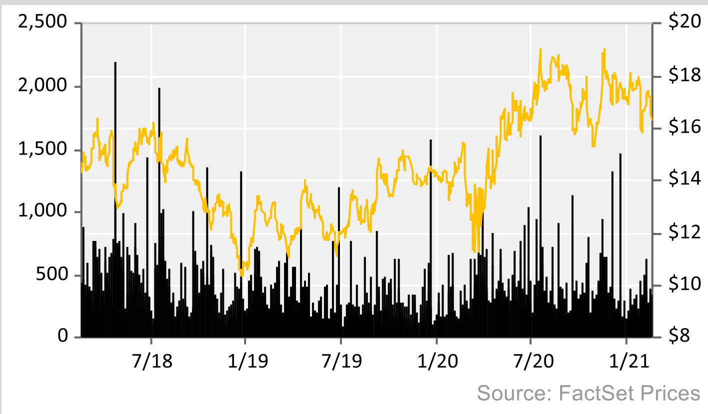
Industrials, Trucking

# Marten Transport, Ltd

| Recommendation: Buy | | | | |
|---|---|---|---|---|
| Current Price | **$16.44** | --- | Ticker | MRTN |
| 1 Year Bear | $18 | *+8%* | Sh. Out. (M) | 83 |
| 1 Year Base | **$20** | ***+22%*** | M.Cap. ($M) | 1,403 |
| 1 Year Bull | $22 | *+34%* | EV ($M) | 1,327 |

## Price History




| | 5Y | 3Y | 2Y | LTM | YTD | 3M | 1M |
|---|---|---|---|---|---|---|---|
| **Return** | 164% | 29% | 59% | 27% | 24% | -9% | -5% |

## Financials

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021F | 2022F |
|---|---|---|---|---|---|---|---|
| **Sales($M)** | **67.1** | **69.8** | **78.8** | **84.3** | **90.1** | **92.6** | **96.0** |
| *Gr. %* | 0.9% | 4.0% | 12.9% | 7.0% | 6.9% | 2.8% | 3.6% |
| *v. Cons.* | - | - | - | - | - | 8.3% | 11.0% |
| *Industry* | -2.1% | -4.0% | 5.3% | 16.1% | 0.2% | 5.1% | 6.2% |
| **EPS** | **$0.41** | **$0.41** | **$0.67** | **$0.74** | **$0.82** | **$1.11** | **$1.19** |
| *Gr. %* | 2.5% | 0.0% | 65.8% | 10.4% | 10.8% | 35.3% | 7.2% |
| *v. Cons.* | - | - | - | - | - | 14.6% | 5.3% |
| *Industry* | 3.3% | 1.4% | 2.2% | -4.3% | 4.1% | 26.2% | 10.8% |

## Ratios

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021F | 2022F |
|---|---|---|---|---|---|---|---|
| **NPM** | **4.9%** | **12.9%** | **7.0%** | **7.2%** | **7.3%** | **6.2%** | **6.2%** |
| *Industry* | 5.8% | 4.6% | 11.0% | 6.8% | 6.7% | | |
| **ROE** | **7.9%** | **18.8%** | **10.0%** | **10.4%** | **10.5%** | **11.2%** | **11.5%** |
| *Industry* | 15.8% | 11.5% | 24.4% | 14.1% | 13.1% | | |
| **ROA** | **5.2%** | **13.3%** | **7.5%** | **7.8%** | **7.9%** | **8.0%** | **8.5%** |
| *Industry* | 7.6% | 5.6% | 13.5% | 7.9% | 7.2% | | |
| **A T/O** | **1.02** | **1.03** | **1.08** | **1.07** | **1.09** | **1.09** | **1.12** |
| **A/E** | **1.38** | **1.41** | **1.33** | **1.34** | **1.38** | **1.40** | **1.39** |

## Valuation

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021F | 2022F |
|---|---|---|---|---|---|---|---|
| P/E | 22.8 | 12.3 | 16.2 | 19.4 | 17.5 | 20.1 | 22.2 |
| *Industry* | 23.7 | 38.7 | 9.3 | 19.7 | 22.8 | 23.4 | 18.9 |
| P/S | 1.10 | 1.60 | 1.10 | 1.40 | 1.57 | | |
| P/B | 1.70 | 2.10 | 1.50 | 2.00 | 1.80 | | |
| P/CF | 5.70 | 9.10 | 5.90 | 7.70 | 6.60 | | |
| EV/EBITDA | 5.90 | 8.00 | 5.40 | 7.00 | 6.20 | | |
| D/P | 0.4% | 0.4% | 0.6% | 0.6% | 0.5% | | |
| | | | | | | | |

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## Summary

I recommend a buy rating with a 1-year price target of $20. Marten Transport has been able to overcome an economic shutdown and a world-wide pandemic, but these forces still leave a level of uncertainty on the table such as changing consumer buying behaviors, rising raw materials cost, and new consumer trends. While my forecasts are below market estimates, I believe Marten Transport will be given a higher valuation premium due to its market development into a diversified brand portfolio, high customer satisfaction, and a continued successful research and development track record. The DCF valuation implies the stock is undervalued and multiples lead to a similar conclusion.

## Key Drivers

- Effects of fuel price fluctuations on trucking: Marten Transport is exposed to the fluctuations of fuel prices. To mitigate this, MRTN deploys fuel surcharge programs.
- Growth of economy and impact on trucking demand: Expansion within the industrial sector should allow MRTN to capitalize on the increase in demand for trucking.
- In-house operating technology advancements: Marten Transport's continued investment into in-house operating technology should allow its firm's operations to become more efficient by improving average revenue per tractor.
- Fleet growth: Marten Transport has been growing its fleet size which should correlate to an increase in operating revenue. MRTN's large fleet size is an advantage when customers consolidate carriers.
- COVID-19's effect on Marten Transport: COVID-19 still poses business opportunities and threats while vaccine treatments are still being worked on for the public.

## Valuation

Using a relative valuation approach, Marten Transport appears to be slightly overvalued in comparison to the trucking industry. DCF analysis implies that the stock is worth $20.83. A combination of the approaches suggests that Marten Transport is undervalued, and the stock's true value is about $20 per share.

## Risks

- Fluctuations in economic and business factors
- Changing consumer buying behavior
- Increased cost for revenue equipment

## Company Overview

The five-year CAGR since 2015 for net revenue is 4.9%, while the five-year CAGR for each segment is:

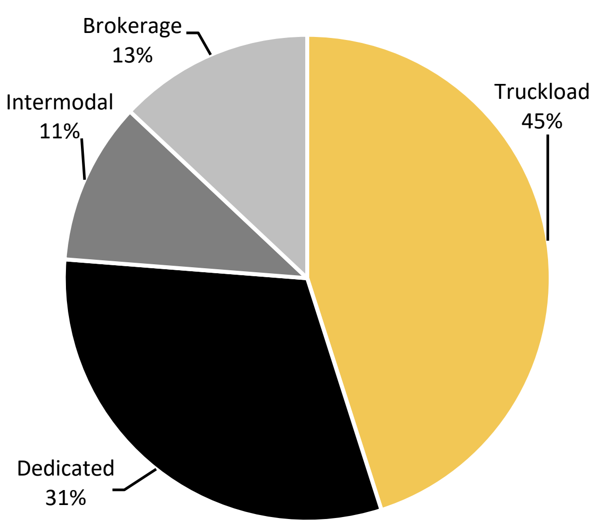
- Truckload is -1.0%
- Dedicated is 17.6%
- Intermodal is -1.5%
- Brokerage is 8.8%

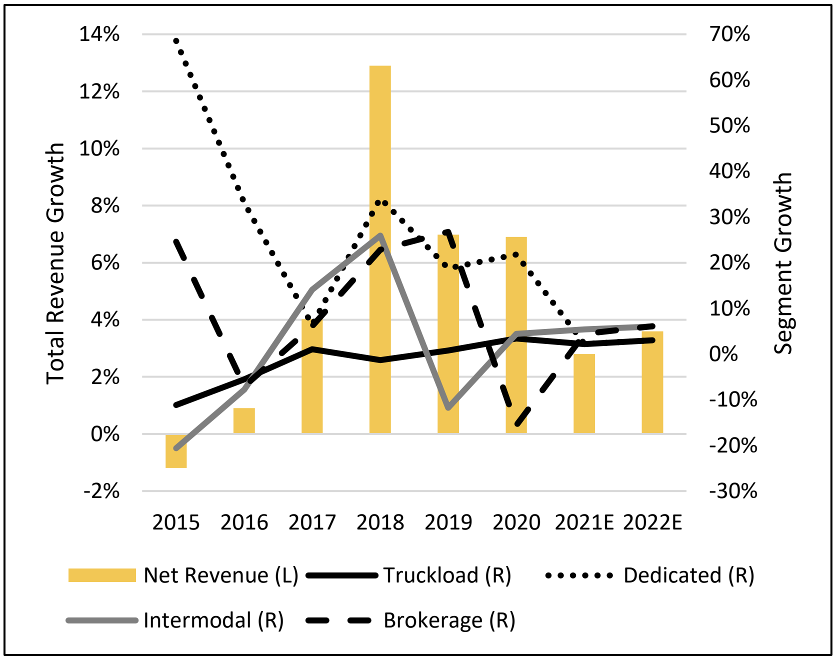
Marten Transport Ltd. (MRTN) engages in the provision of time and temperature-sensitive truckload carrier services, dry transportation, and distribution services to customers in the United States, Canada, and Mexico. MRTN has strategically transitioned from a long-haul carrier to a multifaceted business offering a network of truck-based transportation capabilities. MRTN serves customers with demanding delivery deadlines, as well as those who ship products requiring modern temperature-controlled trailers to protect goods. Marten Transport Ltd. was founded in 1946, and it has been public since 1986. MRTN common stock trades on the NASDAQ Global Select Market. MRTN employs more than 4,087 people, including drivers, office personnel, and mechanics since 2019. The company was founded by Roger R. Marten and is headquartered in Mondovi, WI.

Marten Transport Ltd. generates roughly 45% of its revenue from its Truckload segment, 31% of its revenue is from the Dedicated segment, 11% of MRTN revenue comes from the Intermodal segment, and 13% of revenue is generated from the Brokerage segment.

1) Truckload—regional and over-the-road fleets operating from Marten's 15 regional service centers, including dry van operations out of Kansas City, Atlanta, and Phoenix facilities.
2) Dedicated—customized solutions tailored to individual customers' requirements utilizing refrigerated trailers, dry vans, and other specialized equipment.
3) 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.
4) Brokerage—surge flexibility to supplement Marten's capabilities through temperature-controlled and dry van services provided by smaller third-party carriers.

**Figures 1 & 2: Segment revenue (% total revenue) in 2019 (left) and historical and projected revenue (right)**




*Source: Company reports*

## Business/Industry Drivers

While there are several factors that may contribute to Marten Transport's future success, the following are the most important business drivers:

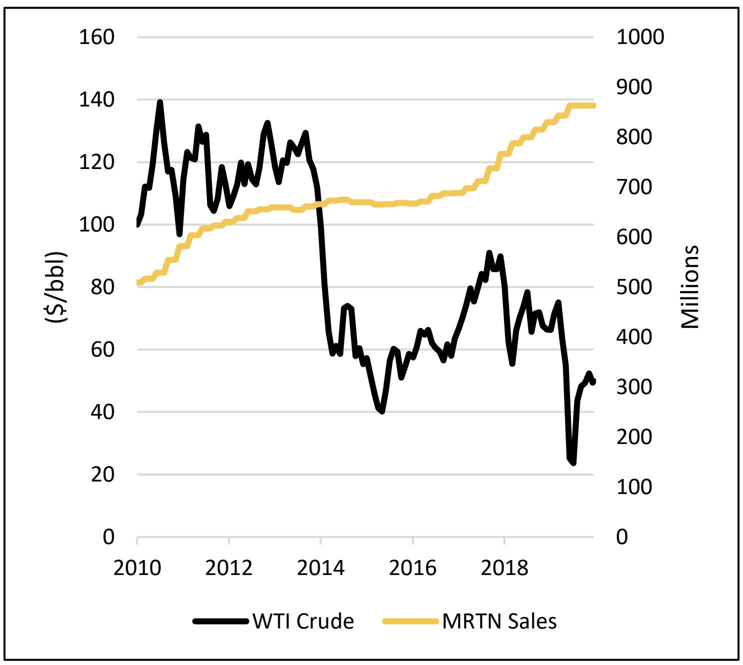
1) Effects of fuel price fluctuations on trucking
2) Growth of the economy and impact on trucking demand
3) In-house operating technology advancements
4) Fleet growth
5) COVID-19's effect on Marten Transport

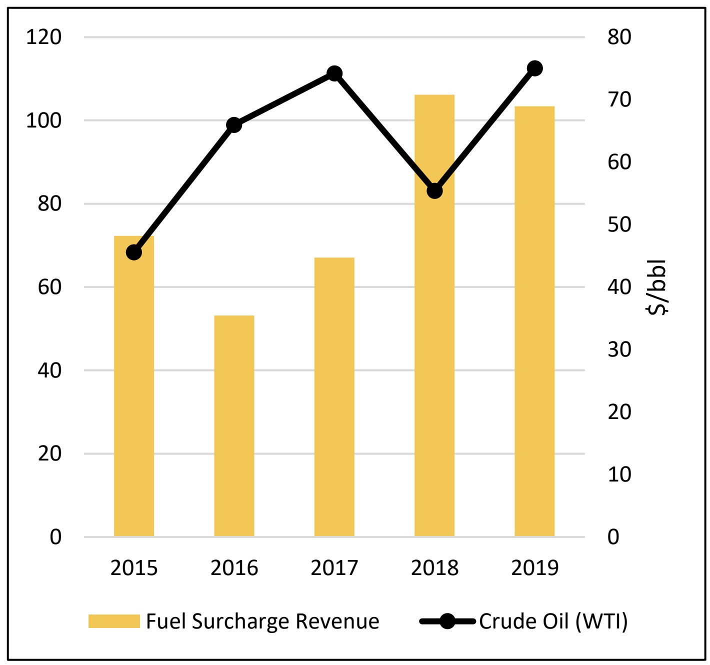
Lower fuel costs mean a lower price passed on to the consumer but increased demand for services

Effects of fuel price fluctuations

Price fluctuations in the market for crude oil (WTI) is constantly evolving and the significant decline over the past seven years has had a dramatic impact on Marten Transport. Marten Transport utilizes fuel surcharge programs to manage its exposure to changes in fuel prices. This acts as safety net for MRTN's fuel costs when prices increase, as it enables the company to recover a substantial portion of the higher cost, except for non-revenue miles, out-of-route miles, or fuel used while the tractor is idling. As of December 31, 2019, the company did not utilize derivative financial instruments to reduce its exposure to fuel price fluctuations.

**Figures 3 and 4: Crude oil (WTI) to MRTN sales, since 2010 (left) and fuel surcharge revenue, since 2015 (right)**




*Source: FactSet, Company reports*

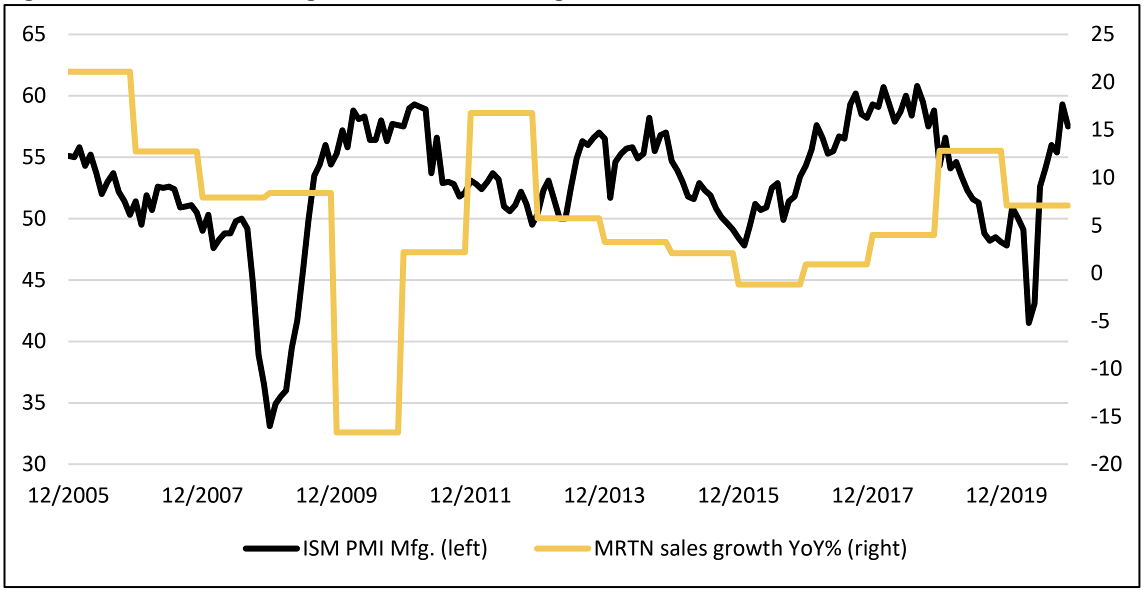
WTI was at $115 a barrel in 2014, but it now trades at about $40. While fuel surcharge revenue should protect the firm's margins, figure 4 shows that it is inversely correlated with oil prices. This is because the charge is added the next year. From 2016 to 2018, due to rising fuel prices, Marten Transport was able to gain $53 million or 100% gain in fuel surcharge revenue.

Higher fuel costs mean a higher price passed on to the consumer due to fuel surcharge programs

Given the industry's use of fuel surcharges, customers will constantly seek the lowest cost alternatives, Marten benefits by offering a diverse array of delivery options including truck and intermodal. MRTN can also switch to the brokerage segment if needed.

Trucking is highly correlated with the ISM Mfg. PMI

**Figure 5: ISM manufacturing PMI to Marten sales growth, since 2005**




*Source: Factset, Company Reports*

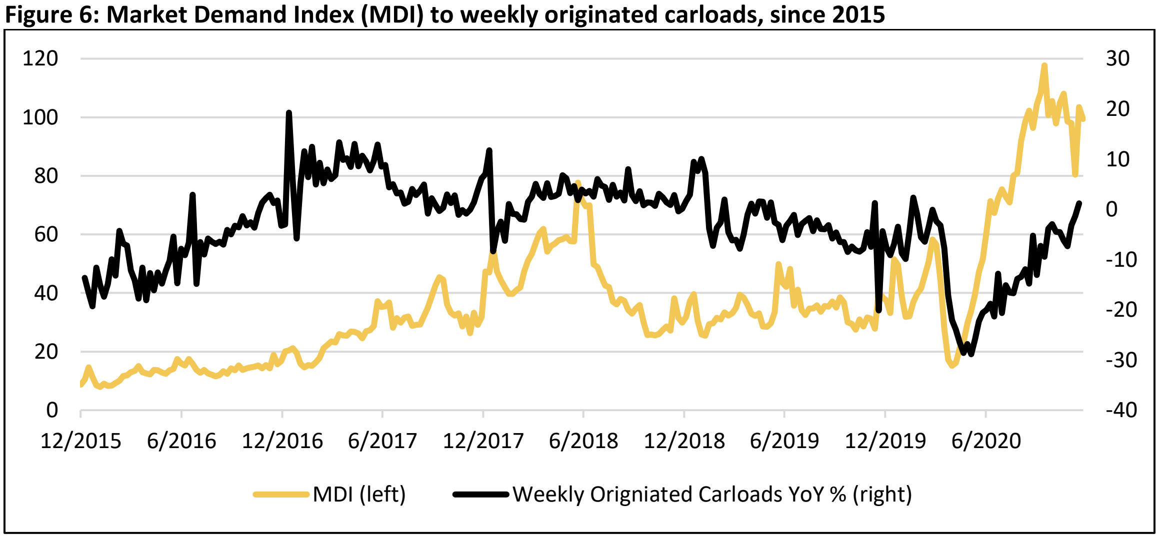
<u>Growth of the Economy and Impact on Trucking Demand</u>

The ISM manufacturing PMI (figure 5) is a good gauge of manufacturing new orders, production, employment, supplier deliveries, and inventories. Due to the initial pandemic, the PMI took a sharp dive to 42 points. In the second and third quarter of 2020, the PMI rose 56 points. A reading over 50 indicates the expansion of the U.S. manufacturing industry, and since the manufacturing industry relies heavily on the trucking industry, you can see in figure 5 that the change in the PMI is highly correlated with Marten's sales growth with about a year lag.

Marten Transport's 2Q 2020 Truckload segment's sales increased 3% while its revenue from the Dedicated segment increased 19%. Interestingly, the Intermodal segment's growth was slightly negative as the initial shutdowns caused freight volume to decrease by -17% between the us-Canadian and the us-Mexican border. As the economy recovers so does freight volume; November freight volume increased more than 12% which is no surprise witnessing the PMI grew to nearly 60 by November.

MDI and weekly originated carloads have been rapidly expanding since May 2020

**Figure 6: Market Demand Index (MDI) to weekly originated carloads, since 2015**

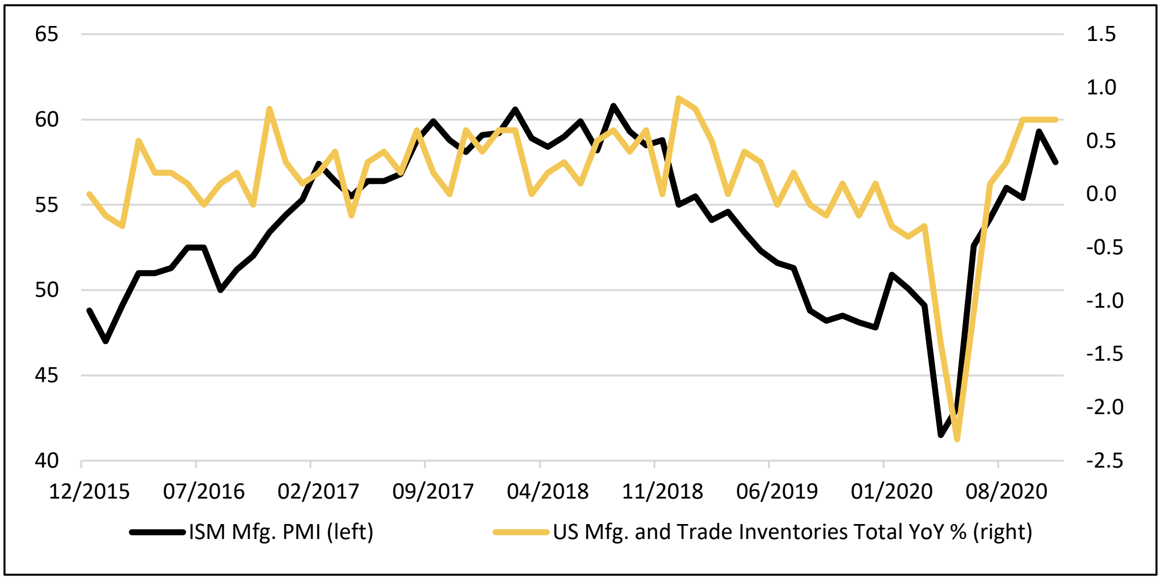



*Source: FactSet*

Marten Transport's services stem from companies' inventory, inventory must be turned into cash for a business to profit. Overstocking inventory can lead to unsold items or margin-killing discounts. Companies also miss out on sales if hot items sell out. COVID-19's outbreak has created havoc with both supply and demand. These supply chain disruptions cause order shifts and delays which then effect the transportation side of business. United States business inventories decreased -5% from January 2020 to June 2020 (figure 7). Since June, us business inventories increased by 1% showing that businesses are starting to accumulate more inventory. When inventories are low the market demand index rises, and MRTN benefits (figure 6). Once business inventories start to re-establish a new average level of inventory, trucking growth may level off. This would temporarily limit Marten growth after the initial "catch-up" of inventory.

When US inventories are volatile it typically corresponds in volatile ISM Mfg. PMI movements

**Figures 7: ISM manufacturing PMI to US Manufacturing and trade inventories, since 2015**




*Source: Bloomberg*

<u>In-house Operating Technology Advancements</u>

The growth of electronic vehicles presents a lucrative investment opportunity for MRTN that could allow management to improve operating margins and improve the ESG positioning of the company

Marten Transport employs technology in its operations to operate more efficiently and effectively. Here are some examples:

- Terrestrial based tracking and messaging to download operating information.
- Electric data interchange and internet communication with customers for freight tendering, invoices, shipping status, and other information.
- Auxiliary power units installed on company-owned tractors, which helps decrease fuel costs associated with idling.
- Fuel-routing software that optimizes the fuel stops for each trip to take advantage of MRTN's volume discounts.

Marten Transport's cost-justified investment into operational and marketing technology has allowed its Truckload segment to grow its 2020 miles per tractor by 8.5% over the third quarter of 2019 and by 6.2% over the first nine months of 2019. The company is able to make quick data-driven decisions and transportation adjustments using in-house operating technology that is ahead of the industry.

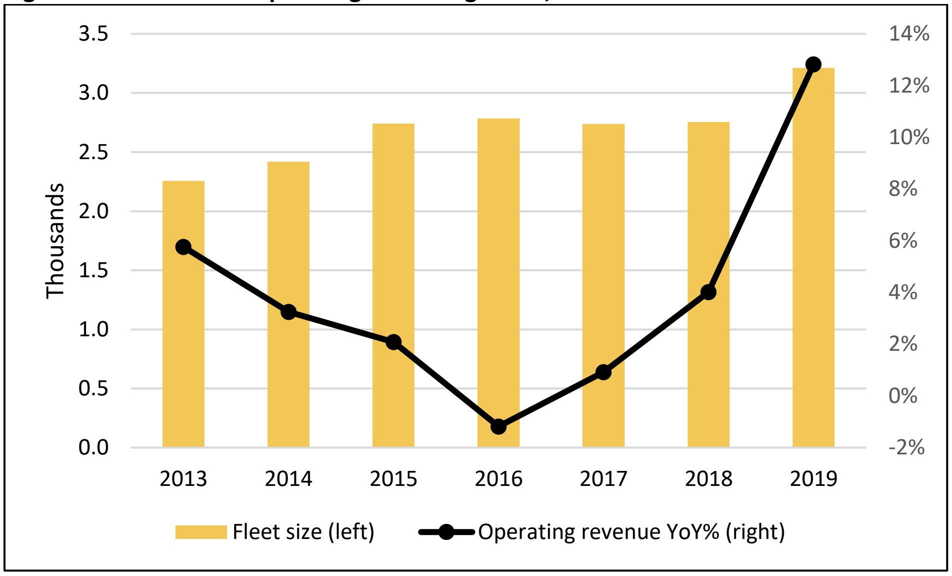
Fleet Growth

Marten Transport's growing fleet size is strongly correlated to its growing operating revenue. Growing the fleet size allows Marten to better meet the demand from customers and dedicated partners. In 2019, the firm grew its fleet by 17%, resulting in a 7% gain in operating revenue. Dedicated segment revenue, net of fuel surcharges, increased 20% from 2018, primarily due to fleet growth driven by an increase in the number of dedicated contracts with customers and an increase in average revenue per tractor.

MRTN's fleet size compared to the average competitor is significantly below average

Knight-Swift Transportation (KNX) maintains a fleet size of roughly 18,000 tractors

**Figures 8: Fleet size to operating revenue growth, since 2013**




*Source: Company reports, FactSet*

As an example, in 2015 Marten Transport was selected by Walmart (WMT) for its "Grocery Dedicated Carrier of the Year" based on exceptional performance in the areas of customer service, effective communication, and provision of on-time deliveries for time and temperature sensitive products. In 2019, MRTN stated that its largest dedicated customer was Walmart. MRTN currently operates more than four distribution centers, making over 7,000 store deliveries weekly. Walmart accounted for 17% of its revenue in 2019 and 21% of its trade receivables, compared to 15% revenue and 12% trade receivables in 2018.

Marten Transport's second largest customer, Coca-Cola (KO), made up 14% of its 2019 revenue and 9% of its trade receivables. This compares with 13% revenue in 2018 and 7% trade receivables.

MRTN utilizes independent contractors who are paid a fixed rate per mile. An advantage to utilizing independent contractors is that they must pay for their own fuel, insurance, maintenance, and repairs. Drivers are compensated based upon safe and efficient driving which boosts customer satisfaction, the quality of services provided, and a boost in employee motivation.

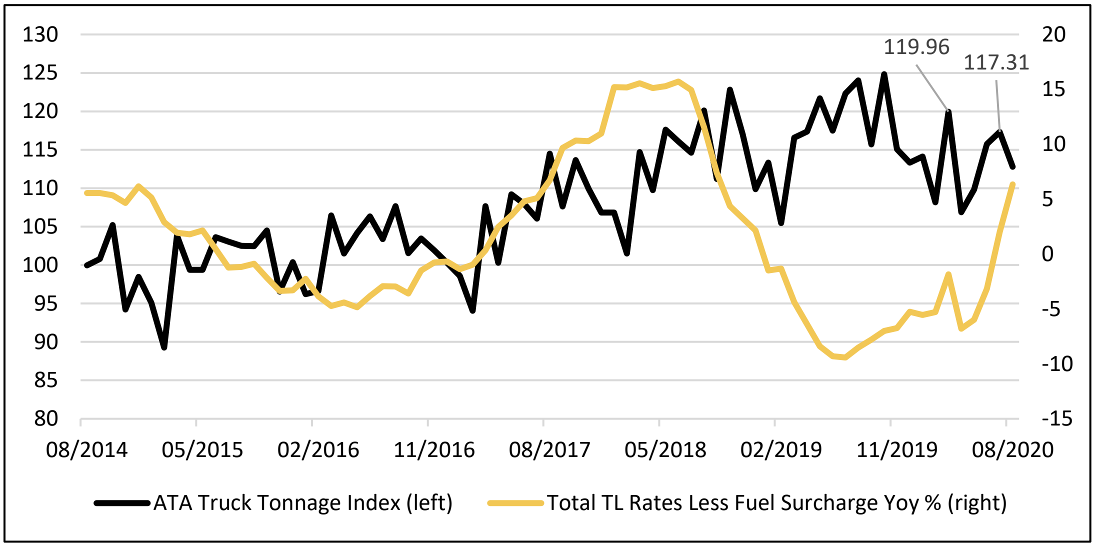
COVID-19's Effect on the Trucking Industry

COVID-19 caused a significant decrease in manufacturing and retail activity during the start of COVID-19, resulting in lowered overall freight volumes for non-essential freight. MRTN, primarily a transportation service for time and temperature sensitive products, was deemed an essential business. Its Intermodal segment, net of fuel surcharges, increased 5% due to increased load volume in the first six months of 2020. Figure 9 shows that during the first six months of 2020 there were multiple waves in the tonnage index due to COVID-19. The two significant peaks at 117 and 120 happened during the spring-summer COVID-19 waves, but after the waves subside the ATA truck tonnage index declined 4% from July to August 2020. After dropping in 2019, the truckload (TL) rate less fuel surcharge has been rising, which is good for profitability.

Marten Transport's Brokerage segment revenue fell 14% primarily because of a decrease in revenue per load in the first six months of 2020. This segment includes owner-operators that can be hired on a temporary basis when demand rises beyond MRTN's capacity. These truckers cost more, but the firm does not own the trucks, so it is less asset intensive. Marten Transport's cross-border operations between Mexico and Canada was hit because countries like Canada were only operating at about 79% of normal commercial transportation activity. To emphasize this point, the stocks of the United States trucking industry have outperformed the world trucking index, which may indicate that the US shut down the economy less than other areas of the world.

ATA truck tonnage serves as a barometer to the U.S. economy by the tonnage carried by all domestic transportation

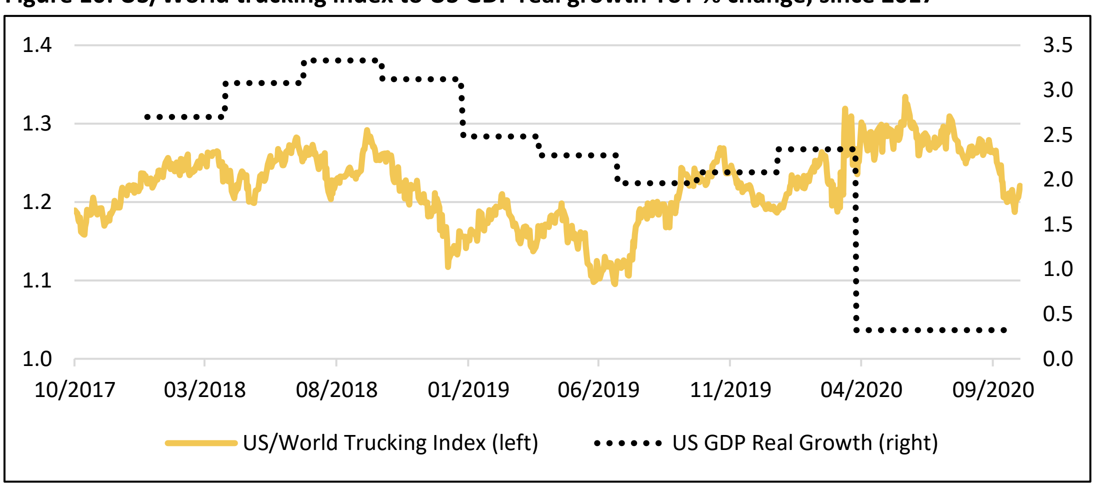
**Figure 9: ATA truck tonnage index to total TL rate less fuel surcharge, since 2014**




*Source: Bloomberg*

On the other hand, companies like Walmart and Coca-Cola, which outperform during recessions are a big source of revenue for Marten Transport and staples, food, and beverage companies initially benefited from COVID-19 stay-at-home spending. According to the American Frozen Food Institute (AFFI), 50% of consumers who purchased frozen food since COVID-19's onset say they will purchase a lot more (18-32%) in the next few months. The AFFI "Frozen Food Sales Amid COVID-19" study suggests that the frozen category will grow for months and years to come. More consumers will rely on the variety and convenience of frozen foods.

**Figure 10: US/World trucking index to US GDP real growth YoY % change, since 2017**



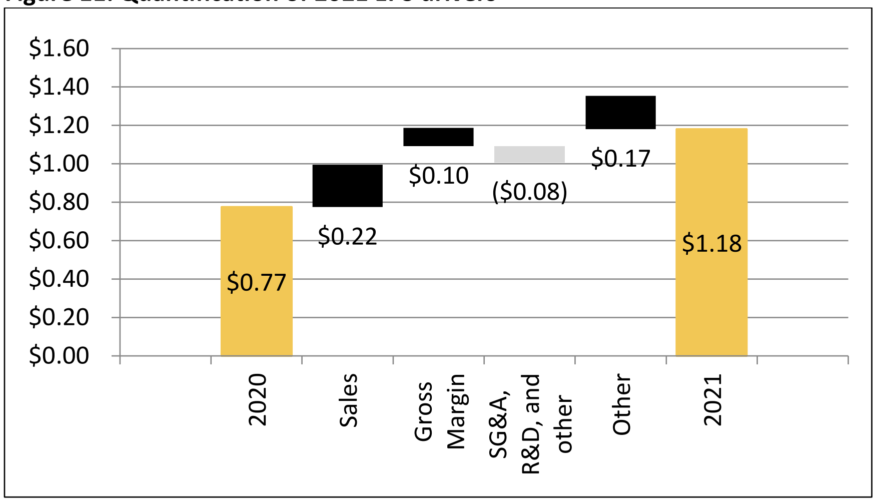

*Source: Bloomberg*

## Financial Analysis

I forecast EPS to grow to $1.18 in FY 2021. Increasing sales within the Truckload, Dedicated, Brokerage, and Intermodal segment should increase earnings by $0.22. Gross margin should rise and boost earnings by $0.10. Higher SG&A and other as a percent of sales costs EPS $0.08, while lower interest and taxes boost EPS $0.17. SG&A and R&D expense will continue to rise, as a direct result of increasing cost of revenue equipment and increasing workforce due to a larger fleet.

EPS is expected to grow 10% in 2021

**Figure 11: Quantification of 2021 EPS drivers**

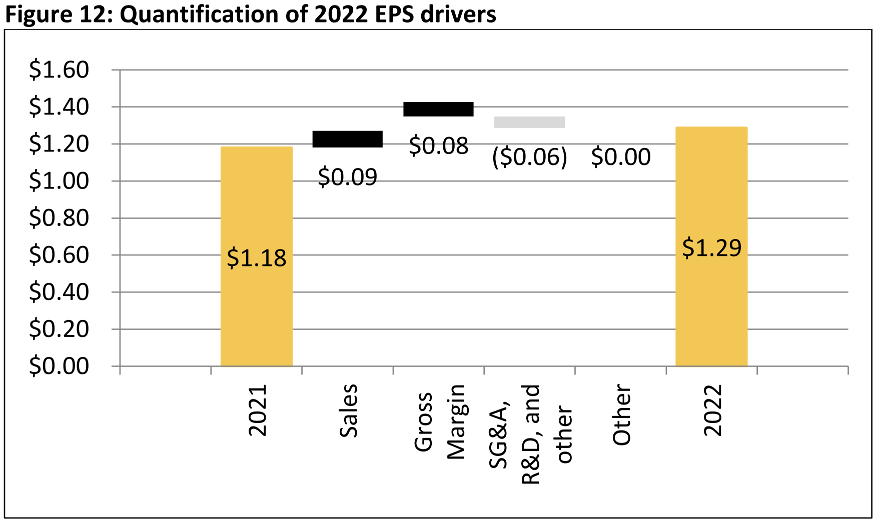



*Source: Company Reports, IMCP*

I expect FY 2022 EPS to grow to $1.29. Marten Transport will continue to grow sales from the Truckload, Dedicated, Brokerage, and Intermodal segment and this adds $0.09. The Intermodal and Brokerage segment sales, should rise, with a normalizing economy and a positive outlook post COVID-19. Gross margin will rise and boost EPS by $0.08. I expect SG&A, R&D, and other to rise as a percent of sales and reduce revenue earnings by $0.06.

EPS is expected to grow 53% in 2022

**Figure 12: Quantification of 2022 EPS drivers**




*Source: Company Reports, IMCP*

I am more optimistic for EPS than consensus for FY 2021, however this is because of margins as I am in-line with consensus sales. I expect inventory rates to start stabilizing in the next two coming years, as us economic growth accelerates. I anticipate consistent growth into FY 2022. FY 2021 EPS is expected to grow 35.3%, while FY 2022 EPS is expected to grow 7.2%, which is still more optimistic compared to consensus even though in 2022 my revenue estimates are below consensus.

**Figure 13: EPS and YoY growth estimates by quarter**

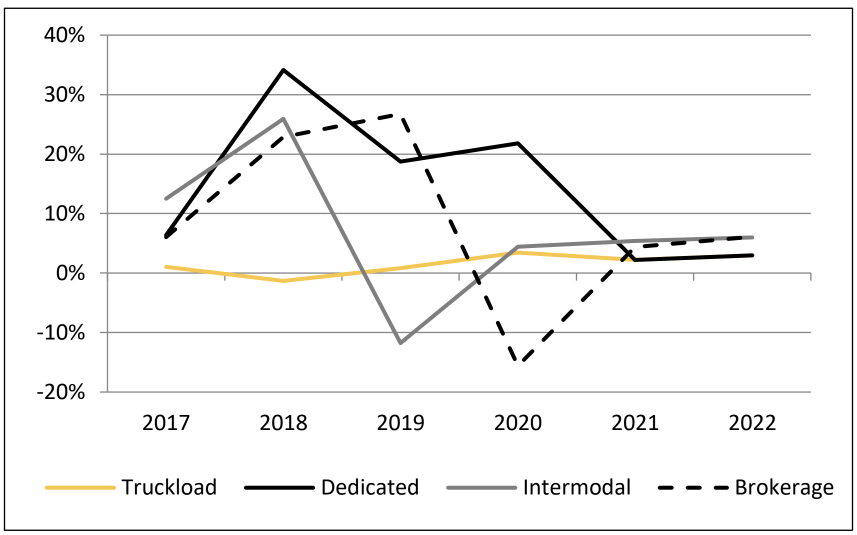
| EPS and YoY growth est. | 2016 | 2017 | 2018 | 2019 | 2020 | FY 2021 | FY 2022 |
|---|---|---|---|---|---|---|---|
| Revenue - Estimate | $ 67.1 | $ 69.8 | $ 78.8 | $ 84.3 | $ 90.1 | $ 92.6 | $ 96.0 |
| YoY Growth | 0.9% | 4.0% | 12.9% | 7.0% | 6.9% | 2.8% | 3.6% |
| Revenue - Consensus | | | | | | $ 92.1 | $ 102.3 |
| YoY Growth | | | | | | 8.3% | 11.0% |
| EPS - Estimates | $ 0.41 | $ 0.41 | $ 0.67 | $ 0.74 | $ 0.82 | $ 1.19 | $ 1.29 |
| YoY Growth | 2.5% | 0.0% | 65.8% | 10.4% | 10.8% | 35.3% | 7.2% |
| EPS - Consensus | | | | | | $ 0.94 | $ 1.00 |
| YoY Growth | | | | | | 14.6% | 5.3% |

*Source: Factset, IMCP*

Revenues

Marten Transport's revenues have been increasing since 2016. While I expect Marten to continue to benefit from a stabilizing economy, I forecast revenue growth to slow in 2021 and 2022 as compared to prior years. The initial COVID-19 induced economic shutdown created panic and impulsive business decisions. Marten Transport was able to capitalize off this scenario due to the increased demand for its services. This is the result of its diversified brand portfolio.

**Figure 14: Marten Transport segment revenues**




*Source: Company Reports, IMCP*

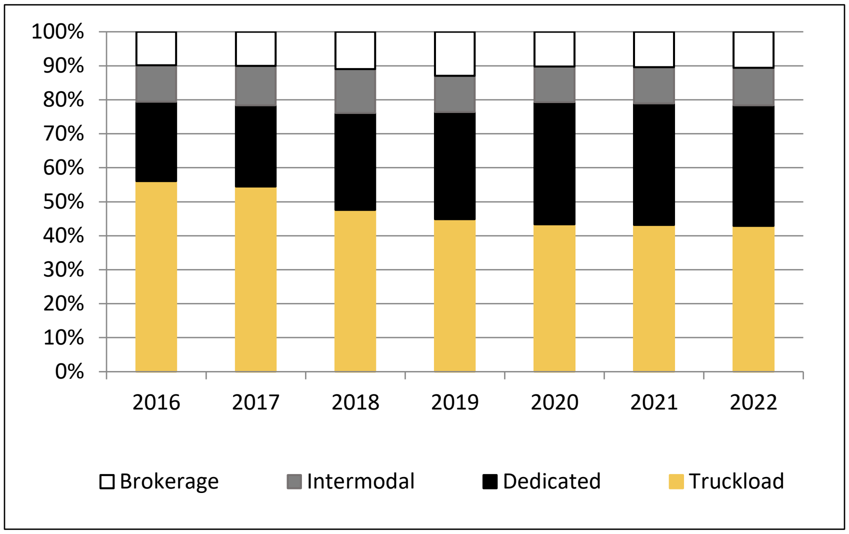
The Truckload segment will continue to grow as Marten's largest and relatively stable operating segment, fleet growth will contribute to revenue growth (2%) as it did in 2019. An expanding PMI and a growing US business inventories corresponds in an increased demand for trucking services. A vaccine also means disruption in cross border trade should come to an end. Marten Transport's Dedicated segment follows behind Truckload as its second largest operating segment. As it did in 2019, Dedicated segment revenue growth will benefit from the increasing fleet size and improving revenue per tractor and grow by 20%. Marten will continue to enter into new contract agreements which will benefit Dedicated segment revenue. I also expect Marten Transport to grow its Intermodal and Brokerage segment by around 6%. In 2019, MRTN's Intermodal segment suffered an 11% decrease in revenue due to lower load volume. The

Brokerage segment should grow at least 6% due to driver shortages driving up the need for independent drivers.

Estimated useful life of assets (in years):

- Tractors = 5
- Trailers = 7
- Refrigerated containers = 12
- Service and other = 3 – 15
- Buildings and improvements = 20 – 40

**Figure 15: Marten Transport segment revenues percent of total revenue**




*Source: Company Reports*

Return on Equity

Marten Transport's ROE has decreased since 2017 and it is expected to continue to decline.

**Figure 16: ROE breakdown, 2017 – 2022**

| 3-stage DuPont | 2017 | 2018 | 2019 | 2020 | FY 2021 | FY 2022 |
|---|---|---|---|---|---|---|
| Net income / sales | 12.9% | 7.0% | 7.2% | 7.3% | 6.7% | 6.7% |
| Sales / avg assets | 1.04 | 1.09 | 1.09 | 1.06 | 1.03 | 1.03 |
| ROA | 13.4% | 7.6% | 7.9% | 7.7% | 6.9% | 7.0% |
| Avg assets / avg equity | 1.40 | 1.31 | 1.32 | 1.33 | 1.32 | 1.39 |
| ROE | 18.7% | 10.0% | 10.3% | 10.2% | 9.0% | 9.0% |

*Source: IMCP*

Profit margin fell from 2017-2020. This is due to interest income turning to an expense and negative taxes to positive. Overall EBIT margins were stable. Asset turnover has grown somewhat so investments in revenue efficiency seem to have paid off. The firm decreased leverage which pushed down ROE.

In 2021-2022, I expect investment to outpace revenue growth and cause asset turnover to fall. Even though EBIT margin is stable, a return to normal tax rate will cause next margin to fall. ROE will be boosted a little by higher leverage.

Free Cash Flow

Marten Transport's free cash flow has been positive except for 2019 due to a large rise in equipment. I anticipate modest FCFF in 2021 and 2022 due to continued investments to match its organic growth plan. During 2019, $153.2 million of net operating cash flows was directly spent on new revenue equipment. I forecast that NOPAT to continue to grow with NWC, signaling overall business health and liquidity.

**Figure 17: Free cash flow calculations**

| Free Cash Flow | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Items** | **Dec-16** | **Dec-17** | **Dec-18** | **Dec-19** | **Dec-20** | **Dec-21** | **Dec-22** |
| NOPAT | $28 | $82 | $49 | $53 | $59 | $64 | $70 |
| *Growth* | | *194.2%* | *-40.5%* | *9.1%* | *11.3%* | *8.6%* | *9.2%* |
| NWC* | 32 | 37 | 35 | 47 | 36 | 58 | 68 |
| Net fixed assets | 560 | 574 | 590 | 642 | 693 | 717 | 759 |
| Total net operating capital* | $592 | $611 | $625 | $689 | $730 | $776 | $827 |
| *Growth* | | *3.1%* | *2.3%* | *10.2%* | *5.9%* | *6.3%* | *6.6%* |
| - Change in NWC* | | 5 | (2) | 12 | (10) | 22 | 9 |
| - Change in NFA | | 14 | 17 | 52 | 51 | 24 | 42 |
| FCFF* | | $64 | $35 | ($10) | $18 | $19 | $19 |
| *Growth* | | | *-45.7%* | *-129.7%* | *-279.1%* | *1.0%* | *4.4%* |
| - After-tax interest expense | (5) | (8) | (6) | (8) | 9 | - | - |
| FCFE** | | $72 | $41 | ($2) | $9 | $19 | $19 |
| *Growth* | | | *-43.1%* | *-105.9%* | *-473.0%* | *107.5%* | *4.4%* |

*Source: IMCP*

The last time Marten Transport repurchased shares was in 2018 ($3.8 million). The firm did not repurchase shares in 2019, though repurchases of up to $34 million are available in the share repurchase program. I anticipate that the company will continue to pay a steady dividend of $0.16 per year.

FCFE follows FCFF as a direct result of Marten having no outstanding long-term debt.

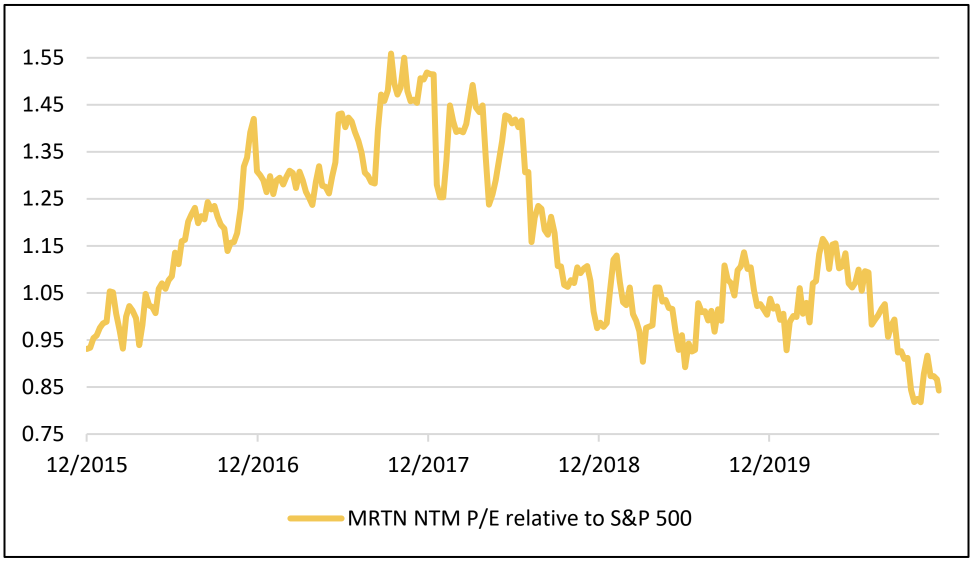
## Valuation

MRTN was valued using multiples and a 3-stage discounting cash flow model. Based on earnings multiples, the stock is slightly overvalued relative to competing firms and is worth $18.58; however, P/E ratios overlook assets and liabilities that have a material impact on valuation, hence this metric may be less reliable. Relative valuation shows MRTN to be about correctly valued based on its fundamentals versus those of its peers in the trucking industry. Price to book valuation yielded a price of $15.63, which is relatively fair valued. A detailed DCF analysis values MRTN above $15.63 and $18.58 at $20.83, utilizing a P/S terminal value. I give this value a bit more weight because it incorporates assumptions that reflect MRTN's ongoing net profit margin and sales growth. Finally, a two-part scenario-based analysis to understand a bearish and bullish market scenario results in a price of $18.46 and $22.10, respectively. As a result of these valuations, I value the stock at $20.

<u>Trading History</u>

MRTN is currently trading near its new five-year low of a 0.84 relative P/E to the S&P 500. MRTN's relatively low price to earnings suggest investors speculate that growth has peaked. The company has slowly been acquiring more analyst coverage as well as positive upgrades. Earnings for Marten Transport is expected to continue growing. MRTN's current P/E of 21.6 is up 11% since 2019. While I expect some regression towards that number in the future, I do not believe it is likely to be the case in the near term.

**Figure 18: MRTN NTM P/E relative to S&P 500**




*Source: FactSet*

Assuming the firm maintains a 17.5 P/E ratio at the end of 2021, it should trade at $20.82 by the end of the year:

- Price = P/E x EPS = 17.5 x $1.19 = $20.82

Discounting $23.08 back to today at a 10.73% cost of equity (explained in Discounted Cash Flow section) yields a price of $18.58.

Relative Valuation (See Appendix 9 for Comp Sheet)

Marten Transport is currently trading at a P/E slightly lower than its peers, with a P/E of 21.6 compared to an average of 22.8. This is a sign that the company may be undervalued or has poor future prospects. MRTN's P/B ratio, 2.3, is significantly less than its competitor's average P/B ratio of 3.1. This reflects the firm's lower ROE (10.5% vs 12.5%), but P/B is much lower than its comps and MRTN's leverage of 0% is much lower than the average of 18%. However, MRTN's P/S ratio of 1.7 is 12% above average than its competitors which reflects its higher profit margin (8.0% vs 6.9%). A higher P/S ratio shows how much investors are is willing to pay per dollar of sales, a higher value also indicates overvaluation. Please see Appendix 9 for information regarding MRTN's comparable companies.

A more thorough analysis of P/B and ROE is shown in figure 19. The calculated R-squared of the regression indicates that over 83% of a sampled firm's P/B is explained by its ROE. MRTN has the third lowest P/B and ROE of this grouping, and according to this measure it is slightly overvalued. However, given the growing demand of the trucking industry and MRTN's strive to acquire new revenue equipment, I believe that the ROE will be more highly valued by investors in the coming years.

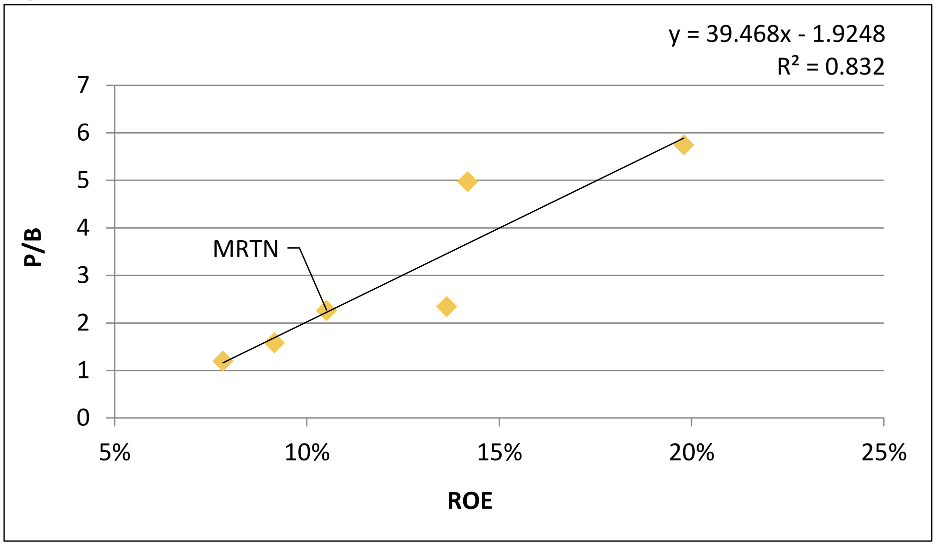
- Estimated P/B = Estimated 2021 ROE (10.5%) x 39.468 – 1.925 = 2.219

- Target Price = Estimated P/B (2.219) x 2021E BVPS (7.80) = $17.31

Discounting back to the present at a 10.73% cost of equity leads to a target price of $15.63 using this metric.

83% of variation in P/B is explained by ROE

**Figure 19: P/B vs ROE**




*Source: Company Reports, IMCP*

For a final comparison, I created a composite ranking of several valuation and fundamental metrics. Since the variables have different scales, each was converted to a percentile before calculating the composite score. As seen in figure 20 below, the fundamental metrics are 2022 earnings growth, D/E, 2020 ROE, and 2020 NPM of the comparable firms. 2021 P/E, P/B, and P/S were used for the valuation metrics.

**Figure 20: Composite valuation, % of range**

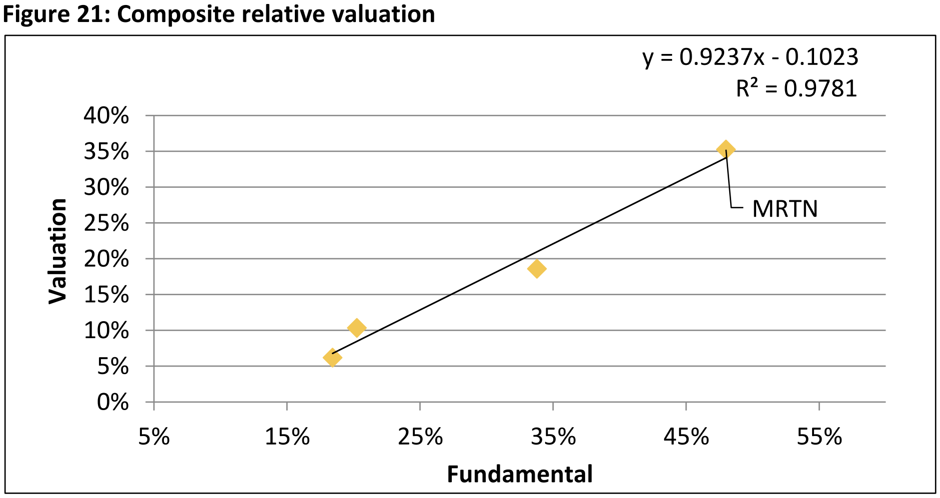
| | | | | | | | Fundamentals | | | | Valuations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Weight | 20.0% | 20.0% | 40.0% | 20.0% | 25.0% | 50.0% | 25.0% |
| Ticker | Name | Rank Diff | Diff | Target Value | Weighted Fund | Weighted Value | 2022 | 1/(LTD/ Equity) | 2020 ROE | 2020 NPM | 2021 P/E | P/B | P/S |
| **MRTN** | MARTEN TRANSPORT LTD | 4 | 13% | 48% | 48% | 35% | 29% | 100% | 23% | 65% | 40% | 23% | 54% |
| **SNDR** | SCHNEIDER NATIONAL INC | 2 | -1% | 6% | 18% | 6% | 69% | 0% | 11% | 0% | 8% | 8% | 0% |
| **WERN** | WERNER ENTERPRISES INC | 3 | 9% | 28% | 34% | 19% | 33% | 0% | 49% | 38% | 4% | 25% | 20% |
| **KNX** | KNIGHT-SWIFT TRPTN HLDGS INC | 1 | -2% | 8% | 20% | 10% | 0% | 1% | 0% | 100% | 0% | 0% | 41% |

*Source: IMCP*

The $R^2$ is extremely strong, 97.8% $R^2$. This is also the result of eliminating SAIA and JBHT, two extreme outliers. Marten Transport is slightly above the line, so it is overvalued based on its fundamentals.

The stocks trade close to fair value at 97.8% $R^2$ – this is amazingly high

**Figure 21: Composite relative valuation**




*Source: Company Reports, IMCP*

Discounted Cash Flow Analysis

A three-stage discounted cash flow model was also used to value MRTN.

For the purpose of this analysis, the company's cost of equity was calculated to be 10.73% using the Capital Asset Pricing Model. The underlying assumptions used in calculating this rate are as follows:

- The risk-free rate, as represented by the ten-year Treasury bond yield, is 0.90%.
- A beta of 1.08 was derived from MRTN and its competitor's average beta. While the industry is cyclical, MRTN has low financial leverage.
- A long-term market rate of return of 10% was assumed, since historically, the market has generated an annual return of about 10%.

Given the above assumptions, the cost of equity is 10.73% (0.90 + 1.08 (10.00 – 0.90)).

*Stage One* - The model's first stage simply discounts fiscal years 2021 and 2022 free cash flow to equity (FCFE). These per share cash flows are forecasted to be $0.34 and $0.35, respectively. Discounting these cash flows, using the cost of equity calculated above, results in a value of $0.59 per share. Thus, stage one of this discounted cash flow analysis contributes $0.59 to value.

*Stage Two* - Stage two of the model focuses on fiscal years 2023 to 2027. During this period, FCFE is calculated based on revenue growth, NOPAT margin and capital growth assumptions. The resulting cash flows are then discounted using the company's 10.73% cost of equity. I assume 3.5% sales growth in 2023, stabilizing to 2.0% through 2024 - 2027 or about the rate of real GDP. The ratio of NWC to sales will remain between 11% and 12%, but NFA turnover will rise from 1.40 in 2023 to 1.55 in 2027 because of improvements in operations. Also, the NOPAT margin is expected to rise to 6.8% in 2027 from 6.7% in 2023 due to not being highly leveraged.

Adding together these discounted cash flows total $7.13

**Figure 22: FCFE and discounted FCFE, 2021 – 2027**

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|
| **FCFE** | $0.34 | $0.35 | $0.69 | $1.37 | $1.29 | $1.40 | $1.69 |
| **Discounted FCFE** | $0.31 | $0.28 | $0.51 | $0.91 | $0.78 | $0.76 | $0.83 |

*Source: Company Reports, IMCP*

*Stage Three* – Net income for the years 2021 through 2027 is calculated based upon the same margin and growth assumptions used to determine FCFE in stage two. Sales are expected to grow from $969 in 2021 to $1,169 in 2027.

Average sales from 2021 to 2027 is expected to grow by 20.6%

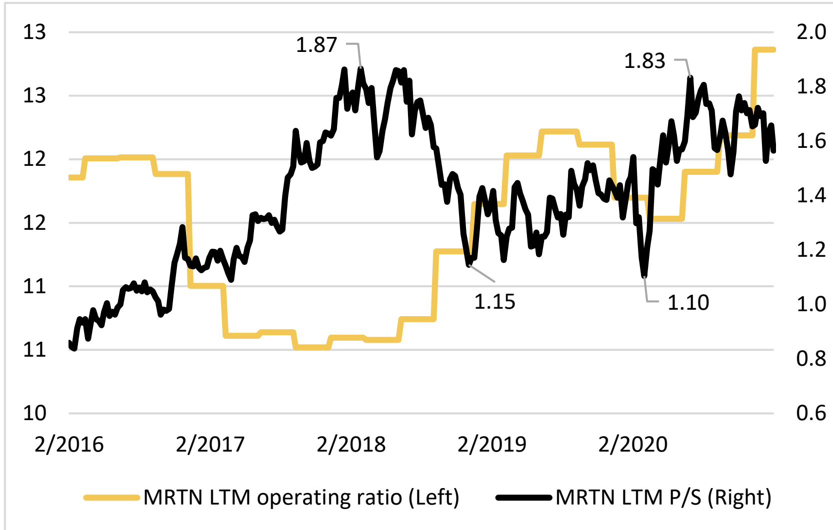
**Figure 23: P/S estimates for 2021 – 2027**

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|
| **Sales** | $969 | $1,043 | $1,080 | $1,101 | $1,123 | $1,146 | $1,169 |
| Growth | 7.5% | 7.7% | 3.5% | 2.0% | 2.0% | 2.0% | 2.0% |
| NPM | 6.7% | 4.5% | 5.2% | 5.4% | 5.4% | 5.4% | 5.4% |

*Source: Company Reports, IMCP*

Stage three of the model requires an assumption regarding the company's terminal price-to-sales ratio. The stock's terminal P/S ratio is 1.57 while the S&P 500's terminal P/S ratio is 2.28. Marten's 2020 P/S ratio increased 34% since the start of 2019 but has been trending down by 15% from is locale high, 1.83, in July 2020. Shown in figure 24, the P/S ratio has an inverse effect on MRTN's LTM operating ratio. When the P/S ratio trends down, making lower lows and lower highs, its LTM operating ratio trends up.

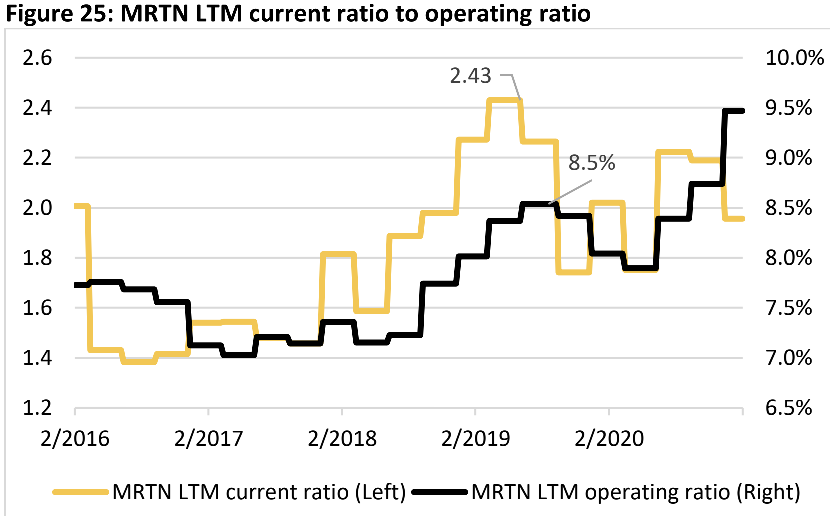
**Figure 24: MRTN LTM operating ratio to P/S**




*Source: Company Reports, FactSet*

The stock's operating ratio is 9.5%, trending past its previous locale high of 8.5% in 2019. MRTN's historical rising operating ratio compared to its current ratio (Figure 25) is the result of management being more efficient by utilizing its growing fleet and decreasing operating cost due to the improvement of in-house operating technology. Marten Transports current ratio is 1.96 and it has been trending down 19% since its locale high of 2.43 in 2019. This is the result of management de-leveraging its business to come as close to debt-free, it will overall benefit its operating ratio meaning less costs involved in generating revenue from sales. A continued increase in the current ratio and the operating ratio will drive the P/S ratio down. While I assume an increase in sales growth up until 2024, stabilizing sales after 2024 would cause the P/S ratio to consolidate further instead of trending up or down.

**Figure 25: MRTN LTM current ratio to operating ratio**




*Source: Company Reports, FactSet*

Given the assumed terminal price-to-sales ratio of 1.57 and an SPS of $21.40, a terminal value of $33.60 per share is calculated. Using the 10.73% cost of equity, this number is discounted back to a present value of $16.46.

Total present value is calculated by adding up all three DCF stages.

($0.59 + $3.78 + $16.46) = $20.83

*Total Present Value* – given the above assumptions and utilizing a three stage discounted cash flow model, an intrinsic value of $20.83 was given. Given MRTN's present value of $16.44, this model indicates that the stock is undervalued by $4.39.

Scenario Analysis

Marten Transport is difficult to value with certainty due to recent volatile economic and business factors effecting today's market. It is also nearly impossible to predict with certainty how the trucking industry will react to and after an economic shutdown. Furthermore, the firm seems to be following a well-thought of growth plan to raise sales and operating margin. I valued MRTN under two scenarios, bearish and bullish market conditions, by changing combinations of key factors such as constant long-term growth (LTG).

*Bearish Scenario* – After a 5% decrease in real GDP during the first quarter of 2020, the United States saw a 32% drop in real GDP the second quarter. Typically, trucking companies like Marten Transport are hit worst by recessions because of the change in consumer spending behaviors. Assuming the economy starts recessionary cycle that is non-related to COVID-19, this would cause MRTN's growth to slow down. Instead of maintaining a 2% growth rate if the company's growth rate drops -5% in 2023 to 2024 and slows to 2% from 2025 to 2027 this would negatively affect the base-case valuation. Applying the same 3-stage DCF, the total present value given from the model values MRTN at $11.37.

**Figure 26: Bearish scenario 3-stage DCF**

| 3-Stage DCF Summary | |
|---|---|
| First Stage | $0.59 |
| Second Stage | $6.49 |
| Third Stage | $11.37 |
| Value (CG) | $18.46 |

*Source: IMCP*

*Bullish Scenario* – The S&P 500 in 2020 made a historical six-month recovery since the initial impact of COVID-19. This speedy recovery sparked a lot of optimistic speculation for the economy in the coming year. As discussed earlier, the recovering economy is quantified by the ISM Mfg. PMI, MDI, US trade inventories, real GDP growth, and weekly originated carloads. The recession appears to be behind us. This should allow Marten Transport's growth to rise above the expected base case. Assuming MRTN continues to grow its sales by 5%, instead of 2%, applying the same 3-stage DCF would value the stock at $22.10.

**Figure 27: Bearish scenario 3-stage DCF (constant growth)**

| 3-Stage DCF Summary | |
|---|---|
| First Stage | $0.59 |
| Second Stage | $2.76 |
| Third Stage | $18.76 |
| Value (CG) | $22.10 |

*Source: IMCP*

## Business Risks

Although I have many reasons to be optimistic about Marten Transport, there are several valid risks. These business risks may alter long-term profitability and cost of operations. Please see Appendix 1 and 2 for information regarding Porter's 5 Forces and SWOT analysis.

Fluctuations in economic and business factors:

Marten Transport is exposed to the uncertainty of fluctuating fuel prices, fuel taxes, and interest rates. Recessionary economic cycles and COVID-19 impacted the operations of Marten Transport and its customers. Competitors typically lower freight rates to gain business in recessionary cycles.

Competitive marketplace:

Competition for customers is intense, even in a growing industry. Competitors are always trying to position themselves properly in terms of value for money and effectiveness of service. Customers tend to consolidate carriers by selecting approved service providers otherwise known as core carriers.

Increased cost for revenue equipment:

Technological upgrades for in-house operation and marketing are beneficial, but rising prices for tractors and temperature-controlled trailers could pose a risk to cash flow and operational results. Marten Transport expects increased prices for equipment. It also needs to establish a sustainable fleet to retain and grow customers.

Potential for loss in Dedicated segment customers:

Marten Transport derives a consequential amount of revenue from major customers. Most of its major customers enter a 1-year contracts after which the customer can leave. Customers may also solicit bids from competitors to tailor their shipping needs. For 2019, Marten Transport's top 30 customers, based on revenue, accounted for 69% of its revenue, while the top ten customers accounted for 50% of its revenue (Marten Transport Ltd, 2019).

# Appendix 1: Porter's 5 Forces

Threat of New Entrants – Moderate

New competitors in trucking need to be innovative as trucking has been around since the late 1800's. Competitors could force the company to re-evaluate its lower pricing strategy, reduce costs, and provide new value to customers. Marten Transport strives to build capacities and invest in R&D to discourage new competitors from entering this dynamic industry where standards change regularly.

Threat of Substitutes – Low

Marten Transport does an outstanding job at understanding the core needs of customers which makes it a core carrier for many customers. The firm provides diverse services, which strategically increases the switching cost for its customers.

Supplier Power – Moderate

Large suppliers can significantly decrease Marten's gross margins. These suppliers include rail services for the Intermodal segment and owner-operator for the Brokerage segment. MRTN eases this force by building and maintaining an effective supply chain with many suppliers. Wal-Mart, one of MRTN's largest customers, provides a valuable advantage if it is the sole or largest customer for some businesses as then MRTN also gains bargaining power.

Buyer Power – Moderate

Buyers want one thing, to buy the best service or product that offers the most value while paying the minimum price. Buyer power potentially harms the long-term profitability of MRTN. Having substantial business with Wal-Mart and Coca-Cola is an advantage and disadvantage. Marten Transport operates as a diversified service provider and provides new services, so this increases customer loyalty. Customers also tend to bid out transportation to achieve more negotiating power.

Intensity of Competition – Very High

Intensity of competition is intense which keeps prices low. Trucking demand has risen since the economic shutdown which helps short-term. Marten has invested in technology to improve truck usage

# Appendix 2: SWOT Analysis

| **Strengths** | **Weaknesses** |
|---|---|
| High customer satisfaction | Product demand forecasting |
| Diversified brand portfolio | Small fleet relative to competitors |
| Low cost structure | Simplistic services that lack innovation for the trucking industry |
| **Opportunities** | **Threats** |
| Online presence | Threat of recessionary cycles |
| New customer trends | Changing consumer buying behavior |
| Market development | Rising raw material costs |

# Appendix 3: Income Statement

| Income Statement (in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Items** | **Dec-16** | **Dec-17** | **Dec-18** | **Dec-19** | **Dec-20** | **Dec-21** | **Dec-22** |
| Sales | $671 | $698 | $788 | $843 | $901 | $969 | $1,043 |
| Direct costs | 597 | 624 | 696 | 744 | 796 | 849 | 909 |
| Gross Margin | 73.8 | 74.0 | 91.7 | 98.7 | 105.3 | 120 | 135 |
| SG&A, R&D, D&A, and other | 26 | 23 | 29 | 31 | 30 | 38 | 45 |
| EBIT | 47.8 | 51.4 | 63.1 | 67.8 | 75.5 | 82 | 90 |
| Interest | (9) | (5) | (8) | (10) | 12 | - | - |
| EBT | 56.8 | 56.4 | 71.1 | 77.8 | 63.5 | 82 | 90 |
| Taxes | 23.6 | (33.8) | 16.0 | 16.6 | 21.2 | 18 | 19 |
| Income | 33 | 90 | 55 | 61 | 42 | 64 | 70 |
| Other | - | - | - | - | - | - | - |
| Net income | 33.0 | 90.3 | 55.0 | 61.1 | 65.6 | 64 | 70 |
| Basic Shares | 53.2 | 54.4 | 54.6 | 54.6 | 54.6 | 54.6 | 54.6 |
| Fully Diluted Shares | 54.1 | 54.7 | 55.1 | 55.1 | 55.1 | 55.1 | 55.1 |
| EPS | $0.62 | $1.66 | $1.01 | $1.12 | $1.20 | $1.18 | $1.29 |
| EPS Fully Diluted | $0.61 | $1.65 | $1.00 | $1.11 | $1.19 | $1.17 | $1.28 |
| DPS | $0.00 | $0.00 | $0.00 | $0.01 | $0.00 | $0.00 | $0.00 |

# Appendix 4: Balance Sheets

| Balance Sheet (in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Items** | **Dec-16** | **Dec-17** | **Dec-18** | **Dec-19** | **Dec-20** | **Dec-21** | **Dec-22** |
| Cash | 0.5 | 15.8 | 56.8 | 31.5 | 89.8 | 108.2 | 128.4 |
| Operating assets ex cash | 92.9 | 100.8 | 106.7 | 122.7 | 124.4 | 146.2 | 161.4 |
| Operating assets | 93.4 | 116.6 | 163.5 | 154.2 | 214.2 | 254.4 | 289.8 |
| Operating liabilities | 60.4 | 64.6 | 72.0 | 76.2 | 88.1 | 88.1 | 93.9 |
| NOWC | 33.0 | 52.0 | 91.5 | 78.0 | 126.1 | 166.3 | 196.0 |
| NOWC ex cash (NWC) | 32.0 | 37.0 | 34.7 | 46.5 | 36.3 | 58.1 | 67.6 |
| NFA | 560.3 | 573.8 | 590.4 | 642.2 | 693.4 | 717.5 | 759.0 |
| *Invested capital* | *$593.3* | *$625.8* | *$681.9* | *$720.2* | *$819.5* | *883.8* | *954.9* |
| Marketable securities | - | - | - | - | - | - | - |
| *Total assets* | *$653.7* | *$690.4* | *$753.9* | *$796.4* | *$907.6* | *971.9* | *1,048.8* |
| S-T and L-T debt and financing leases | $8.1 | $0.0 | $0.0 | $0.6 | $1.2 | 1.2 | 2.2 |
| Other liabilities | $147.9 | $100.3 | $105.9 | $122.0 | $136.6 | 136.6 | 136.6 |
| Debt/equity-like securities | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | - | - |
| Equity | $437.3 | $525.5 | $576.0 | $597.6 | $681.7 | 746.0 | 816.2 |
| *Total supplied capital* | *$593.3* | *$625.8* | *$681.9* | *$720.2* | *$819.5* | *883.8* | *955.0* |
| *Total liabilities and equity* | *$653.7* | *$690.4* | *$753.9* | *$796.4* | *$907.6* | *971.9* | *1,048.9* |

## Appendix 5: Sales Forecast

| Sales (in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Items** | **Dec-16** | **Dec-17** | **Dec-18** | **Dec-19** | **Dec-20** | **Dec-21** | **Dec-22** |
| Sales | $671 | $698 | 787 | $843 | $901 | $926 | $960 |
| *Growth* | | *4.0%* | *12.8%* | *7.1%* | *6.9%* | *2.8%* | *3.6%* |
| | | | | | | | |
| Truckload | 376 | 380 | 375 | 378 | 391 | 400 | 412 |
| *Growth* | | *1.1%* | *-1.3%* | *0.8%* | *3.4%* | *2.2%* | *3.0%* |
| *% of sales* | *56.0%* | *54.4%* | *47.6%* | *44.8%* | *43.4%* | *43.2%* | *42.9%* |
| Dedicated | 157 | 167 | 224 | 266 | 324 | 331 | 341 |
| *Growth* | | *6.4%* | *34.1%* | *18.8%* | *21.8%* | *2.2%* | *3.0%* |
| *% of sales* | *23.4%* | *23.9%* | *28.5%* | *31.6%* | *36.0%* | *2.0%* | *35.5%* |
| Intermodal | 72 | 81 | 102 | 90 | 94 | 99 | 105 |
| *Growth* | | *12.5%* | *25.9%* | *-11.8%* | *4.4%* | *5.4%* | *6.0%* |
| *% of sales* | *10.7%* | *11.6%* | *13.0%* | *10.7%* | *10.4%* | *10.7%* | *6.0%* |
| Brokerage | 66 | 70 | 86 | 109 | 92 | 96 | 102 |
| *Growth* | | *6.1%* | *22.9%* | *26.7%* | *-15.6%* | *4.4%* | *6.1%* |
| *% of sales* | *9.8%* | *10.0%* | *10.9%* | *12.9%* | *10.2%* | *10.4%* | *10.6%* |
| | | | | | | | |
| Total | 100.0% | 100.0% | 100.1% | 100.0% | 100.0% | 100.0% | 100.0% |
| United States | 671 | 698 | 788 | 843 | 901 | 926 | 960 |
| *Growth* | | *4.0%* | *12.9%* | *7.0%* | *6.9%* | *2.8%* | *3.6%* |
| *% of sales* | *100.0%* | *100.0%* | *100.1%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* |

## Appendix 6: Ratios

| Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Items** | **Dec-16** | **Dec-17** | **Dec-18** | **Dec-19** | **Dec-20** | **Dec-21** | **Dec-22** |
| Profitability | | | | | | | |
| Gross margin | 11.0% | 10.6% | 11.6% | 11.7% | 11.7% | 12.4% | 12.9% |
| Operating (EBIT) margin | 7.1% | 7.4% | 8.0% | 8.0% | 8.4% | 8.5% | 8.6% |
| Net profit margin | 4.9% | 12.9% | 7.0% | 7.2% | 7.3% | 6.7% | 6.7% |
| | | | | | | | |
| Activity | | | | | | | |
| NFA (gross) turnover | | 1.23 | 1.35 | 1.37 | 1.35 | 1.37 | 1.41 |
| Total asset turnover | | 1.04 | 1.09 | 1.09 | 1.06 | 1.03 | 1.03 |
| | | | | | | | |
| Liquidity | | | | | | | |
| Op asset / op liab | 1.55 | 1.80 | 2.27 | 2.02 | 2.43 | 2.89 | 3.09 |
| NOWC Percent of sales | | 6.1% | 9.1% | 10.1% | 11.3% | 15.1% | 17.4% |
| | | | | | | | |
| Solvency | | | | | | | |
| Debt to assets | 1.2% | 0.0% | 0.0% | 0.1% | 0.1% | 0.1% | 0.2% |
| Debt to equity | 1.9% | 0.0% | 0.0% | 0.1% | 0.2% | 0.2% | 0.3% |
| Other liab to assets | 22.6% | 14.5% | 14.0% | 15.3% | 15.1% | 14.1% | 13.0% |
| Total debt to assets | 23.9% | 14.5% | 14.0% | 15.4% | 15.2% | 14.2% | 13.2% |
| Total liabilities to assets | 33.1% | 23.9% | 23.6% | 25.0% | 24.9% | 23.2% | 22.2% |
| Debt to EBIT | 0.17 | - | - | 0.01 | 0.02 | 0.01 | 0.02 |
| EBIT/interest | (5.31) | (10.28) | (7.89) | (6.78) | 6.29 | - | - |
| Debt to total net op capital | 1.4% | 0.0% | 0.0% | 0.1% | 0.1% | 0.1% | 0.2% |
| | | | | | | | |
| ROIC | | | | | | | |
| NOPAT to sales | 4.2% | 11.8% | 6.2% | 6.3% | 6.6% | 6.7% | 6.7% |
| Sales to NWC | | 20.23 | 21.98 | 20.76 | 21.76 | 20.53 | 16.60 |
| Sales to NFA | | 1.23 | 1.35 | 1.37 | 1.35 | 1.37 | 1.41 |
| Sales to IC ex cash | | 1.16 | 1.28 | 1.28 | 1.27 | 1.29 | 1.30 |
| Total ROIC ex cash | | 13.7% | 7.9% | 8.1% | 8.4% | 8.6% | 8.8% |
| | | | | | | | |
| NOPAT to sales | 4.2% | 11.8% | 6.2% | 6.3% | 6.6% | 6.7% | 6.7% |
| Sales to NOWC | | 16.42 | 10.98 | 9.95 | 8.83 | 6.63 | 5.76 |
| Sales to NFA | | 1.23 | 1.35 | 1.37 | 1.35 | 1.37 | 1.41 |
| Sales to IC | | 1.15 | 1.21 | 1.20 | 1.17 | 1.14 | 1.13 |
| Total ROIC | | 13.5% | 7.5% | 7.6% | 7.7% | 7.6% | 7.7% |
| | | | | | | | |
| NOPAT to sales | 4.2% | 11.8% | 6.2% | 6.3% | 6.6% | 6.7% | 6.7% |
| Sales to EOY NWC | 20.97 | 18.86 | 22.71 | 18.13 | 24.82 | 16.68 | 15.44 |
| Sales to EOY NFA | 1.20 | 1.22 | 1.33 | 1.31 | 1.30 | 1.35 | 1.37 |
| Sales to EOY IC ex cash | 1.13 | 1.14 | 1.26 | 1.22 | 1.23 | 1.25 | 1.26 |
| Total ROIC using EOY IC ex cash | 4.7% | 13.5% | 7.8% | 7.7% | 8.1% | 8.3% | 8.5% |
| | | | | | | | |
| NOPAT to sales | 4.2% | 11.8% | 6.2% | 6.3% | 6.6% | 6.7% | 6.7% |
| Sales to EOY NOWC | 20.33 | 13.42 | 8.61 | 10.81 | 7.15 | 5.82 | 5.32 |
| Sales to EOY NFA | 1.20 | 1.22 | 1.33 | 1.31 | 1.30 | 1.35 | 1.37 |
| Sales to EOY IC | 1.13 | 1.12 | 1.16 | 1.17 | 1.10 | 1.10 | 1.09 |
| Total ROIC using EOY IC | 4.7% | 13.1% | 7.2% | 7.4% | 7.2% | 7.3% | 7.4% |

## Appendix 6: Ratios, continued

| | | | | | | |
|---|---|---|---|---|---|---|
| ROE | | | | | | |
| **5-stage** | | | | | | |
| EBIT / sales | 7.4% | 8.0% | 8.0% | 8.4% | 8.5% | 8.6% |
| Sales / avg assets | 1.04 | 1.09 | 1.09 | 1.06 | 1.03 | 1.03 |
| EBT / EBIT | 109.7% | 112.7% | 114.7% | 84.1% | 100.0% | 100.0% |
| Net income /EBT | 160.1% | 77.4% | 78.5% | 103.3% | 78.6% | 78.6% |
| ROA | 13.4% | 7.6% | 7.9% | 7.7% | 6.9% | 7.0% |
| Avg assets / avg equity | 1.40 | 1.31 | 1.32 | 1.33 | 1.32 | 1.29 |
| ROE | 18.8% | 10.0% | 10.4% | 10.3% | 9.0% | 9.0% |
| **3-stage** | | | | | | |
| Net income / sales | 12.9% | 7.0% | 7.2% | 7.3% | 6.7% | 6.7% |
| Sales / avg assets | 1.04 | 1.09 | 1.09 | 1.06 | 1.03 | 1.03 |
| ROA | 13.4% | 7.6% | 7.9% | 7.7% | 6.9% | 7.0% |
| Avg assets / avg equity | 1.40 | 1.31 | 1.32 | 1.33 | 1.32 | 1.29 |
| ROE | 18.8% | 10.0% | 10.4% | 10.3% | 9.0% | 9.0% |
| Payout Ratio | 0.1% | 0.2% | 1.3% | 0.2% | 0.2% | 0.3% |
| Retention Ratio | 99.9% | 99.8% | 98.7% | 99.8% | 99.8% | 99.7% |
| Sustainable Growth Rate | 18.7% | 10.0% | 10.3% | 10.2% | 9.0% | 9.0% |

## Appendix 7: Cash Flow Statement

| Cash Flow Statement (in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Items** | **Dec-16** | **Dec-17** | **Dec-18** | **Dec-19** | **Dec-20** | **Dec-21** | **Dec-22** |
| ***Total net financing needed*** | | | | | | | |
| Change in NOWC ex cash | | $5 | ($2) | $12 | ($10) | $22 | $9 |
| Change in NFA | | 14 | 17 | 52 | 51 | 24 | 42 |
| Total | | $19 | $14 | $64 | $41 | $46 | $51 |
| Net income | | 90 | 55 | 61 | 66 | 64 | 70 |
| Dividends | | 0.08 | 0.10 | 0.77 | 0.11 | 0.15 | 0.20 |
| Total net financing needed | | ($72) | ($41) | $3 | (25) | ($18) | ($19) |
| ***Financing provided*** | | | | | | | |
| Liabilities | | (56) | 6 | 17 | 15 | - | 1 |
| Debt/equity-like securities | | - | - | - | - | - | - |
| Equity other than net income & dividends | | (2) | (4) | (39) | 19 | - | - |
| Marketable securities | | - | - | - | - | - | - |
| Total financing provided | | (58) | $1 | ($22) | $34 | $0 | $1 |
| ***Change in cash*** | | | | | | | |
| Total financing provided | | ($58) | $1 | ($22) | $34 | $0 | $1 |
| Total net funds needed | | (72) | (41) | 3 | (25) | (18) | (19) |
| Change in cash | | $14 | $42 | ($25) | $58 | $18 | $20 |

# Appendix 8: 3-stage DCF Model

| 3 Stage DFC Model | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Year | | | | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | | First Stage | | Second Stage | | | | |
| Year ending December | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| *Sales Growth* | *6.9%* | *7.5%* | *7.7%* | *3.5%* | *2.0%* | *2.0%* | *2.0%* | *2.0%* |
| *NOPAT / S* | *6.6%* | *6.7%* | *6.7%* | *6.7%* | *6.6%* | *6.7%* | *6.6%* | *6.8%* |
| *S / NWC* | *24.82* | *16.68* | *15.44* | *12.00* | *11.00* | *11.25* | *11.50* | *12.00* |
| *S / NFA (EOY)* | *1.30* | *1.35* | *1.37* | *1.40* | *1.45* | *1.47* | *1.50* | *1.55* |
| *S / IC (EOY)* | *1.23* | *1.25* | *1.26* | *1.25* | *1.28* | *1.30* | *1.33* | *1.37* |
| *ROIC (EOY)* | *8.1%* | *8.3%* | *8.5%* | *8.4%* | *8.5%* | *8.7%* | *8.8%* | *9.4%* |
| *ROIC (BOY)* | | *8.8%* | *9.0%* | *8.7%* | *8.5%* | *8.7%* | *8.8%* | *9.3%* |
| *Share Growth* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| Sales | $901 | $969 | $1,043 | $1,080 | $1,101 | $1,123 | $1,146 | $1,169 |
| NOPAT | $59 | $64 | $70 | $72 | $73 | $75 | $76 | $80 |
| *Growth* | *11.3%* | *8.6%* | *8.6%* | *2.9%* | *1.4%* | *2.7%* | *1.3%* | *5.3%* |
| - Change in NWC | -10 | 22 | 9 | 22 | 10 | 0 | 0 | -2 |
| *NWC EOY* | *36* | *58* | *68* | *90* | *100* | *100* | *100* | *97* |
| *Growth NWC* | *-21.9%* | *60.0%* | *16.3%* | *33.2%* | *11.3%* | *-0.3%* | *-0.2%* | *-2.3%* |
| - Chg NFA | 51 | 24 | 42 | 12 | -12 | 5 | 0 | -10 |
| *NFA EOY* | *693* | *717* | *759* | *771* | *759* | *764* | *764* | *754* |
| *Growth NFA* | *8.0%* | *3.5%* | *5.8%* | *1.6%* | *-1.5%* | *0.6%* | *0.0%* | *-1.3%* |
| Total inv in op cap | 41 | 46 | 51 | 35 | -2 | 4 | -1 | -12 |
| Total net op cap | 730 | 776 | 827 | 861 | 860 | 864 | 863 | 851 |
| FCFF | $18 | $19 | $19 | $37 | $75 | $71 | $77 | $92 |
| *% of sales* | *2.0%* | *1.9%* | *1.8%* | *3.5%* | *6.8%* | *6.3%* | *6.7%* | *7.9%* |
| *Growth* | | *1.0%* | *2.3%* | *97.1%* | *99.1%* | *-5.3%* | *8.4%* | *20.4%* |
| - Interest (1-tax rate) | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Growth* | *-219.9%* | *-100.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| FCFE w/o debt | $9 | $19 | $19 | $37 | $75 | $71 | $77 | $92 |
| *% of sales* | *1.0%* | *1.9%* | *1.8%* | *3.5%* | *6.8%* | *6.3%* | *6.7%* | *7.9%* |
| *Growth* | | *107.5%* | *2.3%* | *97.1%* | *99.1%* | *-5.3%* | *8.4%* | *20.4%* |
| / No Shares | 54.6 | 54.6 | 54.6 | 54.6 | 54.6 | 54.6 | 54.6 | 54.6 |
| FCFE | $0.16 | $0.34 | $0.35 | $0.69 | $1.37 | $1.29 | $1.40 | $1.69 |
| Discounted FCFE | | $0.31 | $0.28 | $0.51 | $0.91 | $0.78 | $0.76 | $0.83 |
| **Third Stage** | | | | | | | | |
| **Terminal value P/S** | | | | | | | | |
| Sales | $901 | $969 | $1,043 | $1,080 | $1,101 | $1,123 | $1,146 | $1,169 |
| *Growth* | *6.9%* | *7.5%* | *7.7%* | *3.5%* | *2.0%* | *2.0%* | *2.0%* | *2.0%* |
| *Net profit margin* | *7.3%* | *6.7%* | *6.7%* | *6.7%* | *6.6%* | *6.7%* | *6.6%* | *6.8%* |
| Terminal P/S | | | | | | | | 1.57 |
| * Terminal SPS | | | | | | | | $21.40 |
| Terminal value | | | | | | | | $33.60 |
| * Discount factor | | | | | | | | 0.49 |
| Discounted terminal value | | | | | | | | $16.46 |
| **Summary (using P/S multiple for terminal value)** | | | | | | | | |
| First stage | $0.59 | Present value of first 2 year cash flow | | | | | | |
| Second stage | $3.78 | Present value of year 3-7 cash flow | | | | | | |
| Third stage | $16.46 | Present value of terminal value P/S | | | | | | |
| Value (P/S) | **$20.83** | | | | | | | |

# Appendix 9: MRTN Comparable Companies

MRTN Comparable Companies

| | | Current | Market | Price Change | | | | | | Earnings Growth | | | | | | | | LT Debt/ | S&P | LTM Dividend | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ticker | Name | Price | Value | 1 day | 1 Mo | 3 Mo | 6 Mo | 52 Wk | YTD | LTG | NTM | 2019 | 2020 | 2021 | 2022 | Pst 5yr | Beta | Equity | Rating | Yield | Payout |
| MRTN | MARTEN TRANSPORT LTD | $17.63 | $1,458 | (0.9) | 14.9 | (2.5) | 3.3 | 25.2 | 23.1 | | 14.8% | 10.4% | 10.8% | 14.6% | 6.4% | | 0.99 | 0.1% | B+ | 0.64% | 14.3% |
| JBHT | HUNT (JB) TRANSPRT SVCS INC | $135.28 | $14,296 | (0.0) | 11.1 | (4.6) | 13.0 | 17.0 | 15.8 | 10.0 | 20.5% | -7.6% | -10.6% | 29.4% | 15.9% | | 1.00 | 52.4% | A+ | 0.80% | 23.0% |
| SNDR | SCHNEIDER NATIONAL INC | $20.90 | $3,706 | (1.9) | (5.3) | (23.2) | (13.5) | (8.1) | (4.2) | 6.9 | 32.5% | -20.0% | -2.4% | 26.4% | 11.8% | | 0.98 | 13.1% | | 1.22% | 23.7% |
| WERN | WERNER ENTERPRISES INC | $39.99 | $2,763 | (0.6) | 5.2 | (14.5) | (13.5) | 8.8 | 9.9 | 8.5 | 29.4% | 2.1% | -2.1% | 30.9% | 6.9% | | 0.88 | 15.5% | B+ | 0.90% | 15.9% |
| SAIA | SAIA INC | $174.54 | $4,565 | 0.7 | 18.2 | 30.0 | 61.0 | 83.9 | 87.4 | 15.0 | 33.4% | 7.8% | 15.8% | 24.5% | 12.7% | 16.1% | 1.27 | 21.7% | B | 0.00% | 0.0% |
| KNX | KNIGHT-SWIFT TRPTN HLDGS INC | $41.29 | $7,012 | 0.1 | 8.7 | (10.1) | (0.8) | 11.6 | 15.2 | 10.7 | 67.1% | -15.2% | 24.4% | 23.0% | 2.4% | 7.4% | 1.35 | 5.5% | B+ | 0.73% | 15.3% |
| Average | | | $5,634 | (0.4) | 8.8 | (4.1) | 8.3 | 23.1 | 24.5 | 10.2 | 32.9% | -3.7% | 6.0% | 24.8% | 9.4% | 11.8% | 1.08 | 18.0% | | 0.71% | 15.4% |
| Median | | | $4,136 | (0.3) | 9.9 | (7.4) | 1.3 | 14.3 | 15.5 | 10.0 | 31.0% | -2.7% | 4.4% | 25.5% | 9.3% | 11.8% | 0.99 | 14.3% | | 0.76% | 15.6% |
| SPX | S&P 500 INDEX | $3,622 | | (0.5) | 10.8 | 3.2 | 19.0 | 15.3 | 12.1 | | | 1.4% | -20.1% | 24.6% | 17.0% | | | | | | |

| | | 2020 | | P/E | | | | | | | 2020 | 2020 | | | | EV/ | P/CF | Sales Growth | | | Book |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ticker | Website | ROE | P/B | 2018 | 2019 | 2020 | TTM | NTM | 2021 | 2022 | NPM | P/S | NM | OM | ROIC | EBIT | Current | NTM | STM | Pst 5yr | Equity |
| MRTN | http://www.marten.com | 10.5% | 2.26 | 16.1 | 19.4 | 21.6 | 22.3 | 19.4 | 18.8 | 17.6 | 8.0% | 1.71 | 7.2% | 8.0% | 10.4% | 17.0 | | 3.0% | | | $7.80 |
| JBHT | http://www.jbhunt.com | 19.8% | 5.75 | 16.5 | 22.4 | 29.1 | 29.1 | 24.2 | 22.4 | 19.4 | 5.4% | 1.56 | 5.6% | 8.2% | 15.5% | 18.7 | 13.2 | 8.1% | 2.9% | | $23.54 |
| SNDR | http://www.schneider.com | 9.2% | 1.58 | 12.0 | 17.6 | 17.5 | 19.5 | 14.7 | 13.7 | 12.2 | 4.5% | 0.78 | 3.1% | 6.7% | 5.8% | 11.6 | 6.9 | 4.2% | | | $13.21 |
| WERN | http://www.werner.com | 13.6% | 2.34 | 12.7 | 15.3 | 17.3 | 17.7 | 13.7 | 13.1 | 12.3 | 6.5% | 1.12 | 6.8% | 8.3% | 12.6% | 13.9 | 6.2 | 4.6% | | | $17.08 |
| SAIA | http://www.saia.com | 14.2% | 4.97 | 14.0 | 21.7 | 35.5 | 38.8 | 29.1 | 28.2 | 25.0 | 7.2% | 2.51 | 6.4% | 8.5% | 12.5% | 17.8 | 14.7 | 10.4% | | 7.0% | $35.11 |
| KNX | http://www.knight-swift.com | 7.8% | 1.20 | 9.8 | 16.5 | 15.7 | 21.1 | 12.6 | 12.4 | 12.1 | 9.8% | 1.50 | 6.4% | 8.2% | 5.1% | 17.2 | 7.9 | 10.3% | | 34.5% | $34.54 |
| Average | | 12.5% | 3.02 | 13.5 | 18.8 | 22.8 | 24.7 | 18.9 | 18.1 | 16.4 | 6.9% | 1.53 | 5.9% | 8.0% | 10.3% | 16.0 | 9.8 | 6.8% | 2.9% | 20.7% | |
| Median | | 12.1% | 2.30 | 13.3 | 18.5 | 19.6 | 21.7 | 17.1 | 16.2 | 14.9 | 6.9% | 1.53 | 6.4% | 8.2% | 11.5% | 17.1 | 7.9 | 6.4% | 2.9% | 20.7% | |
| SPX | S&P 500 INDEX | | | 15.6 | 19.8 | 28.1 | | | 22.3 | 19.1 | | | | | | | | | | | |