# Final Transcript

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# Corporate Participants

**Jim Huseby**

*Interxion – Vice-President of Investor Relations*

**David Ruberg**

*Interxion – Vice-Chairman and CEO*

**Josh Joshi**

*Interxion – CFO*

# Presentation

**Operator**

Thank you for standing by and welcome to the Interxion quarter two results call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time – if you wish to ask a question – you will need to press star and one on your telephone. I must advise you that this conference is being recorded today on Wednesday the 8th of August 2012. I would now like to hand the call over to your speaker today, Mr. Jim Huseby. Please go ahead, sir.

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**Jim Huseby** – *Interxion – Vice-President of Investor Relations*

Thank you, operator. Hello, everybody, and welcome to Interxion's second quarter 2012 conference call. Today you'll be hearing from David Ruberg, Interxion's vice-chairman and CEO; and Josh Joshi, the company's CFO. To accompany our prepared remarks we are again providing a slide deck. These slides are available on the investor relations page of our website at investors.interxion.com and we encourage you to download these slides to use during this call if you've not already done so. Before we get started I'd like to remind everyone that some of the statements that we will be making today are forward-looking in nature and involve risks and uncertainties. Actual results may vary significantly from these statements and may be affected by the risks we identify in today's press release and those identified in our filings with the SEC. We assume no obligation and do intend to update or comment on forward-looking statements made on this call. In addition we will provide non-IFRS measures on today's conference call. We provide a reconciliation of those measures to the most directly comparable IFRS measure in today's press release, which is posted on our investor relations page at investors.interxion.com. We would like to remind you that we post important information about Interxion on our website. We encourage you to check our website for the most currently available information. Following our prepared remarks, we will be taking questions. Now I am pleased to hand the call over to Interxion's CEO, David Ruberg.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

Thank you, Jim, and welcome to everyone. As Jim mentioned at the beginning of the call, we have generated a slide deck to accompany our prepared remarks. We encourage you to down-line load it and to follow along as Josh and I will refer to these slides during our comments.

So, please turn to slide four. In the second quarter of 2012 Interxion produced another set of solid results as we continued to perform in line with our full-year plan as outlined on our February conference call. Highlights for the quarter included good, organic revenue growth, particularly in what we call our big four markets of France, Germany, Holland, and the UK; robust EBITDA margin expansion; continuing low churn that was consistent with our expectations; and solid growth of revenue-generating square metres. We continue to make progress on our construction programmes with the opening of the initial phases of two new data centres: one in Paris in June and one in July... one in London in early July. Revenue for the second quarter was €68 million, an increase of 13% from Q2 2011 and a 3% increase when compared to Q1 2012. Revenue remains of high quality with recurring revenue contributing over 92% of this quarter's total revenue. Revenue continued its steady upward trend with growth stronger in the big four market segments than in our rest-of-Europe market segments, which is consistent with what we have seen for the last three quarters. Although the strength of these economies or lack thereof is a contributing factor, we believe that the biggest difference in growth is the different adoption rates of cloud and digital media services in the big four countries versus the others. However, we firmly believe that these services will gain traction in these other markets as well.

Our continued positive revenue trend illustrates the resilience of the structural drivers which are underpinning demand for our products and services even in the face of difficult political and economic times. Adjusted EBITDA was €27.8 million in the second quarter, which is a 19% year-over-year increase and a 2% sequential increase. Adjusted EBITDA grew faster than revenues year over year, demonstrating again the operating level in our business model. Adjusted EBITDA margin was 40.8%, up nearly 200 basis points from last year despite the dilutive impact of our construction programme and a slightly higher mix of lower-margin non-recurring revenue. Josh will address these in more detail later.

Please turn to slide five. During the second quarter we continued to execute on our strategy of phased data centre openings and delivering new equip space in line with forecasted customer demand. We opened the first phase of Paris 7, increasing our equip space by 500 square metres, and ended the quarter with 65,300 square metres. I will come back and give more details on our construction plans in a few slides. Bookings during the quarter were solid with continued strength in the big four markets and increased bookings in the rest-of-Europe markets with about 80% of our new bookings coming from existing customers. Pricing during the quarter continued to be stable and rational across our broad footprint and our sales pipeline remains at a healthy level. Revenue-generating space increased by 1,100 square metres, which represents our largest quarterly increase since 2010. Consistent with our bookings experience over the past several quarters and the multi-quarter book-to-bill cycle, we expect that revenue-generating space will grow significantly over the back half of this year. Utilisation ticked up a point to 74% while the second-quarter churn remained low and consistent with our expectation of – on average – about a half a percent a month.

Please turn to slide six. Our strategic approach to building committees of interest continues to generate value for both our customers and our shareholders. In Q2 we continued to attract new customers across our main target segments, which are financial services, media, network providers, and many service providers, winning both [unclear] customers and committee of interest members with a growing number coming from the United States. We remain committed to our strategy of focused selling efforts, connectivity leadership, outstanding reliability and configurability in our data centres, pan-European coverage, and excellent customer service. At our last conference call we shared with you our plans for revamping our sales and marketing organisations to align them more closely with our market segment strategy. As a quick update I wanted to let you know that we have finished the resizing of the sales marketing and support organisations and believe that we will finish the restructuring of our national and major accounts teams by the end of this year. Last year we also discussed the partner channels that we’re building in the United States. We continue to spend time and effort to develop these channels because of their potential to bring us market knowledge, leads, orders, and the most valuable contribution to date – and, by the way, also the most difficult to quantify – assistance in closing deals that originate in the United States.

I wanted to update you on our expansion programme. The last 12 months have been the most expansive construction and permitting period in the company's history and quite honestly we found it a little bit more challenging than expected. This, coupled with some changing customer needs, required us to relocate assets and restructure schedules. We, however, do not expect that these changes will impact our revenue projections for this year. As I noted earlier, we opened the first 500 square metres of our Paris 7 data centre in June and we are scheduled to open another 1,500 square metres by the end of this quarter, the third quarter. Likewise, we opened 500 square metres at London 2 shortly after the quarter ended and we will add another 400 square metres shortly for a total of 900 new square metres in London in Q3 2012. The remaining space – 700 square metres – will be completed by the end of this year. We have delivered new space and time to meet customer needs, although in smaller chunks and sometimes slightly later than originally planned, but the revenue development from these new bills relative to our 2012 plan is not affected. Three new data centres have been opened so far in 2012 and the other two – Amsterdam 6 and Madrid 2 – are on schedule. We expect to end 2012 with over 72,000 square metres of equip space and 76 megawatts of customer power. I would now like to turn the call over to Josh.

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**Josh Joshi** – *Interxion – CFO*

Thanks, David, and welcome to all on the call and online. Interxion's first-half and second-quarter results were on track and continued our strong record of execution. We saw continued organic growth in revenue and adjusted EBITDA and delivered a solid first half despite the prevailing macroeconomic conditions while setting the stage for the second half of the year. Let me start as usual by talking about the group results in the quarter followed with a little colour by geographic segment and then I'll move on to discuss our capital expenditures and the balance sheet items.

Please turn to slide nine. Total revenue in the second quarter was €68 million, up 13% compared to the second quarter last year and up 3% sequentially. Recurring revenue for the quarter was €62.9 million, up 12% from last year's second quarter and up 1% sequentially. Recurring revenue represented 92% of total revenue and reflected a strong quarter for non-recurring revenue. Non-recurring revenue was €5.1 million, 36% higher year over year and 45% higher sequentially and driven by the special needs of larger customers. With over 70% of revenue generated in the euro currency, currency effects were minimal. On a constant currency basis, total revenue was up 12% year over year and 3% sequentially. During the second quarter our currency exposure did not change materially from previous periods. Cost of sales in the second quarter was €28.2 million, up 11% over the same quarter last year and up 7% sequentially. Gross profit was €39.8 million, an increase of 1% sequentially and 15% year over year, while gross margins were 58.5% in the quarter, down 120 basis points sequentially and up 100 basis points year over year. The key element in the quarter that impacted sequential margins were, first, the strong performance in non-recurring revenues as we incurred cost to support these projects and, second, cost of sales also reflected expenses associated with the opening of Frankfurt 7 at the beginning of the quarter. Sales and marketing costs were €4.7 million in the quarter or just under 7% of revenues, consistent with our 7-to-8% range that we've spoken about previously. Other G&A costs were up 3% sequentially and up 11% year over year and reflected our strong control over costs. Adjusted EBITDA was €27.8 million, an increase of 19% year over year. Adjusted EBITDA margin in the second quarter was 40.8%, up nearly 200 basis points year over year and, as expected – down sequentially by approximately 70 basis points. As I have highlighted previously, the impact is partially due to normal expansion drag effects from our organic data centre builds combined with the impact of higher non-recurring revenue.

Net finance expense in the first quarter decreased by 35% year over year and was down 13% sequentially due to the capitalisation of interest costs during construction. During the second quarter, capitalised interest was €2.8 million compared to €0.2 million in the second quarter of 2011 and €2.4 million last quarter. We booked income tax expense of €4.1 million, resulting in an effective tax rate of 32%. We continue to see the benefits of our significant tax shield with the effective cash tax rate for the quarter at approximately 12% and on a last-12-month basis the cash tax rate was approximately 10%. Net profit for the second quarter was €8.7 million, 67% higher than the second quarter last year and flat with the first quarter. Earnings per share during the quarter were 13 euro cents on 68.0 million diluted shares compared to 8 euro cents in the second quarter last year and 13 euro cents in the first quarter.

Now, let's take a closer look at our geographic segments. Please turn to slide ten. Before diving into the detail I thought I'd step back a little and share my interpretation of some of the trends here. Interxion has the broadest geographic footprint of carrier-rich data centres. We've seen the benefit of that as we see revenue growth in our big four markets driven by customers in the cloud, digital media, and financial sectors, which has outstripped macro prevailing headwinds. Seven countries in the rest of Europe have strong local competitor positions and continue to deliver superior margins. As David mentioned before, while the strength of the local economies will always be a contributing factor, we believe that a bigger impact is from the faster adoption of the cloud and digital media services in the big four countries versus the rest. We fully expect that these services will gain traction and deliver similar trends in these other markets as well.

Our big four markets performed very well in the quarter. Total revenue increased to €42.4 million, up 5% sequentially and 17% year over year. Recurring revenue was €38.4 million, up 15% year over year and 1% sequentially while non-recurring revenue increased to €3.9 million, delivered from several significant customer projects. Adjusted EBITDA in the big four markets was €21.8 million, up 22% from the second quarter of 2011 and 1% from the first quarter. Adjusted EBITDA margin was 51.5%, up 170 basis points from last year's second quarter and – as I mentioned early – down sequentially due to the impact of Frankfurt 7 coming online and the higher mix of lower-margin non-recurring revenue. Total revenue in our rest-of-Europe reporting segment was 25.7 million, a 7% increase from last year's second quarter and a 1% increase from last quarter. Recurring revenue was €24.4 million, an 8% increase year over year and 1% sequentially. Non-recurring revenue was essentially flat at €1.2 million. Adjusted EBITDA was €13.5 million, up 11% year over year and 1% sequentially with adjusted EBITDA margins holding firm at 52.5%.

Moving to slide 11, let me talk you through our capital expenditures briefly. Capital expenditures as seen on the left-hand chart total €42.6 million during the quarter with €38.2 million of that devoted to expansion capital and €4.4 million to ongoing capex, which includes maintenance and administrative capex. Consistent with the first quarter, about 80% of this quarter's capital investments were made in the big four markets as we executed our expansion plans and capital expenditures now in the first half are €104 million.

Please turn to slide 12. Cash and cash equivalents were €84.5 million at 30th of June, down from €142.7 million at the year end due primarily to the capital investments made during the year to date and partially offset by the cash we generate from operations. Our outstanding borrowings at 30th of June remain largely unchanged from the year end and we plan... and our plans remained fully funded. As we've talked about previously, in May we amended our credit facility to expand its capacity by €10 million while significantly improving the financial terms, tenor, and covenants, and extending its term through to May 2016. The facility continues to remain on draw [?]. We were delighted to be able to have secured this facility and the attractive terms not because of the incremental access to capital. As I said many times, we have a solid balance sheet and... for instance, gross leverage again ticked down to 2.4 times, but actually we were delighted because this deal is a reflection of how far the business has come since we did our original bond and RCF transaction more than two years ago. At that time we were not a public company and we had very limited access to capital and we were one of the few private businesses out there of our size and scale securing any financing deals. Since then, we came to the public equity market and we have continued to solidly execute against our plan despite continued poor macroeconomic headwinds. Our bondholders have been rewarded for supporting us back then with our bonds trading over 112 and the yield to worst currently running at below 4%. Now, I mention this because I think it shows quite clearly the potential opportunity for us to lower our cost of capital going forward.

Finally, slide 13... you may be a little tired of seeing this chart, but actually in my view now more than ever this consistent history of execution in the teeth of macro headwinds shows the inherent value of Interxion's business model. In summary, our quarter was one of continued organic execution and staying on track. With that I'd like to turn the call back over to David. David?

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

Thank you, Josh. Before we move to Q&A I would like to share with you some thoughts about the digital media segment and also provide a couple of comments on our outlook. Please turn to slide 15. Last quarter I gave some colour on our cloud segment. This quarter – given the current summer of sport we are enjoying – I thought it might be worthwhile to spend a little more time looking at why digital media providers choose Interxion. Events, including Euro 2012 and the London Olympics, have created an unprecedented online audience estimated at over 1 billion users who choose to receive content on an ever-increasing array of devices from connected TVs to PCs to mobile devices to tablets. In our data centres we have created content hubs that provide the ideal environment for the digital media community members to aggregate, exchange, repurpose, transcode, and distribute real-time digital media content. We recognise that real-time premium content distribution demands the highest level of performance and very consistent response times. The key foundation of our value proposition to these customers is excellent connectivity that underpins delivery of the highest quality. Most consistent experience... something that is of paramount importance to content rights holders, and viewers alike.

Interxion is a leader in the European market in terms of our connectivity proposition, which has three core elements. First, direct carrier connectivity: we have over 400 fixed and mobile carriers in our data centres. Second, CDNs: we have all the major top ten CDNs in our footprint. Third, Internet exchanges: we connect to more Internet exchanges in Europe than any other carrier-neutral data centre provider – 18 in total – handling over three terabytes per second of traffic as well as providing access to over 2,400 ISPs. This unique, richly connected situation, combined with our city centre locations, provides media service providers with the ability to offer their customers an unrivalled online experience situated in close proximity to the end consumers and Europe's most densely populated cities, representing approximately access to over 75% of European GDP. Our content hubs provide high-spec, high-performance, ultra-reliable, and ultra-secure technical facilities which enable content hub members to maximise the monetisation of their content and services. Examples of our customers operating in this real-time digital media space include RTO Interactive, which is a broadcaster; Internap, which is a CDN providing managed services and an optimised IP provider; Overon, which is a broadcast service provider;

and [unclear] Planet, which provides managed online broadcast services and automated live video workflow. We are pleased by the rapid growth in the digital media sector and for our prospects in serving this demanding, high-value customer segment.

Please turn to slide 16. Despite the prolonged financial and political uncertainty in Europe, we believe that the outlook for the carrier-neutral data centre industry in general and ourselves in specific continues to be robust. Industry demand fundamentals are strong, the addition of new supply is rational, and we have again produced solid results and we have a sales pipeline for the rest of the year which is in line with our expectations. We have opened three new data centres this year and although our expanded build programme is not without its challenges, we continue to execute well against our plans and will continue to do so going forward. Consequently, we are affirming our previously announced full-year financial guidance to be specific for the full year 2012. We are expecting revenue to be in the range of €275 to €285 million, we are expecting adjusted EBITDA to be in the range of €112 to €120 million, and we expect to invest between €170 and €190 million in capital expenditures this year. As always, I would like to thank all of our employees in all of our countries for staying focused on our customers and continuing to deliver strong results. I would also like to thank our shareholders and bondholders for their continued support. Now, let me hand the call back to the operator to begin the question and answer segment. So, operator, could you please read out the instructions to register questions from the call?

# Question and Answer

**Operator**

Thank you. Once again, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. That's star and one to ask a question. Your first question comes from Chris Larsen from Piper. Please go ahead.

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**Chris Larsen**

Hi and thank you for taking the question. I have two. First, David, you talked about your confidence and obviously you reiterated your guidance here for the year. What gives you the confidence in the reacceleration of the recurring revenues? Maybe you can talk a little bit about that pipeline that you alluded to in your original comments. Then, you also indicated a more challenging to-build environment. Maybe you could give us some details on that and some lessons that you may have learned. Thank you.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

Certainly, Chris. I'm going to let Josh answer the first one. The second one... it's just an affirmation of the fact that building in some of these older, constrained cities... permitting is once again reinforced as a major issue. That was one element. The second element was... if you just look at the size and the scheduling of these builds, I think in the future we would stagger these a little differently than we currently did. So, permitting has been an issue and staggering and making sure that we deliver these data centres in a quality fashion. As far as the first question...

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**Josh Joshi** – *Interxion – CFO*

Thanks, David, and thanks, Chris, for the question. I think that there are two principal components of our confidence. One is, you know... as David mentioned, in the second quarter we've had a very strong installation in terms of revenue-generating space and the other component is... with bookings, does, you know... a book-to-bill ratio with bookings being installed over the third and fourth quarters... so, you know, we're continuing to progress and we continue to affirm our guidance out there.

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**Chris**

Thank you.

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**Operator**

Your next question comes from the line of David Barden from Bank of America. Please go ahead.

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**Steven**

Hey, guys. Thanks for taking the question. This is Steven [unclear] standing in for David. So, I guess we've seen both Telecity and Equinix making some smaller tuck-in type acquisitions in certain specific markets in Europe. So, I guess, first, have you seen any change in the competitive market either on the pricing side or on supply as a result of kind of this ongoing consolidation? Then, second, are there any kind of tuck-in acquisition-type opportunities out there that you're currently looking at and is that kind of the strategy that you would use to enter a new market? Thanks.

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**Josh Joshi** – *Interxion – CFO*

I don't believe that we've seen any difference in the pricing as a result of these. They seem to be... I can't speak, you know, a detail for our competitors, but they seem to be consistent with their plans. As far as us, we are not averse to M&A. As a matter of fact, we are very much in the flow of what's going on here and we're continually evaluating the ones that might be relevant to us. If we can find the right product at the right cost, we'll do it. To date, we just haven't found anything that delivers the right strategic fit, the value, and the returns that we're looking for.

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**Steven**

That's it. Thank you.

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**Operator**

Your next question comes from the line of Jonathan Atkin from RBC Capital Markets. Please go ahead.

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**Jonathan Atkin**

Yes. Thanks for taking the question. I was interested in maybe drawing down on the non-recurring revenues and... what was the nature of it? Was it installation-related or other? I'm just trying to understand to what extent that might be a forward indicator of a growing MRR? Then, on slide six, I just wondered if there's particular cities where you're seeing more strengths, you know, among financials and perhaps others where you're seeing more strength in enterprise or digital media [unclear] services? If you maybe provide a little bit of geographic colour... thanks.

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**Josh Joshi** – *Interxion – CFO*

Jon, it's Josh. Thanks for the question. I'll take the first one and then hand over to David for the second part. You know, the non-recurring was from, you know, significant customer installations as I said before, you know, and the kind of revenues... the kind of services that we provide are in the line of cabinets, cabling, security services... so, that's the kind of nature of the revenues and, you know, we've had a significant installation. So, I think that what it shows as we step into the third quarter and fourth quarter... we've got a number of expansions coming online as David talked about and we've got Amsterdam coming online in the final... in the fourth quarter. So, I think the progression is certainly... as I said all along, the revenue progression is certainly second-half-loaded and probably again loaded towards the back end as well.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

Jonathan, on your other question, just a little bit of colour; not too much, but... I think most people realise that both Frankfurt and London are in a position from a financial services standpoint to garner some growth. Most people talk about the fact that Amsterdam is very good because of the networks that coalesce here. It is very good for the cloud providers and we've also seen in London as well the digital media and I think Paris has [is?] predominantly dominated by the large or medium-size French nationals as they migrate and take advantage of the value of outsourcing. So...

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**Jonathan Atkin**

Thank you. Then, also, I wondered... the macroeconomic pressures that you referenced... is that being felt to a greater degree in certain verticals than in others? Maybe a little bit more colour around that... then, on churn, you mentioned kind of the regular... the 0.5% rate. Is the churn index more towards particular markets?

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

The first question... you know, it is difficult on a quarter-by-quarter basis to answer the question. A better example would be the financial services which for a number of years were extremely hot both in the US and Europe as deregulation happened and... then, as all of the banks were scrambling to recapitalise themselves, they chose to retrench. The US banks appear to have recapitalised themselves a little quicker than the European banks and so one of the things that has happened over the last there or four quarters is that the financial services area has picked up again as these capitals deploy the gap [?] [unclear]. So, that's about as much colour and... again, on the digital media and the cloud, it's more a matter of people getting prepared and focusing on the large population centres, but as we've indicated, we believe that this will all... these will roll out to all of the areas that we currently provide service in. It's just on a delayed basis compared to the bigger population centres. Josh, do you want to comment on the churn?

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**Josh Joshi** – *Interxion – CFO*

Sure. I think that as far as sort of churn across segments... I don't see any particular trends there. I think for the first sort of couple of quarters, Jon, you've seen a little bit more churn in the rest-of-Europe segment than perhaps in the big four segment. I wouldn't say it was that marked, but it's there. So, I think, you know, that's the perspective.

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**Jonathan Atkin**

Finally, I just wondered if there's anything surprising you're seeing or anything in the comp [?] position of your sales pipeline for the recently opened London and Paris expansions.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

No. I don't think there's anything surprising in there. That's... no real surprises.

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**Jonathan Atkin**

Thank you.

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**Operator**

Your next question comes from the line of Gray Powell from Wells Fargo. Please go ahead.

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**Gray Powell**

Hi. Thanks for taking the question. I just had a couple. So, you obviously saw a good uptick in demand from cloud and managed service providers to 18% of recurring revenue this quarter. Just how should we think about that trend going forward? Then, as sort of a follow-on, as you build up that density of cloud customers, would you expect it to have any pull-through to enterprise customers looking to deploy hybrid solutions?

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

I should have asked you the question because you just basically... absolutely. You know, the world has understood the fundamental driver in terms of why they want to get to the cloud and I don't need to repeat all that. The real issue is, how are they going to get there and how long is it going to take them? It looks to be approximately a four-step approach, which is, back office virtualisation on premise, back office virtualisation off premise, desktop virtualisation off premise, and then a restructuring of the business processes. Again, it's a question of how they get there and what time they take. So, one of the things that we're definitely seeing and you're seeing this more in the US is... there's quite a few companies that have sprung up that are now selling transition software; that are selling switching virtualisation products. You see that VMware just bought one of the hot market... one of the hot people in that space as they all look in terms of how they're going to seamlessly transition many of these in-house closed systems to this general purpose, off-premise situation where they can take the benefit and get the benefit instead of mashing this stuff up and restructuring these things to get the productivity and the value creation they're looking for. So, that's a long-winded answer to the question you asked, but I think you have a sense of what it's going to do. So, if we get these front ends to these cloud providers there, they are the magnets that will draw other people to sit around them as people look to pick best of breed and a combination of various applications to meet their needs both public, private, and hybrid.

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**Gray Powell**

Got it. Thank you very much. That is very helpful.

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**Josh Joshi** – *Interxion – CFO*

Thanks, Gray.

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**Operator**

Your next question comes from Maurice Patrick from Barclays. [Overtalking]

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**Maurice Patrick**

Hi, guys. Yes. Maurice here. A couple of questions... the first one is... you made reference to the US partner channels. You obviously said it was quite hard to quantify, but I'd love it if you could give some more colour around the benefits of providing closing deals to give it a sense of the impact that's having on business. The second question relates to balance sheet. Josh, you made reference to the extended credit facility, the [unclear] leverage... you clearly are in a position – if you want to – to use the balance sheets more aggressively, whether it's organic or inorganic. I would love to get your view in terms of how you see that going forwards. Obviously, you said you'll buy things if they're there, but what's your desire to use that balance sheet more aggressively. Thanks very much indeed.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

Maurice, I will attempt to answer the first one. It is very difficult to quantify, but there have been a number of instances where the... some of these service providers, digital media providers from the US who are coming to Europe and are doing a best-in-breed performance evaluation, but since we do not... they know who we are and they put us into the RFI-RFP process, but since they have no history necessarily with us providing them service, we don't have the same advantage that maybe someone else does. So, it's very helpful if it turns out that some of these people are already in the data centres of some of our partners where the partners can stand up and help endorse our quality of service, our philosophy, our culture, and things like that. So, I can't say that without their help, we wouldn't have closed some of these deals, but I certainly appreciate having them sitting around the table when we're talking to these people? All right?

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**Maurice Patrick**

Got it.

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**Josh Joshi** – *Interxion – CFO*

Maurice, it's Josh. Thanks for your question. Look; you know, the first thing I'll say is that we have a very conservative approach. We are cautious and measured about the way we choose to use our capital. We're running, you know, a fully funded plan and, you know, as David said, we're always in the flow of various types of activity out there and we have also a lot of development plans in terms of organic development plans, in terms of data centre developments over several years, you know... so, we have a lot of capacity in the balance sheet and we will be measured and careful about how we deploy that capacity going forward. You know, a question that I've had asked on a number of occasions is, you know, what kind of leverage ratio do we work with and what sort of approach we have to this? In summary, you know, our approach is to be conservative, but we'll look at every opportunity that comes our way.

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**Maurice Patrick**

Great. On the staggering points you made earlier, I mean, is that effectively what you're... effectively, the point you're making is that building out a huge amount of space all at once is just more problematic than you thought it was and therefore a more staged approach is what you'll do going forward. Is that the message you're trying to give?

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

Maurice, it turns out... look; you always stagger these big deals. It just generates better return on your vested capital, whether it be on a space standpoint... we talked many times in the past where... even though people take space on day one, they certainly don't take the power on day one and so we always try to phase certainly the power and certainly the space. This one was simply a matter of... you know we're building three large data centres. We've had a lot of projects going on. I would have simply looked to stagger the resources in a little different fashion than we have in the past. Again, part of this was complicated a little bit by – in one particular situation – people wanting access to space faster than we had planned for. So...

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**Maurice Patrick**

Got it. That made perfect sense. Thank you, guys.

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**Operator**

Your next question comes from the line of Milan Radia from Jefferies. Please go ahead.

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**Milan Radia**

Thanks very much. Just actually following on partly from those comments, I think, as you look into 2013 and your capex plans there, does the kind of hiatus or reshuffling that's been going on in 2012 dilute your desire to kind of spend the same kind of amount next year as you have done this year? I know you haven't necessarily provided guidance on that yet, but I guess that's been our working assumption. Or should we just assume that all plans are kind of unchanged in that regard?

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**Josh Joshi** – *Interxion – CFO*

I think... you're right. We've not provided guidance for 2013 and one of the things we've always said is that, you know, as we continue to see opportunities to get the returns on investment and targeted IRRs, then we will continue to invest and, you know, that philosophy and approach has not changed and, you know, we continue as planned and we're on track.

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**Milan Radia**

[Overtalking] Sorry. Carry on. Please carry on.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

One of the things is that as you develop these relationships with these magnet customers and they take you into their confidence, you also see that they're struggling with some of the uncertainties that are around today, whether it be political or financial. So, you have to be nimble and you have to be responsive and when their plans change and some of these larger corporations... you would be amazed at how quickly they can change. You have to respond to it. So, this has been a little hiccup, but I think if we talk about this two years from now when we look at the scheme of things... this should all be forgotten and it will be aggravating for us and annoying for you, but it won't have an impact on the business.

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**Milan Radia**

Great. The second question I had was just around thinking about the phasing of the openings. I guess a little bit more has been pushed into Q3 now and just thinking about the expansion drag...

I guess presumably there was less of an expansion drag impact in Q2. So, if I look at the kind of adjusted EBITDA margin estimates that were there in the consensus for Q3, should there be a greater assumption of expansion drag beyond that now for Q3 as you kind of get a little bit more open in that period?

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**Josh Joshi** – *Interxion – CFO*

Look; there are a number of different factors involved here, but, you know, as I said in the prepared remarks, I think that the EBITDA margins ought to be, you know, flat, slightly up in Q3, and then continue to move up meaningfully in Q4. That's partly due to expansion drag and other components as well. Also, be mindful, Milan, as you're thinking about this that, you know, we've had a strong non-recurring revenue quarter and it's non-recurring revenue. So, as you get into the next quarter, don't just simply expect that non-recurring revenue to repeat itself.

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**Milan Radia**

Perfect. Thank you.

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**Operator**

Your next question comes from the line of Tim Horan from Oppenheimer. Please go ahead.

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**Tim Horan**

Thanks, guys. Dave, maybe can you talk about what the right level of expansions are going forward? I mean, maybe what you have in terms of capacity and what you think in terms of demand... maybe the same thing for utilisation. Where would you like to see the utilisation at a couple of years from now? Then, lastly, do you think at this point that you're gaining share or losing share or, you know, where are you – do you think – in the whole share mix? Thanks.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

I think this one is better... I'll give you my impression and Josh can give you his. I think... one of the reasons [sic] we've been asked is, why are your utilisations a little bit lower than your competitors or appear to be lower? There's a definitional issue here, there's a historical issue, there's an access to capital, and there's a product mix. So, quite honestly, we'd all like to see utilisations up at 90%, but it's not going to happen. I think that our goal would be to get our utilisations up to the levels that the others are and it's approximately 75% to 80% and that's what we're shooting for. It may take us a while to get there. Again, it's relatively easy if you've designed the right kind of data centres from day one if you had the right kind of capital. Also, if you have smaller customers in terms of footprint, it's easier to stuff them in there. So, we do have a product mix issue and that directly impacts the utilisation.

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**Josh Joshi** – *Interxion – CFO*

Yes. David, I mean, I would agree with that in principle and a number of our data centres... many of our data centres – 19 at the last count – are there. They can run at 85% utilisation. The... I think the... you know, you asked a question about market share. The one thing that I would say is that what... when people make comparisons with us and with our peer group, the first thing that I would say is that we're all doing fantastically well. This sector is growing tremendously well, but our focus to date has been on delivery on an organic basis and making comparisons, you know... I would want to make sure that comparisons are made on a like-for-like basis and on that basis I think that, you know, we hold our own. In a number of areas we actually do better. So, we're very satisfied with where we are at the moment.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

No. That's very good and I would add a little bit to that. When you talk about market share, you have to be careful. What market segment are you really focused on? So, unfortunately, today there is not enough information – probably because the numbers are relatively small – for you guys to figure out precisely what's going on, but, you know, getting a back office application and getting a front end to a cloud provider long-term do not have the same value creation potential although they show up if they're the same footprint. They show up with the same revenue-generating square metres and may eventually even show up with the same RPU, but one will attract far more than the other. So...

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**Tim Horan**

Those were both very helpful. Dave, given all the construction challenges, what do you think is about the right capacity in terms of square metres or dollars spent, you know, kind of going forward?

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

I think what we'll do is... we told you what we're going to spend this year and when the time is right we'll tell you what we're going to spend next year.

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**Tim Horan**

Thank you.

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**Operator**

Your next question comes from the line of Jonathan Schildkraut from Evercore Partners. Please go ahead.

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**Robert Gutman**

Hi. This is Robert Gutman for Jonathan Schildkraut. Thanks for taking the question, guys. You did a great job adding revenue-generating space during the quarter and MRR – I guess – was a little bit lower, which makes sense in the context of rapid expansion. It sounds like you expect to continue to add a significant amount of space in the second half of the year. How do you see MRR playing out in that context?

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

Josh will answer that, but I appreciate the compliment by saying we did a great job. I think we did a good job.

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**Josh Joshi** – *Interxion – CFO*

So, I will... it's a good question on RPU. You know, as we've installed... there are a number of different components impacting RPUs and one is obviously the space revenue. The other is that it takes time for the power component, whether it's the capacity on day one and they'll grow that over time or indeed the energy usage, which grows over time. So, initial RPUs on opening of incremental customers and incremental installations tend to be lower than in more mature data centres. The net net [sic] of all of that is, you know, a little bit of pressure on RPUs in the short term, but I think that that's just, you know, the whole concept of expansion drag.

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**Robert Gutman**

Thank you, guys.

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**Operator**

As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. Your next question comes from the line of Jonathan Imlah from Canaccord. Please go ahead.

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**Jonathan Imlah**

Hi. Two questions, please. Firstly, could you talk a bit about the discrepancy in pricing between the big four and the rest of Europe given the slightly different competitive landscape in some of the Western European markets? Secondly, there's been talk of the Olympics media centre in London being turned into a data centre after the Games are finished. Firstly, do you have any plans to be involved in that? Secondly, if and when it does happen, do you think there will be any impact on pricing in the London market? Thank you.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

You know, pricing... actually, there... in many cases there is not a different... there's not a... the real issue is the margin difference and if you look at what we've done in the rest of Europe and we've done in the big four, you can see that the margins are pretty equal. So, it's very difficult to look at different pricing standpoints because there's a different customer mix. So... but again, we publish enough of the results that you can see the margins are pretty much the same; the adjusted EBITDA margins. As far as... there are a lot of thoughts about what's going to happen to that area and we have certainly talked to quite a few people who have asked us to be involved in that and I don't believe at the present time that it's been settled. By the way, I know this is very hard to believe, but not everybody wants a data centre taking up prime real estate because it generates no foot traffic. It's all this dark stuff. It consumes all kinds of power, diverts it, and doesn't generate all the residual benefits that they're looking to do so. The city has got a lot to do before they figure this out, but I can tell you there are a number of people sitting around the table here who are actively involved in talking with the City of London about what they're going to do. By the way, just as a segue, I want to compliment the city of London. I think you know that there was a little report about us about two or three months ago about how we were going to sleep in pods in order to keep our data centre open. We had two reports in the last six months. One was about CNN doing something, which went... people were really impressed and just to show the times, the one about pods went viral. So, we got more press out of people living potentially in pods than we did about people... how qualified we were to run a data centre, but that's where we are. They've done a great job. We haven't seen any real problems in getting to work. We haven't seen any real problems in any unruliness. It appears to have been a really... so far, a really good Olympics. Great to the city...

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**Jonathan Imlah**

So far [unclear] a few days left, but so far, so good. Thank you.

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**Operator**

Thank you. Your last question comes from Michael Bowen from Pacific Crest. Please go ahead.

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**Michael Bowen**

Thanks for taking the question. Good morning. Dave, I was wondering if you could give us an idea of how you look at buying land underneath the data centres. I think you had bought land under Paris 5 and a few other ones. Then, secondly, I may have missed this, but can you... I guess, Josh, can you let us know... how do you think about the correct leverage ratio? You know, leverage ratio went up compared to the end of the year of 2011. So, if you could give us some thoughts on that, that would be great. Thanks.

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**David Ruberg** – *Interxion – Vice-Chairman and CEO*

One of the things we try not... we don't... we're always returned. We're always focused on our return on domestic capital and we told many times to people that we're looking for IRRs that are in the 30-plus range and most people in real estate realise that if you buy buildings, those IRRs are very attractive, but not in that range. So, what we have done, though, when presented with an opportunity... if we can find a piece of land that we can buy on a very cost-effective basis and that land is a minimal portion of the overall cost of the building, it seems like a very wise thing for us to do that and we have been very fortunate that we've done that with Paris 3, Paris 5... we have an option with Paris 7 and we have bought Amsterdam 6. So, I give Josh and the guys credit for very astutely using the balance sheet. One of the side benefits of that is... if someday we ever chose to be a REET [?], this would facilitate that because I think most of you now know what it takes to... the type of revenue that qualifies for REET status.

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**Josh Joshi** – *Interxion – CFO*

And in terms of the leverage question, you refer to net leverage, which is 1.7 at the end of June 2012 and, you know, I think from a net leverage perspective in anybody's book that's a great number. I tend to focus, Mike, on gross leverage because obviously when we take the debt, we plan to use the cash for something and not have it sitting on our balance sheet and our gross leverage ratio in fact ticked down slightly from 2.7 at the end of the year down to 2.4. So, like I said earlier on, you know, we have a very attractive balance sheet. I think we have a lot of dry powder and I think that we have the... we choose to be cautious about how we deploy, you know, whether it's for the purchase of land or anything else.

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**Michael Bowen**

Thank you very much.

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**Operator**

Thank you. There are no further questions from the phone lines. Please continue, Mr.

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**Jim Huseby** – *Interxion – Vice-President of Investor Relations*

Well, thank you, everybody, for joining us on our second quarter conference call. We look forward to seeing everybody out on the road and we'll have our next conference call sometime in early November. Thank you for joining us.

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**Operator**

This concludes our conference for today. Thank you all for participating. You may now disconnect.