Interxion

Moderator: Jim Huseby
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OPERATOR: This is Conference # 7667705.

Operator: Good day, ladies and gentlemen. Thank you for standing by and welcome to the First Quarter 2019 Earnings Conference Call.

At this time, all participants are in a listen-only mode. There'll be a presentation followed by a question-and-answer session. At which time if you wish to ask a question, you'll need to press star one on your telephone keypad and wait for your name to be announced.

I must advise you that the webcast is being recorded today, Thursday, the 9th of May 2019.

I would now like to hand the webcast to your presenter today, to Jim Huseby, Vice President, Investor Relations. Please go ahead, sir.

Jim Huseby: Thank you, (Jenny). Hello, everybody, and welcome to Interxion's First Quarter 2019 Earnings Conference Call.

I'm joined by David Ruberg, Interxion's Vice Chairman and CEO; John Doherty, our Chief Financial Officer; and Giuliano Di Vitantonio, Interxion's Chief Marketing and Strategy Officer. We have prepared a slide deck to accompany our prepared remarks and that slide deck is available on the Investor Relations page of our website at investors.interxion.com.

Before we get started, a brief note regarding IFRS 16. The implementation of IFRS 16 on January 1, 2019 had a significant impact on our reported interim financial statements.

While IFRS 16 had no impact on our underlying cash flows, the new accounting treatment applicable to operating leases resulted in a reduction in our reported rent expense, which had a positive impact on reported gross profit and adjusted EBITDA. IFRS 16 also resulted in an increase in depreciation and interest charges, which had a negative impact on net income and earnings per share.

In addition, the new accounting treatment under IFRS 16 impacted our balance sheet, resulting in an increase in reported liabilities, together with a corresponding increase in right-of-use assets.

Next, I'd like to remind everyone 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 non-IFRS measures on today's conference call. We provide a reconciliation of those measures to the most directly comparable IFRS measure in today's press release, which is posted on our website at investors.interxion.com. We'd also like to remind you that we post important information about Interxion on our website at interxoin.com and on social media sites such as LinkedIn and Twitter.

Following our prepared remarks, we will be taking questions. And 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 first quarter earnings call. Please turn to Slide 4. We continue to experience solid demand growth across our footprint for highly connected data center capacity, primarily from cloud and content platform providers.

Our continued strong execution delivered solid recurring revenue growth and healthy adjusted EBITDA margins. Cloud and digital media platforms are expanding their presence and infrastructure across Europe and Interxion is well positioned to continue to benefit from this demand.

Our broader pan-European footprint, long-term focus on creating productive communities of interest and our reputation for operational excellence are all key ingredients for a track record of consistent profitable growth.

Some highlights for the first quarter include, a 13 percent increase year-over-year in total revenue, all of which was organic; a 14 percent year-over-year increase in both recurring revenue and adjusted EBITDA; and margin expansion of 20 basis points year-over-year on a pre-IFRS 16 basis.

Equipped space increased by 3,500 square meters. Revenue generating space increased by 4,000 square meters. Bookings in Q1 remained solid, while the sales pipeline remains healthy, reflecting the favorable demand environment. Pricing remained stable and churn in the quarter was within our historical ranges. And we opened London 3 and we announced that we have constructed Zurich 2 and further expand capacity in Frankfurt 15.

Please turn the Slide 5. Revenue in Q1 came in at EUR152 million, up 13 percent from last year and 3 percent sequentially. Recurring revenue of EUR145 million represented 96 percent of total revenue and was 14 percent higher than last year. Adjusted EBTIDA was EUR77 million in Q1, with a margin of 51 percent. And John will talk in more detail about these numbers later in the call.

Please turn to Slide 6. We added 3,500 square meters of equipped space in the first quarter and ended the period with 148,300 square meters. We installed 4,000 square meters of revenue-generating space, led by Amsterdam, Frankfurt, Marseille and Paris. We ended Q1 with 119,000 square meters of revenue-generating space and this resulted in the overall utilization rate of 80 percent. Recurring (cross-connect) revenue contributed over 6 percent of total revenue in Q1.

Please turn to Slide 7. During the first quarter, we added significant new capacity in Frankfurt, and additional capacity in other key markets. Construction activity continued across our footprint in response to the demand that we are experiencing.

We expect to open additional new capacity in 11 of our 13 markets by the end of this year, while the remaining two markets, namely Dublin and Brussels, saw significant expansions last year. In aggregate, we have announced the addition of 36,800 square meters of equipped space by the end of 2020, representing an overall expansion of approximately 25 percent of our capacity.

Please turn to Slide 8. In Q1, we saw a continuation of the favorable bookings and revenue trends that we experienced during 2017 and 2018. Over 50 new customers were added in the quarter and all segments continued to grow, 2/3 of our bookings came from the platforms, both cloud and content.

As a result, we now have 39 percent of our revenue coming from platforms and the remaining 61 percent almost equally split between connectivity and enterprise. We expect this trend towards platform revenue within the mix to persist in the coming quarters as the strong backlog and bookings from platforms converts into revenue.

In addition, in Q1, we received large orders from additional major platforms that previously had midsize deployments with us, thus broadening our multi-cloud capabilities and strengthening the value of this community. Much of our platform demand consists of expansion from current customers seeking to take more capacity in our campuses where they are already located.

From the outset, these platforms seek to ensure that a runway for the expansion will be available for them over time. Consistent with these requirements, a substantial portion of our current capital expenditure is being deployed in response to requirements of these existing customers. Our ongoing dialog and day to day interactions with these customers provides us with good visibility into their future demand requirements.

Enterprises are in the early stages of a market transition that is changing their perception of co-location. They increasingly understand that highly connected data centers are the ideal venues to establish private connections to all the leading cloud platforms for a growing range of applications.

We enable these enterprises to participate in vibrant, multi-cloud communities that are consistently expanding. These trends are reflected in the growing adoption of our Cloud Connect service, which has seen both the number of active customers and the number of cloud access ports grow by over 80 percent over the last 12 months.

Our Cloud Connect service only requires a small footprint to begin with, as customers use it to establish a network connection to one or more multiple cloud providers. However, once enterprises have established a presence in our data centers, they start to appreciate the performance and cost benefits, our proximity to multiple clouds and can then make optimal decisions in terms of work placement, eventually leading to the growth in the compute footprint that they have the best.

We are proud to report that we have achieved the AWS Direct Connect service delivery designation which authorizes select service providers to offer the new AWS Direct Connect hosted capacities that are greater than 500 megabits per second and up to 10 gigabits per second.

This will provide customers with enhanced connectivity capabilities to deploy hybrid cloud architectures and support the growing demand for private connections to access public clouds.

In Q1, we saw an uptick in demand from the IT service providers as they are enabling enterprises to migrate to the cloud as well as continued growth from financial services as they contract capacity directly with us to support their cloud strategy.

In connectivity, we saw the usual healthy distribution of demand this past quarter with orders across most cities coming from both local and international connectivity providers that are capturing the increase in network traffic due to the data expansion explosion, driven by content and cloud providers.

Demand remains particularly strong in markets like Frankfurt and Marseille within the (big four) segment as well as Madrid and Stockholm within the rest of Europe. Connectivity is a central attribute of our business and, in Q1, we continued to augment the density of our connectivity across our locations.

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

John N. Doherty: Thank you, David. As David mentioned, we are off to a good start with the first quarter being another solid quarter for Interxion in which we delivered strong growth based on solid execution.

Our disciplined capital deployment against favorable demand, positions us well to continue to deliver attractive returns. Before I get into the details, I want to remind everyone that we adopted IFRS 16 at the beginning of the year and our reported reflects this change.

We present both reported results and results excluding IFRS 16 adjustments for key line items on this slide. We've also added a reconciliation table in the press release and in the appendix to the slide deck to identify the effects of the accounting change and to provide the results, excluding the impact of IFRS 16. This will allow you to make comparisons on the underlying trends, absent the impact from the accounting change.

We intend to provide reconciliations for each quarter this year. My comments will address the reported results, but will also refer to IFRS 16 adjusted figures for comparisons to prior periods.

Total revenue in Q1 was EUR151.5 million, up 13 percent compared to Q1 2018 and up 3 percent sequentially. Foreign exchange movements did not have a significant impact, either year-over-year or sequentially and IFRS 16 had no meaningful impact on reported revenue.

Recurring revenue in the quarter was EUR145.3 million, a 14 percent year-over-year increase and a 4 percent sequential increase, driven by growth in revenue-generating space and increased energy consumption. Recurring revenue represented nearly 96 percent of total revenue and recurring ARPU was also slightly higher at EUR414 for the quarter.

Non-recurring revenue at EUR6.3 million was just over 4 percent of total revenues. As we have discussed in the past, non-recurring revenue can be lumpy as it is typically customer-specific and often dependent on changes that they are making to their deployments. We expected to be between 4 percent and 5 percent of total revenue for the rest of the year.

Cost of sales was EUR50.4 million for the quarter, reflecting the reclassification of EUR6.6 million of operating lease expenses as required by IFRS 16. Gross profit was EUR101.1 million. Backing out the accounting change, gross profit would have been EUR94.5 million, a 16 percent increase year-over-year and 5 percent, sequentially.

The reported gross profit margin for the quarter was 66.7 percent, while the comparative non-IFRS 16 gross margin was 62.4 percent, a 180 basis point increase year-over-year and 130 basis point increase sequentially.

Sales and marketing costs were EUR9.2 million in the quarter, up 5 percent year-over-year and down 3 percent sequentially. The year-over-year increase was in line with the growth of the business, offset by a reclassification of certain expenses to other G&A costs.

As a result, sales and marketing costs were 6 percent of total revenue at the low end of our typical range. We expect that they will be between 6 percent and 7 percent of revenue throughout the year.

Other G&A costs were EUR14.7 million in the quarter, up 27 percent year-over-year and 18 percent sequentially. The year-over-year increase primarily reflects the ongoing investment in areas of our business that supports our customers and related growth.

They were also impacted by the reclassification I mentioned previously, as well as some other one-time items in the quarter. Consequently, other G&A costs were 9.7 percent of revenue this quarter, above our typical range of 8 percent to 9 percent of revenue. I expect that we will revert back to the usual range for the rest of the year.

Adjusted EBITDA was EUR77.3 million, a 51 percent margin and following the adoption of IFRS 16, now more comparable across our peer group. Excluding the EUR8 million impact from the accounting change, adjusted EBITDA grew 14 percent year-over-year and 2 percent sequentially, with the comparable margin of 45.7 percent, a 20 basis point increase year-over-year and 40 basis point decline sequentially.

Depreciation and amortization expense came in at EUR41.7 million in the quarter, including $6.5 million due to the impact of IFRS 16. Excluding the accounting impact, depreciation and amortization had a 19 percent increase year-over-year, remaining consistent with the increase in our depreciable asset base, resulting from the ongoing investments in our data centers.

Finance expense in the quarter was EUR16.7 million, including EUR3.1 million from the impact of IFRS 16. Excluding this impact, finance expense was 19 percent higher year-over-year, reflecting the higher principal amounts following our refinancing in 2018. The Q1 income tax expense was EUR4.8 million, a reduction of EUR2.5 million from the prior quarter and resulted in an effective tax rate of 36 percent.

The impact of non-deductible share-based payment charges continues to raise the income tax expense above our normalized effective tax rate of 25 percent. Our LTM cash tax rate at 37 percent increased from 25 percent in the prior quarter, reflecting the share-based payment charges and the continued impact of the Q2 2018 refinancing.

Net income was EUR8.4 million in Q1, down 28 percent year-over-year and up 5 percent sequentially. Diluted earnings per share were EUR0.12 on a diluted share count of 72.4 million shares.

Looking ahead, I've already mentioned what we expect for non-recurring revenue, sales and marketing costs and other G&A. Related to ARPU and cross-connect revenue, we expect ARPU to be within the range of EUR413 and EUR416 based on the timing of new customer installations and cross-connect revenue will continue to be approximately 6 percent of total revenue for the year.

Please now turn to Slide 11. Strong growth in Interxion's (big four) markets continued with first quarter revenue of EUR101.3 million, up 15 percent year-over-year and 4 percent sequentially.

Adjusted EBITDA in the (big four) was EUR61.1 million, representing a 60.3 percent margin in the first quarter. Adjusted for the impacts from IFRS 16, (big four) adjusted EBITDA was up 17 percent year-over-year and up 6 percent sequentially. The comparative adjusted EBITDA margin of 55.3 percent represents a year-on-year increase of 70 basis points.

Once again, Germany, the Netherlands and France performed strongly in the (big four) segment. Our Rest of Europe segment delivered first quarter revenue of EUR50.2 million with recurring revenue up 11 percent year-over-year and 3 percent sequentially, led by Austria, Denmark, and Sweden.

Adjusted EBITDA in the segment came in at EUR32.2 million and adjusted EBITDA margin of 64.2 percent. Excluding the impact of IFRS 16, adjusted EBITDA was up 8 percent year-over-year and down 1 percent sequentially, while comparable adjusted EBITDA margins went down by 60 basis points.

Please now turn to Slide 12. Capital expenditures, including intangibles, totaled EUR144.1 million in the quarter. Of this, EUR137.5 million or 95 percent was deployed on expansion and upgrade projects, while EUR6.6 million was spent on maintenance and other and intangibles. Approximately 70 percent of the first quarter CapEx was invested in the (big four).

Please now turn to Slide 13. Interxion ended the first quarter with EUR118.2 million in cash and cash equivalents, down from EUR186.1 million at the end of 2018 and the EUR300 million revolving credit facility remains undrawn.

One of the impacts of IFRS 16 is to increase reported leverage as we include the IFRS 16 lease liabilities when calculating leverage. The LQA net leverage including these liabilities was 5.2 times, while gross leverage on the same basis was 5.6 times. Excluding the impact of IFRS 16, the LTM net leverage ratio was 4.4 times, a modest increase from the prior quarter.

Cash ROGIC, our Board measure of return on gross invested capital, was 11 percent for the last 12 months. This is based on an updated definition, which you can find on Slide 33. With the cash on the balance sheet, our undrawn EUR300 million RCF and the growing cash generation of our data center assets, we continue to be fully funded for announced projects.

Please turn to Slide 14. Consistent with our usual practice on our first quarter earnings report, we've rolled forward the effective date for our fully built out data centers by a year.

This analysis now includes 36 facilities as of the beginning of 2018, down from 37 last year, as we added Frankfurt 12, but removed Frankfurt 6 and Dusseldorf 2, which were previously deemed fully built since they have expanded their maximum capacity in new space that became available for expansion in those sites.

At the end of Q1 2019, these data centers with 89,100 square meters of equipped space were 82 percent utilized. They generated EUR406 million in revenue over the last 12 months, and after deducting the direct cost and maintenance CapEx, we are left with EUR259 million on a cumulative investment of EUR1.16 billion. This equates to a strong cash return of 22 percent over the last 12 months.

We continue to have a disciplined approach to capital investment driven by the visibility we have into our customer's long-term demand trends. Our connected communities enable us to deliver superior value for our customers and continued strong returns for our shareholders.

To summarize, the European co-location market is in good shape, with strong demand trends across markets and the secular trends that are driving growth are firmly intact. These trends lie at the heart of the 14 percent recurring revenue and EBITDA growth that we posted in the first quarter.

We continue to deploy capital in a highly disciplined fashion, with line of sight to customer demand. Between the end of first quarter '19 and the end of 2020, we will expand our aggregate equipped space by 25 percent. Over half of this space will be available by the end of 2019, positioning us well across Europe as we moved into 2020 and beyond.

And with that, I would now like to turn the call back over to David.

David C. Ruberg: Thank you, John. Please turn to Slide 16. As Interxion started another fiscal year by delivering its 50th consecutive quarter of revenue growth, including the ninth consecutive quarter of down couple of digit revenue growth, it is worth revisiting some of the secular trends that underpin the growth of demand for highly connected co-location data centers in Europe.

A year ago, we introduced a new framework to understand, manage, and serve our customer base, predicated on the realization that there are multiple phases of adoption, simultaneously going on in the industry.

One phase of the most mature segment, which is connectivity, another phase for the segment that is approaching the steepest portion of the adoption curve, namely platforms, and one for the segment that has the largest long-term potential, which is enterprise.

Each of these segments is currently in different pages and hence presents different opportunities. It is the rapid growth of cloud and content platforms that is presently central to the high growth rates in the European co-location market. However, within the platforms segment, there are significant differences in terms of maturity of adoption across Europe.

Even the most technology-centric European countries are behind United States by approximately 18 to 24 months, followed by a varying degree of maturity across the European continent. This concept is visually depicted on the left hand side of this slide, which describes directionally how the roll out plays, without the intent to provide accurate predictions of relative size or timing of each opportunity.

The cumulative effect of this gradual roll out defines the scale of the opportunity ahead of us here in Europe. While GDP levels in Europe and North America are about the same, the total outsourced data center capacity in Europe today is approximately 42 percent of that in the United States.

Mirroring historical trends, we expect this metric in each region over the coming years to converge towards the average ratio of IT spend between Europe and North America, which is approximately 66 percent.

As a result of our close relationships with the cloud providers and our deep understanding of the dynamics of the various European markets, we have good visibility into how this opportunity is unfolding at a country level. The cloud and content providers typically follow two criteria for the deployment of capacity in a given country.

One, the relative maturity of adoption and, two, the size of the market opportunity. Once the combination of these two factors reaches a certain threshold, they will seek to establish a presence in the country. The cloud platforms may also select certain locations to serve multiple countries as an interim step prior to creating a more granular presence.

Today, the U.K. is in the steepest portion of the adoption curve, largely in line with where the U.S. was 18 months ago. Since the U.K. is also the country with the largest wallet of IT spending in Europe, it's where all the cloud providers landed first and where the most capacity has been deployed to-date.

Amsterdam is the other location where there has been a lot of capacity deployed, not only because the local businesses are early adopters, but primarily because the city has long served as a hub to serve Central Europe from a single location. As deployments get closer and closer to end users, we envision that the demand will become more decentralized.

Nonetheless, Amsterdam will continue to grow as more cloud and content platforms emerge and grow through the same decision of picking an initial location. Thanks to our growing community in both Schiphol-Rijk and Science Park, we are strongly positioned to continue to capture significant portion of this demand.

The country where we experience the fastest growth at the moment is Germany and our campus in Frankfurt provides a unique location to serve the German market. Our highly connected campus, which we believe is the most connected in all of Europe, is deemed ideal by the cloud and content providers to serve the high-performance requirements of the local businesses and consumers.

For this reason, we are continuing to expand our capacity where we have line of sight to substantial demand and future use. As adoption in the main countries ramps up, we expect France to be the next large country where the pace of expansion will accelerate. Paris remains the main cloud hub within France, but more and more platforms see the benefit of having a dual city strategy in this country, which can ideally be met in Marseille and positions us to benefit from both locations.

Among the rest of Europe, we are seeing a growing interest in Zurich and Madrid where the market constraints make local experience absolutely critical to meet stringent customer requirements. In these tier two markets we have the double advantage of highly connected locations and local know-how which provides an even higher barrier to entry to wholesale providers with limited or no experience in these markets.

This pattern of gradual roll out across Europe has given us the opportunity to scale with key platform customers as their requirements has evolved over time. Given the unique topology and very fragmented nature of the European markets, these requirements are different from those that have in U.S. and vary by country. Being a European company and having worked with them in Europe for several years, they trust us to successfully navigate the specific circumstances of each country.

Our connectivity capabilities are a primary source of competitive advantage against vendors with a real estate orientation. At the same time, we are increasingly focused on the key requirements, including line of sight to long-term capacity, optimization of data center designs and European coverage, consistent execution across countries, and close post sales operations.

As a result, the largest cloud platforms are broadening their presence with us, including in tier two markets. At the same time, we are winning deals from a wider range of customers that are seeking high performance and low latency in highly connected data centers. This is not only from cloud platforms, but includes the content delivery and digital media platforms as well, which strengthens the community and improves our margin.

In fact, many of the larger content platforms extensively utilize cloud platforms to deliver their content and understand that data centers such as ours are uniquely positioned to allow data and workflow transfers between clouds. Highly connected locations are the only possible designation for content providers and increasingly so for cloud providers if they want to provide services to these content platforms.

Not only do they deploy network nodes in these locations, but there is 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 are now becoming cloud and content hubs and are evolving into large connected campuses where communities strive and value is created. The value of these locations is only destined to grow as more and more enterprises are also identifying the need to be co-located in these Interxion hubs.

Please turn to Slide 17. Today, we are reaffirming our previously announced full year financial guidance for revenue, adjusted EBITDA, and capital expenditures. To be specific, for the full year 2019, we're expecting revenue to be in the range of EUR632 million to EUR647 million.

We expect adjusted EBITDA to be in the range of EUR324 to EUR334 million and we expect to invest between EUR570 million and EUR600 million in capital expenditures this year.

Before opening up the call to Q&A, I would again like to express my thanks to all of our employees for their continued commitment and customer focus.

The continued success of this Company is the product of their hard work and dedication. I would also like to thank our shareholders and bondholders for their continued support for our Company.

Now let me hand the call back to the operator to begin the question-and-answer segment.

Operator: Thank you very much indeed, sir. As a gentle reminder if you want to ask a question please press star and one on your telephone keypad. But due to time constraints today, participants (are asked) please to one question and one follow-up question.

And from Citi, your first question comes from the line of Michael Rollins. And your line is now open.

Michael Rollins: Hi, good morning. I was wondering if you can unpack a little bit more of what you are seeing in the competitive landscape as some of the competitors have been evolving and entering into the European market.

And then, secondly, if you go back to the slide that you were just discussing about the market and where the focus is, is that also a road map for potential future expansions? For example, would Italy and Russia be next on the list for expansion? Thank you.

Giuliano Di Vitantonio: Hi, Mike, this is Giuliano. I'll start and then maybe David is going to chime in. So, in terms of the competitors, as we stated in the prepared remarks, we are going after some very specific deployments, very specific applications that require proximity to the connectivity hubs.

And so in that respect, I would say that the barrier to entry is such that for the new entrant – the competitors that are entering the market now, it's going to take a long time, if it's possible at all to replicate the value proposition that we have.

So, at the moment, what's happening, we're really going after different segments. We are going after different deployments. So, from a competitive standpoint, not much has changed for us.

In terms of the roadmap, yes, we talk to customers on a regular basis. And so we work very closely with them to understand their roadmaps and how that impacts ours and therefore, you know the countries we're in. And we already mentioned that we are looking at Italy as the next one where these customers start considering going. And as they continue their roll out, we will continue to work with them to identify the next countries that we should enter.

Maybe you want to add anything?

David C. Ruberg: I think that's a good answer.

Michael Rollins: Thank you.

Operator: Thank you very much indeed, sir.

Now from Oppenheimer, your next question is coming from the line of Tim Horan. And your line is open, sir.

Timothy Kelly Horan: OK, guys, can we just focus on the networking for a second. Your Cloud Connect product, is that included in your cross-connect revenue and the AWS Direct Connect, can that kind of be meaningful to your business? And are there many other people or competitors in Europe with that cross-connect, with that AWS Direct Connect?

And then just lastly, I know you touched on enterprises can save a lot of money by using your Cloud Connect and cross-connects. Can you maybe just give some examples of how much they can save or is it improving their quality or are they using new applications or any color around that would be great?

Giuliano Di Vitantonio: OK. So, this is Giuliano answering this one as well. So, in terms of the Cloud Connect revenue, yes, it is included in the, what we report as this cross-connect. Now, the AWS announcement that – by the way, AWS is going to talk about this later today.

So, we are still under, let me say, partial embargo. They have authorized us to mention this on the call, but for full details you should refer to their communication that would come out later today. So, so far, they had a limitation in terms of the bandwidth they made available to customers accessing Direct Connect in a shared platform, meaning with (an aggregation) platform like our Cloud Connect.

So, they had a limit of 500 megabits per second and now they have lifted that to 10 gigabits per second. And in terms of who else can provide this, there is basically two requirements. First of all, it needs to be one of the partners they are already working with, which tends to be typically two per city. So, it's not really an unlimited number.

In each city in Europe it's typically a couple. And also customers who had a technical solution like our Cloud Connect that can support these expanded capabilities and we believe there is very few who actually can do that in Europe. We will learn more when the announcement comes out today.

So, it is a competitive differentiator and it does help enterprises to connect to the cloud, because this way they don't need to establish their own dedicated private line. They actually can go through an aggregation platform like ours. And in that respect, we have a large number of IT service providers that are using Cloud Connect because that provide that aggregation capability to enterprises.

So, I am not in a position to quantify exactly the savings, but you can think the difference between adding a dedicated line they need to set up versus being part of a shared environment.

Besides, of course they have the benefit that by being in a co-located environment, they can also achieve an optimal deployment of their workload and decide what they keep on premise, what they put in the cloud, and what they would put in a co-located environment to optimize the performance of the application.

Timothy Kelly Horan: Roughly how many cities will you have this capability in?

David C. Ruberg: Before he answers, I would like to add, this is not only a cost and ongoing cost, but this is an operational cost in terms of ease of use and many of these organizations are in transition.

They are trying to figure out where they are going to put their workloads, how they are going to move them around and there's not a lot of technical knowledge that exists. And this asset, this tool, this collaboration puts us in a position where we can facilitate that substantially.

So, there are two costs, one is the ongoing OpEx cost and the other is the opportunity cost of not being able to do this at all.

John N. Doherty: But to answer – for the answer to the second question was, in what cities.

Giuliano Di Vitantonio: I mentioned that. This will be in all the cities where we are and the number of providers that can do this are just typically two per city.

Timothy Kelly Horan: Great, thank you.

Operator: Thank you, sir. Your next question from Cowen and Company comes from the line of Colby Synesael. And your line is now open.

Michael Elias: Hi, this is Michael on for Colby. Two questions, if I may.

First, I believe last quarter you noted you expect to exit 2019 at a faster year-over-year growth rate than you started the year. Is that still your expectation? And then second, and perhaps taking it a step further, would you expect to see sequential acceleration in year-over-year growth throughout 2019? Thank you.

John N. Doherty: I'll take that one. I thought I was going to get off easy and everybody was just really, really happy with the overall results. But let me point back. David, during the prepared remarks, reaffirmed guidance and consistent with what we've said in the past, we expect 2019 revenue growth trend will show steady improvement through 2019.

Michael Elias: Thank you.

And as a follow-up related to Icolo, I believe in the past you were a prior investor in their convertible loans, but I saw in your prior annual filings that you had noted the value of the loans was around nil. Can you give us a sense for what changed there that made you increase your ownership stake? Thank you.

David C. Ruberg: First of all, let's talk about the asset. This is an asset that we've been developing for the last couple of years that is consistent with our strategy to work with the OTT providers and submarine cable providers, which is also consistent with what we've done in Marseille.

So, John can talk about this, how we represent this on the books and the financial investments should not be confused in any way, shape and form with how strategic this has become. So, it was simply an opportunity now to enhance our position at a reasonable price and we took it.

John N. Doherty: I'll take the valuation question. On valuation, I'm not sure where you're getting that number, because certainly that's not the valuation of Icolo. In addition, when you look at those types of valuations, there is obviously a certain way in which you go about getting there.

As you can imagine, we see the value of this asset as significant, just given the overall strategic opportunity that's there for us in those markets as well as how it connects to the rest of what we're doing in our overall strategy across the business.

Michael Elias: Thank you.

Operator: Thank you very much, sir. From RBC, your next question comes from the line of Jon Atkin. And your line is open.

Jonathan Atkin: Thanks very much. So, David, you talked about some of the drivers within platforms, connectivity, enterprise, contributions from IT service providers and financial services firms and then later on talked a little bit about edge or low latency applications.

And I just wondered, at a broad level, given where you're developing and given what you're seeing in your pipeline, how do we think about average deal size, average power density?

So, how do we kind of track the square meters and is that roughly the same power contribution as what we've seen or are there any changes there? And any kind of – what do you see as the key drivers for perhaps accelerating cross-connect volumes?

David C. Ruberg: Jon, if you will send us your model, John will comment on it. But one of the things that you need to keep in mind is, there's really no direct comparison between Europe and the United States, OK, in terms of how it was rolled out by the three major platforms and how it's being rolled out here.

So, it's very difficult to answer in detail that question. Each one of the three, big three and then followed by four and five other content and platform providers, has taken a different approach to Europe and in the United States and different in each country.

So, you want to add anything to that?

Giuliano Di Vitantonio: In terms of the second part of the question, the cross-connects, we continue to see very healthy growth of cross-connects.

Of course, they are growing faster than the top line and the key drivers we discussed, some of those in previous calls, certainly content platforms are a very significant driver of cross-connects, primarily because of video being a key application.

The cloud, of course, is another key driver with more enterprises connecting either through cross-connect or through Cloud Connect. And as the edge becomes a critical component of enterprise architecture, we will see more and more of that also driving cross-connect adoption.

So, we see all favorable trends in terms of the cross-connect. And connectivity in general and even there are many shapes and form you can build a solution to enable customers to connect, but at the end of day, it's the problem we are trying to solve. We enable customers to connect with each other, that would continue to be a key requirement from them.

Jonathan Atkin: And then I think we talked a couple of quarters ago about Key Guardian and maybe some of these other products that you may be thinking about to facilitate cloud adoption and just other kind of value add services.

Is there any update on either that product or other things that you're thinking about introducing?

Giuliano Di Vitantonio: Yes, I can give you a quick update on Key Guardian. We are in advanced phase of piloting with customers. So, the value of the product is, clearly customers see the value in a very clear ways.

Once the pilot is completed, we will scale the go-to-market and I will be in a position to give you a clearer indication of the level of demand for the products.

Jonathan Atkin: Thank you.

Operator: Thank you very much, sir. From Stifel, your next question comes from the line of Erik Rasmussen. And your line is now open.

Erik Peter Rasmussen: Yes, thanks. Quick, just circling back on kind of maybe the first part of that – the first question there, you talked about in the prepared remarks the mix and platforms and it tends to be trending higher. And it seems like the deployment sizes are also increasing.

Maybe if you could just help us understand qualitatively what the specific changes are in terms of the deal sizes and how really that has impacted your business.

David C. Ruberg: OK. We have this concept called communities of interest, which is built around magnets, the platforms and the participants. And our goal has been to focus on – we don't treat all of the customers – we don't treat a customer the same way for every application and whether it'd be Amazon, Google or Microsoft, they go out to different customers with different requirements.

And our focus has been to work with them to focus on those customers that are connectivity sensitive and latency sensitive and telecommunications process sensitive and how that rolls out in terms of how they handle their network topologies and architectures is something that evolves every day.

So, we have figured a long time ago that compute and connectivity needed to sit closer than most people thought for these types of applications, especially those that were ISP sensitive. So, again, each one of these has a different approach, there are in a different structure.

One converted a large space and it's now looking to do something different. One is little later to the game, but as a bridge that allows for multi-cloud. I am not going to identify these. One has got the back-office, they all have different approaches.

And we have to be flexible in working with them, but at the bottom of all of this is connectivity and communities of interest concept in these ISPs. That's why they come to us because we have the foundation that allows them to put their different platforms into our campuses that allows their customers to be successful.

Erik Peter Rasmussen: Great, thanks. And maybe just my follow-up. Just more of a big picture, but what would you say are some of the biggest challenges you face in the markets you serve? And as we think about Europe overall, have you seen that you – or some of the challenges that you've seen that presented themselves to you and what you are doing to combat those challenges?

David C. Ruberg: The biggest challenge we have is getting good dedicated people. The world has changed dramatically. This segment of the marketplace that we face is expanding dramatically. Some of our customers are going to do some things themselves.

It is really difficult to grow the people and we have spent a lot of time thinking about how do we do that, how do we train the people, how do we develop the people. We're looking at, should have our HR person here, our churn rate is very low, our people retention is very high and the results speak for the quality of people that we have.

But at the end of the day, even though these are lights out data centers, you still have to deal with people, you have to install things. So, we spent a substantial amount of time trying to get people on-board to get them educated to our ways and that's one of the things I think John was trying to address. That has had some of the impact on our – this is what we call organizational development drag.

Anything you want to add to that?

John N. Doherty: Yes, I mean, what I would add and it really underscores everything that you said, David, is effectively making sure that we have the investment available to go after these significant opportunities that we have in front of it and that we allocate it in a disciplined manner and in the right places, both from a capital and operating perspective. I think we're doing that and we're going to continue to do that.

The other thing I wanted to mention, because I was kind of pretty quick with Mike from Cowen. Just my reference point, when you look – and this is back to the revenue growth. First quarter revenue recurring, as we mentioned, was $14.4 million and in the fourth quarter of 2018 coming out, we were at $13.2 million and then total, as we mentioned, was $13.2 million first quarter 2019 against a comp for the fourth quarter that was $13.1 million.

So, generally, I think it underscores how we started the year and what we expect for the rest of the year.

Erik Peter Rasmussen: OK, thank you.

Operator: Thank you very much, sir. Now, from Berenberg, your next question comes from the line of Nate Crossett. And your line is open.

Nathan Daniel Crossett: Hi, thank you. (Just) more maybe a longer-term question. But how are you thinking about the land bank here and what do you have right now? I don't think you disclose that, but kind of think it's an important question with more players getting into Europe.

David C. Ruberg: First of all, it is an important question. One of the issues we had, as you look at how much construction we've got going on, we've got 11 land banks being built.

But one of the things that we did last year when we addressed our balance sheet, we put ourselves in a position where we can go after bigger pieces of land which have the following impact. If we get these bigger pieces of land and we get them further in advance, that allows us to build bigger, more consistent data centers and also improves our returns.

So, probably in the next quarter or two, we will explain more about what we're doing here, but for right now what we said is, look at all the builds we've got going on which consumed the land banks and many of these are substantial in size and should carry us for the next year or two, but we will have more to say in the next quarter or so about what's going to happen after that.

Nathan Daniel Crossett: OK. And then on Icolo, I just wanted to get your comments on broader Africa. How are you looking at the continent? Do you think it could be a large growth area one day outside of Europe? I mean, I know it's a ways down the road, but just curious to get your thoughts.

David C. Ruberg: Lot of people are going to Africa and have not made a lot of money. Different culture, different political situation, different financial situation. What we did here is, we found someone that we believed in and we invested in and it's taken us a couple of years, but we've gone from dirt to data center. And it's a high quality data center.

It's relatively unique in terms of the situation there and we've demonstrated to people that we can make it work. And as a result of that, we've gotten some outstanding customers who are looking at the entire continent and most of them are in social media, digital media, you can think of who they are, that are looking to work with us, not only on the East Coast of Africa, but South Africa and the West Coast of Africa.

But it's all consistent with the strategy we embarked upon four, five years ago when we looked at Marseille and said, this is a unique conversion point for traffic coming from the United States, coming from Asia and from the West Coast and the East Coast of Africa as a great jump ball point for us to be able to do it and this is beginning to unfold.

Nathan Daniel Crossett: OK. That's helpful. Thanks, guys.

Operator: Thank you very much, sir. Now from Guggenheim, your next question comes from the line of Robert Gutman. And your line is open, sir.

Robert Ari Gutman: Thanks. In the (big four), your recurring revenue growth went to 16 percent from I think 13.7 percent last quarter. Was that driven by the deployment of Frankfurt? If so, is that pre-leased?

And in addition, a similar type question. You raised the low end of the MRR guidance range. Is that related to shifts in the expansion table, or maybe less expansion drag?

David C. Ruberg: Yes. The first part of the question, yes, what was happening, and as we mentioned on the call, Frankfurt was a very big driver of that, but we also had benefits of growth in the Netherlands, in particular, as well and Paris. In terms of – what was your second, Rob?

Robert Ari Gutman: Was that space pre-leasable space or was it just not, an MRR guidance change?

David C. Ruberg: Consistent with what we've said in the past, we're not going to say much about what our pre-leasable space was et cetera. And related to your ARPU question, as you know, that moves around and I think you qualified it which was appropriate based on when we bring space on.

Robert Ari Gutman: OK. Thank you.

Operator: Thank you very much, sir. Now from Raymond James, your next question comes from the line of Frank Louthan. And your line is open, sir.

Frank Louthan: Great, thank you. Two quick questions. Are you still targeting to have roughly flat utilization by the end of the year? That's the first one. And then secondly, can you tell us the number of new logos that you signed in the quarter?

David C. Ruberg: OK. The number of new logos was (50), right?

Giuliano Di Vitantonio: OK. Every quarter we have roughly (50) new logos, this quarter means no different.

John N. Doherty: And on utilization, as you mentioned, I wouldn't necessarily qualify it as flat. I mean, we expect to maintain our utilization at a level consistent with what we've – where it's been at in the past. Obviously, we reported 80 percent this quarter and as we continue to bring on more space, we still expect to be in and around that range.

Frank Louthan: OK, great. Thank you very much.

Operator: Thank you, sir. And your final question from Bank of America comes from the line of Michael Funk. And your line is now open, sir.

Michael J. Funk: Thank you very much. A couple if I could, please. So, just thinking about the ramp in cloud deployments and demand into your own business, maybe just talk about, if you could, just trying to scale those deals relative to what you're seeing from the enterprise side.

And then also if you could, any kind of commentary on pricing for those deals relative to the enterprise customers?

Giuliano Di Vitantonio: So, if I understand correctly, the first part of the question is also related to enterprise, right?

Michael J. Funk: Yes, really it's compare and contrasting the cloud deals that you're seeing relative to the enterprise both in size and in pricing.

Giuliano Di Vitantonio: OK. So, first of all, we look at overall the community, we always take the view of what community we are trying to build.

It's ultimately when only said and done, we are going to have both, we're going to have both enterprises that are going to consume the cloud directly in the public cloud and enterprises that are going to have a mix between that and deployments with us in a more hybrid environment. So, that's the ultimate goal, the mix that we're trying to achieve.

In terms of pricing, we've seen very stable prices within each of these segments. We've seen the stable prices for several quarters now. So, no concerns at all there from a pricing standpoint.

In terms of the size of the deployments, of course, you could imagine that the deployments by cloud providers are an aggregation of a very large number of enterprise customers that are using that cloud. So, I wouldn't even compare them in the sense that an enterprise will deploy with us exactly what they need.

A cloud provider would be the aggregation of multiple enterprises, hundreds of thousands of enterprises. So, by nature, the size of the deployment is orders of magnitude larger, but it's not an indication in any shape or form of the – how the total demand from the segment is shaping out.

David C. Ruberg: Good answer, Giuliano. Just to add on to that, look, the enterprises that we get, what we get from the enterprises is totally different from what most people think about what happens in the United States with wholesale.

We only get a portion of the enterprise. We get the portion that's connectivity sensitive. There is telecommunications latency sensitivity and that is the high value portion of it. So, obviously they are much smaller.

And as far as the first part of your question, I think Giuliano answered it well. What's more important to us is about the mix and the combination and returns that we get out of the (community) than the specific pricing for each one of these segments. Although I will tell you that we create this value and so the pricing that we are able to get with these larger players is surprisingly healthy.

Michael J. Funk: OK. And, Dave, just really quickly, on your last point there, it's an important one as well, the returns. So, maybe just some comments on the returns you're underwriting with the cloud community versus enterprise and if that's changed at all or if there's anything different.

David C. Ruberg: Again, it's back to – we don't look at it that way. There are large deals that people in the United States would love to take.

If it isn't consistent with what we're trying to do from building a community of interest, we don't do it. And most of the platform providers will come to us and recognize, as we tried to stress, that we have assets, we have communities that are value to them because of their customers and, therefore, they are willing to pay for it.

So, it is not something that is off of our pricing sheet, it is simply a matter of looking at the overall returns for the community, for the campus and it's reflected in the numbers that we've seen. We're not changing our strategy.

We're now – someone made a comment that potentially this has been our view. We have these platforms at approximately 40 percent of our revenue. We've been doing this for years and the returns are still really good. It is because we look at it holistically in terms of the campus and the community and the value that they bring to it.

Michael J. Funk: Great, thank you very much.

Operator: Thank you, sir …

John N. Doherty: Thank you, everybody. That concludes our first quarter conference call. We look forward to seeing you guys on the road and look forward to speaking to you again on our next quarter conference call in early August.

Thank you very much. You may now disconnect.

Operator: Thank you very much indeed, sir. And with many thanks to all our speakers today, that concludes the conference. Thank you all for taking part and you may now disconnect. Thank you, gentlemen.

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