



Can Sierra Wireless, Inc. Dominate the Internet of Things?

Description

The Internet of Things (IoT) industry is set for skyrocketing growth over the coming years, and many companies are emerging to ride the latest wave of the internet revolution. **Sierra Wireless** ([TSX:SW](#))([NASDAQ:SWIR](#)), the Vancouver-based maker of intelligent modules, modems, cloud-based services, and more, is one of the top contenders in the market.

Here are the strengths, weaknesses, opportunities, and threats that you need to know to decide whether Sierra Wireless is worth looking at.

Strengths:

- Early stake in the growing Internet of Things market.

The Internet of Things is a nascent industry with the predicted potential of very high growth in the near future. According to Gartner, a technology research company, by 2020 over *25 billion* “things” (thermostats, cars, and even that Blu-Ray DVD player that is slowly collecting dust while you stream movies over **Netflix**) will wirelessly communicate with one another. This is a whopping *500% increase* in the current 2015 figure of 4.9 billion “things” connected to each other.

With booming growth just around the corner for the industry, Sierra Wireless hopes to be a big player in the industry’s imminent eruption.

- Sierra Wireless holds the top spot in machine-to-machine market share.

On its website, Sierra Wireless proudly boasted a number one position in the global market of machine-to-machine (M2M) communication devices. Its solid 34% market share and slew of high profile customers and partners—including **Cisco, GE, Philips, Honeywell**, and more—are nothing to sneeze at. But, in a growth industry such as IoT, bigger, more established firms may soon shoulder their way into Sierra Wireless’ fragile dominant position.

Weaknesses:

- Despite healthy revenue growth, Sierra's earnings-per-share (EPS) ratio keeps falling.

In the first quarter of 2015, Sierra Wireless' revenue grew to \$158 million, a 21% increase from the same quarter of the previous year. Despite this pleasing figure, the company's EPS, or the amount of net profit that a single share is worth, was only CA\$0.12.

While this number is an improvement from last quarter's EPS of negative \$0.30, this less-than-stellar result is causing investors to remain skeptical of the company's growth power. This EPS ratio will continue to be key metrics in upcoming quarters to measure whether Sierra Wireless is a strong or weak IoT company.

- Loss in foreign exchange of currency hits Sierra Wireless' balance sheet hard.

In the first quarter, a large loss of Sierra Wireless' revenue occurred in a surprising place: the United States. The Canadian dollar's current weak exchange rate relative to the U.S. dollar is incurring higher losses than in previous earnings reports, leading to an overall weaker EPS ratio. While in the second quarter the company actually reported a gain in foreign exchange from operations, the EPS ratio remains unimpressive.

With many of Sierra Wireless' largest consumers being American companies, you should keep a close eye on this figure in the future.

Opportunities

- Smart acquisitions can continue to keep Sierra Wireless growing.

Recent acquisitions have helped Sierra Wireless grow its business portfolio. These include Wireless Maingate AB, MobiquiThings SAS, and Accel Networks LLC. As the company continues to bring its new purchases into the business, it may reach higher levels of profitability that investors will be happy about.

Similar purchases in the future can continue the growth that the company needs to compete with its bigger, more established competitors.

Threats:

- Sierra Wireless faces stiff competition in the race to lead the IoT revolution.

With a market capitalization of \$732 million, Sierra Wireless looks like the small underdog company compared to the veteran giants lined up in the impending race to gain IoT supremacy.

Alphabet ([Nasdaq:GOOG](#)) is making headway in the mass consumer market with Nest's smart home products, **Salesforce.com** ([NYSE:CRM](#)) is a leader in cloud computing for wireless "things", and **IBM** ([NYSE:IBM](#)) hopes to provide big data and analytics using the information that all of these wireless devices collect.

Keeping all of this in mind, here is the bottom line. I'm interested to see if Sierra Wireless can pump up its earnings per share ratio, and though this stock isn't for the risk averse investor, Sierra Wireless might be just the next big growth stock. And at the price of \$30 per share, right now might be just the

perfect time to buy into the next internet revolution.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:SW (Sierra Wireless)

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