

Interxion

Moderator: Jim Huseby
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OPERATOR: This is Conference #1468928

Operator: Thank you all for standing by. Ladies and gentlemen, welcome to today's InterXion Fourth Quarter and Full Year 2017 Results Conference Call. At this time, all participants are in listen only mode.

There will be a presentation followed by a question and answer session. At which time, if you wish to ask a question you will need to press star one on your telephone.

Please be advised the conference is being recorded today, Wednesday, 7th of March, 2018. I would now like to hand the call over to your speaker, Mr. Jim Huseby. Thank you. Please go ahead.

Jim Huseby: Thank you, operator. Hello, everybody, and welcome to InterXion's Fourth Quarter 2017 Earnings Conference Call. I'm joined by David Ruberg, Interxion's Vice Chairman and CEO; Richard Rowson, the company's interim CFO, and Giuliano Di Vitantonio, the company's Chief Marketing and Strategy Officer.

To accompany our prepared remarks, we've again prepared a slide deck, which is available on the Investor Relations page of our website at investors.interxion.com.

Before we get started, I'd like to remind everybody that some of the statements we'll be making today are forward-looking in nature and involve risks and uncertainties.

Actual results may vary significantly from those statements and may be affected by the risks we identified in today's press release and those identified in our filings with the SEC. We assume no obligation and do not intend to update or comment on forward-looking statements made on this call.

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

We'd like to remind you that we post important information about InterXion at 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 currently available information. And following our prepared remarks, we will be taking questions. And now, I'm pleased to hand the call over to InterXion's CEO, David Ruberg. David?

David Ruberg: Thank you, Jim, and welcome to everyone to our fourth quarter and year-end 2017 earnings call. Our strong fourth quarter and full year results are the outcome of continued execution of a consistent strategy that we have successfully deployed for over a decade.

Central to our strategy has been the development of targeted communities of interest. We have focused and continue to focus on attracting and developing the core connectivity in cloud platforms that drive value for customers in our data centers.

This strategic and disciplined approach has yielded strong growth rates across our footprint, coupled with low churns, which generated attractive returns on investment. We expect these trends to continue. We are undergoing a period

of substantial expansion, with construction projects underway in almost all of our markets.

We're responding to healthy customer demand, which is reflected in the level of presold capacity in our announced expansions. The strong customer demand environment that characterized 2017 has continued into 2018, helped by strengthening economies and business confidence in Europe.

Bookings have been strong across a number of main business segments, particularly cloud and connectivity platform as well as the enterprise segment in general and specifically, financial services and digital media.

Please turn to Slide 4. Highlights for 2017 include a 16 percent increase year-over-year for recurring revenue, total revenue and adjusted EBITDA.

EUR 256 million of capital expenditure invested in the business, resulting in 4 new data centers and numerous other expansions across our footprint in 2017, accompanied by an expansion in our land bank to provide for future growth.

We installed more revenue generating space than we added in new capacity, resulting in an increase in the overall utilization rate to 81 percent. And we completed the addition and the integration of InterXion Science Park, which doubled our carrier density in Amsterdam.

Please turn to Slide 5. Revenue in the fourth quarter was nearly EUR 130 million, up 18 percent from last year, recurring revenue grew slightly faster at 19 percent year-over-year and 5 percent sequentially. Adjusted EBITDA was EUR 59 million in the fourth quarter, up 20 percent year-over-year and 5 percent sequentially.

Please turn to Slide 6. We added 3,600 square meters of equipped space in the fourth quarter, ending the year at 122,500 square meters, excluding Science Park.

We installed 2,700 square meters of revenue-generating space, which is the 6th consecutive quarter of insulating -- installations, including -- exceeding

2,000 square meters. We ended the year at nearly 100,000 revenue-generating square meters.

We continued to convert legacy cross connects to a recurring model during the fourth quarter. This project was nearly complete at the end of the year, and the results were in line with our expectations, with recurring cross connect revenue contributing nearly 6 percent of total revenue in the quarter.

With respect to our other key metrics. The sales pipeline continues to be strong, bookings in the quarter were strong again, continuing the growing trend that we have seen since Q4 2015, with diversity across our geographies, industry segments and deal sizes.

Pricing continues to be stable, and revenue churn remained consistent within our historical range -- annual range of between 0.5 and 0.75 per month on average.

Please turn to Slide 7. During Q4, we opened the first half of another data center in Frankfurt, Frankfurt 11, and the remainder of this facility is scheduled to open in the second quarter of 2018. Demand for our Frankfurt campus remains very strong. And we are also scheduled to open Frankfurt 13 in the fourth quarter of this year.

Also in the quarter, we opened more capacity in two of our gateway markets, Vienna and Stockholm, and we'll continue to add capacity in these markets throughout 2018. During Q4, we also expanded capacity in Zürich to meet customer requirements.

European demand remains healthy and broad-based, as evidenced by the size and breadth of our announced expansion projects. We're expanding in all 11 countries, adding a total of over 30,000 square meters, which equates to a capacity increase of over 25 percent.

And today, we announced a 500 square meter expansion in Paris 7. Please turn to Slide 8. In Q4, we saw a strong demand across all customer segments, in line with the trends that we outlined in previous quarters during 2017.

The segments that delivered the stronger contribution were once again cloud and digital media. Cloud has established itself as the largest customer segment in our portfolio, as the rollout by leading platform providers continues across Europe.

Digital media had a very strong year, with B2C content platforms driving larger deployments than in any other previous year. Rollout of these applications seems to have hit an upward inflection point, with demand being particularly strong in Frankfurt, Amsterdam, Paris, Marseilles, Dublin and Madrid.

Connectivity had another strong quarter, with double-digit growth fueled by our success in Marseilles and numerous expansions across our footprint. Connectivity providers are benefiting from the high volume of traffic created by content and cloud platforms, and consequently, they are deploying new PoPs or expanding their existing ones.

2017 also saw the resurgence of content delivery networks, after a year during which the market witnessed some consolidation and changes in business models. Growth resumed early in 2017, and the trend continued in Q4.

Financial services had strong growth in 2017, as demand came not only from the traditional high-frequency trading deployments, but also from the IT departments of large financial institution, as they continued their modernization journeys and began to contemplate migration to a hybrid cloud model.

Within the enterprise section, we had healthy growth across the board, with a special mentioning going to the retail subsegment.

As more and more retailers digitized their customer-facing operations and put their storefronts online, these companies are starting to have requirements similar to digital media companies, which leads to an acceleration in demand for colocation services. One subsegment that is undergoing an extensive transformation is IT service providers.

With the rapid adoption of cloud in Europe, traditional IT hosters and outsourcing providers are rethinking their strategies and acting as enablers of hybrid cloud. We are benefiting from this through an uptake of our cloud connectivity product by managed service providers, who facilitate enterprise access to the cloud.

Q4, overall, delivered a strong end to a strong year, with very favorable demand across the board and a very healthy mix between large deals and small deals.

As most of you know, Josh Joshi has departed from InterXion and a search for his full-time replacement is ongoing. We have interviewed a number of candidates, and there is considerable interest in the role from highly qualified individuals.

We are fortunate to have an experienced financial organization in place, led by a qualified individual like Rich Rowson, who is serving as the Interim Chief Financial Officer. And with that, I would now like to turn the call over to Richard. Richard?

Richard Rowson: Thank you, David. Please turn to Slide 10. Focusing on Q4 results, InterXion had a strong finish to 2017. We delivered another quarter of solid growth based on strong execution. Total revenue in Q4 was EUR 129.9 million, up 18 percent compared to Q4 2016 and up 4 percent sequentially.

Normalizing for last year's acquisition of InterXion Science Park and foreign exchange, organic constant currency revenue growth was 17 percent year-over-year and 4 percent sequentially.

Recurring revenue in Q4 was EUR 123.4 million, a 19 percent year-over-year increase and a 5 percent sequential uplift. Recurring monthly ARPU was EUR 411 million in Q4 compared to EUR 401 million in Q3, reflecting a slightly higher level of growth than we discussed during the Q3 call, mainly due to increased energy consumption and the higher cross connect revenue.

Nonrecurring revenue in Q4 was EUR 6.5 million, slightly down from Q3. Cost of sales was EUR 48.8 million in Q4, up 14 percent year-over-year and down 2 percent sequentially.

Gross profit was EUR 81 million, an increase of 20 percent year-over-year and 8 percent sequentially, resulting in a gross margin of 62.4 percent. Gross profit in the quarter benefited from usage-based energy credit in Germany, which could only be determined later in the year.

Although booked entirely in Q4, this credit related to energy usage for the whole of 2017, and hence, there is no distortion to full year reported gross profit and margin.

Adjusting for this energy credit, gross profit in Q4 would have been EUR 79.8 million and gross margin would've been 61.80 percent, 70 basis points higher year-over-year and 160 basis points higher sequentially.

Sales and marketing cost increased to EUR 9 million in Q4, up 18 percent year-over-year and 9 percent sequentially, reflecting our investment in specific go-to-market projects. The quarterly total represented 6.9 percent of revenue, just below the low end of our expected range of 7 percent to 8 percent of total revenue.

Other general and administrative costs were EUR 12.9 million in the quarter or 9.9 percent of revenue. Included in these costs were professional fees associated with the implementation of IFRS 15 and 16, GDPR and increased business taxes in France.

Adjusted EBITDA at EUR 59.1 million was up 20 percent year-over-year and up 5 percent sequentially, with adjusted EBITDA margin at 45.5 percent, an increase of 90 basis points year-on-year and 40 basis points sequentially.

The fourth quarter depreciation and amortization expense was EUR 29.1 million, a 20 percent increase year-over-year, consistent with the increase in the depreciable asset base resulting from our investments in data center expansions. The Q4 2017 finance expense was EUR 12.3 million, an increase

of EUR 2.8 million over Q4 2016 and an increase of EUR 1.5 million over Q3 2017.

This was mainly due to increased utilization of our revolving credit facilities, a reduction in capitalized interest and changes in finance leases.

The Q4 income tax charge was EUR 3.7 million, an effective tax rate of 25 percent, while our LTM cash tax rate was 21 percent. Net income was EUR 11 million in Q4, a 9 percent increase versus Q4 2016 and 9 percent higher than Q3 2017.

Adjusted net income in Q4 was EUR 11.9 million compared to EUR 9 million in Q4 of 2016 and EUR 10.7 million in Q3 2017. Adjusted earnings per share was a EUR 0.17 on a diluted share count of 71.9 million shares compared to EUR 0.15 in the third quarter of 2017 and EUR 0.13 in Q4 2016.

Please turn to Slide 11. The strong momentum in the Big 4 continued with revenue of EUR 85.6 million, up 21 percent year-over-year and 6 percent sequentially. On an organic constant currency basis, growth was 18 percent year-over-year and 6 percent sequentially.

Adjusted EBITDA was EUR 48.1 million, a year-over-year increase of 26 percent and sequential growth of 11 percent, representing a 56.2 percent adjusted EBITDA margin. Taking account of the onetime items in Germany and France, sequential growth in adjusted EBITDA was 9 percent.

Germany and France led the strong performance of the Big 4 segment. Our Rest of Europe segment again delivered solid performance in the quarter, with revenue at EUR 44.3 million, up 12 percent year-over-year and 1 percent sequentially.

Revenue was up 14 percent year-over-year and 2 percent sequentially on a constant currency basis. Adjusted EBITDA was EUR 26.1 million, 15 percent higher year-over-year and 1 percent sequentially. The Rest of Europe segment also continues to deliver strong adjusted EBITDA margins at 58.8 percent in Q4.

As seen in many of the previous quarters, Austria and Sweden remained strong. Denmark also had a strong quarter, benefiting from the additional capacity that opened earlier in the year in Copenhagen.

Please turn to Slide 12 to review full year results. For 2017, total revenue was EUR 489.3 million, a 16 percent increase year-over-year and a 15 percent increase on an organic constant currency basis.

Total recurring revenue was EUR 462.5 million, up 16 percent year-over-year and 15 percent on an organic constant currency basis. Cost of sales was EUR 190.5 million, up 17 percent year-over-year. Gross profit for the year was EUR 298.8 million, 15 percent higher year-over-year with a gross profit margin of 61.1 percent.

Sales and marketing costs were EUR 33.5 million, up 12 percent year-over-year while other G&A costs were EUR 44.4 million, up 16 percent year-over-year. Adjusted EBITDA increased to EUR 221 million, 16 percent higher than 2016, while the adjusted EBITDA margin was at 45.2 percent.

As discussed in the beginning of 2017, we started to make investments in upgrading operational processes, systems, employee development, all consistent with scaling our infrastructure to support future growth.

The net financing expense for the year was EUR 44.4 million, compared to EUR 36.3 million in 2016, primarily due to the interest expense associated with increased borrowings.

Reported net income was EUR 42.2 million in 2017, 6 percent higher than last year, while adjusted net income was EUR 43.4 million, an increase of 19 percent.

Looking forward, we expect the following: ARPU should see continued growth from the same primary drivers in the past, namely energy and cross connect growth, partially offset by the dilution that typical occurs with new installations.

By Q4 2018, ARPU is expected to be between EUR 414 million and EUR 418 million, with modest quarterly fluctuations based on the level of installation activity.

I expect the cross connect revenue will be in the range of 6 percent to 7 percent of total revenue for the year. Nonrecurring revenue is expected to remain in the range of EUR 5 million to EUR 6 million per quarter, while sales and marketing costs are expected to remain within the range of 7 percent to 8 percent of total revenue.

Other G&A expenses are expected to be within their typical range of 8 percent to 9 percent of total revenue. And lastly, our cash tax rate should continue to trend higher towards our effective tax rate of 25 percent.

Please turn to Slide 13. InterXion continues to allocate capital to meet the demand that we see across all of our markets and is delivering attractive and sustainable long-term returns.

During the past five years, we've invested well over EUR 1 billion of capital, resulting in nearly 50,000 square meters of additional equipped space and our utilization rates have steadily climbed during the period. This demonstrates the discipline that we've always exercised in the deployment of capital.

Capital expenditure, excluding tangibles, totaled EUR 69.7 million for Q4, which brought the total invested in the year to EUR 256 million, excluding the acquisition of InterXion Science Park. In 2017, about 88 percent of our capital expenditure, nearly EUR 225 million, was invested in discretionary expansion and upgrade projects.

Maintenance and other CapEx was EUR 22.4 million in 2017, equating to 4.6 percent of revenue. Around 2/3 of overall capital expenditure was deployed in the Big 4 countries.

Please turn to Slide 14. InterXion ended the year with EUR 38.5 million in cash and cash equivalents, down from EUR 115.9 million at the end of 2016, but slightly higher than at the end of the third quarter.

Cash generated from operations was EUR 50.3 million for the fourth quarter and EUR 209 million for the full year. At the year-end, we had drawn a total of EUR 100 million under our EUR 200 million of revolving credit facilities.

After the year-end, we expanded our available liquidity, with an additional commitment of EUR 225 million available in the form of a revolving credit facility. Our blended cost of debt at the end of the year decreased slightly to approximately 5.3 percent from 5.4 percent in the prior quarter.

With our cash on hand, available funds under our RTS, access to available committed funding and the strong cash generation of our data center assets, we continue to have the liquidity required to meet our investment plans.

Balance sheet ratios remained strong, with gross leverage remaining at 3.8x LTM adjusted EBITDA and net leverage at 3.6x. Cash ROIC, which is our return on gross invested capital, remains at 11 percent for the last 12 months.

Please turn to Slide 15. This slide includes our 34 fully built-out data centers as of the 1st of January, 2016. As a reminder, we will roll this date forward to the beginning of 2017 in our next earnings report. At the end of 2017, these data centers with 84,200 square meters of equipped space were at 82 percent utilization.

They delivered an LTM constant currency revenue growth of 7 percent, with gross margins of 68 percent and a cash return of EUR 244 million. This equates to a 24 percent annual cash return on the approximate EUR 1 billion of investment. And with that, I would now like to turn the call back over to David.

David Ruberg: Thank you, Richard. Please turn to Slide 17. In 2018, we will celebrate 20 years of InterXion being in business, and I wanted to spend a few minutes reflecting on how our customer base has evolved over the past decades. Customer focus has always been at the heart of everything we do.

And by understanding our customers' requirements, not only have we been able to differentiate our company and sustain its growth, but we've also been

able to anticipate future directions and make the appropriate investments to stay well positioned.

Our mission has not changed. Being at the heart of the digital economy, we enable our customers to enhance their value proposition by interconnecting their businesses within their communities of interest.

The focus on communities of interest has provided the strategic focus to navigate the ups and downs of the industry and has somewhat insulated us from the down cycles in the economy.

By delivering value to the communities and anticipating their future needs, we have been able to sustain consistent growth and profitability over a long time. To understand the opportunity ahead of us, we are often asked what inning of the game we are in, baseball game, as a proxy for figuring out how far we are along the path.

I think we miss the point if we oversimplify the baseball analogy by reducing it to a single game. If we take a broader view, one realizes that there are three games going on simultaneously.

The three games are interdependent, but each of them started at a different point in time and is in a different inning. This is because the three macrosegments, connectivity, platforms, enterprises, that participate in our communities of interest, have reached different stages of maturity in their understanding and adoption of colocation services.

And each represents a different type of opportunity for us. This concept is visually depicted on this slide, which describes directionally where the industry is headed, but without the intent to provide accurate predictions on relative size and timing of opportunity.

Connectivity projects have been at the core of carrier-neutral colocation since the inception of the industry, initially established to enable internet exchanges, carriers and internet service providers to exchange traffic.

As demand for internet services grew, other connectivity segments such as content delivery networks, subsea cables and mobile operators joined our communities to enable the global flow of traffic.

All of these categories of connectivity providers have been with InterXion for many years and fully understand the critical role that colocation plays in this business model.

The connectivity providers benefit from being in locations where they can economically exchange the most traffic with other connectivity providers and where they can also capture the traffic generated by platforms and enterprises. Connectivity providers deploy relatively small PoPs in our data centers, but represent a vital element of our communities of interest.

An important consideration for customers in other segments when selecting colocation providers is the breadth and depth of the connectivity density within the campus. Our connectivity segment represents almost 1/3 of our revenue, and we expect to see continued modest growth in coming years.

We may see the occasional new player enter the market, but growth will primarily stem from the incumbents expanding into new geographies, deploying new services, adding cross connects and adding additional PoPs to address the expansion -- explosion in the volume of traffic.

Once connectivity became pervasive and the digital economy took off, we saw the emergence of a whole new categories of service providers using the Internet to deliver digital services. Notable among these are B2C content service providers, such as video, music, gaming, social media, and the B2B cloud providers.

Many of these web-based services are essentially digital versions of technology capabilities that were previously constrained by the limitations of the physical world and can now be delivered and consumed at the speed of light and on a global scale.

We refer to this overall segment as platforms, because the business models create value by facilitating exchange of data between two or more interdependent groups, usually producers and consumers of services.

In order to make these exchanges happen, platforms harness and create large scalable networks of users and resources that can be accessed on demand to allow users to interact and transact. Initially, they deployed network nodes in carrier-neutral facilities and kept data and compute capacity in remote locations.

However, as the volume of data started to explode, that performance became a more important factor. Their architecture started to evolve, and they began to deploy compute nodes in highly connected data centers, such as ours.

Another important feature of these global platforms is that their business models are evolving to a point that traditional categories such as cloud and digital media are being blurred, as these players offer a more broader range of services through a combination of organic growth and acquisitions. It has become common for content providers to offer cloud services and for technology companies to venture into content services.

This represents an additional reason for them to build global networks, to move data and compute power seamlessly across the globe to serve both businesses and consumers, and colocation is increasingly a central element of it.

These players are in the steepest part of the S-curve of adoption, as the global adoption of cloud and content services continues to unfold, and new technologies such as virtual reality and artificial intelligence become mainstream.

As we discussed in previous calls, different countries are at different stages of maturity, with rollouts typically starting in the United States, then cascading across Western Europe and then into other regions.

Consequently, the platform segment, overall, has incredible headroom for growth, especially in the countries where adoption is in its infancy. The

nature and sheer size of platform deployments makes this segment a much larger overall opportunity for us than the connectivity segment.

Today, this segment represents already more than 1/3 of our revenue, and we expect this proportion to grow, as platforms, both cloud and content, continue the fast expansion into new and existing countries to serve their growing demand and reach more and more users.

Serving them requires much more than just delivering capacity on time at reasonable prices. These customers are very technically savvy and expect operational actions and consistency of service across their footprint.

Our relentless focus on understanding their needs is the key driver to ensure that we are establishing long-term relationships based on trust, dependability and quality of service.

The connectivity providers represent the foundation of our industry, and platform is the current engine of growth. The enterprises are the largest long-term opportunity. Historically, only a relatively small portion of enterprises have used colocation.

A key example is financial institutions that became familiar with our industry through high-frequency trading, which requires deployments in close proximity to the central trading platforms. However, this represented only a portion of the business, and a small portion of business, and other total IT investments.

As these banks, along with insurance companies and other financial institutions now reconsider their entire IT strategies in the era of migration to hybrid cloud, we're seeing growing interest for colocation from this segment.

More generally, entire industry sectors such as healthcare, retail, transportation and manufacturing are embarking on journeys to digital transformation that are essential for them to stay relevant.

Cloud migration is the first step in those journeys, as selective workloads are more effectively deployed in the public cloud, while legacy applications

remain tethered to their existing environment, thus giving rise to the current incarnation of hybrid environments.

The move to hybrid cloud will evolve and accelerate, as legacy applications are reengineered and new opportunities such as big data analytics, IoT, and artificial intelligence become part of this process of digital transformation.

That requires enterprise IT to modernize its architecture and make optimal decisions on workflow placement based on cost, performance, customer experience. This transition will constitute the inflection point in the adoption curve that will trigger the same type of rapid growth that we are now seeing with the platforms.

We've had the enterprise deployments in our data centers for many years, either directly or through systems integrators, but the real game is just starting. As companies embrace the productivity, competitiveness and route-to-market benefits of integrating to the fabric of the digital economy, we have only scratched the surface of the enterprise opportunity that is emerging.

Regardless of the route they take, it is likely that colocation will be embedded in future IT architectures that will manage massive volumes of data flowing from customer devices to back offices and from corporate offices to the edge.

Our strategy has been and will remain to focus on the enterprise workloads that have the most stringent requirements from a latency and performance standpoint.

This approach will continue to enable us to maximize the value that we offer through our communities of interest based on dense connectivity and access to multiple cloud providers. It will create sustainable value in the long term, in line with our strategy and our historical approach.

When you combine financial institutions, other enterprise segments and systems integrators, they today represent approximately 1/3 of our current revenue. Moving forward, we will track them as a single group, because the drivers for adoption are similar and converging.

Demand from this segment is starting to approach an inflection point. I would expect its growth rate to be somewhat in between the growth rates of platform and connectivity segments in the next couple of years.

Each of these three segments, connectivity, platforms and enterprises, requires a different approach because of their respective stage of maturity, technical requirements and the scale and complexity of the opportunity.

Our go-to-market model based on customer segment enables us to achieve this goal and strike a careful balance between strengthening the install base, capturing the waves of rapid growth and seeking the next wave of demand. This is a balancing act that we have performed successfully for almost 20 years and will provide the foundation for our future profitable growth.

Please turn to Slide 18. Before getting to the specifics of our guidance for 2018, I'd again like to remind you about our guidance philosophy. Our approach is to provide annual guidance for revenue, adjusted EBITDA and CapEx on our Q4 call and then potentially update that guidance, if appropriate, during the year.

Therefore, for 2018, we expect total revenue to be in the range of EUR 553 million to EUR 569 million. We expect adjusted EBITDA to be in the range of EUR 250 million to EUR 260 million. And we expect the capital expenditures to be between EUR 335 million and EUR 365 million.

Before opening the call up to Q&A, I would again like to thank all of our employees in all of our countries for staying focused on our customers and executing against our business plan and for continuing to deliver strong results.

I would also like to thank our shareholders and bondholders for their continued support for InterXion. Now let me hand the call back to the operator to begin the question-and-answer session.

Operator: (Operator Instructions). First question is from the line of Jonathan Atkin from RBC Capital Markets.

Jonathan Atkin: So I wanted to ask a question relating to Slide 17, David, and your comments about the enterprise segment. And are you -- as you look at your pipeline of demand, is that manifesting itself -- is the enterprise demand coming from your systems integrator customers or are you seeing it more from enterprises directly?

David Ruberg: I'm going to let Giuliano comment on that. But, Jonathan, now that you've asked the question, I would like to add a little more color to what we talked about in the slide. The way the enterprises that we see are going after this, we're seeing them porting over some subset of applications.

But the tremendous growth that is yet untapped is when they adapt these and convert these to deal with the advantages of the internet and incorporate the IoTs, the artificial intelligence and some other things that we mentioned. So it's very difficult to encompass this on just one slide. But there are multiple ways that are going to happen here in the enterprise.

Giuliano Di Vitantonio: Yes. Jon, to answer your specific question about the pipeline, we are seeing a mix of both direct engagement with enterprises, specifically retail, as we mentioned in the prepared remarks, and the financial services, as these companies change their IT infrastructure to meet the needs of their change in business.

But we're also seeing a lot of deployment through the system integrators that are reinventing themselves and really playing a role in assisting the enterprises in restructuring their IT and modernizing their IT. So at the moment, we are seeing a balance. We tend to see smaller deployments for the system integrators.

So the system integrator will buy capacity from us and then deploy multiple enterprises in that space, while we see larger deployment directed from enterprises. That is the mix that we are seeing at the moment.

Jonathan Atkin: And then a question on connectivity, maybe a two-parter. Just in terms of the cross connect growth trends, are you seeing the volume increases at a fairly steady pace or has it deviated notably recently from your prior trends?

Related to that, on cloud connects, just interested in the velocity of demand you're seeing for that product.

One of your bigger competitors has enhanced their interconnect capabilities across countries within Europe, and then it's also introduced its own peering platform inside their own data centers. And I wondered if you had a view about that.

David Ruberg: Giuliano will deal with the second one. On the first one, keep in mind that we have gone through a substantial program here in the last two years of converting from nonrecurring to recurring.

And part of that, since we've had customers with us for 15 to 20 years, we have uncovered cross connects that basically haven't been used for years, some that have been used lightly for years.

And so it was fascinating, as we went down this path, to work with people that didn't even know that they had some of these connections.

And so part of what we've seen also this is a grooming of the network, which makes it a little difficult to give you a baseline. But we do track new -- we do track the conversions separately. And Giuliano can comment on that.

Giuliano Di Vitantonio: Yes. Briefly on trying to answer the question on cloud connect, then we may want to come back to cross connect as well. But on cloud connect, Jon, we've seen very good momentum.

In 2017, we almost tripled the number of customers that were on the platform. Of course, these are still small numbers, relatively speaking, so we expect much more headroom to come in the future.

But we're pleased with the momentum that we are seeing so far. You may also remember that last year, we announced that we deployed our cloud connect platform across all our 13 markets.

And we enabled customers to access the cloud platform from any of these 13 cities, irrespective of where the platform sit. So some of the announcements

you've seen from our competitors are actually following a capability that we rolled out last year across all 13 cities.

So this is something that contributed to the demand that we've seen from our customers. And finally, on your question on some of the announcements we've seen in terms of the peering point, our philosophy is very, very clear.

We are all for neutrality. We are trying to build an open platform that enable all customers to come in. In that respect, we are working with all the internet exchanges across Europe to make sure that they continue to enjoy the benefits of that open platform.

And we don't see them as competitors, we are not going to compete with them. And so that philosophy of an open platform remains at the core of what we're doing.

Operator: The next question is from the line of Tim Horan.

Matthew Wilson: It's Matt Wilson in for Tim Horan. I just wanted to ask about ARPU. I believe it was noted in the third quarter call that you were expecting 1 percent increase sequentially, it kind of looks like you guys doubled that.

Can you give a little bit more color on what drove this strength? Was it mostly power reservation fees and energy consumption, or was it more demand from cross connects? And how was pricing also?

Richard Rowson: Yes. This is Richard, thank you for the question. If you look at the EUR 10 increase that we saw across the quarter, this reflects the factors that we discussed in the prepared remarks.

So we're seeing a couple of euros relating to the cross connects, and the balance is a result of increase in the energy usage and net installs, roughly (50) of the balance related to those two.

David Ruberg: I think, in general, what you saw is what we have been talking about for quite some time, which also contributed to the growth in revenue year-over-year.

So without getting into any more detail, in general, those were the two contributing factors, which, as we've already indicated, will continue to grow, which is why we believe that in this year that ARPU will continue to grow as well.

Matthew Wilson: And maybe a quick follow up, could you maybe give color on maybe communities of interest? And is -- are there certain communities of interest driving ARPU or having more strength in ARPU?

David Ruberg: I don't think there's a general answer to that question. Obviously, the heavy users which have a tendency to be the platform providers have an impact on that.

But again, we're also seeing, as you look at the numbers that we've posted for the data centers that are older than -- that are full for more than 1.5 years, you're seeing substantial growth there as well, OK.

So part of it is cross connects, part of it is revenue, part of it is CPI, all of these things are contributing. It's all of these things which is what you want to see going on, all right.

Operator: The next question is from the line of Colby Synesael.

Colby Synesael: Two questions if I may, both, I guess, numbers oriented. First off, you mentioned a few onetime events, one that hit, I think, gross margin and then the other one that hit G&A.

Are those, in fact, onetime and therefore, we should be backing them out as we move into first quarter of 2018, just from a modeling perspective?

And also, what were the absolute numbers that we're referring to? I think you gave comparisons in terms of margins, but I was just hoping you'd give us the absolutes. And then secondly, as it relates to CapEx, how much wiggle room have you built into that number you've given us in your guidance?

Meaning that to the extent you guys go and announce additional expansions throughout the course of the year, which I would anticipate you will, will that

be absorbed within the current CapEx budget? Or is there a good chance that, that budget might have to go up?

David Ruberg: Modeling questions. All right. To the second question, we always -- I wouldn't call it wiggle room that we've incorporated, but we do in the guidance that we give, Colby, or our overall philosophy is to put out the guidance that reflects best what we think is going to happen for the year.

And if, in fact, there are some exceptional items that come in that will impact us positively, we may have to turn around and adjust the guidance, all right. So from a CapEx standpoint, it's our best guess in the present time, reflecting what we think is going to happen. The first question?

Richard Rowson: Yes. Thanks, Colby, this is Richard. If you look at the 3 elements we spoke about, the 1 that impacts in the gross profit is the energy credit we saw in Germany. And what we're seeing across the entire business is an increase, as we discussed in energy usage.

And what we saw in the Q4 in Germany is that we passed a usage threshold that yielded a credit for us. So this had the impact of reducing our cost of energy. So in absolute amounts, it was about EUR 1.5 million.

And we took the whole amount in Q4, although, as I said in the prepared remarks, it relates to the whole of 2017.

The other two that we discussed which impacts on the adjusted EBITDA are the amount of work that we've invested in looking at the impacts of IFRS 15 and 16 and also in GDPR.

So these are onetime costs. We think the bulk of those costs are behind us now as we go into 2018. And the final one is that we referred to was a business tax in France.

Based on discussions with the French tax authorities, there was an alteration in the tax base that they used to calculate the tax for the year. That impacted in Q4, and is fully included in our '17 results and included in our guidance rating.

David Ruberg: And, Colby, at this particular point in time, some of these are sensitive to the contracts that we've negotiated, particularly with the rebate and these others. And I think giving you the normalized what would have been a gross adjusted EBITDA -- or gross margin, I think, is all I'm prepared to give you at the present time, all right.

Operator: (Operator Instructions). The next question is from the line of Robert Gutman.

Robert Gutman: I believe, looking at the expansions, which amount to about 25 percent of the footprint, as you stated, a significant portion is preleased. Should we assume those are larger footprint deals? And how does it relate to, for example, the evolution on that Slide 17?

David Ruberg: OK. In terms of the presold capacity, about 50 percent of our announced capacity is presold, and it actually is a mix of large and small deals. So first, the timing of that capacity can be taken in phases by our customers. And you should not assume that it's just the big deals that are doing this, all right.

Operator: The next one is from the line of James Breen.

James Breen: Just a follow up on that. Generally, with respect to the philosophy around expansions, can you just talk about how you think about when you make a decision to expand the space, how much do you usually have presold?

And as in the past, do you expect that those customers will ramp up revenue per square meter or on a power basis over time, as you're filling in data centers?

David Ruberg: That's a simple question and a very complicated answer. Look, the guy sitting to my right, who's Giuliano, I look at him every weekend to tell me where is the demand coming from and how comfortable do you feel with the demand. And then we try to balance that with the certainty of demand.

But at the end of the day, it's not just demand in the marketplace, it's demand that's driven by two things, does this help create a community of interest, which means it's not just a company, but it's also an application with the

company; and does it meet our overall financial returns? So at the present time, given all the demand that we're seeing, we're building as fast as we can, as much as we can.

But we're trying to balance that to the realism of what we believe the demand will turn into. Times have changed. Years ago, our target was to open the door, and it was 25 percent sold when we opened the door.

Today we feel much more comfortable, because we've developed these relationships and developed these communities of interest that we can talk to our potential customers, they can give us a much longer line of sight.

And therefore, we have an opportunity to match our builds to their line of sight, and the demand doubles when we open the door or the presold levels are actually higher.

I can't give you a formulaic answer. I can only give you a sense. And this is one of the toughest things that we all go through in this industry, which is trying to figure out how to do just in time, but get the right customers just in time. OK?

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

Alexander Sklar: This is Alex Sklar on for Frank. First question I have is, with the entire power usages that you're expecting in 2018 and the credit you discussed in -- from tripping the usage threshold in the fourth quarter, is there any opportunity to pick up additional margin on power going forward?

And then one other question on the IFRS 16, how can we expect the lease accounting changes to impact your financials? And given the adoption doesn't have to be effective until 2019, is there any of that baked into the 2018 guide?

David Ruberg: Go ahead and answer that second one.

Richard Rowson: I'll start with the second one. As we said, we've been evaluating the impact of IFRS 16, it doesn't come into effect, as you note, until 2019. And we will be

adopting it from the beginning of 2019. So it's not reflected in our guidance for '18.

David Ruberg: All right. As far as the energy -- I'm reluctant to give you a whole lot more details. This is a very competitive area in terms of procurement of power, its terms and conditions of how you obtain that.

I believe that we will, obviously, once again, pass this threshold. So therefore, we will have a lower cost in 2017 -- '18 versus '17, if in fact, what we purchased for in '18 was at the same rate. And I'm not about to reveal that. So we will trigger the same volume discount that we've got.

And whether it will lead to a lower rate for us depends upon the contract that we sign. We are -- the business that we're in with most of our customers is to provide them with stability.

These markets are very volatile -- or have been for years very volatile. That's not what they look to us for. Not only are we stable in terms of clean power, but it's clean pricing. So it's a more complicated question.

Alexander Sklar: OK. Richard, just following up on the accounting question. Any color you can give us if you're -- sounds like you're pretty far down the road on evaluating it.

Given the percentage of buildings that you own versus lease, is it going to be a material impact for 2019? Or is it mostly noncash, how should we think about it?

Richard Rowson: As I said, we're still evaluating it. And it's still too early to provide any indications of the impact.

David Ruberg: But since you've opened the door here, I do want to add something. Someone asked me the other day a question about how much do we own and how much don't we own.

So in 2010, in terms of the facilities that we owned, we owned nothing. At the end of 2017, approximately 55 percent of the square meters of max

equipable space were now owned by us. So that gives you some idea of where we stand.

Operator: And the next one is from the line of Jennifer Fritzsche from Wells Fargo.

Jennifer Fritzsche: David, if I could just ask just a bigger-picture question about the changing competitive landscape in Europe. There's certainly some players going over there from Europe -- from the U.S. that is changing.

And the concern over the U.S. is with these new players coming in, in the U.S. that returns are getting squeezed, which seems to be some of the weakness in the stocks.

Obviously, your print today was a lot cleaner than we see in others. How do you see this evolving over the next, let's call it, 3 to 5 years, longer term?

David Ruberg: First of all, the market in Europe, I think, is a little different than the market is in the United States. Although we do not compete in the United States, we certainly talk to the platform providers in some of the industries. So we're in an upswing here, a more moderate upswing, but an upswing.

I think we are extremely well positioned. I think some of the people that are coming over from the United States and looking to apply the same techniques in Europe that they applied in the United States will find this not to be a similar market.

And I think we've talked many times about the barriers to entry. Not only is land a barrier to entry and power a barrier to entry, but just finding, developing, teaching people is a barrier to entry. On the other hand, there's a tremendous opportunity here.

So if your fundamental question is, do we expect there to be any change in our position? No. And I'd like to add one thing. A number of people have announced in the last couple of weeks that they're changing their strategy and structure.

We've been doing what people are now thinking they're going to do or talking about what they're going to do, we've been doing for years. And we published the returns on invested capital, we published the returns on the data centers, and you can see a very consistent approach.

You can see, it's -- people take ARPU as a proxy for pricing, you're seeing the ARPU go up. So you should draw whatever conclusion you want. Opportunity is here, we've done really well taking advantage of the opportunity. I don't expect that to change.

Jim Huseby: Thank you, everybody. That concludes our fourth quarter and year-end conference call. We look forward to seeing everybody out on the road. And we'll be back on our next earnings call in a couple of months. Thank you very much. This concludes our call.

Operator: Thank you. And that concludes our conference for today. You may all disconnect. Thank you all for participating. Have a good...

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