Sierra Wireless, Inc.'s Q3 Sales Are up 13%: Is the Stock a Buy?

Description

Sierra Wireless, Inc. (TSX:SW)(NASDAQ:SWIR) released its third-quarter results on Thursday. The company posted earnings per share of $0.04 and net income of $1.2 million, which was up from a net loss of $1.8 million a year ago. Sales of $173 million also increased from $153 million in 2016 for a year-over-year increase of 13%.

Let's take a closer look at the company's financials to see whether or not the stock is a good buy today and what was behind the results.

Growth across all segments

The company has three main segments it tracks sales from, all of which had year-over-year increases in sales this past quarter.

Sierra's OEM Solutions segment, which makes up the vast majority of revenue (80% this quarter), was up $11 million for an 8% increase from a year ago. Enterprise Solutions, which made up 15% of sales, rose by 39%, and Cloud and Connectivity Services increased by 23%.

The company's top line was comparable to Q2, but the sales mix was slightly different. OEM Solutions represented 83% of revenue, and Enterprise Solutions took up 12% of sales, with Cloud and Connectivity Services making up just 4% of the top line. Although sales were similar to the previous quarter, Sierra hopes its share price does not go on a decline, like it did after second-quarter results.

Higher top line needed to cover higher operating expenses

The company's cost of goods sold averaged ~67% of sales, while operating expenses were ~32%. As you can see from adding these numbers, there isn't room for much profit to make its way from the top line down to net income.

Operating expenses are indirect and shouldn't normally rise with revenue, although that's what happened this past quarter. Restructuring and acquisition-related expenses were up $2.2 million, while research and development, along with sales and marketing, were up a combined $6 million. The gross margin rose 17% year over year, while operating expenses kept up with a 16.4% increase.

However, without restructuring and acquisition-related expenses, operating costs would have increased by just 11.8%.

Taxes and foreign exchange play a big factor in improved earnings

Earnings before operations were just $238,000 and up from a loss of $53,000 a year ago. Whichever way you look at it, Sierra was very close to breaking even both times, and this year happened to fall on the positive side.

Ultimately, Sierra would finish with a net income of $1.2 million this year compared to a loss of $1.8 million a year ago. The reasons for the variance is that foreign exchange gains were $1.1 million higher this year, and income tax expenses were also lower by $1.6 million.

Is the stock a buy?

Sierra's stock was soaring earlier this year, and although the stock has risen over 6% since September, the share price has failed to get back to where it was before Q2 results. The company is involved in many exciting growth opportunities, including integrating technology with vehicles and providing connectivity to self-driving cars.

The Internet of Things industry is emerging, especially as we see more hardware become connected to apps and other software. As a result, there is lots of upside and growth potential for the company, and the stock could be a great long-term investment and is one of the best tech stocks on the TSX to invest in.

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