



This Forgotten IoT Stock Is Aiming for a Turnaround

Description

Sierra Wireless ([NASDAQ: SWIR](#)) was once a poster child for the opportunities presented by the [Internet of Things](#) (IoT). Being a pure-play IoT company, Sierra was supposed to ride the growth of machine-to-machine (M2M) connectivity, thanks to its expertise in modules that enabled devices to communicate with each other.

But things didn't turn out as expected. Sierra fell prey to the commoditization of the IoT chip market and [lost business](#) to rivals. Not surprisingly, Sierra Wireless is no longer the [fast-growing stock](#) that it used to be. The stock is languishing close to its 52-week lows and the company's latest results [weren't very attractive](#). However, the company has switched its strategy to take another swing at the IoT opportunity.

Sierra rejiggers its strategy

Sierra Wireless has reclassified its business into two segments: IoT solutions and embedded broadband. Sierra used to report its revenue in three segments: OEM [original equipment manufacturer] solutions, enterprise solutions, and IoT services.

OEM solutions used to be its largest segment in terms of revenue, housing the different types of modules that Sierra sells. More specifically, Sierra used to include sales of embedded cellular modules, navigation satellite system modules, and short-range wireless modules in this segment.

However, the business of selling chips was eventually commoditized, and that seems to have happened in the IoT market as well. More and more players selling identical chips entered the market where Sierra was once a leader, so the only thing that differentiated its products from its rivals' was the price tag. Sierra became prone to losses in both [market share](#) and margins.

So the company decided that it needed to offer end-to-end solutions, by packaging together hardware and software offerings to build a stickier customer base. On an [earnings conference call](#) earlier this year, CFO David McLennan said: "We have grouped these [IoT solutions] businesses together in this segment, because they provide us the opportunity to enable our customers with a fully integrated end-

to-end IoT solution that includes hardware, connectivity services, and cloud-based management.”

The good news for investors is that the IoT solutions business is moving in the right direction. Revenue from this segment increased 5% year over year in the second quarter of 2019, accounting for 52% of the total revenue. What’s more, Sierra was also able to record an adjusted gross margin of 37.2% in the IoT solutions business, as compared to the year-ago period’s figure of 36.6%.

Sierra management says that this is just the beginning, as the integrated IoT solutions business is seeing stronger interest from customers. The chipmaker says that its recurring-revenue pipeline has more than doubled since the beginning of the year thanks to the restructuring. More importantly, Sierra believes that IoT solutions will end the year with 12% revenue growth, which is more than double the growth clocked in the second quarter.

Sierra also aims to double its recurring revenue to \$200 million in the next three years, and drive its consolidated annual revenue to \$1 billion by the end of that time frame. The company forecasts that 60% of this revenue will come from IoT solutions, at a gross margin of at least 40%.

So Sierra seems to be quite optimistic about the growth of its IoT solutions business. That’s not surprising, as demand for IoT platform services is expected to clock a compound annual growth rate of 28.5% through 2022, according to third-party estimates.

Should you buy?

Sierra Wireless is trading close to its 52-week lows, and at a forward price-to-earnings (P/E) multiple of 14.6. The P/E is significantly lower than the five-year average multiple of nearly 22.

This makes Sierra Wireless stock a good bet, considering the improving pace of the IoT solutions business, which is expected to exit the year with double-digit revenue growth and potential margin improvements. More importantly, Sierra expects the IoT solutions business to drive greater revenue and margins in the future.

This should help Sierra Wireless offset the weakness in the embedded broadband business and allow it to deliver impressive top- and bottom-line growth in 2020, according to analyst estimates compiled by Yahoo! Finance. With the company seeming set to turn around, it might be a good idea to start stocking up on Sierra shares.

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