Interxion

Moderator: Jim Huseby
02 August 2018
8:30 a.m. GMT

OPERATOR: This is Conference #3174258

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by and welcome to the Interxion Q2 2018 Earnings Conference Call.

At this time, all audio participants are in a listen-only mode. After today's presentation, you will have the opportunity to ask questions. At this time, if you wish to ask a question you will need to press "star", "1" on your telephone keypad.

I must advise you that this webcast is being recorded today on Thursday the 2nd of August, 2018. I would now like to turn the webcast over to your presenter today, Jim Huseby. Please go ahead.

Jim Huseby: Thank you, (Martin). Hello, everybody and welcome to Interxion's Second Quarter 2018 Conference Call. I'm joined by David Ruberg, Interxion's Vice Chairman and CEO, and Richard Rowson, the company's interim CFO and Giuliano Di Vitantonio, the company's Chief Marketing and Strategy Officer.

To accompany our prepared remarks, we have prepared a slide deck which is available on the Investor Relations page of our website at investors.interxion.com.

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 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 measures in today's press release which is posted on our on our Investor Relations page at investor.interxion.com.

I'd also like to remind you that we post important information about Interxion on our website at interxion.com and 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 2018 earnings call. Please turn to slide four.

Our solid second quarter results reflect continued strong demand, combined with successful execution of a consistent strategy that is focused on creating and expanding the communities of interest in our data centers.

While the cloud platform providers remain quite active in expanding their European footprint and capacity, we also continue to see opportunities from other segments across the deal size spectrum.

Highlights for Q2 include a 15 percent year-over-year in total revenue, 16 percent on a constant currency basis, all of which was organic, a 16 percent year-over-year increase in recurring revenue, 17 percent year-over-year growth in adjusted EBITDA representing a Q2 EBITDA margin of 45.7 percent, 3,700 square meters of new equip space added in six different countries.

A refinancing with the issuance of €1 billion at seven years senior, unsecured notes, an incremental €200 million revolving credit facility, bookings that in

Q2 were strong and the sales pipeline continues to reflect strong demand and pricing that remains stable and churn that remains within our historic range.

Responding to strong customer demand, we remained in expansion mode which means that in Q2, we announced and commenced two new, large data center builds in Amsterdam and Frankfurt, as well as an expansion in our Science Park data center. Please turn to slide five.

Revenue in Q2 came in just under €139 million, up 15 percent from last year and up 4 percent sequentially. Recurring revenue at €132 million represented 95 percent of total revenue.

Adjusted EBITDA was €63.4 million in Q2, an increase of 70 percent year-over-year and 4 percent sequentially. Richard will talk in more detail about these numbers later in the call. Please turn to slide six.

We had 3,700 square meters of equip space in the second quarter, ending the period at 132,600 square meters. We installed 2,100 square meters of revenue generating space, representing the eighth consecutive quarter in which we have reported installations of 2,000 square meters or higher which reflects the healthy demand that we're seeing across our footprint.

We ended Q2 with 106,200 square meters of revenue generating space resulting in an overall utilization of 80 percent.

Recurring cost in net revenue contributed just over 6 percent of total revenue in Q2 as expected. Quarter-over-quarter, revenue growth from recurring cross connects was over 5 percent. Please turn to slide seven.

During the second quarter, we opened new capacity in six different markets, including expansions of 1,200 square meters in Dublin, 900 square meters in Copenhagen and between 300 and 500 square meters in each of Paris, Vienna, Marseille and Stockholm.

During the second quarter we also announced two new data centers, Amsterdam 10 and Frankfurt 14, with max equippable space of 19,000 square meters, as well as a further expansion of Amsterdam 9 in Science Park.

In the initial phases of these three builds, we now have under construction approximately 12,000 square meters of new equip space. During Q3, our third London data center is scheduled to open, as well as a phase of Vienna 2.7.

In aggregate, our new openings in 2018 and 2019 will add over 38,000 square meters of new space equating to over 30 percent of our total equip space at the start of 2018. Of this capacity, approximately 50 percent is currently pre-sold. Please turn to slide eight.

This slide sets out some of our key customers in each of our primary business segments, connectivity, platforms and enterprise. Each segment currently contributes roughly one-third of our total revenue.

Platforms, which includes both cloud and digital media, are growing faster than the rest of the company, in line with our previously stated expectations that platforms will, for some time, continue to lead the way in terms of top line contribution.

However, the other two business segments continue delivery of very healthy growth. Year-over-year, enterprises delivered double-digit growth and connectivity grew in the high single digits.

The rapid growth of platforms has led to an increase in the proportion of revenue coming from companies headquartered outside of Europe. As of Q2 2018, half of our recurring revenue originated in Europe and the other half in the rest of world with a growing contribution from Asia.

The need to serve their customers in Europe is driving Asian companies, both platforms and connectivity providers, to deploy capacity in both the big four markets and in Marseilles.

In Q2, solid bookings were delivered across the board by each segment with a particularly strong performance from digital media and connectivity. The interplay of these two segments in the B2C world continues to strengthen our communities.

B2C content platforms are seeing strong consumer adoption in Europe and many of these applications, especially in the gaming and social media sub-segments, increasingly incorporate capabilities that demand lower latency and higher bandwidth. Online gaming and live broadcast of consumer generated content are two examples of this.

As a consequence, these content platform providers are investing heavily in building out resilient infrastructure and highly connected data centers such as ours in major cities and gateway locations.

The leading cloud providers have continued to deploy a combination of compute nodes and strategic network nodes, including private access nodes across Europe. Interxion has more cloud deployments from the leading cloud platforms than any other provider in Europe, both in number of overall nodes and in terms of private access nodes which are the magnets critical to draw in enterprises. We expect to benefit from these trends as enterprises migrate to the cloud.

The extensive cloud platform presence in our data centers in turn attracts an ever-growing density of connectivity providers across our portfolio as they seek to deploy new (pops) to capture the incremental traffic generated by the network nodes of these major providers.

There is also considerable activity in the submarine cable industry worldwide as the major cloud and digital media platforms are investing heavily in these cables globally to meet their enormous international IP transit requirements.

The Africa, Asia and Middle East region will, over time, see much of their international data traffic passing through cables that have landing points in our Marseilles data center which currently hosts 13 submarine cable systems, a figure that continues to grow.

The largest global platforms, both B2B and B2C, have been amongst the early players to adopt advanced technologies that are very data-intensive, such as real-time analytics, virtual reality and machine learning.

To enable this type of innovation for their users, they are building sophisticated application and data architectures. With data centers and connectivity at the core of their global platforms.

We will cover this in more detail next quarter. Within our enterprise segment, consumer retail posted strong growth during the quarter driven by expansion in digital capabilities and capacity.

This favorable trend is set to continue for some time to come as consumer facing applications by retailers require more bandwidth and a wider range of connectivity providers and we will talk more about the enterprise segment later in this call. I would now like to turn the call over to Richard Rowson, our interim Chief Financial Officer.

Richard Rowson: Thank you, David. Please turn to slide 10. I'm pleased to report that Interxion delivered yet another very good quarter. During Q2, we continued our mid-teens revenue growth while strengthening our balance sheet and deploying capital to support future growth.

Total revenue in Q2 was €138.8 million, up 15 percent compared to Q2 2017 and up 4 percent on a sequential basis. Foreign exchange movements had a 1 percent negative impact on total revenue year-over-year, but had no material impact sequentially resulting in Q2 constant currency revenue growth of 16 percent year-over-year and 4 percent on a sequential basis.

As a reminder, we passed the one-year anniversary of the Interxion Science Park acquisition in the middle of the first quarter and as such, Q2 growth was entirely organic.

Recurring revenue in Q2 was €131.7 million, a 16 percent year-over-year increase and a 4 percent sequential increase. ARPU increased sequentially from €412 in Q1 to €418 in Q2. On a constant currency basis, recurring revenue was up 17 percent year-over-year and 4 percent sequentially. Recurring revenue represented 95 percent of total revenue in Q2.

Non-recurring revenue in Q2 was €7.1 million, up slightly from Q1 and down 4 percent year-over-year. Cost of sales was €53.7 million in Q2, up 12 percent year-over-year and up 2 percent sequentially. Gross profit was €85.1 million, an increase of 17 percent year-over-year and 5 percent sequentially resulting in a gross profit margin of 61.3 percent.

Sales and marketing costs were €9.6 million in Q2, up 16 percent year-over-year and 10 percent sequentially due to a number of country specific one-time projects. Sales and marketing costs represented 6.9 percent of revenue in Q2, slightly below our expected range of 7 percent to 8 percent.

Other G&A costs were €12.1 million in the quarter, up 17 percent year-over-year and 5 percent sequentially due to higher professional fees. At 8.7 percent of revenue, other G&A costs remained within our expected range of 8 percent to 9 percent of revenue.

Adjusted EBITDA of €63.4 million was up 17 percent year-over-year and up 4 percent sequentially representing an adjusted EBITDA margin of 45.7 percent, an increase of 70 basis points year-over-year and 20 basis points sequentially.

The Q2 depreciation and amortization expense was €32.2 million, an 18.3 percent increase year-over-year which is consistent with the increase in our depreciable asset base resulting from the ongoing expansionary investments in our data center footprint.

The finance expense in Q2 was €22.9 million, impacted by a one-time charge of €11.2 million relating to the refinancing that we completed in June 2018 and was primarily related to the impact of the redemption fee on our €625 million of senior secured nodes.

Excluding this one-time charge, the finance expense was €11.7 million, a 3 percent increase compared to Q1 reflecting further drawings on our revolving credit facilities which were repaid in full out of the proceeds of the refinancing.

The Q2 income tax charge was €2.8 million. Excluding the one-off refinancing expense, the effective tax rate would have been approximately 39 percent which was raised by higher non-deductible share-based compensation charges. For the remainder of 2018, we expect the effective tax rate to return to our normal range of 25 percent to 27 percent.

Our LTM cash tax rate at 32 percent was higher than in prior quarters, also reflecting the impact of these factors. We expect that on a quarterly basis, the cash tax rate for Q3 and Q4 2018 will revert towards the level seen in Q1 2018 of 22 percent.

Net income was €0.6 million in Q2, negatively affected by the €11.2 million refinancing charge.

Adjusted net income in Q2 was €8.9 million, down 6 percent year-over-year and down 26 percent versus Q1 and was negatively impacted by the higher quarterly share-based compensation and depreciation.

Adjusted earnings per share was €0.12 on a diluted share count of 71.9 million shares compared to €0.13 in Q2 2017 and €0.17 in Q1 2018.

Looking forward to the remainder of 2018, we expect ARPU to remain within the range of €414 and €418 with continued growth from energy in cross connects, tempered by the initial diluted impact of new customer installations.

Cross connect revenue to represent approximately 6 percent of total revenue for the year. Non-recurring revenue to be in the range of €6 million to €7 million per quarter for the remainder of 2018, consistent with the levels that we have seen over the last 12 months.

Sales and marketing cost to be within the range of 7 percent to 8 percent of total revenue and other G&A cost to remain within their typical range of 8 percent to 9 percent of total revenue. Please turn to slide 11.

Interxion's big four markets maintain strong momentum posting revenue of €91.5 million and up 16 percent year-over-year and 4 percent sequentially on both the reported and constant currency basis.

Adjusted EBITDA was €51.4 million, a year-over-year increase of 19 percent and a sequential increase of 7 percent representing a 56.2 percent adjusted

EBITDA margin. Germany and France again led the strong revenue performance in the big four segment.

Our rest of Europe segment again delivered a solid performance in the quarter with revenue of €47.3 million, up 13 percent year-over-year and up 3 percent sequentially led by Austria, Ireland and Sweden. On a constant currency basis, revenue was out 15 percent year-over-year and 3 percent sequentially.

Adjusted EBITDA was €27.2 million, 13 percent higher year-over-year and down 1 percent sequentially impacted by a number of relatively small items. The rest of Europe segment also continues to deliver strong adjusted EBITDA margins at 57.4 percent. Please turn to slide 12.

Given the strong demand across our footprint, we continue to allocate capital to add capacity in a considered and strategic manner. Capital expenditure including intangibles totaled €120.5 million during Q2.

About 91 percent of capital expenditure in the period or €109.6 million was deployed on expansion and upgrade projects while the remaining 9 percent or €10.9 million were spent on maintenance and other capital expenditure.

As in previous periods, the majority of capital expenditure was allocated to the big four markets where we invested 69 percent of total group CapEx. Please turn to slide 13.

As we've mentioned, Interxion successfully completed a refinancing in June which, in addition to moving our debt to a fully unsecured structure, provides us with significantly increased flexibility to grow the business.

We issued €1 billion of seven-year unsecured senior notes at 4.75 percent and used the proceeds to redeem our €625 million, 6 percent senior secured notes that were due in 2020 and to repay €250 million drawn under our revolving credit facilities.

We also entered into a new five-year €200 million unsecured revolving credit facility, the remained undrawn at the end of the quarter.

The refinancing added approximately €90 million of cash to our balance sheet and in addition to providing us with greater financial flexibility, also resulted in the modest reduction in our blended cost of debt by 0.1 percent.

This reflects the impact to the transition to a longer-term unsecured funding structure from the previous combination of short-term revolving credit facilities unsecured notes. Following the refinancing, we ended Q2 with €133.6 million in cash and cash equivalents, up to from €38.5 million at the end of 2017.

(Then) leveraged at four times is a full term below our five time covenant under the new revolving credit facility. Cash (logic), which is our measure of (total) and gross invested capital, was 10 percent for the last 12 months, unchanged from Q1.

Between our increasing cash generation, the cash on our balance sheet and our ongoing revolving credit facility, we continue to have strong liquidity which we are putting to work as we expand our data center capacity to meet customer demand. All of our announced expansion projects remain fully funded. Please turn to slide 14.

At the end of Q2 2018, our group of 37 fully built-out data centers with 91,400 square meters of equip space continued to generate strong and stable cash returns of 23 percent over the last 12 months with a gross margin of 67 percent.

Looking at the life cycle of a single data center, revenue and returns will typically grow for a number of years after the site is essentially full from the space perspective.

This is due to annual escalators and customers increasing their energy consumption, their life power, densities and the number of cross connects per rack. These factors are the primary drivers for the 9 percent LTM recurring revenue growth seen for this group of data centers.

As customers become increasingly embedded in our data center communities of interest, (journeys) maintained at low levels and returns are consistent. And with that, I would like to turn the call back over to David.

David Ruberg: Thank you, Richard. Please turn to slide 16. On our last two earnings calls, we introduced our three business segments and discussed the scale of the opportunity that lies ahead for Interxion in each of them.

While connectivity providers represent the foundation of our industry and the platforms are the current engine of growth, enterprises remain the largest longer-term opportunity.

We have previously described these as three separate, but independent baseball games and we will continue to use that analogy. The graphic on slide 16 sets this out in a visual fashion without seeking to quantify size and timing in specific terms.

In our last call, we discussed the interplay of platforms and connectivity in highly connected data centers which has been one of the fundamental pillars underpinning our successful communities of interest strategy over the years.

Today we will discuss the enterprise segment where we see two sub-games developing. One that has been underway for a while and one that is very much in its infancy. Both are driven by companies that are embarking on the journey to digital transformation.

Cloud migration is a first step in the enterprise journey or the first sub-game as we have called it. Certain IT workloads that are well suited to the public cloud are migrated, while legacy applications remain tethered to their existing environments.

This current version of hybrid cloud is driving the rapid growth of public cloud deployments and the associated consolidation of enterprise data centers.

From a co-location standpoint, the impact is twofold. A large and still fast-growing opportunity to capture the compute nodes deployed by cloud providers and a smaller in scale, but more strategic in nature opportunity to capture the network nodes that enable cloud traffic, including access nodes.

The latter are driving demand for interconnection services by enterprises that need to access the public cloud and communities of interest that are starting to form around them.

At the same time, enterprises and software vendors are developing new applications and starting to re-architect existing ones with a view to serving a new wave of requirements stemming from digital transformation.

As companies integrate their processes into the fabric of the digital economy, they need to re-engineer the business processes to manage much larger volumes of data flowing from customer devices and the Internet of Things at the edge to back office systems and third-party processing platforms. This is the second sub-game in the enterprise segment and the one that is barely commenced.

Obviously we've had enterprise deployments in our data centers for many years, either directly or through systems integrators, but we've only scratched the surface of the enterprise opportunity that is currently emerging. The reason is that historically, only certain special categories of enterprise workloads have benefited from being in close proximity to each other.

One obvious example has been frequency trading -- high-frequency trading which requires deployments by financial institutions close to the central trading platforms.

Today, entire industry sectors such as banking, insurance, health care, retail, transportation and manufacturing are embarking on the initial phases of digital transformation to achieve greater business agility and productivity, create new channels, deliver better customer experience and reduce costs.

In our view, these enterprises will greatly benefit from deploying performance and response time-sensitive applications in the highly connected data centers where the relevant communities of interests are forming.

This represents the most significant opportunity for Interxion in the medium to long term because it will lead to sizeable enterprise deployments in selected data centers where they can get access to the cloud nodes and the large numbers of connectivity providers. Please turn to slide 17.

This second sub-game in the enterprise segment is based on the premise that enterprises need to modernize their architectures because traditional, on-premise IT architectures built around the enterprise data center and fixed perimeters are becoming obsolete.

Enterprise IT needs to embrace a new distributed environment spanning softwares and service applications operated by third party providers, spanning in-house applications developed and running on information as a service in platform service platforms, spanning IOT applications running at the edge, all of which are supported by the ubiquitous last mile access for customers and employees.

In this new context, fewer applications and less data will sit within the enterprise data center, rendering large proprietary data centers inefficient and often ineffective.

On the other hand, not all applications are suited to run entirely in a public cloud environment because of performance, security and connectivity cost considerations. This makes the optimal location of workloads a critical decision for enterprises resulting in co-location becoming central to any future hybrid IT architecture.

Co-location and multi-tenant data centers has always been an option for enterprises, but with the few exceptions mentioned earlier, they primarily considered it when their footprint, IT footprint, did not justify building their own data center or when they needed a dual site for their backup solutions.

Today, for digitally dependent enterprises, gaining access to the right co-location provider becomes the key to achieving a successful digital transformation because they can place their applications a short connection away from the required connectivity and platforms, as well as from other members of their respective communities of interest.

For example, enterprises that want to deliver a superior customer experience via online applications depend on a much larger variety of communications providers than they might have done in the past so they benefit from being co-located next to mobile operators and internet service providers.

Similarly enterprises that (boast) a big data (crunching applications in to one or more public clouds) (benefits of having few) (inaudible) and (cost effective mechanism to access the platforms of choice. Any connection in terms of (inaudible) data centers where these critical requirements can be properly addressed.

Accessing communication and cloud services through a private connection (in a) highly connected data center is the optimal way of delivering the highest quality of service to as many end-users as possible by (financing) the risk and (inaudible) of the public internet.

As more and more enterprises (emerge) in digital transformation, the transition to a new enterprise architecture will constitute the (inception) point (the adoption occur) for collocation that will trigger the same type of rapid growth in the enterprise segment that we are now seeing at the platforms.

A key criteria in the choice of a collocation provider is access to the (communities) of interest (internet providers can be part of) -- the larger the number of customers, supplies, business partners, and service providers (that the enterprise can connect to a third-party data center) the more valuable it will be for them to deploy in this structure at that location.

(Interactions) is ideally positioned (where we need it to go) in Europe, as we have more cloud deployments on the (continent) than any other data center operating, we provide access to all the major cloud platforms from all of our (15) cities in which the company operates.

(We have a very strong connectivity foundation.) Our strategy has been, and will remain, to focus on the enterprise workloads that have the most demanding requirements on both the (latency) and performance standpoint.

This approach will continue to enable us to maximize the value that we have (inaudible) interest based (dense connectivity) and access to (mobile cloud) providers. It will create sustainable value in the long-term, consistent with our strategy and our historical approach.

Today we are reappointing our previously announced pre-year financial guidance for (loan), adjusted EBITDA, and capital expenditures. To be specific -- please turn to the next slide, to be specific for the pre-year 2018 (we're) expecting revenue to be in the range of 553 million to 569 million Euros.

Expected adjusted EBITDA to be in the range of 250 leading to 260 million Euros, and we expect to invest between 365 million and 390 million Euros in capital expenditures this year.

Before opening the call up to Q&A, I would again like to thank all of our employees in all other countries for staying focused on our customers, executing against a business plan, and for continuing to deliver strong results.

I would also like to thank our shareholders and (inaudible) for continued support (our primary) action. Now let me hand the call back to the Operator to begin the question and answer segment.

Operator: Thank you ladies and gentlemen, if you wish to ask a question please press star, 1 on your telephone and wait for a (name) to be announced. If you wish to cancel that request please press the (hash) key. Your first question today comes from the line of (Frank Luten) of Raymond James, please go ahead.

Male: (Frank) are you there? Operator, please move to the next question, please?

Operator: Thank you ladies and gentleman, one again as a reminder it's star and 1 if you wish to ask a question today. Your next question comes from the line of (Inaudible), please ask a question.

Male: Thank you very much, and good morning folks. A couple of questions if I may -- first and foremost, if you think about the current demand environment, particularly you're -- the focus that you folks have on the enterprise environment -- where are we in the cycle in terms of just trying to understand the type of capacity needs that are going to be needed going forward to meet some of the demand that you're seeing?

David Ruberg: OK is that -- that's your question? You said you had a couple of question?

Male: Yes, so that's the first part of the question. And then the second part, you know, if we look at some of the moves that you guys have done from a financing perspective over the last several months, it does seem as though that you guys have expanded your ability to look at strategic options.

You know, ideally, how should we think about the best strategic options that you guys can see out there? You know, historically, clearly you folks have been seen as a potential target, but it does seem as though that you have a lot of flexibility here to accelerate your strategy going forward if you so choose to -- I would love to hear your thoughts around that, (David).

David Ruberg: OK, I'm going to take to the second question (and I guess Giuliano will take you through the first one, so)…

Giuliano Di Vitantonio: OK, this is Giuliano good afternoon. So in terms of the (inaudible), (the propelling math we're given) with some indication of where we see the (current amount) with the platforms leading their (pack) in terms of the contribution to bookings and revenue, followed by enterprise and (then their connectivity).

And we mentioned that all three segments are (experiencing healthy growth), enterprise specifically since your question was about enterprises -- is growing in double digit.

And of course we expect that growth in the (middle to long-term) to accelerate. (At the moment that's what we're seeing). In terms of the capacity, the type of capacity and the (minimum) capacity required.

The type of capacity would be a combination of different requirements from (customers), we've seen a very healthy balance between the (network nodes), (the small compute nodes), and the (inaudible) (compute nodes) -- so the data centers that we're building are intended (to meet a mix-up) of customer demand.

In terms of the volume of capacity, we (give you) some indication (of this) in the preparing remarks of the title of capacity that is coming online this year and next year -- and of course that -- there will be more to come.

But the figure that we're giving you gives you an indication of the volume of capacity that we expect to be able to serve in the next 18 to 24 months.

David Ruberg: Does that answer your question?

Male: Yes, yes -- that was very helpful, thank you.

David Ruberg: As far as your first question is concerned, there's a probably a difference between a (life-side) world glimpse at our future and we in turn looked at our future.

So we've gone through periods where people didn't care about us, and then we went through a period where everybody wanted to -- thought we should get bought. Basically we focus on building the best company that we can.

We have the (straight to market strat) -- strategy which (is approved) to be very affective. We continue to pursue that, and we'll pursue that in a fashion that (inaudible).

We've always been and we'll remain highly disciplined with respect our long-term returns and investment. And we will take projects -- undertake projects if it meets our return (thresholds), and proves our relevance in communities and independence of structure.

So we have not (thought) about this as a transition point, we continue to pursue this go to market strategy, which people are now emulating -- and we will do whatever it takes to realize that whether it be (buying, get bought or just stay independent). OK.

Male: Thank you very much for the (inaudible).

Operator: Thank you. Your next question today comes from the line of (Frank Luten) of Raymond James, please ask a question.

(Frank Luten): Great, thank you. I apologize if you have already discussed this. So can you discuss any impact you're seeing in inflation, either both in labor and raw materials, (as it's) impacting your yields?

And then, can you talk to us a little bit about the margins and sort of the rest of Europe? You know, what changed? There's a little bit (below) what we're looking for. Thanks.

David Ruberg: OK, I'll take the first one. Richard, you can answer the second one. If you allow me to just talk about the economic environment in general -- we've seen some impact over the last two years. Not necessarily from inflation, but there has been a pick-up in business activity in Europe in general.

And so the consequence of that from a construction standpoint has been -- it's not reduced -- it's not increased our cost, but it has caused us to come up with (longer) build times, marginally longer build times, and to be very creative in terms of how we allocate the capital and people.

So as Europe is beginning to slow down a little bit, we're beginning to see more resources available for construction. So to your specific question, haven't see much of an impact on inflation at all in terms of construction cost and (as yet) not seen it in terms of people costs either. Richard?

Richard Rowson: Sorry, yes, (Frank), could you just repeat question so I can (get it right to you)?

(Frank): Well, if you look at the margins in sort of the -- you know, outside of the big four markets, a little bit lower where you're looking for, anything change there in the cost in those markets? How should we think about that?

Richard Rowson: No, I wouldn't say anything's changed. We've seen a little bit of (FX) headwinds year over year. we've seen a number of, you know -- as I said in my prepared remarks, we've seen a number of relatively small items that when they add up, they have a -- they have a slightly larger impact, but overall nothing's changed, they're still performing well, you know, the margins are still in the high 50s, (I think 57 percent, so nothing's changed.

(Frank): OK great. Thank you.

Operator: Thank you. Your next question today comes from the line of (Culberson Eiffeloff), (Cowen & Co). Please ask a question.

(Culberson Eiffeloff): Hi, great, thank you. First off, I guess related to the interconnect opportunities, 6 percent of revenues is the guidance for this year; is there an opportunity over this near to medium term to raise prices for your Cross Connects?

I appreciate that it's a relatively new program, but my understanding is that you're still fairly well below in terms of pricing compared to some of the competitors that offer those same services in the European market. So trying to get a sense, you know, what your thoughts on that are.

And then secondly, just talking about the -- the trade war, which is obviously commanding a lot of the headlines probably across the globe right now, just curious -- in the conversations that you're having with these hyperscale companies, do you sense any of the U.S.-based companies thinking about slowing down their rollout or buildout in Europe and -- and how do you think that these, you know, broader trade wars, if you will, could (ultimately) impact your business? Thank you.

Male: OK. The -- (Colby), the first question, is there an opportunity to raise prices? Yes. But I would caution you all to think about when you say that ours are lower than some in the industry, we usually (get paired) -- compared to a specific company.

That company has a lot of its cross connects in the financial services area -- excuse me -- where traditionally the prices are higher.

So our focus is on the total cost to our -- our customers in terms of the value and the cost. So whether we raises prices on space and power or raise prices on cross connects, that's something that we -- we think about all the time and we will certainly think about it as we go into next year.

As far as the trade wars, in my conversations with these hypersalers and some of the other folks that are looking at coming to Europe, there is an awareness of what's going on, but just like Brexit has created opportunity for us, many of the people are not sure how this is all going to sort out but they do recognize that migrating to the cloud, redoing their businesses processes, all of these things have to be done if they want to be successful in the future regardless of what happens with Brexit or what happens with the trade wars.

So in some respects, the customers here in Europe and the hyperscalers in the United States have come to a realization that this is something that's going to happen no matter what really happens. OK?

(Culberson Eiffeloff): OK.

Operator: Thank you. Your next question today comes from the line of (Robert Goodman) of (Guggenheim). Please ask a question.

(Robert Goodman): Hi. Thanks for taking the question. You know, in terms of the enterprise discussion, I thought it was very interesting and I was wondering if you could also (layer into) that discussion the adoption of infrastructure as a service versus software as a service, and whether the demand is increasingly driven by applications rather than infrastruture and how that -- how that's progressing?

And related to that, you know, on the part of the workloads that you mentioned for the enterprise transition that would be not suited to cloud, would you expect to capture those sort of dedicated deployments also, or just sort of an edge that connects to cloud?

And related to that also, when you mention the inflection point, how far out do you think that inflection point could be in terms of accelerating at pace of demand?

Giuliano Di Vitantonio: (Bob), this is Giuliano. I'll take this one. Let me start with this -- the second point you bring up, the workloads and which workloads we are going to take.

We've been very, very disciplined (in) really targeting the workloads that are going to create value for our communities. That's been our core strategy since the beginning and continues to be.

So that could be larger deployments, but not necessarily those that do not have a connectivity requirement. So that's the (real foundation) for us, the connectivity requirement is the primary criteria for us for the choice of which one we target.

So that will not change. From (an IAS and SASPA) perspective, I think both are driving the immigration to the cloud at the moment.

The enterprises that are more advanced, which focus more on (IAS and PAS), because they have the development capability, they have the development teams that actually develop application in house and can leverage those third-party infrastructure to create their own applications.

Smaller enterprises and less performance (incentive) applications are turning more to (SAS). So that's a -- that's the -- if you want the distinction, but we have seen demand from both.

In terms of the relation back to the workloads, we will say that definitely (IAS and PAS) applications are (those) that create more value for our communities, because as you can imagine if you have an infrastructure sitting somewhere and you have a (database) sitting in close proximity, that's the type of workload that really benefits -- benefits from co-location.

I'm not saying that (SAS) does not add value to the community, because of course an enterprise would want to access (a variety of application, including SAS), but those that create the real drive for co-location are primarily (IAS and PAS) applications.

In terms of the inflection point, we're starting to see adoption, but it's very difficult to predict the pace of adoption. It is difficult to predict over what period of time this will pan out, and at what proportion of the application will migrate to that model.

We know that there are signs of this happening, and continue to happen, but at this stage it would be -- it would be premature to quantify that in terms of time and size of the opportunity.

(Robert Goodman): Great. Thank you.

Operator: Thank you. Your next question today comes from the line of (James Briel) of (Buildium Blair). Please ask a question.

(James Briel): Thanks for taking the question. Just from a high level perspective, what's -- are you seeing any impact (from) GDPR in terms of how your customers are operating or even how the regulators are operating around the (environment? Thanks).

(David Ruberg): That's a question that has either a three-word answer or a week answer -- W-E-E-K. No. What -- I think most people have done what we've done, and you see this every time you go online and you get a website that pops up and says, "Here's our privacy; opt in or opt out or tell us (which one)."

What we've done is we've educated all of our employees and we spent -- and we are focused and vigilant on adhering to the guidelines and the guidance that have come out about it.

In terms of it either creating more business or not, I think it's too early for anybody really to know. Now, there are some elements associated with data sovereignty in general that we are beginning to see.

Giuliano Di Vitantonio: Yes, so, data sovereignty clearly is a key driver to deploy capacity, to deploy (compute nodes) storage, and (macro nodes) in close proximity to the end user, ideally in the country where the end users are.

So that is clearly a trend that we've seen for quite some time, and we expect that it -- that it will continue. But in terms of the specific (event, as) David was referring to the specific event on the 25th of May that happened when GDPR came into force, the world didn't stop that day and everybody was pretty much prepared for -- for that transition.

(James Briel): Great, thanks.

Operator: Thank you ladies and gentlemen. As a reminder, if you wish to ask a question, please press star, one on your telephone. Your next question comes from the line of (Erik Mercen), (Laurence Neville). Please ask a question.

(Erik Mercen): Yes, thank you. Just to -- one's on pricing, circling back with that, you know, obviously (our crew) finished that up second quarter at the higher end of your range, and you reiterated that range.

But maybe just highlight what drove that strength again, and is that the sustainable level? And then what pushes it potentially higher.

And then second, the ongoing success in (inaudible) hub is rapidly becoming a gateway for most of the day to traffic between as you mentioned Europe and Africa and Middle East.

But what – what are some of the milestone we should watch for to measure the progress for this asset. What – what does this do for interaction in terms of your competitive position overall?

David Ruberg: All right, I’ll answer the second half, and then Richard, you answer the first. OK, milestones you should look for obviously is us continuing to build data center space, that’s a relatively straight forward one.

Another one to look or is the number of submarine cables, which terminate the SLTE equipment, terminates in our data centers. And we have 13 now. By the way, in 2005 there were none. There are now 13.

And there's a possibility by the end of next year that the number could approach 20. So, easily recognizable launch of the size of the data centers we build, and the number of submarine cables.

What does it do for us? It's strategically very important, because the relationships that you build with people that come to (inaudible), they're just not coming to (inaudible) to stay in (inaudible).

And so you are beginning to see as that traffic picks up potential realignment, especially with Brexit and the fact that a number of the submarine cables are not coming directly to the west coast of France, and bypassing either Ireland or the U.K.

We are seeing France playing a more strategic value in the European arena for IP traffic. So it gives us a substantial upper hand in some of – particularly in some of the folks coming from Asia that are introducing themselves in to Europe.

Because they want access to the GDP in Europe, which is approximately the same size as the United States, great strategically, great tactically. OK?

(Erik Mercen): Great…

David Ruberg: Go ahead, Richard.

(Erik Mercen): Yes, then maybe on the pricing space.

Richard Rowson: Yes, -- excuse me, and mostly to the (inaudible) – I mean (inaudible) moved up to 418 driven essentially by three things. It's increased energy consumption, it's increased across in that revenue, and also the addition of square meters.

As we look at it, we see the trend going upwards. But obviously there's some (inaudible) in this – in this in relation to the timing of customer insulations, so overall we see the trend upwards. But as I said, it might prepare nodes. There's a tempering as we – as we add customer insulations.

(Erik Mercen): Thank you.

Operator: Thank you. We do have one more question, which comes from the line of Jonathan Atkin of RBC. Please ask the question.

Jonathan Atkin: Thanks, I wonder if you could elaborate a bit on competitive in terms of the – in the carrying where you are mindful if at all of – of new entrants in your markets, and say big four n the one hand versus rest of Europe.

David Ruberg: OK, thank you for the question. What I would suggest we do, if you allow me is to take a moment and step back and look at the big picture. The U.S. and Europe are about the same time – same size in terms of GDP, and that's about $19 trillion.

Now there is enough similarities and sufficient data points to support the conclusion. That timing considerations aside roll out a cloud base services in Europe will eventually follow the path that is in the United States.

Today, the U.S. data center reads of the last six months are posting bookings, number of time those a year. So, whether you measure it in term s of space, power or revenue or the opportunity, the opportunity for us in Europe is very substantial, and will last for many years.

So, there's a tremendous opportunity. As for our competitive situation, as for our position taking advantage of this opportunity, we believe as do many others that the various entry for successful interconnection are in a data center models are far higher than those for less differentiated (inaudible).

And essence for the type of opportunities that we're focused on devours the entry for a new entry are very high. So, bottom-line of all those words, if you look at what's happening in the United States, and you port that to Euro in two or three or four years, you see this tremendous opportunity.

As Giuliano said before, we are very selective in terms of which o those opportunities we take. And we think we are extremely well positioned to take advantage of it.

Giuliano Di Vitantonio: And – and it's Giuliano, I will add a bit more color to that. As you probably know, we – we really segment the market in different type of deployments. And we look at it the competitive environment for different deployments.

You may have recalled the last year, we provide our definition of five different types of – of cloud nodes that we target – sorry, that exist in the market starting with a very, very large deployment owned by the hyper scales themselves, then going down to (inaudible) nodes that they deploy to third party data centers that will go from large to midsize to more edge smaller nodes, and then of course the network nodes.

And I'm going to start with the network nodes, because those are the ones that really provide that (inaudible) the data is referring to, because they are closely tied to connectivity.

And we mentioned to (inaudible) that we have – we have nodes in Europe or Western Europe than any other vendor. Just to give some idea, we have more than 60 of those network nodes. And we track all of those that are – are available in – in Western Europe. I know that you keep tabs as well, we can't compare nodes there.

But we – we know that it's roughly 130 – 140 across all of Western Europe. So, you can do the numbers, we have a very, very significant market share of those nodes. And there are no many other providers that can actually offer the same – the same value proposition for those nodes.

So those are really – that's really the anchor for us. And then based on that, we selected Europe for the other compute nodes, and we really have a preference for those that are focused on small and medium size, because those tend to be the ones as we mentioned earlier that have the most strategic value for the community.

So, and again, for those we have a very significant market share. So when we segment the market, we go after the nodes, then we value the most. And we believe that for those that matter, our – our competitive position is very, very strong.

Jonathan Atkin: Thank you very much.

Jim Huseby: That concludes our conference call today, thank you all for joining us. We look forward to speaking with you in about three months, and seeing many of you out on the road. Thank you, and you may – you may now disconnect.

END