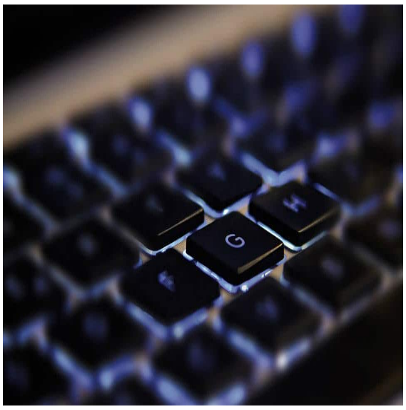

Looking for a Tech Stock? Buy This Beaten-Down Opportunity

Description

The problem with many investors these days is that they get caught up in the quarter-to-quarter roller coaster. If a company releases solid quarterly results but then suggests that it might have a hard time in the next quarter due to non-recurring charges, the market freaks out.

That's exactly what happened to **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR). The company released its Q4 2017 results in February, and they were good.

OEM Solutions revenue was up 3.4% to US$139.8 million year over year. Enterprise Solutions revenue was up 52% to US$31.88 million. And IoT Services revenue was up 73.5% to US$11.86 million. All in all, company revenue increased by 12.6% compared to last year.

Double-digit revenue increases are always appreciated, especially when a company is scaling and moving into new industries. And yet shares dropped nearly 50% from the 52-week all-time high. What happened?

Sierra Wireless released its first-quarter guidance and said that it expects revenue in the range of US$181-189 million, which would be lower than this quarter's revenue if it came in on the lower end. It also said that the non-GAAP EPS would be in the range of US$0.04-0.10, which is definitely below the US$0.28 from this quarter.

The company explained in the press release that it expects earnings to "be impacted by some unusual and mainly non-recurring items, including higher one-time costs related to a Numerex network upgrade and customer migration and tight component supply constraining revenue and adding to cost of goods."

Said another way, Sierra Wireless got approval to buy Numerex in December, paying $107 million for a major asset to the company's books. However, like any acquisition, it comes with growing pains, and there can be short-term pain while integration takes place.

But the Numerex acquisition is a great move for Sierra Wireless irrespective of the pain. Before the acquisition, the company only generated 4.5% of its revenue from the cloud. This acquisition adds to the company's plan to boost cloud revenue to over 10%.

The nice thing about cloud revenue is that it is a higher-margin business than services revenue. In Q4, the company's margin was 33.8%, which isn't bad. Cloud revenue has a 54% margin, though. That means it earns more profit from every dollar it brings in. Not to mention, it's a subscription business, so cash flows are more predictable.

Looking at Sierra Wireless right now, it's easy to see a company that is beaten down. Investors are getting hung up on the short-term pain without looking at the big picture. Sierra Wireless continues to grow, and I fully expect revenue and non-GAAP EPS to correct itself once the Numerex acquisition is done integrating.

But this is an opportunity for you … If other investors want to ride the roller coaster, let them. You can buy and hold this stock, and if you're disciplined, you won't need to ever get on that ride. Sierra is a long-term play and one that I recommend you own.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:SW (Sierra Wireless)

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1. Investing

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