



## Why Sierra Wireless, Inc. Should Be a Part of Your Portfolio

### Description

The Internet of Things (IoT) represents a technological revolution whereby all of the devices of our daily lives are connected to one another, constantly feeding information and updates to each other and us.

The possibilities for IoT connectivity are literally endless. Your car could check your smartphone's calendar and schedule a maintenance appointment at the dealership when the "check engine" light comes on. Your oven could lower the heat on your dinner, so it doesn't burn when your smartphone notifies it that there's traffic on the way home.

**Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) is at the forefront of the IoT movement; some industry experts estimate is the future of inter-device connectivity.

Sierra's piece of the IoT puzzle is both in software and hardware as the company develops 4G LTE and LTE-advanced solutions as well as the interchangeable modules and embedded software.

Let's take a look at how Sierra is doing and why this is the IoT company for your portfolio.

### Results

Sierra's results for the most recent quarter were released a few weeks ago and were less than stellar. Revenues were down nearly 3% year over year, falling below the guidance that the company had previously established. Adjusted net income also dropped significantly, falling below analysts' estimates for the quarter and short by \$0.02 per share.

At first glance, these results could be seen be unimpressive and short of expectations. But before you reconsider your current investment (or adding Sierra, as I suggest you do), there are some things to consider.

### The potential upside is huge

**Cisco Systems** is forecasting that within the next five years, there will be upwards of 50 billion things

connected to the Internet, roughly double of what is currently connected. All of those connected devices will need modems and modules to connect, which Sierra can provide as the key player in this regard.

The IoT is slated to be a multi-trillion dollar market, and Sierra is positioning itself to be a big part of that market, both through its primary hardware OEM solutions segment as well as through its enterprise solutions and cloud computing software segments.

### **Weak results are temporary for Sierra**

The OEM segment came out below expectations in the recent quarter with revenues of \$121.5 million falling 6% short over the same quarter last year. However, much of that weakness can be passed on to the company's customer chain and, by extension, weak demand.

The company did note during the quarterly conference call that much of the weakness was due to a large automotive customer's delay in ordering as well as a shift in the overall market to **Intel Corp.'s** new Skylake platform, both of which can be seen as a temporary dip that Sierra did announce previously.

### **Sierra is a work in progress**

Both the enterprise and cloud segments are starting to show real progress, and growth in the enterprise segment should eventually pass that of the OEM segment. The enterprise segment maintains a fairly healthy margin of 53.6%, while the cloud and connectivity component have a margin of 41.4%.

Both of these segments should start to pick up the pace, particularly as the company prepares to launch the unified vision of a single IoT platform, which should see efficiencies, increased usage, and a boost to revenues. As said by CEO Jason Cohenour, "customers manage their devices, global cellular subscriptions and machine data through a single portal."

That platform is set to launch in the coming months, and investors and analysts are not being coy about the potential. While the stock is down year-to-date by over 14%, it has shot upwards by nearly 30% in the past month.

Make no mistake—Sierra is a pure-play IoT vendor, and once the company has completed pulling all of the respective pieces together into a complete platform, the results should more than satisfy investors.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

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

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