

To Our Stockholders

Despite the headwinds we faced in 2015, we believe it was a year of great progress for NI as we once again demonstrated the strength of our platform-based approach and the large ecosystem that exists around it, both of which enabled us to continue to grow market share. The challenges in 2015 included the strength in the US dollar, the weakness of the Global PMI, the depressed energy market, and the weakness in orders from our largest customer. However, due to our focus on increasing our efficiency and disciplined expense management, we successfully executed on our 2015 leverage plan, delivered 6 percent core revenue growth, and maintained strong gross and operating margins. We define our “core revenue” as revenue excluding the effect of our current largest customer and the impact of foreign currency exchange. Looking forward, I believe our unique approach will continue to deliver sustainable differentiation for NI, enabling us to deliver value to all our stakeholders by empowering engineers and scientists with systems that make them more productive.

Our Differentiated Platform

Since 1976, NI has provided powerful, flexible technology solutions to the most challenging problems with platform-based systems that accelerate productivity and drive rapid innovation. Through these pursuits, NI customers have delivered hundreds of thousands of products to market across nearly every industry, overcome innumerable technological roadblocks, and engineered a better life for us all. Our ecosystem, composed of our employees, customers, partners, and platforms, multiplies the productivity of engineers and scientists with the benefits of new measurement, processing, and analysis technology, which helps them throughout their design and development life cycles.

Over the past several years, the broad-based reach of LabVIEW, data acquisition (DAQ), and instrument control has provided us a very large and diverse customer base. LabVIEW, the heart of our software-based approach, has been broadly adopted by engineers and scientists around the world. With analysis, decision-making, and data management software designed specifically for managing Big Analog Data, engineers and scientists can distribute intelligence from the source of the measurement, often referred to as the edge, to the enterprise level, whether that's in the cloud or on the premises. In addition to enterprise-level adoption, broad-based LabVIEW usage continued to expand with renewal rates near an all-time high.

As an industry leader in DAQ, we are committed to continuous innovation while leveraging the latest commercial technologies from our semiconductor suppliers. Within DAQ, we saw success in larger systems sales based on PXI and CompactDAQ as well as key wins in automotive and aerospace. These hardware-in-the-loop systems use NI software and DAQ hardware to simulate large-scale electromechanical systems, like automotive drive trains and aircraft control systems, which increases the coverage of test parameters while decreasing test time.

The year 2015 was strong for PXI modular instrumentation and a testament to our leadership in the industry. We saw growth in unit volume and continued broad adoption of our platform. This was driven by having the largest PXI product portfolio in the industry, a unique and differentiated software position for creating modular systems, focused sales and support channels that provide significant value to our customers, and a strong network of integration partners. Our success in PXI is built on the success of hundreds of thousands of engineers and scientists proficient with NI software and hardware.

With PXI and the vector signal transceiver (VST) as the underlying technology, test systems targeting vertical applications such as the Semiconductor Test System (STS) and the Wireless Test System (WTS) proved their differentiated position by enabling manufacturers to leverage the I/O breadth of PXI from the characterization lab to the production floor. By leveraging a single platform across the design cycle, software IP, measurement characteristics and test data remain consistent across the design flow, reducing the translation burden between teams, resulting in faster time to market and reduced cost of test. The early success of STS and WTS, and the strong performance of the VST, were instrumental in achieving record RF revenues for NI in 2015.

In 2015, we also further demonstrated our leading position in the prototyping and advanced research of next-generation communications technology such as 5G. Leading researchers in industry and academia are using our software such as LabVIEW Communications System Design Suite, our software-defined radio products, and our FPGA technology in advanced areas like waveform definition, massive MIMO, multigigahertz bandwidth, millimeter wave, cognitive radio, spread spectrum, and channel sounding and emulation. Achieving this position reflects the significant investments we've made over many years in our software and hardware, and positions us well as these communication technologies evolve and go mainstream.

For many years we have been serving applications now considered part of the growing trend of the Industrial Internet of Things. LabVIEW and our CompactRIO products are uniquely suited to address the Industrial Internet of Things, for which embedded intelligence, networking, and I/O are changing the way our customers do their jobs. We believe that our software-defined systems are well suited to extract value from the engineering challenges of the Industrial Internet of Things and Big Analog Data. With LabVIEW and NI software at the foundation, hardware systems like PXI, CompactRIO, and CompactDAQ help enable our customers and partners to create flexible systems that combine measurement and control to make data-driven decisions and to evolve quickly as their application requirements change.

Additionally, we forward-invested in our software platform to help ensure that our customers have the competitive advantage that they need. In 2015, the results of this investment in recently released products included the LabVIEW Communications System Design Suite and NI InsightCM™ Enterprise. Over the next 18 months, we expect to release additional software products that address applications where our software abstraction and productivity will increase our product relevance to both new and existing users.

Looking Forward

With compelling technology trends like the explosion of wireless devices, increased strain on an aging power grid, increase in renewable energy sources, and connected autonomous vehicles, the need to better understand the world around us has never been greater. At the same time, mobile devices, wearable technology, cars, homes, factories, and machines are converging and becoming connected elements in a larger cyber-physical system.

This convergence of technology has led to an explosion in the amount and types of data required to characterize these systems. The data management challenges of Big Analog Data can, at first, overwhelm the opportunity present in these data sets. However, using the power of a software-defined platform, these teams can focus on solving their unique challenges by applying flexible tools designed specifically to measure, process, and connect to these sources of Big Analog Data.

Though 2015 proved to be a challenging year for our industry, we continued to advance our differentiated platform. At the same time, we focused on leveraging the resources we currently have to improve profitability and staying focused on our long-term sustainable growth plan. I am confident that we are building the new product pipeline, channel, and operational excellence to drive long-term growth and profitability. With powerful software tools and flexible modular hardware, our platform-based approach and its strong ecosystem serve as a foundation for growth, and we see immense opportunity for NI to be on the forefront of technology as our world becomes smarter.

Best regards,



Dr. James Truchard,
President, CEO, and Cofounder