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INXN - Q4 2012 Interxion Holding NV Earnings Conference Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to the Interxion fourth quarter and year-end 2012 conference call. (Operator Instructions). I must advise you the conference is being recorded today, Wednesday, the 27th of February 2013.

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

Jim Huseby - ***Interxion Holding NV - VP IR***

Thank you, Ben. Hello, everybody, and welcome to Interxion's fourth quarter and year-end 2012 conference call. Our apologies for the delay in beginning this call.

Today you'll be hearing from David Ruberg, Interxion's CEO, and Josh Joshi, Company CFO. We've provided a set of slides to accompany our prepared remarks. These slides are available on the Investor Relations page of our website at investors.interxion.com. We encourage you to download these slides to 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'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 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 these measures to the most directly comparable IFRS measure in today's press release, which is posted on our website at investors.interxion.com.

We would 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'll be taking some questions. And now, I'm pleased to hand the call over to Interxion's CEO, David Ruberg. David?

David Ruberg - ***Interxion Holding NV - CEO***

Thank you, Jim, and welcome, everyone, and, again, I really apologize for the 15 minute delay. The situation is the following. I don't know why, but we have not been able to file our 6-K with the SEC. All the material that we would file with the SEC is on our website and in the press release, so we're going to go ahead with this, and when we get notification during the call that the filing has been successful, we will let you know.

We just got it. Okay. Apologize for all of that. We just got the filing.

As Jim mentioned at the beginning of the call, we have developed a slide deck that accompanies our prepared remarks. Josh and I will refer to these slides during our comments, and we encourage you to download them and follow along.

So, if you will, please turn to slide 4.

This is our second annual results call since going public in early 2011. Before I begin my prepared remarks regarding the fourth quarter and the full-year 2012, I'd like to take a moment to reflect on what Interxion has accomplished in the two years since our IPO.

I think we have done a lot with the capital entrusted to us by our shareholders and by our bondholders. Specifically, since the beginning of 2011 we have -- we grew revenues by 33% and increased recurring ARPU by 7%. We've grown adjusted EBITDA by 45%, and increased adjusted EBITDA margins by 350 basis points. We have more than doubled our reported net profit.

We've completed 12 buildings across 9 of our 11 markets, adding 13,000 square meters of equipped space, which is a 21% increase. We've added 12,500 square meters of revenue-generating space, a 29% increase, and improved utilization by 4 percentage points. We've added 27 megawatts of customer-available power, growing from 52 megawatts to 79 megawatts, which is a 52% increase.

We've created substantial value for our customers by building deep communities of interest across our target segments, and increasing our customer logos in the process by 36%.

And, last but not least, we've created substantial value for our debt and equity capital providers. And Josh will talk more about how we measure this, later in this call.

I'm very pleased with the progress Interxion has made over the past two years, especially in the face of what people consider to be a very challenging macro environment, and how we have positioned ourselves to continue delivering customer, bondholder, and shareholder value in the coming years.

We are fortunate to be in the right place at the right time in what we believe to be the correct go-to-market and capital investment strategies. Demand for carrier-neutral co-location providers remains robust, and the underlying trends driving this demand continue to strengthen.

Now, let's turn to our results for 2012, and, with that, please turn to slide 5.

In 2012, Interxion continued our record of solid execution, resulting in continued strong financial performance. Revenue for the year was EUR277 million, up 13% from 2011, all organic growth.

On a reporting segment basis, this revenue growth was comprised of 70% organic growth in the Big 4 markets, what we call the Big 4, and organic growth in our rest-of-Europe markets. Revenue continued to grow in each of our market segments, and was particularly strong in the carrier, financial services, and service provider or cloud segments.

These market segments were the strongest drivers of our growth throughout 2012, particularly in the Big 4 markets, and we expect to see continued strength in 2013.

Our broad data center footprint continued to be a valuable asset as the number of customers with deployment across multiple countries continue to grow. Multi-country customers now account for 52% of our revenues, with customers in 5 or more countries accounting for 28% of the revenue.

Adjusted EBITDA was EUR115 million, up 18% year over year as we continue to see the benefits of operating leverage. Adjusted EBITDA margins expanded by 150 basis points to 41.5%.

Net profit was EUR32 million, up 24% year over year, despite the impact of some one-time significant items in the fourth quarter. And Josh will address this in detail in his section of the presentation.

During 2012, we invested over EUR178 million. Our equipped space increased by 18% during the year, and we ended 2012 with 74,000 square meters of equipped space.

More importantly, our revenue-generating square meters grew by 19% to 56,200 square meters, as we finished the year with two consecutive quarters of record installations. And, as a result, use ended the year at 76%.

We also increased the power available to our customers by 36% to 79 megawatts in support of customers' cloud platforms, trading platforms, and other high-power applications. Revenue churn was consistent with prior years, averaging about 0.7% per month for the year.

The work that we've done in 2012 has paid off for us in the results that you see today, and also positions us for continued growth and success in the future as we continue to drive customer value and stakeholder returns from the business.

Please turn to slide 6.

Now, looking specifically at the fourth quarter, revenue for the quarter was nearly EUR73 million. Growth was solid, and up 3% sequentially. This growth was driven by a 6% sequential increase in recurring revenue, which totaled EUR69 million for the quarter, or 95% of the quarter's total. Year over year, recurring revenue grew by 16%.

Demand remains healthy, as evidenced by our sales pipeline, and we believe that the long-term opportunity for carrier-neutral co-location service providers in Europe remains as large as ever.

As we have said before, we have seen some customers extend the decision-making timeframes, but, to be clear, it is not has changed their overall needs for our products and services. Strong underlying demand trends and rational marketplace behavior are both supporting a pricing environment that is consistent with prior quarters.

Adjusted EBITDA in the fourth quarter saw the benefits of our operating leverage, resulting in a sequential growth of 9% and ending up with a margin of 42.8%, which is 200 basis points higher than the third quarter.

You will please turn to slide 7.

Interxion added 4,400 square meters of equipped space in the fourth quarter, and our revenue-generating space increased by 5,000 square meters. Despite adding additional substantial (inaudible) capacity, our utilization rate did improve to 76%.

Bookings in fourth quarter met expectations and our sales pipeline remains strong.

Please turn to slide 7.

During the year, we invested over EUR160 million in 8 construction projects, 5 new builds and 3 expansions, mainly in our Big 4 markets. Specifically, we opened the remaining 2,700 square meters of Amsterdam 6 early in the fourth quarter. We completed the expansions of Amsterdam 5 and Zurich on schedule in the quarter, as well as we opened a small part of Madrid 2 in the fourth quarter for early customer access.

As I said before, we ended the quarter with 74,000 square meters of equipped space and 79 megawatts of customer-available power.

We are continuing to execute on our execution expansion plan in 2013. The final 2,500 square meters of Paris 7, the last 400 square meters of London 2, the remaining 600 square meters of Madrid 2, and our recently announced 600 square meter expansion in Frankfurt are all on schedule and are expected to open before the end of the first quarter of this year.

In addition, last week we announced two new projects in Scandinavia, a new data center in Stockholm, and a small expansion in Copenhagen. Both of these projects are demand-driven, on track, and scheduled to open in the second quarter of this year.

You will please turn to slide 9.

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We remain committed to our strategy of building robust, resilient communities of interest which are at the heart of the digital economy. We will do this through focused sales and marketing efforts in our target segments. These communities continue to benefit from our leadership in connectivity and customer, as well as our pan-European coverage which provides access to them to over 75% of Europe's GDP.

This is supplemented by access to a growing of cloud serve providers and cloud platforms. In 2012, we secured our highest-ever annual number of new customer wins in our target segments, with over 200 new logos.

This is evidence of the growing magnetic effect of our communities, and the successful sales and marketing focus we are applying in our go-to-market strategy. We also continue to develop our US sales and partner channels in order to attract key customers from this important.

We saw continued growth across all of our communities in 2012, but, as we indicated before, in particular we experienced strong growth in carriers, financial services, and managed service providers.

Carrier revenue growth is being driven by requirements to deploy additional equipment to support higher speeds and additional customer connections, as well as support the rollout of new services.

In the financial services segment, we are seeing increased requirements for space, driven by the need for regulatory compliance, as well as the need for people to access the dark pool trading platforms to access the liquidity available from financial community members within our data centers.

Many service provides continue to invest in deployment of the European platforms as cloud adoption gains momentum across Europe. These cloud service providers choose to co-locate in Interxion data centers because of our connectivity, city-center locations, and robust cloud communities, which all allow providers to offer their customers the best-possible customer experience by improving application performance and minimizing response time.

This is becoming increasingly important for the successful operation of hybrid cloud platforms and considering big data analytics. We believe that the transition to cloud represents a significant -- continues to represent a significant value creation opportunity for us, and we're focused on providing the best possible data center environment for cloud providers because of the opportunity for us that it represents.

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

Josh Joshi *- Interxion Holding NV - CFO*

Great. Thank you, David, and welcome to everybody listening in.

Let me start by providing some color on fourth quarter numbers, and then I'll follow that with commentary on our full-year results, and then move on to the cash flow and balance sheet.

So, let's start with slide 11.

Interxion finished 2012 with a strong fourth quarter, continuing our track record of consistently quarterly execution and sequential profitable growth. The fourth quarter saw a significant uplift in both recurring revenue and adjusted EBITDA margin, while non-recurring revenue settled back into our typical quarterly zone of EUR3 million to EUR4 million per quarter.

During the fourth quarter, total revenue was EUR72.9 million, up 3% compared to with EUR70.4 million last quarter, and up 13% compared with EUR64.4 million in the fourth quarter 2011. On a constant-currency basis, the increases were 4% sequentially and 12% year over year.

Recurring revenue was EUR69 million in the fourth quarter, up 6% compared with EUR65.1 million last quarter and up 16% compared with EUR59.7 million in the fourth quarter of 2011. Recurring revenue was 95% of our total revenues, a higher rate than we've reported in recent quarters.

Non-recurring revenue was EUR3.9 million in the fourth quarter, a 27% decrease from the third quarter, and a 17% decrease from last year's fourth quarter. As we have oftentimes noted in the past, non-recurring revenue can, by its nature, lumpy. We experienced several consecutive quarters of high-than-normal non-recurring revenue and the fourth quarter returned to a more normal level.

As expected, we saw a sequential dip in our recurring monthly ARPUs of just under 3% in the fourth quarter. As we explained in detail at our last earnings call, this phenomenon has occurred primarily due to the effect of a significant increase in revenue-generating space and the time lag between the customer space revenue coming on line against the associated power capacity and energy revenue ramp, which could be several quarters delayed, or in the case of larger installations, even longer.

I think one way to understand the underlying performance of the business is to evaluate the recurring ARPU performance of those facilities that were in operation at the end of 4Q 2011. Now, this same-store analysis shows an underlying growth in our recurring monthly ARPUs of over 3%, year over year.

As we look forward, it's also worth nothing that during the quarter a significant customer with installations in multiple Interxion data centers chose to begin purchasing energy for one of their new large installations directly from the local utility company. Now this is a new arrangement for Interxion, but by no means uncommon in the industry. The overall impact is relatively minor, and this is factored into the 2013 guidance range.

Moving to the cost side, cost of sales in the fourth quarter were EUR29.0 million, down 2% from the third quarter, due, in part, to lower customer implementation costs related to non-recurring revenue, and partially offset by increased power costs and operating headcount.

Gross profit was EUR43.9 million, a 7% sequential increase and a 13% year-over-year increase.

Gross margins were 60.3% in the fourth quarter 2012, an increase of 200 basis points from the third quarter 2012, but 10 basis points lower, year over year.

Sales and marketing costs were EUR5.5 million, up 8% sequentially and 19% year over year, and remain consistent with our expectations of between 7% and 8%.

Other G&A costs, excluding depreciation and amortization and other items, were flat sequentially and up 1% year over year.

Adjusted EBITDA was EUR31.2 million, a 9% sequential increase from the third quarter, and a 15% year-over-year increase from the fourth quarter 2011.

Adjusted EBITDA margins jumped in the quarter to 42.8%, up 200 basis points sequentially and 70 basis points from last year's fourth quarter, helped by strong customer installations in the quarter, and increased utilization levels.

Now, as we move from adjusted EBITDA to net profit, in each line item, there are a number of one-time cost items in both the current and prior periods which have impacted the comparisons with the prior periods and I'll talk to them as we go through it.

Depreciation and amortization, at EUR13.1 million is up 56% against the fourth quarter 2011 and up 18% sequentially. The trend reflects the significant increase in data center equipped space brought online as assets under construction have been completed. The prior year fourth quarter benefited from a reversal of an asset impairment in Sweden of EUR0.8 million. The underlying 43% increase in D&A expense is consistent with the year-over-year increase in the gross cost of data center buildings and equipment.

Following our annual review of the provision for onerous lease contracts, the Company reassessed and increased its provision, booking a charge of EUR0.8 million in the quarter.

During the fourth quarter, the Dutch government brought into law a fast-tracked piece of tax legislation, the so-called Crisis Tax, which required employers to pay additional employment taxes on wage payments and on share option exercises for Dutch-resident employees during 2012.

Now, it's supposed to be a one-time tax for 2012, and had a retroactive effect date of January 1st, 2012. The most significant impact of this has been felt in share-based payments, and in total, we've made a EUR1.9 million provision for the expected liability.

As we've discussed before, IFRS accounting standards require the Company to capitalize borrowing costs into the cost of data center buildouts during construction. The effect of this is lumpy, and based on the amount of data center construction activity going on in any quarter.

EUR1.3 million of finance expense was capitalized this quarter, compared to EUR2.7 million in the third quarter, and EUR1.5 million in the fourth quarter last year.

Income taxes were EUR3.5 million during the quarter, representing an effective tax rate of 38%. I'll provide a little more color on the effective tax rate shortly, but for the moment, it's also worth noting that the income tax expense in the prior fourth quarter benefited from the recognition of EUR2.7 million of deferred tax assets.

Net profit for the fourth quarter was EUR5.6 million, which was down 47% year-over-year and down 34% sequentially. Now, these comparisons are not at all indicative of what's happening in the business, and they've been impacted by a number of items in each period, as I've mentioned before.

Now, I know I've given you a number of moving parts here, so we've provided a detailed summary of these items in the appendix to our presentation today, to allow you to refer to them as you try and understand our numbers.

Now, adjusting for these items and reversing the positive impact of capitalized interest, net profit grew 10%, year on year, and 3% sequentially, with an EPS of EUR0.10.

I'd like to now briefly review our performance by reporting segment, and, if you could please move to slide 12.

Our Big 4 markets of France, Germany, Netherlands and the UK executed very well and delivered a strong financial performance in the quarter. Total revenue was EUR45.3 million, up 4% sequentially and 14% year over year. Recurring revenue was EUR42.8 million, up 8% sequentially and 18% year over year. We saw particular strength in the Netherlands, in part due to the continued positive impact of our Amsterdam 6 data center.

Adjusted EBITDA in the Big 4 was EUR24.3 million, a 9% sequential increase and 13% year-over-year increase. Adjusted EBITDA margins were 53.6%, up 240 basis points from the third quarter, but 80 basis points lower than the fourth quarter 2011.

Growth in our rest-of-Europe segment continued to be held back by macroeconomic issues, though the segment did deliver a solid sequential performance. Total revenues were EUR27.5 million, a 3% sequential increase, and an 11% year-over-year increase. Recurring revenues were EUR26.2 million, 3% higher than the third quarter, and an 11% year-over-year increase, while non-recurring revenues was about the same as the third quarter and 12% higher than last year's fourth quarter.

Adjusted EBITDA in the rest of Europe was EUR14.4 million in the fourth quarter, 4% higher than the third quarter, and 8% higher than last year's fourth quarter. Adjusted EBITDA margins were 52.2%, 40 basis points higher sequentially, but 130 basis points lower, year over year.

I'd like to now spend a few minutes on the full-year results, and please go to slide 13.

For the year 2012, total revenue was EUR277.1 million, a 13% increase year over year, and up 12% on a constant-currency basis. Recurring revenue was EUR259.2 million, which was 94% of total revenue, and up 14% compared to 2011. As the year progressed, we saw the development of a temporary bifurcation in the growth dynamics of our two reporting segments. Total revenue in the Big 4 markets grew a very healthy 17% year over year, off strong organic growth, in particular from the managed service provider, financial service, and carrier customer segments.

On the other hand, for our rest-of-Europe segment, where the takeup of cloud and outsourcing in general is not yet as well developed, the segment was held back -- was also held back by challenging macroeconomic dynamics. Total revenue in this segment grew year over year 8%. We expect the economic challenges facing the markets in this reporting segment to continue for the next several quarters.

Gross profit was 15% higher, year over year. Revenue growth continued to outpace growth in direct costs, despite the added cost burden of opening 5 new data centers. As a result, gross margin expanded by 90 basis points to 59.2% for the year.

Adjusted EBITDA was EUR115 million an 18% increase from 2011. Adjusted EBITDA margins continued to grow and finished the year 150 basis points higher at EUR41.5%.

As we review the annual income statement through to net profit, the same one-time items that I mentioned earlier impact the numbers in comparisons. The so-called Dutch Crisis Tax, the reassessment of the onerous lease provision, and capitalized interest impacted the current year.

So, for the year, net finance expense decreased to EUR17.7 million compared to EUR22.8 million in 2011. During the year we capitalized EUR9.2 million of finance costs, compared with EUR2.7 million in the prior year, the significant increase being -- of this capitalization being a reflection of the heavy construction activity that's taken place in the year.

Income tax expense increased to EUR15.8 million compared to EUR9.7 million in 2011, as our book tax rate rose from 33% -- sorry, to 33% from 28% in the prior year. The prior-year figure had the benefit of a EUR2.7 million deferred tax asset recognition, as mentioned before.

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We project the long-term tax rate for our business to be around 30%. The tax shield continues to operate as intended, and the effective cash tax rate for the year was approximately 12%. This will continue to rise over the next two to three years and the cash tax rate will move towards the level of the longer-term book tax rate over this timeframe.

Reported net profit was EUR31.6 million for the year, compared to EUR25.6 million in 2011, a 24% increase, while diluted EPS for the year was EUR0.46, a 19% increase over 2011.

Moving to slide 14, despite a year of significant data center investment, the Company expanded adjusted EBITDA margins by 150 basis points, and I wanted to remind you of some of the drivers of operating leverage in our business and its progression over time.

We expect to see additional operating leverage going forward into 2013, as the investments that we made in 2012 and our new facilities deliver a greater contribution to our business. Since 2008, we have consistently improved our adjusted EBITDA by around [100 to 100] basis points each year. The middle of our guidance continues to maintain these expectations.

Please turn to slide 15. This slide sets out our total capital investment profile over the last several years. By this, I mean all capital investments we have made to both maintain and grow the business, including investments in PP&E and intangible assets.

Most of our investments have been in organic growth in our data centers to meet growing customer demand. As you can see, the step-up in capital expenditures following the IPO continued on through 2012.

In 2012, we invested EUR178 million in capital expenditures, including intangible assets. Of this total, EUR172 million were for PP&E, with EUR161.5 million for expansion and upgrade projects and EUR10.5 million for maintenance and other CapEx, which includes maintenance and administrative capital expenditures. The remaining EUR6.3 million were for intangible assets, including software systems and power grid access rights.

During the year, we invested EUR8.2 million as part of an expansion CapEx -- as part of expansion CapEx to acquire the freehold of our Amsterdam 6 data center. We've not pursued a specific strategy to purchase the land of our data centers, but rather the purchases have been opportunistic to secure assets with attractive characteristics, and to secure platforms for future growth.

We now own the land for 3 of our operational data centers -- Paris 3, Paris 5, and Amsterdam 6. We've also locked in an option to purchase Paris 7 in 2019. This is in addition to opportunistic purchases of small contiguous parcels of land that we've made around our Frankfurt campus over the last two or three years to secure the property needed for future growth in that important market. And I expect that we will continue to evaluate opportunistic land purchases as they arise in the future.

Please turn to slide 16. Cash and cash equivalents were EUR68.7 million at the year end, down from EUR142.7 million at the end of 2011, due primarily to capital investments made throughout the year.

Total borrowings increased in the fourth quarter as a result of 2 new additions. First, we recycled the investment in the Amsterdam 6 land by taking out a EUR10 million mortgage at attractive rates. The term is for 5 years at a cost of Euribor plus 2.75%.

The second -- second, the terms of the Paris 7 lease and locking in the option, which was finalized in December, resulted in capital lease treatment for this lease, and the recognition of a lease liability of EUR20 million. I think it's worth noting that after the year end we also closed on a EUR10 million 15-year mortgage of our Paris 3 and Paris 5 data centers, partially recycling our investment in these land purchases at a rate of Euribor plus 2.6%.

We are very focused on our cost of capital, and the structure of our balance sheet, and I view these transactions as important steps in optimizing both.

Our EUR60 million revolver remains undrawn and provides additional flexibility. Despite the incremental EUR30 million of borrowings by the year end, our leverage ratios remain low, and there remains significant headroom in all of our covenants.

The gross leverage ratio is at 2.5 times by the year end, while the net leverage ratio remains at under 2 times adjusted EBITDA.

Interxion continues to have a well-capitalized balance sheet that fully funds our existing business plan and gives us the flexibility to continue to invest to deliver superior returns for our stakeholders.

Please turn to slide 17. I'd like to finish my prepared remarks by focusing on our return story. As you can see in the top chart, we have been able to grow cash generated from operations at 30% CAGR since 2008. This has been possible to the benefits of our business model -- strong, high-visibility revenue growth, low churn, solid pricing power, stable utilization rates, and the benefits of operating leverage.

We've talked in the past about our return requirements for new investments and the cash returns we generate on our full data centers. As we evaluate investments, we continue to look for 30% to 40% IRR returns. We build in campuses, and we work hard to ensure that our builds are phased to meet customer demand.

We leverage the predictability of our business model and the relationships we foster with our customers. In 2012, 67% of our new business came from existing customers. We take a long-term view of the market, and of our customers' needs while maintaining our agility in capital deployment to meet those needs.

Today I'd also like to review with you another metric by which we measure our performance. As a management team, we look at something we call cash return on gross invested capital, or cash ROGIC, for short, which is essentially EBITDA less maintenance and administrative CapEx, divided by the average gross asset base of the business.

This average gross asset base is comprised of gross property, plant, and equipment, gross intangibles, gross goodwill -- the last of which, in our case, is nil -- and represents the total historical invested capital in the business.

We find cash ROGIC as a useful barometer in several ways. First, it provides a good measure of the returns that we generate on our total historical investment, and is largely unaffected by accounting or depreciation policy choices.

Secondly, it allows us to benchmark our performance against other operators in the industry on a more apples-to-apples basis.

As you can see, we have historically generated low-to-mid teens returns on this basis, with some movements around the mean, depending on where we are in the investment cycle. We believe that this represents an attractive return, and one which we can continue to deliver, on average, over time.

And with that, let me turn the call back over to David.

David Ruberg - ***Interxion Holding NV - CEO***

Thank you, Josh, and you can take a breath now. We're both rushing here to get this. There's a lot of information, so we have some time left for Q&A. Thanks, Josh.

Interxion had a strong 2012, and we believe that we are well positioned to capture the continued growth in demand that we see across our market segments. For example, in the media segment, media traffic is forecast to grow globally at a 34% CAGR from 2011 to 2016, and our media hubs are benefiting from this.

Similarly, in the network provider segment, global traffic is forecast to grow at 30% CAGR from 2011 to 2016, with growth in Europe of about 30%, exceeding the projected roughly 20% in the US. This trend continues to fuel carrier growth.

The cloud computing market is forecast to grow at a 40% CAGR over the next three years, and to reach a value in excess of 12 billion or 13 billion in 2015.

And Interxion is well positioned to capitalize on this and the other trends which are driving demand for our products and services as we pursue our long-term goals of being the number one provider in our markets, and creating value for customers and stakeholders.

Based on this outlook, I thought it might make sense to quickly outline 3 of our strategic priorities for 2013. First, we will continue to focus on growing our communities of interest as this is the key to long-term value that we create for both our customers and our capital providers.

We have successfully built communities that include the top 10 CDN providers, market-leading digital content owners, the top financial service players, and key network providers. In addition, development of our cloud community advanced rapidly in 2012, and we believe that this will continue into 2013.

As we grow these communities of interest, benefiting from the network effect they provide, we are able to develop and build deep, resilient relationships with our customers, and deliver value-add to them, as well as retain our differentiation and maintain the barriers to entry in our markets.

Second, we will continue to bring the highest-quality data center capacity to market in a disciplined and financially prudent manner, such that we're able to service the expansion needs of our customers on a just-in-time basis and continue to earn the types of returns Josh described earlier.

Our build program for 2013 is not as extensive as the one for 2012, but we continue to target the highest-value opportunities across our 11 markets. We, obviously, will give you updated details on our expansion programs when projects reach the appropriate stage of development.

Third, we remain committed to creating value for all of our stakeholders. We are committed to growing the top line, while maintaining a relentless focus on cost and deploying our capital efficiently and prudently to exploit the operating leverage inherent in our business model and driving improved cash flow.

If you would, please turn to slide 19.

Our guidance philosophy for 2013 remains consistent with our philosophy from last year. That means we're going to give and provide annual guidance and we'll update it on a quarterly basis.

Therefore, we're expecting revenue to be in the range of EUR307 million to EUR322 million. We expect adjusted EBITDA to be in the range of EUR130 million to EUR140 million. And we expect to invest between EUR130 million and EUR150 million in capital expenditures this year.

As always, I would like to thank all of our employees in 11 different countries for staying focused on our customers and for delivering another year, strong year, of performance. As always, I would like to thank our shareholders and bondholders for their continued support. And with that, I would like to hand it back to the operator to begin the question-and-answer segment.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions). Your first question today comes from the line of Gray Powell of Wells Fargo. Please go ahead. Mr. Powell, your line is now open to ask your question.

Gray Powell *- Wells Fargo Securities, LLC - Analyst*

Hi. Sorry about that. Can you hear me okay?

David Ruberg *- Interxion Holding NV - CEO*

Yes.

Gray Powell *- Wells Fargo Securities, LLC - Analyst*

Great, thanks. Thanks for taking my questions. How should we think about sequential MRR trends off a Q4 run rate, just given the size of deployments that hit in the quarter and expansion plans in Q1?

Josh Joshi *- Interxion Holding NV - CFO*

Thanks, Gray. Thanks for the question. As I said on the call, what we've seen in our underlying business year over year is a 3% recurring ARPU growth, and we've seen a consistent growth profile over several quarters on our underlying business.

So, as we look forward at the same-store basis growth we'd expect to continue. We've put on a lot of space in this quarter and, as I said, we would have the development of the MRR growth as the power and other services come on line.

So, I'd expect to see steady development over time, and it will also progress on a quarter-by-quarter basis.

Gray Powell - ***Wells Fargo Securities, LLC - Analyst***

Got it. That makes a lot of sense. And then one more, if I may. It looks like you have about 5,000 square meters of planned expansion in the first half of 2013. Is that -- is there the potential for additional new builds in the second half of the year? And then, can you just quantify the increase in power that you currently have planned on the existing announced expansion?

Josh Joshi - ***Interxion Holding NV - CFO***

So, just going back to the guidance element, yes, I think if you think about the guidance range that we've put out there, I think that about half of the range is associated with facilities that we've announced. And so, I would expect that we would be announcing more in time. And there's -- I mean, we've been particularly successful in a number of our Big 4 markets and I think David mentioned that we'll continue in those markets. So, watch this space and we'll announce them as they come -- become ready.

And in relation to power, we've announced that there's 106 megawatts, I think, of total available power which is locked into the announcements that we've made in terms of the incremental growth that we've got available to us.

Gray Powell - ***Wells Fargo Securities, LLC - Analyst***

Got it. That's very helpful. Thank you very much and congratulations on the quarter.

Josh Joshi - ***Interxion Holding NV - CFO***

Thank you.

Operator

Thank you. Your next question comes from the line of Michael Rollins of Citi Investment. Please go ahead.

Michael Rollins - ***Citi - Analyst***

Hi, thanks. Good morning. Thanks for taking the question. I was just curious if you could talk a little bit more about on the sales productivity side, as you look at the 2013 guidance range, what would be the change in bookings or billings, however you want to describe it, to get to the low end of the guidance range versus what it might take to get to the high end of the range?

And qualitatively, if you could just talk a little bit more about what you're doing with the sales force, with distributing your services in your market, that would be great?

Thanks.

David Ruberg - ***Interxion Holding NV - CEO***

I'll answer the second part. The way we're focused on this is we have -- and I think we've told this before -- three elements of this. We have business development leaders which look at the entire marketplace. We have major accounts, which are focused on the major accounts that are in multiple countries and then we have the local accounts, which are primarily focused on the -- those companies that are only in one area.

And what we've done over the last two or three years is evolve the orientation of those three elements to match the orientation of -- which we've talked to about, a little bit -- about the migration from people, customers taking more and more services and more and more data centers.

So, it's been an evolutionary thing in the background as we have strengthened the business development, strengthened the major accounts, and worked on roles and responsibilities to make this smooth and transparent to our customers.

So -- Go ahead.

Josh Joshi - ***Interxion Holding NV - CFO***

Sure. And, Michael, as I think about the core assumptions around our guidance, it continues, at this point, to represent the best estimate of where we'd expect to be. And we would assume that European macro is going to remain challenging and unchanged from 2012 in terms of the bookings development and there'll be no significant change in churn and continued operating leverage.

And, as you think about that range, there are a number of components in terms of bookings or in terms of revenue development. One of them, not least, being the way that non-recurring revenue might develop over time. So, it's a complex set of parameters and a number of different assumptions involved.

Michael Rollins - ***Citi - Analyst***

And could you just give us a sense of, just to maybe round out the subject, of where you are on a backlog basis? It seemed like fourth quarter might have benefited from some backlog. Is there anything on the backlog front that investors should be mindful of, going to the first quarter?

Josh Joshi - ***Interxion Holding NV - CFO***

When you say "backlog," Mike, what do you mean by that?

Michael Rollins - ***Citi - Analyst***

Business that's already booked, but you haven't begun billing it yet. So, there might be some incremental volume related to deals that you might have signed, but customers are still expanding, or maybe those 5,000 square meters that you installed in the fourth quarter, maybe a significant amount of that is not yet paying its full freight, as I think you alluded to as one of the issues of the MRR for the quarter.

So, I'd be just curious if there's a quantification of that backlog that we should be thinking about for the first quarter?

David Ruberg - ***Interxion Holding NV - CEO***

Mike, one question with lots of flavors to it. So, the basic question you asked is, from a backlog, which is material that we have signed a contract, but we have not installed yet, that is -- our backlog is consistent with what we've seen over the last year. As the Company grows, the backlog adjusts.

The other element that I think you're addressing is the one I think we tried to address and Josh has tried to address is how power consumption develops and power utilization. And that one is -- it's sometimes very difficult for us to predict, because it is so dependent upon a customer and the applications that they have and, in particular, with some of these cloud platforms, it's dependent upon how successful they are in bringing people on to their business platform.

So, that is a very difficult thing for us to project. But I like to call it, it's the Goodyear bunny or the Energizer bunny. This is the thing that keeps on giving. So, whether it takes a year or two years, and we've seen both of those, it's very difficult for us to project, but it's inherently there.

Okay?

Michael Rollins - ***Citi - Analyst***

Thanks very much.

Operator

Thank you. Your next question comes from the line of Jonathan Schildkraut of Evercore. Please go ahead.

Jonathan Schildkraut - ***Evercore Partners - Analyst***

Great. Thanks for taking the questions. A couple of items.

First, I thought that the recurring revenue acceleration in the fourth quarter was really impressive. I was wondering if you might give us some perspective inside of the context of your guidance for 2013 of how we might think of recurring revenue?

And then secondly, Josh, I just want to, from a modeling perspective, have a sense of some cost put and takes as we look into expected margins in the first quarter. So, if there's anything seasonal that we should think about as we come up with our estimates, it would be helpful. Thank you.

David Ruberg - ***Interxion Holding NV - CEO***

So, Jonathan, you don't want me to answer the margin question? Okay. Go ahead.

Josh Joshi - ***Interxion Holding NV - CFO***

So, just going back to your recurring revenue point, Jonathan, the -- I think that we would expect to continue to see stronger growth out of our Big 4 markets than the rest-of-Europe markets. That came through in 2012. I think that we'd expect to see that. But our Big 4 markets have had a very good year and they ended the year very well, and I think that I expect to see that to continue.

So, beyond that, I think providing sort of underlying detail around the guidance range, I think, is probably not appropriate at this time.

Going back to the seasonality, I think that's a really good point, because, as you know, businesses like ours have an element of seasonality. As you step into the first quarter of the year, you've got power seasonality, costs going up, and so I would expect, as has happened over a number of first quarters, over a number of years, that the margins would probably step down a little bit in the first quarter, and then continue to move in accordance with the development of the business.

Does that answer your question there, Jonathan?

Jonathan Schildkraut - ***Evercore Partners - Analyst***

Yes, that's very helpful. And if I can get one more question in here, in terms of your guys' approach to investing in sales and marketing, obviously, you've taken the approach that you want to develop the funnel over time, make a bigger investment on the sales side, and marketing effort.

Could you give us a sense as to how the funnel now lines up, how those efforts have paid off, maybe relative to some of your competitors, and how we might think about kind of the positioning today versus 12 months ago? Thanks.

David Ruberg - ***Interxion Holding NV - CEO***

Tough for me to answer the question in terms of how they have paid off versus our competitors, because I believe that it's going to be, ask me that question in two years when I look back and look at how robust these communities of interest are, and how we have differentiated ourselves. So, I'm not begging off on the question, but each one of the three big ones, we all have a different approach.

I am fundamentally committed to the approach that we have and I believe it is showing benefit now and will continue to show even more benefit over the next couple of years.

In terms of our investment in this, I believe we're basically done. I told you in the beginning of last year that we had taken a two-year period to ramp this up and I think we have come to the end of that ramp.

So, Jonathan, I answered your questions.

Jonathan Schildkraut - ***Evercore Partners - Analyst***

All right. Thanks a lot for taking the questions.

Operator

Your next question comes from Jim Breen of William Blair. Please -- please ask your question.

Jim Breen - ***William Blair & Company, L.L.C. - Analyst***

Thanks for taking the question. Just to piggyback a little bit on Jonathan's question, when we looked at the fourth quarter, there was a EUR1.9 million payment. Is that included in the EBITDA number? So was the operational EBITDA actually a little bit higher there? And I guess that was my first question.

Josh Joshi - ***Interxion Holding NV - CFO***

I'm sorry. Are you referring to the tax payment that we made of EUR1.9 million? Is that what --?

Jim Breen - ***William Blair & Company, L.L.C. - Analyst***

Yes, that's correct. Yes.

Josh Joshi - ***Interxion Holding NV - CFO***

About EUR0.5 million is included in the EBITDA line, if you like, as part of that cost there, and then the rest is actually included as part of share-based payments.

Jim Breen - ***William Blair & Company, L.L.C. - Analyst***

Okay. And then, from a CapEx perspective, when I look at your free cashflow generation from operations this year and how that's grown and sort of given your guidance for EBITDA, it seems like, at some point in 2013, you're going to cross the point where your cash from operations will actually fund your growth. And so I was just thinking about, how do you think about free cashflow, going forward? And then generation of excess cash, after that? Thanks.

Josh Joshi - ***Interxion Holding NV - CFO***

Well, I mean, we think about it a lot. Our focus is, as I've talked on the call, about trying to work out an appropriate way of measuring returns on the capital that we invest for our shareholders.

But what we do see right now is good pipeline, good customer demand for the product that we have out there, and secular trends that are continuing unabated in our Big 4 markets, and really and truly, although perhaps slightly delayed, in our rest-of-Europe markets, as well.

And so, yes, our guidance happens to match our EBITDA and it looks like we've got a free cashflow balance at that point in time. But, actually, what we're doing is we're focusing on putting capital in the ground to meet our customer demand. It's continuing to develop and there'll be timing impacts in one year versus the other.

So, please don't read an inflection point into that. It is just the way that we're thinking about the development of our capital at this point.

I don't know, David, if you want to add anything?

David Ruberg *- Interxion Holding NV - CEO*

One of the issues we have is there's a tremendous demand, potential demand, that's building as people are migrating from these dedicated platforms to shared platforms. We have not really seen that take off yet.

No matter what you see in terms of the movement, when you talk to our customers, there's still a hesitation to take the big step. So, the capital programs that we've deployed are matching the demand in the marketplace.

Keep in mind that we have targets, very attractive returns, for this capital. If that demand begins to accelerate, I think it would be prudent for us, if we can get, we will get the same returns, to deploy additional capital.

Jim Breen *- William Blair & Company, L.L.C. - Analyst*

Great. And then just one last one for Dave. From a sort of higher-view level, obviously there's been a lot of expansion in the last year. Can you just talk about, from an infrastructure standpoint, are we seeing more fiber in the ground? Is that what's driving it? And so it just allows the data center market to be more connected and more growth to happen? Thanks.

David Ruberg *- Interxion Holding NV - CEO*

Well, you're seeing all kinds of bandwidth growth, whether it be fiber in the ground, whether it be the migration to waves, whether it be, even some of the folks have now gone back to the microwave. We're seeing new technology that gives more bits per byte, more bits per baud. So, you're seeing all of these things which are putting us in a position, the 4G, all of these things which allow, yes, for more capacity.

Again, what people are wanting on all of these devices, they have these untethered devices, very straightforward. They want all of the data that they can think of. They want it all mashed together. They want it all presented in a coherent fashion, and they want it tomorrow, or they wanted it yesterday.

And all of this stuff, one way or another, in order to meet the response time requirements, go through carrier-neutral data centers. That's where the rubber meets the road. So, we want more deployed and we want things mashed up faster, and we're there. Okay?

Jim Breen *- William Blair & Company, L.L.C. - Analyst*

Great. Thank you very much.

Operator

Your next question comes from the line of Maurice Patrick of Barclays. Please ask your question.

Maurice Patrick *- Barclays - Analyst*

Oh, hi, guys. Yes, Maurice here. Great quarter, guys.

A couple of questions from me. First of all, on the CapEx point, did I interpret from the previous answer that the CapEx guidance you've given, if the demand is higher, you can ramp that. So, the only constraint on the capital guidance you've given is the demand? You could ramp it, if you wanted to, in terms of you've got the space you could build on, the balance sheet's fine. This is the first question.

David Ruberg *- Interxion Holding NV - CEO*

Maurice, since I gave the answer and I'll let Josh -- no, basically, I'll go back to what Josh said, is that approximately half of the CapEx guidance that we've given is committed. So, we're anticipating some deployment of additional facilities in that CapEx to meet either continuing or expanding demand. Okay?

Josh Joshi *- Interxion Holding NV - CFO*

But, equally, to the other point, we do have a flexible well-capitalized balance sheet, and if -- if we wanted to increase that, we could. But what we've given out there, at the moment, is what we think is an appropriate set of numbers to develop.

Remember, some of that back half CapEx that is yet unannounced is also developing for the 2014 customer demand, as we see that developing. So, we'll work on that during the course of the year, and we'll update you.

Maurice Patrick *- Barclays - Analyst*

I guess the point I was trying to get to was, if the demand is much stronger than you think, you have the space in which you can build into? So, there won't be a scenario where you'll say, oh, we've -- demand exceeded expectations, we effectively couldn't spend the CapEx. That's not what you're saying.

David Ruberg *- Interxion Holding NV - CEO*

No, I think we are well positioned, both in terms of where we are today and some of the options that we've taken over the last couple of years to provide, and I think Josh was -- mentioned Frankfurt. So, I think we're in -- I got a clouded crystal ball. It's not a clear one, so I can't -- Maurice, I can't figure with 100% precision exactly where the demand's going to come from and how we match it, but I think we're in pretty good shape.

Maurice Patrick *- Barclays - Analyst*

At least you've got a ball, rather than me. But -- and the second question is, I guess, a more wider -- a wider one, and it's the whole sort of wholesale meets retail co-location model. I mean, do you see a convergence of wholesale and co-location, or do you still see them as two very separate markets? Just curious on your sort of view on that one and how it may be changing.

David Ruberg *- Interxion Holding NV - CEO*

I, personally, from where I sit, see a vast, vast difference. One is focused on giving someone the lowest cost. That's the wholesale market. And the other one is focused on giving the customer the great opportunity to create value by sitting next to these people that are in their trading group. And those two are just totally different.

Now, sometimes, the customer bleeds from one to the other, but I view those as totally different, and I don't see -- customers are set up differently to respond to those requests. They deal with them differently. A wholesale person just gets anybody in there for 12 years and a retail co-location guy that is focused on a community of interest or an ecosystem has a totally different approach.

So, again, it depends upon the customer need. But what we are looking for are those customers that have applications that are response time sensitive, usually, and user, customer focused, and they are growing, not shrinking.

Maurice Patrick - ***Barclays - Analyst***

Very clear. Thank you so much.

Operator

Your next question comes from the line of Milan Radia of Jefferies. Please ask your question.

Milan Radia - ***Jefferies & Co. - Analyst***

Thanks very much. Actually, a couple of questions. The first is just from an on-the-ground perspective. I guess we've heard different comments about the Paris market within the sort of three large operators in Europe. Sort of, one has been a little bit more downbeat on what's going on in Paris, and the other two, yourselves included, have been a little bit more comfortable with activity. So, I just wondered if you could comment on that.

And then, staying on that geographic theme, if you could, perhaps, just update us on your plans in London, given you have the permits for the large site in place. Is that the next step, or is there something coming in between? Because that could be, I suppose, a couple of years away in terms of opening the first phase.

David Ruberg - ***Interxion Holding NV - CEO***

Paris -- what a wonderful place. I think the answer to Paris depends upon what customers you're looking for and how you intend to service them. And so, I would expect, since the three of us all have different approaches in the marketplace, we'd all have different perspective of what's going on. So, that's all the specific that I can be.

As far as London is concerned, we are working on our London 3 campus. There are some -- in addition to getting the permits for it, you now need to get -- there are other elements to the permit in terms of what you're going to do for the community. There's also what you're going to do with the landlord. So, we're working it.

We're always working other options, and so, we did announce London 2.1. There might be something in between, if, in fact, that's appropriate.

Milan Radia - ***Jefferies & Co. - Analyst***

Okay. So, you're confident that you're not going to have -- again, coming back to this kind of having the right supply in the right -- at the right time, that you will have adequate supply in London, now that you have some momentum in this market?

David Ruberg - ***Interxion Holding NV - CEO***

I'm going to go back to my crystal ball, okay? We're doing the best we can to match -- yes. The big difference for this, the reason we went back and talked about the fact that we have been -- what we did over the last two years was, with the IPO was the first time that we really had access to the capital markets, that allowed us to plan for the future.

And so, that has given us a significant advantage over what we had historically. And that's what we're -- Milan, that's what we're focused on. And I believe that we're in a very good position in the London market, yes.

Milan Radia - ***Jefferies & Co. - Analyst***

Okay. That'll do. Thanks a lot, guys.

Josh Joshi - ***Interxion Holding NV - CFO***

Thank you, Milan.

Jim Huseby - ***Interxion Holding NV - VP IR***

And that -- operator, that concludes our conference call. Thank you, everybody for joining us, and we look forward to seeing you out on the road. We'll speak to you in May. Thank you.

Operator

That does conclude our conference for today, ladies and gentlemen. Thank you all for your participation. You may now disconnect.