Where Does Sierra Wireless, Inc. Go From Here?

Description

Only a year ago investors of **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR) were loving life. The company had diluted earnings per share of $0.12, and shares were trading at about $27. All this talk about the Internet of Things was going to make the company one of the technology powerhouses in the sector. Instead, the excitement died away and shares plummeted to a little over $14 a share.

Now Sierra Wireless has its work cut out for it.

In its most recent earnings release, it revealed that it had diluted net earnings per share of only $0.02, and the shares only trade at $18.65. But if we we look at the balance sheet, the quarter wasn't all that bad.

Revenue was US$156.2 million–a 1.1% decrease year over year. The primary reason for this drop was because its OEM Solutions division, the largest in the company, saw a 4% drop in revenue from US$138.2 million to US$132.6 million. Its Enterprise Solutions division had revenue that was up 10% to US$16.6 million, and its Cloud and Connectivity Services division had revenue that was up 46.8% from US$4.8 million to US$7 million.

So how could Sierra Wireless have such a big difference in its earnings when the revenue was only 1.1% less than last year?

Sierra Wireless had nearly $2 million more in amortization, which could have to do with its recent acquisition of GenX Mobile Incorporated (which I'll get to in a second). But the big reason for the difference in earnings is due to foreign exchange gains and losses.

In the second quarter of 2015 the company had a foreign exchange gain of US$1.55 million, whereas in 2016 it had a loss of US$1.07 million. That's a huge split, which is why net earnings were only $718,000 this year, while they were approximately $4.08 million last year.

Here's the thing…

While it's true that the quarter was much weaker than last year's second quarter, Sierra Wireless is actually in a really great position. It has no debt on the balance sheet, which means it can last for quite some time. More importantly, it is sitting on US$98.4 million, which is an increase of $12.3 million from the first quarter of 2016. So long as there is no debt and there's money in the bank, Sierra Wireless can handle weak quarters like this.

And that's important, because the company has a series of opportunities that are going to help it grow significantly.

As I mentioned, it completed the acquisition of GenX Mobile Incorporated for US$7.8 million. This company will be folded into the Enterprise Solutions division, which saw a 46.8% year-over-year growth in revenue. In the first half of the year, GenX had revenue of US$6.7 million and non-GAAP earnings were about breakeven, so the business should allow that division to grow through smart synergies.

The other news is that PATEO, a Shanghai-based enterprise that offers products and services for connected cars, is using Sierra Wireless's AR series modules. The **Zhejiang Geely Holding Group Co., Ltd**, which has 30 brands of car, will be the first to have these modules. As time goes on, I expect that this deal will continue to generate consistent revenue for Sierra Wireless.

Ultimately, Sierra Wireless had a tepid quarter, and investors punished it for that. In my view, if it hadn't been for an acquisition (which will make Sierra stronger) and such a drastic change in foreign exchange gains, the quarters would have been very similar. I believe buying Sierra Wireless is a smart bet for the future and, frankly, it has a very good chance of seeing considerable growth in the coming years.

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