VOSS CAPITAL

832.519.9427

INVESTORS@VOSSCAP.COM

3773 Richmond Avenue, Suite 500 Houston, Texas 77046

9/15/2021

Elevator Pitch

We view SWIR as a collection of 3 synergistic businesses that, if you were to apply the multiples of their closest comps, would be worth ~$64 (+250%). While we have varying views of the quality of these three businesses and don't believe $64 is the right target yet, we do believe all three have strong macro tailwinds and that the activists at Lion Point have assembled an A+ board, which has subsequently selected a seemingly solid CEO to help unlock substantial potential.

We target $28 as a starting point for Sierra Wireless, which implies 1.5x sales, 4x gross profit, and 10-11x EBITDA, fair multiples for what we believe will be at least a 10-15% grower the next several years as 5G rolls out. As the CEO reveals his ultimate strategic plan in early 2022, the company's supply chain issues resolve in mid-2022, and they begin generating cash flow and showing headline growth, we believe there could be significantly more upside over the next 3-5 years. Ultimately we believe the company could be sold as part of Lion Point's exit strategy.

At worst, we believe the company should trade at what Telit was just acquired at (1x NTM sales), as Telit represents the lowest multiple, most commoditized piece of the business. This still puts the company around $18 a share, or 20% upside.

Key Investment Thesis Points/Catalysts

1) Management/Board refresh
   a) We expect significant cost cuts over the next twelve months ($25-$30 mm at opex level)
   b) We expect significant focus and simplification of the portfolio
   c) Extremely qualified board and strong CEO

2) Multi-year 4G/5G upgrade cycle
   a) Companies need to refresh their 3G products, which are getting sunset by telecom operators
   b) Revenue is troughing now as 5G is just starting to ramp
   c) Large tailwind in 5G use cases for modules/Gateways/MVNO

3) "Last Man Standing" in North American modules, which has been eroded by Chinese competition. However, there are compelling reasons to believe Sierra will regain share as the market moves towards 5G as there is nervousness about buying Chinese telecom products and even the possibility of a "ban" by Washington.

4) Strong recurring revenue base: $138 mm in recurring revenue with a direct site line to $200 in the next 12-18 months

5) Massive working capital swings last quarter and this coming quarter that materially overstates the EV (by $70-80 mm) as company had flexibility to secure inventory and allow flexibility on payments, as well refactoring receivables

6) Major understatement of current revenue due to supply chain disruptions, recent ransomware attack, and COVID outbreak at core manufacturing plant.

7) Distressed valuation on a sales/gross profit basis which we believe provides some downside protection

8) Good visibility to what we view as the most powerful multiple rerating dynamic: negative to positive revenue growth (acceleration), negative to positive cash flow (margin expansion) concurrently.

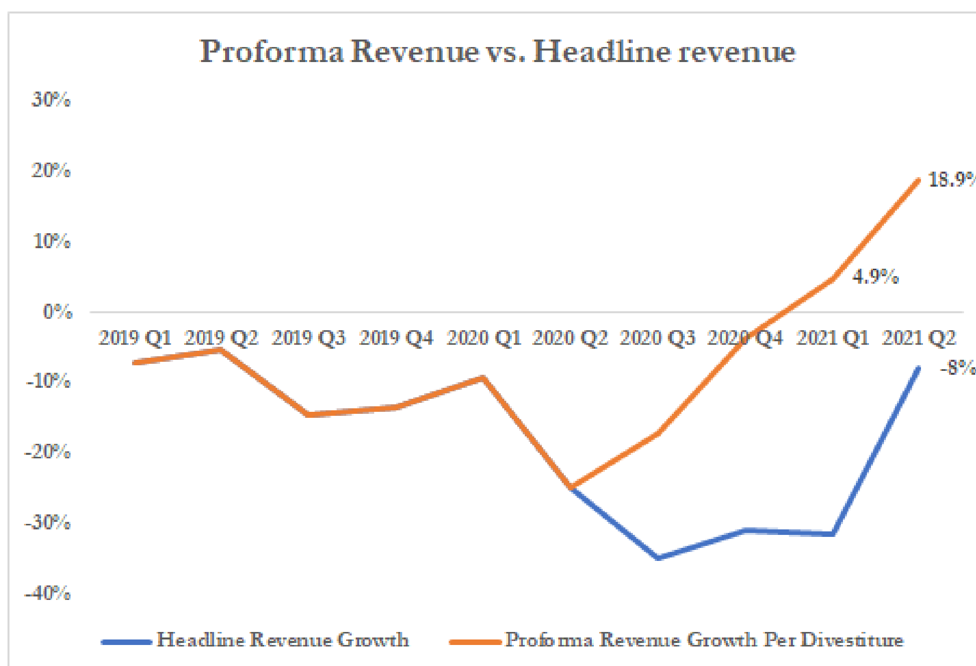
Why The Opportunity Exists

SWIR currently trades for .85x and 2.2x run rate sales and gross profit, respectively, with proforma growth around 15% consensus for both. On a more normalized basis we believe the company is closer to .7x and 1.8x gross profit. For a company with a strong balance sheet ($110 mm cash, no debt), recurring revenue growing at 25-30% and becoming a material part of total revenue (~33% in 2022), implying a 2.5x recurring revenue multiple (assuming no value for the remaining 67% of revenue), this is close to distressed valuation.

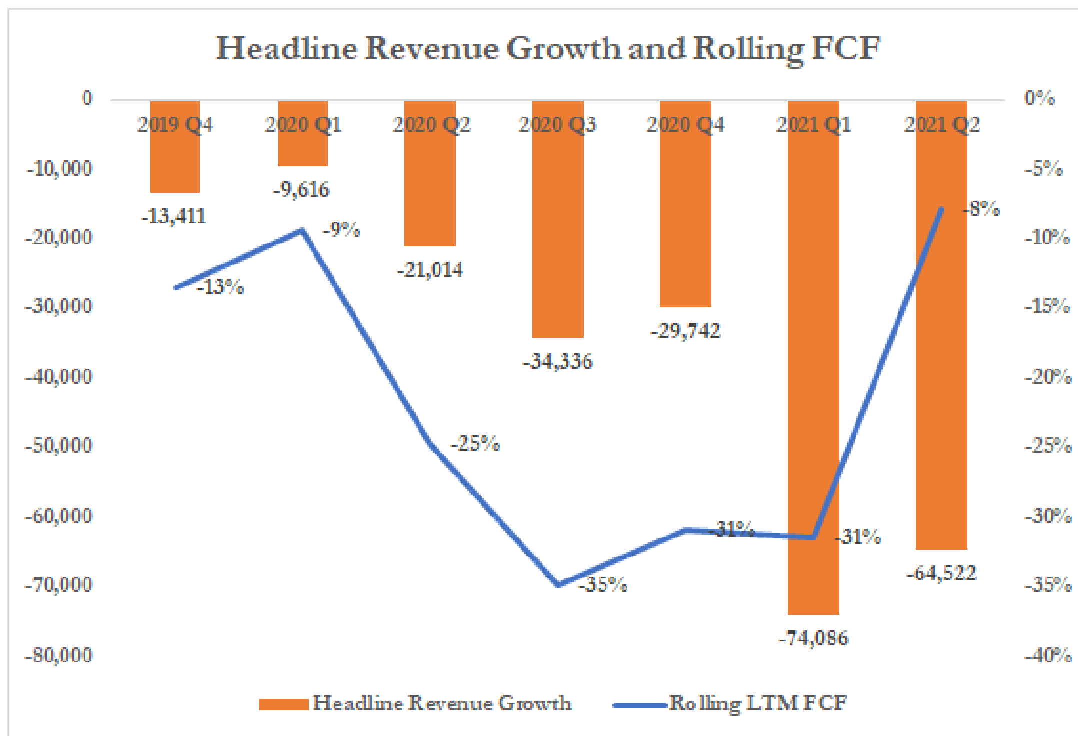
We believe the low valuations are reflective of a few factors:

1) **Terrible profitability**- LTM, the company has burned $74 mm in FCF (-$37 in FFO) and has guided to "strategically" burn more in Q3. There is a very weak track record of long term profitability, the vast majority of which is to be ascribed by choices made by previous CEOs Kent Thexton and Jason Conohour, who both had poor track records of operational efficiency.

2) **Weak Headline (Screening) Revenue Growth**- because of a material divestiture, headline revenue growth vs. Proforma growth has radically diverged.



Take these two together, and here is what rolling FCF and revenue growth look like:



Woof, that's pretty ugly.

3) **Canada**- the stock is headquartered and more "known" in Canada despite trading on a US exchange and having more volume there.

4) **Ransomware attack**- at then end of the first quarter of 2021, the company was forced to shut down for a week, costing them a week of revenue, a "ransom" payment, and generally poor headlines.

https://www.zdnet.com/article/sierra-wireless-partially-restores-network-following-ransomware-attack/

5) **Long Term "Pivot" Track Record**- surveying some Canadian investors who at least somewhat know the company, the general attitude was this company repeatedly pivots and is unfocused. We detail this in a later section.

6) **Vietnam Plant COVID Outbreak**- finally, and most important in the near term, they had to shut down production at their primary plant in July because of a major COVID outbreak in Vietnam. This is expected to materially impact Q3 revenue and cause additional cash burn in Q3, with the possibility that the plant is still not at 100% capacity in Q4.

What The New Narrative Will Become

We believe all these things will reverse (some already have), and that the A+ board and strong management team will execute a playbook that will dramatically improve profitability while recurring revenue continues to grow in the 25-35% range for the next couple years and non-recurring revenue accelerate significantly from multi-year macro tailwinds.

Screening will radically transform over the next 12 months as the company laps their divestiture, supply chain constraints ease, 5G begins to roll out more aggressively.

Profitability will materially improve on the back of additional cost cuts (we estimate $25-$30 mm opex cuts), rising prices of their modules business, ongoing mix shift toward recurring revenue, and rolling off the ransomware attacks (which cost both sales and the ransom itself).

New management will shift resources away from Canada and more into the United States, making it less of a "french Canadian" company and more of a US company.

Rather than unfocused, we believe management will have very clear cut focus and an aggressive business plan that will be communicated more aggressively to the street.

Finally, we believe newly announced CEO Phil Brace is unheralded but was strongly supported by key board member Jim Anderson of Lattice Semiconductors, one of the most successful tech hardware stock success stories, up ~10x since Anderson took over despite not materially raising the revenue base and without any acquisition. Anderson was at LSI with Phil Brace, who we believe has an aggressive plan to effectively balance cost cuts, operational efficiency improvements, and ongoing growth initiatives. Phil Brace's track record of operational improvement includes 1) successfully increasing LSI's gross margin from low 20s to over 40%+ (and operating profit margin from zero to over 20%) in less than three years with a mix of operational improvement and price increases, 2) increasing operating profit margin by over 1000 bps in the span of 18 months at Seagate's storage peripherals business – which had gross margins in the low 20s and 3) increasing Veritas appliance business operating profit margin by over 1000bps in the span of 18 months. While we expect operational improvements to be non-linear, like at Lattice, we believe the market will start to discount improvements well before they will be fully implemented, which makes now an ideal time to own the stock.

In short, the new narrative will be: "**Accelerating growth 5G/recurring revenue play with rapidly rising margins in a multi-year growth cycle led by superior management and board**".

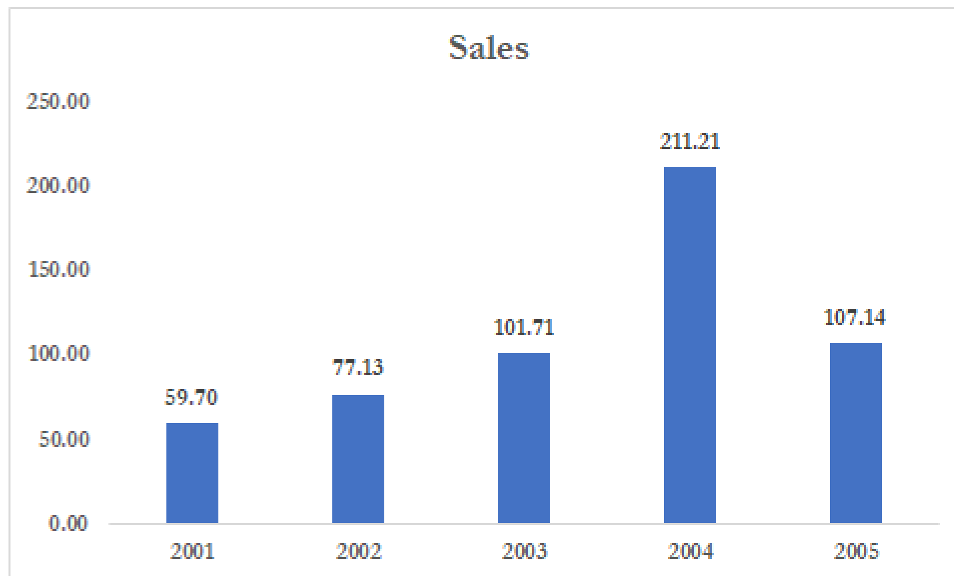
Company History/Overview

Sierra Wireless has gone through several pivots from its IPO over 20 years ago. We outline these pivots to its current point in time **to emphasize the current skepticism around the latest pivot/plan.**

Sierra Wireless is an offshoot of Motorola and a remnant of the dotcom bubble. Founded in 1993 in British Columbia by former execs working out of the Vancouver "Mobile Data Division" of Motorola, they built modems for laptops, police cars, and taxi cabs in 1995-1998. They had modest success from 1998-1999, growing sales from $6 mm to $18mm (with help from a co-development deal with Compaq), then went public on the Toronto Stock Exchange in 1999, while going public on the NASDAQ in 2000. Between these two IPOs they raised over $100 mm USD.

Pivot 1: Aircards

This capital raise did prove successful in accelerating the company's growth trajectory, as they grew revenues to $200mm by 2005, including buying a module company called Airprime. They sold "Aircards" to Spring, Verizon, and AT&T, plus modems with handheld computers by Palm and others. This was pretty volatile revenue though, as you can see below:



Pivot 2: Cellular Phones

Gross margins were also unable to get about 38% or so, as well, and profitability suffered, so the company made a major strategic bet by building an actual Blackberry competitor phone called the Voq. It was launched in 2004 but got no reception and was shuttered a year later.

The Voq:

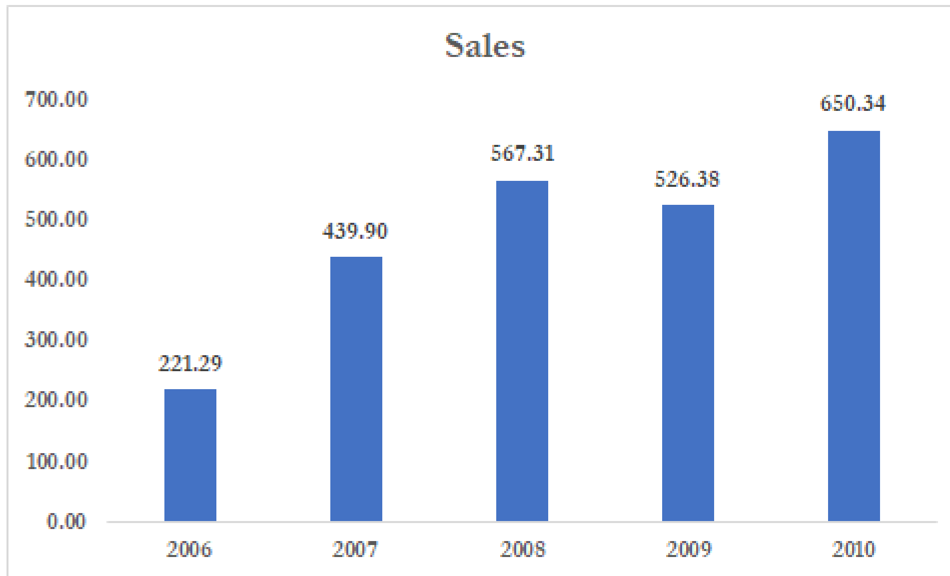
Several major players, including two of the founders, left in 2005.

One of the remaining co-founders, Jason Cohenour, was made CEO in late 2005.

Pivot 3: Back to Aircards

It's unclear whether Cohenour was talented or simply at the right place at the right time, but suddenly their "Aircard" market skyrocketed from 3G adoption and higher data speeds.

[continues on following page]



Although this may look impressive, there were warning signs under the hood. For instance, it was all one time product sales, with Sprint and AT&T concentrating to 44% of total sales.

Pivot 4: Gateways (Stage 1 of current company)

Again, management saw this wasn't sustainable and tried a new pivot by acquiring Airlink, which sold gateways to enterprises for asset tracking. Gateways are essentially cellular routers. Airlink was a great acquisition, posting 50%+ margins and jumping to $38 mm in revenues vs. the $31 mm acquisition cost. Although the gateway business was intriguing and growing, during the recession of 2008-2009 the rest of their business fell apart. Their PC modules business went from $67 mm to $7 mm (!) due to major customer losses at HP and Lenovo.

Pivot 5: Module/Gateways/Industrials

First and notably, they attempted and even came to an agreement to acquire Cradlepoint in 2007. The deal was ultimately canceled and Cradlepoint is now their primary competitor in gateways. Cradlepoint was recently sold to Ericsson for over $1 billion dollars, so in retrospect they probably should have closed this deal.

Sierra Wireless Announces Acquisition of Cradlepoint, Inc.
Monday, April 07, 2008 10:09:00 PM (GMT)

VANCOUVER, April 7 /PRNewswire-FirstCall/ - Sierra Wireless, Inc. (NASDAQ: SWIR, TSX: SW announced today a definitive agreement to acquire CradlePoint, Inc. ("CradlePoint"), a privately-held developer and supplier of wireless networking products and docking solutions for mobile enterprise, industrial and consumer applications.

CradlePoint is located in Boise, Idaho and currently has 40 full time employees. The company is innovative provider of mobile broadband networking solutions with unique products, including the PHS-300 personal hotspot and MBR-1000 mobile broadband router. CradlePoint achieved reven of $6.5 million in 2007 and is expected to grow revenue to approximately $25 million in 2008.

"The acquisition of CradlePoint is consistent with our strategy of strengthening our differentiation and expanding our position in the mobile computing value chain", said Jason Cohenour, Presider and Chief Executive Officer of Sierra Wireless. "We believe that adding CradlePoint's mobile broadband networking and docking solutions to our product portfolio extends our offering and val proposition to mobile operators and vertical OEM customers. Furthermore, we believe that the Mobile Broadband Networking category is poised for rapid growth, and that CradlePoint brings innovative mobile networking technology and talent to our team. We view CradlePoint as an important strategic addition to our business."

Instead, they made by far the largest acquisition of the company's history, buying distressed Wavecom for $189 mm. This became the connection point between modules and gateways, as the modules from Wavecom went into the gateways of Airlink. A major part of Wavecom's business (40%) was automotive.

As 4G was emerging, there was again a boom/bust period from 2010-2012 and the company remained aggressive in acquiring. They bought French SAGEMCOM for $55 mm, which was a mix of modules and celluar terminals for railways.

Pivot 6: Exiting Aircards

In 2013, Sierra exited their initial business (Aircards) finally, selling to Netgear for $100mm (amazingly, this was done for ~3x EBIT, the Aircard business was still profitable).

Colliers initiation has a good summary of what was left of the business post sale:

of total company EBIT. The remaining operations were: 1) a ~$280MM embedded modules business serving vertical markets (Sierra Wireless legacy + Wavecom + SAGEMCOM M2M) 2) a $47MM gateway business (AirLink) 3) a ~$61MM embedded module business for PCs (which had recovered thanks to 4G introductions) and 4) a ~$10MM cloud platform business for managing M2M devices (the beginnings of today's services strategy). Thus, what remained was a ~$400MM breakeven business targeting the billions of new cellular connections expected to come online with machine-to-machine communication and IoT. An M2M pure play with roughly a one-third share of all embedded cellular modules sold globally.

Once again, focus proved productive, albeit temporarily. Company's stock price went from $10 to $50 briefly as excitement around 4G built up, but the expected earnings never quite materialized as their module business stalled and their gateway business allegedly had stale products that had them losing share.

Pivot 7: MVNOs

This time they started scooping up MVNOs, buying 5 for $237 mm. The strategy, similar to today, was that one could upsell the connectivity the MVNOs offered with the gateways, and that building a comprehensive international MVNO networks would prove advantageous for international manufacturers who wanted flexibility in where to deploy their merchandise.

You can see below that most of the purchase went towards Maingate our of Europe, and Numerex in North America. Currently they offer connectivity to 600+ networks operators in 190+ countries, so their reach as of now is quite strong.

Exhibit 1 - IoT Mobile Virtual Network Operators (MVNOs) Acquired

Date	Asset	Price Paid ($M)	Annualized Revenue ($M)	EV/S multiple	Region	Headquarted
Jan-15	Wireless Maingate AB	88	16	5.5x	Europe	Sweden
Jun-15	Accel Networks	10	8	1.2x	North America	Florida
Sep-15	MobiquiThings	15	3	4.7x	Europe	France
Dec-17	Numerex	107	56	1.9x	North America	Atlanta
Jan-20	M2M Group	17	19	0.9x	Asia Pacific	Australia
Total		**237**	**102**	**2.3x**		

Source: SEC filings (Annualized revenue based on pro forma disclosures)

Pivot 8: Exit Auto Modules

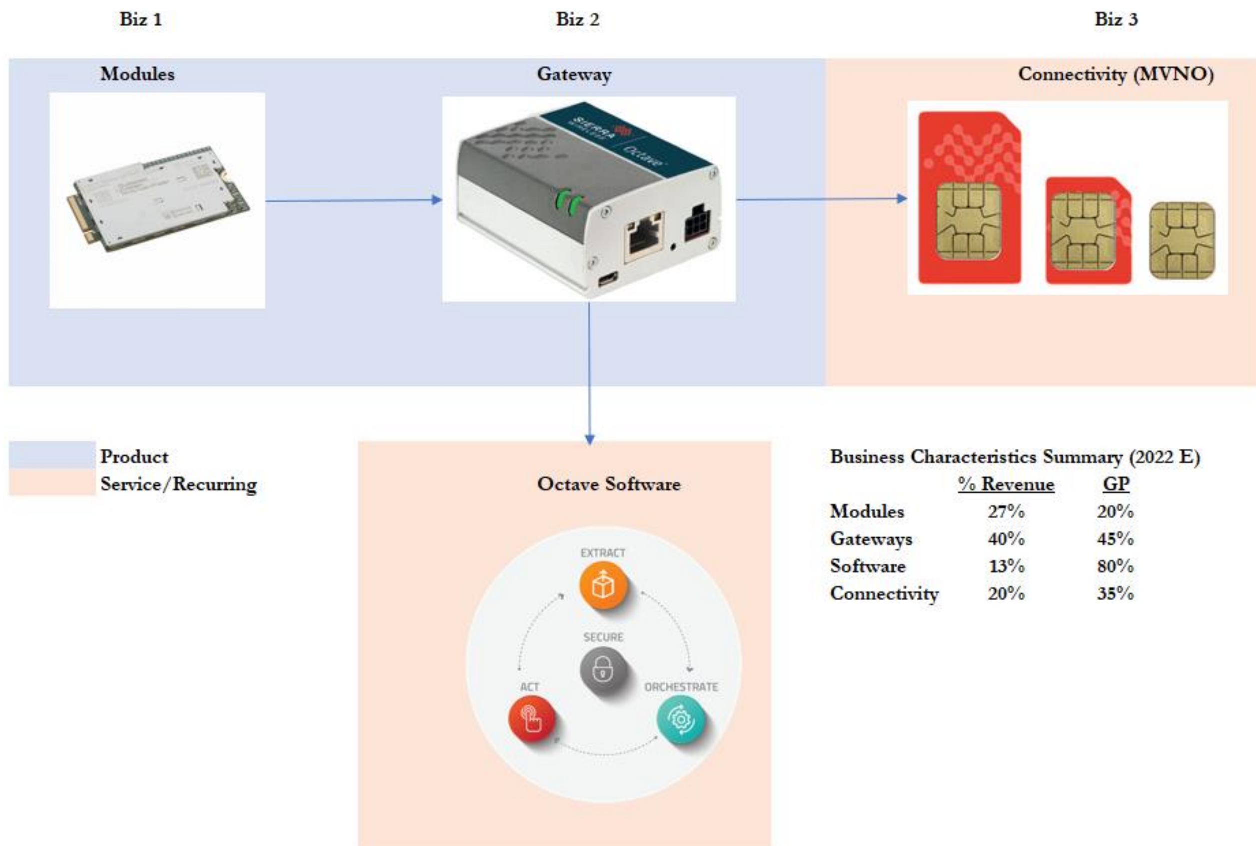
In a final pivot to where they are today, and notably under the new board from Lion Point, the company sold their Automotive modules business for about .9x sales ($146 mm transaction on $166 mm in 2019 revenue).

So What Does Sierra Wireless Do Now?

Sierra Wireless provides end to end services for enterprises and SMBs trying to enable cellular connectivity.

Although the company does not exactly disclose their numbers this way, you can think of Sierra Wireless as three distinct businesses, of which there is some synergy but hardly perfect synergy.

Below is a rough illustration of the business and its characteristics.



	% Revenue	GP
Modules	27%	20%
Gateways	40%	45%
Software	13%	80%
Connectivity	20%	35%

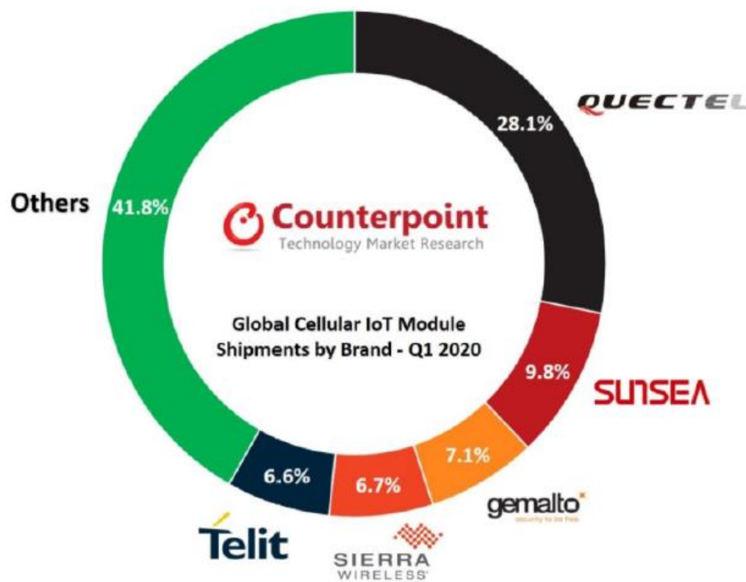
Modules

Their first major business is Modules, which is basically modified silicon chips that can go into a basic end product like phones, laptops, cars, vending machines, etc. It is meant for machine to machine communication but cannot do more complex tasks like routing, security, and network management.

A barrier to entry here is you have to get modules "certified" by telecom operators to put your module into products. For instance, here is a recent press release:

https://www.sierrawireless.com/company/newsroom/pressreleases/2021/06/sierra-wireless-5g-modules-first-to-be-certified-on-deutsche-telekom%E2%80%99s-leading-5g-network/

The competitive landscape for this business can be divided between China and the "West", although Sierra is really the only player at scale in North America. It's hard to get precise market share numbers, because one can include or exclude various industries (like Auto, which Sierra exited), but here are two takes:



Craig Hallum has attempted to estimate market share ex-China and Auto, but we can't really verify the accuracy of these numbers:

Cellular Embedded Global Market (by Revenue) Excluding China and Automotive Market		
Company	Mkt Share by Rev	HQ Base
Sierra Wireless	19%	Canada
Quectel	18%	China
Thales (Gemalto)	16%	France
Telit Communications	12%	Italy/UK
U-Blox	5%	Swiss
Fibocom	5%	China
Others	25%	
		*CH Estimates

No matter how you look at it, though, companies like Telit and Sierra **have traded at very low multiples because of the accurate perception that China (specifically Quectel and Fibocom) has been aggressively competing on price to take share in the US/Europe. We estimate Quectel has eroded Sierra's module margins by 1000 bps.** Quectel trades at 35x EBITDA and 2x NTM sales.

What makes the current situation interesting here though are two things:

1) The Sunsetting of 3G across the globe, forcing customers to upgrade to 4G and 5G.

2) Large scale concern in both Europe and the United States about selling and putting Chinese cellular modules in sensitive "internet of things" devices. For instance, does the US government want Quectel powering smart grids?

We believe the concern in the United States is real. For instance, consider this bipartisan release from Marco Rubio and Ed Markey:

Https://www.markey.senate.gov/news/press-releases/senators-markey-rubio-and-reps-eshoo-scalise-release-bipartisan-statement-on-fcc-vote-to-advance-update-to-equipment-authorization-rules

While one might read this and think they are talking about phone manufactures like Huawei, we believe they are also specifically speaking to players like Quectel. Thus, there is the potential that Quectel, which has a former Chinese Navy senior officer on its board, will not receive additional equipment authorizations from the FCC, as is currently considering, or the U.S. government could force a chip company like QCOM to stop shipping to Quectel. At the very least, customers will be thinking more carefully about choosing a cheaper Chinese vendor as the simple possibility of getting banned could weigh on customer's minds. The recent strong collaboration between Quectel and Hisilicon (Huawei semiconductor subsidiary) could be read as a sign that even Quectel is possibly seeing an end to their ability to supply modules with western technology, which would be a boon to Sierra.

Although it's not in our base and not something that needs to happen for the stock to do quite well, the combination of forced or more likely adoption of Sierra modules by North American hardware makers - the last remaining North American player, and the improved unit economics that would represent, could add material upside to the thesis.

Gateways/Software

Cellular gateways are similar to WiFi modems/routers, but for cellular data (3G/4G/5G). All gateways will have modules embedded in them, hence the synergy in having both businesses. Gateways, with their software, can do a lot of important functions like data translation (for instance, PCI for payment processing to Cellular data), network management, and general data collection and business intelligence.

Gateways have three major end markets, two of which Sierra participate in. Below is a summary of the markets, examples of them, and the key players.

Market	Examples	Key Players
Branches	bank branch, restaurant	Cradlepoint/Cisco
Vehicle	cop cars, bus	Cradlepoint/Sierra
M2M ot IoT Devices	Industrial laundry, power meters	Digi/Sierra

Cradlepoint was acquired by Ericcson for 8x trailing sales (~6x forward sales), on $137 mm in revenues, in late 2020, where it was noted that the "end market is growing 25-30%". Cradlepoint does sell the physical gateways, but positions themselves more as a recurring revenue company by bundling the hardware and software into a service package.

Cradlepoint goes head to head with Sierra in the vehicle and more broadly "ruggedized" market. For instance, a police station wants to outfit their cop cars with 5G, they might primarily look at Cradlepoint and Sierra.

If you're a Wells Fargo branch, you're probably comparing between Cradlepoint and Cisco.

If you're an industrial laundry OEM who needs to ship their machines to different countries with different SIM requirements, they would probably look at Sierra or Digi (also a public company, DGII, which we believe is also cheap).

Connectivity (MVNO)

So to recap, Sierra provides the 5G modules that go into the Gateways. They then sell the Gateways (which include modules) and the accompanying network management software in the vehicle and Internet of Things market.

The final piece of this puzzle is the data, or "connectivity" solution, which includes the SIM card or eSIM.

In the US market, the telecom operators are the MNO (Mobile Network Operators), and then there are MVNOs (Mobile Virtual Network Operators) who effectively lease data space from the telecom operators, sell the data, and the pay back a portion of that revenue to the telecom operator. There are clear scale advantages here. For instance, if you can guarantee Verizon more upfront revenue and customers you will get better unit economics. Thus, **gross margins can materially rise with scale**, as you will get better revenue share economics.

It's important to differentiate here between Consumer MVNO's and Enterprise MVNO's and the underlying characteristics of those businesses. For instance, Verizon is trying to acquire the largest consumer MVNO, Tracfone, for around .9x sales. Another example of a Consumer MVNO is Google Project Fi.

There are major differences in quality here, though, as there often are between Consumer oriented businesses and enterprises. For instance, it's our understanding that Tracfone is primarily prepaid consumer plans with incredibly high churn and hence pretty low LTV/CAC...that's why it's being sold at under 1x sales despite large scale.

As a more direct comparison, Kore Wireless is a pureplay enterprise MVNO and is about to go public via SPAC, and their profitability is superb (55-57% gross margin and 27% EBITDA margin). Based on their SPAC price, they trade at 4.3x sales, 8x gross profit, and 15x 2022 EBITDA. Based on our conversations, we believe Kore and Sierra are the two biggest players in the Enterprise MVNO space, although Kore is probably twice the size of Sierra. Cubic is also a competitor.

We believe Kore's gross margins (55-57%) are instructive to what Sierra can attain if they are able to double their size and get the kind of scale needed to get improved revenue share economics. Sierra has talked about having visibility to that level of revenue over the next 18-24 months, and has stated there are no fundamental reasons why Kore's gross margins are higher beyond scale. The reason scale matters here is you will get better terms from the carriers as your volume continues to increase.

Synergies?

Looking at it from module to gateway to MVNO, it might seem like there is very compelling synergy here across the businesses. Each gateway has a module, and each gateway needs connectivity of some kind. If one sells all three, it would seem like an advantage in a sales pitch..."we can provide everything, from one provider, with better integration", etc. etc.

In some cases it is like that, but often it's a bit more nuanced.

For instance, Cradlepoint and Digi specifically decided against selling connectivity (MVNO) services, as it ends up creating uncomfortable dynamics with the telco operator and their own salesforce. If I'm a Verizon sales rep trying to sell Verizon data services, who am I likely going to refer business to? The company who might try and steal the data service out from under me (Sierra), or the one only selling the Gateway (Cradlepoint)?

As we understand, there are basic ground rules here (like if Verizon brings the lead, Sierra stays away from data, but if Sierra has the lead it's open competition), but we can still understand why you might not want to sell both services together as you're biting the hand that fees you to some degree (Verizon as a corporation doesn't care, but still, having a good relationship with Verizon sales reps is likely advantageous as a sales channel).

From a module perspective, there are some advantages (as we understand) to having modules available to put into your gateways, but that's not where most of the modules business comes from...it's selling these modules to PC OEMs and cell phone manufacturers...in other words, it's a completely different customer set and sales motion, although in some cases they are able to generate software and MVNO attach on the modules.

To us, the synergy between MVNO and Gateways is sturdy enough to be durable, but we do wonder if the company would be better served outsourcing their lower margin module business to a pure play (like Telit), so that the focus of the company could be around beefing up their software products. Recall the company has already started down this road by selling their Automotive modules business.

Customer Example

They have been cagey around both their reporting and specifics around customer unit economics (something we expect will improve with the new management). However, one they have described is EV charging provider ChargePoint, which has over 100,000 charging stations, with potential for many, many more (potentially with a catalyst from the infrastructure bill). We think this customer is a decent example of their push towards recurring revenue, as we think when fully rolled out this customer on its own would generate nearly $3 mm a year in recurring revenue, while generating closer to $900k in one time revenue.

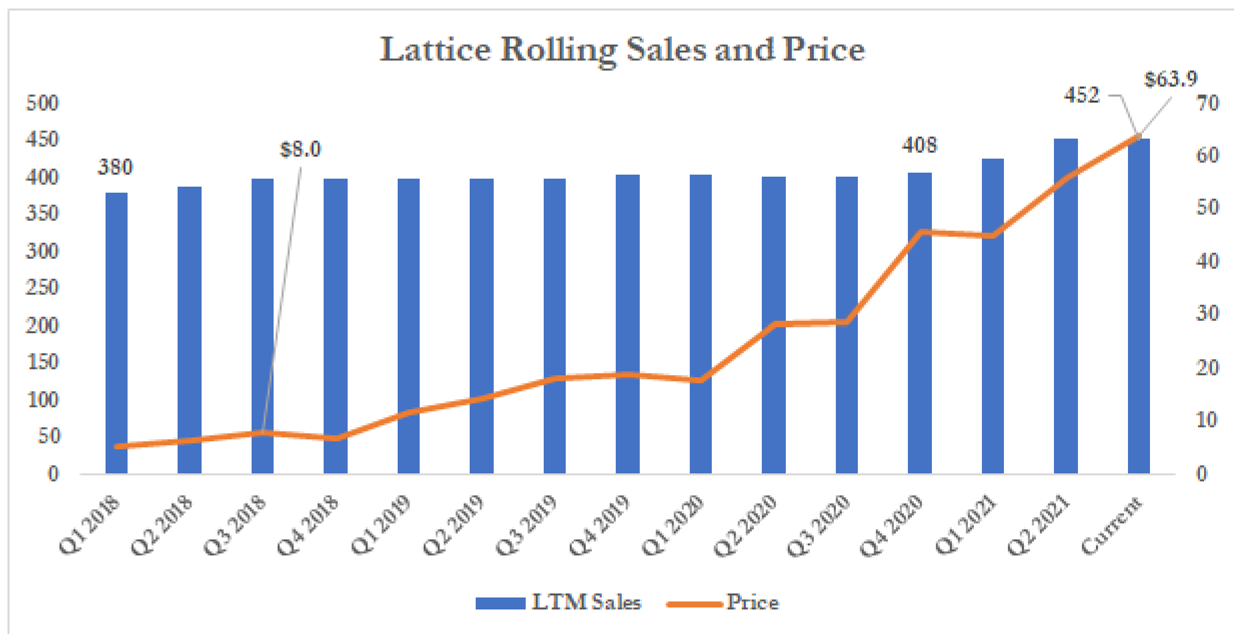
ChargePoint Estimate	
Units	100,000
Recurring Attach (MVNO/Software)	$2.40
Per Month	12
Recurring Revenue	**$2,880,000**
One time Module Revenue	$9
Units	$100,000
One Time Revenue	**$900,000**

The one time revenue probably comes in around 20% margin, while the recurring comes in over 40%.

New Board and Management

A critical part of the "why is this time different" is the entrance of Lion Point Capital as activists. Lion Point Capital, with alumni from Elliott, Perry, and Starboard, owns nearly 10% of Sierra between stocks and swaps, and is best known for their incredibly successful turnaround of Lattice Semiconductors. Lion Point brought in Jim Anderson, then a relative unknown, to turnaround Lattice. In 2018 Lattice was around $6-$7 a share, and 2x sales. It is now at over $60 and is at 16x forward sales. Indeed, Anderson was able to generate a 9+ bagger without even having underlying revenue rise much at all. Instead, he radically enhanced profitability with more focus and better mix, and was able to articulate a long term growth plan (still materializing) that investors seized on.

Below you can see the stock was around $8 and actually dipped down to $6 upon his arrival, but since has skyrocketed to $64 on very modest sales growth.



Lion Point convinced a handful of highly successful tech hardware execs including Anderson to join the Sierra Wireless board, and as we understand it, the new CEO, Phil Brace, was recommended by Anderson

from their extensive work together at LSI (Anderson worked at LSI from 2005-2012 while Brace worked there from 2005-2014).

Given this, we view this as Lion Point attempting to completely replicate their playbook from Lattice...bringing the gang back together.

But Lion Point has also added additional helpful pieces to the board. Greg Waters, who we also believe knew Phil Brace at Intel, was the former CEO of Integrated Device Technology. Integrated Device Technology was sold for $6.7 billion, resulting in a 5x return over his nearly 6 year tenure and was brought to IDTI by Starboard, where the Lion Point exec leading the LSCC and SWIR investment worked prior to joining Lion Point. Mark Twaalhoven, the CEO of Pulse Electronics from 2014-2019, allegedly generated a 15x return as a private company before being sold in a little more than three years based on operational efficiency improvements. Rounding out the additions are Martin McCourt, a 15 year senior strategy and operations executive at module competitor Gemalto (who we believe was in the running for CEO), Thomas Linton, chief supply officer specialist at Flex from 2011-2019, and Karima Bawa, Blackberry's Legal Officer and General Counsel.

We believe just with Anderson and Waters guiding Brace this is an A+ board who will have a strong understanding not only of WHAT to do, but how to effectively communicate it to the street. Just like Lattice, we would not be surprised to see SWIR in credibility rebuilding mode, which means underpromise and overdeliver.

We fully expect details of their strategic plan to emerge in the coming months, and for a significant investor day to occur early in 2022 as they continue to outline their strategic roadmap.

Vietnam Plant Closure and Component Shortages

There was some optimism coming into the most recent quarter, as it was when Phil Brace would "make his debut." However, this unfortunately got overshadowed by the announcement that the primary plant in Ho Chi Minh City had been significantly affected by a COVID outbreak and they were just now in August getting back to limited capacity. With that in mind, and perhaps a Big Bath to some extent, management pulled guidance and indicated Q3 was going to be very weak and that they would strategically invest a lot of their cash in working capital. The stock crashed from $20 to $15 and hasn't really reverted.

As we understand it, they are now out of the worst of it in September, but still not running at full capacity and there is at least a possibility they will not be running at full capacity in Q4.

They are also bringing a new plant in Mexico online that should be able to alleviate some of the issues in Vietnam. Notably, this plant was already part of a production diversification and margin improvement plan already underway at the time the COVID shutdown hit in Vietnam.

However, even if all their plants were running at 100% capacity, because of component shortages from suppliers, they still would not be satisfying all demand. Management has currently indicated they expect component shortages to get better, but not to be at full supply until mid 2022, so there are a couple more quarters of "below potential" revenue coming.

The Normalized Company

We believe new management can use this semi-crisis as "cover" to make the necessary operational changes they were going to make anyway and to lowball the street to get into a beat and raise cadence, and believe there is at least $25-$30 million of operational costs to be cut as they will wind down vanity projects, consolidate fragmented operations, and generally cut the fat existing in Canada. We also believe there are significant opportunities to raise gross margins, not only through an increase of recurring mix, but through changing competitive dynamics regarding modules and raising prices.

All indications are demand is incredibly high. Backlog is through the roof and management qualitative commentary is quite bullish. We believe the Vietnam issue does put Sierra at some risk of losing customers who need to roll out their product now, but the component shortage is affecting vendors equally and is not a real relative negative for Sierra.

At current state, and using Q2 annualized numbers (still low, but closer compared to what Q3 will look like), we believe you are currently paying under 1x sales for the business.

As the supply chain and COVID issues dissipate, we believe the company can pretty quickly (say run rate in the back half of 2022) move toward the following profile:

	Normalized Numbers	Current Multiple
Revenues	$650	0.7x
Recurring	$200	2.4x
Non-Recurring	$450	
Gross Margin	40%	
Gross Profit	**$260**	1.8x
Operating Costs	$155	
EBITDA	**$105**	4.6x

This assumes a full 5% improvement in gross margin and $25 mm in operating cost cuts, which we view as achievable based on the items we described above.

The company has talked about hitting $200 mm in ARR in mid-2022 (now at $138 mm), but we are assuming this doesn't occur until Q3 or Q4, so these normalized rates are really a back half of 2022 story and 2023 story.

Finally, this assumes a modest non-recurring revenue improvement from Q2 numbers, which we view as reasonable given management commentary that they are only able to fulfill 80-85% of demand and we believe the demand will be there for several years.

We believe that if management is able to enact this turnaround, **you have close to a double as the stock will move to 10x EBITDA** (note they are a low tax payer, don't pay interest, and have manageable capex, so FCF conversion on EBITDA should be quite strong). We believe if they miss the mark completely, you will still likely have a stock worth at least $15-18. Hence, we view this as a significant asymmetric bet at these price levels if you can stomach the short term volatility of COVID plant closings and component shortages.

In a Bull Case, over the next 4 years the company moves to $400 mm+ in recurring revenue, realizing significant leverage on their MVNO business and significantly driving up gross margins. Meanwhile, Sierra is able to take back significant market share in 4G and 5G upgrades as Western companies steer away from Quectel, and they are able to return to 30%+ module margins. In this case, the revenue base and margins would all rise materially, and we could be looking at a $60+ stock.

SOTP/Comps

As a way to triangulate around our valuation above, we also look at the direct comps for each of Sierra's businesses.

The interesting thing here is for each of the three businesses we have clearly identifiable comps:

Modules- Telit
Gateways- Cradlepoint
MVNO- Kore

If we naively apply the forward sales multiples to Sierra, we get a price target of $64.49:

	EV/Sales	GM	% Sierra	Implied Sierra	Per Share
Telit	1.0x	31%	25%	$ 158,053	$ 4.27
Cradlepoint	6.0x	65%	41%	$ 1,828,639	$ 49.43
Kore	4.3x	57%	34%	$ 482,287	$ 13.04
Net Cash				75,000	$ 2.03
Total				$ 2,468,979	$ 66.74

At present, there are several issues in making this the actual target...however, we think with even moderate execution the company could realistically target a 50% discount to this SOTP valuation.

What are the issues?

1) Telit has, we believe, higher gross margins on their modules business. This is correctable by the new management team, we believe, but it will take time and will need to be shown.

2) Cradlepoint, rightly or wrongly, is thought of "software first" and more of a recurring revenue story. We believe their TAM is probably a bit larger, they are cleaner and more focused, and probably have better software. We also do not know the mix of Sierra "recurring revenue" that is software vs. MVNO. To really put a better value on Sierra's total gateway business (hardware and software), we need better disclosure and probably a lot of work by the new management team to focus on their software products. This area deserves the biggest discount as we view it as unlikely Sierra would ever get the kind of credit Cradlepoint got in being acquired.

3) Kore has double the scale and significantly higher gross and EBITDA margins than our estimate of Sierra's MVNO business. However, management has consistently stated they have site line to Kore's revenue levels and that by getting to that scale there is nothing inherent keeping their margins below Kore's margins.

We believe the new management team is keenly aware of these dynamics and will be focused on getting their businesses looking closer to each comp.

Summary

In summary, we believe recent supply chain disruptions offer an asymmetric opportunity for those able to ride out some short term volatility. The narrative on the stock can change radically over the next 12-18 months as fundamentals get better and management first reveals then executes on their plan. Given all the pivots over the years we believe there is ongoing skepticism, but the people involved this time give us confidence "this time is different." Given the very limited module players in North America, we believe Sierra is a strategic asset that the industry wants healthy, and that could fetch at least the current price if they were to go into fire sale mode. They have a 10-year gradual tailwind from 5G and the cloudification of industrial assets. Comps suggest to us there is significant profitability improvement potential.

We target $28 for SWIR over the next 12 months, with catalysts being the plant getting back to full capacity, easing on component shortages, and management's analyst day in early to mid-2022.

Risks include:

1) Further plant disruption that results in material lost customers who go elsewhere and also potential ongoing cash burn that weakens their balance sheet flexibility

2) Customers ignore potential warnings on Chinese companies and continue to source through Quectel.

3) Management/board turns out to be not as great as advertised.

4) Other "unknown unknowns" that have plagued the company this past year

Disclosures and Notices:

The information contained herein reflects the opinions and projections of Voss Capital, LLC ("Voss") as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Voss does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. None of the information contained is either an offer to sell nor an offer to buy any securities, investment product or investment advisory services, including interests in Voss Value Master Fund (the "Master Fund" or "Long/Short Fund") or the Voss Value-Oriented Special Situations Fund. Performance figures for the "Long/Short Fund" from the inception date of October 3, 2011 through December 31, 2019 are calculated based on Voss Value Fund, L.P., (the "Predecessor Fund") a predecessor to the Master Fund. The Predecessor Fund was part of a restructure to a master feeder structure on January 1, 2020. Beginning January 1, 2020, all investment activity is conducted by the Fund, which has 2 feeder funds, and therefore performance figures from January 1, 2020 onward are calculated based on the Master Fund. All limited partners to the Long/Short Fund invest in the Fund through one or more of the following feeder funds: Voss Value Offshore Fund, Ltd. (the "Offshore Fund") and the Predecessor Fund (each a "Feeder Fund"). Actual returns are specific to each investor investing through a Feeder Fund. Each Feeder Fund was established at different times and has varying subsets of investors who may have had different fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on onshore and offshore investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported above. Performance figures for the Predecessor Fund are contributable to Travis Cocke as sole portfolio manager. Mr. Cocke maintains the same the position with the Fund and the Fund will employ a similar strategy as the Predecessor Fund. The Voss Value-Oriented Special Situations Fund, LP, (the "Long-Only Fund") launched on July 1, 2021 and trades roughly pari-passu with the long book of the Long/Short Fund. Investors have differing fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported. Travis Cocke is the sole portfolio manager of the Voss Value-Oriented Special Situations Fund.The information contained herein is subject to a more complete description and does not contain all of the information necessary to make an investment decision, including, but not limited to, the risks, fees and investment strategies of the Long/Short Fund and the Long-Only Fund. Any offering is made only pursuant to the relevant information memorandum, together with current financial statements of the Feeder Funds, if available, and a relevant subscription application, all of which must be read in their entirety. No offer to purchase interests will be made or accepted prior to receipt by the offeree of these documents and completion of all appropriate documentation. All investors must be "accredited investors", "qualified clients" and "qualified purchasers", as defined in securities laws before they can invest in the Feeder Funds or the Long-Only Fund. While performance results might be shown as compared to various benchmarks or indices, there is no guarantee that the strategy behind the performance results is similar or fully comparable to that of the benchmarks or indices listed. References made to the S&P 500 Index ("S&P") and the Russell 2000 Index ("R2K") are for comparative purposes only. The securities and exposures contained within the highlighted benchmark indices are unmanaged and do not necessarily correspond to the investments and exposures that will be held and are therefore of limited use in predicting future performance or evaluating risk. The S&P is a broad-based measurement of changes in the stock market based on the performance of 500 widely held large-cap common stocks. The R2K is a measurement of changes in the US small-cap equity universe, represented by approximately 2000, mostly small-cap, common stocks. These indices may reflect positions that are not within Voss's investment strategy, and Voss is less diversified than the broad-based indices. The benchmark indexes do not charge management fees or brokerage expenses and no fees were deducted from the benchmark performance shown.

All information presented herein has been compiled by Voss, and while it has been obtained from sources deemed to be reliable, no guarantee is made with respect to its accuracy. Past performance does not guarantee future results. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. Certain information contained in this letter constitutes "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may," will," "should," "expect," "attempt," "anticipate," "project," "estimate, or "seek" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results in the actual performance of the Voss Funds may differ materially from those reflected or contemplated in such forward-looking statements. There can be no guarantee that any Voss Funds will achieve its investment objectives and Voss does not represent that any opinion or projection will be realized.