INTERXION

Moderator: Jim Huseby
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Operator: This is conference # 81735348.

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Interxion first quarter 2016 earnings Webcast. At this time all audio participant lines are in listen only mode. During the presentation we will have a question and answer session. If you wish to ask a question during this time you may do so. All participants please limit yourself to one question and one follow-up. I must advise the Webcast is being recorded today, Wednesday, the 4th of May 2016. And I would now like to hand the Webcast over to your presenter today, Vice President of Investor Relations Mr. Jim Huseby. Please go ahead, sir.

Jim Huseby: Yes, thank you, Cal. Hello, everybody, and welcome to Interxion's first quarter 2015 conference call. I'm joined by David Ruberg, Interxion's Vice Chairman and CEO; Josh Joshi, the Company's CFO; and Giuliano Di Vitantonio, Interxion's Chief Marketing and Strategy Officer.

To accompany our prepared remarks, we've prepared a slide deck, which is 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 we will be making today are forward-looking in nature and involve risks and uncertainties. Actual results may vary significantly from those statements and may be affected by the risks we identified in today's press release and those identified in our filings with the SEC. We assume no obligation and do not intend to update or comment on forward-looking statements made on this call.

In addition, we will provide non-IFRS measures on today's conference call. We provide a reconciliation of those measures to the most directly comparable IFRS measures in today's press release, which is posted on our Investor Relations page at investors.interxion.com.

We'd like to also remind you that we post information about Interxion on our Website at www.interxion.com and on social media sites, such as LinkedIn and Twitter. We encourage you to check these sites for the most current 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?

David Ruberg: Thank you, Jim, and welcome to our first quarter 2016 earnings call. If you will, please turn to slide 4.

During the first quarter of 2016, Interxion continued to post strong financial and operational results. We again produced steady, consistent growth based on our keen customer focus, operational excellence, and continued financial discipline.

Cloud demand continues to be strong, primarily driven by the Cloud platform providers, as the next wave of demand that I spoke about last quarter is beginning to develop across Western Europe.

We are starting to see Cloud communities emerge around these platforms, sometimes aided by systems integrators. However, we believe enterprise adoption in Europe still lags the United States by 18 to 24 months.

In the first quarter, we again experienced double-digit revenue and adjusted EBITDA growth. Revenues increased 10 percent year over year, 1 percent sequentially. And adjusted EBITDA increased 13 percent year over year and 2 percent sequentially. Adjusted EBITDA margins expanded to 45 percent, an increase of 110 basis points versus the first quarter of last year.

In the first quarter, we opened our 10th datacenter in Frankfurt. And in April, we opened our second datacenter in Copenhagen.

Finally, after the quarter ended, we raised EUR155 million by selling 115 million of our 6 percent senior secured notes at 104.5 percent, an effective yield to maturity of 4.82 percent. And Josh will provide more details later.

Please turn to slide 5. I will be brief on this slide, but I would like to highlight its key takeaway: the consistency of our progress with double-digit revenue growth and expanding adjusted EBITDA margins. Josh will also provide more detail, but recurring revenue at 12 percent year-over-year growth is growing faster than total revenue with recurring revenue representing 95 percent of total revenue.

Please turn to slide 6. Operating metrics in the first quarter continue to advance and again demonstrate our disciplined approach. In the quarter, we added a net of 400 square meters of equipped space, ending the quarter with over 101,000 square meters, an increase of 7 percent year over year. Revenue-generating space increased by 1,300 square meters and now exceeds 80,000 square meters, an increase of 9 percent year over year. As a result, we saw utilization rise to 79 percent.

Other key operational metrics of the business remain positive and consistent with prior quarters. And they are bookings were solid in the quarter and in line with our expectations. The sales pipeline is strong. Pricing remains steady. And revenue churn remained low and consistent with our historical annual range of between 0.5 percent and 0.75 percent per month on average.

Please turn to slide 7. The first phase of Frankfurt 10 was opened during the quarter. We have spoken about the strength of our Frankfurt campus on prior calls and the capabilities that our campus offers to our customers, including the dense network connectivity, multiple Cloud platforms, and access to Europe's largest GDP.

Frankfurt has been a key and steady contributor to overall Company performance for many years. And we continue to invest heavily in this market, with Frankfurt 10 being the fourth datacenter we have opened over the last four years, and thereby nearly doubling our square meter capacity on our Frankfurt campus during that same four-year time period. The remaining 3,600 square meters of Frankfurt 10 will be coming online over the rest of this year, much of which is already presold.

While we've experienced strong demand in Frankfurt for some time, the Cloud providers' move to the edge -- we'll talk more about that -- is also driving demand across much of our footprint, demonstrated by the fact that we are adding capacity in eight of our 13 markets.

This includes our newest market, as demand within our Marseille facility is very strong. And in the quarter, we signed a lease with the Marseille Port Authority for property that will provide significant future capacity for us in that area. We will provide further details on this progress on future calls.

Please turn to slide 8. Every quarter, we've provided a breakdown of our contracted recurring revenue by industry segment. For this quarter, we've refined our segmentation to reflect the subtle but significant changes that are occurring in the industry.

Cloud is clearly reshaping the segment boundaries and impacting the development of the relationships amongst our various communities of interest. And we've tried to capture those changes on this slide. The segment refinement has not changed the distribution of revenue in any meaningful way. But, it is important to notice that we are now explicitly identifying the systems integrators, given their increasingly important role in developing our communities of interest.

In Q1, we saw continued strengthened demand from Cloud providers fueled by a strong and growing sales pipeline across multiple countries, as the leading Cloud infrastructure providers and SaaS providers to continue to expand their footprint in Europe.

The Cloud-driven growth is not only coming from the hyperscale providers, but also from local Cloud providers and local MSPs that have had longstanding relationships with us. It is these local customers that are vital to creating the communities of interest in our markets.

Also in Q1, we had significant wins in digital media, especially in our key gateway markets such as Vienna, Stockholm, and Marseille. We have also started to see the magnetic effect of Cloud providers as they begin to draw demand from customers in the enterprise and financial services markets. Finally, we are seeing particularly strong demand in Germany, Marseille, and the Nordics in the segmentation connectivity segment.

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

Josh Joshi: Great. Thank you, David. And indeed, welcome to everybody on the phone and online.

I'd like to start by discussing the Group's first quarter results and, as usual, then provide some additional color on our two geographic reporting segments. I plan to follow that with some commentary on capital expenditures, cash flow, and the balance sheet and, as always, conclude with a few comments on returns.

So, let's start with the income statement. Please turn to slide 10. Interxion kicked off 2016 with another quarter of consistent, solid execution. Total revenue in the first quarter was EUR102 million, up 10 percent compared to the first quarter 2015, and up 1 percent sequentially. On a constant currency basis, total revenue was up 11 percent year over year and 2 percent sequentially, with the difference primarily being driven by the sterling, which represents approximately 12 percent of our revenue.

Recurring revenue in the first quarter increased to EUR97.2 million, a 12 percent year-over-year increase and a 2 percent sequential increase. As a percentage of total revenue, our recurring revenue was just above 90 percent -- 95 percent, excuse me, a three-year high.

This high is a reflection of the expected reduction in nonrecurring revenue this quarter. The nonrecurring revenue was EUR4.8 million, in line with our expectations and down from the prior quarter and the prior year.

Now, as discussed previously, nonrecurring revenue by nature is lumpy and driven by a number of factors, including installations, structured cabling, and other activity. As discussed on our last call, since the beginning of 2016, we've transitioned to a recurring monthly charge for our new cross connects. We believe that this will drive value in the long term. But, during the first year, it represents a bit of a headwind for total revenue comparisons. Therefore, all things being equal, we expect nonrecurring revenue to remain within the range of between EUR4 million and EUR5 million per quarter.

Recurring ARPU increased slightly to EUR406. As a reminder, for datacenter providers, recurring ARPU is a yield metric that can fluctuate between quarters due to a number of factors, including deal size, geographic mix, timing of installations, energy and collocation pricing, the rate of growth of energy utilization, cross connects, and the impact of currency movements.

During the quarter, recurring ARPU was positively impacted by a number of factors, including increasing energy utilization and annual price escalators. Looking ahead, I expect that recurring ARPUs will remain relatively stable through to the end of the year subject to the normal modest fluctuations in either direction due to the factors that I just mentioned.

Turning to costs, cost of sales was EUR39.1 million in the first quarter 2016, down marginally from the fourth quarter 2015 and up 8 percent over the first quarter last year.

Gross profit was EUR62.9 million, an increase of 2 percent sequentially and 12 percent year over year, with gross profit margins at 61.6 percent, improving 80 basis points year on year and 50 basis points sequentially. We continue to see a strong performance on gross margins, driven in part by lower expansion drag and increased utilization.

Sales and marketing costs increased to EUR7.7 million in the first quarter 2016, an increase of 16 percent year over year and up 5 percent sequentially as we continue to invest in our strategic marketing activities to further develop and expand our communities of interest. Sales and marketing spend this quarter at 7.6 percent of revenue continues within our expected range this year of between 7 percent and 8 percent of revenue.

Other general and administration costs were EUR9.2 million, up 4 percent year over year and 1 percent sequentially. Overall, other G&A costs were 9.1 percent of revenue, well controlled and in line with our expectations.

Adjusted EBITDA was EUR45.9 million, an increase of 13 percent year over year and 2 percent higher sequentially. Adjusted EBITDA margin increased to 45 percent in the first quarter of 2016, 110 basis points improvement over the same period last year and a 40 basis points increase from the fourth quarter. With a strong increase in adjusted EBITDA this quarter, Interxion has continued it's long track record of profitable financial execution.

Depreciation, amortization, and impairment expense was EUR21.5 million, an increase of 18 percent year over year and 6.4 percent sequentially, consistent with the increase in the depreciable asset base driven by our investments in datacenter expansion.

The first quarter net finance expense was EUR8 million, 21 percent higher than last year's first quarter and 2 percent lower sequentially. The year-over-year increase was primarily due to the prior-year comparison being positively impact by foreign exchange movements in our cash balances, which as required by IFRS we reported as finance income last year and indeed highlighted at that time. As we go forward from here, I would expect that quarterly net finance expense before interest capitalization to be in the approximately EUR11 million range.

The first quarter income tax charge was EUR4.7 million, which represented effective tax rate of 31 percent. On an LTM basis, the cash tax rate was approximately 14 percent, which shows a decrease on the prior quarter. As we look forward, I'd expect our cash tax rate for the full-year 2016 to be at around 18 percent to 20 percent. And over the next few years, we continue to expect the LTM cash tax rate to trend up towards the effective tax rate levels.

Adjusted net profit in the quarter was EUR10 million compared to EUR8.9 million in the same quarter last year and EUR12.1 million in the fourth quarter, with the sequential decline due to the tax variances I just discussed.

Adjusted earnings per share was EUR0.14 on a diluted share count of 71 million shares compared to EUR0.13 in the first quarter last year and EUR0.17 in the fourth quarter. The adjusted net profit and adjusted earnings per share calculations are affected by the impact of M&A transaction costs, capitalized interest, and the tax effect of these items, and we provide a full reconciliation of these puts and takes in the appendix to the presentation.

Now, let's take a closer look by reporting segment. Please turn to slide 11. The momentum in our largest geographic reporting segment continued, as revenue in the big four was EUR65.5 million, up 12 percent year over year and 1 percent sequentially. The big four accounted for approximately 64.3 percent of the Company's quarterly total.

Recurring revenue growth was consistent with the development of total revenue at 13 percent year over year and 12 percent sequentially. Similar to recent quarters, we saw continued strength in Germany, both Frankfurt and Dusseldorf, and the Netherlands, with France making a strong contribution this quarter as well.

Adjusted EBITDA in the big four was EUR36.2 million with margins at 55.2 percent, higher than both the first quarter last year and sequentially. Increased utilization, energy efficiency, and higher margins on nonrecurring revenue had a positive impact on the sequential margin improvement.

Revenue in the rest of Europe was EUR36.5 million, up 8 percent year over year and 2 percent sequentially. Recurring revenue growth was 9 percent year over year and 2 percent sequentially. Adjusted EBITDA at EUR21.5 million was up 13 percent year over year and 4 percent sequentially, with strong margins at 59 percent, again, both up year over year and sequentially, with increasing operating leverage and improved energy efficiency driving this growth.

Moving to slide 12, let's discuss our capital expenditures. Capital expenditures, including intangibles, totaled EUR50 million during the first quarter, of which the vast majority, EUR45.3 million, was discretionary investments in expansion and upgrades to meet customer requirements.

Our approach has not changed. We continue to be disciplined in the deployment of capital and allocate it based on customer demand. It should be no surprise therefore that the majority of our investment is currently focused on the big four markets with nearly 75 percent of our capital expenditure in the quarter being invested in those markets.

Please turn to slide 13. Interxion ended the quarter with EUR44.6 million in cash and cash equivalents, down from EUR58.6 million at the end of 2015. We experienced strong cash generation in the quarter with EUR50.1 million of cash from operations. We invested EUR50 million in capital expenditure and paid EUR15.1 million in cash interest and taxes.

Just after the quarter end, the Company went back to the debt markets and raised EUR155 million of net proceeds from a bond tap of our existing senior notes maturing in 2020. The bonds were issued at 104.5 percent, providing an implicit interest rate for the new money at approximately 4.8 percent.

In addition, soon after the quarter end, we obtained a mortgage on our Vienna campus that we purchased a year ago, with mortgage loan proceeds of approximately EUR50 million.

Balance sheet ratios again remain strong, with gross leverage at 3.1 times LTM adjusted EBITDA and net leverage at 2.9 times. Cash ROGIC, which is our return on gross invested capital measure, remained at 12 percent. Our pro forma blended cost of debt at the end of the first quarter decreased slightly to 5.8 percent.

With the cash on hand, the strong cash generation of our datacenter assets, together with the proceeds of the bond tap and mortgage and access to the EUR100 million revolving credit facility, we continue to have the financial flexibility and funding to execute our expansion program.

Please turn to slide 14. This first quarter of 2016, we updated this familiar slide and rolled the information forward to include all of our fully built-out datacenters as of the 1st of January 2015, as is our usual practice at the beginning of each year.

The big changes are the inclusion of datacenters in Frankfurt and Stockholm, with the final phases coming into operation during 2014 and therefore making them fully built out. This group now consists of 30 datacenters and 70,500 square meters of equipped space at 82 percent utilization.

These fully built-out datacenters delivered EUR309 million of revenue in the last 12 months at 66 percent gross profit margins, generating nearly EUR200 million in discretionary cash flow to the business. Not only strong cash flow, but we also saw top-line growth from these assets, with LTM recurring revenue increasing 6 percent year over year.

The 24 percent annual cash return on the investment that we are achieving evidences the strong underlying operating leverage and prudent capital allocation, which is driving attractive and we think industry leading returns from our datacenter assets.

In this first quarter of 2016, we delivered our 38th consecutive quarter of sequential organic growth in both revenue and adjusted EBITDA. That's 9.5 years uninterrupted history of consistent financial execution. Our approach remains focused to long-term and attractive cash returns in a disciplined and measured manner.

And with that, I'd now like to turn the call back over to David. David?

David Ruberg: Thank you, Josh. Please turn to slide 16. A broad range of recently published research by industry analysts continues to highlight favorable long-term trends in the datacenter industry, which are being validated by the reported positive results of our peers in the United States. We are now starting to see the same trends here in Europe, which traditionally lags the United States by 18 to 24 months.

The key driver for the growth of our industry today is Cloud. And we believe that we're only at the beginning of the migration to Cloud. Previously, I discussed how this is impacting our business. And today, I wanted to take a few minutes and share with you some broad observations of how we see Cloud adoption unfolding, both from the perspective of the Cloud providers and from that of the enterprises.

The growing demand for new datacenter capacity by Cloud providers shows how we're rapidly approaching a tipping point in public Cloud adoption. Public Cloud is quickly becoming mainstream, as newer applications are predominantly being architected to leverage the Cloud, either using a direct SaaS model or for in-house developments through IaaS and PaaS.

End user surveys suggest that the number of enterprises using the public Cloud in some shape or form now exceeds 90 percent. However, this figure is misleading because adoption is still in its early days, as most customers are using public Cloud for specific applications or pilot niche projects, and the actual current application penetration may only be 5 percent to 15 percent.

This slow adoption is particularly evident in Europe, where customers typically take a more conservative and deliberate approach in assessing strategic objectives, potential benefits, and monitoring results.

On the other hand, the growing demand by Cloud providers in recent quarters provides an indication that the experimentation phase is giving way to a broader adoption, and public Cloud applications are starting to extend to production and critical workloads within the enterprise. Even some legacy applications are beginning to be migrated in the many cases with the help of systems integrators.

As enterprises embrace the Cloud, they are typically choosing hybrid deployments with an overwhelming number of large enterprises preferring this model to derisk the migration and get the best of both worlds, private and public Cloud.

The datacenter industry is poised to benefit from this trend because a hybrid architecture lends itself very naturally to collocation. Where application response time and networking cost become increasing important, access to a private Cloud in close proximity with a public Cloud provides a significant competitive advantage.

We are seeing several instances where enterprises use a managed service provider to provide the integration across both public and private Cloud deployments in a collocated datacenter. Additionally, a modal Cloud strategy is also becoming a popular option, as enterprises want to avoid reliance on a single provider for all of their Cloud requirements, whether it be IaaS, PaaS, or SaaS.

This trend increases the value of the communities of interest that we are building in our datacenters, given the collocation sites, which host multiple providers, become natural hubs for enterprises that want to access a range of Cloud services.

As adoption by enterprises increases, the Cloud providers have also begun adjusting deployments with a so-called move-to-the-edge strategy. And this is an architectural approach where an increasing number of public Clouds nodes are placed closer to the end users for performance and cost reasons.

The need to have a more distributed Cloud architecture is magnified in Europe, where data sovereignty requirements provide an additional reason to deploy Cloud nodes in specific countries. The move-to-the-edge trend is particularly favorable to collocation, as Cloud providers benefit from deploying Cloud nodes in readily available and highly connected datacenters to better reach the end users.

We have been seeing this materialize throughout the early demand in our rest-of-Europe markets. And this complements the accelerated rollout in the big four.

The financial results and the commentary of our peers in the United States indicate that the benefits of the aforementioned secular trends are starting to materialize. And these are highly applicable on this side of the Atlantic as well.

As highlighted in the previous quarters, the Cloud provider segment is shifting the sweet spot for collocation to its midsized deployments with higher power density. Vendors that can accommodate accommodation of deal sizes are best positioned to make the most of Cloud migrations by tapping not only into the rapid growth from Cloud deployments, but also the early [drawns] on the enterprise side.

Please turn to slide 17. Today, we are reaffirming our previously announced full-year financial guidance for revenue, adjusted EBITDA, and capital expenditures. To be specific, for the full-year 2016, we are expecting revenue to be in the range of EUR416 million to EUR431 million. We expect adjusted EBITDA to be in the range of EUR185 million to EUR195 million. And we expect to invest between EUR200 million and EUR220 million in capital expenditures this year.

Before we turn the call over to Q&A, I would again like to thank all of our employees and all of our countries for remaining focused on our customers, for executing against our business plan, and for continuing to develop -- 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. Operator, can you please read out the instructions to register questions from the call.

Operator: If you wish to ask a question at this time you may do so by pressing star then one on your telephone keypad. If you wish to withdraw your question you may do so by pressing the pound key. Please limit yourself to one question and one follow-up question. Your first question comes from the line of Jonathan Atkin, RBC Capital.

Jonathan Atkin: Yes, good morning or afternoon. I have a customer question and then a question on interconnects. On customers, I was just wondering what trends you're seeing or expecting in terms of average sizes of new deployments getting larger or smaller footprint wise as well as the portion of revenue growth that you're seeing from new logos versus existing.

And then on interconnects, I wondered if you could just give us a sense of what they are now as a percentage of recurring revenues and any update on whether you're starting to charge on a recurring basis on renewals. Thanks.

Josh Joshi: Hey, Jon. It's Josh. Why don't I deal with the cross connect question first? And then I'll hand over to David. As I said on -- in our prepared remarks, we are continuing as of the beginning of this year to charge for cross connects, for new cross connects on a recurring basis. At this point, cross connects are currently approximately 2 percent of our revenue. And we would expect that to trend up over the next few years towards approximately 5 percent of revenue. I hope that helps.

David Ruberg: Jonathan, in terms of your first question, what we're seeing at the present time I think is the natural order of things that we saw 10 or 15 years ago. If you look at slide 8, we tried to depict this. At the current time, we're seeing more demand coming from the, quote, platform, whether it be the carriers or the platform providers and systems integrators. They are by nature a little larger in footprint.

But, we expect -- as momentum picks up and the enterprises begin to adopt the Cloud, migrating current applications, and develop new applications, we expect that trend to reverse and us to go back to a more natural or more historical view recently with smaller applications or smaller implementations. So, rather than giving you -- we're in a transition period. And I think that's about all we can say at the present time.

Jonathan Atkin: Thank you. And then just lastly, on slide 14, you talk about power upgrades yet to come. And I was just wondering, how often do you go back to an existing site and need to then upgrade the tower capacity, a frequent event or somewhat infrequent?

Josh Joshi: That's a really good question. The way that we design our datacenters, we design them so that they are very flexible to accommodate the varying power requirements of our customers.

And as customers develop their requirements, what we do is we deploy the initial capital for power capacity within a datacenter usually at around 0.8 to 1 kilowatt per square meter. And then as our customer requirements increase, we go back and allocate further capital and do power upgrades. And it depends on the country, and it depends on the customer mix in each datacenter. But, it can happen reasonably well.

And I pointed out that we saw a decent revenue increase from that set of datacenters. That's driven from a mixture of energy and power capacity increases.

David Ruberg: Jonathan, to add onto that, I don't want you to get the impression that we go back and reconstruct these sites. OK? This -- so, this could be an ongoing thing, where we add UPSs, we add generators, we add chillers and coolers.

So, it's not a reconstruction effort. It's simply trying to design it to a certain level and then deploy the minimal amount of capital to meet the requirements and demands and adding capital on as-needed basis. So, it could be two times a year, three times a year, depends upon the growth.

Jonathan Atkin: Is it considered maintenance CapEx or expansion?

Josh Joshi: It's considered expansion and upgrade CapEx, not maintenance.

Jonathan Atkin: Thank you.

Operator: Your next question comes from the line of Milan Radia, Jefferies.

Milan Radia: Good afternoon. Thank you. The first question was just around perhaps the changing complexion of datacenters in terms of the Cloud hubs. And I think a couple of years ago there was an expectation that AWS and Azure would put their platforms into a datacenter, albeit a well-connected datacenter, and then enterprises would come in and pick and choose and look to kind of address the number of their requirements at the same time, in the same location.

Now, you've got this growing layer of systems integrators sitting in there. And I guess that they are by definition better placed than enterprises alone to kind of mediate between the different platforms and create that integration layer. Are you seeing that as a trend so that the Cloud hubs that everyone was talking about amongst the retail datacenters are kind of evolving in terms of how they're actually delivered by the datacenter operators themselves?

David Ruberg: Hello, Milan. It's David. Milan, we struggle with this chart on slide 8. It looks like from the slide that the only way you can get to these platforms is through the systems integrator. And that was not what we were trying to convey.

There are some people in the enterprises that will do it directly. Again, if I had to redraw this, I'd make this layer a more porous approach. So, it's a combination. In some cases, they facilitate. In some cases, they're a component of the solution. It's not as black and white as this chart seems to make it.

The thought that we had a couple years ago I still is the -- I still think relevant. And that is edge nodes will be placed into collocated sites. And the hybrid -- the collocated hybrid solution I think for applications that are response time sensitive -- excuse me -- communication sensitive, they will collocate in those sites.

And either they will do it directly, or they will be facilitated by systems integrators, some who are selling space, reselling space, some who are selling integration products, some who are selling products that allow the integration to be -- collaboration to be measured and monitored. So, it's not that black and white.

Milan Radia: Got it. I had a second question, which was I suppose Equinix, Telecity have been together now for a little bit. What are you kind of seeing from them in terms of their strategy? Are there any signs they're looking to get aggressive? Are they kind of being provocative in Frankfurt, or are they still engrossed in their own integration and the politics and logistics around that do you think?

David Ruberg: Milan, we have seen really no change in their behavior in the markets that we serve. And by the way, when we talked about this over the last two or three quarters, we weren't sure that we were going to see any change. But, as to date, we've not seen any change.

Milan Radia: OK. And one final question, if I may, which was I guess, if I asked you if you were expecting to get any of the divested sites from Equinix, you would say you can't comment.

But, if I asked you a slightly more hypothetical question, which is around the various M&A opportunities that are out there, if you had to prioritize or rank them, how would you do that between, say, creating a trans-Atlantic axis between solidifying and strengthening your position in London or becoming a part of a global entity? How do you see the world evolving, and what are your preferences within that?

David Ruberg: I give you a lot of credit for rephrasing the question, but the answer's still no comment.

Milan Radia: Fair enough. Thanks very much.

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

Michael Rollins: Hi, good morning. Thanks for taking the questions. Two, if I could. First, if you can give us an update on the Paris facility and just the status of the zoning that you were describing in prior quarters.

And then secondly, if you could, there's one of the slides that you provided -- let me give you the right number. It is slide 14, where you go through the returns on the fully built-out centers. Is that the maturity of those facilities, or is there an incremental amount of revenue that you anticipate getting relative to those investments that you've already made, as time passes and you try to -- whether it's interconnection or power or more utilization, how should investors think about that? Thank you.

David Ruberg: Mike, a quick answer to the first part of your question, and Josh will answer the second part. The situation in Paris is that we have refiled for the permits, and we are on schedule, as we've indicate before. We expected to receive the reissued operating permits by the end of the year. And at the present time, based on our filing and our reaction, so far, we do not expect any problems. We expect to get those passed by the end of the year.

Josh Joshi: Mike, it's Josh. Thanks for your question. The 30 fully built-out datacenters, what we're trying to show here is that, as we deploy our capital, what are we trying to achieve, and to try and demonstrate that these are very attractive returns. And all of our datacenters follow a roadmap over several years.

If you recall, it takes about three to four years for a datacenter to fill up. But, the point that is really worth making and I think that you were trying to highlight is that, actually, after three to four years, when the space is full, it doesn't mean to say that the power capacity of the datacenter is fully utilized and the energy of our customers is fully used.

And therefore, there is -- despite the fact that, from a space metric, our datacenter is pretty much fully utilized, we still have future revenue opportunity which comes from energy increases, which comes from power capacity utilization, which will come from increased cross connects as our customers engage within the communities within these datacenters.

So, the underlying opportunity here is actually that we can now look to try and improve these returns over time within the asset base.

And if you'd allow me to add one other remark, remember, we build our datacenters in campuses. And this is really critical because what we're doing is we are developing a community within a campus. Not only does that mean that our new datacenters are becoming attractive because we're bringing in customers and building a community in our new datacenters.

What it's doing is allowing our older fully built-out datacenters more opportunity to drive future growth because they want to connect with the new entities within the campus. So, actually, this is -- I think David uses the language, this is the gift that keeps on giving. And I can't agree more. There are significant opportunities within the fully built-out datacenter portfolio. I hope that answers your question.

Michael Rollins: It does. And if I could just squeeze in one other, if you go to slide 8 and you look at the customer wins that you have, which boxes are binary outcomes? You win the customer, or your competitor wins the customer, and that's basically the story. And what boxes is where you find those customers are actually deploying in a variety of facilities? So, it's not a win or lose for the customer. It's kind of game of relativity. It may be how much of that customer that you get as other competitors might also get deployments from those same customers. Thanks.

David Ruberg: I think that's a very good question. And I'm going to ask our Chief Marketing Officer that.

Giuliano Di Vitantorio: So, Michael, if you work from the bottom of the slide, you see that, at the bottom, we have the connectivity providers. And they tend to deploy in multiple locations. They're also the most mature customers. So, their footprint is pretty broad. And they tend to be in all the main datacenter providers.

When it comes to the Cloud providers, of course, we are still seeing the second wave of adoption by the Cloud providers. And this is where they're starting to diversify into I would say a primary provider and a secondary provider in the larger cities. And they're starting now to deploy also in the rest of Europe.

And there, they typically tend to choose one provider for their first installation. And probably, we'll see the same pattern repeat in those cities where they would choose a second provider as the installation expands. So, it's a matter of maturity. The Cloud providers are not -- have not been in the datacenters for as long as the connectivity providers. But, over time, they will continue to expand their footprint.

When it comes to the higher layers of the communities, that's where you tend to have more of a binary choose. So, a typical enterprise would typically deploy with one provider. And that's why it's so important to get the right magnetic customers at the bottom because then you really get the binary choice going your way when it comes to the customers at the top of that stack. I hope I addressed your question.

Michael Rollins: Yes, thank you very much.

Operator: Your next question comes from the line of Jonathan Schildkraut, Evercore ISI.

Jonathan Schildkraut: Great. Thanks for taking the questions. I have another question around sort of the second wave of Cloud demand that you guys have been discussing. Coming out of the AWS event in Germany, there was a lot of discussion around some large CSPs starting to accelerate their footprint deployment in Europe.

And even looking at your sort of NASCAR slide on page 8, there are a couple of names here that are missing. And so, I was wondering if you could give us a sense as to whether there are some new names coming into the CSP market into Europe taking up some of the collocation space and then maybe a little bit deeper perspective on how far through this sort of cycle we are that is that second wave of Cloud-driven demand. And then I'll come back with a follow up. Thanks.

David Ruberg: All right. I'm looking at the slide. Keep in mind, Jonathan, what's on this slide are those -- not all that we have, but those that we're allowed to talk about. So, these are the ones that we're allowed to talk about. And I only see one or two really big names, but if we have them, I can't tell you.

As far as how far we're along, the more important question I think about the waves is, how many of these waves are we going to see? And how far along are we? So, I think we're going to see quite a few more than we have. We debate internally whether this is the second wave or the third wave. They seem to come every two years because it takes time for people to react to it.

You can probably get a better indication of what's happening in Europe if you look at the CBR reports in terms of what's happening in the United States. And so, you can see in the United States that it started early last year, seems to be going on now. Vacancy rates are high -- vacancy rates are low. Occupancy is high. So, you've got a leading indicator that you can focus on.

Jonathan Schildkraut: Great. And maybe as a follow up here, I'd love to come back to some commentary that you guys provided last quarter and you mentioned in your prepared remarks today, which is the amount of capital that you're deploying that is for known demand or -- I don't want to say preleased -- presold I think is the term that you used.

I think you said, coming into the quarter, so prior, that it was more than 50 percent. You did open up some new space. And we actually saw some good uptake this quarter. Is the number still more than 50 percent? And when we talk about that capital, your capital deployment plans actually stretch into 2017. And so, I just wanted to understand whether the commentary applies to just this year, or it applies to sort of all the capital you've laid out in the pipeline. Thanks a lot.

Josh Joshi: Thanks, Jonathan. This is Josh. You're quite right. We -- if you look at the way that we developed our business and the way we try and allocate capital, what we're looking to do is build a datacenter to meet the demand that we see and to presell it by approximately 25 percent by the time we open the datacenter and then sell the remaining 75 percent over three years.

Now, looking at the capital plans that we have this year, David mentioned in his prepared remarks the Frankfurt 10 facility's pretty much sold out and presold. If we look at the overall capital we're deploying, we're still in that over 50 percent territory. But, the same sort of metrics apply, and the same sort of approach applies to that which we're doing into 2017.

And therefore, if you look at the underlying visibility of the kind of capital we're putting into place and the kind of customer demand that we know that it is going to meet, we feel very good about that at this point in time.

Jonathan Schildkraut: Thanks, Josh. Thanks, David.

David Ruberg: Yes, sir.

Josh Joshi: Thank you.

Operator: Your next question comes from the line of Frank Louthan, Raymond James.

Frank Louthan: Great. Thank you. Sort of following up on the expansion investment questions, where -- walk us through kind of where you are with the sort of the investment cycle with your new space coming on. Are margins expected to remain relatively steady here, or will the new opportunities maybe flatten that margins out a bit as that ramps?

And then what would it take to get to sort of the higher end of the range of guidance? Is there anything about your expectations for the customers coming in -- coming on the rest of the year that could really alter the pace of the revenue growth over the next 12 months? Thanks.

Josh Joshi: Hi, Frank. It's Josh. Thanks for the questions. Look, we are -- if you look at the CapEx and if you look at the space that we're planning to deploy, there's a good 13,000 square meters that we've announced that ought to be coming online over the next four or five quarters here. Excuse me.

And you're right. As we bring on this datacenter equipped space, we can see some expansion drag within the business. A large chunk of our datacenter capacity is coming online in the fourth quarter. And as we bring that capacity online, no doubt, we'll experience some element of expansion drag, albeit as I was just mentioning to Jonathan, there's a good chunk of presales involved in the next several quarters.

And I think that, as we develop that over time, what happens is that, as that develops, we would see puts and takes on the margins there in any one quarter. But, nevertheless, our guidance doesn't change.

If you look at our track record, we've increased our EBITDA over the last 10 years. And over that same period, we've increased our annual EBITDA margins. Our guidance is looking for something like 50 basis points at the midpoint of increase of our annual adjusted EBITDA margins. And you'll note that we didn't change our guidance this quarter.

As you look at the puts and takes at the top line, we've got foreign exchange having a significant impact in both directions. This year, it's a headwind. Last year, it was tailwind. And equally, we can see puts and takes on power and energy consumption and also -- we don't talk about it that often -- but also, the timing of bringing capacity online. But, we've been really very good I think historically at our execution of delivering -- basically doing what said we were going to do. But, those are probably the key puts and takes.

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And if I may just add to that, 80 percent effective occupancy, the question you asked about getting into the upper range, we would -- we're doing everything we can to accelerate these builds. But, at 80 percent occupancy, a lot of the growth is really dependent upon that availability.

Frank Louthan: OK. Great. Thank you.

Operator: James Breen, William Blair.

James Breen: Thanks for taking the question. Just one follow up on the previous question. David, you talk about 80 percent occupancy. Is that sort of where you consider the datacenter to be full just because of the fragmented space in it, and that's when you have to think about the expansion?

And then secondly, as you look at your customers that you're putting in datacenters, whether it's a systems integrator or enterprise or a Cloud provider, is there a difference in how these customers ramp revenue over time, taking just space or more power over time? Can you just comment on that? Thanks.

David Ruberg: Yes, and again, if you look at the chart that Josh put up on these datacenters that have been -- that are full, they're at 82 percent occupancy. So, that gives you some idea of what the fragmentation has an impact.

And by the way, we don't -- a sideline to the question you asked, sometimes we put the systems integrators into the datacenter. That doesn't mean that's the way it always happens. These systems integrators may facilitate someone coming with us directly. So, that's what I was trying to cover before. There are many options here.

And yes, some of these take space, and it can be fragmented. And so, they take whatever the appropriate size is. They use it. And when they grow, they take more. Some of them need contiguous space, and they will grow into the space.

So, one of the advantages that we have in building our datacenters and one of the reasons that people come to us is the inherent flexibility in our design and our ability to meet their growth requirements, whether it be from a space standpoint or for a power and energy utilization standpoint.

Josh Joshi: Yes, and, David, if I can add another dimension on that last point, the certain customers will deploy a server architecture. And they may take a quarter to just test it. They may not even really turn on the underlying systems.

And then as we go forward, they will then test. And they will then use the application in [anger]. And actually, the energy and power capacity may come online several quarters later. And that may develop over time.

And so, there is -- the way that we work with our customers, we try to work with them to provide flexibility on the way that they can deploy their space over time and also, as I mentioned earlier, in increasing energy and especially power utilization.

And the final point I will make on this is that, as a Group, we're running at 79 percent utilization. And so, if we look at the range of utilizations that we tend to run as a business, we're probably at the upper end of that range at this point in time. And so, going back to what David was saying, we're building this capacity as quickly as we can based on the demand that we see.

James Breen: Great. Thanks.

Operator: Your next question comes from the line of Tim Horan, Oppenheimer.

Tim Horan: Thanks. Just following up on that point, with the 70 percent utilization, I think you're around 61 percent gross margin. Slide 14's showing 82 percent utilization at 66 percent kind of gross margin. Is the difference there the power primarily? And I guess, kind of a separate question would be, where are you on power utilization if you're at 79 percent utilization on a square footage basis? And I just had a quick follow up on Cloud.

David Ruberg: I'll let Josh ask the first part. On the power utilization, we are substantially below the 79 percent, 80 percent space utilization.

Josh Joshi: If you look at the -- Tim, if you look at the way that the business develops, we have got 70,500 square meters of fully built-out datacenter space with just under EUR310 million of revenue, which is growing at 6 percent. And it's not really driven by space so much as driven by energy and power capacity utilizations.

But, you can do the reverse maths on that. And you can see that then that means that there's approximately another 30,000 square meters of capacity for the remaining 12 datacenters. And that capacity is less utilized and actually growing much faster because, actually, it's under construction, although the numbers are somewhat smaller.

That capacity's growing at around 50 percent in terms of revenue growth. So, that's as we see those datacenters build up and develop over time. But, despite the fact that the revenues are growing really very fast, their underlying gross margins are obviously much lower because their utilizations are now much lower in terms of being able to develop.

But, what I'm trying to say is that those remaining 30,000 square meters, we would expect that to develop when they become fully built out and then at relatively high levels of utilization to be at similar kind of metrics to what we showed on slide 14.

Tim Horan: Great. And then just on the Cloud service providers, obviously, it's increasing as a percent of revenue quite a bit over the last 18 months. Can you maybe just characterize the growth a little bit? Is it the very large Cloud providers that are driving this, or is it more the smaller ones?

I guess I'm just trying to get a sense -- you used the word hybrid Cloud quite a few times. Are you kind of surprised by the number of new Cloud providers that are out there? And just looking at the systems integrators, it seems like some of these guys are becoming Cloud providers also. It seems like Cognizant wants to build their own platform as a service.

Are you seeing them kind of looking to build their own Cloud infrastructure, or I guess I'm looking -- is it a more fragmented market really or more concentrated market at this point? Thanks.

David Ruberg: Well, if you include IaaS, PaaS, and SaaS, it is certainly fragmented because there -- if we include -- again, particularly the SaaS orientation, so it is quite fragmented. Yes, the large -- the hyperscale guys certainly have an impact. But, we have a lot of the smaller guys, which is what -- part of what we were trying to explain. Do you want to -- ?

Giuliano Di Vitantorio: -- Yes, a couple of points. So, as David said, on the infrastructure from either level, there's -- we're starting to see a concentration into fewer players. The SaaS market is still -- not only highly fragmented, but we probably continue to be fragmented because there are many different vertical application -- software applications that these SaaS providers will target. So, we expect that demand to continue to be very fragmented from the SaaS players.

Also, to your point about the systems integrators trying to be also Cloud providers, one of the reasons we actually decided to report numbers for both Cloud providers and systems integrators is because we are starting to see that ambiguity being resolved.

A number of system integrators who initially made a venture into the Cloud market realized that actually there's more better business opportunity for them to be just a pure integrator. So, we're seeing the market being -- becoming clearer rather than more confused in the last few quarters.

Tim Horan: Thank you.

Operator: Your next question comes from Matthew Heinz, Stifel.

Matthew Heinz: Thanks. Good morning. Just thinking about your recent gross margin improvement in the absence of any expansion drag, and given that most of your revenue-generating space is scheduled to come online later this year, I can appreciate there's some seasonality here, but are there any specific items we should be thinking about that would constrain margin expansion over the next two or three quarters?

Josh Joshi: I think that there are different factors as we look at margin expansion. Remember the -- our energy margins are actually much lower than our gross margin. And I'd make the distinction between energy and power. Power is an infrastructure reservation fee, which is a high-margin part of our business.

Energy margins are actually much lower, in fact lower than our EBITDA margins. And therefore, actually, as part of our growth is contributed from growth in energy, we would see that impacting margins. And you're asking me for puts and takes. That's one of them that could be on the down side.

But, generally, that's good news for us because what we see there is our customers engaging, bedding down their servers and engaging within the community. So, we just see that as all positive.

But, barring expansion drag, we don't really guide on gross margin. And as I said, at the bottom line in terms of adjusted EBITDA, we're looking at the midpoint for around a 50 basis points improvement.

Matthew Heinz: OK. Thanks. And then as a follow up, if I look at your valuation on sort of a fully taxable AFFO equivalent basis to sort of normalize for the [REIT] differential, you get with [ED] to EBITDA, it still seems your stock trades at a 15 percent to 20 percent discount to US peers. I'm wondering if that's something you look at, how you would explain it, and perhaps, is there a desire to change or do something about that?

David Ruberg: We certainly look at. We look at it with a great deal of envy. And if you have any suggestions on how we can change that, I'll give you my cell phone number.

Matthew Heinz: Great, David. I'll send you a text later. Thanks.

David Ruberg: All right.

Jim Huseby: Thank you, everybody, for joining us today. That concludes our first quarter conference call. You can now disconnect.

Operator: That does conclude the Webcast. Thank you, all, for participating. And you may now disconnect. Speaker, please standby.

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