

December 10, 2008

Key Metrics

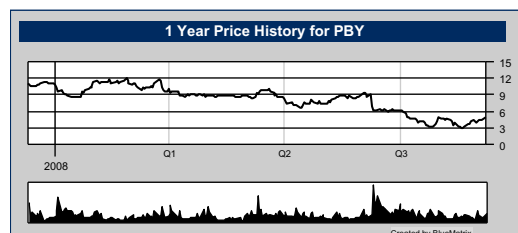
PBY - NYSE	\$3.69
Pricing Date	12/09/2008
Price Target	\$12.00
52-Week Range	\$12.56-\$2.69
Shares Outstanding (mm)	51.8
Market Capitalization (\$mm)	\$191.3
3-Mo Average Daily Volume	735,263
Institutional Ownership	92%
Debt/Total Capital	41.7%
ROE	NM
Book Value/Share	\$8.96
Price/Book	0.4x
Dividend Yield	7.1%
LTM EBITDA Margin	3.73%

EPS(\$) FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.06	--	0.01A	0.05E	0.03E
2Q-Jul	0.08	--	0.03A	--	0.06E
3Q-Oct	0.00	0.01E	(0.14)A	0.02E	0.00E
4Q-Jan	(0.25)	0.04E	(0.08)E	0.07E	0.05E
FY	(0.11)	0.09E	(0.18)E	0.19E	0.16E
P/E	NM		NM		23.1x

Revenue(\$mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	539.6	--	498.0A	486.6E	476.6E
2Q-Jul	552.1	--	500.0A	--	495.9E
3Q-Oct	528.8	481.7E	464.1A	490.5E	472.9E
4Q-Jan	517.6	492.4E	466.5E	515.0E	479.2E
FY	2,138.1	1,972.2E	1,928.7E	1,987.9E	1,924.6E



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

EPS Disappoint; Too Much Value To Scrap

Investment Highlights:

- **F3Q09 EPS of (\$0.14) below our \$0.01 estimate.** Pep Boys reported F3Q09 EPS of (\$0.14), \$0.15 below our estimate and the Street consensus.
- **Sales down 12% on (10.4%) comps, (8.2%) service comp below expectations.** F3Q09 sales declined Y/Y 12% to \$464mm. Comparable stores sales of (10.4%) were roughly 2% below our expectation as service comps of (8%) were negatively impacted by deferred tire and service business. Merchandising comps should continue to show weakness in 4Q as the company comps against clearance sales LY and due to ongoing accessory weakness. The service business has shown some improvement, down in the estimated low single-digit range in 4Q to-date, which could provide some sequential sales improvement; however, recent results and trends suggest lower FY10 revenue expectations. We are reducing our FY10 sales estimate by \$63mm to \$1.93bn.
- **Operating costs continue to decline - further cuts expected in FY10.** SG&A declined, in dollars, by roughly \$17mm due to ongoing spending controls. In FY10, we expect additional reductions in marketing (expected to be down Y/Y \$20mm) and other non-merchandise costs (expected decline of \$10mm). Expected reductions in operating expenses should offset some of the impact from lower anticipated sales, but not completely. We are reducing our F4Q09 EPS estimate by \$0.12 to (\$0.08) and our FY10 EPS estimate by \$0.03 to \$0.16.
- **Possible expansion on the horizon.** Recently, Pep Boys has been more focused upon store closing versus expansion. While future closings are not out of the question, the company's improved balance sheet and untapped \$300mm credit facility should provide adequate capital to expand via its previously announced "hub and spoke" strategy. While a few additions could develop in FY10, longer-term expectations could range between 20 to 40 new smaller service units added annually.
- **Too much value to scrap - maintain Buy rating.** While Pep Boy's continues to disappoint operationally, we believe there is too much value to jump ship. With a \$9 book value (which we believe is understated by owned real estate values), and recently announced and untapped \$300mm replacement credit facility, the company appears well positioned to weather a currently challenging environment that could turn positive should deferred purchases materialize. Additionally, while free cash flow could be slightly negative in FY09, capital expenditures are trending roughly \$40mm below D&A, which, coupled with tighter expected inventory management, should provide an adequate buffer to generate positive FY10 free cash flow.

EQUITY RESEARCH

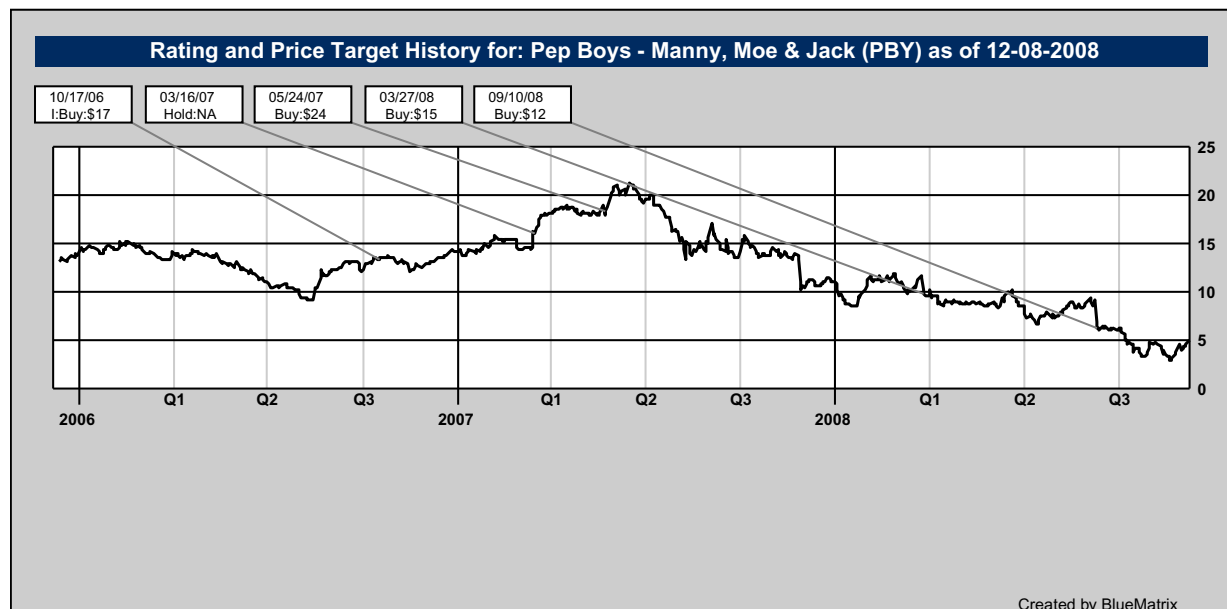
Pep Boys - Manny, Moe & Jack Quarterly Earnings Model

(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	Q3 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	\$528.8	\$517.6	\$2,138.1	\$498.0	\$500.0	\$464.1	\$466.5	\$1,928.7	\$476.6	\$495.9	\$472.9	\$479.2	\$1,924.6
<i>% Increase</i>	1.6%	-3.1%	-4.6%	-4.0%	-11.7%	-5.9%	-7.7%	-9.4%	-12.2%	-9.9%	-9.8%	-4.3%	-0.8%	1.9%	2.7%	-0.2%
Cost of Goods Sold	1700.4	400.3	403.4	390.5	406.6	1600.8	370.1	369.6	349.3	347.0	1436.0	355.6	369.3	353.7	355.5	1434.1
<i>As % Sales</i>	74.8%	74.2%	73.1%	73.9%	78.5%	74.9%	74.3%	73.9%	75.3%	74.4%	74.5%	74.6%	74.5%	74.8%	74.2%	74.5%
Gross Profit	571.8	139.3	148.7	138.2	111.1	537.3	128.0	130.4	114.8	119.6	492.8	121.0	126.6	119.2	123.7	490.5
<i>Margin</i>	25.2%	25.8%	26.9%	26.1%	21.5%	25.1%	25.7%	26.1%	24.7%	25.6%	25.5%	25.4%	25.5%	25.2%	25.8%	25.5%
<i>% Increase</i>	7.2%	0.3%	2.5%	0.4%	-26.0%	-6.0%	-8.1%	-12.3%	-17.0%	7.7%	-8.3%	-5.4%	-3.0%	3.8%	3.5%	-0.5%
Operating/SG&A Expense	546.5	123.2	131.8	127.3	123.3	505.6	119.0	122.6	119.8	120.0	481.4	111.8	114.8	112.3	112.8	451.7
<i>As % Sales</i>	24.1%	22.8%	23.9%	24.1%	23.8%	23.6%	23.9%	24.5%	25.8%	25.7%	25.0%	23.5%	23.1%	23.7%	23.5%	23.5%
Operating Profit	25.3	16.1	16.9	11.0	(12.2)	31.7	9.0	7.8	(5.0)	(0.4)	11.3	9.2	11.8	6.9	10.9	38.8
<i>Margin</i>	1.1%	3.0%	3.1%	2.1%	-2.4%	1.5%	1.8%	1.6%	-1.1%	-0.1%	0.6%	1.9%	2.4%	1.5%	2.3%	2.0%
<i>% Increase</i>	NA	110.0%	203.6%	267.3%	-234.6%	25.5%	-44.3%	-53.6%	-146.0%	-96.5%	-64.3%	2.8%	50.3%	-236.1%	-2657.6%	242.6%
Interest Exp./(Inc.)	50.8	12.7	12.3	11.5	8.8	45.3	8.2	6.5	7.1	7.0	28.8	7.0	7.0	7.0	7.0	28.0
Other Exp./(Inc.)	-6.2	0.0	0.0	0.5	0.0	0.5	0.0	0.0	0.1	0.0	0.1	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	-0.3	-0.5	-2.3	-0.5	-0.5	-0.5	-0.5	-2.0
Pretax Profit	(12.3)	5.3	6.3	(0.0)	(20.4)	(8.8)	1.1	2.5	(11.9)	(6.9)	(15.2)	2.7	5.3	0.4	4.4	12.8
<i>Margin</i>	-0.5%	1.0%	1.1%	0.0%	-3.9%	-0.4%	0.2%	0.5%	-2.6%	-1.5%	-0.8%	0.6%	1.1%	0.1%	0.9%	0.7%
Taxes(benefit)	-3.8	2.1	2.3	0.0	-7.4	-2.9	0.5	1.2	-4.8	-2.5	-5.6	1.0	1.9	0.1	1.6	4.6
<i>Rate</i>	31.2%	40.0%	37.3%	40.0%	36.0%	32.7%	43.6%	46.3%	40.2%	36.0%	37.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Net Income--Operations	(8.5)	3.2	3.9	(0.0)	(13.1)	(5.9)	0.6	1.4	(7.1)	(4.4)	(9.6)	1.7	3.4	0.2	2.8	8.2
<i>Margin</i>	-0.4%	0.6%	0.7%	0.0%	-2.5%	-0.3%	0.1%	0.3%	-1.5%	-1.0%	-0.5%	0.4%	0.7%	0.0%	0.6%	0.4%
EPS--Operations	(0.16)	0.06	0.08	(0.00)	(0.25)	(0.11)	0.01	0.03	(0.14)	(0.08)	(0.18)	0.03	0.06	0.00	0.05	0.16
Shares Outstanding (mm)	54.3	53.6	52.3	51.8	51.9	52.1	52.2	52.2	52.0	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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