

STEADY REVENUE GROWTH FORECAST

DETAILED STOCK REPORT



**SIERRA
WIRELESS®**

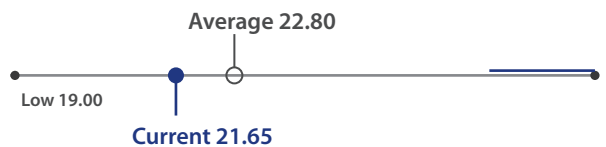
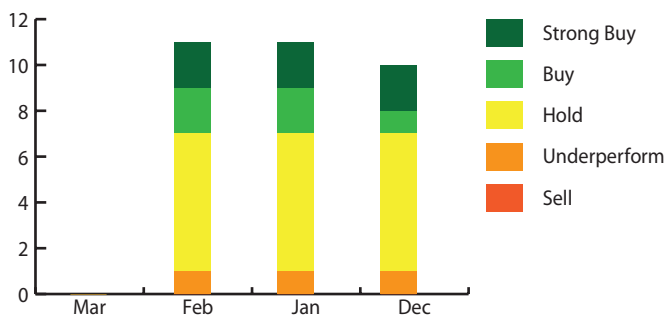
13811 Wireless Way
Richmond, BC V6V 3A4
Canada

Key Statistics

Last Close	Avg Daily Vol	52-Week High	Change % on Day	52-Week Change	ROE	Beta 5Y
21.65 (CAD)	0.09 M	28.23	0.8%	196.58%	(19.02%)	2.01
21 Mar, 2021	Market Cap	52-Week Low	Forward P/E	Diluted EPS	ROA	Avg Rev Growth
	797.44 M	7.02	434.5	(2.41)	(8.68%)	1%

Recommendation Trends

Hold



Company Profile

Sierra Wireless, Inc., together with its subsidiaries, provides device-to-cloud Internet of Things (IoT) solutions in the Americas, Europe, the Middle East, Africa, and the Asia Pacific. The IoT Solutions segment offers recurring connectivity services, cloud management software, and cellular modules and gateways.

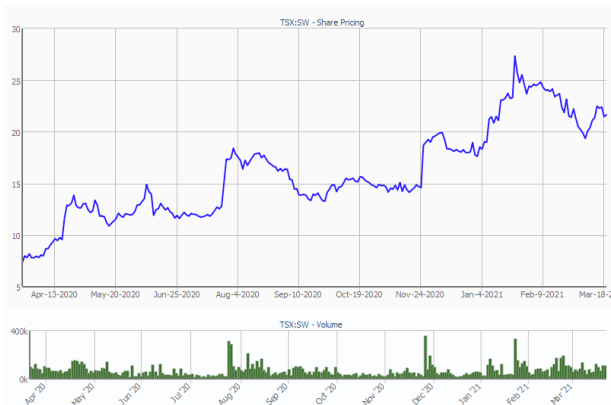
Some highlighted technologies include 5G, LTE networking, Wi-Fi, Bluetooth, Global navigation satellite system, and etc.

Key Financials

	12 Months Dec-31-2018	12 Months Dec-31-2019	12 Months Dec-31-2020	12 Months Dec-31-2021	12 Months Dec-31-2022
Total Revenue	1,082.90	709.84	571.59	592.78	650.79
Growth Over Prior Year	14.9%	(31.0%)	(18.0%)	5.6%	9.8%
Gross Profit %	33.3%	36.1%	35.3%	35.7%	36.8%
EBITDA Margin %	4.3%	(0.5%)	(12.0%)	0.5%	4.1%
Net Income Margin %	(3.1%)	(12.9%)	(11.0%)	(3.8%)	(0.0%)
Diluted EPS	(0.93)	(2.68)	(2.46)	(0.62)	(0.05)

Price and Volume Charts

1-Year Price Volume Chart



5-Year Price Volume Chart



Executive Summary

Sierra Wireless ("SW" or the "Company") was founded in 1993 in Richmond, Canada. It focuses on multinational wireless communications equipment services. The major selling revenues from 2020 concentrated on IoT Solutions and Embedded Broadband products.

Figure 1 (Q4 2020) Retail Segment Revenues (CAD \$ in Millions)

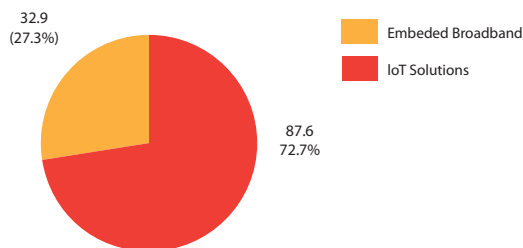
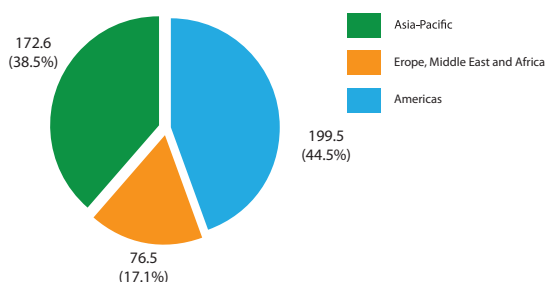


Figure 2 (Q4 2020) Retail Segment Revenues (\$ in Millions)



Investment Recommendation

We issue a **Hold** recommendation on SW with a 12-month target price \$7.54 using DCF analysis. There was a significant drop in revenues due to the Covid-19 crisis, and the Company is still trying to make more revenues by selling more competitive products. The results were not bad, but compared to other companies, it was not impressive enough.

Investment Thesis and Outline

Backed by a outstanding industry outlook, SW is well positioned for a growth and market recognition of the IT Solution company. After evaluating the company's risks and associated similar Canadian companies in the market, we have arrived a **Hold** recommendation.

- **High-end 5G Technology Application**, as 5G technology will be widely implemented in the near future, its popularity will lead SW to a relatively high demanding in 5G hardware installations, thus more revenues generating
- **Slow Revenue Growth**, based on the history revenue analysis, the expected revenue growth rate is only 1.00% 1 year from now, and 1.02% 2 years from now, which demonstrates a relatively poor growing rate.
- **Similar Complementary Companies**, there are many other similar types of companies selling similar types of products just like SW, and some other companies shows a generally lower EV/EBITDA ratios than SW. This somehow explains that the Company is overpriced in terms of stock price.
- **Investment Risks**, due to the uncertain risks associated with Covid-19, the risks of largely investing in SW remains relatively high as the stock price tends to fluctuate and it does not generally represent a growing trend.

Business Descriptions

SW is an Internet of Things ("IoT") pioneer empowers businesses and industries to transform and thrive in the connected economy. They provide integrated Device-to-Cloud IoT solutions that are comprised of our recurring connectivity services, their IoT cloud platform, and their embedded cellular modules and gateways. Enterprises, industrial companies and Original Equipment Manufac-

turers ("OEMs") worldwide rely on our expertise to deliver fully-integrated IoT solutions to reduce complexity, gather intelligent edge data and enable connected IoT products and services.

SW now only have two reportable segments:

IoT Solutions

The IoT Solutions segment is focused on integrated end-to-end IoT solutions that include recurring connectivity services, cloud management software, and cellular modules and gateways targeted primarily at enterprises and OEMs in the IoT space.

Embedded Broadband

Our Embedded Broadband segment is comprised of our high-speed cellular embedded modules that are typically used in non-industrial applications, namely Automobile, Mobile Computing and Enterprise Networking markets.

The products in this segment are typically high-speed 4G LTE and LTE-Advanced cellular modules that are ordered in larger volumes.

Figure 3 Ownership Summary of Common Stocks

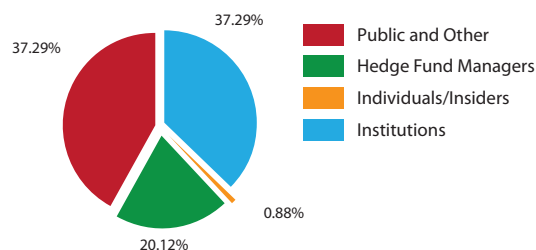
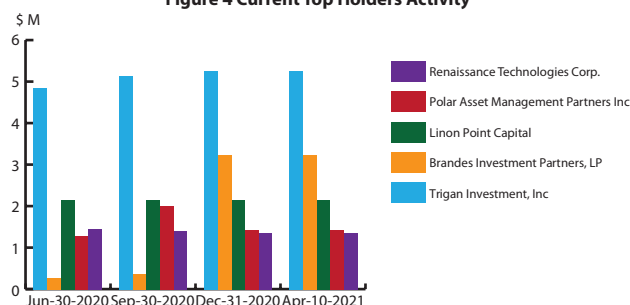


Figure 4 Current Top Holders Activity



Shareholder Base

SW only issued common shares in Toronto Stock Exchange as well as Nasdaq. It is a public company that received fundings from many investment companies. About 47.17% of the Company's shares are owned by the public, and 37.29% of the shares are owned by investment institutions.

Among the top five holders of SW, Trigan Investment Inc owns 14.27% (\$98.8 M market value) of total shares outstanding, followed by Brandes Investment Partners LP, who owns 8.78% (\$60.8 M market value) of total shares outstanding. Over the first quarter in 2020, 4 buying transactions have been made, while 10 selling transactions happened from total of 115 holders.

Management's Shareholder Value Generating Initiatives

SW's mission is to be the preferred IoT solutions provider for leading brands, combining devices, software and services to accelerate digital transformation and our vision is to enable the connected world with intelligent wireless solutions and enable businesses to reimagine their future in the connected world.

The core values include

- **Innovation**: develop intelligent IoT solutions based on superior technology that provides value to customers.
- **Execution**: deliver on commitments together as a team, and focus on quality and excellence in everything they do
- **Trust**: responsive and collaborative with customers to help them grow their businesses.

Initiatives Outcomes

On April 30, 2019, SW have announced two initiatives related to the acceleration of their transformation to a Device-to-Cloud IoT solutions company

- Consolidation of engineering resources and the transfer of certain functions to lower cost locations resulting in a significant reduction in our engineering team in Issy-Les-Moulineaux, outside of Paris, France.
- Outsourcing of a select group of general and administrative transaction-based activities to a global outsourcing partner.

Overall, the two initiatives have impacted approximately 128 positions, of which 97 positions were in France. In 2019, they recorded \$18.6 million in severance and \$7.9 million in transitional costs relating to these two initiatives.

Acquisition of M2M Group

On January 7, 2020, SW completed the acquisition of M2M group of companies ("M2M Group") in Australia. Total cash consideration paid to the shareholders of M2M Group was \$19.6 million for 100% of the equity plus approximately \$1.4 million for the retirement of certain obligations, subject to normal working capital adjustments.

The M2M Group's revenue in the last twelve months was US\$17.9 million, of which \$9.2 million was recurring subscription-based revenue. It is expected that the acquisition to be accretive to earnings immediately following closing.

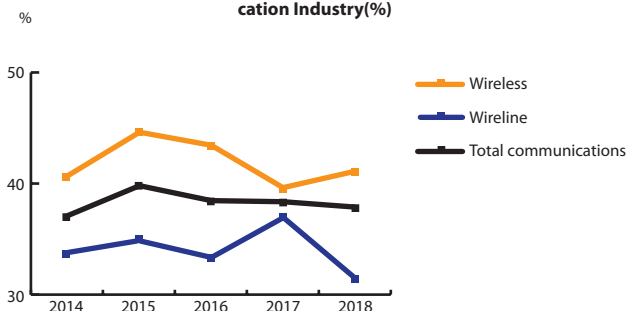
Industry Overview

Industry Overview

The communication equipment businesses have reached \$772.8 M average revenue in 2018, making it 67.3% profitability compared to other industries. The number of ongoing businesses in Canada is 191 and the market size has surprisingly \$2 B. Some typical industry products and services include

- Radio station equipment
- Wireless networking equipment
- Other communications systems and equipment, including GPS
- Broadcast, studio and related electronic equipment

Figure 5 EBITDA Margins by Sector in Telecommunication Industry(%)



Some industry activities have

- Cable TV transmission and receiving equipment manufacturing
- GPS equipment manufacturing
- Space satellite communications equipment manufacturing

Economical Overview

Some key findings in this industry

- The industry's contribution represents 3.7% of Canada's overall annual GDP in 2019
- Every telecommunications job results in 2.3 jobs supported in the Canadian economy, and every \$1 million in telecommunications sales results in 4.2 new jobs supported in the Canadian economy
- In 2019, capital investments into wireless and wireline connectivity by the private sector totaled more than \$10 billion, which is part of the more than \$50 billion in wireless capex, and \$20 billion in spectrum licenses invested by facilities-based service

providers since 1987 and more than \$150 billion in wireline capex invested since 1996.

Expected Slowdown in Revenues

Although there are a variety of services and products available in the communication equipment industry, this industry is likely to be slightly impacted as a result of the global Covid-19 pandemic

- Revenue for the Communications Equipment Manufacturing industry in Canada is expected to decline 0.5% over 2020, underscored in part by the ongoing spread of COVID-19 across the globe.
- Since this industry is heavily reliant on Chinese imports, total industry imports are projected to decline 1.6% over 2020 due to the effects of COVID-19 on China's manufacturing sector.
- Demand from communication service providers is expected to decline due to the possibility of supply chain shortages as a result of COVID-19.

Competitive Positioning

The market for IoT products and services is highly competitive and rapidly evolving. Although SW has revenues in selling Embedded Broadband services, the main revenues are from the IoT products.

- **Sierra Wireless is a major IoT chip supplier with a long list of clients and global revenue that is remarkable for a small business.** These chips account for 33% of all sales in the embedded module industry worldwide. Its technology has already connected billions of users to the Internet, and there's no reason to believe that number will not continue to rise.
- **Although Sierra Wireless is a market leader in IoT, it is up against some stiff competition.** CalAmp, a competitor in the M2M industry, also offers chips for usage-based insurance, industrial equipment monitoring, vehicle tracking and recovery, and other applications. CalAmp links about 7 million devices to the Internet, which is significantly less than Sierra, but it also has a growing list of 653,000 unique software applications.

Financial Fortitude (2017, CAD \$)

Company	Cash	Debt	Net Income	FCF
SW	90.7 M	0	20.3 M	8.4 M
Qualcomm	20.86 M	21.9 B	3.9 B	3.87 B

By comparing to Qualcomm, a company in a similar industry in the communication equipments, we can conclude the following

- Qualcomm is currently in debt to the tune of \$21.9 billion, is planning to spend at least \$38 billion on NXP Semiconductors, and is still facing litigation and antitrust probes over its patent licensing practices. Despite the fact that the company has plenty of cash on hand to deal with these problems, they would almost certainly put the company under financial pressure.
- Sierra Wireless, on the other hand, is fully debt-free. Normally, Qualcomm's enormous size vs Sierra's (billions vs. millions) would be enough to offer Qualcomm's stock the upper hand. However, Qualcomm's patent licensing company, which generates the majority of its revenues, has been harmed by several lawsuits. Many of its customers have had to lower their licence rates, resulting in a 42 percent drop in revenue in Qualcomm Technology Licensing (QTL) in the fiscal third quarter.

Valuation Methodology

We derive out target prices by using the Discounted Free Cash Flow (DCF) approach, implementing the following methodologies: making revenue growth rate assumptions, calculate DCF terminal value, conducting comparable's analysis, and sensitivity analysis.

Revenue Growth Assumptions

We calculate the the average revenues from 2015 to 2020. By analyzing the the income statements, it is clear that SW was presenting a well growing rate in total revenues, but the Covid-19 was a strike to the profits and it showed a significant drop in revenues in 2019, 2020 respectively.

Income Statement

	12 months Dec-31- 2015	Restated 12 months Dec-31- 2016	Restated 12 months Dec-31- 2017	12 months Dec-31- 2018	12 months Dec-31- 2019	LTM 12 months Sep-30- 2020
Total Revenue	607.8	615.0	690.7	793.6	713.5	619.5
COGS	413.9	410.8	456.5	529.0	529.0	436.6
Gross Profit	193.9	204.2	234.2	264.6	220.0	220.0
Selling General & Admin Exp.	94.5	104.8	118.0	150.2	140.9	138.9
R & D Exp.	74.0	72.7	82.7	93.7	86.5	89.7
Amort. of Goodwill and Intangibles	12.4	17.3	20.5	20.5	20.6	21.2
Other Operating Exp., Total	180.8	194.8	221.2	269.7	248.0	249.7
Operating Income	13.0	9.5	13.0	(5.1)	(28.0)	(66.9)

- We can also conclude that the operating expenses remain a relatively healthy level, ranging from 180.0 to 269.7. But the operating income was not going to a good trend, where a 40 drop was seen at the end of 2020 compared to the operating income last year.
- Despite the Covid-19 pandemic, the total revenues still remained at a relatively healthy condition. But the decrease in total revenues was still significant, that resulted a 200 decreased in total revenues at the end of 2020 fiscal year.

5-Year DCF Model Summary

We valued the entire company using the discounted cash flow methodology because of the interently reliable underlying financial relationships of a retail business with respect to growth, profitability, and cash flow generation.

The DCF model for each banner is based on the Company's his-

DCF Assmptions Summary

FCF Growth Perpetuity	1.11 %
COGS as % of Revenue	67.88 %
SG&A as a % of Revenue	18.46 %
R&D as a % of Revenue	12.4 %
Depreciation as a % of Revenue	2.9 %
Tax Rate	(4.06 %)
NWC as a % of Revenue	28.1%

torical performance, our evaluations of the industry outlook and the Retail division's competitive positioning, and management guidance.

Weighted Average Cost of Capital (WACC)

To fairly value each banner of the Retail division, the WACC and cost of equity was calculated separately to reflect the risks of the company. We also used CAPM to calculate the WACC as a consolidated entity.

Terminal Value

WACC Calculation

Risk of Free Rate: 10-year treasury	1.11 %
Market Risk Premium	4.76 %
Debt Rating	A-
Debt Cost of Capital (Rd, Kd)	0.63 %
Beta	2.08
Debt	9
Market Cap Equity	681
% Debt	1 %
% Equity	99 %
Tax Rate	(4.06 %)

The terminal value was calculated using a combination of the terminal growth and terminal exit methods. This is a continuation of the analysis of the income statement. There are two ways to calculate the present value of equity, one by using growth in perpetuity, and the other one by using terminal multiple. We found that there was a large difference in calculating the present value of equity using growth in perpetuity, hence we would present the results by using terminal multiples.

Sensitivity Analysis

Present Value of Equity (by using a terminal value)

Enterprise Value	
NPV of FCF	217
Enterprise Value	217
Less: Total Debt	9
Plus: Cash	67
Equity value	274
Shares Outstanding	36.5
Implied Per Share Price	7.52
Current Price	18.8
Premium/(Discounted) to Current Price	(4.06 %)
1 Year Target Price	7.52

Sensitivity Analysis

	217	37.62	38.12	38.62	39.12	39.62
	9.87%	220.413	222.983	225.552	228.121	230.691
WACC	10.37%	224.845	227.474	230.103	232.731	235.360
	10.87%	224.845	227.474	230.103	232.731	235.360
	11.37%	220.413	222.983	225.552	228.121	230.691
	11.87%	211.897	214.353	216.808	219.264	221.719

Followed by DCF terminal value analysis, we will conduct sensitivity analysis to test if we have made our assumptions right by specifying a slightly different value input. Since we have disregarded the present value of equity by using growth in perpetuity, we only left with showing the sensitivity test the other one.

By testing different terminal/exit multiples and WACC values, we can see that there was no significant among different test cases. We can then justify that the one by using terminal values meet the assumption requirements.

Comparables

Comparables

Company Name	Price/Earnings	EV/EBITDA
The Descartes System Group Inc	33.3x	32.7x
IDT Corporation	13.5x	6.5x
Progress Software Corporation	14.1x	9.3x
Townsquare Media, Inc	13.9x	9.4x
Stratasys Ltd	106.5x	61.7x
ChannelAdvisor Corporation	25.6x	17.1x
Resources Connection	18.6x	9.3x
High	106.5x	61.7x
Low	13.5x	6.5x
Median	18.6x	9.4x
Mean	32.2x	20.8x
Company SW	41.59x	159.22x

In order to compare to similar companies in the same industry, we have selected 7 companies in the similar industry and compare the P/E and EV/EBITDA multiples. We calculated the median and mean multiples based on the same time line.

From the table of a list of multiples, we have the following findings

- SW has relatively higher P/E multiple (41.59) than the median/average P/E multiple (18.8/32.2) of the similar listed companies, showing a potential that people are willing to pay higher price in buying SW's stock
- However, interestingly, the SW shows a significant higher EV/EBITDA multiple than other peer companies, demonstrating that SW is potentially overvalued in a surprising scale. This somehow contradicts with the high P/E multiple could have meant to this company.

In conclusion, SW is in a situation that people are willing to pay more to buy its stocks while it is risky at the same time, leaving a generally hold recommendation at this stage.

Financial Analysis