INXN 3Q EARNINGS CONFERENCE CALL

Moderator: Jim Huseby
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Operator: This is conference # 94232527.

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the InterXion Third Quarter 2017 Earnings Conference Call. My name is (Cass), and I will be your operator today.

At this time all participants are in a listen-only mode. Today's call will begin with some prepared remarks followed by Q&A from (inaudible) analysts. To participate in the Q&A session, analysts will need to push star followed by one on your telephone keypad. To allow everyone the opportunity to ask a question you are asked to limit your questions to one plus a follow-up.

I must advise you that this conference is being recorded today, Wednesday, the 1st of November, 2017. And I would now like to pass the call over to your speaker today, Jim Huseby, Vice President of Investor Relations. Please go ahead, sir.

Jim Huseby: Thank you, (Cass). Hello, everybody, and welcome to InterXion's Third Quarter 2017 Conference call. I'm joined by David Ruberg, InterXion's Vice Chairman and CEO; Josh Joshi, InterXion's CFO, and Giuliano Di Vitantonio, InterXion's Chief Marketing and Strategy Officer.

To accompany our prepared remarks, we have developed 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 for use during this call if you have not already done so.

Before we get started, I'd like to remind everyone that some of the statements that we will be making today are forward-looking in nature and involve risks and uncertainties. Actual results may vary significantly from those statements, and may be affected by the risks that 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'll provide non-IFRS measures on today's conference call. We provide a reconciliation of these measures to the most directly comparable IFRS measure in today's press release, which is posted on our Investor Relations page at investors.interxion.com.

We'd also like to 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'll be taking questions.

And now, I'm pleased to hand the call over to InterXion's CEO, David Ruberg. David?

David C. Ruberg: Thank you, Jim, and welcome. Please turn to Slide 4. InterXion produced another quarter of strong financial and operational results in 3Q 2017, reflecting continued growing demand both from platform players, and increasingly from enterprises and other community partners across our European footprint.

Total revenues increased 18 percent year-over-year and 3 percent sequentially. Recurring revenue grew 17 percent year-over-year and 3 percent sequentially. Adjusted EBITDA grew 16 percent year-over-year and 3 percent sequentially, while adjusted EBITDA margin was 45.1 percent.

During the third quarter, we opened a total of 1,900 square meters of additional capacity across four markets, two in the Big Four and two in the rest of Europe, while making good progress on the remaining expansion projects. At the end of the third quarter, we opened Frankfurt 12 and expect to open the first two phases of Frankfurt 11 in the fourth quarter, and its final two phases in 2018.

This adds necessary capacity in InterXion's strongest market, where we currently have over 20,000 square meters of equipped space and a strong backlog of presold capacity. Additionally, we continue to provide for future growth in this market, as we announced today that we have purchased additional land to extend our Frankfurt campus.

In our rest-of-Europe reporting segment, we added capacity in Stockholm to meet the continued strong demand in that market. We also added 400 square meters of capacity in Zurich, and we've seen a pickup in demand in that market the past several quarters, and we will be adding another 400 square meters in the coming months. In addition, we announced today that we are commencing construction of a further 1,200 square meters in our Dublin 3 facility.

Please turn to Slide 5. As usual, Josh will provide much more detail on our financials, but I would like to offer a couple of general comments at this time. Our year-over-year growth rate for both total revenue and recurring revenue has now increased in four successive quarters.

To be clear, we are not pre-announcing guidance for next year, or announcing that we will continue to grow at this pace. But we believe that these results reflect both the improvement in the overall economic situation in Europe and the improving pace for cloud adoption that we have been discussing for some time, all of which are based on the increasing value proposition our customers continue to receive from being members in our communities of interest. I will talk more about the demand trends later in this presentation, but they seem to be evolving in line with what we have discussed for a couple of years.

Please turn to Slide 6. We added 2,100 square meters of revenue-generating space in the third quarter, surpassing the amount of equipped space we added during the same quarter. As a result, our utilization rate, excluding Science Park, has increased to 82 percent. As indicated by the utilization rates trends on this slide, this marks the third time in the past four quarters that we've added more revenue-generating square meters than we opened in the quarter. Over the past eight quarters, we have seen growing demand emerge across our targeted customer communities and geography, which results in our high utilization.

Turning to cross connects, throughout 2017, we have continued to execute our project to convert legacy cross connects to a recurring billing model instead of a non-recurring billing model. At the end of Q3, the percentage of cross connects being charged on a recurring basis exceeded 80 percent of the total, which is roughly twice the percentage we had when we started the project. And we expect that, by the end of 2017, the legacy conversion project will be almost complete.

Summarizing our key business metrics, bookings in the quarter continued at a strong level, continuing on the pace that we've experienced since late 2015. Our sales pipeline remains strong. Pricing remains steady, and revenue churn was again 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. Demand is coming from companies around the world seeking to deploy in highly connected data centers across Europe. We have been successful in capturing that demand, particularly in key markets like Frankfurt and Paris, and our gateway markets such as Marseilles, Stockholm, and Vienna.

We opened Frankfurt 12 earlier than expected and it was over 50 percent presold. We expect to open the first two phases of Frankfurt 11 in the next week or so, and this new capacity is about 70 percent presold. New capacity in Frankfurt continues to be sold almost as quickly as it is added, frequently presold prior to coming online.

Today, we also announced an expansion in Dublin, a growing market that offers strong connectivity to the United States, the U.K., and continental Europe. We had sales momentum developing in Dublin prior to opening our Dublin 3 data center late last year, and with sustained demand in that market, we are accelerating our expansion plans with our announcement today that we are moving forward with the next two phases in our Dublin 3 facility.

Please turn to Slide 8. In the third quarter of 2017, our communities of interest continued expansion. We saw strong bookings across our target segments and geographies. Both B2B and B2C platforms accelerated their infrastructure rollout across Europe, both by deploying the capacity they booked in previous quarters, and by ordering new capacity, especially in markets such as Frankfurt, Vienna, and Dublin.

The demand from cloud platforms is steady, comes from multiple providers, and is distributed across multiple markets. In Q3, not only did we have strong bookings from the leading global cloud providers, but also from specialized SAAS players and regional cloud providers. This is an indication that the growth of cloud platforms in Europe is spread across multiple subsegments and demonstrates that we are able to capture all types of demand.

When the cloud service providers started their rollout in Europe, a majority of bookings came from one to two cloud providers. Now, we are seeing strong demand from many more vendors. B2C platforms continue to expand across Europe, with a combination of compute nodes in cities like Dublin and Frankfurt, and smaller network pops across all of our geographies. These applications need to reach millions of eyeballs across Europe via carriers and ISPs, and they choose our highly connected data centers to do so.

In the connectivity providers segment, Marseilles continues to be the main success story, with a growing number of deployments in this market. The strength of connectivity in Marseilles attracts these providers initially, and in turn we can then attract content providers that realize the potential of deploying applications in a gateway market from which they can serve a large portion of the world's population.

As we saw in previous quarters, we are seeing strength in the enterprise and financial services segments. We have had several quarters of healthy growth in enterprise, both from a bookings and from a revenue standpoint, which reflects how CIOs are now allocating IT budgets to develop their hybrid cloud strategies.

Our growth in the financial services segment benefits from this push to hybrid cloud strategy as well, but is also fueled by strategic wins, such as Instinet, which is the broker owned by Nomura, that choose to move the infrastructure that powers its European Dark Pool to InterXion's campus in central London.

Instinet's clients will be able to co-locate interaction and trade on the (BlockNets) platform, and their clients will have fair and equal access through InterXion's cross connects parity solution, built to be compliant with fair trading regulations.

All in all, Q3 was another very strong quarter of execution of our go-to-market strategy, as market demand continues to unfold in line with our strategy and our expectations.

Before I turn the call over to Josh, I would like to take a moment to address one more topic. As most of you know, in early October, we announced that Josh would be leaving InterXion at the end of January 2018. The announcement was quite explicit and detailed about Josh's reasons for leaving, and also how we intend to fill his position.

I don't think there is anything else that I'm prepared to say today about either of these two topics. However, since this is Josh's final earnings call, I would like to take a moment to say thank you and publicly recognize him for all of his contributions to InterXion over the past 10 years. Josh has played an important role in the development and growth of this company, and his legacy will be carried on by the talented and very capable team that has supported him and the company so well. Thank you.

M. V. Joshi: Thank you, David, for your gracious words, and I will take a few moments towards the end of my prepared remarks to respond. But first, the business at hand, and welcome, everyone on the phone and online.

As in prior quarters, I'd like to start by discussing the group results and then provide some additional color on our two geographic reporting segments. I'll follow that with some commentary on capital expenditures, cash flows, the balance sheet returns, and of course some concluding thoughts.

Please turn to Slide 10. The third quarter saw a continuation of the growth seen over the first half of the year, based on our continued focus on communities of interest, solid execution, and disciplined expansion. Total revenue in the third quarter was EUR124.6 million, up 18 percent compared to the third quarter of 2016 and up 3 percent sequentially. On an organic constant-currency basis, total revenue was up 17 percent year-over-year and 4 percent sequentially.

Recurring revenue in the third quarter increased to EUR117.4 million, a 17 percent year-over-year increase and a 3 percent sequential increase, driven by the revenue-generating square meters added in the quarter and the full-quarter impact of the large number of revenue-generating square meters added in the second quarter.

Cross connects revenues were between 5 percent and 6 percent of total revenue in the quarter as we continued to successfully execute our legacy conversion project. We continue to expect that we will reach 6 percent of revenue next quarter.

Non-recurring revenue was EUR7.3 million in the quarter, a 37 percent increase year-over-year. As I've mentioned on previous calls, non-recurring revenue can be lumpy and somewhat difficult to predict, as it's dependent on the level of assistance our customers desire from us in helping them with their installations. And this can vary quite significantly by customer and by market.

This quarter, again, we benefited from performing a wide range of customer projects, which resulted in EUR2 million to EUR3 million more of non-recurring revenue than we have seen historically. And typically, this activity has lower gross margins.

Nevertheless, it's worth pointing out that, despite the fact that we've enjoyed non-recurring revenues of above EUR7 million in three of the last four quarters, we have not set a new (inaudible). I believe our underlying repeatable NRR run rate is something between EUR5 million and EUR6 million a quarter.

Non-recurring revenue represented 6 percent of total revenue in the third quarter compared to 6 percent in the prior quarter and 5 percent the prior year. Recurring ARPU was EUR401 million, excluding Science Park, and in line with expectations.

Recurring ARPU had its usual puts and takes, benefiting from growing energy consumption and recurring cross connects growth, among others, offset by various factors, including timing differences and foreign exchange.

In the fourth quarter, I expect several of these short-term downward influences to reduce a little, and together with the continued growth in energy and cross connects, we would expect to see recurring ARPU increasing by around a percentage point sequentially into the fourth quarter.

Turning to costs, cost of sales was EUR49.6 million in the third quarter, up 22 percent from the third quarter last year and 4 percent from the prior quarter. Gross profit was EUR75 million, an increase of 16 percent year-over-year and 3 percent sequentially. Gross profit margins were 60.2 percent, down 110 basis points year-on-year and 10 basis points sequentially.

Compared to the prior year, gross margins were impacted by the higher-than-usual non-recurring revenue in the mix, increased energy costs, and the previously-discussed investment in operations resources.

Sales and marketing costs were EUR8.2 million in the third quarter, an increase of 13 percent year-over-year and a 1 percent reduction sequentially. Sales and marketing costs were 7 percent of revenue, which is consistent with both the second quarter and the prior year, and is now at the low end of our expected range of 7 percent to 8 percent to total revenue.

Other general and administration costs were EUR10.6 million, up 19 percent year-over-year and 3 percent sequentially. Other G&A costs representing 8.5 percent of revenue, and is consistent with both the second quarter and the prior year, and in line with expectations.

Adjusted EBITDA was EUR56.2 million, an increase of 16 percent year-over-year and 3 percent higher sequentially. Adjusted EBITDA margin was 45.1 percent in the quarter, an 80 basis point reduction on the prior year and a 10 basis point increase sequentially. The reduction compared to the prior year again reflects the flow-through impact of the movements in gross margin, as I mentioned earlier.

Depreciation, amortization and impairment expense was EUR27.8 million, an increase of 26 percent year-over-year and 2 percent sequentially, both consistent with the increase in the average depreciable asset base, driven by our investments in data center expansion. The third quarter net finance expense was EUR10.8 million, 26 percent higher than last year's third quarter and 1 percent lower sequentially.

In the prior year, we recorded a net financial benefit of EUR1.4 million as a result of an adjustment to our financial lease liabilities, and that's something I talked about on the prior year call. Adjusting for this, underlying finance expense grew 5 percent year-over-year, consistent with expectations.

The third quarter income tax charge was EUR4.1 million, which represents an effective tax rate of 29 percent. The LTM cash tax rate was 21 percent. We expect our cash tax rate for the full year to be approximately 20 percent.

Adjusted net income in the quarter was EUR10.7 million compared to EUR8.6 million in the same quarter last year, and EUR10.1 million in the second quarter. Adjusted earnings per share was EUR0.15 on a diluted share count of 71.9 million shares compared to EUR0.12 in the third quarter last year and EUR0.14 in the second quarter.

Now let's take a closer look by reporting segment. Please turn to Slide 11. The momentum in our largest geographic reporting segment continued with revenue in the Big Four of EUR80.8 million, up 21 percent year-over-year, 2 percent sequentially, and accounting for 65 percent of the company's quarterly total. Our acquisition of InterXion Science Park contributed approximately EUR1.9 million of revenue in the quarter.

Backing this out and looking at underlying performance on an organic constant-currency basis, Big Four revenue grew a strong 19 percent year-over-year and 3 percent sequentially. Similarly, we saw strong recurring revenue growth in our Big Four markets on a constant-currency basis of 21 percent year-over-year and 4 percent sequentially. As in the second quarter, France, both Paris and Marseilles, together with Germany, continued to be the strongest contributors to Big Four results.

Big Four adjusted EBITDA was EUR43.4 million, up 18 percent year-over-year and 1 percent sequentially. Big Four adjusted EBITDA margins were 53.7 percent, down around 130 basis points compared to last year's third quarter, and 100 basis points down for the last quarter for the same reasons outlined earlier.

We had another very good quarter of solid execution across the board. But if I had to choose, the highlight of the quarter was undoubtedly the return of our rest-of-Europe business segment into teens growth territory. Revenue in the rest of Europe was EUR43.8 million, up 14 percent year-over-year and 4 percent sequentially. Recurring revenue on a constant-currency basis grew by 14 percent year-over-year and 4 percent sequentially.

The last time we saw this kind of performance from the rest of Europe was 10 quarters ago, and is reflective of the growing demand we are experiencing. We experienced strong year-over-year growth across multiple countries, led by Austria, Ireland, and Sweden.

Adjusted EBITDA at EUR25.9 million was up 16 percent year-over-year and up 8 percent sequentially, with margins at 59.1 percent, an increase of 80 basis points compared to last year and up 180 basis points sequentially.

Moving to Slide 12, let's discuss our capital expenditures. Capital expenditures, including intangibles, totaled EUR75.2 million during the third quarter. As in prior quarters, our deployment of capital remained entirely consistent with our demand-led approach to allocating capital expenditure.

This is reflected by the fact that EUR71.1 million, or 95 percent of our capital expenditure in the quarter was discretionary investments in expansion and upgrades to meet customer revenues.

Approximately 69 percent of this capital expenditure was in the Big Four markets, reflecting both the location of our expansion projects and the relative size of these markets. However, we continue to invest across our entire footprint, with capital expenditure in our rest-of-Europe markets increasing 55 percent compared to the second quarter.

Please turn to Slide 13. InterXion ended the quarter with EUR38.2 million in cash and cash equivalents, down from EUR49.2 million at the end of the second quarter. Cash generation from operations totaled EUR55.2 million.

We invested EUR75.2 million in capital expenditure and paid EUR22.9 million in cash interest and taxes, which included the biannual interest payment on our secured notes. At the quarter-end, we'd drawn a total of EUR75 million against the EUR200 million available under our two revolving credit facilities.

Balance sheet ratios continued to remain strong. Gross leverage was 3.8 times LTM adjusted EBITDA, and net leverage at 3.6 times. Cash ROGIC, or Cash Return on Gross Invested Capital, was consistent with the first half of 2017 at 11 percent. Our blended cost of debt at the end of the third quarter was 5.4 percent, a modest improvement from 5.5 percent for the second quarter.

With our existing cash balance, growing cash generation of our data center assets, and access to the over EUR125 million from our two 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 turn to Slide 14. Our fully built-out group of 34 data centers has 84,200 square meters of equipped space at 83 percent utilization. We continue to see 6 percent LTM constant-currency recurring revenue growth from this stabilized group, delivering 67 percent gross margins and generating EUR239 million in annual discretionary cash flow to the business, which we are continuing to invest to secure attractive, sustainable, long-term returns.

Please turn to Slide 15. Now, as I conclude my term, I'm extraordinarily proud of the track record that InterXion has delivered. This is my favorite chart, because it tangibly and simply reflects what InterXion is about. We've grown the business at a mid-teens CAGR through one of the toughest economic periods in Europe in several generations. Adjusted EBITDA has grown even faster as margins have expanded by over 1,500 basis points at the same time.

And that's the important point, not just revenue growth, but profitable, sustainable, long-term value creation. Yes, we are blessed with a wonderful business model, but in the end, it doesn't just happen on its own. And to be honest, I'm just the lucky CFO who gets to talk about this chart.

The reality is that there are several hundred people here at Team InterXion, including both employees and consultants, who work with a passion and integrity, and with teamwork that are the true owners of this value creation. And to them, my colleagues, I say thank you.

Included within this group is the finance organization and Investor Relations, a small band of dedicated individuals, both in HQ and the field, upon whose shoulders I stand, and many of whom have worked side-by-side with me for nearly a decade or more as we've built the business.

To them, not only my profound thanks, but equally my confidence in them for the future. In particular, as David mentioned already, we have a seasoned HQ finance organization reporting to me, and I know I leave the business in safe finance hands.

Of course, a great performance requires great leadership and that standing vision. I believe Oscar Wilde once remarked, “Success is a science. If you have the conditions, you get the results” Well, thank you, David, for driving the business hard, sometimes painfully hard, to achieve the right conditions that have allowed this company and me to be successful.

Look, I'm not out the door just yet. That will be in January. And I hope to see many of you when I'm on the road next month to personally thank our shareholders, bondholders, and analysts for the support we have received.

OK, so I appreciate being afforded the luxury of a little personal indulgence on this call, and now back to business. David, over to you.

David C. Ruberg: Thank you, Josh. Please turn to Slide 17. The strong and well-diversified bookings recorded this quarter again confirm the value of our communities of interest and reflect the broad-based demand that we are experiencing across our European footprint as cloud adoption fuels the growth in our industry, supported by the improving economic environment in Europe.

The main drivers for this growth are the continued expansion of cloud platforms, both B2B and B2C, and the emerging demand for co-location by enterprises that are adopting a hybrid cloud strategy.

A few quarters ago, we indicated how the deployment of cloud platforms happens in (waves), and that several factors contributed to waves of demand typically coming with larger peaks and troughs in the U.S. versus those in Europe. The steady and sustained growth in our bookings by cloud platforms over the last eight quarters confirms that the aggregated demand across the different geographies in Europe has less ebbs and flows than the demand in the United States.

This is due to the fact that end-user demand in Europe is served in a more distributed fashion due to regional variations and data sovereignty requirements. This leads to smaller deployments scattered over time and across a large number of location, whereas the demand in the U.S. is more geographically centered and synchronous.

As a result, the demand for capacity in Europe grows more gradually and is less lumpy. It still comes in waves, but the waves are smaller and less pronounced. The growth of public cloud consumption is following the typical S-shaped curve of new technology adoption.

From a geographical standpoint, United States is at the forefront of public cloud adoption. Europe in general follows the United States by 18 to 24 months, but the various European countries adopt new technologies at a different pace, as well, so the deployments do not happen simultaneously, but tend to follow a sequential pattern.

Countries like the U.K., the Netherlands, and the Nordics typically lead the charge, followed by central European countries like Germany and France, while southern and eastern European countries tend to adopt new technologies later.

The infrastructure buildout by cloud service providers in Europe mirrors this adoption pattern, which is the reason they are able to deploy capacity in a more gradual fashion, with waves of deployments rippling throughout Europe. The countries with the most advanced adoption are at the early stages of the steep portion of the curve, while the rest of Europe has yet to reach the inflection point of the curve.

The cloud platform providers prioritize the deployment of capacity in the countries that are further along in the adoption curve and have a sizable addressable domestic market. For this reason, they have the largest footprint in the U.K., followed by Germany, and more recently France.

As far as the other smaller countries are concerned, cloud service providers wait to deploy compute node until later in the adoption curve because the level of demand needs to reach a critical mass to justify a dedicated deployment.

Amsterdam is an exception, because 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 also well-positioned to be gateway markets, such as Vienna. The bookings in Q3 also show that an increasing number of cloud providers are ramping up their rollout in Europe.

Until a couple of quarters ago, the bulk of the demand came from the top two cloud providers, and we only saw sporadic orders from the other vendors. This trend has changed as more cloud platforms have reached critical mass in the United States and are now landing with more sizable deployments in Europe.

In terms of future demand, we expect the cloud service providers will continue to rely on co-location providers for their expansions. With the underlying cloud adoption by end users in Europe trailing adoption in the United States by 18 to 24 months, we expect that the level of demand by cloud providers to continue in the quarters to come.

And now that the cloud migration is well underway, we are starting to see enterprising adopting a hybrid cloud strategy, which increasingly includes deployments in colocation facilities from where they can easily link in-house workloads with cloud workloads.

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 of all sizes will eventually adopt a hybrid cloud approach, but each IT organization will find a different balance between public cloud, private cloud, and more traditional dedicated environments.

Once again, the U.S. will lead the charge, but we expect that Europe will narrow the gap over time as the 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 effect of providing more runway for further growth and allows for a more gradual deployment of capital.

To summarize, while the demand from cloud service providers provides an effective and relatively predictable growth engine for interaction, our long-term cloud strategy is predicated on the ability to capture demand from enterprises, as well. The last few quarters have provided solid validation that our long-term strategy is starting to pay off on both fronts.

Please turn to Slide 18. As a reminder, our guidance policy is to provide formal annual guidance at the beginning of each year and only update it during the year if the results are expected to be meaningfully out of the range provided. Given the strength that we see in our business for the first nine months of 2017, today we're increasing our full year guidance for revenue, narrowing our guidance to the top end of the range for adjusted EBITDA, and confirming our previously announced guidance for capital expenditures.

To be specific, we now expect revenue to be in the range of EUR485 million to EUR489 million, adjusted EBITDA to be in the range of EUR220 million to EUR222 million. Capital expenditure guidance remains unchanged at EUR250 million to EUR270 million.

Before we turn the call over to Q&A, I would again like to thank all of our employees for their talent, dedication, and continuing 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 of InterXion.

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. And your first question comes from the line of Jonathan Atkin from RBC Capital Markets.

Jonathan Atkin: Wanted to echo David's comments about Josh and all your positive contributions. You certainly have a lot to be proud of.

My question is on cross connects and the conversion project that you talked about in the script. And as that completes at the end of 2018, do you think you're going to be at market rates for cross connects, or something shy of that? And then was hoping to get an update on the channel partners program, solution partners, and maybe Giuliano, if there's an opportunity to give us an update on that, would appreciate it. Thanks.

David C. Ruberg: I think, Jonathan, we'll let Giuliano answer both of them, but I think we've said that the project would be over by the end of 2017.

Giuliano Di Vitantonio: Yes. So, Jonathan, yes, the majority of the conversion will happen by the end of this year. As David mentioned in his prepared remarks, we will reach 80 percent of the total cross connects being converted, so we're well on track.

In terms of the question you have on prices, I think we are looking at the market condition. We are looking market-by-market what makes sense. And we continue to track that, and we'll have price that really mirror those market conditions. So that is part of the process of really making sure that we do what's right in each and every market.

Concerning your question on the channel, part of the success that we are experiencing in enterprise is coming from the indirect channel. And by that, we really mean working with the partners, both the partners of the large cloud providers, also we're starting to work with some resellers to really make sure that we reach more customers without increasing our cost of sales without having to add more feet on the street.

So the program with the managed service providers in particular is going very well. It's being deployed in more and more countries. I can say now that at least the 70 percent, 80 percent of the countries have a program in place where we've identified the top, say, five to 10 managed service providers in each and every country to basically help their customers connect the large cloud platforms by being (presence) in our data center.

So the program is continuing to roll out. It's steady progress. It's not that -- we are not seeing spikes. We are seeing a gradual adoption in line, again, with what -- the same pattern of adoption that we see for cloud in general. So it's steady growth that is happening very gradually.

David C. Ruberg: And to that, I would add, just to remind everybody, we still have the indirect channel in United States, which we continue to strengthen, but Giuliano's remarks are primarily directed towards those channels that we're developing in Europe.

Giuliano Di Vitantonio: Correct.

Jonathan Atkin: And then, there was a recent acquisition in Portugal and Spain by a competitor of yours, and I just wonder conceptually that profile of company or geography revenue mix and so forth, is that conceptually kind of on your game board, or not, as it pertains to M&A?

David C. Ruberg: Absolutely in our wheelhouse.

M. V. Joshi: Great. Thanks, Jon, appreciate your kind remarks, as well.

Operator: Colby Synesael from (and) Company.

Colby Alexander Synesael: The first question, you don't typically raise your revenue guidance, at least historically speaking. You haven't. when you look at what you were anticipating going into this year, and when you put that initial guidance together relative to where we're at now, where would you say the biggest surprise or upside has come that's really driven the increase in the guidance that you're announcing today?

And then, secondly, I had a chance this morning to go back and look at some of your previous presentations for earnings. And it looks like, when I go back to the third quarter of 2016, your return on your assets at that time was 24 percent versus the 23 percent this quarter, and then if I go back two years ago, it was 26 percent.

What's driving down the reduction in return? And can you remind us where you think returns are going to stabilize for this company long-term, and where you think that that ultimately goes? Thanks.

M. V. Joshi: Let me deal with how we think about guidance. As David said, we start the beginning of the year, and we put out what we think are realistic expectations on our guidance on the income statement, and we look at it very realistically in terms of what we think we can do. Over the course of the year, I think that the European economies have improved.

We've seen great traction from our go-to-market model. Its translation into the financial component has been probably 50 percent of the upside coming from an increase in recurring revenue, probably about 50 percent of the remaining upside coming from increases in nonrecurring revenue, which is why we've had a tremendous performance. And I think for the first time (in now), a public company has (pre-raised) guidance. We're pretty good at forecasting, and this time we've come above the top end of the range.

Colby Alexander Synesael: Is it more enterprise-oriented, though, on terms of adoption of cloud, or is it more that distribution of cloud customers that you're seeing? Anything more specific to the customer type?

M. V. Joshi: It's broad-based, so it's across the board. As it's transpired over the course of the year, there's not one particular location that I would put it into. OK, and so, talking about your second question, Colby, on returns, it's actually a very good question in terms of how we thought about returns for the long-term.

As we think about building data centers in our campuses, we are still targeting, across the campus and across our communities, about a 30 percent (IRR) return at the gross margin level, because that's the level that the data centers contribute to our business. And so, that hasn't changed in terms of our evaluation. When we build the moat around our business model, we have higher levels and lower levels, but that's how we target it.

Looking at the numbers that you set out there, 26 percent, 24 and 23, which are the numbers over that period, I think the one thing that's happened is actually we've continued to own land.

So part of the reason why we've seen a slight dilution in our returns, at least in that metric, is that actually we've continued to invest in land to actually grow the business, and also to own some of the underlying infrastructure. When we first came to the market in 2011, we owned 0 percent of our underlying land. Today we own 40 percent, and have capital leases over another 20 percent, so 60 percent of that capacity.

So that's ended up on the balance sheet, and so that's partly the reason, and a driver, as to why that's slightly gone down over that time scale. I hope that answers your question, Colby.

Colby Alexander Synesael: It does. That's very helpful. And Josh, best of luck to you. I've really appreciated working with you. Thank you.

M. V. Joshi: Thank you, Colby.

Operator: Frank Louthan from Raymond James.

Frank Garrett Louthan: So first off, a lot of the growth you've seen clearly has been some U.S. cloud providers you lay out. We've heard some commentary from some of the folks here in the U.S. about some Asian hyperscale beginning to be a little bit of a tailwind for them.

Are you seeing any demand outside the U.S.? It's also fueling some of your higher growth rate. I see at least one logo there on your slide, just curious about that. And then, if you could comment on other inorganic opportunities in your market, going forward. Thanks.

David C. Ruberg: I need a little more clarification, the second part. But yes, there are three big names out of Asia that we have been relatively successful with, and that's what we tried to cover in our comments when we said a couple years ago we only saw two platform providers, and now we're seeing many more. So yes, you're referring to one of them, Alibaba, Tencent, and Baidu, yes.

Can you rephrase the second part of your question, please?

Frank Garrett Louthan: Yes, just what sort of inorganic opportunities do you see in your markets? You still looking at other potential tuck-in acquisitions, things like that, or do you feel confident with the space and campuses that you currently have to meet your growth?

David C. Ruberg: I'll make a little more general remark there. There's a lot of activity going on in this space. We're looking at a lot of people, people are looking at us, so we ask questions, and I'm not telling anything that anybody doesn't realize.

And so we will continue to do what we've always done. We focus on getting the right customers, the right applications, and the right returns. And when things move in the marketplace, we participate, OK?

Frank Garrett Louthan: Great, thank you very much. And Josh, congratulations, appreciate all the help over the years. Look forward to seeing you in December.

M. V. Joshi: Thanks, Frank. Thank you.

Operator: Michael Rollins from Citi Investment.

Michael Rollins: Was curious if you could talk a bit more about the interconnection opportunity in terms of the organic growth that you're seeing in -- whether it's revenue or units from your customers if you peel away the migration from non-paying to paying cross connect on a recurring basis?

Giuliano Di Vitantonio: Yes, of course we track both, and we have a very dedicated project to focus on the conversion, but we also have a set of very dedicated activity to make sure that we continue to fuel the organic growth, which I want to remind everybody is one of the primary metrics of the success of our community, is because the cross connects are really an indication of how much customers come to our data centers to connect to each other.

So I would say that what we've seen in the past few years is very similar to what we expect to happen in the couple of years to come, which is the revenue growth for cross connects exceeds by a few points the revenue growth of the company overall. So that more or less the metric that we look at.

So we've seen it for two or three years now since we moved to a consistent, recurring charge model for cross connects, and we expect to continue for the next couple of years. I don't know if Josh wants to add anything on the revenue side, but that's the metric that we track and we expect to see.

M. V. Joshi: Yes, we've seen strong growth over the last two years driven from the legacy conversions, but the underlying organic, I couldn't have said it better.

Michael Rollins: Great, thanks. And Josh, let me extend my best wishes to you, as well. Thank you.

M. V. Joshi: Thanks, Mike.

Operator: James Breen from William Blair.

James Dennis Breen: Could you just talk about, as you're seeing the growth, (you're remaining) pretty steady at these levels, where you're seeing it coming from in terms of existing customers versus new customers, and is there a significant change in the mix of the new customers you're getting? Thanks.

Giuliano Di Vitantonio: Yes. So I think David covered part of that in his prepared remarks, so what we are seeing is a broader base of customers. There are not necessarily new customers. We typically get around 50, 60 new customers per quarter, but the bulk of the orders come from existing customers, but more and more diversified.

Specifically we mention in the cloud provider segment it used to be just a couple of top players, and now we are seeing tier two player. We are seeing SAAS providers. We have seen local providers increasingly in the first three quarters of the year.

We've seen local cloud providers coming to our data centers to become more and more part of the community with the bigger cloud providers. So it's becoming much broader in terms of adoption, and most of them are existing customers, but again, more diversified than we saw in the past.

James Dennis Breen: And is the growth coming more from existing versus new customers?

Giuliano Di Vitantonio: Well, it's existing customers, primarily 90 percent from existing customers. But again, not the usual suspect. It is becoming more broadly distributed across the existing customers.

Operator: Tim Horan from Oppenheimer.

Timothy Kelly Horan: Just one clarification and one question. It sound like your pricing for your cross connects at this stage is probably a little bit below your peers. Is that a fair statement? And do you think your cross connect volumes is growing in line with your peers? I know you give some color on overall growth rate. We're just trying to dive into it a little bit deeper.

And then secondly, David, do you think the industry has maybe the potential to be supply-constrained here over the next 12, 18 months? I mean, it does feel like volume growth is surprising, I think the overall industry on the upside here lately.

David C. Ruberg: Not to be cute about it, it's really difficult to figure out who our peers are. You have to look at the footprint. You have to look at each one of these cities (as) different, if you look at one player who's predominantly in with financial services. So it is very difficult to come up with a clear, concise answer to what you ask.

But we have been methodical about this conversion, and have done what we normally do, which is give our customers significant notice of what we intended to do and how we execute it. And I think Josh has indicated that we will get to 6 percent in Q4.

I think we all know in United States the rates are 18 percent to 20 percent. We've answered in the past that we didn't think we would get to that rate here in Europe, but we thought we could get a couple hundred basis points higher than where we are.

So we will continue to do what we do, which is put our customer first and get them organized. And again, we've had a long history with these people. It takes time for us to get them across.

In terms of supply constraint, I can't speak for our competitors. Every time I look, we meet once a week and we look at our opportunities, and we look at where we're building. We are scrambling to keep up with the demand.

Timothy Kelly Horan: In the past, this has led to more aggressive pricing by the industry when you obviously get a little supply constrained. Are we seeing any signs of that yet?

David C. Ruberg: In terms of them raising prices?

Timothy Kelly Horan: Yes.

David C. Ruberg: Again, you see really aggressive prices when there's a tremendous imbalance between supply and demand. And again, one of the things we tried to focus on when we talked about Slide 17 or 18 is the demand does not come in these dramatic ways like it does in the United States, and so it doesn't lend itself to that kind of exorbitant pricing.

So we have not seen a weakening in pricing. We've haven't seen substantial strengthening. And for our standpoint, the prices are relatively steady

Timothy Kelly Horan: Thank you, and thanks for everything, Josh.

M. V. Joshi: Thank you, Tim, appreciate it.

Operator: Amir Rozwadowski from Barclays Capital.

Amir Rozwadowski: Just in discussing the need to race to keep up with some of the demand, I was wondering if we could talk a bit about capital allocation.

If I think about your gross leverage levels just below four times, I believe, is there a potential to take that leverage up a bit more to perhaps fund additional expansion beyond what we're seeing right now, given the demand environment and where you guys are seeing trends over the mid- to longer-term? Would love to hear any color that you can provide on that.

M. V. Joshi: It's our practice, we always look to optimize our capital structure whilst we're also trying to ensure that we have availability and flexibility, and that's important, to meet our future requirements. So I think you can assume that we're constantly assessing our options.

And I think if you look at the historically low rates generally that are available in the marketplace, taking the business to something, call it a five times turn on gross leverage doesn't seem unreasonable to me, at least. And so as we think about our long-term capital allocation, how we think about funding that, that clearly will be something we'll be thinking through.

Amir Rozwadowski: A lot of folks have been expressing their interest in expanding their footprint in some of your core markets in Europe, just given the growth dynamics that they're seeing.

Do you expect any sort of shift in the competitive landscape? Is this something that is more of a rising tide is helping most folks in the marketplace, or could there be a change in the competitive landscape that could impact the business, or anything along those lines?

David C. Ruberg: The barriers to entry in Europe, which are not the same as the barriers to entry in the United States, are higher than they've ever been. And we have seen in the last couple of years, quote, "new entrants," and we've seen next to no impact.

So I don't want to be silly about this, but basically we pay attention to what we need to do with our customers. We create value, and they reward us with an opportunity to continue to serve them. We're not concerned about new entrants.

Amir Rozwadowski: Thank you very much for the incremental color, and best of luck with this transition, Josh.

M. V. Joshi: Thank you, Amir.

Operator: Robert Gutman from Guggenheim.

Robert Gutman: First, many thanks to Josh, and of course, best wishes.

M. V. Joshi: Thanks, Rob.

Robert Gutman: My question is just on -- I believe it was Slide 14, the 6 percent revenue growth that you're seeing in fully built-out facilities. I was just curious if you can break out what that's comprised of, how much growing interconnection versus power draw, or increasing utilization of the facility.

And secondly, if you could provide just some color within the ROE. What you highlighted, which is doing very well, it encompasses a range of different markets. If you could also just distinguish a little bit between the drivers and how they're different in different markets, whether it's Austria or Ireland or Sweden, or any other one?

M. V. Joshi: So let me deal with the LTM 6 percent constant-currency number, and then Giuliano can come back on the other question. There are a number of factors, as you alluded to, that contribute to our stabilized group of data centers continuing to grow their revenue. Pricing is part of it. We continue to see an impact of that. Remember, all of our contracts have underlying price escalators within them. They tend to be sort of CPI-related.

One of the beauties of our business is that, when the data center is -- despite the fact that it's full, we continue to see revenue growth from energy as the customers continue to run their data centers hotter, and their facility and equipment hotter.

So that's been a contribution. And obviously, cross connect has also been a contributor. And then, on a like-for-like basis, currency has also been a contributor. Actually, we saw currency headwinds of around two point.

And then, breaking it out, broadly speaking, we saw about two to three points from power, and about two points each from cross connect and pricing. And there is a little bit that comes through from the space, as well, so it depends whether you're looking at it year-over-year or sequentially.

But overall, that's been the flavor in breaking it out. I hope that helped. Giuliano?

Giuliano Di Vitantonio: I'll take the second question, Robert. So of course, from a reporting segment standpoint, we have to report in segment, which is Big Four and rest-of-Europe.

But when you look at rest of Europe, there's really two subsegment there, which is the gateway market and the more domestic market. And right now, we are really seeing the adoption of cloud, which is, again, driving most of the growth in the industry, is really impacting very positively the gateway market.

So you've heard us talk about Dublin. You've heard us talk about Vienna. Of course, Marseilles is also gateway market, but from a reporting standpoint, it falls under France, but will be another example alongside Stockholm, as well, of these market that are really idea destination for a customer that need to serve a region from a location that can serve the whole region in multiple countries.

So, in terms of cloud adoptions, it was in the Big Four first, then now in the gateway market in the rest of Europe, and then we expect the domestic market to be the next wave that will come in the next couple of years. So it's the natural progression of cloud adoption along that S-shaped curve that David referred to that is now really providing a lot of upside for the gateway markets in the rest of Europe.

Jim Huseby: That concludes our call today. Thank you very much for joining us, and you may now disconnect. Thank you very much.

Operator: Thank you. So, to reiterate, that does conclude our conference for today. Thank you for participating. You may now all disconnect.

END