



## Is Sierra Wireless, Inc. a Buy Today?

### Description

I wrote about how investors had [the opportunity of a lifetime](#) to get into **Sierra Wireless, Inc.** ([TSX:SW](#)) ([NASDAQ:SWIR](#)) at good valuation levels earlier this year. The stock almost doubled from the beginning of the year to the mid-year, when it hit highs of approximately \$40.

But then came Sierra's dilutive \$107 million acquisition of Numerex Corp., a leading provider of managed enterprise solutions that enable the Internet of Things.

However, while the acquisition will be dilutive to 2018 EPS, the merits of it are long term.

Here is why today is [still a good time to buy Sierra](#):

First, the Numerex acquisition increases Sierra's cloud revenue to over 10% of revenue from less than 5% of revenue. This is an important point because this revenue is higher margin (54% versus 34% gross margin for Sierra's core revenue) and recurring.

So longer term, despite the dilution, this is a good deal.

Second, the stock price has fallen 30% since the announcement of the acquisition. In my view, this adequately reflects the dilution and does not really consider the longer-term benefits.

Third, with the company reporting better than expected third-quarter results last month, it continues to impress.

With revenue growth of 12.8%, a gross margin of 33.3% compared to 32.1% in the same period last year, and adjusted EPS of \$0.23 compared to \$0.13 in the same period last year for an increase of almost 100%, we can see that despite the volatility of the stock, the company is still thriving.

And lastly, Sierra's balance sheet still looks stellar, with negligible debt and a cash balance of US\$74.2 million.

Furthermore, the company continues to generate healthy cash flows with each quarter. In 2016, Sierra

reported cash flow from operations of \$47 million and free cash flow of \$31 million. This represents a 181% year-over-year increase in operating cash flow and a \$27 million increase in free cash flow.

For the first nine months of 2017, operating cash flow (excluding changes in working capital) was \$30 million and free cash flow was \$20 million.

With organic growth returning after four quarters of contraction, and despite running below Sierra's medium-term organic growth target of 10-15%, Sierra remains well positioned to benefit from the Internet of Things machine connectivity opportunity.

Although Sierra remains the global leader, management has decided to expand its sales force and investment in product innovation, as the market remains highly competitive. As a result, margins will suffer in the short term, but, again, I am keeping my eye on the long term.

And long term, buying Sierra is a good decision.

## **CATEGORY**

1. Investing
2. Tech Stocks

## **TICKERS GLOBAL**

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

## **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## **Category**

1. Investing
2. Tech Stocks

## **Date**

2025/08/16

## **Date Created**

2017/11/22

## **Author**

karenjennifer

default watermark