

Insiders buy stock in Pep Boys

Some analysts said the purchases were a vote of confidence in the auto-parts retailer, which recently took itself off the block.

By Miriam Hill and Akweli Parker, Inquirer Staff Writers

In the days after Pep Boys - Manny, Moe & Jack took the for-sale sign off the company, its chief executive officer, four directors, and a big outside shareholder bought \$3.8 million worth of shares.

The insiders either would not comment or could not be reached, but such purchases are generally seen as a sign of confidence in the company by people who know it well. The stock closed yesterday at \$12.61, compared with its 52-week high of \$16.55 and low of \$9.33.

That has meant a quick paper profit for the insiders, who bought at prices ranging from \$10.89 to \$11.

Pep Boys chief financial officer Harry Yanowitz said he did not want to speak on behalf of those purchasers, but added: "I'd say the company is confident in its future, and it appears that our board members do as well."

On Aug. 15, the Philadelphia auto-parts retailer and repair chain said that while some potential investors had expressed interest in its recent review of "strategic alternatives" with the help of Goldman Sachs & Co., the Pep Boys board decided the firm would fetch a higher price after improving its operating results.

Some industry observers were less generous, saying no one wanted to buy the entire company.

The insider transactions Aug. 17 through 19 were:

Barington Capital Group L.P., a New York hedge fund that recently won four seats on the Pep Boys board, bought 66,667 common shares worth \$733,337 and now indirectly holds 2.9 million shares.

James A. Mitarotonda, Barington chief executive and a Pep Boys director, bought 156,400 common shares for \$1.7 million.

Director Robert H. Hotz bought 9,000 common shares for \$98,010 and now directly holds 9,000 shares.

Chairman and interim chief executive William Leonard bought 40,000 shares of common stock worth \$436,800 and now directly holds 62,000 shares.

Max L. Lukens, a director who joined the board at Barington's behest, bought 50,000 common shares for \$548,250.

Director Jane Scaccetti bought 2,763 common shares for \$30,310.11.

Pep Boys has about 56.5 million shares outstanding.

Only Mitarotonda returned a call; he said he did not want to discuss the purchases.

Mark LoPresti, an analyst who tracks insider transactions for Thomson Financial, said the recent Pep Boys purchases were the highest level of third-quarter buying in the last five years.

Strong signals

That, along with recent large purchases by investment funds, "signals a strong belief that things are looking better going forward," LoPresti said.

Michael Painchaud, who researches insider transactions at his company, Market Profile Theorems, called the purchases "a positive event for Pep Boys."

"We would rank the company relative to other companies in the top decile in terms of positive insider behavior," he said. On average, companies in that top 10 percent earn about one percentage point more per month than companies in the bottom 10 percent, according to his ranking method.

He cautioned, however, that insider purchases are far from a perfect predictor of stocks that will appreciate.

One analyst said the buy-in was not surprising, given the developments at the firm this summer.

"The fact that you see inside buying, especially, that tells me that management feels there's clear value in the shares," Cid Wilson, an analyst with Kevin Dann & Partners, said.

For insiders and other investors, Wilson said, a few clouds of uncertainty have parted. A new board is in place, apparently averting what could have been a proxy fight; the chief executive who was the focus of some powerful shareholders' ire, Lawrence Stevenson, left the company last month.

Who will be next CEO?

"Now," Wilson said, "we just need to find out who the next CEO's going to be."

Not everyone is high on the company's prospects.

RBC Capital Markets analysts Scot Ciccarelli and Mark Aromando said that Pep Boys was one of the weaker players in the auto-parts business, which has taken some lumps this year - including this month's bankruptcy filing by South River, N.J.-based Strauss Discount Autos.

While a few observers have noted possible overlooked value in Pep Boys-owned real estate sitting beneath more than half the firm's stores, the RBC analysts said: "Mounting losses and negative cash flow have eroded its real estate value... . We believe investors will increasingly value the company on an asset basis, rather than an earnings basis, since earnings have remained elusive."

Ciccarelli said in an e-mail yesterday that despite the apparent vote of confidence from Pep Boys directors, he maintained his "underperform" rating on the firm.

Separately, Pirate Capital L.L.C., with a 9.8 percent stake in Pep Boys, said in a filing it would nominate its founder and managing member, Thomas R. Hudson Jr., to Pep Boys' board at the October shareholders' meeting.

Pirate Capital, a hedge fund, did not return phone calls seeking comment, but it said in its filing the purpose was to "obtain a broader voice... apart from the slate of candidates being proposed by management and the group of investors led by Barington Capital."

Pirate Capital said it had no aspirations to wrest control of Pep Boys from management.