



Sierra Wireless, Inc.: Your Stock for IoT Exposure

Description

As a society, we are constantly becoming more connected; as new devices join the network, we have more control through central devices like our cell phones. This phenomenon is called the Internet of Things (IoT), and it has the potential to be a massive business.

Consider the following example.

Your refrigerator keeps track of how much milk there is. When it's all out, your refrigerator, which is connected to the internet, can either automatically alert you or order it and have it delivered. Payment can be handled directly from the refrigerator as well because once it's connected to the internet, it can have a funded "grocery" wallet.

It sounds like science fiction, but it's far closer to reality than you'd think. And one company that is pushing hard into this space is **Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)).

Where Sierra is making its play is in the connection. Other, larger companies will create the intelligent refrigerator and devices. Sierra is focused on connectivity. It has a portfolio of devices, including 2G, 3G, and 4G embedded modules and gateways. These are like little modems and routers that can be installed inside any device. But these devices need to be able to communicate with each other and the larger network, which is exactly what Sierra makes possible.

The problem for Sierra is that the IoT is still an evolving space, so it has gone through some painful times as the company went all-in. And its earnings, which have been relatively flat, show this transformation. In the third quarter of 2016, its revenue was US\$153.6 million, which is down from US\$154.6 million in the previous year. OEM Solution revenue was also down to US\$127.8 million from US\$130.7 million. However, Enterprise Solutions and Cloud and Connectivity Services were both up, which is a sign of the direction the company is moving.

The company is making good deals. Back in 2016, it entered the automotive business with PATEO, a Shanghai-based company that offers products and services for connected cars, agreeing to use Sierra Wireless's AR Series Modules. One of PATEO's clients, **Zhejiang Geely Holding Group Co., Ltd**, with its 30 brands of car, will be rolling this out to its vehicles. Most people spend a large amount of

their time in their cars, so it's important that the car is not only connected, but completely secure. Sierra offers that.

I believe this is a trend that will continue for quite some time, and so do many others. Gartner, a research firm, has suggested that there will be 25 billion devices connected to the internet, providing incremental revenue of US\$300 billion. And the former CEO of **Cisco** said there would be over 50 billion devices connected to the internet over the next five years, and by 2024 the incremental revenue would reach US\$19 trillion.

It's going to take time for Sierra to truly benefit from this blossoming business. But the reality is quite simple: these large enterprises will need connectivity devices that they can trust. And there are very few as capable as Sierra. Therefore, buying today is about buying for the long term. It'll take time, but I believe the rewards will be well warranted.

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Date

2025/07/05

Date Created

2017/01/31

Author

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