

SIERRA WIRELESS INC

Form 6-K

May 08, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of the  
Securities Exchange Act of 1934

For the Month of May 2018

(Commission File No. 000-30718).

SIERRA WIRELESS, INC.

(Translation of registrant's name in English)

13811 Wireless Way

Richmond, British Columbia, Canada V6V 3A4

(Address of principal executive offices and zip code)

Registrant's Telephone Number, including area code: 604-231-1100

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F:

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes:  No:

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes:  No:

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sierra Wireless, Inc.

By: /s/ David G. McLennan

David G. McLennan, Chief Financial Officer and Secretary

Date: May 7, 2018

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INCORPORATION BY REFERENCE

This Report on Form 6-K is incorporated by reference into the Registration Statement on Form S-8 of the registrant, which was filed with the Securities and Exchange Commission on March 31, 2016 (File No. : 333-210315).

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") provides information for the three months ended March 31, 2018, and up to and including May 7, 2018. This MD&A should be read together with our unaudited interim consolidated financial statements for the three month periods ended March 31, 2018 and March 31, 2017, respectively, and our audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2017 (collectively, "the consolidated financial statements"). The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP" or "GAAP"). Except where otherwise specifically indicated, all amounts in this MD&A are expressed in United States dollars.

We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different than those of the United States.

Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws. You should carefully read "Cautionary Note Regarding Forward-Looking Statements" in this MD&A and should not place undue reliance on any such forward-looking statements.

Throughout this document, references are made to certain non-GAAP financial measures that are not measures of performance under U.S. GAAP. Management believes that these non-GAAP financial measures provide useful information to investors regarding the Company's results of operations as they provide additional measures of its performance and assist in comparisons from one period to another. These non-GAAP financial measures do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-GAAP financial measures are defined and reconciled to their nearest U.S. GAAP measure in "Non-GAAP Financial Measures".

In this MD&A, unless the context otherwise requires, references to the "Company", "Sierra Wireless", "we", "us" and "our" refer to Sierra Wireless, Inc. and its subsidiaries.

Additional information about the Company, including our most recent consolidated financial statements and our Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov).

### Cautionary Note Regarding Forward-looking Statements

This MD&A contains certain statements and information that are not based on historical facts and constitute forward-looking statements or forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities laws (collectively, “forward-looking statements”), including our business outlook for the short and longer term and statements regarding our strategy, plans and future operating performance; the Company's liquidity and capital resources; the Company's financial and operating objectives and strategies to achieve them; general economic conditions; expectations regarding the recent acquisition of Numerex Corp. (“Numerex”); estimates of our expenses, future revenues, non-GAAP earnings per share and capital requirements; our expectations regarding the legal proceedings we are involved in; statements with respect to the Company's estimated working capital; expectations with respect to the adoption of IoT solutions; expectations in respect of our next generation Narrowband IoT; expectations regarding trends in the IoT market and wireless module market; expectations regarding product and price competition from other wireless device manufacturers and solution providers; and our ability to implement effective control procedures. Forward-looking statements are provided to help you understand our views of our short and long term plans, expectations and prospects. We caution you that forward-looking statements may not be appropriate for other purposes.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as “outlook”, “expects”, “is expected”, “anticipates”, “believes”, “plans”, “projects”, “estimates”, “assumes”, “intends”, “strategy”, “goals”, “objectives”, “potential”, “possible” or variations thereof or stating that certain actions, events, conditions or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are not promises or guarantees of future performance, they represent our current views and may change significantly. Forward-looking statements are based on a number of material assumptions, including, but not limited to, those listed below, which could prove to be significantly incorrect:

- our ability to develop, manufacture and sell new products and services that meet the needs of our customers and gain commercial acceptance;
- our ability to continue to sell our products and services in the expected quantities at the expected prices and expected times;
- expected cost of sales;
- expected component supply constraints;
- our ability to win new business;
- our ability to integrate the business, operations and workforce of Numerex and to return the Numerex business to profitable growth and realize the expected benefits of the acquisition;
- our ability to integrate other acquired businesses and realize expected benefits;
- expected deployment of next generation networks by wireless network operators;
- our operations not being adversely disrupted by other developments, operating, cyber security or regulatory risks; and
- expected tax rates and foreign exchange rates.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ significantly from those expressed or implied in our forward-looking statements, including, without limitation:

- competition from new or established competitors or from those with greater resources;
- risks related to the recent acquisition of Numerex;
- disruption of, and demands on, our ongoing business and diversion of management's time and attention in connection with other acquisitions or divestitures;
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the loss of or significant demand fluctuations from any of our significant customers;

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- cyber-attacks or other breaches of our information technology security;
- failures of our products or services due to design flaws and errors, component quality issues, manufacturing defects, cyber-security vulnerabilities or other quality issues;
- our financial results being subject to fluctuation;
- our ability to respond to changing technology, industry standards and customer requirements;
- our ability to attract or retain key personnel;
- risks related to infringement on intellectual property rights of others;
- our ability to obtain necessary rights to use software or components supplied by third parties;
- our ability to enforce our intellectual property rights;
- difficult or uncertain global economic conditions;
- our reliance on single source suppliers for certain components used in our products;
- our dependence on a limited number of third party manufacturers;
- unanticipated costs associated with litigation or settlements;
- our dependence on mobile network operators to offer and promote acceptable wireless service programs;
- risks related to contractual disputes with counterparties;
- risks related to governmental regulation;
- risks related to the transmission, use and disclosure of user data and personal information; and
- risks inherent in foreign jurisdictions.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to below under "Risks and Uncertainties" and those referred to in our other regulatory filings with the U.S. Securities and Exchange Commission (the "SEC") in the United States and the provincial securities commissions in Canada.

Our forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and we do not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by applicable law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

## OVERVIEW

### Business Overview

Sierra Wireless is an Internet of Things ("IoT") pioneer, empowering businesses and industries to transform and thrive in the connected economy. Customers start their IoT deployments with Sierra Wireless because we provide an integrated device-to-cloud solution comprised of embedded and networking solutions seamlessly connected with our IoT services. Original Equipment Manufacturers ("OEMs") and enterprises worldwide rely on our expertise in delivering fully-integrated solutions to reduce complexity, turn edge network data into intelligent decisions and get their connected products and services to market faster.

We operate our business under three reportable segments: (i) OEM Solutions; (ii) Enterprise Solutions; and (iii) IoT Services. In the fourth quarter of 2017, our former Cloud and Connectivity Services segment was renamed IoT Services.

### OEM Solutions

As a leading embedded module vendor, we provide standards-based wireless technologies and support open source initiatives that help OEMs and system integrators get their products to market faster. We make it easy to embed cellular, Wi-Fi, Bluetooth and Global Navigation Satellite System ("GNSS") technologies, as well as manage connectivity, devices and data through our cloud platform. Our OEM Solutions segment includes embedded cellular modules, short range wireless modules, GNSS modules, software and tools for OEM customers who integrate wireless connectivity into their products and solutions across a broad range of industries, including automotive, transportation, energy, enterprise networking, sales and payment, mobile computing, security, industrial monitoring, field services, smart home, healthcare and others. Within our OEM Solutions segment, our embedded cellular wireless module product portfolio spans second generation ("2G"), third generation ("3G"), fourth generation ("4G") Long-Term Evolution ("LTE") and Low Power Wide Area ("LPWA") technologies, short range modules focused on Bluetooth and Wi-Fi technologies and GNSS. Our broad product portfolio also includes cloud-based remote device and data management capability, as well as support for our embedded application framework called Legato which is an open source, Linux-based platform.

### Enterprise Solutions

Our Enterprise Solutions segment provides secure networking solutions comprised of routers and gateways complemented by cloud-based or on-premise software for secure device and network management. Our networking solutions address a range of key segments within the mobility, industrial and enterprise markets. Sierra Wireless AirLink gateways and routers have strong brand recognition with network operators, value added resellers and end customers. Our gateways and routers are known for their high reliability and technical capability in mission critical applications deployed in hostile environmental conditions. These gateways leverage our expertise in wireless technologies and offer the latest capabilities in LTE networking.

We sell our AirLink gateways and routers through channel partners in a two-tier distribution model worldwide. Our Enterprise Solutions team also includes a direct sales force and an expert technical team which engages with key customers in each of our target segments.

### IoT Services

Our IoT Services segment enables the digital transformation of enterprises through integrated IoT services. This segment is comprised of three main areas of operation: (i) our cloud services, which provide a secure and scalable cloud platform for deploying and managing IoT subscriptions, over-the-air updates, devices and applications; (ii) our global cellular connectivity services, which include our Smart SIM and core network platforms; and (iii) our managed broadband cellular services, which include a combination of hardware, high speed connectivity and cloud services. These cloud, connectivity and broadband services have been integrated to support our device-to-cloud strategy and enable worldwide IoT deployments by our customers. Our solution makes it simpler to rapidly build and scale IoT applications while de-risking the deployment process. Sierra Wireless offers the broadest array of cloud and connectivity services to connect customers to the mobile network, manage devices and power their IoT services.

In December 2017, we acquired all of the outstanding shares of Numerex in a stock-for-stock merger transaction. This acquisition added a portfolio of managed end-to-end IoT solutions including smart devices, network connectivity and service applications capable of addressing the needs of a wide spectrum of vertical markets and industrial customers, to our existing IoT Services segment.

We continue to seek opportunities to acquire or invest in businesses, products and technologies that will help us drive our strategy forward and expand our position in the IoT market.

### First Quarter Overview

Our revenue of \$186.9 million in the first quarter of 2018 represents an increase of 15.9% compared to the same period of 2017. The increase in revenue was driven by growth in each of our three reportable segments, notably in the IoT Services segment which included a full quarter of contribution from Numerex which we acquired in December 2017. Product revenue was \$162.9 million, up 7.8% year-over-year and Services and Other revenue was \$24.0 million, up 138.6% compared to the first quarter of 2017. In the first quarter of 2018 compared to the same period of 2017, OEM Solutions segment revenue increased by 2.1% to \$135.2 million, Enterprise Solutions segment revenue increased by 34.5% to \$29.2 million and IoT Services segment revenue increased significantly to \$22.5 million compared to \$7.1 million in the first quarter of 2017.

Foreign exchange rate changes impact our foreign currency denominated revenue and operating expenses. We estimate that changes in exchange rates between the first quarter of 2018 and the same period of 2017 positively impacted our gross margin by \$0.9 million and increased our operating expenses by \$2.1 million in the first quarter of 2018.

Financial highlights for the first quarter of 2018:

#### GAAP:

Revenue was \$186.9 million, up 15.9% compared to \$161.2 million in the first quarter of 2017.

Gross margin was 33.2% compared to 34.4% in the first quarter of 2017.

Loss from operations was \$9.9 million, compared to a loss from operations of \$1.3 million in the first quarter of 2017.

Net loss was \$8.4 million, or \$0.23 per diluted share, compared to a net loss of \$92,000, or \$0.00 per diluted share, in the first quarter of 2017.

Cash and cash equivalents were \$70.6 million at the end of the first quarter of 2018, an increase of \$5.6 million, compared to the end of the fourth quarter of 2017.

#### NON-GAAP<sup>(1)</sup>:

Gross margin was 33.4% compared to 34.5% in the first quarter of 2017.

Earnings from operations were \$3.8 million, down 58.7% compared to \$9.2 million in the first quarter of 2017.

Adjusted EBITDA was \$9.0 million compared to \$12.6 million in the first quarter of 2017.

Net earnings were \$3.3 million, or \$0.09 per diluted share, compared to net earnings of \$7.8 million, or \$0.24 per diluted share, in the first quarter of 2017.

We adopted the new accounting standard for revenue recognition effective January 1, 2018. Our first quarter 2018 financial results reflect the adoption of this new standard and prior periods have been adjusted accordingly. See Note 2 and Note 3 of our interim consolidated financial statements for more details.

In addition, as of the first quarter of 2018 we have included a breakout of our revenue and cost of sales into product revenue and cost of sales, and service and other revenue and cost of sales. Product revenue and cost of sales includes all revenues and costs associated with the sale of our embedded cellular modules, intelligent routers and gateways, asset tracking devices, antennas and accessories, and Smart SIMs. Service and other revenue and cost of sales includes all revenues and costs associated with our cloud services, cellular connectivity services, managed connectivity and application services, software licenses, technical support services, extended warranty services, solution design and consulting services.

(1) Non-GAAP financial measures exclude the impact of stock-based compensation expense and related social taxes, acquisition-related amortization, impairment, acquisition-related costs, integration costs, restructuring costs, certain other nonrecurring costs or recoveries, foreign exchange gains or losses on translation of balance sheet accounts, unrealized foreign exchange gains and losses on forward contracts and certain tax adjustments. Refer to the section titled "Non-GAAP Financial Measures" for additional details and reconciliations to the applicable U.S. GAAP financial measures.

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Selected Consolidated Financial Information:

(in thousands of U.S. dollars, except where otherwise stated)	2018	2017					
Statement of Operations data:	Q1	Total	Q4	Q3	Q2	Q1	
Revenue	\$186,878	\$690,727	\$183,533	\$172,560	\$173,416	\$161,218	
Gross Margin							
- GAAP	\$62,100	\$234,239	\$61,814	\$57,294	\$59,636	\$55,495	
- Non-GAAP (1)	62,401	234,723	61,947	57,429	59,744	55,603	
Gross Margin %							
- GAAP	33.2 %	33.9 %	33.7 %	33.2 %	34.4 %	34.4 %	%
- Non-GAAP (1)	33.4 %	34.0 %	33.8 %	33.3 %	34.5 %	34.5 %	%
Earnings (loss) from operations							
- GAAP	\$(9,876 )	\$100	\$(2,939 )	\$390	\$3,994	\$(1,345 )	
- Non-GAAP (1)	3,803	39,636	9,482	9,501	11,441	9,212	
Adjusted EBITDA <sup>(1)</sup>	\$8,977	\$54,653	\$13,940	\$13,204	\$14,941	\$12,568	
Net earnings (loss)							
- GAAP	\$(8,363 )	\$4,518	\$(3,514 )	\$1,354	\$6,770	\$(92 )	
- Non-GAAP (1)	3,294	34,519	9,208	7,717	9,814	7,780	
Revenue by Segment:							
OEM Solutions	\$135,211	\$554,537	\$139,795	\$137,850	\$144,467	\$132,425	
Enterprise Solutions	29,200	101,535	31,879	26,277	21,661	21,718	
IoT Services	22,467	34,655	11,859	8,433	7,288	7,075	
Share and per share data:							
Basic net earnings (loss) per share (in dollars)							
- GAAP	\$(0.23 )	\$0.14	\$(0.11 )	\$0.04	\$0.21	\$—	
- Non-GAAP (1)	\$0.09	\$1.07	\$0.28	\$0.24	\$0.31	\$0.24	
Diluted net earnings (loss) per share (in dollars)							
- GAAP	\$(0.23 )	\$0.14	\$(0.11 )	\$0.04	\$0.21	\$—	
- Non-GAAP (1)	\$0.09	\$1.05	\$0.28	\$0.24	\$0.30	\$0.24	
Common shares (in thousands)							
At period-end	35,979	35,862	35,862	32,220	32,185	32,157	
Weighted average - basic	35,912	32,356	33,136	32,200	32,167	31,909	
Weighted average - diluted	35,912	32,893	33,136	32,735	32,766	31,909	

(1) Non-GAAP financial measures exclude the impact of stock-based compensation expense and related social taxes, acquisition-related amortization, impairment, acquisition-related costs, integration costs, restructuring costs, certain other nonrecurring costs or recoveries, foreign exchange gains or losses on translation of balance sheet accounts, unrealized foreign exchange gains and losses on forward contracts and certain tax adjustments. Refer to the section titled "Non-GAAP Financial Measures" for additional details and reconciliations to the applicable U.S. GAAP financial

measures.

See discussion under “Consolidated Results of Operations” for factors that have caused period-to-period variations.

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Other key business highlights for the first quarter of 2018:

We launched our AirLink LX60, the industry's first cloud-managed LPWA cellular router for commercial and enterprise IoT applications. The LX60, with LTE and LTE-M/NB-IoT variants, extends the AirLink Networking Solutions portfolio into new applications, including building automation, digital signage, taxis, automated teller machines, kiosks and point-of-sale terminals for both primary and backup connectivity.

Intellinium selected our device-to-cloud IoT solution for its smart safety shoe, designed to improve worker safety in remote, dangerous or noisy workplaces, such as construction sites, factories, mines, oil platforms, and commercial fishing and agriculture operations.

Girbau, a leading manufacturer of industrial laundry equipment, selected our device-to-cloud IoT solution to enable Sapphire, its new remote monitoring service for commercial laundry machines.

XSun selected our device-to-cloud IoT solution, including AirLink RV50 gateways, multi-operator smart connectivity services and the AirVantage IoT platform, for its solar-powered Unmanned Aerial Vehicle.

KDDI Corporation, a Japanese telecommunications and system integration provider, selected our AirPrime HL78 cellular modules for LTE-M IoT applications in a low power gas meter deployment. KDDI will be the world's first carrier to certify and provide its customers with our HL78 modules.

International Vending Alliance ("IVA"), the largest global network with 1.9 million vending machines in more than 70 countries, selected our Smart SIM and AirVantage IoT Platform to revolutionize vending service delivery. IVA is using a single Sierra Smart SIM for global connectivity across its network of machines and our AirVantage platform is enabling them to manage their subscriptions and monitor connectivity services.

Atlas Copco, a world-leading provider of sustainable productivity solutions, selected our device-to-cloud IoT solution to transform its industrial compressor business. By deploying our FX30 programmable gateways and cloud platform, Atlas Copco is leveraging machine intelligence on the factory floor to provide preventive maintenance, improve uptime and drive operating efficiencies.

#### Outlook

For the second quarter of 2018, we expect revenue to be in the range of \$195 million to \$203 million and non-GAAP earnings per share to be in the range of \$0.17 to \$0.25.

We believe that the market for wireless IoT solutions has strong long-term growth prospects. We anticipate strong long-term growth in the number of devices being wirelessly connected, driven by key enablers, such as lower wireless connectivity costs, faster wireless connection speeds, new wireless technologies designed specifically for the IoT, new devices and tools to simplify the development of IoT applications, and increased focus and investment from large ecosystem players. More importantly, we see emerging customer demand in many of our target verticals driven by increasing recognition of the value created by deploying IoT solutions, such as new revenue streams and cost efficiencies.

Key factors that we expect will affect our results in the near term are:

- the strength of our competitive position in the market;
- the timely ramp up of sales of our new products recently launched or currently under development;
- our ability to integrate Numerex's business, operations and workforce with ours and our ability to return the Numerex business to profitable growth and to realize the anticipated benefits of the acquisition;
- contributions to our operating results from the acquisitions we completed in 2015, 2016 in 2017;
- the level of success our customers achieve with sales of connected solutions;



- fluctuations in customer demand and inventory levels, particularly large customers;
- our ability to manage component supply issues when they arise;
- our ability to attract and retain effective channel partners;
- the timely launch and ramp up of new customer programs;
- our ability to secure future design wins with both existing and new customers;
- the end-of-life of existing customer programs;
- manufacturing capacity at our various manufacturing sites;
- our ability to manage component and product quality compliance;
- fluctuations in foreign exchange rates;
- general economic conditions in the markets we serve; and
- seasonality in demand.

We expect that product and price competition from other wireless device manufacturers and solution providers will continue to play a role in the IoT market. As a result of these factors, we may experience volatility in our results on a quarter-to-quarter basis. Gross margin percentage may fluctuate from quarter-to-quarter depending on product and customer mix, average selling prices and product costs.

See "Cautionary Note Regarding Forward-Looking Statements".

CONSOLIDATED RESULTS OF OPERATIONS

	Three months ended March 31	
(in thousands of U.S. dollars, except where otherwise stated)	2018	2017
	\$	