

March 24th, 2017

Sierra Wireless: SWIR

Alec Odnoha

Sector: Information Technology
 Industry: Communications Equipment
 Current Price: \$29.70
 Target Price: \$35.00

Company Description: Sierra Wireless is a Canadian-based information technology company that specializes in the development of intelligent wireless solutions in building the “Internet of Things.” The company operates in three segments: OEM Solutions, Enterprise Solutions, and Cloud and Connectivity Services. Each segment offers various modules and devices that contribute to the goal of the company, which is to drive innovation through the production of these wireless solutions. The company has a 20-year history of innovation in the wireless space, and has been able to continuously connect businesses and individuals to critical data and information that is essential for advancement. Sierra Wireless was founded in 1993, and is headquartered in Richmond, Canada.

BUY

Current Price: \$29.70
 Target Price: \$35.00
 Market Cap: \$957.4M
 ROE (LTM): 4.27%
 Ke: 8.35%
 P/E Ratio: 62.60
 Net Income Margin: 2.50
 Equity Multiplier: 1.56
 Total Asset Turnover: 1.09
 Cash/Total Assets: 17.77

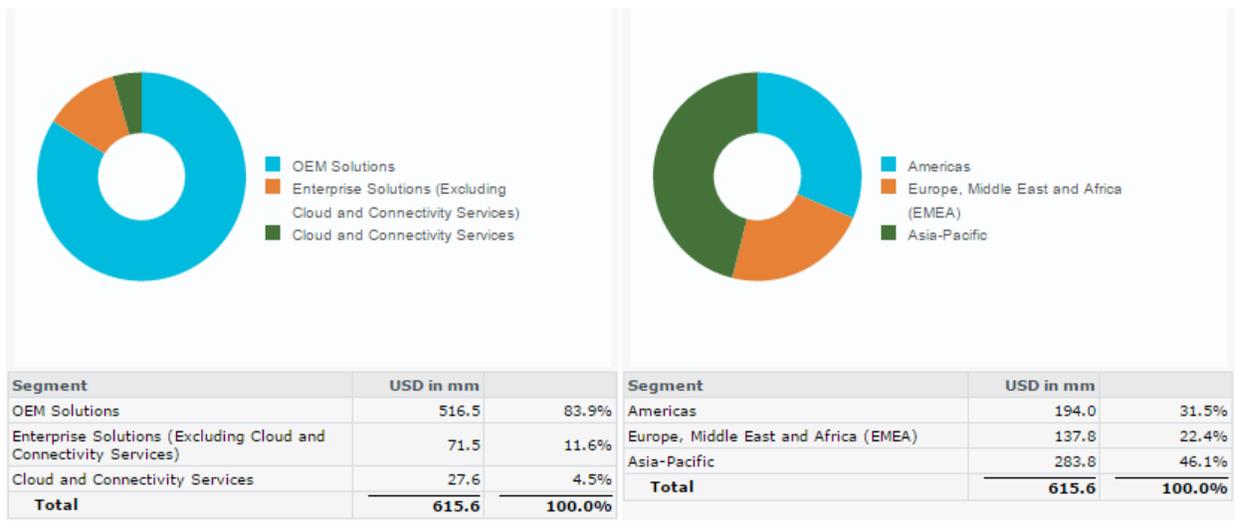
Catalysts:

- Short Term(within the year): Recent launch of new gateways in Enterprise Solutions segment, technology improvements
- Mid Term(1-2 years): Evolving wireless networks, growth in the Internet of Things market, increasing demand for device-to-cloud solutions
- Long Term(3+): Continued growth in the IoT market.



Thesis: The Internet of Things can be defined as the inter-networking of physical devices, vehicles, buildings, and others, embedded with electronics and network connectivity that can enable these objects to collect and exchange data. Simply put, this entails connecting any device to the internet. This market has been rapidly growing and is slated to continue that growth in the future, as constant technological improvements and the development of “smart” technology is on the rise. Sierra Wireless has long been among the industry leaders in bringing high-tech modules, gateways, and connectivity services to the market, and has enhanced that position over the years with numerous acquisitions and a broad product line. The company operates within three segments: OEM solutions, Enterprise Solutions, and Cloud and Connectivity Services. Financially, the company is debt free and re-invests back into itself to continually finance growth of the business. Moving forward, Sierra Wireless has positioned themselves nicely to continue to make advances in the ever-changing world of wireless capabilities

Earnings Performance: Sierra Wireless generated financial performance in Q4 of 2016 that was above their overall expectations. Revenue for the quarter totaled \$163.0 million, up 12.5% on a year-over-year basis in comparison to Q4 2015, which totaled \$144.8 million. Annually, the company also saw a revenue increase, totaling \$615.6 million, which is up 1.3% from \$607.8 million total in FY 2015. Segmental performance was also very solid for the company. OEM Solutions, which is the company’s primary revenue driver, had revenue reported at \$135.2 million for Q4 2016, which is up 11% compared to Q4 of 2015, totaling \$121.5 million. This revenue total will be expected to grow, one factor being as a result of the acquisition of BlueCreation completed by the company in 2016, which will expand their already-leading position in the OEM Market. Enterprise Solutions saw increased revenues up 27% year-over-year from 2015, totaling \$21 million. This segment is expected to perform well in 2017 as a result of the release of newer gateways in the market. Cloud and Connectivity Services reported quarterly revenues of \$6.8 million, which is up modestly from the previous year. However, performance in this segment is also slated to rise following the adaption of the company’s new Smart SIM technology, which enables the highest quality connectivity services available to customers. The following two charts will exhibit both the annual segmental revenue performance and the display of Sierra Wireless’ global presence, which offers multiple market environments and opportunities for Sierra Wireless to grab more market share, which runs consistent with their goals moving forward.

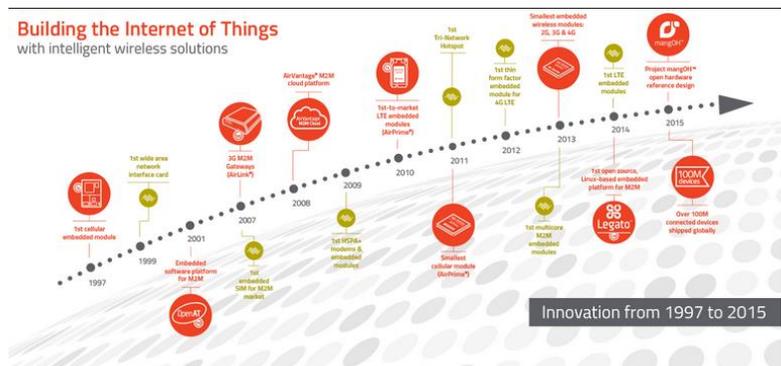


Source: CIQ

Industry Outlook: Sierra Wireless operates in the information technology sector of the communications equipment industry. In such an industry, constant technological advances and innovative products become methods for differentiation. Moreover, Sierra Wireless’ primary goals align themselves with advancing in the ever-expanding “Internet of Things” markets. The company’s primary competitors vary from mobile network operators to device manufacturers and infrastructure vendors. Growth in the Internet of Things market is slated to drive demand for secure, scalable device-to-cloud solutions that can connect and gather data. The IoT has the capability to be applied to several types of industries that can aid in improving efficient operations or gathering data or information, which is why that the connectivity capabilities continually expand. This is where Sierra Wireless is in very solid position, being an industry leader for a number of years and having multiple acquisitions that increase its scale and market presence.

Products and Services: Sierra Wireless presents numerous product offerings in terms of wireless capabilities and performance. Ranging from selections such as embedded wireless solutions, to routers and gateways, to cloud and connectivity services. Sierra also offers fully integrated solutions, which is comprised of all of the above listed products, and these are created to aid and promote businesses to innovate. Sierra Wireless’ top product segments would be their embedded modules in OEM solutions. OEM solutions generate the most revenue by a considerable margin, and Sierra Wireless has a firm hold in the embedded modules market. The company has also held the title of number one cellular module vendor in the world for five consecutive years, which is indicative of their continued dominance within embedded solutions and their LTE, 3G, and 2G modules. The modules integrate a wireless connection into products and solutions across a wide range of industries, including energy, transportation, and the automotive industry to name a few. Routers and gateways enable cell connectivity and are designed for reliability and mission-critical connection. In cloud and connectivity services, the use of the AirVantage cloud program is the primary service. The product line for Sierra Wireless is constantly expanding, and the company has developed a reputation for creating state-of-the-art high quality products and bringing them to market. With the tremendous product line already featured and with recent acquisitions made in the last year, Sierra Wireless is surely positioning itself as a force in the growing IoT market, and will create value.

Internet of Things: An ever-growing market, the internet of things is virtually the connection between any physical device with an on/off switch to the internet, typically considered to be “smart devices.” This can include anything from cellphones and coffeemakers to washing machines, headphones, and lamps. The technology that comprises said devices are comprised of much of the products that Sierra Wireless has to offer, and thus these physical devices become able to collect data. This growing market has capabilities that will drastically alter the way that we live, offering endless amounts of



connections that can occur. Much of the market focuses on machine-to-machine communication, which is one sector that Sierra Wireless has performed well in (OEM Solutions). As stated above, the goal of the IoT and current trend is to make these machines, “smart,” and capable of gathering and evaluating data. What makes up this technology are small sensors, and those sensors are analyzed by cloud-based applications, another service that Sierra Wireless provides. As shown in the chart above, Sierra Wireless has been involved in the building of the Internet of Things for a number of years, introducing different devices to market and acquiring a number of tech-based companies which add to its scale. An example of the IoT at work could be the use of smart cement for building a bridge that can monitor stresses and cracks. If there is ice on the bridge, the sensors in the cement can communicate that wirelessly to internet in your car. The car can then either instruct the driver to slow down, or do so on its own. This is an example of how sensor-to-machine and machine-to-machine communication occurs. This form of communication can revolutionize how work and life intertwine. Sensors monitor and analyze all of this data with cloud-based technology, and Sierra Wireless can develop not only those sensors, but also provide the cloud-based connectivity as well, which is why it plays such a key role in this industry. Holding a solid position in a market that is slated for a boom is a risky play, but one that I feel confident will drive value in the stock price, as demand for these smart technologies keeps on the rise.

Financial Performance: Despite some fluctuations in growth in previous years, Sierra Wireless holds a healthy financial position and is well poised for future growth. Overall revenue growth for the company has been steady historically despite a marginal increase this past fiscal year. Running consistent with Sierra Wireless’ recent expansion of scale due to acquisitions and expansion in the global market, revenues are projected to steadily increase over the next two fiscal years, as shown in Exhibit 1.

Marginally, the company has performed relatively solid. In FY 2016, the company saw a total increase in gross margin up to 35.4% in comparison with a total of 31.9% in 2015. This can be attributed to the favorable impact on cost of goods sold, relative to the change in the amount estimates of the companies intellectual property royalty obligations. Also, the increase can be attributed to product cost reductions. Earnings

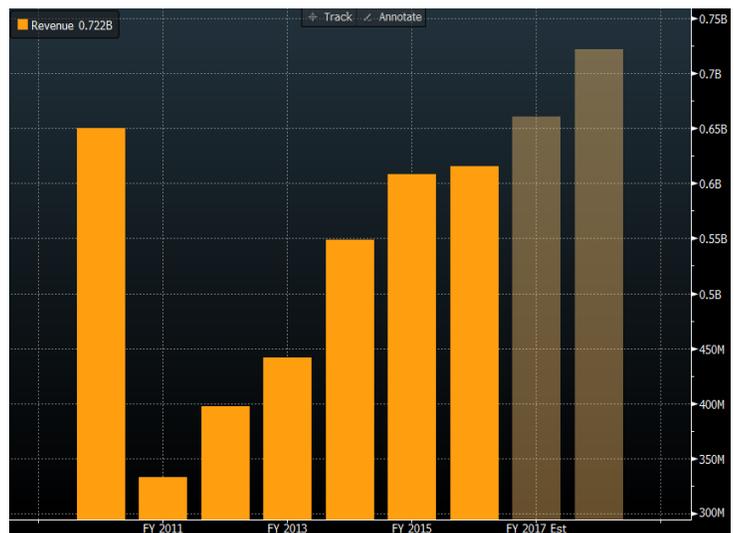


Exhibit 1

from operations more than doubled, from \$10.1 million in 2015 up to \$21.3 million in 2016. This increase can be attributed mainly to a stronger product lineup and investments in sales and marketing which are leading to increased customer activity. Adjusted EBITDA was reported at \$15.5 million, which exceeded expected earnings. This was primarily driven by improved gross margins and a continued focus on sound OpEx management, specifically on gross margins, which is why marginal improvements were reported. Strong reported profitability reflected revenue gains combined with better margins and a focus on cost management. The company is debt-free and has a strong cash position, ending FY 2016 with \$102.8 million in cash. Q4 of 2016 consumed \$9.2 million in cash, due to significant working capital demands which led to a negative operating cash flow of \$1.4 million. However, for the full year, the company generated free cash flow of \$29.5 million, using \$8.8 million for two acquisitions and bought back \$10.2 million worth of shares under the NCIB

program, while also purchasing \$4.2 million worth of shares to fund the stock compensation program that the company offers. The company has seen increases from last year in EBITDA margin, Operating margin, and Net Income margin as shown in the table.

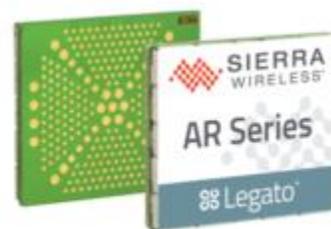
Net Income margin can certainly be alarming with a huge dip in FY 2014, but it is certainly headed in the right direction and is projected to continue that positive trend moving forward. In 2017, the company expects a year-over-year growth

Sierra Wireless				
Marginal Performance	FY 2013	FY 2014	FY 2015	FY 2016
Gross Margin	32.96	32.63	31.89	35.37
EBITDA Margin	2.41	3.09	4.99	7.67
Operating Margin	-4	-1.2	1.66	3.47
Net Income Margin	12.46	-3.07	-0.44	2.5

in revenue in the range of \$152-4161 million for Q1, reflecting normal business seasonality. The company does not pay dividends and has always re-invested back into itself to fund the growth of the business. Sierra Wireless has displayed solid signs of growth in recent years, and I expect that trend to continue as a result of continued cost management coupled with lower production costs, a growing product line, and the growth in market share that the company has already generated.

Partnerships/Acquisitions:

One large portion of business operations for Sierra Wireless are acquisitions and partnerships. Sierra Wireless has incurred several acquisitions over the years, and recently landed a few that are projected to greatly advance its position in the wireless embedded solutions market. Most recently, Sierra Wireless acquired BlueCreation and GenX in 2016. The BlueCreation acquisition allowed for expansion in short-range wireless Bluetooth and Wi-Fi capabilities, and is believed to strengthen the company's position on OEM's even further. The GenX acquisition was completed with sights set on the growing telematics market space. The GenX acquisition is also believed to expand Sierra Wireless' strategic position in key segments and will drive growth as it will be integrated into Sierra Wireless' Enterprise Solutions business segment. A large contribution to Sierra Wireless' credibility in the field is the recent selection by Volkswagen to integrate Sierra Wireless technology for its next generation of connected cars. The Volkswagen partnership will utilize Sierra Wireless technology to expand into additional connected services and telematics. The newer 4G technology by Sierra Wireless is slated to enter the market beginning in 2018 and will be featured in several Volkswagen models worldwide. Volkswagen has selected Sierra's AR Series modules and Legato platform for its connected cars. Sierra's continual accrual of acquisitions and large partnerships, like with Volkswagen, will not only add to the company name but will also generate value as a result of higher demand of its technologies. Exposure in this type of market will offer Sierra Wireless another avenue in which revenue can be generated from the development and implementation of smart car technology.



Conclusion: The Internet of Things is only going to become more prevalent as society advances. Already having a stronghold in the market allows for Sierra Wireless to maintain a solid level of operation. Maintaining a debt free level while also sustaining a small cash position and continually building its scalability through multiple acquisitions positions the company well moving forward. A product line that is becoming more and more expanded coupled with advancements in technology offers more ways for Sierra Wireless to maintain their industry-leading level of operation. The stock is currently trading at \$29.70, and I am anticipating that stock value to spike during this calendar year. A 1-year target price of \$35.00 is certainly attainable, and relatively quick. As the IoT market continues to expand, Sierra Wireless will surely perform well and continue to be the premier vendor for wireless devices and connectivity, and the development of these “smart” technologies.

Sierra Wireless, Inc. (SWIR)

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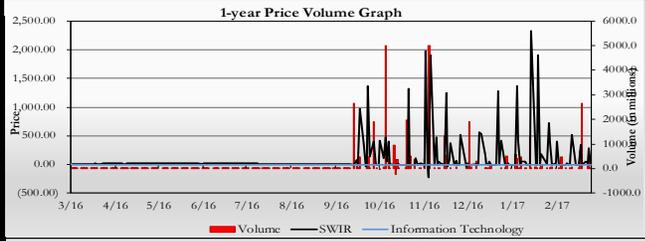
BULLISH

Analysis by Alec Odnoha
3/25/2017

Current Price: **\$29.70**
Divident Yield: **0.5%**

Intrinsic Value: **#VALUE!**
Target Price: **\$133.66**

Target 1 year Return: **350.52%**
Probability of Price Increase: **100%**

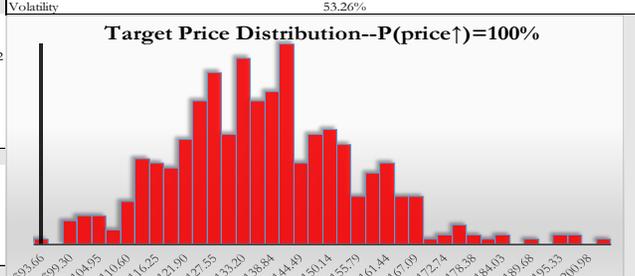


Description	
Sierra Wireless, Inc., together with its subsidiaries, engages in building the Internet of Things (IoT) with intelligent wireless solutions in North America, Europe, and the Asia Pacific.	
General Information	
Sector	Information Technology
Industry	Communications Equipment
Last Guidance	November 3, 2015
Next earnings date	May 4, 2017
Estimated Country Risk Premium	4.28%
Effective Tax rate	18%
Effective Operating Tax rate	20%

Market Data	
Market Capitalization	\$1,275.91
Daily volume (mil)	0.50
Shares outstanding (mil)	0.00
Diluted shares outstanding (mil)	32.34
% shares held by institutions	74%
% shares held by investments Managers	0%
% shares held by hedge funds	0%
% shares held by insiders	0.00%
Short interest	0.00%
Days to cover short interest	0.00
52 week high	\$30.60
52-week low	\$12.30
Levered Beta	1230.35
Volatility	53.26%

Past Earning Surprises	
Quarter ending	Revenue
12/31/2015	-3.69%
3/31/2016	1.06%
6/30/2016	-2.36%
9/30/2016	-7.41%
12/31/2016	-0.26%
Mean	-2.53%
Standard error	1.5%

EBITDA	
12/31/2015	-65.52%
3/31/2016	17.18%
6/30/2016	17.86%
9/30/2016	-25.48%
12/31/2016	46.17%
Mean	-1.96%
Standard error	19.6%

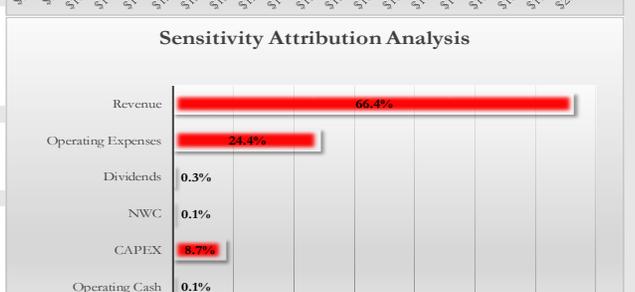


Management	
Cohenour, Jason	Chief Executive Officer, Pre
McLennan, David	Chief Financial Officer and
Guillemette, Philippe	Chief Technology Officer
Schieder, August	Senior Vice President and Eng
Seefeldt, William	Senior Vice President of Eng
Dodson, Bill	Senior Vice President of Ope

Peers	
CalAmp Corp.	
Open Text Corporation	22
Mitel Networks Corporation	
Inseego Corp.	

Profitability	
ROIC	12.9%
NOPAT Margin	9%
Revenue/Invested Capital	1.50
ROE	12.9%
Adjusted net margin	9%
Revenue/Adjusted Book Value	1.50

SWIR (5 years historical average)	
ROIC	21.25%
NOPAT Margin	11.66%
Revenue/Invested Capital	1.82
ROE	19.19%
Adjusted net margin	11.63%
Revenue/Adjusted Book Value	1.65



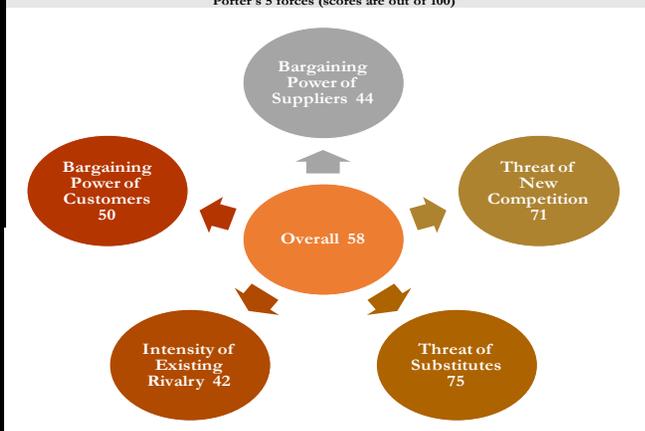
Invested Funds	
Total Cash/Total Capital	14.6%
Estimated Operating Cash/Total Capital	14.6%
Non-cash working Capital/Total Capital	2.6%
Invested Capital/Total Capital	67.3%

SWIR (5 years historical average)	
Total Cash/Total Capital	23.0%
Estimated Operating Cash/Total Capital	19.1%
Non-cash working Capital/Total Capital	5.7%
Invested Capital/Total Capital	63.6%

Capital Structure	
Total Debt/Common Equity (LTM)	0.00
Cost of Existing Debt	#DIV/0!
Estimated Cost of new Borrowing	5.87%
CGFS Risk Rating	D
Unlevered Beta (LTM)	1230.35
WACC	#VALUE!

SWIR (5 years historical average)	
Total Debt/Common Equity (LTM)	0.00
Cost of Existing Debt	#DIV/0!
Estimated Cost of new Borrowing	5.55%
CGFS Risk Rating	D
Unlevered Beta (LTM)	1.77
WACC	#VALUE!

Valuation	
NOPAT margin	8.6%
ROIC/WACC	#VALUE!
Net Claims	#VALUE!
Price per share	#VALUE!



Revenue growth	
Base Year	1.3%
12/31/2017	5.7%
12/31/2018	6.9%
12/31/2019	7.5%
12/31/2020	7.1%
12/31/2021	6.6%
12/31/2022	6.2%
12/31/2023	5.8%
12/31/2024	5.4%
12/31/2025	4.9%
12/31/2026	4.5%
Continuing Period	4.1%

ROIC/WACC	
Base Year	8.6%
12/31/2017	9.4%
12/31/2018	9.5%
12/31/2019	9.3%
12/31/2020	10.5%
12/31/2021	11.8%
12/31/2022	13.7%
12/31/2023	15.5%
12/31/2024	17.4%
12/31/2025	19.2%
12/31/2026	21.0%
Continuing Period	22.8%

Invested Capital	
Base Year	\$198.16
12/31/2017	\$253.00
12/31/2018	\$277.16
12/31/2019	\$381.38
12/31/2020	\$410.75
12/31/2021	\$471.84
12/31/2022	\$592.97
12/31/2023	\$655.85
12/31/2024	\$716.21
12/31/2025	\$775.46
12/31/2026	\$832.84
Continuing Period	

Price per share	
Base Year	\$957.35
12/31/2017	\$960.74
12/31/2018	\$904.42
12/31/2019	\$848.70
12/31/2020	\$785.75
12/31/2021	\$714.75
12/31/2022	\$629.77
12/31/2023	\$530.05
12/31/2024	\$414.05
12/31/2025	\$280.76
12/31/2026	\$130.53
Continuing Period	