

To Our Stockholders

2014 was a year of great progress for NI, which delivered record annual revenue, profit, and cash flow from operating activities. This year also marked the 36th year of revenue growth in NI's 38-year history. As we moved through 2014, we leveraged improving market conditions, strengthened our execution, and increased new product revenue to accelerate our revenue growth and gain market share. As a result of our increased efficiency and disciplined expense management, we also successfully executed on our 2014 leverage plan, increasing our non-GAAP operating margin to 15 percent and our GAAP operating margin to 12 percent. I also believe we will continue to deliver sustainable differentiation for NI and our stockholders by empowering engineers and scientists with systems to be more productive.

Our Differentiated Platform

Since 1976, NI has made it possible for engineers and scientists to solve the world's greatest engineering challenges with powerful platform-based systems that accelerate productivity and drive rapid innovation. Customers from a wide variety of industries—from healthcare to automotive and from consumer electronics to particle physics—use NI's integrated hardware and software platform to improve the world we live in.

Building on our differentiated platform creates sustained long-term growth opportunities by expanding our global customer base with LabVIEW software, DAQ, and instrument control hardware; displacing traditional instruments with PXI; enhancing our position in RF; and winning more embedded measurement and control system designs with CompactRIO hardware.

In 2014, we saw strong results across many industries and geographies and experienced growth in our core platforms of LabVIEW, DAQ, CompactRIO, and PXI. We believe the focused investments we made over the last several years in R&D, marketing, and sales are paying off with the successful introduction of new products.

Over the past several years, the broad-based reach of LabVIEW, DAQ, and instrument control has enabled us to increase our customer base. LabVIEW, the heart of our software-based approach, has been broadly adopted by engineers and scientists around the world. This adoption provides the foundation of our customer loyalty and creates new application opportunities for NI. In 2014, our software and services sales growth was driven in part by enterprise agreements that increase LabVIEW adoption and proficiency across major accounts. In addition to enterprise-level adoption, broad-based LabVIEW usage continued to expand with renewal rates near an all-time high. We introduced the new LabVIEW Communications System Design Suite, which enables engineers to rapidly prototype communication systems and focus on wireless innovation.

As an industry leader in DAQ, we are committed to continuous innovation while leveraging the latest commercial technologies from our semiconductor suppliers. In 2014, our DAQ products saw success across a broad range of applications and were helped by the improving PC industry. We also introduced VirtualBench, a new product that combines the most essential instruments into a single device that offers integration with both PCs and iPads.

NI continues to build its leadership in PXI. 2014 proved to be a particularly strong year for our PXI products, with record annual revenue and unit volume. Cumulatively, we have now shipped more than 150,000 PXI systems. Our PXI products continued to see broad adoption by customers across a range of applications and industries, including semiconductor test. We also introduced the Semiconductor Test System (STS) to serve high-volume production test of semiconductor chips. The STS is built on the same standard PXI products we sell to the broader test and measurement market, so we leverage the cost advantages from those economies of scale that cannot be achieved by designing unique application-specific testers.

Our RF products serve a broad set of customers and applications ranging from the production test of wireless devices to prototyping and validating diverse wireless components and systems. One area we continue to lead is 5G wireless research and prototyping. 5G networks have been a popular topic as the wireless industry recognizes the need to revamp the current 4G networks to meet the escalating demand for data. Through the NI Lead User program, top researchers use LabVIEW and our software defined radio (SDR) hardware platforms to quickly prototype complex 5G concepts and significantly reduce the time and cost of prototyping, which is a critical step toward commercialization and deployment.

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. In 2014, CompactRIO products saw success across a broad range of applications, from smart grid automation to machine condition monitoring.

Over the past decade, we have intensely focused on working with academic institutions to offer students tools that enable hands-on learning. Since its launch in 2013, our myRIO product has been adopted by over 1,000 universities to teach controls, robotics, mechatronics, and embedded concepts with LabVIEW. In addition to fueling revenue growth, our success in academia helps ensure that graduating engineers around the world are transitioning to industry with knowledge, expertise, and proficiency in using our platform.

We believe we have many growth opportunities ahead of us in technology education, engineering tools, and the way we approach designing and testing systems. We look forward to a continued partnership with the innovators of the world; our promise has been, and continues to be, providing the best engineering systems available so engineers and scientists can focus on improving everyday life.

A Company Built to Last

When we founded NI, I was looking to create a job that I would enjoy as well as build a business with the financial engine that could scale to support sustainable growth and profitability. For the fourth consecutive year, NI was named among the Great Place to Work Institute's World's 25 Best Multinational Workplaces. It gives me great satisfaction, both as a founder and a stockholder, to know that our employees enjoy working at NI as much as I do.

Looking Forward

2014 was a year of great progress as we continued to advance our differentiated platform and delivered another year of record revenue. At the same time, we focused on leveraging the resources we currently have to improve profitability, and we will continue to work toward improving efficiency to return the business to our long-term goal of 18 percent non-GAAP operating margin. I believe our investments in R&D, sales, and marketing are starting to pay off as we expand our product portfolio and address more demanding application requirements, and I am confident that we have built the foundation to drive long-term growth and profitability for NI.

Best regards,



Dr. James Truchard,
President, CEO, and Cofounder