



## Sierra Wireless, Inc.: Is This IoT Play Ready to Shine?

### Description

Watching cryptocurrencies and tech stocks experience such incredible returns can be hard for investors who mistimed their buy, when the investment thesis was perfect, but they'd bought a few years too early. Or maybe they bought a little too high, so now they're waiting for things to return to the baseline.

One company that seems to fit that description is **Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)). I'd started talking about the stock back in [July 2015](#) with a suggestion that investors should buy Sierra. In [April 2016](#), I'd recommended Sierra again. Both times, the thesis looked perfect, but the timing was wrong.

This Internet of Things (IoT) play appears to be ready to shine. There are a few reasons why I believe this.

First, the business is experiencing significant growth. Its business segments can be broken into three pieces: OEM solutions with 82% of revenue, enterprise solutions with 13.5% of revenue, and cloud and connectivity services with about 4.5% of revenue.

Across the company, revenue growth expanded by 12.8% compared to last year. Adjusted earnings per share was strong at \$0.23, up quite significantly from the \$0.13 last year.

Not to mention, the company believes that its addressable market will grow from US\$3 billion in 2015 to US\$30 billion by 2021 — a 10-fold increase.

Second, the Numerex acquisition was approved in December. This \$107-million acquisition, though diluting 2018 earnings per share, will boost the company's viability long term. Primarily, this is going to increase Sierra's cloud revenue. That accounts for 4.5%. Management expects this to boost it to over 10% of total revenue.

Not all revenue is created equal. Specifically, we want to see high-margin revenue, and cloud revenue has a 54% margin compared to the 34% margin across Sierra's main services. Further, it's a subscription, so the company can depend on it.

Third, the IoT space continues to gain speed. It is a major partner with **Volkswagen** to integrate the Car-Net system in its automobiles. With self-driving cars increasingly becoming a reality, this is a solid opportunity for Sierra to generate consistent gains from an entirely new technology.

Finally, the price seems right. Investors are irritated by the dilution that the Numerex acquisition made, but long term, this deal is a smart one for the company. Therefore, with shares beaten down, you can make an investment in a company that is really primed for future years.

Investing is a mix of science and art. The thesis for investing in Sierra was right in 2015; IoT was coming, and it offered the complete package to companies. Yet we were early. Even in 2016, we were early. But as we move into 2018, I see an opportunity that is increasingly getting closer.

Could we be early again? Yes. But with shares at a low price, and a bright future, I think it's an appropriate time to buy.

#### **CATEGORY**

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