Why Sierra Wireless Inc.'s Shares Are Down More Than 20%

Description

Sierra Wireless Inc. (TSX:SW)(NASDAQ:SWIR), one of the world's leading providers of intelligent wireless solutions, announced weaker-than-expected third-quarter earnings results after the market closed on November 5, and its stock responded by plummeting over 20%. Let's take a closer look at the results to determine if we should consider using this sell-off to begin scaling in to long-term positions, or if we should avoid it for the time being.

The results that ignited the sell-off

Here's a summary of Sierra Wireless's third-quarter earnings results compared with what analysts had expected and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Earnings Per Diluted Share	$0.23	$0.25	$0.24
Revenue	$154.58 million	$158.73 million	$143.27 million

Source: Financial Times

Sierra Wireless's adjusted earnings per diluted share decreased 4.2% and its revenue increased 7.9% compared with the third quarter of fiscal 2014. Its slight decline in earnings per share can be attributed to its adjusted net income decreasing 3.4% to $7.42 million.

Its modest revenue growth can be attributed to increased sales in both of its business segments, including 5.1% growth to $130.65 million in its OEM Solutions segment, driven by growth in its automotive, energy, and networking sub-segments, and 26.3% growth to $23.93 million in its Enterprise Solutions segment, driven by its acquisitions of Maingate and Accel Networks.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Adjusted gross profit increased 4.2% to $49.16 million

2. Adjusted gross margin contracted 110 basis points to 31.8%
3. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 2.8% to $12.11 million
4. Adjusted EBITDA margin contracted 40 basis points to 7.8%
5. Adjusted earnings from operations increased 13.1% to $9.48 million
6. Cash flows provided by operating activities decreased 63.8% to $10.44 million

Sierra Wireless also provided its outlook on the fourth quarter of fiscal 2015. It is calling for adjusted earnings per share in the range of $0.09-0.11 and revenue in the range of $148-151 million, but these estimates fell short of analysts' expectations. Analysts had projected earnings per share of approximately $0.29 and revenue of approximately $165.23 million.

It is also worth noting that in the fourth quarter of fiscal 2014, the company reported adjusted earnings per share of $0.29 and revenue of $149.08 million.

Should you buy in to or avoid the sell-off?

It was a horrible quarter for Sierra Wireless, and its outlook on the fourth quarter made things even worse, so I think the sell-off in its stock is warranted.

I also think the stock could face continued weakness in the weeks and months ahead, because the company is clearly no longer the high-growth "Internet of Things" darling of the tech sector that it once was, so the market will have to decide how high of a multiple it is willing to pay for its earnings, which could take time.

With all of the information provided above in mind, I think Foolish investors should avoid investing in Sierra Wireless today and simply monitor it going forward.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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