



## Is Sierra Wireless Inc. a Falling Knife?

### Description

Shares of **Sierra Wireless Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) are down more than 20% this year and investors are wondering if this is the beginning of another gut-wrenching plunge.

Let's take a look at the company to see if the downtrend is set to continue.

### Track record

Sierra Wireless has been on a 15-year roller coaster ride. Back in the days when everyone was ringing in the new century, Sierra's stock went from \$16 to more than \$200 in the span of about four months. It was one heck of a party, but it didn't last long. Two years later in 2002, the nasty hangover still lingered as the stock traded at \$3 per share.

Another surge took the stock to \$50 in 2004, only to see it fall back below \$10 seven months later.

In the latest rally, Sierra moved from a low near \$20 last July to a December high above \$56. At the time of this writing, the shares were trading at \$43.

### King of IoT

This time, the company is riding a wave of popularity based on its leadership position in the burgeoning Internet of Things (IoT) market. This new wild west of the IT world is going to pit companies against each other in the race to connect billions of devices to the Internet. All the big players say they want a piece of the action, and little feisty Sierra Wireless has already staked its claim in this new gold rush.

Sierra sells intelligent wireless solutions that use embedded 2G, 3G, or 4G modules to connect devices and equipment through a secure cloud service. The machine-to-machine (M2M) market, as it is known, is growing at a rapid clip. Sierra's M2M solutions have very practical applications in industries such as healthcare, automotive, and rail transport.

How big is this opportunity?

Research agency International Data Corporation (IDC) suggests the global IoT market could hit \$7.1 trillion by 2020.

### **Sierra's numbers**

One reason for the run up in the stock is the strong sales over the past two years. The company reported Q4 2014 earnings of US\$149 million, a 25% increase over Q4 2013. Year-over-year organic growth was about 20%, once you take out the gains from acquisitions.

The solid sales growth could continue as more companies begin to implement IoT solutions to make their operations more efficient. At this point, Sierra's shares are trading at 22 times forward earnings and three times book, which means the market is expecting some impressive execution moving forward.

### **Risks**

Technical traders would caution new investors right now because the stock looks like it could be forming a head-and-shoulders pattern with the next move being a sharp drop, especially if the stock drifts below \$40.

### **What should investors do?**

The growth potential in the IoT market is compelling and Sierra Wireless is currently the leader in the M2M space. However, new investors might want to wait for the next quarterly results to come out before buying the shares. If the numbers miss consensus estimates for Q1 2015, the stock could retest \$30.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

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

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