



## MARTEN TRANSPORT, LTD.

*2019 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 1,650 dry vans operating as of December 31, 2019.

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, 2019, we employed 4,087 people, including drivers, office personnel and mechanics.

## Five-Year Financial Summary

	Years ended December 31,				
	2019	2018	2017	2016	2015
<i>(Dollars in thousands, except per share amounts)</i>					
<b>FOR THE YEAR</b>					
Operating revenue	\$ 843,271	\$ 787,594	\$ 698,120	\$ 671,144	\$ 664,994
Operating income	76,498	70,348	56,862	58,303	61,063
Net income	61,071	55,027	90,284	33,464	35,745
Net income – excluding 2017 deferred income taxes benefit <sup>(1)</sup>	61,071	55,027	33,819	33,464	35,745
Operating ratio <sup>(2)</sup>	90.9%	91.1%	91.9%	91.3%	90.8%
<b>PER-SHARE DATA<sup>(3)</sup></b>					
Basic earnings per common share	\$ 1.12	\$ 1.01	\$ 1.66	\$ 0.62	\$ 0.64
Basic earnings per common share – excluding 2017 deferred income taxes benefit <sup>(1)</sup>	1.12	1.01	0.62	0.62	0.64
Diluted earnings per common share	1.11	1.00	1.65	0.61	0.64
Diluted earnings per common share – excluding 2017 deferred income taxes benefit <sup>(1)</sup>	1.11	1.00	0.62	0.61	0.64
Dividends declared per common share	0.77	0.10	0.08	0.06	0.06
Book value	10.92	10.57	9.64	8.04	7.50
<b>AT YEAR END</b>					
Total assets	\$ 796,586	\$ 753,904	\$ 690,403	\$ 653,748	\$ 631,528
Long-term debt	–	–	–	7,886	37,867
Stockholders' equity	597,589	575,954	525,500	437,338	409,421

(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 2015 and 2016 have been restated to reflect the five-for-three stock split effected in the form of a 66⅔% stock dividend on July 7, 2017.

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

In a year in which nearly all other major carriers experienced substantial earnings deterioration, Marten Transport produced the highest operating revenue and operating income for any year in our history. These record performances in 2019's weak pricing environment significantly surpassed the previous record levels achieved in 2018's exceptionally favorable market. Our operating revenue improved 7.1% in 2019 on top of the 12.8% increase in 2018. Our operating income improved 8.7% in 2019 on top of the 23.7% increase in 2018. Success breeds success.

Marten's 11.0% increase in net income for 2019 was our fifth consecutive improvement in annual earnings, excluding a deferred income taxes benefit in 2017 and a gain on the disposition of facilities in 2015. Our operating ratio, net of fuel surcharges, was our best over the last 14 years.

### Unique Model, Unique Consistency

The consistency of Marten's earnings growth is unique among major trucking companies—as is the business model that has made this consistency possible. Marten has developed a model quite different from the rest of the industry, reshaping our operations in response to a constantly changing and expanding marketplace. In the process—which continues—we have evolved from a long-haul refrigerated carrier into a growing network of truck-based transportation capabilities. This multifaceted approach has given us five distinct but complementary business platforms: Truckload, Dedicated, Intermodal, Brokerage and MRTN de México. Together they offer an expanding combination of transportation capabilities designed to provide the best, most efficient service for a diverse and growing range of customers.

Of course, no matter how well conceived, a business model is only as good as the people who execute it. And that is the other major factor in the consistency of Marten's operating performance—the talent and smart, hard work of our experienced and dedicated workforce. Within a culture that recognizes that transformation is a process, not an event, our people focus daily on cost and productivity improvement—on doing their best to exceed the expectations of our customers. They are equipped with our in-house, industry leading information 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.

Our results for 2019 once again offer a measure of the edge our model gives us. The entire industry was caught in a painful squeeze between inflationary cost pressures and a persistent oversupply of truckload capacity. Marten is not immune to these pressures. But, our diversified model gives us the operational flexibility and resilience to produce consistent profitable growth, and the ability to overcome difficult economic environments.

### Operating Results Comparison

	Percentage Change Year Ended December 31, 2019 vs. 2018	Percentage Change Year Ended December 31, 2018 vs. 2017
Operating revenue	7.1%	12.8%
Operating income	8.7%	23.7%
Net income	11.0%	62.7%

Net income used to calculate the percentage increase from 2017 to 2018 excludes a \$56.5 million deferred income tax benefit in the fourth quarter of 2017.

### 2019 Financial Results

For 2019, net income was \$61.1 million, or \$1.11 per diluted share, up 11.0% from \$55.0 million, or \$1.00 per diluted share, for 2018.

Operating revenue improved 7.1% to a record \$843.3 million for 2019 from \$787.6 million for 2018. Excluding fuel surcharges, 2019 operating revenue improved 8.6% to \$739.9 million from \$681.4 million for 2018. Fuel surcharge revenue decreased to \$103.4 million from \$106.2 million for 2018.

Operating income improved 8.7% to a record \$76.5 million for 2019 from \$70.3 million for 2018. Our operating ratio (operating expenses as a percentage of operating revenue) improved to 90.9% for 2019 from 91.1% for 2018. Our operating ratio, net of fuel surcharges, was 89.7% for each year.

### Regional Foundation

Our network of regional operating centers across the nation provides the foundation for development of our diverse customer solutions, enabling us to address customer trends toward regional distribution and facilitating supportive interaction across our five individual business platforms.

**Truckload**—regional and over-the-road fleets operating from Marten's 15 regional service centers, including dry van operations out of our Kansas City, Atlanta and Phoenix facilities. Truckload revenue was \$378.0 million for 2019 versus \$375.3 million for 2018. Excluding fuel surcharges, Truckload revenue was \$329.3 million, up 2.2% from \$322.3 million in 2018. Average revenue, net of fuel surcharges, per tractor per week—a main measure of Truckload asset productivity—was down less than 1%, despite the pressure on industry rates in 2019's softer freight environment. Operating income was \$29.7 million, down from \$35.1 million for 2018. The 2019 Truckload operating ratio was 92.2%, and the operating ratio, net of fuel surcharges, was 91.0%.

**Dedicated**—customized solutions tailored to individual customers' requirements utilizing refrigerated trailers, dry vans and other specialized equipment. Dedicated revenue has grown by 278% over the past five years, reflecting this platform's mutually sup-



portive interaction with our regional Truckload and Brokerage resources. For 2019, Dedicated revenue increased 18.8% to \$266.0 million from \$223.9 million for 2018. Excluding fuel surcharges, Dedicated revenue improved 19.7% to \$223.9 million for 2019 from \$187.1 million for 2018. Operating income was \$31.2 million, up 68.1% from \$18.6 million for 2018. The 2019 Dedicated operating ratio was 88.3%, and the operating ratio, net of fuel surcharges, was 86.0%. Our average number of tractors in service grew 16.9% to 1,272 from 1,088 in 2018.

**Intermodal**—refrigerated TOFC (trailer on flatcar) and refrigerated COFC (container 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. Marten is the largest truckload temperature-controlled carrier with the BNSF Railway Company. During the second half of 2019, we began phasing in refrigerated COFC to our Intermodal platform, ordering 500 stackable refrigerated containers in August. They are being put in service immediately upon delivery, with all expected to be operating in early 2020, putting Marten ahead of the industry's expected transition to this space-saving equipment. COFC offers both economic and operational advantages over TOFC. Reflecting competition with unsustainably low over-the-road truckload rates, Intermodal revenue declined to \$90.4 million for 2019 from \$102.0 million for 2018. Excluding fuel surcharges, Intermodal revenue was \$77.8 million, compared with \$85.6 million in 2018. Operating income was \$6.6 million, down from \$11.2 million for 2018. The 2019 Intermodal operating ratio was 92.7%, and the operating ratio, net of fuel surcharges, was 91.5%.

**Brokerage**—surge flexibility to supplement Marten's capabilities through temperature-controlled and dry van services provided by smaller third-party carriers. Marten's Brokerage resources are an integral part of our growing transportation network, supporting our Dedicated platform by ensuring reliable shipping continuity for our customers during surges in demand. Marten's Brokerage revenue improved 26.1% to \$108.9 million for 2019 from \$86.4 million for 2018. Brokerage operating income increased 61.9% to \$9.0 million from \$5.5 million for 2018. The Brokerage operating ratio was 91.8% for 2019.

Operating within our Truckload and Brokerage segments, another profitable component of Marten's vision and plan is **MRTN de México**, which provides door-to-door business service between the United States and Mexico with our Mexican partner carriers. Its 2019 revenue was \$63.3 million—reported as part of our Truckload and Brokerage results.

### Investing in Safety

As part of Marten's drive for continuous improvement, we have focused on the creation of better jobs for our drivers, safer jobs—the best jobs for the industry's best drivers. Unlike the other major carriers, we only hire experienced drivers. Our dedicated, regional and intermodal infrastructure offers our drivers more attractive route options. We've led the way in compensation improvements, health coverage, safety and technology.

The equipment we provide is the safest available, featuring automatic transmissions, radar-based collision avoidance systems and lane departure systems.

Our approach has given us the finest driving team in the industry—well worth the industry-leading pay increases we've introduced. The return on that investment in terms of safety and driver performance is another ingredient in Marten's profitable growth. Carriers that are forced to hire inexperienced, unproven drivers are more susceptible to safety and regulatory problems. Thanks to Marten's elite driver base and unrelenting emphasis on safety, the liability insurance inflation driven by “nuclear” jury awards has not impacted us to the same degree as the industry in general. While Marten has established a clear competitive edge in hiring top drivers, the overall shortage of drivers remains a critical problem for the industry.

Escalating driver pay and insurance and equipment costs are leading the challenging inflationary cost increases that will continue through 2020. But, we expect an improvement in the rate environment with a tightening of industry capacity in 2020.

Unlike carriers that found themselves saddled with idle tractors and empty trailers during the worsening freight environment in 2019, Marten added 329 Dedicated and 101 Truckload tractors. That was a 16.1% increase in our fleet size since the beginning of the year—another measure of the edge that our multifaceted model gives us, another illustration of the talent and teamwork of the people of Marten. We expect to continue to expand our capacity in 2020 and we're off to a strong start with recent awards of new dedicated business with several customers for over 185 additional tractors starting in 2019's fourth and 2020's first quarters.

Marten's people continued to work together as a smart, disciplined team in 2019 to build on our model and produce profitable growth in a challenging freight and driver market. In the process we have laid the groundwork for another profitable growth year in 2020. Success breeds success.



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 17, 2020

*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 2019 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 5, 2020, 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

### Legal Counsel

Fox Rothschild 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

Computershare Shareowner Services

Stockholder correspondence mailing address:  
P.O. Box 505000  
Louisville, Kentucky 40233

Overnight correspondence address:  
462 South 4th Street, Suite 1600  
Louisville, Kentucky 40202

Telephone: (866) 637-5412

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



## Executive Officers and Directors

**Randolph L. Marten**

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Chief Executive Officer and Director

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President

**James J. Hinnendael**

Executive Vice President and Chief Financial Officer

**John H. Turner**

Executive Vice President of Sales and Marketing

**Thomas A. Letscher**

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Partner,  
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Minneapolis, Minnesota

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Chief Executive Officer,  
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Durand, Wisconsin

**Thomas J. Winkel**

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Management Consultant  
Pewaukee, Wisconsin

**Jerry M. Bauer**

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Chairman of the Board and Chief Executive Officer,  
Bauer Built, Inc.  
Durand, Wisconsin

**Robert L. Demorest**

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Chief Executive Officer and Chairman of the Board,  
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Retired Partner,  
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Dellwood, Minnesota

**Kathleen P. Iverson**

Director  
Retired President, Chief Executive Officer and  
Chairman of the Board,  
CyberOptics Corporation  
Chanhassen, Minnesota

*The 2019 Annual Report is printed on recycled paper.*





