INTERXION

Moderator: Jim Huseby
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Operator: This is Conference # 6137888

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Q4 2018 Earnings Webcast.

At this time, all audio participants are in a listen-only mode. During the presentation we will have a question and answer session, at which time if you wish to ask a question you'll need to press "star" and "one" on your telephone keypads.

I must advise the webcast is being recorded today, Wednesday, the 6th of March, 2019.

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

Jim Huseby: Thank you, (Callum). Hello, everybody. Welcome to InterXion's fourth quarter and year end 2018 earnings conference call.

I'm joined by David Ruberg, InterXion's Vice Chairman and CEO; John Doherty, the company's Chief Financial Officer and Giuliano Di Vitantonio, our Chief Marketing and Strategy Officer. To accompany our prepared remarks we've prepared a slide deck which is available on the Investor Relations page of our Web Site at investors.interxion.com.

Before we get started, I'd like to remind everybody that some of the statements that we will be making today are forward-looking in nature and involves 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 make no obligation, and do not intend to update or comment on forward-looking statements made on this call.

In addition, we will provide non-IFRS measures on today's conference call. We provide a reconciliation of those measures to the most directly comparable IFRS measures in today's press release, which is posted on our Investor Relations page at investors.interxion.com. We'd also like to remind you that we post important information about InterXion on our Web Site at InterXion.com and on social media sites such as LinkedIn and Twitter. Following our prepared remarks, we will be taking questions.

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

David C. Ruberg: Thank you, Jim, and welcome to our Fourth Quarter and Year End 2018 Earnings Call.

During the fourth quarter, InterXion again delivered solid growth, reflecting a combination of favorable European demand trends, consistent execution and a sustained high level of data center expansion across our footprint to meet the requirements of our customers. The cloud and content platforms remain active in terms of expanding their colocation capacity for core and edge nodes, not only the Big 4 markets, but increasingly in other key European markets as well. These customers understand InterXion's value proposition and are seeking to leverage the dense connectivity available in our data center campuses.

All of this is taking place against the backdrop of a global digital transformation. The real value comes not just from the conversion to digital, but particularly the move to connected digital. The way in which we live, work and communicate with our families, friends and business contacts is fundamentally changing. How we produce and consume content, manufacture products, take care of our health, or drive somewhere are evolving at a dramatic pace. This is all happening in real time. The combination of our highly connected data centers, our breadth of coverage and our strategic approach, which is focused on the longer term, means that we remain extremely well positioned to capture the demand for colocation capacity now and over the coming years.

Please turn to Slide 4, turning to the highlights of our full year 2018 results. InterXion posted 15 percent year-over-year growth in both recurring and total revenue. Our adjusted EBITDA increased by 17 percent, representing year-over-year EBITDA margin expansion of 70 basis points to 45.9 percent. We invested over EUR 450 million of capital expenditure in the business.

During the year, we opened 2 new data centers and expanded capacity in 9 of our 11 countries, with the remaining 2 countries scheduled to open new capacity in the first half of 2019. Against the backdrop of high demand driven expansion, we maintained a steady utilization rate of 79 percent, reflecting our discipline in matching new capacity to demand that we are experiencing and we continue to grow our land bank for future expansion with land acquired in 4 markets during the year.

Please turn to Slide 5, now turning to the highlights of our fourth quarter results. InterXion posted 13 percent year-over-year growth in both recurring and total revenue in Q4. Adjusted EBITDA increased by 15 percent, representing year-over-year margin expansion of 60 basis points. We invested over EUR 130 million in capital expenditure, opening data center expansions in 3 countries. Two new data center builds were announced in the quarter, which were in Frankfurt and Marseille. Bookings in the quarter remained strong, while the sales pipeline continues to reflect solid demand and pricing remains stable and churn continues to be low and within our historical ranges.

Please Turn to Slide 6, looking at the Q4 financials in a little more detail. Revenue in Q4 came in at EUR 147 million, up 13 percent from last year and up 3 percent sequentially. Recurring revenue nearly -- recurring revenue at nearly EUR 140 million represented 95 percent of total revenue was also up

13 percent compared to last year. And adjusted EBITDA was just below EUR 68 million, an increase of 15 percent year-over-year and 3 percent sequentially according to an adjusted EBITDA margin of 46.1 percent. And John will talk in more detail about these numbers later in the call.

Please turn to Slide 7. We added 4,500 square meters of equipped space in the fourth quarter, bringing the total increase for the year to 22,300 square meters. We ended 2018 with 144,800 square meters of space of equipped space. We got a 3,800 square meters of revenue generating space in the quarter with significant installations in Germany, Frankfurt and The Netherlands. For the full year 2018, the increase was 15,200 revenue generating square meters, keeping pace with (equipped) capacity such that utilization at the end of the year remained fairly steady at 79 percent.

Recurring cross-connect revenue continue to grow faster than recurring revenue on a year-over-year basis and contributed 6 percent of total revenue in the fourth quarter. We have noticed that customers have started the transition from 10 gig cross-connect to 100 gig cross-connects which we expect will unfold over a number of years as new technologies are rolled out to carry data traffic that is expected to grow almost 5-fold over the next 5 years.

Please turn to Slide 8. During the fourth quarter, new capacity was opened in 3 of 4 Big 4 markets, specifically, Amsterdam, Paris and Frankfurt, followed by the opening of our third data center in London early in the first quarter. Since the end of the third quarter, we have also announced 3 new data center builds which are Marseille 3, Frankfurt 15 and today Zurich 2.

Additionally, we're announcing that we're equipping a further 2,600 square meters in Frankfurt 15. Including this expansion, we've announced additions to equipped space capacity of over 28 percent through to the end of 2020. Of this new capacity, over 70 percent is scheduled to open between mid-2019 and the end of next year. We have new builds underway in 9 of 11 countries in which we operate. We also added to our land bank in Copenhagen and Zurich in the fourth quarter.

Please turn to Slide 9. In Q4, we continue to see the same bookings and revenue trends that we saw in previous quarters. While, all segments are growing, the growth from platforms is faster than the growth from enterprise and connectivity. As a result, we now have 30 percent -- 38 percent of our revenue coming from platforms and the rate remaining 62 percent, almost equally split between connectivity and enterprise. We expect this trend to persist in the coming quarters, as the strong backlog in bookings from platforms converts into revenue.

With more platforms joining our connected communities and expanding across multiple locations, we are seeing a more widespread distribution of revenue across this segment with 5 cloud providers and 2 content providers in our top 20 customers by revenue. The remainder of the list includes 9 connectivity providers and 4 enterprises.

The value that we get from the platforms goes beyond the top line contribution, fuelled by compute nodes. These customers continue to deploy network nodes that have tremendous value to our connected community and they're doing across new countries and new locations.

For instance, Google recently added a Google Cloud Interconnection PoP in Zurich, a location where the demand for cloud is growing rapidly. This follows similar deployments by them in Stockholm, Madrid and Marseille over the last 2 quarters. These deployments demonstrate that the demand for private connections to access public clouds in a secure and reliable manner is steadily growing across Europe. Since August of 2018, we have seen 10 new on-ramps installed in our data centers by major cloud providers.

In the Connectivity sector, Q4 was a particularly strong quarter, capping a year of solid growth across all of our cities, but especially Marseille, Frankfurt and Madrid. While Connectivity is the most mature segment, high growth in the volume and traffic generated by cloud and content providers is a catalyst for connectivity providers to expand capacity in our facilities and to deploy increased numbers of cross-connects.

In the Enterprise segment, we're in the early innings of a market transition, just starting to attract a new breed of customers to colocations. These are enterprises that in the past would have typically run their IT and their own data center or in an outsourced environment. They are now in the early stages of their digital transformations and require more connected and hybrid IT architecture. These customers typically start with a small deployment and private multi-cloud connections and then expand as their requirements grow. Over time, we'll see larger deployments from enterprises engaging in more fundamental re-architecting of the IT infrastructure.

European enterprises such as Carlsberg are the leading brewery groups in the world are examples of customers and companies at the forefront of a wave of digital transformation. These companies have chosen to deploy significant elements of the IT infrastructure at InterXion. They appreciate the significant value that a colocation environment offers to a digital enterprise architecture. The benefits include low latency access to multiple clouds and superior edge network performance to enhance their customer's experience, while retaining security and flexibility. This transportation -- this transformation opportunity is just emerging as expected to gain momentum in the coming years.

With that, I would now like to turn the call over to John.

John N. Doherty: Thanks, David. It's a pleasure to participate on the call today. I've enjoyed the opportunity to reconnect and meet with many of our investors and analysts since I joined InterXion in November. After 4 months at the company, I am more excited than ever about the opportunities ahead of us.

Please turn to Slide 11. As David highlighted, InterXion delivered another solid quarter and total revenue growth of 13 percent compared to the prior year and 3 percent higher sequentially. Currency movements were not significant in the quarter. As a result, constant currency growth rates both year-over-year and sequentially were consistent with reported growth rates.

Recurring revenue in the fourth quarter was EUR 139.7 million, also representing a 13 percent year-over-year increase and a 4 percent sequential increase. Recurring ARPU was EUR 412 per month in the quarter, consistent with our expectations and down EUR 1 from third quarter due to the dilutive impact of new installations largely occurring late in the quarter. Notably, ARPU increased slightly year-over-year despite a large volume of new customer installations during the year. Recurring revenue remained at 95 percent of total revenue in the quarter.

Non-recurring revenue in Q4 was EUR 7.2 million, up 12 percent year-over-year and down 3 percent sequentially. Cost of sales was EUR 57.2 million in the quarter, up 17 percent year-over-year end up 2 percent sequentially, resulting in gross profit of EUR 89.7 million, an 11 percent increase year-over-year and 4 percent sequentially. The gross profit margin for the quarter was 61.1 percent, down from 62.4 percent a year ago.

As we discussed last year, the Q4 2017 results included a number of one-time items that positively impacted our gross profit margin. The largest was the usage-based energy credit in Germany for which the full annual impact was recognized in the Q4 '17 numbers. Normalized for these one-time items, the year-over-year reduction in our gross profit margin was a more modest 40 basis points, primarily due to the expansion drag associated with bringing on new capacity.

Sales and marketing expenses were EUR 9.5 million years in the fourth quarter, up 5 percent year-over-year and up 9 percent from the third quarter with the sequential increase reflecting seasonality of marketing activity. Fourth quarter sales and marketing costs were 6.4 percent of total revenue, consistent with the 6 percent to 7 percent range that we have seen throughout 2018.

Other G&A costs were EUR 12.5 million in the quarter, down 3 percent year-over-year and up 6 percent sequentially. At 8.5 percent of revenue, other G&A costs remained within our expected range of 8 percent to 9 percent of revenue. Adjusted EBITDA at EUR 67.7 million increased 15 percent year-over-year and was up 3 percent sequentially, resulting in an adjusted EBITDA margin of 46.1 percent. This represented a year-over-year increase of 60 basis points and 20 basis points sequential reduction.

Fourth quarter depreciation and amortization expense came in at EUR 34.3 million, an 8 percent -- excuse me, an 18 percent increase -- year-over-year and up 4 percent sequentially and continues to be consistent with our growing depreciable asset base. The finance expense in the fourth quarter was EUR 15.8 million, 28 percent higher than in Q4 '17 and 34 percent higher than the prior quarter. This increase was primarily a function of higher principal amounts following the 2018 refinancing and bond tap.

Income taxes in the fourth quarter were EUR 7.3 million, an increase of EUR 2.8 million from Q3, equating to an effective tax rate of 48 percent. This increase is largely due to the impact of reductions in local corporate tax rates on our deferred tax positions, particularly in the Netherlands. Excluding this and other non-deductible expenses such as share-based payments, the normal effective tax rate is 26 percent. Our LTM cash tax rate at 34.6 percent continues to reflect the impact of the Q2 refinancing.

Net income was EUR 8 million in Q4, down to 18 percent year-over-year and 20 percent sequentially due to the higher finance and tax expenses. These factors also impacted adjusted net income in the quarter, which came in at EUR 7.8 million, down 26 percent year-over-year and down 33 percent sequentially. EPS or adjusted earnings per share were each EUR 0.11 on a diluted share count of 72.2 million shares.

Please turn to Slide 12. Strength in InterXion's Big 4 markets continued in the fourth quarter, led once again by Germany and France. Revenue was EUR 97.3 million, up 14 percent year-over-year and 4 percent sequentially on both reported in constant currency basis. Adjusted EBITDA in the big four was EUR 52.6 million in the quarter, a year-over-year increase of 9 percent and the sequential increase of 1 percent, with continued strong margins of 54 percent. Our rest of Europe segment also delivered double digit growth with fourth quarter revenue of EUR 49.6 million, up 12 percent year-over-year and up 2 percent sequentially on both the reported and constant currency basis led by Austria, Denmark and Sweden. Adjusted EBITDA in the rest of Europe segment was EUR 30.2 million, up 16 percent year-over-year and 5 percent sequentially with an adjusted EBITDA margin of 60.9 percent, an increase of a 190 basis points from the third quarter.

Please turn to Slide 13. Turning briefly to a review of the full year 2018 results, total revenue was EUR 561.8 million, up 15 percent year-on-year. Foreign exchange had no material impact on our full year results. Recurring revenue was EUR 533.1 million, up 15 percent over 2017. Cost of sales was EUR 219.5 million, up 15 percent year-over-year. Gross profit was EUR 342.3 million, also up 15 percent, while gross margins are modest 20 bps decline to 60.9 percent.

Sales and marketing costs were EUR 36.5 million up 9 percent year-over-year, while other G&A costs were EUR 48 million up 8 percent versus 2017. This resulted in solid operating leverage at the adjusted EBITDA line with growth of 17 percent and margins expanded by 70 bps, despite the slight decline in gross profit margin.

Looking ahead into 2019, we expect ARPU to remain within a range of EUR 411 and EUR 415, based on the timing of new customer installations as continued growth in the base is offset by the dilutive impact of new installations. Cross-connect revenue is expected to be approximately 6 percent of total revenue for the year. Non-recurring revenue should remain at approximately 5 percent of total revenue. Sales marketing costs are expected to remain the 6 percent to 7 percent range that occurred in 2018, while other G&A costs are likely to rise towards 10 percent of revenue in the first quarter due to normal seasonality before settling down at near 9 percent of total revenue for the remainder of 2019. In light of growing energy costs and continued expansion drag from new capacity openings, adjusted EBITDA margin is expected to remain steady in 2019.

Please turn to Slide 14. From the beginning of 2019 we have adopted IFRS 16. I will not spend much time on this during the call, as most of you will be familiar with the primary impacts of this new lease accounting standard given the similarities to changes happening in U.S. GAAP. In practical terms, IFRS 16 means that operating leases will be brought on to the balance sheet and treated in the same way as we treat finance leases. The end result is a reduction in rent expense and an increase in interest expense and depreciation charges from the capitalized leases, but there is no cash impact.

Compared with 2018, IFRS 16 is expected to have the following impact on our key financial metrics as set down on this slide. Total revenue and recurring revenue will see a negligible impact from IFRS 16, adjusted EBITDA margin in 2018 would have benefited by approximately 600 bps and gross leverage adjusted for full year 2018 on the same basis will increase slightly under 1 turn as future lease payments will be recognized as liabilities. This adjustment is not expected to have any impact on our credit ratings and IFRS 16 does not form part of our financial covenant reporting. Throughout 2019 we will provide a quarterly reconciliation of key metrics between the reported results on an IFRS 16 basis and the previous basis. Overall, it should be noted that following the implementation of IFRS 16, our financial results, particularly in terms of adjusted EBITDA margin, will be reported in a way that is more consistent with our U.S. peer group.

Please turn to Slide 15. InterXion remains in expansion mode in response to continued strong demand. During 2018, we invested EUR 451 million in capital expenditure. 93 percent of which was allocated to capacity increases. Over the last 3 years that is between 2016 and 2018, InterXion has invested approximately EUR 916 million in CapEx and increase equipped capacity by approximately 44,000 square meters, an increase of 43 percent. During this time, our utilization rates remained within a tight range close to 80 percent. A portion of our future CapEx will continue to be deployed on freehold and land acquisitions to meet future expansion requirements, alongside the ongoing cycles of investment in our existing data center portfolio. We remain consistent and highly disciplined with respect to our capital allocation processes and anticipated returns.

Please turn to Slide 16. InterXion ended the year with EUR 186.1 million in cash and cash equivalents with the refinancing and subsequent bond tap being the most significant balance sheet events for the year, giving us greater flexibility with the unsecured status of the nodes. Our EUR 200 million RCF was undrawn at the year-end, giving us nearly EUR 400 million in available liquidity and this quarter we increased our RCF by further EUR 100 million to provide additional flexibility. Our credit metrics remained solid with net leverage of 4.3x and all announced expansion projects through 2019 being fully funded. Cash ROGIC which is our measure of return on gross invested capital was 10 percent in 2018 and consistent with over the last 2 years.

Please turn to Slide 17. At the end of 2018, a group of 37 fully built-out data center contained 91,800 square meters of equipped space. This group is 82 percent utilized and continue to generate strong and stable cash returns of 23 percent over the last 12 months with gross margin of 66 percent. The revenue and returns of the single data center will typically grow for number of years after the site is essentially full from a space prospective, the combination of annual escalators, customers increasing their energy consumption and the growing contribution from cross-connects, are the drivers of the 5 percent LTM recurring revenue growth seen for this group of data centers. As we have done in prior years, we will reset the basis for this chart on our first quarter earnings call, as we roll the period forward by a year to include all of our fully built-out data centers as of January 1, 2018. And with that I will now turn the call back over to David.

David C. Ruberg: Thank you, John. As we wrap up another successful year for InterXion, I wanted to come back to the strategy that has brought us to where we are today and continues to be the guiding principal for current and future investments. For InterXion, it all starts with our relentless customer focus that has always been at the heart of our culture. By building trusted relationships with our customers, not only we've been able to sustain the growth of our company, but it's helped us to anticipate future directions and make the appropriate investments to stay well-positioned.

A year ago, we introduced a new frame work to understand, manage and serve our customer base, predicated in the realization that there are 3 games going on simultaneously in the industry. One game, for the most mature segment, which is Connectivity, another game for the segment that is approaching the steepest portion of the adoption curve namely Platforms, and one game for the segment that has largest long term potential which is Enterprise. Each of these games started at a different point in time and is currently in the different inning. They are also sub games that are unfolding and powerful interdependencies between these games that we explored during the 2018 earnings calls.

The rapid growth in cloud in platforms and content platforms creates opportunities for both connectivity and enterprise that are at the heart of the connected communities that we enable. This concept is visually depicted on this slide which describes directionally where the industry is headed without the intent to provide accurate predictions on relative sides and timing of each opportunity. As we entered 2019, we can look at how these segments have evolved over the past year and how they are contributing to our business.

Connectivity remains the foundation for everything we do, as well as the key barrier to entry for competitors with the real estate orientation. Industry analyst agree that global data traffic is growing rapidly, especially in Europe, which is in turn driving demand for new PoPs from connectivity providers as well as CDNs. Although, deployments are generally small, they tend to have higher ARPUs, while driving adoption of cross-connects and Cloud Connect. This all helps to create stickiness in our communities. The connectivity segment still represents almost 1/3 of revenue and we saw a healthy growth in 2018 on the back of the interplay platforms in connectivity.

With changing data traffic patterns, we have seen European carriers become more prominent in our data centers. This partly reflects the local origin of traffic pushed through the InterXion hubs by cloud and by content providers which is in contrast to the past, when global traffic between carriers was a more prominent feature. We continued to expect mid to high single digit growth for this segment in coming year. 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 additional PoPs to address the explosion in the volume of data traffic.

Platforms, especially clouds dominated demand in 2018 representing over 60 percent of bookings, a trend that we expect to continue to see over the next 2 to 3 years. While we continue to see a high concentration demand within this segment, we are witnessing more evenly distributed demand of cross across the top tile providers. These market leaders are increasing the size of deployments and the duration of the contracts, as their long term demand becomes more predictable. All cloud providers have continued to deploy network nodes in highly connected locations. There's a growing awareness on their part of the value of deploying compute capacity in close proximity to these network nodes. This is one of the key factors leading cloud providers to deploy compute nodes with InterXion in locations that were originally developed purely as interconnection hubs. These locations have are becoming cloud and content hubs and are evolving into larger connected campuses.

As we develop deep relationships with the large cloud customers, we increasingly focus on their key requirements which are including line of sight to long term capacity, flexibility to data center designs, pan European coverage, consistent execution across countries, and flawless wholesale operations. Content platforms are driven by different set of requirements, as they are implementing a very distributed network architecture with subsea cables and edge nodes carrying large volumes of traffic. Some of these providers have decided to deploy the compute capacity in the public clouds, especially in the regions outside the U.S., which provides another driver for the emergence of connected communities and our data center. Both types of these platforms are approaching the steepest part of the S-curve adoption curve in Europe as the global adoption of cloud and content services continues to unfold and new technologies as virtually reality and AI become mainstream.

Our observation remains that different countries are at varying stages of maturity with European rollout typically starting in U.K. and cascading across Western Europe and into other regions. Consequently, the Platform segment overall has substantial headroom for growth, especially in countries where cloud adoption is in its infancy. As we entered 2019 this segment represents almost 40 percent of our revenue and we expect this proposition or proportion to grow in the next couple of years.

Demand from enterprises continue to evolve in 2018, as they are undergoing a radical transformation of the IT architecture, shaped by digital transformation and the migration to the cloud, which leads to the diminishing role of enterprise owned data centers and an evolution of enterprise network and IT outsourcing. As a result of this transition, the demand for traditional IT outsourcing is now shifting towards demand for colocation as a cloud enabler. We expect that the bulk of the demand will shift from non-carrier dense data centers to locations where the cloud provides -- cloud providers deploy their on-ramps and will take a couple of years for a crossover point to be reached.

From a geographical standpoint the Enterprise segment in Europe is not lagging the U.S. by as much as it is for platforms, because we have a large number of local enterprises that are starting their cloud journey where they are headquartered. This gives us a competitive advantage because enterprises tend to pick one vendor and also use local systems integrators. We expect demand from this segment to continue to grow steadily over the next couple of years. To capture this opportunity, we are enhancing our local go-to-market capability focused on Europe to complement our international sales organization that remains focused on global customers.

Each of these 3 segments Connectivity, Platforms and Enterprises require a different approach because of their respective stage in maturity, technical requirements and scale and complexity of the opportunity. Our go-to-market model, based on customer's segment enables us to achieve this goal and to strike a careful balance between strengthening the install base, capturing the waves of the rapid growth, and seeking the next wave of demand. At the same time, we continue to actively develop new products and implement operational improvements that meet the evolving requirements of the 3 segments. This is a balancing act that we have been performing successfully for quite some time and we will continue to provide the foundation of our future profitable growth.

Please turn to slide 20. Before getting to specifics of our guidance, I again, would 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 up that guidance, if appropriate, during the year. For 2019, our guidance includes the adoption of IFRS 16, which does has a material -- it does have material impact on adjusted EBITDA. Therefore, for 2019, we expect total revenue to be in the range of EUR 632 million to EUR 647 million. We expect adjusted EBITDA to be in the range of EUR 324 million to EUR 334 million, and we expect the capital expenditures to be between EUR 570 million to EUR 600 million.

Before opening up the call to Q&A, I would like again to express my thanks to all of our employees across the company for their continued commitment and customer focus. The continued success of this company is a product of their hard work. I would also like to thank our shareholders and bondholders for their continued support.

Now, let me hand the call back to the operator to begin the question and answer session.

Operator: Thank you, participants. As a reminder, if you do wish to ask a question or make a comment, please press "star" and "one" on your telephone keypads and wait for your name to be announced. Alternatively, if you wish to cancel that request, please press the "hash" key.

Our first question today from the line of Robert Gutman from Guggenheim Partners. Your line is now open.

Robert Ari Gutman: Hi, thanks for taking my question. Can you clarify for us how we should think about the leverage ratio given the impact of the accounting changes to EBITDA and in light of the quantity of or the scale of CapEx spending and the commentary that you're fully funded for 2019?

John N. Doherty: Sure, Rob. I'll take that one. Let me give you more of a comprehensive answer.

We ended the year at 4.3x net leverage; this is amongst the lowest leverage across the industry. While, we don't have a formal target, yes, I would be comfortable with it going a bit higher and obviously it will throughout the year. But I'm comfortable given how the business has been performing, the size and credit quality of our biggest customers and the longer average term of our contracts. One of the things that's key and we are very confident in is the overall performance of the business. Yes, we want to ensure that we stay focused on the opportunities in front of us, continue to grow at the top line at a healthy level and drive as much of that through to adjusted EBITDA.

If we do, ultimately cash generation will help us to manage the leverage as we move through on the -- throughout the year. I expect on their current course and speed, we'll drift it up to just north of 5. But I'm relatively comfortable at that level and we'll look to ways to continue to optimize our capital structure. But as mentioned, as of 2019, for everything that we've announced in 2019 we're fully funded.

Robert Ari Gutman: Great. Thanks. And one other if I can. Can you talk about -- I think -- and looking it through current revenue growth, the organic recurring revenue growth, you faced some tough comps because of very high numbers in the back half of '17. How should we think about that going forward?

John N. Doherty: I'll also take that one.

Certainly, we're very confident and comfortable with where our growth has been. We've been consolidating the teams each quarter for nearly 2 years. And while we don't provide quarterly guidance, I think it is appropriate to give you a little bit more on 2019, particularly given some of what we said in the prepared remarks. We expect growth in 2019 to be a bit opposite of 2018.

In 2018, first quarter year-over-year, we started about 17 percent-18 percent and we exited the year with just over 13 percent. And one of the factors which is just for the most part availability of space. Obviously, we addressed this with a bond issue and the tap in 2018 and more recently with the increase to our RCF. So for 2019, I expect that we're going to be exit the year at a higher year-over-year growth rate than we start with earlier in the year and this will be give us really good momentum and a full head of steam as we move into 2020.

Robert Ari Gutman: Great. Thank you very much.

Operator: Our next question today is from the line of Jonathan Atkin from RBC Capital Markets.

Jonathan Atkin: Thank you. So I was interested in the cross-connect revenue trend and maybe talk about just volume trends, pricing trends that might be coming into play in

2019 and the use cases around cross-connects that might drive your growth this year and how they might be different, if at all, versus prior years?

And then just a question about the utility pricings in Europe. One of your peers mentioned that that's higher and whether that's a trend that you are seeing as well and how that flows into your operating metrics? Thanks.

David C. Ruberg: Jonathan, I'm going to try and condense the question you asked or the elements of the question on cross-connects and handle it in the following fashion. Given our customer mix, and given our -- their application mix and what we're trying to accomplish with these customers on a long term basis, we believe that our cross-connects are appropriately priced at the present time.

Do you have anything you want to add on...?

Giuliano Di Vitantonio: Yes, Jonathan asked -- this is Giuliano. Hi, Jonathan.

You also asked about the use cases and I think David hinted at that in the prepared remarks. In the past, the use cases driving cross-connect adoption was primarily the global carriers exchanging traffic among themselves. And in the last couple of years with the rollout of cloud (class, we've seen much going) to local ISPs, the local providers of connectivity in the countries and the traffic is originated by the platforms that distribute to the end user. So the use case has significantly shifted in the last couple of years. It speaks to that deep interplay between the content, the cloud and the connectivity that David referred to in his prepared remarks.

David C. Ruberg: As far as energy prices, in the last 6 months, and in 2018 and going forward -- although, the cost of generating energy has not risen, the implication of what the European Union is trying to do through Co2 certificates has come to play a significant part and has increased the cost of procuring energy. And you will see that is part of what has impacted our gross margin in 2018 as well as 2019. So it's the Co2 emission certificates; not the demand and not the cost of generation. Did we answer your question...?

Jonathan Atkin: Thank you. Yes, thanks very much.

Operator: Thank you. Our next question is from Erik Rasmussen from Stifel. Your line is open.

Erik Peter Rasmussen: Yes, thanks for taking the questions. One, you mentioned on the cross-connection, you're starting to see the 10 gig, the 100 gig migration starting to now happen more in Europe. We've obviously seen it in the in U.S. market. But what kind of headwind are you're expecting in 2019 and how do you see things progressing?

John N. Doherty: Let me just put -- give you a -- (framing it out) from a numbers perspective. Cross-connects have continued -- revenue has continued to grow at a rate higher than our overall growth rate. We still expect that to be the case '19 over 2018, so it's still an area of our business that's accretive to our overall growth. And the issue is that 6 percent. I know that there was an expectation that that number would move higher and higher in bigger increments, but that's just not the case. We are -- it's a little bit of a different way in which it shows up in our revenues. Ultimately, it's growing, it's accretive and overall on a net basis.

Giuliano Di Vitantonio: And Erik this is Giuliano.

From a customer adoption stand point -- the transition to -- from 10 to 100 gig is going to happen in a gradual way, will be in primarily some new applications that will drive that adoption and the rollout of new equipment. So it will unfold over a number of years. And during that period, the volume of traffic is expected to grow really substantially. Some studies indicate 37 percent CAGR for the growth of the peak traffic, which is how you then measure you network. So we believe that in terms of headwind, we're not going to see any significant impact because the high volume of traffic compensates for the fact that we have a higher bandwidth.

Erik Peter Rasmussen: Great, thanks. And then in terms of, you mentioned there's 10 new on-ramps and it's accelerated since August, can you talk about how many -- what the total is that you have now? And can you comment on how you see things -- the impact of this on your overall business, so just to give it some context there?

Giuliano Di Vitantonio: Yes, I don't have the total number off the top of my head. I believe it's close to 40-50, but I will come back to you with a precise number. So in terms of the impact on the business, clearly drives demand for Cloud Connect, but also enterprise, and we'll start with a small deployment just to connect to the cloud. And then the business evolves and the requirements grow, they keep expanding and adding more racks. So it's the catalyst for a new enterprises to come to us and we have a steady trickle of new enterprises coming to us, but also provide a foundation for those enterprises to grow.

David C. Ruberg: And it is the foundation for us building a community. It's the same way we built this on the international carriers, and eventually migrated that concentration to collect the enterprises that wanted to use them and then the ISPs that wanted to do the customer facing. So as we go forward, these on and off-ramps, these edge nodes are what drive the stickiness of our communities of interest.

Erik Peter Rasmussen: Great. Thank you.

Operator: The next question today is from Nate Crossett from Berenberg. Your line is open.

Nathan Daniel Crossett: I was wondering if you could give us a level of preleasing amongst the expansions? I don't think you guys disclosed that this quarter or last quarter. And if it's not something you want to disclose, maybe can you talk about how the indications are coming along for some of the bigger projects?

David C. Ruberg: OK, I may get myself in trouble here. We haven't disclosed this for a while, and I'll tell you why -- I think, because the industry focuses too much on this.

These numbers have become lumpy. They're really dependent upon the book-to-bill ratio, which never gets factored into them. And given where we are with our customers and their applications, we have most of the customers we want. They are in our communities, they are in our campuses, and we have a very good relationship with them. And so we have a very good understanding or very good idea of what their growth rate looks like, because we sell them energy. And they are all very open with us, and it makes it very predictable. So rather than giving -- the industry's changed over the last couple of years and now that we have them and we have a great relationship with them, we're actually in many cases, doing joint planning in terms of space, land and things like that.

So we have not revealed either bookings or preleasing, because I personally believe that the industry focuses too much on this. All right?

Nathan Daniel Crossett: Yes, that's fine. One more if I could.

I wanted to get an update on maybe a potential investment grade rating kind of in light of the recent Equinix equity deal in conjunction with their investment grade rating the following day. Do you think that the Equinix developments kind of paved the way for you guys to get investment grade sooner? Given that you kind of have similar leverage level than property ownership levels?

John N. Doherty: The short answer is we certainly have that as a goal, but it's a bit of a medium term goal. To go through it and do a straight comparison to one of our peers that you mentioned would take a bit longer than we have on this call. But effectively we are comfortable with our leverage and where we are now. We're comfortable with the prospects we have in front of us. Over time, that's definitely something that we'd like to go after, but it's -- as I said, it's bit of -- more of a medium term goal.

David C. Ruberg: I'm going to put this in little bit of context. It's a capital intensive business. We are highly focused on returns. We try to get the best customers, the best prices at the lowest cost to construction and capital is really important and so we have been focused for a long time on reducing our cost of debt.

Nathan Daniel Crossett: OK, yes, that's helpful. Thanks.

Operator: OK. Your next question today is from Sami Badri from Credit Suisse. Your line is open.

Ahmed Sami Badri: Hi. Thank you.

My question really has to do with something David commented on towards the end of the prepared remarks, and has a lot to do with that mix of enterprise making up about 1/3 of total revenues in your ecosystem. When do you think there will be an inflection change where maybe about 1/3 goes up more, (say, to make) about 40 percent of your revenues for total ecosystem constituents? Can you give us an idea when the European region will start to inflect faster? And as this inflection occurs, will this be the engine that drives the interconnection revenue mix higher? Just looking at an idea on how to visualize the company results over the next 2 years.

David C. Ruberg: OK. Sami, as you know, I don't answer modeling questions. So this is the $64,000 question. This has changed. We originally thought it would be precipitated by what was coming from the United States; that's not the case. So what we've seen happen is, people close to their corporate headquarters, which they are quite a few here in Europe, begin to experiment with it.

The second question that you asked is easier to answer. Yes, this will certainly drive the interconnection business because most of these applications that will sit with us are communication sensitive, response time sensitive and customer focusing. So I don't expect it to happen -- this is just me personally -- we're not expecting it to happen for the next couple of years in terms of the inflection point. But we are beginning to see more in Europe than we thought we were going to see.

Do you want to add anything to this?

(Giuliano Di Vitantonio): Yes. As we mentioned earlier, Sami, it's more of a gradual adoption at this point. So we're seeing that increase; of course, enterprise is growing as well. So enterprises are going through this migration. It's a migration that takes time. It requires -- it involves transforming their IT organization, their networking infrastructure. So it's something that is happening over a period of time. And so I -- as David mentioned, it's unlikely in the next couple of years, we'll see an inflection point. But we will certainly continue to see the growth that we've seen at least in 2018.

Ahmed Sami Badri: Got it. Well, thank you for the color on that.

And then my next question has to do with the ARPU (expected, the 411 to 414) for the year. Now, as we think about specifically that range -- and you commented earlier on this call how your initial guidance has been conservative relative to the final year results -- which markets do you think will drive positive surprise relative to this 411 to 414 ARPU?

(David): I'm not sure we heard you question -- the lines were garbled. But did you ask what markets we expect to see pleasant surprises in the ARPU development? Is that the essence of your question?

Ahmed Sami Badri: Yes, that's right. Yes.

(John Doherty): Yes, let me jump in. I mean I guess -- I mean it's an interesting question. I appreciate it.

But I'm not sure if I would completely look at the business that way. Because, obviously, in some markets when we deploy more capital, more space, there's more opportunity for growth. That can ultimately have some impact on that number. (To say) positive surprise in that market or (in that market), I mean, effectively what we told you, we expect it to be stable. We're really comfortable with that and I think that's pretty much good for now.

David C. Ruberg: Just in a general observation, we try not to be surprised too much by anything up or down. So maybe there's more color to your question and we can address it later. But we're giving you our best bet in terms of the aggregate amount over the company. OK?

Ahmed Sami Badri: Thank you.

Operator: Thank you. And our next question is from Colby Synesael from Cowen and Company. Your line is open.

(Michael): Hi. This is Michael on for Colby.

First, the implied CapEx per square meter at the midpoint of 2019 guidance is around EUR 24,000 versus EUR 20,000 in the past 2 years. Are you seeing an increase in build costs? And if so, what's driving this?

And then secondly, we appreciate you don't want to discuss the percentage of space coming online at the prelease, but any color on where you expect utilization rates to be by year-end would be great. Thank you.

David C. Ruberg: OK. The primary increase -- we're not seeing an increase in the cost. And actually you referenced it's per square meter. But part of what's happening is the density is going up per square meter. So it's really on a kilowatt basis. That's one.

Two, most of these that we're requiring now include the land purchase prices. Over the years, we've started to buy more land, larger land, so no real increase in the construction costs, as a matter of fact, because we can build bigger and build and design more consistently on a per unit cost which we look on a per kilowatt basis is actually coming down.

And the second part of his question, do you...?

John N. Doherty: Utilization rate (and)...?

David C. Ruberg: Yes, approximately the same.

John N. Doherty: Yes.

(Michael): Thank you very much.

Operator: Thank you. And your next question is from the line of Tim Horan from Oppenheimer. Your line is open.

Timothy Kelly Horan: Thanks, guys.

Dave, do you think you're gaining share versus your peers and is it kind of a stated goal of yours?

And just secondly, do you think CapEx is going to remain fairly elevated for a few years, the demand will remain the strong for a few years? Thanks.

David C. Ruberg: OK. Market share is an interesting thing. It depends upon what market, submarket you're going after. I think as Giuliano pointed out, we kind of hinted with the number of network nodes that we're going after. I think we've done a really good job. If -- where we look at type of business we want, we certainly maintain market share, and we probably added to the market share. OK, we don't base it on square meters. We don't base it on kilowatts. We base it on how we're going to position ourselves to the maximum value long term. So I think yes, we have.

And in terms of CapEx, we are very disciplined in how we do; it's based on the returns. And if the returns continue to be where they are, and we believe they will be, we will find a way to deploy -- acquire and deploy capital to meet that demand and generate the same returns.

Timothy Kelly Horan: And on the share gains, do you think it's helping you that you're more European focused and maybe your cross-connect prices are a little lower than peers or anything else that you're doing that's helping gain share?

David C. Ruberg: I think what helps us gain share is the fact that we've had a consistent go-to-market strategy for the last forever number of years and our customers recognize this. And it is our customer focus. Focus on what's best for the customers, understand what the customers want. Try to anticipate what the customers want. (Enter in to a) -- everything that we do starts with customer focused. That I think is the differentiator.

We certainly didn't have the biggest balance sheet. We didn't have presence in the United States. We weren't there when these cloud guys started. They're all in the United States. We had to do something different because the big guys are indeed in Europe, than they're in the United States. It's something we did different; not just our presence that has led to us to be successful. And I think it goes to what we said many times. We have a very consistent go-to-market strategy. We try to anticipate where this is rather than fall behind and follow them.

Timothy Kelly Horan: Thank you.

Operator: Your next question is from James Breen from William Blair. Your line is open.

(Eric): Hi this is (Eric).

First question is about the accounting change, and I was wondering if you could quantify how much of the 600 basis points margin expansion in 2018 was due to reduced rent expense and how much of that goes to the increased depreciation charge?

And then secondly, if you could just talk about the competitive environment, and if you've seen any changes over the course of the last 6 months or so?

Thank you.

John N. Doherty: Yes, I'll take the first part and I'll hand it over to David for the second.

So the first part, of the 600 basis points, we applied across all of our leases, which primarily all of them were related to rent. So well over 90 percent. And then if you look going forward, it's kind of a modeling question. I'm going to violate David's principle of answering the modeling question, but effectively what I would look at is where -- somewhere around -- the split would be somewhere around 75 percent depreciation, 25 percent interest.

(Eric): ...OK, great.

David C. Ruberg: ...by the way -- by the way, John, you can answer the modeling questions; I'm just not qualified.

John N. Doherty: OK, now that I forgot -- (and) -- I think if you look at -- you don't need to ask me the question about the change in competitive environment. Just need to look at our results and compare it to our competitors' results for the fourth quarter, and that speaks a whole lot louder than anything I could say. OK?

(Eric): OK. Thank you.

Operator: And our final question today is from Frank Louthan from Raymond James. Your line is open.

Frank Garrett Louthan: Great. Thank you very much.

Talk to us a little bit about capital; some of your peers are using some joint ventures to raise capital as has been discussed. Have you looked at that?

And then what has been the impact of infrastructure funds looking to back data centers and in your markets have you seen any pricing impact from that?

Thank you.

John N. Doherty: Yes, I mean, I take that one, Frank, and I'm sure David may add some comments.

And it's no mystery that there's a significant amount of capital available from private sources. The infrastructure funds, as you mentioned, but also sovereign wealth funds, seeking to access this market. I think one thing to note there is, because of how attractive this market is, ultimately, steady cash -- steady revenue growth, solid returns. And as you know, we've seen a number of these examples in the market, some of our peers have done that.

However, you need to look at what is behind some of this. Some of these initiatives are driven by some of the operators that understandably are seeking to avoid slowing growth rates and diminishing returns. We do not have that problem and these JVs are not without their challenges around asset contribution structure, particularly from a tax perspective how you split the return. Our focus really needs to continue to stay on executing on the strong organic and consistent margin opportunities that are in front of us over the next few years to continue to drive the value for our share owners.

Now, we say some of the private guys are also playing in what I'll call the transactional market -- the M&A market -- and that's having a little bit of impact on the values of some of these assets. Also, I think helping little bit in the public markets as well. But from a competitive perspective across Europe, we're really not seeing any major impact whatsoever.

David C. Ruberg: We -- our business is based on a value proposition, not necessarily at cost proposition. So we -- you see in United States quite a few new entrants into the "Wholesale Market", because that is for those customers that are getting -- using those services as they want the lowest cost of service. That is not the business that we are in. And as we pointed out the barriers to entry are substantially more difficulty in this colocation business. The returns are different and therefore we do not see the sovereign wealth funds or the infrastructure people venturing into our type of business like they might for those that are just real estate oriented.

OK...?

Frank Garrett Louthan: (OK), thank you very much.

Jim Huseby: That concludes our fourth quarter earnings conference call. Thank you, all, for joining us. We expect to see many of you guys out on the road over the next several weeks and we expect to have our first quarter results available in early May. Thank you very much and you may disconnect.

Operator: Thank you. That does conclude the webcast for today. Thank you, all, for participating. You may now disconnect. Speakers, please stand by.

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