Arthur J. Gallagher & Co.

A rare brokerage compounder entering its largest integration and deleveraging test

Ticker / price	Equity / enterprise value	2027E adjusted EPS	Current income yield
NYSE: AJG / $251.21	$64.4bn / ~$76.5bn	~$14.8	1.1% dividend

Market data as of August 14, 2026. Enterprise value uses Q2 corporate borrowings of $13.5bn and $1.4bn cash. [1][7]

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5-YEAR TSR REFERENCE CASE: 14.4% = 1.1% + 8.0% + 5.3%			
14.4%	1.1%	8.0%	5.3%
Annualized TSR	Dividend yield	EPS growth	Multiple reversion

Mechanical bridge: price divided by 2027 consensus adjusted EPS is ~17.0x, reverting to the 2016-2025 average year-end forward P/E of ~22.0x. Using 2027 earnings avoids treating acquisition-distorted 2026 earnings as the normalized starting denominator. [6][7][8]

Thesis

Gallagher combines recurring, low-capital insurance brokerage revenue with a decentralized acquisition engine that has compounded through cycles. The next five years hinge less on insurance pricing than on absorbing AssuredPartners, realizing $325m of targeted synergies, retaining producers, and reducing the debt created by a $14bn transaction. At ~$251, the shares trade near 17x 2027 adjusted EPS versus a roughly 22x decade-average forward multiple. The discount is attractive, but integration and leverage still argue for a starter rather than a full position.

Four-question scorecard

Question	Score	Why it is not higher
Business quality	4.5 / 5.0	Recurring, fragmented, low-capital brokerage; people dependence and rate sensitivity cap perfection
Price	3.5 / 5.0	~17x 2027 adjusted EPS versus ~22x decade forward average; integration leverage tempers the discount
People / allocation	4.0 / 5.0	Exceptional 30-year CEO record; the $14bn AssuredPartners bet is the largest test yet
Hidden nugget	4.0 / 5.0	Synergy capture plus deleveraging can make reported EPS understate post-integration owner earnings

2 Business and Industry

A toll collector on commercial risk whose moat lives in relationships, data and producer talent

Business model in plain English

Gallagher helps clients buy insurance, design benefits and manage claims. It generally does not bear underwriting risk; revenue is commissions and fees tied to premiums, client counts and services. Brokerage is the economic engine, while Gallagher Bassett supplies claims administration and risk-management services. Revenue is recurring because policies renew, risk does not disappear, and switching brokers creates disruption without eliminating insurance cost.

Business	2025 revenue	Economic role	Quality marker
Brokerage	$12.2bn	Retail, benefits, wholesale, reinsurance	High retention; 33% 2026 Q2 adjusted margin
Risk Management	$1.6bn	Claims administration / Gallagher Bassett	Fee-based; 22% 2026 Q2 adjusted margin

2025 revenue and 2026 Q2 margins from company filings and results. [1][2]

Why business quality is 4.5 / 5.0

- Renewal economics are durable. Insurance is compulsory or economically necessary, client relationships persist, and the broker benefits from premium inflation without funding insured losses.
- The client base is unusually diversified: the largest client is about 1% of revenue and the top ten approximately 3%. Revenue is 67% U.S. and 33% international. [2]
- The acquisition runway is structural. Gallagher completed roughly 780 acquisitions from 2002-2025, typically small agencies whose producers retain local autonomy while gaining carrier access, analytics and cross-sell. [2]
- Capital intensity is low. The real reinvestment is producer compensation, technology and acquisitions rather than factories or inventory.
- The score stops short of 5.0 because goodwill, producer retention, contingent commissions, insurance pricing and integration discipline matter; the moat is cultural and human rather than contractual.

Industry structure and profit pool

Force	Assessment	Investment implication
Customer power	Medium	Large clients bid accounts, but service, claims and market access make switching costly
Carrier power	Medium	Carriers control capacity; scaled brokers offer distribution and data
Rivalry	Medium-high	Aon, Marsh, Brown & Brown and private brokers compete aggressively for talent and deals
New entrants	Low	Technology helps distribution but does not recreate licenses, relationships and global placement
Substitution	Low-medium	Direct and digital models fit simpler risk; complex commercial risk remains advice-heavy

CUSTOMER VALUE PROPOSITION Gallagher monetizes trust and placement access: lower total risk cost, broader carrier choice, better claims outcomes and less administrative burden.

3 Financials and Business Quality

Excellent organic economics are temporarily obscured by a transformative acquisition and its financing

Metric	2024	2025	Q2 2026	Underwriting read
Revenue before reimbursements	$11.4bn	$13.8bn	$4.0bn	AssuredPartners drives step-change
Organic revenue growth	11%	6%	6%	Normalizing, still healthy
Adjusted EBITDAC	$3.4bn	$4.8bn	$1.26bn	Scale and synergy support margins
Adjusted diluted EPS	$10.56	$12.76	$2.84	Full-year AP contribution lifts 2026
Operating cash flow	$2.58bn	$1.93bn	n/a	Deal timing / working capital matter

Company filings and Q2 2026 release. Adjusted measures are company-defined. [1][2]

What must be true for 8% EPS growth

- Core organic revenue holds near 5%-6% despite moderating commercial insurance rates; pricing is a tailwind, not the entire growth engine.
- AssuredPartners annualized synergies reach roughly $160m by year-end 2026 and $325m by early 2028 without producer or client attrition.
- Interest expense declines as integration cash flow reduces net debt; share count stays roughly stable after the acquisition equity issuance.
- Management continues small tuck-ins but does not layer another transformational acquisition onto the balance sheet before leverage normalizes.

Five-year operating bridge

Metric	2026E base	2031E base	5-year change	What drives it
Revenue	$16.5bn	$22.0bn	~5.9% CAGR	Mid-single-digit organic + tuck-ins
Adjusted EBITDAC	$5.0bn	$7.35bn	~8.0% CAGR	Synergies, scale and productivity
Adjusted EPS	$14.10	$20.70	~8.0% CAGR	EBITDAC growth + lower interest
Dividend / share	$2.80	$4.25	~8.7% CAGR	Payout grows below FCF

Analyst estimates, not company guidance. Base case does not require peak insurance pricing or a new mega-deal.

Balance sheet, ratings, maturities and covenants

Position. At June 30, 2026, cash was $1.39bn and corporate borrowings $13.48bn, implying roughly $12.1bn of net debt. **Ratings.** S&P upgraded the issuer to BBB+/Stable in March 2026; Fitch was reported BBB+/Stable and public bond listings indicate Moody's Baa2. All are investment grade; confirm agency reports before IC. **Covenants.** The $2.5bn revolver (April 2030 maturity; $3.0bn accordion) contains customary financial covenants. Public filings do not state the thresholds; Gallagher was in compliance. [1][2][5]

2026	2027	2028	2029	2030	Thereafter
$866m	$1,228m	$200m	$1,100m	$466m	$9,239m

Contractual debt maturities at December 31, 2025. Near-term maturities are manageable against liquidity, but the long-dated debt stack makes deleveraging central to the thesis. [2]

4 Valuation, Hidden Nugget and LBO

A discount on normalized 2027 earnings; integration execution determines whether the gap closes

Current valuation and 10-year P/E range

At $251.21, AJG trades at roughly 17.0x 2027 consensus adjusted EPS of $14.81. That is the relevant starting multiple because 2026 contains unusually heavy AssuredPartners financing and integration effects. The comparable historical series is forward P/E—not GAAP TTM P/E, which is distorted by acquisition amortization. The 2016-2025 year-end forward average is approximately 22.0x.

Current 2027E	10-year low	10-year average	10-year high
17.0x	17.3x	22.0x	27.1x

Year-end forward P/E range for 2016-2025; average is the simple mean. Current multiple uses $251.21 / $14.81. [6][7][8]

Case	Prob.	2031 adj. EPS	Exit P/E	Value incl. dividends	5-year IRR
Bear	25%	$16.00	14x	$240	~(1%)
Base	55%	$20.70	18x	$390	~9%
Bull	20%	$24.50	22x	$558	~17%

Includes $16-$19 of cumulative dividends without reinvestment. Probability-weighted value is ~$384, or ~8.9% annualized. The underwriting base uses an 18x exit, below the 22x historical-mean reference on page 1. Analyst assumptions; no takeover premium.

Hidden nugget: post-AssuredPartners earnings power

- The largest transaction in company history creates an unusual period in which acquisition amortization, financing cost, equity issuance and integration expense obscure the underlying revenue and producer base.
- Targeted synergies of $325m by early 2028 are meaningful versus 2025 adjusted EBITDAC of roughly $4.8bn; every dollar retained after tax can reduce debt and interest expense.
- The real nugget is a flywheel, not a one-time adjustment: integration savings improve cash flow, cash flow pays debt, lower interest lifts EPS, and scale enhances carrier access and cross-sell.
- The 4.0/5.0 score reflects a credible mechanism with management precedent, but the market understands the deal and producer retention remains the hard-to-measure variable.

Illustrative five-year take-private analysis

Stage	Purchase / operating case	Leverage / multiple	Debt	Sponsor equity outcome
Entry	15% premium; ~$86bn EV	~17.2x / $5.0bn EBITDAC	$25bn / 5.0x	~$61bn equity check
Exit	$7.35bn EBITDAC; ~$103bn EV	14.0x exit	$10bn	~$93bn equity value
Return	$15bn net debt reduction	No dividend recap	Fees excluded	1.52x MOIC / ~8.7% IRR

Illustrative analyst model. The equity check is larger than any plausible sponsor consortium and returns are sub-scale for buyout capital.

Exit EBITDAC / net debt	12x exit	14x exit	16x exit
$6.5bn / $12.5bn	~1%	~5%	~8%
$7.35bn / $10.0bn	~5%	~9%	~12%
$8.0bn / $8.0bn	~8%	~11%	~14%

LBO CONCLUSION Gallagher fails a conventional sponsor return test at a control premium. The LBO is useful as a valuation discipline, not a catalyst: public shareholders need compounding, synergy realization and deleveraging.

5 CEO and Capital Allocation

Pat Gallagher built the modern franchise; the succession and integration bench now matter almost as much as he does

CEO background and fit

Period	Role	Why it matters now
1974-present	Joined Gallagher; production and operating roles	Fifty-two years of institutional and producer culture knowledge
1990-1995	President / COO	Built operating system before becoming CEO
1995-present	Chief Executive Officer	Three decades leading organic growth and acquisition compounding
2006-present	Chairman	Deep control of strategy; raises succession and board-independence questions
2024-present	President role shifted to Tom Gallagher	Evidence of a broader family / operating succession architecture

2025 10-K and 2026 proxy. Pat Gallagher began in 1974, became CEO in 1995 and chair in 2006. [2][3]

The fit is exceptional: the CEO understands production economics, acquisition sellers and culture, not only finance. His tenure also creates key-person and governance risk. The proper underwriting question is whether Tom Gallagher, Patrick Gallagher, Doug Howell and operating leaders can reproduce the system after Pat's eventual transition.

Ownership and incentives

Item	Evidence	Judgment
Direct alignment	~1.28m beneficial shares incl. options	Meaningful personal exposure; below 1% of a $64bn company
Ownership guideline	CEO: 6x salary; all executives compliant	Reasonable minimum, though deferred awards count
2025 LTI	75% PSUs / 25% options	PSUs tied to 3-year adjusted EBITDAC/share growth
2025 annual incentive	$7.95m / 200% of target	Committee rewarded AP closing, 6% organic growth and margins
Total 2025 pay	$20.7m	High, but set against a very large and complex franchise

2026 proxy. Incentive design is broadly aligned, but committee discretion and adjusted metrics require scrutiny. [3]

Capital-allocation audit

Action	Capital deployed / recovered	Value-creation test	Assessment
AssuredPartners (2025)	~$14bn consideration	Synergies, producer retention, after-tax ROIC	Transformative; promising start, not yet proven
Woodruff Sawyer (2025)	~$1.2bn	Specialty capabilities and cross-sell	Strategic fit; adds integration load
Other 2025 M&A	31 deals / $3.5bn acquired revenue	Price discipline and local autonomy	Core repeatable playbook
Dividends	$674m returned in 2025	Steady growth below owner earnings	Positive; should not slow deleveraging
Repurchases	$170m in Q2 2026	Buy below conservative value	Secondary until leverage normalizes

Allocation order that would increase conviction

1. Retain AssuredPartners producers and clients; disclose synergy realization net of recurring integration cost.
2. Use excess cash to reduce net debt and interest expense before another mega-deal or aggressive repurchase cycle.
3. Continue small, culturally compatible acquisitions only where seller economics and post-deal ROIC clear the cost of capital.
4. Clarify CEO succession, board leadership and decision rights before the next transformational transaction.

MANAGEMENT JUDGMENT - 4.0 / 5.0 The record is genuinely elite. The deduction is for concentration of leadership, deal-adjusted reporting and the unprecedented size of the AssuredPartners integration.

6 Risks and Disconfirming Evidence

The investment fails through integration leakage and lower organic growth, not through an insurance underwriting catastrophe

Risk	Why it matters	Early warning / thesis killer	Response
AssuredPartners integration	Largest deal in industry history	Producer attrition; synergy run-rate <70% of plan by 2028	Do not add; cut normalized margin and EPS
Insurance rate softening	Premium-based commissions aid growth	Organic brokerage growth <4% for four quarters	Lower long-run EPS growth to 5%-6%
Leverage / refinancing	$12bn+ net debt narrows flexibility	No sustained net-debt reduction despite synergies	Cap position; suspend new M&A credit
Deal pricing	Private broker multiples are elevated	Acquired revenue rises while EBITDAC/share stalls	Require disclosed ROIC / slow acquisition pace
Producer retention	Relationships leave with people	Compensation inflation and client losses in acquired offices	Re-underwrite moat and margins
Adjusted reporting	Amortization and integration add-backs are large	Adjustments persist after 2028 or cash conversion lags	Value on GAAP FCF and lower multiple
Succession / governance	CEO has led since 1995	Unclear transition or insular board decisions	Reduce size before leadership change
Cyber / regulation	Sensitive client and claims data	Material breach, sanctions or commission rule change	Exit if franchise trust is impaired

Pre-mortem: it is 2031 and the investment failed

AssuredPartners remained culturally separate, producer compensation rose, and promised savings proved to be gross rather than net. At the same time, commercial insurance pricing softened and organic growth fell to 3%. Cash flow serviced debt but did not reduce it fast enough; management resumed large acquisitions before integration ended. Adjusted EPS grew, yet GAAP cash earnings per share did not. The market rerated AJG to 14x adjusted earnings and the dividend could not offset the lost multiple.

Disconfirming evidence hierarchy

A lower share price is not disconfirming. A single quarter of slower organic growth is not disconfirming. The strongest evidence is persistent producer/client attrition in AssuredPartners, recurring integration add-backs after 2028, weak debt reduction despite stated synergies, or adjusted EBITDAC per share failing to compound.

SINGLE MOST IMPORTANT UNKNOWN What percentage of the $325m synergy target is durable, net savings after producer retention, technology investment and recurring integration cost?

TWO-QUARTER DASHBOARD Organic growth | AP producer retention | realized synergy run-rate | adjusted EBITDAC/share | net debt | cash conversion | acquisition spend

7 Portfolio Decision and Research Plan

The holding period is always 5-8 years; position size reflects quality, valuation and integration evidence

Conviction	Score	Reason
Analytical	4 / 5	Business economics are unusually durable; AP synergy quality is the core uncertainty
Portfolio	4 / 5	Defensive, low-capital financial exposure with global diversification
Temporal	3 / 5	The horizon fits the compounding model, but current valuation limits error tolerance

Position-size recommendation

Initiate a 2.0%-2.5% starter near or below $250. Increase toward 4% only after synergy realization, producer retention and debt reduction are visible in per-share cash earnings. The 2027 forward P/E discount is real, but it does not eliminate AssuredPartners integration and leverage risk.

Action	Price / evidence rule	Rationale
Buy starter	≤$250 with AP thesis intact	Quality justifies ownership; valuation is fair, not distressed
Add	≤$225 price-driven, or net debt <2x EBITDAC with synergies on plan	Require either margin of safety or evidence
Hold	$250-$350 while EPS and cash conversion track	Allow the integration flywheel to work
Trim	>$350 without >$21 normalized EPS visibility	Future returns become multiple-dependent
Exit	Producer/client attrition + missed net synergies; or leverage fails to fall	Core hidden nugget is disproven

Next research steps

- Reconcile gross synergy announcements to headcount, systems, occupancy and recurring retention expense; build a net synergy bridge by quarter.
- Track AssuredPartners producer and client retention, acquired organic growth and contingent consideration by cohort.
- Build a debt schedule with fixed/floating mix, coupons, refinancing cost and free-cash-flow sweep under soft and hard markets.
- Compare adjusted EBITDAC/share and cash EPS against Marsh, Aon and Brown & Brown; normalize amortization and integration add-backs.
- Map leadership succession and family/independent board roles before a larger position.

FINAL DECISION BUY A STARTER POSITION / MODERATE CONVICTION. Business quality is 4.5/5.0; hidden nugget is 4.0/5.0. The path to a full position is net synergy capture and deleveraging, not a richer headline multiple.

Source notes

[1] Gallagher Q2 2026 financial results (July 2026)
[2] Gallagher 2025 Form 10-K (filed February 17, 2026)
[3] Gallagher 2026 definitive proxy statement
[4] Gallagher AssuredPartners transaction materials
[5] S&P upgrade to BBB+/Stable (March 2026)
[6] GuruFocus AJG annual forward P/E history
[7] StockAnalysis AJG market quote
[8] Barchart AJG 2027 consensus EPS

Framework source: Chapter 4 and Appendix E of Investing Book July 34(1). Facts are drawn primarily from company and SEC materials. Valuation, probabilities, operating bridges, LBO returns and position sizing are analyst estimates, not company guidance.

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