Interxion

Moderator: Jim Huseby
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OPERATOR: This is conference #3364477

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by and welcome to the 2Q 2019 Results Webcast. (Operator Instructions) I must advise you that this webcast is being recorded today, Wednesday the 7th of August, 2019. And now I'd like to hand the webcast over to your presenter today, Jim Huseby. Please go ahead.

Jim Huseby: Thank you, Tony. Hello everybody, and welcome to InterXion's Second Quarter 2019 Conference Call. I'm joined by David Ruberg, InterXion's Vice Chairman and CEO; John Doherty, Chief Financial Officer; and Giuliano di Vitantonio, Chief Marketing and Strategy Officer.

We have a slide deck to accompany our prepared remarks which is available on the Investor Relations page of our website at investors.InterXion.com.

Before we get started, a brief note regarding IFRS 16. As discussed during last quarter's conference call, the implementation of IFRS 16 on January 1, 2019 had a significant impact on our reported financial statements. Please refer to the reconciliations set out in our earnings press release and slide deck for further information on the impact of this accounting change.

I'd also like to remind everyone that some of the statements we'll be making on today's call are forward-looking in nature and involve risks and uncertainties. Actual results may vary significantly from those statements and may be affected by the risks 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 measure in the press release, which is posted on our website at investors.InterXion.com. We'd also like to remind you that we post important information about InterXion on our website at InterXion.com and on social media sites such as LinkedIn and Twitter.

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 our second quarter earnings call. Please turn to Slide 4. Our results for the second quarter reflect our consistent and solid execution, which has again delivered strong revenue and adjusted EBITDA growth.

During the quarter, InterXion continued to experience favorable demand for collocation capacity reflecting the difference in positioning of our highly-connected data centers.

Cloud and content platform providers continued to be the largest source of this demand driven by the secular trends created or centered around a shift towards digital processing services and content delivery across the consumer and business economies. Digitization is an unstoppable trend and is fundamentally changing the way in which we work, live and communicate.

Our industry is benefiting from a generational shift in IT infrastructure. Enterprises are migrating away from highly customized on-premise installations to hybrid multi-cloud compute deployments with increasing connectivity requirements. The notion of connected compute lies at the heart of many of the major industry trends we are seeing today.

The performance expectations of users of cloud-based applications and content services are growing all the time. Slow and inconsistent response times and substandard quality are unacceptable for real-time applications, particularly where these are mission-critical or central to the revenue streams or operational performance of the application providers.

The sheer pace of change means the technology landscape in a few years may look quite different to what the consensus expects today. What is certain, however, is that we remain in the early phases of this global transformation. InterXion is playing an important role in this evolution.

For many years we have been creating connected communities in our data centers that offer the platform providers high levels of connectivity and performance together with access to large pools of customers.

Ultimately, we are enabling access to a substantial portion of total European GDP. This strategy remains more relevant than ever and represents for us an increasingly entrenched source of competitive differentiation.

As a consequence, we believe that we remain well-positioned to deliver sustained growth and attractive returns on invested capital going forward.

Briefly, highlights for the second quarter include a 14% organic increase year-over-year in both total revenue and recurring revenue; a 26% increase year-over-year in adjusted EBITDA; an increase in equipped space of 6,500 square meters; an increase in revenue-generating space of 2,500 square meters; solid bookings and a healthy sales pipeline; stable pricing with churn within our historical ranges; the opening of Madrid 3. In addition, today we announced that we will construct Stockholm 6, and further expand capacity in each of Frankfurt 15 and Marseille 3. We have also acquired the Paris 7 land.

At the beginning of July we completed the raise of approximately EUR 283 million from an equity issue of 4.6 million shares, further strengthening our balance sheet and supporting our continued expansion for future growth. And lastly, the equity issued combined with subsequent improvement in our credit quality contributed to a one-notch upgrade by S&P.

Please turn to Slide 5. Revenue of Q2 came in at EUR 158 million, up 14% from Q2 of last year, and up 5% sequentially. Recurring revenue of EUR 150 million represented 95% of total revenue and was 14% higher than the same period last year.

Q2 adjusted EBITDA was EUR 80 million, representing an adjusted EBITDA margin of 51%. John will talk in more detail about the financial numbers later in the call.

Please turn to Slide 6. We added 6,500 square meters of equipped space in the second quarter, a year-over-year increase of 16.8%, and ended the period with 154,800 square meters.

We installed 2,500 square meters of revenue-generating space led by The Netherlands, Germany, Austria and Spain. We ended Q2 with 121,600 square meters of total revenue-generating space which equates to an overall utilization rate of 79%.

Please turn to Slide 7. During the second quarter we added new capacity in seven different markets and construction continues across most of our footprint, with an emphasis on larger builds in certain markets and response to the favorable customer demand patterns and orders that we are experiencing.

Today, we announced the buildout of two additional phases of Frankfurt 15, where demand remains particularly strong. This is in our 15th data center in the city where we are well-established as a market leader with very high density of connectivity in our campus.

With the addition of Stockholm 6 and another phase at Marseille 3 to our expansion schedule, we now expect to open over 20,000 square meters of new equipped space in each of 2019 and 2020. Looking out a little further, we have also announced over 10,000 square meters of equipped space which is scheduled for completion in 2021.

In aggregate, we have announced the addition of 44,200 square meters of equipped space scheduled to become available during the second half of this year through to the end of 2021 and this represents an overall expansion of 28% of our current capacity.

We continue to add to land ownership across our markets. In Paris during Q2, we completed the acquisition of the land on which our Paris 7 data center is located for EUR 19 million. The Paris site is adjacent to additional land of 68,000 square meters for which we have a purchase option. This property has industrial zoning and 50 megawatts power has been secured.

Finally, as many of you may be aware, the municipal government of Amsterdam and certain adjacent municipalities recently announced a temporary moratorium on the issuance of building permits for new data centers.

This temporary moratorium does not affect any of our data centers currently in operation or any that are under construction, as we already have the permits and sufficient power to bid out the entire Amsterdam 10 data center of (14,000) square meters.

Please turn to Slide 8. Reflecting our continued strong growth and capacity expansion, platforms now account for around 40% of our monthly recurring revenue while connectivity and enterprise segments are each at around 30%. Cloud and content platforms again led the way in terms of recurring revenue growth in Q2.

The leading B2B platforms continue to expand in the Big 4 and are starting to select new locations in Tier 2 markets, while the B2C platforms are rapidly expanding across all locations as they build their infrastructure to get closer and closer to the end users.

High connectivity density is at the heart of our business and we continue to undertake initiatives to further increase the connectivity presences across our locations. In recent quarters, we have seen orders coming from both local and international connectivity providers and this remained evident in Q2.

These providers are in many cases capturing the increase in network traffic and our data centers due to the substantial growth in our data and in the data driven by the content and content cloud providers.

The interplay of platforms and connectivity is a perfect example of why focusing on communities of interest, of highly connected workloads, has been and will continue to be a central focus of our strategy. It is a strong driver for the value creation and stickiness of our communities that sustains and enhances the value of our data center campuses over time.

Our Marseille campus is an excellent example of this, where our initial focus on building the connectivity foundations and significantly expanding the number of network providers served to attract the cloud and digital platform providers.

A virtuous cycle was created and then additional connectivity providers were then drawn to the campus. To date over 150 network service providers are connected to our Marseille campus which is becoming a primary gateway for subsea cables coming into Europe.

In the enterprise segment, we're seeing an uptick in new enterprise logos which is a clear indication that while the enterprise market remains at a relatively early phase in their path of migrating their digital infrastructures to the cloud. The value of collocation is becoming evident to them.

They increasingly understand that our highly-connected data centers are the ideal venues to establish secure, private connections to all of the leading cloud platforms for a growing range of hybrid multi-cloud applications.

More specifically, we are seeing growing demand from enterprises that are either digitally native or digitally mature, such as online retailers. They tend to be large and mid-size, based in large metropolitan areas, deploying their data-intensive or front-end applications and using one or more clouds.

For this profile, a highly-connected location is becoming the natural choice, while in the past we would have competed with wholesale providers or telcos against a narrower set of requirements primarily focused on cost resiliency or operational excellence. I would now like to turn the call over to John.

John Doherty: Thank you, David. Please turn to Slide 10. The second quarter was another period of solid growth across all of our markets. We enjoyed a robust first half delivering year-over-year revenue growth 14% and adjusted EBITDA growth of 13% on a like-to-like basis.

At the same time, we are scaling the business commensurate with our long-term growth profile and investing for the future in a disciplined manner which is resulting in continued attractive returns on invested capital.

Like last quarter, I will provide the quarter results as well as the comparison with IFRS 116, adjusted figures for ease of comparison to prior periods. There are reconciliation tables in the press release and in the appendix of the slide deck that show the impact of the accounting change on our reported results.

Total revenue in Q2 was EUR 158.5 million, up 14% compared to Q2 2018 and up 5% sequentially. IFRS 16 had no meaningful impact on reported revenue. Foreign exchange movement on balance also did not have a significant impact either year-over-year or sequentially.

However, we cannot rule out continued weakness in the British Pound versus the Euro in the second half of the year. These currency movements, accompanied by the uncertainty and tension that a potential no-deal Brexit is creating, will together likely moderate our U.K. revenue growth on the back half of the year.

Recurring revenue in the quarter was EUR 150 million, also up 14% year-over-year representing a 3% sequential increase. Recurring revenue was 95% of total revenue while recurring ARPU increased EUR 2 to EUR 416 for the quarter.

For the remainder of the year, we expect ARPU to be in the range or EUR 414 to EUR 417 and will continue to be influenced by the timing of new customer installations.

Cross-connect revenue is 6% of total revenue and we expect it will remain at this level in the second half of the year. Non-recurring revenue in Q2 was EUR 8.5 million and represented 5% of total revenues.

The increase was due to the completion of large customer installations in Germany, France and Austria. As we have discussed in the past, non-recurring revenue can be lumpy as it is typically customer-specific and often dependent on changes that the customers are making to their deployments. We expect non-recurring revenue to be around 5% of total revenue for the remainder of the year.

Cost of sales was EUR 54.7 million in Q2, reflecting the treatment of EUR 7 million of operating lease expenses as a result of IFRS 16. Gross profit was EUR 103.7 million, up 3% from last quarter. Backing out the accounting change, gross profit would have been EUR 96.7 million, a 14% increase year-over-year.

The reported gross profit margin for the quarter was 65.5% while the comparative gross margin excluding the impact of IFRS 16 was 61%, a 30-basis-point decrease year-over-year due to a higher proportion of energy revenue as a percentage of total revenues as well as higher levels of nonrecurring setup fees in Q2 compared to the same period last year.

Sales and marketing costs were EUR 9.4 million in the quarter, down 2% year-over-year, but up 3% sequentially, and represented 5.9% of total quarterly revenue, just below the low end of our typical range. We expect to have the marketing costs remain between 5% and 6% of revenue for the balance of the year.

Excluding depreciation, general and administrative expenses were EUR 14.2 million in the quarter, up 17% year-over-year and down 4% sequentially. The year-over-year increase primarily reflects ongoing investment in operational enhancement to support our customers while the sequential decline is due to one-time items that were incurred during the first quarter and not repeated in Q2.

Total G&A expense was 9% of revenue this quarter, within our typical range of 8% to 9% of revenue, and we expect it to remain within this range for the remainder of the year. Adjusted EBITDA was EUR 80.2 million, a 50.6% margin.

Excluding the EUR 8.6 million impact of IFRS 16, adjusted EBITDA grew 13% year-over-year and 2% sequentially. The adjusted EBITDA margin excluding the IFRS 16 impact was 45.1%, a year-over-year decrease of 60 basis points.

Depreciation and amortization expenses was EUR 44.3 million in the quarter, including 7.3 million due to the impact of IFRS 16. Excluding the impact of IFRS 16, depreciation and amortization increased by 15% year-over-year.

Net finance expense in the quarter was EUR 17.1 million, including EUR 3.1 million from the impact of IFRS 16. Sequentially the finance expense increased 3% due to a draw-down under our revolving credit facility in the quarter which was repaid post- the end of the quarter.

On a like-to-like basis, excluding the impact of IFRS 16, and one-off costs relating to our 2018 refinancing, the finance expense was 20% higher year-over-year due to the higher average level of borrowing in Q2.

Income tax expense in the quarter was EUR 3.6 million, 30% increase year-over-year and a 24% decrease from the first quarter. The effective tax rate in Q2 was 30% compared with 36% in Q1.

The sequential reduction due to a one-off deferred tax adjustment in connection with the acquisition of the Paris 7 land which has no cash impact on cash taxes. Our LTM cash tax rate was 34% in Q2, down from 37% in the prior quarter.

Net income was EUR 8.6 million in Q2, up 3% sequentially. Diluted earnings per share were EUR 0.12 on a diluted share count of 72.5 million shares. As a reminder, the equity issue did not close until July 1, so there is no impact from the offering on our second quarter results.

Please turn to Slide 11. Overall demand in Europe remains strong with activity focused around some of the largest markets, Frankfurt and Amsterdam in particular. Customer demand was less evenly distributed in Q2 than in previous quarters. As the platforms are prioritizing securing (inaudible) capacity in their primary markets while they are rolling out deployments in Tier 2 cities more gradually.

InterXion's big 4 markets continue to see strong growth with second quarter revenue of EUR 105.6 million, up 15% year-over-year and up 4% sequentially. Adjusted EBITDA in the big 4 was EUR 62.9 million representing a 59.6% margin and up 3% sequentially.

Excluding the impact of IFRS 16, big 4 adjusted EBITDA was up 12% year-over-year. Comparative adjusted EBITDA margin this quarter was 54.3% representing a year-on-year decrease from 56.2% due to the higher level of non-recurring revenue noted earlier. Germany and France led the way in the big 4 segment.

Our rest-of-Europe segment (inaudible) second quarter revenue of EUR 52.8 million, with recurring revenue up 11% year-over-year led by Austria, Denmark, Sweden and Spain, and up 5% sequentially.

Adjusted EBITDA for the rest-of-Europe segment came in at EUR 32.6 million, equating to an adjusted EBITDA margin of EUR 61.7%. Excluding the impact of IFRS 16, adjusted EBITDA was up 10% year-over-year and up 1% sequentially while the comparable adjusted EBITDA margin declined by 60 basis points to 56.8%.

Please now turn to Slide 12. Capital expenditures including intangibles totaled EUR 123.5 million in the quarter. Of this sum, EUR 117.3 million, or 95% of the total, was deployed on expansion and upgrade projects while EUR 2.6 million or 2% of the total was spent on maintenance and other, and EUR 3.5 million on intangibles.

63% of Q2 capital expenditures was spent in the big 4 this quarter compared with 69% last quarter.

Please turn to Slide 13. During the final week of the second quarter, InterXion raised EUR 283 million in net proceeds through the issuance of 4.6 million shares. The success of the equity issue reflects the positive investor response to our strong track record and the healthy momentum we have across our business.

Our commitment to using both debt and equity to fund the growth of our business is in line with our objective to have an optimal capital structure over the longer term. We expect to continue investing on the basis of our proven and disciplined approach to acquiring the necessary assets including land, power capacity, and data center infrastructure in order to continue to scale our underlying asset portfolio in an appropriate, return-focused manner.

Turning now to the balance sheet, InterXion ended the second quarter with EUR 55.6 million in cash and cash equivalents, down from EUR 186.1 million at the end of 2018. At June 30, InterXion had drawn EUR 40 million on the revolving credit facility. Pro forma with the equity rating and the subsequent RCF repayment, the cash balance at quarter-end would have been EUR 298.8 million.

The LQA net leverage including IFRS 16-related lease liabilities, was 5.3 times while gross leverage on the same basis was 5.4 times. Excluding the impact of IFRS 16, LQA net leverage including the lease liabilities is 4.3 times. LQA gross leverage was 5.3 times. The LTM net leverage ratio was 4.6 times and pro forma for the offering, the LTM net leverage ratio excluding the impact of IFRS 16, was EUR 3.7 times.

Cash ROGIC, our broad measure of return on gross invested capital, was 11% for the last 12 months. Taking into account the funds raised in the equity offering, combined with the existing cash on the balance sheet, an undrawn 300 million RCF at present and the growing cash generation of our data center assets, we have significant available liquidity. S&P recognized our improved credit profile and recently upgraded our rating to BB.

Please turn to Slide 14. At the end of Q2 2019, our fully built-out data centers had 89,100 square meters of equipped space and were 79% utilized. They generated EUR 408 million in revenue over the last 12 months. After deducting direct costs and maintenance CapEx, we are left with EUR 259 million on a cumulative investment of EUR 1.17 billion. This equates to an attractive cash return of 22% over the last 12 months.

To summarize, the European collocation market remains healthy, driven by secular trends in favor of digital adoption by consumers and enterprises alike.

We continue to be well-positioned against our competitors and the carrier and cloud-neutral collocation market, and continue to focus on acquiring the land required to expand our footprint as required by customer demand.

We expect solid growth across 2019 as we invest in and scale the business. When thinking about the profile of our growth in the second half it is worth bearing in mind the various moving parts.

Platform deals are invariably lumpy and they impact the timing of revenue realization, particularly in the Tier 2 markets where larger deals can create step changes in utilization. As noted earlier, we are also monitoring macroeconomic development from the twists and turns of the Brexit process as well as trade tensions between the U.S. and China.

We do expect some potential impact from currency in the second half due to Sterling weakness and the uncertainty of which appears to be having an impact on enterprise decision making in the London market.

Lastly, we remain disciplined in the execution of our capital investment program and we are resolutely focused on maintaining the attractive profile of our returns on invested capital. And with that, I would now like to turn the call back over to David.

David Ruberg: Thank you, John. Please turn to Slide 16. The patterns of demand for data center collocation are continuing to evolve and in line with our expectations. At the present time, the main demand driver is the migration of applications from legacy data centers to the public cloud.

Consequently the architecture and infrastructure requirements on the cloud platforms continue to shape our industry both in terms of direct demand for sizeable compute deployments and through the creation of connected communities in our data centers.

The leading public cloud providers are fueling the growth of the industry through aggressive initiatives to migrate enterprises to the public cloud. They are in an arms race to capture market share, promoting a public cloud first approach. They're starting to lead to the gradual movement of existing enterprise applications out of on-premise and outsource data centers.

The largest end market for cloud providers is large enterprises, which are being drawn into the public cloud by migration incentives. The migration of existing applications is becoming an important trend in Europe whether through the adoption of container technologies or through replatforming of existing applications.

Against this backdrop of favorable secular trends, a key element of demand uncertainty facing our industry is the degree to which platforms will build their own data centers rather than relying on third party data center providers. The nature of the projects that were are involved with the platforms are providing clues on how the build-versus-buy strategies of the market leaders will play out.

Two significant observations are the following. First, time to market remains a primary driver for cloud providers when choosing third-party data centers, which is likely to be relevant in fewer locations over the coming years. Second, but for the new generation applications where performance and workload placement play a more critical role, proximity to interconnection points is becoming a key selection criteria.

This demand is starting to represent a distinct category with an overall cloud and content platform demand. While platforms continue to drive growth in Europe, direct demand for collocation from enterprises is picking up. As they seek to transform their IT architectures, the high costs of maintaining legacy data centers for residual applications that have not moved to the public cloud is a primary reason for considering collocation.

This type of demand, which has been growing in recent quarters, is rather different than the classic IT outsourcing of the past. Today the vast majority of new collocation opportunities include secure access to the cloud as a key requirement. And in many cases, also require proximity to end users as well.

Given these additional requirements, our carrier and cloud-neutral data centers have a differentiated and superior value proposition versus many of our competitors.

At the same time, some customers are simply looking for a place where they can access one or more clouds or transfer data across to public clouds. Highly-connected carry and cloud-neutral data centers such as ours are the ideal location for migration and transfer data and workloads between cloud platforms.

As a consequence, we are seeing growing interest in these types of deployments. These deals are typically smaller in size but serve to substantially strengthen the depth and value of our connected communities and we believe will lead to larger deployments over time.

Please turn to Slide 17. Looking beyond existing demand times, we are witnessing the emergence of new cloud-native applications which are focused on real-time data analytics, artificial intelligence and the Internet of Things. These next-generation applications are data-intensive and often distributed across multiple locations. There are workload placement (inaudible).

As performance becomes a more central theme in IT infrastructure design, enterprising are starting to devise optimal workload placement strategies especially for customer-facing applications. This trend will accelerate adoption of carrier-neutral collocation as the key requirements are access to multiple clouds as well as proximity to the end users and to edge nodes.

In many ways, what we are currently seeing with B2C platforms provides an early indication of how our broader range of native cloud applications will evolve. These content providers represent a growing and substantial segment of the market as more and more applications target consumers through data-intensive applications.

This type of demand is perfectly suited to carrier- and cloud-neutral collocation and we are capturing a large market share which is also strengthening the value of our interconnection hubs.

As enterprises optimize their application design we expect a growing realization on their part that public cloud-only architecture is unlikely to meet all of their cost and performance objectives, and therefore will decide to leverage collocation for a portion of the compute requirements.

In Europe, InterXion is well-positioned to capture a very significant portion of this demand as we offer some of the most highly connected cloud hubs in the vast majority of our locations.

The combination of sustained demand from platforms and the emerging demand from enterprises provides in our view ample opportunities for us to maintain attractive growth rates in 2020 and beyond.

Please turn to Slide 18. Today we are reaffirming our previously announced full-year financial guidance for revenue, adjusted EBITDA and capital expenditures. To be specific, for the full year 2019 we are expecting revenue to be in the range of EUR 632 million to EUR 647 million. We expect adjusted EBITDA to be in the range of EUR 324 million to EUR 334 million and we expect to invest between EUR 570 million and EUR 600 million in capital expenditures this year.

And before we open the call up to Q&A, I would again like to express my thanks to all of our employees for their unrelenting commitment to quality and customer focus. The ongoing success of this company is the product of their hard work and dedication. And I would also like to thank our shareholders and bondholders for the continued support for InterXion.

And with that, now let me hand the call back to the operator to begin the question-and-answer session.

Operator: (Operator Instructions) Your first question comes from the line of Erik Rasmussen from Stifel.

Erik Rasmussen: Thanks, I appreciate the commentary on the business dynamics there, especially around your communities of interest. Can you just comment on the competitive landscape?

There seems to be more of a focus on Europe. What are your thoughts on the number of new entrants coming into the region? How much of a competitive threat do you think they pose, and then maybe just to follow on to that, what are you hearing from your customers as it relates to some of the strengths that you talked about with highly-connected sites maybe versus those that are not? Just trying to understand the demand profile there, thanks.

David Ruberg: Okay. How about I handle the first half of that question, and Giuliano will handle the second one, okay. So I think we said many times before, the European market is approximately the same size from a technology standpoint as the American. The Americas we have far few competitors here in Europe than we do in the United States.

The market here is more fragmented than it is in the United States and we have been doing this for a long time. So I think what you're seeing happen is those that -- by the way, there are not that many new entrants. And those that are coming in, I think, are beginning to realize that there are substantial barriers to entry here that they do not experience in the United States.

So overall, I think there's a market opportunity and a growing opportunity for all of us, and I believe that we are really well-positioned from a historical perspective, from an orientation perspective. Our communities of interest concept puts us in a really good position to get more than our fair share of the growing market. What do you hear from customers?

Giuliano Di Vitantonio: I will add a few comments on what we hear from customers. At the end of the day, I look at requirements from customers, they fall in three broad categories. The first one is the table stake is operational excellence.

They really want to make sure that the data centers deliver the quality of service they expect and we have a very strong record with all of our customers on that. So they keep coming back to us with the certainty that we're going to deliver what we promise we deliver. The second one is very specific to Europe.

There's really know-how of the local market. They understand that Europe is different from the U.S. They understand that especially in the smaller countries, there needs to be some local knowledge on how to deal with the local bureaucracy, the local circumstances.

And our European footprint enabled them to get that with the -- winning that knowledge of the countries where we operate. And then of course there's the differentiator that really makes a difference, especially with the new type of workloads that are more data-intensive, which is connectivity.

And this is something we've been building for almost 20 years now. This is not something that can be recreated overnight. This is something that has enabled us to be leaders in connectivity first.

And then also really get a very significant portion of all the cloud onramps that have been deployed in Europe over the last three or four years. So when you put all of these things together -- the operational excellence, the know-how of the European market, and the connectivity and cloud access that we provide -- that creates some very high barriers to entry that -- to all of the competitors that you mentioned. And customers acknowledge that all the time.

Erik Rasmussen: Great. Maybe just a follow-up, it seems like there's a lot of activity picking up around Paris and you had secured some land, and then some adjacent land there. How do you see this market and maybe just the sustainability? Thank you.

David Ruberg: Okay. It's not just Paris. It's actually France. With all -- if you look at the connectivity that came from the United States into Europe in general, a lot of it used to go through Ireland or the U.K., and with Brexit, what's happening is people are looking at coming from the United States, particularly OTTs, are coming directly to the continent and bypassing the U.K.

If you look at the emerging markets in both the east coast and the west coast of Africa, and the traffic patterns coming from Asia, again trying to establish commercial relationships with the continent of Europe, a logical place is to come into France with submarine cables, i.e., Marseille.

So I think we are really well-positioned with where we are in Paris and in Marseille as the evolving traffic patterns are beginning to emerge, and people are looking at west coast, south coast of France as a way of probably the most convenient way from North America and from the east, to get into continental Europe. Anything you want to add to that?

Giuliano Di Vitantonio: Just one additional comment. We talked about this a few times. There is a natural evolution of the -- or a natural pattern of deployment of technology, rollout of technology in Europe. It starts in the U.K., then it's Northern Europe, and then the next stop is France.

And now we're really reaching that tipping point for France where the market is mature enough or the platform and the enterprises to start (inaudible) the technology. So that -- that's why we're seeing this uptake in (inaudible).

Operator: And your next question comes from the line of Michael Rollins from Citi.

Michael Rollins: During your prepared comments you touched on the demand that you're seeing for platforms. Now, I was curious, given some of the lumpiness in scale bookings in the U.S. if you could just further unpack what you're seeing in terms of the flow of demand and bookings from clouds and platforms in Europe relative to the U.S. experience, and do you still see the prospect for revenue growth to improve over the course of '19 and into 2020 for the overall portfolio?

And then just secondly, if I could follow up with another question, just as you increase the development pipeline again this quarter. Can you provide some context for how the level of pre-leasing or reservations is influencing the growth opportunity for interaction for the coming 1 to 2 years? Thanks.

Giuliano Di Vitantonio: Okay, I'll start with the demand and I'll hand it over to John and David. We hinted at this in the prepared remarks. The platforms, we need to distinguish between the cloud platform and the content platform. The content platform really deployed, by now they're deploying in all of our locations. They are very granular in their reach to the end users.

And so we see demand across all of our locations from the content platform. When it comes to the cloud platform, a similar thing applies to the network nodes of the cloud platform. They now reach most of our locations.

When it comes to the larger deployment which are compute nodes, they tend to -- at this point what we're seeing, they're really focusing on making sure I had line of sight to future capacity deployment in the main cities, the big 4, and with that specifically very strong in Frankfurt and Amsterdam and now starting in Paris.

So they're really focused about making sure that they had that -- that capacity to cure several quarters out which is also behind some of the announcements we made today in terms of future expansion.

So you're seeing this Euro track with the B2B platform focusing primarily on the last cities and starting more gradually to move into the smaller cities while the B2C platform have a much more homogenous deployment across the entire footprint.

John Doherty: Mike, I'll take the second piece of that, and you mentioned just to reiterate on the question, the growth -- 2019 into 2020. And the answer for that is absolutely. We still, as you mentioned as part of the prepared remarks, expect very solid growth throughout the next what would be six quarters.

We remain highly confident in the business. Giuliano and David talked about demand and as a result we also reaffirmed our guidance. However, as we mentioned, we are seeing some headwinds from what's happening particularly in the London market. There's uncertainty in terms of the enterprise community.

It's also particularly manifested across financial services. We have that as well as some of the FX movement that we're seeing. And if you look at the back end of the quarter from high to low, Pound-Euro is about 8% differential.

I'm not saying it's going to stay there but that does have some impact on the second half of our growth rate. That said we still expect to have a very solid second half of the year.

David Ruberg: And Mike, to the last part of your question, the short answer is we are getting pre-bookings. And we decided a year ago we're not going to release the amount. The fact of the matter is, as Giuliano said, some of these guys really need to see. This -- the business they give to us is really sticky and so they want to see a path, a growth opportunity.

And in some cases we have to fight with them not to take a pre-booking because we want to develop the community of interest the way we want to. So in a number of the bills that we have announced, we do have pre-booking levels and commits. And again, it's all part of our very disciplined approach to how we deploy capital, okay.

Operator: Your next question comes from the line of Colby Synesael from Cowen & Co.

Colby Synesael: You've talked about this a little bit already, but when you disclose your revenue breakdowns you talk about it in terms of verticals, the cloud, enterprise, connectivity.

I was wondering if you could talk about in terms of size of deployment. So I historically thought of an interconnect-oriented deployment as being, call it, sub-250 kW and more the larger hyperscale or cloud or connectivity deals as being, call it north of one megawatt.

What are you seeing just in terms of deal size, and if you can, can you give us some color in terms of what that makeup in terms of revenue looks like broken out by some type of deal size breakdown?

And then secondly, as it relates to churn, for many quarters as far back as I can remember you've talked about churn being in line with your normal rate or number. What is that churn number and what are some of the reasons that your customers are typically leaving your facilities? Thank you.

Giuliano Di Vitantonio: I'll take the first part of your question. So you're right. Historically there was a clear demarcation in terms of the size of deals, between small interconnected deployments and larger compute nodes. That's now evolving. It's really evolving more along the lines of the type of application.

There are some applications that are larger in size in terms of compute footprint, that require a high degree of connectivity. And actually, this is going to increase with the incremental things with the artificial intelligence, where you will really need proximity either to the end users or proximity to the cloud platform, even for deployment that are in excess of our megawatts.

So the traditional demarcation that you're referring to is evolving towards something that is much more the type of workload, the type of applications that are suited to a highly interconnected environment. So we don't really track too much in terms of the type of the deployment, which that's why we track by segment.

And you've seen the kind of revenue split on Slide 8, 40 for the platforms, 30/30 for the other two segments. When it comes to the demand we touch on this in the past quarters and we are still stable around that. Two-thirds of the demand is coming from the platforms at the moment.

John Doherty: And Colby, I'll take the churn one. We have mentioned this before. Basically on a monthly measure it's 0.5% to 0.7%. As I mentioned on the call we were at 0.5% for this quarter on average.

And as you know, the business that we run is a very sticky business, particularly in our connected data centers and the overall profile of how our business comes into our data centers.

And the reason why they would ultimately leave is, really tends to be around companies that would have a bankruptcy/restructuring or some form of M&A where there's some underlying business combination and companies are looking for integration opportunities. That's pretty much the three main drivers of what we would see.

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

Jonathan Atkin: Maybe quickly as a follow-on, to ask in a different way, but as you had these newer data center expansion announcements across the various markets, are you expecting a similar customer density, size of deployment, interconnect intensity, as you have seen in your business to date?

And then maybe turning on to some of the comments that David made in the script around enterprise logos, I'm just interested if that's coming in from -- coming in from channel contributions increasingly or more kind of the same mix of direct versus indirect, as you've seen to date, as you've brought in new logos.

And then Giuliano, you mentioned AI And there was a Nvidia announcement I guess back in July and they're deploying across 11 of your data centers. And is that the type of thing that kind of sets the stage for future growth or is that already having kind of noticeable impacts on demand? Thanks.

David Ruberg: Jonathan, in terms of the mix and the data centers for the next year or two, we expect them to be comparable to what we're seeing now. As far as the --

Giuliano Di Vitantonio: Yes, so I'll take the other two questions. Let me start with Nvidia. That -- that was a very important announcement for us because it's really an example of the type of the community that we want to build in the future. We really want to have this highly connected deployment in our data centers.

And of course, we know, Nvidia is a customer of ours and we have good business with them. But we are also starting to see the effect of that announcement in terms of interest from other customers who want to be at (inaudible) or in proximity to Nvidia. So it's absolutely a spot-on.

That's exactly the type of thing that we would develop moving forward. It's very, very early days. I would emphasize essential(crisis), early days. It is truly early days, but it's one of the examples of why the strength of the community will continue to pan out over future years and continue to position very well in this industry.

In terms of enterprise, again, we touch on this in quite some detail in the prepared remarks. There's a -- the current demand is coming primarily from the migration of existing applications which is primarily moving into the public cloud.

But those deployments that don't go into the cloud, now they're really looking for things like access to the cloud -- secure access to the cloud. Because you can access the cloud over public internet but if you want to secure access to the cloud you need to do it through a private connection.

They are looking for proximity to the end users. So the new way of collocation requirement is really, really suited to our value presentation. And it would be even more so for the future wave of applications like the one we just discussed with Nvidia where the workload placement -- this is another term that comes up a lot in our conversations with enterprise.

The workload placement is the key driver for them to really optimize where they're going to -- how they're going to design that infrastructure and where they're going to deploy different -- different workload. So that's what we're starting to see in terms of the enterprise. So it's something that has been relatively recent couple of quarters we've seen it, but it's (inaudible).

Jonathan Atkin: So is the channel or systems integrators or other partners having tacked on that or is it just the enterprises, given how they're architecting themselves and using your platform, it's more happening organically rather than any sort of channel strategy that you're pursuing?

Giuliano Di Vitantonio: So yes, I forgot that part of your question, apologies for that. Yes. We are seeing a combination. Some direct, but also two different types of channels. The IT service providers is one example, but also increasingly the telco, the carriers.

Because of course they are divesting their own data centers and they still have a very, very intimate relationship with the enterprise customers, especially in helping them design their networks and design their infrastructure.

So we are seeing more and more of the carriers being willing to partner with us to position our carrier-neutral data centers as part of their offer to the enterprise. So it's a combination of direct and indirect, and the carriers is a new component of the indirect that we've been picking up.

David Ruberg: Jon, one of -- this company has always been focused on collaborative efforts. And one of the things that we're trying to develop is these channels, but if you listen to what Giuliano said and who he referred to, some of these players are behind the times in terms of understanding what their future looks like.

So not only do we have to educate end users about what role it plays, we spend a substantial amount of time working with some of these other elements of the systems that we deal with trying to get them to understand what role they play.

Giuliano Di Vitantonio: And then I want to make one final comment. For us the data component is important because it gives us the next exposure to the end customers, which again has -- can be the educational ability that David was referring to.

It's important for us to hear it first-hand from the CIO how that migration and how the digital journey is evolving. Because it positions us to better understand the overall departments that cross the entire value chain.

Operator: Your next question comes from the line of Robert Gutman from Guggenheim Securities.

Robert Gutman: So you sound incrementally positive relative to your prior quarter comments on the pace of enterprise activity across Europe. And is that specifically tied to what you just said about the telco carriers, as incrementally contributing?

Or are there other factors across Europe that caused some difference? And secondly, I was wondering if you could answer, how constrained or available are power and land in the other big 4 markets, in the context of the Amsterdam moratorium?

Giuliano Di Vitantonio: Overall I think the timing is starting to be right for enterprises. They are really starting to migrate to the cloud in Europe. That migration is growing. And so that's the fundamental trend behind a lot of the things that we're seeing, both demand that we're getting from the platform to serve that demand, but also the demand we are starting to see from enterprises that complement that cloud strategy with the presence in the collocation environment.

So it's just -- the market is starting to grow in Europe. It's starting to mature. And we are seeing the -- we are starting to see the inflection point that we've been referring to for quite some time in terms of an optional cloud. That's the underlying trend that is happening at the moment.

David Ruberg: In terms of the other part of your question, I know that everybody's focusing on what happened in Amsterdam and the surrounding municipalities. That's just one -- something that's extremely visible and relatively (abruptive). But when you look at what's behind this, there are economic, political and environmental issues that have prompted them to do this.

But other countries have been in some respects way ahead of them in terms of establishing what their priorities are in these areas. And we have been dealing with these for a long time.

I think that's one of the issues, when you come from the United States here, and you look out and you see land and you see power lines, you think, aha. I've struck it rich. It doesn't work that way. So this has -- this has been going on, and particularly in France and in Germany and Austria.

And by the way, it's not just power and land consumption. They're going to focus eventually on how efficient you are in terms of water utilization, in terms of whether you use the adiabatic water cooling, and I can tell you we are extremely well-positioned for that. So this is not something that's unique here.

It's just something that's become highly visible and that was motivated by one politician. But at the end of the day they recognize the value of what it is that we bring to the community.

They wouldn't have this growth problem in Amsterdam if the connectivity which we support and others support wasn't here. People wouldn't be coming from the U.K. as a result of Brexit to here, if they didn't have really good communications. So it's something that's become highly visible in one city but it's been going on for a long time, okay.

Jim Huseby: We have time for one more question, please.

Operator: Your next question comes from the line of Sam Badri from Credit Suisse.

Sam Badri: My question has to do with the platform ramp that you're seeing as a percentage of your revenue mix. So this quarter we saw about 40% of your customers' makeup all coming from platform now.

Maybe just so we can get a better idea on the expectation going out a couple of quarters, even a year, should we expect those 40% to inch up even higher given that platforms have a higher deployment velocity than typical enterprise?

And then maybe we could just think about the cyclicality here. Are we expected to see this go from 40% to 50% before it retracts, or any kind of real color on how you really see the network being built out with platforms and enterprises complementing that capacity as they also build out their plans?

Giuliano Di Vitantonio: Okay. The first part of the question is easy to answer because you know, we are at 40% today but I already mentioned that two-thirds of our bookings are coming from the platforms.

So you can figure out that we'll continue to see for the coming quarters an increase in the proportion that comes from the -- proportional revenue that comes from the platforms. Now, the second part of the question is more difficult to answer because at least I don't have a crystal ball. I'll ask David or John if they do.

But how long will this trend continue before we see more of a -- of a swing back to the (inaudible) equilibrium between different segments. We expect that at least for a couple, 2 or 3 years, there would be a -- the majority of the demand will come from the platform. But then at some point the migration to the cloud will become -- start to mature and you would see the demand from enterprises pick up.

So again, we don't have a specific date in mind but certainly 2 or 3 years out we will start to see a rebalancing of that -- of the booking and then subsequently of the revenue as well.

David Ruberg: Keep in mind that we're talking about multiple types of platforms, both digital media and cloud, and even within them there's subsegments of whether it's a connectivity or a compute or heavy compute. So there's a whole variety of these things that basically make up what we're looking for.

And as far as the transformation is concerned, we do have an internal bet, and he just said it. It's approximately two or three years out before we -- we believe that the enterprises -- what we consider the collocation hybrid portion of it -- will begin to make a substantial impact on our bookings.

But keeping in mind that even though we're taking more and more of the cloud, the platform business, we believe it is strategically important to stay relevant and probably more important giving the pricing that we're getting, contributes to substantially attractively to the returns. So you're not taking bad business, it's good business. When we get the enterprises it will be better business, better returns, all right.

Sam Badri: Great, perfect, and then I just have one clarification for a question that was asked earlier. Have you -- do you have an idea or a percentage mix that is coming from the channel in terms of new bookings? Have you guys given out anything or could you characterize any kind of percentage mix regarding channel versus direct?

David Ruberg: It's very low.

Jim Huseby: That concludes our conference call for today. Thank you for joining us. We look forward to seeing many of you out on the road and speaking with you soon, and we'll have our next earnings call in early November. Thank you very much, and you may now disconnect.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now disconnect.

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