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INXN - Q3 2012 Interxion Holding NV Earnings Conference Call

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PRESENTATION

Operator

Thank you for standing by and welcome to the Interxion 2012 Q3 results conference call. At this time all participants are in a listen-only mode. There will be a presentation followed by question-and-answer session (Operator Instructions). I must advise you this conference is being recorded today on Thursday, November 8, 2012.

I would now like to hand the conference over to your first speaker today, Mr. Jim Huseby. Please go ahead, sir.

Jim Huseby - *Interxion Holding N.V. - VP IR*

Thank you, Lee. Hello everybody and welcome to the Interxion's third quarter 2012 conference call. Today you will be hearing from David Ruberg, Interxion's Vice Chairman and CEO, and Josh Joshi, the Company's CFO. To accompany our prepared remarks we're again providing a slide deck. The slides are available on the Investor Relations page of our website at investors.interxion.com. We encourage you to download these slides for use during this call if you've not already done so.

Before we get started, I'd like to remind everyone that some of the statements that we will be making today are forward-looking in nature and involves 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 the Investor Relations page at investors.interxion.com.

We would also like to remind you that we post important information about Interxion on our website. We encourage you to check our website for the most currently available information.

Following our prepared remarks, we will be taking questions. And now, I'm pleased to hand the call over to Interxion's CEO, David Ruberg.

David Ruberg - *Interxion Holding N.V. - CEO*

Thank you, Jim, and welcome to everyone. As Jim mentioned at the beginning of the call, we have prepared a slide deck to accompany our prepared remarks, and we encourage you to download it and follow along as Josh and I will refer to these slides during our comments. So please turn to slide 4.

In the third quarter 2012 Interxion produced another quarter of solid financial and operating results, continued the broad trends we produced in the prior quarter and in line with our previously announced full-year plan. Highlights for the quarter included good organic revenue growth, solid EBITDA margin expansion even in the face of expansion drag, low churn and solid growth of revenue generating square meters. We continued to execute on our expansion plans, opening additional space in our new Paris and London data centres, announcing an early opening of part of Amsterdam 6 and making continued progress in the remainder of our construction projects.

Revenue in the third quarter exceeded EUR70 million, which is an increase of 14% from Q3 2011 and a 4% increase when compared to the second quarter 2012. Year-over-year revenue growth was again bigger in the Big 4 countries than in the rest of Europe with the Big 4 growing 20% year over year. Both the cloud and financial services segments were particularly strong this quarter.

Adjusted EBITDA was EUR28.7 million in the third quarter, which is a 15% year-over-year increase and a 3% sequential increase as we continue to grow adjusted EBITDA faster than revenues on a year-over-year basis. Adjusted EBITDA margin was unchanged from last quarter at 40.8% in spite of the expansion drag of adding approximately 4,300 square meters of equipped space in the quarter.

In summary, continued strong execution has led to solid financial results with continued growth in our key financial and operational metrics.

Please turn to slide 5. We continue to deliver new equipped space throughout the third quarter, opening 4,300 square meters in three key markets, London, Paris and Amsterdam, at the end of quarter with 69,600 square meters of equipped space. We installed 2,600 square meters, revenue generating square meters during the quarter, taking our total revenue generating space to 51,200 square meters, which represents an 11% increase over 3Q 2011.

Bookings in the third quarter remained solid, and we saw an increase in booking from the second quarter. Consistent with our long-term trend, about 60% of these new bookings came from existing customers. Pricing during the quarter continued to be stable and rationale across our broad footprint and our [prep line] remained at a healthy level.

Despite our large increase in equipped space, utilization remained steady at approximately 74% at quarter end and third quarter churn remained low and was consistent with our expectation of on average about a half a percent a month.

Please turn to slide 6. We remain committed to our strategy of building robust resilient communities of interest within our target segments, and we do this through focused selling efforts, connectivity leadership, outstanding reliability and excellent customer service. Communities of interest generate significant value for both our customers and our shareholders through strong competitive differentiation of our data centres while enhancing the already substantial barriers to entry that are enjoyed by established carrier-neutral data centre providers. This differentiation allows us to charge a premium for our space while keeping our churn at an industry-low.

Our revamped sales and marketing organization which is now aligned with our segment strategy is proving adapt at attracting the right magnets and community of interest member customers. In addition, we continue to develop our US partner channels in order to capture key customers from this important market.

While all of our communities of interest continue to grow on the third quarter we [experienced] particular strength among the financial services and managed services segments. The managed service segments also cloud providers. In terms of the financial services segment we are seeing increased activity driven by regulatory compliance and trading platform's continuing need for speed together with access to community members already within our data centres.

Cloud providers were strong in multiple markets including Amsterdam and Frankfurt. These cloud providers choose to co-locate in their action date centres because of our rich connectivity, city centre locations and robust cloud communities which allow providers to offer their customers the best possible customer experience by improving application performance and minimizing response time.

We are focused on providing the best possible data centre environment for cloud providers because we believe the transition to cloud represents a significant value creation opportunity for Interxion. Another way to put this in context, Cisco forecasted that cloud data centre workloads will grow at approximately 39% CAGR from 2011 to 2016 and account for two-thirds of all data centre workloads by 2016. We believe Interxion is well-positioned to capitalize on this trend.

Please turn to slide 7. Earlier this year we outlined that Interxion had embarked on the most expansive construction and permitting period in the Company's history. We believe our team has risen to the challenge, demonstrating both the commitment to meet a demanding timetable and the flexibility to execute against changing customer requirements and needs by reallocating assets and restructuring schedules as required. We continue to follow a phased approach to delivering new space just in time to meet customer demands.

As I noted earlier, in the quarter we opened 4,300 square meters across London, Paris and Amsterdam. In London we opened 1,100 square meters in 3Q in our new London 2 data centre and are scheduled to open another 400 square meters by year end.

In Paris, we followed the opening of the first 500 square meters of Paris 7 in June with a further 1,500 in the third quarter. The remaining 2,500 square meters of Paris 7 will be put into service by the end of Q1 2013.

And in Amsterdam, based on accelerated customer demand, we accelerated the opening of our new Amsterdam 6 facility to deliver 1,700 square meters in the third quarter. The remaining 2,700 square meters of this data centre have already become operational in Q4.

We continue to focus on meeting customer demands and cementing key customer relationships as we pursue our expansion and development plans. Our announced projects with initial openings in Q4 2012 and Q1 2013 are on schedule. We are well on track to achieve our stated year-end targets of roughly 74,000 square meters of equipped space and 78 megawatts of customer power.

I would now like to turn the call over to Josh.

Josh Joshi - *Interxion Holding N.V. - CFO*

Thank you, David, and, of course, welcome to everybody on the phone and online.

Our third quarter results reflected the familiar Interxion hallmarks of strong and consistent execution. Revenue and adjusted EBITDA continued to grow healthily and the Company was able to successfully install record levels of revenue generating space. The operating trends are positive and consistent with our expectations for a solid end of the year.

I'll start as usual by discussing Group results and follow with some additional color on our two geographic segments. If I could ask you please to turn to slide 9.

Total revenue in the third quarter was EUR70.4 million, up 14% compared to the third quarter last year and up 4% sequentially. On a constant currency basis, total revenue was up 12% year over year and 3% sequentially.

Recurring revenue for the quarter was EUR65.1 million, up 12% from last year's third quarter and up 4% sequentially. Recurring revenue represented 92% of this quarter's total revenue as we recorded another strong quarter for non-recurring revenue.

Non-recurring revenue was EUR5.3 million, 41% higher year over year and 4% higher sequentially with most of these non-recurring revenues coming from our Big 4 markets.

Cost of sales in the third quarter was EUR29.4 million, up 13% over the same quarter last year and up 4% sequentially. Gross profit was EUR4.1 million -- excuse me, gross profit was EUR41 million, an increase of 14% year over year and 3% sequentially. While gross margins were little changed at 58.3% in the quarter, up 20 basis points year over year and down 20 basis points sequentially.

Sales and marketing costs were EUR5.1 million in the quarter. And while within the 7% or 8% range that we've spoken about previously, we're up around 20% against the same quarter last year and 9% sequentially. The prime reason for this was increased success-based sales compensation in the quarter.

Other G&A costs remain tightly controlled at EUR7.2 million, up 6% year over year and down 2% sequentially. The sequential drop was partly due -- partly to do with timing and we may see some of that timing reversed in the fourth quarter.

Adjusted EBITDA was EUR28.7 million, an increase of 15% year over year and 3% sequentially. Adjusted EBITDA margin in the third quarter was up 50 basis points year over year and unchanged from the prior quarter at 40.8%.

We highlighted on prior earnings call this year that the expected impact of expansion drag on our quarterly margin development over 2012. In the fourth quarter we would expect margins to show improvements.

We booked EUR3.8 million of net finance expense in the third quarter, down 28% year over year and 3% sequentially. As discussed on prior calls, our finance expense is positively impacted by the requirement to capitalize interest cost during construction.

During the third quarter, capitalized finance expense was EUR2.7 million compared to EUR0.6 million in the third quarter of 2011 and EUR2.8 million last quarter.

We booked income tax expense of EUR4.3 million in the third quarter, resulting in an effective booked tax rate of 33%. We continue to see the benefits of our significant tax shield. And the effective cash tax rate for the quarter was approximately 10%. And on a last 12 month basis the effective cash tax rate was approximately 12%.

Net profit for the second quarter was EUR8.6 million, 24% higher than the third quarter last year and down slightly from the second quarter.

Earnings per share during the quarter were EUR0.12 on 68.7 million diluted shares compared to EUR0.10 (sic - see slide 9 "EUR0.13") in the second quarter and EUR0.13 last quarter.

Now, let's take a closer look at our geographic segments and please turn to slide 10. Looking at the trends side by side like this highlights the impact of the current macroeconomic cycle in our rest-of-Europe segment. The Big 4 markets, France, Germany, Netherlands and the UK are our biggest markets and where we've continued to invest in a measured and prudent manner led by customer demand.

We've seen the fruits of that organic investment come through solidly in the Big 4 segment. Consistent with the long-term historical pattern, the rest of Europe delivered superior margins given the strong competitive position that characterizes our data centres in each of these markets.

Adjusted EBITDA margins for both segments were down slightly from the second quarter due to expansion drag, as we've already discussed, and seasonal effects on power consumption over the summer months.

Our Big 4 markets which contributed 52% of total Group revenues continue to post strong results in the third quarter. Total revenue increased to EUR43.8 million, up 3% sequentially and 20% year over year.

Recurring revenue was EUR39.8 million, up 16% year over year and 4% sequentially. Non-recurring revenue of EUR4 million in the quarter are a record level and consistent with our increased customer installations over the last two quarters.

I would remind you, however, that this revenue stream is lumpy by nature and the current level should not be regarded as a new norm.

Adjusted EBITDA in the Big 4 markets was EUR22.4 million, up 21% from the third quarter 2011 and 3% sequentially. Adjusted EBITDA margin was 51.2%, up 50 basis points from last year's third quarter and down 30 basis points from last quarter.

We've seen strength, particularly from the cloud segment in multiple geographies. Total revenue in our rest-of-Europe reporting segment was EUR26.6 million, a 4% increase both year over year and sequentially. Recurring revenue was EUR25.3 million, a 6% increase year over year and 3% sequentially. Non-recurring revenue was higher sequentially in the third quarter at EUR1.4 million, but lower than last year's third quarter which was unusually strong. Adjusted EBITDA was EUR13.8 million, up 5% year over year and 2% sequentially with adjusted EBITDA margins at 51.8%.

We saw particularly strength in Sweden from the financial customer segment. During the quarter we began to see greater contributions from our expansions that opened earlier in the year. We expect to continue this momentum through the remainder of the year given the recent completion of Amsterdam 6. We expect to see this momentum result in increased recurring revenues which should result in improvements in adjusted EBITDA and adjusted EBITDA margins.

Moving to slide 11, let me talk you through our capital expenditures. Capital expenditures including intangibles as seen on the left hand chart totaled EUR46.5 million during the quarter, with EUR44.3 million of that devoted to expansion capital and EUR2.2 million to other CapEx including maintenance CapEx.

Capital expenditures including intangibles for the first nine months totaled EUR150 million. As you would expect, given the nature of our expansion this year, over 80% of both this quarters and the year-to-date capital investments have been made in the Big 4 markets as you can see in the right-hand chart.

Please turn to slide 12. When we started out this year, we outlined plans to grow quick space by some 20% and to significantly increase revenue generating space, particularly in the second half of the year. We are steadily successfully executing against this plan.

The industry as a whole has spent some time explaining how this type of expansion impacts margins, what we call expansion track. And in the last earnings call I also talked about the impact of significant expansions diluting ARPUs in the medium-term, specifically in the fourth quarter.

In light of this I thought it might be helpful to review how we typically see recurring revenues develop in data centre expansion activity and some of the underlying drivers. When we bill our customers for our services there are three principal components to recurring revenue. The first is, of course, space, measured in square meters and billed in advance. The second is the power reservation fee which is sometimes referred to as access to cooling capacity. It is typically measured in kilowatts or kilowatts per square meter when evaluating individual customer deployments and is also billed in advance. The third component is energy consumption which is measured in kilowatt hours and billed in arrears similar to utility bills. This is the variable metered energy usage the customers use to run their equipments and is priced as a service.

As we deploy and fill our data centres these three revenue components drive revenue development differently over time. Now, if you look to the chart on the top-left, the blue bars show how typically space is installed over time. Remember, we size our data centres to each market and opportunity so they tend to get sold out in about three years. The green line illustrates the typical development of both power reservation and energy consumption. As you can see, typically power reservation and energy consumption lag the space installation.

The chart on the top-right shows how the space, power reservation and energy consumption deployment drive recurring revenue over time. As customers contract with us for data centre space, we begin to bill them for these square meters. And these are reflected in our revenue generating square meters metric that we report each quarter. Customers will then tend to take some time setting up their racks and cabling, often our experts help them. This process may take anywhere from a few days to a few weeks, only in some very complex deployments several quarters.

Customers have to secure an initial power reservation to cover initial testing and purchase incremental power reservation over time as the deployments become fully operation and the rack units become denser and consume more power. This process continues across the customers in the data centre until revenue generating capacity -- until revenue generation space, excuse me, reaches its capacity.

We tend to highlight that the practical capacity of a multi-customer data centre is reached at approximately 85% utilization. However, power and energy lags a few quarters behind, and revenues from these components continue to grow even as the space is fully utilized and continues to contribute to revenue growth long after the space is sold out.

The chart on the bottom-right shows in the same context the ARPU or recurring revenue per square meter development over time. As we initially deploy customers in our data centre expansion, ARPUs from that data centre tend to be lower and then grow over time as power reservation and energy consumption increase. As we think about the practical implication of this in our business this year the deployment of record levels of revenue generating space in the third quarter means that we would expect overall ARPU levels to be impacted by this phenomenon in the fourth quarter.

Please turn to slide 13 and look at the balance sheet. Cash and cash equivalents were EUR55.2 million at September 30th, down from EUR142.7 million at the year-end due primarily to EUR150 million in capital expenditures made so far this year, and partially offset by the EUR79 million in cash we've generated from nine months of operations.

Our outstanding borrowings at September 30 continue to be pretty much unchanged from year-end. And a EUR60 million RCF remains undrawn. The gross leverage ratio remains at 2.4 times with the net leverage picking up slightly to 1.9 times. We remain well capitalized, fully funded with strong credit matrix and no near-term maturities with plenty of headroom.

Please turn to slide 14. By now you've probably all seen earlier versions of this chart. Nevertheless, we continue to be very proud of what this chart says about our business. Very predictable, consistent and the consequence of a long-term collaboration with our customers. And with I'd like to turn the call back over to David.

David Ruberg - *Interxion Holding N.V. - CEO*

Thank you, Josh. Take a breath. If you would turn to slide 16, please.

Josh Joshi - *Interxion Holding N.V. - CFO*

Thanks, David.

David Ruberg - *Interxion Holding N.V. - CEO*

Before I wrap up I wanted to take a few minutes to expand on the concept of connectivity a subject that we are frequently asked about by both analysts and investors. So again looking at slide 16. Connectivity is important to us at Interxion because it is the core of our strategy to maximize the value of our services to our customers. Connectivity is more than just peering. In fact at Interxion we view connectivity as coming in five different types and we leverage the distinct capabilities at each to benefit our customers.

First, we have international connectivity providers who provide three core communication service types, ethernet, IP VPN and Internet access or commonly called private IP peering. These enable our customers to manage applications and content across the Internet and the wide area networks internationally. Interxion has over 130 ethernet providers in over 250 IP VPN IP access providers within our European data centres.

Second are the Internet exchanges. These provide the necessary in-country access for best endeavors IP public peering traffic to reach the entire population in their country of operation augmented with international capability. The 18 Internet exchanges which we at present and our data centres provide access to over 2,400 Internet service providers or ISPs across Europe more than are available throughout any other European data centre operator.

Third are the CDNs. Content distribution networks enable content to be distributed rapidly from edge locations to consumers thereby ensuring a good user experience for applications such YouTube or other streaming video. These CDNs are also increasingly becoming useful to enable cloud platforms to operate effectively. They help to make Interxion data centres ideal locations for cloud providers to establish a regional or a national presence. Interxion has all of the top 10 CDN providers within our data centre footprint.

Fourth are the national telcos. These are national telcom operators who provide the dense national coverage needed for the delivery of IP VPN and ethernet protocols which with the appropriate SLAs to any location in their given country. Typically, we have the top three leading national telecom operators in each of our data centres.

And fifth are the MNOs. These are the mobile network operators who enable content and applications to be delivered to a variety of mobile devices. And typically we house the leading providers in any given geography. This unique mix of five different types of connectivity available at each of our data centres across our 11 countries of operation delivers Interxion's customers a unique pan-European capability and added value in terms of realizable cost savings, revenue growth available due to improved application performance and customer experience and the benefits of membership in our growing communities of interest.

We recognize that one size doesn't fit all, and the different connectivity providers are critical to different communities of interest. We go out of our way to make sure that we have the right providers in each of our data centres in order to maximize the value of our communities of interest to their members and ensure the respective community drive.

Please turn to slide 17. We've again produced solid results. Our pipeline for the rest of the year is in line with our expectation and industry demand fundamentals remain strong going into 2013. We've executed well against the challenging demand driven expansion plan, opening five new data centres this year. And we are on target to meet our year-end targets for equipped space. We remain positive about the industry outlook and Interxion's prospects within it.

Consequently, we are affirming our previously announced full-year financial guidance and to be specific for the full year 2012 we are expecting revenues to be in the range of EUR275 million to EUR285 million. We expect adjusted EBITDA to be in the range of EUR112 million to EUR120 million. And we expect to invest between EUR170 million and EUR190 million in capital expenditures for this year.

In conclusion, as always, I would like to thank all of our employees in all of our countries for staying focused on our customers and continuing to deliver strong results. I would also like to thank our shareholders and bondholders for their continued support.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Jonathan Atkin, RBC Capital Markets.

Jonathan Atkin - *RBC Capital Markets - Analyst*

I was interested in the guidance, the very final comments that you gave, David, and it seems like now that we're closer to year end maybe there would be an opportunity to give us a feel for where within the range you're likely to fall for CapEx and for revenues and for EBITDA or perhaps the type of range of that.

Josh Joshi - *Interxion Holding N.V. - CFO*

Hey, Jonathan, it's Josh speaking, thanks for the question. If you recall, our practice is to set annual guidance at the beginning of the year and then to affirm the guidance and unless there is a material change. Now, we're again affirming the range that we established at the beginning of the year and we're not making any specific comments as to where we'll be in 4Q relative to that range.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Can you give us a sense of maybe the seasonality of the quarter and how September compared to earlier months of the quarter and how October has performed thus far in the Big 4 and rest of Europe?

Josh Joshi - *Interxion Holding N.V. - CFO*

Yes. If you recall, we -- what we -- and we've had a strong hand in terms of revenue generating square meters to the end of the third quarter and we've opened a number of data centers during the course of the year. We are, we continue to be on track with that, we continue to push very well into the fourth quarter. We've announced the completion of Amsterdam 6, and so that's the solid driver, I think, into the recurring revenue performance into this next quarter.

Jonathan Atkin - *RBC Capital Markets - Analyst*

And as we look at, the coming years some companies have given us a view as to how they expect -- expect it to play out and actually provided some guidance. And I wondered with respect to you is it fair to anticipate comparable growth top-line perhaps coupled with margin expansion and moderating CapEx, is that a fair set of assumptions?

Josh Joshi - *Interxion Holding N.V. - CFO*

Jonathan, our style will be to talk about 2013 guidance on the next call, 4Q, and we'll give you a solid update at that point in time.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Okay, and then finally on the M&A front there's been some activity in Scandinavia as well as in Frankfurt amongst your competitors and I just wondered how that may have affected your business in either Stockholm or Frankfurt.

Josh Joshi - *Interxion Holding N.V. - CFO*

Jonathan, they were -- first of all, the one -- we commented about the one in Germany before, they were competitor -- both of the combined entities were competitors and we do not see them getting together having any impact on us positively or negatively at all.

And in a more general sense, you can be assured that we're not (inaudible) M&A, and so we are -- you can assume that we're in the deal flow like anyone else, and if we see something that is appropriate to us, we would be active in that.

In terms of Finland, we have looked at the Finnish market, there might be some potential there, but we are very comfortable with our position in where we are with Stockholm, so I don't see any --

Jonathan Atkin - *RBC Capital Markets - Analyst*

Sorry, go ahead.

Josh Joshi - *Interxion Holding N.V. - CFO*

So I don't see any negative impact on that as -- on us as a result of that.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Your stock has done quite well since the IPO, but you're still at a discount to peers, and on that M&A theme I just wondered if you could update us on your willingness to participate in perhaps a broader strategic transaction.

Josh Joshi - *Interxion Holding N.V. - CFO*

Okay, I have to go calculate the numbers today, but I'm not sure I know how much the discount is at the present time. Okay, we have a very rigid -- no, rigid is not the word. We think we have a very good go-to market strategy in our market segmentation. We are very disciplined about how we bring data centers online and how we fill them with the appropriate customers we may have -- we just have a different way of looking at these acquisitions.

And again, you can assume that we have participated in looking at many of these transactions as they were formulating and we will be as aggressive as appropriate if we find an asset that meets our profile in terms of the quality of the data center and the quality and consistency of the customer base. Okay?

Operator

(Operator Instructions) Milan Radia, Jefferies.

Milan Radia - *Jefferies - Analyst*

My first question actually is just around the ARPU development charts that you put up, Josh. Is there a sense on your part that perhaps the Company's approaches are different in this regard? So are you perhaps differing more of the power up-sell, say versus Telecity. And my sense is they're probably selling more of the power upfront. And is that function of the type of customer or size of deal or what is the accounting for those differences?

Josh Joshi - *Interxion Holding N.V. - CFO*

Well, it's difficult to comment on what Telecity do. But we are, have a consultative approach with our customers. They're deploying mission-critical systems over time and accessing connectivity. And I think that, as I said early on in the prepared remarks this phase comes on and then the power and the capacity and the energy comes on later.

If there are smaller footprints and more cabinet-based footprints and then coming on in that manner, then perhaps it's different but as we tend to adopt mission-critical systems, they tend to be wider, larger footprints. They tend to be more complex implementations and engaging in a more complex manner within the communities and our data centers (inaudible).

David Ruberg - *Interxion Holding N.V. - CEO*

No, actually Milan I think you answered your own question, okay. I think you show a great understanding of it. The development of the revenue, particularly in the power reservation and in the power consumption is mix related, and I think Josh just addressed that.

So the more complex installations, the people basically want all of the space upfront because they want to lay it out and it just takes time. So a simple, small installation might only take one quarter to get up to speed and a larger installation of 100, 200 square meters with all of the cabling and the interaction and the populating the equipment might take two, three, four quarters for it to get up to speed.

So if in fact our competitor takes smaller deals and they are fully populated when they are installed and we're taking deals of a different mix, yes then we -- we're not delaying the revenue growth from the power reservation or from the recurring power consumption, it's just the consequence of what's happening.

Milan Radia - *Jefferies - Analyst*

Okay, and then one follow up then, which is just around your comments about cloud having been a feature of Amsterdam and other territories. If we assume that you've had some big cloud wins say in Amsterdam 6, I just wanted to understand, is that data center really being deployed to just one customer at this point in going forward or is it that customer plus other providers other application vendors and so on that opt to use that customer's cloud platform. How does that play out in terms of utilization of that data center?

David Ruberg - *Interxion Holding N.V. - CEO*

There are multiple applications in that data center.

Milan Radia - *Jefferies - Analyst*

Okay, for multiple customers, essentially.

David Ruberg - *Interxion Holding N.V. - CEO*

There are multiple applications. Again, we've talked about this a number of times. Many of our customers do not want their names used or any indication. I can tell you that there are multiple applications in there, not just cloud.

Milan Radia - *Jefferies - Analyst*

Okay, okay, thanks very much.

Operator

Stephen Douglas, Bank of America.

Stephen Douglas - *Bank of America - Analyst*

I guess one for you Josh. You brought up -- brought on a pretty good amount of space in 3Q and you're guiding to a pretty good amount coming in 4Q. So I guess could you help us think about the magnitude of the change in margins for 4Q and then maybe also 1Q as that potentially steps up as less space comes on? You guys have obviously talked a lot about expansion drag, and thanks for the new slide on that, by the way, but I guess

I'm interested to what extent that's offset by higher day one margins in your Amsterdam facility which you obviously own, and then also to what extent did pulling forward equipped space in the Amsterdam facility into 3Q mitigate some of that normal expansion drag effect?

Josh Joshi - *Interxion Holding N.V. - CFO*

Okay, well, looking at the different components of that question you may have to remind me of some of the backend of that question but the -- thinking about margins and the way that will work. And clearly given the guidance that we put out there and given our margins for the first several quarters to meet that guidance there is an uplift in margins in the fourth quarter. And it's fairly substantial to get to the midpoint.

But again, we've established a range at the beginning of the year and we're not trying to give a perspective of where we are. We're focused on a long-term perspective on this business and how this business will transpire over several periods?

I'm sorry David -- I'm sorry, Stephen, remind me of the second half of your question.

Stephen Douglas - *Bank of America - Analyst*

Yes, it was just to what extent did pulling forward the [closed] space in Amsterdam into 3Q mitigate some of the current normal expansion drag effect that you're expecting?

Josh Joshi - *Interxion Holding N.V. - CFO*

Well, it was -- I'm not sure we either mitigated or made things worse. Remember, if we accelerated it the early ARPUs on new space coming online tend to be lower than the space itself came online, and so in that overall context I think it's -- you know, in broad terms it probably slightly helped the expansion drag and to mitigate the impact of expansion drag over time.

Stephen Douglas - *Bank of America - Analyst*

Okay, great --

Josh Joshi - *Interxion Holding N.V. - CFO*

But I think it will certainly help in the fourth quarter.

Stephen Douglas - *Bank of America - Analyst*

All right, thank you.

Operator

James Breen, William Blair.

James Breen - *William Blair - Analyst*

Dave, I was just wondering if you could talk about some of the trends you're seeing in terms of the types of customers that you're signing with interesting in year over year and a price as a percent of revenue went down but managed services went up quite a bit. Do you feel like this is because enterprises are going through these managed services guys and outsourcing IT that way? Just sort of the trends you're seeing would be helpful. Thanks.

David Ruberg - *Interxion Holding N.V. - CEO*

It's a good question. No, I don't think -- in Europe I don't think we have hit that inflection point yet. I mean, it's tough to tell where it is in the United States but remember in Europe we're still dealing with privacy, data sovereignty issues and a number of other things. I think if you want to look for one factor in the enterprise which did continue to grow, I think one of our competitors has pointed out that as a consequence of what happened prior to the election and what's happened prior, subsequent to the election in France there has been a little softness in the Paris market. And I think that's all I would attribute that to.

As far as the future is concerned, we have yet to get to the inflection point where we are seeing either enterprises migrate their own applications to a private external cloud or to migrate their applications to a shared cloud. And we are all looking forward to that day because that is going to be a huge opportunity for us to participate in that.

James Breen - *William Blair - Analyst*

And that's similar to the US where that inflection point helped to drive the next leg of growth for the colo companies here?

David Ruberg - *Interxion Holding N.V. - CEO*

Yes, and again I don't think it is very difficult for me to, taken the number of times over the last couple of years in projecting where we were on that migration path and I think a number of you heard me talk about the four phases. I know what the four phases are. I'm given up on trying to predict these things because every time I do it turns out to be larger and slower than I anticipated.

So even with that as a backdrop the numbers that we're seeing or posting are I think as we characterize it, solid, but we have not yet got to the inflection point you addressed.

James Breen - *William Blair - Analyst*

Perfect, thanks.

Operator

Colby Synesael, Cowen and Company.

Colby Synesael - *Cowen and Company - Analyst*

First I just want to thank you guys for the information on the recurring revenue, and on the connectivity I thought that was extremely helpful.

Second -- my two questions. First, I want to talk about customer concentration, not asking you to talk about the specific customer going into Amsterdam 6, but I think it is widely understood that it is largely one specific customer deployment.

And I wanted to talk to you or get a better understanding of how you think about customer concentration. If we step back and look a few years ago obviously one of your competitors saw some pretty big churn from just a few or a handful of customers as those guys decided to build up their own data centres.

And I'm just curious how you think about that risk and the decision to potentially take some of these bigger customer deployments.

And then the second question has to do with the bookings trends, Equinix-specific. We talked about a little bit of weakness in the European market during the third quarter. You noted that your bookings were up and you know that your pipeline was doing well. Can you help us try and understand that?

My general sense is that because you deal with a smaller customer base at this point you might be specific to the customers that you're dealing with and as a result you're just not at a scale yet where you're seeing a huge impact from the macro economy. Now, I'm just wondering if you could kind of tie that up for us. Thanks.

David Ruberg - *Interxion Holding N.V. - CEO*

Okay, I will take the last one first. We're all seeing an impact of the macro economy, okay. So no one is immune to that. You know booking trends from one quarter to another or comparing one quarter to another, we're up a little, they said they were down a little, we don't build businesses on that, and that can be impacted by a couple of -- the size we are a couple of reasonable deals, okay?

In terms of customer concentration, the issue is not customer concentration it is more about the type of contract that you might have with a customer size, and so keep in mind that we're trying to build a career-neutral. Neutrality is extremely important. So we do not want to be dominated by anything. Whether a country, a city, a customer, a vendor, this is truly neutral.

So we are truly focused on building a community of interest, if it's dominated by one player, it doesn't attract anybody else, so we are very conscious of this just from a strategic standpoint.

From a financial tactical standpoint, we pay attention to not just the customer and size of the customer but the size of the application in any particular data centre, and we feel comfortable from those parameters and the contract that we may or may not have signed, the duration of it, that quality of the -- of whomever we sign contracts with, the credit reliability of it, we feel very comfortable with what we've done. And we do not anticipate seeing some of the issues that some of our competitors saw. They got involved five or six years ago and people at that time didn't have money to build data centres, and so now there is a difference.

We're in a situation where the people that we're talking about have more money than some of the governments that we deal with and have better credit ratings than some of them. So these are long-term strategic decisions made, not tactical.

Colby Synesael - *Cowen and Company - Analyst*

Great very helpful. Thank you.

David Ruberg - *Interxion Holding N.V. - CEO*

You're welcome.

Operator

Maurice Patrick, Barclays.

Maurice Patrick - *Barclays - Analyst*

So hearing your -- it seems me there is concern about the ability to add space organically. I know you've guided on a total power expectation of 106 megawatts, but curious to get your sense in terms of what's your confidence the next few years of organic build, what are the databank you may have of size that you haven't disclosed that give you the sense of confidence you can keep building organically for the future. Love to get a sense of that, thank you.

David Ruberg - *Interxion Holding N.V. - CEO*

Okay. I'm going to answer a part of that and I'll let Josh, all right. Look, in the last couple of weeks some things have come out about some permitting issues and some other things. This is part of our business. And actually, even for the ones that are successful at this, and a number of us are, this is something we have to deal with, and it is not a smooth thing. It doesn't always happen we have talked about this before.

But I can tell you what, this is also what discourages other people from trying to get into this business and continues to raise the bar in terms of the barriers to entry.

What we do is we don't put all of our eggs in one basket. I think a number of you realize that last year we had a large development that we were doing in London and we had some permitting issues with the (inaudible). I can tell you now that the permitting issues have gone, we didn't make a big deal out of it, but we do have permission to proceed with London 3.

But realizing that permitting might be an issue, we had already looked at alternatives. And one of the alternatives was London 2 which we've now brought online, but we still have London 3 as an opportunity to go forward. So, Maurice, there are issues, you learn to deal with them, but at the present time where we currently sit we are very comfortable with the indications that we've given in terms of space and how are opportunities for us over the next few years, so.

You want to add something to that?

Josh Joshi - *Interxion Holding N.V. - CFO*

Yes, sure, thanks David. I would reiterate, looking at the granular next couple of quarters we've got -- we've announced more than 4,500 square meters that will be coming on in the fourth quarter and over 3,000 square meters coming on in the first quarter '13, that's out there already. And we've been putting on, Maurice, we got a lot of experience now over the last few years of putting on this space and over the last several years.

And our approach, as David said, is to have a pipeline going forward in each of our markets of expansion opportunity both in terms of space but also in terms of utility power and then conversion of that into customer power and making sure that we have that opportunity ahead of us and that pipeline so that we can draw against it on a agile basis. And David returned to the agility we needed to have London 3 versus London 2. It's important for us to have that bank ahead of us, so in a potential expansion capacity, and so it's the -- and we're always working on it and thinking about that carefully.

Maurice Patrick - *Barclays - Analyst*

Thanks, guys. As a very quick follow-up. On your community of interest chart that you show at the end for the mobile operators how fast is that growing and so relevant to the rest of them currently. Further that probably is quite small currently but growing much faster, is that the right way of thinking about it?

David Ruberg - *Interxion Holding N.V. - CEO*

It's growing much faster, but it's such a small base. Again, some of these network typologies and how these providers are going to service their customers and differentiate themselves, they haven't figured them out yet. And so one of the interesting things that we're trying to do is to put ourselves in a position through our marketing and business development efforts is going to help some of these people crystallize how they can go to market.

That's one of the reasons why I think over the last year or so you guys have asked us why have our sales and marketing, in particular our marketing expense has been higher than maybe the industry and that's one of the things that we focused on, but I think we're beginning to see the benefit of that, so yes.

Maurice Patrick - *Barclays - Analyst*

Thank you.

Operator

Jonathan Schildkraut, [Evercomp].

Jonathan Schildkraut - *Evercomp - Analyst*

So close on many fronts, but we know who you are. I have one detailed question and then one more strategic question. In terms of the space that you brought on early in Amsterdam 6, 1,700 square meters, was that all fully occupied in terms of the increase in occupied space quarter over quarter?

Josh Joshi - *Interxion Holding N.V. - CFO*

Well, Jonathan, we don't talk about revenue generating space from individual data centres, but we had a solid increase in RGS primarily from our Big 4 markets.

Jonathan Schildkraut - *Evercomp - Analyst*

Okay, fair enough. The other question has to do with, yes, just always a desire to get a better understanding of the secular backdrop. And one of the things that you guys have done and we really see an acceleration in third quarter, fourth quarter and the first quarter of next year is really deliver on the expansion capacity. And as we take a step back and we look at your pre-booking levels and how that revenue scales in those data centres. When we think about your revenue growth over the next four, six quarters, is it more driven by secular backdrop or is it more driven by your ability to now have this incremental capacity to sell into your customer base and to attract new customers? Thanks.

David Ruberg - *Interxion Holding N.V. - CEO*

It's both. You can't always -- one of the reasons we open we delayed some space in two of the cities and opened some space in one of the cities is because our customer's need changed. And as you start these projects over a two-year basis you deal with the customers, things do change in that timeframe. And we try to be agile and they try to be agile. So you don't always get the space exactly where you want it in the right time.

I spent the last couple of months talking to a lot of CEOs and a lot of companies, and one of the things that's happened over the last year or so is their ability to read the tea leaves is diminished and they are predictability. And I think you hear this from everybody.

And so one of the things that they value in us is our willingness to work with them, and as they change their direction in a faster timeframe than they're accustomed to, we're able to work with them and participate. And so that's why you see some of these changes. Don't know that we've gotten it a 100% correct, but we are working to do that. So, Jonathan, to answer your questions, it's a combination of both of the factors that you raised.

Operator

Kevin Toomey, Citi.

Kevin Toomey - *Citi - Analyst*

Most of my questions have been asked already, but I just had a question about leverage. It looks like it ticked up in the third quarter. And, Josh, maybe you could just help us think about what our correct level of leverage is going forward for the business.

Josh Joshi - *Interxion Holding N.V. - CFO*

Yes, you're right, of course, that net leverage did tick up. Our gross leverage is at the way that we think about it, was consistent, our debt hasn't changed. And the reason why it ticked up obviously was because we continue to invest that spare cash into investing into data centre growth.

We have said on a number of occasions we have a flexible balance sheet. And the -- as a -- over past experience we've seen debt levels at the three times gross leverage, four times gross leverage as being comfortable to businesses like this, and so that gives you some kind of framework. But the leverage in itself at the moment is pretty consistent and pretty attractive.

Kevin Toomey - *Citi - Analyst*

All right, thank you very much.

Josh Joshi - *Interxion Holding N.V. - CFO*

Welcome.

Operator

Thank you. Back to you, sirs, for conclusion.

Jim Huseby - *Interxion Holding N.V. - VP IR*

Okay, well that concludes our third quarter earnings conference call, thank you all for participating, and we look forward to speaking to you at the end of our following quarter. This concludes the call.

Operator

That does conclude your conference for today. Thank you for participating. You may all disconnect.
