $1.6 billion of available liquidity. A prolonged period of economic weakness may cause future cash collections to deteriorate, but we believe our cost savings, reduced non-client facing capital expenditures and working capital improvements could mitigate a potential decline in our cash flows over the near-term.

For a discussion of risk and uncertainties relating to COVID-19 for our business, results of operations and financial condition, see Part II, Item 1A. Risk Factors in our Form 10-K page 9.

**Update on Ransomware Incident**

As previously disclosed, on September 26, 2020, we detected a ransomware incident impacting our internal systems. We implemented our incident response plan, took our global systems offline, isolated impacted systems, retained cyber security counsel and forensic experts and reported the event to the FBI. The incident has been contained, and all critical systems are back in service.

While we remain unaware of any actual or attempted misuse of information, our investigation into the incident remains ongoing. We are working to conclude our forensic investigation and determine the nature and extent of unauthorized access to information on our systems. We intend to comply with all applicable laws and regulations. Based on the results of the forensic investigation to date, we do not believe this incident will have a material adverse effect on our business, operations or financial condition.

We maintain cyber liability insurance coverage, but disputes over the extent of insurance coverage for claims are not uncommon. Furthermore, while we have not been the subject of any legal proceedings involving this incident, it is possible we could be the subject of claims from persons alleging they suffered damages from the incident, or actions by governmental authorities.

**Insurance Market Overview**

Fluctuations in premiums charged by property/casualty underwriting enterprises have a direct and potentially material impact on the insurance brokerage industry.  Commission revenues are generally based on a percentage of the premiums paid by insureds and normally follow premium levels.  Insurance premiums are cyclical in nature and may vary widely based on market conditions.  Various factors, including competition for market share among underwriting enterprises, increased underwriting capacity and improved economies of scale following consolidations, can result in flat or reduced property/casualty premium rates (a "soft" market).  A soft market tends to put downward pressure on commission revenues.  Various countervailing factors, such as greater than anticipated loss experience, unexpected loss exposure and capital shortages, can result in increasing property/casualty premium rates (a "hard" market).  A hard market tends to favorably impact commission revenues.  Hard and soft markets may be broad-based or more narrowly focused across individual product lines or geographic areas.  As markets harden, buyers of insurance (such as our brokerage clients), have historically tried to mitigate premium increases and the higher commissions these premiums generate, including by raising their deductibles and/or reducing the overall amount of insurance coverage they purchase.  As the market softens, or costs decrease, these trends have historically reversed.  During a hard market, buyers may switch to negotiated fee in lieu of commission arrangements to compensate us for placing their risks, or may consider the alternative insurance market, which includes self-insurance, captives, rent-a-captives, risk retention groups and capital market solutions to transfer risk.  Our brokerage units are very active in these markets as well.  While increased use by insureds of these alternative markets historically has reduced commission revenue to us, such trends generally have been accompanied by new sales and renewal increases in the areas of risk management, claims management, captive insurance and self-insurance services and related growth in fee revenue.  Inflation tends to increase the levels of insured values and risk exposures, resulting in higher overall premiums and higher commissions.  However, the impact of hard and soft market fluctuations has historically had a greater impact on changes in premium rates, and therefore on our revenues, than inflationary pressures.

We typically cite the Council of Insurance Agents & Brokers (which we refer to as the CIAB) insurance pricing quarterly survey at this time as an indicator of the current insurance rate environment.  The fourth quarter 2020 survey had not been published as of the filing date of this report.  The first three 2020 quarterly surveys indicated that U.S. commercial property/casualty rates increased by 9.3%, 10.8%, and 11.7% on average, for the first, second and third quarters of 2020, respectively.  We expect a similar trend to be noted when the CIAB fourth quarter 2020 survey report is issued, which would signal overall continued price firming and hardening in some items.  The CIAB represents the leading domestic and international insurance brokers, who write approximately 85% of the commercial property/casualty premiums in the U.S.

We believe the increases in property/casualty rates experienced in 2020, will continue in 2021; however, loss trends could deteriorate, leading to a more difficult environment and, in certain lines and geographies, a hard market.  The economies of the U.S. and other countries around the world contracted during 2020 as a result of COVID-19 and have yet to rebound to pre-pandemic levels.  Weaker economic activity is leading to, and is likely to continue to lead to, reduced exposure units and elevated unemployment.  We expect that our history of strong new business generation, solid retentions and enhanced value-added services for our carrier partners should help offset, to a degree, softer global economic conditions.  Overall, we believe that in a positive rate environment with reduced exposure units, our professionals can demonstrate their expertise and high-quality, value-added capabilities by strengthening our clients' insurance portfolios and delivering insurance and risk management solutions within our clients' budget.  Based on our experience, there is adequate capacity in the insurance market for most lines of coverage, terms and conditions are tightening, most insurance carriers appear to be making rational pricing decisions and clients can broadly still obtain coverage.

**Clean energy investments** - We have investments in limited liability companies that own 29 clean coal production plants developed by us and six clean coal production plants we purchased from a third party.  All 35 plants produce refined coal using propriety technologies owned by Chem-Mod.  We believe that the production and sale of refined coal at these plants are qualified to receive refined coal tax credits under IRC Section 45.  The plants which were placed in service prior to December 31, 2009 (which we refer to as the 2009 Era Plants) received tax credits through 2019 and the 21 plants which were placed in service prior to December 31, 2011 (which we refer to as the 2011 Era Plants) can receive tax credits through 2021.  All twenty-one of the 2011 Era Plants are under long-term production contracts with several utilities.

We also own a 46.5% controlling interest in Chem-Mod, which has been marketing The Chem-Mod™ Solution proprietary technologies principally to refined fuel plants that sell refined fuel to coal-fired power plants owned by utility companies, including those plants in which we hold interests.  Based on current production estimates provided by licensees, Chem-Mod could generate for us approximately $5.0 million to $6.0 million of net after tax earnings per quarter for the first three quarters of 2021.

Our current estimate of the 2021 annual net after tax earnings, including IRC Section 45 tax credits, which will be produced from all of our clean energy investments in 2020, is $60.0 million to $75.0 million.

All estimates set forth above regarding the future results of our clean energy investments are subject to significant risks, including those set forth in the risk factors regarding our IRC Section 45 investments under Item 1A, "Risk Factors."

**Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which require management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We believe the following significant accounting policies may involve a higher degree of judgment and complexity. See Note 1 to our 2020 consolidated financial statements for other significant accounting policies.

**Revenue Recognition** - See Revenue Recognition in Notes 1 and 4 to our 2020 consolidated financial statements.

**Income Taxes** - See Income Taxes in Notes 1 and 19 to our 2020 consolidated financial statements.

Uncertain tax positions are measured based upon the facts and circumstances that exist at each reporting period and involve significant management judgment. Subsequent changes in judgment based upon new information may lead to changes in recognition, derecognition and measurement. Adjustments may result, for example, upon resolution of an issue with the taxing authorities, or expiration of a statute of limitations barring an assessment for an issue. We recognize interest and penalties, if any, related to unrecognized tax benefits in our provision for income taxes. See Note 19 to our 2020 consolidated financial statements for a discussion regarding the possibility that our gross unrecognized tax benefits balance may change within the next twelve months.

Tax law requires certain items to be included in our tax returns at different times than such items are reflected in the financial statements. As a result, the annual tax expense reflected in our consolidated statements of earnings is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not deductible in our tax returns, and some differences are temporary and reverse over time, such as depreciation expense and amortization expense deductible for income tax purposes. Temporary differences create deferred tax assets and liabilities. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which a tax payment has been deferred, or expense which has been deducted in the tax return but has not yet been recognized in the financial statements. Deferred tax assets generally represent items that can be used as a tax deduction or credit in tax returns in future years for which a benefit has already been recorded in the financial statements. On July 22, 2020, the U.K. enacted the Finance Act and Stamp Duty Land Tax which maintained the U.K. corporate tax rate at 19% from April 1, 2020 (previously planned to be reduced to 17% on that date). Accordingly, we adjusted our deferred tax asset and liability balances in third quarter 2020 to reflect this rate change.

We establish or adjust valuation allowances for deferred tax assets when we estimate that it is more likely than not that future taxable income will be insufficient to fully use a deduction or credit in a specific jurisdiction. In assessing the need for the recognition of a valuation allowance for deferred tax assets, we consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized and adjust the valuation allowance accordingly. We evaluate all significant available positive and negative evidence as part of our analysis. Negative evidence includes the existence of losses in recent years. Positive evidence includes the forecast of future taxable income by jurisdiction, tax-planning strategies that would result in the realization of deferred tax assets and the presence of taxable income in prior carryback years. The underlying assumptions we use in forecasting future taxable income require significant judgment and take into account our recent performance. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences are deductible or creditable. See Note 19 to our 2020 consolidated financial statements related to changes in our valuation allowances.

**Intangible Assets/Earnout Obligations** - See Intangible Assets in Note 1 to our 2020 consolidated financial statements.

Current accounting guidance related to business combinations requires us to estimate and recognize the fair value of liabilities related to potential earnout obligations as of the acquisition dates for all of our acquisitions subject to earnout provisions. The maximum potential earnout payables disclosed in the notes to our consolidated financial statements represent the maximum amount of additional consideration that could be paid pursuant to the terms of the purchase agreement for the applicable acquisition. The amounts recorded as earnout payables, which are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date, are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration. We will record subsequent changes in these estimated earnout obligations, including the accretion of discount, in our consolidated statement of earnings when incurred.

The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements, which is a Level 3 fair value measurement. In determining fair value, we estimate the acquired entity's future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. We estimate future payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. We then discount these payments to present value using a risk-adjusted rate that takes into consideration market-based rates of return that reflect the ability of the acquired entity to achieve the targets. Changes in financial projections, market participant assumptions for revenue growth and/or profitability, or the risk-adjusted discount rate, would result in a change in the fair value of recorded earnout obligations. See Note 3 to our 2020 consolidated financial statements for additional discussion on our 2020 business combinations.

**Business Combinations and Dispositions**

See Note 3 to our 2020 consolidated financial statements for a discussion of our 2020 business combinations. We did not have any material dispositions in 2018.

On January 8, 2019, we sold a travel insurance brokerage operation that was initially purchased in 2014. In first quarter 2019, we recognized a one-time, net gain of $0.17 of diluted net earnings per share as a result of the sale.

**Results of Operations**

**Information Regarding Non-GAAP Measures and Other**

In the discussion and analysis of our results of operations that follows, in addition to reporting financial results in accordance with GAAP, we provide information regarding EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, diluted net earnings per share, as adjusted (adjusted EPS), adjusted revenues, 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 report. We believe that these presentations provide useful information to management, analysts and investors regarding financial and business trends relating to our results of operations and financial condition because they provide investors with measures that our chief operating decision maker uses when reviewing the company's performance, and for the other reasons described below. Our 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 we provide should be used in addition to, but not as a substitute for, the GAAP information provided. We make 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** - We believe that the adjusted non-GAAP presentation of our 2020 and 2019 information, presented on the following pages, provides stockholders and other interested persons with useful information regarding certain financial metrics that may assist such persons in analyzing our operating results as they develop a future earnings outlook for us. The after-tax amounts related to the adjustments were computed using the normalized effective tax rate for each respective period.

- **Adjusted measures** - We define these measures as 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 losses or gains on divestitures, which are primarily net losses or proceeds received related to sales of books of business and other divestiture transactions, such as the disposal of a business through sale or closure.
  - Costs related to divestitures, which include legal and other costs related to certain operations that are being exited by us.
  - Acquisition integration costs, which include costs related to certain large acquisitions, outside the scope of our usual tuck-in strategy, not expected to occur on an ongoing basis in the future once we fully assimilate 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.
  - 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. Prior to first quarter 2019, this adjustment also reflected impacts of acquisition valuation true-ups.
- 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.
- Effective income tax rate impact, which represents the impact in third quarter 2020 of one-time taxes associated with the realignment of our operations to continue to conduct certain business in the EU after Brexit and the change in the U.K. effective income tax rate from 17.5% to 19%. In addition, it also includes the impact in third quarter 2019 related to prior quarters in 2019 for the decrease in the U.S. effective income tax rate used to compute the provision for income taxes in fourth quarter 2019.

- **Adjusted ratios** - Adjusted compensation expense and adjusted operating expense, respectively, each divided by adjusted revenues.

**Non-GAAP Earnings Measures**

We believe that the presentation of EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin and adjusted EPS for the brokerage and risk management segment, each as defined below, provides a meaningful representation of our operating performance. Adjusted EPS is a performance measure and should not be used as a measure of our liquidity. We also consider EBITDAC and EBITDAC margin as ways to measure financial performance on an ongoing basis. In addition, adjusted EBITDAC, adjusted EBITDAC margin and adjusted EPS for the brokerage and risk management segments are presented to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability.

- **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 our 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 losses or gains on divestitures, 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 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 our 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 losses or gains on divestitures, acquisition integration costs, workforce related charges, lease termination related charges, acquisition related adjustments, the impact of foreign currency translation 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 our operating performance (and as such should not be used as a measure of our 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.

**Organic Revenues (a non-GAAP measure)** - For the brokerage segment, organic change in base commission and fee revenues, supplemental revenues and contingent revenues excludes 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 our business in both the current and prior year. In addition, organic change in base commission and fee revenues, supplemental revenues and contingent revenues exclude the period-over-period impact of foreign currency translation. For the risk management segment, organic change in fee revenues excludes the first twelve months of fee revenues generated from acquisitions and the fee revenues related to operations disposed of 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, or are due to the limited-time nature of these revenue sources.

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 2021 and beyond. We have historically viewed organic revenue growth as an important indicator when assessing and evaluating the performance of our brokerage and risk management segments.  We also believe that using this non-GAAP measure allows readers of our financial statements to measure, analyze and compare the growth from our brokerage and risk management segments in a meaningful and consistent manner.

**Reconciliation of Non-GAAP Information Presented to GAAP Measures** - This report includes tabular reconciliations to the most comparable GAAP measures for adjusted revenues, adjusted compensation expense and adjusted operating expense, EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, adjusted EBITDAC (before acquisitions), diluted net earnings per share (as adjusted) and organic revenue measures.

**Brokerage**

The brokerage segment accounted for 74% of our revenue in 2020.  Our brokerage segment is primarily comprised of retail and wholesale brokerage operations.  Our brokerage segment generates revenues by:

(i) Identifying, negotiating and placing all forms of insurance or reinsurance coverage, as well as providing risk-shifting, risk-sharing and risk-mitigation consulting services, principally related to property/casualty, life, health, welfare and disability insurance.  We also provide these services through, or in conjunction with, other unrelated agents and brokers, consultants and management advisors.

(ii) Acting as an agent or broker for multiple underwriting enterprises by providing services such as sales, marketing, selecting, negotiating, underwriting, servicing and placing insurance coverage on their behalf.

(iii) Providing consulting services related to health and welfare benefits, voluntary benefits, executive benefits, compensation, retirement planning, institutional investment and fiduciary, actuarial, compliance, private insurance exchange, human resource technology, communications and benefits administration.

(iv) Providing management and administrative services to captives, pools, risk-retention groups, healthcare exchanges, small underwriting enterprises, such as accounting, claims and loss processing assistance, feasibility studies, actuarial studies, data analytics and other administrative services.

The primary source of revenues for our brokerage services is commissions from underwriting enterprises, based on a percentage of premiums paid by our clients, or fees received from clients based on an agreed level of service usually in lieu of commissions. Commissions are fixed at the contract effective date and generally are based on a percentage of premiums for insurance coverage or employee headcount for employer sponsored benefit plans.  Commissions depend upon a large number of factors, including the type of risk being placed, the particular underwriting enterprise's demand, the expected loss experience of the particular risk of coverage, and historical benchmarks surrounding the level of effort necessary for us to place and service the insurance contract.  Rather than being tied to the amount of premiums, fees are most often based on an expected level of effort to provide our services.  In addition, under certain circumstances, both retail brokerage and wholesale brokerage services receive supplemental and contingent revenues. Supplemental revenue is revenue paid by an underwriting enterprise that is above the base commission paid, is determined by the underwriting enterprise and is established annually in advance of the contractual period based on historical performance criteria. Contingent revenue is revenue paid by an underwriting enterprise based on the overall profit and/or volume of the business placed with that underwriting enterprise during a particular calendar year and is determined after the contractual period.

**Litigation, Regulatory and Taxation Matters**

**IRS and DOJ investigations -** As previously disclosed, our IRC 831(b) (or "micro-captive") advisory services business has been under investigation by the IRS since 2013.  Among other matters, the IRS is investigating whether we have been acting as a tax shelter promoter in connection with these operations.  Additionally, the IRS has initiated audits for the 2012 tax year, and subsequent tax years, of over 100 of the micro-captive underwriting enterprises organized and/or managed by us.  In May 2020, we learned that the DOJ is conducting a criminal investigation related to IRC 831(b) micro-captive underwriting enterprises.  We have been advised that we are not currently a target of the investigation.  In June 2020, our subsidiary Artex Risk Solutions, Inc. (which we refer to as Artex) received a grand jury subpoena requesting documents relating to its micro-captive advisory business.  We have produced documents in response to the subpoena.  We are fully cooperating with both the IRS investigation and the DOJ investigation.  We are not able to reasonably estimate the amount of any potential loss in connection with these investigations.

**Class action lawsuit -** On December 7, 2018, a class action lawsuit was filed against us, Artex and other defendants, in the United States District Court for the District of Arizona.  The named plaintiffs are micro-captives and their related entities and owners who had IRC Section 831(b) tax benefits disallowed by the IRS.  On August 5, 2019, the trial court granted the defendants' motion to compel arbitration and dismissed the class action lawsuit.  Plaintiffs appealed this ruling to the United States Court of Appeals for the Ninth Circuit.  On September 9, 2020, the Ninth Circuit affirmed the ruling of the trial court dismissing the class action lawsuit.  We will continue to defend against the lawsuit vigorously.  Litigation is inherently uncertain, however, and it is not possible for us to predict the ultimate outcome of this matter and the financial impact to us, nor are we able to reasonably estimate the amount of any potential loss in connection with this lawsuit.

Financial information relating to our brokerage segment results for 2020 and 2019 (in millions, except per share, percentages and workforce data):

| Statement of Earnings | 2020 | 2019 | Change |
|---|---|---|---|
| Commissions | $ 3,591.9 | $ 3,320.6 | $ 271.3 |
| Fees | 1,136.9 | 1,074.2 | 62.7 |
| Supplemental revenues | 221.9 | 210.5 | 11.4 |
| Contingent revenues | 147.0 | 135.6 | 11.4 |
| Investment income | 75.2 | 85.3 | (10.1) |
| Net (losses) gains on divestitures | (5.8) | 75.3 | (81.1) |
| Total revenues | 5,167.1 | 4,901.5 | 265.6 |
| Compensation | 2,882.5 | 2,745.9 | 136.6 |
| Operating | 687.2 | 796.5 | (109.3) |
| Depreciation | 73.5 | 66.6 | 6.9 |
| Amortization | 411.3 | 329.1 | 82.2 |
| Change in estimated acquisition earnout payables | (29.7) | 16.9 | (46.6) |
| Total expenses | 4,024.8 | 3,955.0 | 69.8 |
| Earnings before income taxes | 1,142.3 | 946.5 | 195.8 |
| Provision for income taxes | 276.3 | 229.2 | 47.1 |
| Net earnings | 866.0 | 717.3 | 148.7 |
| Net earnings attributable to noncontrolling interests | 4.9 | 17.2 | (12.3) |
| Net earnings attributable to controlling interests | $ 861.1 | $ 700.1 | $ 161.0 |
| Diluted net earnings per share | $ 4.42 | $ 3.68 | $ 0.74 |
| **Other Information** | | | |
| Change in diluted net earnings per share | 20% | 22% | |
| Growth in revenues | 5% | 15% | |
| Organic change in commissions and fees | 3% | 6% | |
| Compensation expense ratio | 56% | 56% | |
| Operating expense ratio | 13% | 16% | |
| Effective income tax rate | 24% | 24% | |
| Workforce at end of period (includes acquisitions) | 24,717 | 25,211 | |
| Identifiable assets at December 31 | $ 19,185.3 | $ 16,741.9 | |

The following provides information that management believes is helpful when comparing EBITDAC and adjusted EBITDAC for 2020 and 2019 (in millions):

| | 2020 | 2019 | Change |
|---|---|---|---|
| Net earnings, as reported | $ 866.0 | $ 717.3 | 20.7% |
| Provision for income taxes | 276.3 | 229.2 | |
| Depreciation | 73.5 | 66.6 | |
| Amortization | 411.3 | 329.1 | |
| Change in estimated acquisition earnout payables | (29.7) | 16.9 | |
| EBITDAC | 1,597.4 | 1,359.1 | 17.5% |
| Net losses (gains) on divestitures | 5.8 | (62.3) | |
| Acquisition integration | 25.1 | 20.4 | |
| Acquisition related adjustments | 19.2 | 16.8 | |
| Workforce and lease termination related charges | 43.9 | 44.8 | |
| Levelized foreign currency translation | — | (3.7) | |
| EBITDAC, as adjusted | $ 1,691.4 | $ 1,375.1 | 23.0% |
| Net earnings margin, as reported | 16.8% | 14.6% | +213 bpts |
| EBITDAC margin, as adjusted | 32.7% | 28.5% | +418 bpts |
| Reported revenues | $ 5,167.1 | $ 4,901.5 | |
| Adjusted revenues - see page 29 | $ 5,172.9 | $ 4,820.7 | |

**Commissions and fees** - The aggregate increase in base commissions and fees for 2020 was due to revenues associated with acquisitions that were made during 2020 and 2019 ($234.9 million) and organic revenue growth. Commission revenues increased 8% and fee revenues increased 6% in 2020 compared to 2019, respectively. The organic change in base commission and fee revenues was 3% in 2020 and 6% in 2019.

In our property/casualty brokerage operations, during the three-month period ended December 31, 2020, relative to same period in 2019, our customer (a) retention and new business generation both remained at pre-pandemic levels, (b) non-recurring business was lower than pre-pandemic levels, (c) renewal exposure units (i.e., insured values, payrolls, employees, miles driven, etc.) showed some decline; however, premium rates across most geographies and lines of coverage have continued to increase, effectively mitigating exposure unit decline, and (d) net positive mid-term policy modifications were also lower. Thus far in the first quarter of 2021, property/casualty renewal customer exposure units and showed improvement compared to lows seen in April and May as our customers' businesses continue to recover. Full policy cancellations have remained similar to pre-pandemic levels, and we continue to see property/casualty premium rates move higher overall which may partially, or fully, offset future declines in exposure units, if any. In our employee benefits brokerage operations, during the three-month period ended December 31, 2020 relative to same period in 2019, and thus far in the first quarter of 2021, we saw a decrease in new consulting and frequency of special project work (although we did sell a large life insurance pension funding product) and a decrease in covered lives on renewal business, although not to the same extent as headline unemployment levels. We believe the decline in covered lives and lower frequency of special project work could persist over the next few quarters, and even deteriorate further, if the economy is slow to recover.

Items excluded from organic revenue computations yet impacting revenue comparisons for 2020 and 2019 include the following (in millions):

| | 2020 Organic Revenues 2020 | 2020 Organic Revenues 2019 | Change |
|---|---|---|---|
| **Base Commissions and Fees** | | | |
| **Commission and fees, as reported** | $ 4,728.8 | $ 4,394.8 | 7.6% |
| Less commission and fee revenues from acquisitions | (234.9) | — | |
| Less divested operations | — | (29.6) | |
| Levelized foreign currency translation | — | (4.8) | |
| **Organic base commission and fees** | $ 4,493.9 | $ 4,360.4 | 3.1% |
| **Supplemental revenues** | | | |
| **Supplemental revenues, as reported** | $ 221.9 | $ 210.5 | 5.4% |
| Less supplemental revenues from acquisitions | (3.5) | — | |
| Levelized foreign currency translation | — | (0.2) | |
| **Organic supplemental revenues** | $ 218.4 | $ 210.3 | 3.9% |
| **Contingent revenues** | | | |
| **Contingent revenues, as reported** | $ 147.0 | $ 135.6 | 8.4% |
| Less contingent revenues from acquisitions | (4.9) | — | |
| Less divested operations | — | — | |
| Levelized foreign currency translation | — | (0.2) | |
| **Organic contingent revenues** | $ 142.1 | $ 135.4 | 5.0% |
| **Total reported commissions, fees, supplemental revenues and contingent revenues** | $ 5,097.7 | $ 4,740.9 | 7.5% |
| Less commission and fee revenues from acquisitions | (243.3) | — | |
| Less divested operations | — | (29.6) | |
| Levelized foreign currency translation | — | (5.2) | |
| **Total organic commissions, fees supplemental revenues and contingent revenues** | $ 4,854.4 | $ 4,706.1 | 3.2% |

| **Acquisition Activity** | **2020** | **2019** |
|---|---|---|
| Number of acquisitions closed | 27 | 46 |
| Estimated annualized revenues acquired (in millions) | $ 251.4 | $ 452.3 |

For 2020 and 2019, we issued 1,857,000 and 1,908,000 shares of our common stock at the request of sellers and/or in connection with tax-free exchange acquisitions, respectively.

**Supplemental and contingent revenues -** Reported supplemental and contingent revenues recognized in 2020 and 2019 by quarter are as follows (in millions):

| | Q1 | Q2 | Q3 | Q4 | Full Year |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Reported supplemental revenues | $ 59.0 | $ 50.3 | $ 54.7 | $ 57.9 | $ 221.9 |
| Reported contingent revenues | 45.1 | 37.4 | 34.5 | 30.0 | 147.0 |
| Reported supplemental and contingent revenues | $ 104.1 | $ 87.7 | $ 89.2 | $ 87.9 | $ 368.9 |
| **2019** | | | | | |
| Reported supplemental revenues | $ 56.7 | $ 46.9 | $ 49.8 | $ 57.1 | $ 210.5 |
| Reported contingent revenues | 48.0 | 29.5 | 30.4 | 27.7 | 135.6 |
| Reported supplemental and contingent revenues | $ 104.7 | $ 76.4 | $ 80.2 | $ 84.8 | $ 346.1 |

**Investment income and net gains on divestitures** - This primarily represents (1) interest income earned on cash, cash equivalents and restricted funds and interest income from premium financing and (2) net (losses) gains related to divestitures and sales of books of business, which were $(5.8) million and $75.3 million in 2020 and 2019, respectively. On December 16, 2020, we completed the sale of a U.K. wealth management business we purchased over four years ago that no longer strategically fit in our benefits operations. In fourth quarter 2020, we recognized a net pretax non-cash loss on the sale of approximately $12.0 million, primarily due to the write-off of the remaining net book value of the amortizable intangible assets. During 2019, we recognized a one-time, net gain of $0.17 of diluted net earnings per share related to the divestiture of a travel insurance brokerage and four other smaller brokerage operations.

Investment income in 2020 decreased compared to 2019 primarily due to decreases in interest income from our U.S. operations due to decreases in interest rates earned on client held funds.

**Compensation expense** - The following provides non-GAAP information that management believes is helpful when comparing 2020 and 2019 compensation expense (in millions):

| | 2020 | 2019 |
|---|---|---|
| Compensation expense, as reported | $ 2,882.5 | $ 2,745.9 |
| Acquisition integration | (14.9) | (12.4) |
| Workforce related charges | (35.7) | (35.2) |
| Acquisition related adjustments | (19.2) | (16.8) |
| Levelized foreign currency translation | — | (2.9) |
| Compensation expense, as adjusted | $ 2,812.7 | $ 2,678.6 |
| Reported compensation expense ratios | 55.8% | 56.0% |
| Adjusted compensation expense ratios | 54.4% | 55.6% |
| Reported revenues | $ 5,167.1 | $ 4,901.5 |
| Adjusted revenues - see page 29 | $ 5,172.9 | $ 4,820.7 |

The $136.6 million increase in compensation expense in 2020 compared to 2019 was primarily due to compensation associated with the acquisitions completed in 2020 - $26.3 million, producer compensation - $69.4 million, and other incentive compensation linked to operating results and deferred compensation ($45.8 million in the aggregate), partially offset by decreases in temporary-staffing and other related costs - $4.9 million.

**Operating expense** - The following provides non-GAAP information that management believes is helpful when comparing 2020 and 2019 operating expense (in millions):

| | 2020 | 2019 |
|---|---|---|
| Operating expense, as reported | $ 687.2 | $ 796.5 |
| Acquisition integration | (10.2) | (8.0) |
| Workforce and lease termination related charges | (8.2) | (9.6) |
| Costs related to divestures | — | (13.0) |
| Levelized foreign currency translation | — | 1.1 |
| Operating expense, as adjusted | $ 668.8 | $ 767.0 |
| Reported operating expense ratios | 13.3% | 16.3% |
| Adjusted operating expense ratios | 12.9% | 15.9% |
| Reported revenues | $ 5,167.1 | $ 4,901.5 |
| Adjusted revenues - see page 29 | $ 5,172.9 | $ 4,820.7 |

The decrease in operating expense in 2020 compared to 2019 was due primarily to savings in meeting and client entertainment expense, office supplies and other occupancy costs, professional and banking fees and marketing expense - $135.3 million, partially offset by expenses associated with the acquisitions completed in 2020 - $6.7 million and increased business insurance - $19.3 million.

**Depreciation** - The increase in depreciation expense in 2020 compared to 2019 was due primarily to the impact of purchases of furniture, equipment and leasehold improvements related to office expansions and moves, and expenditures related to upgrading computer systems. Also contributing to the increases in depreciation expense in 2020 was the depreciation expense associated with acquisitions completed in 2020.

**Amortization** - The increase in amortization in 2020 compared to 2019 was due primarily to the write-off of amortizable assets in 2020 and additional amortization expense of intangible assets associated with acquisitions completed in 2020 and 2019. Expiration lists, non-compete agreements and trade names are amortized using the straight-line method over their estimated useful lives (two to fifteen years for expiration lists, two to six years for non-compete agreements and two to fifteen years for trade names). Based on the results of impairment reviews performed on amortizable intangible assets in 2020 and 2019, we wrote off $51.5 million and $0.1 million, respectively, of amortizable intangible assets related to the brokerage segment. We review all of our intangible assets for impairment periodically (at least annually for goodwill) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. We perform such impairment reviews at the division (i.e., reporting unit) level with respect to goodwill and at the business unit level for amortizable intangible assets. In reviewing amortizable intangible assets, if the undiscounted future cash flows were less than the carrying amount of the respective (or underlying) asset, an indicator of impairment would exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings as a component of amortization expense. In consideration of the potential impacts of COVID-19 on our reporting units, we performed a qualitative impairment review on carrying value of our goodwill for all of our reporting units as of December 31, 2020 and no indicators of impairment were noted.

**Change in estimated acquisition earnout payables** - The change in the expense from the change in estimated acquisition earnout payables in 2020 compared to 2019 was due primarily to adjustments made to the estimated fair value of earnout obligations related to revised projections of future performance. During 2020 and 2019, we recognized $32.0 million and $26.2 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations in connection with our 2020 and 2019 acquisitions. During 2020 and 2019, we recognized $61.7 million and $9.3 million of income, respectively, related to net adjustments in the estimated fair market values of earnout obligations in connection with revised projections of future performance for 131 and 112 acquisitions, respectively.

The amounts initially recorded as earnout payables for our 2016 to 2020 acquisitions were measured at fair value as of the acquisition date and are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements. In determining fair value, we estimate the acquired entity's future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. We estimate future earnout payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. Subsequent changes in the underlying financial projections or assumptions will cause the estimated earnout obligations to change and such adjustments are recorded in our consolidated statement of earnings when incurred. Increases in the earnout payable obligations will result in the recognition of expense and decreases in the earnout payable obligations will result in the recognition of income.

**Provision for income taxes** - The brokerage segment's effective tax rate in 2020 and 2019 was 24.2% and 24.2% respectively. We anticipate reporting an effective tax rate of approximately 23.0% to 25.0% in our brokerage segment for the foreseeable future.

**Net earnings attributable to noncontrolling interests** - The amounts reported in this line for 2020 and 2019 include noncontrolling interest earnings of $4.9 million and $17.2 million, respectively, of which for 2019 primarily related to our investment in Capsicum Reinsurance Brokers LLP (which we refer to as Capsicum Re). Prior to December 31, 2019, we were partners in this venture with Grahame Chilton, the former CEO of our International Brokerage Division (who stepped down from the role effective July 1, 2018). We were the controlling partner, participating in 33% of Capsicum Re's net operating results and Mr. Chilton owned approximately 50% of Capsicum Re. In January 2020, we increased our ownership interest in Capsicum Re from 33% to 100%. Founded in December 2013 through a strategic partnership with Gallagher, Capsicum Re has since grown to become the world's fifth largest reinsurance broker with offices in the U.K., U.S., Bermuda and South America.

### Risk Management

The risk management segment accounted for 14% of our revenue in 2020. Our risk management segment operations provide contract claim settlement, claim administration, loss control services and risk management consulting for commercial, not for profit, captive and public entities, and various other organizations that choose to self-insure property/casualty coverages or choose to use a third-party claims management organization rather than the claim services provided by underwriting enterprises. Revenues for the risk management segment are comprised of fees generally negotiated (i) on a per-claim or per-service basis, (ii) on a cost-plus basis, or (iii) as performance-based fees. We also provide risk management consulting services that are recognized as the services are delivered.

Financial information relating to our risk management segment results for 2020 and 2019 (in millions, except per share, percentages and workforce data):

| Statement of Earnings | 2020 | 2019 | Change |
|---|---|---|---|
| Fees | $ 821.0 | $ 836.9 | $ (15.9) |
| Investment income | 0.7 | 1.6 | (0.9) |
| Revenues before reimbursements | 821.7 | 838.5 | (16.8) |
| Reimbursements | 151.7 | 138.6 | 13.1 |
| Total revenues | 973.4 | 977.1 | (3.7) |
| Compensation | 517.5 | 515.7 | 1.8 |
| Operating | 162.6 | 184.9 | (22.3) |
| Reimbursements | 151.7 | 138.6 | 13.1 |
| Depreciation | 49.4 | 46.2 | 3.2 |
| Amortization | 6.0 | 4.9 | 1.1 |
| Change in estimated acquisition earnout payables | (3.2) | (1.6) | (1.6) |
| Total expenses | 884.0 | 888.7 | (4.7) |
| Earnings before income taxes | 89.4 | 88.4 | 1.0 |
| Provision for income taxes | 22.5 | 22.2 | 0.3 |
| Net earnings | 66.9 | 66.2 | 0.7 |
| Net earnings attributable to noncontrolling interests | — | — | — |
| Net earnings attributable to controlling interests | $ 66.9 | $ 66.2 | $ 0.7 |
| Diluted earnings per share | $ 0.34 | $ 0.35 | $ (0.01) |
| **Other information** | | | |
| Change in diluted earnings per share | (3%) | (8%) | |
| Growth in revenues (before reimbursements) | (2%) | 5% | |
| Organic change in fees (before reimbursements) | (3%) | 4% | |
| Compensation expense ratio (before reimbursements) | 63% | 62% | |
| Operating expense ratio (before reimbursements) | 20% | 22% | |
| Effective income tax rate | 25% | 25% | |
| Workforce at end of period (includes acquisitions) | 6,378 | 6,753 | |
| Identifiable assets at December 31 | $ 973.9 | $ 898.1 | |

The following provides non-GAAP information that management believes is helpful when comparing 2020 and 2019 EBITDAC and adjusted EBITDAC in millions):

| | 2020 | 2019 | Change |
|---|---|---|---|
| Net earnings, as reported | $ 66.9 | $ 66.2 | 1.1% |
| Provision for income taxes | 22.5 | 22.2 | |
| Depreciation | 49.4 | 46.2 | |
| Amortization | 6.0 | 4.9 | |
| Change in estimated acquisition earnout payables | (3.2) | (1.6) | |
| Total EBITDAC | 141.6 | 137.9 | 2.7% |
| Workforce and lease termination related charges | 7.9 | 7.9 | |
| Levelized foreign currency translation | — | 0.2 | |
| EBITDAC, as adjusted | $ 149.5 | $ 146.0 | 2.4% |
| Net earnings margin, before reimbursements, as reported | 8.1% | 7.9% | +24 bpts |
| EBITDAC margin, before reimbursements, as adjusted | 18.2% | 17.4% | +77 bpts |
| Reported revenues before reimbursements | $ 821.7 | $ 838.5 | |
| Adjusted revenues - before reimbursements - see page 29 | $ 821.7 | $ 838.0 | |

**Fees** - The decrease in fees for 2020 compared to 2019 was due primarily to the impact of COVID-19. In our risk management operations, we began seeing a meaningful decline in new claims arising during the last two weeks of March 2020, which persisted into April. From May to December, and thus far in the first quarter of 2021, we are seeing an improving trend in new claims arising; yet the current level of weekly new claims are still well below pre-pandemic levels. A slower recovery or reversal in the number of workers employed could cause fewer claims to arise in future quarters. Organic change in fee revenues was (3%) in 2020 and 4% in 2019.

Items excluded from organic fee computations yet impacting revenue comparisons in 2020 and 2019 include the following (in millions):

| | 2019 Organic Revenue | | |
|---|---|---|---|
| | 2020 | 2019 | Change |
| Fees | $ 815.3 | $ 833.7 | (2.2%) |
| International performance bonus fees | 5.7 | 3.2 | |
| Fees as reported | 821.0 | 836.9 | (1.9%) |
| Less fees from acquisitions | (7.4) | — | |
| Levelized foreign currency translation | — | (0.6) | |
| Organic fees | $ 813.6 | $ 836.3 | (2.7%) |

**Reimbursements** - Reimbursements represent amounts received from clients reimbursing us for certain third-party costs associated with providing our claims management services. In certain service partner relationships, we are considered a principal because we direct the third party, control the specified service and combine the services provided into an integrated solution. Given this principal relationship, we are required to recognize revenue on a gross basis and service partner vendor fees in the operating expense line in our consolidated statement of earnings. The increase in reimbursements in 2020 compared to 2019 was primarily due to a change in business mix that is processed internally versus using outside service partners.

**Investment income -** Investment income primarily represents interest income earned on our cash and cash equivalents. Investment income in 2020 decreased compared to 2019 primarily due to decreases in interest income from our U.S. operations due to decreases in interest rates earned on our funds.

**Compensation expense -** The following provides non-GAAP information that management believes is helpful when comparing 2020 and 2019 compensation expense compensation expense (in millions):

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Compensation expense, as reported | $ | 517.5 | $ | 515.7 |
| Workforce and lease termination related charges | | (7.5) | | (5.9) |
| Levelized foreign currency translation | | — | | (0.5) |
| Compensation expense, as adjusted | $ | 510.0 | $ | 509.3 |
| Reported compensation expense ratios (before reimbursements) | | 63.0% | | 61.5% |
| Adjusted compensation expense ratios (before reimbursements) | | 62.1% | | 60.8% |
| Reported revenues (before reimbursements) | $ | 821.7 | $ | 838.5 |
| Adjusted revenues (before reimbursements) - see page 29 | $ | 821.7 | $ | 838.0 |

The $1.8 million increase in compensation expense in 2020 compared to 2019 was primarily due to other incentive compensation linked to operating results and deferred compensation - ($7.4 million in the aggregate), partially offset by a decrease in temporary-staffing expense - $5.6 million.

**Operating expense** - The following provides non-GAAP information that management believes is helpful when comparing 2020 and 2019 operating expense operating expense (in millions):

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Operating expense, as reported | $ | 162.6 | $ | 184.9 |
| Workforce and lease termination related charges | | (0.4) | | (2.0) |
| Levelized foreign currency translation | | — | | (0.2) |
| Operating expense, as adjusted | $ | 162.2 | $ | 182.7 |
| Reported compensation expense ratios (before reimbursements) | | 19.8% | | 22.1% |
| Adjusted compensation expense ratios (before reimbursements) | | 19.7% | | 21.8% |
| Reported revenues (before reimbursements) | $ | 821.7 | $ | 838.5 |
| Adjusted revenues - (before reimbursements) see page 29 | $ | 821.7 | $ | 838.0 |

The $22.3 million decrease in operating expense in 2020 compared to 2019 was primarily due to savings in meeting and client entertainment expense, office supplies and other occupancy costs, professional and banking fees and marketing expense - $24.8 million in the aggregate, partially offset by an increase in technology expense - $2.5 million.

**Depreciation -** Depreciation expense increased in 2020 compared to 2019, which reflects the impact of purchases of furniture, equipment and leasehold improvements related to office expansions and moves and expenditures related to upgrading computer systems.

**Amortization -** Amortization expense increased in 2020 compared to 2019. Based on the results of impairment reviews performed on amortizable intangible assets during 2020, we wrote off $0.2 million of amortizable assets. No indicators of impairment were noted in 2019.

**Change in estimated acquisition earnout payables** - The change in expense from the change in estimated acquisition earnout payables in 2020 compared to 2019, were due primarily to adjustments made in 2020 and 2019 to the estimated fair value of an earnout obligation related to revised projections of future performance. During 2020 and 2019, we recognized $0.5 million and $0.8 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations in connection with our 2018 and 2017 acquisitions, respectively. During 2020, we recognized $3.7 million of income related to net adjustments in the estimated fair value of earnout obligations related to revised projections of future performance for four acquisitions. During 2019, we recognized $2.4 million of income related to net adjustments in the estimated fair value of earnout obligations related to revised projections of future performance for four acquisitions.

**Provision for income taxes -** We allocate the provision for income taxes to the risk management segment using local statutory rates. The risk management segment's effective tax rate in 2020 and 2019 was 25.2% and 25.1%, respectively. We anticipate reporting an effective tax rate on adjusted results of approximately 24.0% to 26.0% in our risk management segment for the foreseeable future.

**Corporate**

The corporate segment reports the financial information related to our clean energy and other investments, our debt, certain corporate and acquisition-related activities and the impact of foreign currency translation. See Note 14 to our 2020 consolidated financial statements for a summary of our investments at December 31, 2020 and 2019 and a detailed discussion of the nature of these investments. See Note 8 to our 2020 consolidated financial statements for a summary of our debt at December 31, 2020 and 2019.

Financial information relating to our corporate segment results for 2020 and 2019 (in millions, except per share and percentages):

| Statement of Earnings | 2020 | 2019 | Change |
|---|---|---|---|
| Revenues from facilities coal production plants | $ 802.0 | $ 1,255.1 | $ (453.1) |
| Royalty income from clean coal licenses | 62.4 | 66.7 | (4.3) |
| Loss from unconsolidated clean coal facilities | (0.9) | (2.5) | 1.6 |
| Other net losses | (0.4) | (2.9) | 2.5 |
| Total revenues | 863.1 | 1,316.4 | (453.3) |
| Cost of revenues from consolidated clean coal facilities | 882.1 | 1,352.8 | (470.7) |
| Compensation | 66.5 | 77.9 | (11.4) |
| Operating | 56.7 | 87.1 | (30.4) |
| Interest | 196.4 | 179.8 | 16.6 |
| Depreciation | 22.2 | 27.6 | (5.4) |
| Total expenses | 1,223.9 | 1,725.2 | (501.3) |
| Loss before income taxes | (360.8) | (408.8) | 48.0 |
| Benefit for income taxes | (286.0) | (341.1) | 55.1 |
| Net loss | (74.8) | (67.7) | (7.1) |
| Net earnings attributable to noncontrolling interests | 34.4 | 29.8 | 4.6 |
| Net loss attributable to controlling interests | $ (109.2) | $ (97.5) | $ (11.7) |
| Diluted net loss per share | $ (0.56) | $ (0.51) | $ (0.05) |
| Identifiable assets at December 31 | $ 2,172.2 | $ 1,994.8 | |
| **EBITDAC** | | | |
| Net loss | $ (74.8) | $ (67.7) | $ (7.1) |
| Benefit for income taxes | (286.0) | (341.1) | 55.1 |
| Interest | 196.4 | 179.8 | 16.6 |
| Depreciation | 22.2 | 27.6 | (5.4) |
| **EBITDAC** | $ (142.2) | $ (201.4) | $ 59.2 |

**Revenues -** Revenues in the corporate segment consist of the following:

- Revenues from consolidated clean coal production plants represents revenues from the consolidated IRC Section 45 facilities in which we have a majority ownership position and maintain control over the operations at the related facilities.

  The decrease in 2020 and 2019 was due to decreased production of refined coal.

- Royalty income from clean coal licenses represents revenues related to Chem-Mod LLC. We hold a 46.5% controlling interest in Chem-Mod LLC. As Chem-Mod LLC's manager, we are required to consolidate its operations.

  The decrease in royalty income in 2020 compared to 2019 was due to decreased production of refined coal by Chem-Mod LLC's licensees.

Expenses related to royalty income of Chem-Mod LLC were $10.6 million and $17.5 million in 2020 and 2019, respectively. These expenses are included in the operating expenses discussed below. In 2019, Chem-Mod LLC, incurred costs related to settling certain patent infringement litigation.

- Loss from unconsolidated clean coal production plants represents our equity portion of the pretax operating results from the unconsolidated IRC Section 45 facilities. The production of refined coal generates pretax operating losses.

  The losses in 2020 and 2019 were low because the vast majority of our operations are consolidated.

**Cost of revenues -** Cost of revenues from consolidated clean coal production plants in 2020 and 2019 consists of the cost of coal, labor, equipment maintenance, chemicals, supplies, management fees and depreciation incurred by the clean coal production plants to generate the consolidated revenues discussed above. The decreases in cost of revenues in 2020 compared to 2019, were primarily due to decreased production.

**Compensation expense -** Compensation expense for 2020 and 2019, respectively, was $66.5 million and $77.9 million. The $11.4 million decrease in 2020 compensation expense compared to 2019 was primarily due to lower clean energy results in 2020.

**Operating expense -** Operating expense for 2020 includes banking and related fees of $5.1 million, external professional fees and other due diligence costs related to 2020 acquisitions of $9.4 million, other corporate and clean energy related expenses, including legal fees, and costs related to corporate data and branding initiatives, of $41.9 million, and a net unrealized foreign exchange remeasurement loss of $0.3 million

Operating expense for 2019 includes banking and related fees of $4.7 million, external professional fees and other due diligence costs related to 2019 acquisitions of $17.4 million, other corporate and clean energy related expenses of $35.8 million, $11.9 million of clean energy related costs as described on page 47, corporate related data and branding initiatives of $11.9 million, a net realized loss related to foreign exchange hedge contacts of $3.3 million and a net unrealized foreign exchange remeasurement loss of $2.1 million.

**Interest expense -** The increase in interest expense in 2020 compared to 2019 was due to the following (in millions):

| Change in interest expense related to: | 2020 / 2019 |
|---|---|
| Interest on borrowings from our Credit Agreement | $ (8.6) |
| Interest on the maturity of the Series C notes | (2.7) |
| Interest on the maturity of the Series K and L notes | (2.6) |
| Interest on the $348.0 million notes funded on August 2 and 4, 2017 | (1.0) |
| Interest on the $500.0 million notes funded on June 13, 2018 | (0.9) |
| Interest on the $340.0 million notes funded on February 13, 2019 | 2.0 |
| Interest on the $260.0 million notes funded on March 13, 2019 | 2.7 |
| Interest on the $175.0 million notes funded on June 12, 2019 | 3.4 |
| Interest on the $50.0 million notes funded on December 2, 2019 | 1.7 |
| Interest on the $575.0 million notes funded on January 30, 2020 | 21.6 |
| Amortization of hedge gains | 1.0 |
| Net change in interest expense | $ 16.6 |

**Depreciation -** Depreciation expense in 2020 was lower compared to 2019.

**Net earnings attributable to noncontrolling interests -** The amounts reported in this line for 2020 and 2019 primarily include noncontrolling interest earnings of $34.4 million and $29.8 million, respectively, related to our investment in Chem-Mod LLC. As of December 31, 2020 and 2019, we held a 46.5% controlling interest in Chem-Mod LLC. Also, included in net earnings attributable to noncontrolling interests are offsetting amounts related to non-Gallagher owned interests in several clean energy investments.

**Benefit for income taxes -** We allocate the provision for income taxes to the brokerage and risk management segments using local statutory rates. As a result, the provision for income taxes for the corporate segment reflects the entire benefit to us of the IRC Section 45 credits generated, because that is the segment which produced the credits. The law that provides for IRC Section 45 tax credits expired in December 2019 for our fourteen 2009 Era Plants and is scheduled to expire in December 2021 for our twenty-one 2011 Era Plants. Our consolidated effective tax rate was 1.5%, and (14.3)% for 2020 and 2019, respectively. The tax rates for 2020 and 2019 were lower than the statutory rate primarily due to the amount of IRC Section 45 tax credits recognized during the year. There were $148.6 million and $196.0 million of Section 45 tax credits generated and recognized in 2020 and 2019, respectively. The income tax benefit of stock based awards that vested or were settled in the years ended December 31, 2020 and 2019 was $25.3 million and $17.4 million, respectively.

**U.S. federal income tax law changes -** On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act contains several significant business tax provisions that could affect a company's accounting for income taxes. See discussion of the various impact of the CARES Act below.

**U.S. Federal Income Tax Law Changes Items Impacting the Company Going Forward**

**Alternative Minimum Tax Credit -** The CARES Act amends Section 53(e) of the TCJA so that all prior year minimum tax credits are available for refund for the first taxable year of a corporation beginning in 2018. We have adjusted the classification of the remaining Alternative Minimum Tax (which we refer to as AMT) credits as a result of the AMT credit acceleration. All remaining AMT credits were utilized as part of our 2019 Federal Income Tax return or refunded in 2020.

**Interest Expense Limitation -** The CARES Act contains modifications on the limitations of business interest for tax years beginning in 2019 and 2020. The modifications to Section 163(j) increase the allowable business interest deduction from 30% of adjusted taxable income to 50% of adjusted taxable income. This modification would significantly increase the allowable interest expense deduction of the company. We have evaluated the impact and determined there is no limit on our interest deductibility for federal income tax purposes for the years ended December 31, 2020 and 2019.

The following provides non-GAAP information that we believe is helpful when comparing 2020 and 2019 operating results for the corporate segment (in millions):

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Pretax Loss | Income Tax Benefit | Net Earnings (Loss) Attributable to Controlling Interests | Pretax Loss | Income Tax Benefit | Net Earnings (Loss) Attributable to Controlling Interests |
| **Components of Corporate Segment, as reported** | | | | | | |
| Interest and banking costs | $ (201.4) | $ 50.4 | $ (151.0) | $ (184.0) | $ 47.4 | $ (136.6) |
| Clean energy related (1) | (112.4) | 182.2 | 69.8 | (151.9) | 240.4 | 88.5 |
| Acquisition costs | (9.9) | 1.0 | (8.9) | (21.2) | 3.2 | (18.0) |
| Corporate (2) (3) | (71.5) | 52.4 | (19.1) | (81.5) | 50.1 | (31.4) |
| **Reported Year Ended** | (395.2) | 286.0 | (109.2) | (438.6) | 341.1 | (97.5) |
| **Adjustments** | | | | | | |
| Clean energy related (4) | — | — | — | 12.4 | (3.2) | 9.2 |
| Income tax related and workforce (2) | — | (1.1) | (1.1) | 3.0 | (0.7) | 2.3 |
| **Components of Corporate Segment, as adjusted** | | | | | | |
| Interest and banking costs | (201.4) | 50.4 | (151.0) | (184.0) | 47.4 | (136.6) |
| Clean energy related (1) | (112.4) | 182.2 | 69.8 | (139.5) | 237.2 | 97.7 |
| Acquisition costs | (9.9) | 1.0 | (8.9) | (21.2) | 3.2 | (18.0) |
| Corporate (3) | (71.5) | 51.3 | (20.2) | (78.5) | 49.4 | (29.1) |
| **Adjusted Year Ended** | $ (395.2) | $ 284.9 | $ (110.3) | $ (423.2) | $ 337.2 | $ (86.0) |

(1) Pretax losses are presented net of amounts attributable to noncontrolling interests of $34.4 million in 2020 and $29.8 million in 2019.

(2) Corporate includes the impact in 2020 of one-time taxes associated with the realignment of our operations to continue to conduct certain business in the EU after Brexit. The 2019 impact relates to severance costs.

(3) Corporate pretax loss includes a net unrealized foreign exchange remeasurement gain of $0.3 million in 2020 and a net unrealized foreign exchange remeasurement loss of $2.1 million in 2019.

(4) During third quarter of 2019, we and/or our 46.5% owned affiliate, Chem-Mod LLC, incurred costs related to (a) settling certain litigation, (b) prevailing in a tax court matter, (c) defending a new patent matter, and (d) moving three 2011 Era plants into different locations that generated more after-tax earnings in 2020 than in 2019.

**Interest and banking costs and debt -** Interest and banking costs includes expenses related to our debt.

**Clean energy related -** Includes the operating results related to our investments in clean coal production plants and Chem-Mod LLC.

**Acquisition costs -** Consists of professional fees, due diligence and other costs incurred related to our acquisitions.

**Corporate -** Consists of overhead allocations mostly related to corporate staff compensation and other corporate level activities, costs related to biennial company-wide award event, cross-selling and motivational meetings for our production staff and field management, expenses related to our new corporate headquarters, corporate related data and branding initiatives, expenses for systems and consulting related to the implementation of the new revenue recognition accounting and tax reform rules and the impact of foreign currency translation.

The income tax benefit of stock based awards that vested or were settled in the years ended December 31, 2020 and 2019 was $25.3 million and $17.4 million, respectively, and is included in the table above in the Corporate line.

**Impact of U.K. Brexit decision -** During the third and fourth quarters of 2020, our U.K. operations completed the transfer of its EEA books of business to a Gallagher EU affiliate in connection with the U.K. exiting the EU on December 31, 2020. The transfer related after-tax charges reported in 2020 were a net $1.1 million of income tax benefit, reflecting the amortization of those assets at the Swedish tax rate and utilization of historical U.K. capital losses that previously had valuation allowances against them.

**Clean energy investments** - We have investments in limited liability companies that own 29 clean coal production plants developed by us and six clean coal production plants we purchased from a third party. All 35 plants produce refined coal using propriety technologies owned by Chem-Mod LLC. We believe that the production and sale of refined coal at these plants are qualified to receive refined coal tax credits under IRC Section 45. The 14 2009 Era Plants received tax credits through 2019 and the 21 2011 Era Plants can receive tax credits through 2021.

The following table provides a summary of our clean coal plant investments as of December 31, 2020 (in millions):

| | | Our Portion of Estimated | |
|---|---|---|---|
| | Our Book Value At December 31, 2020 | Low Range 2021 After-tax Earnings | High Range 2021 After-tax Earnings |
| **Investments that own 2009 Era Plants** | | | |
| 14 2009 Not in active production during 2020 | $ — | $ — | $ — |
| **Investments that own 2011 Era Plants** | | | |
| 17 2011 Under long-term production contracts | 10.1 | 36.0 | 45.0 |
| 4 2011 Restarted under long-term contracts Q4 2019 and Q3 2020 | 2.4 | 12.0 | 15.0 |
| **Chem-Mod royalty income, net of noncontrolling interests** | 4.0 | 12.0 | 15.0 |

The estimated earnings information in the table reflects management's current best estimate of the 2020 low and high ranges of after-tax earnings based on early production estimates from the host utilities, other operating assumptions, including current U.S. federal income tax laws. However, coal-fired power plants may not ultimately produce refined fuel at estimated levels due to seasonal electricity demand, production costs, natural gas prices, weather conditions, as well as many other operational, regulatory and environmental compliance reasons. Future changes in EPA regulations or U.S. federal income tax laws might materially impact these estimates.

Our investment in Chem-Mod LLC generates royalty income from refined coal production plants owned by those limited liability companies in which we invest as well as refined coal production plants owned by other unrelated parties. Future changes in EPA regulations or U.S. federal income tax laws might materially impact these estimates.

We may sell ownership interests in some or all of the plants to co-investors and relinquish control of the plants, thereby becoming a noncontrolling, minority investor. In any limited liability company where we are a noncontrolling, minority investor, the membership agreement for the operations contains provisions that preclude an individual member from being able to make major decisions that would denote control. As of any future date we become a noncontrolling, minority investor, we would deconsolidate the entity and subsequently account for the investment using equity method accounting.

We currently have construction commitments related to our refined coal plants of approximately $0.9 million.

There is a provision in IRC Section 45 that phases out the tax credits if the coal reference price per ton, based on market prices, reaches certain levels as follows:

| Calendar Year | IRS Reference Price per Ton | IRS Beginning Phase Out Price | IRS 100% Phase Out Price | Conclusion |
|---|---|---|---|---|
| 2010 | $ 54.74 | $ 77.78 | $ 86.53 | No phase out |
| 2011 | 55.66 | 78.41 | 87.16 | No phase out |
| 2012 | 58.49 | 80.25 | 89.00 | No phase out |
| 2013 | 58.23 | 81.69 | 90.44 | No phase out |
| 2014 | 56.88 | 81.82 | 90.57 | No phase out |
| 2015 | 57.64 | 83.17 | 91.92 | No phase out |
| 2016 | 53.74 | 84.38 | 93.13 | No phase out |
| 2017 | 51.09 | 85.64 | 94.39 | No phase out |
| 2018 | 49.69 | 87.16 | 95.91 | No phase out |
| 2019 | 49.23 | 88.92 | 97.67 | No phase out |
| 2020 | 48.58 | 90.49 | 99.24 | No phase out |
| 2021 | (1) | (1) | (1) | (1) |

(1) The IRS will not release the factors for 2021 until April or May 2021. Based on our analysis of the factors used in the IRS' phase out calculations, it is our belief that there will be no phase out in 2021.

See the risk factors regarding our IRC Section 45 investments under Item 1A, "Risk Factors." for a more detailed discussion of these and other factors could impact the information above. See Note 14 to our 2020 consolidated financial statements for more information regarding risks and uncertainties related to these investments.

## Financial Condition and Liquidity

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations. The insurance brokerage industry is not capital intensive. Historically, our capital requirements have primarily included dividend payments on our common stock, repurchases of our common stock, funding of our investments, acquisitions of brokerage and risk management operations and capital expenditures.

In light of the economic uncertainty caused by COVID-19, subsequent to the first quarter of 2020, we preserved liquidity during 2020 by reducing capital expenditures for the remainder of the year and made working capital process changes such as moved more cash into the U.S. from our international operations, pursued collections on receivables from our customers and partners and renegotiated longer payment terms on vendor payables. We also slowed down our acquisition program in the second and third quarters of 2020. We believe we have sufficient liquidity on hand to continue business operations during this uncertain period. If we experience a significant reduction in revenue in the future, we have additional alternatives to maintain liquidity, including use of common stock to fund future acquisitions.

## Cash Flows From Operating Activities

Historically, we have depended on our ability to generate positive cash flow from operations to meet a substantial portion of our cash requirements. We believe that our cash flows from operations and borrowings under our Credit Agreement will provide us with adequate resources to meet our liquidity needs in the foreseeable future. To fund acquisitions made during 2020, 2019 and 2018, we relied on a combination of net cash flows from operations, proceeds from borrowings under our Credit Agreement, proceeds from issuances of senior unsecured notes and issuances of our common stock.

Cash provided by operating activities was $1,752.5 million, $1,119.2 million and $765.1 million for 2020, 2019 and 2018, respectively. The increase in cash provided by operating activities during 2020 compared to the same period in 2019 was primarily due to timing differences between periods in the collection of other current receivables and payments on current liabilities. During 2020, we managed our working capital in terms of receivables and payables as a cautionary step to protect liquidity during this uncertain period. In addition, during 2020, the company filed a refund claim under a CARES Act provision that accelerates the ability of companies to recover AMT credits and we received a $28.5 million refund related to our AMT credit carryovers, which was the remaining amount owed to us. Under the CARES Act we also elected to defer the payment of $51.6 million of employer payroll tax obligations incurred in 2020 into 2021 and 2022. This also defers our income tax deduction related to these employer payroll taxes, which results in an unfavorable temporary income tax adjustment of $12.9 million that will reverse in the year that the payroll taxes are paid. We also deferred $18.0 million of estimated federal income tax payments from second quarter 2020 to third quarter 2020.

The increase in cash provided by operating activities in 2019 compared to 2018 was due to the following items: decreases in 2019 compared to 2018 of $48.0 million of payments on acquisition earnouts in excess of original estimates, $45.9 million of income tax payments and $30.0 million discretionary contribution made to our defined benefit plan in 2018. Also contributing to the increase in cash provided by operating activities in 2019 compared to 2018 were timing differences between years in the collection of receivables and direct bill revenues, and the payment of accrued liabilities.

In addition, cash provided by operating activities in 2020 was favorably impacted by timing differences in the receipts and disbursements of client fiduciary related balances in 2020 compared to 2019. The following table summarizes two lines from our consolidated statement of cash flows and provides information that management believes is helpful when comparing changes in client fiduciary related balances for 2020, 2019 and 2018 (in millions):

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Net change in premiums and fees receivable | $ (796.5) | $ (434.7) | $ (783.1) |
| Net change in premiums payable to underwriting enterprises | 1,154.2 | 461.6 | 819.7 |
| Net cash provided by the above | $ 357.7 | $ 26.9 | $ 36.6 |

Our cash flows from operating activities are primarily derived from our earnings from operations, as adjusted, for our non-cash expenses, which include depreciation, amortization, change in estimated acquisition earnout payables, deferred compensation, restricted stock, and stock-based and other non-cash compensation expenses. Cash provided by operating activities can be unfavorably impacted if the amount of IRC Section 45 tax credits generated (which is the amount we recognize for financial reporting purposes) is greater than the amount of tax credits actually used to reduce our tax cash obligations. Excess tax credits produced during the period result in an increase to our deferred tax assets, which is a net use of cash related to operating activities. Please see "Clean energy investments" below for more information on their potential future impact on cash provided by operating activities.

When assessing our overall liquidity, we believe that the focus should be on net earnings as reported in our consolidated statement of earnings, adjusted for non-cash items (i.e., EBITDAC), and cash provided by operating activities in our consolidated statement of cash flows. Consolidated EBITDAC was $1,596.8 million, $1,295.6 million and $1,046.4 million for 2020, 2019 and 2018, respectively. Net earnings attributable to controlling interests were $818.8 million, $668.8 million and $633.5 million for 2020, 2019 and 2018, respectively. We believe that EBITDAC items are indicators of trends in liquidity. From a balance sheet perspective, we believe the focus should not be on premium and fees receivable, premiums payable or restricted cash for trends in liquidity. Net cash flows provided by operations will vary substantially from quarter to quarter and year to year because of the variability in the timing of premiums and fees receivable and premiums payable. We believe that in order to consider these items in assessing our trends in liquidity, they should be looked at in a combined manner, because changes in these balances are interrelated and are based on the timing of premium payments, both to and from us. In addition, funds legally restricted as to our use relating to premiums and clients' claim funds held by us in a fiduciary capacity are presented in our consolidated balance sheet as "Restricted cash" and have not been included in determining our overall liquidity.

Our policy for funding our defined benefit pension plan is to contribute amounts at least sufficient to meet the minimum funding requirements under the IRC. The Employee Retirement Security Act of 1974, as amended (which we refer to as ERISA), could impose a minimum funding requirement for our plan. We were not required to make any minimum contributions to the plan for the 2020, 2019 and 2018 plan years. Funding requirements are based on the plan being frozen and the aggregate amount of our historical funding. The plan's actuaries determine contribution rates based on our funding practices and requirements. Funding amounts may be influenced by future asset performance, the level of discount rates and other variables impacting the assets and/or liabilities of the plan. In addition, amounts funded in the future, to the extent not due under regulatory requirements, may be affected by alternative uses of our cash flows, including dividends, acquisitions and common stock repurchases. During 2018 we made a $30.0 million discretionary contribution to the plan in order to minimize the potential impact of having to make required minimum contributions to the plan in future periods. During 2020 and 2019 we did not make discretionary contributions to the plan.

See Note 13 to our 2020 consolidated financial statements for additional information required to be disclosed relating to our defined benefit postretirement plans. We are required to recognize an accrued benefit plan liability for our underfunded defined benefit pension and unfunded retiree medical plans (which we refer to together as the Plans). The offsetting adjustment to the liabilities required to be recognized for the Plans is recorded in "Accumulated Other Comprehensive Earnings (Loss)," net of tax, in our consolidated balance sheet. We will recognize subsequent changes in the funded status of the Plans through the income statement and as a component of comprehensive earnings, as appropriate, in the year in which they occur. Numerous items may lead to a change in funded status of the Plans, including actual results differing from prior estimates and assumptions, as well as changes in assumptions to reflect information available at the respective measurement dates.

In 2020, the funded status of the Plan was unfavorably impacted by a decrease in the discount rates used in the measurement of the pension liabilities at December 31, 2020, the net impact of which was approximately $15.0 million. However, the funded status was favorably impacted by returns on the plan's assets being higher in 2020 than anticipated by approximately $17.9 million. The net change in the funded status of the Plan in 2020 resulted in a decrease in noncurrent liabilities in 2020 of $2.9 million. In 2019, the funded status of the Plan was unfavorably impacted by a decrease in the discount rates used in the measurement of the pension liabilities at December 31, 2019, the net impact of which was approximately $21.3 million. However, the funded status was favorably impacted by returns on the plan's assets being higher in 2019 than anticipated by approximately $23.8 million. The net change in the funded status of the Plan in 2019 resulted in a decrease in noncurrent liabilities in 2019 of $2.5 million. While the change in funded status of the Plan had no direct impact on our cash flows from operations in 2020, 2019 and 2018, potential changes in the pension regulatory environment and investment losses in our pension plan have an effect on our capital position and could require us to make significant contributions to our defined benefit pension plan and increase our pension expense in future periods.

**Cash Flows From Investing Activities**

**Capital Expenditures -** Capital expenditures were $99.3 million, $138.8 million and $124.4 million for 2020, 2019 and 2018, respectively. In addition, 2020 and 2019 capital expenditures include amounts incurred related to investments made in information technology and software development projects. Relating to the development of our new corporate headquarters, we received property tax related credits under a tax-increment financing note from Rolling Meadows, Illinois and an Illinois state EDGE tax credit. Incentives from these two programs could total between $60.0 million and $90.0 million over a fifteen-year period. In 2021, we expect total expenditures for capital improvements to be approximately $150.0 million, part of which is related to expenditures on office moves and expansions and updating computer systems and equipment.

**Acquisitions -** Cash paid for acquisitions, net of cash and restricted cash acquired, was $324.3 million, $1,266.8 million and $784.8 million in 2020, 2019 and 2018, respectively. The decreased use of cash for acquisitions in 2020 compared to 2019 was primarily due to a decrease in the number and size of acquisitions in 2020 than occurred in 2019. The increased use of cash for acquisitions in 2019 compared to 2018 was primarily due to an increase in the number and size of acquisitions in 2019 than occurred in 2018. In addition, during 2020, 2019 and 2018 we issued 3.0 million shares ($306.1 million), 1.9 million shares ($166.1 million) and 0.8 million shares ($60.8 million), respectively, of our common stock as payment for a portion of the total consideration paid for acquisitions and earnout payments. We completed 27, 49 and 48 acquisitions in 2020, 2019 and 2018, respectively. Annualized revenues of businesses acquired in 2020, 2019 and 2018 totaled approximately $251.4 million, $468.2 million and $339.8 million, respectively. In 2021, we expect to use new debt, our Credit Agreement, cash from operations and our common stock to fund all, or a portion of acquisitions we complete.

We significantly reduced our acquisition activity in the second and third quarters of 2020 because of the economic uncertainty brought on by COVID-19, and if liquidity concerns arise, we could use common stock to fund future acquisitions.

**Dispositions -** During 2020, 2019 and 2018, we sold several books of business and recognized one-time (losses) gains of $(5.8) million of losses and $75.3 million and $10.2 million of gains, respectively. On December 16, 2020, we completed the sale of a U.K. wealth management business that we purchased over four years ago that no longer strategically fit in our benefits operations. In fourth quarter 2020, we recognized a net pretax non-cash loss on sale of approximately $12.0 million, primarily due to the write-off of the remaining net book value of the amortizable intangible assets.

We received cash proceeds of $8.2 million, $81.0 million and $14.5 million, respectively, related to these transactions.

On January 8, 2019, we sold a travel insurance brokerage operation that was initially purchased in 2014. In first quarter 2019, we recognized a one-time, net gain of $0.17 of diluted net earnings per share as a result of the sale.

**Clean Energy Investments** - During the period from 2009 through 2020, we have made significant investments in clean energy operations capable of producing refined coal that we believe qualifies for tax credits under IRC Section 45. Our current estimate of the 2021 annual net after-tax earnings, including IRC Section 45 tax credits, which will be produced from all of our clean energy investments in 2020, is $60.0 million to $75.0 million. The IRC Section 45 tax credits generate positive cash flow by reducing the amount of federal income taxes we pay, which is offset by the operating expenses of the plants, by any capital expenditures related to the redeployment, and in some cases the relocation of refined coal plants. We anticipate positive net cash flow related to IRC Section 45 activity in 2021. However, there are several variables that can impact net cash flow from clean energy investments in any given year. Therefore, accurately predicting positive or negative cash flow in particular future periods is not possible at this time. Nonetheless, if current ownership interests remain the same, if capital expenditures related to redeployment and relocation of refined coal plants remain as currently anticipated, and if we continue to generate sufficient taxable income to use the tax credits produced by our IRC Section 45 investments, we anticipate that these investments will continue to generate positive net cash flows for the period 2021 through at least 2025. While we cannot precisely forecast the cash flow impact in any particular period, we anticipate that the net cash flow impact of these investments will be positive overall. Please see "Clean energy investments" on pages 48 and 49 for a more detailed description of these investments and their risks and uncertainties.

**Cash Flows From Financing Activities**

On June 7, 2019, we entered into an amendment and restatement to our multicurrency credit agreement dated April 8, 2016 (which we refer to as the Credit Agreement) with a group of fifteen financial institutions. The amendment and restatement, among other things, extended the expiration date of the Credit Agreement from April 8, 2021 to June 7, 2024 and increased the revolving credit commitment from $800.0 million to $1,200.0 million, of which $75.0 million may be used for issuances of standby or commercial letters of credit and up to $75.0 million may be used for the making of swing loans, (as defined in the Credit Agreement). We may from time to time request, subject to certain conditions, an increase in the revolving credit commitment under the Credit Agreement up to a maximum aggregate revolving credit commitment of $1,700.0 million. On August 27, 2020, we entered into an amendment to the Credit Agreement providing that the obligations of each subsidiary of Gallagher that was a borrower, guarantor and/or obligor under the Credit Agreement, ceased to apply and that each such subsidiary was released from all of its obligations under the Credit Agreement. The amendment also replaced the minimum asset covenant with a priority indebtedness covenant, substantially similar to other priority indebtedness covenants applicable to us under our private placement note purchase agreements.

There were no borrowings outstanding under the Credit Agreement at December 31, 2020. Due to the outstanding borrowing and letters of credit, $1,182.6 million remained available for potential borrowings under the Credit Agreement at December 31, 2020.

We use the Credit Agreement to post letters of credit and to borrow funds to supplement our operating cash flows from time to time. During 2020, we borrowed an aggregate of $2,630.0 million and repaid $3,150.0 million under our Credit Agreement. During 2019, we borrowed an aggregate of $4,315.0 million and repaid $4,060.0 million under our Credit Agreement. During 2018, we borrowed an aggregate of $3,075.0 million and repaid $3,000.0 million under our Credit Agreement. Principal uses of the 2020, 2019 and 2018 borrowings under the Credit Agreement were to fund acquisitions, earnout payments related to acquisitions and general corporate purposes.

On September 30, 2020, we entered into an amendment to our revolving loan facility (which we refer to as the Premium Financing Debt Facility) that provides funding for the three Australian (AU) and New Zealand (NZ) premium finance subsidiaries. The amendment, among other things, extended the expiration date of the Premium Financing Debt Facility from July 18, 2021 to September 15, 2022, added six-months of variable limits to Facility B NZ$ beginning in 2021 and increased the total commitment for the AU$ denominated tranche from AU$245.0 million to AU$310.0 million. The Premium Financing Debt Facility is comprised of: (i) Facility B is separated into AU$260.0 million and NZ$25.0 million tranches, (ii) Facility C, an AU$50.0 million equivalent multi-currency overdraft tranche and (iii) Facility D, a NZ$15.0 million equivalent multi-currency overdraft tranche.

At December 31, 2020, we had $4,348.0 million of corporate-related borrowings outstanding under separate note purchase agreements entered into in the period 2009 to 2020, no borrowings outstanding under our credit facility, $203.6 million outstanding under our Premium Financing Debt Facility and a cash and cash equivalent balance of $664.6 million. See Note 8 to our 2020 consolidated financial statements for a discussion of the terms of the note purchase agreements, the Credit Agreement and the Premium Financing Debt Facility.

On January 30, 2020, we closed and funded an offering of $575.0 million aggregate principal amount of fixed rate private placement unsecured senior notes. The weighted average maturity of these notes is 11.7 years and the weighted average interest rate is 4.23% per annum after giving effect to underwriting costs and the net hedge loss. In 2017 and 2018, we entered into pre-issuance interest rate hedging transactions related to this private placements. We realized a net cash loss of approximately $8.9 million on the hedging transactions that will be recognized on a pro rata basis as an increase to our reported interest expense over ten years.

The notes consist of the following tranches:

- $30.0 million of 3.75% senior notes due in 2027;
- $341.0 million of 3.99% senior notes due in 2030;
- $69.0 million of 4.09% senior notes due in 2032;
- $79.0 million of 4.24% senior notes due in 2035; and
- $56.0 million of 4.49% senior notes due in 2040

We used these offerings to repay certain existing indebtedness and for general corporate purposes, including to fund acquisitions.

Consistent with past practice, as of December 31, 2020 we had pre-issuance hedges open for $350.0 million for 2021 and $200.0 million for 2022.

On February 13, 2019, we closed an offering of $600.0 million aggregate principal amount of fixed rate private placement senior unsecured notes. This offering was funded on February 13, 2019 ($340.0 million) and March 13, 2019 ($260.0 million). The weighted average maturity of these notes is 10.1 years and the weighted average interest rate is 5.04% after giving effect to a net hedging loss. In 2017 and 2018, we entered into pre-issuance interest rate hedging transactions related to this private placement. We realized a net cash loss of approximately $1.2 million on the hedging transactions that will be recognized on a pro rata basis as an increase in our reported interest expense over the life of the debt.

The notes consist of the following tranches:

- $100.0 million of 4.72% senior notes due in 2024;
- $140.0 million of 4.85% senior notes due in 2026;
- $100.0 million of 5.04% senior notes due in 2029;
- $180.0 million of 5.14% senior notes due in 2031;
- $40.0 million of 5.29% senior notes due in 2034; and
- $40.0 million of 5.45% senior notes due in 2039

We used the proceeds of these offerings to repay certain existing indebtedness and fund acquisitions.

On June 12, 2019, we closed a private placement of $175.0 million aggregate principal amount of unsecured senior notes. The unsecured senior notes were issued with an interest rate of 4.48% and are due in 2034. We used the proceeds of these offerings in part to fund the $50.0 million June 24, 2019 Series L note maturity, and for acquisitions and general corporate purposes. The weighted average interest rate is 4.68% after giving effect to a net hedging loss. In 2017 and 2018, we entered into pre-issuance interest rate hedging transactions related to this private placement. We realized a net cash loss of approximately $5.2 million on the hedging transactions that will be recognized on a pro rata basis as an increase in our reported interest expense over ten years of the total 15-year notes.

On December 2, 2019 we closed a private placement of $50.0 million aggregate principal amount of unsecured senior notes. The unsecured senior notes were issued with an interest rate and weighted average interest rate of 3.48% and are due in 2029. We used the proceeds of those offerings to fund the $50.0 million November 30, 2019 Series C note maturity.

On June 13, 2018, we closed and funded offerings of $500.0 million aggregate principal amount of private placement senior unsecured notes (both fixed and floating rate), which was used in part to fund the $50.0 million June 24, 2018 Series K notes maturity. The weighted average maturity of the $450.0 million of senior fixed rate notes is 13.6 years and their weighted average interest rate is 4.42% after giving effect to net hedging gains. The interest rate on the $50.0 million of floating rate notes would be 3.14% using three-month LIBOR on February 3, 2020. In 2017 and 2018, we entered into pre-issuance interest rate hedging transactions related to the $500.0 million private placement funded on June 13, 2018. We realized a net cash gain of approximately $2.9 million on the hedging transaction that will be recognized on a pro rata basis as a reduction in our reported interest expense over the life of the debt. We used the proceeds of these offerings to repay certain existing indebtedness and fund acquisitions.

The note purchase agreements, the Credit Agreement and the Premium Financing Debt Facility contain various financial covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of December 31, 2020.

**Dividends -** Our board of directors determines our dividend policy. Our board of directors determines dividends on our common stock on a quarterly basis after considering our available cash from earnings, our anticipated cash needs and current conditions in the economy and financial markets.

In 2020, we declared $348.4 million in cash dividends on our common stock, or $1.80 per common share. On December 18, 2020, we paid a fourth quarter dividend of $0.45 per common share to shareholders of record as of December 4, 2020. On January 27, 2021, we announced a quarterly dividend for first quarter 2021 of $0.48 per common share. If the dividend is maintained at $0.48 per common share throughout 2021, this dividend level would result in an annualized net cash used by financing activities in 2021 of approximately $370.5 million (based on the outstanding shares as of December 31, 2020), or an anticipated increase in cash used of approximately $23.1 million compared to 2020. We can make no assurances regarding the amount of any future dividend payments.

**Shelf Registration Statement -** On November 15, 2019, we filed a shelf registration statement on Form S-3 with the SEC, registering the offer and sale from time to time, of an indeterminate amount of our common stock. The availability of the potential liquidity under this shelf registration statement depends on investor demand, market conditions and other factors. We make no assurances regarding when, or if, we will issue any shares under this registration statement. On November 15, 2016, we also filed a shelf registration statement on Form S-4 with the SEC, registering 10.0 million shares of our common stock that we may offer and issue from time to time in connection with future acquisitions of other businesses, assets or securities. At December 31, 2020, 4.3 million shares remained available for issuance under this registration statement.

**Common Stock Repurchases -** We have in place a common stock repurchase plan approved by our board of directors. During the years ended December 31, 2020 and 2019, we did not repurchase shares of our common stock. During the year ended December 31, 2018, we repurchased 0.1 million shares of our common stock at cost of $11.3 million. Under the provisions of the repurchase plan, we are authorized to repurchase approximately 7.3 million additional shares at December 31, 2020. The plan authorizes the repurchase of our common stock at such times and prices as we may deem advantageous, in transactions on the open market or in privately negotiated transactions. We are under no commitment or obligation to repurchase any particular number of shares, and the plan may be suspended at any time at our discretion. Funding for share repurchases may come from a variety of sources, including cash from operations, short-term or long-term borrowings under our Credit Agreement or other sources.

**Common Stock Issuances -** Another source of liquidity to us is the issuance of our common stock pursuant to our stock option and employee stock purchase plans. Proceeds from the issuance of common stock under these plans were $111.9 million in 2020, $101.2 million in 2019 and $81.9 million in 2018. On May 16, 2017, our stockholders approved the 2017 Long-Term Incentive Plan (which we refer to as the LTIP), which replaced our previous stockholder-approved 2014 Long-Term Incentive Plan. All of our officers, employees and non-employee directors are eligible to receive awards under the LTIP. Awards which may be granted under the LTIP include non-qualified and incentive stock options, stock appreciation rights, restricted stock units and performance units, any or all of which may be made contingent upon the achievement of performance criteria. Stock options with respect to 11.4 million shares (less any shares of restricted stock issued under the LTIP - 2.3 million shares of our common stock were available for this purpose as of December 31, 2020) were available for grant under the LTIP at December 31, 2020. Our employee stock purchase plan allows our employees to purchase our common stock at 95% of its fair market value. Proceeds from the issuance of our common stock related to these plans have contributed favorably to net cash provided by financing activities in the years ended December 31, 2020, 2019 and 2018, and we believe this favorable trend will continue in the foreseeable future.

We have a qualified contributory savings and thrift 401(k) plan covering the majority of our domestic employees. For eligible employees who have met the plan's age and service requirements to receive matching contributions, we historically have matched 100% of pre-tax and Roth elective deferrals up to a maximum of 5.0% of eligible compensation, subject to federal limits on plan contributions and not in excess of the maximum amount deductible for federal income tax purposes. Beginning in 2021, the amount matched by the company will be discretionary and annually determined by management. Employees must be employed and eligible for the plan on the last day of the plan year to receive a matching contribution, subject to certain exceptions enumerated in the plan document. Matching contributions are subject to a five-year graduated vesting schedule and can be funded in cash or company stock. We expensed (net of plan forfeitures) $63.6 million, $59.4 million and $53.9 million related to the plan in 2020, 2019 and 2018, respectively. Our board of directors has authorized the use of common stock to fund our 2020 employer matching contributions to the 401(k) plan, which we plan to do in February 2021.

**Outlook -** We believe that we have sufficient capital and access to additional capital to meet our short- and long-term cash flow needs.

## Contractual Obligations and Commitments

In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. See Notes 8, 14 and 17 to our 2020 consolidated financial statements for additional discussion of these obligations and commitments. Our future minimum cash payments, including interest, associated with our contractual obligations pursuant to our note purchase agreements and Credit Agreement, operating leases and purchase commitments as of December 31, 2020 are as follows (in millions):

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| Contractual Obligations | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Total |
| Note purchase agreements | $ 75.0 | $ 200.0 | $ 250.0 | $ 475.0 | $ 200.0 | $ 3,148.0 | $ 4,348.0 |
| Credit Agreement | — | — | — | — | — | — | — |
| Premium Financing Debt Facility | 203.6 | — | — | — | — | — | 203.6 |
| Interest on debt | 189.5 | 183.6 | 174.7 | 158.0 | 143.4 | 601.9 | 1,451.1 |
| Total debt obligations | 468.1 | 383.6 | 424.7 | 633.0 | 343.4 | 3,749.9 | 6,002.7 |
| Operating lease obligations | 108.5 | 93.9 | 75.1 | 54.8 | 41.6 | 77.8 | 451.7 |
| Less sublease arrangements | (0.3) | (0.3) | (0.2) | (0.2) | (0.2) | (0.5) | (1.7) |
| Outstanding purchase obligations | 75.3 | 49.4 | 30.8 | 21.9 | 16.7 | 22.7 | 216.8 |
| Total contractual obligations | $ 651.6 | $ 526.6 | $ 530.4 | $ 709.5 | $ 401.5 | $ 3,849.9 | $ 6,669.5 |

The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation. As of December 31, 2020, we had a $48.2 million accrued liability related to the Ashton Tiffany acquisition, that is not in the foregoing table, that may be settled using shares of our common stock in early February 2021.

In addition, due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2020, we are unable to make reasonably reliable estimates of the period in which cash settlements may be made with the respective taxing authorities. See Note 19 to our 2020 consolidated financial statements for a discussion on income taxes.

See Note 8 to our 2020 consolidated financial statements for a discussion of the terms of the Credit Agreement and note purchase agreements.

## Off-Balance Sheet Arrangements

**Off-Balance Sheet Commitments -** Our total unrecorded commitments associated with outstanding letters of credit, financial guarantees and funding commitments as of December 31, 2020 are as follows (in millions):

| | Amount of Commitment Expiration by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| Off-Balance Sheet Commitments | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Total Amounts Committed |
| Letters of credit | $ — | $ — | $ — | $ — | $ — | $ 18.4 | $ 18.4 |
| Financial guarantees | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.2 |
| Total commitments | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.2 | $ 18.6 | $ 19.6 |

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect our actual future cash funding requirements. See Note 17 to our 2020 consolidated financial statements for a discussion of our funding commitments related to our corporate segment and the Off-Balance Sheet Debt section below for a discussion of other letters of credit. All but one of the letters of credit represent multiple year commitments that have annual, automatic renewing provisions and are classified by the latest commitment date.

On December 23, 2020, we signed a definitive agreement to acquire 100% of the equity of The Bollington Wilson Group (which we refer to as Bollington) headquartered in Sale, Greater Manchester, U.K., for approximately $330.0 million of cash consideration. The transaction is subject to regulatory approval, which we received on January 26, 2021, and is expected to close in February 2021.

Since January 1, 2002, we have acquired 583 companies, all of which were accounted for using the acquisition method for recording business combinations. Substantially all of the purchase agreements related to these acquisitions contain provisions for potential earnout obligations. For all of our acquisitions made in the period from 2016 to 2020 that contain potential earnout obligations, such obligations are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration for the respective acquisition. The amounts recorded as earnout payables are primarily based upon estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The aggregate amount of the maximum earnout obligations related to these acquisitions was $1,128.1 million, of which $592.2 million was recorded in our consolidated balance sheet as of December 31, 2020, based on the estimated fair value of the expected future payments to be made, of which approximately $493.7 million can be settled in cash or stock at our option and $98.5 million must be settled in cash.

**Off-Balance Sheet Debt -** Our unconsolidated investment portfolio includes investments in enterprises where our ownership interest is between 1% and 50%, in which management has determined that our level of influence and economic interest is not sufficient to require consolidation. As a result, these investments are accounted for under the equity method. None of these unconsolidated investments had any outstanding debt at December 31, 2020 and 2019 that was recourse to us.

At December 31, 2020, we had posted two letters of credit totaling $9.4 million, in the aggregate, related to our self-insurance deductibles, for which we have recorded a liability of $17.5 million. We have an equity investment in a rent-a-captive facility, which we use as a placement facility for certain of our insurance brokerage operations. At December 31, 2020, we had posted seven letters of credit totaling $7.5 million to allow certain of our captive operations to meet minimum statutory surplus requirements plus additional collateral related to premium and claim funds held in a fiduciary capacity, one letter of credit totaling $1.0 million for collateral related to claim funds held in a fiduciary capacity by a recent acquisition and one letter of credit totaling $0.5 million as a security deposit for a 2015 acquisition's lease. These letters of credit have never been drawn upon.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to various market risks in our day to day operations. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest and foreign currency exchange rates and equity prices. The following analyses present the hypothetical loss in fair value of the financial instruments held by us at December 31, 2020 that are sensitive to changes in interest rates. The range of changes in interest rates used in the analyses reflects our view of changes that are reasonably possible over a one-year period. This discussion of market risks related to our consolidated balance sheet includes estimates of future economic environments caused by changes in market risks. The effect of actual changes in these market risk factors may differ materially from our estimates. In the ordinary course of business, we also face risks that are either nonfinancial or unquantifiable, including credit risk and legal risk. These risks are not included in the following analyses.

Our invested assets are primarily held as cash and cash equivalents, which are subject to various market risk exposures such as interest rate risk. The fair value of our portfolio of cash and cash equivalents as of December 31, 2020 approximated its carrying value due to its short-term duration. We estimated market risk as the potential decrease in fair value resulting from a hypothetical one-percentage point increase in interest rates for the instruments contained in the cash and cash equivalents investment portfolio. The resulting fair values were not materially different from their carrying values at December 31, 2020.

As of December 31, 2020, we had $4,348.0 million of borrowings outstanding under our various note purchase agreements. The aggregate estimated fair value of these borrowings at December 31, 2020 was $5,018.9 million due to the long-term duration and fixed interest rates associated with these debt obligations. No active or observable market exists for our private placement long-term debt. Therefore, the estimated fair value of this debt is based on the income valuation approach, which is a valuation technique that converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. Because our debt issuances generate a measurable income stream for each lender, the income approach was deemed to be an appropriate methodology for valuing the private placement long-term debt. The methodology used calculated the original deal spread at the time of each debt issuance, which was equal to the difference between the yield of each issuance (the coupon rate) and the equivalent benchmark treasury yield at that time. The market spread as of the valuation date was calculated, which is equal to the difference between an index for investment grade insurers and the equivalent benchmark treasury yield today. An implied premium or discount to the par value of each debt issuance based on the difference between the origination deal spread and market as of the valuation date was then calculated. The index we relied on to represent investment graded insurers was the Bloomberg Valuation Services (BVAL) U.S. Insurers BBB index. This index is comprised primarily of insurance brokerage firms and was representative of the industry in which we operate. For the purpose of our analysis, the average BBB rate was assumed to be the appropriate borrowing rate for us.

We estimated market risk as the potential impact on the value of the debt recorded in our consolidated balance sheet based on a hypothetical one-percentage point change in our weighted average borrowing rate as of December 31, 2020. A one-percentage point decrease would result in an estimated fair value of $5,345.9 million, or $997.9 million more than their current carrying value. A one-percentage point increase would result in an estimated fair value of $4,720.0 million, or $372.0 million more than their current carrying value.

As of December 31, 2020, we had no borrowings outstanding under our Credit Agreement and $203.6 million of borrowings outstanding under our Premium Financing Debt Facility. Market risk is estimated as the potential increase in fair value resulting from a hypothetical one-percentage point decrease in our weighted average short-term borrowing rate at December 31, 2020. Because these are short-term borrowings with variable interest rates, the estimated fair values of these borrowings approximate their carrying value.

We are subject to foreign currency exchange rate risk primarily from one of our larger U.K. based brokerage subsidiaries that incurs expenses denominated primarily in British pounds while receiving a substantial portion of its revenues in U.S. dollars. Please see Item 1A, "Risk Factors," for additional information regarding potential foreign exchange rate risks arising from Brexit. In addition, we are subject to foreign currency exchange rate risk from our Australian, Canadian, Indian, Jamaican, New Zealand, Norwegian, Singaporean and various Caribbean and Latin American operations because we transact business in their local denominated currencies. Foreign currency gains (losses) related to this market risk are recorded in earnings before income taxes as transactions occur. Assuming a hypothetical adverse change of 10% in the average foreign currency exchange rate for 2020 (a weakening of the U.S. dollar), earnings before income taxes would have increased by approximately $25.1 million. Assuming a hypothetical favorable change of 10% in the average foreign currency exchange rate for 2020 (a strengthening of the U.S. dollar), earnings before income taxes would have decreased by approximately $19.8 million. We are also subject to foreign currency exchange rate risk associated with the translation of local currencies of our foreign subsidiaries into U.S. dollars. We manage the balance sheets of our foreign subsidiaries, where practical, such that foreign liabilities are matched with equal foreign assets, maintaining a "balanced book" which minimizes the effects of currency fluctuations. However, our consolidated financial position is exposed to foreign currency exchange risk related to intra-entity loans between our U.S. based subsidiaries and our non-U.S. based subsidiaries that are denominated in the respective local foreign currency. A transaction that is in a foreign currency is first remeasured at the entity's functional (local) currency, where applicable, (which is an adjustment to consolidated earnings) and then translated to the reporting (U.S. dollar) currency (which is an adjustment to consolidated stockholders' equity) for consolidated reporting purposes. If the transaction is already denominated in the foreign entity's functional currency, only the translation to U.S. dollar reporting is necessary. The remeasurement process required by U.S. GAAP for such foreign currency loan transactions will give rise to a consolidated unrealized foreign exchange gain or loss, which could be material, that is recorded in accumulated other comprehensive earnings (loss).

Historically, we have not entered into derivatives or other similar financial instruments for trading or speculative purposes. However, with respect to managing foreign currency exchange rate risk in India, Norway and the U.K., we have periodically purchased financial instruments to minimize our exposure to this risk. During 2020, 2019 and 2018, we had several monthly put/call options in place with an external financial institution that were designed to hedge a significant portion of our future U.K. currency revenues through various future payment dates. In addition, during 2020, 2019 and 2018, we had several monthly put/call options in place with an external financial institution that were designed to hedge a significant portion of our Indian currency disbursements through various future payment dates. Although these hedging strategies were designed to protect us against significant U.K. and Indian currency exchange rate movements, we are still exposed to some foreign currency exchange rate risk for the portion of the payments and currency exchange rate that are unhedged. All of these hedges are accounted for in accordance with ASC Topic 815, "Derivatives and Hedging", and periodically are tested for effectiveness in accordance with such guidance. In the scenario where such hedge does not pass the effectiveness test, the hedge will be re-measured at the stated point and the appropriate loss, if applicable, would be recognized. For the year ended December 31, 2020 there has been no such effect on our consolidated financial presentation. The impact of these hedging strategies was not material to our consolidated financial statements for 2020, 2019 and 2018. See Note 21 to our 2020 consolidated financial statements for the changes in fair value of these derivative instruments reflected in comprehensive earnings in 2020, 2019 and 2018.

## Item 8. Financial Statements and Supplementary Data.

**Arthur J. Gallagher & Co.**
**Consolidated Statement of Earnings**
**(In millions, except per share data)**

| | Year Ended December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| Commissions | $ 3,591.9 | $ 3,320.6 | $ 2,920.7 |
| Fees | 1,957.9 | 1,911.1 | 1,756.3 |
| Supplemental revenues | 221.9 | 210.5 | 189.9 |
| Contingent revenues | 147.0 | 135.6 | 98.0 |
| Investment income | 75.9 | 86.9 | 70.1 |
| Net (losses) gains on divestitures | (5.8) | 75.3 | 10.2 |
| Revenues from clean coal activities | 863.5 | 1,319.3 | 1,746.3 |
| Other net (losses) revenue | (0.4) | (2.9) | 0.9 |
| Revenues before reimbursements | 6,851.9 | 7,056.4 | 6,792.4 |
| Reimbursements | 151.7 | 138.6 | 141.6 |
| Total revenues | 7,003.6 | 7,195.0 | 6,934.0 |
| Compensation | 3,466.5 | 3,339.5 | 3,026.3 |
| Operating | 906.5 | 1,068.5 | 903.7 |
| Reimbursements | 151.7 | 138.6 | 141.6 |
| Cost of revenues from clean coal activities | 882.1 | 1,352.8 | 1,816.0 |
| Interest | 196.4 | 179.8 | 138.4 |
| Depreciation | 145.1 | 140.4 | 127.8 |
| Amortization | 417.3 | 334.0 | 291.2 |
| Change in estimated acquisition earnout payables | (32.9) | 15.3 | 9.6 |
| Total expenses | 6,132.7 | 6,568.9 | 6,454.6 |
| Earnings before income taxes | 870.9 | 626.1 | 479.4 |
| Provision (benefit) for income taxes | 12.8 | (89.7) | (196.5) |
| Net earnings | 858.1 | 715.8 | 675.9 |
| Net earnings attributable to noncontrolling interests | 39.3 | 47.0 | 42.4 |
| Net earnings attributable to controlling interests | $ 818.8 | $ 668.8 | $ 633.5 |
| Basic net earnings per share | $ 4.29 | $ 3.60 | $ 3.47 |
| Diluted net earnings per share | 4.20 | 3.52 | 3.40 |
| Dividends declared per common share | 1.80 | 1.72 | 1.64 |

See notes to consolidated financial statements.

**Arthur J. Gallagher & Co.**
**Consolidated Statement of Comprehensive Earnings**
**(In millions)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| Net earnings | $ 858.1 | $ 715.8 | $ 675.9 |
| Change in pension liability, net of taxes | 0.4 | 4.7 | (10.3) |
| Foreign currency translation, net of taxes in 2020 and 2019 | 183.7 | 44.0 | (197.7) |
| Change in fair value of derivative instruments, net of taxes | (68.1) | (22.7) | (15.6) |
| Comprehensive earnings | 974.1 | 741.8 | 452.3 |
| Comprehensive earnings attributable to noncontrolling interests | 39.7 | 47.3 | 40.4 |
| Comprehensive earnings attributable to controlling interests | $ 934.4 | $ 694.5 | $ 411.9 |

See notes to consolidated financial statements

**Arthur J. Gallagher & Co.**
**Consolidated Balance Sheet**
**(In millions)**

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 664.6 | $ 604.8 |
| Restricted cash | 2,909.7 | 2,019.1 |
| Premiums and fees receivable | 6,436.0 | 5,419.2 |
| Other current assets | 1,113.9 | 1,074.4 |
| Total current assets | 11,124.2 | 9,117.5 |
| Fixed assets - net | 450.7 | 467.4 |
| Deferred income taxes | 1,085.8 | 945.6 |
| Other noncurrent assets | 769.9 | 773.6 |
| Right-of-use assets | 373.9 | 393.5 |
| Goodwill - net | 6,127.0 | 5,618.5 |
| Amortizable intangible assets - net | 2,399.9 | 2,318.7 |
| Total assets | $ 22,331.4 | $ 19,634.8 |
| Premiums payable to underwriting enterprises | $ 7,784.6 | $ 6,348.5 |
| Accrued compensation and other accrued liabilities | 1,596.2 | 1,347.8 |
| Deferred revenue - current | 475.6 | 434.1 |
| Premium financing borrowings | 203.6 | 170.6 |
| Corporate related borrowings - current | 75.0 | 620.0 |
| Total current liabilities | 10,135.0 | 8,921.0 |
| Corporate related borrowings - noncurrent | 4,266.0 | 3,816.1 |
| Deferred revenue - noncurrent | 65.7 | 69.7 |
| Lease liabilities - noncurrent | 320.9 | 340.9 |
| Other noncurrent liabilities | 1,311.1 | 1,271.6 |
| Total liabilities | 16,098.7 | 14,419.3 |
| Stockholders' equity: | | |
| Common stock - authorized 400.0 shares; issued and outstanding 193.7 shares in 2020 and 188.1 shares in 2019 | 193.7 | 188.1 |
| Capital in excess of par value | 4,264.4 | 3,825.7 |
| Retained earnings | 2,371.7 | 1,901.3 |
| Accumulated other comprehensive loss | (643.6) | (759.6) |
| Stockholders' equity attributable to controlling interests | 6,186.2 | 5,155.5 |
| Stockholders' equity attributable to noncontrolling interests | 46.5 | 60.0 |
| Total stockholders' equity | 6,232.7 | 5,215.5 |
| Total liabilities and stockholders' equity | $ 22,331.4 | $ 19,634.8 |

See notes to consolidated financial statements.

**Arthur J. Gallagher & Co.**
**Consolidated Statement of Cash Flows**
**(In millions)**

| | Year Ended December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net earnings | $ 858.1 | $ 715.8 | $ 675.9 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Net loss (gain) on investments and other | 6.3 | (72.0) | (8.4) |
| Depreciation and amortization | 562.4 | 474.4 | 419.0 |
| Change in estimated acquisition earnout payables | (32.9) | 15.3 | 9.6 |
| Amortization of deferred compensation and restricted stock | 60.9 | 47.2 | 41.6 |
| Stock-based and other noncash compensation expense | 13.6 | 14.0 | 13.7 |
| Payments on acquisition earnouts in excess of original estimates | (14.5) | (16.6) | (64.6) |
| Effect of changes in foreign exchange rate | 2.9 | 6.7 | (2.9) |
| Net change in premium and fees receivable | (796.5) | (434.7) | (783.1) |
| Net change in deferred revenue | 18.5 | 12.8 | 18.4 |
| Net change in premiums payable to underwriting enterprises | 1,154.2 | 461.6 | 819.7 |
| Net change in other current assets | (77.1) | (60.5) | (134.7) |
| Net change in accrued compensation and other accrued liabilities | 91.8 | 77.0 | 44.9 |
| Net change in income taxes payable | 51.8 | 35.5 | (46.0) |
| Net change in deferred income taxes | (175.6) | (150.7) | (216.0) |
| Net change in other noncurrent assets and liabilities | 28.6 | (6.6) | (22.0) |
| Net cash provided by operating activities | 1,752.5 | 1,119.2 | 765.1 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (99.3) | (138.8) | (124.4) |
| Cash paid for acquisitions, net of cash and restricted cash acquired | (324.3) | (1,266.8) | (784.8) |
| Net proceeds from sales of operations/books of business | 8.2 | 81.0 | 14.5 |
| Net funding of investment transactions | (1.4) | (52.0) | (15.6) |
| Net cash used by investing activities | (416.8) | (1,376.6) | (910.3) |
| Cash flows from financing activities: | | | |
| Payments on acquisition earnouts | (38.8) | (46.3) | (62.1) |
| Proceeds from issuance of common stock | 111.9 | 101.2 | 81.9 |
| Repurchases of common stock | - | - | (11.3) |
| Payments to noncontrolling interests | (84.4) | (75.4) | (54.2) |
| Dividends paid | (347.4) | (321.1) | (301.8) |
| Net borrowings on premium financing debt facility | 16.0 | 19.2 | 32.9 |
| Borrowings on line of credit facility | 2,630.0 | 4,315.0 | 3,075.0 |
| Repayments on line of credit facility | (3,150.0) | (4,060.0) | (3,000.0) |
| Net borrowings of corporate related long-term debt | 424.9 | 725.0 | 400.0 |
| Debt acquisition costs | (1.3) | (3.9) | (1.3) |
| Settlements on terminated interest rate swaps | (66.0) | (15.3) | 2.9 |
| Net cash (used) provided by financing activities | (505.1) | 638.4 | 162.0 |
| Effect of changes in foreign exchange rates on cash, cash equivalents and restricted cash | 119.8 | 6.1 | (85.0) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 950.4 | 387.1 | (68.2) |
| Cash, cash equivalents and restricted cash at beginning of year | 2,623.9 | 2,236.8 | 2,305.0 |
| Cash, cash equivalents and restricted cash at end of year | $ 3,574.3 | $ 2,623.9 | $ 2,236.8 |

See notes to consolidated financial statements.

## Arthur J. Gallagher & Co.
## Consolidated Statement of Stockholders' Equity
## (In millions)

| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Earnings (Loss) | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balance at December 31, 2017 | 181.0 | 181.0 | $ 3,388.2 | $ 1,221.8 | $ (555.4) | $ 64.1 | $ 4,299.7 |
| Reclassification of the income tax effects within accumulated other comprehensive loss related to the TCJA | - | - | - | 6.6 | (6.6) | - | - |
| Net earnings | - | - | - | 633.5 | - | 42.4 | 675.9 |
| Net purchase of subsidiary shares from noncontrolling interests | - | - | (5.0) | - | - | 4.3 | (0.7) |
| Dividends paid to noncontrolling interests | - | - | - | - | - | (38.0) | (38.0) |
| Net change in pension asset/liability, net of taxes of $6.2 million | - | - | - | - | (10.3) | - | (10.3) |
| Foreign currency translation | - | - | - | - | (197.7) | (2.0) | (199.7) |
| Change in fair value of derivative instruments, net of taxes of ($5.6) million | - | - | - | - | (15.6) | - | (15.6) |
| Compensation expense related to stock option plan grants | - | - | 13.7 | - | - | - | 13.7 |
| Common stock issued in: | | | | | | | |
| Ten purchase transactions | 0.8 | 0.8 | 60.8 | - | - | - | 61.6 |
| Stock option plans | 1.6 | 1.6 | 57.0 | - | - | - | 58.6 |
| Employee stock purchase plan | 0.4 | 0.4 | 22.9 | - | - | - | 23.3 |
| Deferred compensation and restricted stock | 0.3 | 0.3 | 15.5 | - | - | - | 15.8 |
| Common stock repurchases | (0.1) | (0.1) | (11.2) | - | - | - | (11.3) |
| Cash dividends declared on common stock | - | - | - | (303.3) | - | - | (303.3) |
| Balance at December 31, 2018 | 184.0 | 184.0 | 3,541.9 | 1,558.6 | (785.6) | 70.8 | 4,569.7 |
| Cumulative effects of adoption of lease and hedging accounting standards | - | - | - | (2.2) | (0.2) | - | (2.4) |
| Net earnings | - | - | - | 668.8 | - | 47.0 | 715.8 |
| Net purchase of subsidiary shares from noncontrolling interests | - | - | - | - | - | (15.1) | (15.1) |
| Dividends paid to noncontrolling interests | - | - | - | - | - | (43.0) | (43.0) |
| Net change in pension asset/liability, net of taxes of $1.1 million | - | - | - | - | 4.7 | - | 4.7 |
| Foreign currency translation | - | - | - | - | 44.2 | 0.3 | 44.5 |
| Change in fair value of derivative instruments, net of taxes of ($8.9) million | - | - | - | - | (22.7) | - | (22.7) |
| Compensation expense related to stock option plan grants | - | - | 14.0 | - | - | - | 14.0 |
| Common stock issued in: | | | | | | | |
| Twenty-one purchase transactions | 1.9 | 1.9 | 166.1 | - | - | - | 168.0 |
| Stock option plans | 1.8 | 1.8 | 71.9 | - | - | - | 73.7 |
| Employee stock purchase plan | 0.3 | 0.3 | 27.2 | - | - | - | 27.5 |
| Deferred compensation and restricted stock | 0.1 | 0.1 | 4.6 | - | - | - | 4.7 |
| Cash dividends declared on common stock | - | - | - | (323.9) | - | - | (323.9) |
| Balance at December 31, 2019 | 188.1 | 188.1 | $ 3,825.7 | $ 1,901.3 | $ (759.6) | $ 60.0 | $ 5,215.5 |

See notes to consolidated financial statements.

# Arthur J. Gallagher & Co.
## Consolidated Statement of Stockholders' Equity (continued)
### (In millions)

| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Earnings (Loss) | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balance at December 31, 2019 | 188.1 | 188.1 | $ 3,825.7 | $ 1,901.3 | $ (759.6) | $ 60.0 | $ 5,215.5 |
| Net earnings | - | - | - | 818.8 | - | 39.3 | 858.1 |
| Net purchase of subsidiary shares from noncontrolling interests | - | - | - | - | - | (6.4) | (6.4) |
| Dividends paid to noncontrolling interests | - | - | - | - | - | (46.8) | (46.8) |
| Net change in pension asset/liability, net of taxes of $0.1 million | - | - | - | - | 0.4 | - | 0.4 |
| Foreign currency translation | - | - | - | - | 183.7 | 0.4 | 184.1 |
| Change in fair value of derivative instruments, net of taxes of ($22.4) million | - | - | - | - | (68.1) | - | (68.1) |
| Compensation expense related to stock option plan grants | - | - | 13.6 | - | - | - | 13.6 |
| Common stock issued in: | | | | | | | |
| Fifty-two purchase transactions | 3.0 | 3.0 | 306.1 | - | - | - | 309.1 |
| Stock option plans | 1.8 | 1.8 | 75.9 | - | - | - | 77.7 |
| Employee stock purchase plan | 0.5 | 0.5 | 33.7 | - | - | - | 34.2 |
| Deferred compensation and restricted stock | 0.3 | 0.3 | 9.4 | - | - | - | 9.7 |
| Cash dividends declared on common stock | - | - | - | (348.4) | - | - | (348.4) |
| Balance at December 31, 2020 | 193.7 | 193.7 | $ 4,264.4 | $ 2,371.7 | $ (643.6) | $ 46.5 | $ 6,232.7 |

See notes to consolidated financial statements.

## 1. Summary of Significant Accounting Policies

### Terms Used in Notes to Consolidated Financial Statements

**ASC** - Accounting Standards Codification.

**ASU** - Accounting Standards Update.

**FASB** - The Financial Accounting Standards Board.

**GAAP -** U.S. generally accepted accounting principles.

**IRC** - Internal Revenue Code.

**IRS** - Internal Revenue Service.

**Topic 606** - ASU No. 2014-09, Revenue from Contracts with Customers.

**Underwriting enterprises** - Insurance companies, reinsurance companies and various other forms of risk-taking entities, including intermediaries of underwriting enterprises.

**VIE** - Variable interest entity.

### Nature of Operations

Arthur J. Gallagher & Co. and its subsidiaries, collectively referred to herein as we, our, us or the company, provide insurance brokerage, consulting and third party claims settlement and administration services to both domestic and international entities. We have three reportable segments: brokerage, risk management and corporate. Our brokers, agents and administrators act as intermediaries between underwriting enterprises and our clients.

Our brokerage segment operations provide brokerage and consulting services to companies and entities of all types, including commercial, not-for-profit, public entities, and, to a lesser extent, individuals, in the areas of insurance placement, risk of loss management, and management of employer sponsored benefit programs. Our risk management segment operations provide contract claim settlement, claim administration, loss control services and risk management consulting for commercial, not-for-profit, captive and public entities, and various other organizations that choose to self-insure property/casualty coverages or choose to use a third-party claims management organization rather than the claim services provided by underwriting enterprises. The corporate segment reports the financial information related to our debt and other corporate costs, clean energy investments, external acquisition-related expenses and the impact of foreign currency translation. Clean energy investments consist of our investments in limited liability companies that own 35 commercial clean coal production facilities producing refined coal using Chem-Mod LLC's proprietary technologies. We believe these operations produce refined coal that qualifies for tax credits under IRC Section 45.

We do not assume underwriting risk on a net basis, other than with respect to de minimis amounts necessary to provide minimum or regulatory capital to organize captives, pools, specialized underwriters or risk-retention groups. Rather, capital necessary for covering losses is provided by underwriting enterprises.

Investment income and other revenues are primarily generated from our premium financing operations, our invested cash and restricted cash we hold on behalf of our clients, as well as clean energy investments. In addition, our share of the net earnings related to partially owned entities that are accounted for using the equity method is included in investment income.

We are headquartered in Rolling Meadows, Illinois, have operations in 49 countries and offer client-service capabilities in more than 150 countries globally through a network of correspondent insurance brokers and consultants.

**Basis of Presentation**

The accompanying consolidated financial statements include our accounts and all of our majority-owned subsidiaries (50% or greater ownership). Substantially all of our investments in partially owned entities in which our ownership is less than 50% are accounted for using the equity method based on the legal form of our ownership interest and the applicable ownership percentage of the entity. However, in situations where a less than 50%-owned investment has been determined to be a VIE and we are deemed to be the primary beneficiary in accordance with the variable interest model of consolidation, we will consolidate the investment into our consolidated financial statements. For partially owned entities accounted for using the equity method, our share of the net earnings of these entities is included in consolidated net earnings. All material intercompany accounts and transactions have been eliminated in consolidation.

In the preparation of our consolidated financial statements as of December 31, 2020, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition and/or disclosure in the notes therein.

**Use of Estimates**

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses, and the disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We periodically evaluate our estimates and assumptions, including those relating to the valuation of goodwill and other intangible assets, right-of-use assets, investments (including our IRC Section 45 investments), income taxes, revenue recognition, deferred costs, stock-based compensation, claims handling obligations, retirement plans, litigation and contingencies. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

**Revenue Recognition**

Our revenues are derived from commissions and fees as primarily specified in a written contract, or unwritten business understanding, with our clients or underwriting enterprises. We also recognize investment income over time from our invested assets and invested assets we hold on behalf of our clients or underwriting enterprises.

**BROKERAGE SEGMENT**

Our brokerage segment generates revenues by:

(i) Identifying, negotiating and placing all forms of insurance or reinsurance coverage, as well as providing risk-shifting, risk-sharing and risk-mitigation consulting services, principally related to property/casualty, life, health, welfare and disability insurance. We also provide these services through, or in conjunction with, other unrelated agents and brokers, consultants and management advisors.

(ii) Acting as an agent or broker for multiple underwriting enterprises by providing services such as sales, marketing, selecting, negotiating, underwriting, servicing and placing insurance coverage on their behalf.

(iii) Providing consulting services related to health and welfare benefits, voluntary benefits, executive benefits, compensation, retirement planning, institutional investment and fiduciary, actuarial, compliance, private insurance exchange, human resource technology, communications and benefits administration.

(iv) Providing management and administrative services to captives, pools, risk-retention groups, healthcare exchanges, small underwriting enterprises, such as accounting, claims and loss processing assistance, feasibility studies, actuarial studies, data analytics and other administrative services.

The vast majority of our brokerage contracts and service understandings are for a period of one year or less.

**Commissions and fees**

The primary source of revenues for our brokerage services is commissions from underwriting enterprises, based on a percentage of premiums paid by our clients, or fees received from clients based on an agreed level of service usually in lieu of commissions. These commissions and fees revenues are substantially recognized at a point in time on the effective date of the associated policies when control of the policy transfers to the client, as well as deferring certain revenues to reflect delivery of services over the contract period.

Commissions are fixed at the contract effective date and generally are based on a percentage of premiums for insurance coverage or employee headcount for employer sponsored benefit plans. Commissions depend upon a large number of factors, including the type of risk being placed, the particular underwriting enterprise's demand, the expected loss experience of the particular risk of coverage, and historical benchmarks surrounding the level of effort necessary for us to place and service the insurance contract. Rather than being tied to the amount of premiums, fees are most often based on an expected level of effort to provide our services.

Whether we are paid a commission or a fee, the vast majority of our services are associated with the placement of an insurance (or insurance-like) contract. Accordingly, we recognize approximately 80% of our commission and fee revenues on the effective date of the underlying insurance contract. The amount of revenue we recognize is based on our costs to provide our services up and through that effective date, including an appropriate estimate of our profit margin on a portfolio basis (a practical expedient as defined in Topic 606). Based on the proportion of additional services we provide in each period after the effective date of the insurance contract, including an appropriate estimate of our profit margin, we recognize approximately 15% of our commission and fee revenues in the first three months, and the remaining 5% thereafter. These periods may be different than the underlying premium payment patterns of the insurance contracts, but the vast majority of our services are fully provided within one year of the insurance contract effective date.

For consulting and advisory services, we recognize our revenue in the period in which we provide the service or advice. For management and administrative services, our revenue is recognized ratably over the contract period consistent with the performance of our obligations, mostly over an annual term.

**Supplemental revenues**

Certain underwriting enterprises may pay us additional revenues for the volume of premium placed with them and for insights into our sales pipeline, our sales capabilities or our risk selection knowledge. These amounts are in excess of the commission and fee revenues discussed above, and not all business we place with underwriting enterprises is eligible for supplemental revenues. Unlike contingent revenues, discussed below, these revenues are primarily a fixed amount or fixed percentage of premium of the underlying eligible insurance contracts. For supplemental revenue contracts based on a fixed percentage of premium, our obligation to the underwriting enterprise is substantially completed upon the effective date of the underlying insurance contract and revenue is fully earned at that time. For supplemental revenue contracts based on a fixed amount, revenue is recognized ratably over the contract period consistent with the performance of our obligations, almost always over an annual term. We receive these revenues on a quarterly or annual basis.

**Contingent revenues**

Certain underwriting enterprises may pay us additional revenues for our sales capabilities, our risk selection knowledge, or our administrative efficiencies. These amounts are in excess of the commission or fee revenues discussed above, and not all business we place with participating underwriting enterprises is eligible for contingent revenues. Unlike supplemental revenues, also discussed above, these revenues are variable, generally based on growth, the loss experience of the underlying insurance contracts, and/or our efficiency in processing the business. We generally operate under calendar year contracts, but we do not receive these revenues from the underwriting enterprises until the following calendar year, generally in the first and second quarters, after verification of the performance indicators outlined in the contracts. Accordingly, during each reporting period, we must make our best estimate of amounts we have earned using historical averages and other factors to project such revenues. We base our estimates each period on a contract-by-contract basis where available. In certain cases, it is impractical to assess a very large number of smaller contingent revenue contracts, so we use a historical portfolio estimate in aggregate (a practical expedient as defined in Topic 606). Because our expectation of the ultimate contingent revenue amounts to be earned can vary from period to period, especially in contracts sensitive to loss ratios, our estimates might change significantly from quarter to quarter. For example, in circumstances where our revenues are dependent on a full calendar year loss ratio, adverse loss experience in the fourth quarter could not only negate revenue earnings in the fourth quarter, but also trigger the need to reverse revenues previously recognized during the prior quarters. Variable consideration is recognized when we conclude, based on all the facts and information available at the reporting date, that it is probable that a significant revenue reversal will not occur in future periods.

**Sub-brokerage costs**

Sub-brokerage costs are excluded from our gross revenues in our determination of total revenues. Sub-brokerage cost represents commissions paid to sub-brokers related to the placement of certain business by our brokerage segment operations. We recognize this contra revenue in the same manner as the commission revenue to which it relates.

**RISK MANAGEMENT SEGMENT**

Revenues for our risk management segment are comprised of fees generally negotiated (i) on a per-claim basis, (ii) on a cost-plus basis, or (iii) as performance-based fees. We also provide risk management consulting services that are recognized as the services are delivered.

**Per-claim fees**

Where we operate under a contract with our fee established on a per-claim basis, our obligation is to process claims for a term specified within the contract. Because it is impractical to recognize our revenues on an individual claim-by-claim basis, we recognize revenue plus an appropriate estimate of our profit margin on a portfolio basis by grouping claims with similar characteristics (a practical expedient as defined in Topic 606). We apply actuarially-determined, historical-based patterns to determine our future service obligations, without applying a present value discount.

**Cost-plus fees**

Where we provide services and generate revenues on a cost-plus basis, we recognize revenue over the contract period consistent with the performance of our obligations.

**Performance-based fees**

Certain clients pay us additional fee revenues for our efficiency in managing claims or on the basis of claim outcome effectiveness. These amounts are in excess of the fee revenues discussed above. These revenues are variable, generally based on performance metrics set forth in the underlying contracts. We generally operate under multi-year contracts with fiscal year measurement periods. We do not receive these fees, if earned, until the following year after verification of the performance metrics outlined in the contracts. Each period we base our estimates on a contract-by-contract basis. We must make our best estimate of amounts we have earned using historical averages and other factors to project such revenues. Variable consideration is recognized when we conclude that is it probable that a significant revenue reversal will not occur in future periods.

**Reimbursements**

Reimbursements represent amounts received from clients reimbursing us for certain third-party costs associated with providing our claims management services. In certain service partner relationships, we are considered a principal because we direct the third party, control the specified service and combine the services provided into an integrated solution. Given this principal relationship, we are required to recognize revenue gross and service partner vendor fees in the operating expense in our consolidated statement of earnings.

**Deferred Costs**

We incur costs to provide brokerage and risk management services. Those costs are either (i) costs to obtain a contract or (ii) costs to fulfill such contract, or (iii) all other costs.

(i) Costs to obtain - we incur costs to obtain a contract with a client. Those costs would not have been incurred if the contract had not been obtained. Almost all of our costs to obtain are incurred prior to, or on, the effective date of the contract and consist primarily of incentive compensation we pay to our production employees. Our costs to obtain are expensed as incurred as described in Note 4 to these consolidated financial statements.

(ii) Costs to fulfill - we incur costs to fulfill a contract (or anticipated contract) with a client. Those costs are incurred prior to the effective date of the contract and relate to fulfilling our primary placement obligations to our clients. Our costs to fulfill prior to the effective date are capitalized and amortized on the effective date. These fulfillment activities include collecting underwriting information from our client, assessing their insurance needs and negotiating their placement with one or more underwriting enterprises. The majority of costs that we incur relate to compensation and benefits of our client service employees. Costs incurred during preplacement activities are expected to be recovered in the future. If the capitalized costs are no longer deemed to be recoverable, then they would be expensed.

(iii) Other costs that are not costs to obtain or fulfill are expensed as incurred. Examples include other operating costs such as rent, utilities, management costs, overhead costs, legal and other professional fees, technology costs, insurance related costs, communication and advertising, and travel and entertainment. Depreciation, amortization and change in estimated acquisition earnout payable are expensed as incurred.

**Investment income**

Investment income primarily includes interest and dividend income (including interest income from our premium financing operations), which is accrued as it is earned. Net gains on divestitures represent one-time gains related to sales of brokerage related businesses, which are primarily recognized on a cash received basis. Revenues from clean coal activities include revenues from consolidated clean coal production plants, royalty income from clean coal licenses and income (loss) related to unconsolidated clean coal production plants, all of which are recognized as earned. Revenues from consolidated clean coal production plants represent sales of refined coal. Royalty income from clean coal licenses represents fee income related to the use of clean coal technologies. Income (loss) from unconsolidated clean coal production plants includes losses related to our equity portion of the pretax results of the clean coal production plants.

**Earnings per Share**

Basic net earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the reporting period. Diluted net earnings per share is computed by dividing net earnings by the weighted average number of common and common equivalent shares outstanding during the reporting period. Common equivalent shares include incremental shares from dilutive stock options, which are calculated from the date of grant under the treasury stock method using the average market price for the period.

**Cash and Cash Equivalents**

Short-term investments, consisting principally of cash and money market accounts that have average maturities of 90 days or less, are considered cash equivalents.

**Restricted Cash**

In our capacity as an insurance broker, we collect premiums from insureds and, after deducting our commissions and/or fees, remit these premiums to underwriting enterprises. We hold unremitted insurance premiums in a fiduciary capacity until we disburse them, and the use of such funds is restricted by laws in certain states and foreign jurisdictions in which our subsidiaries operate. Various state and foreign agencies regulate insurance brokers and provide specific requirements that limit the type of investments that may be made with such funds. Accordingly, we invest these funds in cash and U.S. Treasury fund accounts. We can earn interest income on these unremitted funds, which is included in investment income in the accompanying consolidated statement of earnings. These unremitted amounts are reported as restricted cash in the accompanying consolidated balance sheet, with the related liability reported as premiums payable to underwriting enterprises. Additionally, several of our foreign subsidiaries are required by various foreign agencies to meet certain liquidity and solvency requirements. We were in compliance with these requirements at December 31, 2020.

Related to our third party administration business and in certain of our brokerage operations, we are responsible for client claim funds that we hold in a fiduciary capacity. We do not earn any interest income on the funds held. These client funds have been included in restricted cash, along with a corresponding liability in premiums payable to underwriting enterprises in the accompanying consolidated balance sheet.

**Premiums and fees receivable**

Premiums and fees receivable in the accompanying consolidated balance sheet are net of allowances for estimated policy cancellations and doubtful accounts. The allowance for estimated policy cancellations was $9.9 million and $8.3 million at December 31, 2020 and 2019, respectively, which represents a reserve for future reversals in commission and fee revenues related to the potential cancellation of client insurance policies that were in force as of each year end. The allowance for doubtful accounts was $10.1 million and $8.7 million at December 31, 2020 and 2019, respectively. We establish the allowance for estimated policy cancellations through a charge to revenues and the allowance for doubtful accounts through a charge to operating expenses. Both of these allowances are based on estimates and assumptions using historical data to project future experience. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein. We periodically review the adequacy of these allowances and make adjustments as necessary.

**Derivative Instruments**

We are exposed to market risks, including changes in foreign currency exchange rates and interest rates. To manage the risk related to these exposures, we enter into various derivative instruments that reduce these risks by creating offsetting exposures. In the normal course of business, we are exposed to the impact of foreign currency fluctuations that impact our results of operations and cash flows. We utilize a foreign currency risk management program involving foreign currency derivatives that consist of several monthly put/call options designed to hedge a portion of our future foreign currency disbursements through various future payment dates. To mitigate the counterparty credit risk we only enter into contracts with major financial institutions based upon their credit ratings and other factors. These derivative instrument contracts are cash flow hedges that qualify for hedge accounting and primarily hedge against fluctuations between changes in the GBP and Indian Rupee versus the U.S. dollar. Changes in fair value of the derivative instruments are reflected in other comprehensive earnings in the accompanying consolidated balance sheet. The impact of the hedge at maturity is recognized in the income statement as a component of investment income, compensation and operating expenses depending on the nature of the hedged item. We enter into various long-term debt agreements. We use interest rate derivatives, typically swaps, to reduce our exposure to the effects of interest rate fluctuations on the forecasted interest rates for up to three years into the future. These derivative instrument contracts are periodically monitored for hedge ineffectiveness, the amount of which has not been material to the accompanying consolidated financial statements. We do not use derivatives for trading or speculative purposes.

**Premium Financing**

Seven subsidiaries of the brokerage segment make short-term loans (generally with terms of twelve months or less) to our clients to finance premiums. These premium financing contracts are structured to minimize potential bad debt expense to us. Such receivables are generally considered delinquent after seven days of the payment due date. In normal course, insurance policies are cancelled within one month of the contractual payment due date if the payment remains delinquent. We recognize interest income as it is earned over the life of the contract using the “level-yield” method. Unearned interest related to contracts receivable is included in the receivable balance in the accompanying consolidated balance sheet. The outstanding loan receivable balance was $442.7 million and $388.1 million at December 31, 2020 and 2019, respectively.

**Fixed Assets**

We carry fixed assets at cost, less accumulated depreciation, in the accompanying consolidated balance sheet. We periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Under those circumstances, if the fair value were less than the carrying amount of the asset, we would recognize a loss for the difference. Depreciation for fixed assets is computed using the straight-line method over the following estimated useful lives:

| | Useful Life |
|---|---|
| Office equipment | Three to ten years |
| Furniture and fixtures | Three to ten years |
| Computer equipment | Three to five years |
| Building | Fifteen to forty years |
| Software | Three to five years |
| Refined fuel plants | Ten years |
| Leasehold improvements | Shorter of the lease term or useful life of the asset |

**Intangible Assets**

Intangible assets represent the excess of cost over the estimated fair value of net tangible assets of acquired businesses. Our primary intangible assets are classified as either goodwill, expiration lists, non-compete agreements or trade names. Expiration lists, non-compete agreements and trade names are amortized using the straight-line method over their estimated useful lives (two to fifteen years for expiration lists, two to six years for non-compete agreements and two to fifteen years for trade names), while goodwill is not subject to amortization. The establishment of goodwill, expiration lists, non-compete agreements and trade names and the determination of estimated useful lives are primarily based on valuations we receive from qualified independent appraisers. The calculations of these amounts are based on estimates and assumptions using historical and projected financial information and recognized valuation methods. Different estimates or assumptions could produce different results. We carry identifiable intangible assets at cost, less accumulated amortization, in the accompanying consolidated balance sheet.

We review all of our intangible assets for impairment periodically (at least annually for goodwill) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. We perform such impairment reviews at the division (i.e., reporting unit) level with respect to goodwill and at the business unit level for amortizable intangible assets. While goodwill is not amortizable, it is tested for impairment at least annually in the fourth quarter, and more frequently if there are indicators of impairment or whenever business circumstances suggest that the carrying value of goodwill may not be recoverable. We may initially perform a qualitative analysis to determine if it is more likely than not that the goodwill balance is impaired. If a qualitative assessment is not performed or if a determination is made that it is not more likely than not that the value of the reporting unit exceeds its carrying amount, then we will perform a quantitative analysis. The fair value of each reporting unit is compared to its carrying value. If the fair value of the reporting unit is less than its carrying value, a non-cash impairment charge is recognized for the amount by which the carrying value exceeds the reporting unit's fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. We completed our 2020 annual assessment in the fourth quarter and concluded goodwill was not impaired, as the fair value of each reporting unit exceeded its carrying value.

The carrying value of amortizable intangible assets attributable to each business or asset group is periodically reviewed by management to determine if there are events or changes in circumstances that would indicate that its carrying amount may not be recoverable. Accordingly, if there are any such changes in circumstances during the year, we assess the carrying value of the amortizable intangible assets by considering the estimated future undiscounted cash flows generated by the corresponding business or asset group. Any impairment identified through this assessment may require that the carrying value of related amortizable intangible assets be adjusted and charged against current period earnings as a component of amortization expense. Based on the results of impairment reviews in 2020, 2019 and 2018, we wrote off $51.7 million, $0.1 million and $10.6 million, respectively, of amortizable intangible assets primarily related to prior year acquisitions of our brokerage and risk management segments, which is included in amortization expense in the accompanying consolidated statement of earnings. The determinations of impairment indicators and fair value are based on estimates and assumptions related to the amount and timing of future cash flows and future interest rates. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein.

**Income Taxes**

Our tax rate reflects the statutory tax rates applicable to our taxable earnings and tax planning in the various jurisdictions in which we operate. Significant judgment is required in determining the annual effective tax rate and in evaluating uncertain tax positions. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in our tax return. We evaluate our tax positions using a two-step process. The first step involves recognition. We determine whether it is more likely than not that a tax position will be sustained upon tax examination based solely on the technical merits of the position. The technical merits of a tax position are derived from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings and case law) and their applicability to the facts and circumstances of the position. If a tax position does not meet the "more likely than not" recognition threshold, we do not recognize the benefit of that position in the financial statements. The second step is measurement. A tax position that meets the "more likely than not" recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that has a likelihood of greater than 50% of being realized upon ultimate resolution with a taxing authority.

Uncertain tax positions are measured based upon the facts and circumstances that exist at each reporting period and involve significant management judgment. Subsequent changes in judgment based upon new information may lead to changes in recognition, derecognition and measurement. Adjustments may result, for example, upon resolution of an issue with the taxing authorities, or expiration of a statute of limitations barring an assessment for an issue. We recognize interest and penalties, if any, related to unrecognized tax benefits in our provision for income taxes.

Tax law requires certain items to be included in our tax returns at different times than such items are reflected in the financial statements. As a result, the annual tax expense reflected in our consolidated statements of earnings is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not deductible in our tax returns, and some differences are temporary and reverse over time, such as depreciation expense and amortization expense deductible for income tax purposes. Temporary differences create deferred tax assets and liabilities. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which a tax payment has been deferred, or expense which has been deducted in the tax return but has not yet been recognized in the financial statements. Deferred tax assets generally represent items that can be used as a tax deduction or credit in tax returns in future years for which a benefit has already been recorded in the financial statements.

We establish or adjust valuation allowances for deferred tax assets when we estimate that it is more likely than not that future taxable income will be insufficient to fully use a deduction or credit in a specific jurisdiction. In assessing the need for the recognition of a valuation allowance for deferred tax assets, we consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized and adjust the valuation allowance accordingly. We evaluate all significant available positive and negative evidence as part of our analysis. Negative evidence includes the existence of losses in recent years. Positive evidence includes the forecast of future taxable income by jurisdiction, tax-planning strategies that would result in the realization of deferred tax assets and the presence of taxable income in prior carryback years. The underlying assumptions we use in forecasting future taxable income require significant judgment and take into account our recent performance. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences are deductible or creditable.

**Fair Value of Financial Instruments**

Fair value accounting establishes a framework for measuring fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). This framework includes a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value.

The classification of a financial instrument within the valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels of the hierarchy in order of priority of inputs to the valuation technique are defined as follows:

- Level 1 - Valuations are based on unadjusted quoted prices in active markets for identical financial instruments;
- Level 2 - Valuations are based on quoted market prices, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument; and
- Level 3 - Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

The carrying amounts of financial assets and liabilities reported in the accompanying consolidated balance sheet for cash and cash equivalents, restricted cash, premiums and fees receivable, other current assets, premiums payable to underwriting enterprises, accrued compensation and other accrued liabilities and deferred revenue - current, at December 31, 2020 and 2019, approximate fair value because of the short-term duration of these instruments. See Note 3 to these consolidated financial statements for the fair values related to the establishment of intangible assets and the establishment and adjustment of earnout payables. See Note 8 to these consolidated financial statements for the fair values related to borrowings outstanding at December 31, 2020 and 2019 under our debt agreements. See Note 13 to these consolidated financial statements for the fair values related to investments at December 31, 2020 and 2019 under our defined benefit pension plan.

**Litigation**

We are the defendant in various legal actions related to claims, lawsuits and proceedings incident to the nature of our business. We record liabilities for loss contingencies, including legal costs (such as fees and expenses of external lawyers and other service providers) to be incurred, when it is probable that a liability has been incurred on or before the balance sheet date and the amount of the liability can be reasonably estimated. We do not discount such contingent liabilities. To the extent recovery of such losses and legal costs is probable under our insurance programs, we record estimated recoveries concurrently with the losses recognized. Significant management judgment is required to estimate the amounts of such contingent liabilities and the related insurance recoveries. In order to assess our potential liability, we analyze our litigation exposure based on available information, including consultation with outside counsel handling the defense of these matters. As these liabilities are uncertain by their nature, the recorded amounts may change due to a variety of different factors, including new developments in, or changes in approach, such as changing the settlement strategy as applicable to each matter.

**Retention bonus arrangements**

In connection with the hiring and retention of both new talent and experienced personnel, including our senior management, brokers and other key personnel, we have entered into various agreements with key employees setting up the conditions for the cash payment of certain retention bonuses. These bonuses are an incentive for these employees to remain with the company, for a fixed period of time, to allow us to capitalize on their knowledge and experience. We have various forms of retention bonus arrangements; some are paid up front and some are paid at the end of the term, but all are contingent upon successfully completing a minimum period of employment. A retention bonus that is paid to an employee upfront that is contingent on a certain minimum period of employment, will be initially classified as a prepaid asset and amortized to compensation expense as the future services are rendered over the duration of the stay period. A retention bonus that is paid to an employee at the end of the term that is contingent on a certain minimum period of employment, will be accrued as a liability through compensation expense as the future services are rendered over the duration of the stay period. If an employee leaves prior to the required time frame to earn the retention bonus outright, then all or any portion that is ultimately unearned or refundable, and recovered by the company if prepaid, is forfeited and reversed through compensation expense.

**Stock-Based Compensation**

We have several employee equity-settled and cash-settled share-based compensation plans. Equity-settled share-based payments to employees include grants of stock options, performance stock units and restricted stock units and are measured based on estimated grant date fair value. We have elected to use the Black-Scholes option pricing model to determine the fair value of stock options on the dates of grant. Performance stock units are measured on the probable outcome of the performance conditions applicable to each grant. Restricted stock units are measured based on the fair market values of the underlying stock on the dates of grant. Shares are issued on the vesting dates net of the minimum statutory tax withholding requirements, as applicable, to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of performance stock units and restricted stock units outstanding. Furthermore, we record the liability for withholding amounts to be paid by us as a reduction to additional paid-in capital when paid.

Cash-settled share-based payments to employees include awards under our Performance Unit Program and stock appreciation rights. The fair value of the amount payable to employees in respect of cash-settled share-based payments is recognized as compensation expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in fair value of the liability are recognized as compensation expense.

We recognize share-based compensation expense over the requisite service period for awards expected to ultimately vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs from original estimates.

**Employee Stock Purchase Plan**

We have an employee stock purchase plan (which we refer to as the ESPP), under which the sale of 8.0 million shares of our common stock has been authorized. Eligible employees may contribute up to 15% of their compensation towards the quarterly purchase of our common stock at a purchase price equal to 95% of the lesser of the fair market value of our common stock on the first business day or the last business day of the quarterly offering period. Eligible employees may annually purchase shares of our common stock with an aggregate fair market value of up to $25,000 (measured as of the first day of each quarterly offering period of each calendar year), provided that no employee may purchase more than 2,000 shares of our common stock under the ESPP during any calendar year. At December 31, 2020, 6.0 million shares of our common stock was reserved for future issuance under the ESPP.

**Defined Benefit Pension and Other Postretirement Plans**

We recognize in our consolidated balance sheet, an asset for our defined benefit postretirement plans' overfunded status or a liability for our plans' underfunded status. We recognize changes in the funded status of our defined benefit postretirement plans in comprehensive earnings in the year in which the changes occur. We use December 31 as the measurement date for our plans' assets and benefit obligations. See Note 13 to these consolidated financial statements for additional information required to be disclosed related to our defined benefit postretirement plans.

## 2. Effect of New Accounting Pronouncements

### Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under this new accounting guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by various standards, including ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. This new guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This new guidance is effective for first quarter 2019, and requires a modified retrospective adoption, applying the new standard to all leases existing at the date of initial application, with early adoption permitted. An entity may choose to use the standard's effective date, rather than the beginning of the earliest comparative period presented, as the date of initial application. An entity would record the effects of initially applying the new guidance as a cumulative-effect adjustment to retained earnings. Consequently, an entity's reporting for the comparative periods presented in the year of adoption would continue to be in accordance with the current guidance, including the current disclosure requirements.

We adopted ASC Topic 842 for all leases effective January 1, 2019, using the modified retrospective approach allowing us to initially apply the new lease standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the first quarter of 2019. Consequently, the reporting for the comparative prior year periods presented in 2019 will continue to be in accordance with the previous lease guidance under ASC Topic 840, including comparative disclosure requirements. We elected the package of practical expedients to carry forward historical identification and classification of leases that commenced before January 1, 2019 and to not re-assess initial direct costs for leases commencing before January 1, 2019. We also elected the lessee practical expedient, by class of underlying asset (e.g., office space), to not separate non-lease components such as lessor-provided maintenance and property management services from the associated lease component. The new lease accounting standard requires us to recognize lease right-of-use assets and lease liabilities on our balance sheet, which are established at the inception of a lease by computing a net present value of the future lease payments. Right-of-use assets are amortized to expense, and the discount amount related to lease liabilities is accreted to expense, over the lease term. The amortization of the right-of-use asset is calculated as the difference between the straight-line lease expense and the interest calculated on the lease liability. Rent payments are applied against the lease liabilities. Adoption of the new standard resulted in the recording of net right-of-use assets and lease liabilities of approximately \$379.6 million and \$420.3 million, respectively, and the reclassification of net rent related assets and liabilities of \$38.3 million as of January 1, 2019. The difference between the additional lease assets and lease liabilities, net of the deferred tax impact, was recorded as a decrease to beginning retained earnings of \$2.4 million. The adoption of the new standard had a de minimis impact on our consolidated statement of earnings and had no impact on our consolidated statement of cash flows. See Notes 15 and 17 to these 2020 consolidated financial statements for details on our current lease arrangements, the amounts of which represent the future undiscounted commitments.

### Credit Impairment

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Under the new guidance an entity is required to measure all credit losses on certain financial instruments, including trade receivables and various off-balance sheet credit exposures, using an expected credit loss model. This model incorporates past experience, current conditions and reasonable and supportable forecasts affecting collectability of these instruments. An entity will apply the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. We adopted this new guidance effective January 1, 2020 and applied the guidance to measure credit losses on our financial instruments, which included premiums and fees receivable, premium finance advances and reinsurance recoverables. The adoption did not have a material impact on our consolidated financial statements.

### Disclosure Framework

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This new guidance modifies various disclosure requirements for fair value measurements, including in certain part those related to Level 3 fair value measurements. The new guidance was effective January 1, 2020. Certain portions of the guidance needed to be adopted prospectively while other portions were required to be adopted retrospectively for all periods presented.

In August 2018, the FASB also issued ASU No. 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This new guidance modifies various disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The new guidance was effective January 1, 2020, with early adoption permitted. Retrospective adoption is required.

We adopted both of the standards effective January 1, 2020. The adoption did not have any impact on our consolidated financial statements.

**Hedge Accounting**

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The new guidance amends the hedge accounting model in the current guidance to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The new guidance requires revised tabular disclosures that focus on the effect of hedge accounting by income statement line and the disclosure of the cumulative basis adjustments to the hedged assets and liabilities in fair value hedges. Certain additional disclosures are also required for hedge relationships designated under the last-of-layer method. The current guidance that requires entities to disclose hedge ineffectiveness has been eliminated because this amount will no longer be separately measured. Under the new guidance, entities will apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach (i.e., with a cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date). The new guidance also provides transition relief to make it easier for entities to apply certain amendments to existing hedges (including fair value hedges) where the hedge documentation needs to be modified. The presentation and disclosure requirements will be applied prospectively.

We adopted ASU 2017-12 on January 1, 2019. In accordance with the transition provisions of ASU 2017-12, we modified the recognition model for the excluded component from a mark-to-market approach to an amortization approach for our cash flow hedges with forward points existing as of the adoption date. The cumulative-effect related to this change resulted in an adjustment of $0.2 million that reduced accumulated other comprehensive income with a corresponding adjustment that increased retained earnings. See Note 16 for disclosures relating to our derivative and hedging activities.

**Intangibles - Goodwill and Other**

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance eliminates Step 2 of the goodwill impairment test. Instead, the updated guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit to its carrying value, and recognizing a non-cash impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. We adopted this new guidance effective January 1, 2020. The adoption did not have any impact on our consolidated financial statements.

**Internal-use Software**

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This new accounting guidance requires deferral of certain implementation costs associated with a cloud computing arrangement, or hosting arrangement, thereby aligning deferral of such costs with implementation costs associated with developing internal-use software. Accounting for the service component of a hosting arrangement remains unchanged. An entity will defer these implementation costs over the term of the hosting arrangement, including optional renewal periods that are reasonably certain of exercise. Amounts expensed would be presented through operating expense, rather than depreciation or amortization. The new guidance was effective January 1, 2020. An entity may adopt the guidance either prospectively for all cloud computing arrangement implementation costs incurred on or after the effective date or retrospectively, including comparative periods. We adopted this new guidance effective January 1, 2020 on a prospective basis. The adoption did not have a material impact on our consolidated financial statements.

## 3. Business Combinations

During 2020, we acquired substantially all of the net assets of the following firms in exchange for our common stock and/or cash. These acquisitions have been accounted for using the acquisition method for recording business combinations (in millions, except share data):

| Name and Effective Date of Acquisition | Common Shares Issued | Common Share Value | Cash Paid | Accrued Liability | Escrow Deposited | Recorded Earnout Payable | Total Recorded Purchase Price | Maximum Potential Earnout Payable |
|---|---|---|---|---|---|---|---|---|
| | (000s) | | | | | | | |
| Capsicum Reinsurance Brokers LLP (CRB) January 1, 2020 | 584 | $ 62.9 | $ 64.5 | $ - | $ - | $ 129.9 | $ 257.3 | $ 209.1 |
| Hanover Excess & Surplus, Inc. and Hanover Premium Finance, Inc. (HES) January 1, 2020 | - | - | 30.1 | - | 3.0 | - | 33.1 | 9.3 |
| CRES Insurance Services, LLC (CRES) June 1, 2020 | 288 | 28.5 | 1.5 | - | 1.0 | 5.5 | 36.5 | 7.3 |
| Optimum Talent Inc. (OTI) November 1, 2020 | 102 | 11.1 | 14.1 | - | 3.4 | 14.0 | 42.6 | 21.1 |
| Cool Insuring Agency, Inc. (CIA) December 1, 2020 | 406 | 48.4 | 65.0 | - | 7.2 | 8.5 | 129.1 | 30.0 |
| Harden & Associates, Inc. (HAI) December 1, 2020 | 49 | - | 95.6 | - | 6.2 | 10.0 | 111.8 | 22.5 |
| Ashton Tiffany, LLC (AT) December 31, 2020 | - | - | 48.3 | 48.2 | - | 9.0 | 105.5 | 20.0 |
| Twenty other acquisitions completed in 2020 | 414 | 38.8 | 79.2 | 1.8 | 9.9 | 30.5 | 160.2 | 68.6 |
| | 1,843 | $ 189.7 | $ 398.3 | $ 50.0 | $ 30.7 | $ 207.4 | $ 876.1 | $ 387.9 |

On December 23, 2020, we signed a definitive agreement to acquire 100% of the equity of The Bollington Wilson Group (which we refer to as Bollington) headquartered in Sale, Greater Manchester, U.K., for approximately $330.0 million of cash consideration. Bollington is a specialist U.K. insurance broker that has more than 400 employees and operates from a network of seven offices in the U.K. The transaction is subject to regulatory approval, which was received on January 26, 2021, and is expected to close in February 2021.

Common shares issued in connection with acquisitions are valued at closing market prices as of the effective date of the applicable acquisition or on the days when the shares are issued, if purchase consideration is deferred. We record escrow deposits that are returned to us as a result of adjustments to net assets acquired as reductions of goodwill when the escrows are settled. The maximum potential earnout payables disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid pursuant to the terms of the purchase agreement for the applicable acquisition. The amounts recorded as earnout payables, which are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date, are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration in the foregoing table. The $48.2 million accrued liability related to Ashton Tiffany in the foregoing table may be settled using shares of our common stock in early February 2021. We will record subsequent changes in these estimated earnout obligations, including the accretion of discount, in our consolidated statement of earnings when incurred.

The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements, which is a Level 3 fair value measurement. In determining fair value, we estimated the acquired entity's future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. Revenue growth rates generally ranged from 2.5% to 15.0% for our 2020 acquisitions. We estimated future payments using the earnout formula and performance targets specified in each purchase agreement and the financial projections just described. We then discounted these payments to present value using a risk-adjusted rate that takes into consideration market-based rates of return that reflect the ability of the acquired entity to achieve the targets. The discount rates generally ranged from 6.0% to 9.0% for our 2020 acquisitions. Changes in financial projections, market participant assumptions for revenue growth and/or profitability, or the risk-adjusted discount rate, would result in a change in the fair value of recorded earnout obligations.

During 2020, 2019 and 2018, we recognized $32.5 million, $27.0 million and $18.8 million, respectively, of expense in our consolidated statement of earnings related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. In addition, during 2020, 2019 and 2018, we recognized $65.4 million, $11.7 million and $9.2 million of income, respectively, related to net adjustments in the estimated fair value of the liability for earnout obligations in connection with revised projections of future performance for 135, 116 and 112 acquisitions, respectively. The aggregate amount of maximum earnout obligations related to acquisitions made in 2017 and subsequent years was $1,128.1 million as of December 31, 2020, of which $592.2 million was recorded in the consolidated balance sheet as of that date based on the estimated fair value of the expected future payments to be made, of which approximately $493.7 million can be settled in cash or stock at our option and $98.5 million must be settled in cash. The aggregate amount of maximum earnout obligations related to acquisitions made in 2016 and subsequent years was $982.9 million as of December 31, 2019, of which $565.0 million was recorded in the consolidated balance sheet as of that date based on the estimated fair value of the expected future payments to be made.

The following is a summary of the estimated fair values of the net assets acquired at the date of each acquisition made in 2020 (in millions):

| | CRB | HES | CRES | OTI | CIA | HAI | AT | Twenty Other Acquisitions | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash and restricted cash | $ - | $ 3.3 | $ 4.3 | $ 0.6 | $ 4.2 | $ 2.3 | $ 6.0 | $ 13.3 | $ 34.0 |
| Other current assets | - | 1.0 | 12.4 | 3.0 | 28.8 | 9.0 | 8.6 | 25.2 | 88.0 |
| Fixed assets | - | - | - | 0.9 | 0.1 | 1.1 | 0.5 | 0.6 | 3.2 |
| Noncurrent assets | 7.6 | 0.8 | - | 6.7 | 0.9 | 6.4 | 2.1 | 3.1 | 27.6 |
| Goodwill | 108.4 | 19.1 | 21.3 | 25.4 | 58.9 | 45.7 | 14.8 | 66.0 | 359.6 |
| Expiration lists | 133.7 | 13.7 | 13.9 | 18.3 | 56.2 | 62.5 | 78.2 | 90.7 | 467.2 |
| Non-compete agreements | 2.9 | 0.1 | - | 0.4 | 0.8 | 0.7 | 5.8 | 0.7 | 11.4 |
| Trade names | 4.7 | - | 0.3 | - | 7.5 | - | - | - | 12.5 |
| Total assets acquired | 257.3 | 38.0 | 52.2 | 55.3 | 157.4 | 127.7 | 116.0 | 199.6 | 1,003.5 |
| Current liabilities | - | 4.4 | 15.7 | 5.2 | 28.1 | 9.5 | 8.4 | 32.3 | 103.6 |
| Noncurrent liabilities | - | 0.5 | - | 7.5 | 0.2 | 6.4 | 2.1 | 7.1 | 23.8 |
| Total liabilities assumed | - | 4.9 | 15.7 | 12.7 | 28.3 | 15.9 | 10.5 | 39.4 | 127.4 |
| Total net assets acquired | $ 257.3 | $ 33.1 | $ 36.5 | $ 42.6 | $ 129.1 | $ 111.8 | $ 105.5 | $ 160.2 | $ 876.1 |

Among other things, these acquisitions allow us to expand into desirable geographic locations, further extend our presence in the retail and wholesale insurance and reinsurance brokerage services markets and increase the volume of general services currently provided. The excess of the purchase price over the estimated fair value of the tangible net assets acquired at the acquisition date was allocated to goodwill, expiration lists, non-compete agreements and trade names in the amounts of $359.6 million, $467.2 million, $11.4 million and $12.5 million, respectively, within the brokerage management segment.

Provisional estimates of fair value are established at the time of each acquisition and are subsequently reviewed within the first year of operations subsequent to the acquisition date to determine the necessity for adjustments. Fair value estimates were provisional for some of the 2020 acquisitions as of December 31, 2020. Fair value adjustments, if any, are most common to the values established for amortizable intangible assets and earnout liabilities, with the offset to goodwill. The fair value of the tangible assets and liabilities for each applicable acquisition at the acquisition date approximated their carrying values. The fair value of expiration lists was established using the excess earnings method, which is an income approach based on estimated financial projections developed by management for each acquired entity using market participant assumptions. Revenue growth and attrition rates generally ranged from 1.5% to 4.1% and 5.0% to 15.7% for our 2020 and 2019 acquisitions, respectively, for which valuations were performed in 2020. We estimate the fair value as the present value of the benefits anticipated from ownership of the subject expiration list in excess of returns required on the investment in contributory assets necessary to realize those benefits. The rate used to discount the net benefits was based on a risk-adjusted rate that takes into consideration market-based rates of return and reflects the risk of the asset relative to the acquired business. These discount rates generally ranged from 9.0% to 13.5% for our 2020 and 2019 acquisitions, for which valuations were performed in 2020. The fair value of non-compete agreements was established using the profit differential method, which is an income approach based on estimated financial projections developed by management for the acquired company using market participant assumptions and various non-compete scenarios.

Expiration lists, non-compete agreements and trade names related to our acquisitions are amortized using the straight-line method over their estimated useful lives (two to fifteen years for expiration lists, two to six years for non-compete agreements and two to fifteen years for trade names), while goodwill is not subject to amortization. We use the straight-line method to amortize these intangible assets because the pattern of their economic benefits cannot be reasonably determined with any certainty. We review all of our identifiable intangible assets for impairment periodically (at least annually) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. In reviewing identifiable intangible assets, if the undiscounted future cash flows were less than the carrying amount of the respective (or underlying) asset, an indicator of impairment would exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings as a component of amortization expense. Based on the results of impairment reviews in 2020, 2019 and 2018, we wrote off $51.7 million, $0.1 million and $10.6 million, respectively, of amortizable intangible assets related to the brokerage and risk management segments.

Of the $467.2 million of expiration lists, $11.4 million of non-compete agreements and $12.5 million of trade names related to the 2020 acquisitions, $29.0 million, $0.6 million and zero, respectively, is not expected to be deductible for income tax purposes. Accordingly, we recorded a deferred tax liability of $3.9 million, and a corresponding amount of goodwill, in 2020 related to the nondeductible amortizable intangible assets.

Our consolidated financial statements for the year ended December 31, 2020 include the operations of the acquired entities from their respective acquisition dates. The following is a summary of the unaudited pro forma historical results, as if these entities had been acquired at January 1, 2019 (in millions, except per share data):

| | Year Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Total revenues | $ 7,108.7 | $ 7,352.7 |
| Net earnings attributable to controlling interests | 817.6 | 670.5 |
| Basic net earnings per share | 4.26 | 3.57 |
| Diluted net earnings per share | 4.17 | 3.49 |

The unaudited pro forma results above have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had these acquisitions occurred at January 1, 2019, nor are they necessarily indicative of future operating results. Annualized revenues of entities acquired in 2020 totaled approximately $251.4 million. Total revenues and net earnings recorded in our consolidated statement of earnings for 2020 related to the 2020 acquisitions in the aggregate, were $52.7 million and $5.2 million, respectively.

## 4. Contracts with Customers

### Contract Assets and Liabilities/Contract Balances

Information about unbilled receivables, contract assets and contract liabilities from contracts with customers is as follows (in millions):

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Unbilled receivables | $ 603.1 | $ 556.4 |
| Deferred contract costs | 102.0 | 98.3 |
| Deferred revenue | 541.3 | 503.8 |

The unbilled receivables, which are included in premium and fees receivable in our consolidated balance sheet, primarily relate to our rights to consideration for work completed but not billed at the reporting date. These are transferred to the receivables when the client is billed. The deferred contract costs represent the costs we incur to fulfill a new or renewal contract with our clients prior to the effective date of the contract. These costs are expensed on the contract effective date. The deferred revenue in the consolidated balance sheet included amounts that represent the remaining performance obligations under our contracts and amounts collected related to advanced billings and deposits received from customers that may or may not ultimately be recognized as revenues in the future. Deposits received from customers could be returned to the customers based on lesser actual transactional volume than originally billed volume.

Significant changes in the deferred revenue balances, which include foreign currency translation adjustments, during the period are as follows (in millions):

| | Brokerage | Risk Management | Total |
|---|---|---|---|
| **Deferred revenue at December 31, 2018** | $ 284.7 | $ 173.0 | $ 457.7 |
| Incremental deferred revenue | 254.7 | 109.6 | 364.3 |
| Revenue recognized during the year ended December 31, 2019 included in deferred revenue at December 31, 2018 | (227.5) | (122.0) | (349.5) |
| Net change in collected billings/deposits received from customers | (6.7) | 5.6 | (1.1) |
| Impact of changes in foreign exchange rates | 1.4 | 0.4 | 1.8 |
| Deferred revenue recognized from business acquisitions | 30.6 | — | 30.6 |
| **Deferred revenue at December 31, 2019** | 337.2 | 166.6 | 503.8 |
| Incremental deferred revenue | 282.7 | 91.3 | 374.0 |
| Revenue recognized during the year ended December 31, 2020 included in deferred revenue at December 31, 2019 | (283.1) | (99.2) | (382.3) |
| Net change in collected billings/deposits received from customers | (0.7) | 26.3 | 25.6 |
| Impact of changes in foreign exchange rates | 8.7 | 1.6 | 10.3 |
| Deferred revenue recognized from business acquisitions | 9.9 | — | 9.9 |
| **Deferred revenue at December 31, 2020** | $ 354.7 | $ 186.6 | $ 541.3 |

Revenue recognized during 2020 in the table above included revenue from 2019 acquisitions that would not be reflected in prior years.

**Remaining Performance Obligations**

Remaining performance obligations represent the portion of the contract price for which work has not been performed. As of December 31, 2020, the aggregate amount of the contract price allocated to remaining performance obligations was $541.3 million.

The estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period is as follows (in millions):

| | Brokerage | Risk Management | Total |
|---|---|---|---|
| 2021 | $ 328.4 | $ 122.8 | $ 451.2 |
| 2022 | 23.6 | 31.2 | 54.8 |
| 2023 | 1.4 | 14.2 | 15.6 |
| 2024 | 0.6 | 6.5 | 7.1 |
| 2025 | 0.4 | 4.0 | 4.4 |
| Thereafter | 0.3 | 7.9 | 8.2 |
| Total | $ 354.7 | $ 186.6 | $ 541.3 |

**Deferred Contract Costs**

We capitalize costs incurred to fulfill contracts as “deferred contract costs” which are included in other current assets in our consolidated balance sheet. Deferred contract costs were $102.0 million and $98.3 million as of December 31, 2020 and 2019, respectively. Capitalized fulfillment costs are amortized to expense on the contract effective date. The amount of amortization of the deferred contract costs was $388.4 million and $355.9 million for the years ended December 31, 2020 and 2019, respectively.

We have applied the practical expedient to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less for our brokerage segment. These costs are included in compensation and operating expenses in our consolidated statement of earnings.

## 5. Other Financial Data

### Other Current Assets

Major classes of other current assets consist of the following (in millions):

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Premium finance advances and loans | $ 442.7 | $ 388.1 |
| Accrued supplemental, direct bill and other receivables | 361.7 | 369.1 |
| Refined coal production related receivables | 95.4 | 103.4 |
| Deferred contract costs | 102.0 | 98.3 |
| Prepaid expenses | 112.1 | 115.5 |
| Total other current assets | $ 1,113.9 | $ 1,074.4 |

The premium finance advances and loans represent short-term loans which we make to many of our brokerage related clients and other non-brokerage clients to finance their premiums paid to underwriting enterprises. These premium finance advances and loans are primarily generated by three Australian and New Zealand premium finance subsidiaries. Financing receivables are carried at amortized cost. Given that these receivables carry a fairly rapid delinquency period of only seven days post payment date, and that contractually the majority of the underlying insurance policies will be cancelled within one month of the payment due date in normal course, there historically has been a minimal risk of not receiving payment, and therefore we do not maintain any significant allowance for losses against this balance.

## 6. Fixed Assets

Major classes of fixed assets consist of the following (in millions):

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Office equipment | $ 33.0 | $ 32.6 |
| Furniture and fixtures | 138.3 | 126.0 |
| Leasehold improvements | 166.0 | 150.2 |
| Computer equipment | 214.2 | 176.3 |
| Land and buildings - corporate headquarters | 145.1 | 144.9 |
| Software | 452.2 | 392.3 |
| Other | 16.7 | 19.0 |
| Work in process | 14.1 | 18.0 |
| | 1,179.6 | 1,059.3 |
| Accumulated depreciation | (728.9) | (591.9) |
| Net fixed assets | $ 450.7 | $ 467.4 |

The amounts in work in process in the table above primarily are for capitalized expenditures incurred related to IT development projects in 2020 and 2019.

## 7. Intangible Assets

The carrying amount of goodwill at December 31, 2020 and 2019 allocated by domestic and foreign operations is as follows (in millions):

| | Brokerage | Risk Management | Corporate | Total |
|---|---|---|---|---|
| **At December 31, 2020** | | | | |
| United States | $ 3,399.8 | $ 33.2 | $ - | $ 3,433.0 |
| United Kingdom | 1,328.3 | 15.1 | - | 1,343.4 |
| Canada | 492.9 | - | - | 492.9 |
| Australia | 462.1 | 11.5 | - | 473.6 |
| New Zealand | 221.9 | 10.7 | - | 232.6 |
| Other foreign | 148.6 | - | 2.9 | 151.5 |
| Total goodwill - net | $ 6,053.6 | $ 70.5 | $ 2.9 | $ 6,127.0 |
| **At December 31, 2019** | | | | |
| United States | 3,163.8 | 33.1 | - | 3,196.9 |
| United Kingdom | 1,177.8 | 12.9 | - | 1,190.7 |
| Canada | 454.4 | - | - | 454.4 |
| Australia | 416.5 | 10.5 | - | 427.0 |
| New Zealand | 208.0 | 10.1 | - | 218.1 |
| Other foreign | 128.4 | - | 3.0 | 131.4 |
| Total goodwill - net | $ 5,548.9 | $ 66.6 | $ 3.0 | $ 5,618.5 |

The changes in the carrying amount of goodwill for 2020 and 2019 are as follows (in millions):

| | Brokerage | Risk Management | Corporate | Total |
|---|---|---|---|---|
| Balance as of December 31, 2018 | $ 4,573.6 | $ 49.3 | $ 2.7 | $ 4,625.6 |
| Goodwill acquired during the year | 958.4 | 16.9 | 0.4 | 975.7 |
| Goodwill adjustments related to appraisals and other acquisition adjustments | 0.2 | (0.2) | - | - |
| Goodwill written-off related to sales of business | (7.2) | - | - | (7.2) |
| Foreign currency translation adjustments during the year | 23.9 | 0.6 | (0.1) | 24.4 |
| Balance as of December 31, 2019 | 5,548.9 | 66.6 | 3.0 | 5,618.5 |
| Goodwill acquired during the year | 359.6 | - | - | 359.6 |
| Goodwill adjustments related to appraisals and other acquisition adjustments | 29.8 | 1.7 | - | 31.5 |
| Foreign currency translation adjustments during the year | 115.3 | 2.2 | (0.1) | 117.4 |
| Balance as of December 31, 2020 | $ 6,053.6 | $ 70.5 | $ 2.9 | $ 6,127.0 |

Major classes of amortizable intangible assets consist of the following (in millions):

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Expiration lists | $ 4,753.2 | $ 4,246.0 |
| Accumulated amortization - expiration lists | (2,436.7) | (2,004.3) |
| | 2,316.5 | 2,241.7 |
| Non-compete agreements | 75.9 | 68.4 |
| Accumulated amortization - non-compete agreements | (57.8) | (52.5) |
| | 18.1 | 15.9 |
| Trade names | 107.8 | 91.8 |
| Accumulated amortization - trade names | (42.5) | (30.7) |
| | 65.3 | 61.1 |
| Net amortizable assets | $ 2,399.9 | $ 2,318.7 |

Estimated aggregate amortization expense for each of the next five years is as follows (in millions):

| | |
|---|---|
| 2021 | $ 378.4 |
| 2022 | 352.3 |
| 2023 | 327.1 |
| 2024 | 291.3 |
| 2025 | 251.3 |
| Thereafter | 799.5 |
| Total | $ 2,399.9 |

## 8. Credit and Other Debt Agreements

The following is a summary of our corporate and other debt (in millions):

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Note Purchase Agreements: | | |
| Semi-annual payments of interest, fixed rate of 3.48%, balloon due June 24, 2020 | $ - | $ 50.0 |
| Semi-annual payments of interest, fixed rate of 3.99%, balloon due July 10, 2020 | - | 50.0 |
| Semi-annual payments of interest, fixed rate of 5.18%, balloon due February 10, 2021 | 75.0 | 75.0 |
| Semi-annual payments of interest, fixed rate of 3.69%, balloon due June 14, 2022 | 200.0 | 200.0 |
| Semi-annual payments of interest, fixed rate of 5.49%, balloon due February 10, 2023 | 50.0 | 50.0 |
| Semi-annual payments of interest, fixed rate of 4.13%, balloon due June 24, 2023 | 200.0 | 200.0 |
| Quarterly payments of interest, floating rate of 90 day LIBOR plus 1.65%, balloon due August 2, 2023 (prepaid on November 3, 2020) | - | 50.0 |
| Semi-annual payments of interest, fixed rate of 4.72%, balloon due February 13, 2024 | 100.0 | 100.0 |
| Semi-annual payments of interest, fixed rate of 4.58%, balloon due February 27, 2024 | 325.0 | 325.0 |
| Quarterly payments of interest, floating rate of 90 day LIBOR plus 1.40%, balloon due June 13, 2024 | 50.0 | 50.0 |
| Semi-annual payments of interest, fixed rate of 4.31%, balloon due June 24, 2025 | 200.0 | 200.0 |
| Semi-annual payments of interest, fixed rate of 4.85%, balloon due February 13, 2026 | 140.0 | 140.0 |
| Semi-annual payments of interest, fixed rate of 4.73%, balloon due February 27, 2026 | 175.0 | 175.0 |
| Semi-annual payments of interest, fixed rate of 4.40%, balloon due June 2, 2026 | 175.0 | 175.0 |
| Semi-annual payments of interest, fixed rate of 4.36%, balloon due June 24, 2026 | 150.0 | 150.0 |
| Semi-annual payments of interest, fixed rate of 3.75%, balloon due January 30, 2027 | 30.0 | - |
| Semi-annual payments of interest, fixed rate of 4.09%, balloon due June 27, 2027 | 125.0 | 125.0 |
| Semi-annual payments of interest, fixed rate of 4.09%, balloon due August 2, 2027 | 125.0 | 125.0 |
| Semi-annual payments of interest, fixed rate of 4.14%, balloon due August 4, 2027 | 98.0 | 98.0 |
| Semi-annual payments of interest, fixed rate of 3.46%, balloon due December 1, 2027 | 100.0 | 100.0 |
| Semi-annual payments of interest, fixed rate of 4.55%, balloon due June 2, 2028 | 75.0 | 75.0 |
| Semi-annual payments of interest, fixed rate of 4.34%, balloon due June 13, 2028 | 125.0 | 125.0 |
| Semi-annual payments of interest, fixed rate of 5.04%, balloon due February 13, 2029 | 100.0 | 100.0 |
| Semi-annual payments of interest, fixed rate of 4.98%, balloon due February 27, 2029 | 100.0 | 100.0 |
| Semi-annual payments of interest, fixed rate of 4.19%, balloon due June 27, 2029 | 50.0 | 50.0 |
| Semi-annual payments of interest, fixed rate of 4.19%, balloon due August 2, 2029 | 50.0 | 50.0 |
| Semi-annual payments of interest, fixed rate of 3.48%, balloon due December 2, 2029 | 50.0 | 50.0 |
| Semi-annual payments of interest, fixed rate of 3.99%, balloon due January 30, 2030 | 341.0 | - |
| Semi-annual payments of interest, fixed rate of 4.44%, balloon due June 13, 2030 | 125.0 | 125.0 |
| Semi-annual payments of interest, fixed rate of 5.14%, balloon due March 13, 2031 | 180.0 | 180.0 |
| Semi-annual payments of interest, fixed rate of 4.70%, balloon due June 2, 2031 | 25.0 | 25.0 |
| Semi-annual payments of interest, fixed rate of 4.09%, balloon due January 30, 2032 | 69.0 | - |
| Semi-annual payments of interest, fixed rate of 4.34%, balloon due June 27, 2032 | 75.0 | 75.0 |
| Semi-annual payments of interest, fixed rate of 4.34%, balloon due August 2, 2032 | 75.0 | 75.0 |
| Semi-annual payments of interest, fixed rate of 4.59%, balloon due June 13, 2033 | 125.0 | 125.0 |
| Semi-annual payments of interest, fixed rate of 5.29%, balloon due March 13, 2034 | 40.0 | 40.0 |
| Semi-annual payments of interest, fixed rate of 4.48%, balloon due June 12, 2034 | 175.0 | 175.0 |
| Semi-annual payments of interest, fixed rate of 4.24%, balloon due January 30, 2035 | 79.0 | - |
| Semi-annual payments of interest, fixed rate of 4.69%, balloon due June 13, 2038 | 75.0 | 75.0 |
| Semi-annual payments of interest, fixed rate of 5.45%, balloon due March 13, 2039 | 40.0 | 40.0 |
| Semi-annual payments of interest, fixed rate of 4.49%, balloon due January 30, 2040 | 56.0 | - |
| Total Note Purchase Agreements | 4,348.0 | 3,923.0 |
| Credit Agreement: | | |
| Periodic payments of interest and principal, prime or LIBOR plus up to 1.45%, expires June 7, 2024 | - | 520.0 |
| Premium Financing Debt Facility - expires September 15, 2022: | | |
| Facility B | | |
| AUD denominated tranche, interbank rates plus 1.400% | 193.1 | 142.1 |
| NZD denominated tranche, interbank rates plus 1.750% | - | - |
| Facility C and D | | |
| AUD denominated tranche, interbank rates plus 0.730% | - | 18.8 |
| NZD denominated tranche, interbank rates plus 0.940% | 10.5 | 9.7 |
| Total Premium Financing Debt Facility | 203.6 | 170.6 |
| Total corporate and other debt | 4,551.6 | 4,613.6 |
| Less unamortized debt acquisition costs on Note Purchase Agreements | (7.0) | (6.9) |
| Net corporate and other debt | $ 4,544.6 | $ 4,606.7 |

**Note Purchase Agreements -** On February 13, 2019, we closed an offering of $600.0 million aggregate principal amount of fixed rate private placement senior unsecured notes. This offering was funded on February 13, 2019 ($340.0 million) and March 13, 2019 ($260.0 million). The weighted average maturity of these notes is 10.1 years and the weighted average interest rate is 5.04% after giving effect to a net hedging loss. In 2017 and 2018, we entered into pre-issuance interest rate hedging transactions related to this private placement. We realized a net cash loss of approximately $1.2 million on the hedging transactions that will be recognized on a pro rata basis as an increase in our reported interest expense over the life of the debt. We used the proceeds of this offering to repay certain existing indebtedness and fund acquisitions.

The notes consist of the following tranches:

- $100.0 million of 4.72% senior notes due in 2024;
- $140.0 million of 4.85% senior notes due in 2026;
- $100.0 million of 5.04% senior notes due in 2029;
- $180.0 million of 5.14% senior notes due in 2031;
- $40.0 million of 5.29% senior notes due in 2034; and
- $40.0 million of 5.45% senior notes due in 2039

On June 12, 2019, we closed a private placement of $175.0 million aggregate principal amount of unsecured senior notes. The unsecured senior notes were issued with an interest rate of 4.48% and are due in 2034. We used the proceeds of these offerings in part to fund the $50.0 million June 24, 2019 Series L note maturity, and for acquisitions and general corporate purposes. The weighted average interest rate is 4.68% after giving effect to a net hedging loss. In 2017 and 2018, we entered into pre-issuance interest rate hedging transactions related to this private placement. We realized a net cash loss of approximately $5.2 million on the hedging transactions that will be recognized on a pro rata basis as an increase in our reported interest expense over ten years of the total 15-year notes.

On December 2, 2019 we closed a private placement of $50.0 million aggregate principal amount of unsecured senior notes. The unsecured senior notes were issued with an interest rate and weighted average interest rate of 3.48% and are due in 2029. We used the proceeds of those offerings to fund the $50.0 million November 30, 2019 Series C note maturity.

On January 30, 2020, we closed and funded an offering of $575.0 million aggregate principal amount of fixed rate private placement unsecured senior notes. The weighted average maturity of these notes is 11.7 years and the weighted average interest rate is 4.23% per annum after giving effect to underwriting costs and the net hedge loss. In 2017 and 2018, we entered into pre-issuance interest rate hedging transactions related to this private placements. We realized a net cash loss of approximately $8.9 million on the hedging transactions that will be recognized on a pro rata basis as an increase to our reported interest expense over a ten year period.

The notes consist of the following tranches:

- $30.0 million of 3.75% senior notes due in 2027;
- $341.0 million of 3.99% senior notes due in 2030;
- $69.0 million of 4.09% senior notes due in 2032;
- $79.0 million of 4.24% senior notes due in 2035; and
- $56.0 million of 4.49% senior notes due in 2040

We used these offerings to repay certain existing indebtedness and for general corporate purposes, including to fund acquisitions.

Under the terms of the note purchase agreements described above, we may redeem the notes at any time, in whole or in part, at 100% of the principal amount of such notes being redeemed, together with accrued and unpaid interest and a “make-whole amount”. The “make-whole amount” is derived from a net present value computation of the remaining scheduled payments of principal and interest using a discount rate based on the U.S. Treasury yield plus 0.5% and is designed to compensate the purchasers of the notes for their investment risk in the event prevailing interest rates at the time of prepayment are less favorable than the interest rates under the notes. We do not currently intend to prepay any of the notes.

The note purchase agreements described above contain customary provisions for transactions of this type, including representations and warranties regarding us and our subsidiaries and various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of December 31, 2020. The note purchase agreements also provide customary events of default, generally with corresponding grace periods, including, without limitation, payment defaults with respect to the notes, covenant defaults, cross-defaults to other agreements evidencing our or our subsidiaries’ indebtedness, certain judgments against us or our subsidiaries and events of bankruptcy involving us or our material subsidiaries.

The notes issued under the note purchase agreement are senior unsecured obligations of ours and rank equal in right of payment with our Credit Agreement discussed below.

**Credit Agreement** - On June 7, 2019, we entered into an amendment and restatement to our multicurrency credit agreement dated April 8, 2016, (which we refer to as the Credit Agreement) with a group of fifteen financial institutions. The amendment and restatement, among other things, extended the expiration date of the Credit Agreement from April 8, 2021 to June 7, 2024 and increased the revolving credit commitment from $800.0 million to $1,200.0 million, of which up to $75.0 million may be used for issuances of standby or commercial letters of credit and up to $75.0 million may be used for the making of swing loans (as defined in the Credit Agreement). We may from time to time request, subject to certain conditions, an increase in the revolving credit commitment under the Credit Agreement up to a maximum aggregate revolving credit commitment of $1,700.0 million. On August 27, 2020, we entered into an amendment to the Credit Agreement providing that the obligations of each subsidiary of Gallagher that was a borrower, guarantor and/or obligor under the Credit Agreement, ceased to apply and that each subsidiary was released from all of its obligations under the Credit Agreement. The amendment also replaced the minimum asset covenant with a priority indebtedness covenant, substantially similar to other priority indebtedness covenants applicable to us under our private placement note purchase agreements.

The Credit Agreement provides that we may elect that each borrowing in U.S. dollars be either base rate loans or eurocurrency loans, each as defined in the Credit Agreement. However, the Credit Agreement provides that all loans denominated in currencies other than U.S. dollars will be eurocurrency loans. Interest rates on base rate loans and outstanding drawings on letters of credit in U.S. dollars under the Credit Agreement will be based on the base rate, as defined in the Credit Agreement, plus a margin of 0.00% to 0.45%, depending on the financial leverage ratio we maintain. Interest rates on eurocurrency loans or outstanding drawings on letters of credit in currencies other than U.S. dollars under the Credit Agreement will be based on adjusted LIBOR, as defined in the Credit Agreement, plus a margin of 0.85% to 1.45%, depending on the financial leverage ratio we maintain. Interest rates on swing loans will be based, at our election, on either the base rate or an alternate rate that may be quoted by the lead lender. The annual facility fee related to the Credit Agreement is 0.15% and 0.30% of the revolving credit commitment, depending on the financial leverage ratio we maintain. In connection with entering into the Credit Agreement, we incurred approximately $2.5 million of debt acquisition costs that were capitalized and will be amortized on a pro rata basis over the term of the Credit Agreement.

The terms of the Credit Agreement include various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of December 31, 2020. The Credit Agreement also includes customary provisions for transactions of this type, including events of default, with corresponding grace periods and cross-defaults to other agreements evidencing our indebtedness.

At December 31, 2020, $17.4 million of letters of credit (for which we had $17.5 million of liabilities recorded at December 31, 2020) were outstanding under the Credit Agreement. See Note 17 to these consolidated financial statements for a discussion of the letters of credit. There were no borrowings outstanding under the Credit Agreement at December 31, 2020. Accordingly, at December 31, 2020, $1,182.6 million remained available for potential borrowings.

**Premium Financing Debt Facility -** On September 16, 2020, we entered into an amendment to our revolving loan facility (which we refer to as the Premium Financing Debt Facility), that provides funding for the three Australian (AU) and New Zealand (NZ) premium finance subsidiaries. The amendment, among other things, extended the expiration date of the Premium Financing Debt Facility from July 18, 2021 to September 15, 2022, added six-months variable limits to Facility B NZ$ beginning in 2021 and increased the total commitment for the AU$ denominated tranche from AU$245.0 million to AU$310.0 million. The Premium Financing Debt Facility is comprised of: (i) Facility B is separated into AU$260.0 million and NZ$25.0 million tranches, (ii) Facility C, an AU$50.0 million equivalent multi-currency overdraft tranche and (iii) Facility D, a NZ$15.0 million equivalent multi-currency overdraft tranche.

The interest rates on Facility B are Interbank rates, which vary by tranche, duration and currency, plus a margin of 1.400% and 1.750% for the AU$ and NZ$ tranches, respectively. The interest rates on Facilities C and D are 30 day Interbank rates, plus a margin of 0.730% and 0.940% for the AU$ and NZ$ tranches, respectively. The annual fee for Facility B is 0.63% and 0.7875% for the undrawn commitments for the AU$ and NZ$ tranches, respectively. The annual fee for Facility C is 0.67% and for Facility D is 0.86% of the total commitments of the facilities.

The terms of our Premium Financing Debt Facility include various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of December 31, 2020. The Premium Financing Debt Facility also includes customary provisions for transactions of this type, including events of default, with corresponding grace periods and cross-defaults to other agreements evidencing our indebtedness. Facilities B, C and D are secured by the premium finance receivables of the Australian and New Zealand premium finance subsidiaries.

At December 31, 2020, AU$255.0 million and  NZ$0.0 of borrowings were outstanding under Facility B, AU$0.0 million of borrowings outstanding under Facility C and NZ$14.9 million of borrowings were outstanding under Facility D, which in aggregate amount to US$203.6 million of borrowings under the Premium Finance Debt Facility.  Accordingly, as of December 31, 2020, AU$5.0 and NZ$25.0 million remained available for potential borrowing under Facility B, and AU$50.0 million and NZ$0.1 million under Facilities C and D, respectively.

See Note 17 to these 2020 consolidated financial statements for additional discussion on our contractual obligations and commitments as of December 31, 2020.

The aggregate estimated fair value of the $4,348.0 million in debt under the note purchase agreements at December 31, 2020 was $5,018.9 million due to the long-term duration and fixed interest rates associated with these debt obligations.  No active or observable market exists for our private long-term debt.  Therefore, the estimated fair value of this debt is based on the income valuation approach, which is a valuation technique that converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount.  The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.  Because our debt issuances generate a measurable income stream for each lender, the income approach was deemed to be an appropriate methodology for valuing the private placement long-term debt.  The methodology used calculated the original deal spread at the time of each debt issuance, which was equal to the difference between the yield of each issuance (the coupon rate) and the equivalent benchmark treasury yield at that time.  The market spread as of the valuation date was calculated, which is equal to the difference between an index for investment grade insurers and the equivalent benchmark treasury yield today.  An implied premium or discount to the par value of each debt issuance based on the difference between the origination deal spread and market as of the valuation date was then calculated.  The index we relied on to represent investment graded insurers was the Bloomberg Valuation Services (BVAL) U.S. Insurers BBB index.  This index is comprised primarily of insurance brokerage firms and was representative of the industry in which we operate.  For the purpose of our analysis, the average BBB rate was assumed to be the appropriate borrowing rate for us.  The estimated fair value of the zero of borrowings outstanding under our Credit Agreement approximate their carrying value due to their short-term duration and variable interest rates.  The estimated fair value of the $203.6 million of borrowings outstanding under our Premium Financing Debt Facility approximates their carrying value due to their short-term duration and variable interest rates.

## 9.  Earnings per Share

The following table sets forth the computation of basic and diluted net earnings per share (in millions, except per share data):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| Net earnings attributable to controlling interests | $ 818.8 | $ 668.8 | $ 633.5 |
| Weighted average number of common shares outstanding | 191.0 | 186.0 | 182.7 |
| Dilutive effect of stock options using the treasury stock method | 4.0 | 4.1 | 3.5 |
| Weighted average number of common and common equivalent shares outstanding | 195.0 | 190.1 | 186.2 |
| Basic net earnings per share | $ 4.29 | $ 3.60 | $ 3.47 |
| Diluted net earnings per share | $ 4.20 | $ 3.52 | $ 3.40 |

There were no anti-dilutive stock-based awards outstanding at December 31, 2020 that were excluded in the computation of the dilutive effect of stock-based awards for the year then ended.  Anti-dilutive stock-based awards of 1.0 million and 1.0 million shares were outstanding at December 31, 2019 and 2018, respectively, but were excluded in the computation of the dilutive effect of stock-based awards for the year then ended.  These stock-based awards were excluded from the computation because the exercise prices on these stock-based awards were greater than the average market price of our common shares during the respective period, and therefore, would be anti-dilutive to earnings per share under the treasury stock method.

## 10.  Stock Option Plans

On May 16, 2017, our stockholders approved the Arthur J. Gallagher & Co. 2017 Long-Term Incentive Plan (which we refer to as the LTIP), which replaced our previous stockholder-approved Arthur J. Gallagher & Co. 2014 Long-Term Incentive Plan (which we refer to as the 2014 LTIP).  The LTIP term began May 16, 2017 and terminates on the date of the annual meeting of stockholders in 2027, unless terminated earlier by our board of directors.  All of our officers, employees and non-employee directors are eligible to receive awards under the LTIP.  The compensation committee of our board of directors determines the annual number of shares delivered under the LTIP. The LTIP provides for non-qualified and incentive stock options, stock appreciation rights, restricted stock and restricted stock units, any or all of which may be made contingent upon the achievement of performance criteria.

Shares of our common stock available for issuance under the LTIP include authorized and unissued shares of common stock or authorized and issued shares of common stock reacquired and held as treasury shares or otherwise, or a combination thereof. The number of available shares will be reduced by the aggregate number of shares that become subject to outstanding awards granted under the LTIP. To the extent that shares subject to an outstanding award granted under either the LTIP or prior equity plans are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or by reason of the settlement of such award in cash, then such shares will again be available for grant under the LTIP.

The maximum number of shares available under the LTIP for restricted stock, restricted stock unit awards and performance unit awards settled with stock (i.e., all awards other than stock options and stock appreciation rights) is 2.3 million as of December 31, 2020.

The LTIP provides for the grant of stock options, which may be either tax-qualified incentive stock options or non-qualified options and stock appreciation rights. The compensation committee determines the period for the exercise of a non-qualified stock option, tax-qualified incentive stock option or stock appreciation right, provided that no option can be exercised later than seven years after its date of grant. The exercise price of a non-qualified stock option or tax-qualified incentive stock option and the base price of a stock appreciation right cannot be less than 100% of the fair market value of a share of our common stock on the date of grant, provided that the base price of a stock appreciation right granted in tandem with an option will be the exercise price of the related option.

Upon exercise, the option exercise price may be paid in cash, by the delivery of previously owned shares of our common stock, through a net-exercise arrangement, or through a broker-assisted cashless exercise arrangement. The compensation committee determines all of the terms relating to the exercise, cancellation or other disposition of an option or stock appreciation right upon a termination of employment, whether by reason of disability, retirement, death or any other reason. Stock option and stock appreciation right awards under the LTIP are non-transferable.

On March 12, 2020, the compensation committee granted 1,590,740 options under the 2017 LTIP to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2023, 2024 and 2025, respectively. On March 14, 2019, the compensation committee granted 1,283,300 options under the 2017 LTIP to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2022, 2023 and 2024, respectively. On March 15, 2018, the compensation committee granted 1,261,000 options under the 2017 LTIP to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2021, 2022 and 2023, respectively.

The 2020, 2019 and 2018 options expire seven years from the date of grant, or earlier in the event of certain terminations of employment. For our executive officers age 55 or older, stock options awarded in 2020, 2019 and 2018 are not subject to forfeiture upon such officers' departure from the company after two years from the date of grant.

Our stock option plans provide for the immediate vesting of all outstanding stock option grants in the event of a change in control of our company, as defined in the applicable plan documents.

During 2020, 2019 and 2018, we recognized $13.6 million, $14.0 million and $13.7 million, respectively, of compensation expense related to our stock option grants.

For purposes of expense recognition in 2020, 2019 and 2018, the estimated fair values of the stock option grants are amortized to expense over the options' vesting period. We estimated the fair value of stock options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| Expected dividend yield | 2.1% | 1.7% | 2.3% |
| Expected risk-free interest rate | 0.7% | 2.5% | 2.7% |
| Volatility | 17.3% | 15.6% | 15.1% |
| Expected life (in years) | 5.4 | 5.5 | 5.5 |

Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. The weighted average fair value per option for all options granted during 2020, 2019 and 2018, as determined on the grant date using the Black-Scholes option pricing model, was $9.99, $10.71 and $9.27, respectively.

The following is a summary of our stock option activity and related information for 2020 and 2019 (in millions, except exercise price and year data):

| | Shares Under Option | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| **Year Ended December 31, 2020** | | | | |
| Beginning balance | 7.9 | $ 56.40 | | |
| Granted | 1.6 | 86.17 | | |
| Exercised | (1.8) | 45.80 | | |
| Forfeited or canceled | (0.2) | 65.87 | | |
| Ending balance | 7.5 | $ 65.09 | 3.86 | $ 437.9 |
| Exercisable at end of year | 1.9 | $ 47.17 | 1.83 | $ 147.2 |
| Ending unvested and expected to vest | 5.3 | $ 70.74 | 4.51 | $ 278.1 |
| **Year Ended December 31, 2019** | | | | |
| Beginning balance | 8.8 | $ 50.16 | | |
| Granted | 1.3 | 79.59 | | |
| Exercised | (1.9) | 42.91 | | |
| Forfeited or canceled | (0.3) | 57.33 | | |
| Ending balance | 7.9 | $ 56.40 | 3.75 | $ 308.6 |
| Exercisable at end of year | 2.0 | $ 45.03 | 1.82 | $ 101.9 |
| Ending unvested and expected to vest | 5.7 | $ 59.76 | 4.36 | $ 201.5 |

Options with respect to 11.4 million shares (less any shares of restricted stock issued under the LTIP - see Note 12 to these consolidated financial statements) were available for grant under the LTIP at December 31, 2020.

The total intrinsic value of options exercised during 2020, 2019 and 2018 amounted to $106.4 million, $77.9 million and $54.2 million, respectively. As of December 31, 2020, we had approximately $28.3 million of total unrecognized compensation expense related to nonvested options. We expect to recognize that cost over a weighted average period of approximately four years.

Other information regarding stock options outstanding and exercisable at December 31, 2020 is summarized as follows (in millions, except exercise price and year data):

| | | | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | | | Number Outstanding | Weighted Average Remaining Contractual Term (in years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $ 43.71 | — | $ 43.71 | 1.4 | 2.21 | $ 43.71 | 0.7 | $ 43.71 |
| 46.17 | — | 46.87 | 0.9 | 0.97 | 46.33 | 0.9 | 46.33 |
| 49.55 | — | 56.86 | 1.3 | 3.21 | 56.83 | 0.3 | 56.81 |
| 70.74 | — | 70.74 | 1.1 | 4.21 | 70.74 | — | 70.74 |
| 79.59 | — | 79.59 | 1.2 | 5.20 | 79.59 | — | 79.59 |
| 86.17 | — | 86.17 | 1.6 | 6.20 | 86.17 | — | — |
| $ 43.71 | — | $ 86.17 | 7.5 | 3.86 | $ 65.09 | 1.9 | $ 47.17 |

**11. Deferred Compensation**

We have a Deferred Equity Participation Plan, (which we refer to as the DEPP), which is a non-qualified plan that generally provides for distributions to certain of our key executives when they reach age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) or upon or after their actual retirement if later. Under the provisions of the DEPP, we typically contribute cash in an amount approved by the compensation committee to a rabbi trust on behalf of the executives participating in the DEPP, and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. Distributions under the DEPP may not normally be made until the participant reaches age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) and are subject to forfeiture in the event of voluntary termination of employment prior to then. DEPP awards are generally made annually in the first quarter. In addition, we annually make awards under sub-plans of the DEPP for certain production staff, which generally provide for vesting and/or distributions no sooner than five years from the date of awards, although certain awards vest and/or distribute after the earlier of fifteen years or the participant reaching age 65. All contributions to the plan (including sub-plans) deemed to be invested in shares of our common stock are distributed in the form of our common stock and all other distributions are paid in cash.

Our common stock that is issued to or purchased by the rabbi trust as a contribution under the DEPP is valued at historical cost, which equals its fair market value at the date of grant or date of purchase. When common stock is issued, we record an unearned deferred compensation obligation as a reduction of capital in excess of par value in the accompanying consolidated balance sheet, which is amortized to compensation expense ratably over the vesting period of the participants. Future changes in the fair market value of our common stock owed to the participants do not have any impact on the amounts recorded in our consolidated financial statements.

In the first quarter of each of 2020, 2019 and 2018, the compensation committee approved $14.1 million, $10.1 million and $11.5 million, respectively, of awards in the aggregate to certain key executives under the DEPP that were contributed to the rabbi trust in the first quarters of 2020, 2019 and 2018. We contributed cash to the rabbi trust and instructed the trustee to acquire a specified number of shares of our common stock on the open market to fund these 2020, 2019 and 2018 awards. During 2020, 2019 and 2018, we charged $12.2 million, $9.8 million and $9.1 million, respectively, to compensation expense related to these awards.

In 2020, 2019 and 2018, the compensation committee approved $1.8 million, $2.6 million and $0.9 million, respectively, of awards under the sub-plans referred to above, which were contributed to the rabbi trust in first quarter 2020, 2019 and 2018, respectively. During 2020, 2019 and 2018, we charged $1.9 million, $2.4 million and $2.2 million, respectively, to compensation expense related to these awards. There was $0.5 million of distributions from the sub-plans during 2019. There were no distributions from the sub-plans during 2020 and 2018.

At December 31, 2020 and 2019, we recorded $60.5 million (related to 2.6 million shares) and $64.5 million (related to 2.9 million shares), respectively, of unearned deferred compensation as a reduction of capital in excess of par value in the accompanying consolidated balance sheet. The total intrinsic value of our unvested equity based awards under the plan at December 31, 2020 and 2019 was $327.8 million and $276.3 million, respectively. During 2020, 2019 and 2018, cash and equity awards with an aggregate fair value of $41.2 million, $3.1 million and $6.4 million, respectively, were vested and distributed to executives under the DEPP.

We have a Deferred Cash Participation Plan (which we refer to as the DCPP), which is a non-qualified deferred compensation plan for certain key employees, other than executive officers, that generally provides for vesting and/or distributions no sooner than five years from the date of awards. Under the provisions of the DCPP, we typically contribute cash in an amount approved by the compensation committee to the rabbi trust on behalf of the executives participating in the DCPP, and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. In the first quarter of each of 2020, 2019 and 2018, the compensation committee approved $3.0 million, $2.4 million and $5.6 million, respectively, of awards in the aggregate to certain key executives under the DCPP that were contributed to the rabbi trust in second quarter 2020, 2019 and 2018, respectively. In addition, the compensation committee approved $7.7 million and $1.6 million of awards in the aggregate to certain key executives under the DCPP that were contributed to the rabbi trust in the second and third quarters of 2019, respectively. During 2020, 2019 and 2018 we charged $6.9 million, $5.2 million and $3.0 million to compensation expense related to these awards. There was $3.2 million, $2.5 million and $3.6 million of distributions from the DCPP during 2020, 2019 and 2018, respectively.

## 12. Restricted Stock, Performance Share and Cash Awards

### Restricted Stock Awards

As discussed in Note 10 to these consolidated financial statements, on May 16, 2017, our stockholders approved the LTIP, which replaced our previous stockholder-approved 2014 LTIP. The LTIP provides for the grant of a stock award either as restricted stock or as restricted stock units to officers, employees and non-employee directors. In either case, the compensation committee may determine that the award will be subject to the attainment of performance measures over an established performance period. Stock awards and the related dividend equivalents are non-transferable and subject to forfeiture if the holder does not remain continuously employed with us during the applicable restriction period or, in the case of a performance-based award, if applicable performance measures are not attained. The compensation committee will determine all of the terms relating to the satisfaction of performance measures and the termination of a restriction period, or the forfeiture and cancellation of a restricted stock award upon a termination of employment, whether by reason of disability, retirement, death or any other reason.

The agreements awarding restricted stock units under the LTIP will specify whether such awards may be settled in shares of our common stock, cash or a combination of shares and cash and whether the holder will be entitled to receive dividend equivalents, on a current or deferred basis, with respect to such award. Prior to the settlement of a restricted stock unit, the holder of a restricted stock unit will have no rights as a stockholder of the company. The maximum number of shares available under the LTIP for restricted stock, restricted stock units and performance unit awards settled with stock (i.e., all awards other than stock options and stock appreciation rights) is 4.0 million. At December 31, 2020, 2.3 million shares were available for grant under the LTIP for such awards.

In 2020, 2019 and 2018, we granted 422,610, 414,700 and 439,100 restricted stock units, respectively, to employees under the LTIP and 2014 LTIP, with an aggregate fair value of $34.9 million, $31.8 million and $28.7 million, respectively, at the date of grant.

The 2020, 2019 and 2018 restricted stock units vest as follows: 405,870 units granted in first quarter 2020, 399,900 units granted in first quarter 2019 and 420,200 units granted in first quarter 2018 vest in full based on continued employment through March 12, 2025, March 14, 2024 and March 15, 2023, respectively, while the other 2020, 2019 and 2018 restricted stock unit awards generally vest in full based on continued employment through the vesting period on the anniversary date of the grant. For certain of our executive officers age 55 or older, restricted stock units awarded in 2020, 2019 and 2018 are not subject to forfeiture upon such officers' departure from the company after two years from the date of grant.

The vesting periods of the 2020, 2019 and 2018 restricted stock unit awards are as follows (in actual shares):

| | Restricted Stock Units Granted | | |
|---|---|---|---|
| **Vesting Period** | **2020** | **2019** | **2018** |
| One year | 16,740 | 14,800 | 18,900 |
| Two years | 8,870 | 12,000 | 12,700 |
| Five years | 397,000 | 387,900 | 407,500 |
| Total shares granted | 422,610 | 414,700 | 439,100 |

We account for restricted stock awards at historical cost, which equals its fair market value at the date of grant, which is amortized to compensation expense ratably over the vesting period of the participants. Future changes in the fair value of our common stock that is owed to the participants do not have any impact on the amounts recorded in our consolidated financial statements. During 2020, 2019 and 2018, we charged $40.0 million, $29.8 million and $27.2 million, respectively, to compensation expense related to restricted stock awards granted in 2009 through 2020. The total intrinsic value of unvested restricted stock at December 31, 2020 and 2019 was $302.4 million and $215.1 million, respectively. During 2020 and 2019, equity awards (including accrued dividends) with an aggregate fair value of $2.0 million and $2.1 million were vested and distributed to employees under this plan.

### Performance Share Awards

On March 12, 2020, March 14, 2019 and March 15, 2018, pursuant to the LTIP, the compensation committee approved 82,500, 73,600 and 78,200, respectively of provisional performance share awards, with an aggregate fair value of $7.1 million, $5.8 million and $5.3 million, respectively, for future grants to our officers and key employees. Each performance unit award was equivalent to the value of one share of our common stock on the date such provisional award was approved. At the end of the performance period, eligible participants will receive a number of earned shares based on the growth in adjusted EBITDAC per share (as defined in the 2020 Proxy Statement). Earned shares for the 2020, 2019 and 2018 provisional awards will fully vest based on continuous employment through March 12, 2023, March 14, 2022 and March 15, 2021, respectively, and will be settled in unrestricted shares of our common stock on a one-for-one basis as soon as practicable in 2023, 2022 and 2021, respectively. The 2020, 2019 and 2018 awards are subject to a three-year performance period that begins on January 1, 2020, 2019 and 2018, respectively, and vest on the three-year anniversary of the date of grant (March 12, 2023, March 14, 2022 and March 15, 2021). For certain of our executive officers age 55 or older, awards granted in 2020, 2019 and 2018 are no longer subject to forfeiture upon such officers' departure from the company after two years from the date of grant. During 2020, 2019 and 2018, equity awards (including accrued dividends) with an aggregate fair value of $12.5 million, $5.7 million and $3.7 million was vested and distributed to employees under this plan.

**Cash Awards**

On March 12, 2020, pursuant to our Performance Unit Program (which we refer to as the Program), the compensation committee approved provisional cash awards of $18.4 million in the aggregate for future grants to our officers and key employees that are denominated in units (213,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. The Program consists of a one-year performance period based on our financial performance and a three-year vesting period measured from January 1 of the year of grant. At the discretion of the compensation committee and determined based on our performance, the eligible officer or key employee will be granted a percentage of the provisional cash award units that equates to the EBITDAC growth achieved (as defined in the Program). At the end of the performance period, eligible participants will be granted a number of units based on achievement of the performance goal and subject to approval by the compensation committee. Granted units for the 2020 provisional award will fully vest based on continuous employment through January 1, 2023. The ultimate award value will be equal to the trailing twelve-month price of our common stock on December 31, 2022, multiplied by the number of units subject to the award, but limited to between 0.5 and 1.5 times the original value of the units determined as of the grant date. The fair value of the awarded units will be paid out in cash as soon as practicable in 2023. If an eligible employee leaves us prior to the vesting date, the entire award will be forfeited. We did not recognize any compensation expense during the year ended December 31, 2020 related to the 2020 provisional award under the Program. Based on company performance for 2020, we expect to grant 209,000 units under the Program in first quarter 2021 that will fully vest on January 1, 2023.

On March 14, 2019, pursuant to the Program, the compensation committee approved provisional cash awards of $16.5 million in the aggregate for future grants to our officers and key employees that are denominated in units (206,800 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. Terms of the 2019 provisional award were similar to the terms of the 2020 provisional awards. Based on our performance for 2019, we granted 200,000 units under the Program in first quarter 2020 that will fully vest on January 1, 2022. During 2020, we charged $10.6 million to compensation expense related to these awards. We did not recognize any compensation expense during 2019 related to the 2019 provisional award under the Program.

On March 15, 2018, pursuant to the Program, the compensation committee approved provisional cash awards of $15.0 million in the aggregate for future grants to our officers and key employees that are denominated in units (219,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. Terms of the 2018 provisional award were similar to the terms of the 2019 provisional awards. Based on our performance for 2018, we granted 190,000 units under the Program in first quarter 2019 that fully vested on January 1, 2021. During 2020 and 2019, we charged $9.9 million and $8.9 million to compensation expense related to these awards. We did not recognize any compensation expense during 2018 related to the 2018 provisional award under the Program.

On March 16, 2017, pursuant to the Program, the compensation committee approved provisional cash awards of $14.3 million in the aggregate for future grants to our officers and key employees that are denominated in units (255,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional awards were approved. Terms of the 2017 provisional award were similar to the terms of the 2018 provisional awards. Based on our performance for 2017, we granted 242,000 units under the Program in first quarter 2018 that fully vested on January 1, 2020. During 2019 and 2018, we charged $10.3 million and $8.7 million to compensation expense related to these awards, respectively.

On March 17, 2016, pursuant to the Program, the compensation committee approved provisional cash awards of $17.4 million in the aggregate for future grants to our officers and key employees that are denominated in units (397,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. Terms of the 2016 provisional award were similar to the terms of the 2017 provisional awards. Based on our performance for 2016, we granted 385,000 units under the Program in first quarter 2017 that fully vested on January 1, 2019. During 2018, we charged $11.7 million to compensation expense related to these awards.

During 2019, cash awards related to the 2016 provisional awards with an aggregate fair value of $22.4 million (341,000 units in the aggregate) were vested and distributed to employees under the Program. During 2018, cash awards related to the 2015 provisional awards with an aggregate fair value of $15.8 million (269,000 units in the aggregate) were vested and distributed to employees under the Program. During 2017, cash awards related to the 2014 provisional awards with an aggregate fair value of $9.3 million (199,000 units in the aggregate) were vested and distributed to employees under the Program.

## 13. Retirement Plans

We have a noncontributory defined benefit pension plan that, prior to July 1, 2005, covered substantially all of our domestic employees who had attained a specified age and one year of employment. Benefits under the plan were based on years of service and salary history. In 2005, we amended our defined benefit pension plan to freeze the accrual of future benefits for all U.S. employees, effective on July 1, 2005. Since the plan is frozen, there is no difference between the projected benefit obligation and accumulated benefit obligation at December 31, 2020 and 2019. In the table below, the service cost component represents plan administration costs that are incurred directly by the plan. A reconciliation of the beginning and ending balances of the pension benefit obligation and fair value of plan assets and the funded status of the plan is as follows (in millions):

| | Year Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Change in pension benefit obligation:** | | |
| Benefit obligation at beginning of year | $ 274.4 | $ 253.2 |
| Service cost | 0.8 | 1.6 |
| Interest cost | 8.0 | 9.8 |
| Net actuarial loss | 22.6 | 24.7 |
| Benefits paid | (15.2) | (14.9) |
| Benefit obligation at end of year | $ 290.6 | $ 274.4 |
| **Change in plan assets:** | | |
| Fair value of plan assets at beginning of year | $ 243.7 | $ 220.0 |
| Actual return on plan assets | 34.3 | 38.6 |
| Contributions by the company | — | — |
| Benefits paid | (15.2) | (14.9) |
| Fair value of plan assets at end of year | $ 262.8 | $ 243.7 |
| Funded status of the plan (underfunded) | $ (27.8) | $ (30.7) |
| **Amounts recognized in the consolidated balance sheet consist of:** | | |
| Noncurrent liabilities - accrued benefit liability | $ (27.8) | $ (30.7) |
| Accumulated other comprehensive loss - net actuarial loss | 68.3 | 69.8 |
| Net amount included in retained earnings | $ 40.5 | $ 39.1 |

The components of the net periodic pension benefit cost for the plan and other changes in plan assets and obligations recognized in earnings and other comprehensive earnings consist of the following (in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| **Net periodic pension cost:** | | | |
| Service cost | $ 0.8 | $ 1.6 | $ 0.8 |
| Interest cost on benefit obligation | 8.0 | 9.8 | 9.3 |
| Expected return on plan assets | (16.4) | (14.8) | (16.0) |
| Amortization of net loss | 6.2 | 7.0 | 4.9 |
| Net periodic benefit cost | (1.4) | 3.6 | (1.0) |
| **Other changes in plan assets and obligations recognized in other comprehensive earnings:** | | | |
| Net loss incurred | 4.7 | 0.8 | 17.2 |
| Amortization of net loss | (6.2) | (7.0) | (4.9) |
| Total recognized in other comprehensive loss | (1.5) | (6.2) | 12.3 |
| Total recognized in net periodic pension cost and other comprehensive loss | $ (2.9) | $ (2.6) | $ 11.3 |
| **Estimated amortization for the following year:** | | | |
| Amortization of net loss | $ 5.8 | $ 6.1 | $ 7.2 |

The following weighted average assumptions were used at December 31 in determining the plan's pension benefit obligation:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Discount rate | 2.25% | 3.00% |
| Weighted average expected long-term rate of return on plan assets | 7.00% | 7.00% |

The following weighted average assumptions were used at January 1 in determining the plan's net periodic pension benefit cost:

| | Year Ended December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| Discount rate | 3.00% | 4.00% | 3.50% |
| Weighted average expected long-term rate of return on plan assets | 7.00% | 7.00% | 7.00% |

The following benefit payments are expected to be paid by the plan (in millions):

| | |
|---|---|
| 2021 | $ 16.2 |
| 2022 | 16.5 |
| 2023 | 16.7 |
| 2024 | 16.7 |
| 2025 | 16.9 |
| Years 2026 to 2030 | 83.1 |

The following is a summary of the plan's weighted average asset allocations at December 31 by asset category:

| Asset Category | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Equity securities | 63.0% | 61.0% |
| Debt securities | 30.0% | 32.0% |
| Real estate | 7.0% | 7.0% |
| Total | 100.0% | 100.0% |

Plan assets are invested in various pooled separate accounts under annuity contracts managed by two life underwriting enterprises. The plan's investment policy provides that investments will be allocated in a manner designed to provide a long-term investment return greater than the actuarial assumptions, maximize investment return commensurate with risk and to comply with the Employee Income Retirement Security Act of 1974, as amended (which we refer to as ERISA), by investing the funds in a manner consistent with ERISA's fiduciary standards. The weighted average expected long-term rate of return on plan assets assumption was determined based on a review of the asset allocation strategy of the plan using expected ten-year return assumptions for all of the asset classes in which the plan was invested at December 31, 2020 and 2019. The return assumptions used in the valuation were based on data provided by the plan's external investment advisors.

The following is a summary of the plan's assets carried at fair value as of December 31 by level within the fair value hierarchy (in millions):

| Fair Value Hierarchy | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Level 1 | $ — | $ — |
| Level 2 | 141.8 | 135.8 |
| Level 3 | 121.0 | 107.9 |
| Total fair value | $ 262.8 | $ 243.7 |

The plan's Level 2 assets consist of ownership interests in various pooled separate accounts within a life insurance carrier's group annuity contract. The fair value of the pooled separate accounts is determined based on the net asset value of the respective funds, which is obtained from the underwriting enterprise and determined each business day with issuances and redemptions of units of the funds made based on the net asset value per unit as determined on the valuation date. We have not adjusted the net asset values provided by the underwriting enterprise. There are no restrictions as to the plan's ability to redeem its investment at the net asset value of the respective funds as of the reporting date. The plan's Level 3 assets consist of pooled separate accounts within another life insurance carrier's annuity contracts for which fair value has been determined by an independent valuation. Due to the nature of these annuity contracts, our management makes assumptions to determine how a market participant would price these Level 3 assets. In determining fair value, the future cash flows to be generated by the annuity contracts were estimated using the underlying benefit provisions specified in each contract, market participant assumptions and various actuarial and financial models. These cash flows were then discounted to present value using a risk-adjusted rate that takes into consideration market based rates of return and probability-weighted present values.

The following is a reconciliation of the beginning and ending balances for the Level 3 assets of the plan measured at fair value (in millions):

| | Year Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Fair value at January 1 | $ 107.9 | $ 94.9 |
| Settlements | (2.7) | — |
| Unrealized gain | 15.8 | 13.0 |
| Fair value at December 31 | $ 121.0 | $ 107.9 |

We were not required under the IRC to make any minimum contributions to the plan for each of the 2020, 2019 and 2018 plan years. This level of required funding is based on the plan being frozen and the aggregate amount of our historical funding. During 2018 we made a $30.0 million discretionary contribution to the plan. During 2020 and 2019 we did not make discretionary contributions to the plan.

We also have a qualified contributory savings and thrift 401(k) plan covering the majority of our domestic employees. For eligible employees who have met the plan's age and service requirements to receive matching contributions, we historically have matched 100% of pre-tax and Roth elective deferrals up to a maximum of 5.0% of eligible compensation, subject to federal limits on plan contributions and not in excess of the maximum amount deductible for federal income tax purposes. Beginning in 2021, the amount matched by the company will be discretionary and annually determined by management. Employees must be employed and eligible for the plan on the last day of the plan year to receive a matching contribution, subject to certain exceptions enumerated in the plan document. Matching contributions are subject to a five-year graduated vesting schedule and can be funded in cash or company stock. We expensed (net of plan forfeitures) $63.6 million, $59.4 million and $53.9 million related to the plan in 2020, 2019 and 2018, respectively. Matching contributions can be funded in cash or company stock. Our board of directors has authorized the use of common stock to fund our 2020 employer matching contributions to the 401(k) plan, which we plan to do in February 2021.

We also have a nonqualified deferred compensation plan, the Supplemental Savings and Thrift Plan, for certain employees who, due to IRS rules, cannot take full advantage of our matching contributions under the 401(k) plan. The plan permits these employees to annually elect to defer a portion of their compensation until their retirement or a future date. Our matching contributions to this plan (up to a maximum of the lesser of a participant's elective deferral of base salary, annual bonus and commissions or 5.0% of eligible compensation, less matching amounts contributed under the 401(k) plan) are also at the discretion of our board of directors. Matching contributions can be funded in cash or company stock. Our board of directors has authorized the use of common stock to fund our 2020 employer matching contributions to the plan, which we plan to do in February 2021. We expensed $7.8 million, $7.1 million and $6.5 million related to contributions made to a rabbi trust maintained under the plan in 2020, 2019 and 2018, respectively. The fair value of the assets in the plan's rabbi trust at December 31, 2020 and 2019, including employee contributions and investment earnings, was $497.3 million and $452.9 million, respectively, and has been included in other noncurrent assets and the corresponding liability has been included in other noncurrent liabilities in the accompanying consolidated balance sheet.

We also have several foreign benefit plans, the largest of which is a defined contribution plan that provides for us to make contributions of 5.0% of eligible compensation. In addition, the plan allows for voluntary contributions by U.K. employees, which we match 100%, up to a maximum of an additional 5.0% of eligible compensation. Net expense for foreign retirement plans amounted to $44.3 million, $39.8 million and $34.9 million in 2020, 2019 and 2018, respectively.

## 14. Investments

The following is a summary of our investments included in other noncurrent assets in the consolidated balance sheet (in millions):

| | December 31, | | |
|---|---|---|---|
| | 2020 | | 2019 |
| | Assets | Funding commitments | Assets |
| Chem-Mod LLC | $ 4.0 | $ - | $ 4.0 |
| Chem-Mod International LLC | 2.0 | - | 2.0 |
| Clean-coal investments: | | | |
| Controlling interest in limited liability companies that own fourteen 2009 Era Clean Coal Plants | - | - | - |
| Non-controlling interest in a limited liability company that owns one 2011 Era Clean Coal Plant | 0.1 | - | 0.3 |
| Controlling interest in limited liability companies that own twenty 2011 Era Clean Coal Plants | 12.4 | 0.9 | 29.2 |
| Other investments | 3.9 | | 4.5 |
| Total investments | $ 22.4 | $ 0.9 | $ 40.0 |

**Chem-Mod LLC -** At December 31, 2020, we held a 46.5% controlling interest in Chem-Mod LLC. Chem-Mod LLC possesses the exclusive marketing rights, in the U.S. and Canada, for technologies used to reduce emissions created during the combustion of coal. The refined coal production plants discussed below, as well as those owned by other unrelated parties, license and use Chem-Mod LLC's proprietary technologies, The Chem-Mod™ Solution, in the production of refined coal. The Chem-Mod™ Solution uses a dual injection sorbent system to reduce mercury, sulfur dioxide and other emissions at coal-fired power plants.

We believe that the application of The Chem-Mod™ Solution qualifies for refined coal tax credits under IRC Section 45 when used with refined coal production plants placed in service by December 31, of both 2011 and 2009. Chem-Mod LLC has been marketing its technologies principally to coal-fired power plants owned by utility companies, including those utilities that are operating with the IRC Section 45 refined coal production plants in which we hold an investment.

Chem-Mod LLC is determined to be a variable interest entity (which we refer to as a VIE). We are the manager (decision maker) of Chem-Mod LLC and therefore consolidate its operations into our consolidated financial statements. At December 31, 2020, total assets and total liabilities of this VIE included in our consolidated balance sheet were $19.0 million and $4.4 million, respectively. At December 31, 2019, total assets and total liabilities of this VIE included in our consolidated balance sheet were $16.3 million and $2.8 million, respectively. For 2020, total revenues and expenses were $74.3 million and $10.6 million, respectively. For 2019, total revenues and expenses were $81.9 million and $17.5 million, respectively. We are under no obligation to fund Chem-Mod's operations in the future.

**Chem-Mod International LLC -** At December 31, 2020, we held a 31.5% noncontrolling ownership interest in Chem-Mod International LLC. Chem-Mod International LLC has the rights to market The Chem-Mod™ Solution in countries other than the U.S. and Canada. Such marketing activity has been limited to date.

**C-Quest Technology LLC and C-Quest Technologies International LLC (which we refer together as C-Quest) -** At December 31, 2020, we held a noncontrolling 12% interest in C-Quest's global entities. C-Quest possesses rights, information and technology for the reduction of carbon dioxide emissions created by burning fossil fuels. Thus far, C-Quest's operations have been limited to laboratory testing. C-Quest is determined to be a VIE, but we do not consolidate this investment into our consolidated financial statements because we are not the primary beneficiary or decision maker.

**Clean Coal Investments -**

- We have investments in limited liability companies that own 35 refined coal production plants which produce refined coal using proprietary technologies owned by Chem-Mod LLC. We believe the production and sale of refined coal at these plants is qualified to receive refined coal tax credits under IRC Section 45. The 14 plants placed in service prior to December 31, 2009 (which we refer to as the 2009 Era Plants) were eligible to receive tax credits through 2019 and the 21 plants placed in service prior to December 31, 2011 (which we refer to as the 2011 Era Plants) are eligible to receive tax credits through 2021.
- As of December 31, 2020:
    - Twenty of the plants have long-term production contracts.
    - We have a noncontrolling interest in one plant, which is owned by a limited liability company (which we refer to as a LLC). We have determined that this LLC is a VIE, for which we are not the primary beneficiary and therefore do not consolidate it. At December 31, 2020, total assets and total liabilities of this VIE were $36.6 million and $36.0 million, respectively. For 2020, total revenues and expenses of this VIE were $35.2 million and $43.9 million, respectively.
- We and our co-investors each fund our portion of the on-going operations of the limited liability companies in proportion to our investment ownership percentages. Other than our portion of the on-going operational funding, there are no additional amounts that we are committed to related to funding these investments.

**Other Investments -** At December 31, 2020, we owned a non-controlling, minority interest in four venture capital funds totaling $3.9 million and eight certified low-income housing developments with zero carrying value. The low-income housing developments and real estate entities have been determined to be VIEs, but are not required to be consolidated due to our lack of control over their respective operations. At December 31, 2020, total assets and total liabilities of these VIEs were approximately $4.8 million and $0.5 million, respectively.

## 15. Leases

We have operating leases primarily related to branch facilities, data centers, sales offices, and agent locations, automobiles and office equipment. Many of our leases include both lease (fixed rent payments) and non-lease components (common-area or other maintenance costs) which are accounted for as a single lease component as we have elected the practical expedient to group lease and non-lease components for all leases. Variable lease payments, such as periodically indexed and/or market adjustments, are presented as lease expense in the period in which they are incurred. Since we did not elect the short-term policy election, we record leases of 12 months or less on the balance sheet.

We exclude options to extend or terminate a lease from our recognition as part of our right-of-use assets and lease liabilities until those options are reasonably certain and/or executed. We do not have any material guarantees, options to purchase, or restrictive covenants related to our leases.

As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. We consider qualitative factors including our derived credit rating, notched adjustments for collateralization, lease term, and, if significant, adjustments to our collateralized rate to borrow in the same currency in which the lease is denominated.

The components of lease expense are as follows (in millions):

| Lease Components | Statement of Earnings Classification | Year ended December 31, 2020 |
|---|---|---|
| Operating lease expense | Operating expense | $ 126.5 |
| Variable lease expense | Operating expense | 22.0 |
| Sublease income | Investment income | (1.1) |
| Total net lease expense | | $ 147.4 |

Variable lease cost consist primarily of common-area and other maintenance costs for our lease facilities, as well as variable lease payments related to indexed and/or market adjustments. Our sublease income derives primarily from a few office lease arrangements and we have no significant sublease losses.

| Supplemental Cash Flow Information Related to Leases (in millions) | | Year ended December 31, 2020 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ | 120.1 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | $ | 71.2 |

We present all noncash transactions related to adjustments to the lease liability or right-of-use asset as noncash transactions. This includes all noncash charges related to any modification or reassessment events triggering remeasurement.

Supplemental balance sheet information related to leases is as follows (in millions, except lease term and discount rate):

| Lease Components | Balance Sheet Classification | | December 31, 2020 |
|---|---|---|---|
| Lease right-of-use assets | Right-of-use assets | $ | 373.9 |
| Other current lease liabilities | Accrued compensation and other current liabilities | | 88.8 |
| Lease liabilities | Lease liabilities - noncurrent | | 320.9 |
| Total lease liabilities | | $ | 409.7 |
| Weighted-average remaining lease term, years | | | 5.3 |
| Weighted-average discount rate | | | 3.6% |

Maturities of operating lease liabilities for each of the next five years and thereafter are as follows (in millions):

| | | |
|---|---|---|
| 2021 | $ | 108.5 |
| 2022 | | 93.9 |
| 2023 | | 75.1 |
| 2024 | | 54.8 |
| 2025 | | 41.6 |
| Thereafter | | 77.8 |
| Total lease payments | | 451.7 |
| Less interest | | (42.0) |
| Total | $ | 409.7 |

Our leases have remaining lease terms of 0.1 years to 11.7 years, some of which may include options to extend the leases for up to 5.0 years and some of which may include options to terminate the leases.

As of December 31, 2020, we have additional leases that have not yet commenced of $0.3 million. These leases will commence in 2021 with lease terms of 0.5 years to 5.4 years.

### 16. Derivatives and Hedging Activity

We adopted ASU 2017-12 on January 1, 2019. Among other provisions, the new standard required modification to existing presentation and disclosure requirements on a prospective basis. As such, certain disclosures below conform to the disclosure requirements prior to the adoption of ASU 2017-12.

We are exposed to market risks, including changes in foreign currency exchange rates and interest rates. To manage the risk related to these exposures, we enter into various derivative instruments that reduce these risks by creating offsetting exposures. We generally do not enter into derivative transactions for trading or speculative purposes.

**Foreign Exchange Risk Management**

We are exposed to foreign exchange risk when we earn revenues, pay expenses, or enter into monetary intercompany transfers denominated in a currency that differs from our functional currency, or other transactions that are denominated in a currency other than our functional currency.  We use foreign exchange derivatives, typically forward contracts and options, to reduce our overall exposure to the effects of currency fluctuations on cash flows.  These exposures are hedged, on average, for less than three years.

**Interest Rate Risk Management**

We enter into various long-term debt agreements.  We use interest rate derivatives, typically swaps, to reduce our exposure to the effects of interest rate fluctuations on the forecasted interest rates for up to three years into the future.

We have not received or pledged any collateral related to derivative arrangements at December 31, 2020.

The notional and fair values of derivatives designated as hedging instruments are as follows at December 31, 2020 and 2019 (in millions):

| | | Derivative Assets | | Derivative Liabilities | |
|---|---|---|---|---|---|
| **Instrument** | **Notional Amount** | **Balance Sheet Classification** | **Fair Value** | **Balance Sheet Classification** | **Fair Value** |
| **At December 31, 2020** | | | | | |
| Interest rate contracts | $ 550.0 | Other current assets | $ — | Accrued compensation and other current liabilities | $ 54.5 |
| | | Other noncurrent assets | — | | |
| | | | | Other noncurrent liabilities | 10.9 |
| Foreign exchange contracts (1) | 48.6 | Other current assets | 5.9 | Accrued compensation and other current liabilities | 0.6 |
| | | Other noncurrent assets | 7.8 | Other noncurrent liabilities | 3.3 |
| Total | $ 598.6 | | $ 13.7 | | $ 69.3 |
| **At December 31, 2019** | | | | | |
| Interest rate contracts | $ 800.0 | Other current assets | $ 2.8 | Accrued compensation and other current liabilities | $ 25.0 |
| | | Other noncurrent assets | 5.4 | | |
| | | | | Other noncurrent liabilities | 23.0 |
| Foreign exchange contracts (1) | 31.7 | Other current assets | 4.5 | Accrued compensation and other current liabilities | 1.8 |
| | | Other noncurrent assets | 8.5 | Other noncurrent liabilities | 2.6 |
| Total | $ 831.7 | | $ 21.2 | | $ 52.4 |

(1) Included within foreign exchange contracts at December 31, 2020 were $354.7 million of call options offset with $354.7 million of put options, and $9.0 million of buy forwards offset with $57.6 million of sell forwards.  Included within foreign exchange contracts at December 31, 2019 were $342.0 million of call options offset with $342.0 million of put options, and $12.1 million of buy forwards offset with $43.8 million of sell forwards.

Fair values of these hedge contracts are based on observable and unobservable inputs.  Observable inputs include all of the following: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example: interest rates and yield curves observable at commonly quoted intervals, implied volatilities, credit spreads) and market-corroborated inputs.  Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The effect of cash flow hedge accounting on accumulated other comprehensive loss were as follows (in millions):

| Instrument | Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss (1) | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Earnings | Amount of Gain (Loss) Recognized in Earnings Related to Amount Excluded from Effectiveness Testing | Statement of Earnings Classification |
|---|---|---|---|---|
| **Year ended December 31, 2020** | | | | |
| Interest rate contracts | $ (92.5) | $ (1.1) | $ — | Interest expense |
| Foreign exchange contracts | (4.6) | (2.4) | (0.4) | Commission revenue |
| | | (1.6) | 1.6 | Compensation expense |
| | | (1.2) | 1.1 | Operating expense |
| Total | $ (97.1) | $ (6.3) | $ 2.3 | |
| **Year ended December 31, 2019** | | | | |
| Interest rate contracts | $ (47.0) | $ (1.2) | $ — | Interest expense |
| Foreign exchange contracts | 9.9 | (1.6) | (0.8) | Commission revenue |
| | | (1.4) | 1.2 | Compensation expense |
| | | (1.0) | 0.9 | Operating expense |
| Total | $ (37.1) | $ (5.2) | $ 1.3 | |

(1) During 2020, the amount excluded from the assessment of hedge effectiveness for our foreign exchange contracts recognized in accumulated other comprehensive loss was a loss of $1.3 million.

We estimate that approximately $2.5 million of pretax loss currently included within accumulated other comprehensive loss will be reclassified into earnings in the next twelve months.

## 17. Commitments, Contingencies and Off-Balance Sheet Arrangements

In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. See Notes 8 and 14 to these consolidated financial statements for additional discussion of these obligations and commitments. Our future minimum cash payments, including interest, associated with our contractual obligations pursuant to the note purchase agreements, Credit Agreement, Premium Financing Debt Facility, operating leases and purchase commitments at December 31, 2020 were as follows (in millions):

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| **Contractual Obligations** | **2021** | **2022** | **2023** | **2024** | **2025** | **Thereafter** | **Total** |
| Note purchase agreements | $ 75.0 | $ 200.0 | $ 250.0 | $ 475.0 | $ 200.0 | $ 3,148.0 | $ 4,348.0 |
| Credit Agreement | — | — | — | — | — | — | — |
| Premium Financing Debt Facility | 203.6 | — | — | — | — | — | 203.6 |
| Interest on debt | 189.5 | 183.6 | 174.7 | 158.0 | 143.4 | 601.9 | 1,451.1 |
| Total debt obligations | 468.1 | 383.6 | 424.7 | 633.0 | 343.4 | 3,749.9 | 6,002.7 |
| Operating lease obligations | 108.5 | 93.9 | 75.1 | 54.8 | 41.6 | 77.8 | 451.7 |
| Less sublease arrangements | (0.3) | (0.3) | (0.2) | (0.2) | (0.2) | (0.5) | (1.7) |
| Outstanding purchase obligations | 75.3 | 49.4 | 30.8 | 21.9 | 16.7 | 22.7 | 216.8 |
| Total contractual obligations | $ 651.6 | $ 526.6 | $ 530.4 | $ 709.5 | $ 401.5 | $ 3,849.9 | $ 6,669.5 |

The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation. As of December 31, 2020, we had a $48.2 million accrued liability related to the Ashton Tiffany acquisition that is not in the foregoing table that may be settled using shares of our common stock in early February 2021.

On December 23, 2020, we signed a definitive agreement to acquire 100% of the equity of The Bollington Wilson Group (which we refer to as Bollington) headquartered in Sale, Greater Manchester, U.K., for approximately $330.0 million of cash consideration. The transaction is subject to regulatory approval, which was received on January 26, 2021, and is expected to close in February 2021.

**Note Purchase Agreements, Credit Agreement and Premium Financing Debt Facility -** See Note 8 to these consolidated financial statements for a summary the amounts outstanding under the note purchase agreements, the Credit Agreement and Premium Debt Facility.

**Operating Lease Obligations -** Our corporate segment's executive offices and certain subsidiary and branch facilities of our brokerage and risk management segments are located in a building we own at 2850 Golf Road, Rolling Meadows, Illinois, where we have approximately 360,000 square feet of space and will accommodate approximately 2,000 employees at peak pre-pandemic capacity. During first quarter 2017, we relocated our corporate office headquarters to the Rolling Meadows location. Relating to the development of our corporate headquarters, we expect to receive property tax related credits under a tax-increment financing note from Rolling Meadows and an Illinois state Economic Development for a Growing Economy (which we refer to as EDGE) tax credit. Incentives from these two programs could total between $60.0 million and $90.0 million over a fifteen-year period. We have earned approximately $25.5 million of EDGE credits from inception through December 31, 2020.

We generally operate in leased premises at our other locations. Certain of these leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of leases contain annual escalation clauses which are generally related to increases in an inflation index.

Total rent expense, including rent relating to cancelable leases and leases with initial terms of less than one year, amounted to $154.0 million in 2020, $148.1 million in 2019 and $140.0 million in 2018.

We have leased certain office space to several non-affiliated tenants under operating sublease arrangements. In the normal course of business, we expect that certain of these leases will not be renewed or replaced. We adjust charges for real estate taxes and common area maintenance annually based on actual expenses, and we recognize the related revenues in the year in which the expenses are incurred. These amounts are not included in the minimum future rentals to be received in the contractual obligations table above.

**Outstanding Purchase Obligations -** We typically do not have a material amount of outstanding purchase obligations at any point in time. The amount disclosed in the contractual obligations table above represents the aggregate amount of unrecorded purchase obligations that we had outstanding at December 31, 2020. These obligations represent agreements to purchase goods or services that were executed in the normal course of business.

**Off-Balance Sheet Commitments -** Our total unrecorded commitments associated with outstanding letters of credit, financial guarantees and funding commitments at December 31, 2020 were as follows (in millions):

| | Amount of Commitment Expiration by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| **Off-Balance Sheet Commitments** | **2021** | **2022** | **2023** | **2024** | **2025** | **Thereafter** | **Total Amounts Committed** |
| Letters of credit | $ — | $ — | $ — | $ — | $ — | $ 18.4 | $ 18.4 |
| Financial guarantees | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.2 |
| Total commitments | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.2 | $ 18.6 | $ 19.6 |

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect our actual future cash funding requirements. See Note 14 to these consolidated financial statements for a discussion of our funding commitments related to our corporate segment and the Off-Balance Sheet Debt section below for a discussion of other letters of credit. All of the letters of credit represent multiple year commitments that have annual, automatic renewing provisions and are classified by the latest commitment date.

Since January 1, 2002, we have acquired 583 companies, all of which were accounted for using the acquisition method for recording business combinations. Substantially all of the purchase agreements related to these acquisitions contain provisions for potential earnout obligations. For all of our acquisitions made in the period from 2016 to 2020 that contain potential earnout obligations, such obligations are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration for the respective acquisition. The amounts recorded as earnout payables are primarily based upon estimated future potential operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The aggregate amount of the maximum earnout obligations related to these acquisitions was $1,128.1 million, of which $592.2 million was recorded in our consolidated balance sheet as of December 31, 2020 based on the estimated fair value of the expected future payments to be made, of which approximately $493.7 million can be settled in cash or stock at our option and $98.5 million must be settled in cash.

**Off-Balance Sheet Debt -** Our unconsolidated investment portfolio includes investments in enterprises where our ownership interest is between 1% and 50%, in which management has determined that our level of influence and economic interest is not sufficient to require consolidation. As a result, these investments are accounted for under the equity method. None of these unconsolidated investments had any outstanding debt at December 31, 2020 and 2019 that was recourse to us.

At December 31, 2020, we had posted two letters of credit totaling $9.4 million in the aggregate, related to our self-insurance deductibles, for which we had a recorded liability of $17.5 million. We have an equity investment in a rent-a-captive facility, which we use as a placement facility for certain of our insurance brokerage operations. At December 31, 2020, we had posted seven letters of credit totaling $7.5 million to allow certain of our captive operations to meet minimum statutory surplus requirements plus additional collateral related to premium and claim funds held in a fiduciary capacity, one letter of credit totaling $1.0 million for collateral related to claim funds held in a fiduciary capacity by a recent acquisition, and one letter of credit totaling $0.5 million as a security deposit for a 2015 acquisition's lease. These letters of credit have never been drawn upon.

Our commitments associated with outstanding letters of credit, financial guarantees and funding commitments at December 31, 2020 were as follows (all dollar amounts in table are in millions):

| Description, Purpose and Trigger | Collateral | Compensation to Us | Maximum Exposure | Liability Recorded |
|---|---|---|---|---|
| Credit support under letters of credit (LOC) for deductibles due by us on our own insurance coverages - expires after 2025 | None | None | $ 9.4 | $ 17.5 |
| Trigger - We do not reimburse the insurance companies for deductibles the insurance companies advance on our behalf | | | | |
| Credit enhancement under letters of credit for our captive insurance operations to meet minimum statutory capital requirements - expires after 2025 | None | Reimbursement of LOC fees | 7.5 | - |
| Trigger - Dissolution or catastrophic financial results of the operation | | | | |
| Collateral related to claims funds held in a fiduciary capacity by a recent acquisition - expires 2021 | None | None | 1.0 | - |
| Trigger - Claim payments are not made | | | | |
| Credit support under letters of credit in lieu of a security deposit for an acquisition's lease - expires after 2025 | None | None | 0.5 | - |
| Trigger - Lease payments do not get made | | | | |
| Financial guarantees of loans to 5 Canadian-based employees - expires when loan balances are reduced to zero through May 2029 - Principal and interest payments are paid quarterly | (1) | None | 1.2 | - |
| Trigger - Default on loan payments | | | | |
| | | | $ 19.6 | $ 17.5 |

(1) The guarantees are collateralized by shares in minority holdings of our Canadian operating companies.

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect our actual future cash funding requirements.

**Litigation, Regulatory and Taxation Matters -** We are a defendant in various legal actions incidental to the nature of our business including but not limited to matters related to employment practices, alleged breaches of non-compete or other restrictive covenants, theft of trade secrets, breaches of fiduciary duties and related causes of action. We are also periodically the subject of inquiries, investigations and reviews by regulatory and taxing authorities into various matters related to our business, including our operational, compliance and finance functions. Neither the outcomes of these matters nor their effect upon our business, financial condition or results of operations can be determined at this time.

On July 17, 2019, Midwest Energy Emissions Corp. and MES Inc. (which we refer to together as Midwest Energy) filed a patent infringement lawsuit in the United States District Court for the District of Delaware against us, Chem-Mod LLC and numerous other related and unrelated parties. The complaint alleges that the named defendants infringe patents held exclusively by Midwest Energy and seeks unspecified damages and injunctive relief. On July 15, 2020, the district court dismissed Midwest Energy's complaint without prejudice. On the same day, Midwest Energy filed an amended complaint. We filed a motion to dismiss the amended complaint, and Midwest Energy subsequently filed a second amended complaint, which we again have moved to dismiss. We continue to defend this matter vigorously. Litigation is inherently uncertain and it is not possible for us to predict the ultimate outcome of this matter and the financial impact to us. We believe the probability of a material loss is remote.

As previously disclosed, our IRC 831(b) (or "micro-captive") advisory services businesses has been under investigation by the IRS since 2013. Among other matters, the IRS is investigating whether we have been acting as a tax shelter promotor in connection with these operations. Additionally, the IRS has initiated audits for the 2012 tax year, and subsequent tax years, of over 100 of the micro-captive underwriting enterprises organized and/or managed by us.

In May 2020 we learned that the DOJ is conducting a criminal investigation related to IRC 831(b) micro-captive underwriting enterprises. We have been advised that we are not currently a target of the investigation. In June 2020 our subsidiary Artex Risk Solutions, Inc. (which we refer to as Artex) received a grand jury subpoena requesting documents relating to its micro-captive advisory business. We have produced documents in response to the subpoena. We are fully cooperating with both the IRS investigation and the DOJ investigation. We are not able to reasonably estimate the amount of any potential loss in connection with these investigations.

On December 7, 2018, a class action lawsuit was filed against us, Artex and other defendants in the United States District Court for the District of Arizona. The named plaintiffs are micro-captives and related entities and owners who had IRS Section 831(b) tax benefits disallowed by the IRS. The complaint alleges that the defendants defrauded the plaintiffs by marketing and managing micro-captives with the knowledge that the captives did not constitute bona fide insurance and thus would not qualify for tax benefits. The complaint does not specify the amount of damages sought by the named plaintiffs. On August 5, 2019, the trial court granted the defendants' motion to compel arbitration and dismissed the class action lawsuit. Plaintiffs appealed this ruling to the United States Court of Appeals for the Ninth Circuit. On September 9, 2020, the Ninth Circuit Court affirmed the ruling of the trial court dismissing the class action lawsuit. We will continue to defend against the lawsuit vigorously. Litigation is inherently uncertain, however, and it is not possible for us to predict the ultimate outcome of this matter and the financial impact to us, nor are we able to reasonably estimate the amount of any potential loss in connection with this lawsuit.

**Contingent Liabilities -** We purchase insurance to provide protection from errors and omissions (which we refer to as E&O) claims that may arise during the ordinary course of business. Currently we retain the first $10.0 million of every E&O claim up to $10.0 million. In addition, we retain, in aggregate: up to another $4.5 million between $10.0 million and $100.0 million, plus up to another $20.0 million between $100.0 million and $240.0 million, and up to another $27.0 million between $240.0 million and $350.0 million. We have historically maintained self-insurance reserves for the portion of our E&O exposure that is not insured. We periodically determine a range of possible reserve levels using actuarial techniques that rely heavily on projecting historical claim data into the future. Our E&O reserve in the December 31, 2020 consolidated balance sheet is above the lower end of the most recently determined actuarial range by $2.6 million and below the upper end of the actuarial range by $6.4 million. In addition to this E&O reserve, in 2020, we established provisions for potential unusual pandemic related claim defense and other costs. We can make no assurances that the historical claim data used to project the current reserve levels will be indicative of future claim activity. Thus, the E&O reserve level and corresponding actuarial range could change in the future as more information becomes known, which could materially impact the amounts reported and disclosed herein.

**Tax-advantaged Investments No Longer Held -** Between 1996 and 2007, we developed and then sold portions of our ownership in various energy related investments, many of which qualified for tax credits under IRC Section 29. We recorded tax benefits in connection with our ownership in these investments. At December 31, 2020, we had exposure on $108.0 million of previously earned tax credits. Under the TCJA, a portion of these previously earned tax credits were refunded in 2019 for tax year 2018, according to a specific formula. Under the Coronavirus Act, Relief, and Economic Security Act (the CARES Act), which was passed on March 27, 2020, we accelerated the refund of all remaining credits on April 17, 2020, and the remaining credits were refunded to us in the second quarter of 2020. In 2004, 2007 and 2009, the IRS examined several of these investments and all examinations were closed without any changes being proposed by the IRS. However, any future adverse tax audits, administrative rulings or judicial decisions could disallow previously claimed tax credits.

Due to the contingent nature of this exposure and our related assessment of its likelihood, no reserve has been recorded in our December 31, 2020 consolidated balance sheet related to this exposure.

## 18. Insurance Operations

We have ownership interests in several underwriting enterprises based in the U.S., Bermuda, Gibraltar, Guernsey, Isle of Man and Malta that primarily operate segregated account “rent-a-captive” facilities. These “rent-a-captive” facilities enable our clients to receive the benefits of owning a captive underwriting enterprise without incurring certain disadvantages of ownership. Captive underwriting enterprises, or “rent-a-captive” facilities, are created for clients to insure their risks and capture any underwriting profit and investment income, which would then be available for use by the insureds, generally to reduce future costs of their insurance programs. In general, these companies are set up as protected cell companies that are comprised of separate cell business units (which we refer to as Captive Cells) and the core regulated company (which we refer to as the Core Company). The Core Company is owned and operated by us and no insurance policies are assumed by the Core Company. All insurance is assumed or written within individual Captive Cells. Only the activity of the supporting Core Company of the rent-a-captive facility is recorded in our consolidated financial statements, including cash and stockholder’s equity of the legal entity and any expenses incurred to operate the rent-a-captive facility. Most Captive Cells reinsure individual lines of insurance coverage from external underwriting enterprises. In addition, some Captive Cells offer individual lines of insurance coverage from one of our underwriting enterprise subsidiaries. The different types of insurance coverage include special property, general liability, products liability, medical professional liability, other liability and medical stop loss. The policies are generally claims-made. Insurance policies are written by an underwriting enterprise and the risk is assumed by each of the Captive Cells. In general, we structure these operations to have no underwriting risk on a net written basis. In situations where we have assumed underwriting risk on a net written basis, we have managed that exposure by obtaining full collateral for the underwriting risk we have assumed from our clients. We typically require pledged assets including cash and/or investment accounts or letters of credit to limit our risk.

We have a wholly owned underwriting enterprise subsidiary based in the U.S. that cedes all of its insurance risk to reinsurers or captives under facultative and quota share treaty reinsurance agreements. This company was established in fourth quarter 2014 and began writing business in December 2014. These reinsurance arrangements diversify our business and minimize our exposure to losses or hazards of an unusual nature. The ceding of insurance does not discharge us of our primary liability to the policyholder. In the event that all or any of the reinsuring companies are unable to meet their obligations, we would be liable for such defaulted amounts. Therefore, we are subject to credit risk with respect to the obligations of our reinsurers or captives. In order to minimize our exposure to losses from reinsurer credit risk and insolvencies, we have managed that exposure by obtaining full collateral for which we typically require pledged assets, including cash and/or investment accounts or letters of credit, to fully offset the risk.

Reconciliations of direct to net premiums, on a written and earned basis, for 2020, 2019 and 2018 related to the wholly-owned underwriting enterprise subsidiary discussed above are as follows (in millions):

| | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | Written | Earned | Written | Earned | Written | Earned |
| Direct | $ 37.7 | $ 40.7 | $ 44.6 | $ 59.1 | $ 57.6 | $ 53.2 |
| Assumed | 0.1 | 0.9 | 1.0 | 1.9 | 4.7 | 4.6 |
| Ceded | (37.8) | (41.6) | (45.6) | (61.0) | (62.3) | (57.8) |
| Net | $ - | $ - | $ - | $ - | $ - | $ - |

At December 31, 2020 and 2019, our underwriting enterprise subsidiary had reinsurance recoverables of $48.5 million and $45.7 million, respectively, related to liabilities established for ceded unearned premium reserves and loss and loss adjustment expense reserves. These reinsurance recoverables relate to direct and assumed business that has been fully ceded to our reinsurers or captives and have been included in premiums and fees receivables in the accompanying consolidated balance sheet.

## 19. Income Taxes

We and our principal domestic subsidiaries are included in a consolidated U.S. federal income tax return. Our international subsidiaries file various income tax returns in their jurisdictions. Earnings before income taxes in the table below include the impact of intercompany interest expense between domestic and foreign legal entities. Domestic intercompany interest income and offsetting foreign intercompany interest expense were $24.0 million in 2020, $40.1 million in 2019 and $65.8 million in 2018. Significant components of earnings before income taxes and the provision for income taxes are as follows (in millions):

| | Year Ended December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| Earnings before income taxes: | | | |
| United States | $ 524.4 | $ 388.4 | $ 337.6 |
| Foreign, principally Australia, Canada, New Zealand and the U.K. | 346.5 | 237.7 | 141.8 |
| Total earnings before income taxes | $ 870.9 | $ 626.1 | $ 479.4 |
| Provision (benefit) for income taxes: | | | |
| Federal: | | | |
| Current | $ 43.6 | $ 3.8 | $ — |
| Deferred | (112.4) | (142.5) | (214.0) |
| | (68.8) | (138.7) | (214.0) |
| State and local: | | | |
| Current | 36.6 | 11.1 | 15.4 |
| Deferred | (19.3) | (6.0) | (29.0) |
| | 17.3 | 5.1 | (13.6) |
| Foreign: | | | |
| Current | 94.6 | 66.6 | 60.7 |
| Deferred | (30.3) | (22.7) | (29.6) |
| | 64.3 | 43.9 | 31.1 |
| Total provision (benefit) for income taxes | $ 12.8 | $ (89.7) | $ (196.5) |

A reconciliation of the provision for income taxes with the U.S. federal statutory income tax rate is as follows (in millions, except percentages):

| | Year Ended December 31, 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | Amount | % of Pretax Earnings | Amount | % of Pretax Earnings | Amount | % of Pretax Earnings |
| Federal statutory rate | $ 182.9 | 21.0 | $ 131.5 | 21.0 | $ 100.7 | 21.0 |
| State income taxes - net of Federal benefit | 22.2 | 2.6 | 4.4 | 0.7 | 8.5 | 1.8 |
| Differences related to non U.S. operations | (2.5) | (0.3) | (10.1) | (1.6) | (14.8) | (3.1) |
| Alternative energy and other tax credits | (154.3) | (17.7) | (196.1) | (31.3) | (252.9) | (52.8) |
| Other permanent differences | (15.7) | (1.8) | (7.6) | (1.2) | 0.9 | 0.2 |
| U.S. repatriation tax | - | - | - | - | (1.8) | (0.4) |
| Stock-based compensation | (31.4) | (3.6) | (16.2) | (2.6) | (15.0) | (3.1) |
| Changes in unrecognized tax benefits | - | - | 0.8 | 0.1 | (0.2) | - |
| Change in valuation allowance | 6.5 | 0.7 | 7.5 | 1.2 | (22.0) | (4.6) |
| Change in tax rates | 5.5 | 0.6 | (3.7) | (0.6) | - | - |
| Other | (0.4) | - | (0.2) | - | 0.1 | - |
| Provision (benefit) for income taxes | $ 12.8 | $ 1.5 | $ (89.7) | $ (14.3) | $ (196.5) | $ (41.0) |

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in millions):

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Gross unrecognized tax benefits at January 1 | $ 11.5 | $ 10.7 |
| Increases in tax positions for current year | 2.9 | 2.1 |
| Settlements | (1.1) | (0.4) |
| Lapse in statute of limitations | (1.2) | (1.1) |
| Increases in tax positions for prior years | 0.2 | 0.6 |
| Decreases in tax positions for prior years | (1.1) | (0.4) |
| Gross unrecognized tax benefits at December 31 | $ 11.2 | $ 11.5 |

The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was $9.5 million and $9.4 million at December 31, 2020 and 2019, respectively. We accrue interest and penalties related to unrecognized tax benefits in our provision for income taxes. At December 31, 2020 and 2019, we had accrued interest and penalties related to unrecognized tax benefits of $3.0 million and $3.1 million, respectively.

We file income tax returns in the U.S. and in various state, local and foreign jurisdictions. We are routinely examined by tax authorities in these jurisdictions. At December 31, 2020, our corporate returns had been examined by the IRS through calendar year 2010. The IRS is currently conducting various examinations of calendar years 2011 and 2012. In addition, a number of foreign, state, local and partnership examinations for later years are currently ongoing. It is reasonably possible that our gross unrecognized tax benefits may change within the next twelve months. However, we believe any changes in the recorded balance would not have a significant impact on our consolidated financial statements.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows (in millions):

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Deferred tax assets: | | |
| Alternative minimum tax and other credit carryforwards | $ 998.0 | $ 962.1 |
| Accrued and unfunded compensation and employee benefits | 239.9 | 156.0 |
| Amortizable intangible assets | 61.3 | 54.3 |
| Compensation expense related to stock options | 14.4 | 11.3 |
| Accrued liabilities | 65.7 | 63.9 |
| Accrued pension liability | 9.3 | 9.9 |
| Investments | 1.3 | 0.9 |
| Net operating loss carryforwards | 36.1 | 37.2 |
| Capital loss carryforwards | 9.0 | 12.6 |
| Lease liabilities | 96.3 | 65.3 |
| Hedging instruments | 34.6 | 11.7 |
| Other | 2.8 | 4.3 |
| Total deferred tax assets | 1,568.7 | 1,389.5 |
| Valuation allowance for deferred tax assets | (94.9) | (80.5) |
| Deferred tax assets | 1,473.8 | 1,309.0 |
| Deferred tax liabilities: | | |
| Nondeductible amortizable intangible assets | 316.9 | 322.4 |
| Investment-related partnerships | 8.5 | 9.1 |
| Depreciable fixed assets | 32.4 | 22.4 |
| Right-of-use assets | 92.2 | 62.6 |
| Revenue recognition | 33.1 | 63.7 |
| Other prepaid items | 12.0 | 10.6 |
| Total deferred tax liabilities | 495.1 | 490.8 |
| Net deferred tax assets | $ 978.7 | $ 818.2 |

At December 31, 2020 and 2019, $106.9 million and $127.5 million, respectively, have been included in noncurrent liabilities in the accompanying consolidated balance sheet. AMT credits have been utilized or refunded in 2020, due to the CARES Act legislation, general business and other tax credits of $983.0 million begin to expire, if not utilized, in 2034 and state credits, net of federal benefit, of $15.0 million expire, if not used, by 2025. Net operating loss carryforwards of $36.1 million, related to federal, state and foreign begin to expire, if not utilized in 2023. We expect the historically favorable trend in earnings before income taxes to continue in the foreseeable future. Accordingly, we expect to make full use of the net deferred tax assets. Valuation allowances have been established for certain foreign intangible assets and various net operating loss carryforwards that may not be utilized in the future.

At December 31, 2020, foreign earnings in all jurisdictions are considered indefinitely reinvested offshore. We have not provided for state or withholding income taxes on the undistributed earnings of $658.9 million and $574.0 million at December 31, 2020 and 2019, respectively, of foreign subsidiaries which are considered permanently invested outside of the U.S. The amount of unrecognized deferred tax liability on these undistributed earnings was not material at December 31, 2020 and 2019.

Current U.S. tax law requires U.S. shareholders to include in income certain "global intangible low-taxed income" (which we refer to as GILTI) beginning in 2018. Our policy is to include the GILTI income in the future period when the tax arises and we recorded income tax expense on such income in 2020, 2019 and 2018. Current U.S. tax law includes the U.S. Base Erosion and Anti-Abuse Tax (which we refer to as BEAT) beginning in 2018. Based on our analysis, we determined that our base erosion payments do not exceed the threshold for applicability for the years in 2020, 2019 and 2018, and we do not currently anticipate any significant long-term impact from the BEAT in our provision for income taxes in future periods.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act contains several significant business tax provisions that could affect a company's accounting for income taxes. See discussion of the various impacts of the CARES Act below.

**Deferred Income Taxes -** In the 2018 consolidated financial statements, we finalized the revaluation of our net deferred tax asset as a result of the TCJA by recognizing an additional $2.9 million net benefit to the provision for income taxes. The CARES Act amends Section 53(e) of the TCJA so that all prior year minimum tax credits are available for refund for the first taxable year of a corporation beginning in 2018. We have adjusted the deferred tax asset classification of the remaining AMT credits as a result of the AMT credit acceleration. All remaining AMT credits were utilized as part of our 2019 federal income tax return and refunded in 2020. The CARES Act also delayed certain payroll taxes until the years 2021 and 2022. At December 31, 2020, $12.9 million of deferred tax assets have been included due to deferral of payroll taxes, which will be reversed in 2021 and 2022.

## 20. Supplemental Disclosures of Cash Flow Information

| | Year ended December 31, | | |
|---|---|---|---|
| **Supplemental disclosures of cash flow information (in millions):** | **2020** | **2019** | **2018** |
| Interest paid | $ 188.9 | $ 169.2 | $ 139.2 |
| Income taxes paid, net | 113.0 | 22.2 | 68.1 |

Income taxes paid in the table above were net of AMT credit and other U.S. federal refunds of ($28.5) million in 2020, ($63.6) million in 2019 and ($2.4) million in 2018.

The following is a reconciliation of our end of period cash, cash equivalents and restricted cash balances as presented in the consolidated statement of cash flows for the years ended December 31, 2020, 2019 and 2018 (in millions):

| | December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| Cash and cash equivalents | $ 664.6 | $ 604.8 | $ 607.2 |
| Restricted cash | 2,909.7 | 2,019.1 | 1,629.6 |
| Total cash, cash equivalents and restricted cash | $ 3,574.3 | $ 2,623.9 | $ 2,236.8 |

We have a qualified contributory savings and thrift 401(k) plan covering the majority of our domestic employees. For eligible employees who have met the plan's age and service requirements to receive matching contributions, we historically have matched 100% of pre-tax and Roth elective deferrals up to a maximum of 5.0% of eligible compensation, subject to federal limits on plan contributions and not in excess of the maximum amount deductible for federal income tax purposes. Beginning in 2021, the amount matched by the company will be discretionary and annually determined by management. Employees must be employed and eligible for the plan on the last day of the plan year to receive a matching contribution, subject to certain exceptions enumerated in the plan document. Matching contributions are subject to a five-year graduated vesting schedule and can be funded in cash or company stock. We expensed (net of plan forfeitures) $63.6 million, $59.4 million and $53.9 million related to the plan in 2020, 2019 and 2018, respectively. Our board of directors has authorized use of common stock to fund our 2020 employer matching contributions to the 401(k) plan, which we plan to do in February 2021.

## 21. Accumulated Other Comprehensive Earnings

The after-tax components of our accumulated comprehensive earnings (loss) attributable to controlling interests consist of the following (in millions):

| | Pension Liability | Foreign Currency Translation | Fair Value of Derivative Instruments | Accumulated Comprehensive Earnings (Loss) |
|---|---|---|---|---|
| Balance as of January 1, 2018 | $ (43.0) | $ (521.3) | $ 8.9 | $ (555.4) |
| Reclassification to retained earnings of income tax effects related to the TCJA | (7.9) | — | 1.3 | (6.6) |
| Net change in period | (10.3) | (197.7) | (15.6) | (223.6) |
| Balance as of December 31, 2018 | (61.2) | (719.0) | (5.4) | (785.6) |
| Cumulative effect of adoption of new accounting standards | — | — | (0.2) | (0.2) |
| Net change in period | 4.7 | 44.2 | (22.7) | 26.2 |
| Balance as of December 31, 2019 | (56.5) | (674.8) | (28.3) | (759.6) |
| Net change in period | 0.4 | 183.7 | (68.1) | 116.0 |
| Balance as of December 31, 2020 | $ (56.1) | $ (491.1) | $ (96.4) | $ (643.6) |

The foreign currency translation in 2020, 2019 and 2018 relates to the net impact of changes in the value of the local currencies relative to the U.S. dollar for our operations in the U.K., Australia, Canada, New Zealand, the Caribbean, India and other non-U.S. locations.

During 2020, 2019 and 2018, $6.1 million, $7.0 million and $4.9 million, respectively, of expense related to the pension liability was reclassified from accumulated other comprehensive loss to compensation expense in the statement of earnings. During 2020, 2019 and 2018, $6.3 million of expense, $5.2 million of expense and $5.7 million of income, respectively, related to the fair value of derivative investments, was reclassified from accumulated other comprehensive loss to the statement of earnings. During 2020, 2019 and 2018, no amounts related to foreign currency translation were reclassified from accumulated other comprehensive loss to the statement of earnings.

## 22. Quarterly Operating Results (unaudited)

Quarterly operating results for 2020 and 2019 were as follows (in millions, except per share data):

| | 1st | 2nd | 3rd | 4th |
|---|---|---|---|---|
| **2020** | | | | |
| Total revenues | $ 1,866.9 | $ 1,584.0 | $ 1,849.1 | $ 1,703.6 |
| Total expenses | 1,510.9 | 1,412.3 | 1,639.6 | 1,569.9 |
| Earnings before income taxes | $ 356.0 | $ 171.7 | $ 209.5 | $ 133.7 |
| Net earnings attributable to controlling interests | $ 346.3 | $ 153.7 | $ 176.6 | $ 142.2 |
| Basic net earnings per share | $ 1.83 | $ 0.81 | $ 0.92 | $ 0.74 |
| Diluted net earnings per share | $ 1.79 | $ 0.79 | $ 0.90 | $ 0.72 |
| **2019** | | | | |
| Total revenues | $ 1,990.6 | $ 1,657.8 | $ 1,825.2 | $ 1,721.4 |
| Total expenses | 1,668.8 | 1,552.3 | 1,710.4 | 1,637.4 |
| Earnings before income taxes | $ 321.8 | $ 105.5 | $ 114.8 | $ 84.0 |
| Net earnings attributable to controlling interests | $ 334.1 | $ 110.1 | $ 126.1 | $ 98.5 |
| Basic net earnings per share | $ 1.81 | $ 0.59 | $ 0.68 | $ 0.53 |
| Diluted net earnings per share | $ 1.77 | $ 0.58 | $ 0.66 | $ 0.51 |

## 23. Segment Information

We have three reportable segments: brokerage, risk management and corporate.

The brokerage segment is primarily comprised of our retail and wholesale insurance brokerage operations. The brokerage segment generates revenues through commissions paid by underwriting enterprises and through fees charged to our clients. Our brokers, agents and administrators act as intermediaries between underwriting enterprises and our clients and we do not assume net underwriting risks.

The risk management segment provides contract claim settlement and administration services for enterprises and public entities that choose to self-insure some or all of their property/casualty coverages and for underwriting enterprises that choose to outsource some or all of their property/casualty claims departments. These operations also provide claims management, loss control consulting and insurance property appraisal services. Revenues are principally generated on a negotiated per-claim or per-service fee basis. Our risk management segment also provides risk management consulting services that are recognized as the services are delivered.

The corporate segment manages our clean energy and other investments. In addition, the corporate segment reports the financial information related to our debt and other corporate costs, external acquisition-related expenses and the impact of foreign currency translation.

Allocations of investment income and certain expenses are based on reasonable assumptions and estimates primarily using revenue, headcount and other information. We allocate the provision for income taxes to the brokerage and risk management segments using the local country statutory rates. Reported operating results by segment would change if different methods were applied.

Financial information relating to our segments for 2020, 2019 and 2018 is as follows (in millions):

| Year Ended December 31, 2020 | Brokerage | Risk Management | Corporate | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Commissions | $ 3,591.9 | $ — | $ — | $ 3,591.9 |
| Fees | 1,136.9 | 821.0 | — | 1,957.9 |
| Supplemental revenues | 221.9 | — | — | 221.9 |
| Contingent revenues | 147.0 | — | — | 147.0 |
| Investment income | 75.2 | 0.7 | — | 75.9 |
| Net losses on divestitures | (5.8) | — | — | (5.8) |
| Revenue from clean coal activities | — | — | 863.5 | 863.5 |
| Other net losses | — | — | (0.4) | (0.4) |
| Revenues before reimbursements | 5,167.1 | 821.7 | 863.1 | 6,851.9 |
| Reimbursements | — | 151.7 | — | 151.7 |
| Total revenues | 5,167.1 | 973.4 | 863.1 | 7,003.6 |
| Compensation | 2,882.5 | 517.5 | 66.5 | 3,466.5 |
| Operating | 687.2 | 162.6 | 56.7 | 906.5 |
| Reimbursements | — | 151.7 | — | 151.7 |
| Cost of revenues from clean coal activities | — | — | 882.1 | 882.1 |
| Interest | — | — | 196.4 | 196.4 |
| Depreciation | 73.5 | 49.4 | 22.2 | 145.1 |
| Amortization | 411.3 | 6.0 | — | 417.3 |
| Change in estimated acquisition earnout payables | (29.7) | (3.2) | — | (32.9) |
| Total expenses | 4,024.8 | 884.0 | 1,223.9 | 6,132.7 |
| Earnings (loss) before income taxes | 1,142.3 | 89.4 | (360.8) | 870.9 |
| Provision (benefit) for income taxes | 276.3 | 22.5 | (286.0) | 12.8 |
| Net earnings (loss) | 866.0 | 66.9 | (74.8) | 858.1 |
| Net earnings attributable to noncontrolling interests | 4.9 | — | 34.4 | 39.3 |
| Net earnings (loss) attributable to controlling interests | $ 861.1 | $ 66.9 | $ (109.2) | $ 818.8 |
| Net foreign exchange loss | $ (2.6) | $ (0.1) | $ (0.2) | $ (2.9) |
| Revenues: | | | | |
| United States | $ 3,369.4 | $ 816.4 | $ 863.1 | $ 5,048.9 |
| United Kingdom | 993.7 | 40.7 | — | 1,034.4 |
| Australia | 216.1 | 98.4 | — | 314.5 |
| Canada | 243.8 | 5.3 | — | 249.1 |
| New Zealand | 141.8 | 12.6 | — | 154.4 |
| Other foreign | 202.3 | — | — | 202.3 |
| Total revenues | $ 5,167.1 | $ 973.4 | $ 863.1 | $ 7,003.6 |
| **At December 31, 2020** | | | | |
| Identifiable assets: | | | | |
| United States | $ 8,897.9 | $ 716.2 | $ 2,172.2 | $ 11,786.3 |
| United Kingdom | 6,135.1 | 139.2 | — | 6,274.3 |
| Australia | 1,373.3 | 89.6 | — | 1,462.9 |
| Canada | 1,053.6 | 4.8 | — | 1,058.4 |
| New Zealand | 766.0 | 24.1 | — | 790.1 |
| Other foreign | 959.4 | — | — | 959.4 |
| Total identifiable assets | $ 19,185.3 | $ 973.9 | $ 2,172.2 | $ 22,331.4 |
| Goodwill - net | $ 6,053.6 | $ 70.5 | $ 2.9 | $ 6,127.0 |
| Amortizable intangible assets - net | 2,376.3 | 23.6 | — | 2,399.9 |

| Year Ended December 31, 2019 | Brokerage | Risk Management | Corporate | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Commissions | $ 3,320.6 | $ — | $ — | $ 3,320.6 |
| Fees | 1,074.2 | 836.9 | — | 1,911.1 |
| Supplemental revenues | 210.5 | — | — | 210.5 |
| Contingent revenues | 135.6 | — | — | 135.6 |
| Investment income | 85.3 | 1.6 | — | 86.9 |
| Net gains on divestitures | 75.3 | — | — | 75.3 |
| Revenue from clean coal activities | — | — | 1,319.3 | 1,319.3 |
| Other net losses | — | — | (2.9) | (2.9) |
| Revenues before reimbursements | 4,901.5 | 838.5 | 1,316.4 | 7,056.4 |
| Reimbursements | — | 138.6 | — | 138.6 |
| Total revenues | 4,901.5 | 977.1 | 1,316.4 | 7,195.0 |
| Compensation | 2,745.9 | 515.7 | 77.9 | 3,339.5 |
| Operating | 796.5 | 184.9 | 87.1 | 1,068.5 |
| Reimbursements | — | 138.6 | — | 138.6 |
| Cost of revenues from clean coal activities | — | — | 1,352.8 | 1,352.8 |
| Interest | — | — | 179.8 | 179.8 |
| Depreciation | 66.6 | 46.2 | 27.6 | 140.4 |
| Amortization | 329.1 | 4.9 | — | 334.0 |
| Change in estimated acquisition earnout payables | 16.9 | (1.6) | — | 15.3 |
| Total expenses | 3,955.0 | 888.7 | 1,725.2 | 6,568.9 |
| Earnings (loss) before income taxes | 946.5 | 88.4 | (408.8) | 626.1 |
| Provision (benefit) for income taxes | 229.2 | 22.2 | (341.1) | (89.7) |
| Net earnings (loss) | 717.3 | 66.2 | (67.7) | 715.8 |
| Net earnings attributable to noncontrolling interests | 17.2 | — | 29.8 | 47.0 |
| Net earnings (loss) attributable to controlling interests | $ 700.1 | $ 66.2 | $ (97.5) | $ 668.8 |
| Net foreign exchange loss | $ (1.0) | $ (0.1) | $ (5.6) | $ (6.7) |
| Revenues: | | | | |
| United States | $ 3,234.3 | $ 828.4 | $ 1,316.4 | $ 5,379.1 |
| United Kingdom | 921.8 | 41.6 | — | 963.4 |
| Australia | 211.3 | 87.3 | — | 298.6 |
| Canada | 221.4 | 4.6 | — | 226.0 |
| New Zealand | 145.6 | 15.2 | — | 160.8 |
| Other foreign | 167.1 | — | — | 167.1 |
| Total revenues | $ 4,901.5 | $ 977.1 | $ 1,316.4 | $ 7,195.0 |
| **At December 31, 2019** | | | | |
| Identifiable assets: | | | | |
| United States | $ 8,132.3 | $ 655.6 | $ 1,994.8 | $ 10,782.7 |
| United Kingdom | 4,964.5 | 126.6 | — | 5,091.1 |
| Australia | 1,217.9 | 90.0 | — | 1,307.9 |
| Canada | 913.6 | 3.1 | — | 916.7 |
| New Zealand | 695.9 | 22.8 | — | 718.7 |
| Other foreign | 817.7 | — | — | 817.7 |
| Total identifiable assets | $ 16,741.9 | $ 898.1 | $ 1,994.8 | $ 19,634.8 |
| Goodwill - net | $ 5,548.9 | $ 66.6 | $ 3.0 | $ 5,618.5 |
| Amortizable intangible assets - net | 2,289.9 | 28.8 | — | 2,318.7 |

| Year Ended December 31, 2018 | Brokerage | Risk Management | Corporate | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Commissions | $ 2,920.7 | $ — | $ — | $ 2,920.7 |
| Fees | 958.5 | 797.8 | — | 1,756.3 |
| Supplemental revenues | 189.9 | — | — | 189.9 |
| Contingent revenues | 98.0 | — | — | 98.0 |
| Investment income | 69.6 | 0.5 | — | 70.1 |
| Net gains on divestitures | 10.2 | — | — | 10.2 |
| Revenue from clean coal activities | — | — | 1,746.3 | 1,746.3 |
| Other net gains | — | — | 0.9 | 0.9 |
| Revenues before reimbursements | 4,246.9 | 798.3 | 1,747.2 | 6,792.4 |
| Reimbursements | — | 141.6 | — | 141.6 |
| Total revenues | 4,246.9 | 939.9 | 1,747.2 | 6,934.0 |
| Compensation | 2,447.1 | 489.7 | 89.5 | 3,026.3 |
| Operating | 673.5 | 174.6 | 55.6 | 903.7 |
| Reimbursements | — | 141.6 | — | 141.6 |
| Cost of revenues from clean coal activities | — | — | 1,816.0 | 1,816.0 |
| Interest | — | — | 138.4 | 138.4 |
| Depreciation | 60.9 | 38.7 | 28.2 | 127.8 |
| Amortization | 286.9 | 4.3 | — | 291.2 |
| Change in estimated acquisition earnout payables | 14.3 | (4.7) | — | 9.6 |
| Total expenses | 3,482.7 | 844.2 | 2,127.7 | 6,454.6 |
| Earnings (loss) before income taxes | 764.2 | 95.7 | (380.5) | 479.4 |
| Provision (benefit) for income taxes | 191.0 | 25.3 | (412.8) | (196.5) |
| Net earnings | 573.2 | 70.4 | 32.3 | 675.9 |
| Net earnings attributable to noncontrolling interests | 10.7 | - | 31.7 | 42.4 |
| Net earnings attributable to controlling interests | $ 562.5 | $ 70.4 | $ 0.6 | $ 633.5 |
| Net foreign exchange gain | $ - | $ - | $ 2.9 | $ 2.9 |
| Revenues: | | | | |
| United States | $ 2,840.9 | $ 789.7 | $ 1,747.2 | $ 5,377.8 |
| United Kingdom | 738.5 | 35.4 | — | 773.9 |
| Australia | 195.9 | 94.7 | — | 290.6 |
| Canada | 181.1 | 4.3 | — | 185.4 |
| New Zealand | 141.7 | 15.8 | — | 157.5 |
| Other foreign | 148.8 | — | — | 148.8 |
| Total revenues | $ 4,246.9 | $ 939.9 | $ 1,747.2 | $ 6,934.0 |
| **At December 31, 2018** | | | | |
| Identifiable assets: | | | | |
| United States | $ 6,865.4 | $ 571.4 | $ 1,800.8 | $ 9,237.6 |
| United Kingdom | 3,758.5 | 103.8 | — | 3,862.3 |
| Australia | 1,096.1 | 47.2 | — | 1,143.3 |
| Canada | 783.1 | 4.4 | — | 787.5 |
| New Zealand | 688.5 | 21.3 | — | 709.8 |
| Other foreign | 593.5 | — | — | 593.5 |
| Total identifiable assets | $ 13,785.1 | $ 748.1 | $ 1,800.8 | $ 16,334.0 |
| Goodwill - net | $ 4,573.6 | $ 49.3 | $ 2.7 | $ 4,625.6 |
| Amortizable intangible assets - net | 1,753.7 | 19.3 | — | 1,773.0 |

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Arthur J. Gallagher & Co.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Arthur J. Gallagher & Co. (Gallagher) as of December 31, 2020 and 2019, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and the financial statement schedule listed in the Index at Item 15(2)(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gallagher at December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), Gallagher's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 5, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of Gallagher's management. Our responsibility is to express an opinion on Gallagher's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Gallagher in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

| | ***Business acquisitions – Accounting for acquisitions*** |
|---|---|
| *Description of the Matter* | As described in Note 3 to the financial statements, Gallagher completed 27 acquisitions during 2020 for total net consideration of $876.1 million. All of the acquisitions have been accounted for using the acquisition method for recording business combinations. The excess of the purchase price over the estimated fair value of the net assets acquired, including identifiable intangible assets, at the acquisitions date was allocated to goodwill. Identifiable intangible assets consists primarily of acquired customer lists of $467.2 million.<br><br>Auditing the accounting for these acquisitions involved subjectivity in evaluating management's estimates, specifically, the identification and measurement of intangible assets and earnout obligations. Gallagher, with the assistance of a third-party valuation firm, used the discounted cash flow method to measure the fair value of the intangible assets and earnout obligations. The significant assumptions used to estimate the fair value of the intangible assets and earnout obligations included discount rates, revenue growth rates and projected profit margins. These assumptions are forward-looking and could be affected by future economic and market conditions. |

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over Gallagher's accounting for the acquisitions noted above. For example, we tested controls over the recognition and measurement of assets acquired, consideration paid and payable, and management's review of significant assumptions used to determination of the fair value of intangible assets and earnout obligations.

To test the estimated fair value of the acquisitions noted above, our audit procedures included, among other things, an evaluation for a sample of the acquisitions of (1) the identification of intangible assets, against the terms of the purchase agreements, (2) the fair value measurement of earnout obligations, including the terms of the arrangements and the conditions that must be met for the arrangements to become payable, as noted in the agreements; and (3) the significant assumptions, including discount rates, revenue growth rates, and projected profit margins, used to value the identifiable intangible assets. We utilized the assistance of valuation specialists and compared the noted assumptions, to the historical results of the acquired companies, past performance of similar Gallagher acquisitions, and current market conditions. Additionally, we tested the completeness and accuracy of the underlying data supporting the fair value estimates.

***Brokerage revenue recognition***

*Description of the Matter*

As described in Note 1 to the financial statements, Gallagher accounts for its brokerage revenue transactions by deferring a portion of the revenue to reflect delivery of services over the contract period. Total deferred revenue as of December 31, 2020 was $354.7 million for the brokerage segment, which represents the remaining performance obligations under contracts Gallagher has with its customers.

Auditing the accounting for revenue recognition involved subjectivity and complexity in evaluating management's estimates, specifically, the impact of significant assumptions, including revenue deferral rates, on the timing of revenue recognition for Gallagher's brokerage revenue. These revenue deferral rates are used to estimate future service obligations and contain significant subjectivity and variability.

*How We Addressed the Matter in Our Audit*

We obtained an understanding of Gallagher's key revenue recognition processes and tested the design and operating effectiveness of revenue recognition controls, including controls over management's review of the significant revenue deferral assumptions. We also tested controls over the completeness and accuracy of the inputs used to estimate the deferred revenue, including reconciliation controls.

Our audit procedures over brokerage revenue included, among other things, an evaluation of Gallagher's identification of performance obligations against contractual terms, and the significant assumptions used by management in estimating deferred revenue, including time studies. Our procedures also included testing the accuracy and completeness of the underlying data used by management in determining such assumptions by comparing a sample of transactions to source documentation and recalculating the application of deferral rates for a sample of product lines and divisions.

/s/ Ernst & Young LLP
Ernst & Young LLP

We have served as Gallagher's auditor since 1973
Chicago, Illinois
February 5, 2021

## Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Exchange Act. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

In conducting our assessment of the effectiveness of its internal control over financial reporting, we have excluded 15 of the 27 entities acquired in 2020, which are included in our 2020 consolidated financial statements. Collectively, these acquired entities constituted approximately 0.7% of total assets as of December 31, 2020, approximately 0.2% of total revenues, and approximately 0.0% of net earnings for the year then ended.

Based on our assessment under the framework in Internal Control – Integrated Framework*,* management concluded that our internal control over financial reporting was effective as of December 31, 2020. In addition, the effectiveness of our internal control over financial reporting as of December 31, 2020, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

Arthur J. Gallagher & Co.
Rolling Meadows, Illinois
February 5, 2021

| | |
|---|---|
| /s/ J. Patrick Gallagher, Jr. | /s/ Douglas K. Howell |
| J. Patrick Gallagher, Jr. | Douglas K. Howell |
| Chairman, President and Chief Executive Officer | Chief Financial Officer |

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Arthur J. Gallagher & Co.

### Opinion on Internal Control over Financial Reporting

We have audited Arthur J. Gallagher & Co.'s (Gallagher) internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Gallagher maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

As indicated in the accompanying management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of 15 of the 27 entities acquired in 2020, which are included in the 2020 consolidated financial statements of Gallagher and constituted approximately 0.7% of total assets as of December 31, 2020, approximately 0.2% of total revenues, and approximately 0.0% of net earnings for the year then ended. Our audit of internal control over financial reporting of Gallagher also did not include an evaluation of the internal control over financial reporting of these acquired entities.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet as of December 31, 2020 and 2019, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and the financial statement schedule listed in the Index at Item 15(2)(a) (collectively referred to as the "consolidated financial statements") of Gallagher and our report dated February 5, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

Gallagher's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Gallagher's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Gallagher in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Ernst & Young LLP

Chicago, Illinois
February 5, 2021

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There were no changes in or disagreements with our accountants on matters related to accounting and financial disclosure.

## Item 9A. Controls and Procedures.

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**.

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Design and Evaluation of Internal Control Over Financial Reporting.**

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we included a report of management's assessment of the design and effectiveness of our internal controls as part of this annual report for the fiscal year ended December 31, 2020. Our independent registered public accounting firm also attested to, and reported on, the effectiveness of internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included in Item 8, "Financial Statements and Supplementary Data," under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting."

**Changes in Internal Control Over Financial Reporting.**

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Item 9B. Other Information.

None.

# Part III

## Item 10. Directors, Executive Officers and Corporate Governance.

Our 2021 Proxy Statement will include the information required by this item under the headings "Election of Directors," "Other Board Matters," "Board Committees" and, if necessary, "Delinquent Section 16(a) Reports," which we incorporate herein by reference.

## Item 11. Executive Compensation.

Our 2021 Proxy Statement will include the information required by this item under the headings "Compensation Committee Report" and "Compensation Discussion and Analysis," which we incorporate herein by reference.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Our 2021 Proxy Statement will include the information required by this item under the headings "Security Ownership by Certain Beneficial Owners and Management" and "Equity Compensation Plan Information," which we incorporate herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Our 2021 Proxy Statement will include the information required by this item under the headings "Certain Relationships and Related Transactions" and "Other Board Matters," which we incorporate herein by reference.

**Item 14. Principal Accountant Fees and Services.**

Our 2021 Proxy Statement will include the information required by this item under the heading "Ratification of Appointment of Independent Auditor - Principal Accountant Fees and Services," which we incorporate herein by reference.

## Part IV

**Item 15. Exhibits and Financial Statement Schedules.**

The following documents are filed as a part of this report:

1. Consolidated Financial Statements:
   - (a) Consolidated Statement of Earnings for each of the three years in the period ended December 31, 2020.
   - (b) Consolidated Balance Sheet as of December 31, 2020 and 2019.
   - (c) Consolidated Statement of Cash Flows for each of the three years in the period ended December 31, 2020.
   - (d) Consolidated Statement of Stockholders' Equity for each of the three years in the period ended December 31, 2020.
   - (e) Notes to Consolidated Financial Statements.
   - (f) Report of Independent Registered Public Accounting Firm on Financial Statements.
   - (g) Management's Report on Internal Control Over Financial Reporting.
   - (h) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.

2. Consolidated Financial Statement Schedules required to be filed by Item 8 of this Form:
   - (a) Schedule II - Valuation and Qualifying Accounts.

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in our consolidated financial statements or the notes thereto. Exhibits:

| | |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Arthur J. Gallagher & Co. (incorporated by reference to the same exhibit number to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2008, File No. 1-09761). |
| 3.2 | Amended and Restated By-Laws of Arthur J. Gallagher & Co. (incorporated by reference to the same exhibit number to our Form 10-Q Quarterly Report for the quarterly period ended September 30, 2020, File No. 1-09761). |
| 4.1 | Description of Securities (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2019, File No. 1-09761. |
| 4.2 | Second Amended and Restated Multicurrency Credit Agreement, dated as of June 7, 2019, among Arthur J. Gallagher & Co., the other borrowers party thereto, the lenders party thereto, Bank of Montreal, as administrative agent, BMO Capital Markets, BofA Securities, Inc., Barclays Bank PLC, Citibank, N.A. and JPMorgan Chase Bank, N.A., as joint lead arrangers, joint book runners and co-syndication agents, and Capital One, National Association, HSBC Bank USA, National Association, PNC Bank, National Association and U.S. Bank National Association, as co-documentation agents (incorporated by reference to Exhibit 4.1 to our Form 8-K Current Report dated June 7, 2019). |
| 4.3 | Amendment No. 1, dated August 27, 2020, to the Second Amended and Restated Multicurrency Credit Agreement dated June 7, 2019, between Arthur J. Gallagher & Co., Bank of Montreal, as administrative agent, and other lenders signatory thereto (incorporated by reference to Exhibit 4.1 to our Form 10-Q Quarterly Report for the quarterly period ended September 30, 2020, File No. 1-09761. |
| *10.11 | Form of Indemnity Agreement between Arthur J. Gallagher & Co. and each of our directors and corporate officers (incorporated by reference to the same exhibit number to our Form 10-Q Quarterly Report for the quarterly period ended March 31, 2009, File No. 1-09761). |

| | |
|---|---|
| *10.12 | Arthur J. Gallagher & Co. Deferral Plan for Nonemployee Directors (amended and restated as of January 1, 2011) (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2010, File No. 1-09761). |
| *10.14.1 | Form of Change in Control Agreement between Arthur J. Gallagher & Co. and those Executive Officers hired prior to January 1, 2008 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2011, File No. 1-09761). |
| *10.14.2 | Form of Change in Control Agreement between Arthur J. Gallagher & Co. and those Executive Officers hired after January 1, 2008 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2011, File No. 1-09761). |
| *10.15 | The Arthur J. Gallagher & Co. Supplemental Savings and Thrift Plan, as amended and restated effective October 20, 2020. |
| *10.16 | Arthur J. Gallagher & Co. Deferred Equity Participation Plan amended and restated as of March 12, 2020 (incorporated by reference to the same exhibit number to our Form 10-Q for the quarterly period ended March 31, 2020 File No. 1 09761). |
| *10.16.1 | Form of Deferred Equity Participation Plan Award Agreement (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2014, File No. 1-09761). |
| *10.17 | Arthur J. Gallagher & Co. Severance Plan (effective September 15, 1997, as amended and restated effective January 1, 2009) (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2008, File No. 1-09761). |
| *10.17.1 | First Amendment to the Arthur J. Gallagher & Co. Severance Plan (effective September 15, 1997, as amended and restated effective January 1, 2009) (incorporated by reference to Exhibit 10.1 to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2010, File No. 1-09761). |
| *10.18 | Arthur J. Gallagher & Co. Deferred Cash Participation Plan, amended and restated as of September 11, 2018 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2019, File No. 1-09761). |
| 10.38 | Operating Agreement of Chem-Mod LLC dated as of June 23, 2004, by and among NOx II, Ltd., an Ohio limited liability company, AJG Coal, Inc., a Delaware corporation, and IQ Clean Coal LLC, a Delaware limited liability company (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2005, File No. 1-09761). |
| 10.40 | Operating Agreement of Chem-Mod International LLC dated as of July 8, 2005, between NOx II International, Ltd., an Ohio limited liability company and AJG Coal, Inc., a Delaware corporation, together with Amendment No. 1 dated August 2, 2005 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2005, File No. 1-09761). |
| *10.42.1 | Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2010, File No. 1-09761). |
| *10.42.2 | Form of Long-Term Incentive Plan Stock Option Award Agreement (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2010, File No. 1-09761). |
| *10.42.3 | Form of Long-Term Incentive Plan Stock Appreciation Rights Award Agreement (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2010, File No. 1-09761). |
| *10.42.4 | Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement for executive officers over the age of 55 (incorporated by reference to the same exhibit number to our Form 10 Q Quarterly Report for the quarterly period ended March 31, 2013, File No. 1-09761). |
| *10.42.5 | Form of Long-Term Incentive Plan Stock Option Award Agreement for executive officers over the age of 55 (incorporated by reference to the same exhibit number to our Form 10 Q Quarterly Report for the quarterly period ended March 31, 2013, File No. 1-09761), |
| *10.43 | Arthur J. Gallagher & Co. Performance Unit Program (incorporated by reference to the same exhibit number to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2007, File No. 1-09761). |
| *10.43.1 | Form of Performance Unit Grant Agreement under the Performance Unit Program (incorporated by reference to Exhibit 10.45.1 to our Form 10-Q Quarterly Report for the quarterly period ended March 31, 2014, File No. 1-09761). |
| *10.43.2 | Form of Performance Unit Grant Agreement under the Performance Unit Program for executive officers over the age of 55 (incorporated by reference to the same exhibit number to our Form 10 Q Quarterly Report for the quarterly period ended March 31, 2013, File No. 1-09761). |

| | |
|---|---|
| *10.44 | Senior Management Incentive Plan (incorporated by reference to Exhibit 10.44 to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2015, File No. 1-09761). |
| *10.45 | Arthur J. Gallagher & Co. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 to our Form S-8 Registration Statement, File No. 333-174497). |
| *10.47 | Arthur J. Gallagher & Co. 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.46 to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2014, File No. 1-09761). |
| *10.48 | Arthur J. Gallagher & Co. 2017 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.8 to our Form S-8 Registration Statement, File No. 333-221274). |
| 21.1 | Subsidiaries of Arthur J. Gallagher & Co., including state or other jurisdiction of incorporation or organization and the names under which each does business. |
| 23.1 | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. |
| 24.1 | Power of Attorney. |
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer. |
| 32.1 | Section 1350 Certification of Chief Executive Officer. |
| 32.2 | Section 1350 Certification of Chief Financial Officer. |
| 101.INS | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 104 | Cover Page Interactive Data File formatted in Inline XBRL (included as Exhibit 101). |

All other exhibits are omitted because they are not applicable, or not required, or because the required information is included in our consolidated financial statements or the notes thereto. The registrant agrees to furnish to the Securities and Exchange Commission upon request a copy of any long-term debt instruments that have been omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K.

* Such exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to item 601 of Regulation S-K.

**Item 16. Form 10-K Summary.**

None.

## Signatures

**Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 5th day of February, 2021.**

ARTHUR J. GALLAGHER & CO.

By /S/ J. PATRICK GALLAGHER, JR.
J. Patrick Gallagher, Jr.
*Chairman, President and Chief Executive Officer*

**Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 5th day of February, 2021 by the following persons on behalf of the Registrant in the capacities indicated.**

| Name | Title |
|---|---|
| /S/ J. PATRICK GALLAGHER, JR.<br>J. Patrick Gallagher, Jr. | Chairman, President and Director (Principal Executive Officer) |
| /S/ DOUGLAS K. HOWELL<br>Douglas K. Howell | Vice President and Chief Financial Officer (Principal Financial Officer) |
| /S/ RICHARD C. CARY<br>Richard C. Cary | Controller (Principal Accounting Officer) |
| *SHERRY S. BARRAT<br>Sherry S. Barrat | Director |
| *WILLIAM L. BAX<br>William L. Bax | Director |
| * D. JOHN COLDMAN<br>D. John Coldman | Director |
| * DAVID S. JOHNSON<br>David S. Johnson | Director |
| *KAY W. MCCURDY<br>Kay W. McCurdy | Director |
| *CHRISTOPHER C. MISKEL<br>Christopher C. Miskel | Director |
| * RALPH J. NICOLETTI<br>Ralph J. Nicoletti | Director |
| *NORMAN L. ROSENTHAL<br>Norman L. Rosenthal | Director |

*By: /S/ WALTER D. BAY
Walter D. Bay, Attorney-in-Fact

**Schedule II**
**Arthur J. Gallagher & Co.**
**Valuation and Qualifying Accounts**

| | Balance at Beginning of Year | Amounts Recorded in Earnings | Adjustments | | Balance at End of Year |
|---|---|---|---|---|---|
| | (In millions) | | | | |
| Year ended December 31, 2020 | | | | | |
| Allowance for doubtful accounts | $ 8.7 | $ 6.6 | $ (5.2) | (1) | $ 10.1 |
| Allowance for estimated policy cancellations | 8.3 | 4.1 | (2.5) | (2) | 9.9 |
| Valuation allowance for deferred tax assets | 80.5 | 14.4 | — | | 94.9 |
| Accumulated amortization of expiration lists, non-compete agreements and trade names | 2,087.5 | 417.3 | 32.2 | (3) | 2,537.0 |
| Year ended December 31, 2019 | | | | | |
| Allowance for doubtful accounts | $ 10.0 | $ 4.2 | $ (5.5) | (1) | $ 8.7 |
| Allowance for estimated policy cancellations | 7.8 | 0.5 | — | (2) | 8.3 |
| Valuation allowance for deferred tax assets | 67.4 | 13.1 | — | | 80.5 |
| Accumulated amortization of expiration lists, non-compete agreements and trade names | 1,750.4 | 334.0 | 3.1 | (3) | 2,087.5 |
| Year ended December 31, 2018 | | | | | |
| Allowance for doubtful accounts | $ 13.5 | $ 5.8 | $ (9.3) | (1) | $ 10.0 |
| Allowance for estimated policy cancellations | 7.4 | (1.2) | 1.6 | (2) | 7.8 |
| Valuation allowance for deferred tax assets | 79.1 | (11.7) | — | | 67.4 |
| Accumulated amortization of expiration lists, non-compete agreements and trade names | 1,490.7 | 291.2 | (31.5) | (3) | 1,750.4 |

(1) Net activity of bad debt write offs and recoveries and acquired businesses.
(2) Additions to allowance related to acquired businesses.
(3) Elimination of fully amortized expiration lists, non-compete agreements and trade names, intangible asset/amortization reclassifications and disposal of acquired businesses.

**Exhibit 31.1**

## Rule 13a-14(a) Certification of Chief Executive Officer

**Certification**

I, J. Patrick Gallagher, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Arthur J. Gallagher & Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b.) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 5, 2021

/s/ J. Patrick Gallagher, Jr.

J. Patrick Gallagher, Jr.
Chairman, President and Chief Executive Officer
(principal executive officer)

**Exhibit 31.2**

## Rule 13a-14(a) Certification of Chief Financial Officer

**Certification**
I, Douglas K. Howell, certify that:

1. I have reviewed this annual report on Form 10-K of Arthur J. Gallagher & Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b.) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 5, 2021

/s/ Douglas K. Howell
Douglas K. Howell
Vice President
Chief Financial Officer
(principal financial officer)

**Exhibit 32.1**

## Section 1350 Certification of Chief Executive Officer

I, J. Patrick Gallagher, Jr., the chief executive officer of Arthur J. Gallagher & Co., certify that (i) the Annual Report on Form 10-K of Arthur J. Gallagher & Co. for the twelve month period ended December 31, 2020 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Arthur J. Gallagher & Co. and its subsidiaries.

Date: February 5, 2021

/s/ J. Patrick Gallagher, Jr.
J. Patrick Gallagher, Jr.
Chairman, President and Chief Executive Officer
(principal executive officer)

**Exhibit 32.2**

## Section 1350 Certification of Chief Financial Officer

I, Douglas K. Howell, the chief financial officer of Arthur J. Gallagher & Co., certify that (i) the Annual Report on Form 10-K of Arthur J. Gallagher & Co. for the twelve month period ended December 31, 2020 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Arthur J. Gallagher & Co. and its subsidiaries.

Date: February 5, 2021

/s/ Douglas K. Howell
Douglas K. Howell
Vice President
Chief Financial Officer
(principal financial officer)

# STOCKHOLDER INFORMATION

### ANNUAL MEETING

The Arthur J. Gallagher & Co. 2021 Annual Meeting of Stockholders will be held on Tuesday, May 11, 2021 at 9:00 a.m. (Central Time) and will be a virtual meeting. The meeting website is www.virtualshareholdermeeting.com/AJG2021.

### REGISTRAR AND TRANSFER AGENT

Computershare Trust Company, N.A.
462 South 4th Street
Suite 1600
Louisville, KY 40202
502.301.6000

www.computershare.com/investor

### AUDITORS

Ernst & Young LLP

### STOCKHOLDER INQUIRIES

Communications regarding direct stock purchases, dividends, lost stock certificates, direct deposit of dividends, dividend reinvestment and changes of address should be directed to:

Computershare Trust Company, N.A.
P.O. Box 505000
462 South 4th Street
Louisville, KY 40233-5000
312.360.5386

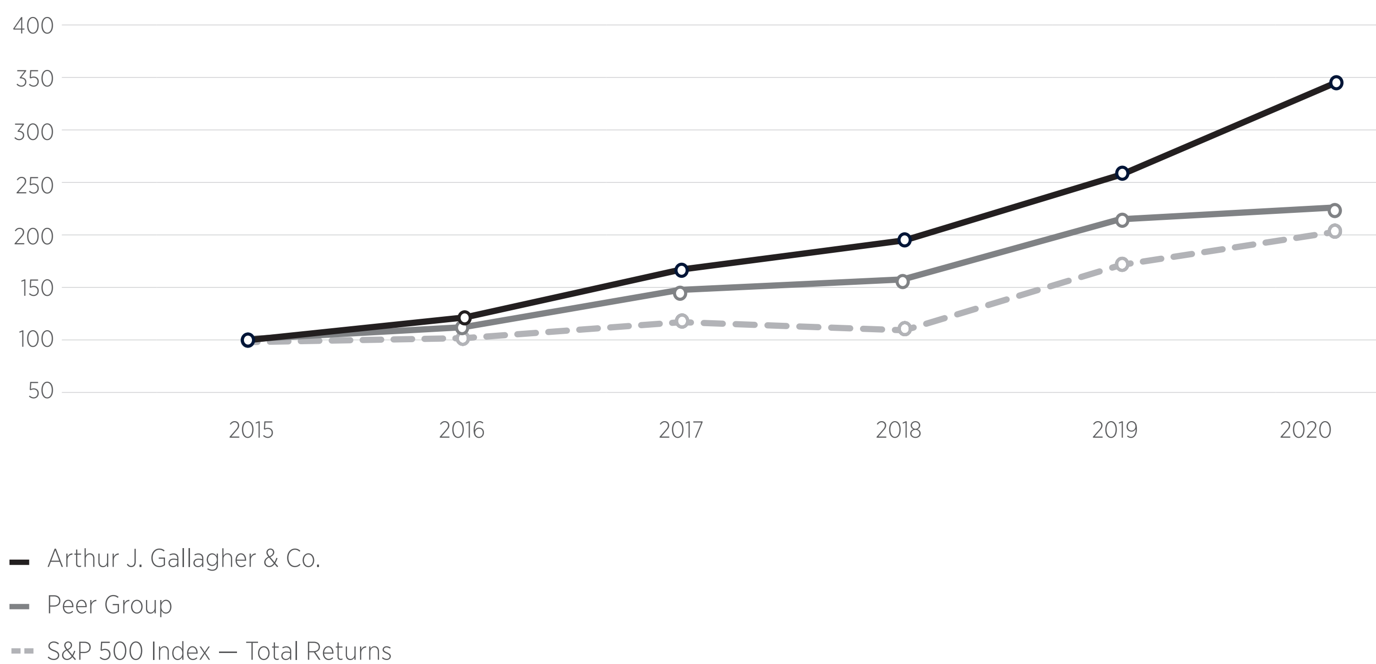
www.computershare.com/investor

Online inquiries:
https://www-us.computershare.com/investor/contact

# COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

Assumes Initial Investment of $100

December 2020




### COMPARATIVE PERFORMANCE GRAPH

The graph above demonstrates a five-year comparison of cumulative total returns for our company, the S&P 500 and a peer group consisting of Aon plc; Marsh & McLennan Companies, Inc.; Willis Towers Watson plc; and Brown & Brown, Inc. The chart shows the performance of $100 invested in our company, the S&P 500 and the peer group on December 31, 2015, with dividend reinvestment.

# BOARD OF DIRECTORS

**J. PATRICK GALLAGHER, JR.**
Chairman of the Board,
President and Chief Executive Officer

**SHERRY S. BARRAT** [2,3,4]
Former Vice Chairman
Northern Trust Corporation

**WILLIAM L. BAX** [1,4]
Former Managing Partner
PricewaterhouseCoopers' Chicago office

**D. JOHN COLDMAN** [2]
Former Chairman
The Benfield Group

**DAVID S. JOHNSON** [2,3,4]
Lead Director, Arthur J. Gallagher & Co.
Former Chief Executive Officer of North America
Aryzta AG

**KAY W. MCCURDY** [2,3,4]
Retired Partner
Locke Lord LLP

**CHRISTOPHER C. MISKEL** [1]
President and Chief Executive Officer
Versiti, Inc.

**RALPH J. NICOLETTI** [1]
Senior Vice President and Chief Financial Officer
The AZEK Company

**NORMAN L. ROSENTHAL, PH.D.** [1]
President
Norman L. Rosenthal & Associates, Inc.

[1] Member of the Audit Committee
[2] Member of the Compensation Committee
[3] Member of the Nominating/Governance Committee
[4] Member of the Risk and Compliance Committee

# EXECUTIVE OFFICERS

**WALTER D. BAY**
General Counsel and Secretary

**JOEL D. CAVANESS**
President, U.S. Wholesale Brokerage

**THOMAS J. GALLAGHER**
President, Global Property/Casualty Brokerage

**DOUGLAS K. HOWELL**
Chief Financial Officer

**SCOTT R. HUDSON**
President, Risk Management

**VISHAL JAIN**
Chief Service Officer

**CHRISTOPHER E. MEAD**
Chief Marketing Officer

**SUSAN E. PIETRUCHA**
Chief Human Resources Officer

**WILLIAM F. ZIEBELL**
President, Employee Benefit
Consulting and Brokerage

Arthur J. Gallagher & Co. has been recognized as one of the World's Most Ethical Companies® in 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021.

2021 WORLD'S MOST ETHICAL COMPANIES® ™
WWW.ETHISPHERE.COM

The Gallagher Way. Since 1927.

Arthur J. Gallagher & Co.

Global Headquarters
2850 Golf Road
Rolling Meadows, IL 60008-4050
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