To Our Stockholders

National Instruments had record revenue in 2017 and record operating profit. We believe this is a testament to the focus of our employees and value of our platform. By aligning our resources to meet the customer challenges that benefit most from our highly differentiated, software-defined platform, NI continued to optimize our business to build a strong foundation for growth.

From a business standpoint, National Instruments had record annual revenue growth and made significant progress toward our operating model. We were pleased to see year-over-year revenue growth in key areas where we have focused, especially our system-level business and key industries including semiconductor and automotive. For 2017 revenue was $1.29 billion, up 5 percent compared to 2016. In 2017, we also achieved record operating profit, record cash flow from operations, and, in the fourth quarter, the highest quarterly non-GAAP net income in the company’s history. We are optimistic about 2018 based on our platform capabilities, market position, the improved PMI, and the current trend in exchange rates.

Focus on Results

Last year was strong with year-over-year revenue growth across many of our product lines. PXI and modular instrumentation products had double-digit percentage year-over-year revenue growth and record revenue for a full year. We believe our modular approach continues to position us well to capitalize on the automated test needs from our customers’ emerging challenges particularly in the semiconductor, automotive, aerospace, and academic research industries. As technology and financial pressures drive reduced time to market, our open platform and the ecosystem that supports it, help test teams in these industries meet their objectives with lower incremental cost.

In 2017, we saw growth in new software seats and enterprise agreements, increases in software renewals, and double-digit percentage year-over-year growth in online software sales. By releasing significant enhancements to our software platform, including the launch of LabVIEW NXG and several complementary software products, we are able to provide our customers with a higher level starting point to streamline their jobs. These new products and our focused sales strategy have given us access to more levels within our customers’ organizations—from engineers improving product design, to executives driving cost and time-to-market goals. In 2018 we plan to continue to expand the capabilities of our platform and our reach within these target organizations.

Our Differentiated Platform

Since 1976, NI has provided powerful, flexible technology solutions to the most challenging problems. From GPIB connectivity to FPGA instruments to the breadth of products we provide now, NI continues to empower engineers and scientists with a software-centric platform that incorporates modular hardware, flexible software, and an expansive ecosystem of partners. This proven approach puts users firmly in control of defining what they need to accelerate their automated test and automated measurement systems. NI’s solution helps build high-performance systems that exceed requirements, quickly adapt to change, and ultimately improve the world.

For over 40 years, the broad-based reach of our software, 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 over 13,000 instrument drivers, support for hundreds of NI measurement products, and connectivity to hundreds of sensors, LabVIEW users can leverage decades of NI software development to build complex systems and solve a wide range of engineering challenges. This reach has created a vibrant user community, given us a unique perspective on the opportunities within test and measurement, and provided insight into the areas our platform can offer the most value.

Demand for new technologies is fueled by the current trends in complex semiconductor design, autonomous vehicles, 5G, and the Industrial Internet of Things. Our platform capitalizes on these trends in a differentiated way for the semiconductor, automotive, and aerospace industries. By combining our platform investments in graphical programming, open FPGAs, and application-specific I/O with the application expertise of our partners and customers, we have been able to help our customers achieve first-to-market wins and accelerate their adoption of these disruptive technologies. With stronger focus on the areas that our platform helps our customers’ business most, we are better able to immerse ourselves in
our customer needs, align our efforts, and provide unique value within these applications.

Speaking to 5G specifically, I am excited to see early deployments of 5G technology by industry leaders at this year’s Winter Olympics in South Korea, and I am looking forward to additional early deployments later this year in the United States. With the 3rd Generation Partnership Project (3GPP) expected to solidify the standards for next-generation wireless communication later this year and major carriers investing in new areas of the wireless spectrum, we are excited to know that our participation with lead users in these areas has given us access to decision makers and a head start on technology investment. Building on the strength of our wireless prototyping systems, we plan to support our semiconductor customers through silicon automated validation as the standards are set and then into automated product test. As the benefits of lower latency and faster communication speeds come to fruition, they will help connect our mobile devices, cars, machines and infrastructure.

Looking Forward
National Instruments has started 2018 disciplined and committed to achieving our business goals. This year, we are focused on delivering more value to our customers where our portfolio is most differentiated, and we are focused on the industry and application areas where our brand is strong. This focus should position us well to drive revenue growth in 2018, make progress toward our profitability goals, and enable growth for our ecosystem of partners.

We set a goal in 2017 to bridge half of the gap between our operating performance in 2016 and our non-GAAP operating margin target of 18 percent. We achieved that goal. Our goal in 2018 is to complete that journey.

I would like to recognize our employees for making significant progress toward our operating model in 2017. Through your focus and execution, we delivered several records, including the highest non-GAAP annual net income in the company’s history. By aligning our resources to solve the needs of our customers who benefit most from our highly differentiated, software-defined platform, we optimized our business and built a strong foundation for growth. We have started 2018 aligned and focused on our highest value opportunities, and I look forward to working with you to accomplish our goals.

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 1933, the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements relating to the focus of our employees and value of our platform, optimizing our business to build a strong foundation for growth, being optimistic about 2018 based on our platform capabilities, market position, the improved PMI, and the current trend in exchange rates, that our modular approach continues to position us well to capitalize on the automated test needs from our customers’ emerging challenges, that our platform and the ecosystem that supports it help test teams in these industries meet their objectives with lower incremental cost, being able to provide our customers with a higher level starting point to streamline their jobs, that in 2018, we plan to continue to expand the capabilities of our platform and our reach within these target organizations, that NI continues to empower engineers and scientists with a software-centric platform that incorporates modular hardware, flexible software and an expansive ecosystem of partners, that NI’s solution helps build high-performance systems that exceed requirements, quickly adapt to change and ultimately improve the world, that we are better able to immerse ourselves in our customer needs, align our efforts, and provide unique value within these applications, looking forward to additional early deployments later this year in the United States, 3GPP being expected to solidify the standards for next generation wireless communication later this year, that our participation with lead users in these areas has given us access to decision makers and a head start on technology investment, that we plan to support our semiconductor customers through silicon automated validation as the standards are set and then into automated product test, that the benefits are expected to connect our mobile devices, cars, machines and infrastructure, that this year we are focused on delivering more value to our customers where our portfolio is most differentiated, and we are focused in the industry and application areas where our brand is strong, that this focus should position us well to drive revenue growth in 2018, make progress towards our profitability goals, and enable growth for our ecosystem of partners, that our goal in 2018 is to complete that journey, that we have built a strong foundation for growth and that I look forward to working with you to accomplish our goals. 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, 2017, and the other documents we file with the SEC for other risks associated with our future performance.