

RealMoney Investment & Trading Ideas



PBY Rebuilds Its Engine

By **Scott Rothbort**
RealMoney Contributor
 11/28/2007 2:11 PM EST

Updated from 11:21 a.m. EST on Nov. 27.

The **Pep Boys** (PBY) call was rather abbreviated because the company focused more on the future restructuring plans rather than the past results. The company did miss sales estimates by \$4 million, however, so we cannot let that fact go unnoticed. Indeed the market has noticed and is sending shares down despite a strong market for stocks and retail names in general.

With a five-year reclamation plan in place, the stock will offer no short-term opportunity or bounce. Pep Boys has gone from a used car to an older used car, so all you will get is further depreciation and deterioration. So, why bother with this clunker when there are so many Rolls Royces to consider in this market?

Pep Boys reported results for the 13-week period ended Nov. 3, 2007 last evening. The company reported a net loss from continuing operations before accounting changes of 42 cents on net sales of \$535.38 million. Included in this loss was a 50-cent after-tax charge for restructuring. If we backed out those charges, it would bring the true operational results to an 8-cent gain per share.

Same-store comps in the service business of 4.5% were generated vs. 4.8% in the prior year's quarter. Gross profit rates for the service centers improved 380 basis points year over year. There was weakness in Southern California and Florida offset by strength in the Northeast, where service comps were up 9%.

The company is undertaking a long-term strategic plan for which it has taken the charges mentioned above. The company seeks to drive growth in the do-it-yourself retail and service, or do-it-for-me, centers. As part of this plan, Pep Boys will:

- close 31 low-return locations spread over 16 states -- this is expected to generate \$65 million in working capital;
- average down store square footage to be more in line with competition and reduced fixed overhead;
- add additional smaller service center locations (under the do-it-for-me approach) that will surround its supercenters to pursue a hub and spoke model; and
- refocus inventory more toward core automotive products.

PBY Preview: Battling for Pole Position

Pep Boys (PBY) is expected to release third-quarter 2007 results after the market closes on Tuesday and will follow that news with its quarterly conference call on Wednesday morning before the market opens. Analysts are expecting the company to earn 2 cents on net sales of \$539.7 million. In the year-ago quarter, Pep Boys earned 3 cents on net sales of \$550.85 million.

To combat operational issues and continued downshifting in sales,

management has resorted to the usual bag of tricks, including the sale of real estate. With new-auto sales on the decline, Pep Boys and its rivals could be poised to benefit from a greater population of older cars in operation. The company is in a highly competitive industry, however, and finds itself having to going up against rivals such as **AutoZone** (AZO) , **Advance Auto Parts** (AAP) , **Sears** (SHLD) , **Wal-Mart** (WMT) and **Costco** (COST) , which provide all or some of the products and services that Pep Boys offers. Pricing can be cutthroat, with heavy reliance on discounting and coupons.

RELATED STORIES

Be Patient With SHLD's Lampert and RSTO

Staples Earnings Preview: Possible Whisper Relief Bounce

American Eagle Outfitters Preview: AEO on Borrowed Time

At the time of publication, Rothbort was long SHLD and COST, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.

Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.

Rothbort holds an MBA in finance and international business from the Stern School of Business of New York University and a BS in economics and accounting from the Wharton School of Business of the University of Pennsylvania. He is a Professor of Finance and the Chief Market Strategist for the Stillman School of Business of Seton Hall University.

For more information about Scott Rothbort and LakeView Asset Management, LLC, visit the company's Web site at www.lakeviewasset.com. Scott appreciates your feedback; [click here](#) to send him an email.

Read our [conflicts and disclosure policy](#).

[Terms of Use](#) | [Privacy Policy](#)

© 1996-2007 TheStreet.com, Inc. All rights reserved.