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Mining-Gear Giants Diverge on How to Prosper

By ROBERT GUY MATTHEWS

SOUTH MILWAUKEE, Wis.—The race to unearth the world's rich minerals starts in an unlikely spot: Milwaukee, the home base of the two biggest makers of the earth-clearing, rock-penetrating machines required to do the job.

Bucyrus International Inc., the larger of the two with an estimated \$3.9 billion in annual sales, works out of a block-long, flat-roofed building in a park not too far off Interstate 94 in South Milwaukee.

Rival **Joy Global Inc.**, with \$3.6 billion in sales, is a few miles across town in Milwaukee proper, near the river that snakes through the city.

But despite their proximity, the companies are a world apart in their strategies to capitalize on the economic recovery. In the booming pre-2009 commodity market, nearly all the companies in the mining sector thrived regardless of their different—and even opposing—business philosophies. But the downturn last year exposed significant differences between Joy and Bucyrus, as well as potential vulnerabilities. So far, the two are still fulfilling orders placed during the commodity boom and haven't felt the full effects of the slowing economy, so the vulnerabilities could become even more apparent in the next two years.

Joy's strategy is to make its machines in low-cost developing countries—most notably China—where the mineral market is growing and where it can be close to customers and domestic suppliers. "Our factory operating costs are running 20%-plus lower in China factories than in U.S. and European factories," said Mike Sutherlin, chief executive officer of Joy Global, in a January interview. "We determined that we need to be moving our footprint in the direction of the emerging markets." He couldn't comment on sales and earnings because Joy will release financial results Wednesday.

Bucyrus makes its machines in the U.S. and Europe, where it has developed a low-cost, highly efficient production base—it recently invested \$200 million to update its flagship Milwaukee plant. It is steering clear of major brick-and-mortar investment in China because of government support for local mining-equipment companies.

"We have a fairly significant departure of strategy from Joy Global," said Timothy Sullivan, chief executive officer of Bucyrus. "They feel they need to go to a lower-cost manufacturing base in places like China. We don't agree. It's going to be interesting to see how it plays out. One of us is more right than the other."

Right now, analysts give Bucyrus better odds, forecasting that its sales and gross profits through 2011 will grow, while Joy's will shrink. They cite Bucyrus's recent acquisition of Terex Corp's mining division, which makes the diesel-powered machines used in poor countries to get smaller reserves of specialty minerals like platinum. Most of Bucyrus's equipment had been electric-powered machines, so the acquisition expands its market.

Joy is more exposed to the U.S. domestic coal market, which isn't expected to be strong over the next two years. But the analysts say the company could even up the odds if it figures out a way to expand its reach.

Steve Barger, a mining analyst for KeyBanc Capital Markets, estimates that in 2010 Bucyrus's sales will grow 37% from 2009 to \$3.63 billion, and gross profit will rise 24%. He projects Joy's sales will fall 18% to \$2.95 billion and gross profit will drop 19% to \$930 million.

Both companies have their roots in the American industrial revolution, when they built machines that punched holes through mountains for railroad tracks, redirected waterways to ease shipping and mined for coal.

They grew, almost in tandem, by acquiring smaller companies and building new markets, cornering the job of supplying earth-moving machinery, first to mine coal in the U.S. and then coal, iron ore and copper in the rest of the world.

The two agree on several industry trends: Commodities will remain strong because huge developing nations like China, India, Brazil and Russia haven't reached metal saturation and will continue to consume huge amounts of iron ore, coal, copper and other minerals. The U.S. and Europe, while big markets, don't offer the same growth potential, they say.

And both see a growing opportunity in providing services and new parts for their huge machines, which can cost \$180 million each and have a 20-year life.

Where they differ is on how to dominate and serve the markets. "Joy is building more physical plants in emerging markets," said Steve Barger, the KeyBank analyst. "Bucyrus was pursuing more outsourcing and shipping."

Joy's plan was more capital intensive, which left it with less cash when the downturn hit. The company said it wasn't necessarily looking for big acquisitions, preferring instead to fine-tune its organic growth strategy.

Bucyrus, which has lately emphasized acquiring machinery operations rather than creating them from scratch, had the \$1.3 billion on hand to buy the Terex mining division, which it considered to be a low-cost gem.

Mining companies that buy machines from Joy or Bucyrus want both companies to stay strong so they won't be left with just one supplier. Some, such as [Rio Tinto](#) and Brazil's Vale S.A., split their mining orders between the two to ensure that they aren't beholden to one.

Joy is undaunted and says it believes its long-term strategy of keeping design and engineering skills in the U.S. and Europe and actual production in emerging markets will prevail. "We would like to get 40%-50% of production in emerging markets," said Mr. Sutherlin. Currently, between 15% and 20% of its equipment is made in emerging countries.

He conceded that quality has been an issue at the company's China plants and that equipment made in the U.S. and Europe is better—for now. But he said that as Joy builds its supply chain in China, it will have better control over quality.

Mr. Sullivan, meanwhile, prefers to build machines in the U.S. and Europe—mainly Germany—and then ship them to customers across the globe. Its Wisconsin-made machinery is at work on the largest coal surface mines in China, where it has between \$200 million and \$300 million in revenue.

He has considered making equipment in China—Bucyrus was the fourth company invited there after Richard Nixon opened the doors to China in the early 1970s—but said the Chinese government has since decided to make coal and coal-mining machinery industries strategically critical, which means they are heavily subsidized.

"They poured tons of money into supporting the local interests making it very complicated for Westerners to compete in that market," he said. Moreover, he believes that the U.S. dollar will remain relatively weak, which makes keeping manufacturing in the U.S. affordable. "We're pretty pleased with our cost position as a U.S. manufacturing center," he said.

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