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Company Update

EQUITY RESEARCH

September 8, 2008

Pep Boys - Manny, Moe & Jack

Rating: Buy

F2Q09 EPS Preview: Roughly Flat Results Expected

Key Metrics

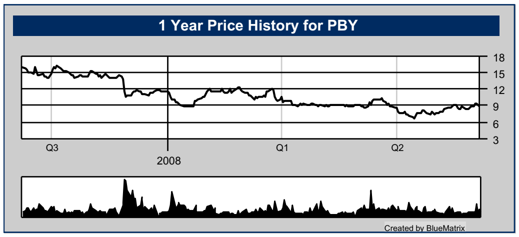
PBY - NYSE	$8.76
Pricing Date	09/05/2008
Price Target	$15.00
52-Week Range	$17.59-$6.40
Shares Outstanding (mm)	51.8
Market Capitalization ($mm)	$453.8
3-Mo Average Daily Volume	564,677
Institutional Ownership	92%
Debt/Total Capital	42.1%
ROE	NM
Book Value/Share	$9.08
Price/Book	1.0x
Dividend Yield	3.1%
LTM EBITDA Margin	4.91%

EPS($) FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.06	--	0.01A	--	--
2Q-Jul	0.08	--	0.07E	--	--
3Q-Oct	(0.01)	--	0.06E	--	--
4Q-Jan	(0.25)	--	0.12E	--	--
FY	(0.12)	--	0.26E	--	0.42E
P/E	NM		33.7x		20.9x

Revenue($mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	539.6	--	498.0A	--	--
2Q-Jul	558.9	--	522.3E	--	--
3Q-Oct	535.4	--	515.8E	--	--
4Q-Jan	517.6	--	522.8E	--	--
FY	2,151.5	--	2,059.0E	--	2,109.7E



Company Description: *Pep Boys – Manny, Moe & Jack (www.pepboys.com) operates as an automotive retail and service chain in the United States and Puerto Rico. PBY engages in the retail sale of automotive parts, tires, and accessories, automotive repairs and maintenance, and the installation of parts.*

Investment Highlights:

- **Pep Boys is scheduled to report F2Q09 results Tuesday morning, September 9th, before the market opens.** We are projecting EPS of $0.07, in line with the Street consensus and $0.01 below last year's comparable results. A conference call is scheduled that day at 8:30AM EST.
- **Sales expected to fall 7% on 31 fewer stores open and 3% comp decline.** We project F2Q09 sales of $522mm based on expectations for 561 stores open during the period, which should fall 31 units below LY, and a comparable store sales decline of 3%.
- **Gross margins expected to be up slightly as company eliminates non-core merchandise.** Gross margins should remain relatively flat Y/Y and sequentially at 25.9%, with the remaining liquidated non-core merchandise sales and reduced revenue leverage offsetting expected merchandise mix and service pricing improvements.
- **Lower interest expense expected from improved balance sheet.** Pep Boys has generated over $300mm from sale leaseback transactions and has used those proceeds primarily to reduce long-term debt. Total debt has declined from $550mm in F3Q08 to $344mm as of F1Q09. The lower debt levels should result in an estimated $5mm reduction in interest expense payments.
- **Compelling value based on real estate value and tangible book, in our view, maintain Buy rating.** The company currently trades roughly in line with its understated, in our opinion, book value. We believe that book value is understated due to unrealized real estate valuations, which if adjusted to current values, could expand that book value between $6 to $10 per share. We maintain our Buy rating on the shares.

The Disclosure section may be found on pages 3 - 4 of this report.
The Valuation section may be found on page 3 of this report.

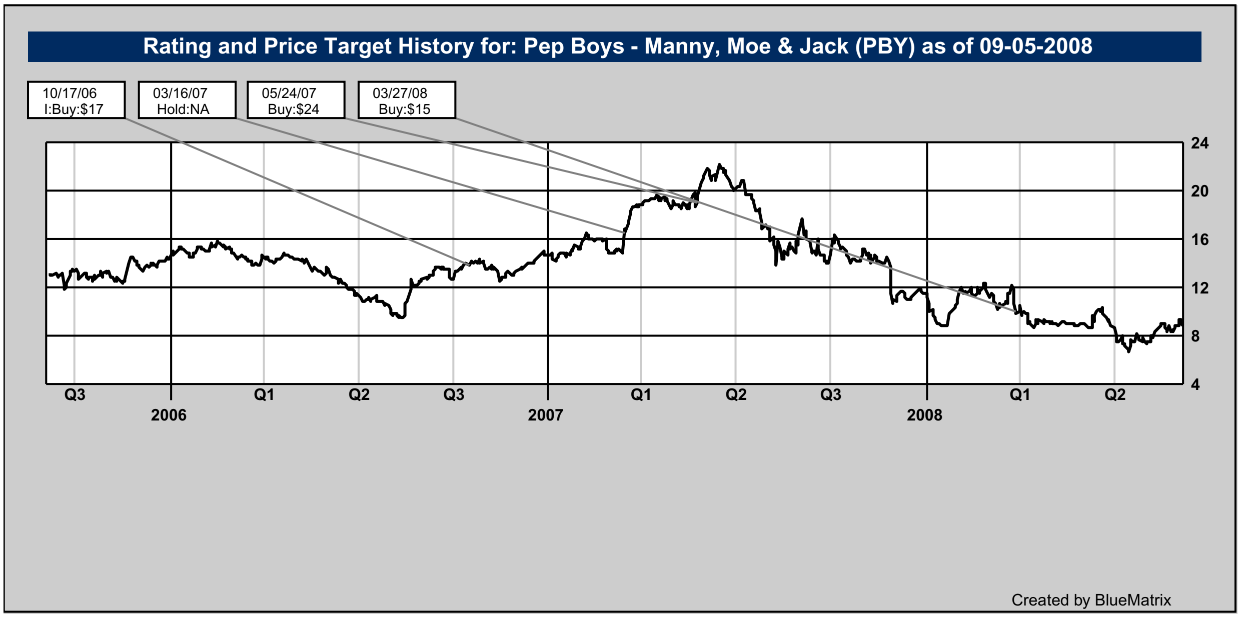
Pep Boys - Manny, Moe & Jack Quarterly Earnings Model

(In millions, except per share data)

	FY 2006	Q1 Apr-06	Q2 Jul-06	Q3 Oct-06	Q4 Feb-07	FY 2007	Q1 May-07	Q2 Aug-07	Q3 Nov-07	Q4 Feb-08	FY 2008	Q1 May-08	Q2E Aug-08	Q3E Nov-08	Q4E Jan-09	FYE 2009	FYE 2010
Total Revenues	**$2,237.3**	**$556.6**	**$578.6**	**$550.8**	**$586.1**	**$2,272.2**	**$539.6**	**$558.9**	**$535.4**	**$517.6**	**$2,151.5**	**$498.0**	**$522.3**	**$515.8**	**$522.8**	**$2,059.0**	**$2,109.7**
% Increase	-1.5%	-1.2%	0.2%	0.9%	6.5%	1.6%	-3.1%	-3.4%	-2.8%	-11.7%	-5.3%	-7.7%	-6.5%	-3.6%	1.0%	-4.3%	2.5%
Cost of Goods Sold	1704.2	417.7	433.5	413.2	436.1	1700.4	400.3	408.8	397.9	406.6	1613.6	370.1	387.3	383.5	386.5	1527.3	1558.8
As % Sales	76.2%	75.0%	74.9%	75.0%	74.4%	74.8%	74.2%	73.1%	74.3%	78.5%	75.0%	74.3%	74.1%	74.3%	73.9%	74.2%	73.9%
Gross Profit	**533.2**	**138.9**	**145.1**	**137.7**	**150.1**	**571.8**	**139.3**	**150.1**	**137.4**	**111.1**	**537.9**	**128.0**	**135.1**	**132.4**	**136.3**	**531.7**	**551.0**
Margin	23.8%	25.0%	25.1%	25.0%	25.6%	25.2%	25.8%	26.9%	25.7%	21.5%	25.0%	25.7%	25.9%	25.7%	26.1%	25.8%	26.1%
% Increase	-14.5%	0.4%	-2.6%	8.7%	25.9%	7.2%	0.3%	3.5%	-0.2%	-26.0%	-5.9%	-8.1%	-10.0%	-3.7%	22.7%	-1.2%	3.6%
Operating/SG&A Expense	523.4	131.2	139.5	134.7	141.0	546.5	123.2	132.8	127.1	123.3	506.4	119.0	122.7	122.3	121.0	485.0	493.0
As % Sales	23.4%	23.6%	24.1%	24.5%	24.1%	24.1%	22.8%	23.8%	23.7%	23.8%	23.5%	23.9%	23.5%	23.7%	23.1%	23.6%	23.4%
Unusual Items (benefit)	18.2	0.4	-6.4	-0.2	0.0	-6.2	0.0	0.0	0.5	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expense	2245.7	549.4	566.6	547.6	577.1	2240.7	523.5	541.6	525.5	529.8	2120.5	489.1	510.0	505.7	507.5	2012.4	2051.8
As % Sales	100.4%	98.7%	97.9%	99.4%	98.5%	98.6%	97.0%	96.9%	98.2%	102.4%	98.6%	98.2%	97.6%	98.0%	97.1%	97.7%	97.3%
Operating Profit	**-8.4**	**7.2**	**12.0**	**3.2**	**9.1**	**31.5**	**16.1**	**17.3**	**9.8**	**-12.2**	**31.0**	**9.0**	**12.3**	**10.1**	**15.3**	**46.7**	**57.9**
Margin	-0.4%	1.3%	2.1%	0.6%	1.5%	1.4%	3.0%	3.1%	1.8%	-2.4%	1.4%	1.8%	2.4%	2.0%	2.9%	2.3%	2.7%
% Increase	NA	NA	24.1%	140.4%	NA	NA	NA	NA	NA	NA	NA	-44.3%	-28.8%	2.9%	NA	50.7%	24.1%
Interest Exp./(Inc.)	39.5	10.3	12.0	15.6	13.0	50.8	12.7	12.3	11.5	8.8	45.3	8.2	8.0	7.0	7.0	30.2	28.0
Other Exp./(Inc.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Operating Exp./(Inc.)	-3.9	-2.3	-2.0	-1.0	-1.7	-7.0	-1.9	-1.8	-1.0	-0.5	-5.2	-0.3	-1.5	-1.5	-1.5	-4.8	-4.0
Pretax Profit	**-44.0**	**-0.8**	**2.0**	**-11.4**	**-2.2**	**-12.3**	**5.3**	**6.7**	**-0.6**	**-20.4**	**-9.0**	**1.1**	**5.8**	**4.6**	**9.8**	**21.3**	**33.9**
Margin	-2.0%	-0.2%	0.4%	-2.1%	-0.4%	-0.5%	1.0%	1.2%	-0.1%	-3.9%	-0.4%	0.2%	1.1%	0.9%	1.9%	1.0%	1.6%
% Increase	NA	78.8%	NA	31.5%	91.1%	72.0%	NA	NA	NA	NA	NA	-80.0%	-13.6%	NA	NA	NA	59.4%
Taxes(benefit)	-16.2	0.0	0.6	-3.6	-0.8	-3.8	2.1	2.5	0.1	-7.4	-2.6	0.5	2.1	1.7	3.5	7.7	12.2
Rate	36.9%	-3.7%	27.9%	32.1%	36.9%	31.2%	40.0%	37.5%	-9.5%	36.0%	29.4%	43.6%	36.0%	36.0%	36.0%	36.4%	36.0%
Net Income--Operations	**-27.7**	**-0.9**	**1.5**	**-7.7**	**-1.4**	**-8.5**	**3.2**	**4.2**	**-0.7**	**-13.1**	**-6.4**	**0.6**	**3.7**	**3.0**	**6.3**	**13.5**	**21.7**
Margin	-1.2%	-0.2%	0.3%	-1.4%	-0.2%	-0.4%	0.6%	0.8%	-0.1%	-2.5%	-0.3%	0.1%	0.7%	0.6%	1.2%	0.7%	1.0%
% Increase	NA	64.9%	76.7%	28.1%	91.1%	69.4%	NA	NA	NA	NA	NA	-81.2%	-11.5%	NA	NA	NA	60.3%
EPS--Operations	**(0.51)**	**(0.02)**	**0.03**	**(0.14)**	**(0.02)**	**(0.16)**	**0.06**	**0.08**	**(0.01)**	**(0.25)**	**(0.12)**	**0.01**	**0.07**	**0.06**	**0.12**	**0.26**	**0.42**
% Increase	NA	64.2%	79.7%	27.5%	91.2%	69.1%	NA	NA	NA	NA	NA	-80.7%	-11.6%	NA	NA	NA	60.2%
Shares Outstanding (mm)	54.8	54.2	55.2	54.3	54.6	54.3	53.6	52.3	51.8	51.9	52.1	52.2	52.3	52.3	52.3	52.3	52.3

Source: Company reports and Morgan Joseph Estimates

Required Disclosures



Price Target

Our price target is $15.

Valuation Methodology

Our $15 price target is derived utilizing a 7.0x EV/EBITDA multiple to our FY09 estimate while adding roughly $6 per share for unrealized, in our opinion, real estate value.

Risk Factors

- High fixed cost structure and relatively expensive labor force.
- The aftermarket is susceptible to seasonality and unpredictable weather.
- The automotive aftermarket is highly competitive and dominated by a few retailers that control roughly 35% of the market.
- PBY commercial business can provide conflicts of interest.

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		Investment Banking Services/Past 12 Mos.
Rating	Percent	Percent
BUY [B]	55.68	34.69
HOLD [H]	43.18	31.58
SELL [S]	1.14	0.00

Meaning of Ratings	A) Buy means reasonable outperformance relative to the market over 12-18 months. B) Hold means market-type risk adjusted performance; potential source of funds. C) Sell means expected to underperform the market.

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