Final Transcript

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Corporate Participants

Jim Huseby

Interxion - VP

David Ruberg

Interxion - CEO

Josh Joshi

Interxion - CFO

Presentation

Operator

Thank you for standing by and welcome to the Interxion Fourth Quarter and Year End 2013 Results call. At this time all participants are in a listen-only mode. There will be a presentation followed by question and answer session, at which time, if you wish to ask a question, you will need to press star, one on your telephone. I must advise you that this conference is being recorded today, Wednesday 5th March 2014. I would now like to hand the conference over to your speaker today, Mr Jim Huseby, Vice President of Investor Relations. Please go ahead, sir.

Jim Huseby - *Interxion - VP*

Thank you, Julie. Hello everybody and welcome to Interxion's Fourth Quarter 2013 Conference Call. I'm joined by David Ruberg, Interxion's Vice Chairman and CEO and Josh Joshi, the Company's CFO. To accompany our prepared remarks, we've prepared a slide deck, which is available on the Investor Relations page of our website at Investors.interaction.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 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 risks identified in today's press release and those identified in our filings with the SEC. We assume no obligation and do not intend to update or comment on forward-looking statements made on this call. In addition, we will provide non-IFRS measures on today's conference call. We provide a reconciliation of those measures to the most directly comparable IFRS measure in today's press release, which is posted on our Investor Relations page at Investors.interaction.com. We would also like to remind you that we post important information about interaction on our website at www.interaction.com and on social media sites, such as Facebook at Facebook.com/interaction and Twitter, at @interaction. We encourage you to check these sites for the most current available information. Following our prepared remarks, we will be taking questions. Now, I'm pleased to hand the call over to Interxion's CEO, David Ruberg: David?

David Ruberg - *Interxion - CEO*

Thank you, Jim and welcome to all. Before we review the fourth quarter and full year 2013, I'd like to take a few moments to comment about what we've accomplished in our first three years as a public company. During the time that Interxion has been a public company, we've consistently produced solid results in the midst of a challenging economic climate. We have achieved these results by successfully focusing on and executing against our strategic goal of creating communities of interest. We're focused on developing these communities because they provide a host of benefits over time, including higher sustainable organic growth, improved pricing power, lower churn and less expansion risk.

Since the end of 2010 we have increased equipped space by over 30%, adding nearly 20,000 square metres across our 11-country footprint. In that same time we have increased revenue-generating square metres by nearly 40%, adding 16,000 square metres in support of customer (unclear) [mand] as our communities of interest have grown. We have further increased the attractiveness of our data centres by enhancing connectivity and we recently added our 500th connectivity partner; as a result, quarterly revenue has increased by about 40%. Quarterly adjusted EBITDA has grown by nearly 60% and adjusted EBITDA margins have increased by over 450 basis points.

We have created substantial value for our shareholders. Whether you measure it in terms of stock price appreciation or net tangible book value per share. Now, let's look more closely at what we accomplished in 2013 and therefore, please turn to slide four. Interxion delivered solid performance during 2013. Full-year revenue grew 11% to more than €300 million and adjusted EBITDA was up 15% as we continued to expand margins. Recurring revenue in the Big Four reporting segment was up 14%. We had a capacity in eight of our markets during 2013, while keeping our utilisation rate consistent at about 75%. We signed contracts with multiple magnetic customers during the fourth quarter and it was primarily with cloud service providers. We now have a very large backlog of contractually committed orders with installations dates for late 2014 and into 2015.

In the fourth quarter, the market seems to have changed for cloud infrastructure providers, almost like a light switch was finally turned on in Europe, regarding the cloud. Interest and discussion have turned into contracts. There appears to be an increased urgency among cloud service providers and systems integrators as they start to commit resources in anticipation of growth in enterprise demand for cloud services. This increasing demand is based on improved economic growth, improved business confidence and reduction in the impediments to cloud adoption.

Please turn to slide five. Regarding performance in the fourth quarter, revenue in the fourth quarter continues to grow and adjusted EBITDA margins continue to expand. When comparing results to 4Q 2012, revenue for the quarter grew 7% to just €78 million, adjusted EBITDA for the quarter grew 8% to almost €34 million and our margins increased by 40 basis points, versus the prior year quarter. Talking about other KPIs for the quarter, our sales pipeline remains robust. The bookings, as we indicated before, were extremely strong in the fourth quarter. Pricing was in line with the last few quarters. ARPU was essentially flat and churn for the year was within our historical range, so between the half and three quarters of a percentage-point per month on average, though slightly higher in the quarter, the fourth quarter as the previously announced churn, resulting from one of our top 15s customers was restructuring their own business, was actually completed.

Please turn to slide six. We, again, executed well on the operational front, servicing customer mand from our carrier-rich and cloud-neutral data centres. We opened two new expansion projects in our rest-of-Europe reporting segments during the quarter, adding 500 square metres in Zurich and another 300 square metres expansion in Vienna for a total of 800 square metres in the quarter. We ended the year with over 80,000 square metres of equipped space, adding 6,100 square metres in 2013. During the fourth quarter, we installed 600 revenue-generating square metres and keeping our utilisation rate at 75%. For the year, Interxion installed 3,500 revenue-generating square metres.

Please turn to slide seven. During 2013 we expanded in eight of our 11 countries and we've opened projects in two of the countries in the first quarter of this year. These bills are a response to continuing customer demand that we see across our footprint.

Amsterdam has been one of our strongest markets in the last few years and in early December we announced construction of Amsterdam 7, which, when complete, will provide 7,300 square metres of equipped space and over 13 MW of customer power. The initial response to Amsterdam 7 has been very positive and we've exceeded our normal bookings targets for our new builds. As a result of committed customer orders, we're building the first four phases and adding 4,600 square metres of equipped space. The first 1,000 square metres opened early in the first quarter and demand in Amsterdam has, to date, been largely driven by cloud service providers looking to serve the growing European market.

Frankfurt has also been another one of our strongest markets over the past couple of years with demand coming from cloud service providers in particular. We opened Frankfurt 9 earlier in this quarter and now expect the first phase of Frankfurt 8 to open in Q2 2014 with a second phase scheduled for the fourth quarter of 2014. We also opened new capacity earlier this quarter in Brussels in Stockholm and with our expansion in Brussels, we've now expanded in every one of our markets since our IPO.

Earlier today we announced two new projects, which are being built in response to customer orders: Stockholm 3 and Vienna 2, both of which were opened in the fourth quarter of this year. Stockholm is being driven by strong demand from the cloud, digital media and financial services segments. Stockholm 3 will be our fourth project in Stockholm since the beginning of 2012 and will add approximately 900 square metres' space and 1.5 MW of customer power.

Recently we've experienced strong demand in Vienna, where interaction is the leading connectivity-rich player. Vienna is a key hub, servicing both Eastern and Southern Europe in addition to domestic demand. Our Vienna campus serves over 100 carriers and ISPs and is an important part of Interxion's pan-European cloud and connectivity communities. Vienna 2 is scheduled to be 5,000 square metres of revenue, of equipped space, with 11 MW of customer power when fully billed out. The first 600 square metres phase is scheduled to available in the fourth quarter with the second 600 square metre phase planned for the first half of 2015.

Overall, we currently have 8,200 square metres of new equipped space scheduled to become operational in 2014 with nearly half of the space scheduled to open in the fourth quarter. It is important to note that nearly 70% of our 2014 expected capex is being deployed in response to customer orders.

Please turn to slide eight. I believe our three tiered go-to-market approach, which includes HQ business development, HQ international sales segment specialists and local country's (unclear) is working well and seems to be the right structure to successfully deliver against our Communities of Interest strategy. In 2013 we added more than 200 new customer logos, further strengthening the power of our communities. Our communities deliver competitive differentiate in the marketplace and are beginning to demonstrate their ability to be powerful organic growth engines based on the network effect that they've developed over time.

The menu service or cloud provider segment continues to be our fastest growing segment and we expect that, this trend to continue. The significant new contract wins in the fourth quarter are evidence that cloud service providers are investing today to enable enterprises to make the transition to cloud solutions. I believe that it is our segment expertise, combined with our pan-European footprint, strong operational execution and rich connectivity that has allowed Interxion to develop strong partnerships with these and other magnetic customers and ultimately lead to Interxion winning these contracts. We will continue work with these and other magnets to build our communities of interest, in preparation for the meaningful growth and enterprise customer adoption of hybrid cloud solutions that we expect to see in 2015 and beyond. I would like, now like to turn the call over the Josh.

Josh Joshi - *Interxion - CFO*

Thank you, David, and welcome to everybody on the phone and online. I'd like to start by discussing the Group's fourth quarter results with some additional colour on our two reporting segments. I'll follow that with a review of our financial performance for the year, including capital expenditures, cash flow and a balance sheet.

So, starting with the fourth quarter, please turn to slide ten. Interxion finished 2013 with a good fourth quarter, continuing our track record of consistent quarterly execution. Total revenue in the fourth quarter was €78.2 million, up 7% organically, compared to the fourth quarter 2012 and slightly up sequentially. On a constant currency basis, total revenue was up 8% year-over-year. Recurring revenue in the fourth quarter increased to €74.4 million, an 8% year-over-year increase and 1% sequential increase and was 95% of total revenue. On a cost and currency basis, recurring revenue was up 9% year-over-year and up 1% sequentially. Non-recurring revenue was €3.7 million in the fourth quarter: well within our typical quarterly range of between €3 to 4 million, though down 14% year-over-year against a very strong prior period quarter and down 4% sequentially.

Recurring monthly ARPUs on a per-square metre basis were essentially flat, sequentially. As we discussed before, there are a number of factors, in addition to pricing, that contribute to the development of recurring ARPUs over time, with the customer uptake of energy having a meaningful impact on ARPU growth as well as geographic mix and deal size. Growth in energy uptake by customer has trended lower throughout 2013 and revenue from metered energy was flat sequentially in fourth quarter. If we look forward, I would expect recurring ARPUs to tend towards flat, to perhaps slightly down over the course of the year, predominantly driven by geographic and deal mix; this is fully factored into our guidance for the year.

Turning to costs: cost of sales was well controlled in the quarter, helped, in part, by the usual seasonally lower costs during the colder months. In the fourth quarter, cost of sales was €31.4 million, up 8% over the fourth quarter last year and 2% lower than the third quarter of 2013. Gross profit was €46.8 million, an increase of 6% year-over-year and 1% sequentially with gross margins at 59.9% up 70 basis points sequentially. Sales and marketing costs have increased to €6.4 million in the fourth quarter, an increase of 16% year-over-year and up 16% sequentially. Now, as David mentioned earlier, the fourth quarter was a very strong bookings quarter and our sales commission expenses reflected that.

Going forward, 7%–8% of revenue is still the kind of range we would typically expect to see. Other G&A costs at €6.7 million have come down 8% year-over-year and down 6% from the previous quarter. We've continued to manage our costs tightly over the year, as a percentage of revenue and in the fourth quarter. Other G&A costs were slightly below our typical range of 9%–10% of revenue. Adjusted EBITDA was €33.8 million, an increase of 8% year-over-year and slightly up sequentially. Adjusted EBITDA margin of 43.2% in the fourth quarter was up 40 basis points year-over-year and ten basis points sequentially. We reported an 11% sequential decrease in depreciation and amortisation in the quarter at €13.5 million.

In the fourth quarter, we concluded our reassessment of the useful lives of the main data centre components, which resulted in adjustments to the useful lives or the main data centre components, which resulted in adjustments to the useful lives of several asset categories. The overall impact of this change in the fourth quarter was to reduce depreciation and amortisation by approximately €2 million. Taking this into account, the underlying year-over-year increase in these non-cash expenses relates to our new facilities that became operational over the past year and is consistent with the increase and the gross cost of data centre assets held on the balance sheet.

The fourth quarter finance expense was €5.6 million and significantly lower than the €38.1 million in the third quarter, which included €31 million of one-time costs as a result of the refinancing completed on July 3rd of last year. Interest capitalised in the quarter was €0.4 million, compared to 1.3 million in the same quarter last year and 0.3 million in the third quarter. The fourth quarter income tax charge was €3.7 million, which represents an effective tax rate of 27%. The adjusted LTM cash tax rate was 19%. Since the beginning of 2012, our LTM cash tax rate has been slowly but steadily creeping and, as we've highlighted on previous calls, all things being equal, we'd expect this trend to continue over the next two years or so as we utilise our tax shield.

Reported net profit in the quarter was €9.8 million compared to a profit of 5.6 million in the same quarter last year and a loss of €16.5 million in the third quarter. Now, after removing the effects of the one-time items I just reviewed, adjusted net profit in the quarter was €8.5 million, up 29% year-over-year and up 20% sequentially. We've provided a reconciliation to adjusted net profit in the appendix to the presentation. Reported earnings per share was 14 euro cents, up 72% year-over-year. Adjusted earnings-per-share was 12 euro cents in the quarter, compared to ten euro cents in the third quarter and fourth quarter of last year.

Now, let's take a closer look by reporting segment. Please turn to slide 11. Looking at the Big Four, recurring revenue grew 8% year-over-year, 9% on a constant currency basis and up 1% sequentially. Total revenue was up 8% year-over-year and up slightly sequentially. The top 15-

customer churn that I've talked about on previous calls finally completed their restructuring early in the fourth quarter. Big Four revenue represented 63% of the company's total in line with what we have seen over the past several quarters. Our Amsterdam and Frankfurt campuses were, again, the strongest performers during the quarter.

Big Four adjusted EBITDA grew 9% year-over-year and was flat sequentially. We experienced margin growth in the Big Four over the past year with adjusted EBITDA margins at 54.4%, up 80 basis points year-over-year. Margins were slightly down from the previous quarter, due, in part, to increased sales compensation from the strong fourth quarter bookings. Looking at the rest of Europe, the underlying results are encouraging and we can see steady progression. Recurring revenue is up 7% year-over-year and up 1% sequentially. Total revenue was up 6% year-over-year and slightly up sequentially. Adjusted EBITDA was €15 million with margins of 51.1% and like the Big Four markets, was impacted, in part, by increased sales compensation costs in the quarter, due to an outstanding quarterly bookings performance in the segment. Levels of activity in the rest-of-Europe segment continue to vary across markets and Stockholm, once again, showed strength in the quarter.

Please go to slide 12, where I'd like to spend some time on the full-year results. For the year 2013, total revenue was €307.1 million, an increase of 11% year-over-year. Consolidated non-recurring revenue was down 11% against last year's record performance. Consolidated recurring revenue was €291.3 million, up 13% year-over-year on a constant currency basis. Recurring revenue in the big Four markets grew 16% constant currency—a strong performance, especially when you consider, it's all organic growth. In the rest of Europe, recurring revenue growth was at 9% constant currency for the year—a solid performance, given the macroeconomic headwinds this segment continued to face during the year, and these headwinds look set to persist for a few quarters yet.

Gross profit was 12% higher year-over-year. Revenue growth continued to outpace growth in direct costs, despite the added cost burden of opening a new data centre and 6,100 square metres of equipped space. As a result, gross margins expanded by 40 basis points to 59.6% for the year. Adjusted EBITDA was €131.8 million, a 15% increase over 2012. Adjusted EBITDA margins continue to grow and finish the year 140 basis points higher at 42.9%. Going forward, we continue to see scope for margin improvement over time. At the midpoint of our guidance, we're looking to deliver about 100-basis point improvement in adjusted EBITDA margins in 2014.

Net finance expense for the year increased to €57.5 million, compared to €17.7 million in 2012. The one-off cost associated with the refinancing amounted to €31 million and during the year, we have capitalised €1.7 million of finance costs, compared with €9.2 million in the prior year. This represents the completion of important construction activity towards the end of 2012 and a lower level of construction for most of 2013. Income tax expense decreased to €6.1 million, compared to €15.8 million in 2012. Our effective tax rate increased to 47%, compared to 33% in 2012. Now, normalising, when we normalise the income tax expense for the one-off refinancing costs, the effective tax rate for 2013 was around 30%. Reported net profit comparison was affected by the one-time refinancing cost that we incurred in the third quarter as well as the one-off items in the year 2012. Adjusted net profit for the year grew 4% on an EPS basis. As I've mentioned before, we provided a chart in the appendix to the presentation, which sets out a full reconciliation for you.

Please turn to slide 13. Over the last few years we have steadily and consistently increased our adjusted EBITDA margins each year. We've achieved this through the natural operating leverage inherent in our data centre business model and through tight costs control. We've seen 640 basis points of margin improvement over the last five years and we continue to target steady annual growth in our adjusted EBITDA margins of around 100 basis points.

Moving to slide 14, let's discuss our capital expenditures. Capital expenditures, including intangibles, totalled €55.3 million during the fourth quarter, which brought the total invested in the year to €143.4 million. We invested €93.7 million in our Big Four markets, with the lion's share invested in Amsterdam and Frankfurt. We invested €47 million in our rest-of-Europe markets, with the largest investment being made in Sweden. We also, opportunistically, purchased our Brussels data centre for about €11 million towards the end of the fourth quarter.

Please turn to slide 15. Summarising the movement in actual cash during the year, Interxion generated €102.7 million from operations, compared to the €111.7 million last year. Working capital has increased in the year and more than half of the increase took place in the fourth quarter; this was, in part, due to VAT timing differences driven by the uptake in capital expenditure and also, in part, due to a delayed customer payment, which was received just after the end of the quarter. With an increased level of capital expenditure in the fourth quarter of 2013 and in the first quarters of 2014, we expect working capital movements to continue to be lumpy during 2014.

We paid €30.1 million in net cash interest and taxes and invested €143.4 million in capital expenditures. We received net proceeds of €15.5 million from mortgages entered into during the year, received €4.5 million from the exercise of stock options and raised 29.2 million in additional proceeds, net of costs when we refinanced the bonds in July. This left cash and cash equivalents of €45.7 million at the year-end. Borrowings at the end of the quarter were €363 million, made up mostly of the 6% notes, along with €45 million of mortgages and capital leases. Gross leverage remained low at 2.8 times adjusted EBITDA with net leverage at 2.5 times adjusted EBITDA.

We're pleased with our efforts to improve our balance sheet thus far; a balance sheet provides us with significant financial flexibility, an attractive maturity profile and a decreasing cost of capital. As we stated before, reducing our cost of capital has been a key strategic focus for Interxion and we've done that through the bond refinancing in the third quarter and through taking on mortgages at attractive rates. On an ongoing basis, the blended, all-in cost of debt, excluding amortised fees was reduced from over 9% at the beginning of the year to less than 6% by year's end. Over the last few quarters, the company's extended debt maturities with about 94% of our debt maturing in 2018 or beyond, and improved our financial flexibility through our RCF that we expanded to €100 million in the third quarter. Now, at the year-end, the RCF remained undrawn. Since the year-end, however, we have drawn an amount of about 20 million on the RCF.

Please turn to slide 16. Interxion continues to execute a disciplined investment strategy to secure superior long-term cash returns. As we ended the year, we added Dublin 2 and Frankfurt 6 to our portfolio of data centres that are at least three years old. These 28 data centres represent 66,700 square metres of equipped space. They're about 78% utilised. The annual cash return of these data centres was €173 million in 2013 or 28% annual cash return for the year. With that, I'd like to turn the call back over to David.

David Ruberg - *Interxion - CEO*

Thank you, Josh. During recent earnings calls, I've used this part of the presentation to, amongst other things, discuss why we believe the fundamentals of the European carrier-neutral collocation industry continue to be robust and to outline the opportunity we see as enterprises look to migrate to the cloud. Given the positive change of the market tone around the cloud, we experienced in the fourth quarter, I thought it would be helpful to further expand on these views today.

Please turn to slide 18 and recognise that this is an indicative slide. If we remember from our previous earnings call, we believe that there are three primary sources of demand for carrier-neutral collocation services: IP traffic growth, business growth or economic environment and cloud migration. Our experience in Europe has been that the IP traffic growth has been the primary driver of growth over the last several years and is broadly the same in the US as in Europe. US economy's relative resilience over the last few years and more recent signs of an improving economy have created a more robust environment in the US for business growth, the second engine, than we've experienced in Europe. As a consequence, US-based companies, be they cloud service providers or enterprisers, have been more willing to make the required investments to enable or pursue cloud migration, which is the third engine of growth. They've done this more than European companies at the present time.

We have observed that investment in deployment of large-scale cloud offerings in the US by cloud service providers, accelerated some time ago, with the onset of real enterprise migration following about 12 months later. Based on the higher levels of order that we saw during the fourth quarter and talking to our partners and the, in the fourth quarter, a momentum, which has continued into the first quarter of 2014. We are now seeing cloud service providers making similar investments and deployments in Europe. However, the European macroeconomic situation in a more fragile but improving business confidence are still limiting enterprise investment decision-making here in Europe. As a result, we anticipate that the onset of significant enterprise migration will take slightly longer than the 12 months observed in US; more likely, 12–18 months.

We feel Interxion is very well positioned to capitalise on this opportunity, as it develops and believes that it's supported by our very strong bookings performance in the fourth quarter and momentum of these activities in early 2014. We are proud that major service providers are choosing Interxion as a trusted partner for the delivery of these services. Our facility flexibility, ease of doing business and a shared vision and understanding of enterprise customer needs places us, places us at the heart of their go-to-market strategy.

These magnets are the founding members of our cloud communities of interest and we believe their presence will draw in the enterprises. Similarly, we believe Interxion can deliver significant value for an enterprise deploying its private or a hybrid cloud platforms within our facilities. Interxion's business model enables us to build and maintain our data centres at a value proposition that is more attractive than an enterprise can deliver to achieve individually. It goes beyond total cost of ownership. Interxion delivers even more value than simple cost savings as the enterprise benefits from our expanding cloud community ventures, ensuring that we'll future-proof its IT road map by direct access to the key cloud service providers.

As enterprise cloud migration evolves, we can similarly add value to the platform or enterprise strategic applications. We think of these as requiring real-time performance, which, in turn, can drive significant (unclear) [value] and competitive advantage to the enterprise customer if they are housed in the right location, with the right connectivity, power and other characteristics. The race to real-time is on and Interxion can deliver the superior performance that allows enterprises to build and manage their real-time applications. We believe that we enter 2014 in a very good position, having signed key magnetic customers, who will, in turn, over time, draw enterprises into our cloud committee and drive organic growth, going forward.

Please turn to slide 19. Before getting into the specifics of our guidance for 2014 I'd like to remind you about our guidance philosophy. Our approach is to provide annual guidance for revenue adjusted EBITDA and capex on our 4Q call and publicly update that guidance as necessary, during the year. Therefore, for 2014 we expect total revenue to be in the range of €334 million–344 million. We expect adjusted EBITDA to be in the range of €145 million–152 million and we expect our capital expenditures to be between €140 and 160 million; nearly 70% of that amount, which will be going to service secured orders.

I would, once again, like to thank our employees and all of our countries for staying focused on our customers and continuing to deliver strong results throughout 2013 and so far, into 2014. I would also like to thank your shareholders and our bondholders and our customers for their continued support. Now, let me hand the call back to the operator to begin the question and answer and segment. Therefore, Operator, can you please read out the instructions to register questions from the call?

Questions and Answers

Operator

Thank you. If you would like to ask a question, please press star and one on your telephone. That’s star and one on your telephone to ask a question. If you would like to cancel your request, please press the hash key. Your first question comes from the line of David Barden of Bank of America. Please ask your question.

David Barden - *Bank of America*

Hey, guys. Good morning or good afternoon. Thanks for taking the questions. I guess, three, if I could, for, starting with, maybe Dave or you, Josh: The fourth quarter does look like we saw some slippage, relative to new cabinet or new revenue-generating square metres coming in. It came in at the very low end of the guidance. Could you talk about some of the factors that contributed to that, what appears to be slippage? But, on the other hand, it sounds like you had a really strong bookings quarter and you’re pretty happy about how, especially the cloud momentum is building; maybe, Dave, could you talk about the economics around these cloud deals? Are they similar? Slightly less than or slightly better than the, kind of, run rate deals you’ve been signing? And then lastly, Josh, obviously, you know, 2014’s going to be another funding deficit year; is the plan to use the revolver over the course of the year or will you be coming to the market with a, kind of, more of a locked down financing strategy? Thanks.

Josh Joshi - *Interxion - CFO*

Great, Dave. Thanks very much for your questions. Let me deal with the revenue generating and the other, the final question and let David deal with the economics of the cloud deals. In terms of revenue-generating space, David, quarter-on-quarter, it’s very lumpy. You know, we’ve seen significant highs and lows, actually, substantially lower than what we’ve seen in this quarter. Specifically, we did highlight the fact that the top 15 customer was going to be coming out during the course of this quarter as, and so it finally restructured. So, that was part of it, but, I don't think you should necessarily read anything more than that into the numbers; they do just tend to be lumpy. Looking at the, our funding, you know, the situation that we're in at the moment is that, you know, the RCF that we've got in place gives us enormous flexibility to handle our cash flow ebbs and flows and so we'll continue to use it as designed. Our current business plan remains fully funded and so, you know, I think that we're in pretty good shape at this point.

David Ruberg - *Interxion - CEO*

Thank you, Josh. David, I'm going to take this opportunity, based on your question, to address it in a much larger fashion. These companies that we're dealing with, these cloud service providers, have very strong balance sheets and they're usually accustomed to doing things themselves in their own way. Building and running data centres is one of the core competencies and they know what they're looking for, so when they need to go outside and trust you with some of their most valuable assets, if they have a choice, they prefer to work with partners, not vendors, and there's a big difference. Many of these insulations that we're talking about are relatively small, compared to what they normally deal with and so I want to dissuade people from this.

So, sometimes, people think cost is important, and it is, but it's usually not the deciding factor. They look for partners who understand their business and they're problems, meaning, people who can anticipate what's happening and get ahead of the game. People who have a growth plan that is agile enough to meet the changing needs, not only of their infrastructure, but more importantly, of the customers that they want to draw to their platforms and people who can help them create value. There's also a long list of operational issues that I could add to this list, but when they install their installations and these applications with you, they just don't churn out. And what they're really looking for, is to see if they can trust you to perform on many fronts, not only today, but tomorrow and the next day; and so, the summarising all of that, there's been a lot of rumours circulating, there's been a lot of buzz that to get these kind of customers, that it's all pricing driven and that's just not true.

David Barden - *Bank of America*

So, Dave, if I could just, quick follow up on that—so, it sounds like, well, you're trying to make the point that these magnetic cloud deals, although they are magnetic, they're not, necessarily big, large, price-sensitive types of transactions, that you feel pretty good that these are fitting the economic profile that you've built to date?

David Ruberg - *Interxion - CEO*

David, first of all, they're all over the place; they're big, they're little, there are some that, you know, are a couple of cabinets. All of them fit into our IRR return on, our focus on generating cash returns and enhancing shareholder value, yes. What's really neat, what's really neat is that sometimes you have to deviate from that, in order to get future growth or opportunity. We have not deviated, have not had to deviate in any way, shape or form; we've taken no bad deals.

David Barden - *Bank of America*

Good to hear. Thanks, David.

Operator

Your next question comes from the line of Jonathan Atkin of RBC Capital Markets. Please ask your question.

Jonathan Atkin - *RBC Capital Markets*

Yes, I wondered if you could give us a view as to churn in 2014 and what kind of, what kind of impacts that you're embedding in your, in your guidance?

Josh Joshi - *Interxion - CFO*

Yes, Jon, we've seen churn for the last, I don't know, six years at around 0.5–0.75% per month on average and that's exactly what we've put into the plan for 2014. We've got a very consistent business model. Maybe quarter on quarter it might be lumpy, but on a yearly basis, it's very consistent. I hope that answers your question.

Jonathan Atkin - *RBC Capital Markets*

And then, with regards to the capex, can you give us a flavour—I think, we can tell from your expansion sheet—but, you know, how much of this is adjacent developments on existing campuses versus brand new campuses and that gives us a flavour for, kind of, the capital efficiency of some of the revenues that's going to come off, are going to be generated from those sites?

Josh Joshi - *Interxion - CFO*

Yes. It's 100% adjacent, so, you know, we're planning for very strong efficiency. You know, our philosophy, Jon, is to, is to try and build our data centres on campuses to try and take advantage of the communities, of the interests that are existing there already and that's, I think, why, as you try and identify magnets and they go into one data centre, as you develop other data centres, what you're trying to do is to look for the return on investment over the entire campus over time and that seems to work very well for us.

Jonathan Atkin - *RBC Capital Markets*

And then, finally, I… I'm sorry, go ahead.

David Ruberg - *Interxion - CEO*

And Jonathan, not only, not only for us, but there's a residual benefit to our customers; they like this as well. So, they, it allows them to focus their resources, particularly as they continue to grow. So, it benefits both of us. Now, it creates a little bit of a problem; it's, sometimes, in Europe, a little difficult to find space adjacent and so you have to look out years in advance, but the benefits are outstanding.

Jonathan Atkin - *RBC Capital Markets*

And then there was margin pressure year-on-year in the rest of Europe and then margin pressure in the Big Four quarter-on-quarter; if you could maybe just comment on what the influences were there?

Josh Joshi - *Interxion - CFO*

You know, pretty much, the pressure in the quarter came from increased sales compensation expense, broadly speaking and, you know, if, I see that as a pretty good reason for the pressure, overall.

Jonathan Atkin - *RBC Capital Markets*

Got it. Thank you. Thanks very much.

Operator

Thank you. Your next question comes from the line of Michael Rollins of Citi Investment. Please ask your question.

Michael Rollins - *Citi Investment*

Hi. Good morning and thanks for taking my questions. First question is, if you were to look at, you know, what your business plan for the full year, your portfolio facilities, getting the full utilisation, based on what you have built today and what you have in the plans to build, that you've publicly announced, how big is that revenue opportunity? Where can that revenue number get to from where it is today, over the longer-term? Second question is—and forgive me if you talked a little bit about this—but you did mention that you were having some bookings, some cloud that would deploy later in the year; is that an extended book to bill cycle? And does that affect the loading factor of revenue, where it may be more backend loaded? Thanks.

David Ruberg - *Interxion - CEO*

Okay. Well, they're very quickly calculating the answer to your first question. The second one, the answer's yes: the, our traditional book to bill ratio was, has seen a little bit of change, given the bookings that we took in the fourth quarter. It takes time for us; these are not specialised designs for anybody, but there is planning that goes into some of this, both on our part and on the infrastructure provider's part and then there is substantial amount of testing to verify that qualifications are met and, in some cases, we just didn't have the space enough to build it. So, yes, we are very happy with the fact that people have looked at us. Normally in this business, if you don't have the space available in the next three–six months, you don't get the order and the fact that people recognise the value of our communities and our ability to grow with them over time, we've seen people give us more lead time to develop the facilities and that's changed the book to bill ratio.

Michael Rollins - *Citi Investment*

And if I could just follow up on the competitive side of the business, you talked before about the bigger competitors in the pan-European markets that you faced. Are you seeing any changes, either in the larger competitors or in some of the smaller, more fragmented competitors in your markets? Any consolidation waves that you see happening or, you know, a change in the number of big and small providers? You know, if you can give us, maybe, just a little more flavour of what you're seeing on that front? Thanks again.

David Ruberg - *Interxion - CEO*

As an example, London has seen an influx of quite a few, purportedly, retail-oriented companies funded by private equity. We see no change in the competitive landscape with their present. The other two that we've talked about repeatedly are tough competitors and, I think, you cover both of them. The one that's most visible to us is the one that comes from the United States. They sit in a more robust economic situation. They are dealing with enterprises that are mainly global in nature and they have a pretty good indication of what's transpiring. So, have they changed? You can read their press and you can see what their thoughts are. Sometimes, they change to make themselves look more like we do. I notice that they've adapted some of our terminology. So, in terms of the impact on us of their changes—nothing. Did we answer your question?

Michael Rollins - *Citi Investment*

Yes, and then, and just, if you have that number on the revenues?

Josh Joshi - *Interxion - CFO*

My, you know, the, our focus is trying to look for the cash returns on the investments that you make. Now, if you look at how many square metres that we've got at the end of the year, at just over 80,000 and when you look at a maximum equippable square metres, we're running not far short of, potentially, around 100,000 square metres of just what we've got in our books and that doesn't even include the land that we've been building in, the land bank that we have in Frankfurt, going forward. We have, we have looked, as David said earlier, we look forward quite a long way, in terms of what the potential opportunity is and the way that we look at that is to say, okay, well, you know, there's a, there's a significant opportunity there, a significant opportunity to grow our volumes, a significant opportunity, as they develop, into, sort of, 80–85% utilised data centre space for the revenue to potentially grow from increased energy and power capacity utilisation and then to drive something like 30% annual cash returns from it. So, I'm not putting a number out there, but, I think that the opportunity is significant.

Michael Rollins - *Citi Investment*

Thanks very much.

Operator

Thank you. Please be advised that in the interests of time, there will be a limit of one question and one follow up question per person. Your next question comes from the line of Jonathan (unclear) [Schuck] of Evercore. Please ask your question.

Jonathan - *Evercore*

Good morning. Thanks. I guess, I guess, I'd like to focus my one question on 2014 and maybe understanding the dynamics of revenue growth. You know, I'd say, this quarter was a little surprising in terms of the MRR and cabinet—pardon me—square metre trends, versus what we're expecting and, as we look out to next year, I'm just trying to understand the balance that is embedded in your expectations, which is predicated on square metre sales, versus pricing or MRR gains. Historically, you, sort of, laid out this vision of MRR maturity and growth over time and, you know, given the strong cabinet adds in 2012, or square metre adds in 2012 and, sort of, a slowing towards the end of this year, I guess, I would have expected MRR to have been a little stronger, although, there may have been some reflection of the MRR of the 1% customer churn. Thanks.

Josh Joshi - *Interxion - CFO*

Hey, Jonathan. Thanks for your question. There are several components to what you're asking. The, one of the things that we would have expected over the year would have been the, you know, the development of metered energy usage and, you know, I think that that's partly economy-driven over the course of the year in Europe, in terms of how that's utilised and, I think, I said in my prepared remarks that energy was essentially flat, revenue from energy was in flat, quarter-over-quarter. I'd like to remind you that back in 2012, we talked about a, you know, we had a lot of square metres come on but we'd also took on a large customer that was, actually, purchasing power directly; that was the first time we've ever done it, but, and we've never done it again, but nevertheless, you know, one needs to take that into account, when you're thinking about how our ARPUs would have developed this year and indeed, how it, how they develop going forward.

You know, the underlying dynamics and, you know, and I've kept the chart in the appendix to the presentation, the underlying dynamics have not changed: we continue to see the development of people purchasing space from us and then purchasing power capacity and then energy over time. We're, you know, we've had a very good fourth quarter, I think, and, as we've looked forward, in terms of our guidance, you know, there are some perspectives. I think, again, if you look at the way that we're deploying the capital in the space, it's probably going to be more of a second-half weighted year on the top line and the other thing that I would point out is that, you know, classically, given the seasonality of our business, we always see some element of margin slow-down in the first quarter and that is to be expected. But again, we've given the guidance with the year as a whole.

David Ruberg - *Interxion - CEO*

Keep in mind that one of, a large portion or a substantial portion or a meaningful portion of our revenue comes from media power. We've, kind of, given up trying to forecast when this is going to improve because this really is economy, economic situation-dependent; you have someone that's got five cabinets or ten cabinets and their business isn't doing that well—these machines go into sleep mode. So, that has had an impact. The key for us is that the people are anticipating this year and next year, the people that buy space are anticipating that their businesses will pick up and therefore, they are buying space and power reservation for us; whether it turns immediately into, or six months, nine months now into them actually, consuming their power is a different story.

Jonathan - *Evercore*

Okay. For my follow-up question, I'd like to know if some of these long-dated commencements that you highlighted for the end of this year and the beginning of next year, if you give us a sense as to whether that was coming from demand within the existing base or if these were new customers or if there was a balance between the two? Thanks.

David Ruberg - *Interxion - CEO*

Both, and that, quite honestly, I think, the numbers show that the demand that we've got in the fourth quarter represents what we've seen historically, which is, probably, 60 or 70% coming from our existing base and 30% from new customers.

Josh Joshi - *Interxion - CFO*

That's right.

Jonathan - *Evercore*

Thank you for taking the questions.

David Ruberg - *Interxion - CEO*

Not at all.

Josh Joshi - *Interxion - CFO*

Thank you.

Operator

Your next question comes from the line of Milan Radia of Jefferies. Please ask your question.

Milan Radia - *Jefferies*

Good afternoon. Thank you. A couple of questions, actually; the first was, just following up from that previous dialogue: in terms of the large cloud century deals that you've talked about and the dilution to the MRR, I guess, it would be the case that these are sophisticated customers, typically, starting off at very low powered entities. So, presumably, way below, potentially, 1 kW per square metre. What is the nature of the discussion or contractual arrangement that might even be place, in place with these customers, as to when they, sort of, ramp up their power take-up? Is this something that they're in position to predict and give you some indications as to, okay, look, it happens 18 months after the initial installation, which, say, in Amsterdam 6, might have been in December 2012, for example?

David Ruberg - *Interxion - CEO*

That's an interesting question. You used some words in there that I've never used and so I can't go back and explain which ones I'm referring to, but some of these are not large deals; you made some assumption. These are all kinds of different structures and there are people sometimes that reserve space because they want to be in the data centre and they've heard that other people are there and they're chewing up space. So, it's not just big deals; they're big deals, they're small deals, all right? These are people that are anticipating, over the next couple of years, they want to have contiguous space. We don't just give it away; so I wanted to address that first.

Second of all, yes, lot of these people started out with maybe 1 kW per square metre with the right to overtime to come to us and say, okay, I, now one and a half, now I want two, I want 1.75; and so can they predict it? That has been the real issue, is nobody's been able to predict this. What we've seen now is a willingness to deploy the capital primarily coming from companies in the United States and whether it be cloud providers or enterprises that are willing to take more of a risk than they were in the past and start to deploy. Whether they consume the energy and power right away doesn't seem to be as great a concern to them now as to getting the capital in place, should that happen. It's a whole lot easier to turn up the equipment than it is to place the equipment.

Milan Radia - *Jefferies*

Okay. That's helpful. And then a second question was really around that 70% of capex comment and tying that into bookings that are, kind of, in place or customer requirements. So is there a—you know, that's about €105 million, I guess, at the midpoint of the capex guidance range—is that, sort of, can that be tied directly to a specific bookings type figure or some other indication of what the quantity of revenue opportunity around that customer commitment is?

David Ruberg - *Interxion - CEO*

Not directly, because, you know, if we build a new data centre, sometimes the capex that goes into the data centre is front-end loaded, so, we, you can’t tie that directly, okay?

Milan Radia - *Jefferies*

Okay. Great, thanks very much.

Operator

Thank you. Your next question comes from the line of Michael Bowen of Pacific Crest. Please ask your question.

Michael Bowen - *Pacific Crest*

Okay, thank you for taking the questions. One of the things, Dave, that we’ve noticed over here, at least, in the US, is that it seems like some of the enterprise budgets are potentially being set much later than we’ve seen in many, many years, so I was curious, with regard to the enterprise customers in Europe, whether you’re seeing any of that and whether that’s having an impact. And then, secondly, with regard to margins, can you expand a little bit about how your sales force is tops? Because, obviously, you know, bookings were stronger, but your margins, being lower, you know, I understand if you’re, if you’re, you know, seeing front-end sales comp cost but how much of the sales comp is, actually, booked in the beginning before the revenue begins? So, that would be very helpful. Thank you.

David Ruberg - *Interxion - CEO*

Okay. I'm just thinking about the answer. What was…?

Josh Joshi - *Interxion - CFO*

Well, let me, let me deal with the sales comp question; the, we, Michael, we tend to accrue almost all of the sales comp at the time that the sale is made, although the actual payment of the sales compensation is different, based on, first, when the contract's signed and then when the first invoice is sent out. So, I hope that answers that question.

Michael Bowen - *Pacific Crest*

All right, yes.

David Ruberg - *Interxion - CEO*

It was an interesting question, the IT budgets. You know, I'm not sure what you meant by the fact that the budgets are getting set later in the United States, but one of the advantages of having partners that we, the partners we have in the United States is we get, even though we don't provide service there, we get some input and the US IT budgets are expanding enough to allow for the experimentation to move to the cloud. We have not yet seen that in Europe. What we're still seeing, at least, so far now, is the European-based companies are still focused on reducing their expenses and not improving—and I don't want to get in trouble here by making this general a statement—but I haven't seen a whole lot of indication yet that the economies have recovered enough that these guys can now focus on improved productivity or improved effectiveness; it's more still on cutting costs and reducing their cost. What we are seeing is a lot of the infrastructure providers from the United States deploying capital and that's being driven a lot by the US enterprises wanting to have European operations coming to Europe. So, did that answer your question?

Michael Bowen - *Pacific Crest*

Yes, that's helpful. I think, I think, in the US, what we've seen is that it's more of a timing issue. If I hear you correctly, in Europe, you know, there's a lag effect between Europe and the US, so it's not really a timing issue, per se. It's that they're moving toward the cloud and, if anything, my question might apply next year, if you will. So, yes, that helps very much.

David Ruberg - *Interxion - CEO*

Yes, there's always been a lag, okay. And again, as tried to indicate in that slide on 18, on slide 18, we tried to portray that, and again, what has to change first is sentiment. Sentiment changes first and then investment follows, okay, and the sentiment in United States, again, appears to be a little more robust than it is here. In Europe, it's still a little bit up and down and so it's a little more cautious and, I think, we all know what's happening in Eastern Europe and that's had an, hasn't had an impact on us and we have no exposure to that, but it does influence people's investment decisions.

Michael Bowen - *Pacific Crest*

Yes, thank you very much.

Jim Huseby - *Interxion - VP*

That concludes our conference call, everybody. Thank you very much for joining us and we'll speak to you again in a couple months. You may now disconnect.

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