

December 8, 2008

Key Metrics

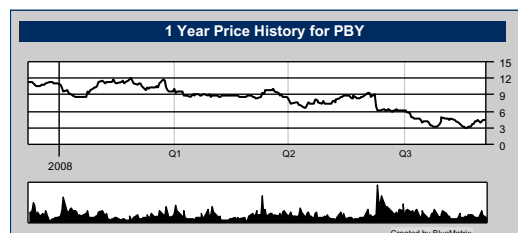
| | |
|------------------------------|----------------|
| PBY - NYSE | \$4.53 |
| Pricing Date | 12/05/2008 |
| Price Target | \$12.00 |
| 52-Week Range | \$12.56-\$2.69 |
| Shares Outstanding (mm) | 51.8 |
| Market Capitalization (\$mm) | \$234.8 |
| 3-Mo Average Daily Volume | 733,178 |
| Institutional Ownership | 92% |
| Debt/Total Capital | 41.4% |
| ROE | NM |
| Book Value/Share | \$9.15 |
| Price/Book | 0.5x |
| Dividend Yield | 6.3% |
| LTM EBITDA Margin | 4.46% |

EPS(\$) FY: January

| | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|--------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 0.06 | -- | 0.01A | 0.10E | 0.05E |
| 2Q-Jul | 0.08 | -- | 0.03A | 0.11E | 0.06E |
| 3Q-Oct | (0.01) | 0.06E | 0.01E | 0.10E | 0.02E |
| 4Q-Jan | (0.25) | 0.08E | 0.04E | 0.10E | 0.07E |
| FY | (0.13) | 0.17E | 0.09E | 0.41E | 0.19E |
| P/E | NM | | 50.3x | | 23.8x |

Revenue(\$mm)

| | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|---------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 539.6 | -- | 498.0A | 501.5E | 486.6E |
| 2Q-Jul | 552.1 | -- | 500.0A | 510.9E | 495.9E |
| 3Q-Oct | 535.4 | 497.4E | 481.7E | 516.1E | 490.5E |
| 4Q-Jan | 517.6 | 502.8E | 492.4E | 525.5E | 515.0E |
| FY | 2,144.7 | 1,998.3E | 1,972.2E | 2,054.1E | 1,987.9E |



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.*

Pep Boys - Manny, Moe & Jack

Rating: Buy

F3Q09 EPS Preview: We Expect \$0.01 vs. (\$0.01) LY

Investment Highlights:

- **Pep Boys is scheduled to report F3Q09 results Tuesday morning, December 9th, before the market opens.** We are projecting EPS of \$0.01, in-line with the Street consensus and \$0.02 above last year's comparable results. A conference call is scheduled that day at 8:30AM EST.
- **Traditionally recessionary-friendly business not feeling the benefit yet - lowering sales estimates.** While we continue to believe that the automotive aftermarket could benefit from reduced new car sales (aging vehicle population that should require repairs) and a weakening economy (consumers transferring service to lower cost providers such as Pep Boys), we do not believe the benefits have translated yet as consumers may be deferring purchases and service. Therefore, we are reducing our 3Q comparable store sales expectations to (8%), roughly in-line with 2Q results. Based upon lower comp projections, we are reducing our FY09 and FY10 sales estimates by \$26mm and \$66mm, respectively.
- **Estimated EPS reduced on lower sales leverage: FY10E to \$0.19.** Based off of our reduced sales expectations, we are reducing our Q309 EPS, FY09, and FY10 EPS to \$0.01 (from \$0.06), \$0.09 (from \$0.17), and \$0.19 (from \$0.41).
- **Y/Y EPS improvement expected from reduced interest expense payments.** While we expect lower sales to reduce operating profit margins Y/Y by 60bps to 1.2%, lower debt levels (\$338mm in FQ209 vs. \$553mm in FQ208) should reduce interest expense payments by roughly \$5mm Y/Y.
- **Debt reduction appears to identify asset values - currently trading at roughly 50% tangible book value.** Pep Boys shares currently trade at a roughly 50% discount to tangible book value of \$9 per share. We believe recent sale leaseback transactions, which have been predominantly responsible for the Y/Y debt reduction, demonstrate potentially unrealized value of undervalued, in our view, real estate. Recent transactions have averaged roughly \$4mm per location and with 235 owned locations as of August 2, 2008, and \$174mm in deferred gains on sale of assets currently on the balance sheet, upside to that value appears to exist.
- **We maintain our Buy rating.**

EQUITY RESEARCH

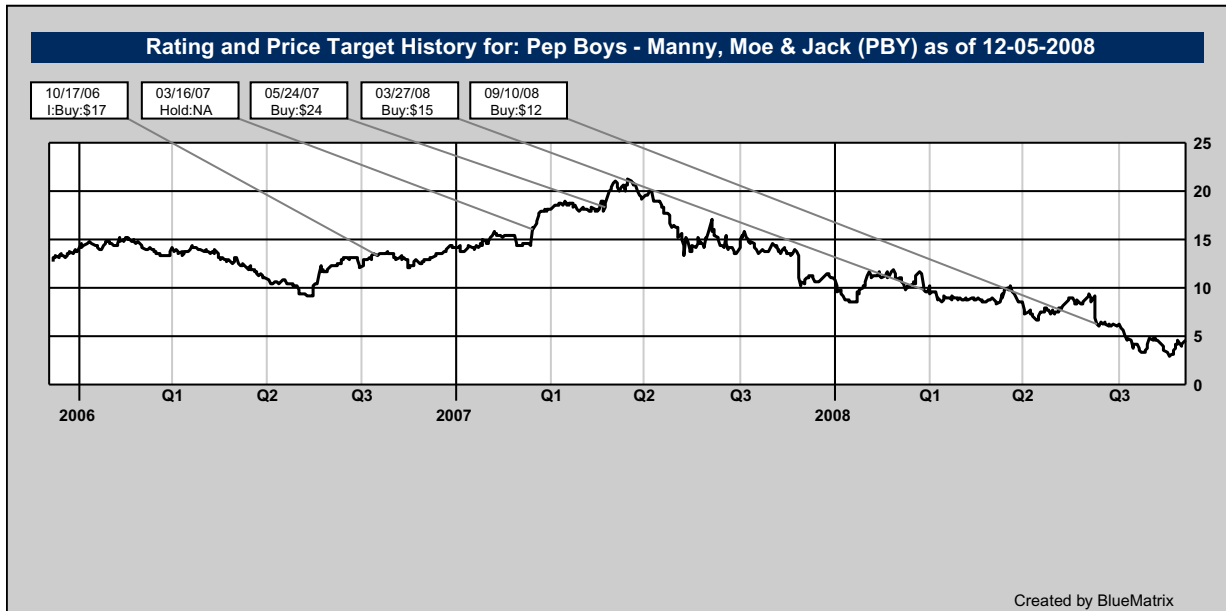
Pep Boys - Manny, Moe & Jack Quarterly Earnings Model

(In millions, except per share data)

| | FY 2007 | Q1 May-07 | Q2 Aug-07 | Q3 Nov-07 | Q4 Feb-08 | FY 2008 | Q1 May-08 | Q2 Aug-08 | Q3E Nov-08 | Q4E Jan-09 | FYE 2009 | Q1E May-09 | Q2E Aug-09 | Q3E Nov-09 | Q4E Feb-10 | FYE 2010 |
|-------------------------------|------------------|----------------|----------------|----------------|----------------|------------------|----------------|----------------|----------------|----------------|------------------|----------------|----------------|----------------|----------------|------------------|
| Total Revenues | \$2,272.2 | \$539.6 | \$552.1 | \$535.4 | \$517.6 | \$2,144.7 | \$498.0 | \$500.0 | \$481.7 | \$492.4 | \$1,972.2 | \$486.6 | \$495.9 | \$490.5 | \$515.0 | \$1,987.9 |
| <i>% Increase</i> | 1.6% | -3.1% | -4.6% | -2.8% | -11.7% | -5.6% | -7.7% | -9.4% | -10.0% | -4.9% | -8.0% | -2.3% | -0.8% | 1.8% | 4.6% | 0.8% |
| Cost of Goods Sold | 1700.4 | 400.3 | 403.4 | 397.9 | 406.6 | 1608.2 | 370.1 | 369.6 | 354.7 | 362.6 | 1457.0 | 358.4 | 362.6 | 358.9 | 379.2 | 1459.1 |
| <i>As % Sales</i> | 74.8% | 74.2% | 73.1% | 74.3% | 78.5% | 75.0% | 74.3% | 73.9% | 73.6% | 73.6% | 73.9% | 73.7% | 73.1% | 73.2% | 73.6% | 73.4% |
| Gross Profit | 571.8 | 139.3 | 148.7 | 137.4 | 111.1 | 536.5 | 128.0 | 130.4 | 127.0 | 129.8 | 515.2 | 128.1 | 133.4 | 131.6 | 135.8 | 528.8 |
| <i>Margin</i> | 25.2% | 25.8% | 26.9% | 25.7% | 21.5% | 25.0% | 25.7% | 26.1% | 26.4% | 26.4% | 26.1% | 26.3% | 26.9% | 26.8% | 26.4% | 26.6% |
| <i>% Increase</i> | 7.2% | 0.3% | 2.5% | -0.2% | -26.0% | -6.2% | -8.1% | -12.3% | -7.6% | 16.9% | -4.0% | 0.1% | 2.2% | 3.6% | 4.6% | 2.6% |
| Operating/SG&A Expense | 540.3 | 123.2 | 131.9 | 127.6 | 123.3 | 505.4 | 119.0 | 122.6 | 121.0 | 121.0 | 483.6 | 118.5 | 123.5 | 125.0 | 125.0 | 492.0 |
| <i>As % Sales</i> | 24.1% | 22.8% | 23.9% | 23.7% | 23.8% | 23.6% | 23.9% | 24.5% | 25.1% | 24.6% | 24.5% | 24.4% | 24.9% | 25.5% | 24.3% | 24.7% |
| Operating Profit | 31.5 | 16.1 | 16.9 | 9.8 | (12.2) | 30.6 | 9.0 | 7.8 | 6.0 | 8.8 | 31.6 | 9.6 | 9.9 | 6.6 | 10.8 | 36.8 |
| <i>Margin</i> | 1.4% | 3.0% | 3.1% | 1.8% | -2.4% | 1.4% | 1.8% | 1.6% | 1.2% | 1.8% | 1.6% | 2.0% | 2.0% | 1.3% | 2.1% | 1.9% |
| <i>% Increase</i> | NA | 122.0% | 40.6% | 207.5% | -234.6% | -3.0% | -44.3% | -53.6% | -39.1% | -172.2% | 3.3% | 7.6% | 26.0% | 9.6% | 22.0% | 16.6% |
| Interest Exp./ (Inc.) | 50.8 | 12.7 | 12.3 | 11.5 | 8.8 | 45.3 | 8.2 | 6.5 | 6.5 | 6.5 | 27.6 | 6.5 | 6.5 | 6.5 | 6.5 | 25.8 |
| 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 |
| Non-Operating Exp./ (Inc.) | -7.0 | -1.9 | -1.8 | -1.0 | -0.5 | -5.2 | -0.3 | -1.2 | -1.2 | -1.2 | -3.9 | -1.2 | -1.2 | -1.2 | -1.2 | -4.8 |
| Pretax Profit | (12.3) | 5.3 | 6.3 | (0.6) | (20.4) | (9.4) | 1.1 | 2.5 | 0.7 | 3.6 | 7.9 | 4.4 | 4.6 | 1.3 | 5.5 | 15.8 |
| <i>Margin</i> | -0.5% | 1.0% | 1.1% | -0.1% | -3.9% | -0.4% | 0.2% | 0.5% | 0.2% | 0.7% | 0.4% | 0.9% | 0.9% | 0.3% | 1.1% | 0.8% |
| Taxes (benefit) | -3.8 | 2.1 | 2.3 | 0.1 | -7.4 | -2.8 | 0.5 | 1.2 | 0.3 | 1.3 | 3.2 | 1.6 | 1.7 | 0.5 | 2.0 | 5.7 |
| <i>Rate</i> | 31.2% | 40.0% | 37.3% | -9.5% | 36.0% | 29.9% | 43.6% | 46.3% | 36.0% | 36.0% | 40.3% | 36.0% | 36.0% | 36.0% | 36.0% | 36.0% |
| Net Income--Operations | (8.5) | 3.2 | 3.9 | (0.7) | (13.1) | (6.6) | 0.6 | 1.4 | 0.5 | 2.3 | 4.7 | 2.8 | 3.0 | 0.8 | 3.5 | 10.1 |
| <i>Margin</i> | -0.4% | 0.6% | 0.7% | -0.1% | -2.5% | -0.3% | 0.1% | 0.3% | 0.1% | 0.5% | 0.2% | 0.6% | 0.6% | 0.2% | 0.7% | 0.5% |
| EPS--Operations | (0.16) | 0.06 | 0.08 | (0.01) | (0.25) | (0.13) | 0.01 | 0.03 | 0.01 | 0.04 | 0.09 | 0.05 | 0.06 | 0.02 | 0.07 | 0.19 |
| Shares Outstanding (mm) | 54.3 | 53.6 | 52.3 | 51.8 | 51.9 | 52.1 | 52.2 | 52.2 | 52.2 | 52.2 | 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 \$12 .

Valuation Methodology

Our \$12 price target reflects Pep Boy's current per share tangible book value of about \$9 plus roughly \$3 per share, or \$174mm, for deferred gains on sales of assets.

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.
- PBY's commercial business can provide conflicts of interest.

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| Rating | Investment Banking Services/Past 12 Mos. | |
|-----------------|--|--------------|
| | Percent | Percent |
| BUY [B] | 52.94 | 37.78 |
| HOLD [H] | 44.71 | 28.95 |
| SELL [S] | 2.35 | 0.00 |

Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market (Russell 2000) over 12-18 months.
- B) Hold means market-type (Russell 2000) risk adjusted performance; potential source of funds.
- C) Sell means expected to underperform the market (Russell 2000) over 12-18 months.

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