



## **MARTEN TRANSPORT, LTD.**

*2014 Annual Report*



## Who We Are

Marten Transport, Ltd., with headquarters in Mondovi, Wisconsin, strives to be the premier supplier of time- and temperature-sensitive transportation and distribution services to customers in the United States, Canada and Mexico. We will accomplish this by exceeding the expectations of our customers, employees, stockholders and society. We serve customers with demanding delivery deadlines, as well as those who ship products requiring modern temperature-controlled trailers to protect goods.

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, 2014, we employed 3,240 people, including drivers, office personnel and mechanics.

## Five-Year Financial Summary

<i>(Dollars in thousands, except per share amounts)</i>	Years ended December 31,				
	2014	2013	2012	2011	2010
<b>FOR THE YEAR</b>					
Operating revenue . . . . .	\$ 672,929	\$ 659,214	\$ 638,456	\$ 603,679	\$ 516,920
Operating income . . . . .	51,006	51,995	45,853	43,030	35,289
Net income . . . . .	29,834	30,147	27,267	24,285	19,742
Operating ratio <sup>(1)</sup> . . . . .	92.4%	92.1%	92.8%	92.9%	93.2%
<b>PER-SHARE DATA<sup>(2)</sup></b>					
Basic earnings per common share . . . . .	\$ 0.89	\$ 0.91	\$ 0.82	\$ 0.74	\$ 0.60
Diluted earnings per common share . . . . .	0.89	0.90	0.82	0.73	0.60
Dividends declared per common share . . . . .	0.10	0.083	0.563	0.053	0.027
Book value . . . . .	11.61	10.78	10.01	9.71	8.99
<b>AT YEAR END</b>					
Total assets . . . . .	\$ 579,660	\$ 525,802	\$ 490,623	\$ 470,579	\$ 460,308
Long-term debt . . . . .	24,373	—	2,726	—	19,346
Stockholders' equity . . . . .	387,926	359,137	331,923	320,359	295,904

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

(2) Restated to reflect the three-for-two stock split effected in the form of a 50% stock dividend on June 14, 2013.

## To Our Stockholders and Employees

In a demonstration of the operating resilience built into our multifaceted business platform, Marten Transport overcame a combination of three disruptive challenges in 2014 to close the year with the strongest, most profitable quarter in our history. Fourth-quarter net income increased 22.8 percent to a record \$9.0 million, or 27 cents per share, from \$7.3 million, or 22 cents per share in the fourth quarter of 2013. Our fourth-quarter operating ratio net of fuel surcharge revenue was 88.7 percent—our best in the last 10 years. And it was the nineteenth consecutive quarter of year-over-year growth in revenue per tractor per week—our primary measure of asset productivity.

All three of the major challenges hit hard in the first quarter—the brutal “polar vortex” winter; the unexpected onset of disruptive delays in the rail service essential to our intermodal operations; and an intensification of the most severe driver shortage in the history of our industry. Each was formidable in its own right. In combination, they represented a significant threat to our performance growth.

As a company based in Wisconsin, Marten is very familiar with harsh winters. But the winter of 2013-14 was more than harsh. It was by all accounts the worst on record in terms of the length, breadth and depth of its icy disruption of transportation services. The widespread cold, snow and ice snarled both truck and rail activity throughout the first quarter.

Weather-related delays were just the beginning of costly rail service problems. Freight congestion across a significant portion of the nation’s rail system produced back-ups that tied up our trailers for extra days and severely cut into our trailer capacity.

At the same time, we were confronting a driver shortage so severe that it limited industry capacity nationally—something reflected in our truck count early in 2014, but an issue that we were able to overcome in the second half.

In fact, we were able to work through all three challenges during the course of the year. The results provide a measurable illustration of our ability to capitalize on the diversity of our business model in even the most challenging of environments.

### 2014 Financial Results

The strong finish lifted Marten to its fifth consecutive annual increase in operating revenue and the second-most profitable year in our history. Operating revenue increased to a record \$672.9 million for 2014 from \$659.2 million for 2013. Net income was \$29.8 million, or 89 cents per diluted share, compared with the record \$30.1 million, or 90 cents per share, for 2013. Excluding fuel surcharges, our operating ratio (operating expenses as a percentage of operating revenue) was 90.7 percent for 2014 versus 90.2 percent for 2013.

Our dedicated operations—one of the newest and fastest-expanding components of our diversified business platform—led our operating revenue growth with a year-over-year increase of

66.2 percent on top of a 115.8 percent increase in 2013.

Because of the growth of our dedicated operations and the other increasingly successful and operationally distinct business components created through our diversification, we are moving from two to four financial reporting segments. We are now reporting our results in Truckload, Dedicated, Intermodal and Brokerage segments instead of Truckload and Logistics

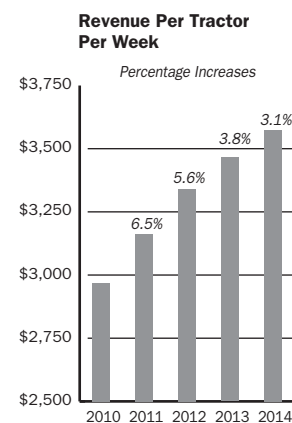
segments. From our Truckload segment we have carved out our dedicated operations into a separate Dedicated segment. We have also split our Logistics segment into Brokerage and Intermodal segments. We believe reporting our results in this manner will provide our stakeholders access to a more complete understanding of our operational structure and performance.

Each of these four segments is playing a major role in the implementation of Marten’s strategic vision:

**Truckload:** Provides regional and over-the-road fleets operating from 14 regional service centers, 10 of which have been added in the buildout of our infrastructure nationally since 2007. Truckload revenue was \$448.3 million for 2014, compared with \$465.0 million for 2013. Operating income increased slightly to \$39.5 million for 2014 from \$39.3 million for 2013. The Truckload operating ratio net of fuel surcharges improved in the fourth quarter to 86.5 percent.

**Dedicated:** Provides customized solutions tailored to individual customers’ requirements utilizing refrigerated trailers, dry vans and other specialized equipment for their exclusive use. The number of Dedicated customers grew from two to 23 over the past three years. Dedicated revenue was \$70.4 million for 2014, up 66.2 percent from \$42.3 million for 2013. Operating income increased 28.0 percent to \$7.1 million from \$5.6 million for 2013. The Dedicated operating ratio net of fuel surcharges was 87.4 percent for the year.

**Intermodal:** Provides the economies and energy efficiencies of long-haul rail transportation primarily through temperature-controlled TOFC (trailer on flatcar) services, with extended door-to-door support from our growing regional truck network. Marten is the largest truckload temperature-controlled carrier with BNSF Railway Company. Intermodal revenue increased by 4.9 percent to \$97.1 million for 2014 from \$92.5 million the previous year. Intermodal operating income slipped to \$1.7 million from \$4.0 million for 2013, reflecting costs associated with rail service interruption and delay issues. The number of Intermodal loads grew by 15.7 percent in 2014.



**Brokerage:** Provides surge flexibility to service our customer needs beyond Marten's traditional capabilities through arrangements with smaller third-party carriers. Brokerage revenue, net of MW Logistics, LLC, was \$57.2 million for 2014, up 8.5 percent from \$52.7 million for 2013, reflecting our extensive decentralization of brokerage operations, coupled with improved rates. With the March 2013 deconsolidation of MWL, no MWL revenue was included in 2014, compared with \$6.7 million for 2013. The number of loads handled through Marten's brokerage operations in 2014 increased by 4.5 percent from 2013.

Along with our regional expansion and the rapid development of the Dedicated segment, Marten's strategic focus also includes MRTN de México, which provides door-to-door Mexican business service with our Mexican partner carriers. Following 2013 expansion into western Mexico and our move into the new company-owned Laredo, Texas, facility, MRTN de México posted a 64 percent revenue increase in 2014 on top of a 28 percent increase in 2013.

### Meeting the Challenges

While the impact of extreme winter weather was essentially limited to the first quarter, the rail and driver issues were with us throughout the year. That we were able to overcome them is testimony to the resilience of our business platform and the operating agility and teamwork that make it work. Example: the ability to get to the market quickly for rate increases to offset the costs of rail delays that resulted in a third-quarter operating loss for the Intermodal segment. Those increases, coupled with some easing of the rail slowdown, turned the loss into fourth-quarter operating income of \$920,000.

We expect major rail service improvements by the latter half of 2015 with the completion of extensive capital improvements by the railroads. Looking ahead, we believe intermodal's trailer-on-flatcar service has years of growth ahead of it, partly because of its long-haul economies and partly because of the continuing over-the-road impact of the national driver shortage.

The driver shortage will continue to be the biggest industry challenge in 2015. Marten confronted this issue successfully in 2014 by adding to its competitive edge in recruiting and retention of top drivers with industry-leading pay package enhancements in combination with an expanding offering of attractive dedicated jobs. We have worked to compensate our drivers for their non-driving time like no other carrier with a unique pay system designed for the electronic log era. In 2014 we became the first carrier to pay our drivers after one hour of being detained during pickup or delivery of loads.

In addition to improving compensation, we have focused on the creation of better jobs for our drivers—the best jobs in the industry for the best drivers in the industry. The buildout of our regional, Dedicated and Intermodal freight network is making that possible. Marten's driver focus enabled us to continue our driver base growth and finish 2014 with a 7.4 percent organic increase of 161 tractors—all seated by experienced drivers.

### Regional Investment

Since 2007 we have invested \$75 million in land and buildings as we expanded our regional platform with the addition of 10 centers across the country, including two entry points into Mexico. The regional centers have provided the foundation for our multifaceted customer solutions, especially through the growth of our Dedicated, Intermodal and MRTN de México businesses, whose combined revenue increased to approximately one-third of Marten's total operating revenue in 2014.

Marten's regional service centers are integral to our priority emphasis on the continuous improvement of our diverse, dense and efficient freight network.

### Continuous Improvement

Marten's focus on continuous improvement is relentless. It is part of our culture. Working in a world of constant, rapid and often unexpected change, Marten people focus daily on cost and productivity improvement: growth in revenue per tractor, improvement in equipment utilization and fuel economy, collaborative customer relationships, increased customer diversity. Our results for 2014 show that Marten's direction and plans are taking us where we want to go through the disciplined execution by a dedicated and experienced workforce. One key example: The Marten team is achieving continuous improvement in productivity, a priority objective. Revenue per tractor per week, the best single measure of asset productivity, increased by 3.1 percent in 2014—our fifth consecutive year-over-year increase. The increase from 2009: 26.6 percent.

Our intense pursuit of continuous improvement brings to mind a statement made years ago by someone who managed another Wisconsin-based team—the Green Bay Packers. "Gentlemen," Vince Lombardi told members of that team, "we will chase perfection, and we will chase it relentlessly, knowing all the while we can never attain it. But along the way, we shall catch excellence."



Sincerely,

A handwritten signature in black ink that reads "Randolph L. Marten".

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

February 27, 2015

*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

129 Marten Street  
Mondovi, Wisconsin 54755  
Telephone: (715) 926-4216  
Fax: (715) 926-4530  
[www.marten.com](http://www.marten.com)

### Stockholder Information

Additional copies of our 2014 Annual Report on Form 10-K as filed with the Securities and Exchange Commission are available by writing to James J. Hinnendael, chief financial officer, at our corporate headquarters.

### Annual Meeting

Stockholders, employees and friends may attend our annual meeting on Tuesday, May 12, 2015, at 4:00 p.m. at The Plaza Hotel & Suites, 1202 West Clairemont Avenue, Eau Claire, Wisconsin.

### Stock Listing

NASDAQ Global Select Market symbol: MRTN

### Legal Counsel

Oppenheimer Wolff & Donnelly LLP  
Campbell Mithun Tower – Suite 2000  
222 South Ninth Street  
Minneapolis, Minnesota 55402

### Independent Registered Public Accounting Firm

Grant Thornton LLP  
200 South Sixth Street, Suite 1400  
Minneapolis, Minnesota 55402

### Transfer Agent and Registrar

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Stockholder correspondence mailing address:  
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College Station, Texas 77842-3170

Overnight correspondence address:  
211 Quality Circle, Suite 210  
College Station, Texas 77845

Telephone: (866) 637-5412  
TDD: (800) 231-5469  
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Stockholder online inquiries:  
[www-us.computershare.com/investor/contact](http://www-us.computershare.com/investor/contact)

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



## Executive Officers and Directors

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**Timothy P. Nash**

Executive Vice President of Sales and Marketing

**James J. Hinnendael**

Chief Financial Officer

**John H. Turner**

Senior Vice President of Sales

**Thomas A. Letscher**

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Minneapolis, Minnesota

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Durand, Wisconsin

**Thomas J. Winkel**

Director

Management Consultant  
Pewaukee, Wisconsin

**Jerry M. Bauer**

Director

Chairman of the Board and Chief Executive Officer,  
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Durand, Wisconsin

**Robert L. Demorest**

Director

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Minneapolis, Minnesota

**G. Larry Owens**

Director

Retired Chairman of the Board, Chief Executive Officer,  
President and Secretary,  
Smithway Motor Xpress Corp.  
Fort Dodge, Iowa

*The 2014 Annual Report is printed on recycled paper.*





