Interxion

Moderator: Jim Huseby
3 May 2017
13:30 BST

Operator: This is Conference # 2827550

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the InterXion First Quarter 2017 Earnings Conference Call. At this time all participant lines are in a listen only mode. During the presentation we will have a question and answer session. At this time, if you wish to ask a question you'll need to push the star followed y one on your telephone keypad. I must advise you the webcast is being recorded today, Wednesday, the 3rd of May 2017.

And I would now like to pass the webcast over to your speaker today, Jim Huseby. Please go ahead, sir.

Jim Huseby: Yes, thank you, Collin (ph). Hello, everybody and welcome to InterXion's first quarter 2017 earnings conference call. I am again joined today by David Ruberg, InterXion's Vice Chairman and CEO; Josh Joshi, the InterXion's CFO; and Giuliano Di Vitantonio, InterXion's Chief Marketing and Strategy Officer.

To accompany our remarks, we have prepared a slide deck, which is available on the Investor Relations page of our Web site at investors.interxion.com. We encourage you to download these slides to use during this call if you have not already done so.

Before we get started, I would like to remind everyone that some of the statements we will be making today are forward-looking in nature and involves risks and uncertainties. Actual results may vary significantly from those statements and maybe 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 for today's conference call. We provide a reconciliation of those measures to the most directly comparable IFRS measure in today's press release, which is posted on our Investor Relations page at investors.interxion.com.
We would also like to remind you that we post important information about InterXion on our Web site at www.interxion.com and 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 am pleased to hand the call over to InterXion's CEO, David Ruberg. David?

David Ruberg: Thank you, Jim. And welcome to InterXion's first quarter 2017 earnings call. Please turn to Slide 4. During the first quarter of 2017, InterXion posted strong financial and operational results as the momentum in our business continued to grow as we combined sales and operational excellence with financial discipline.

In the quarter, InterXion experienced double-digit revenue growth and margin expansion. Total revenues increased 12 percent year-over-year and 3 percent sequentially. Adjusted EBITDA increased 12 percent year-over-year and 4 percent sequentially, while adjusted EBITDA margin was 45.1 percent higher on both the year-over-year and sequential basis.

During the first quarter, we completed expansions in Amsterdam, Marseille, Paris, and Copenhagen. We also acquired a data center which we have labeled InterXion Science Park, which doubled our carrier capacity and density in Amsterdam. Integration efforts of this asset has begun, and are now proceeding according to schedule. We continue to expand capacity to meet the demand that we see, and currently have expansion projects in seven markets, which are on track and scheduled to open between now and mid-2018.

Please turn to Slide 5. The numbers speak for themselves, and as usual, Josh will provide much more detail on our financial results. Before moving on, however I want to highlight the fact that the first quarter of 2017 represented the 42nd consecutive quarter of both revenue and adjusted EBITDA sequential growth.

Please turn to Slide 6. Operating metrics, which exclude InterXion Science Park showed strong progress in the first quarter. We added 3,300 square meters of new capacity and added 2,600 square meters of revenue-generating space while maintaining our utilization rate as 79 percent. Since the beginning of 2014, we have grown our equipped space organically by over 40 percent, but have also grown our revenue generating space by over 50 percent resulting in improvement of our utilization rate of over 400 basis points.

European demand for connectivity rich data centers remain strong, while Cloud remains a key driver of demand bookings are increasingly diversified across our interest. Economies across Europe continue to slow but steady improvement and although most businesses have started to adapt third-party cloud services they have been very selective in choosing, which applications to run in the cloud. This slow growth environment combined with the increased political uncertainty that has become much more prominent over the last past 12 months has resulted in a desire to de-risk technology investments.

Solutions that InterXion helps to enable like Cloud provide IT managers with the flexibility for IT systems and applications that help them manage through these uncertainties. In the first nine months, since the Brexit vote, we have seen no negative change in demand and we continue to believe that Brexit likely represents an incremental opportunity because of our broad western European footprint and the flexibility that cloud providers provide to enterprises.

As a result, Brexit may turn out to be a catalyst for European enterprises in general and UK enterprises in particular to accelerate migration into the

Cloud. With respect to other business metrics, bookings in the quarter remained and continued strong at the same level that we have seen over the last four quarters with diversity across our geographies, our industry segments and varying deal sizes.

Our sales pipeline remains strong. Pricing continues to remain steady and revenue churn was again low and consistent with our historical annual rate of between 0.5 percent and 0.75 percent per month on average.

Please turn to Slide 7. In the first quarter, we completed expansions on schedule in the Amsterdam 8 and Copenhagen 2, an open capacity in Paris and Marseille ahead of schedule. Given the level of demand that we have seen, we have further expansions underway that will increase our capacity by another 13 percent by the middle of 2018.

Included in these expansion projects is additional capacity in Paris and Marseille and Frankfurt. This is the second consecutive quarter that we've added capacity in Paris and we're scheduled to open more capacity in the coming months. This is not only reflective of the improved economy in France, but more importantly, the cloud service providers have started to build out their cloud platforms in France.

Please turn to Slide 8. In the first quarter of 2017, our committees of interest continued to expand as we started the year with a strong backlog of bookings from 2016 that we have now started to convert into installations. Cloud and Digital Media were the primary contributors to revenue growth in the quarter on the back of our strategic wins last year. The cloud platforms continued to deploy their on-ramp nodes to enable enterprise access. AWS Direct Connect went live at InterXion in 4 more markets since the beginning of 2017, that would be Madrid, Stockholm, Vienna and Zürich.

Recently, we reached an important milestone in the deployment of our own cloud connect platform, which enables enterprises, managed service providers and systems integrators to access multiple cloud platforms from our facilities. Following the deployments in Dublin, Düsseldorf, Madrid and Marseille, in the first few months of 2017, cloud connect is now available in all of our 13 cities.

Bookings were strong as well. While cloud remains the main driver of growth, we had a very balanced distribution across all segments. Over 10 percent of Q1 bookings came from new customers, as we added 57 new (loaders) to our customer base. The largest wins however, came from expansions with our top-tier cloud and Digital Media customers as both B2B and B2C platforms continued their network and compute node rollout across Europe. The countries that benefited the most in Q1 were Germany, France, Sweden and Spain.

Connectivity had one of the strongest quarters in recent years, as we signed important expansions with our global connectivity partners.

Additionally, the acquisition of InterXion Science Park in Amsterdam immediately translated into a strong pipeline from content providers that want to leverage their network density of our new facility to serve their end-users. We also had a strong quarter in financial services and enterprises, especially consumer retail, as more and more IT departments realize the benefits that colocation can bring to their IT strategy.

Our 2-prong strategy to reach the enterprises continued to unfold through indirect deployments as well. In Q1, we continued to grow our managed service provider community that we've been in over the past two years. This segment is reaching a higher level of maturity with deployments across all of our 11 countries. All things considered, in Q1 we delivered another quarter of solid execution of our go-to-market strategy as market demand continues to unfold in line with our expectations. I would now like to turn the call over to Josh.

M. V. Joshi: That's great. Thank you, David. And welcome to everybody on the phone and online. So, let's dive straight in starting with the income statement. And please would you turn to Slide 10.

So InterXion kicked off 2017 with another quarter of solid execution and disciplined expansion. Total revenue was EUR 113.9 million, up 12 percent compared to the first quarter of 2016 and up three percent sequentially. On a constant-currency basis, total revenue was up 13 percent year-over-year and 3 percent sequentially. Recurring revenue in the first quarter increased to EUR 108.3 million, an 11 percent year-over-year increase and a 5 percent sequential increase.

Recurring revenue from cross-connects continued to grow at approximately 50 percent year-over-year and is now slightly above four percent of total revenue in the quarter. Nonrecurring revenue was EUR 5.7 million, an 18 percent increase year-over-year, but down 20 percent from last quarter's level. Recurring ARPU, excluding InterXion Science Park, increased to EUR 405, despite the typically diluted impact of a high level of installations. In this quarter, we also saw the impact of longer-term trends like growth in energy and cross-connects, which of course were positive contributors to the increase in recurring ARPU.

Turning to costs. Cost of sales was EUR 44.1 million in the first quarter, up 13 percent from the first quarter of last year, and two percent from the prior quarter. These cost increases were consistent with the expansion of data centre capacity including the addition of four new data centres organically, one inorganically and of course the steadily increasing energy consumption. Gross profit was EUR 69.9 million, an increase of 11 percent year-over-year and four percent sequentially. Gross profit margins were 61.3 percent, down 30 basis points year-on-year, went up 20 basis points sequentially.

Sales and marketing costs were EUR 7.9 million in the first quarter, an increase of three percent year-over-year and four percent sequentially. Sales and marketing costs were seven percent of revenue, on the low end of our seven percent to eight percent expected range. Other general and administration costs were EUR 10.6 million, up 15 percent year-over-year and roughly flat sequentially. Although, other G&A costs at 9.3 percent of revenue were a little above our normal range, this reflects our investments in modifying our sales and -- sales support operating model.

Adjusted EBITDA was EUR 51.3 million, an increase of 12 percent year-over-year and four percent higher sequentially. Adjusted EBITDA margin was

45.1 percent in the first quarter, higher than both last year's first quarter and the sequential fourth quarter. Depreciation, amortization and impairment expense was EUR 24.2 million, an increase of 13 percent year-over-year and slightly decreased sequentially, but consistent with the increase in the average depreciable asset base, driven by our investments in data centre expansions.

The first quarter net finance expense was EUR 10.3 million, 29 percent higher than last year's first quarter and 8 percent higher sequentially. The year-over-year increase was again primarily due to the increase from principal from last April's bond capital notes.

The first quarter income tax charge was EUR 3.3 million, which represents an effective tax rate of 23 percent. The LTM cash tax rate was approximately 18 percent, consistent with our expectations and about where we expect our cash tax rate to be for the full year. Consistent with my comments on this in prior calls, we continue to expect the cash tax rate to trend up over the next two to three years.

Adjusted net income in the quarter was EUR 10.7 million, compared to EUR 10 million in the same quarter last year and EUR 9 million in the fourth quarter. Adjusted earnings per share was EUR 0.15 on a diluted share count of 71.4 million shares, compared to EUR 0.14 in the first quarter last year and EUR 0.13 in the fourth quarter.

Now let's take a closer look by reporting segment. Please turn to Slide 11. Revenue in the Big 4 was EUR 73.4 million, up 12 percent year-over-year and three percent sequentially and accounted for approximately 64 percent of the company's quarterly total. Our acquisition of InterXion Science Park contributed EUR 0.7 million of post acquisition revenue in the quarter.

Backing this out and looking at the underlying performance on an organic constant-currency basis, Big 4 revenue grew 13 percent year-over-year. France and Germany were the strongest contributors to Big 4 results this quarter. Big 4 adjusted EBITDA was EUR 14.2 million, up 11 percent year-over-year and stays strong five percent sequentially. Big 4 adjusted EBITDA margins were at 54.7 percent, down around 50 basis points compared to last year's first quarter and around 90 basis points higher than last quarter.

Revenue in the Rest of Europe was EUR 40.6 million, up 11 percent year-over-year and 3 percent sequentially. Adjusted EBITDA at EUR 23.7 million was up 10 percent year-over-year and up four percent sequentially, with continued strong margins at 58.3 percent, and down from last year and higher sequentially. Austria, Spain and Sweden all performed well in the quarter.

Please turn to Slide 12. Capital expenditures including intangibles totaled EUR 54.8 million during the first quarter, excluding varying EUR 77.5 million we invested in acquiring InterXion Science Park. We again spent the lion's share of our CapEx, approximately 64 percent, in the Big 4 markets where the majority of our expansion projects are currently located and of course, reflecting the relative size of those markets.

Nevertheless, we continue to allocate capital in a disciplined manner, with 93 percent of capital expenditure driven by discretionary investment in expansion and upgrades to meet customer requirements. We also continue to invest across a broad footprint and in support of multiple customer verticals, with as David mentioned earlier, announced expansions in 7 markets, scheduled to come online in the next 4 to 5 quarters.

Please turn to Slide 13. InterXion ended the quarter with EUR 72.5 million in cash and cash equivalents, down from EUR 115.9 million at the end of 2016. Cash generation from operations in the quarter totaled EUR 63 million. We invested EUR 54.8 million in capital expenditure, invested EUR 77.5 million for InterXion Science Park and paid EUR 21.3 million in cash interest and taxes. In March, we completed a EUR 75 million senior secured revolving credit facility, which allows us to largely remain and maintain our pre-acquisition liquidity balance. At the end of the quarter, we've drawn down EUR 45 million of this facility.

Balance sheet ratios again remain strong. Gross leverage was 3.9x LTM adjusted EBITDA and net leverage at 3.5x, both pro forma adjusted for LTM InterXion Science Park. Cash ROGIC, or cash return on gross invested capital, was consistent at 11 percent. Our blended cost of debt at the end of the first quarter was 5.5 percent. With our existing cash balance, growing cash generation of our data centre assets and access to the over EUR 130 million from our 2 revolving credit facilities, we continue to have the financial flexibility and funding to execute our expansion program and to secure long-term sustainable returns.

Please return to Slide 14. This familiar slide has received its annual update and we have rolled the information forward to include all of our fully built-out data centres as of the 1st of January, 2016. This update has resulted in the addition of 4 more fully built-out data centres, representing an increase of around 14,000 square meters of equipped space, or 20 percent. This stabilized group now consists of 34 data centres and 84,200 square meters of equipped space at about 82 percent utilization. We've invested EUR one billion in these fully built-out data centres since inception, including maintenance CapEx.

Over the last 12 months, this group delivered EUR 364 million of revenue at a 67 percent gross profit margin, generating EUR 235 million in annual discretionary cash flow to the business. Although these assets are unutilized, they continue to deliver top line growth with LTM constant currency recurring revenue increasing 7 percent year-over-year. This revenue growth was driven by price indexation, increases in energy consumption and power reservation, continued increases in utilization and of course, cross-connect growth.

The 23 percent annual cash return on the investments that we're achieving evidences the strong underlying operating leverage and prudent capital allocation, which is driving attractive long-term returns from our data centre assets. And with that, I'd like to now return the call to David.

David C. Ruberg: Thank you, Josh. Please turn to Slide 16. This quarter, I'm providing a progress report and another pillar of our strategy that is capturing the migration to cloud in Europe. The migration is proceeding in line with our expectation. And InterXion continues to be very well positioned to capture current and future demand. Underpinning the migration to cloud is the secular trend of enterprises choosing the pay-as-you-go service model offered by cloud service providers.

Ultimately, we believe most enterprises will adopt our hybrid cloud strategy, selectively choosing which applications to run in the public cloud and which to run privately. While market data indicates that over 90 percent of the enterprises have already adopted some form of third-party cloud services, only a relatively small portion of workloads, between 10 percent and 15 percent, have actually moved to the cloud.

This analysis indicates that the overall migration to cloud is still in its early days, and as enterprises develop their hybrid strategies, we will see a balance between deployments in the cloud and deployments that rely on another or other models such as colocation. As with most technological innovations, the growth of public cloud consumption looks like you will follow the typical S-curve of new technology adoption, with the maturity of adoption varying by geography, industry segment and complexity of IT environment.

From a geographical standpoint, the United States is at the forefront of cloud adoption. Europe follows the United States by 18 months to 24 months, with countries like the U.K., the Netherlands and the Nordics typically leading the charge, followed by Central European countries, including Germany and France, while Southern and Eastern European countries tend to adopt new technologies later. Most mature countries in Europe are at the early stages of the steep portion of the curve, while most countries are significantly before the inflection point in the curve.

From an industry vertical standpoint, the most technology-centric segments, such as digital media and SaaS, are the early adopters of public cloud followed by other segments that rely on technology and innovation to create a sustainable competitive advantage, such as consumer retail, energy and automotive. Highly regulated segments such as health care, banking and government, tend to be the most deliberate in their cloud migration strategies.

Large organizations with mission-critical applications that have been built over a long period of time are taking a very disciplined approach to choosing which workloads make sense to migrate and at what pace, and which ones are better kept in-house. We expect that enterprises from all industries and all sizes will eventually adopt a hybrid cloud approach, but their architectures will differ significantly and each IT organization will find a different balance between public cloud, private cloud and more traditional dedicated environments.

The infrastructure build out by cloud service provider follows a clear geographical pattern. They prioritize the deployment of capacity in countries that are further along in the adoption curve and have a sizable addressable market. For this reason, cloud service providers have the largest footprint in the U.K. followed by Germany, while the deployment of capacity is just starting in France. As far as other small countries are concerned, cloud service providers wait to deploy compute nodes until late in the adoption curve, because the level of demand needs to reach a critical mass to justify a dedicated deployment.

Countries such as Sweden are reaching such thresholds now, and are poised to be the next target for cloud service provider deployments. Amsterdam is a different market, because the local opportunities for the cloud service providers is more limited but the city tends to be chosen by those that decide to serve multiple European countries from a single location. Other locations in smaller countries are well positioned to be a gateway market. One such example in our portfolio is Vienna, which is chosen by cloud providers for its strategic position to serve Eastern Europe and the Balkans.

From an architectural standpoint, cloud service providers deployed in network nodes first to (facilitate) the access to a small number of centralized compute nodes and then as adoption reaches critical mass in the various countries, they start to deploy compute nodes closer to the end users to optimize application performance and reduce network costs.

The sum of all these factors translate into the waves of cloud infrastructure demand that we have described in previous calls. As already discussed, they tend to have fewer peaks and troughs in Europe compared to the United States, thus resulting in steadier growth. In terms of future demand from cloud service provider deployments, we expect the public cloud infrastructure build out to continue to mirror the cloud consumption curve.

Based on historical patterns, Europe has a slower adoption pace than the United States, and then catches up as the technology becomes more mature. By the time all is said and done, the typical addressable market is likely to be between 70 percent and 80 percent of that in the United States. This delayed adoption has the positive side effects of providing more runway for future growth and allows for more gradual deployment of capital. Based on all these factors, our growth outlook with the cloud service providers for the coming years is positive.

We expect cloud service providers to continue to rely on colocation providers as they continue to expand. The strong installation in recent quarters are an indication that the capacity that they have deployed with us in the past has driven consumption. This segment may surpass conductivity as our largest industry segment by the end of this year, which is a reflection of how different segments drive growth at different stages of the evolution of our industry.

Please turn to Slide 17. While the demand from cloud service providers provides an effective and relatively predictable growth engine for InterXion. Our long-term strategy is predicated on the ability to capture demand from enterprises as well. The last couple of quarters have provided some validation that our long-term strategy is starting to pay off, as we have seen an increase in demand from many service providers, as well as some early demand directly from enterprises.

In both Q4 of 2016 and Q1 2017, bookings have been very well diversified with a healthy balance between larger deployments from cloud service providers and smaller deployments from local customers. Cloud service provider bookings have continued to grow, while enterprise bookings have picked up and are incremental and current -- and permanently what the market has been witnessing in the United States for several quarters.

Looking beyond a quarter or two, we're seeing early indicators that enterprises that formulate a coherent strategy for cloud migration recognize the need for a hybrid architecture and the benefits of colocation within it. For most enterprises, the alternative is no longer a full migration to the public cloud but rather the status quo of connecting to the cloud from their own premises in what we refer to as a remote hybrid cloud. This is a viable option for workloads that are not latency sensitive and do not require the transfer of large amounts of data.

However, as enterprises increasingly compete on the quality of their online experience with applications that process high volumes of data, the benefits of colocation will become more evident. One of the challenges of our industry is to educate enterprises about the value of the distributor enterprise network architecture, with nodes in colocated data centres to reduce costs and improve performance. While Europe lags and the United States -- lags the United States in these architectural developments, there are factors that may help to narrow the gap.

For instance, the cultural norms and stricter regulatory constraints could play in favor of choosing colocation by encouraging more distributed deployments in individual countries and in more controlled and secure environments to conduct business. InterXion is well positioned to capture this opportunity thanks to the broadest Western European footprint, which covers over 75 percent of European GDP and is underpinned by strong connectivity in all the key markets.

Please turn to Slide 18. 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 2017, we're expecting revenue to be in the range of EUR 468 million to EUR 483 million. We expect adjusted EBITDA to be in the range of EUR 212 million to EUR 222 million. And we expect to invest between EUR 250 million and EUR 270 million in capital expenditures this year.

And again, before we turn the call over to Q&A, I would again like to thank all of our employees for their talent, their dedication and continued commitment in serving our customers, as well as their efforts in delivering our 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 segment. Operator, can you please read out the instructions to register questions from the call?

Operator: Thank you, participants as a reminder if you do wish to ask a question or make a comment, please press the star followed by one on your telephone keypad and wait for your name to be announced. To allow everyone the opportunity to ask a question, you will be limited to asking one question per person. Your first question on the phone line is from the line of Jonathan Atkin from RBC Capital, your line is open.

Bora Lee: This is Bora Lee for Jon Atkin. My question is, can you talk more about the portion of (inaudible) you are seeing from the indirect channel and how this might (ramp) over time?

Giuliano Di Vitantonio: Yes, so our channel strategy is really aligned with our strategy of targeting the cloud. And so we are targeting specifically MSP's and SI's and we are seeing the growth coming from mainly from those 2 segments of our channel strategy.

Bora Lee: And the way you could add to that channel relationship differ across some of your larger markets, such as Germany versus the Netherlands versus France?

Giuliano Di Vitantonio: Our channel strategy is really following the same adoption curve that you saw on Slide 16, presented by David. So the countries where we are more advanced, is those where the strategies are more advanced as well, so the partnership follows that.

Operator: And your next question is from James Breen.

James Dennis Breen: Just with respect to growth, looked like growth outside the Big 4 markets continued to be pretty strong. Can you talk about what you're seeing in terms of customers moving from those Big 4 markets and looking for a more diverse footprint across Europe?

Giuliano Di Vitantonio: This is Guiliano again, I'll let maybe David comment more. But as we mentioned, the pattern is the same. They start with the deployment of network nodes in the smaller countries, while there's still only now compute nodes in the larger countries. And as the size of the addressable market reaches a certain threshold, they start deploying compute nodes as well in the smaller countries. So it's really a progression and the pattern is pretty similar and what triggers the deployment is really reaching a certain threshold of capacity.

David C. Ruberg: Did we answer your question? Were you restricting your question just for the cloud service providers or to all customers?

James Dennis Breen: No, to all customers. Just in terms of how you're seeing your enterprise in the cloud service providers sort of moving out throughout Europe.

Giuliano Di Vitantonio: Okay. So in that respect, I will say the 2 main segments that roll out across multiple countries tend to be cloud and Digital Media. Those are the primary segments that have a multicountry or almost all-country approach. And again, they follow very, very similar pattern. They tend to be North American customers, actually primarily from the West Coast of the U.S., and they all follow very similar deployment patterns with network nodes followed by compute nodes.

David C. Ruberg: Following up on that. Again, historically, and going forward in the future, we're also migrating the standard enterprises, the local enterprises, that already have established presence either in single or multiple countries.

They're starting to migrate to the cloud. But the migration to the cloud does not necessarily change their sales and marketing strategy in terms of the territories that they're going after. So it gives them the opportunity to do that, but that's a more fundamental change than just migrating their IT platform. Okay?

Giuliano Di Vitantonio: And typical enterprise would tend to deploy in 2, 3 countries on average. That's the number we're seeing for now.

Operator: Your next question is from the line of Frank Louthan.

Frank Garrett Louthan: Dave, you mentioned your work notes, or (inaudible) some of your customers on value of -- your value proposition and outsourcing the cloud.

What steps are you doing to address that? And then with that, how are you approaching international clients to make sure that (inaudible) that they come to Europe. In the past you indicated that some of the U.S. providers have a little bit of advantage with some existing relationships there. How are you addressing those relationships?

David C. Ruberg: Okay, if you could go back, your voice was clipped in the first 10 seconds. What was the first 10 seconds of your question? Maybe it got really clipped.

Operator: Your next question is from Colby...

David C. Ruberg: No, no. Wait one second. I think we have lost the answer. The value proposition is no different today, than it's always been. It's a question of understanding our customer and who their customers are, and helping formulate a strategy that allows them to reach their customers in a cost-effective fashion and meet their customer objectives, whether it be consistency of interface, whether it be response time, and that's what we have done for years. And so it really hasn't changed. So again we've lost the person asking the question. I hope that answered your question.

Giuliano Di Vitantonio: And just to add on to that. For -- of course for customers that come from North America, the fact that we have these very wide footprint across 11 countries in Europe and we cover 75 percent of the European GDP, that is almost unique value proposition, that not many competitors can even come close to that. So that's part of the unique value proposition that we have, specifically for that segment.

David C. Ruberg: Our next question please.

Operator: Your next question is from Colby Synesael.

Colby Alexander Synesael: Two if I may. First, I just wanted to get your view on, in terms of your interest in potentially do built to suits in some of your markets where you may have recently acquired land. Paris comes to mind. Just trying to get a sense of what your interest would be in those types of projects as we go forward. And then secondly, for Josh, can you just remind us, as it relates to the capital required to finance the various CapEx projects, is there any expectations for any additional debt later on this year?

M. V. Joshi: Hi Colby, this is Josh. Let me pick up on that question first and then I'll hand over to David on the build to suit question. As you know, our practice is always to look to optimize our capital structure, and while we also want to obviously ensure we've got availability and flexibility to meet our future requirements.

So Colby, I think you can assume we're constantly assessing our options to further improve capital availability and flexibility and obviously the overall cost of capital.

And I think as I mentioned on the call, we've got ample capacity at the moment with the recent EUR 75 million back facility we closed in March, as well as the full availability of the EUR 100 million last year from that cash generation. So, at the current time, we continue to look at our options.

David C. Ruberg: The question about build to suit is an interesting one, although the phrase is relatively short. There are many flavors of that. We could build -- use our engineering organization to build on behalf of someone. We could build it and run it on someone. So I would answer that -- your question Colby, by simply saying, we work with our customers, large and small to make sure that we can create the communities of interest and the components that go into these communities of interest that create value for all of us and create a win-win for both of us.

So we are open to discussion on all ranges of things, as long as it is consistent with our go-to-market strategy, community of interest and does not go out this -- outside of the strengths that we possess, which is understanding the marketplace and building them appropriately.

Colby Alexander Synesael: Can I just follow up on that by asking, and I honestly don't know. Have you done any ground up built to suits in the past for any of the large cloud companies where it's physically a data centre that's built to their specs and just for them? And whether you have, or you haven't, are you anticipating doing any of those types of deals as we go forward?

David C. Ruberg: I'm not going to speculate about the future, but I can answer about the past and the answer is no.

Operator: Your last question today is from the line of Robert Gutman from Guggenheim.

Robert Ari Gutman: I just wanted to revisit that you highlighted that you're seeing a pickup in local enterprise demand. I just wanted to sort of establish, would you call it an inflection point? And I just wanted you to compare it to what you're seeing only two or three quarters ago. And second question, you said 93 percent of CapEx is for discretionary expansion projects, but how much of CapEx is for contracts in hand, supported by contracts in hand?

M. V. Joshi: If you look at the -- well, this is Josh speaking. Thanks for your question on the CapEx. If you look at our guidance, and the way that we're developing it, at the beginning of the year, we said we've got about 60 percent committed and we're at around -- we're over that, around 65 percent committed CapEx based on the guidance and what we're planning to put in the ground this year. So we're planning to spend this year. So the visibility is -- continues to be very good, and indeed over the last couple of quarter, improved.

Giuliano Di Vitantonio: I'll comment briefly on the enterprise and I'll hand it over to David for more color (inaudible). So, what we've seen in the early days of cloud adoption enterprises, we're really focused on understanding what their strategy was and to what extent they would migrate to the cloud. I think they're much more mature now in their understanding of their options. And so, then with that combined, multiple, what I'll refer to as IT deployment models, so IT sourcing models, and colocations become more and more part of the mix for them.

That's why, we're starting to see more -- you referred to as an inflection point, in the sense that colocation is becoming part of the future for them, while in the early days of cloud adoption was a pure migration to the cloud. Now they are really moving to hybrid. In that respect we are seeing an inflection point. How that will translate over long term demand will take a few more quarters to see how that would unfold.

David C. Ruberg: Thank you Giuliano. I think it's going to take more than a few more quarters, and again, the key is although 90 percent of these people, approximately, are enterprises, have some form of what we would call cloud deployment, only 10 percent or 15 percent of the workloads, at least in Europe, have migrated and that's not enough to have formulated a long-term opinion. Keep in mind we're not trying to be all things to all people. We are focused on being the premier provider of the hybrid solution, and we expect that to be a relatively small portion of the overall cloud user base, but a substantial size in itself and very profitable.

So the key is what Giuliano said before, as what we've seen happen is people, seriously now that they dabble, whether it be a small person, small enterprise that's put everything in, or a large enterprise, which has selectively put one or two in, people are beginning to formulate their opinion about how colocation plays into this game and as how the hybrid plays into this game and they're beginning to pursue that path. That's the important element.

David C. Ruberg: OK thanks very much.

Operator: Participants as a final reminder, if you do wish to ask a question or make a comment, please the star followed by one on your telephone keypad and wait for your name to be announced. There appears to be no further questions at this time. Speaker, please continue.

David C. Ruberg: Great. Okay. Thank you, everybody for joining us on our conference call. We expect to have our next conference call in about 3 months and we look forward to seeing many of you out on the road. Thank you, for participating today.

Operator: Thank you. That does conclude the webcast for today. Thank you, all, for participating and you may all disconnect.

END