



The earliest iron manufacturing (smelting) dates, again, to Egypt around 3000 B.C. Early steel — iron with a controlled carbon content — was an accident, until ironworkers came up with a method of heating iron with carbon-absorbing charcoal. The renaissance of steel piping and vessels dates from a need to contain high pressure steam with the coming of the Industrial Revolution.

A brief review of 1998

Fiscal 1998 was an excellent year for Denali. The company generated record financial results, completed four acquisitions, and entered the public equity market on November 20, 1997. The bottom-line is that Denali increased revenues by 40 percent over the prior year with earnings leaping from \$.09 to \$.62 per share.*

This tremendous growth is just partly attributable to the acquisitions undertaken in fiscal 1998. Denali's businesses present at the beginning of the year all performed well, increasing profitability on a year-to-year basis. And as noted before, the fragmented nature of the critical fluids handling industry should continue to provide both internal growth and acquisition opportunities. We believe the company is in a position to deliver similar growth and improved margins in fiscal 1999 as we have the vision, the values, and the resources to build Denali.

Three key components of our record financial results were revenue growth, gross margin gains, and operating income improvements. Revenues increased from \$71,100,000 in fiscal 1997 to \$99,900,000 in fiscal 1998, resulting from both internal growth and acquisitions. Gross margin increased from 19.5 to 22.6 percent of revenue, representing a \$8.8 million jump from fiscal 1997 to 1998, and is a direct result of improving manufacturing efficiencies within our businesses. Also, similar improvements in operating income* were seen, increasing \$2.8 million from 2.8 to 4.8 percent of revenues. The gains in manufacturing and operating efficiencies were slightly offset by an increase in costs associated with being a public company. We believe continued improvements are possible because of the "turnaround" nature of many of our acquisitions.

The company completed four acquisitions this year, starting with SEFCO and LaValley Construction just prior to the initial public offering. SEFCO, as discussed in the previous section, is a vertically integrated manufacturer of field-erected steel tanks. LaValley Construction, now part of Ershigs, specializes in manufacturing and servicing engineered fiberglass products for the pulp & paper industry and offers a nice complement of products, services, and geographical capabilities to Ershigs.

In January 1998, Denali entered the cylindrical AST business. This move filled a hole in our existing product line and addressed our customers' desire to purchase cylindrical ASTs from us. In May 1998, the company acquired CC&E, a leading manufacturer of field-erected fiberglass tanks, enhancing Ershigs' presence as a provider of caustic fluid handling equipment to the power & pulp industries. In June 1998, Fibercast became part of Denali and strengthened our product offerings in corrosion resistant pipe, fittings products, and systems, as well as increasing our exposure in the chemical processing industry.

* The year 1998 excludes a nonrecurring compensation expense of \$2.3 million (\$.60 per diluted share) and an extraordinary gain from the early retirement of debt of \$0.2 million (\$.06 per diluted share). See notes to consolidated financial statements.