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Anatomy of Aamco deal

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It took nearly \$1 billion, but it worked for Aamco Transmissions Inc. In the end, it became one of its biggest selling points.

NATALIE KOSTELNI
looks at what will
happen to Aamco's HQ
building. PAGE 45

Double A — Beep Beep — M-C-O.

The Aamco jingle penetrated the psyche of generations thanks to the bundle of money Aamco franchisees spent during the past 40 years on

marketing and commercials. The money — more than \$800 million spent by the franchisees — was not for naught.

Aamco, based in Bala Cynwyd, has in excess of 90 percent brand awareness, which means, as with "Nobody doesn't like Sara Lee" just about nobody doesn't know Aamco.

The degree of product awareness of Aamco was one of the main motivations for competitor Cottman Transmission Systems Inc. of Horsham to acquire

Aamco in a transaction that was sealed on March 7. The deal, of which terms weren't disclosed, created one of the country's largest complete car-care companies with more than 1,100 stores throughout the United States. Cottman will take the Aamco name.

How two local companies came together to form a giant in the transmission and auto repair industry after competing with each other for 43 years is a tale of two successful businesses that sprang from the same hometown roots.

Henry Morgenstern was born in 1917 in the Bronx, N.Y., to Austrian parents who

immigrated to the United States. While Morgenstern bided his time working at the family delicatessen, his true passion was dancing; he longed to become a professional dancer and pursued those interests by attending the American Academy of Dramatic Arts and later the City College of New York.



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Todd Leff (left), CEO of the new Aamco with Keith A. Morgan, CEO of the old Aamco.

After serving in World War II, Morgenstern opened a dance studio in Detroit under his new, anglicized name: Robert Morgan Studio of Dance. During the 1950s, Morgan was approached by a man who wanted to open a Robert Morgan Studio of Dance in Florida. The idea of franchising the business was born and he ended up opening 40 dance studios across the country, handily competing with rival Arthur Murray Dance Studios.

The success was short-lived. It was Elvis Presley's appearance on the "Ed Sullivan Show" television variety program in 1956 that led to the demise of the Robert Morgan Studio of Dance.

"It was the beginning of a cultural shift," said Keith A. Morgan, now the former chief executive of Aamco and one of Robert Morgan's three sons. "It was the turning point for ballroom dancing. Rock 'n' roll was here to stay and ballroom dancing wasn't."

While ballroom dancing may have waned, the seeds for franchising had been planted. Robert Morgan became enamored by its potential. By this time, he was married and living in his wife's hometown, Philadelphia. He was looking for a new venture when he took note of the increase

'People
loved it.
A brand
like this
comes
along
only
once in a
decade.'

Bram Hall
Harris Williams
& Co.

AAMCO: A famous name, an extremely well-recognized gimmick and a merger



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Todd Leff, CEO of the combined Aamco and Cottman chains.

in the use of automobiles and their upkeep. He started a brake center called Safeway Brakes on Cottman Avenue.

"Unfortunately Safeway Brakes didn't do that well," Keith Morgan said. "He fell on hard financial times."

At one point in the early 1960s, a sheriff arrived at the Morgan's Northeast Philadelphia home to evict the family but became sympathetic when Keith Morgan's mother answered the door with two young sons in tow. They remained in the house; Robert Morgan became a door-to-door salesman, selling hearing aids.

One day on Cottman Avenue he drove by the old Safeway Brakes shop.

"It was packed with cars as a Cottman Transmission," Keith Morgan recalled his father telling him. His father figured if that location could thrive as a transmission repair shop then he ought to look into the transmission business.

It was all in the timing.

Robert Morgan's research into transmissions led him to seize on a new trend in the automotive industry. Cars were increasingly being made with automatic transmissions, a luxury item that car makers would guarantee under short warranties lasting two to three years. Local garages, used to working on standard transmissions, didn't have the expertise to fix the new automatics.

It was an opportunity Robert Morgan

UP CLOSE

COMPANY: Aamco Transmissions Inc.
INDUSTRY: Transmission repair and auto care
HEADQUARTERS: Bala Cynwyd
YEAR FOUNDED: 1963
NO. STORES: 740
REVENUE: \$460 million
CEO: Keith A. Morgan

COMPANY: Cottman Transmission
INDUSTRY: Transmission repair and auto care
HEADQUARTERS: Horsham
YEAR FOUNDED: 1962
NO. STORES: 400
REVENUE: n/a
PRESIDENT: Todd Leff

NEW COMPANY: Aamco Transmissions Inc.
NO. STORES: 1,100
REVENUE: \$600 million
HEADQUARTERS: Horsham
CEO AND PRESIDENT: Todd Leff
TOP FIVE MARKETS: New York, Philadelphia, Los Angeles, Washington D.C., and Atlanta

Source: Companies

knew had the potential of making a lot of money, especially if the transmission stores were franchised into a national chain.

He approached two acquaintances, Tony Martino and Rich Silva. Martino and Silva were already operating transmission centers in Philadelphia. The three were set to become partners in the venture when they decided to go their separate ways in 1962. Silva retained the first Cottman Transmission while Martino and Morgan opened the first Aamco on Sept. 11, 1963, in Newark, N.J., and launched it as a national chain. Four years later, Martino sold his interest in the company to Morgan, and later founded Maaco, the auto paint and repair chain.

While the concept of a transmission repair shop took hold, it was Aamco's commitment to advertising that helped create a household name. Aamco was early to use celebrities in its television commercials. Its first commercial, shot in Upper Darby, had Zsa Zsa Gabor pulling up to an Aamco shop to have her Rolls Royce serviced with the tagline: "Tell them Zsa Zsa sent you."

Not long afterwards, the Double-A Beep-Beep M-C-O took hold.

In 1992, Keith Morgan took over as CEO from his father, who died in February 2005. Under his leadership, the company continued to add franchises, ending up with 740 at the time of the sale, and expanded its services three years ago to cover vehicle repairs beyond transmission work. Cottman has 400 stores.

The decision to sell was an easy one, Keith Morgan said.

"You want to sell a company when you're in a good position," he said. "The company is doing well."

The business climate is also ripe. Merger-and-acquisition activity during the last 18 months has been "red hot," said Bram Hall, a director at Harris Williams & Co., an M&A advisory firm that was hired in September by the Morgan family to sell the company. Keith Morgan's brothers weren't interested in running the business.

When it hit the market in October, interest in Aamco was high, Hall said.

"People loved it," he said. "It's a legendary brand and a brand like this comes along only once in a decade. People would ask me: 'Is that Double-A Beep-Beep M-C-O?' It was a huge selling point."

American Capital, a publicly traded buy-out fund that already owned Cottman, was the highest bidder for Aamco, which has \$460 million in annual revenue. The combined company is expected to have \$600 million in revenue.

Aamco, which will be based in Horsham, will convert Cottman stores to the Aamco name during the next three years. (The Cottman brand has about 30 percent brand awareness nationwide.) It plans to grow by opening 50 to 70 new stores a year, focusing more on building long-term relationships with customers as a way to become the dominant brand in the auto repair business, said Todd Leff, who will serve as president and CEO of the new Aamco.

"People struggle today," Leff said. "There's no longer Joe's down the corner that your dad went to and told you go to. Today, a lot of it is brand and loyalty."