



## Should You Buy Sierra Wireless Inc.?

### Description

The Internet of Things (IoT) is all the rage these days, and **Sierra Wireless Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) is riding a wave of popularity on the back of its leading position in the market for machine-to-machine (M2M) wireless communications solutions.

The stock has risen more than 50% in the past six months and a recent pullback has investors wondering if now is the time to get in. Let's take a look at the current situation to see if Sierra Wireless deserves to hold a spot in your portfolio.

### Earnings and cash flow

In its Q4 2014 earnings statement, Sierra Wireless reported revenue of US\$149 million, which is a 25.7% increase over the same period in 2013. OEM Solutions contributed \$129 million and Enterprise Solutions, Inc. provided the rest.

Without the contributions from acquisitions, organic year-over-year revenue growth for the fourth quarter was 20.7%. Gross margins came in at 33.6%, a slight improvement over Q4 2013, and cash generated from operations was \$11.3 million. The company finished 2014 with cash and cash equivalents of \$207 million.

Sierra Wireless expects the Q1 2015 revenue to be essentially flat compared to Q4 2014.

For the stock price to continue to move higher, the market will expect Sierra Wireless to maintain year-over-year revenue growth above 20%. It's an ambitious goal, but organic growth has been steady and revenue from acquisitions should continue to drive strong cash flows.

### Acquisitions

Sierra Wireless has been on a buying binge. The company recently closed a deal to purchase Sweden-based Wireless Maingate, a provider of M2M connectivity and data management services. Maingate provides services to more than 500 customers across Europe.

The purchase makes sense for Sierra Wireless as it expands its global footprint. Together, the two companies can offer clients complete device-to-cloud services.

Maingate is expected to contribute \$3.5 million in revenue in Q1 2015.

Last year, Sierra Wireless paid \$21 million to purchase Vancouver-based In Motion Technology. The deal helps strengthen In Motion's offerings in the automotive space, which is a massive sector in the emerging IoT market.

In 2013, Sierra Wireless bought Korea-based AnyDATA Corporation to bulk up its global M2M embedded module and modem business. The deal strengthened the company's line of OEM Solutions and has positioned Sierra well to expand its presence in the growing Korean market.

Management is doing a good job of finding tuck-in deals that make strategic sense from both a product offering and market expansion perspective. As the market evolves, investors should expect the acquisition trend to continue.

### **Market size**

Research group International Data Corporation (IDC) estimates the global market for IoT products and solutions will hit \$7.1 trillion by 2020 as companies tap the power of the Internet to improve efficiency, boost revenues, and lower operating costs.

According to a July 2014 report issued by ABI Research, Sierra Wireless holds a 34% share of the M2M market.

### **Is Sierra Wireless right for your portfolio?**

The easy money has already been made in the recent rally, and the current pullback might not be finished. If you believe that Sierra Wireless will be able to maintain its growth rate and defend its leadership position, then the stock is probably a good bet.

However, Sierra Wireless has a history of big rallies followed by spectacular crashes. Given the size of the recent run, investors should be cautious.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **POST TAG**

1. Editor's Choice

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1. NASDAQ:SWIR (Sierra Wireless)
2. TSX:SW (Sierra Wireless)

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