

Double-A, Honk! Honk!, M-E-R-G-E-R



Laurence Kelly/The Intelligencer

AAMCO CEO Todd Leff talks in the training center of the company's corporate office in Horsham. AAMCO recently bought Cottman Transmission.

TOGETHER AGAIN

As the AAMCO-Cottman merger shifts into high gear, expect job cuts, and a leaner, meaner operation that reunites the company that split in 1962.

By JOHN WILEN
THE INTELLIGENCER

How does it feel to take over your No. 1 competitor?

"It feels good," says Todd Leff, CEO of the new AAMCO, a transmission service franchising giant formed from the recent merger of AAMCO and Cottman Transmission. Leff had been president of Cottman.

Leff is quick to add that the combination is viewed internally not as a takeover, but as a merger of equals. Indeed, Cottman had only 400 franchises before the merger, compared to AAMCO's 730.

Cottman didn't buy AAMCO. But Cottman's owner, American Capital Partners, did. The Bethesda, Md., private equity fund won't disclose what it

paid for the company. American Capital paid \$46 million for a controlling interest in Cottman in 2004. Leff declined to disclose the company's annual sales.

The merger combines two companies that were eerily familiar in focus and structure. Both are transmission specialty chains, though both have been moving into other areas of auto repair. Both franchise out all of their locations — the corporate entities themselves own no service centers.

That shouldn't be too surprising: Cottman and AAMCO started as the same company in Philadelphia in the late 1950s before the founders split in 1962.

The company makes its money from licensing and franchise fees, and from the sale of proprietary technical information, training and training materials, and related equipment. System-wide sales — which include sales by all franchisees — are more than \$600 million a year. The company and all franchises employ about 6,000.

The merger will create the all-important "synergies" executives always cite as a reason to combine operations. In this case, Cottman and AAMCO will pare down 200 headquarters employees to about 160. The

new AAMCO's headquarters will be located in Cottman's Horsham office. AAMCO's Bala Cynwyd office will close.

"We do anticipate that there are going to be some reductions in staff," mostly through attrition, Leff says. "We're really taking the best people from both companies."

The merger also lets AAMCO and Cottman end their advertising war and advertise nationally for the first time.

"They've been beating each other up in advertising," said Ron Pyle, president of the Automotive Service Association.

All those "Double-A — Honk! Honk! — M-C-O" ads you hear are bought and paid for by consortiums of locally owned AAMCO franchises.

The merger also creates problems. The Cottman name, for one. The company decided to dispense with it in favor of AAMCO's more widely recognized brand.

A streamlined company like AAMCO with a national name has a lot of room to grow, Leff said. The company plans to add 55 to 70 new stores a year.

"We've lost tens of thousands of



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(service) buys in this country," Leff said. "We don't have enough capacity to handle demand."

Art Spinella, an auto industry analyst with CNW Research in Bandon, Ore., sees several reasons for this. First, cars are more complicated these days, making the amount of training required for mechanics, and the cost of equipment required to service them, prohibitively expensive for many repair shops.

Also, he said, kids aren't pursuing careers in auto repair any more.

"There is just such an enormous shortage of good mechanics," Spinella said.

Leff thinks many service station owners have found they can get higher profits by converting service stalls into convenience stores. Spinella agrees.

"Absolutely," he said. "You can pay somebody behind the counter minimum wage."

Auto mechanics, by comparison, can earn as much as \$100,000 a year.

AAMCO's biggest competitors are not other name brand repair shops, such as Midas or Pep Boys, but car dealerships, Pyle said.

Spinella says dealers are turning to service to replace some of the profits they're losing from slow auto sales.

And that's why AAMCO wants to grow.

"We know their push is into the service bays," Leff said of auto dealers. "That's where we have to attack."

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