

STIFEL

Marten Transport, Ltd.
MRTN – NASDAQ
Hold
Trucking/Logistics

Analysis of Sales/Earnings

Continues to Gradually Improve its Operating Performance; 3Q13 EPS up 20% y/y

Marten Transport reported 3Q13 EPS of \$0.24, \$0.01 ahead of the Street consensus and our Stifel estimate. On a y/y basis, EPS were up 20% in the 3Q13. If one brings the 3Q12 tax up from the reported effective rate of 33.4% to the 3Q13 reported effective rate of 42.1%, 3Q12 EPS hypothetically drop to \$0.17. Using a flat y/y tax rate comparison, we calculate that, on an adjusted basis, EPS would have been up over 41% y/y. Simply put, we would expect few, if any, carriers to post y/y performance improvement of that magnitude given the challenging economic landscape, the worsening driver shortage, the adverse impact of the new Hours-of-Service rules on productivity, and shippers' general unwillingness to "pony up" meaningful rate increases.

- Operating revenue, net of fuel surcharges and MWL revenue, was up 7.0%** to \$134.5 million in the 3Q13. Driving the revenue increase was 3.0% y/y increase in average truck count, a 1.7% y/y increase in truckload segment equipment utilization (measured in terms of total miles per truck in the quarter), a 1.6% increase in revenue per total truckload mile, a 3.2% y/y increase in loads brokered to other carriers, and a 28.7% increase in the number of loads handled intermodally. These numbers are especially impressive in light of the change in hours of service rules, which crimped many carriers' equipment utilization during the quarter, and the sluggish economic growth evident for much of the quarter.
- The company's operating ratio, net of fuel surcharge revenue, improved 270 basis points y/y to 89.9% in the 3Q13.** Contributing to the improved margins were improved equipment utilization, improved revenue productivity, and a significant 100 basis point y/y drop in the empty mile percentage to 10.4%.
- The company's equipment fleet remains relatively new.** Average company-owned tractor age declined from 2.0 years old at the end of the 3Q12 to 1.9 years old at the end of the 3Q13. Average trailer age increased slightly from 2.2 years old to 2.4 years old over that same period.
- The company's balance sheet remains net debt free.** The company's modest long-term debt balance is more than offset by the company's cash and cash equivalents balance.
- Estimates remain unchanged.** Our 4Q13, 2014, and 2015 EPS are \$0.25, \$1.04, and \$1.15, respectively.
- Maintaining our Hold Rating.** Our 12-month fair value estimate becomes \$18 or 15.5x our unchanged 2015 EPS estimate of \$1.15. We would be inclined to revisit our Hold rating should Marten's common shares drop to \$15 or below.

Changes	Previous	Current
Rating	—	Hold
Target Price	—	NA
FY13E EPS (Net)	—	\$0.93
FY14E EPS (Net)	—	\$1.04
FY13E Rev (Net)	\$667.2	\$664.4
FY14E Rev (Net)	\$698.0	\$696.0

Price (10/15/13):	\$16.53
52-Week Range:	\$19 – \$11
Market Cap.(mm):	552.7
Shr.O/S-Diluted (mm):	33.4
Enterprise Val. (mm):	\$562.9
Avg Daily Vol (3 Mo):	109,820
LT Debt/Total Cap.:	0.2%
Net Cash/Share:	\$0.03
Book Value/Share:	\$10.51
Dividend(\$ / %)	\$0.10 / 0.6%
S&P Index	1,698.06

EPS (Net)	2012A	2013E	2014E
Q1	\$0.16	\$0.22A	\$0.22
Q2	0.23	0.23A	0.27
Q3	0.20	0.24A	0.27
Q4	0.23	0.25	0.29
FY Dec	\$0.82A	\$0.93	\$1.04
P/E	20.2x	17.8x	15.9x

Rev (Net)	2012A	2013E	2014E
Q1	\$151.5	\$164.5A	\$165.9
Q2	157.0	161.4A	172.2
Q3	163.6	167.1A	178.4
Q4	166.4	171.4	179.6
FY Dec	\$638.5A	\$664.4	\$696.0
EV/Revenue	0.9x	0.8x	0.8x

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All relevant disclosures and certifications appear on pages 8 - 9 of this report.

Marten Transport reported 3Q13 EPS of \$0.24, \$0.01 ahead of the Street consensus and our Stifel estimate. On a y/y basis, EPS were up 20% in the 3Q13. The eight sell-side analysts publishing estimates on the company were carrying 3Q13 EPS estimates ranging from a low of \$0.21 to a high of \$0.25. If one brings the 3Q12 tax up from the reported effective rate of 33.4% to the 3Q13 reported effective rate of 42.1%, 3Q12 EPS hypothetically drop to \$0.17. Using a flat y/y tax rate comparison, we calculate that, on an adjusted basis, EPS would have been up over 41% y/y. Simply put, we would expect few, if any, carriers to post y/y performance improvement of that magnitude given the challenging economic landscape, the worsening driver shortage, the adverse impact of the new Hours-of-Service rules on productivity, and shippers' general unwillingness to "pony up" meaningful rate increases.

Operating revenue, net of fuel surcharges and net of MW Logistics (note: MW Logistics financial performance is no longer consolidated in Marten's overall results) was up 7.0% to \$134.5 million in the 3Q13. Driving the revenue increase was 3.0% y/y increase in average truck count, a 1.7% y/y increase in truckload segment equipment utilization (measured in terms of total miles per truck in the quarter), a 1.6% increase in revenue per total truckload mile, a 3.2% y/y increase in loads brokered to other carriers, and a 28.7% increase in the number of loads handled intermodally. These numbers are especially impressive in light of the change in hours of service rules, which crimped many carriers' equipment utilization during the quarter, and the sluggish economic growth evident for much of the quarter.

The company's operating ratio, net of fuel surcharge revenue, improved 270 basis points y/y to 89.9% in the 3Q13. Contributing to the improved margins were improved equipment utilization, improved revenue productivity, and a significant 100 basis point y/y drop in the empty mile percentage to 10.4%. We estimate that the drop in empty mile percentage drove about 100 basis points of the operating ratio improvement while much of the remainder of the improvement was split between improved equipment utilization (up 1.7% y/y even in the face of a 5.9% y/y decline in average length of haul) and improved revenue yield (up 1.6% y/y). We also note that the improvement in the company's truckload segment operating ratio (down 370 basis points y/y) was more than enough to offset the unfavorable 80 basis point increase in its logistics segment's operating ratio—which we believe is the result of lower brokerage margins and flat intermodal pricing exhibited in 3Q13.

The company's equipment fleet remains relatively new. Average company-owned tractor age declined from 2.0 years old at the end of the 3Q12 to 1.9 years old at the end of the 3Q13. However, average trailer age increased slightly from 2.2 years old at the end of the 3Q12 to 2.4 years old at the end of the 3Q13. The ratio of tractors to trailers held steady at 1.8, which suggests that intermodal assets turns have improved. Otherwise, one might have expected an increase in the trailer to tractor ratio.

The company's balance sheet remains net debt free. The company's modest long-term debt balance (\$0.8 million) is more than offset by the company's cash and cash equivalents balance. We expect the company to maintain a conservative debt posturing going forward, and pay-off the remainder of its debt balance in 4Q13 as its capex program has tailed off in 2H13 (management forecasts total investing activities use of cash to be \$78 million in 2013, down \$10 million y/y from \$88 million in 2012).

Our 4Q13, 2014, and 2015 EPS estimates remain unchanged at \$0.25, \$1.04, and \$1.15. These estimates are predicted on y/y revenue growth of 4.1%, 4.8%, and 4.8%, in 2013, 2014, and 2015. Those revenue growth rates are a function of

6.5%, 3.9%, and 3.2% overall y/y volume growth and 0.2%, 2.0%, and 2.3% overall y/y unit revenue growth during 2013, 2014, and 2015, respectively. Our operating ratio assumptions, net of fuel surcharge revenue, are 90.1% for 2013, 89.8% for 2014, and 89.4% for 2015. We are comfortable that these numbers are achievable provided the economy continues to grow at a slow 1% to 2% rate y/y. Economic growth slower than the assumed range would likely set up a less robust EPS growth trajectory while a more rapidly growing economy would likely drive actual performance beyond our EPS forecast.

Our investment rating on the common shares of Marten Transport remains Hold. Our 12-month fair value estimate becomes \$18 or 15.5x our unchanged 2015 EPS estimate of \$1.15. We would be inclined to revisit our Hold rating should Marten's common shares drop to \$15 or below.

Company Description

Marten Transport is one of the leading temperature-sensitive truckload carriers in the United States. The company specializes in transporting food and other consumer packaged goods that require a temperature-controlled, refrigerated, or insulated environment. Headquartered in Mondovi, WI, Marten operates primarily in the long-haul lanes between the Midwest and West Coast, between California and the Pacific Northwest, and in the Southwest, Southeast, and East Coast regions but is growing faster in the regional markets. The company also has grown significantly into intermodal and truck brokerage services, as its Logistics division now accounts for nearly 20% of operating revenue.

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Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

Company name (Ticker)	Rating	Closing Price 10/15/2013	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV ^(a)	Equity value as a multiple of				Enterprise value as a multiple of					TTM ROA	TTM ROE	TTM ROIC	PEG ratio ^(d)	Div. Yield	2013E FCF Yld
								Earnings per Share			Book value	TTM Revenue	2013E EBITDA	TTM EBITDA	TTM EBITDAR ^(c)	TTM EBIT						
Truckload																						
Celadon Group (CGI)	Buy	17.53	23.7	416.1	294.4	1.3	709.2	13.4x	15.4x	12.9x	1.8x	1.2x	6.3x	6.7x	6.3x	14.6x	4.7%	13.0%	6.4%	0.9	0.5%	-5.0%
Covenant Transport (CVTI)	NC	6.38	14.8	94.2	166.6	8.6	252.2	15.6x	26.6x	14.5x	1.0x	0.4x	NE	4.3x	4.1x	16.3x	0.6%	2.6%	3.2%	2.2	0.0%	NE
Heartland Express (HTLD)	Buy	14.13	84.8	1,198.9	0.0	152.3	1,046.6	19.9x	16.1x	17.0x	3.7x	1.9x	5.7x	6.3x	6.3x	10.1x	12.4%	18.9%	18.9%	2.4	0.6%	4.4%
J.B. Hunt Transport Svcs. (JBHT)	Hold	72.75	117.9	8,574.5	687.5	6.0	9,256.0	28.1x	25.1x	22.0x	8.7x	1.7x	11.0x	11.4x	11.3x	16.3x	13.0%	38.0%	22.6%	1.5	0.8%	2.6%
Knight Transportation (KNX)	Hold	16.73	80.2	1,341.1	26.0	0.7	1,378.8	19.7x	20.2x	17.6x	2.6x	1.4x	7.0x	6.9x	6.9x	12.1x	9.0%	13.4%	12.5%	1.3	1.4%	4.1%
Landstar System (LSTR)	Hold	56.95	46.0	2,621.4	146.3	102.0	2,665.7	20.6x	21.3x	19.3x	6.7x	1.0x	11.6x	11.8x	11.7x	13.5x	14.0%	33.6%	24.4%	1.3	0.0%	6.0%
Marten Transport (MRTN)	Hold	16.53	33.4	552.7	0.8	1.1	562.9	20.1x	17.8x	15.9x	1.6x	0.9x	4.8x	4.8x	4.9x	10.7x	6.0%	8.9%	9.0%	1.1	0.6%	6.0%
P.A.M. Transportation Svcs. (PTSD)	NC	16.31	8.7	142.7	116.7	0.9	258.5	NM	24.0x	18.1x	1.2x	0.7x	NE	5.8x	5.7x	NM	0.9%	2.2%	2.1%	NM	0.0%	NE
Quality Distribution (QLTY)	Buy	9.89	27.8	274.9	406.6	2.4	679.1	14.3x	12.7x	9.9x	NM	0.9x	7.6x	8.8x	8.0x	13.2x	3.7%	NM	8.8%	1.0	0.0%	6.3%
Swift Transportation (SWFT)	Buy	19.67	142.9	2,810.5	1,491.9	43.5	4,258.8	19.7x	15.9x	13.9x	9.2x	1.2x	7.1x	7.7x	6.9x	12.2x	6.5%	NM	13.6%	0.8	0.0%	6.5%
Universal Truckload Svcs. (UACL)	Buy	27.45	30.1	826.6	128.0	6.2	948.4	20.3x	15.6x	13.7x	9.9x	0.9x	8.8x	9.0x	8.7x	11.1x	21.2%	50.7%	29.8%	0.7	1.0%	5.0%
USA Truck (USAK)	NC	9.02	10.5	94.8	150.1	0.3	244.5	NM	NM	NM	0.9x	0.5x	NE	8.4x	8.1x	NM	-3.8%	-11.2%	-4.0%	NM	0.0%	NE
Werner Enterprises (WERN)	Hold	23.20	72.9	1,691.1	40.0	24.2	1,706.8	16.6x	19.2x	16.6x	2.3x	0.8x	5.4x	5.2x	5.2x	10.9x	7.1%	12.5%	12.2%	1.4	0.9%	3.5%
Min				94.2	0.0	0.3	244.5	13.4x	12.7x	9.9x	0.9x	0.4x	4.8x	4.3x	4.1x	10.1x	-3.8%	-11.2%	-4.0%	0.7	0.0%	-5.0%
Mean				1,587.6	281.1	26.9	1,843.6	18.9x	19.1x	16.0x	4.1x	1.0x	7.5x	7.5x	7.2x	12.8x	7.3%	16.6%	12.3%	1.3	0.4%	3.9%
Mean (Asset-based TL only)				1,691.6	297.4	23.9	1,967.4	19.1x	20.0x	16.5x	3.3x	1.1x	6.7x	6.8x	6.6x	12.9x	5.6%	10.9%	9.6%	1.5	0.5%	3.2%
Median				826.6	146.3	6.0	948.4	19.7x	18.5x	16.2x	2.4x	0.9x	7.0x	6.9x	6.9x	12.2x	6.5%	13.0%	12.2%	1.3	0.5%	4.7%
Max				8,574.5	1,491.9	152.3	9,256.0	28.1x	26.6x	22.0x	9.9x	1.9x	11.6x	11.8x	11.7x	16.3x	21.2%	50.7%	29.8%	2.4	1.4%	6.5%
Stifel Transportation Average				8,854.0	1,546.5	432.1	10,030.6	20.6x	19.3x	16.5x	3.2x	2.3x	9.1x	9.8x	9.1x	18.2x	5.3%	17.4%	9.8%	1.3	0.9%	2.2%

(a) Total Enterprise Value = Market Capitalization of Equity + Total Debt - Cash + Market Value of Minority Interest

(b) Stifel estimates for those rated and First Call mean estimates for unrated securities

(c) Enterprise value adjusted to include the capitalization of off balance sheet operating leases with lease expense (or rent expense) being added back to EBITDA for the valuation multiple calculation

(d) 2014E P/E divided by First Call mean or Stifel estimated long-term growth rate

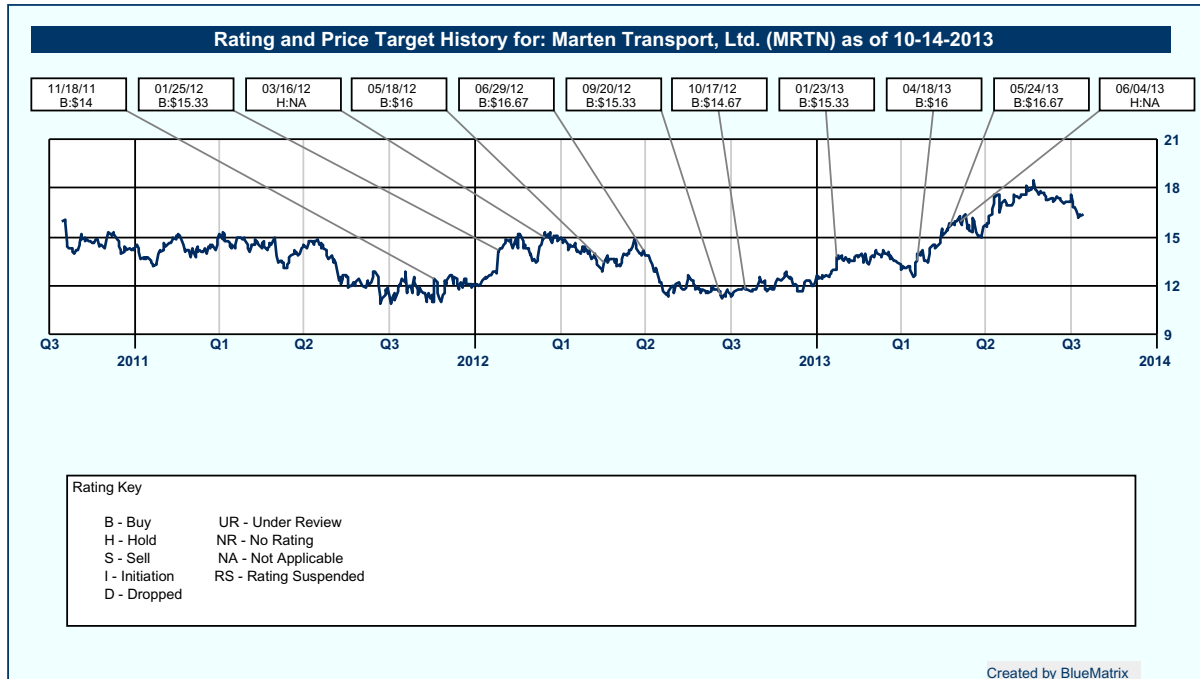
Excludes non-recurring items

Calculations may vary due to rounding

Source: Company data, First Call, and Stifel estimates

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For a price chart with our ratings and target price changes for MRTN go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=MRTN>

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Stifel makes a market in the securities of Marten Transport, Ltd..

Stifel research analysts receive compensation that is based upon (among other factors) Stifel's overall investment banking revenues.

Our investment rating system is three tiered, defined as follows:

BUY -For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For other non-U.S. securities we expect the stock to outperform the MSCI World Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500, for Canadian securities as compared to the S&P/TSX Composite Index, and for other non-U.S. securities as compared to the MSCI World Index.

HOLD -For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

SELL -For U.S. securities we expect the stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value. For Canadian securities we expect the stock to underperform the S&P/TSX Composite Index by more than 10% over the next 12 months and believe the stock could decline in value. For other non-U.S. securities we expect the stock to underperform the MSCI World Index by more than 10% over the next 12 months and believe the stock could decline in value.

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