



MARTEN TRANSPORT, LTD.

2018 Annual Report



Who We Are

Marten Transport, Ltd., with headquarters in Mondovi, Wisconsin, strives to be the premier supplier of time and temperature-sensitive and dry transportation and distribution services to customers in the United States, Canada and Mexico. We have strategically transitioned from a long-haul carrier to a multifaceted business offering a network of truck-based transportation capabilities across our five distinct business platforms—Truckload, Dedicated, Intermodal, Brokerage and MRTN de México. We will accomplish our mission by exceeding the expectations of our customers, employees, stockholders and society. We serve cus-

tomers with demanding delivery deadlines, as well as those who ship products requiring modern temperature-controlled trailers to protect goods. Our dry freight services are expanding, with 1,600 dry vans operating as of December 31, 2018.

Founded in 1946, we have been a public company since 1986. Our common stock trades on the NASDAQ Global Select Market under the symbol MRTN. At December 31, 2018, we employed 3,589 people, including drivers, office personnel and mechanics.

Five-Year Financial Summary

	Years ended December 31,				
	2018	2017	2016	2015	2014
<i>(Dollars in thousands, except per share amounts)</i>					
FOR THE YEAR					
Operating revenue	\$ 787,594	\$ 698,120	\$ 671,144	\$ 664,994	\$ 672,929
Operating income	70,348	56,862	58,303	61,063	51,006
Net income	55,027	90,284	33,464	35,745	29,834
Net income – excluding 2017 deferred income taxes benefit ⁽¹⁾	55,027	33,819	33,464	35,745	29,834
Operating ratio ⁽²⁾	91.1%	91.9%	91.3%	90.8%	92.4%
PER-SHARE DATA⁽³⁾					
Basic earnings per common share	\$ 1.01	\$ 1.66	\$ 0.62	\$ 0.64	\$ 0.54
Basic earnings per common share – excluding 2017 deferred income taxes benefit ⁽¹⁾	1.01	0.62	0.62	0.64	0.54
Diluted earnings per common share	1.00	1.65	0.61	0.64	0.53
Diluted earnings per common share – excluding 2017 deferred income taxes benefit ⁽¹⁾	1.00	0.62	0.61	0.64	0.53
Dividends declared per common share	0.10	0.08	0.06	0.06	0.06
Book value	10.57	9.64	8.04	7.50	6.96
AT YEAR END					
Total assets ⁽⁴⁾	\$ 753,904	\$ 690,403	\$ 653,748	\$ 631,528	\$ 576,461
Long-term debt	–	–	7,886	37,867	24,373
Stockholders' equity	575,954	525,500	437,338	409,421	387,926

(1) Net income and basic and diluted earnings per common share for 2017 are presented for comparative purposes excluding the \$56.5 million deferred income taxes benefit recorded to recognize the impact on our federal net deferred tax liability of the reduction of the federal corporate statutory income tax rate from 35% to 21% related to the Tax Cuts and Jobs Act of 2017.

(2) Represents operating expenses as a percentage of operating revenue.

(3) The amounts for December 31, 2014 through 2016 have been restated to reflect the five-for-three stock split effected in the form of a 66²/₃% stock dividend on July 7, 2017.

(4) The amount for December 31, 2014 has been restated to reflect the reclassification of current deferred income tax assets to be consistent with the current presentation upon adoption of FASB ASU No. 2015-17, "Income Taxes" effective December 31, 2015.

Note: We account for our revenue in accordance with FASB ASC 606, which we adopted on January 1, 2018 using the modified retrospective method. Prior years have not been restated and continue to be reported under the accounting standards in effect for those periods.

To Our Stockholders and Employees

By actively reshaping itself to fit a constantly changing and expanding marketplace, Marten Transport has evolved from a long-haul refrigerated carrier into a growing network of truck-based transportation capabilities. The impact of this continuing transition is reflected clearly in our 2018 results:

- Marten’s operating revenue and operating income were the highest for any year in the company’s history, up by 12.8 percent and 23.7 percent, respectively, from 2017.
- The three reporting segments that have led the diversification and expansion of Marten’s capabilities—Dedicated, Intermodal and Brokerage—generated more than 50 percent of the company’s operating income in 2018, up from slightly less than 25 percent five years ago.
- Marten’s operating ratio, net of fuel surcharges, was the best in 13 years.

In a performance analysis entitled “Marten Transport Delivers the Goods,” the *TCA Truckload Indexes* newsletter recently offered this commentary on Marten’s standing within the group of mostly larger publicly-traded trucking companies that the publication follows closely: “Quarter-over-quarter, year-over-year, Marten Transport (NASDAQ: MRTN) has delivered consistent, top quartile results. Key word is consistent. When compared to many of the others, you don’t see very many blips in operating expenses or legal exposures that may cause multi-period hangovers for others... Their earnings releases and SEC filings point to a very disciplined operating team... Marten has hung with, and bettered the performance of many of the big dogs.”

Consistent. Disciplined. Those are words we’re pleased to see in a respected independent assessment, because they are what we strive for at Marten—consistent profitable growth, regardless of the economic environment; disciplined execution of our multifaceted business model across Marten’s entire organization.

2018 Financial Results

For 2018, net income was \$55.0 million, or \$1.00 per diluted share. For 2017, which included a deferred income taxes benefit of \$56.5 million related to the Tax Cuts and Jobs Act of 2017, net income was \$90.3 million, or \$1.65 per diluted share. Excluding the deferred income taxes benefit from the comparison, net income for 2018 improved 62.7 percent from \$33.8 million, or 62 cents per diluted share, for 2017.

Operating revenue improved 12.8 percent to a record \$787.6 million for 2018 from \$698.1 million for 2017. Excluding fuel surcharges, 2018 operating revenue improved 8.0 percent to \$681.4 million from \$631.0 million for 2017. Fuel surcharge revenue increased to \$106.2 million from \$67.1 million for 2017.

Operating income improved 23.7 percent to a record \$70.3 million for 2018 from \$56.9 million for 2017. Our operating ratio (operating expenses as a percentage of operating revenue)

improved to 91.1 percent for 2018 from 91.9 percent for 2017. Our operating ratio, net of fuel surcharges, improved to 89.7 percent for 2018 from 91.0 percent for 2017.

A summary of our operating results in 2018 compared with 2017 follows.

<i>(Dollars in thousands, except share information)</i>	<i>Year Ended Dec. 31,</i>		<i>Percentage Change</i>
	<i>2018</i>	<i>2017</i>	<i>Year Ended Dec. 31, 2018 vs. 2017</i>
Operating revenue	\$787,594	\$698,120	12.8%
Operating income	\$ 70,348	\$ 56,862	23.7%
Net income (excluding 2017 deferred income taxes benefit)	\$ 55,027	\$ 33,819	62.7%
Diluted earnings per common share (excluding 2017 deferred income taxes benefit)	\$ 1.00	\$ 0.62	61.8%

A Growing Network

Marten’s strategic vision has produced a growing transportation network designed to provide the best, most-efficient service for our customers across five distinct business platforms.

Truckload—*regional and over-the-road fleets operating from 15 regional service centers, including dry van operations out of Kansas City, Atlanta and Phoenix facilities.* While Truckload revenue was down 1.3 percent for 2018, operating income increased by 33.2 percent to \$35.1 million from \$26.3 million for 2017. Average revenue, net of fuel surcharges, per tractor per week—a main measure of Truckload asset productivity—improved by 9.1 percent from 2017. Truckload revenue was \$375.3 million for 2018, compared with \$380.2 million for 2017. Excluding fuel surcharges, Truckload revenue was \$322.3 million, compared with \$336.6 million for 2017. The 2018 Truckload operating ratio was 90.7 percent, and the operating ratio, net of fuel surcharges, was 89.1 percent.

Dedicated—*customized solutions tailored to individual customers’ requirements utilizing refrigerated trailers, dry vans and other specialized equipment.* Dedicated revenue has more than tripled over the past four years. It increased 34.1 percent to \$223.9 million for 2018 from \$166.9 million for 2017. Excluding fuel surcharges, Dedicated revenue improved 21.8 percent to \$187.1 million from \$153.7 million for 2017. Operating income was \$18.6 million, up 8.9 percent from \$17.1 million for 2017. The 2018 Dedicated operating ratio was 91.7 percent, and the operating ratio, net of fuel surcharges, was 90.1 percent. The average number of tractors in service grew to 1,088 from 847 tractors in 2017.

Intermodal—*refrigerated TOFC (trailer on flatcar) services, providing the economies and energy efficiencies of long-haul rail transportation with extended door-to-door support from Marten’s truck network.* Intermodal revenue improved 26.5 percent to \$102.0



million for 2018 from \$80.6 million for 2017. Excluding fuel surcharges, Intermodal revenue improved 21.8 percent to \$85.6 million from \$70.3 million for 2017. Operating income increased 34.3 percent to \$11.2 million from \$8.3 million for 2017. The 2018 Intermodal operating ratio was 89.1 percent, and the operating ratio, net of fuel surcharges, was 87.0 percent.

Brokerage—surge flexibility to supplement Marten’s capabilities through temperature-controlled and dry van services provided by smaller third-party carriers. Brokerage revenue improved 22.7 percent to \$86.4 million for 2018 from \$70.4 million for 2017. Brokerage operating income increased 7.4 percent to \$5.5 million from \$5.2 million for 2017. The Brokerage operating ratio was 93.6 percent for 2018.

Operating within our Truckload and Brokerage segments, another component of Marten’s vision and plan is **MRTN de México**, which provides door-to-door Mexican business service with our Mexican partner carriers. Its 2018 revenue was \$69.2 million—reported as part of our Truckload and Brokerage results.

Transformation

In the words of John P. Kotter, the Harvard professor emeritus widely recognized for his ground-breaking work on business leadership and change, “Transformation is a process, not an event.” That’s exactly the case at Marten. We are continuing to build and transform Marten for new markets, new customers and a changing driver population in the Electronic Logging Device (ELD) era.

The industry-wide driver shortage continues to be a critical problem, still reflected in tight shipping capacity nationally. While no trucking company is immune, Marten continues to enjoy a distinct competitive edge in recruiting and retaining top drivers—exclusively experienced drivers. It is an advantage that helped give us the driver resources to capitalize on the strengthened freight environment and improved shipping rates driven by tighter capacity throughout much of 2018.

Marten has focused on making itself the best carrier in the industry for drivers to work for—the best jobs for the best drivers. That’s meant leading the way on driver pay, route options, health coverage, safety and technology. We were one of the first companies to fully implement electronic logging – and the very first to introduce meaningful ways to compensate drivers for down time that electronic logging does not allow to be later recovered. That includes waits at customer docks, weather problems and road service delays. Our safety and driver-health measures are unquestionably setting the pace for the industry. Examples: We compensate our drivers for pulling off in inclement weather. We provide a fully-paid sleep apnea testing and equipment program and a fully-paid annual physical beginning at age 60, including a stress test and EKG. The equipment we provide is the safest available, with automatic transmissions, grill guards, radar-based collision avoidance systems and lane departure systems.

Difference Makers

The building of a multifaceted business brings together multiple ingredients. Among those that have made the difference at Marten:

- Our regional platform—15 regional operating centers across the nation, addressing customer trends toward regional distribution and enabling supportive interaction across our five individual business platforms.
- A freight diversity and density focus that is measurably increasing productivity and resulting in more attractive driver jobs.
- Customer collaboration for win-win productive and cost-efficient industry leading service.
- Our in-house, industry leading and continuously changing technology system—a proprietary competitive advantage that provides the real-time visible information needed to quickly make data-driven decisions for improved supply chain productivity.

Finally, and most importantly, we are building and diversifying our business with the talent and teamwork of Marten’s disciplined workforce—dedicated and experienced people consistently managing and improving our processes. The emphasis on continuous improvement is part of our culture. Marten people focus daily on cost and productivity improvement—on doing their best to exceed the expectations of our customers.

Marten’s people have built a strong, growing and increasingly profitable business platform for now and the future based on our five distinct business platforms. Capacity is still tight with a driver shortage that will continue to be a challenge and yet an opportunity for Marten in 2019 and beyond with the new generation of drivers and the ELD era. We expect to produce continued organic growth across all five of our operating platforms in 2019, with increasing compensation for our premium services, additional freight with existing and new customers, our emphasis on operating efficiencies and cost controls, and our modern fleet and strong balance sheet.



Sincerely,

A handwritten signature in black ink that reads "Randolph L. Marten". The signature is fluid and cursive, written in a professional style.

Randolph L. Marten
Chairman of the Board
and Chief Executive Officer

February 18, 2019

This Annual Report, including the Stockholders and Employees Letter above, contains forward-looking statements. Written words such as “may,” “expect,” “believe,” “anticipate,” “plan,” “goal,” or “estimate,” or other variations of these or similar words, identify such statements. Our actual results may differ materially from those expressed in such forward-looking statements because of important factors known to us that could cause such material differences including those noted in the attached Form 10-K under the heading “Risk Factors.”



Corporate Information

Corporate Headquarters

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Stockholder Information

Additional copies of our 2018 Annual Report on Form 10-K as filed with the Securities and Exchange Commission are available by writing to James J. Hinnendael, executive vice president and chief financial officer, at our corporate headquarters.

Annual Meeting

Stockholders, employees and friends may attend our annual meeting on Tuesday, May 7, 2019, at 3:00 p.m. at the Roger Marten Community Center, 120 South Franklin Street, Mondovi, Wisconsin.

Stock Listing

NASDAQ Global Select Market symbol: MRTN

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Fox Rothschild LLP
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Direct communications about stock certificates or a change of address to Computershare Shareowner Services.



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