INTERXION

Moderator: Jim Huseby
August 6, 2014
13:30 BST

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Interxion second-quarter 2014 conference 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 would like to ask a question, please press star one on your telephone keypad.

I must advise you this call is being recorded today, on Wednesday the 6th of August 2014.

I would now like to hand over to your first speaker, Mr. Jim Huseby, Vice President of Investor Relations. Please go ahead.

Jim Huseby: Thank you, Sophie. Hello, everybody, and welcome to Interxion's second-quarter 2014 earnings 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 in the investor relations page of our Web site at www.investors.interxion.com. We encourage you to download these slides for 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 risks that we identified in today's press release and those identified in our filings with the SEC. We assume no obligation and do not 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 measures in today's press release which is posted on our investor relations page at www.investors.interxion.com.

We'd also like to remind you that we post important information about Interxion on our Web site at www.interxion.com and we encourage you to check our Web site for the most current available information. We also post information on social media sites such as Facebook at www.facebook.com/interxion and Twitter at @interxion. We encourage you to follow us on these sites, as well.

As usual, we will follow – following our prepared remarks, we will be taking questions. And now I'm pleased to hand the call over to Interxion's CEO, David Ruberg. David?

David Ruberg: Thank you, Jim, and welcome to everyone to our earnings call for Q2 2014. Please turn to slide 4 of the presentation. Interxion produced another quarter of solid results based on a strong operational progress and consistent execution. Financial and operating results in the second quarter continued to improve as we saw an increase in revenue growth, and a continuation of the strong bookings momentum that we saw at the end of 2013 and in the first quarter of this year.

Our revenue growth, while organic, was up 9 percent year over year and 4 percent sequentially. Adjusted EBITDA grew slightly faster than revenue at 10 percent year over year and 4 percent sequentially. Adjusted EBITDA margin was 42.9 percent, which is consistent with last quarter and slightly ahead of second quarter 2013.

During the second quarter, we completed expansion projects in four different markets totaling 3100 square meters of new equipped space. Most notable were the openings of the second phase of Amsterdam's 7 and the first two phases of Frankfurt 8. We also installed nearly that same amount of space in the quarter, which resulted in space utilization ticking up slightly higher to 75 percent. Our customer count exceeded 1500 at the quarters' end.

Demand remains healthy as the bookings momentum that I mentioned on our last couple of calls continued through the second quarter. We experienced solid bookings from across our customer segments and we saw strength on a geographic basis from Frankfurt and Amsterdam, as well as Vienna, Stockholm and Zurich.

Yesterday, we announced our expansion into Marseille by the purchase of the SFR Netcenter data centre facilities. Marseille is a key gateway connectivity hub for accessing and connecting Africa and Asia with Europe. It represents an exciting opportunity for Interxion to develop a robust connectivity cloud and content hub for companies seeking to access these market. I'll discuss the Marseille purchase in more detail later in my remarks.

Please turn to slide 5. Josh will review the financial results in more detail in a few minutes, but I would like to highlight that revenue in the second quarter was nearly E.U.R84 million, up 4 percent sequentially, which is our fastest sequential growth rate since the fourth quarter of 2011. I believe that this demonstrates the increasing momentum that we are experiencing and supports our comfort with achieving our guidance for 2014 and our confidence that we will continue executing well in next year as we take advantage of the market trends we have been describing for the last few quarters.

Please turn to slide 6. The second quarter was again solid from an operational perspective. We ended the second quarter with 86,000 square meters of equipped space, up 9 percent year over year, and over 64,000 square meters of revenue-generating space, which is up 10.5 percent year over year.

You should note that in the first half of 2014, we installed about the same amount of equipped space and 30 percent more revenue-generating space than we installed during all of 2013. As a result, our space utilization rate ended the first half at 75 percent. And we expect that this utilization rate will increase further by year end as we continue to install space for which our customers have largely already contracted.

Other important metrics of the business are, our sales pipeline remains healthy. As previously stated, bookings remained strong during the quarter. Pricing continues to be in line and basically unchanged with the last few quarters. Book-to-bill times are basically unchanged. ARPU remained firm. And churn remains low and consistent with our historical range of between 0.5 percent and 0.75 percent per month on average.

Please turn to slide 7. During the second quarter, we added 1800 square meters in Frankfurt 8 and 1000 square meters in Amsterdam 7. We were able to advance the opening dates of half of the new space in Frankfurt and all of the space added in Amsterdam to meet customer requirements. We also opened small expansions in London and Zurich. And the rest of our expansion schedule is on track. We ended the quarter with approximately 90 megawatts of customer available power and a total of 139 million megawatts of available customer power within our current and announced data centers, excluding Marseille.

Please turn to slide 8. Our communities of interest continue to develop with demand from across the segments. However, the managed service provider segment is leading the way. This segment is now about one quarter of the business, up from 16 percent in the fourth quarter of 2011. During those 2.5 years, revenue from managed service providers has more than doubled.

This segment, combined with certain network providers and systems integrators that we group together as cloud platform providers, continue to deploy the necessary infrastructure and applications to facilitate the enterprise cloud migration that we see coming. With that, I'd like to turn it over to Josh.

Josh Joshi: Great. Thank you, David, and welcome to everybody on the phone and online. As usual, I'll start by discussing the group results and provide some additional color on our two geographic segments, followed by discussion of our capital expenditure and the balance sheet.

Please would you turn to slide 10. Interxion delivered another solid quarter of execution and disciplined expansion. During the quarter, we saw increased growth in recurring revenue and adjusted EBITDA. Total revenue in the second quarter was E.U.R83.6 million, up 9 percent compared to the second quarter last year and up a strong 4 percent sequentially. On a constant currency basis, total revenue was also up 9 percent year over year and 4 percent sequentially.

Recurring revenue made up 94 percent of our total revenue for the quarter, at E.U.R78.7 million, up 9 percent from last year's second quarter and again up a strong 4 percent sequentially. Nonrecurring revenue was E.U.R4.9 million, in line with our expectations, 13 percent ahead of last year and 4 percent up from the first quarter 2014.

Recurring monthly ARPUs on a per square meter basis were again essentially flat, sequentially. As we've discussed before, there are a number of factors in addition to pricing that contribute to development of recurring ARPUs overtime with the customer uptake of energy having a meaningful impact in ARPU growth, as well as geographic mix and deal size. Now as we look forward, I would expect recurring ARPUs to trend down over the remaining course of the year by around 2 percent to 3 percent cumulatively by the end of the year, predominantly driven by new space coming online and mix. We talked about this on our last earnings call and, indeed, this is fully factored into our guidance for the year.

Cost of sales in the second quarter was E.U.R34 million, up 9 percent over the same quarter last year and up 4 percent sequentially. Gross profit was E.U.R49.6 million, an increase of 10 percent year over year and 3 percent sequentially. Gross margins in the second quarter increased to 59.4 percent year over year, but decreased slightly from the previous quarter, do in part to expansion drag from Frankfurt 8 and Amsterdam 7.

Sales and marketing costs were E.U.R6.2 million in the quarter, up 6 percent sequentially and driven by increased sales commission expense. Sales and marketing costs for the second quarter were 7.4 percent of total revenues, within our usual 7 percent to 8 percent range.

Other G&A costs, at E.U.R7.6 million were down slightly sequentially but increased 8 percent year over year. At the level of 9 percent of revenue, other

G&A costs were at the bottom end of our typical range of 9 percent to 10 percent of revenue and reflected continued strong cost management across the group.

Adjusted EBITDA was E.U.R35.9 million, an increase of 10 percent year over year and 4 percent sequentially. Adjusted EBITDA margin in the second quarter was up 10 basis points year over year. Sequentially, adjusted EBITDA margins were essentially unchanged.

Depreciation, amortization and impairments were E.U.R14.9 million, a 6 percent sequential increase and flat year over year. The movement in D&A expense is tracking on gross investment in DCs reasonably well, but you may recall that in the fourth quarter of 2013, we reassessed the useful lives of certain data centre assets and this will affect the year-over-year comparison both this quarter and the next.

We've booked E.U.R7.5 million of net finance expense in the second quarter, higher both sequentially and year over year. The sequential increase is largely the result of interest on the additional E.U.R150 million bonds that we issued at the end of April, and also a E.U.R0.6 million write-off of deferred financing fees related to the interim E.U.R100 million secured senior facility that we canceled when we closed the bond tap financing.

We booked income tax expense of E.U.R3.9 million in the second quarter, resulting in an effective book tax rate of 32 percent, which is similar to the same period last year and up from the 29 percent in the previous quarter, primarily as a result of the increase in non-deductible cost of share-based payments in the second quarter. We expect the effective book tax rate for the full year to remain within the 30 percent to 32 percent range. On an LTM basis, the adjusted cash tax rate is approximately 15 percent and we'd expect our full-year cash tax rate to be in the same area.

Reported net profit for the second quarter was E.U.R8.3 million, 26 percent higher than last year's second quarter and a 20 percent decrease over the first quarter of 2014. The sequential decrease is driven by the increased finance charges from the additional bond financing and indeed increased the cost of share-based payments this quarter.

Adjusted diluted earnings per share during the quarter were E.U.R0.11 on the basis of 69.8 million diluted shares compared to E.U.R0.09 in the second quarter last year and E.U.R0.14 last quarter.

Now let's take a closer look at our geographic segments. Please turn to slide 11. Revenue in the big four was E.U.R52.2 million, up 8 percent year over year and 3 percent sequentially and accounted for 62 percent of the Company's quarterly total. Recurring revenue growth was 9 percent year over year and a strong 4 percent sequentially. We saw strong year-over-year growth in Germany and the Netherlands. Adjusted EBITDA in the big four was E.U.R27.9 million, with margins of 53.4 percent, down 60 basis points from the second quarter 2013 and down 40 basis points from last quarter, due to expansion drag and increased sales commissions. Demand continues to be healthy in the big four markets.

Revenue in the rest of Europe was E.U.R31.4 million, up 11 percent year over year and very strong – and a very strong 5 percent sequentially. As in the big four, recurring revenue growth was 9 percent year over year and 4 percent sequentially. Adjusted EBITDA was E.U.R16.6 million, with margins of 52.9 percent improving year over year and remaining flat sequentially.

Certain markets in the rest of Europe continue to show strength. Sweden remain strong and Austria saw solid revenue growth in the quarter, as it successfully positions itself as a cloud gateway to Eastern Europe. Ireland and Switzerland both had strong quarters and we continue to invest selectively within our rest of Europe markets based on customer demand. Adjusted EBITDA margins in the rest of Europe were again strong in the second quarter 2014.

Moving to slide 12, I'll discuss our capital expenditures. Capital expenditures including intangibles as seen on the left-hand chart totaled E.U.R54.4 million during the second quarter, with E.U.R51 million of that devoted to expansion capital and E.U.R3.4 million to other CapEx including maintenance CapEx.

We have made demand-driven investments across our footprint, with 65 percent of this quarter's capital expenditures going to the big four markets and 32 percent to the rest of Europe. The heaviest spending was in Amsterdam, Frankfurt and Vienna, where we're adding new capacity.

Our capital expenditures continued to be a significantly backed by contracted orders from customers. Looking forward to the year as a whole, we've increased our CapEx guidance to a range of E.U.R200 million to E.U.R230 million and now incorporates the purchase and related build outs of our Marseille investment, which was not previously included in our CapEx guidance.

Please turn to slide 13, where I'd like to discuss our balance sheet. Cash and cash equivalents were E.U.R151.9 million at the end of the second quarter, up from E.U.R45.7 million at the year end. On the 29 of April we closed E.U.R150 million bonds tap of our 6 percent due 2020 bonds at a price of 106.75 and an effective yield of 4.7 percent. We also completed a E.U.R9.2million, 15-year mortgage financing at 2 percent above E.U.RIBOR on our Brussels data centre property which we acquired in early January 2014.

The overall pro forma blended cost of debt for the Company in the quarter was 5.9 percent, a reduction of almost 4 whole percentage points within the last year. During the second quarter, Interxion generated E.U.R26.9 million from operations, and utilized E.U.R54.4 million for capital expenditures. We have repaid the E.U.R30 million that we had drawn under E.U.R100 million revolving credit facility and which now remains undrawn. Working capital increased by E.U.R8.1 million in the quarter. As I've mentioned on previous calls, working capital is lumpy, though it's worth pointing out that we did see an increase in accounts receivable in the quarter. We expect that the working capital impact of this to reverse and it's not a trend.

At June30, our gross leverage ratio was 3.8 times while net leverage was 2.7 times. We remain well capitalized, fully funded with strong credit metrics. No near-term maturities with plenty of headroom and a much lower cost of capital than a year ago.

Please turn to slide 14. Now this familiar chart looks at all our data centers in operation as at the end of 2010 and shows their performance in the last 12-month period. And that's all 28 data centers, which are over three years old across our entire footprint, no cherry picking. They delivered LTM cash returns of 28 percent. Our approach remains focused and consistent to identify opportunities to secure attractive long-term returns in a disciplined, measured manner. And with that, I'd like to turn the call back over to David. David?

David Ruberg: Thank you, Josh. Please turn to slide 16. This slide, which we have referred to many times before, is an illustration of our view of the potential cloud adoption curves both in United States and Europe. Our view is based and derived from market observations, discussions with our customers, discussions with our customers' customers and from our U.S. channel partners.

The market continues to evolve along the path and time frames that we have discussed on previous conference calls. Everything continues to track to a pick up in usage and deployment by European enterprises during the second half of 2015. In essence, nothing has changed in this slide from the prior quarter except that we're now seeing it happen.

Please turn to slide 17. We're also seeing increasing evidence that the hybrid cloud solution will be the preferred way for enterprises to deploy portions of their applications in the cloud. Some applications may remain in the enterprises' own facilities, but those mission-critical applications that require faster response times and/or reduced latency, or are bursty or have high communications cost may be moved into a carrier-neutral colocation data centre on dedicated equipment.

And we estimate that about 10 percent of all enterprise applications fall into this category. We believe that those users will be willing to pay a premium to secure the performance and flexibility that comes from locating their servers in an Interxion cloud hub where private and public cloud infrastructures can colocate and cross connect to the right counter parties. And we believe that this Interxion cloud hubs will drive significant value and competitive advantage for our enterprise customers.

Please turn to slide 18. Our move into Marseille represents the first new market for Interxion in quite some time. Marseille was the right deal for us at the right time, based on several important attributes. Consistency with our overall market strategy, growth potential, connectivity, interest of our current customers and investment return profile. As a significant gateway between Europe, Africa and Asia, Marseille puts Interxion's customers in a position to benefit from the expected rapid growth in Internet traffic flowing between these regions.

As an example, over the last four years, Marseille's international Internet traffic has more than doubled every year on average, and thereby growing faster than any other major European market. We expect this growth to continue and to drive further development of Marseille as a connectivity hub.

In addition, based on our customers' strong interest, we expect to attract the magnetic customers that will allow Interxion to build the communities of interest and turn Marseille into a leading content and cloud hub as ISPs, CDNs, social media and cloud providers seek secure access to the growing GDP and demand for Internet access in the regions served by these networks. The Marseille site boasts significantly existing connectivity and we expect this to grow over time.

The site has the advantage of access to the aggregation point of eight undersea cables from Africa, the Middle East and Asia that terminate there. These existing eight cables have a total capacity of 7.5 terabits of (lit) capacity and even before we recognize that two more cables are going to be added in 2015 and 2016, making Marseille one of the highest capacity landing points on the European mainland.

This facility is further served by high-quality terrestrial fibre links allowing for efficient high-capacity distribution into mainland Europe. Based on these attributes, this facility already serves as a transit and caching node for more than 60 network dividers seeking to take advantage of this transit capacity.

Finally, we believe that this site will generate very attractive returns for our shareholders.

We have been able to secure the land, the buildings, and data centre infrastructure, plus build out the first 1000 square meters for E.U.R20 million. We expect to be able to bid out the full 5700 square meters providing at least six plus megawatts of IT power over the next several years, for a total of E.U.R45 million, including the initial purchase. Marseille continues the strategy of organically developing our data centers, while opportunistically buying the land and buildings that support them.

In this case, the strategy is enhanced by allowing us to hit the ground running within the existing community of network providers at high levels of connectivity in place that will accelerate the development of our communities of interest. We expect we will generate IRRs in excess of 30 percent on this investment.

Please turn to slide 19. We are reaffirming our existing full-year revenue and EBITDA guidance and revising upward our capital expenditure guidance, principally to reflect the impact of the Marseille transaction. To be specific, for the full year 2014, we are expecting revenue to be in the range of E.U.R334 million to E.U.R344 million. Adjusted EBITDA to be in the range of E.U.R145 million to E.U.R152 million. And capital expenditures of between E.U.R200 million and E.U.R230 million, again, to support our order driven expansion projects and our entry into Marseille.

I would like to thank, again, all of our employees and all of our countries for staying focused on our customers, executing against our business plan and continue to deliver solid results. And I would like to thank our shareholders and bondholders for the continued support of Interxion's development. Now let me hand the call back to the Operator to begin the question-and-answer segment. Operator, can you please read out the instructions to register questions from the call.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question today, please press star one on your telephone keypad then wait for your name to be announced. If you wish to cancel your request, please use the hash key. Once again, that is star one if you would like to ask a question. Please stand by as we gather the names for you.

Your first question today comes from the line of Jonathan Schildkraut from Evercore. Please ask your question.

Jonathan Schildkraut: Two questions, if I may. First, wondering a little bit more about the Marseille acquisition. Are there any revenue or EBITDA coming from that acquisition for this year, or some insight into if there was any run rate business there? And then is this an alternative to say the Hispanics interconnection – actually that's in Spain, sorry about that.

The second question just has to do with the pull forwards of the openings in Frankfurt and Amsterdam. I guess that was a little surprising to us in the quarter. And wondering what levers you pulled in order to do that and could we see that type of activity in the back half of the year as you address some of that booked but not billed demand? Thanks.

Josh Joshi: Jonathan, is Josh. Thank you very much for the question regarding Marseille. I think of 2014, the revenue impact is going to be pretty minimal. We've entered into a purchase contract which will close towards the end of August. The price of the property and the initial relationship for the technical facilities, that SFR will operate are – is going to be about E.U.R12 million, we'll provide them with a small service and then over time, that will migrate to us. And so I expect more of an impact as we get into next year and beyond. David, I don't know if you want to add anything.

David Ruberg: Jonathan, did that answer your question?

Jonathan Schildkraut: Yes, that was helpful, thanks.

David Ruberg: All right, on the second question, how did we pull this forward? Look, I think everyone knows we were – we had accelerated plans to do this, but in one particular situation, we were able to work with one of the customers and they were willing to take the space sooner than the full powers that they had initially looked for. So this is – since they wanted the space and they're willing to take less power, we did it and that's also an example demonstrates what we've been talking about for some time, to some of these people want access to the space, they're not going to use the power initially, or all the power initially, that they potentially will because they need to do a pre configuration. So that's what happened. And going forward, I don't see that we have – this is a relatively unique situation in working with them. I don't think you'll see much of that in our additional forecast for delivery. OK?

Jonathan Schildkraut: Thanks, David.

Operator: Your next question today comes from the line of Colby Synesael from Cowen and Co. Please ask your question.

Colby Synesael: Also want to talk about the new facility that you purchased. So going back to your comments around greater than 30 percent IRR and based on what you did provide when we look at it, it looks like you're paying about E.U.R8000 per square meter versus your traditional CapEx around E.U.R15,000 to E.U.R20,000 per square meter. Curious how you're able to get it so cheaply? Is it that that market is just a lower cost of doing business, perhaps, relative to our everything else? Was it tied to maybe SFR doing some form of a fire sale based on what's going on with that company? Trying to get a sense of how you're able to do that and if there's anything worth calling out.

And then the second thing, obviously great revenue growth. Curious what the impact could be on margins near term as we go into the back half of the year, recognizing how much space you're bringing online and what that typically has as it relates to an impact on profitability so we make sure that we model that correctly in the back half of the year, since there's so many moving parts. Thanks.

David Ruberg: Colby, I'm going to take the first question. First of all, I need to let everybody know this is not something that just happened overnight. We have been in discussions with the number of our major customers for a long time. As they have been eyeing the growth in Africa and how could we assist them in servicing that growth. Just like we're working with some of them in terms of how we can assist them in accessing the growth in Eastern Europe.

This company, SFR, is a customer of ours. This is not their primary business. And over the last – we've been working on this for almost a year. And in the process of working with them, an opportunity developed where we could buy these assets and get access to half of the space immediately, approximately and over time, migrate the rest of it to us. And it fit their needs of not being – it demonstrated you can build a great data centre, but it's a lot tougher to operated data centre. And it just fit their needs to exit this and it fit our needs to deal with the growing demand from some of our larger customers. And I won't say it was a match made in heaven, but it's pretty good. Josh?

Josh Joshi: Thanks, David. And Colby, looking at the margins of the second half, effectively if you look at our guidance at the midpoint of our guidance, we are tracking – trying to target an increase in margins for the year at around 100 basis points. We've not changed our margin guidance. And we are still focusing on looking at improving our margins consistently year over year.

Colby Synesael: So obviously if we took the high end of revenue and low end of EBITDA wouldn't necessarily show that. So I guess your point still is that you do expect margins to uptick in the back half of the year?

Josh Joshi: Well I don't want to comment on individual components in individual quarters. But we are looking to increase our margins over time and the guidance at the midpoint is an increase in margins.

Colby Synesael: OK, great. Thank you.

Operator: Your next question today comes from the line of Milan Radia. Please ask your question.

Milan Radia: A couple questions, if I may actually. The first is on pricing. Are there any markets where you've seen any kind of softening in pricing trends in the last, say, six months? And where would you say the spot rate in Europe is versus around two years ago? There's already been some confusion on this aspect as the week has progressed.

And then on acquisitions in general, do think there will be a greater strategic feature going forward? And if so, is the focus on deepening the footprint within your existing countries, or are there any additional locations you might add to that? Thank you.

David Ruberg: I thought you said two questions, all right. On pricing. No, Milan, in the last six months, I think it's pretty consistent. And I think with the demand picking up, that we have seen and the orders, I think pricing has firmed.

From a spot – I don't know spot rates. But, if I look at what's happened over the last 2 years, 24 months, quite honestly Milan, I don't think much has changed. It's all a matter of – it's a matter of value perception. It's a matter of how you build these communities. So it's a matter of selling, it's a matter of consultative selling. I don't see much change.

In terms of going forward, I'm not going to comment. We try to go where the GDP is, all right? And one of the things that I think everybody realizes, that there's a continent in this world where the GDP is growing and the use access to social networks into the content delivery and to digital media and all the rest of these things is taking off. And again, we are – we go where the GDP is and we go where our customers want us to go. And we are able to find a situation that met all of those needs and generate very good returns.

Milan Radia: On that, David, how does the Marseille connectivity hub sit with your relationship with Monaco Telecom? I know they have been pushing forward with some of their submarine cable intentions and you're obviously working with them. Is this completely separate, in essence?

David Ruberg: Milan, I don't know the answer to that question, I'll have to get back to you. But the big difference here for us, is the fact if you look at Marseille, it is a straight shot to Paris. So if you look at where all the cables are, it's very well geographic distributed. It's got the West Coast of Africa, it's got the East Coast of Africa, it's got a straight shot to Paris and it's got Asia coming through it. You couldn't ask for more.

Milan Radia: Got it. Thank you very much.

Operator: Your next question today comes from the line of Gray Powell from Wells Fargo. Please ask your question.

Gray Powell: Actually, I have a few questions, here. Maybe to start off, so the pace of absolute dollar revenue growth has really picked up the last two quarters from the pace of 2013. Given the strength that you're seeing in bookings and the expansion initiatives, is there any reason that pace would slow down in the second half of 2014?

Josh Joshi: Well again, I don't – this is Josh speaking, thanks, Gray, it's a guidance development question. I think what we've really talked about is we've given our guidance for the year – we have seen the good momentum, good trends. One of the things that if you look at the way that the space statistics have now settled out, there isn't actually anything scheduled for expansion into the third quarter. So certainly the way it's currently looking, there are no new expansions scheduled for the third quarter. That, I will anticipate would under normal circumstances have an impact.

And then we've got expansions coming back in in the fourth quarter. And recall what we talked about earlier is what we're trying to do, is to meet the demand and the timing of that demand. And so I think as you think about this, I'd encourage you to think about the way that space is coming on.

Gray Powell: OK, that's really helpful color. And then another question, if I look at the different verticals, it appears that growth in your digital media vertical really had a meaningful uptick. And I know there are some rounding in those statistics that you give on page 8 of the slide deck. But using those percentages, I'm showing revenue growth in the vertical improving to about 20 percent year over year in Q2 from 7 percent in Q1. Is that magnitude jump in the ballpark? And if so, what's driving it and then are you saying demand from Netflix, which I understand is being pretty aggressive in the Europe and their expansion?

Josh Joshi: In terms of the magnitude jump actually it's more consistent with the way our revenues have been growing, it's slightly higher but not the kind of magnitude that you're talking about, to be fair. But we have seen strong performance in the digital media segments and the gaming segments in Sweden which is part of what the strength is there.

Gray Powell: OK. That's all I've got. Thanks.

Operator: Your next question today comes from the line of Tim Horan from Oppenheimer. Please ask your question.

Tim Horan: Two questions, if you don't mind. Josh, is there any way to think about how a more mature customers ARPU are growing at this point, or maybe electronic data usage or some way to think about normalized ARPU? Or how you're thinking about it longer term?

And then maybe one strategic question. Are there many more acquisitions like this you can make? And maybe a bigger picture question, do you think there's much benefit to seeing more consolidation of the data centre players in Europe? Thanks, guys.

Josh Joshi: OK. Let me take the second one, first. Actually, Marseille was not an acquisition in the sense that we purchased the property, a data centre and some office space. And I think as we think about acquisitions going forward, we constantly are looking to assess opportunities that are consistent with our strategy to build long-term value.

And in that sense, Marseille is right down the middle of the fairway. And I think that we're going to continue to do that going forward. And if there's an asset that fits our criteria, then I think that we'll look to do it. This sort of deal 1 in 10 years moving into a new market doesn't really make for a trend. But we're very excited by the opportunity.

In terms of the way that we think about ARPUs, if you look at the 3 year old data centers, ARPUs over the last three years, for those mature customers – and they've been maturing over time, we've seen that growth as being about 11 percent, 12 percent over that three or so year time frame. And so I'd expect that as customers mature, it's that sort of growth that we're looking at over that time scale.

Tim Horan: And are those data centers still growing their ARPU three years later?

Josh Joshi: They are still growing their ARPU, currency permitting. And we would still expect them to grow. Why? Because they are – we would still expect them to increase their energy consumption. And they are not yet fully utilized by a long way. And to a little bit more in terms of increasing in terms of their power of consumption, as well and power access. So both of those, maybe not space, but both of those other components of our revenue stream will drive ARPU growth in the mature data centers.

Tim Horan: Thank you.

Operator: Your next question today comes from the line of David Barden from Bank of America. Please ask your question.

David Barden: Dave, a couple questions for you, if I could. First, I was wondering if you could comment on your reactions to the newly constituted Board of Directors following the letter that came out last quarter from Baker and if you had any new Board meetings? And, if you feel that Baker's issues of addressing strategic value and corporate governance have been addressed? And if there hasn't been a Board meeting, when you expect one will happen?

And then the second question would be, Dave, on slide 16. You've got a dash in this chart that seems to anticipate a revenue growth acceleration related to the cloud contracts that you're signing today around mid 2015. When would you – or when should we start to expect that you would start to sign a contract that would begin to help bend that curve in terms of revenue growth? Obviously, these cloud contracts you signed were long lead time contracts. You got them in the fourth quarter of last year, but I was wondering if you could talk about what the contract and timeline would be for that next phase of growth? Thanks.

David Ruberg: All right. I'm going to address the second question, first. Keep in mind that as Josh just answered, part of this revenue growth is driven by the contracts we already have. So, they've taken the space.

Example, that's why we are able to deal with one – bringing forward one of the developments from Q4 into Q2 because the individual really didn't need the power and energy. So as Josh talked about, more mature, and he's talked about a number of other things, this all fits the profile that the space is already – is going in. So what you will see in 2015, is more space going in and more power and energy being consumed by the space that's already in. So that's where the bend comes from.

Now, what we're also trying to depict on this slide, is when we think enterprises are going to go, which will either come in a hybrid solution or in a cloud – a public cloud solution, which continued to drive it. And you didn't ask me, I'm going to volunteer an input on that. Somewhere in October, one of the companies that has all these customers got serious about this. And they've gotten really serious about this in the last three or four months. And so what you're seeing is their customers taking them at their word that they would prefer people to use their services rather their products, and they're backing that up with some pricing.

And so what we're starting to see, which drives my comment about the second half 2015, is that a lot of these people are really thinking about migrating their internal applications, their office (prime time) applications to the cloud. So, that's what gives us a lot of comfort that this is happening. So did I answer your second question?

David Barden: Second question is taken care of, Dave.

David Ruberg: We had two Board meetings, we're getting to know each other. And if you want to know whether Baker's concerns have been addressed, you have to ask Baker Capital. Guys, they had a right, they exercised the right. This Company and its Board and its Management team has had a long history of delivering shareholder value and that's what we're focused on. And if there's little squabbles here and little squabbles there, it really doesn't matter.

Look at what we've done. Look at what we've done here in the last two quarters and look at what we've done with Marseille and everybody participated in this. The proof is in the pudding, OK?

David Barden: OK, Dave. Thanks.

Operator: Thank you. As a reminder, if anyone would like to ask a question, please press star one on your telephone keypad.

Your next question today comes from the line of Frank Louthan from Raymond James. Please ask your question.

Frank Louthan: Maybe a little bit more color. What sort of things will we have to do to hit the high end of the EBITDA range? Is it more customer driven or cost focus? And then looking at your continued growth for the next 12 months, what is your anticipation of the mix of growth from new logos versus existing customers?

David Ruberg: I'm not sure how Josh is going to answer these questions. But we've talked in the past about three things, IP traffic, economies and adoption. And the one that's lagging right now is the economic situation. And having the UN announce that there are 20,000 Russian troops sitting on the side right next to the Ukraine doesn't help anything. So I can say that if in fact we're seeing the large enterprises, we're seeing the IP traffic. What's missing right now, and I can project this, is for the economies to pick up steam. So I don't know how you want to answer that.

Josh Joshi: I think that that's good background, David and I'd imagine Frank just wants a little bit more color around the numbers, which you may not get, Frank because what our focus is on is we set the guidance at the beginning of the year. And our philosophy is not to change unless we believe that we're going to fall outside of that range. And I think that the business is developing on track. And I think it's setting up as expected. And we've reconfirmed our guidance.

Thinking about the factors which influence us on the up and the down, our churn levels have been pretty consistent. Foreign exchange really hasn't had a meaningful impact to date. But it could do in either direction and has done in the past. And I think the other component is really thinking about the way that Europe sets itself up.

But what I think is interesting, is that we're finding ourselves on track and in a good place in terms of the way the business is setting up for the second half of the year. That's my view.

Frank Louthan: Maybe a little color on what you said about you set it up beginning of the year. Clearly, you had certain expectations. How much of the margin upside ramp there was from seeing the customers ramp and as they take more power and so forth, you see an increase there versus say cost-cutting or operating leverage in the business? How should we think about what your expectations for that mix of the margin expansion?

David Ruberg: Again, I'll answer half that question. The issue we've got with the economic situation the way it is, is usually this dampens the demand for energy and power. So the economies, the economic situation, has just dampened that.

Josh Joshi: I think that's right, David. And thank you, Frank, for reminding me because energy consumption and the way that that develops over the rest of the year is also a key component of how both revenue and margin will develop. Our approach, and it hasn't changed over the last three or so years that we've been public, is to sell up the guidance at the beginning of the year and we – and our goal is to hit the midpoint of that guidance, plus or minus. We're not trying to track it either way and to adjust guidance along the way. And so that's how we are and that's what we're looking to do. And I think that we are in the business of setting itself up in the first half of the year.

Frank Louthan: OK, great. Thank you.

Operator: Your next question today comes from the line of Jonathan Atkin from RBC Capital Markets. Please ask your question.

Jonathan Atkin: I had two questions. So wondering if there's any synergies for your Paris operations in wake of the Marseille announcement in terms of increased demand for that particular market and potentially driving some expansion there behind what you've announced? And then if you could remind us a little bit about the (Perian) situation in France. I think the site you acquired is a host for France IX and on the other hand Perian in France I think has been a little bit more decentralized, no dominant exchange, but perhaps you could update us on that.

And then with regard to the guidance, you gave the full year guide, but if you could maybe give us a sense for rest of Europe versus big four because we saw slightly different sequential trends and margins and I wondered how we can think about that in the back half of the year? Thank you.

David Ruberg: OK, I'll try. All right, the first one, in terms of the pull through from Marseille to Paris, yes. How much? Don't know yet. But there's been conversations.

From the second one, which is France IX, I think over the next six – there is a dominant provider and that is France IX which is in Paris and I believe that you will see the numbers, they're not public, but I think you'll see the numbers over the three to six months begin to expand quite nicely.

Josh Joshi: And Jon, I think that there will be – with Marseille, there will be an opportunity to leverage our operations team in France. They're very expert, they're managing multiple data centers and I think that that's a possibility for us the way that we're thinking about it.

In terms of the way the big four versus rest of Europe, that's not granularity that we typically provide in our guidance. Yes, we have seen the big four mark – sorry, the rest of Europe markets uptick this quarter. And we're feeling positive about that. But again, one quarter doesn't make a trend and we'll continue to monitor that. And our guidance at this moment remains unchanged.

Frank Louthan: Thank you.

Operator: Thank you. As a reminder, that is star one if you would like to ask a question.

Your next question today comes from the line of Michael Bowen from Pacific Crest. Please ask your question.

Michael Bowen: OK, thank you for taking my question. I wanted to circle back around to the guidance. I'd like to understand a little bit better what levers we should be thinking about that gives you the confidence that you're going to be able to hit the midpoint of the range for adjusted EBITDA margin. If I calculate it, that's around 43.8 percent.

And if I look at the trends in the first half, the big four trended down sequentially. Rest of Europe is essentially flat or slightly up. So there's got to be a meaningful uptick if I'm doing my math right to hit the midpoint of the guidance range. So I think all of us would appreciate a little bit of help on what levers should we be looking at and what will be the drivers of those? Thanks.

Josh Joshi: No worries, Michael. Let's look at it another way. In the last seven quarters, Interxion has opened six data centers. If you look in the third quarter, we're not anticipating opening another data centre. Although, Marseille will come online during the quarter. And we have some data centre openings in the fourth quarter.

And you've done your math right. If we have to have the middle of our guidance range for EBITDA margin, we're going to need to see an uptick in margins in the second half. I'm not commenting at this point in time in terms of where we're going to be in the range. We've got our range and we are happy with that range. Thank you.

Michael Bowen: One other quick follow up. I'm sorry, am looking for the slide, but I think you said the CapEx was going to be E.U.R45 million for Marseille. Was that – did you give a timeframe for that?

Josh Joshi: We didn't give a timeframe. We said – what I said, just now, was that the purchase price that we anticipate to pay in the third quarter is probably around E.U.R12 million. On top of that, we're going to spend a further rate in getting out the remaining – the two phases of the data centre, partly in this year and partly next year. What we've not guided to is exactly how much is going to occur in which quarter.

Michael Bowen: OK. Thank you.

Operator: Thank you. There are no further questions at this time. Mr. Huseby, please continue.

Jim Huseby: Yes, so that concludes our second-quarter conference call. Thank you everybody for joining us and we'll be hosting our next earnings call in early November. Thank you very much and have a good day.

Operator: Thank you. Ladies and gentlemen, that does conclude your conference for today.

END