North America Equity Research
02 September 2008

Initiation
Neutral

$71.04
29 August 2008

Joy Global

Initiating with a Neutral Rating

We are initiating coverage of Joy Global with a Neutral rating as uncertainty over the global economy overshadows the recent secular strength of the mining equipment industry. We are cautious in the near term and await better visibility into how the weakening global economy will impact demand for commodities. (Please see our separate mining equipment industry note for more details.) Despite the near-term uncertainty, the company's backlog at 2.2x trailing 12-months sales could provide upside to near-term estimates.

- **Neutral rating given near term macro-driven volatility and potential profit taking.** The stock has pulled back in recent weeks due, we believe, to the growing fears of a global economic slowdown, and is 23% below its 52-week high. It is trading at about 15.5x consensus FY'09 estimate of $4.47 (+35% YoY growth). While we don't expect a global slowdown to have an immediate impact on 2009 earnings, the group should remain volatile for as long as the risks of a global slowdown remain a concern. As such, we are initiating coverage of Joy with a Neutral rating as investors' concerns about a cycle peak likely weigh on the stock. Near-term likely positive catalysts include the Q3 FY'08 earnings release on September 3rd, and its analyst meeting to be held September 23rd at MINExpo.
- **The long-term fundamentals remain strong.** With backlog to trailing 12-month sales at 2.2x, we see little near-term downside risk to JOYG's earnings. The growth in developing countries is a secular trend, and while it may be volatile on a cyclical basis, commodity prices should remain elevated long term, supporting higher levels of equipment demand into at least 2010.
- **However, JOYG has limited margin expansion potential**. Margin expansion opportunity appears limited as JOYG's underground segment is operating at 20% margins and surface is not far behind at 19%. Also, its OE backlog/trailing 12 month sales ratio is at a record 2.2x, suggesting some mix headwinds from accelerating OE sales at lower margin than its aftermarket business. Its current mix is 39% OE and 61% aftermarket, and we expect this to trend to a somewhat more balanced mix through the cycle.

U.S. Machinery

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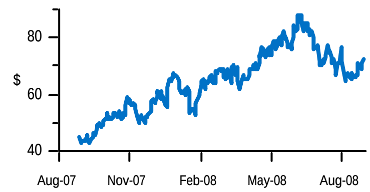
Price Performance



Joy Global (JOYG;JOYG US)

	2008E	2009E	2010E
EPS - Recurring ($)			
Q1 (Jan)	0.65A		
Q2 (Apr)	0.66A		
Q3 (Jul)	0.89		
Q4 (Oct)	1.10		
FY	3.30	4.41	4.64

Source: Company data, Reuters, JPMorgan estimates. EPS before non-recurring items.

Company Data	
Price ($)	71.04
Date Of Price	29 Aug 08
52-week Range ($)	90.00 - 42.10
Mkt Cap ($ mn)	7,741.58
Fiscal Year End	Oct
Shares O/S (mn)	109

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See page 27 for analyst certification and important disclosures.

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Data on cover reflect 8/29/08 close; all other valuation and data reflect 8/28/08 close.

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Key Investment Points

Joy Global (JOYG)

Neutral

To provide context for our rating, please see our mining equipment industry outlook note, *Cyclical Headwinds Mounting, Secular Growth Still Positive,* published today.

Near-term headwinds are mounting

According to the Purchasing Manager's Index, all major indices for orders fell in July (Brazil was the exception) with Western Europe the most dramatic at 45 down from 49.6 in June. Additionally, China's new order index fell to 54.8 in July from 55.2 in June on the back of weakening exports (export index was 47.4 vs. 54.2 in June) and the forced shutdowns ahead of the Olympics. Mounting headwinds around the globe are causing commodity prices to roll over. We expect continued pressure on commodities until there is greater visibility on the impact of a slowdown on demand for commodities.

Long term, the fundamentals remain bright

Since about 70% of JOYG is leveraged to coal, we use the coal industry as a proxy to forecast JOYG's equipment demand. China plans to expand power generation capacity by adding 210 GW by 2010 (a 41% increase in three years, or an incremental ~1 billion tonnes of coal) and 526 GW by 2020 (an additional 70% growth in capacity), which would more than double the country's consumption from 2007. This implies that in order to feed China's growing needs, global coal production will have to grow 40% over the next 12 years, resulting in global demand growth of ~3.9%. While supporting its growth domestically and exporting the excess was the traditional Chinese strategy, the country is now becoming a net importer of coal rather than an exporter. This bodes well for producing countries with reserves, such as the U.S.

Backlog and bookings provide good visibility

Today, JOYG's total backlog stands at $2.3 billion vs. its sales in 2007 of $2.3 billion, providing good visibility for earnings power well into 2009 and 2010. While global economic activity may be slowing, the company has only ever had a handful of orders cancelled. JOYG has backlogs that are nearly equal to or exceed 2007 segment revenues. Last quarter, its surface backlog was $1.1 billion, which matches 2007 surface segment revenue, while underground backlog was $1.2 billion, or 86% of 2007 underground revenue. Bookings for the surface segment were $557 million in Q2 FY'08 and accelerated 101% year over year. Its underground bookings were $559 million, up 24% year over year.

However, JOYG has limited margin expansion potential

In our view, JOYG has limited margin expansion opportunity as its underground segment is operating at 20% margins and surface is not far behind at 19%. Additionally, its OE backlog/trailing 12 month sales ratio is at a record 2.2x, suggesting some mix headwinds from accelerating OE sales at lower margin than its aftermarket business. Its current mix is 39% OE and 61% aftermarket, and we expect this to trend to a somewhat more balanced mix through the cycle.

Well positioned to take advantage of China's expansion and lower costs

We believe JOYG is well positioned to take advantage of the Chinese coal market. Currently, it has ~10% of its sales based in China. JOYG's China strategy is to build capacity locally and to take advantage of both domestic growth opportunities as well as provide it some lower-cost components for use in other regions of the world. The company has already opened up its facility and is producing armored face conveyers on its Tianjin campus for the domestic market. The campus will add more capabilities in the future—a gearing facility in 2008, and a transmissions facility in 2009.

Investment Risks

Key upside risks:
Near-term earnings surprise
The company has strong backlog and bookings in both its surface and underground business that could contribute to positive earnings surprises over the next few quarters. Additionally, its recently closed Continental acquisition could provide EPS upside of $0.12 as management expands its ~12% margin to closer to 17% as accounting charges dissipate. The company will report its Q3 earnings on September 3rd, and we are forecasting EPS of $0.89 versus consensus of $0.88. We would not be surprised to see upward earnings revisions in the near term.

MINExpo could drive news and orders
JOYG will host its analyst day this year at MINExpo on September 23, 2008. MINExpo is held every four years, and this will be the largest MINExpo ever. The conference has been oversubscribed by exhibitors and over 100 companies are on the waiting list. The average order size to come from this show is expected to be $6 million. As a result, news flow from this conference could serve as near term positive catalyst for JOYG, especially since management is also hosting its analyst day.

Key downside risks:
If the industry slows, working capital management may become the biggest risk
We are concerned about what a downturn would do to the company's capital allocation priorities. In Q2'08, 31% of JOYG's asset base or $859 million was tied up in inventory representing 122 DOH. Last cycle, the company had to carry 148 days of inventory at the trough of the cycle. As a result, its cash from operations as a percentage of sales fell to 4%, as the company struggled to liquidate inventories. Although backlogs are still strong, a significant global slowdown could result in weaker demand, particularly for spare parts, which would result in mounting inventories.

Missing CFO is a distraction
On January 22, 2007, the company hired James Woodward to become the new CFO of the organization. After just over a year, Mr. Woodward resigned in March 2008. He was replaced by a board member, Jim Tate, who is now the acting CFO. Although Mr. Tate has worked 18 years with Ernst & Young and was the CFO of Thermadyne Holdings, he is temporary until a permanent replacement can be identified. We believe a missing permanent CFO represents a risk to the company. The longer this position goes unfilled, the more other executives such as the CEO must spend time on CFO's duties, which we believe is a distraction.

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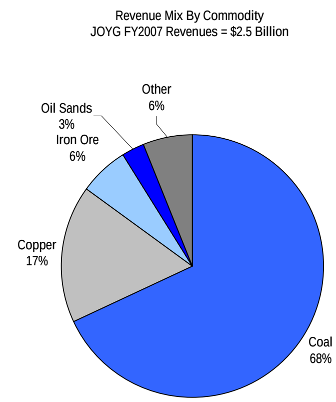
Company Overview

Company Description

Joy Global, Inc., is a global leader in designing, manufacturing, distributing, and selling mining equipment. On June 7, 1999, the company filed for Chapter 11 bankruptcy. As it emerged from its reorganization in July 2001, the company divested papermaking and material handling businesses, and now focuses exclusively on mining equipment. In FY 2007, JOYG generated $2.5 billion of worldwide revenues and $280 million of net income. JOYG is organized into three business segments: (1) Surface machinery under the P&H Mining Equipment brand; (2) Underground machinery under the Joy Mining Machinery brand; and (3) Crushing and conveying machinery under its Continental brand. P&H and Joy Mining represented 56% and 44% of FY2007 revenues, respectively. Continental was purchased in Q2 FY'08 and had $340 million of revenue in 2007. JOYG's fiscal year ends in October.

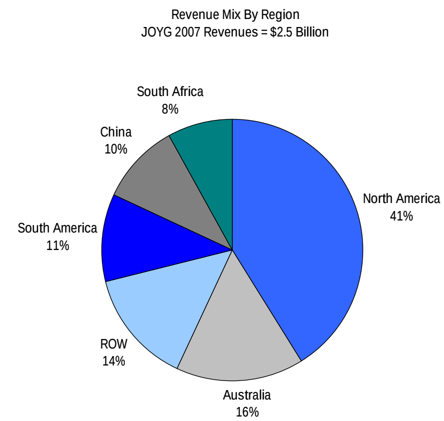
Founded in 1884, Joy Global Inc. is a global mining equipment company that designs, manufactures, distributes, and sells machinery to mining companies throughout the world. Coal is the principal commodity end market, driving 68% of 2007 revenues. Copper places a distant second at 17%, with oil sands, iron ore, and other commodities generating the remainder. JOYG's geographic mix, on the other hand, is more diversified. North America represents about 41% of revenues, while Australia, South America, and China are 16%, 11%, and 10% of revenues, respectively.

Figure 1: Coal and copper represent 85% of revenue...



Source: Company reports and JPMorgan.

Figure 2: ...while geographic mix is diversified.

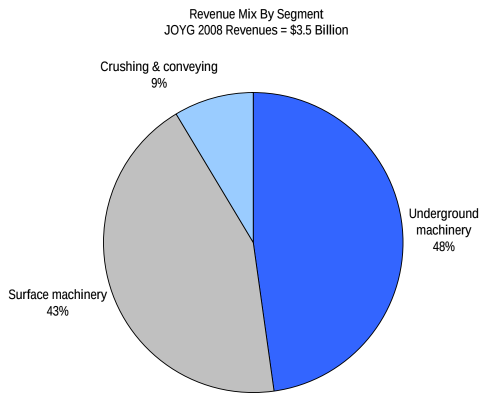


Source: Company reports and JPMorgan.

The company operates three mining machinery segments: surface, underground, and crushing and conveying. In 2007, surface machinery sales represented 44% of sales, while underground machinery sales accounted for 56% of sales. In terms of revenue mix, aftermarket sales were 63% versus 37% of original equipment. The crushing and conveying segment was just recently added given the acquisition of Continental

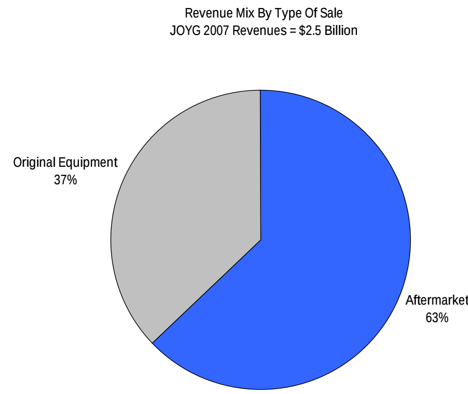
Global for roughly $250 million. Continental's revenues were about $340 million in 2007.

Figure 3: Underground revenue is greater than surface revenue…



Source: Company reports and JPMorgan.

Figure 4: …while aftermarket market sales are greater than OE



Source: Company reports and JPMorgan.

Surface Mining Equipment

JOYG has been in the surface mining equipment business since World War I. Although JOYG was founded in 1884, it entered the surface mining equipment business after World War I concluded. JOYG's engineers manufactured the first gasoline-powered dragline shortly after World War I. The brand name for this division is P&H Mining Equipment, which is short for Alonzo Pawling and Henry Harnischfeger, the two original founders.

The surface mining equipment segment produces three principal products: draglines, electric mining shovels, and rotary blasthole drills. Shovel sales are the key driver of sales as the company is the market leader with roughly 65% of market share. Manufacturing a dragline requires the displacement of about 2.5 shovels of production. It is important to note that the company has not manufactured a dragline in three years (versus BUCY, which is currently manufacturing two draglines). In the table below, we highlight some key characteristics of each machine.

Table 1: Shovels are the primary revenue driver

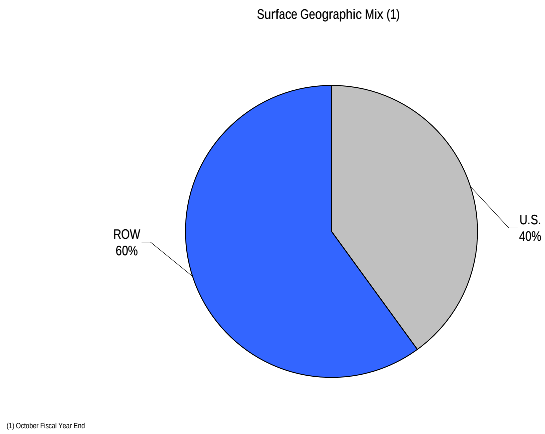
Surface Machinery	Purpose	Price Range	Average Life	Mfg time
Dragline (1)	Remove overburden during coal mining	$100-$180 million	40 years	30 months
Electric Mining Shovel	Load material into trucks	$20-$30 million	20 years	8-10 months
Rotary Blasthole Drill	Drill holes for explosives	$3.5-5.5 million	10 years	N.A.

(1) Capacity for 2.5 shovels can be used for one dragline

Source: Company reports and JPMorgan.

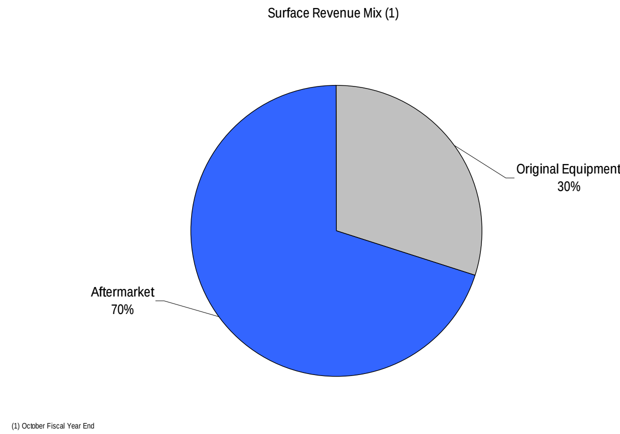
We estimate that in the surface mining equipment segment, ROW sales exceed U.S. sales with 60% of revenues versus the U.S. at 40% and that aftermarket sales represent 70% of sales versus original equipment at 30% of sales.

Figure 5: ROW sales exceeds U.S. sales



Source: Company reports and JPMorgan.

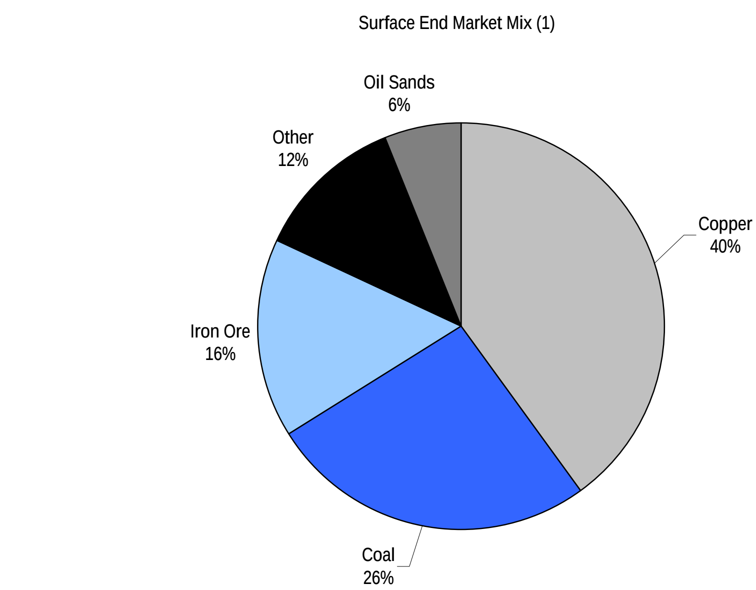
Figure 6: Aftermarket sales exceed OE sales



Source: Company reports and JPMorgan.

JOYG's surface machinery segment is well diversified by application. We believe that copper represents roughly 40% of end market sales, followed by coal at 26%, iron ore at 16%, and oil sands at 6%. We believe the oil sands market represents a significant opportunity going forward.Given the expectation of structurally higher oil prices, we believe that this sector will consume a growing number of electric mining shovels and related equipment (~2 shovels in 2007 versus 8-10 shovels in 2010).

Figure 7: The surface machinery segment is diversified by end market



Source: Company reports and JPMorgan.

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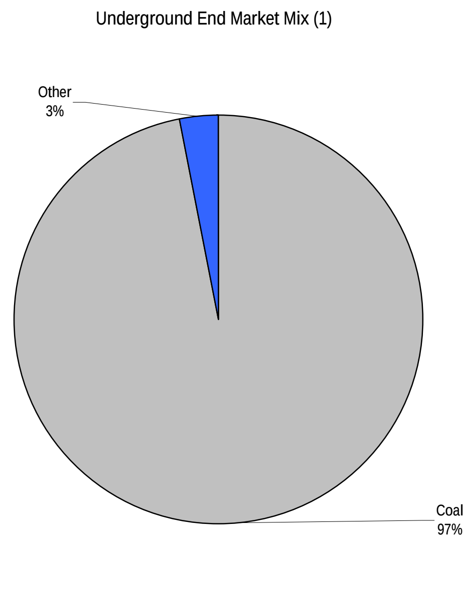
Underground Mining Equipment

JOYG is a leading underground equipment manufacturer. In 1994, the company bought Joy Technologies, which became its underground mining segment. Up to this point, the company had focused its mining machinery efforts exclusively on surface mining. The underground mining division uses the brand name Joy Mining Machinery, and nearly 100% of its equipment is sold into the coal mining industry.

Figure 8: Coal is king in the underground segment



Source: Company reports and JPMorgan.

The company develops machinery for both types of underground mining—room-and-pillar and longwall. Similar to BUCY, its room-and-pillar manufacturing facilities are located in the U.S. close to the eastern coal deposits. The longwall facilities, on the other hand, are located in Europe, where longwall mining is more prevalent. Below, we list the types of equipment that JOYG sells for each specific underground mining technique. We note that underground machines are typically sold as a system given the specific needs of a mine.

Table 2: Underground Machinery

Underground Machinery	Purpose	Price Range	Average Life
Longwall Systems			
Shearer	Carves out material from a long wall	$2-$4 million	5 years
Armored Conveyers	Conveys long wall material	$4-$10 million	5 years
Roof Supports	Supports underground mine ceilings	$15-$45 million	10 years
Room-and-Pillar Systems			
Continuous Miner	Extract coal	$2-4 million	8 years
Hauler	Move material	$0.3-0.8 million	8 years
Belt Systems	Convey material	N.A.	

Source: Company reports and JPMorgan.

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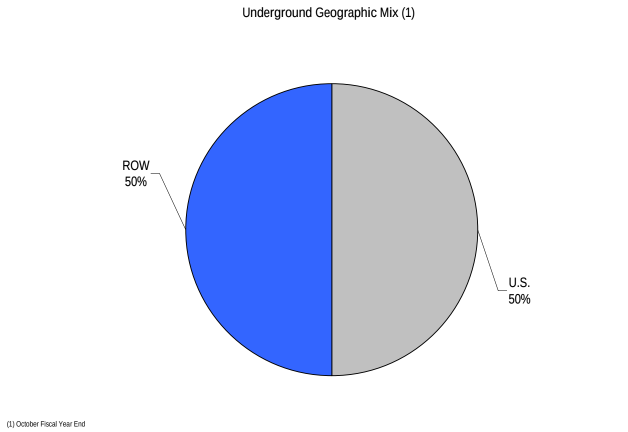
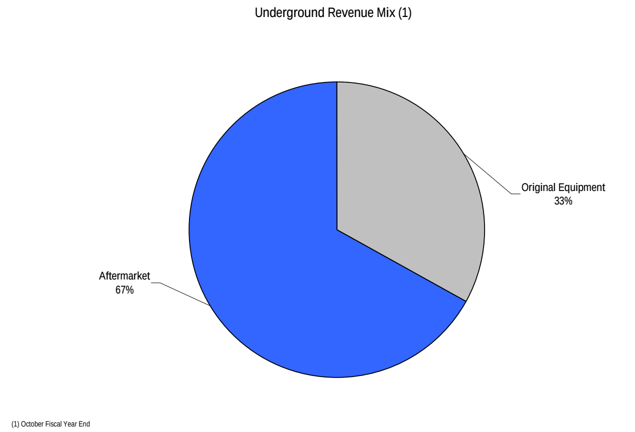
We estimate that JOYG's underground segment is roughly evenly split between ROW and U.S. sales. Original equipment is about one-third of total sales, while aftermarket sales represent the remaining two-thirds.

Figure 9: Underground is evenly split between ROW and U.S. sales



Source: Company reports and JPMorgan.

Figure 10: Aftermarket sales are two-thirds of underground segment



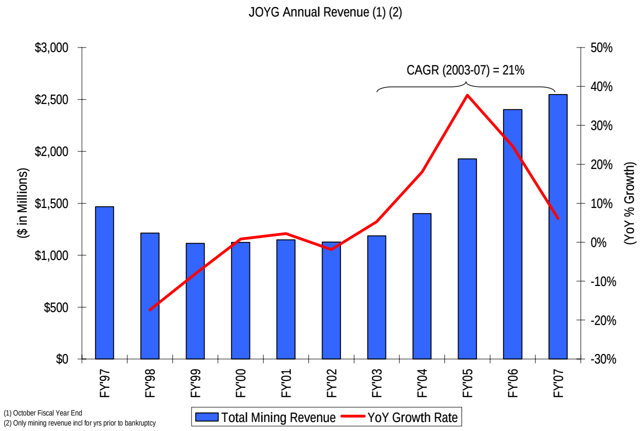
Source: Company reports and JPMorgan.

Financial Performance

Bankruptcy is now far behind the company. In 1999, Harnischfeger Industries declared Chapter 11 bankruptcy. After two years under bankruptcy protection, the company reemerged as Joy Global, Inc., in July 2001. Post bankruptcy, the company had exit financing in place with onerous debt covenants. It has since refinanced its debt several times. Now, seven years later, JOYG is free and clear of its bankruptcy obligations. For example, it has an unsecured revolving credit agreement in place, demonstrating its credit quality. According to Standard & Poor's, JOYG's current credit rating is investment grade at BBB- with a stable outlook.

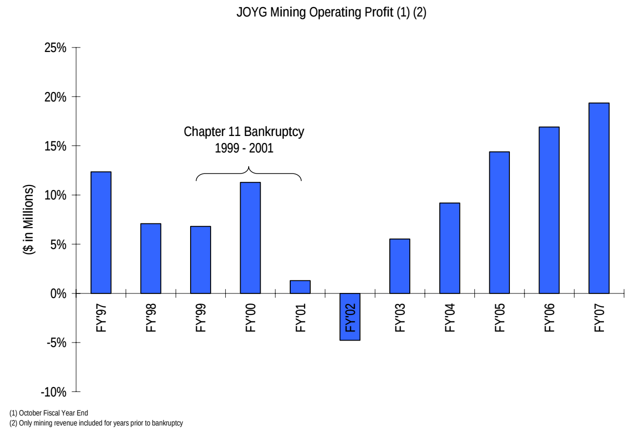
Steady revenue and margin growth since bankruptcy. Post bankruptcy, JOYG has demonstrated strong revenue growth of 21% CAGR since FY 2003 on the back of the current commodity cycle. Gross margins have improved from 24.1% in FY 2003 to 32.5% in FY 2007. Despite rapid inflation of input costs, such as steel, we believe the company will be able to maintain strong gross margins as its customers are benefiting from the rise in steel and other commodity prices. Thus, we believe input cost inflation is not necessarily a large risk to the company's gross margins. Operating margins have also improved dramatically through this cycle, reaching 18.6% in FY 2007 from a loss of -1.3% in FY 2002. As a percentage of sales, SG&A was quite high as JOYG exited bankruptcy at ~19% in FY 2002/03. Since then, it has declined to 14.1% of revenues in FY 2007 on the back of growing sales. SG&A could decline further as a percent of sales as revenue continues to grow through this commodity cycle and input costs increase at a slower pace.

Figure 11: JOYG revenue grew 21% CAGR from FY 2003 to 2007



Source: Company reports and JPMorgan.

Figure 12: Mining operating profit margins are nearly 20%



Source: Company reports and JPMorgan.

Recent acquisition of Continental Global should be synergistic. In Q2 FY'08, JOYG acquired Continental Global, Inc., from NES Group, Inc., for $254 million. Continental is a leading manufacturer of conveying and material handling machinery. In 2007, it generated $340 million in revenues. This acquisition creates a new segment for the company and should result in cost synergies and additional cross-selling opportunities. Mining companies want to extend conveying systems into mines further. JOYG through Continental can take advantage of this trend. The recent acquisition of Continental should contribute to some margin expansion as Continental was generating ~12% and could improve to ~17% over time. In 2009, we are conservatively forecasting 12% operating margins for Continental. If the company were to achieve 17%, we believe this would represent $0.14 of EPS, or earnings upside of ~3%.

Working capital management is a key risk. Manufacturing mining equipment requires a long cash conversion cycle as some machines can take two years to build, resulting in tremendous working capital needs. Between 2002 and 2007, average inventory days-on-hand was 149 days, while average days-sales-outstanding was 58 days. With an average days payables outstanding of 36 days, we calculate an average cash conversion cycle since 2002 of about 172 days, or nearly half a year—a very long cash conversion cycle relative to other machinery names. The working capital needs of this business are significantly higher than other machinery industries with average DOH at 149 days versus the machinery group at ~60 days on oaverage. A substantial amount of material and inventory must be held to manage input costs and ensure delivery of product, and the company holds inventory for maintenance of existing equipment. Customers do make "progress payments" as a way to mitigate some of the investments made by the company. As of the Q2 FY'08 balance sheet, inventory and accounts receivables represented 55% of the entire asset base. With DSOs of 58 days versus DPOs of 36 days, JOYG is effectively funding its suppliers. Any slowdown in demand could have serious consequences to the company's cash position as inventories could be difficult to liquidate and customers slow to pay their bills.

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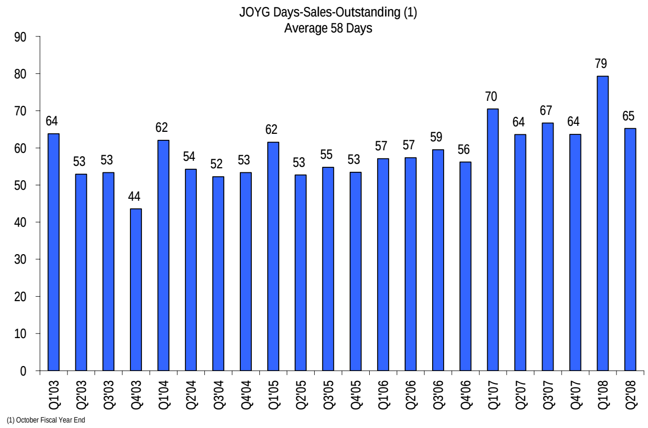
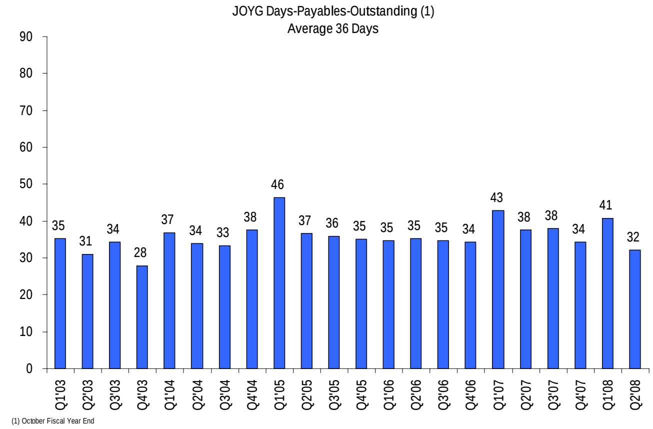
Figure 13: DSOs are seasonal, currently 65 days about the same YoY



Source: Company reports and JPMorgan.

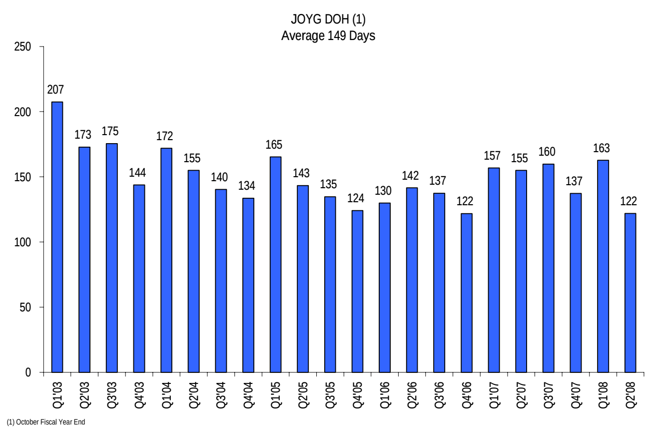
Figure 14: DPOs are currently 32 days, down 6 days YoY



Source: Company reports and JPMorgan.

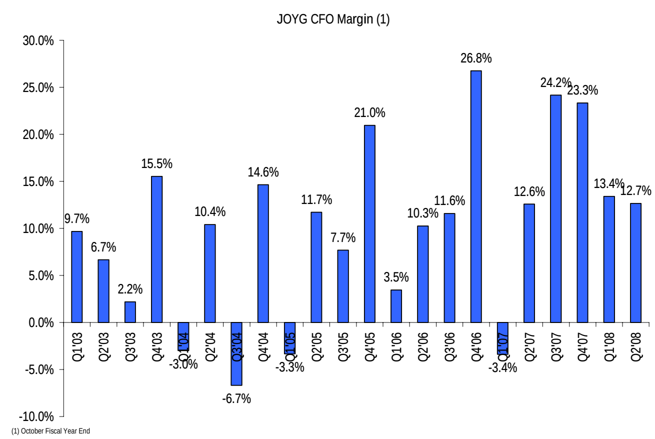
High inventory days on hand. Inventory days on hand (DOH) has averaged 149 days since the company came out of bankruptcy in 2001. In its latest Q2 FY'08, DOH wase 122 days, demonstrating some improvement year over year when it was 155 days. Despite being below the historical average, we are concerned about what a downturn would do to its capital allocation given the amount of capital tied up in inventory. Coming out of the last cycle trough, the company carried 207 days of inventory . As a result, its cash from operations became volatile as it likely liquidated inventories, and its CFO margin reached a low of -6.7% in Q3 FY'04.

Figure 15: Q2'08 inventory days on hand are currently 122 days



Source: Company reports and JPMorgan.

Figure 16: CFO margin is currently 13% vs. -6.7% at recent trough

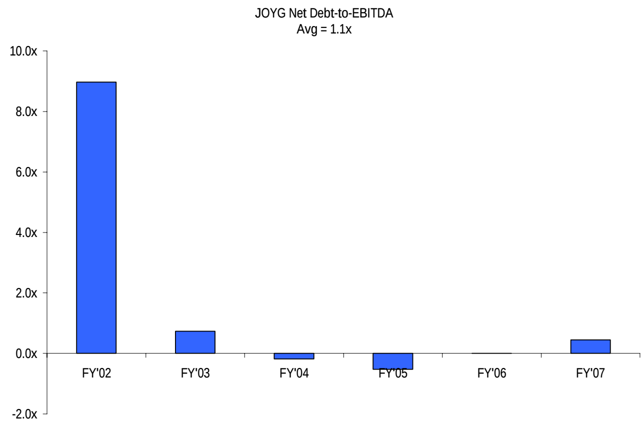


Source: Company reports and JPMorgan.

Although leverage seems high, the company has healthy coverage ratios. JOYG's debt-to-total capital ratio in Q2 FY'08 was 50%. At first blush, this seems quite high. On a net debt-to-total capital basis, the ratio is 30%. In FY 1998, the year prior to Harnischfeger's bankruptcy filing, the company had more than 60% debt-to-capital with operating income of -$300 million and interest expense of $80 million. In FY 2007, interest coverage was about 15x and net debt-to-EBITDA was ~0.5x.

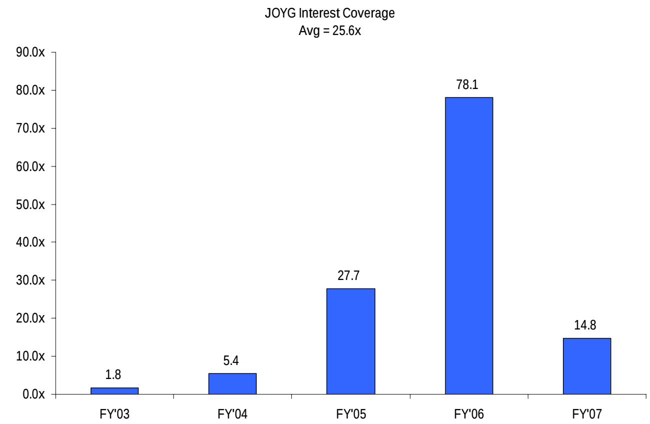
Thus, although JOYG seems highly levered, it actually has the ability to take on more debt at current operating income levels.

Figure 17: Q2'08 net debt-to-EBITDA was 2.7x given Continental acquisition



Source: Company reports and JPMorgan.

Figure 18: Interest coverage ratio in Q2'08 was about13x



Source: Company reports and JPMorgan.

Strong ROE through the cycle despite low asset turnover. Return on equity has improved with the company's growing revenues and increasing margins since bankruptcy. In FY 2003, JOYG's ROE was 5.7% versus 22.9% in FY 2007. The mining manufacturing business is asset intensive—especially in terms of working capital. Inventory turnover for JOYG is at about 2.5x versus a machinery industry average, which is closer to 8.5x. JOYG's current assets represent about 70% of the total asset base. The company had a favorable tax adjustment benefit in FY 2006 that amounted to $111 million, or $0.90 per diluted share in Q3 FY'06. Removing this tax benefit, ROE for FY'06 is closer to 23%.

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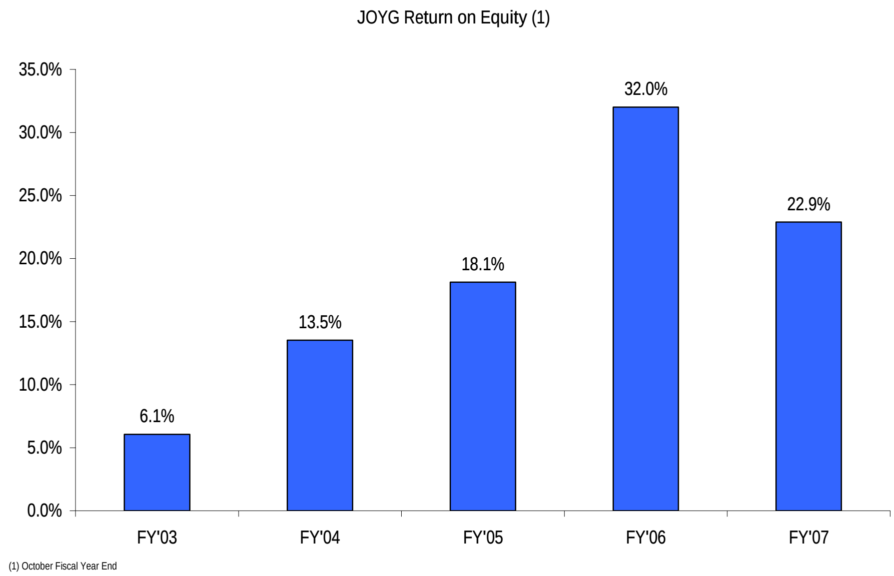
Figure 19: JOYG's ROE has improved since bankruptcy

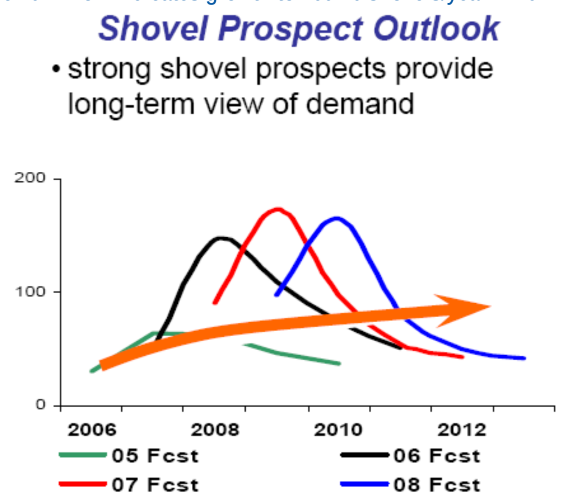


Source: Company reports and JPMorgan.

Surface Equipment Outlook

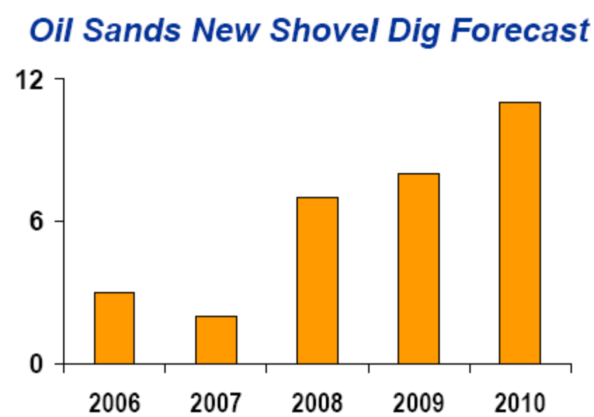
Shovel demand is growing. A couple of years ago, electric mining shovel demand was about 30 to 40 units per year. Given the recent strength in commodities, though, headwinds may be mounting, and total shovel demand is now expected to reach between 60 and 70 units per year. By way of example, shovel demand for oil sands is expected to increase from its 5 to 6 units per year to 8 to 10 units.

Figure 20: Arrow indicates growth to ~60-70 shovels/year in 2012



Source: JOYG.

Figure 21: Oil sands demand for shovels growing



Source: JOYG.

Surface bookings and backlog are accelerating. Bookings and backlog data provide good visibility for sales over the next year or two. In Q2 FY’08, bookings almost doubled year over year from less than $300 million in Q2 FY’07 to ~$550 million. As a result of this acceleration, JOYG’s backlog has been growing steadily, and increased to $1.1 billion in Q2 FY’08 from $670 million in Q2 FY'07 (up 63% year-over-year). We expect about 65% of the $1.1 billion backlog to be shipped over the next 12 months, for about $710 million in OE sales, in line with our forecast.

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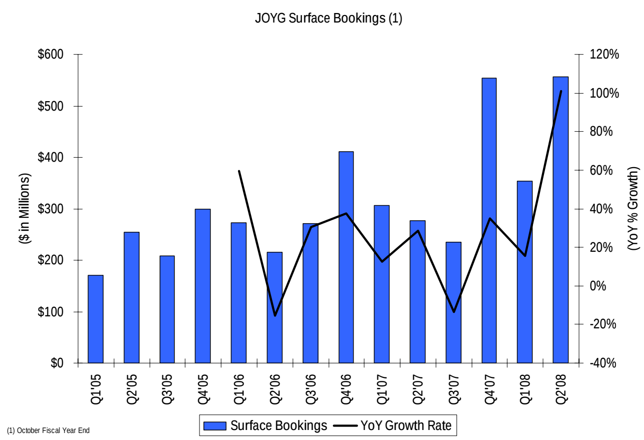
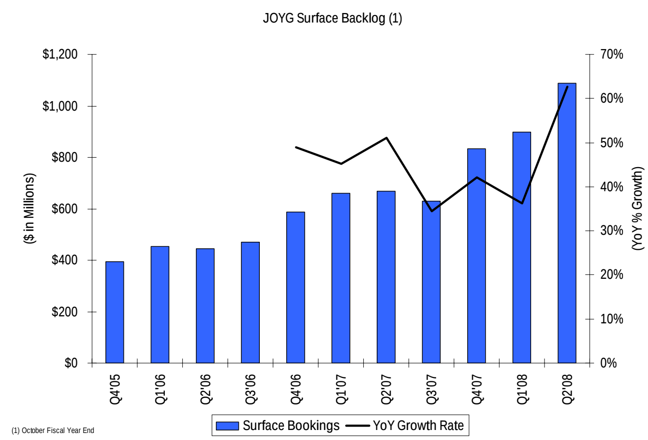
Figure 22: Surface OE bookings are accelerating



Source: Company reports and JPMorgan.

Figure 23: Surface OE backlog is growing steadily

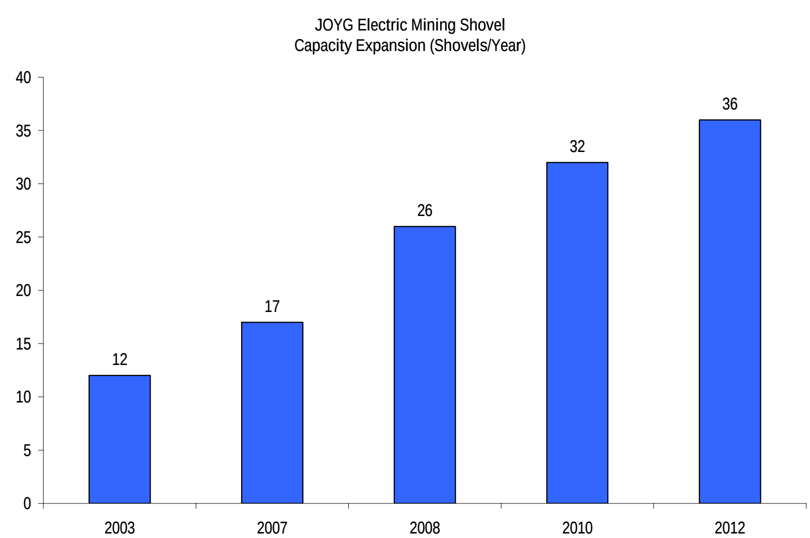


Source: Company reports and JPMorgan.

Surface production slots are being booked into 2011. P&H production slots are currently booked for 2009, substantially taken for 2010, and the company is currently taking orders for 2011. The company recently expanded its shovel production capacity from 12 shovels in 2003, to 17 in 2006, and now to 26 in 2008. Management has guided capacity expansion to 32 shovels in 2010 and 36 by 2012. It also thinks it may be able achieve the 36 shovel capacity before 2012. The company's slide as shown in the exhibit below shows manufacturing capex expansion to be about $50 million in 2008 and $75 million in 2009.

Shovels sell for between $20 and $30 million a unit. OE revenues from shovels should reach $650 million in 2008, $800 million in 2010, and $900 million in 2012, assuming the company can fill its capacity for a CAGR of 8% between 2008 and 2012.

Figure 24: Capacity to manufacture 36 shovels could come before 2012



Source: Company reports and JPMorgan.

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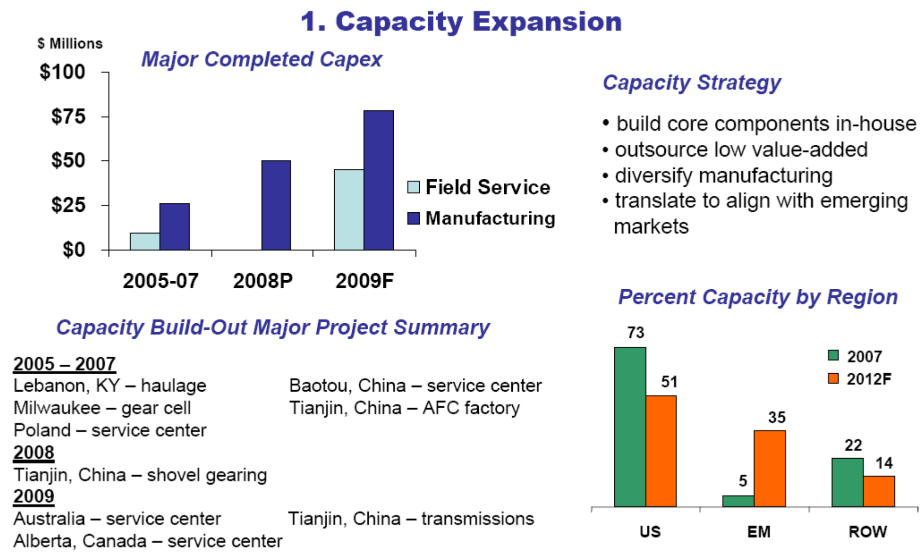
Table 3: JOYG Capacity Expansion Plans



Source: JOYG.

Surface equipment backlog supports revenue and earnings growth. Between 2003 and 2007, JOYG more than doubled its revenues in the surface machinery segment from $500 million to $1.1 billion (21% CAGR). JOYG's surface machinery backlog is currently $1.1 billion, which matches FY'07 surface machinery revenue. We forecast revenue to reach $1.5 billion (+32% YoY) in FY 2008 and, ultimately, $1.7 billion in FY 2011, equaling CAGR of 11% between 2007 and 2011.

Operating profit expansion opportunity limited in Surface. In 2007, JOYG's surface business recorded $218 million in surface machinery operating profit or a margin of +19.4%. Between 2003 and 2007, the company grew operating profit at a 68% CAGR, versus revenue CAGR of 23%, showing strong incremental margins going through this cycle. We expect operating margins to fall as revenue mix shifts to more original equipment sales as capacity expansion comes on line. We currently forecast operating profit of $253 million in 2008 or 17.0% margin (2008 margins are lower than last year's 19% because in Q2 FY'08 the company cancelled a maintenance and repair contract that resulted in a $21 million one-time charge). In 2011, we project $310 million at a 17.5% margin for a 2007-2011 CAGR of 9%.

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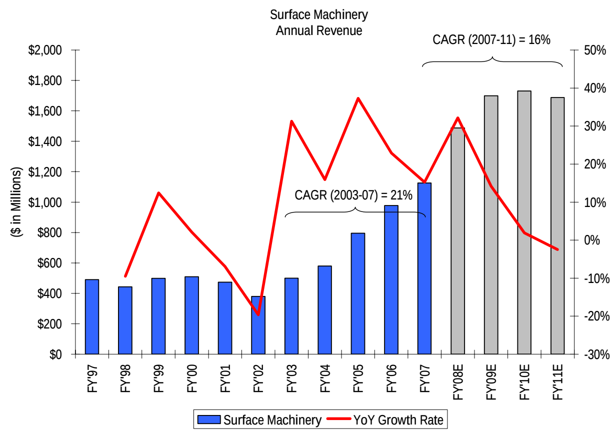
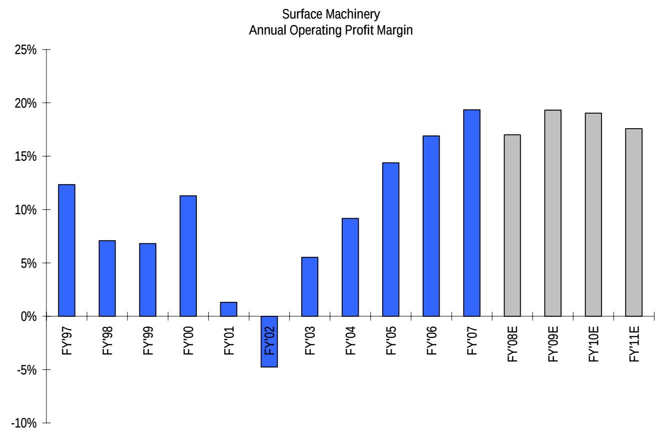
Figure 25: We forecast Surface revenue to grow 16% CAGR through 2011



Source: Company reports and JPMorgan estimates.

Figure 26: Surface EBIT margins to trend down given greater OE mix

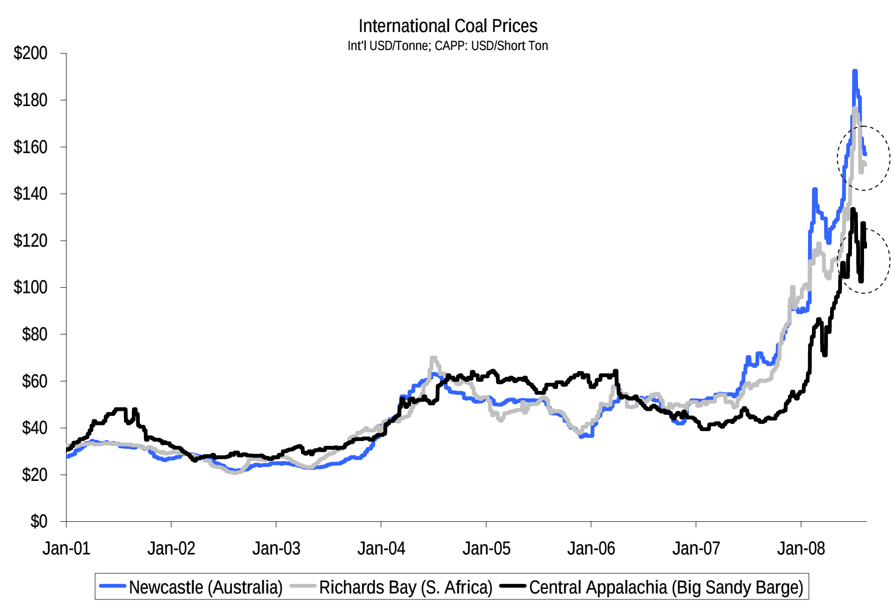


Source: Company reports and JPMorgan estimates.

Underground Equipment Outlook

Underground equipment sales are driven by coal mining. Although coal prices have pulled back, coal contract prices remain elevated, despite increasing headwinds, as tremendous demand coming from China and other emerging markets are supporting prices. However, coal consumption could slow if we see a global slowdown.

Figure 27: As of 8/21/08, coal prices had pulled back between 11 and 15%



Source: Bloomberg and JPMorgan.

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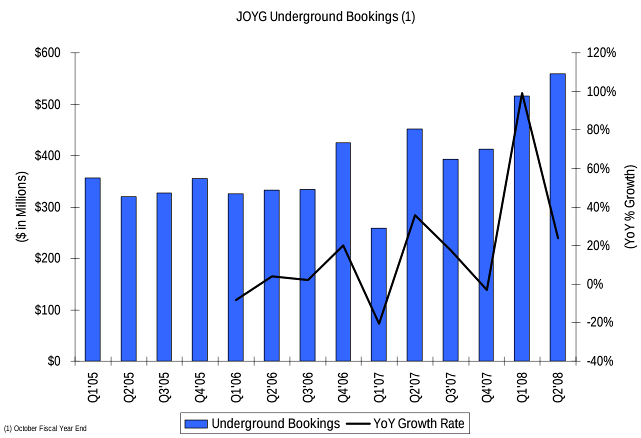
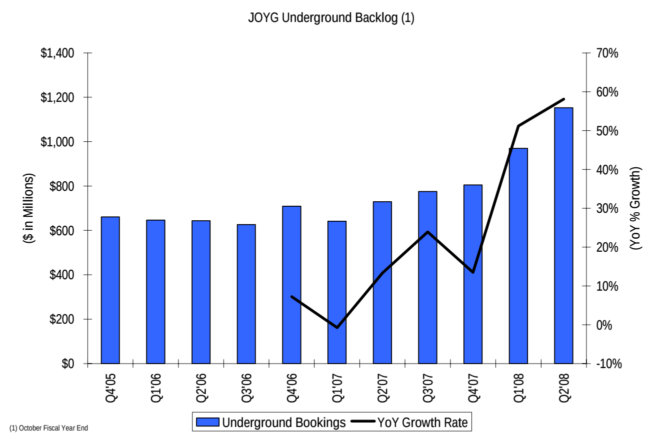
Underground bookings and backlog are accelerating. On the back of still-elevated coal prices and compelling mining economics, JOYG is seeing strong equipment bookings steadily added to its backlog. Currently, production slots for JOYG's underground mining equipment are sold out through 2010, and the company is now beginning to take orders for 2011 slots. We expect about 90% of the $1.2 billion backlog, or about $1.0 billion in OE sales over the next 12 months.

Figure 28: Underground OE bookings continue to grow



Source: Company reports and JPMorgan.

Figure 29: Underground OE backlog is growing steadily

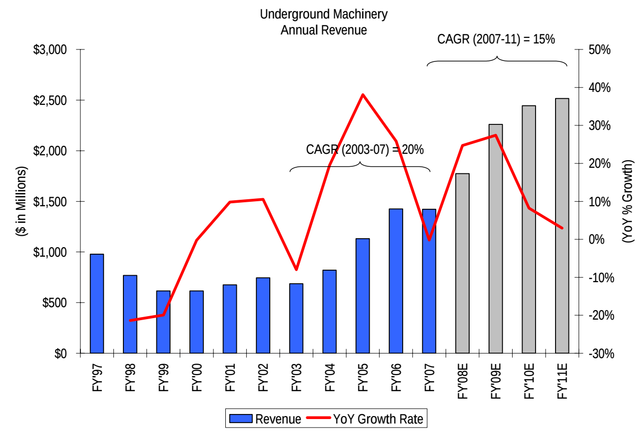


Source: Company reports and JPMorgan.

The outlook for underground revenue over the next year remains robust. In FY 2007, the underground segment generated $1.4 billion in revenue. Since then, the underground segment has seen its backlog grow to $1.2 billion as of Q2 FY'08, which is just shy of its FY 2007 revenue. We currently forecast underground revenue to reach $1.8 billion (+25% YoY) in 2008 and, ultimately, $2.3 billion in 2011 at a CAGR of 12% between 2007 and 2011.

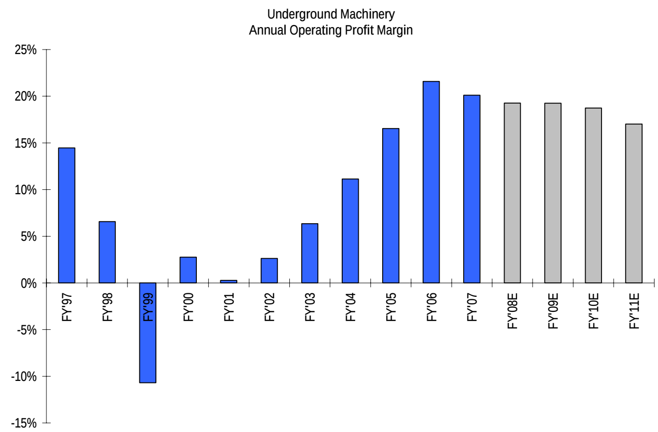
In 2007, JOYG's underground business recorded $286 million in operating profit, or a margin of +20.1% YoY. Between 2003 and 2007, the company grew underground operating profit at a 60% CAGR, versus underground revenue CAGR of 20%, showing strong incrementals going through this cycle. We currently forecast operating profit of $342 million in 2008, or 19.3% margin, and $393 million in 2011 (2007-2011 CAGR of 8%), or 17% margin, as we expect the revenue mix to shift to more OE sales.

Figure 30 Underground revenue forecast to grow at a 15% CAGR



Source: Company reports and JPMorgan estimates.

Figure 31: Underground operating margins should remain elevated



Source: Company reports and JPMorgan estimates.

China Strategy

JOYG's China strategy is to develop local, brick-and-mortar capacity. The company's approach to China is to build capacity locally in an effort to take advantage of lower production costs and to increase domestic China sales. It opened the first phase of its Tianjin manufacturing campus in May 2007, which has been producing armored face conveyors for over a year, and is housed in a 64,000 square foot facility. The second phase will begin producing shovel gearings in 2008 in a 130,000 sq foot facility. Management expects the capacity to come on line this summer and to reach full production during H1 FY'09. The company expects the final manufacturing facility, which will add 150,000 of square footage in Tianjin, to focus on transmissions to come on line in mid-2010.

Its physical presence in the country should also help it take advantage of the rapidly growing domestic market. China's goal for its mining industry is to improve its productivity and safety. Chinese mines have not been designed with the latest mining development techniques, and it is often difficult to use the best, most productive machines. Additionally, China thinks of its mining industry as a national industry that should be protected. As such, China has placed duties on imported equipment of somewhere between 20% and 40%, making it expensive for international equipment manufacturers to sell into China's market. Local manufacturing capacity provides access to the domestic market.

Earnings and Cash Flow Outlook

EPS growth will likely continue

We are forecasting JOYG's revenue to grow at a 16% CAGR between FY 2007 and 2011 on the back of its strong backlog and improving capacity. Having said this, we are forecasting earnings to grow modestly below revenue as over the next few years, we believe that the aftermarket business may see slowing demand, if the current

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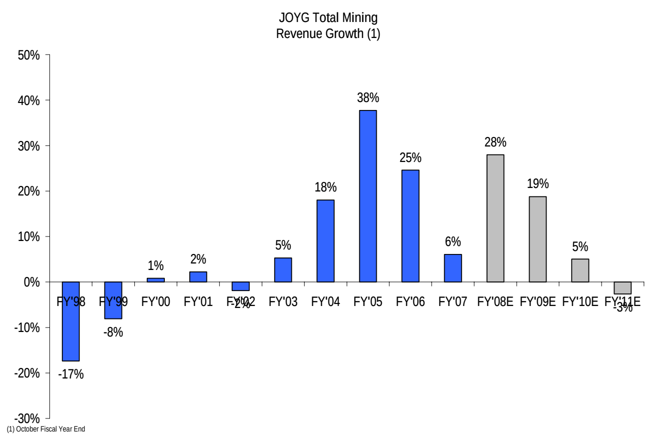
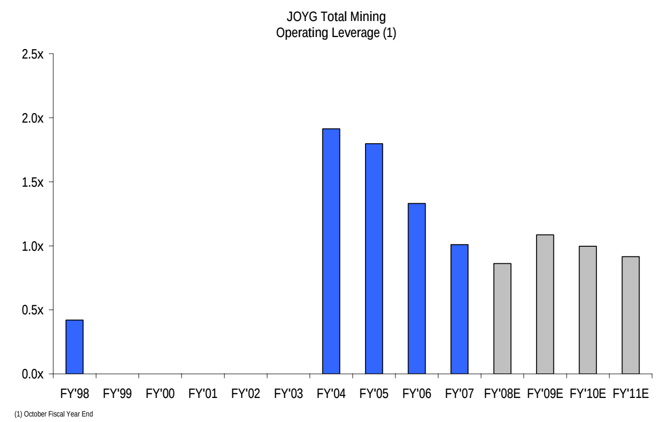
global slowdown continues, and as JOYG's OE mix is likely to grow. China's slowing export demand is likely the latest sign of weakness, on top of weakening fundamentals in Europe and continued weakness in NA. As the cycle progresses, we also forecast a slowdown in operating leverage from a peak of 2.0x in FY'04 closer to 1.0x going forward. We are forecasting EPS growth of 15% CAGR from FY 2007 to 2011 and our peak EPS in 2010 is $4.71 versus consensus of $5.33.

Figure 32: Total revenue growth forecast +14% CAGR 2007-2011



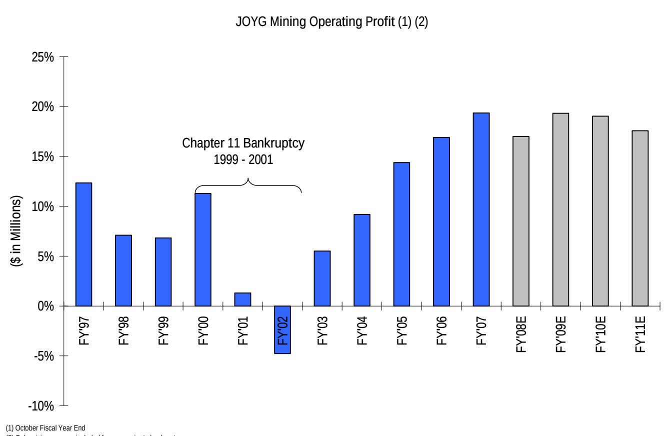
Source: Company reports and JPMorgan.

Figure 33: Operating leverage should remain close to ~1.0x as cycle matures



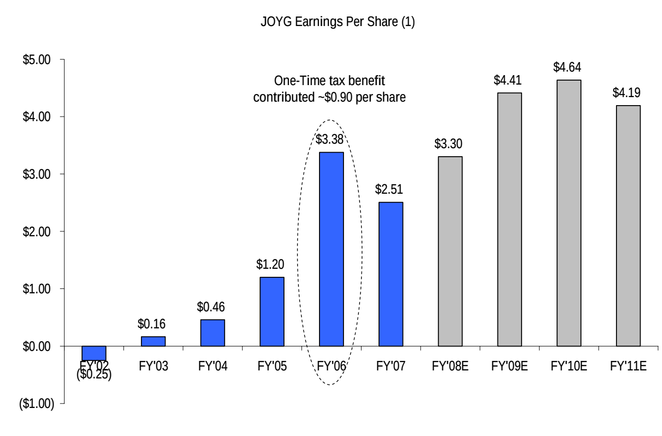
Source: Company reports and JPMorgan.

Figure 34: EBIT margin to 16% as revenue mix shifts to aftermarket



Source: Company reports and JPMorgan.

Figure 35: EPS forecast to grow +14% CAGR 2007-2011



Source: Company reports and JPMorgan.

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Table 4: JOYG Annual Earnings Summary

Joy Global, Inc. *US $ in millions (except per share data)*	**FY'03** *Oct-03*	**FY'04** *Oct-04*	**FY'05** *Oct-05*	**FY'06** *Oct-06*	**FY'07** *Oct-07*	**FY'08E** *Oct-08*	**FY'09E** *Oct-09*	**FY'10E** *Oct-10*	**FY'11E** *Oct-11*
Sales	1,186	1,399	1,927	2,402	2,547	3,475	4,200	4,434	4,326
Sales growth		*18.0%*	*37.7%*	*24.6%*	*6.1%*	*36.4%*	*20.9%*	*5.6%*	*-2.4%*
EBIT	48	108	267	442	473	557	731	769	687
EBIT margin									
Interest expense	(27)	(20)	(10)	(6)	(32)	(27)	(21)	(21)	(19)
Pretax Income	28	95	227	450	449	539	725	755	675
Effective tax rate									
EPS, fully diluted	**0.16**	**0.46**	**1.20**	**3.38**	**2.51**	**3.30**	**4.41**	**4.64**	**4.19**
EPS growth		*178.7%*	*160.9%*	*181.6%*	*-25.8%*	*31.7%*	*33.7%*	*5.1%*	*-9.6%*

Source: Company reports and JPMorgan estimates.

Free cash flows. We expect JOYG to generate roughly $350 million in FCF each of the next two years. However, we believe working capital management will be a key 'watch out' if aftermarket business slows.

Table 5: JOYG Annual Free Cash Flow Summary

Joy Global, Inc. *US $ in millions (except per share data)*	**FY'03** *Oct-03*	**FY'04** *Oct-04*	**FY'05** *Oct-05*	**FY'06** *Oct-06*	**FY'07** *Oct-07*	**FY'08E** *Oct-08*	**FY'09E** *Oct-09*	**FY'10E** *Oct-10*	**FY'11E** *Oct-11*
EBIT	48	108	267	442	473	557	731	769	687
Effective tax rate	*33.5%*	*41.5%*	*35.4%*	*7.9%*	*37.7%*	*33.4%*	*34.0%*	*34.0%*	*34.0%*
EBIT, tax adjusted	32	63	172	408	295	371	483	508	454
Depreciation and amortization	53	46	42	41	49	92	111	117	114
Capex	(28)	(19)	(39)	(49)	(51)	(122)	(147)	(133)	(112)
Change in working capital	40	31	(51)	(105)	(54)	8	(82)	(65)	8
FCFF	**97**	**121**	**125**	**295**	**238**	**348**	**365**	**427**	**463**

Source: Company reports and JPMorgan estimates.

2008 Guidance. In its most recent earnings release, JOYG increased guidance for both revenue and EPS. Revenue increased to a range of $3.3 to $3.4 billion (mp $3.35 billion) from a mp of $3.2 billion, while EPS increased to a range of $3.15 to $3.30 (mp $3.23) from a mp of $3.09. We are forecasting revenues of $3.48 billion and EPS of $3.30.

Table 6: FY 2008 Guidance

FY'08 Guidance	**Q4 FY'07 Outlook**	**Q1 FY'08 Outlook**	**5/6/08 Update**	**Q2 FY'08 Outlook**	**Q3 FY'08 Outlook**	**JPM Forecast**
Revenue	$2.8-$3.0 B (mp $2.9 B)	$3.1-$3.3 B (mp $3.2 B)	$3.1-$3.3 B (mp $3.2 B)	$3.3-$3.4 B (mp $3.35)		$3.48
Tax	34%	34%		< 33.5% for		33.4%
CapEx		3.5-4.5% over next few years		3.5-4.5% over next few years		3.5%
Operating earnings	$525-$565MM (mp $545MM)	$545-$585MM (mp $565MM)				$557
FCF				$300-$400MM (mp: $350MM)		$348
EPS	**$3.10-$3.35 (mp $3.18), $0.08 from share repurchase)**	**$3.15-$3.45 (mp $3.30)**	**$2.96-$3.22 (mp $3.09)**	**$3.15-$3.30 (mp $3.23)**		**$3.30**

Source: Company reports and JPMorgan.

Valuation

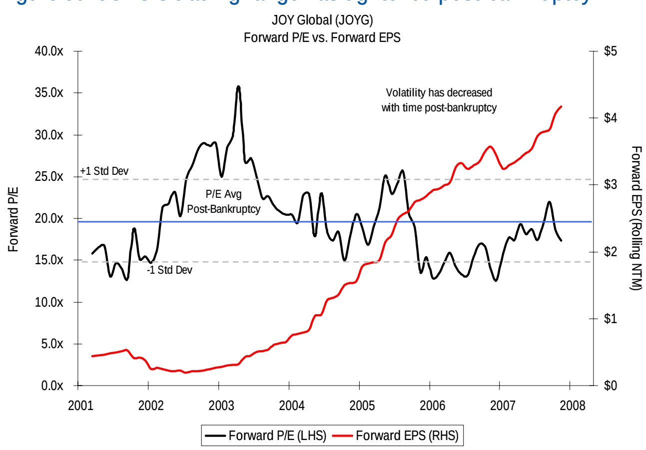
Initiating with a Neutral Rating

As of 8/28/08, JOYG is up +10% year-to-date versus the S&P Machinery sector down -11%. We are initiating with a Neutral rating on JOYG and currently forecast 2009 EPS of $4.41 versus consensus of $4.47.

Historical Valuation

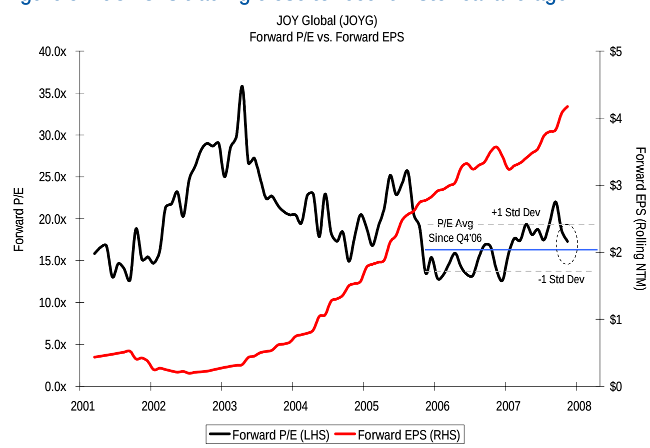
As JOYG came out of bankruptcy in 2001, the stock traded within a P/E range of 12x and 35x for the first few years. The stock's volatility, however, has decreased over time and peaked at ~26x in 2005 and more recently at 23x. The historical P/E average since the company reemerged from bankruptcy has been ~20x with a standard deviation of ~5x. We believe the trading range has tightened over the past few years and a more appropriate P/E average is ~16x its forward earnings. Until there is visibility into how a global slowdown will affect China and other emerging markets, we think JOYG is currently fairly valued, as it is trading close to its recent historical average P/E of 17.3x.

Figure 36: JOYG's trading range has tightened post-bankruptcy



Source: FactSet and JPMorgan.

Figure 37: JOYG is trading close to recent historical average



Source: FactSet and JPMorgan.

Peer Group Valuation

Since there are only two pure play mining equipment companies, we include other machinery companies in our peer group, such as CAT, MTW, and TEX. Although CAT has about 20% of its global revenue exposed to global mining, other fundamental drivers, such as construction, impact its valuation.

On 8/28/08, JOYG closed at $72.34 and is up +10% year-to-date versus the S&P Machinery sector down -11%. In the table below, we use I/B/E/S consensus for all forward estimates. The company has a P/E of 20.8x 2008E consensus EPS and 15.7x 2009E consensus EPS. This compares to its peer group P/E of 14.0x 2008E EPS and 11.4x 2009E EPS and to the S&P Machinery sector 12.6x 2008E EPS and 11.2x 2009E EPS.

On an EV/EBITDA basis, JOYG currently trades at 13.8x, compared to the peer group average of 9.5x and S&P Machinery sector of 7.7x. As for net debt-to-total capital, JOYG is at 30% versus the group average of 19% and the average in the S&P Machinery sector of 18%.

Table 7: Mining Equipment Comp Table

Company Name	Ticker	Rating	Current Price 8/28/08	Year High	Year Low	% Year High	Calendar EPS>>> 2007	2008E	2009E	P/E>>> 2008E	2009E	EPS Growth 2008E	2009E	EV/ EBITDA LTM	Market Cap. $ Mil.	EBITDA Margin	N Debt/ Cap[4]	Inv Turn	2007 Share Return	'08 YTD Share Return	Weekly Share Return
Summary -- Group Averages																					
S&P 500	**SPX**		**$ 1,301**	**$ 1,576**	**$ 1,200**	**83%**	**$85.12**	**$91.01**	**$96.92**	**14.3**	**13.4**	**7%**	**6%**						**3.5%**	**-12.7%**	**1.8%**
S&P 400 Mid-Caps	**MID**		**$ 825**	**$ 924**	**$ 731**	**89%**	**$ 45.80**	**$ 50.73**	**$ 61.45**	**16.3**	**13.4**	**11%**	**21%**						**6.7%**	**-5.4%**	**2.2%**
S&P 600 Small-Caps	**SMLK**		**$ 391**	**$ 445**	**$ 340**	**88%**	**$ 20.24**	**$ 21.54**	**$ 27.10**	**18.2**	**14.4**	**6%**	**26%**						**-1.2%**	**-2.6%**	**2.7%**
S&P Machinery Sector						**79%**				**12.6**	**11.2**	**18%**	**12%**	**7.7**	**$14,847**	**20.9%**	**18%**	**8.5x**	**30.9%**	**-10.9%**	**-0.3%**
Mining Equipment Related Companies																					
Bucyrus International Inc.	BUCY	Neutral	$70.68	$79.50	$29.63	89%	$1.93	$3.10	$4.13	22.8	17.1	61%	33%	16.4	$5,292	16.2%	30%	3.1x	92%	42%	6%
Joy Global Inc.	JOYG	Neutral	$72.34	$90.00	$42.10	80%	$2.77	$3.48	$4.61	20.8	15.7	26%	32%	13.8	$7,831	20.6%	30%	2.5x	36%	10%	6%
Caterpillar Inc.	CAT	Neutral	$71.68	$85.96	$59.60	83%	$5.37	$6.07	$6.68	11.8	10.7	13%	10%	8.2	$43,633	18.0%	27%	4.7x	18%	-1%	1%
Terex Corp.	TEX	Not Rated	$50.40	$91.21	$41.55	55%	$5.95	$7.08	$7.48	7.1	6.7	19%	6%	4.5	$4,969	12.3%	22%	3.6x	2%	-23%	0%
Manitowoc Co.	MTW	N/A	$25.61	$51.49	$22.40	50%	$2.68	$3.45	$3.84	7.4	6.7	29%	11%	4.5	$3,336	15.5%	-13%	4.9x	64%	-48%	4%
Average						**72%**				**14.0**	**11.4**	**30%**	**19%**	**9.5**	**$13,012**	**16.5%**	**19%**	**3.7x**	**42%**	**-4%**	**3%**
Sector Min / Max										**7/23**	**7/17**	**13/61**	**6/33**	**4/16**		**12/21**					
U.S. Coal Companies																					
Arch Coal Inc.	ACI	Neutral	$55.40	$77.40	$28.59	72%	$1.21	$2.76	$6.36	20.1	8.7	128%	130%	15.5	$7,977	22.1%	44%	13.3x	50%	23%	6%
Peabody Energy Corp.	BTU	Neutral	$65.07	$88.69	$37.88	73%	$1.56	$2.83	$6.27	23.0	10.4	81%	122%	19.4	$17,691	23.0%	53%	14.1x	63%	6%	1%
Consol Energy Inc.	CNX	Overweight	$68.21	$119.10	$38.54	57%	$1.45	$2.71	$7.91	25.2	8.6	87%	192%	17.4	$12,493	20.8%	35%	19.9x	123%	-5%	2%
International Coal Group Inc.	ICO	Neutral	$10.55	$13.90	$3.82	76%	($0.23)	$0.03	$0.98	395.6	10.8	112%	3567%	19.0	$1,616	10.6%	40%	19.7x	-2%	97%	6%
Massey Energy Co.	MEE	Overweight	$66.63	$95.70	$19.01	70%	$1.15	$3.53	$6.99	18.9	9.5	207%	98%	12.6	$5,381	18.4%	47%	12.3x	54%	86%	4%
Alpha Natural Resources Inc.	ANR	Not Rated	$99.17	$119.30	$17.51	83%	$0.43	$3.25	$13.40	30.5	7.4	657%	312%	19.7	$6,990	16.8%	17%	25.2x	128%	205%	9%
Foundation Coal Holdings Inc.	FCL	Not Rated	$60.49	$89.72	$32.65	67%	$0.88	$1.12	$6.18	53.8	9.8	28%	450%	12.4	$2,758	17.6%	60%	33.5x	65%	15%	4%
James River Coal Co.	JRCC	Not Rated	$42.18	$62.83	$3.71	67%	($3.29)	($2.20)	$7.28	(19.2)	5.8	33%	432%	142.5	$1,076	1.9%	67%	33.7x	20%	277%	-2%
Fording Canadian Coal Trust	FDG	Not Rated	$88.81	$96.00	$30.02	93%	$2.04	$8.65	$13.81	10.3	6.4	324%	60%	20.5	$13,224	36.6%	14%	8.4x	86%	130%	1%
Alliance Resource Partners L.P.	ARLP	Not Rated	$46.41	$58.00	$32.00	80%	$3.78	$2.93	$6.47	15.8	7.2	-22%	120%	7.2	$1,699	23.1%	30%	33.8x	5%	28%	-3%
Patriot Coal Corp.	PCX	Not Rated	$59.77	$82.23	$13.54	73%	($0.40)	$1.10	$6.68	54.5	8.9	374%	509%	157.7	$3,199	2.0%	26%	31.5x		186%	5%
Average						**74%**				**28.0**	**8.6**	**153%**	**263%**	**31.0**	**$6,149**	**17.2%**	**39%**	**22.6x**	**58%**	**86%**	**3%**
Sector Min / Max										**-19/396**	**6/11**	**-22/657**	**60/3567**	**7/158**		**2/37**					
S&P Machinery Sector																					
Caterpillar Inc.	CAT	Neutral	$71.68	$85.96	$59.60	$0.83	$5.37	$6.07	$6.68	11.8	10.7	13%	10%	8.2	$43,633	18.0%	27%	6.4x	18%	-1%	1%
Manitowoc Co.	MTW	N/A	$25.61	$51.49	$22.40	$0.50	$2.68	$3.45	$3.84	7.4	6.7	29%	11%	4.5	$3,336	15.5%	-13%	6.4x	64%	-48%	4%
Cummins Inc.	CMI	Neutral	$67.37	$75.98	$38.11	$0.89	$3.70	$4.92	$5.98	13.7	11.3	33%	21%	7.4	$13,218	12.5%	1%	8.0x	116%	6%	-4%
Danaher Corp.	DHR	Overweight	$81.99	$89.22	$67.76	$0.92	$3.83	$4.39	$4.95	18.7	16.6	15%	13%	12.7	$26,150	18.6%	22%	10.4x	21%	-7%	-1%
Deere & Co.	DE	Overweight	$71.01	$94.89	$60.99	$0.75	$4.01	$5.09	$6.16	14.0	11.5	27%	21%	9.9	$30,602	19.0%	0%	8.5x	96%	-24%	2%
Dover Corp.	DOV	Neutral	$49.96	$54.57	$33.54	$0.92	$3.22	$3.68	$3.99	13.6	12.5	14%	8%	7.7	$9,385	18.7%	29%	10.5x	-6%	8%	-2%
Eaton Corp.	ETN	Overweight	$73.75	$101.82	$66.27	$0.72	$6.90	$7.75	$8.63	9.5	8.5	12%	11%	7.6	$12,257	14.7%	35%	9.0x	29%	-24%	0%
Illinois Tool Works Inc.	ITW	Neutral	$49.81	$60.00	$44.06	$0.83	$3.36	$3.67	$3.98	13.6	12.5	9%	9%	9.2	$25,870	18.0%	19%	9.8x	16%	-7%	2%
Ingersoll-Rand Co. Ltd.	IR	Neutral	$37.49	$55.94	$33.56	$0.67	$3.58	$3.82	$4.31	9.8	8.7	7%	13%	11.0	$11,941	15.9%	32%	7.2x	19%	-19%	-3%
ITT Corp.	ITT	Underweight	$64.98	$69.96	$50.94	$0.93	$3.53	$4.18	$4.68	15.5	13.9	18%	12%	8.9	$11,806	14.0%	24%	12.6x	16%	-2%	-1%
Paccar Inc.	PCAR	Overweight	$44.14	$61.05	$38.71	$0.72	$3.29	$3.41	$4.12	12.9	10.7	4%	21%	9.9	$16,040	14.5%	-44%	21.4x	26%	-19%	-3%
Pall Corp.	PLL	Neutral	$41.52	$44.55	$33.37	$0.93	$1.48	$2.08	$2.37	19.9	17.5	41%	14%	3.0	$5,024	71.8%	24%	5.0x	17%	3%	0%
Parker Hannifin Corp.	PH	Neutral	$65.01	$86.91	$58.10	$0.75	$4.67	$5.75	$6.15	11.3	10.6	23%	7%	1.1	$10,904	91.1%	25%	8.5x	47%	-14%	1%
Terex Corp.	TEX	Not Rated	$50.40	$91.21	$41.55	$0.55	$5.95	$7.08	$7.48	7.1	6.7	19%	6%	4.6	$4,969	12.3%	22%	4.5x	2%	-23%	0%
Average (w/o min/max)						**79%**				**12.6**	**11.2**	**18%**	**12%**	**7.7**	**$14,847**	**20.9%**	**18%**	**8.5x**	**31%**	**-11%**	**0%**
Sector Min / Max										**7/20**	**7/18**	**4/41**	**6/21**	**1/13**		**12/91**					

Source: I/B/E/S, FactSet, JPMorgan. JPMorgan ratings: OW = Overweight; N = Neutral; UW = Underweight

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Company Model

Table 8: Income Statement

Joy Global, Inc. US $ in millions (except per share data)	FY'07 Oct-07	Q1'08 Jan-08	Q2'08 Apr-08	Q3'08E Jul-08	Q4'08E Oct-08	FY'08E Oct-08	FY'09E Oct-09	FY'10E Oct-10	FY'11E Oct-11
Revenue by Segment									
Underground machinery	1,422	351	406	484	533	1,773	2,174	2,337	2,272
Surface machinery	1,126	289	365	372	461	1,488	1,698	1,731	1,688
Crushing & conveying		0	95	90	95	280	427	478	478
Eliminations		0	(22)	(21)	(22)	(66)	(100)	(112)	(112)
Total revenue	**2,547**	**640**	**843**	**925**	**1,067**	**3,475**	**4,200**	**4,434**	**4,326**
Growth -- YoY									
Underground machinery	-0.2%	7.3%	11.7%	39.4%	38.7%	24.7%	22.6%	7.5%	-2.8%
Surface machinery	15.2%	24.0%	37.1%	35.5%	31.2%	32.2%	14.2%	1.9%	-2.5%
Crushing & conveying							52.4%	12.0%	0.0%
Total revenue growth -- YoY	**6.1%**	**14.2%**	**34.0%**	**48.7%**	**45.0%**	**36.4%**	**20.9%**	**5.6%**	**-2.4%**
Operating Income by Segment									
Underground machinery	286	63	83	93	103	342	424	444	393
Surface machinery	218	56	43	68	86	253	328	329	297
Crushing & conveying		0	2	2	10	14	50	72	72
Corporate	(30)	(8)	(9)	(9)	(11)	(36)	(50)	(53)	(52)
Eliminations		0	(4)	(5)	(5)	(15)	(21)	(22)	(22)
Total operating income	**473**	**111**	**114**	**150**	**182**	**557**	**731**	**769**	**687**
Operating Margins									
Underground machinery	20.1%	17.9%	20.4%	19.2%	19.3%	19.3%	19.5%	19.0%	17.3%
Surface machinery	19.4%	19.4%	11.7%	18.3%	18.6%	17.0%	19.3%	19.0%	17.6%
Crushing & conveying		#DIV/0!	2.1%	2.5%	10.0%	4.9%	11.8%	15.0%	15.0%
Total	**18.6%**	**17.4%**	**13.6%**	**16.2%**	**17.1%**	**16.0%**	**17.4%**	**17.3%**	**15.9%**
Incrementals/Decrementals									
Underground machinery	697.7%	19.5%	2.5%	21.5%	13.8%	15.9%	20.6%	12.0%	78.5%
Surface machinery	35.4%	23.3%	-4.8%	15.0%	11.0%	9.7%	35.7%	3.6%	75.8%
Crushing & conveying							25.0%	41.6%	#DIV/0!
Incremental operating margin	**21.2%**	**21.5%**	**-3.4%**	**12.9%**	**10.5%**	**9.0%**	**24.0%**	**16.2%**	**75.7%**
Underground machinery	0.93	1.01	0.91	1.05	0.90	0.96	1.01	0.97	0.91
Surface machinery	1.14	1.05	0.66	0.94	0.89	0.88	1.14	0.98	0.92
Crushing & conveying		NA	NA	NA	NA	NA	2.41	1.27	1.00
Total operating leverage	**1.01**	**1.04**	**0.70**	**0.91**	**0.85**	**0.86**	**1.09**	**1.00**	**0.92**

Income Statement	FY'07	Q1'08	Q2'08	Q3'08E	Q4'08E	FY'08E	FY'09E	FY'10E	FY'11E
Revenues	2,547	640	843	925	1,067	3,475	4,200	4,434	4,326
Cost of revenues	1,721	428	621	656	747	2,452	2,924	3,138	3,125
% of sales	*67.5%*	*66.9%*	*73.6%*	*70.9%*	*70.0%*	*70.6%*	*69.6%*	*70.8%*	*72.2%*
Gross profit	**827**	**212**	**222**	**269**	**320**	**1,023**	**1,276**	**1,296**	**1,202**
Gross margin	*32.5%*	*33.1%*	*26.4%*	*29.1%*	*30.0%*	*29.4%*	*30.4%*	*29.2%*	*27.8%*
Gross margin -- YoY Change	*100bp*	*180bp*	*-690bp*	*-270bp*	*-350bp*	*-310bp*	*90bp*	*-120bp*	*-150bp*
Incremental gross margin	*49.2%*	*46.4%*	*6.1%*	*23.7%*	*22.4%*	*21.1%*	*35.0%*	*8.6%*	*87.7%*
Product development and SG&A	359	102	108	120	139	468	549	532	519
% of sales	*14.1%*	*15.9%*	*12.8%*	*13.0%*	*13.0%*	*13.5%*	*15.5%*	*12.0%*	*12.0%*
Other income	(5)	(1)	0	(1)	(1)	(3)	(4)	(5)	(5)
Restructuring charges									
Operating income	**473**	**111**	**114**	**150**	**182**	**557**	**731**	**769**	**687**
Operating margin	*18.6%*	*17.4%*	*13.6%*	*16.2%*	*17.1%*	*16.0%*	*17.4%*	*17.3%*	*15.9%*
Operating margin -- YoY Change	*10bp*	*50bp*	*-580bp*	*-160bp*	*-300bp*	*-260bp*	*130bp*	*-10bp*	*-150bp*
Incremental operating margin	*21.2%*	*21.5%*	*-3.4%*	*12.9%*	*10.5%*	*9.0%*	*24.0%*	*16.2%*	*75.7%*
Interest income	7	3	3	3	3	11	15	6	7
Interest expense	(32)	(7)	(9)	(6)	(6)	(27)	(21)	(21)	(19)
Loss on early retirement of debt	0	0	0	0	0	0	0	0	0
Reorganization items	1	(2)	(0)	0	0	(2)	0	0	0
Income from continuing operations before i	**449**	**105**	**108**	**146**	**180**	**539**	**725**	**755**	**675**
Provision for income taxes	(169)	(35)	(36)	(49)	(60)	(180)	(247)	(257)	(230)
Effective tax rate	*37.7%*	*33.4%*	*33.5%*	*33.4%*	*33.4%*	*33.4%*	*34.0%*	*34.0%*	*34.0%*
Minority interest									
Income from continuing operations	**280**	**70**	**72**	**97**	**120**	**359**	**479**	**498**	**446**
Income from discontinued operations, net of taxes	0	1	0	0	0	1	0	0	0
Net income	**280**	**71**	**72**	**97**	**120**	**360**	**479**	**498**	**446**
Net margin	*11.0%*	*11.1%*	*8.6%*	*10.5%*	*11.2%*	*10.4%*	*11.4%*	*11.2%*	*10.3%*
EPS continuing operations	2.54	0.65	0.67	0.90	1.11	3.32	4.46	4.68	4.23
EPS discontinued operations	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00
EPS -- Basic	**2.54**	**0.66**	**0.67**	**0.90**	**1.11**	**3.33**	**4.46**	**4.68**	**4.23**
EPS continuing operations	2.51	0.64	0.66	0.89	1.10	3.29	4.41	4.64	4.19
EPS discontinued operations	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00
EPS -- Diluted	**2.51**	**0.65**	**0.66**	**0.89**	**1.10**	**3.30**	**4.41**	**4.64**	**4.19**
Consensus (8/23/08)			*Continental Acq*	*0.88*	*1.10*	*3.29*	*4.47*	*5.33*	
YoY growth				*35%*	*72%*	*32%*	*34%*	*5%*	*-10%*
Weighted average shares -- Basic	110	108	108	108	108	108	107	106	105
Weighted average shares -- Diluted	112	109	109	109	109	109	108	107	106
Dividends per share	0.60	0.15	0.15	0.15	0.18	0.63	0.70	0.70	0.70
Dividend payout ratio (based on diluted EPS)	24%	23%	23%	17%	16%	19%	16%	15%	17%
FCF	**238**	**73**	**97**	**63**	**115**	**348**	**365**	**427**	**463**

Source: Company reports and JPMorgan estimates.

Table 9: Balance Sheet

Balance Sheet	**FY'07**	**Q1'08**	**Q2'08**	**Q3'08E**	**Q4'08E**	**FY'08E**	**FY'09E**	**FY'10E**	**FY'11E**
US $ in millions (except per share data)	*Oct-07*	*Jan-08*	*Apr-08*	*Jul-08*	*Oct-08*	*Oct-08*	*Oct-09*	*Oct-10*	*Oct-11*
Assets									
Surplus funds				*264*	*359*	*359*	*553*	*775*	*1,023*
Cash and cash equivalents	173	227	233						
Total cash	173	227	233	264	359	359	553	775	1,023
Accounts receivable, net	560	553	653	665	738	738	789	814	806
Inventories	727	800	859	867	853	853	1,010	1,054	1,001
Other current assets	77	71	93	83	96	96	108	114	111
Total current assets	**1,538**	**1,651**	**1,838**	**1,615**	**1,687**	**1,687**	**1,906**	**1,981**	**1,918**
Property, plant and equipment, net	234	238	285	249	264	264	300	316	314
Intangible assets, net	63	62	205	205	205	205	205	205	205
Goodwill	17	17	130	130	130	130	130	130	130
Deferred income taxes	248	236	236	236	236	236	236	236	236
Prepaid benefit cost	1	2	9	9	9	9	9	9	9
Other assets	34	30	32	28	32	32	11	12	11
Total assets	**2,135**	**2,236**	**2,734**	**2,735**	**2,922**	**2,922**	**3,350**	**3,664**	**3,846**
Liabilities & Shareholders' Equity									
Necessary to finance				*0*	*0*	*0*	*0*	*0*	*0*
Short-term notes payable, current portion of	0	0	19	19	19	19	19	19	19
Trade accounts payable	199	183	254	249	324	324	368	320	279
Employee compensation and benefits	59	54	76	76	76	76	76	76	76
Advance payments and progress billings	324	427	472	462	469	469	562	621	606
Accrued warranties	49	49	50	50	50	50	50	50	50
Other accrued liabilities	121	108	122	122	122	122	122	122	122
Total current liabilities	**754**	**821**	**993**	**978**	**1,060**	**1,060**	**1,197**	**1,207**	**1,152**
Long-term obligations	396	396	567	567	567	567	517	467	417
Accrued pension costs	174	175	178	178	178	178	178	178	178
Other	88	90	167	129	149	149	167	177	172
Total liabilities	**1,411**	**1,482**	**1,904**	**1,853**	**1,954**	**1,954**	**2,059**	**2,029**	**1,919**
Shareholders's equity	**724**	**754**	**830**	**882**	**968**	**968**	**1,291**	**1,635**	**1,927**
Total liabilities & shareholders' equity	**2,135**	**2,236**	**2,734**	**2,735**	**2,922**	**2,922**	**3,350**	**3,664**	**3,846**

Balance Sheet Supporting Schedules	**FY'07**	**Q1'08**	**Q2'08**	**Q3'08E**	**Q4'08E**	**FY'08E**	**FY'09E**	**FY'10E**	**FY'11E**
Working Capital									
DSO	67	79	65	65	60	67	65	67	68
DOH	150	163	122	120	105	122	114	120	120
DPO	39	41	32	35	35	36	37	40	35
Cash conversion cycle	178	201	155	150	130	153	142	147	153
Change in Working Capital									
Current Assets (excluding cash)	1,365	1,424	1,605	1,615	1,687	1,687	1,906	1,981	1,918
Current Liabilities	754	821	993	978	1,060	1,060	1,197	1,207	1,152
Working Capital	611	603	612	636	627	627	709	774	766
(Increase)/Decrease in Working Capital	**(84)**	**8**	**(9)**	**(24)**	**9**	**(16)**	**(82)**	**(65)**	**8**

Source: Company reports and JPMorgan estimates.

Table 10: Cash Flow

Statement of Cash Flows *US $ in millions (except per share data)*	**FY'07** *Oct-07*	**Q1'08** *Jan-08*	**Q2'08** *Apr-08*	**Q3'08E** *Jul-08*	**Q4'08E** *Oct-08*	**FY'08E** *Oct-08*	**FY'09E** *Oct-09*	**FY'10E** *Oct-10*	**FY'11E** *Oct-11*
CASH FLOWS FROM OPERATING ACTIVITIES									
Net Income	280	71	72	97	120	360	479	498	446
Non-cash items:									
Cumulative effect of accounting change	0		0						
Income from discontinued operations	0	(1)	0			(1)			
Depreciation and amortization	49	12	24	26	30	92	111	117	114
Amortization of financing fees and discounts	0	0	0			0			
Increase (decrease) in taxes net of change in valuation allowance	102	(2)	(3)			(5)			
Excess income tax benefit from exercise of stock options	(7)	(2)	(7)			(9)			
Change in long-term accrued pension costs	24	1	(3)			(2)			
Other, net	(11)	3	4			7			
Changes in working capital items:			*0*			*0*			
Increase (decrease) in accounts receivable, net	(94)	7	(38)			(31)			
Increase (decrease) in inventories	(73)	(84)	(12)			(96)			
Increase (decrease) in other current assets	2	(6)	4			(2)			
Decrease in trade accounts payable	(12)	(15)	30			15			
Decrease in employee compensation and benefits	(24)	(5)	12			7			
Increase (decrease) in advance payments and progress billings	122	105	36			141			
Increase in other accrued liabilities	25	1	(12)			(11)			
Net changes in working capital	**(54)**	**3**	**20**	**(24)**	**9**	8	**(82)**	**(65)**	**8**
Net cash provided (used) by operating activities	**382**	**86**	**107**	**99**	**158**	**450**	**508**	**551**	**568**
CASH FLOWS FROM INVESTING ACTIVITIES									
Acquisition of business, net of cash acquired	(13)	0	(255)			(255)			
Property, plant and equipment acquired	(51)	(16)	(23)	(39)	(45)	(122)	(147)	(133)	(112)
Proceeds from the sale of property, plant and equipment									
Proceeds from the sale of business	2	10	0			10			
Other, net	0	0	(1)	(33)	16	(19)	39	9	(4)
Net cash used by investing activities	**(62)**	**(6)**	**(279)**	**(72)**	**(29)**	**(386)**	**(108)**	**(124)**	**(117)**
CASH FLOWS FROM FINANCING ACTIVITIES									
Exercise of stock options	12	4	9			13			
Excess income tax benefit from exercise of stock options	7	2	7			9			
Dividends paid	(66)	(16)	(16)	(16)	(19)	(67)	(75)	(74)	(74)
Purchase of treasury stock	(500)	(12)	(5)	(12)	(15)	(44)	(80)	(80)	(80)
Issuance of stock -- JOYG does not use this CF line item			0	0	0	0	0	0	0
Issuance of senior notes	395	0	0	0	0	0	0	0	0
Financing fees	(1)	0	(1)			(1)			
Payments on long-term obligations, net	(97)	(0)	0	0	0	0	(50)	(50)	(50)
Borrowings on long-term obligations			187			187			
Redemption of notes						0			
Increase/decrease in short-term notes payable	(5)	0	(3)			(3)			
Necessary to finance			0	0	0	0	0	0	0
Net cash (used) provided by financing activities	**(255)**	**(22)**	**177**	**(28)**	**(34)**	**93**	**(205)**	**(204)**	**(204)**
Effect of exchange rate changes on cash and cash equivalents	7	(4)	2	0	0	(2)	0	0	0
Increase (decrease) in cash and cash equivalents	**72**	**54**	**6**	**(1)**	**95**	**154**	**194**	**222**	**248**
B/S Beginning cash and equivalents	101	173	227	233	264	173	359	553	775
B/S Ending cash and equivalents	173	227	233	264	359	359	553	775	1,023

Source: Company reports and JPMorgan estimates.

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Analyst Certification:
The research analyst(s) denoted by an "AC" on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an "AC" on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures

- **Market Maker:** JPMSI makes a market in the stock of Joy Global.
- **Lead or Co-manager:** JPMSI or its affiliates acted as lead or co-manager in a public offering of equity and/or debt securities for Joy Global within the past 12 months.
- **Client of the Firm:** Joy Global is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services, non-investment banking securities-related service and non-securities-related services.
- **Investment Banking (past 12 months):** JPMSI or its affiliates received in the past 12 months compensation for investment banking services from Joy Global.
- **Investment Banking (next 3 months):** JPMSI or its affiliates expect to receive, or intend to seek, compensation for investment banking services in the next three months from Joy Global.
- **Non-Investment Banking Compensation:** JPMSI has received compensation in the past 12 months for products or services other than investment banking from Joy Global. An affiliate of JPMSI has received compensation in the past 12 months for products or services other than investment banking from Joy Global.

Joy Global (JOYG) Price Chart

Date	Rating	Share Price ($)	Price Target ($)
13-Dec-07	N	59.78	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 13, 2007. Break in coverage May 31, 2008 - Aug 29, 2008. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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