



Final Transcript



 InterCall<sup>®</sup>

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# Corporate Participants

**Jim Huseby**

**David Ruberg**

**Josh Joshi**

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# Presentation

## Operator

Thank you for standing by and welcome to the Interxion Q2 results conference call. At this time, all participants are in a listen-only mode. There will be prepared remarks followed by a question and answer session at which time, if you wish to ask a question, you will need to press star one on your telephone. I must advise you that the conference is being recorded today, Wednesday 17<sup>th</sup> August 2011. I would now like to hand the conference over to your first speaker today, Jim Huseby. Please go ahead, sir.

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## Jim Huseby

Thank you, Donna. Hello, everybody, and welcome to Interxion's second quarter conference call. Today you'll be hearing from David Ruberg, Interxion's vice-chairman and CEO, and Josh Joshi, the company's CFO. Before we get started I'd like to remind everyone that some of the statements we'll 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 on 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'll provide non-IFRS measures on today's conference call. We will provide a reconciliation of those measures to the most directly comparable IFRS measure in today's press release and on our investors' page at [investors.interxion.com](http://investors.interxion.com). We would also like to remind you that we post important information about Interxion on our website and we encourage you to check our website for the most currently available information.

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.

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## David Ruberg

Thank you, Jim, and hello. In summary, in spite of continuing economic, political and financial turmoil, the company had a very good quarter, has delivered its 19<sup>th</sup> consecutive quarter of

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organic growth and revenue and adjusted EBITDA. More specifically, revenues in the quarter were €60 million, up 19% year over year and 4% sequentially. Recurring revenue remained at 94% of total revenue. Adjusted EBITDA was €23.3 million, up 19% year over year and 5% sequentially.

Equipped space increased to 61,500 square metres as we opened an incremental expansion to our existing data centre in London. Our utilisation rate was 74%, up from 73% in both the first quarter of this year and the second quarter of last year. During the quarter, in response to market demand, we announced expansions and upgrades in Dublin, Vienna and Stockholm, each of which is expected to come on line before the end of the year. And subsequent to the end of the quarter we announced a major build in Paris.

Pricing across our pan-European platform remained stable and largely rational and unchanged since our last call. Churn remained low and in line with expectations for the year at an average of approximately 0.5% per month and consistent with prior year patterns. Bookings were solid and the pipeline is very strong and continues to grow.

Also in the quarter we continued to develop an expansion of our sales and marketing functions as well as our internal process and procedures supporting these functions and expect to complete the majority of these programmes by the end of the third quarter.

Earlier this month we announced plans to build our seventh data centre in the Paris metropolitan area. This is a significant investment in a key market and an important component of our growth strategy. We have seen a substantial up-tick in demand in this market place from large multinationals looking to outsource critical and response-time-sensitive applications and infrastructure as well as increased demand from many of these large multinationals looking to develop their private cloud solutions.

Our new Paris seven data is an extension of our existing [Saint Denis] campus in the Paris Area and is designed to support increasing demand in the market by eventually delivering approximately 9,000 square metres of fully-equipped space with approximately two kilowatts per square metre of user power.

It is important to note that we have already secured all of the power needed, which translates into well over 20 megawatts just for the users. Paris seven will be built in phases with the first phase providing over 4,500 square metres and scheduled to become operational in the second quarter of next year.

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Our segmented approach to the marketplace continues to provide results and we continue to deliver solid execution for our customers in each of our business segments. While we continue to see the majority of our new business coming from existing customers, we're also seeing the benefits of magnetic customers in attracting new customers.

As we continue to invest and [force through] the customer segments that we have chosen to address, the related communities of interest are developing and growing as well. We saw growth in a number of these segments. One such segment is the digital media and distribution segment where we saw growth across our footprint as our customers expanded to get closer to their customers by taking advantage of the depth and breadth of our geographic coverage.

Also the financial statement was again very strong. What is exciting about this growth is it is happening across our footprint and is not just confined to the traditional big four locations of France, Germany, Netherlands and the UK. We continue to invest in the development of the service provider or cloud segment and one of the highlights of the past quarter in this segment was the announcement of our collaboration with Microsoft, Hewlett Packard, KPN and the Netherlands Internet Exchange to provide a turnkey cloud hosting test environment for service providers, which was called Cloud Test Lab.

We believe that by bringing together industry-leading software, systems, connectivity and co-location providers, it will allow hosting providers to more easily test and develop cloud services and drive future interaction revenues.

Finally, we were pleased to announce our second transatlantic partnership, this time with [Coresite]. This partnership is focused primarily on cloud applications and will address demand from cloud companies looking for data centre space [and] Europe and the United States as well as cloud customers of both companies looking to expand internationally. Both of our alliances, [Telex and Coresite], expand our addressable market and will, in time, enable companies to move seamlessly between Europe and United States through our platforms.

With that, I'd like to turn it over to Josh.

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**Josh Joshi**

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Thank you, David, and good day to you all on the call. Interxion's second quarter results continue to show sequential increases in each of our key financial metrics. Revenues saw healthy sequential growth, adjusted EBITDA margins continued to expand and we continued to invest in the business for the future.

Revenue from the second quarter was €60 million, compared to €50.4 million in the second quarter of 2010, representing 19% year over year growth on a reported basis and, in fact, 19% on a constant currency basis as well.

Sequentially the revenue growth was 4%. Recurring revenue increased €56.2, representing 19% year over year growth and over 4% sequential growth. As a percentage of total revenue, recurring revenue remained at 94%.

Non-recurring revenue in the second quarter was €3.8 million, compared to 3.2 million in the second quarter of 2010 and 3.7 million last quarter. As a reminder, of course, non-recurring revenue can be lumpy from quarter to quarter.

Looking at our two reporting segments, revenue continued to be split 60/40 between our big four countries and the rest of Europe. During this time of prolonged economic malaise in the European economies, it was particularly pleasing to see consistent performance across our footprint with the big four countries of France, Germany, Netherlands and the UK growing at 19% year over year and our markets in the rest of Europe growing in aggregate by 20% year over year.

Gross profit margins in the second quarter increased to 57%, up from 56% in the same quarter last year and up nearly 30 basis points from the first quarter. We continued to make investments in segment-specific strategic marketing and business development talent in the second quarter. As a result, sales and marketing costs were €4.6 million in the quarter, up 29% against the same quarter last year and 9% sequentially.

As David already mentioned, we expect to have largely completed this investment by the end of the third quarter. Other G&A, which excludes depreciation, amortisation impairments, share base payments and exceptional costs, was €6.6 million, up 29% against the same quarter last year and essentially flat against the previous quarter.

Consistent with our discussion last quarter, the year over year increase reflects, in part, the onset of public company costs, in particular, public company compliance reporting costs. We estimate

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that the impact of public company costs in the full year 2011 to be approximately two to €2.5 billion, of which approximately one to 1.5 is ongoing and the remaining one million is one-time.

Adjusted EBITDA in the quarter was €23.3 million, which represents a 19% increase year over year and a 5% increase sequentially. Adjusted EBITDA margins were 38.9% higher than last quarter's 38.4% and slightly higher than the 38.8% margin recorded last year.

Moving to non-operating costs, we reported net finance expense of €6 million in the second quarter of 2011, compared to 4.8 million in the same quarter last year and 6.6 million last quarter. The year over year increase is due to the increased interest expense resulting from the €16 million bond tap we did in November, while the sequential decrease is primarily due to the increased interest income resulting from the mid-first-quarter IPO funding.

Income taxes in the second quarter were again €2.3 million, comparable to the first quarter and down from 2.9 million in the second quarter last year. As we stated in the past, we don't expect to pay meaningful cash taxes in the medium term.

Net profit for the quarter was €5.2 million, compared to €4 million in the same quarter last year. EPS for the quarter was eight euro cents, based on a weighted average share count for the quarter of 67.5 million shares; our first quarter with a full share count.

Moving to the balance sheet, cash and short-term investment as of June 30<sup>th</sup> was €232 million. We invested €90 million in short-term investments to improve our cash yields. Long-term borrowings remained essentially unchanged from both last quarter and year-end. The balance at 30<sup>th</sup> June was €257.2 million.

Credit statistics continue to remain well within our covers. Turning to cashflow, cash generated from operations was €23 million in the second quarter, higher than both the 14.8 generated in the second quarter last year and the 20.7 generated in the first quarter of this year.

Cash used in investing activities spiked in the quarter to €108 million due to the €90 million short-term investments in cash deposits that I mentioned previously.

As for the remaining cash used in investing activities, we invested €16.2 million in capital expenditures, including €13.6 million for expansion and upgrades. This brings our capital spending for the first half to €35.4 million. As we think about the second half of the year, we expect our capital spending to increase substantially to approximately 105 million to €125 million



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in the second half, the two main components being expansion upgrade cap ex for approximately 95 to €110 million and maintenance and administrative cap ex of approximately ten to 15 million.

Included in the second-half expansion and upgrade cap ex is the major new build in Paris as well as the other expansions we announced which will together require an investment of 65 to €75 million in the second half, the majority component of the 95 to €110 million range that I just mentioned.

The remainder of our anticipated capital spending will be announced over the coming months as we continue to execute against our capacity expansion plans.

Equipped space at 30<sup>th</sup> June increased by 500 square metres from last quarter to 61,500 as a result of the completed expansion in our London data centre that we announced last December. The announced power upgrade to the 500 square metres of equipped space in Düsseldorf was also completed in the quarter, though, because the space was already equipped, it of course did not add to our total.

The second quarter was our first full quarter as a public company as we completed the IPO in late January. We've made a commitment to progressively expand the visibility and insight into our business through our reporting each quarter. I believe the team so far has delivered on that intent and we will continue to expand that visibility over the next several quarters.

With that, I'd like to turn it back to David. David.

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**David Ruberg**

Thank you, Josh. Throughout the first half of 2011 we have posted results that have been consistent with our plan and our core business drivers, which have contributed these positive results, remain in place. We experienced very good growth across our footprint and can see good opportunity for continuing growth within that existing footprint.

The second quarter 2011 is the fourth consecutive quarter we have grown over 19% compared to the same quarter prior year. This is not only true at the total company level but also at our reporting segment levels, which are our big four markets as well as the other seven markets, in aggregate. Remember, our growth is 100% organic.

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The capital markets activity we undertake, which [will] include the IPO we completed at the beginning of this year and the €260 million in bonds we raised over the last year-and-a-half were transformative events for this company. These activities reinforced our confidence and, more importantly, our customers' confidence in our ability to fund our growth and we have been active in putting this capital to work to meet the strong demand we see for our services.

Again, to summarise, we announced four builds over the last few months that include Paris, Dublin, Vienna and Stockholm. As Josh explained, while we only spent €35 million in the first half of this year in cap ex, we still expect to spend at least €105 million the second half of this year and therefore are maintaining our cap ex guidance for the year at 140 to €160 million.

We likewise are not changing our revenue or our adjusted EBITDA guidance for the year. Specifically, revenues are expected to be between 239 and €245 million and adjusted EBITDA is expected to be between 91 and €95 million.

As always, I would like to thank all of our employees in our 11 countries for staying focused on our customers and despite the poor macroeconomic environment, for delivering another strong quarter of performance. I would also like to thank our shareholders and bondholders for their continued support.

Now let me hand the call back to the operator to begin the question and answer segment. And, operator, can you please read out the instructions to register questions from the call?

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## Questions and Answers

**Jonathan Atkins** - *RBC Capital Markets*

Yes. I had a couple of questions. First, with respect to kind of the seasonality of the quarter, if you could comment on whether June was a markedly different run rate than the other months in the quarter in terms of new bookings as well as installs.

And then on the segment level, rest of Europe EBITDA was flat sequentially and I wondered if you could remind us of some of the seasonal impacts there.

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**Josh Joshi**

Yes, sure. I mean, I can, let me deal with the rest of Europe EBITDA and I'll let David talk to the bookings. But the impact there on rest of Europe was just to do with the investment in sales and marketing, quarter over quarter and year over year.

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**David Ruberg**

Jonathan, on the bookings, I don't think there's any marked change this year from what we've seen over the past couple of years and again, as we indicated, the bookings were good and the pipeline is continuing to grow. So I don't think we want to get any more specific than that but the opportunity is there.

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**Jonathan Atkins** - *RBC Capital Markets*

And then just maybe following up on Josh's answer, so the investment in sales and marketing, what, was it over-indexed, then, towards rest of Europe relative to the big four?

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**Josh Joshi**

Yes. It's just a question of timing but in this particular quarterly comparison, yes.

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**Jonathan Atkins** - *RBC Capital Markets*

And then finally, on G&A, is the 6.6 million a decent run rate to think about going forward?

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**Josh Joshi**

I don't think it's an unreasonable run rate.

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**Jonathan Atkins** - *RBC Capital Markets*

Great. Thank you very much.

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**Jonathan Schildkraut** - *Evercore*

Good morning. Thank you for taking the questions, just a few here. The first is just in terms of square metres added. You know, I'm looking at the front end of this year; the pace seems to be a little slower than the back end of last year although overall utilisation rates appear that, you know, you have just about the same amount of capacity. I was wondering if you could give us some colour there.

And sort of the opposite side of the coin; the pricing trend seems to be a little stronger than what we were anticipating. It happened last quarter, again this quarter. Is that an issue of just pricing power or is it an issue of just kind of markets where you are selling into? Thanks.

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**David Ruberg**

Jonathan, I'll answer the second one first. Again, I do believe that when you look at the numbers you'll see that we do have reasonable pricing power but it's also a combination of not only pricing but also some of the people taking up more in power so it's a combination of the two.

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As far as your first question, the revenue-generating space again is a lumpy-type situation and I can only say that the pipeline is strong and that bookings were good. So it's a lumpy situation, not to be fretted over on a quarter-by-quarter basis, okay?

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**Jonathan Schildkraut** - *Evercore*

Okay. Well, maybe I can ask this question in a different way. Looking at the front half of this year, you generated, you know, around 20% year over year growth. Your guidance implies about 14, 14.5% year-over-year growth in the back end of the year. Is that just a function of more difficult comps given the strong growth at the end of last year or is there something else we should be reading into the guide?

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**David Ruberg**

There is nothing that you should be reading into the guidance. We made the guidance a year ago. We said we were a new company and we would only do annual guidance and we will stick by it and Jonathan will revisit this in three months but I certainly would not draw the conclusion that you almost drew about a problem being in the back half of this year. Okay?

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**Jonathan Schildkraut** - *Evercore*

All right, David. Thank you for the questions.

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**Chris Larsson** - *Piper Jeffrey*

Hi, thanks. David, you alluded to the macroeconomic environment but, you know, I saw your DSOs were down in the quarter. Can you talk a little bit about, are you seeing customers being more reluctant to sign new contracts?

And then secondly, on that same topic, [Telecity] had some London disruptions in one – in two of their data centres, actually. Have you seen any shake-out from that?

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**David Ruberg**

Okay. The DSOs; kudos to the field finance people who take their jobs really seriously and so again, I think, you look at that; you realise that in spite of the situation they're doing their job and we have customers that value our service, are stable themselves and are paying.

As far as the situation with Telecity, no. We haven't seen much shake-out from that. I think it was handled well on their behalf and that's about... We haven't seen anything. And the middle question was?

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**Chris Larsson - Piper Jeffrey**

No, that was, those were the two questions I had asked. The second thing is, maybe you could talk just a little bit how the core site deal is or how the core site differs from [Telex] in terms of what you think that might bring to you.

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**David Ruberg**

One of them is predominantly on the East coast and the other's predominantly on the West coast. One of them is a wholesaler that has very good relationships with digital media companies and the other is a retailer which has very good relationships with the financial services. And so since both of these segments are important to us, we thought it was appropriate to get the best support we could get in the United States and we picked two partners.

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**Chris Larsson - Piper Jeffrey**

Thank you very much.

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**David Ruberg**

You're welcome.

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**David Barden** - *Bank of America*

Hey, guys. Thanks for taking the question. I guess, maybe three, if I could, just two for you, Josh. First, just to double-check on the movement of the short-term investment money, the \$90 million obviously, if... I made some short-term investments a few months ago which aren't looking so great right now so if you could kind of just reassure us about where that money is sitting and how it's been performing of late.

The second would be, you know, just with respect to this really large acceleration in capital expenditure in the second half. You know, are there going to be more expenses that we should anticipate around, you know, creating the support infrastructure to manage, you know, something like four times the amount of projects in the back half of the year as we had in the front half of the year?

And then just the last one; David, obviously, look; everyone's been trying to tease out the answer. You know, in macroeconomically uncertain terms, you know – times, you know, does Interxion face a more uncertain future? We kind of saw this movie once already in 2007, eight and nine. Your headline is 19 months of revenue growth and EBITDA.

Can you maybe just draw us some comparisons to where we are now relative to where we were then and is there any reason that we should believe that things aren't going to be kind of just relatively steady again in 2012 versus a few years ago? Thanks.

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**Josh Joshi**

Well, let me deal with the short-term investment question first. We put it in six-month and nine-month deposit accounts with our banking partners and got some incremental deposit returns as a result. We've not – to be clear – we've not taken any risks with this. We just wanted some better, slightly better returns on long-term deposits, that's all.

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**David Ruberg**

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Right. David, to the question of scalability, one of the things we have always talked about is the strength of our field organisations. These builds are done on a local basis. We're getting pretty good at this over the last couple of years and so the scalability is inherent in the organisation, the way we're structured. So the, I do not believe that we will have any opportune, any problem given the number of projects and quite honestly, as we've implied by the fact that we're going to spend more money towards the end of this year, there will be even more projects that we're going to announce.

But we have been getting geared up for this over the last couple of years and I do not expect any problems in that area whatsoever, particularly since some of them are back into areas where we have built before in the last couple of years and that knowledge has been, and the adaptation of process and procedure has been inculcated into the organisation.

Your last reference to 2007; I'm not sure. The bust, boom, bust situation was really in the 2000, 2002. It's totally different today. We have a stable base of competitors. For the most part, they are very reasonable and rational. There are a couple of fundamental difference now in terms of the demand drivers and I can only imagine what our world would look like if in fact the economies did sort themselves out and started to pick up, just what kind of growth opportunities we would have.

So I think, again, in spite of everything that's going on, it is impressive because there are a number of big players and people that are looking at the same () as we are and saying, eventually, this will sort itself out and I want to be prepared. And we're starting to see some of that momentum in the marketplace so...

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**David Barden** - *Bank of America*

Great. All right, thanks, David, thanks, Josh.

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**Clay Moran** - *Benchmark*

Yes, thanks. That's Clay Moran. Two questions. You sound like you're seeing no change in customer demand trends. Just wondering if you sense any change in the credit market and how that affects you and what, how much credit do you have available under the current facility?



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And then secondly, just wondering what percentage of revenue comes from governments and if that is significant. Is there any concern there?

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**David Ruberg**

I'll answer the second one.

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**Josh Joshi**

Yes. Let me deal with the credit markets. We've got, as you know, a €50 million revolving credit facility which we've not accessed so we've got access to that in full and I'm not sensing any substantive change in the credit markets. And our bond trades exceedingly well.

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**David Ruberg**

You know, it's interesting. We have very little exposure and very little of our business comes from the governmental sector. But I would like more for it to come from that because one of the things that the governments are looking at is an attempt to improve their costs and to deal with some of these austerity measures they're actually looking at doing outsourcing and dealing with the people issues that come with that, where they would never have done that before.

And so in certain countries – I won't mention them – we're beginning to see real interest on the part of the governments to take some of these things that were internal and make them external and working with some of our partners, we see actually upside potential.

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**Clay Moran - Benchmark**

Great, thank you.

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**Sandeep Gupta - Barclays Capital**

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Hi, this is [Sandeep] Gupta for James. Thanks for taking the questions. Just dovetailing into the macro question earlier from David, have you seen any timing issues with the customer contract negotiations. And also, has your cap ex plan changed in any way, as in shifting cap ex from one country to another?

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**David Ruberg**

The changes that we saw in buying patterns – and I think all of us saw this – really came nine months ago and have been pretty consistent over the last nine months.

And in terms of deploying cap ex in a fashion that we did not anticipate, no. Some of the cap ex has come in a little quicker and some of the cap ex has been delayed a little bit but overall it's going into the markets that we thought they would go into, in the quantities that we thought they would go into.

And again, somebody at this table – not me – has got a pretty good crystal ball because when we put all these plans together in December of last year or prior to that, we had no idea of all the turmoil – I don't think anybody did – that we would expose to and they still are ringing true. So no; no change, slight timing but that's it.

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**Sandeep Gupta - Barclays Capital**

Okay. And then just on the cap ex issue, you have 12 million upgrades slated for four, for the key markets. Could you give us more detail around what that's for? Is that for space expansion or does it upgrade other ( ) ( )?

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**Josh Joshi**

Well, predominately it's to do with power upgrades. If you recall, our philosophy and the way we go about deploying our capital is that we will build data centres, we will design them to 1.5 and latterly two kilowatts per square metre. But on day one we would build them out something like one kilowatt per square metre and then over time we would then expand that power density and we call that upgrades and that's what's going on here.

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**David Ruberg**

Let me just add to that a bit and I just want to emphasise what Josh said. We designed to what we feel the customers will require over the next five to ten years. We acquire the power, the infrastructure necessary to meet that eventual demand. So what Josh is referring to is the just-in-time deployment of chillers, coolers, UBS systems to meet the demand that comes from our customers. It gives us a better return on capital.

It is not us going back to the power company and saying, okay, upgrade your transfer or improve your transmission system. It's all within our control. Okay?

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**Sandeep Gupta - Barclays Capital**

Perfect. Thank you.

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**Michael Rawlins - Citi**

Hi, good morning. Thanks for taking my questions. Just a couple of things. You know, the first is, I was wondering if you could talk a little bit more about some of the changes that you're making in the marketing organisation that you highlighted and, you know, within that context, how should we think about sales productivity and the ability to drive bookings growth with the changes that you're making?

And just one other follow-up. You know, you mentioned towards the end of your prepared comments about your focus and efforts to increase disclosures and () () of information. Can you talk a little bit more about that and maybe what we should expect from the company over the next three to six months along those lines? Thanks.

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**David Ruberg**

Okay. On the marketing side, again, the fundamental issue for is and focus is on the segment basis and there are different types of accounts in these segments. Some of them are magnetic,

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attract others. Some are strategic; those are customers you'd like to sit next to but don't have to; and some of those that are attracted to the strategic and magnetic and we are lining up our marketing, national and local sales organisations to basically mirror that structure.

One of the reasons that already Josh has already pointed out; we've done... There was a, just a different orientation in Q2 in the fields. We have basically done some of that work in HQ and in this last quarter we rolled out some of that, particularly in terms of marketing support, into the field. So that's what we're doing as well as upgrading our systems and we are now and avid user of one of the software as a service providers – won't name them – which should lead, certainly leads to better management visibility and will lead to better sales productivity.

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**Josh Joshi**

Mike, in terms of the visibility – and thanks for raising it – I mean, one of the things that we've done this quarter in our press release, in the tables in the back, is added in an additional table which sets out the markets that we have announced and, our expansions in and the different projects. That's something that we would plan to continue and as we go forward, again, we're going to develop that.

On the next call we're evaluating putting together a presentation which I think will aid in the understanding of our prepared remarks and so that's the kind of development from us that I'm thinking about as we go forward here.

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**David Ruberg**

And one other issue; you saw our latest press release and there was a lot more information in there than we have done in the past and so there's certainly someone in our industry who is very good at providing information that people are looking for and we aspire to improve along those lines.

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**Michael Rawlins - Citi**

Thanks very much.

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**Jonathan Schildkraut** - *Evercore*

Thank you. David, I just wanted to follow up on the expansion side. I guess, two questions here, one just a housekeeping item. You know, Stockholm doesn't appear to be in your expansion worksheet which, by the way – thank you for including that in your initial disclosures. So Stockholm doesn't appear to be here. That was a power upgrade so maybe that's why it's not on the sheet.

Secondly, I just want to confirm that your overall expectations for capital deployment and expansion have not changed from the time of the IPO, timing may have slipped on a little bit for some projects, timing may be a little earlier on other projects but overall, no change. Is that correct?

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**David Ruberg**

Jonathan, Stockholm is not called out specifically. It's in the other. It's not a power upgrade, it's actually an expansion. It's in an existing facility, it was relatively small – not relatively small. It was, it didn't cost a whole lot, okay? But it's in there.

And no, we have not changed our plans. I've noticed that you've highlighted a number of times the, an issue with us deploying our capital in order to meet our revenue targets for next year and we are working diligently to get that capital deployment in place, hasn't changed.

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**Jonathan Schildkraut** - *Evercore*

All right, David, thank you.

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**Jonathan Imlah** - *Colin Stewart*

Hi. A couple of questions, firstly continuing on the theme of expansion. You've obviously got a very busy programme planned for the second half in your existing footprint. Are you still

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comfortable with the existing footprint or are you looking to expand that at any point in the short to medium term?

And the second question is on the revenues in the second half or maybe the pipeline. Roughly what proportion of that is coming from what you'd term as cloud-based models? Thank you.

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**David Ruberg**

Okay. Expansion plans... I forgot the question. I was [smoking] ()...

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**Jonathan Imlah - Colin Stewart**

Looking into new markets, whether you're...

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**David Ruberg**

Oh, sorry, yes. I was focusing on your second question. No. We're very comfortable with the current markets that we have and again, look at the growth. You have three points to look at there, three competitors, you know, large competitors that are all doing quite well in this market in spite of the economic circumstances being as bad as they are.

You can only imagine what's going to happen here when these economies, instead of growing at a GDP growth of almost zero, start to pick up. That being said, we certainly are looking for an opportunity to work with our partners in the United States and potentially partners elsewhere in the world to take advantage of both revenue opportunities that would be coming into Europe as well as knowledge in terms of what is happening in the other portions of the world with some of the key customers.

So again, these relationships don't only just bring us revenue. They bring us access to knowledge about some of the things that are going on that we don't normally see.

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**Josh Joshi**

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Jonathan, cloud... to your other question, cloud is approximately 11% of our recurring revenues in 2Q and actually interesting that it's grown, I think, by over, well, almost 50% year over year.

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**Jonathan Imlah** - *Colin Stewart*

Great. Thanks, Josh, thanks, David.

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**Michel Fimera** - *Kiros*

Hi, guys. Thanks for taking questions. Just I would like to see if there could be some more elaboration on pricing trends in Europe. We've seen [Equinix] reported a mid-teens increase in co-location prices and the other competitor has shown a plus 4% in the entire first half of 2011. So just wanted to see if these kind of price increases are similar to what you have seen.

And then during the comments, you mentioned that some customers are demanding more power. If you could elaborate on that one, thanks.

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**David Ruberg**

Okay. First of all on the pricing, I don't remember seeing [Equinex] talking about the mid-teens and again, remember, we all go after different mix and different customers and different size of customers. I think what we have consistently told everybody is that we thought, on a new customer base, new customer and new application, we were looking for 2011 to be in the low single digits or in line, what I think, what you said, Telecity saw, said.

So again, there's all kinds of product mix, area mix, size mix but overall, from our perspective, low single digits in terms of raising prices for new applications; that's the range, okay.

And the second question...

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**Michel Fimera** - *Kiros*

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You mentioned that some customers are demanding more power.

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**David Ruberg**

Well, demanding is... Customers... Look, you sell to someone, they buy x number of racks and as their applications grow, they put more processors in there. They put more processors, they require more power and that's the advantages. It's the Bic shaver. You sell them the shaver and then you hope they buy lots of blades and that's where blade servers come from – no, that's a pun, it's not a very good one, and yes...

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**Michel Fimera - Kiros**

Yes. And then finally, I've seen that your partner in the US, Telex, has been, has changed hands. Any comment on that one?

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**David Ruberg**

The only comment that I think is appropriate for me to make is that we have discussed this with them and believe that they will still be a viable partner for us going forward.

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**Michel Fimera - Kiros**

Okay. Thank you.

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**Roberto Condalvare - Kiros**

Yes, good afternoon to everyone. I think, you know, one comment I would like to hear from management is, you have, to be honest, as shareholders we can judge on the results you've brought so far since you () () definitely in line with what you () as expectations and so we congratulate you on that and I think this is the most important part but we...



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How, can you comment on how you feel about the evaluation vis a vis the peer group? You are growing at least like them, your valuation is, to be honest, at a frustrating, substantial discount. Liquidity's poor. Are you still convinced listing in the US for a business that is essentially European has been a good choice or would you...? You know, and I would like to understand, how do you think, why are you trading at such a large discount?

People don't trust you, are you in the wrong market, you don't communicate enough? You know, just as a shareholder, is nothing [polemic] here but, you know, I'd like to understand your views if you have any.

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**David Ruberg**

Oh, we have lots of views. Okay, first of all, on an organic constant currency basis, I think we're growing faster than all of them and it is very frustrating to us. However, keep in mind that this is a typical trading pattern for companies that are relatively new. The lock-up was just over, off 35 days ago, 45 days ago. We... The one question you ask; are we happy about the discount? And I can tell you, the answer is, absolutely not. So all we can do – well, it's not all we...

A couple of things we can do, we're doing. We are going to continue to focus on building the business and to build the best business that we can and create the best value that we can, which means the best cashflows for, you know, a prolonged period, and eventually the market will recognise this.

In terms of why is the stock price at such a discount? You know, we talk to the bankers, you talk to the bankers and you've heard everything. One of the issues comes back to liquidity and we are doing every – we feel your pain and we're doing everything that we can in terms of getting out, talking, becoming more visible, to see if we can't get the liquidity to rise and the flexibility. In today's environment, low liquidity in a volatile situation kind of means lower prices.

As far as listing in the United States, I think I'll answer that question a couple years from now, or you'll answer that question for me in a couple years from now. But to make a decision about where to list and view it light of what's happened, you know, over the last six to nine months, I don't think is the appropriate timeframe to look at it.

So, Roberto, I feel your pain. We're doing what we can. Anything, any ideas you have; call me.

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**Roberto Condalvare** - *Kiros*

Okay. I don't think I have but thanks a lot for the answer. Thank you.

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**Maurice Patrick** - *Barclays Capital*

Hi, guys. Quick one for you; of the higher sales and marketing spent, can you just break out how much of it's higher head count and how much of it's the higher processes and procedures you alluded to? It'd be quite helpful. I guess it wouldn't be a conference call not to ask about the London planning permission, where we are on that one. Thank you.

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**David Ruberg**

Okay. I'm going to go to the second one because I've been waiting for this. All right. So one of the issues to let you all know is we have been working on four projects, separate projects in London. The planning permission issues that was brought up on the last two conference calls, as you can probably figure out, has nothing to do with London 19. That one we announced, we deployed. So there are three other projects that we're working on, all of them in our campus environment and we will announce them in due time.

And the permitting problem that we had, we are making substantial progress in terms of resolving that. Okay?

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**Maurice Patrick** - *Barclays Capital*

All right, thank you.

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**Josh Joshi**

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The spend in sales and marketing, you know, we added heads and we went into process. We also – there's a third component which is just spending not only in heads but also in the marketing spend, the marketing expense spend. We've not provided a break-out of that and so I'm not going to go there but it is, on a timing basis, it moves up and down each quarter in terms of the relative components.

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**Maurice Patrick** - *Barclays Capital*

Thanks, Josh. Is it kind of at a level now which you'd describe as sustainable or are we in like an up-swing of it or what's, can you sort of provide some colour in terms of where it's sort of headed?

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**Josh Joshi**

Well, look, you know, I think that what we did say is, and in fact, what both David and I said is that we would expect our investment both in talent and the sales and marketing expense to come to, the majority of it to come to conclusion in the third quarter so we're pretty close to the end of that in terms of its trajectory.

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**Maurice Patrick** - *Barclays Capital*

And is it sort of a market-wide phenomenon generally, sort of higher, increased spending on sales and marketing that you're seeing, or is it something that you're just doing proactively?

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**David Ruberg**

Well, again, there's a, one of our competitors is doing it and one is not so again, it really depends upon your strategy. Our approach has been very consistent with our strategy. It's a market segmentation. We want to be the thought leaders, we want to be able to talk to these people, we want to be able to guide them and you have to have the appropriate talent. You just can't be an order-taker, you've got to take the time and effort.

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But again, we're focused on these magnets and if we get these magnets, they're like the magnets in a mall. They attract the others so they require special care and feeding and they require talent and that's what we're focused on.

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**Maurice Patrick** - *Barclays Capital*

Great. Thanks, guys.

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**Jim Huseby**

Okay. Thank you, everybody, for joining us on our second quarter conference call. We look forward to getting at a meeting with you and speaking with you again following our third quarter. Thank you very much.

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