

A brief review of 1999

Fiscal 1999 was another excellent year for Denali. The company generated record earnings and revenues, improved operating margins, and completed several strategic acquisitions. The bottom line is that Denali, for fiscal year 1999 and relative to fiscal year 1998, reported a significant increase in net income,* earnings* per diluted share, operating income,* EBITDA,** and revenues.

For fiscal year 1999, net income* was \$4.8 million, rising 99 percent from \$2.4 million for fiscal year 1998. Earnings* per diluted share rose 60 percent to \$0.99 in fiscal year 1999 as compared to \$0.62 in the prior fiscal year. The company's operating income* more than doubled to \$10.6 million as compared to \$4.8 million in the prior year. EBITDA also more than doubled to \$14.5 million compared to \$7.1 million in the prior fiscal year. Revenues for fiscal year 1999 increased 49 percent to \$148.8 million as compared to \$99.9 million from the prior fiscal year. Gross margins made impressive gains over the fiscal year, increasing from 22.6 percent to 25.4 percent of revenues, and operating income grew from 4.8 percent to 7.1 percent of revenue.

The record financial results can be attributed to the company's strong internal revenue growth, operational improvements, and the success of its acquisition program. Furthermore, we believe the fragmented nature of the fluids handling industry, which is comprised of many companies with limited product ranges or geographic areas served, will continue to create acquisition opportunities that complement our existing businesses.

During the fiscal year, in addition to our operational improvements and internal revenue growth, we completed three significant acquisitions: Belco, Plasti-Fab, and Welna. Belco represented another strategic step for the company owing to its expertise in manufacturing piping systems and above-ground FRP tanks. Belco also furthered the company's presence in the water and wastewater industry. Plasti-Fab is a leading provider of FRP gates, flumes and metering stations, increasing Denali's scope of corrosion-resistant products as well as our presence in the water and wastewater industries. The Welna transaction, as noted earlier, created the world's largest engineered FRP company dedicated to providing corrosion-resistant products and services to process industries.

* 1999 excludes a nonrecurring compensation expense of \$0.7 million (\$0.09 per diluted share) associated with a salary continuation agreement and an extraordinary loss from the early retirement of debt of \$0.3 million (\$0.06 per diluted share). 1998 excludes a nonrecurring compensation expense of \$2.3 million (\$0.60 per diluted share) and an extraordinary gain from the early retirement of debt of \$0.2 million (\$0.06 per diluted share). See notes to consolidated financial statements.

** EBITDA is earnings* before interest expense, taxes, depreciation, and amortization.