

Are the Good Times Coming to an End at Sierra Wireless Inc.?

Description

One of the top stock success stories of 2014 was the dramatic surge in the stock price of **Sierra Wireless Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) and the emergence of the Internet of Things as a viable investment option. This time last year, Sierra Wireless was trading at \$18.48. On February 5 the stock closed at \$46.54, and during the past 52 weeks, the stock hit a peak of \$56.94. Investors have been watching this stock closely to see if 2015 could see a similar surge in price or whether last year was just a fluke.

Over the past two weeks, a clearer picture has begun to emerge: Sierra Wireless's fourth-quarter report just came out on February 5, and a troubling report has also come out from the U.S. government, which could drastically change the industry.

Government oversight on the horizon?

For those of you who are unfamiliar with the nuts and bolts of Sierra Wireless, it is a developer of hardware and software that allows various machines and computers to communicate with each other. Some examples include medical equipment, vehicles, production equipment, and a variety of Internet-enabled devices.

It is this ability to connect a growing number of devices that is apparently drawing concern from the U.S. Federal Trade Commission (FTC). In a move that some claim to be overstepping its bounds, the FTC is calling for greater security to be implanted into Internet of Things devices. While the report does not create any new regulations, the FTC does reserve the right to "crack down on violations of privacy or deceptive consumer practices."

Going forward, companies such as Sierra Wireless will be under greater scrutiny to maintain certain security levels in its products, and this could open the door to added government oversight in the future.

Record year-end results

On a brighter note, Sierra Wireless managed to beat some of the analysts' predictions. In the fourth quarter, Sierra Wireless generated \$149 million in revenues, a new record that surpassed last year's mark by 25.7%. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased to \$12.7 million from \$6.2 million, and while net income managed to post a loss of \$1.7 million in the quarter, it was an improvement over the net loss of \$1.9 million in Q4 2013.

Year-end revenues rose by 24% to a new record in 2014, totalling \$548 million, up from \$441 million in 2013. Adjusted EBITDA saw an impressive increase as it totalled \$35.4 million, up from \$18.7 million in 2013. Net income for the year came in a loss of \$16.9 million compared to \$15.6 million in 2013. This should not concern investors as in 2014, Sierra Wireless spent \$91.6 million to acquire Maingate MB, a specialist in machine-to-machine technologies.

Is it still a sound investment?

One part of the fourth-quarter report that has garnered some attention is its Q1 2015 EPS guidance numbers, which range from \$0.15 to \$0.18, below analysts' estimates of \$0.20. However, revenue guidance has been set by Sierra Wireless at \$145 million to \$149 million, just above estimates of \$143 million.

These numbers show that 2015 may not be as successful as 2014, so we should not expect another round of tripling stock prices. That said, Sierra Wireless is positioning itself as a stable company that could endure for the long run. We need only look at its 34% market share in the machine-to-machine industry to see the rate at which Sierra Wireless has grown recently. There is also the fact that every day, more people look to connect their devices and appliances to their computers and smart devices.

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2. Tech Stocks

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Date

2025/08/20

Date Created

2015/02/10

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