INTERXION (ECPLUS)

Moderator: Jim Huseby
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Operator: This is conference # 69672463.

Thank you for standing by and welcome to the Interxion second-quarter 2015 earnings conference call.

At this time all 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 would like to advise you that this conference is being recorded today, on Wednesday August 5, 2015. I'd 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: Yes, thank you operator. Hello everybody and welcome to Interxion's second-quarter 2015 earnings conference call. Today I am joined by David Ruberg, Interxion's Vice Chairman and CEO; Josh Joshi the Company's CFO; and Giuliano Di Vitantonio, our Chief Marketing and Strategy Officer.

To accompany our prepared remarks we have prepared a slide deck which is available on the investor relations page of our Web site at investors.interxion.com. We encourage you to download these slides to use during this call if you've not already done so.

Before we get started I would like to remind everyone that some of the statements we will be making today are forward-looking in nature and involves risks and uncertainties. Actual results may vary significantly from those statements and may be affected by the risks we identified in today's press release and those identified in our filings with the SEC. We assume no obligation and do not intend to update or comment on forward-looking statements made on this call. In addition we will provide non-IFRS measures on today's conference call. We provide a reconciliation of those measures to the most directly comparable IFRS measure in today's press release which is posted on our investor relations page at investors.interxion.com. I'd also like to remind you that we post important information about Interxion on our Web site at www.interxion.com and on social medias sites such as Facebook at facebook.com/interxion and Twitter at @interxion. We encourage you to check these sites for the most current available information. Following our prepared remarks we will be taking questions. And now I'm pleased to hand the call over to Interxion's Chief Executive Officer David Ruberg. David?

David Ruberg: Thank you, Jim, and welcome to all of you to our second-quarter 2015 earnings call. Before I start the discussion on the quarter results I would like to introduced briefly Giuliano who is our Chief Marketing and Strategy Officer. He has recently joined us from Cisco where he was the Vice President of Marketing for the Data Center Division and before that he held several positions at HP including leading the enterprise solutions program.

OK. Please turn to slide 4. During the second quarter of 2015 Interxion posted strong financial and operating results. Long-term industry trends favor connectivity rich data centers and Interxion is well-positioned to capture the opportunities resulting from these trends through our consistent and successful focus on cloud and network density combined with our communities of interest strategy. In the second quarter we continued to see strong revenue and adjusted EBITDA growth. We reported revenue growth of 14 percent year-over-year and 3 percent sequentially, and adjusted EBITDA growth of 70 percent year-over-year and 4 percent sequentially. At the same time adjusted EBITDA margins expanded to 44 percent. Our growth was driven by continued expansion by existing customers who constituted approximately 90 percent of our bookings for the quarter and the addition of new logos all resulting in over 1,500 customers at the end of the quarter. During the quarter strong customer momentum led us to increase our revenue generating space by 3,100 square meters which represented growth of 20 percent year over year and 4 percent quarter over quarter. As context this represents our third-highest quarter in terms of installations in Company history.

We opened our fourth facility in Stockholm and completed expansions in Amsterdam, Dusseldorf, and Vienna. Shortly after the quarter ended we also opened our second phase in Marseille. Demand remains healthy particularly in our key markets, and today we are announcing that we will be building our second data center in Dusseldorf to capture the growing demand from the digital media and enterprise segments in that region. Germany represents and remains a strong and important market for Interxion and this new data center will be our 12th overall in the country.

In the second quarter our proposed merger with Telecity was terminated. While we believe that a combination with Telecity would have accelerated the expansion of our regional footprint and offered an opportunity to enhance the return on the capital Telecity had deployed, we continue to believe that Interxion's broad reach and approach to meeting the needs of our customers will continue to produce significant opportunities to create value for our customers and our shareholders. With our footprint of network and cloud dense facilities and our robust communities of interest within these data centers, customers from Europe, United States, and around the world trust Interxion to provide solutions for their growing European data center needs. Finally in early June Baker Capital informed us that they had distributed all of their shares to the limited partners and the two Baker representatives on our Board resigned. Shortly thereafter Jean Mandeville was appointed Chairman. Jean, who has deep experience in the telecom sector including working at Global Crossing, Singapore Telecom, and British Telecom has been a valued member of our Board since 2011. The Board is currently considering its options with regards to replacing the two exited Baker Board members.

Please turn to slide 5. As usual Josh will provide more details on our financial results in a few minutes. But the key takeaway on our financial results is that we have maintained strong revenue growth and at the same time continue to expand our adjusted EBITDA margins. Our employees across our footprint have remained focused on serving our customers and our results reflect their continued dedication and efforts in growing the business.

Please turn to slide 6. Perhaps this effort may be best reflected in the growth in revenue generating space during the second quarter. We continued to demonstrate a consistent and steady focus by adding and installing 3,100 square meters of revenue-generating space and maintaining our utilization rate at 78 percent. Revenue-generating space grew 20 percent year over year, a strong indicator of Interxion's ability to capture demand. Other key operational metric to the business remain positive. Bookings were solid in the quarter, the sales pipeline remains strong, pricing continues to be steady, book-to-bill times stayed consistent, our crew remained stable, and revenue churn remained low and consistent with our historical annual range of reaching 0.5 percent to 0.75 percent per month on average.

Please turn to slide 7. Interxion completed four expansion projects in the second quarter to meet growing customer demand. We opened Stockholm 4, a 1,100 square meter data center clustered together with our other facilities in that market. This is the third new data center that Interxion has opened in Stockholm since mid-2013. Demand for retail colocation service in Sweden continues to be robust coming from almost all of our market segments. Interxion also open additional phases of our Amsterdam 7 and Vienna 2 data centers, and completed the expansion in Dusseldorf that we announced on our last earnings call. As I mentioned moments ago, demand in Dusseldorf continues to be strong and we are responding to that demand with an additional new build on the same campus as our existing facility.

Please turn to slide 8. Interxion's communities of interest continue to grow in the second quarter with particularly strong momentum in the cloud segment. We continued to on-board and install the major cloud providers across those sites as they expand their footprint across Europe to meet customer demand. This second quarter we expanded our business with SAS providers like Cisco and we recently made important announcements that strengthen our partnerships with the leading cloud platforms including Microsoft and Amazon Web Services, which will drive additional benefits for our cloud community of interest. We're seeing strength in the systems integrator segment, both in terms of revenue growth and pipeline. This trend combined with the increased reliance by European enterprises on these service providers and partners to implement hybrid cloud provides us with a clear line of sight to accelerating collocated hybrid cloud adoption. We now have several systems integrators and managed service partners that are using Interxion's Cloud Connect to provide their enterprise customers with direct access to the various cloud band platforms that are in our data centers. And we will discuss the importance of this development later in the call. The rapid rise of customer facing application is fueling strong revenue growth from the content delivery network segment across all of our markets. In addition to the strength in the cloud, systems integrator, and content delivery segments we continue to see strong demand in the financial services segment both from European and international customers. All of these segments contributed to the creation of communities of interest in our data centers. As I mentioned last quarter one of the key measures of the magnetic effect our communities of interest is the number of cross connects, which increased in the second quarter by over 1,000 across our footprint.

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

Josh Joshi: Great, thank you, David, and of course welcome to everybody on the phone and online. I would like to start by discussing the Group's second quarter results and as usual then provide some additional color on our two geographic reporting segments. I'll follow that with some commentary on capital expenditures, cash flow, balance sheet, and of course returns.

So starting with the income statement, please turn to slide 10. Interxion delivered another quarter of profitable growth based on solid execution and disciplined expansion. Total revenue in the second quarter was EUR95.4 million, up 14 percent compared to the second quarter of 2014 and up 3 percent sequentially. On a constant currency basis total revenue was up 12 percent year over year and 3 percent sequentially. Recurring revenue in the second quarter increased to EUR90.3 million, a 15 percent year-over-year increase and a strong 4 percent sequential increase. Non-recurring revenue was at EUR5.2 million, down slightly from the last several quarters. Recurring ARPU decreased by less than 1 percent sequentially as power and energy utilization increased from the first quarter. Looking ahead to the rest of the year our view of recurring ARPUs has not changed. We expect that the current trends will remain in place resulting in a slight decline in recurring ARPUs in the third quarter followed by modest improvement in the fourth quarter as underlying power and energy continue to grow.

Turning to costs, cost of sales was EUR37.7 million in the second quarter, up 4 percent from the first quarter of 2015 and up 11 percent on the second quarter last year. Gross profit was EUR57.8 million, an increase of 3 percent sequentially and 16 percent year over year. Gross profit margins were 60.5 percent improving year over year and slightly down sequentially as a result of timing of maintenance costs and annual salary indexations that are done on April 1. Overall gross margins continue to develop well and our long-term focus on the operational efficiency of our data center footprint continues to bear fruit. We saw about a 50 basis point contribution to our gross margins compared to the prior year as a result of these efforts. Sales and marketing costs were EUR7.2 million in the second quarter, an increase of 8 percent sequentially and up 16 percent year over year. Other than foreign exchange, the increases relate to core key timing differences on marketing spend and increased sales commission year over year. Overall sales and marketing spend is well within our expected range this year of between 7 percent and 8 percent of revenue. Other than that general and administrative costs, excluding M&A, were EUR8.5 million, down 4 percent sequentially and up 13 percent year over year. Overall we have exhibited solid cost control in the quarter with other G&A costs at 9 percent of revenues which are very much at the low end of our usual range.

In the quarter we incurred EUR3.9 million of M&A transaction costs. In addition we received a break fee of GBP15 million, or EUR20.9 million, from Telecity following the termination of the transaction. This break fee has been reported as other income in the financial statements. Adjusted EBITDA was EUR42 million, an increase of 17 percent year over year and 4 percent higher sequentially. Adjusted EBITDA margin increased to 44 percent in the second quarter. With the strong sequential increase in adjusted EBITDA in the second quarter Interxion has continued its long track record of profitable financial execution, and reported its 35th consecutive quarter of both sequential revenue and sequential adjusted EBITDA increase. Depreciation, amortization, and impairment expense was EUR19.6 million, an 8 percent sequential increase and a 31 percent increase year over year and is consistent with the increases in data center investment on the balance sheet. The second quarter finance expense was EUR7.9 million, 21 percent higher sequentially and 6 percent higher than last year's second quarter. Now we've seen a little lumpiness come through the sequential reporting which has arisen from foreign exchange movements on some of our cash balances, which under IFRS are required to report it as financing (come more) expense as appropriate. The second quarter income tax charge was EUR8.2 million which represented an effective tax rate of 28 percent. Including the impact of the M&A income and transaction costs, the effective tax rate was 31 percent and the LTM cash tax rate was approximately 18 percent. Now as we look forward we would expect our full-year cash tax rate to be a little above 20 percent excluding M&A. Adjusted net profit in the quarter was EUR8.3 million compared to EUR8.9 million in the first quarter and EUR7.6 million in the same quarter last year. Adjusted EPS was EUR0.12 on a diluted share count of 70.6 million shares compared to EUR0.13 in the first quarter and EUR0.11 in the second quarter last year.

Now let's take a closer look by reporting segment. Please turn to slide 11. The momentum in our largest geographical reporting segment continued, as revenue in the big four was EUR60.3 million, up 16 percent year over year and 3 percent sequentially. The big four accounted for approximately 63 percent of the Company's quarterly total. Recurring revenue was consistent with the development total revenue; 16 percent year over year and 4 percent sequentially. Similar to recent quarters we saw continued strength in France, Germany, and the Netherlands. Adjusted EBITDA in the big four was EUR33.2 million with margins at 55.1 percent, up from 53.5 percent last quarter. Revenue in the rest of Europe was EUR35.1 million, up 12 percent year over year and 4 percent sequentially. Recurring revenue growth was 12 percent year over year and 3 percent sequentially. Adjusted EBITDA at EUR19.3 million was up 2 percent sequentially and a strong 16 percent year over year with a margin of 55.1 percent, up year over year but down sequentially as a result of lower margins on nonrecurring revenue in the quarter. Austria again saw solid revenue growth in the quarter as Vienna 2 continued to see strong installations. Ireland and Sweden also had strong quarters yet again.

Moving to slide 2 let's discuss our capital expenditures. CapEx including intangibles, as seen on the left-hand chart, totaled EUR47.8 million during the second quarter with EUR44.3 million discretionary spending on expansion and upgrades to meet customer requirements and the remaining EUR3.5 million in mostly non-discretionary investments for maintenance and intangibles. We've made demand driven investments across our footprint, with 76 percent of this quarter's capital expenditure going to the big four markets and 22 percent to the rest of Europe. Most of the spending was in Amsterdam, Frankfurt, Marseille, and Stockholm which is where we are adding capacity.

Please turn to slide 13. Interxion ended the quarter with EUR57.1 million in cash and cash equivalents, EUR3 million higher than our balance at the end of the first quarter. Cash generation in the quarter totaled EUR54.1 million, benefiting from the break fee together with cash flow from operations. Uses of cash in the quarter includes EUR47.8 million in capital expenditure and EUR4.2 million in cash interest and taxes. Balance sheet ratios remain strong with gross leverage at 3.4 times LTM, adjusted EBITDA, and net leverage actually 0.1 times. Cash ROGIC, which is our return on gross invested capital measure, remained unchanged at 12 percent. Our blended interest rate at the end of the second quarter remained stable at approximately 6 percent. With cash on hand, access to the EUR100 million revolving credit facility, and the strong cash generation of our data center assets we have the financial flexibility and the funding to execute our expansion programs. We were particularly pleased to see that during the quarter Standard and Poor's increased our credit rating into BB territory in recognition of our improved credit and continued financial discipline.

Now please turn to slide 14. This familiar slide includes all of our fully built-out data centers and at January 1, 2014. This group now consists of 28 data centers at 83 percent utilization and which are providing an attractive cash return of 26 percent year over year. Now the gross profit margin on these fully built-out data centers is 67 percent, evidencing both the strong underlying operating leverage that we have in our business and also the significant future cash generation potential of our newer investments. We think our disciplined approach and targeting magnetic customers with rigorous operating and financial execution will continue to drive attractive long-term cash returns on invested capital.

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

David Ruberg: Thank you, Josh. Please turn to slide 16. As I mentioned earlier in the call cloud deployment is continuing to gain momentum and its adoption in Europe is unfolding in a fashion that is similar to what we had been expecting. The rollout of cloud solutions is driving a large portion of data center investments across Europe, whether it be for public, private, or hybrid cloud deployments. An increasing portion of these deployments are taking place in colocated data centers. In the first phase of cloud adoption the demand for colocation came primarily from the cloud platform providers. And therefore we focused on capturing the platforms with the highest magnetic potential for colocated hybrid cloud. And Interxion has been very successful in this phase, winning approximately 30 deployments to date of cloud nodes by the largest cloud providers with several more opportunities in the pipeline for the coming quarters. We're now seeing the second phase of this evolution with systems integrators and managed service providers making investments to connect their customers to these cloud platforms through solutions like Interxion's Cloud Connect. We have signed several of these providers, including partners of the large platform providers, and we have a very robust pipeline for Cloud Connect in the cities where we have deployed it. This second phase is critical to the creation of the broader community of interest because the systems integrators and the managed service providers play a critical role in facilitating the adoption of cloud by enterprises. The creation of points of presence in our data centers enables hybrid clouds to develop as a preferable alternative to current deployment architectures. Customers that choose this model eliminate the need to go through multiple hops in the public Internet or to buy expensive private remote connections.

This second phase will pave the way to a third phase which will consist of enterprises realizing the benefits of colocated hybrid cloud and choosing to deploy certain workloads directly in our data centers to capture even higher value in terms of performance, improvements, and network cost savings. Colocated hybrid cloud can deliver enhanced network performance and significant improvements in total cost of ownership for workloads that have response time sensitivity, a capacity flexibility needing, and high bandwidth requirement. This third phase will consist of enterprises of all size, including those that manage their own IT, and are currently deciding whether they run it in the private cloud or they put it in a public cloud and what should be colocated where. In some cases they're already colocating a portion of the IT with us, and these companies will be the natural, most natural candidates to move to a colocated hybrid model. As a further indication the communities of interest around cloud providers are taking shape, we have seen a 75 percent year-over-year increase in the number of cross connections to the top three cloud platform providers. At the current stage of cloud evolution this is primarily a reflection of the community of interest building around connectivity with carriers enabling the flow of traffic to the cloud platforms. As adoption expands to systems integrators, manual service providers, and ultimately enterprises we expect to see a broad deployment of cross connects across multiple segments. We expect cloud providers and enterprises to select colocated hybrid cloud solutions to optimize their performance, cost effectiveness, and security of their applications. Our vision is that Interxion's data centers will increasingly be the place where hybrid cloud becomes a reality, and we are well on track to realize that vision.

Please turn to slide 17. We are reaffirming our previously announced full-year financial guidance. To be specific for the full year 2015 we are expecting revenue to be in the range of EUR375 million to EUR388 million. We expect adjusted EBITDA to be in the range of EUR162 million to EUR172 million, and we expect to invest between EUR180 million and EUR200 million in capital expenditures this year. Before we turn the call over to Q&A, I would like to thank all of our employees in all of our countries for remaining focused on our customers, for executing against our business plan, and for continuing to deliver strong results particularly with all of the potential distractions over the past couple of quarters. I would also like to thank our shareholders and bondholders for their continued support of Interxion.

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 very much. As a reminder, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel this request, please press the hash key.

Your first question comes from the line of Jonathan Schildkraut from Evercore ISI. Please ask your question.

Jonathan Schildkraut: Good morning or afternoon as the case may be. And thanks for taking the questions. Maybe too if I can, sort of related to the same topic, really around the Telecity transaction and what happens thereafter.

And I guess if you could give us a little bit of color, David and maybe Josh, on how you guys did through the period of time where you thought that you were going to be merging. And maybe, and I don't know if there's statistics or even just some color commentary on the pace of bookings or the pipeline or where the backlog stands to give us a sense as how you guys executed through that period of time.

And then secondly, and I appreciated the comments at the beginning of your prepared remarks, David, but can you give us any perspective on what happens to Interxion's strategy today in terms of penetrating the market versus maybe the way you thought about it three months ago? Thanks again.

David Ruberg: The first question, I was pleasantly surprised and I believe that so were the folks at Telecity that when you took two entities that were fierce competitors and we were going to put them together and then realized it wasn't going to happen, I don't think we skipped a beat. We had a lot of internal discussions about should we make decisions to work with them cooperatively, and we started to do some of these things.

And maybe fortunately for all of us the period of when we were going to work together and we weren't was relatively short. But again I was, and I think the

Management team here, not think, we were very pleasantly rewarded by the fact that the employees stayed focused on what was important, which is the customers.

In terms of what this impact is for us, our core underlying business and prospect for significant sustained growth remains as strong as ever as evidenced by the results presented today. I will tell you that while we were relieved that a combination with Telecity would have accelerated expansion of our regional footprint and definitely would have offered opportunities to enhance the return on the capital that Telecity deployed, we remain confident and continue to believe that our broad reach and unique approach to meeting the needs of our customers provides a substantial market opportunity to create significant value for all of our stakeholders. Josh, anything you want to add to that?

Josh Joshi: No, you covered it really well, David.

Jonathan Schildkraut: Thanks, David, Josh, I appreciate that. Maybe if I can ask one more question just on the evolution you were highlighting in terms of cloud demand. I think in the U.S. we're starting to see some demand around what you would call phase 3 on the enterprise.

In the past, David, you've talked about Europe maybe being 6 or 12 months behind. Do you still think that's sort of the right benchmark for us to be thinking about?

David Ruberg: Yes, I will tell you, and again maybe I'm going to ask – I will ask Giuliano to comment here. Just like they've seen in the United States there are impediments to migrating to the cloud, whether it be you have a unique application that doesn't reside in the cloud and so you're reluctant. There's tools, there's how do I facilitate that.

The one that we're beginning to see is the migration of people to SAS. And so the SAS marketplace is picking up, and one large customer in particular or one large enterprise which has both the solution and a service offering in this space is doing quite well. Would you like to add anything to that?

Giuliano Di Vitantonio: Yes. David, you are right. The adoption by enterprises of cloud follows a certain pattern. And SAS is the easiest one to tread up because it doesn't require changes in the architecture of the application, you just use what the third-party provider offers you.

But when you have to move to platform as a service that you really need to think out of the architecture application. And that's where the role of system integrators is becoming so important.

And that's why we're very encouraging in Europe by seeing the uptake in that segment. We had a very strong quarter both from a revenue standpoint and the pipeline standpoint with system integrators. And that for us is a very good indicator that enterprises are really starting to migrate and re-architect in those applications with a view of moving to cloud.

Jonathan Schildkraut: Great, thanks of taking the questions.

David Ruberg: Thank you, Jonathan.

Operator: Your next question comes from the line of Tim Horan with Oppenheimer. Please ask your question.

Tim Horan: Thanks, guys. Similar on the M&A first maybe. Telex looks like it's going to merge with Digital.

I know you've had a joint venture with them. Do you think this will help strengthen your joint venture or they might become more of a competitor to yours in Europe? And then a quick another question.

David Ruberg: OK. I'm not sure I would categorize our relationship as a joint venture. There obviously will be an impact, but if we look at this, Telex footprint is primarily in U.S. at the present and so I don't believe from a financial standpoint it will have any impact.

And over the last year or two our relationship with Telex has been one where we share market intelligence more than we have been sharing leads. We have similar relationships with others in the United States so we do really not expect any negative impact from this combination on our business.

Tim Horan: Great. And then just maybe some thoughts on Equinix/Telecity, how that might affect you guys as they combine them. Do you think they're facing many regulatory hurdles?

I know some of their customers are a little worried that they might push the interconnectivity model a lot more in Europe than we've seen – like we've had here in the United States. Any thoughts on that merger, thanks.

David Ruberg: I'm going to answer to the second, it is very different. We all hear concerns, as many concerns as there are on one side there are advantages on the other potentially from a larger platform.

We're going to assume that this deal is going to get done. We've assumed that this deal will get done in the way it is and we are just going to assume that that's what we have to deal with.

And we are going to focus on our customers, we're going to focus on the segments that are important to us and what will happen is what will happen. We will focus on the things we can control and we're not to worry about the things – we try not to worry about the things that we can't control.

Tim Horan: But do you think it might help pricing environment a little bit, that merger versus where we are now? Thanks.

David Ruberg: I have no idea what that's going to do. My assumption is that the deal will get done basically in the form it is.

We know both of these players. There may be some disruption. It may take awhile for the deal to get done, there may be some disruption as they integrate after that, but they're both very good competitors and we will just deal with it.

Tim Horan: Thank you.

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

Milan Radia: Good afternoon, thank very much. First question is around the business that you're getting from your existing customers. And I wondered if you could disaggregate between what is new signings from those existing customers putting in new capacity into a new location or within an existing campus versus existing contracts where they're just taking on more of their energy entitlement or perhaps cost connects and so on. If that makes sense.

David Ruberg: Milan, this is David. That does make sense. At the present time I don't have the specific numbers and we can get a more detailed answer for you, but my cursory look is that more of it is coming from new orders rather than people taking up the power and energy.

I think the power and energy from some of the platform guys that we've talked about takes awhile to develop. This space has come in recently so I think we will see more going forward probably the end of this year or next year in terms of power and energy consumption, which is why we believe that the ARPU will start to pick up. So long-winded answer, Milan, I think more of the orders are coming from either expansion of the applications, i.e. more footprint and from new applications than it is from energy and power.

Josh Joshi: I would agree with that, David. I think, Milan, what I would add is that one of the real benefits of our business is the amount of signings that actually are coming just aggregately from all of our existing customers.

And we're seeing well over 70 percent, it's actually closer to 80 percent at the moment, of new business coming from our existing customers. And then there is a converse trend which is going on, which we'll see some of it in the second half, is as our customers have deployed their infrastructure in the newer locations, as they start to run their applications they're going to start to consume more energy. And that also will start to have a positive impact.

Milan Radia: OK. And then moving on to the debt costs. I think some of your bonds are callable for next year if that's right, and I'm wondering what your thoughts are with respect to potential refinancing in light I guess for the rating upgrade as well, and what we might be thinking about in terms of finance cost trends over the next couple of years?

Josh Joshi: Like I said in the prepared remarks, we were very pleased with the way that Standard and Poor's have looked at the credit quality of our business. And you are right, our bonds do start to become callable in 2016.

And one of the things that we continually look at is how to consider improving our cost of capital, cost of debt being obviously one component of that. And you can rest assured that we are, have been, and will continue to look at numerous different options that are available to us.

I don't want to go into any details at this point or perhaps foreshadow anything at this point, but what I can say is that over the last two years we've seen a four-point reduction in our cost of debt from around 10 percent to around 6 percent. We are looking to trying to continue to improve our cost of debt as our business scales.

Milan Radia: OK. And one last question which was on London. I guess it made sense to pause any plans that you may have had while the M&A activity was in progress, but going forward that's still an area of relative underexposure. So will you bring your London plans back to life and what can we expect there?

David Ruberg: Milan, I'm not sure that we put our plans in the death bin. One of the things when we announced the merger both sides realized that there was a potential that it would not get done.

I don't think anybody on either side deferred any plans or deferred substantially any plans. And so I think you know quite well where we are. London is relatively minor in terms of the big four contributor, and we are looking hard at from a segment standpoint where we can get the best returns and how we focus on delivering that with our London property.

Milan Radia: So the timing of expansion there, is that sort of a 12- to 18-month project or something beyond that?

David Ruberg: I think it is inappropriate for me to give you any more detail than I just did, OK?

Milan Radia: OK, fair enough. Thanks very much.

Operator: Your next question comes from the line of Michael Rollins with Citi. Please ask your question.

Michael Rollins: Thanks for taking my question. Two if I could. The first one is you mentioned in your commentary …

Jim Huseby: Mike, can you speak up, it's very hard to hear you.

Michael Rollins: Sorry, can you hear me better now?

Jim Huseby: A little bit, Mike.

David Ruberg: A little bit. We'll listen hard.

Michael Rollins: So the first question I had was you mentioned in your commentary about the growth in interconnects that you had, cross connects. And I'm wondering to what expense that you can monetize those cross connects as they grow over time?

David Ruberg: We kind of addressed that in the last conference call where we gave you some indication of what we were doing in Germany. And basically after having rolled this out for 18 months, and keep in mind that each one of these countries is different in terms of their acceptability and the economies, the country, the applications.

But at the present time the cross connect contributed approximately 6 percent to 7 percent of the revenue in Germany. And I think one of our competitors has talked about them being at 8 percent or 9 percent.

Josh Joshi: I concur with that, David. And Mike, one of the things if you recall, the European industry is somewhat different to the U.S.. Just taking 30 seconds to remind folks on the call that in Europe much of the colocated cross connect revenue that's for public appearing is done through the public Internet exchanges.

And so if you look at the cross connect revenues that Interxion, companies like Interxion have had historically, it's been treated as a one-time non-recurring revenue. And over the last two to three years we have seen Europe migrate slowly towards a recurring revenue model which we've participated in particularly in Germany.

And as David said just now I think that we've been very successful in extraordinary attractive locations in developing that product. Our ability to monetize it will continue in the same vein.

I think there are different paces in different geographies. But I think that our opportunity there is still open to us as we develop over the next couple of years.

Michael Rollins: The second question if I could was on the global side. You did have global reach, if you could just sell to your customers a broader footprint what percent of your customers do you think you could successfully cross sell with that type of a solution?

Jim Huseby: I am not sure we heard your question. Could you repeat it?

Michael Rollins: Sorry about that. Just if you had a global footprint, access to it, whether you owned it or you could sell into it, what percent of your customers do you think you could cross sell into a global footprint successfully?

David Ruberg: Mike, the range on that answer that I would give you would be so broad, I am not sure it would be meaningful. When you put together your five-and-a-half-year plans, we go through this time and time again, and we are relatively conservative in nature.

I will tell you that we look at this and we pursue this because we believe it will create substantial value. How much, again, I think it's too broad for me to answer at the present time.

Josh Joshi: Yes. Some of the metrics that might help you, Mike, is we've got something like 46 percent, 47 percent of our revenues come from companies that are headquartered outside of Europe. That is to my mind a significant opportunity.

And then if you look at how much of our revenue distribution is in multiple countries, we've got something like 60 percent of our revenues is in more than one country. And that is a significant component.

Almost 40 percent is actually more than five of our countries in Europe in terms of the revenue distribution. So the opportunity there is significant, and I think that we've been actually capitalizing on that over the last couple of years.

David Ruberg: Mike, to follow on to that, the real answer is when you say you have a global footprint, what does that footprint look like and what does it cost you? Again, we are focused on creating returns.

So of course if you had the largest footprint I don't know what the addressable market would be and how it would enhance it, and I don't know what the cost would be. So I'm going to go back to my original answer which is there is too many parameters here and too wide a range for us to give you anything meaningful. It would mean something, but it is all dictated by the size and breadth and the investment that we would make outside of our territory.

Michael Rollins: Thank you.

Operator: Your next question comes from the line of Jonathan Atkin with RBC. Please ask your question.

Jonathan Atkin: Yes, I was wondering if you could provide some commentary on trends in power costs that you're seeing and whether there's any major fluctuations relative to prior periods on the unit basis? And then the recurring – the nonrecurring revenue, I wondered if that was weighted towards any particular markets that you could call out, or whether that was broadly distributed and there was no particular indexation towards one or the other market in terms of the nonrecurring revenue contribution?

David Ruberg: I will do the first one. Jonathan, the all-in energy cost has two components. One is the cost of generating and delivering the energy, and the other is the surcharge placed on top of them by the various governments to support their green initiatives.

In general for the next three or four years the base load cost and the transmission cost have come down not substantially. They've come down substantially since 2012 and 2013, but from 2013 and 2014 as the cost of oil has come down, as the cost of natural gas has come down, these have come down a little bit.

The counterbalance to that is the surcharges that the governments, in particular the largest economy in Europe, keeps levying on top of these. So if you look at the all-in costs that have come down, they've stabilized but there's been no significant benefit to us or our customers because the actual generation cost has come down because the fines – not the fines, but the levies on top of that to support other initiatives have gone up. OK?

Jonathan Atkin: Yes.

Josh Joshi: Just on the nonrecurring revenues, just to remind you Jon, NRR tends to be lumpy. We said – I tried to guide to guide for this year nonrecurring revenue to be around the EUR5 million mark per quarter.

And interestingly we have seen some fluctuation, nonrecurring revenue in the big four markets probably lower than average, running it just around EUR3 million with nonrecurring revenue in our big four markets, probably at around average maybe slightly higher than average, a little bit over EUR2 million. And there's some data in the deck which allows you to get there.

But overall we would expect to see both the margins on nonrecurring revenue and the volume on nonrecurring revenue to be lumpy quarter over quarter and then to have different impact in those different markets. But generally they come together in the top line at around EUR5 million per quarter for the rest of the year.

Jonathan Atkin: And then I was interested in the new expansions particularly in Frankfurt, Dusseldorf, and Madrid. And if you could maybe speak specifically to each of those?

Is it larger requirements in each of those new cases? New relationships, upsizing of existing relationships, maybe a little bit of color there?

David Ruberg: The build in Frankfurt is going very well and the demand is going very well. The demand in Dusseldorf has picked up recently, and that's why we announced one build last quarter which was an addition to an existing facility.

We've announced a new one today. And the one in Madrid is doing relatively well. And I think a lot of this is still dictated or influenced significantly by the economic state of the country that it's in.

Jonathan Atkin: Are we seeing large anchor (tenant) in each of those cases? Or is it just incremental customer demand that (coatoby) is leading you to expand in each of those three locations?

David Ruberg: A mixture.

Jonathan Atkin: Great. Thank you very much.

Josh Joshi: Our approach has not changed. Our focus has been to identify the customer demand in front of us and then to build in a disciplined manner to meet that demand. As David says in each of the locations there's a mixture in approach in terms of how that customer demand develops.

Jonathan Atkin: Thank you.

Operator: Ladies and gentlemen, questioners will be limited to one question plus one follow-up question per person. Your next question comes from the line of Colby Synesael of Cowen. Please ask your question.

Colby Synesael: I was curious if the percent of space being dedicated to magnets is changing as a result of cloud demand? And if so how might that be impacting the returns that you're getting on the investment of these facilities?

And then my follow up is you mentioned I think in your prepared remarks that you have seen I think 30 cloud deployments. I'm assuming those are magnet type deployments that you're referencing.

And I'm trying to get a sense of where is that relative to the opportunities that you would see based on the facilities that you have today? Are we, I guess to use an American analogy, are we in the third inning, the fifth inning?

I'm just trying to get a sense of where that compares to where you think that that can go again based on your current number of facilities that you have. Thanks.

David Ruberg: OK I'm going to let Giuliano answer the second question, but to use your baseball analogy, personally I don't think the game has started yet. But in any case back to your first question.

We're in a business that has 10-year IRRs at a minimum. So we have tried with a great deal of discipline to look at these returns and as we say time and time again we're looking at long-term sustainable returns in terms of generating cash for our shareholders and sustainable growth and opportunity for our customers.

So you can't look at the deployment today and judge the return for tomorrow or the next year. As we have all been disappointed by the roll out of this adoption of cloud but are now watching some of the huge numbers that come out that are being reported by Microsoft, Amazon, Google, IBM, you get the sense that it is happening, tremendous amount of capital, and a tremendous amount of opportunity.

And it would be unwise for us to judge this on one week, one year, or two years. So we, as I said in my prepared remarks, we are very happy with the first phase. We did what we thought was appropriate to get the magnetics that would generate for us over time the returns that we said are still there and that we look for which are approximately 30 percent to 40 percent.

Colby Synesael: David, does that mean then that if you have a specific facility it's a first or second phase and you're filling that with a magnet type customer, that might be of a lower return but the reality is you plan on adding another facility or phase to that data center? And it's only when we take that into consideration which might not be built for another year or two that we are going to get to the ultimate return that you guys are targeting?

David Ruberg: Yes, yes, and yes. That is why we build in campuses. That is the way we think about this and we look out three to five years and basically say OK, this is – and what makes this even more complicated is each country is at a different stage of its adaption or development of this, not only impacted by the economic situation but also by the regulatory situation.

So that is why we have focused in the past on building campuses so that we don't build a gigantic data center. We can build them in a modular fashion and we can match this deployment strategy to the way we think it's going to roll out.

Giuliano Di Vitantonio: First of all Colby, you are right. These figures refer to our top magnetic platforms which you can count on the fingers of one hand. And I agree with David that we are in the early innings of the game.

And the pattern that we are seeing is pretty clear. So all of these platforms started with deploying in the largest countries where they were trying to reach the vast majority of the GDP.

And then as uptake with that platform progressed, they started to deploy all in the smaller countries. And this is probably also one area where a devolution of cloud in Europe may differ slightly from what we may have seen in the U.S. because the economy in Europe is different.

But in particular some of the regulations require some of these players to deploy their nodes in local countries. So to answer your question yes, we are referring to the top magnetic platforms and we are in the early stages and these cloud providers are rolling out across more and more countries and also repeating the promise in the countries where they went originally.

Colby Synesael: And you said that the 30 deployments are amongst a handful, kind of on one hand customers, so it's basically we could take those five divided by – 30 divided by 5, like 6 different deployments per customer or maybe something like that?

Giuliano Di Vitantonio: On average, yes.

David Ruberg: Good math. In addition to that, Colby, keep in mind that the regulatory environment when it comes to privacy, security, and even the tax orientation is changing significantly in Europe versus the relatively stable approach in the United States. So these deployments and their networked apologies associated with them are evolving as well.

Colby Synesael: Great, thank you and thanks for the compliment on my math.

Operator: Your next question comes from the line of James Breen with William Blair. Please ask your question.

James Breen: Thanks. You guys have added a significant amount of space in the last six quarters or so. In looking at your plans for the next few you are adding a lot less yet utilization stayed pretty high. Can you just talk about where you could see those utilization trends go and then how that correlates as well with the ARPU trends here as some of that space you've added in the last four quarters gets more mature?

Josh Joshi: Jim, it is Josh. Thanks for the question. A couple of things, yes, I would agree with you. I think that we've been very disciplined.

We've deployed a significant amount of capital and space over the last several quarters, and we have done that to meet the demand that we've seen. As a result we've been able to maintain utilization, in fact improve our utilization metrics to something like 78 percent which was what we saw in the last quarter.

Recall our – the way that we think about the business is that on an ongoing basis something like 75 percent plus a utilization rate is probably a reasonable utilization rate for our business. It has the benefit of A, allowing us to have enough utilization to continue to get the benefit of the operating over to the margins but yet also allows us to have enough capacity ahead of us to meet our customers' demand.

And we have seen significant demand and deployments, order-driven deployments over the last several quarters. As is our practice we don't necessarily announce all of the capital projects that we are working on up front.

We will announce them when we are ready to announce them, and don't necessarily presume that this business is slowing down or stopping its deployments over the next year or so. What I will say is to reiterate what David said at the beginning of the call which is that the demand is strong and the pipeline is healthy and we will build to meet that. I hope that helps.

James Breen: Thanks. And then just in terms of the ARPU trends now as some of the space becomes more mature, offers come down over the last couple quarters, do you expect that to flatten out and start to grow again?

Josh Joshi: Yes, all things being equal. I was a little bit more explicit in the prepared remarks that I expect it to flatten out in the third quarter, probably drop very slightly and then go up in the fourth quarter. The reality, Jim, is that there a couple of trends here that I alluded to earlier.

The first one is that we are deploying space to install – for our customer installations. And that early on as our customers take time to deploy their underlying infrastructure into our data centers, the underlying revenue per square meter tends to be lower. It is diluting our underlying ARPU.

And then on the other hand we see a positive impact as they warm up and they use the data centers and they use their server footprint. As an example they buy more power and they certainly use more energy.

And again as we get into the second half of this year we are seeing that happen. So part of the dynamics, I think, of what will happen in the second half is as we see that happen I'd expect the trend of power uptake having more of an impact to the ARPUs than the incremental installations.

But I will tell you I will be delighted if I was proved wrong and we had several thousand more square meters of installations and it went the other way. That would also be a positive point.

I want to digress for 30 more seconds which is that those installations, our goal here is within those data centers is to take that data center and move it up to 80 percent plus utilization as a fully utilized data center and then to move the gross margins from around the 60 percent average where we are right now as a group to 67 percent. And I think that that, as we bring those customers in, will generate significant long-term cash returns.

James Breen: And then just on the CapEx side, it looks like you spent about EUR115 million. And the guidance, midpoint of the guidance was EUR190 million.

So it implies you have up EUR75 million left in CapEx in the back half. You're looking at adding another 1,900 square feet per meter.

How much of that EUR75 million – how much would that 1,900 square meters entail? And then do you have the capacity left on the CapEx side to expand into some areas where you haven't announced yet?

Josh Joshi: Those numbers include projects we're working on that we haven't yet announced. In fact all of our CapEx guidance always tends to have an element of that in it.

As far as the guidance itself, it stands. We haven't adjusted it on this call, and if you look at the way that the numbers are trending I think you'll feel pretty good about where we are at this point.

James Breen: Thank you.

Operator: Your next question comes from the line of Matthew Heinz with Stifel. Please ask your question.

Matthew Heinz: Good afternoon. Just revisiting the footprint growth from another angle. It looks like you've grown by about 25 percent since the end of 2013.

And you highlight 83 percent utilization and 26 percent ROIC on a stabilized portfolio, which is about two-thirds of the overall footprint. And I would assume it's generating a pretty meaningful amount of free cash. So thinking about the cash burn from newer facilities and the pace of ongoing expansion, at what point should we expect a meaningful inflection in overall free cash flow?

Josh Joshi: We've not really guided to inflection points on free cash flows. There are number of different perspectives here.

We will continue to look for opportunities, Matt, that try and identify the kind of returns that we're looking for in our business. And if we see those customer opportunities, I think that we could invest in pursuit of them.

I think that our track record over the last eight years is a testament to that discipline in terms of our approach. Having said that, I think you're right that as we build scale in our business, depending on the growth opportunity ahead of us there is an opportunity to move to free cash flow positive. We're not yet prepared to define when that will be and what will take place at that point.

Matthew Heinz: OK. As a follow on to that, with full appreciation for what you are trying to do to capture the cloud opportunity and the capital intensity behind that, I am just wondering if there might be any consideration of a buyback given the discount to the valuation and the natural delevering that has occurred through your EBITDA growth?

Josh Joshi: We look at all opportunities to provide increased shareholder value. And over the last several years I think that we've seen significant opportunity in deploying shareholder capital into capital expenditures based on the customer demand that we see.

And that demand hasn't changed. So I don't see currently the Board make any decisions at this point in time to change the approach.

Matthew Heinz: Understood. Thank you very much.

Jim Huseby: Thank you everybody. That concludes today's conference call. We will look forward to meeting you out on the road and we will have our next call in early November. Thank you very much.

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

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