

COGNEX

2017 Annual Report

Sorry that this looks so **BORING!** The good news is that we've saved all of our creativity for the full 2017 Annual Report, which you can see here: <http://www.scanningforlove.com>.

Dear Friends,

If you've been following Cognex for the past 37 years—or even for the past 37 months—you know that we're not your average high-tech company. There is nothing average about Cognex!

We dare to be different in everything we do—from designing unique AI vision algorithms to holding elaborate Halloween parties to designing wacky annual reports. Hey, why be bland when you can be colorful and creative...and maybe even a bit over the line? If we do what other companies do, then we'll be just like them: average. That doesn't work for Cognex, because one of our core values is **excellence**. Good is not good enough; we strive for excellence in everything that we do.

Our out-of-the-box thinking paid off big time in 2017! Thanks to the innovative thinking and hard work of our 1,771 employees (aka Cognoids) around the world, we established new financial records for revenue, net income and earnings per share, all from continuing operations. Clearly, our customers love Cognex products as much as we love designing and manufacturing them, and that's saying a lot!

Our customers and all of our Cognoids know just how special we are, and now it's time for you, our loyal and passionate shareholders, to discover that too. So, when it came time to create our *2017 Annual Report*, we decided to be unconventional once again. That's why the annual report you're looking at right now is...**a Cognex dating website!**

We know that you love machine vision and ID. So, whether you want a serious relationship or just a casual fling, it's important that you look for your true love in the right place. And our *Scanning for Love* website is just that! It's the only dating website dedicated to people searching for their match in machine vision and ID.

If you're ready to find your perfect match, forget about those corny pickup lines and get ready to meet your true love!

Dr. Robert J. Shillman
Founder, Chairman and Chief Culture Officer
Cognex Corporation

Dear Shareholders:

People often ask me why I am so excited to come to work every day. The answer is simple. There is a lot to love about Cognex! I'll admit that I wasn't looking for love 10 years ago when I first met Cognex founder, Dr. Bob. Back then, I thought I was just searching for my next career move. But what I found was much more than that—something that gives my life deeper meaning. To my surprise, I found one of my great loves...Cognex!

The best part of our relationship? That it gets better year after year—like a vintage Bordeaux. In fact, 2017 was our most fulfilling year yet. We celebrated by reporting fantastic financial results, including new records for revenue, net income and earnings per share, all from continuing operations! Incredibly, we set new records even after a substantial tax charge resulting from the Tax Cuts and Jobs Act of 2017.

A Year of Emotional, Spiritual—and *Financial*—Growth!

Tremendous financial results were just the tip of the iceberg in 2017. The truth is, Cognex and I grew as a power couple in many ways. Here are some of our exciting triumphs:

Revenue

Revenue grew from 2016 to 2017 at double the compounded annual rate we experienced over the prior five years. This growth came from manufacturers who have been increasingly investing in machine vision both to improve the quality of their products and to reduce manufacturing costs. It's a win-win! Machine vision also enables manufacturers to introduce new product features, functionality, and technologies, such as OLED screens for electronic devices and batteries for electronic vehicles.

Operating Margin

Operating margin increased by 400 basis points over 2016. Cognex and I both share a love of high-margin revenue growth. Our performance in 2017 demonstrates the significant leverage that incremental revenue has on our profitability. Ooh-la-la!

Consumer Electronics

Consumer electronics revenue grew significantly faster than our corporate average—helped by a material customer. In this market, major brand owners and component suppliers installed Cognex products on production lines located primarily in China, Korea, and the rest of Asia, where most of the world's electronic devices are manufactured.

Automotive

Automotive revenue increased by 25% over 2016. Customers in each of Europe, the Americas, and Asia increased their investment in machine vision. I guess they were feeling the love too!

Logistics

Finally, revenue from the logistics market showed remarkable strength—it nearly doubled year-on-year. With our continued strong performance, we believe revenue from logistics can grow by 50% per year for the foreseeable future.

Cognex Has Both Beauty and Brains

Anyone who says looks aren't important is full of...well, you know what. But I find intelligence infinitely more attractive. Cognex is a technology company with decades of experience developing leading-edge products. And in 2017, much to my delight, Cognex got even smarter!

The introduction of our next-generation In-Sight® 7000 series of vision systems asserts our technology leadership at the high end of our core 2D vision market. And our new DataMan® 70 series of high-performance barcode readers addresses the need for improved read rates at lower price points in both factories and distribution centers.

We also made significant progress in 3D vision—a relatively new market for us. Revenue from 3D products grew by 50% year-on-year. While a small portion of our business (3D represented roughly 5% of total revenue in 2017), we are targeting 50% growth per annum for this high-potential area of our business! New easy-to-use products like the In-Sight® Laser Profiler, which leverages our intuitive EasyBuilder® user interface, are bringing our 3D capabilities to a larger audience. And the six acquisitions we made since late 2016 are helping us advance our 3D technology to solve previously challenging problems, such as using robots to automatically pick and pack objects of different shapes and sizes, which is the objective of many leading e-retailers.

Hanging Out with Cool New Friends

Like any couple, Cognex and I enjoy meeting unusual and exciting friends. Not only does a brand-new BFF keep things fresh, they can also push you to do things that were previously out of your comfort zone. And that's exactly what happened in 2017.

After a long, flirtatious courtship, we tied the knot with ViDi™ Systems, a Swiss-based startup specializing in deep learning AI software for industrial applications. In the 35+ years that Cognex has led the industry in deterministic algorithms, the opportunities offered by deep learning and AI never materialized with the speed and accuracy required for industrial applications. Until now.

Thanks to ViDi's proven technology—and their crew of exceptionally skilled engineers and scientists—we believe that our journey into this exciting subfield of artificial intelligence knows no bounds. Deep learning's human-like judgment finds and categorizes things that are difficult to define, like scratches and blemishes on the surfaces of cellphone cases and screens. This new capability increases the inspection applications that Cognex can address.

By applying deep learning to machine vision, we're already witnessing capabilities that weren't possible just a few years ago. Traditional vision algorithms from Cognex and deep learning AI software from ViDi Systems are truly a match made in heaven!

A Passion for Vision

Even though 2017 was the hottest year yet in our relationship, I'll never take my love of Cognex for granted. We want to keep the passion burning strongly into the future. And that takes effort. Here are the significant ways that we invested in 2017 for our future.

- Technology Leadership—We invested nearly \$100 million in RD&E during 2017, or about 13% of annual revenue. Our investments in engineering pay dividends over the long term in the form of innovative technologies and industry-leading products that can deliver unique capabilities to our customers and value to our shareholders.
- Sales Channel (aka Salesnoids)—We expanded our sales and application engineering team by 38% in 2017. Having more Salesnoids significantly increases our customer connections and enables more contacts with new users of machine vision.
- Growth Capacity—In 2017, we laid the groundwork necessary to grow product shipments significantly in the future. We completed substantial work towards implementing SAP®, our new business information system. We expanded our distribution centers in Cork, Ireland and Natick, Massachusetts. And we opened new offices in emerging markets, including Vietnam.

That Warm, Fuzzy Feeling

What's the old adage? You don't just marry the person, you also marry the family? Well, that applies to Cognex as well...big time! And I couldn't be happier about it! When I look at Cognex, I see a family of more than 1,700 highly creative Cognoids, and a culture where everyone is empowered to do their best work.

It's true. Our unique culture is specifically designed to encourage an entrepreneurial spirit, strong employee engagement, and long-term retention. In fact, many employees have been "working hard, playing hard, and moving fast" with our company for more than 25 years.

Finally, as we celebrate our achievements in 2017, we don't want to get comfortable in our relationship. So, we are renewing our vows in 2018: To Preserve and Enhance Vision! That's our company motto, and it has two meanings. First, we want to preserve and enhance our role as the market leader in the field of machine vision. But, equally important, we are committed to the vision of becoming the standard by which other companies measure themselves regarding how to treat customers, employees, vendors, neighbors, and shareholders.

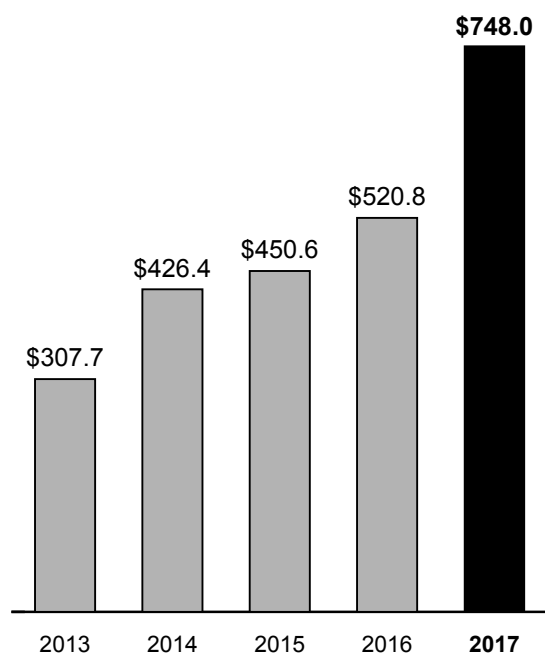
Thank you for joining us on this journey. Keep scanning for love!

Robert J. Willett
President and Chief Executive Officer
Cognex Corporation

Financial Highlights

Revenue

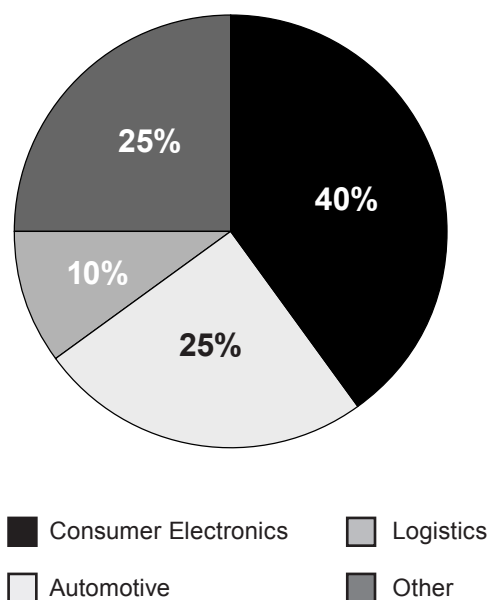
(dollars in millions)



Cognex revenue has delivered 22% compound annual growth over the past five years.

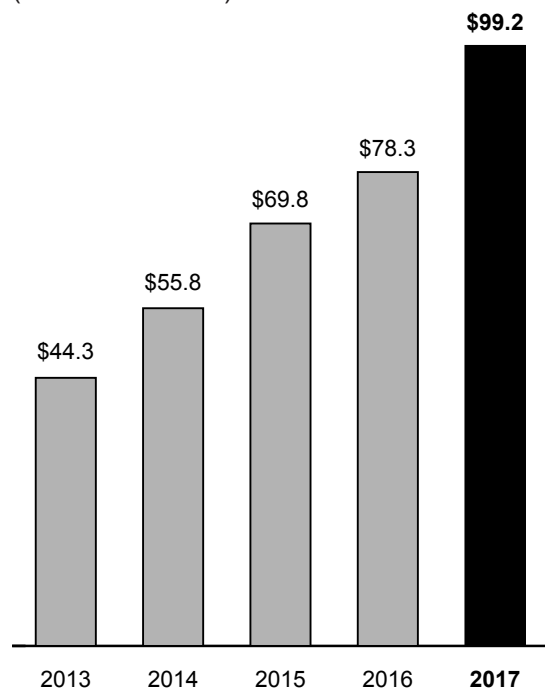
2017 Revenue by Industry

(percentages rounded to nearest 5%)



RD&E Investment

(dollars in millions)



Cognex sustains its technology leadership by consistently investing in RD&E.

Cognex Board of Directors

Robert J. Shillman
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Cognex Corporation

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President & Chief Executive Officer
Cognex Corporation

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Chairman & Chief Culture Officer

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A copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission is available free of charge upon written request to Cognex Investor Relations at the address above, or via online request at www.cognex.com/investor.

This report, including the Chairman's letter and the CEO's letter, may contain "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. For further information, please see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K. A discussion regarding risks associated with forward-looking statements is included under the heading "Forward-Looking Statements."

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