



Why Sierra Wireless, Inc. Is Falling Sharply

Description

Sierra Wireless, Inc. ([TSX:SW](#))([NASDAQ:SWIR](#)), one of the world's leading providers of fully integrated device-to-cloud solutions for the Internet of Things (IoT), announced its second-quarter earnings results after the market closed on Wednesday, and its stock reacted by making a sharp move to the downside in the extended-hours trading session. Let's take a closer look at the quarterly results, its outlook on the third quarter, and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity.

A solid quarter of top- and bottom-line growth

Here's a quick breakdown of 10 of the most notable financial statistics from Sierra Wireless's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	Q2 2017	Q2 2016	Change
OEM Solutions revenues	US\$144.56 million	US\$132.67 million	9%
Enterprise Solutions revenues	US\$21.66 million	US\$16.58 million	30.7%
Cloud & Connectivity Services revenues	US\$7.29 million	US\$6.99 million	4.3%
Total revenues	US\$173.51 million	US\$156.23 million	11.1%
Adjusted gross profit	US\$58.81 million	US\$55.77 million	7.2%
Adjusted gross margin	34.5%	33.8%	70 basis points
Adjusted EBITDA	US\$14.8 million	US\$12.08 million	22.5%
Adjusted earnings from operations	US\$11.3 million	US\$8.43 million	34%
Adjusted net earnings	US\$9.69 million	US\$6.38 million	52%
Adjusted earnings per share (EPS)	US\$0.30	US\$0.20	50%

Outlook on the third quarter

In the press release, Sierra Wireless provided its outlook on the third quarter, calling for revenues in the range of US\$167-175 million and adjusted EPS in the range of US\$0.17-0.25.

Should you buy Sierra Wireless on the dip?

It was a solid quarter overall for Sierra Wireless, and the results surpassed the consensus estimates of analysts polled by **Thomson Reuters**, which called for adjusted EPS of US\$0.28 on revenue of US\$170.27 million. Furthermore, its outlook on the third quarter came in line with analysts' expectations, which currently call for adjusted EPS of US\$0.24 on revenue of US\$170.33 million.

Immediately following the earnings release, Sierra Wireless announced its acquisition of Numerex Corp. for approximately US\$107 million. Sierra Wireless noted that this acquisition "accelerates our IoT device-to-cloud strategy by adding an established customer base, significant sales capacity, proven solutions, and recurring revenue scale."

To summarize Sierra Wireless's two press releases, the company beat second-quarter earnings expectations, provided guidance for the third quarter that was in line with expectations, and it announced a strategic acquisition of another leading provider of managed enterprise solutions that enables the IoT; I think all of these are positives for the company, so I do not think the sharp decline in its stock is warranted. Furthermore, the stock now trades at less than 27 times fiscal 2017's estimated EPS of US\$1.02 and less than 23 times fiscal 2018's estimated EPS of US\$1.18, both of which are inexpensive given its current earnings-growth rate and its estimated 13.1% long-term growth rate.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in Sierra Wireless to begin scaling in to long-term positions.

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