Final Transcript

InterCall

Contents

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Corporate Participants

Jim Huseby

Interxion Vice President Investor Relations

David Ruberg

Interxion CEO

Josh Joshi

Interxion Chief Financial Officer

Presentation

Operator

Thank you for standing by and welcome to the Interxion Q4 Results Conference Call. At this time, all participants are in a listen-only mode. There will be introductory remarks followed by a Q&A session, at which time, if you wish to ask a question, you will need to press *1 on your telephone. I must advise you that this conference is being recorded today, Wednesday, 23rd March, 2011. I would now like to hand the conference over to your first speaker today, Jim Huseby. Please go ahead, sir.

Jim Huseby – Interxion Vice President Investor Relations

Thank you, Donna. Hello, everybody and welcome to Interxion's 4th Quarter and year end conference all. My name is Jim Huseby, I'm the company's Vice President of Investor Relations. Today you'll be hearing from David Ruberg, Interxion's Vice Chairman and CEO, and Josh Joshi, the company's CFO. Before we get started, I'd like to remind everyone that some of the statements that 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, including our IPO prospectus. We assume no obligation and do not intend to update our 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 and on our investor relations page at investors.interxion.com. I would also like to remind you that we post important information about Interxion on the investor relations page of our website. We encourage you to check our website for the most current available information.

Following our prepared remarks, we will be taking questions. Now with those preliminaries out of the way I'm pleased to hand the call over to Interxion's CEO, David Ruberg.

David Ruberg – Interxion CEO

Thank you, Jim. Welcome to Interxion's first conference call as a public company. We are pleased that you have joined us today and look forward to an ongoing dialogue with you. I suspect that we met many of you during our roadshow two months ago. During that roadshow, we described Interxion to you as a pan-European company that has a market segmentation strategy, a track record of consecutive quarterly revenue growth and margin improvement and a disciplined execution and operational expansion approach. We have delivered this consistent consecutive quarterly improvement during an extended period of economic uncertainty. I am pleased to report that the 4th Quarter 2010 extended this positive and consistent trend to 17 consecutive quarters.

We believed that this operational performance is the result of our marketplace strategy and our focus on the needs of our customers. We have also built this track record of steady growth and expansion during a period when our access to capital was limited and in spite of the many events which have introduced uncertainty in our world. Over the past year, we have taken steps to remove this capital limitation by transforming our balance sheet and securing the capital we need to continue executing on our strategy. And throughout all of these uncertain times we have remained focused on attracting the right customers with response time sensitive applications which require access to connectivity and benefit by being close to other members within their communities of interest.

Our market opportunity remains as strong as when we met with you on our roadshow as the major trends remain in place. We continue to benefit from the growth in broadband internet access and internet traffic, to benefit from the evolution to cloud computing, the growth of digital media and the migration towards customer-facing response time sensitive applications.

We are home to 18 internet exchanges, more than 350 carriers and ISPs, the major content delivery networks and many segment specific value added network service providers, all of which combine to create strong content and connectivity-rich hubs as critical exchange ports for our communities of interest. This inter-reliance between connectivity and community combined with our wide European geographic coverage and strong service record bonds our customers to us and serves to attract others who have similar needs.

We have seen continued evidence that this magnetic customer community of interest strategy is working. The majority of our new sales continue to come from existing customers and multiple applications from those customers. We experienced solid growth in 2010, across our entire pan-European footprint, with combined revenue in France, Germany, Netherlands and the UK growing at 23%, while our other seven countries also grew revenue in aggregate by 19%, all of which was organic.

Our customer segmentation strategy, coupled with the positive market trends have led to the consistent financial results that we posted every quarter for the past four years. Both revenue and adjusted EBITDA continue to grow in excess of 20% Euro over year, while our adjusted EBITDA margin, now at 38% for the full year continues to expand.

2010 was a landmark year for the company, as we recapitalised the business with the two note offerings and the January of this year, the successful IPO. The proceeds from this recapitalisation will allow us to continue to meet the growing demand for our services from our current and future customers and fully funds our growth plans. We believe that the market opportunity is significant and consequently we will continue to prudently invest in expansion prospects. For a variety of reasons, our practice has been to announce expansion projects when they are near to completion, i.e. when we are open for customers, which reflects our philosophy of delivering certainty and predictability for our customers. We intend on maintaining this philosophy while still providing investors with some additional information on how we intend to prioritise our capital deployment.

With that, let me turn it over to Josh for review of the financials.

Josh Joshi – Interxion Chief Financial Officer

Thank you, David, and welcome everybody. I'd like to begin with the income statement and then cover some balance sheet items and finish with selected cashflow and credit quality items. Revenue for the Q4 was 55.6 million Euros against 45.1 million in the Q4 of 2009, representing 23% growth year-over-year, and 21% growth on a constant currency basis. Recurring revenue grew 4% sequentially in Q4, to 51.4 million Euros, and this represents 93% of total revenue in the quarter. Non-recurring revenue in Q4 was 4.1 million Euros compared to 5 million in Q3. The Q3 figure, by the way, was about 2 million Euros higher than our typical run rate due to a large magnetic customer installation Q3, and this has had the impact of tempering our Q4 sequential growth in total revenue to about 2% against Q3.

Looking at the full year, total revenue for the year was 208.4 million Euros, up 21% year-over-year and 20% on a constant currency basis. Recurring revenue for the year was 193 million Euros, a 20% increase over 2009. Recurring revenue for the year as a percent of total revenue was 93%.

Looking at our segments, our revenue split has remained consistent with the big four countries of France, Germany, Netherlands and the UK contributing 58% of revenue while the rest of Europe contributed 42% of revenue in Q4 leading to a 59-41 split for the full year. The big four countries grew revenue in 2010 by 23% year-over-year and by 22% on a constant currency basis, while the rest of Europe segment grew by 19% year-over-year and by 17% with constant currency. Gross profit margins in Q4 were 58.1%, up from 54.8% in the same quarter last year, and 56.3% for the year, compared to 54.2% in 2009. Adjusted EBITDA in Q4 was 21.4 million Euros, a 26% increase year-over-year and 3% sequentially. Adjusted EBITDA margins remained strong at 38.5%, higher than the 38.1 seen in Q3 and higher again than the 37.5 margin seen in last year's Q4. For the year, we reported adjusted EBITDA of 79.2 million Euros, a 26% increase year-over-year and adjusted EBITDA margins of 38% against 36.5% a year ago.

Moving on to non-operating costs, we reported net finance expense of 6.1 million Euros in Q4 against 1.9 million Euros in the same quarter last year. A full year net finance expense of 29.4 million Euros against 6.2 million in the prior year. The increase in these expenses is from the refinancing of the company's debt in February 2010, when we issued the 200 million Euro 9.5% senior secured note, which was primarily used at that time to repay existing debt, and also a further successful tap offering of 60 million Euros in November, 2010. For the full year, the major components of net finance expense were first, a 10.2 million Euro one-time write-off of costs associated with the refinancing in February 2010, together with the unwinding of interest rate swaps, and second, the interest expense of 18.3 million Euros. Depreciation and amortisation in

Q4 increased to 8.6 million Euros from 6.8 million in the same quarter last year, and 31.1 million Euros for the year against 22 million in the prior year, in both cases reflecting the increased data centre space now completed.

Income taxes in Q4 showed a 3.2 million Euro benefit against a 5.4 million Euro benefit in the same quarter last year. The current quarter benefitted from the recognition of 3.5 million Euros in deferred tax assets, and the prior quarter benefitted from 5.6 million Euros in deferred tax asset recognition. For the year, the company recorded an income tax expense of 2.6 million Euros, comprising 1.8 million in current taxes, of which 1.3 million were cash paid in the year, plus a net deferred tax expense of 0.8 million Euros.

At the year end, the company had approximately 170 million Euros in net operating losses and a net deferred tax asset recognised on the balance sheet of around 40 million Euros. We do not expect to pay any meaningful cash taxes in the medium term.

Net profit for Q4 was 9.5 million Euros, compared to 11 million in the same quarter last year. For the year, Interxion recorded a net profit of 14.7 million Euros, which was negatively influenced by one-off charges associated with a debt refinancing in Q1. Basic earnings per share were 33 Euro cents per share for the year, and 21 Euro cents per share for the quarter. The EPS calculation is based on a weighted average share count for 2010, adjusted for the 5:1 reverse stock split of 44, 352,000 ordinary shares. The end of year share count was 44,354,000 ordinary shares, and the share count in the company following the IPO is now 65,577,000 ordinary shares.

Moving to the balance sheet, cash at the year end was 99.1 million Euros. This reflects receipts from the additional bond tap but does not reflect the proceeds from the IPO. Pro-forma for the IPO, the company's year-end cash balance was approximately 238 million Euros, which reflects the net IPO proceeds of 138.6 million Euros, which includes proceeds from options, and is after estimated expenses and costs.

In accordance with IFRS standards, we expect to write off approximately 2 million Euros of these costs associated with the IPO in Q1 of 2011. Borrowings at the year end were 258.5 million Euros, reflecting the additional bond deal in November, including the premium and the larger bond deal earlier in the year, net of deferred financing costs. Gross principal outstanding on borrowings at the year end was 264.9 million Euros. No borrowings were outstanding on the Euro 50 million revolving credit facility.

Credit statistics remain well within our covenance. Our adjusted EBITDA coverage ratio was 3.6 against a 2.0 covenant, and the senior leverage ratio was 3.3, comfortably below our 4.0 covenant.

Turning to cash flow, cash generated from operations was 27 million Euros in Q4, an increase of 64% against the same quarter last year, and 85 million Euros for the year, which was a 46% increase year-over-year. During the quarter, we invested 19.1 million in capital expenditures and finished the year at 98.2 million Euros invested. Of this, we invested 87.7 million on expansion and upgrade capital expenditure and 10.5 million on maintenance and admin CAPEX. 59% of our capital expenditure for the year was invested in our big four segment, with expansions in Frankfurt, Amsterdam and London. And 36% in our rest of Europe segment where we announced the completion of expansions in Dublin and Zurich. Overall, equipped space stood at approximately 61,000 square metres at the end of the year, up from approximately 54,800 square metres at the same time last year, with utilisation rates at the year end of 72% versus 70% a year ago.

Well, with that, let me turn it back to David to talk through our outlook. David?

David Ruberg – Interxion CEO

Thank you, Josh. Our results in Q4 met our expectations. In spite of the events of the last few months we have seen no change in the core fundamentals of our business, so going through some of them, demand for our service continues to be very good, and we believe that the total industry supply/demand imbalance in Europe will not change in the foreseeable future. Consistent with 2010, we think that in 2011, our larger markets will grow slightly faster than our smaller ones. The pricing environment remains stable. This is evidenced by the fact that in 2010 our revenue-generating space grew by less than 15% but our revenue grew by more than 20%. Some of this growth was attributed to greater power consumption, but most of the growth reflected our ability to demonstrate value to our customers and raise our prices.

We have successfully raised prices in 2011, albeit at a lower rate, slower rate. Churn; our churn remains stable during the year at an average of about 0.5% per month and we project a similar rate for 2011. We believe that our market segmentation strategy has been a significant contributor to our success, and we will continue to invest in our marketing sales departments at approximately the same growth rate in 2011 that we did in 2010.

Our pipeline continues to be strong, and we have seen no appreciable change in the time it is taking customers to make purchasing decisions. With the continued and some would argue increased uncertainty in the world today, given the events of the past couple of weeks, we have built in no expectation of accelerated decision-making on the part of our customers into our guidance. We remain confident in our strategy and in our ability to attract a magnetic customers and build communities of interest within our data centres across the business hubs of Europe that results in strong customer loyalty, an increasing share of the data centre spend and the ability to attract new customers who share the same qualities.

So, for guidance, as a reminder, we're going to give annual guidance and we'll update it on a quarterly basis. So looking ahead into 2011, we see these trends continuing and we expect our business to continue to show solid growth. And therefore we expect total revenues for 2011 to be between 239 million Euros and 245 million Euros. We expect adjusted EBITDA for 2011 to be between 91 million Euros and 95 million Euros. During 2011, we expect to invest between 140-160 million in cash capital expenditures, mostly for expansion to meet this demand. More specifically, we expect to invest approximately 20 million on administrative and maintenance CAPEX and the remainder on expansion and upgrade CAPEX. With respect to expansion upgrade CAPEX for 2011, we will continue to invest in a disciplined manner seeking superior returns and validated by customer demand. About 1/3 of our expansion CAPEX or approximately 40-45 million Euros will be spent on projects that we have already announced that either came on line towards the end of 2010 or will come on line in 2011. Another 1/3 of our expansion CAPEX represents what we will spend this year that will allow us to bring on additional capacity this year and the final 1/3 of our planned expansion CAPEX spend this year, represents builds and expansions that we will commence this year that will result in added capacity next year.

I would like to thank all of our employees in our 11 different countries for staying focused on satisfying the needs of our customers and for delivering another solid year of performance. I would also like to thank our new shareholders and bondholders for their support and we look forward to executing on these opportunities that lie ahead in 2011 and beyond. And I'm going to hand this back to Jim.

Jim Huseby – Interxion Vice President Investor Relations

Thank you, David. Donna, would you please read the instructions for the Q&A session?

Questions and Answers

Operator

Jonathan Atkin – RBS Capital.

Jonathan Atkin – RBS Capital - Analyst

I wondered if you could give us a little bit of perspective on what you're seeing amongst your different protocol focuses of financial cloud contents, maybe carriers and any differing growth trends or any differences versus 2010 that you're seeing?

David Ruberg – Interxion CEO

Jonathan, first we addressed a lot of this on the roadshow and I would say that what we have seen in Q4 and the first part of 2011 is very consistent with what we discussed before. Strong growth in all segments and with a slight shift towards more of the revenue coming from the financials and the digital media and a little less from the carrier segment.

Jonathan Atkin – RBS Capital – Analyst

And then, with respect to the utilisation and churn that you provided on a company-wide basis, can you give us a flavour for the type of range that you're seeing on utilisation amongst your top four markets as well as range for churn?

Jim Huseby – Interxion Vice President Investor Relations

As far as the churn is concerned, I don't believe that we have seen a difference. We've seen no major large churn and it's been pretty consistent. Again, I'm not aware of any difference in the markets, and as far as the utilisation, I'm not sure that we give that information.

Jonathan Atkins – RBS Capital – Analyst

And then finally, on the partner programme as well as the partnership with Telux, if you could provide kind of an update on the progress that you're making there?

Jim Huseby – Interxion Vice President Investor Relations

Yes. Not everybody may know but we did announce a partner programme with one entity in the United States and we will… we have… with a multiple, and basically we have seen limited success to date but with significant momentum picking up. It just takes time to get the two organisations to work together, get to understand each other and get the administrative kinks worked out, but we've already had a success, relatively small, but there's more in the pipeline.

Operator

Michael Bowen – Guggenheim Securities.

Michael Bowen – Guggenheim Securities – Analyst

Hi, this is Brian Seward for Michael Bowen. Just one question if I could, as you look out beyond 2011, and so far this year, have you seen any increased inquiries from your current customers or prospective customers regarding managed services and what are your thoughts around that?

Jim Huseby – Interxion Vice President Investor Relations

We talk to our customers about what they need, and we do enter into conversations about managed services but most of them do not expect us to provide them, but they merely share the information with us in terms of what they are doing in their business. So to be very specific I think, on what you're asking, are we intending to get into the managed services business? The answer is no. We do provide more than just meter power space and security in terms of integrated support and other facilities that help them manage their business, but in terms of moving up the protocol stack, we've not seen any pressure for them expecting us to do that.

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Operator

James Ratcliffe – Barclays Capital.

James Ratcliffe – Barclays Capital – Analyst

If you could talk a little bit about the degree to which you have any sensitivity to power costs and what is your hedge for that?

Jim Huseby – Interxion Vice President Investor Relations

I think I said this enough on the roadshow, I don't like the word hedge. We're not in the financial business, but we're in the business of providing consistency to our customers. So to answer your second question, I can tell you that we purchased, in every country that we could, we purchased power and energy for 2011 and for almost every one of the countries in 2012 in 2010, so we purchased in advance, we got good prices and if that's what you want to call a hedge, then we hedged, but it was not a financial hedge. And so I think we're in very good shape.

James Ratcliffe = Barclays Capital – Analyst

And secondly, if you could talk a little bit about for the CAPEX you're investing this year and particularly for next year, what if any changes you're seeing the need to make to expansion phases of existing data centres in terms of configuration, power and the like based on what you've seen thus far in customer demand?

Jim Huseby – Interxion Vice President Investor Relations

Keep in mind that the power requirements at a data centre are not generic. They're more a reflection of what customers you put into the data centre, and we've had a very consistent approach for the last couple of years. And so we are not experiencing any need to change our design. We basically designed our data centres for on average, 1.5 to 2kw per square metre, and we equipped them throughout the life based on the requirements and the power demand, so to answer, I think, your fundamental question, the segments that we've been going after for the last four or five years, the segments, the power requirements are pretty consistent. Remember, we go after a community of interest, not just the high-power users. It's a community of interest approach and so what we have designed to over the last couple of years we're still designing to now, and simply a matter of rolling out the CAPEX on an as-needed basis.

James Ratcliffe – Barclays Capital – Analyst

And finally, could you talk a little bit about whether the CAPEX plans for this year include either market expansion, either in new countries or new markets within existing countries, or just merely in terms of within the existing footprint?

Jim Huseby – Interxion Vice President Investor Relations

Again, as we indicated on the roadshow, we believe that there is substantial opportunity in the current geographic footprint that we have been focused on and therefore the direct answer to your question, there's no CAPEX in there for expansion outside of our existing markets.

Operator

David Bardon – Bank of America

David Bardon – Bank of America – Analyst

Could you talk a little bit about any seasonalities or quarterly variances other than obviously the IPO expenses we're going to see in the first quarter that we should be thinking about as we think about the quarter to quarter progression as we move towards the full-year guidance?

Josh Joshi – Interxion Chief Financial Officer

In our business we have fairly limited seasonality. Looking at the top half of the income statement, we see some benefit in the colder months, in terms of power costs and that has an improvement to our… impacts our gross margins. But beyond that, probably fairly little by way of impact. As you go further on down, levels of utilisation, I think the industry refers to it as expansion drag as to when data centres come on board. That will have an impact as we bring data centres on board during the course of the year. And then the final component, I think, at the bottom line when you're thinking about taxation and the EPS, what we do is we reverse out recognise and utilise our deferred tax assets. We review that on a quarterly basis, and what I would imagine happening as we have recognised most of our deferred tax assets at this point, we would see more of a normalisation in the tax rate going forward in terms of the book tax rate. What I would also expect to see, particularly as we get into the second half of the year is our investment in SOCS compliance activity ramp up and we figure that that will have… it's all, by the way, figured into our guidance, but that's got to have an impact in the second half.

David Bardon – Bank of America – Analyst

It sounds like a little bit more margin in the first half of the year relative to the second as we get new data centres and more SOCs compliance costs in the second half?

Josh Joshi – Interxion Chief Financial Officer

Sounds about right.

David Bardon – Bank of America – Analyst

The second question I had is obviously it's terrible what went on in Japan in terms of the impact on people, obviously, but beyond that, businesses, the power grid, the economy, and I've been wondering if your conversations with your customer base in Europe have changed at all the past couple of weeks about their reconsideration of the necessity of getting that extra line of reliability in their business? Have you had any kind of potentially the beginning of just the tip of an iceberg of maybe a secular improvement or change in the conversation with your customer base yet?

Jim Huseby – Interxion Vice President Investor Relations

I'll address that, but I do want to tip my hat to one of our competitors in the industry who has taken the initiative. I'm not going to mention them by name, but there are only three of us so…who has taken the initiative to help out in Japan. I commend them.

We've had a number of conversations with the customers over the last couple of months, but it's more been a matter of them discussing with us what they expect from us and we expect from them. Having four nines, five nines or six nines, I don't think would have saved anybody in Japan in that particular circumstance. What would have come into play is if they had a spatially differentiated back-up sites, so this has always been something that we talk to our customers about, so all in all, the topic's come up a couple of times, but in terms of their requirements to us, and our comments to them, nothing's really changed.

David Bardon – Bank of America – Analyst

And I guess maybe my last question, not to monopolise things, but obviously there was a question earlier about any push or pull that you've had to move up the value chain in terms of managed services and cloud services, but obviously the data centre footprint is a key enabler to anyone who does want to do managed services and cloud services. You've talked a lot about your verticals in terms of the demand pull, but could you maybe give us some colour about as you think about the percentage of the demand that's coming through the pipeline being cloud, public and private cloud and managed services and people trying to create new businesses, what percentage of the new revenue profile is managed and cloud related to the extent that you're enabling it?

Jim Huseby – Interxion Vice President Investor Relations

Well, I've got to tell you, that's a difficult question to answer, because when you talk to these customers at various stages of being in the pipeline, sometimes they don't reveal all of this, and so I can't really… with certainty I can't give that answer until we get ready to sign a contract. But I think I can give you a sense of an answer for that.

A lot of these guys, what you see are the early enablers in the cloud are really the service providers or the infrastructure or platform, not the software as service providers. Those are the folks that are going to come once the platforms are in place. So I think right now again, as I indicated, the revenue mix hasn't changed much, less on the carriers and more on the others, but again, the pipeline hasn't demonstrated much change either. I would think that once the platforms get in place this year, early next year, and IT budgets start to loosen up and people truly do embrace migrating these applications, that that will change. But not yet.

David Bardon – Bank of America – Analyst

Actually I lied, if I could just ask one last question, maybe Dave or… obviously you guys have raised a lot of new capital. You're targeting a big acceleration, frankly, in year 11 and 12 commitments to new capacity builds. You obviously telegraphed this a long time ago, but are you getting any sense that because you have new capital and because you're starting to build new capacity that your competitors are accelerating or in some way changing their approach to the market structure, and that things might be more competitive than we thought when you're eventually up and running?

David Ruberg – Interxion CEO

I could give you an attempt at a funny answer, because I know that two of the competitors are on the line, but I won't do that. So no, again, as we said on the roadshow, I think that the three major players in this space have been doing this long enough and are demonstrating overall discipline in both building and in pricing, and I really haven't seen any substantial change in that since we talked.

Operator

Jonathan Schildkraut – Evercore Partners

Jonathan Schildkraut – Evercore Partners – Analyst

Do you have a sense that it's a pretty tight reins on guidance that maybe because it's what has to happen to be at the top or bottom end of the guidance range, and then secondly, just because this is the first opportunity I think analysts have had to hear what you're saying, can you give us a sense of your outlook for this year versus the way that you felt about the market maybe a year ago at this time, to give us a relevant sense of history, thank you.

David Ruberg – Interxion CEO

Well, first of all, Jonathan, I'm delighted that you think it's a narrow range, because everybody else I've talked to thought it was too wide, so if you would talk to a few other people I'd appreciate it.

In terms of what it's going to take to be at the high end, I think I'm going to defer on that question. On your second question, which is what did we think about this a year ago, I think all of us thought a year ago that the uncertainty that we were seeing, all of us had hoped that the uncertainty would have been diminished and that people would feel more comfortable about beginning to spend. We saw some things in the United States, we saw the market improve. It's been a slower improvement than I think people would like, and I think the last couple of weeks…but an improvement… and I think the last couple of weeks have introduced another stutter step into this as people try to figure out what's the global impact of what's happening in Libya and what's going to happen with nuclear power as a result of Japan. So I think it's pretty much the same, Jonathan, we would have told you a year ago, maybe a few percentage points down, but the real issue is where do we go from here.

Operator

Chris Larson – Piper Jaffray.

Chris Larson – Piper Jaffray – Analyst

First for Josh, and I apologise if you said it. In your guidance, could you give us the exchange rate, the foreign currency exchange rate that you're using for the full year guidance, and then secondly, David, during your comments you said that you assumed no acceleration of the decision timeline. Is it your sense that given the uncertainty that there's a potential for that acceleration or what is your sense in terms of… I know that it had widened out into that '09 timeframe. Could '11 be the year that it actually narrows and maybe some talk around that?

David Ruberg – Interxion CEO

Okay, just to go back and reiterate, I'm going to answer the second question first. We believe that there's a tremendous opportunity in this space, not just for this year, not for next year, but again, we talked about some very fundamental changes. But those changes are not made in what we do. It's in the people that take advantage of what we do. And when you have economic uncertainty like we've had, people sometimes are reluctant to make those decisions. So we saw some positive movement towards the end of last year as people began to talk to us about making investments in those things that had returns… return investment that took longer, more than a year, two years. We've seen those people start to speak not as loudly as they did towards the end of the year, and again, that's a reflection, I believe of some of the uncertainty that's been reintroduced into it. We've tried… we have factored that into our guidance, so I'm not sure if I answered the question. Yes, there's always a possibility for the world to recover quicker, for some of these unsettling things to be settled, and for no new ones to crop up, in which case I think people would then begin to spend in a more active fashion. But we're not expecting that. We're not counting on it. Josh?

Josh Joshi – Interxion Chief Financial Officer

Chris, the two main currencies that impact our numbers are GBP and Swiss Francs. The GBP rate we used was 0.85 to the Euro and the Swiss Franc rate that we use to the Euro was 1.28.

Operator

Jonathan Imlah – Collins Stewart

Jonathan Imlah – Collins Stewart – Analyst

I wanted to ask a question about build costs. You talked about the ongoing imbalance in supply and demand and I think you mentioned in the past, and certainly your competitors have mentioned in the past, supply constraints, yet you all seem to be saying there was plenty of opportunity in your existing markets. One of your competitors certainly has talked about a reduction in build costs because of greater efficiencies in terms of data centre construction. Can you just make some comments about the build costs per megawatt and how is that developing going forward?

David Ruberg – Interxion CEO

We don't look at the build cost per megawatt. I know that one of them does. So I'll just stick with what we know which is on a per square metre basis. There have been some efficiencies but if we turn around and look at what the world was facing two or three months ago, we were on a path where steel costs were potentially going through the roof, as were copper costs, and so I don't know what's going to happen to the steel and copper costs as a result of what's happening in the world. Our goal is simply to look at the cost, look at the customers and get the best return. And we have pre-established returns on investment. And regardless of the cost of steel and copper and the power, we still see adequate returns or the returns that we're shooting for and I think we're as efficient as anyone. And again, by the way, some of these costs are not really dependent upon just steel and power. They're dependent upon what customers you put into them and what kind of cooling they need and how you fragment and segment your data centre. So it's not as simple as someone would say here's one number that answers all the questions.

So, to summarise, we are very happy with our construction costs, and we're very happy with the IRRs that we've established and again, we will continue to meet the ones that we talked to everybody about.

Jonathan Imlah – Collins Stewart – Analyst

Let me ask a similar but slightly different question, or maybe the same question in a different way. There's clearly ongoing supply constraints in the industry yet each year the main protagonists in the industry announce capacity expansion. Is it getting harder to find the power and the space and the planning permission or is it just that you've got very good relationships with the key authorities and providers that you're able to keep announcing expansions every year?

David Ruberg – Interxion CEO

That's a different question. I would say overall it is getting harder, and what that translates into is you have to think further ahead. All of the easy stuff has gone, but the demand continues to build. And again, we build in campus environments, so we're not going to be in location A in that city and go to location C, and therefore that means if we're going to do that, we have to continue to look further and further advanced to make sure that when property does come available or buildings do come available we take options on them to make sure that we can bring them online when we need them. So to that extent, yes, it's a little more difficult. In terms of power, again, same thing. The world is consuming more power, we're consuming more power. You just need to look further into the future. And one of the things that's happened as a result of us doing this recapitalisation is it now gives us the financial wherewithal to look further into the future than we did in the past.

Operator

Michael Bowen – Guggenheim Securities

Michael Bowen – Guggenheim Securities – Analyst

With regard to recurring monthly revenue per metre, I was hoping Dave or Josh you could kind of walk us through what you think the most critical components there are with regard to increasing that metric, if you can, going forward, you know, where are the critical components? And then number two, Dave, I think you offer a very unique perspective, you have been in the US for much of your life and doing business over here. Can you talk to us a little bit about how you see the co-location market right now in Europe, growth-wise versus the US and then also versus Asia, and talk to us a little bit about that? I know you're not in those areas right now, but maybe if you could rank order Asia or the US for us, if you could do so, that would be great.

David Ruberg – Interxion CEO

Okay, well, I don't think I'm qualified to answer any of these questions, but certainly not the one in Asia. I think I've told many of you, these products get rolled out in phases, and I think everybody has acknowledged the movement towards the web facing, internet facing, application sooner in the United States than in Europe, and that's what fuelled a lot of the growth. I think Europe is now going to play catch-up and so, again, I'm not the expert now in the United States, but I do believe, overall, which is why a fair amount of focus is being placed on Europe by the international provider, is that there is a greater growth opportunity, at least for the next couple of years, in Europe as some of the barriers come… traditional barriers come down. So that's one.

As far as RPU, your question was what contributes to that? I think it's pretty straightforward. We don't focus on those people that want cost reductions. We focus on those people that look at what we provide from a value standpoint, and that value standpoint means who sits right next to me? And so each one of these segments has a different proximity characteristic, and so as we're told in the financials it's sitting right next to the pop with the matching engine. And the cloud services are maybe sitting right next to the three big guys or the four big guys. So each one's different, but it is the strength of the community of interest that drives these RPUs.

Operator

Jonathan Atkin – RBS Capital

Jonathan Atkin – RBS Capital – Analyst

Two follow-ups. One's the duration of your customer contracts, if you could highlight any trends that you're seeing there and then the following expansion CAPEX, what does that translate to in terms of incremental (unclear) leaders and capacity?

David Ruberg – Interxion CEO

Jonathan, we're glad you're still where you are, and you trailed off, so I'm going to answer the first question and then I'm going to ask you to repeat the second one, and I'm going to let Josh answer that, although I've now forgotten his first question? What was the first part?

It's the same. Approximately… again, our philosophy is get the initial contract for a new customer, new application two to three to five years initial contract, and then go into an automatic one-year renewal after the two or three years. They are either firmly embedded in our community of interest or we don't want them or they don't want us. So after they're firmly embedded we go into this one-year renewal cycle and that dynamic hasn't changed, and this year it's pretty much the same, with 50-55% of our customers under one-year renewal as it was last year.

Would you repeat the other part on the CAPEX?

Jonathan Atkin – RBS Capital – Analyst

The expansion CAPEX that you've identified for this year, what does that translate into approximately in terms of incremental square metres?

David Ruberg – Interxion CEO

Give us about… you're trying to back into this. Give us 30 seconds, we'll come back to that one, all right?

Operator

Jonathan Schildkraut – Evercore Partners

Jonathan Schildkraut – Evercore Parners – Analyst

There's been a lot of consolidation in the financial exchange community, New York Stock Exchange obviously has been a part or a player in that. You have a pretty good relationship with the New York Stock Exchange and Europe. How do you think the consolidation could impact your business and in providing guidance to us for this year, how have you approached potential business from New York Stock Exchange? Thanks.

David Ruberg – Interxion CEO

Who knows what's going to happen here, first of all, whether the deal's going to get done or not? But… and again, one player had one orientation, another player had another orientation. Jonathan, I don't think since we don't have any one of the matching engines in our facility but we have the pumps to the matching engines, I don't think there will be a dramatic impact on us, one way or another. And we haven't assumed any real growth from the New York Stock Exchange in our business. What's more important to us is that we have the relationship with them and as the press announcement we made a month ago indicates, what we're going to continue to do is to look, to work with them, to roll out additional products and services which will attract more and more people to our pump.

Okay, Jonathan Atkins, your question about 6,000-7,000 square metres in this year.

Operator

Nicholas Woodcock – Fidelity.

Nicholas Woodcock – Fidelity – Analyst

Post IPO, you're going to be running with… sorry, post IPO and given the CAPEX outlook, you're going to be running with more cash than previously, I wondered what your thoughts were around this. Is it more flexibility? Is there scope to perhaps use the (unclear) in the bonds to buy back some of the bonds?

Josh Joshi – Interxion Chief Financial Officer

We won't be using our cash to buy back the bonds, and we won't be using the equity clawback. And the cash is there to provide us with more flexibility. David talked to some of that flexibility earlier on. What we will be doing is potentially making some short-term investments just to get a better return on them, but it's there for flexibility.

Operator

Michele Fiumara – Kairos

Michele Fiumara – Kairos – Analyst

Commenting on pricing I think the CEO has mentioned that the prices were successfully raised in 2011 for year 2011, but at the lower speed versus the previous year. Without obviously going to the quantum of this, could you please explain how commercially you manage prices for your clients? That would be the first question. And secondly, could you remind us of what kind of incremental IRRS you target when you plan new capacity? And thirdly, if you could please remind us of what is the potential European market size for your company, and if you could explain to us what percentage of the market is already served by the main listed players, i.e Telecity, Interxtion, Econex and Telhaus? Thanks.

David Ruberg – Interxion CEO

In reverse order, market share, not all of us are going after the same market opportunity so it's very difficult for us to think about market share. And if you look at CBRE and a number of these people have tried to segment in one way or another, you can get their numbers, but that's… I can't give you any more specificity than that.

The IRRs are 30-40% and your first question was in terms of price rises, there were two parts to that. One, the raises this year are in the low single digits and the first part of that was you asking us how do we manage pricing with our customers, and I don't understand the question.

Michele Fiumara – Kairos – Analyst

I would like to understand if you raised prices for all clients at the beginning of the year or if it's a customer by customer approach, and if there's a review of the pricing as the contracts are renewed at let's say one-year anniversary of the original signing, if some customers have multi-year agreements, that kind of thing?

David Ruberg – Interxion CEO

All of the above. Most of the price rises in the customer contracts are, again, we sign initial contracts which the two to three years, give us the right to pass through any power changes and also give us the right to pass through any CBI changes. The market adjustments we make are only upon renewal, and upon the one-year renewal cycle. So it's probably a little more complicated than we want to get into on this call, and if it's of interest to you, you can call Josh and he can walk you through it.

Operator

Jonathan Imlah – Collins Stewart

Jonathan Imlah – Collins Stewart – Analyst

One follow up with regard to your comment about no plans to expand into new markets. I'm just curious to know what is behind that, whether there is a lack of demand, whether it's the pricing environment, whether it's the regulatory environment or lack of accepted practice for co-location or a combination of the above?

David Ruberg – Interxion CEO

Well, you missed the one that's me attempting to stay sane, okay? You're sitting on the back of a tiger, it's tough to go in three different directions. We are doing quite well, I believe. We just completed an IPO. We've got a deal with Sarbanes-Oxley. There are a lot of things that are on our plate and what we don't want to do is, we're not trying to be all things to all people. We want to remain focused.

Now if someone, one of our customers comes forward or a segment comes forward and approaches us and we feel that we can replicate what we currently have, then we will certainly take a hard look at that as we are focused on these segments. At the present time that's not where our focus is.

Jonathan Imlah – Collins Stewart – Analyst

Would you typically envisage… I know there's no typically in these instances, but would you envisage that would be through an acquisition or a greenfill site, hypothetically, obviously.

David Ruberg – Interxion CEO

Well, hypothetically typically there's no real answer to that, so.

Operator

Tom Claugus – Graham Partners

Tom Claugus – Graham Partners – Analyst

What's your guys' perspective on managing… I mean, my biggest concern about this market is overexpanding capacity and pricing getting hit. So what's your guys' philosophy on utilisation? I mean your utilisation's not really going up and you're increasing your growth rate in terms of expansion, so can you just walk me through your thought process on why you would do that? Why wouldn't we just… because I get 12,000 additional metres based on your CAPEX, which is a 20% increase in space. I guess it all doesn't come on this year, but it's kind of crucial to understand what the thinking is about utilisation and what your guys' philosophy is on it?

David Ruberg – Interxion CEO

I'm going to answer this one and I'm being told to shut this down. First of all, let's deal with utilisation. Folks, these data centres do not get up to 90 or 100% utilisation. As we talked on the roadshow, depending upon the type of customer you put in there, whether they buy cabinets or whether they buy space, you effectively get to 80-85% utilisation, and you're full. What you really need to look at is not the occupancy rate, but the vacancy rate. And as you segment some of these, it's a different story. That's number one.

Number two, we build in… we are all concerned about this supply/demand imbalance, and I think most of us build them in phases and most of us build on a campus environment and most of us build… we do not… we do our best, having been burnt ten years ago, not to overbuild. So again, we build in phases, we look at our current demand, we talk to our customers, and given that 50-60% of our new business comes from our existing customers, we usually have a pretty good idea of what the marketplace requires.

And as far as the last one, in terms of the amount of space that we're going to bring online, keep in mind some of the numbers I gave you are already reflected in stuff that was announced and brought on last year. So again, if you want to pursue this in more detail, I've got three guys sitting around the table here would love to have a conversation with you.

Operator

There are no further questions.

Closing Comments

David Ruberg – Interxion CEO

Okay, thank you Donna, that concludes our conference call. I want to thank all of you folks for your participation today and we'll be looking forward to talking to you again in about a month and a half. Thank you.