4 Reasons Why Sierra Wireless Will Thrive for the Long Term

Description

Machine to machine communication is an industry that is growing fast. It is a fragmented market that **Sierra Wireless** (TSX: SW)(NASDAQ: SWIR) is well positioned to consolidate as we are at the beginning of a secular trend that is here to stay. Long term, it is reasonable to expect that most machines will be connected, as this provides financial, service and lifestyle benefits to users of these machines. Here's why this market, and Sierra Wireless, are here to stay and are on the cusp of becoming increasingly relevant and increasingly profitable.

Exposure to a variety of industries to drive growth

This brings with it diversification as well as numerous growth drivers. In a recent analyst meeting, the CEO of the company reviewed the opportunities that he sees in the different segments.

The automotive sector will be a big growth driver for Sierra, as the penetration rate is currently quite low, at roughly 10%. According to forecasts, the market is set to grow at a CAGR of over 30% for the next five years, and to reach over $130 billion. In fact, there is no reason why we shouldn't believe that 100% of cars will be connected in the future. Sierra sells to some of the biggest auto manufacturers, such as Chrysler, Toyota, Peugeot, Renault, and Nissan.

BlackBerry (TSX:BB, Nasdaq:BBRY) is also attempting to get in on this lucrative market. The company 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 a high risk proposition at this time.

The healthcare industry also represents a potentially lucrative long-term opportunity for Sierra Wireless. While the business in this segment is small today, we can all agree that the idea of a “connected patient” sounds extremely beneficial to patients and doctors alike.

In the energy segment, smart metering has been on the rise here in North America for quite some time, as readings from our meters are collected remotely because the meters are connected to the utility companies. At this time there are large global programs in Europe and Asia that are connecting meters in those parts of the world.

Legato and AirVantage take Sierra to the next level

Legato is a big differentiator for Sierra, as it reduces the time and cost for clients who are building their solutions. And AirVantage provides the company will ongoing service revenue, as Sierra sells AirVantage cloud services along with Legato.

Strong growth rates

The latest results, the first quarter of 2014, saw 19.5% revenue growth including acquisitions. Organic growth was also strong at 17%, and ahead of expectations. Furthermore, design wins, which are a good forward indicator, achieved a record in the first quarter, and over half of the wins were new programs. It will take some time to see the revenue stream from these wins, but they represent incremental revenue.

The company expects second-quarter revenue to increase 18% to $128 million to $131 million and gross margins of 31%+ accompany this growth rate.

Strong balance sheet enables future acquisitions

The company currently has $150 million in cash on its balance sheet, with no debt. The CEO has stated that it will use the this cash for M&A, focusing on the enterprise solutions business unit, which has higher gross margins, and is a more fragmented market.

Investors pay attention. Sierra is leading the charge in the pursuit of the M2M market, which is taking the technology world by storm. Any weakness in the share price should be viewed as a buying opportunity.

CATEGORY

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