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INXN - Q1 2012 Interxion Holding NV Earnings Conference Call

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PRESENTATION

Operator

Thank you for standing by, ladies and gentlemen. And welcome to the Interxion Q1 results 2012 call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. (Operator Instructions). I must advise you that this conference is being recorded today on Wednesday, May 9, 2012.

And I'd now like to hand the conference over to your speaker for today, Mr. Jim Huseby, Vice President of Investor Results. Please go ahead.

Jim Huseby - *Interxion Holding NV - VP, IR*

Thank you, Selena. Hello, everyone, and welcome to Interxion's first-quarter 2012 conference call. Today, you'll be hearing from David Ruberg, Interxion's Vice Chairman and CEO; and Josh Joshi, Interxion's CFO. To accompany our prepared remarks, we are again providing a slide deck. The slides are available on the Investor Relations page of our website, at investors.interxion.com. We encourage you to download these slides to use during this call if you've not already done so.

Before we get started, I'd like to remind everyone that some of the statements that we will be making today are forward-looking in nature and involve risk and uncertainties. Actual results may vary significantly from those statements, and may be affected by the risks we identified in today's press release and those identified in our filings with the SEC. We assume no obligation and do not intend to update or comment on forward-looking statements made on this call.

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

We'd also like to remind you that we post important information about Interxion on our website, and we encourage you to check our website for the most current available information. Following our prepared remarks, we will be taking questions from sell-side analysts.

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

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

Thank you, Jim, and welcome to everyone. As Jim mentioned at the beginning of the call, we have prepared a slide deck to accompany our prepared remarks. We encourage you to download it and follow along, and Josh and I will refer to these slides during our comments.

Please turn to slide 3. In the first quarter of 2012, Interxion continued to execute successfully against its plan for the year, as outlined during our full-year results call in February, by delivering solid results which we once again believe demonstrated the power of our business model. Highlights include strong organic growth in recurring revenues; very good bookings; industry-load churn that was consistent with our expectations; and a construction program that is on-schedule and on-budget in markets where we see continued demand for our services.

Revenue for the first quarter was EUR65.8 million, which is a 2% increase from Q4 2011 and a 14% increase when compared to Q1 2011. This revenue is of high quality, with recurring revenue accounting for 95% of total revenue, and growing by 4% over the fourth quarter of 2011. We think this clearly demonstrates the resilient demand we see for our products and services, despite the protracted political and economic uncertainty across Europe.

As evidenced by the charts on slide 3, you can see that the growth we experienced in Q1 is in line with the results that we have generated over time. Based on the positive topline result, and the operating leverage inherent in our business, adjusted EBITDA continued to grow faster than revenues with a 23% year-over-year increase, while producing a margin of 41.5%.

Please turn to the next slide, slide 4. With the opening of Frankfurt 7 late in the quarter, and the expansion in Stockholm, Interxion added 2000 square meters of equipped space in the first quarter and ended the quarter with 64,800 square meters of equipped space. Revenue-generating space grew by 400 square meters to 4500, resulting in a utilization rate of 73% at the end of March.

Customer power increased by 2 megawatts.

Bookings during the quarter were among the strongest we have ever had, and were supported by a stable pricing environment and churn that remained low and consistent with historical trends.

We have almost completed the resizing of our sales and marketing organizations, and should have the restructuring completed of these organizations in the next quarter or two. Some of the things that we've done with relation to that is, we have brought on specialists to serve each of our segment as well as transformed our direct channels of distribution, which currently consists of major accounts, national accounts, and sales operations teams.

We are, for the first time, developing and indirect channel in Europe. We're also seeing a positive impact from our expanded channels in the United States. We have productive partnering relationships with CoreSite and Telex, and we are starting to augment these channels with agency agreements with key sectors and specialists, with the obvious goal to drive additional leads and contracts from across the Atlantic. And we've already seen some early wins. Again, despite the turmoil around us in the broader markets, we continue to see a healthy demand environment for Interxion services.

Please turn to slide 5. We continue to focus on growing the communities of interest in our target segments by winning magnet customers and then their community's interest members. We build value for customers through growth in the overall community present in a given data center. We are successful at this strategy because of our commitment to this strategy, focused selling efforts, conductivity leadership, outstanding reliability and configurability in our data centers; our large Pan-European coverage; and excellent customer service.

In Q1, we continue to track new customers across our main target segments which are financial services, media, network providers, and managed service providers/cloud. First quarter saw growth in the deployment within our data centers of cloud services and platforms, by system integrators and managed service providers, in order to serve the needs of their enterprise customers using cloud-based technologies, whether it be public or private clouds.

Based on this trend, thought it might be worthwhile to spend a little more time looking at why cloud service providers choose Interxion. A key foundation of our value proposition to cloud customers is the excellent connectivity that we offer. Interxion leads the European market in terms of our connectivity proposition, which has three core components. First, direct carrier connectivity -- we have over 400 fixed and mobile carriers in our data centers. Second, content delivery networks -- we have all of the major CDNs in our footprint. And third, internet exchanges -- we connect to more internet exchanges in Europe than any other data center provider, 18 in total, which are handling over 3 terabytes per second of traffic, as well as providing access to over 2400 ISPs.

This rich, unique connectivity, combined with our city center locations, provides cloud service providers with the ability to offer their customers unrivaled application performance and response time, thereby delivering an excellent customer experience. In addition, Interxion's unique footprint in 11 European countries provide cloud service providers with access to over 75% of European GDP. We are an ideal European partner with whom to deliver services to their customers across Europe.

Please turn to slide 6. Our construction program is designed to take advantage of the key strengths of our facilities and to satisfy customer demands for our services. At our full year-end 2011 results conference call, we outlined expansion plans that would have Interxion end 2012 with approximately 75,000 square meters of equipped space, and at least 75 megawatts of customer power. We continue to execute successfully against this program, completing 500 square meters of expansion in Stockholm and opening our new Frankfurt 7 facility with an initial 1500 square meters and 2 megawatts of power. And by the way, both of these projects came in on-time and under-budget.

Work on the Paris, London, and Amsterdam build continues according to schedule. And we are continually evaluating additional demand-driven projects, which we will update you on as they develop. Specifically, next month, we will open Paris 7, which is a 4500 square meter expansion of our campus, where we are the number-one provider of carrier-neutral colocation services in Paris. We are on track for a late June opening of an additional 1700 square meters in our prime central London location. Our ongoing upgrade of this campus will, as previously announced, take customer available power up 2.5 times over the life of the project in a market in which we see tremendous demand from our financial services, media, and managed services/cloud segments.

In Amsterdam, which is consistently one of our top-performing markets, we continue to see strong broad-based demand. Construction on Amsterdam 6 is proceeding on schedule. You should note that we exercise an option to acquire the land and buildings associated with Amsterdam 6, an action which we believe will deliver enhanced returns on this project.

I would now like to turn call over to Josh.

Josh Joshi - *Interxion Holding NV - CFO*

Great. Thank you, David. And welcome to everybody on the phone and online.

As always, I'll start by talking about the group results in the quarter, followed by a little color on our results by geographic segment. And then I'll move on to discuss our capital expenditures and balance sheet items.

Interxion has achieved a solid start to 2012, continuing a strong record of execution. The first-quarter 2012 results are consistent with our expectations; and, when combined with our disciplined expansion program, position is right on track to achieve our goals for the year.

Please turn to slide 8. Reoccurring revenue was EUR62.3 million, up 4% from the fourth quarter and 15% from the last year's first quarter. Our revenue mix continues to be high quality, with recurring revenue of 95% of total revenue. Non-recurring revenue is, by its nature, a little lumpy, and the comparison of this quarter to the prior quarter is a classic example of this.

Total revenue was EUR65.8 million, a 2% sequential increase and 14% year-over-year increase. Currency fluctuations were limited in impact this quarter. On a constant currency basis, total revenue grew 2% sequentially and 13% year over year. And, again, on a constant currency basis, recurring revenue grew 4% sequentially and 14% year over year.

Cost of sales in the first quarter were EUR26.5 million, an increase of about EUR1 million, or 4%, from the fourth quarter of 2011. I would remind everybody that the fourth quarter benefited from EUR0.4 million property tax credit.

Gross profit was EUR39.3 million, an increase of 1% sequentially and 19% year over year, while gross margins were 59.7% in the quarter, down 70 basis points from the one-off impacted fourth quarter margin, and up 250 basis points year over year.

Sales and marketing costs were EUR4.9 million, or 7.4% of revenues, in the middle of the 7% to 8% range that we guided to on last quarter's call; and indeed, as a percentage of revenue, roughly consistent with the prior-year period.

Other G&A costs, excluding depreciation and amortization and exceptional items, were held flat sequentially, and up 7% year over year.

Adjusted EBITDA was EUR27.3 million, an increase of 23% year over year. Adjusted EBITDA margins remained strong at 41.5%. Sequentially, margins were down by 60 basis points, as expected and flagged in our last earnings call. This is a consistent seasonal theme in our business with a number of factors impacting, including the one-time favorable items last quarter. Year-over-year adjusted EBITDA margins were up by over 300 basis points, demonstrating the underlying operating leverage inherent in our business model.

Net finance expense in the first quarter decreased by 33% year over year, and was down 11% sequentially from the fourth quarter. In accordance with the requirements of IFRS, the Company capitalizes a portion of its interest costs as part of data center construction costs. In the first quarter of 2012, capitalized interest reflected an increase in our construction activity, and was EUR2.4 million compared to EUR0.2 million in the same quarter last year and EUR1.6 million last quarter.

Income tax expense was EUR3.9 million, resulting in an effective tax rate of 31%. This rate is close to what we would regard as a normalized tax rate for the business. And again, I would remind you that in the previous quarter, we recognized some deferred tax assets which benefited the tax rate in that quarter.

The Company enjoys the benefit of a significant tax shield in the form of net operating losses and temporary timing differences. The underlying cash tax rate for the quarter was 6%; reflecting, in part, the benefit of the tax shield available to the Company, which is still in excess of EUR160 million, but also the timing of cash taxes over the year. The cash tax rate of the business on an LTM, or last 12-month basis, was 9%.

Net profit for the first quarter was EUR8.7 million compared to EUR10.6 million in the fourth quarter and EUR2.8 million in the first quarter of 2011.

APS during the quarter was EUR0.13 on a 67.4 million fully diluted share count in the first quarter of 2012, compared to EUR0.16 in the fourth quarter and EUR0.5 in the first quarter 2011. Again, I'd remind you that last quarter's -- last year's, sorry, first-quarter results were impacted by items around our IPO and also included a lower share count. Equally, the fourth quarter 2011 benefited from the recognition of certain deferred tax assets.

Now please turn to slide 9, and let's take a closer look at our geographic segments. Both the Big Four and rest-of-Europe segments continued to see double-digit year-over-year revenue growth, with reoccurring revenue driving this performance in both segments. Adjusted EBITDA also saw double-digit growth in both segments, while adjusted EBITDA margins in the Big Four markets were higher than those in the rest of Europe for the second straight quarter. This is a trend that we would expect to reverse in the second and third quarter, as expansion drag kicks in.

Total revenue in the Big Four markets increased to EUR40.3 million, up 2% sequentially and 16% year over year. But as David noted earlier, the real story this quarter is the revenue quality and strength in recurring revenue. Recurring revenue was EUR38 million, up 5% from the fourth quarter and 18% year over year, while nonrecurring revenue declined from the elevated level in the fourth quarter.

Adjusted EBITDA in the Big Four markets was EUR21.6 million, flat sequentially and 29% higher than the first quarter of 2011. Adjusted EBITDA margin was 53.5%, down compared to last quarter's usually high margin, but 510 basis points higher than the last year's first quarter. Within the Big Four, strength was particularly notable in the Netherlands and in the UK.

Finally, near the end of the quarter, Frankfurt 7 became available for customers, adding another additional 1500 square meters and 2 megawatts customer power to the most densely connected data center campus in Europe. The opening of this data center and the two others that are scheduled to open in the second half of June -- Paris 7 and London 2 -- will provide us with the important new capacity which will fuel our growth.

However, these new data centers will also add new costs, which will initially create a drag on margins until their utilization levels increase. I would expect to see the impact of that on Big Four and Group on adjusted EBITDA margins in 2Q and 3Q, in particular. And this is built into our guidance.

Total revenue in our rest-of-Europe segment was EUR25.5 million, a 3% sequential increase and 10% increase year over year, with recurring revenue accounting for 95% of the total, or EUR24.3 million, up 3% sequentially and 11% year over year. Adjusted EBITDA was EUR13.4 million, delivering a margin in Western Europe of 52.6%.

In mid-January, we added 500 square meters in Stockholm, a small but nevertheless for us, a very vibrant market.

Moving to slide 10, I'd like to talk you through our capital expenditures. The chart on the left shows the quarterly cash investment profile of total capital expenditure, including cash spent on intangible assets. As you can see, our investment has significantly increased in these last three quarters as we execute on our expansion plans. Total CapEx in the first quarter was EUR61.1 million, with a pie chart on the right showing the split over our geographic segments. At EUR52.5 million, the significant majority of the first quarter investment was in the Big Four markets, which was no surprise as we executed on our expansion plans.

Also included within first quarter CapEx is the acquisition -- is the purchase of the data center premises underlying our Amsterdam 6 data center, the transaction we announced last November in which David alluded to earlier on.

Please turn to slide 11. Cash and cash equivalents were EUR98.2 million at March 31, down from EUR142.7 million at the year-end, due primarily to the capital investments made during the quarter; and, of course, partially offset by the cash we generate from operations.

Our outstanding borrowings at March 31 are unchanged from the year end and we remained well-capitalized. We continually examine ways to reduce our cost of capital into increase financial flexibility. Our revolving credit facility continues to remain undrawn.

Our leverage ratios, listed towards the bottom of the page, demonstrate the strength of our balance sheet. Gross leverage ticked down from 2.7 times to 2.6 times, driven primarily by the incremental adjusted EBITDA; while our net leverage ratio increased from 1.2 times to 1.6 times, given the decrease of our cash balance used to fund our capital investments.

As we deploy the Company's capital, we consistently strive to improve and create value for shareholders. This includes looking at opportunities to improve our cost of capital as well as prudently investing in data centers that are driven by customer demand. We try and size the data center to meet our understanding of customer demand. And we consult with our customers to try and evolve that understanding.

We continue to deploy capital in a phased manner. We favor deployment of square meters and power capacity. Our goals are to sell, though not necessarily install, approximately 25% of the data center space around the time the data center opens, and to sell the rest of the space over the following three years. And we continue to target returns of 30%-plus on our investments.

And if you turn to slide 12, we can set out our scorecard. The analysis shows the annual cash return of our portfolio of 19 currently full data centers. For all practical purposes, we consider our data centers full at an 85% utilization or more. And many of these data centers have reached that mature, maintenance CapEx-only phases. We spend around EUR293 million of gross investments to date, including maintenance CapEx, to fit these 19 data centers out to current levels. We calculate cash return as gross profit that's estimated long-term maintenance CapEx, a figure developed when tracking our data centers over the last 10 years.

Our cash return for the last four quarters was approximately EUR104 million, or around 35% annual cash return on the Company's initial gross investment. We continue to focus on execution.

Slide 13 illustrates the power of our execution and business model. The four years represented on this chart have been a period of economic turmoil, yet Interxion has been able to more than double its quarterly revenues over that period while expanding its margins by nearly 1000 basis points. And we've executed on all of this organically.

The technology and structural trends driving the demand side of this performance remain in their early stages, and the competitive dynamics remain unchanged. As a result, we're investing in our data center facilities. We are investing in our people and our customer relationships to make sure that we continue to benefit for the foreseeable future.

In summary, Interxion had a strong first quarter that was on our expectation and continues our strong record of execution.

And with that, I'd like to return the call back over to David. David?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

Thank you, Josh. I would like to close my remarks with a couple of comments on our outlook. Please turn to slide 15. Again, despite the continued uncertainty resulting from the macroeconomic and political turmoil in Europe, and a continuing extended sales cycle, the outlook for the carrier-neutral data center industry and Interxion continues to be very good. Industry demand fundamentals remain robust. And our pipeline for the rest of the year is in line with our expectations. Nothing in the first quarter has changed our view of the year.

We've already opened one new data center this year, and we expect to open Paris 7 in London 2 by the end of the second quarter. We have executed successfully against our plan, and we'll continue to do so. Consequently, we are affirming our previously-announced full-year financial guidance. To be specific, for the full year 2012, we are expecting revenue to be in the range of EUR275 million to EUR285 million. We expect adjusted EBITDA to be in the range of EUR112 million to EUR120 million. And we expect to invest between EUR170 million and EUR190 million in capital expenditures this year.

As always, I would like to thank all of our employees in all of our countries for staying focused on our customers and continuing to deliver strong results. I would also like to thank our shareholders and bondholders for their continued support.

Now let me hand the call back to the operator and to begin the question and answer session. Operator, can you please read out the instructions to register questions from the call?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jonathan Atkin, RBC Capital Markets.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Yes, I was interested in what you said about sales channels and sales partners, distribution and so forth. And with respect to your US partners, you indicated that there's some deal activities starting to bubble up. And I wonder what type of demand you're seeing from those partners?

And then in Europe, you talked about expanding or introducing the indirect channel. What types of demand sets do you hope to tap that you've not been all that present in so far with your current sales model?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

Jonathan, it's early on in the game. We have been, traditionally, I think most of you know, very focused on just one channel of distribution, and that is the end-user direct channel. Over the last couple of years, we have been developing the segment approach; the magnet approach; the magnetized approach. And this is leading us to evolve our entire go-to-market strategy.

And so it's based around -- in Europe, it's now based around the end marketing. We have the thought leaders. In major accounts, we have the consult of the salespeople. And in the field and national accounts, these are more focused on the local accounts. They are generalists, not specialists.

To augment this in Europe, there is a reasonably well-established community of referral agents that we have never taken advantage of, and are finding that to be a very appropriate opportunity for us to explore. So, combining all of these, this is what we're doing. So I remark that we have resized the organization, and we're now in the process of restructuring it. We wouldn't be pursuing these if we didn't think there was substantial opportunity in all of these elements.

As far as the United States, we've talked about this a number of times, it has not been as successful as we initially thought, but it's taken a different turn. Our relationships with our partners in the United States have been very helpful in terms of helping us understand where the cloud service providers are going from the United States, and working with us as we jointly pursue some of these opportunities. We are also developing and expanding the agent and referral programs in the United States, and that's the one that has begun to show substantial improvement.

So, I think most of us do understand that at the present time, there's a lot of opportunity in the United States that's coming to Europe. And we are attempting to play in this as proactively as we can, given the structures that we're deploying.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thank you. And I was interested in Frankfurt 7. And then looking just a few months down the road and -- 7 in London too, what are the typical pre-lease rates that you would see? And how soon do revenues start to kick in, following the opening of each site?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

Josh will answer the kick-in of the revenue. He reiterated what our target was; and so I'll give you a little more color on one of them. The day before we opened the Frankfurt data center, we were not at our target of 25%. Two weeks after we opened the data center, we were beyond our 25% target. So again, this is our goal. It's not hard and fast, but the Frankfurt 7 data center has been quite successful to date. So -- installation.

Josh Joshi - *Interxion Holding NV - CFO*

Yes, thanks, David, and hello, Jonathan. And I think that it is not fair to assume that installations would happen immediately. Again, there is some variability on that, but we would expect installations to come in over the first quarter, or the first two quarters of opening.

Jonathan Atkin - *RBC Capital Markets - Analyst*

And in terms of Paris and London, how does that feel in terms of demand and pre-lease rates (technical difficulty) to be seen? Would it be in line with the target? Or is there any reason it would deviate from that?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

London is London. And the demand and the pipeline are very strong. Paris is Paris. And the pipeline is very strong in Paris. And Paris is just different. That's not bad, it is different orientation for us, and the deals have a tendency to be a little bit larger in the Paris environment, because they are primarily French nationals.

But our target is 25% on day one. And we are proceeding along with those targets. And as we indicated, this was taken into consideration when we did our guidance. And we are affirming our guidance, and we do not see any reason to deviate from that.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thank you.

Operator

David Barden, Merrill Lynch.

Unidentified Participant

Thanks for taking the question. This is actually [Steven Douglas] sitting in for David. Two, if I could -- if I could follow up on the US partnerships. Are you able to quantify the impact that those have had on your business, whether that be deals won, or revenue contribution and whatever else?

And then, secondly, we've seen some of your peers announce dividends and buybacks for the last several months. You guys have obviously laid out a fairly strong expansion plan. But I was wondering if either dividends or buybacks are something that you are looking at were considering today? Thanks.

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

Well, that's quite a range of questions, from customers to dividends. I'm obviously going to let Josh answer the second one.

Can we quantify it? It's very difficult for me to quantify the value of the two partners that we have, from a revenue gain standpoint. But I wouldn't want -- I would not want, not to have them. The knowledge that they have provided us with the insight -- we get invited to sit in and watch the game, when a large customer comes -- cloud provider comes to Europe, we get invited to sit at the table. But by the time we used to get invited to sit at the table, the stakes were already set. With working with our partners who have relationships with some of these providers, we get the chance to sit at the table before -- not their deal, but before the opportunity gets set.

So that is of immeasurable value when you can sit with someone and say, I'm thinking about coming to Europe, and I'm thinking about doing this. And that has a whole lot more value than when someone comes to you and says, I've decided I'm coming to this city and here's the RRP, what do you think? So from the partnering standpoint, it's been invaluable, very difficult to quantify. From the agent and referral standpoint, give us a quarter or two and we'll be glad to quantify it for you.

Josh?

Josh Joshi - *Interxion Holding NV - CFO*

Yes, thanks, David. And Steven, as a business, as a Board, as a management team, we are continually looking at ways to evaluate optimizing returns and creating long-term shareholder value.

The key for us, I think, is, at present, we think that the best way for us to create long-term value for our shareholders is to invest in the project such as our expansion in Paris and others like London and Amsterdam, that are focused on delivering 30%-plus returns on these investments. And that's off the back of the coupons that we pay on the bond. These are significantly improved returns, versus what our other opportunities are to do with the capital. But we continue to look at it. And we continue to evaluate it. It's always on the agenda for us.

Unidentified Participant

Got you. Thanks, guys.

Operator

Jonathan Schildkraut, Evercore.

Jonathan Schildkraut - *Evercore - Analyst*

Thanks for taking the questions. I have two questions. First, in terms of the revenue growth profile -- you know, again, I was very surprised by the strength in MRR relative to the uptick in utilized space. I was wondering if maybe you could give us some color on your thoughts as to what MRR trends might look like over the rest of the year. Because you continue to grow at this rate, it would imply a significant drop in your utilization rate, which could make sense in the context of the rapid expansion.

And then secondly, Josh, you alluded to some drag on EBITDA as you opened up some new facilities, Paris 7, London 2. And I was wondering if you might give us a little bit more color or context around that, as we build out our models. Thanks.

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

I'd just like to insert something here and then Josh -- one of the issues, which I think, Jonathan, you were getting at, is the growth in the revenue-generating square meters. So let me just address that right now. We agree that there will be -- the bookings were strong in Q1; the pipeline is solid; and we expect that there will be a pickup in the growth in the revenue-generating square meters in Q2. All right? Go ahead.

Josh Joshi - *Interxion Holding NV - CFO*

Yes, thanks, David. So there are a number of components impacting ARPU. One is obviously increasing sales. Also, there are mix components, and also the increase in power capacity and power utilization. So there are a number of factors impacting, and we're benefiting from good trends on power utilization as well as other factors.

If we think about expansion drag -- you made the point, Jonathan, which was that perhaps utilization may go down, given some of these trends. Actually, from an expansion drag perspective, that's -- we would certainly expect that to have pressure on utilization; not as David suggested, on the growth of revenue-generating space. But, remember, we're increasing our capacity by in excess of 20% during the course of the years. Frankfurt 7 has been successfully executed. And I think that its impact on our margins will tend to follow how those expansions are coming online. And we said that London and Paris are coming on at the back end of this quarter, and Amsterdam into -- later on in the year.

And so we thought about it; we aren't giving quarterly guidance, as you know. And we have reiterated our year-end guidance for the year, which is approximately 150 basis points up at the midpoint.

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Jonathan Schildkraut - *Evercore - Analyst*

All right, excellent. Thanks a lot, Josh, David.

Operator

Clay Moran, Benchmark.

Clay Moran - *Benchmark - Analyst*

Just wondering if you could talk a little bit more about the rest-of-Europe segment. There is no current expansion plans there. How do you view the opportunity there? Is the demand growth not as great as the Big Four? And are we seeing, potentially, more impact from the macro issues in those markets?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

Part of the issue, in terms of how we invest our capital and how we deploy our capital -- it is kind of lumpy, and we are in the trend now where we have space available in [certain] these rest of Europe. And we may be lagging in deploying -- the rest of Europe is doing fine. We have space in certain areas. We are working on plans, as we indicated, in other areas. I don't believe that you can basically differentiate -- we're not in areas that are really struggling. And so, I don't know how to give it -- we don't give guidance on particular countries, we do not talk about it.

Josh Joshi - *Interxion Holding NV - CFO*

I think that's right, David. And if I could add, there are a couple of things; during the course of last year, we opened data centers in Austria -- we expanded or opened data centers in Austria, Ireland, and Sweden. We've just opened, and I think I mentioned it on my prepared remarks, at the beginning of this quarter we opened Sweden, which is an extraordinarily vibrant market for us.

One of the things that continually comes back to us as an organization is that the rest of Europe we're exposed in that market or there's some kind of economic turmoil. There's no doubt that economic turmoil in Europe but I believe that our execution points that way. And in a number of these markets we have very unique positions where, frankly, we're the only show in town in terms of the Pan-European credible presence.

And so there are a number of factors at play here. But we've got capacity which came online during the course of last year. And we're looking very optimistically at the rest of Europe into the second half of this year.

Clay Moran - *Benchmark - Analyst*

Okay, thank you.

Operator

Gray Powell, Wells Fargo.

Gray Powell - *Wells Fargo - Analyst*

Thanks for taking the call. I just had a couple of questions. Can you talk about pricing trends in London, Amsterdam and Frankfurt? Are those meaningfully different than the rest of your footprint?

And then just how would you expect these markets to impact your recurring revenue per square meter as customers phased in over time?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

There's been no significant pricing trends overall. A change in those pricing trends in the last quarter. And again, if you look at our numbers and you look at the effects that the recurring revenue goes up, it's not only contributed to by ARPUs, not contributed to by the utilization of power, but the underlying strength and the ability for us to pass along or to raise prices in the appropriate fashion.

In terms of the market, there's always differences in the markets based on the competitive situation; based on the needs in various markets. It's very difficult for us to do this comparison because certain markets like London require power at a higher level than other markets that require lower. So overall, there's been no change in the pricing regime that we see over the last quarter or so.

Gray Powell - *Wells Fargo - Analyst*

Okay, I guess what I was asking is like it seems like you're launching new facilities in markets where there is strong demand, so could you guys possibly benefit from a mix shift as you fill out space in markets like London?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

I'm not sure I truly understand your question -- what do you mean, a mix shift?

Gray Powell - *Wells Fargo - Analyst*

Well like if the revenue per square foot in London is meaningfully higher than other parts of the footprint, would that feed through into --?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

That is a possibility. But keep in mind that that may be temporary. What we are really looking for here it's just not to sell one market. There's an opportunity for us to provide to some of these larger companies, the cloud providers, the ISPs, the content delivery -- one has to be in all of these markets and provide a blended rate.

So again, what we've seen over the last couple of years has this been a pretty good balance between 60% in the Big Four and 40% in the rest of Europe. And if, in fact, long-term, that's where the GDP is and that's what the balance is going to be, we may see a short-term dislodgement as we go to higher rates in one city. But I think at the end of the day it will all come back to where we are today.

Gray Powell - *Wells Fargo - Analyst*

Okay, thank you very much.

Operator

Chris Larsen, Piper Jaffray.

Chris Larsen - *Piper Jaffray - Analyst*

Thanks for taking the question. David, continue on that same line of thought, last year you benefited from the fact that you are able to reprice some of your space. It was a little below-market. You are able to get 3% price increases. Wondering if you could just comment on where you are in terms of that process, if you read price of everything.

And then I apologize if you mentioned this already, I got disconnected, but where do you stand in the permitting for the brownfield of the London facility that you've been working on? How is that process going? Are they still getting problems over that smokestack? Thanks.

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

Okay, that's a little inside joke.

Again, I'm going to -- from a pricing standpoint I'm going to go back to the recurring revenue growth far exceeding the growth in the revenue-generating square meters. Not all of this is related to power consumption. So the real issue is, as we -- to develop these communities of interest and we demonstrate the value of that to our customers, it puts us in a position where we can appropriately charge more.

As far as the brownfield build, I would expect in the next couple months that we would be in a position to get the permits, but everybody can follow this -- what happens -- on the website, and everybody can see what's going on there. I think we've made very good progress in that.

And the smokestack is my own personal problem. Thank you.

Chris Larsen - *Piper Jaffray - Analyst*

All right, thank you very much, David. I appreciate that.

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

By the way, just to make sure, London 2, the permits are done. This is the one that has come online. We're talking about continuing the development in the campus.

Chris Larsen - *Piper Jaffray - Analyst*

Thank you.

Operator

Daniel Morris, Jefferies.

Daniel Morris - *Jefferies & Company - Analyst*

Just a couple of questions for me. Continuing on the pricing theme, I wonder if you could comment on where you're seeing any kind of disturbance to pricing for any of the operators that maybe have less centrally located sites.

And then also, in could you maybe indicate what percentages of revenue wins came from the communities of interest?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

The bigger three, I don't think that there's been any change in the behavior we called it basically, rational. And so as best I can tell, anecdotally, I don't see any change. So I don't see anyone being irrational.

In some of the smaller players in some of the countries, that are driven by different motivations, yes, every now and then you'll see somebody do something that is irrational, but that's anecdotal and it's minimal.

And as relating to the community of interest, it's very difficult for us to put a name on that, but I believe that one of the good indicators is the percentage of revenue that we currently get new business from the existing customers, which is in the realm of 70%. So it's the best proxy that we have for that at the present time.

Daniel Morris - *Jefferies & Company - Analyst*

That's helpful, thank you.

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

But what I would say, one of the things you get is when you sit in you talk to the customers and you talk to them -- one of the things we tried to leave the customers with is -- the potential customers, is why do business with us? Why pick us?

And so we've neared it down to, it's really three things -- one, we provide products that allow you to house your services or your assets; two, we provide services that allow you to manage, efficiently, your assets; and three, we help you create value through these communities of interest. And so what we basically do is, through this tiered selling program and marketing program that we have, we talk to these people and we find out, how can we help them solve their business problems that allow them to create value sitting in our data centers, in our communities of interest?

And there's no one specific answer. We're not order takers. There is no -- this is a consultative sale type situation, which puts us in a position where the customers we get recognize this. And that's how we're able to improve our ARPUs and our recurring revenue at a rate that's faster than the revenue-generating square meters.

Daniel Morris - *Jefferies & Company - Analyst*

Right, thank you.

Operator

James Ratcliffe, Barclays.

Sanjay Gupta - *Barclays Capital - Analyst*

Thanks for taking the question. This is Sanjay Gupta for James. David, and given the macro concerns, have you noticed any meaningful changes in demand trends from -- specifically from customers in any target segments? And also within that from financial services, specifically?

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

When you asked the question, have I noticed any changes today versus yesterday, probably. But if I look at this over a reasonable time period of two to three quarters, not. I think it's pretty consistent. The consistency seems to be that there's a little more aggression on the part of the folks coming from the United States and the willingness to live with the uncertainty and to deploy the capital. The folks in Europe that are living here are little more concerned about the uncertainty. But it has not changed in the last three or four quarters.

So what we focus on every morning -- there is a new problem here, there's a new problem there -- but the response to this has been relatively consistent over the last two or three quarters.

Sanjay Gupta - *Barclays Capital - Analyst*

Perfect, thanks.

Operator

Jonathan Schildkraut, Evercore.

Jonathan Schildkraut - *Evercore - Analyst*

Thank you. David, I actually would just like to get your perspective on the environment for consolidation and M&A, both within Europe and then maybe more broadly, what you think is going on around the globe. Thanks.

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

My perspective is probably worth about EUR0.05. Look, one of the things I've said many times before is, consolidation, in my opinion, consolidation happens in an industry when there is a very strong partner and a very weak partner, usually -- for a real strategic, compelling reason. At the present time the people that we look at that, that are our competitors and that you look at and follow, are all doing quite well.

So in spite of everything that's going around, we're not the oddball. I think we're doing better than most. But the industry is doing well and I do not see any real compelling financial reasons for consolidation. In terms of strategic valuations, our goal is to develop partnerships in as many locations as we can that are meaningful, that we can manage, and that meet the needs of our current customers and the customers that we are pursuing. So that's my best guess at the present time.

Jonathan Schildkraut - *Evercore - Analyst*

All right. Thank you.

Operator

We have no further questions. Please continue.

David Ruberg - *Interxion Holding NV - Vice Chairman and CEO*

Okay.

Jim Huseby - *Interxion Holding NV - VP, IR*

Well, thank you, everybody, for joining us on today's conference call. We look forward to speaking with you, or meeting with you, throughout the quarter. And we'll speak to you again in August. Thank you very much.

Operator

That does conclude our conference for today. Thank you all for participating. You may now disconnect.
