

2016 Annual Report

To Our Stockholders:

2017 marks a year of transition for National Instruments. After 40 very successful years, Dr. James Truchard (“Dr. T”) retired as CEO. Under Dr. T’s leadership, the company has pioneered virtual instrumentation and built a software-based platform for test, measurement, and control systems that has helped enable hundreds of thousands of users to meet the unique requirements of their applications – a vision he had from when he co-founded NI.

As I begin my role as CEO, I am excited and honored to build on NI’s accomplishments over the last 40 years. Much like when I first started at NI 23 years ago, I am energized by how we are making the world a better place through empowering engineers and scientists to be more productive and innovative. My priorities as CEO are building on our success through platform innovation, accelerating growth from system-level sales while optimizing our broad-based business and delivering operating leverage.

From a business standpoint, we continued to face challenges in 2016, much like 2015. The challenges included the strength in the U.S. dollar, general weakness of the industrial economy, continued weakness in the energy market, and weakness in PC sales that affected some of our mature product lines. We were pleased to see year-over-year revenue growth in key areas where we have invested, especially our system-level business. For 2016 GAAP revenue was \$1.23 billion, up slightly over 2015. Core revenue for the full year was up 3% year over year. 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 powerful platform-based systems that accelerate productivity and drive rapid innovation. Through these pursuits, NI customers have brought thousands of products to market across many industries, overcome innumerable technological roadblocks, and engineered a better life for us all. Our ecosystem, comprised of our hardware and software platform combined with our employees, customers, and partners, multiplies the productivity of engineers and scientists with the benefits of new measurement, processing, and analysis technology, helping them accelerate their design and development lifecycles.

Over the past several decades, the broad-based reach of our LabVIEW, data acquisition (DAQ), and instrument control products has created a 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 premise. In addition to enterprise-level adoption, broad-based LabVIEW usage continues to expand with maintenance renewal rates near an all-time high.

2016 was another good year for PXI modular instrumentation and a testament to our leadership in the industry. We saw growth and continued broad adoption of our platform, 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 flexibility of the form factor paired with hundreds of thousands of engineers and scientists using NI software and hardware.

Our strong position in the prototyping of and advanced research into next-generation communications technology such as 5G continued to grow in 2016. Our PXI-based Vector Signal Transceiver (VST), introduced in 2012, has been NI’s most successful PXI instrument ever, and this last year, we introduced the second generation VST that demonstrates NI’s commitment to provide the most innovative RF test, measurement and prototyping solutions in the market and help our

customers stay ahead of the complex and rapidly changing wireless technologies. Leading researchers in industry and academia around the world are also using our software, such as LabVIEW Communications System Design Suite, our software-defined radio (SDR) products, and our FPGA technology, in advanced areas such as waveform definition, massive MIMO, multi-gigahertz bandwidth, millimeter wave, cognitive radio, spread spectrum as well as 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.

In January, we opened the Industrial IoT lab at NI's global headquarters in Austin, where companies like Cisco, Hewlett Packard Enterprise, Analog Devices and PTC are partnering with NI to validate system architectures and create proven designs to shift the future of industry. This convergence of information technology with operational technology has opened discussions and collaborations between companies with backgrounds in industrial machinery, power generation, power distribution, networking, cloud computing, automation and instrumentation. 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 insights our customers can discover. Our software-defined systems are well suited to deliver value to the engineers solving challenges of the Industrial Internet of Things and Big Analog Data.

As an industry leader in DAQ, we are committed to continuous innovation while leveraging the latest commercial technologies from our semiconductor suppliers. While we saw weakness in our PC-based data acquisition products reflecting the challenging PC market dynamics, we saw success in larger systems sales based on PXI and NI CompactDAQ as well as key wins in automotive and aerospace. These hardware-in-the-loop (HIL) systems use NI software and data acquisition HIL to simulate large-scale electromechanical systems, like automotive drive trains and aircraft control systems, increasing coverage of test parameters while decreasing test time. We are also seeing increased demand for the capabilities our platform provides to further autonomous vehicle and connective car research – areas that require fast computation, accurate measurements, and precise control.

In 2016 we unveiled a LabVIEW technology preview where we demonstrated how our next evolution of LabVIEW will help both new and experienced users with enhanced coverage of the engineering design flow across distributed systems management, interactive measurements, automation, data visualization and web development. We are excited about some upcoming releases of our new and improved software products that address applications where abstraction and productivity will increase our product relevance to both new and existing users.

Looking Forward

As I begin my new role as CEO, I want to share some thoughts on my focus going forward. Growing our top-line revenue and achieving our operating model is my top priority. Some of the long term drivers of NI's success and growth have been our ability to serve a large and diverse customer base, our dedication to customer success and the benefits of strong customer loyalty. Our interactions with customers and partners show the opportunity for us to grow our business and gain market share and I'm committed to doing what it takes for us to deliver on that opportunity. Strengthening these relationships with our customers is critical to achieving our financial growth goals.

This together with our highly differentiated platform, powered by LabVIEW and the rest of our open software portfolio, has driven the success of our business. This platform continues to open up new opportunities for us and large investments over the last few years are intended to drive the long term growth for NI. Looking forward we will be focused on leveraging these investments to grow our business and achieve our operating targets.

Best regards,

Alex Davern,
President, CEO

This letter contains forward-looking statements as defined under applicable securities laws and such statements are intended to be covered by safe harbor provisions of the Securities Act of 1993, the Securities Act of 1934, and the

Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements relating to building on our success, accelerating growth from system-level sales while optimizing our broad-based business and delivering operating leverage, belief that 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, being positioned well as these communication technologies evolve and go mainstream, being committed to continuous innovation while leveraging the latest commercial technologies from our semiconductor suppliers, being excited about upcoming releases of our new and improved software products that address applications where abstraction and productivity will increase our product relevance to both new and existing users, growing our top-line revenue and achieving our operating model, opportunity for us to grow our business and gain market share, being committed to doing what it takes for us to deliver on that opportunity, drive long term growth for NI and being focused on leveraging these investments to grow our business and achieve our operating targets. These statements are subject to a number of risks and uncertainties, including the risk of adverse changes or fluctuations in the global economy, foreign exchange fluctuations, component shortages, delays in the release of new products, fluctuations in customer demand for our new and existing products, our ability to effectively manage our operating expenses, manufacturing inefficiencies and capacity utilization, and the impact of any acquisitions we may make. Actual results may differ materially from the expected results. We direct you to our Form 10-K for the fiscal year ended December 31, 2016, and the other documents we file with the SEC for other risks associated with our future performance.

This letter refers to our 2016 core revenue growth. We define our “core revenue” as revenue excluding the effect of our current largest customer and the impact of foreign currency exchange. Our GAAP revenue in 2016 increased by less than 1% over 2015. Excluding revenue from our current largest customer, revenue in 2016 was relatively flat compared to 2015, and excluding the impact of foreign currency exchange, revenue increased by 3% in 2016 over 2015. Excluding both the effect of our current largest customer and the impact of foreign currency exchange, our core revenue increased by 3% in 2016 over 2015. For further information regarding our use of core revenue, refer to the news release attached to our Form 8-K dated January 26, 2017, which is available on our website at ni.com/nati.

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