INTERXION (ECPLUS)

Moderator: Jim Huseby
November 5, 2014
13:30 GMT

Operator: Thank you for standing by and welcome to the Interxion Third Quarter 2014 earnings conference call. At this time, participants are in a listen only mode. There will be a presentation followed by a 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 November 5, 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: Thank you, (Julie). Hello, everybody, and welcome to Interxion's third quarter 2014 earnings conference call. Today, you'll be hearing from David Ruberg, Interxion's Vice Chairman and CEO, and Josh Joshi, the Company's CFO.

To accompany our prepared remarks, we are again providing a slide deck. 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 have not already done so.

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

In addition, we will provide non-IFRS measures on today's conference call. We provide a reconciliation of 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.

I would also like to remind you that we post important information about Interxion on our website, at www.interxion.com. We encourage you to check our website for the most-current available information. We also post information on social media sites, such as Facebook, at facebook.com/interxion, and Twitter, at @interxion. We encourage you to follow us on these sites as well.

As usual, following our prepared remarks we will be taking questions. And now I'm pleased to hand the call over to Interxion's CEO, David Ruberg. David?

David Ruberg: Thank you, Jim, and welcome to everyone to our third quarter 2014 earnings call. Now please turn to the slide 4 of the presentation.

Interxion delivered solid operating and financial results in the quarter. Financial and operating results continued to improve as we had an increase in revenue growth and a continuation of the bookings momentum that we experienced in the earlier part of this year.

Our community-of-interest strategy continues to show attractive results, as magnetic customers are being installed and signs are starting to emerge of increased activity amongst the members of these cloud communities.

During the third quarter, revenue, which is still all organic, grew by 11 percent year over year and 3 percent sequentially. Adjusted EBITDA grew 11 percent year on year, and 4 percent sequentially. Adjusted EBITDA margin was 43.1 percent, up from 42.9 percent last quarter, and consistent with the third quarter of 2013.

In the quarter we opened our third datacenter in Stockholm, completed another major expansion phase in Amsterdam and completed the purchase of the datacenter in Marseille. Since we announced that we would be entering the Marseille marketplace, customer response has been outstanding. It is clear that the opportunity to access both markets in Africa and Asia, from a European gateway market, is generating a lot of interest. In Marseille we will open our first 500 square meters of this facility in the fourth quarter, and open the second 500 square meters in the first quarter of 2015.

Overall demand remains healthy as the bookings momentum continued in the quarter. We continue to see bookings strength in multiple markets, including Frankfurt, Amsterdan, Stockholm and Vienna and, as a result, we announced our intention to construct Stockholm 4 and to build out two additional expansions in Vienna.

Please turn to slide 5. As usual, Josh will review the financial results in more detail, but I would like to point out that both total revenue and recurring revenue in the third quarter saw double-digit growth and, combined with the high level of customer installations, demonstrated the momentum that we are currently experiencing in our business.

Please turn to slide 6. The third quarter was again strong, from an operational perspective. We ended the quarter with 88,600 square meters of equipped space, which is up 12 percent year over year. Revenue-generating space increased by 4,200 square meters and ended the quarter at 68,500 square meters, which is up 16 percent year over year.

New installations, both this quarter and for the year to date, are close to historical highs, resulting in an increase in our utilization rate, by 2 percentage points.

Commenting on other key metrics of the business, our sales pipeline remains healthy. Our bookings were strong. Pricing continues to be in line with the last few quarters. Book-to-bill times haven't changed and ARPU, as forecasted, declined due to the significant amount of new square meters installed, and churn remains low and consistent with our historical range of between 0.5 percent and 0.75 percent per month on average.

Please turn to slide 7. In September we opened the third phase of Amsterdam 7, adding 1,500 square meters. We also opened Stockholm 3 during the last week of the quarter, adding another 900 square meters. Both projects opened a little ahead of schedule and, as a result, we were able to accommodate some of the early-access requirements of customers, who were eager to deploy. The rest of our expansions are on schedule.

We ended the quarter with 96 megawatts of customer-available power, and a total of 145 megawatts of maximum available customer power within our current and announced datacenters.

Please turn to slide 8. Our community of interest continued to develop with growth in each of our segments. Once again, the managed-service-provider segment was our strongest segment. For more than five years we have worked hard to define, develop and refine both our community-of-interest strategy and our identification of magnetic customers and applications, which will then go on to attract other customers and deliver vibrant communities of interest with long-term value for both our customers and our investors.

This has been a (technical difficulty) …

Operator: Please stand by. We are just rectifying technical difficulty.

David Ruberg: … and our approach is validated by our leading position in Europe within the cloud segment.

With that, I'd like to turn the phone over to Josh.

Josh Joshi: Great, thank you, David, and welcome to everybody on the phone and online. As usual, I will start by discussing the Group results and then review our two geographic segments, followed by a discussion of our capital expenditures, balance sheet and returns. And if I could ask, please turn to slide 10.

Interxion delivered another quarter of solid execution and disciplined expansion. During the quarter we saw strong growth in recurring revenue and adjusted EBITDA. Total revenue in the third quarter was EUR86.4 million, up 11 percent compared to the third quarter last year and up 3 percent sequentially.

On a constant-currency basis, revenue growth was 10 percent year over year and 3 percent sequentially. Recurring revenue made up 94 percent of our total revenue for the quarter, at EUR80.9 million, and was up 10 percent from last year's third quarter, and up 3 percent sequentially.

Non-recurring revenue in the quarter at EUR5.6 million increased 14 percent over the previous quarter, and is 29 percent ahead of last year. The high level of non-recurring revenue was in line with our expectations, and driven by the significant installations in the third quarter.

As we had forecast, recurring monthly ARPU was down in the quarter by nearly 3 percent from our levels in the first half year. As discussed before, there are a number of factors that can contribute to the development of recurring ARPU over time, with the customer uptake of power and energy having a meaningful impact on ARPU growth, as well as of course geographic mix and deal size.

This quarter, a prime driver was the installation of 4,200 square meters of revenue-generating space. As we look forward, I would expect recurring ARPUs to move down in the last quarter of the year by another 1 or 2 percentage points, again predominantly driven by additional revenue-generating space coming online. This is fully factored into our guidance for the year.

As we move into 2015, I expect the broad trends in our business to continue through the first half, but recurring ARPUs should start to improve somewhat beginning in the second half of next year.

Cost of sales in the third quarter was EUR35.5 million, up 12 percent over the same quarter last year and up 5 percent sequentially. Gross profit was

EUR50.9 million, an increase of 10 percent year over year and 3 percent sequentially.

Gross margin in the third quarter was 58.9 percent, decreasing slightly from the previous quarter, largely to the usual seasonality of energy costs and the high non-recurring revenue in the quarter, which generally had lower margins.

Sales and marketing costs were EUR5.9 million in the quarter; down 5 percent sequentially and up 8 percent year over year. Sales and marketing costs for the third quarter were 7 percent of total revenues, at the low end of our usual 7 percent to 8 percent of revenue range.

Other G&A costs, at EUR7.7 million, were up slightly sequentially, and increased 9 percent year over year. At 9 percent of revenue, other G&A costs were at the bottom end of our typical range of 9 percent to 10 percent of revenue and reflected continued strong management cost management across the Group.

Adjusted EBITDA was EUR37.3 million, an increase of 11 percent year over year and up 4 percent sequentially. Adjusted EBITDA margin in the third quarter was up 20 basis points sequentially and essentially unchanged year over year. EBITDA margins were impacted by the increased expansion-related costs within gross margin that I just mentioned.

Depreciation, amortization and impairment expense was EUR16 million, an 8 percent sequential increase and a 5 percent increase year over year. The movement in D&A expense is tracking our gross investment in datacenters reasonably well. You may recall that in the fourth quarter of 2013 our – we reassessed the useful lines of certain datacenter assets, and this will affect the year-over-year comparison this quarter.

We booked EUR7 million of net finance expense in the third quarter, lower both sequentially and year over year, both of which are due to refinancing activities. The sequential decrease is also largely the result of a prior-quarter write-off of EUR0.6 million in deferred financing fees, as part of the bond tap. And I would also remind you that our prior-year third quarter included a EUR31 million one-off charge related to our last year's debt refinancing.

We booked income tax expense of EUR3.9 million in the third quarter, resulting in an effective book tax rate of 30 percent. We expect the effective book tax for the full year to be within the 30 percent to 31 percent range. On an LTM basis, the cash tax rate is 15 percent, and we would expect our full-year cash tax rate to be in the same area, though trending higher over time as we go forward.

Reported net profit for the third quarter was EUR9 million, 8 percent higher sequentially. In last year's third quarter we reported EUR16.5 million net loss, as a result of the EUR23 million after-tax impact of the one-off charges related to the debt refinancing.

Adjusted diluted earnings per share during the quarter were EUR0.11 on the basis of 70.0m diluted shares. Adjusted EPS was unchanged compared to the second quarter, and up from the EUR0.10 in the third quarter last year.

Now let's take a closer look at our geographic segments. Please turn to slide 11. Revenue in the big four was EUR54.9 million, up 12 percent year over year and 5 percent sequentially, and accounted for approximately 63 percent of the Company's quarterly total. Recurring revenue growth was 11 percent year over year, and 3 percent sequentially. We saw continued strong year-over-year growth, especially in Germany and the Netherlands.

Adjusted EBITDA in the big four was EUR29.2 million, with margins at 53.3 percent, down 120 basis points from the third quarter of 2013, and down 10 basis points from last quarter, both due to a combination of factors including seasonal energy costs, increased non-recurring revenue at lower margins, expansion drag and increased sales commissions.

As I've mentioned before, the increased non-recurring revenue in the third quarter is driven by the high level of revenue-generating space added in the quarter.

Demand continues to be healthy in the big four markets, and the order-driven momentum that we have developed, together with the attractive opportunity opened up by our Marseille investment, leaves us optimistic on the development of this reporting segment.

Revenue in the rest of Europe was EUR31.6 million, up 8 percent year over year and 1 percent sequentially. Recurring revenue growth was 8 percent year over year and 2 percent sequentially. Adjusted EBITDA was EUR16.8 million with margins of 53.1 percent, improving both year over year and sequentially.

Austria saw solid revenue growth in the quarter as it successfully positions itself as a cloud gateway to Eastern Europe. Ireland and Sweden also had strong quarters and we continue to invest selectively within our rest-of-Europe markets, based on customer demand. Excuse me.

Moving to slide 12 I will discuss capital expenditures. Capital expenditures, including intangibles as seen on the left-hand chart, totaled EUR57 million during the third quarter, with EUR51.2 million of that devoted to expansion CapEx and EUR5.8 million to other CapEx including maintenance CapEx.

We have made demand-driven investments across our footprint, with 65 percent of this quarter's capital expenditures going to the big four markets and 31 percent to the rest of Europe. As in the previous quarter, most of the spending was in Amsterdam, Frankfurt and Vienna, where we are adding order-driven capacity. Additionally in the third quarter, we completed the purchase of our Marseille datacenter, and the cash cost of that in the quarter was EUR8.5 million.

Over the course of 2014, over 60 percent of our capital expenditure was being invested to support signed customer contracts. As we look forward to the full-year upturn, I expect that statistic to remain unchanged. Please turn to slide 13, where I will review the balance sheet.

Cash and cash equivalents were EUR112.8 million at the end of the third quarter, up from EUR45.7 million at the yearend. In the third quarter we increased our financial lease obligations by EUR13.4 million, as we took out a financial lease at our Amsterdam second datacenter, and the blended interest rate ticked up slightly to 6.1 percent as a result.

During the third quarter, Interxion generated EUR33.6m from operations and, as already mentioned, utilized EUR57m for capital expenditures including intangible assets.

At September 30, our gross leverage ratio was 3.8 times LTM adjusted EBITDA, while net leverage was 3.0 times.

Cash ROGIC, which is our cash return on gross invested capital, was 12 percent, which is an industry-leading figure. But perhaps hold that thought, and I'll come back to this point very shortly.

With cash on hand, the strong discretionary cash generation of our underlying datacenter assets, and access to an undrawn EUR100m revolving credit facility, we remain well capitalized and fully funded. Please turn to slide 14.

This by now should be a familiar chart to those that know us. In this quarter, we've modified the group of datacenters we are evaluating, to aid comparability with our industry, but the message is the same. Interxion has a disciplined investment approach with attractive returns, 27 percent annual cash returns on our fully built-out datacenters.

At Interxion we follow a simple philosophy, to secure long-term value and attractive long-term cash returns. We do this by developing the right communities of interest in our datacenter campuses and, within those, securing the right magnetic customers and applications that will allow long-term value creation. Or in other words, cash returns to flourish.

This is an approach that we have been pursuing here at Interxion for a long time. To be successful, we believe the approach requires discipline and rigor in execution, but also a balanced judgment timing and the continued investment in customer development and acquisition.

As we think about returns, we think about the price, or yield, that we derive from the customer. And I know that externally there is a lot of scrutiny on our ARPUs. But that focus tends to overlook the other factors in the return equation, mainly cost and relative investment, which we also spent a great deal of time on, because at Interxion we are pursuing, measuring and tracking returns.

So going back to the chart on slide 14, this shows, as I said, the returns on our fully-built-out datacenters. Now these are datacenters which have been built out as far as space is concerned, though there may well be further power upgrades to come. And as at January 1, 2013, we were operating 24 fully-built-out datacenters. We had invested approximately EUR0.5 billion in them, including maintenance CapEx and any intangibles, if applicable, to get a true, complete investment analysis.

Now as at September 30, 2014, these fully-built-out datacenters generated EUR214 million of LTM revenue at 66 percent gross margin, and an annual cash return of EUR138 million or, as I've said before, 27 percent of the investment in them to date, annually.

Now when including all investment items, such as intangibles and goodwill, in calculations as I've just mentioned, this return is an industry-leading metric. And I would remind you that datacenters included in this analysis, in truth all of our datacenters, no cherry-picking. This list also includes our Amsterdam 6 datacenter, which we opened towards the end of 2012.

Our approach remains focused and consistent, to identify opportunity to secure attractive long-term returns in a disciplined, measured manner. And, with that, I'd like to return the call back to David.

David Ruberg: Thanks, Josh. Please turn to slide 16. This slide, which we've now presented over the last four quarters, is a presentation of our view of the potential cloud adoption curves, both in the United States and in Europe. Our view is derived from market observations and discussions with our customers, our customers' customers and our US-channel partners. And in summary, we believe that the market is evolving along the path and the timeframes that we've discussed on previous conference calls.

Enterprise cloud adoption is happening in different timeframes across the three different cloud platforms of software as a service, infrastructure as a service and platform as a service.

For example, software as a service emerged almost a decade ago, and we call that software as a service, say version 1. Enterprises of all sizes adopted the single-point application services in a discrete manner, rather than in a part of this holistic approach, with the primary driver being feature flexibility and software maintenance cost avoidance.

The next step – version that emerged, was the emergence of infrastructure as a service, version 1, in approximately 2006/2007, and was providing cost-effective data storage, archiving, backup and compute time on a pay-as-you-go basis. These services were predominantly adopted by emerging companies, SMEs and by some large enterprises, mostly deploying single-focus solutions.

More recently, platform as a service has emerged. While software as a service version 1, had been used in earnest in production mode by enterprises, we believe that infrastructure as a service and platform as a service, the early adopters have predominantly been used by SMEs and large enterprises for experimentation and development purposes, rather than large-scale business-critical applications.

In all, enterprise cloud adoption remains in its early stages. Now we believe we are entering the second phase of cloud adoption, a much larger and more expansive phase. And this is being enabled by the build-out of network and datacenter infrastructure and tool development to support real-time business-critical applications.

This new infrastructure and tool now enables large-legacy business-critical applications to be effectively connected to public cloud capability. As enterprises look to create value, by more effective interaction with their customers, or to control costs, or to maintain business flexibility, or to manage risks, a hybrid cloud solution offers them a compelling proposition.

Private clouds – private clouds give enterprises control over workload-execution predictability, as well as managing data privacy and security. Connecting these private clouds to public clouds to form hybrid clouds, provides enterprise users more business flexibility and infrastructure scale ability to do with fluctuating and developing customer demands.

Fundamentally, Interxion makes this hybrid world a reality for enterprises. We provide the required network connectivity to join the public cloud platform with the private clouds via our cloud hubs with capabilities, such as our recently-announced cloud connect product. This network connectivity enables enterprises to both reduce costs and ensure optimal application performance, in a hybrid cloud deployment

At present, we believe everything continues to track to a pickup in usage and deployment by European enterprises during the second half of 2015. And of course, as we've discussed in the past, the state of the European economy is still a contributing factor to the adoption rate of cloud solutions by European enterprises.

Please turn to slide 17. Today we are reaffirming our previously-announced full-year financial guidance. To be specific, for the full year 2014 we are expecting revenue to be in the range of EUR334 million to EUR344 million. We expect adjusted EBITDA to be in the range of EUR145 million to EUR152 million, and we expect to invest between EUR200 million and EUR230 million in capital expenditures this year.

I would like to thank again all of our employees in all of our countries for staying focused on our customers, executing against our business plan and continuing to deliver solid results. I would also like to thank our shareholders and bondholders for the continued support of Interxion's development.

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

Operator: Thank you. If you would like to ask a question, please press star and one on your telephone. If you’d like to cancel your request, please press the hash key.

Your first question comes from the line of Colby Synesael of Cowen. Your line is now open.

Colby Synesael: Oh great, thank you. I wanted to talk about the returns. I appreciate all of the information that you provided. First off, with the more aggressive approach towards cloud in terms of demand and you going after that, are you willing to settle for a lower return associated with those types of customers, or for the facilities that are focused on those types of customers than you have than historically? And therefore, could we see the return profile of the aggregated company over the next few years perhaps come down?

And then the second question is, just from a timing perspective, could you walk us through the timeframe required to get to those returns. And could the more aggressive approach towards these cloud companies, has that perhaps been elongated so that when you actually do look at a facility over a certain amount of time we now need to take it out a little bit further to hopefully get back to the return that you've been seeing historically. Thanks.

Josh Joshi: Great, thanks, Colby. This is Josh. I appreciate your questions. Yes, as I was saying our approach is about returns. And in evaluating those returns and as you look at it as a mix of data centers and customers there are varied returns over time. We look at it on a holistic basis and we are focused on developing the campuses and developing those returns over time.

And so if you look at the return profile what we'd expect to see as in the early days of bringing data centers online obviously the returns are lower because that they will tend to develop, so that tends to dilute the returns. And then as the data center develops we would expect those returns to increase.

What we are trying to target in terms of the returns profile of our business hasn't changed. And we've been very consistent in our approach. And our goal is to develop magnetic customers through cloud platforms and also cloud communities and other communities to stimulate these returns over the long term.

The timeframe is different in each circumstance, so in certain occasions it can take longer, in others it may take less. We think that normally to fill a data center, and that's the point in time when a data center is fully built out and full up, we think normally it takes about three years. But nevertheless we've been, as you know, we've been significantly faster than that in the past as well. So overall I think our approach continues to be, as I called it, industry-leading.

David Ruberg: Colby, I think most people don't look at the fact that this, what we are going through now is actually a repeat of what we did 10 years ago. If you look at how this industry started, it was carriers sitting there developing the community venture and then the enterprises sat around them.

And in the early days the returns were not as robust on the carriers saying to each other, it is as the community developed around them. And it is the same concept here, and we are going through the same adoption rates and we expect the same returns in developing the cloud community that we did in the carrier community.

Colby Synesael: Great, thank you.

Operator: Thank you. Your next question comes from the line of James Breen of William Blair. Your line is now open.

James Breen: Thanks. Just a couple of questions. One, Josh, on the ARPU side you expect to come down 1 percent to 2 percent in the fourth quarter and then through the beginning of next year. And then to just clarify in the back half of the year you expect it to actually increase in absolute basis or just come down a lesser amount in the back half.

And then secondly with respect to EBITDA margins in the big four markets, it came down about 120 bps year over year, and you talked about the build-out costs there. Can you give us an idea of what it would have come down – or what would have happened to margins absent the one-time revenues? Thanks.

Josh Joshi: Yes. If you look at what we've done in terms of margins we've actually been very proud of our ability to largely maintain margins over the past two years. And this has been a period of unprecedented growth for us.

Over the last eight quarters or so we've seen our equipped space grow by over 30 percent and 12 percent over the last year. Clearly, one of the impacts on margins was the nonrecurring that you talked about. That probably in broad terms was something just shy of 50 bps, 50 basis points in terms of impact. But nevertheless that we would expect to see coming in and out of our business as we have these nonrecurring revenues which can be pretty lumpy over time.

But in terms of an overall trend, as we think about margins, we would expect to continue to get in the medium to long term continue to get operating leverage as our revenue grows. And so that is going the fundamental part of what we are trying to achieve here at Interxion.

And going back to the ARPU point that point is in fact the exact same point, over time we would expect to continue to see ARPU development and ARPU growth as customers take up power and energy and as they increasingly use their facilities. And from that perspective we have an indication that the – we anticipate, all things being equal, that the ARPU development increasing ARPUs will probably start in the second half of next year.

James Breen: Great, thank you.

Josh Joshi: Thanks Jim.

Operator: Thank you. The next question comes from the line of David Barden of Bank of America. Your line is now open.

David Barden: Hey, guys, thanks for taking the questions. I guess just a couple if I could, so Josh really following up on that I think the last time that you guys had a significant amount of new space coming on it was really the fourth quarter of 2012. Can we look back to that late 2012, early 2013 trajectory to try to get a road map for how we should be modeling out the MRR so there is kind of a consistency of outlook. I think that would be kind of a helpful guide.

Second, just on the higher than expected equipped space that we saw at the end of the third quarter, does that give you any incremental comfort that as we think about the range of guidance, we are maybe steering towards the middle or higher end rather than the low end given how space is coming in a little bit maybe sooner than expected.

And then my last question is just on the competition at the margin. Dave, I think you were early in a year ago embracing this cloud contract situation where you said that the light switch had gone on. I think more recently guys like Equinix are pivoting more aggressively towards this opportunity. And I was wondering if you're starting to see that or feel them or others in the market trying to penetrate where you are or where you want to be in this market. Thanks.

Josh Joshi: Great, Dave, let me – it's Josh, let me answer the first two and then I'll hand over to David. On your question around ARPU, yes, I think you're absolutely right. What's the interesting thing is that over the last three quarters we've added more revenue-generating square meters than any three consecutive quarter periods in the company's history. And we were – the last time we saw that happening was, as you rightly pointed out, towards the end of 2012 and the beginning of 2013.

And I think in terms of trying to figure out what's going on in our business as you're trying to understand what's going on with our ARPUs that is a good perspective. At that point in time I think we saw ARPUs dip by a similar amount, something like 3 percent in 2013. And so – as we were adding globally generated square meters. So going back to your question the short answer is yes absolutely.

Regarding guidance in terms of either revenue or EBITDA or indeed CapEx, as you know, David, we think carefully about our guidance at the beginning of the year and we put out our numbers and then we don't change the guidance, or try to provide any kind of color in terms of where that's going to come in into the middle or where we will be in the range. So we are comfortable with our guidance ranges that we …

David Barden: There's always the first time, Josh, you can do it.

Josh Joshi: Not today though. David?

David Ruberg: All right, from a competitive standpoint I think we are very happy with where we are in terms of the platform providers, in terms of what we have been able to accomplish over the last year. And there may be on the periphery additional competition but it is not impacting our goals our objectives and our ability to execute.

We developed very good partner approach with many of these players, which is what we – we talked about this for a long time. We don't want to just be a vendor we want to be a partner and that is a differentiating factor, understanding where they're going, what they're trying to accomplish and how we can participate with that. And it has been a very effective sales and marketing approach.

David Barden: Got it. And just, David, on that competition at the periphery, these are larger deals, they tend to be more the 50, 100, 200 kilowatt type size depending on how large they get. Is that at the margin creating pricing pressure in this environment relative to what you saw when you were more feeling these deals by yourself a year ago?

David Ruberg: No.

David Barden: Right.

David Ruberg: Some of the players that we are playing with are really smart and they deploy a lot more capital on their own behalf than the carrier neutral business does. They know what the costs are. So when you look at players like this it's a combination of effective design. By the way keep look at – we are focused on returns. One side of it is what you get for it and the other side is what you pay for it.

And so there is a very interesting balance, there is a timeframe associated with it. But there is an environment that you're trying to create to build something for someone and have no traffic on it means it's not attractive to anybody.

So it's a combination of all of these factors. And again as Josh indicated if you look at that chart on 14, which is included all of the 25, 24 data centers one of which is a relatively large data center, the returns are very good.

David Barden: Got it, all right, thanks, Dave.

David Ruberg: Thanks, David.

Operator: Thank you. Your next question comes from the line of Michael Rollins of Citigroup. Your line is now open.

Michael Rollins: Hi, thanks and good morning. Just wondering on two things, first, your view of staying Pan-European versus global and the opportunities that you could have from a growth perspective if you take a more global approach to the portfolio.

And then secondly just related to some of the other questions, is there a way for you to disclose maybe the cross-connect demand or some kind of measure of volume in terms of the momentum that you're seeing in the early days of the cloud and hybrid cloud. Recognizing that I think you don't charge for a lot of interconnection but just to get maybe some sense of how interconnected your community is becoming in the cloud. Thanks.

David Ruberg: All right, on the first question, if you look at what's transpiring in the industry in terms of the adoption of the cloud over the next year or so most of the accelerated growth is really happening in Europe. And so at the present time that's our focus.

Now how do you get that? You get the platforms. You get the recognition. You get the platforms to assist you in getting the customers. And you work with your partners in the United States because there is a large body of companies that are US-based which are migrating to the platforms.

So I believe that we are very capable of competing given our footprint and our go to market strategy and our channel distribution. Could we do better? We can always do better.

And as to your second question, I believe that over time you will begin to see us be a little more open in terms of disclosing the number of cross-connects and the growth in the cross-connects whether we charge for them on an ongoing basis or recurring basis or a non-recurring basis. So in the next quarters or so we'll answer that question.

Michael Rollins: Thanks. And maybe just if I could throw one other quick one out there from a gross add perspective do most of your gross adds come from companies that are new into the data center category or taking stuff from their own facilities into yours? Or do you get a significant amount of gross adds from those that are switching providers?

Josh Joshi: Mike, this is Josh. Did you say gross adds is that what you're referring to?

Michael Rollins: Yes, your gross sales, your gross cabinet sales, your gross revenue dollars, sorry. Just in terms of when you look at getting revenue inflow from customers is it from their own facilities or new applications or do you find that you're getting a significant share from competitors?

Josh Joshi: There are two perspectives from this. As we see revenue growth and as we see the development of gross bookings if you like we have had a consistent trend in our business which is something like 60 percent to 70 percent of all of our new bookings are coming from existing customers. And I think that that is indicative I think of our community of interest model which is where customers coming into our data center and then buying more from us as they engage within the community.

Clearly, in certain quarters we'll see an increase in new logos as we've been targeting particular segments. I think historically it's been very difficult to pursue – to take customers away from other footprints, because our data center environments are naturally very sticky, particularly when, like ours, they've got strong communities.

So what we see are customers as they've developed as they've refreshed, as they've rethought what they wanted to do they've revisited the peer group as a whole and then made judgments about where they will then deploy their space.

David Ruberg: I concur with what he said, I believe that going forward what we will do is we will experience over time a migration of the enterprise applications out of bespoke data centers into our hybrid community solution. So we will see a transition and that's what I tried to depict on slide 16 my best guess as to when this will start to happen.

Michael Rollins: Thanks very much.

David Ruberg: You're welcome.

Operator: Thank you. Your next question comes from the line of Gray Powell of Wells Fargo. Your line is now open.

Gray Powell: Great, thanks for taking the questions. I just had a couple here. So I particularly liked looking at slide 14, I think it's really helpful. And if I look at the gross profit on those 24 facilities, the margin is about 700 basis points higher than the company average. Do you think consolidated gross margins can get that level over time? And then in a more mature state what kind of leverage should we see on the SG&A line?

Josh Joshi: Yes, thanks, Gray. The short answer is yes. The question is where and for how long and that will be dependent on the investments that we do over time. So going back to the question, we see 66 percent gross margin in these full data centers as our customers have been engaging within those data centers.

We have 59 percent gross margin as a group. That's because we've got the balance of those data centers which aren't as highly utilized yet, or indeed the ARPU environment may yet be developing and they aren't yet at the same stage of customer development and it's a mixture of both.

And I think that if we were to, for the sake of argument, stop investing and we were to become a more mature data center then I think what you would see is that over time the gross margin then trending up to that 60 – somewhere between, somewhere around the 65 percent level I would margin in that state. And as a result, that increase in margins I think will – most of it if not all of it ought to be able to see that trend down into the EBITDA margin along the way. So I hope that answers your question.

Gray Powell: Got it. Yes, it does. And then – now I understand that this is like a sort of representation of the return on invested capital of the four walls but a lot of the guys I talk with will say SG&A is important too. So in this steady state how does SG&A actually look? I realize it would be lower than what you currently have given that you're investing right now.

Josh Joshi: Again in a steady state – remember today we are – we talk about a range of say sales and marketing at somewhere between 7 percent and 8 percent of revenues and somewhere between 8 percent and 9 percent of revenues for G&A. Clearly, I think that as we scale the business the G&A there is operating leverage in that.

But I would caution you that when I said earlier that there are two – we believe that to maintain communities of interest there needs to maintain a discipline and a rigor of our customer's developments and customer acquisition. As you move into a steady state environment that discipline and rigor changes to, again, customer development but customer retention.

And therefore, it's not as though you cut SG&A by half, because your sales engagement is somewhat less. That's not the case. Clearly there is some operating leverage and clearly some of those gains that we see in gross margin will find their way into adjusted EBITDA margin. And we expect our adjusted EBITDA margins in the steady state to be significantly, potentially significantly in excess of where we are today.

Gray Powell: Got it. OK that's very helpful thank you very much.

Operator: Thank you. Your next question comes from the line of Jonathan Schildkraut of Evercore ISI. Your line is now open.

(Rob): Hi guys, it's Rob for Jonathan. Thanks for taking the questions. First, I was wondering if you could provide any further color at this point on the potential contribution from Marseille in 2015.

And second one, if you're seeing any sort of measurable impact from the cloud connect product in terms of traffic or revenue. Are you seeing customers utilizing it as sort of a single source of access to multiple clouds?

David Ruberg: I'm going to let Josh answer the first one about Marseille, because otherwise I would say outstanding contribution. And yes, as I tried to indicate in my prepared remarks, there are some of these cloud forms, cloud platforms although they took the space in the second and third quarter, guys, these cloud platforms are relatively complicated installations and take time for them to become operational.

And that's one of the reasons for the impact on the ARPU. They take the space. They take the time to deploy it. They take the time to scale up both power and energy. And so it is just now that we are beginning to see the cross-connects begin to grow disproportionately to the growth in the space revenue.

So we've had a relatively stable ratio based on the community of carriers, and now we have a second platform based on cloud and we are beginning to see the cross-connects being driven by that not just the carrier exchanges. And to how many are multiple clouds and what's the exact numbers, it's a little early in order for us to report on that progress.

Josh Joshi: And, (Rob), just talking about Marseille, yes, we are very excited by this development. But let's put it into a little bit of perspective, which is what we are really talking about is 500 square meters, maybe 1,000 square meters at the end/beginning of the year. So it's contribution you need to put into that kind of perspective as it delivers into next year, albeit it not wanting to rain on David's parade, it's really a good outcome.

David Ruberg: This is an example of what we talk about community of interest. Yes, it is 5,000 square meters all told eventually. And yes, it is 500 square meters this quarter and 500 square meters next quarter. But you can guarantee bet your bottom dollar that there have been people who have come forward who are interested in Marseille who have basically said oh by the way I'm going to come into Marseille and I'm going to go somewhere else with you. So there is a radiation effect, there is a community of interest effect and that one is very difficult to describe but it's already happening.

Josh Joshi: And as far as guidance for next year goes, Rob, that will be done on first quarter – on the fourth quarter earnings call.

(Rob): Great, thanks again guys.

Josh Joshi: Thank you.

Operator: Thank you. Your next question comes from the line of Maurice Patrick of Barclays. Your line is now open.

Milan Radia: Thanks very much. Just a couple of questions actually. First was I suppose we've seen a bunch of the wholesale providers in Europe and the US starting to build out service offerings, starting to highlight their connectivity attributes whether it's fiber connectivity between their sites, and into the Internet exchanges. Obviously one in London has put a (link's popping) their own data center. Is that having any impact at the moment on pricing, perhaps customers rationally allocating some of their demand with these guys and perhaps paring back a little bit of what they might do at a higher end retail co-location site?

And then second question was just following on from the Marseille discussion. So I think there was a comment the big four will benefit before markets revenue line will benefit from that site specifically in 2015. I just wanted to understand the customer profile there, because it's a submarine cable obviously led opportunity so that's my understanding. What is the profile of customer that's immediately attracted by that? Is it the internet names who perhaps are seeking to put their offerings into some of these emerging markets, or is it enterprise-driven? Thank you.

David Ruberg: So the second question first, it's content delivery networks, it's social media, it's carriers, it's cloud. As a matter of fact the only one I haven't seen come forward are the financial services. So it's just across the board.

In the answer to your first question, Milan, there are always disruptions coming into the marketplace on a temporary basis. The issue is whether they have any permanency associated with them. So, from our business standpoint whatever minor disruption we've seen on an ad-hoc basis we do not believe it has any long term impact on our viability, our returns. And again it's all bolstered by this community of interest magnetic and just getting connectivity into a data center and declaring yourself as retail orientated doesn't cut it.

Milan Radia: OK, thank you very much.

Josh Joshi: Thanks, Milan.

Operator: Thank you. Your next question comes from the line of Maurice Patrick of Barclays. Your line is now open.

Maurice Patrick: Hi, guys, yes, thanks very much for taking the question. So the question is related to slide 14, very helpful to provide that cash return data points on your legacy infrastructure sites. But I noticed in the Q3 presentation you've changed the definition from – I think in Q2 you had 28 data centers in operation since 2010 and now it's the 24 built out ones which is a smaller number, 50,000 square meters rather than the 57,000 square meters in Q2.

I'm surprised, given that's an older estate that has a higher gross margin 56 percent rather than 54 percent, has a high utilization 83 percent versus 79 percent but actually has a lower annual cash return. I wonder whether there is any reason for that and if there is anything behind that reason for that change or those trends. Thank you.

Josh Joshi: No, not really, I think it changes two things. One the reason why we adjusted our definition there was just simply to try and be more comparable with others in the market both in terms of what we are reporting. So that was the reason why we did it.

In terms of the specifics there are some higher returning data centers that may – we may yet still be building on, because we've still got some phases yet to build that effectively came out of the mix. So, other than that, there is nothing fundamental to report on why those numbers were different.

Maurice Patrick: Is this 27 percent, 28 percent that number then is that what you would expect to see for all of your estates eventually, so the current ones going in the ground, I know everyone is obsessed about the (MRLs) being lower currently and whether that's structural or sustainable or not. But is there any structural reason why you shouldn't see that level of returns on the mature data centers for the whole current portfolio?

Josh Joshi: Across the portfolio it will be an average, there will be some below some above. What we try – (because) to look at a campus of data centers we try and look at our overall position and try and target a mid-20s, 30s type return for the business. And so different data centers deliver different returns, it's not the same for every single one. But all of them ought to deliver attractive returns over time.

Maurice Patrick: But without laboring the point, that's very helpful, Josh, but without laboring the point there are those who say the new estate that's being filled out to lower price points that's bound to be a lower return. You wouldn't agree with that? You would not agree necessarily with that statement.

Josh Joshi: I would not agree necessarily with that.

Maurice Patrick: That's very helpful. Thanks, guys.

Jim Huseby: That concludes our conference call for today. We appreciate your attention and your participation. We'll speak to you on our fourth quarter conference call in early March. Thank you and you may disconnect.

Operator: This does conclude the conference for today. Thank you for participating. You may all disconnect.

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