



## How to Profit From the Changing Auto Industry

### Description

Imagine a market that is set to grow at a CAGR of over 30% for the next five years, and to reach over \$130 billion. This is the forecast for the connected car market, and these numbers are looking more and more achievable.

The U.S. government is hard at work preparing a proposal making vehicle-to-vehicle communications systems mandatory in new cars. This is a big push forward for this market, and companies are scrambling to capture a piece of the pie. But wait, this is not a new concept. Europe is ahead of the game, and has already played a part in bringing machine-to machine communication (M2M) to the automotive industry.

It is expected that by 2015, all new cars sold in the EU will be required to have M2M technology that allows the car to automatically notify the nearest emergency centre when the driver has been in a crash. The cars will be required to send a minimum set of data including the exact location of the crash site, time of incident, and the direction of travel. Response times are expected to improve by as much as 60% due to this technology.

The European regulations have already prompted automobile manufacturers to scramble to find other uses for M2M technology — since the OEMs will have to bear the upfront cost, it makes sense that they are looking for value-added services to cover this investment and drive revenue and differentiation. Core services include fleet management, usage-based insurance, driver intelligence services such as monitoring the driving behavior of young and old drivers, and road tolls. Value-added services include driving and green reports, navigation and mapping, remote vehicle diagnostics, weather and traffic, and social media connectivity.

And further into the future, the opportunities are abound. This technology has the potential to be used to help cars avoid accidents, and even to build self-driving cars. There are, of course, many companies that are looking to capture a piece of this market. Let's take a look at a few.

**Sierra Wireless** ([TSX: SW](#))([Nasdaq: SWIR](#)), is now focused solely on the M2M business, so it stands to benefit greatly from this growth. Last year, the company acquired the assets of AnyDATA's M2M

embedded module and modem business for \$5.9 billion. The deal adds to Sierra's market leading position in this market. Sierra's customers in the automotive industry include Chrysler, Peugeot, and Renault. While Sierra reported a net loss in the last 12 months, its balance sheet is strong, with little debt, and the company generates positive cash flow.

**Blackberry** ([TSX: BB](#))(Nasdaq: BBRY) has recently taken up a new strategic direction that leads, in part, to the world of vehicle-to-vehicle communication. QNX Software Systems, which Blackberry acquired in 2010, is hard at work to create technology that will improve the safety of vehicles and even traffic congestion. The end goal is to build an autonomous car. In the meantime, there are many features that are already incorporated into cars, such as blind spot detection, self-parking and collision avoidance systems. The company is still on shaky ground, and is burning through cash so quickly that it could be left with nothing in as little as 18 months, so it is definitely high risk at this time.

**Cisco Systems** ([Nasdaq: CSCO](#)) and other bigger U.S. technology companies could be another interesting way for investors to get in on the action. Cisco is a strong company with good financials looking for more growth. Car connectivity could be the area of growth that the company needs. And trading at 15 times earnings, with a 15% ROE and a dividend yield of 3.3%, it is certainly a less risky way to play this theme.

### **Foolish bottom line**

Car connectivity is transforming the automotive industry. It is the natural progression of technology, with the goal of achieving greater safety, less traffic, and an overall better driving experience. While we are still in the beginning innings of this transformation, investors would be wise to plan on getting exposure to this theme.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NASDAQ:CSCO (Cisco Systems Inc.)
2. NASDAQ:SWIR (Sierra Wireless)
3. NYSE:BB (BlackBerry)
4. TSX:BB (BlackBerry)
5. TSX:SW (Sierra Wireless)

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