INTERXION

Moderator: Jim Huseby
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Operator: This is Conference # 92466336

Operator: Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's Interxion 3Q 2016 Results conference call. At this time, all participants are in a listen-only mode. There will be a question – 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 1 on your telephone and wait for your name to be announced.

To allow everyone the opportunity to ask a question, you are limited to ask one question per person, with one follow up. I must advise you that this conference is being recorded today, Wednesday, the 2nd of November, 2016. I would now like to hand the conference over to your speaker today, Mr. Jim Huseby. Please go ahead, sir.

Jim Huseby: Thank you very much, (Sharon). Hello, everybody, and welcome to Interxion's third quarter 2016 conference call. I'm again joined by David Ruberg, Interxion's vice chairman and CEO, Josh Joshi, Interxion's CFO, and Giuliano Di Vitantonio, Interxion's chief marketing and strategy officer.

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

Before we get started, I'd like to remind everyone that some of the statements that we will be making on today's call 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 identify 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 will provide – we do 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.

We would also like to remind you that we post information about Interxion on our website at www.interxion.com, and on social media sites such as LinkedIn and Twitter. We encourage you to check these sites for the most current available information.

Following our prepared remarks, we'll 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 Interxion's third quarter 2016 earnings call. Please turn to slide 4. During the third quarter 2016, Interxion continued to post solid financial and operational results. We again produced steady, consistent growth with operational excellence and continued financial discipline.

Cloud demand continues to be the biggest demand driver in our business, with cloud platform providers continued expand the distributed European platforms, with activity building in France, as these providers begin focusing on that market.

Interxion continues to attract many of the magnetic deployments from these cloud platform providers, thereby enhancing our communities of interest and further supplementing our connectivity across our footprint.

In the third quarter, Interxion continued its trend of popular growth, combined with margin expansion, despite some negative foreign currency impacts. Total revenues increased 10 percent year-over-year, and 2 percent sequentially, on a constant currency basis, while recurring revenue also grew 10 percent year-over-year, and 2 percent sequentially on a constant currency basis.

Adjusted EBITDA increased 11 percent year-over-year, and 2 percent sequentially, while adjusted EBITDA margin expanded to 45.9 percent, an increase of 130 basis points versus the third quarter of 2015.

During the third quarter, we completed expansions in Frankfurt, Marseilles, and Vienna, three markets that have shown sustained strength. And we will open significant expansions in Amsterdam, Paris, and Dublin, in the fourth quarter.

In September, we announced three additional demand-driven expansions, including our eleventh data center in Frankfurt, and further expansions in our two French markets, resulting in an increase in this year's CapEx guidance.

These three expansion are in addition to the expansion in Copenhagen that we announced in August. The new capacity in Paris adds to our prior expansion plans in Paris, with opening scheduled for later this quarter, and the second quarter of 2017.

Importantly, 100 percent of this new capacity in Paris is pre-sold. The capacity we opened this quarter in Marseilles was also 100 percent pre-sold, which will be followed by a larger expansion, which is scheduled for the second quarter of next year, that is already 50 percent pre-sold.

Please turn to slide 5. Business results in the third quarter showed the steady, consistent growth that has characterized Interxion since our IPO. Headline figures were negatively impacted by the devaluation of the British pound against the euro, but underlying constant currency results are more reflective of the actual growth trends.

Many U.K. businesses are experiencing the impact resulting from the uncertainty of Brexit, but for Interxion, apart from the effect of currency translation, we have not experienced any other meaningful impact from Brexit on our business.

In fact, we believe it may well represent an opportunity, given our broad western European footprint, and the flexibility the cloud provides to enterprises. As a result, Brexit may turn out to be a catalyst for European enterprises in general, and U.K. enterprises in particular, to accelerate migration to the cloud.

Please turn to slide 6. Operating metrics were solid once again in the third quarter. With deployments and new capacity coming on at a rate that maintains our utilization rate at 78 percent. We added a total 3,600 square meters in new capacity in the quarter, while installing 2,500 square meters.

With respect to other key business metrics, bookings in the quarter were strong once again, continuing the pace we have seen since Q4 of 2015, with diversity in these bookings across our geographies, industry segments, and a varying deal size.

Our pipeline remains strong. Pricing continues to remain steady, and revenue churn was again low and consistent with our historical annual range of between 0.5 and 0.75 percent per month on average.

Please turn to slide 7. We continue to expand to meet the demand that we see. After completing the wave of cloud deployments last year, we are now beginning to fulfill a new wave of expansions. Starting the third quarter of this year, and continuing through the end of 2017, we have expansions planned totaling approximately 15,000 square meters taking place over half of our footprint, adding nearly 15 percent to our capacity.

Much of this new capacity is already sold, but as is our practice, we seek to closely match our capacity to forecast the demand by market, so we have available capacity to meet the growth requirements of our existing customers, as well as to accommodate new customers who can contribute to and draw value from our communities.

This approach allows us to deploy capital efficiently, and has enabled us to maintain our utilization rate in a very tight range. Take Vienna as an example. We continue to experience strong growth in Vienna, a gateway market to central and eastern Europe.

Interxion is the leading player in the Vienna market, with a campus that offers access to over 100 connectivity partners, and three internet exchanges. Beginning in 2014, cloud demand began to take hold, and we have added capacity in five of the past eight quarters in Vienna, with over two-thirds of the new 2016-2017 capacity sold prior to the capacity being open.

This has led to strong results from our Austrian business, but with utilization rates in Vienna near our corporate average, we have enough capacity to accommodate other customers who are drawn to our strong communities in Vienna.

Please turn to slide 8. In Q3, our communities of interest continued to expand, as we continue to experience a strong year from a booking standpoint. This quarter we had sizable bookings from cloud platform providers that triggered the projects we announced during the quarter.

But we also had a very healthy mix of small and medium sized bookings. 90 percent of the bookings came from existing customers, and the remaining from over 50 new customers across multiple segments.

As in previous quarters, we experienced strong and steady demand in the cloud provider segment, as the leading infrastructure vendors continued to expand their footprint in Europe. In Q3, large orders landed in France as this became the next target for the leading cloud providers in the roll-out plans across the continent.

We also small – saw smaller orders for network nodes in other countries, as a leading indicator of where they plan to go next. Our cloud platform pipeline indicates that the roll-out will continue in the coming quarters, with more countries coming into the mix.

We are also seeing a spread of deployment across a large number of providers as the tier two players step up their expansion plans into Europe. In another segment, the momentum for managed service providers enabling access to the cloud platforms also continued. Our MSP pipeline almost doubled during the quarter, and we now have wins in 9 of our 11 countries, demonstrating that the demand for access to the leading cloud platforms is growing steadily.

Our digital media community of interest was boosted this quarter by Rubicon Projects' decision to choose Interxion as its data center provider for the European market. The Rubicon Project operates one of the largest advertising marketplace in the world, serving approximately 1 billion customers globally, 12 trillion bid requests per month, and 300 data-driven decisions per transaction in milliseconds.

Rubicon Projects first chose Interxion's Frankfurt facility in 2014 to provide a second platform for disaster recovery in Europe, to ensure redundancy for its European clients. The success of this initial partnership drove Rubicon Projects' decision to migrate its entire European production infrastructure to Interxion's Amsterdam data center campus.

Interxion will host their advertising automation cloud, which brings brands, content creators, and application developers closer together to buy, sell, and trade by Rubicon Projects advertising technology.

We had another strong quarter for bookings in the connectivity segment, fueled by the momentum in Marseilles, where we have now reached the significant milestone of 100 connectivity providers, up from about 50 when we acquired it less than two years ago.

Marseilles is an excellent example of how our communities of interest develop. We focus on connectivity first, whether it be terrestrial or submarine cable, then content service providers, then cloud service providers, and then the various segments which are drawn by the deep and wide connectivity and cloud platforms.

In the financial services segment, the (drawns) to the London Metal Exchange are coming in to our data center, proving the strong magnetic effect of trading platforms. Finally, we are also seeing clear indications that the enterprise segment is picking up momentum across sub-segments such as manufacturing, consumer retail, and public sector.

In Q3, important customers, such as HeidelbergCement, chose Interxion as their data center partner to enable the transformation towards becoming a digital enterprise. I would now like to turn the call over to Josh.

Josh Joshi: Thank you, David, and welcome to everyone on the phone, and indeed online. I'd like to start by discussing the group's third quarter results, and then provide some more commentary on our 2Q graphic reporting segments. I'll follow that with some color on cash flows, the balance sheet, and as usual, finish with a few comments on returns.

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 third quarter was 105.3 million euros, up 7 percent compared to the third quarter of 2015, and up 1 percent sequentially. On a constant currency basis, total revenue was up 10 percent year-over-year, and 2 percent sequentially.

Recurring revenue in the third quarter increased to 100 million euros, an 8 percent year-over-year increase, and a 1 percent sequential increase. On a constant currency basis , recurring revenue was up 10 percent year-over-year. Non-recurring revenue was 5.3 million euros, a 1 percent increase year-over-year, and a 13 percent sequential increase, reflecting the inherent lumpiness of this revenue stream.

Recurring ARPU decreased by 7 euros, to 402. Over 4 euros of the decrease was due to currency headwinds, which we have mentioned previously. The remainder of the decrease was due to geographic mix, and timing differences of when (space) came online.

Of the 2,500 square meters of revenue generating space that we installed in the quarter, more than a third was installed in the last two weeks of the quarter. Looking ahead to the fourth quarter, I'd expect ARPU to remain at or around this level, as we expect currency headwind will continue to have a diluted impact.

Turning to costs, cost of sales was 40.8 million euros in the third quarter, up 6 percent from the third quarter last year, and up 3 percent from the prior quarter. Gross profit was 64.5 million euros, an increase of 8 percent year-over-year, and a slight increase sequentially.

Gross profit margins were 61.3 percent, improving 60 basis points year-on-year, and decreasing by 60 basis points sequentially. The sequential drop was driven in part by expansion drag, and also the usual seasonality of summer data center operations driving higher energy costs.

Sales and marketing costs were 7.3 million euros in the third quarter, an increase of 5 percent year-on-year, and essentially flat sequentially. We continue to invest in our strategic marketing organization, as we further develop and expand our communities of interest. Sales and marketing spend this quarter at 7 percent of revenue, is at the low end of our expected range this year of between 7 percent and 8 percent of revenue.

Other general and administration costs were 8.9 million euros, up 1 percent year-on-year, and down 9 percent sequentially. Overall, other G&A costs were at 8.4 percent of revenue, within our expected range this year of between 8 percent and 9 percent of revenue.

Adjusted EBITDA was 48.3 million euros, an increase of 11 percent year-over-year, and 2 percent higher sequentially. On a constant currency basis, adjusted EBITDA grew 12 percent year-over-year, and 3 percent sequentially.

Adjusted EBITDA margin increased to 45.9 percent in the third quarter, 130 basis point improvement over the same period last year, and a 40 basis point increase from the second quarter, reflecting lower G&A costs.

Depreciation, amortization, and impairment expense was 22.1 million euros, an increase of 9 percent year-over-year, and a slight increase sequentially, both consistent with the increase in the average depreciable asset base, driven by our investments in data center expansion.

The third quarter net finance expense was 8.6 million euros, 35 percent higher than last year's third quarter and 15 percent lower sequentially. The year-over-year increase was primarily due to the net effect of the interest on the additional (bond tap) that we issued in the second quarter.

We also reported a net financial benefit of 1.4 million euros, as a result of an adjustment to our finance lease liabilities. Excluding this benefit, net finance expense was essentially flat sequentially. The third quarter income tax charge was 4.5 million euros, which represents an effective tax rate of 30 percent.

The LTM cash tax rate was approximately 14 percent. As we look forward, we would expect our cash tax rate for the full year 2016 to be at around 18 percent, and over the next few years, we continue to expect our LTM cash tax rate to trend upwards to effective tax rate levels.

Adjusted net income in the quarter was 8.6 million euros, compared to 8.7 million euros in the same quarter last year, and 9 million euros in the second quarter of this year. Adjusted earnings per share was 12 euro cents on a diluted shared count of 71.5 million shares, compared to 12 euro cents in the third quarter last year, and 13 euro cents in the second quarter.

The adjustments to the net income included the after tax impact of items such as M&A transaction costs, capitalized interest, a gain on the sale of a financial asset, and the financial lease obligation benefit that I previously mentioned. As always, we provided a full reconciliation of these puts and takes in the appendix to the presentation.

Now let's take a closer look by reporting segment. Please turn to slide 11. Revenue in the big four was 66.9 million euros, up 6 percent year-over-year, and 1 percent sequentially, and accounted for approximately 64 percent of the company's quarterly total.

On a constant currency basis, recurring revenue growth was in double digit territory, at 11 percent year-over-year. Germany and the Netherlands were solid contributors to big four results this quarter, and France delivered solid installations at the end of the quarter.

Big four adjusted EBITDA was 36.8 million euros, and on a constant currency basis, up 8 percent year-over-year, and 1 percent sequentially. Big four adjusted EBITDA margins were at 55 percent, in line with the prior year, and down sequentially due in part to the impact of expansion drag, and seasonal energy costs that I mentioned just now.

Revenue in the rest of Europe was 38.4 million euros, up 10 percent year-over-year, and 2 percent sequentially. Adjusted EBITDA at 22.4 million euros, was up 13 percent year-over-year, and up 4 percent sequentially, with margins a strong 58.3 percent, up both year-over-year, and sequentially.

Our rest of Europe segment also enjoyed another solid quarter of performance, with Austria, Spain, and Sweden all performing well in the quarter. Given our leading position in most markets, our rest of Europe segment is very well-positioned to capture future demand from cloud providers as they venture into new markets in Europe.

Please turn to slide 12. Capital expenditures, including intangibles, totaled 64.5 million euros during the third quarter, of which the vast majority, 58.8 million euros, were discretionary investments in expansion and upgrades, to meet customer requirements.

Just prior to the end of the quarter, we announced an increase in our CapEx guidance range to between 260-280 million, to expand further in Frankfurt, Marseilles, and Paris. As mentioned previously, all of our expansion continues to be demand-driven.

For example, our announced expansion of Paris is 100 percent pre-sold, and our expansion of Marseilles is 50 percent pre-sold. Our steady utilization rate, which is shown below the chart on the left, reflects our success at being able to closely match our supply with projected customer demand market by market.

Please turn to slide 13. Interxion ended the quarter with 149.8 million euros in cash and cash equivalents, down from 193.5 million at the end of the second quarter. Cash generation in the quarter totaled 41.5 million euros from operations.

We invested 64.5 million euros in capital expenditure, and paid 20.3 million euros in cash interest and taxes. Balance sheet ratios again remain strong, with gross leverage at 3.9 times LTM adjusted EBITDA, and net leverage at 3.1 times.

Cash ROGIC, or cash return on gross invested capital, ticked up a percentage point to 12 percent. Our blended cost of debt at the end of the third quarter was 5.7 percent. With the cash on hand, the strong cash generation of our data center assets, and access to the un-drawn 100 million euro revolving credit facility, we continue to have the financial flexibility and funding to execute our expansion program, and to secure long-term sustainable returns.

Please turn to slide 14. This slide is familiar to most of you, and it shows the returns from our 30 fully rolled out data centers. These data centers delivered 5 percent constant currency growth on LTM third quarter revenues, and 4 percent year-over-year constant currency ARPU growth.

Gross margins ticked up to 67 percent. The 24 percent annual cash return evidences the strong underlying operating leverage, and prudent capital allocation, which is driving attractive, and we think industry-leading, returns from our data center assets.

There is a theme within Interxion of consistent, superior operational execution, leading to attractive financial results, and I think this is highlighted by the next slide. Please turn to slide 15. Our third quarter results extend our track record of sequential growth in both revenue and adjusted EBITDA to 40 sequential quarters, or indeed, 10 years.

Remember, this growth is both revenue and adjusted EBITDA, and this is all organic. Remember also that this consistent execution was accomplished during a decade in Europe that started with a financial crisis, followed by the worst economic meltdown of a generation, and more recently with the turmoil and uncertainty of Brexit.

These results reflect the resilience of our business model, the effectiveness of our strategy through a focus on magnetic customers, an infrastructure to build vibrant communities of interest that drive enormous value from being located in highly connected data centers.

These results also reflect our longstanding reputation for excellence in operational execution, supported by a discipline and demand led capital deployment program. But perhaps most of all, it reflects the courage, the passion, the teamwork, and the customer focus of all of our Interxion employees.

Our approach remains unchanged. We are focused to secure long-term and attractive cash returns in a disciplined, measured manner. And with that, I'd now like to return the call to David.

David Ruberg: Thank you, Josh. In previous calls, we talked about the differences between the patterns of cloud platform deployments in the United States and in Europe, and we would like to expand on that topic today. As previously discussed, the deployment of cloud platforms appears to happen in waves, with the size and location of deployments driven by actual and anticipated end user demand.

In the United States, the overall demand for cloud services have been significantly larger than in Europe, although we expect that that gap will close over time as the industry matures. Additionally, the U.S. market is much more homogeneous, politically and economically, so it can be served from a few locations across the country.

Consequently, cloud providers tend to go for large deployments that will enable them to meet sizable chunks of the anticipated demand from a single location. As a result, the periods between successive phases of the roll-out in any given location can be quite long, as the pattern of deployments follow a step function with very large steps, even if the underlying end user demand grows more evenly.

Moreover, the waves of deployment tend to happen quite simultaneously across different locations, because they serve geographical areas with similar economic and political environments. For all these reasons, the overall demand for data center capacity in the U.S. is typically punctuated by waves with large peaks and troughs, regardless of the long-term trends of the underlying end user adoption of cloud services.

This situation is very different in Europe, where end user demand is better served in a more distributed fashion, due to regional variations and data sovereignty requirements. All this leads to smaller deployments scattered across a larger number of locations.

Furthermore, the various European countries adopt new technologies at a different pace, and the local economies grow at varying speeds, so the deployments do not happen simultaneously, but tend to follow a sequential pattern.

In general, the U.K. and Netherlands adopt new technologies first, followed by the Nordics and Germany, and then France and other central European countries, with southern and eastern European countries typically trailing the leaders by a few years.

This gives cloud providers the opportunity of being able to deploy capacity in a more staggered fashion, with waves of deployment rippling through Europe over the duration of a cycle. The obvious result of having more distributed and sequential deployment cycles is that in Europe we do not see the same peaks and troughs in demand for data center services that the U.S. providers experience.

The demand for capacity in Europe grows more gradually and is less lumpy. It still comes in waves, but the waves are smaller and more staggered across geographies. The large orders we – in France that we experienced in Q3 are a clear indication that the current wave of deployment in Europe is reaching into a new country, that while being the second largest economy in the continent, trailed other countries by a couple years.

Until recently, most cloud providers primarily served France from the neighboring countries, and have now decided that the demand in that country is sufficiently mature and stable to warrant a dedicated deployment.

The opportunities that we are seeing in our sales pipeline indicate that this trend is continuing, and cloud providers are considering new countries for additional deployments in the company quarters, as the roll-out – as they roll out across Europe.

Another indication of the upcoming demand in additional countries is provided by deployments of cloud network nodes, which are smaller than compute nodes, and tend to precede them by months, and in some cases years.

As cloud adoption in a given country reaches a certain threshold, cloud providers initially deploy network nodes to channel that demand from the local enterprises back to centralized compute nodes. Once adoption reaches an even higher threshold, they deploy a compute node into the country to specifically serve the local market.

This process is sometimes short-circuited in countries where data sovereignty requirements are so stringent, that end customers require that the data sit locally before even contemplating adoption.

One final consideration worth mentioning is that we are now starting to see a wider range of cloud providers ramping up to roll out in Europe. Until a couple of quarters ago, the bulk of the demand came from the top two providers, and we only saw sporadic orders from the other vendors.

This trend is starting to change as more cloud platforms have reached critical mass in the U.S., and are now landing with more sizable deployments in Europe. To conclude, even if the underlying cloud adoption by end users in Europe trails adoption in the United States by 18-24 months, we expect the demand for data center services by cloud providers to continue to follow a pattern that is very specific to Europe for the foreseeable future.

Please turn to slide 18. In late September, together with announcing a group of additional expansions, we increased our 2016 capital expenditure guidance. Today, we are reaffirming our previously announced full-year financial guidance for revenue, adjusted EBIDA, and our updated guidance for capital expenditure.

To be specific, for the full year 2016 we're expecting revenue to be in the range of 416-431 million euros. We expect adjusted EBITDA to be in the range of 185-195 million euros. And we expect to invest between 260-280 million in capital expenditures this year.

Before we turn the call over to the Q&A, I would again 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. 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. Ladies and gentlemen, we will now begin with the question and answer session. As a reminder, if you wish to ask a question, please press star 1 on your telephone, and wait for your name to be announced.

If you wish to cancel your request, please press the hash key. Once again, please press star 1 if you wish to ask a question. And your first question comes from the line of Tim Horan. Please go ahead and ask your question.

Tim Horan: Thanks, guys. It seems like growth outside the big four is a little bit faster here, and I know last quarter you talked about network nodes kind of getting built out, and then you would see kind of compute nodes follow.

Just kind of two questions on that, how do cross-connects kind of factor into that, and new cross-connects in these – outside the big four markets? Are you starting to charge for them on a recurring basis now?

And then secondly, I know pricing has been quite different from market to market. Do you think we can start to see a little bit more of a convergence in pricing? And I would assume some of these other markets outside the big four, you might have a stronger competitive position, or less competition, and maybe pricing in those markets can do a little bit better. But any color on that would be great, thanks.

Josh Joshi: Hey, Tim, it's Josh. I'll pick up on the cross-connect, and then hand back to David on pricing. Yes, you're right of course, we have been charging on a recurring basis for our cross-connects, new cross-connects since the beginning of the year.

And we've seen significant improvement and impact on our business in a positive manner. Cross-connects now are in excess of 3 percent of revenue, and they continue to grow, it's something like 40 to 50 percent. So that's a positive contribution to our business.

And again, as we – as we think about what's going on there, we've got two things. One, we've got customers, whether they be in rest of Europe or the big four, recall that we're doing across our entire footprint since the beginning of the year.

They're engaging within our communities, they're connecting with their vendors and their partners within our data centers, and in so doing, I think it's actually demonstrating the underlying health of the vibrant community that we have there. I hope that answers your question. David?

David Ruberg: On the pricing side, an interesting way that you phrased it. Pricing is more dictated by value than it is – at least in Europe, than it is by competitive situations. And although we have strengthen in certain markets that exceeds strength in other markets, we also have customers that we deal with in all of the markets. So it's really more a value-based proposition than it might be in some instances in the United States, where people have quasi-monopolistic positions, and take advantage of them.

Tim Horan: Great. Just a quick follow-up, I know you have the nodes first, and the compute. Do cross-connects and the rest of, outside the big four, do they follow compute? Or maybe any kind of color on what you're seeing on total cross-connect buy-ins. Are they accelerating in the big four, or outside the big four? Would be great. Thanks.

Giuliano Di Vitantonio: Tim, this is Giuliano. Yes, cross-connects tend to follow primarily the network nodes of all types, not just for cloud but also for content providers, and in general they are a reflection of the degree of connectivity in a given city.

But when it comes to cloud specifically, which I think your question is referring to that, network nodes are the primary driver for cross-connect, but compute nodes as well, drive a certain amount of cross-connect.

Tim Horan: And Josh, any kind of color on the volumes of the cross-connect growth?

Josh Joshi: I'm sorry, on the volumes?

Tim Horan: Yes.

Josh Joshi: No, the focus that we're looking at was driving value through generating incremental cross-connects, so we're seeing, like I said before, something like 40-50 percent growth in the top line of cross-connects.

Tim Horan: Great. Thanks, guys.

Operator: And your next question comes from the line of Frank Louthan. Please go ahead and ask your question.

Frank Louthan: Great, thank you. Can you talk to us a little bit about the pace of revenue with the new expansions? How much of – how much of a lag should we expect to see in the revenue ramp as the – as the new space comes online?

Josh Joshi: Frank, hi, thanks for the question. I think that's a really good perspective because, you know, if a capacity is 100 percent pre-sold, that doesn't mean to say it's 100 percent pre-installed. And we would expect to see a ramp which, you know, could last, you know, two, three, or four quarters as our customer then develops that and installs their capacity that they've committed to into our data centers. Now each configuration for each one of our customers is different, but typically it's not going to all occur in the same quarter.

Frank Louthan: Got it. And just conceptually about the space though, the – a little bit more space was added in Q3 than we thought about. How should we think about that? Is that sort of incremental demand, or some of the projects you had coming online a little bit sooner? How should we think about that – those adds?

Josh Joshi: No, I think it was just timing. A lot of this stuff came on right at the end of the quarter, could have come on slightly later, but there was customers that wanted it like a week or so earlier, and it just slipped into the early quarter. So I wouldn't read too much into that. Our approach and the way that we're deploying capital hasn't changed, and I don't think it impacts the way we're thinking about the numbers.

Frank Louthan: All right, great. Thank you.

Operator: Your next – your next question comes from the line of Matthew Heinz. Please go ahead and ask your question.

Matthew Heinz: Hi, thanks. Good afternoon. You've mentioned the trend of cloud platform migration to some of the periphery European regions, so if we think about that in the context of the picture on slide 17, you know, how does this play out?

Does it suggest that those smaller nodes will begin to increase in size, or I guess result in expansion to your existing campuses? And then secondarily, can you talk about the level of competition in some of your ROE markets in relation to the big four?

David Ruberg: Well, we had to be careful that we don't call some of these cities peripherals, because I think the people in Vienna don't like that. But we look at the big four and the rest. And it's been, I think, just an issue of go where the GDP is, and go where the concentration is, and serve them first, and I think we all know Amsterdam, it's Amsterdam, Frankfurt, and London, and now Paris.

And they will expand to these other areas, and yes, I think as we mentioned in the call already, that we gave an example of what just happened in Vienna, where we have basically – we started out relatively small, and we've added space to accommodate both the customers that – or the platforms and the users of the platform in six out of the last eight quarters.

And again, always focusing on what the returns are. And so yes, we would hope that as they put their network nodes in some of these other countries, that they will follow with compute nodes, and they will expand with them, we will expand with them, and they will expand as the customers migrate, and we are again, constantly focused on the returns and the balance between the magnet and the (drawn).

Matthew Heinz: And then the piece about the competitive environment in those markets?

Giuliano Di Vitantonio: Yes, I'll take that one, this is Giuliano. Yes, there is a difference of course between the larger market and the smaller one. In the larger markets, we tend to see four or five providers that contend for the various employment. In the other markets, we tend to have a couple, maybe three leading providers. So the competitive environment is maybe less intense.

But as David pointed out, at the end of the day what matters is value, and customers tend to look at the European footprint as one, and they want to deal with providers that can serve them across the continent, and that's where we are, we believe we have a very strong position because we can cover most of – most of Europe.

Matthew Heinz: Thanks for that, and of course no offense to the Viennese, wonderful people.

David Ruberg: I didn't want to put you in – I didn't want to put you in a problem there, but we have to be very careful.

Matthew Heinz: I appreciate that. And then as a follow-up, can you just comment on the CenturyLink Level 3 merger in terms of its potential churn impact? It looks like you don't show CTL as a customer, but I'm more curious about the historical size and timing of any (peering) related synergies from these types of consolidations.

David Ruberg: Well, CenturyLink is a customer, all right. I don't believe that they're – I personally – who knows. But personally, I don't believe that we'll see much of an impact whatsoever. We have – Level 3 is obviously a very important customer.

I don't expect much of an impact. Actually they may get their act together, and we may see them deploy capital to expand in Europe, which is – and in the southern portions of Europe, and maybe elsewhere that we're going that may be beneficial to us. So I view it as an opportunity, not as a negative.

Matthew Heinz: OK, thank you very much.

Operator: And your next question comes from the line of Michael Rollins. Please go ahead and ask your question.

Michael Rollins: Yes, I was wondering if I could focus on two things. First, just you know, more broadly on the strategic side, just curious for, you know, what your temperature is today on global aspirations, and taking the scale that you have in Europe, and trying to leverage that across other regions, whether North America, Asia, Latin America, et cetera.

And then you know, secondly, you know, I'm curious if you could talk about as you're looking at the demand that you see from your customers, are there scenarios that you're running internally to say hey, can we maybe double the capital spend, get commitments from customers, and accelerate the growth given the interest, you know, that you're noting from your customers? Thanks.

David Ruberg: Hi, Mike. Our temperature hasn't changed at all, OK. We realize that there are a certain segment of customers that having a global platform is advantageous to them, and our – I think a number of you know that we have contemplated that in various forms over the last six or seven years.

On the other side, we have done very well with the pan-European platform that we have, and at the present time, although we're continually looking to do what's right for the customers we have, we do not see that our future is constrained by not having the global platform. So that has not changed.

In terms of working with our customers, yes. But the goal is not to accelerate the growth. The goal is to – is to accelerate the value creation. And so we spend a fair amount of time with our largest customers at their initiative, not necessarily our initiative, to talk about what are their growth plans, where do they want to go, how do they want to go, and how we can better serve them.

And there have been times that they've asked us to go places where we'd looked at it, and said we have no real extensive competitive advantage, and we have decline to participate. So it's – this is, I think, what we've done very well, we have partnered with these people, we're constantly in discussions with them about them telling us where they want to go and how they want to go.

And looking – one of the concerns people have is that they're going to get to a certain size, and leave people like ourselves, and I can tell you that the contracts that we have with these people are getting longer, not shorter.

And the conversations where they're having these people focus on OK, what are your growth plans, so that we know that this, what we put into your data center is sticky, we know we want them to be contiguous, please show us how you're going to grow, so that we have – we can feel comfortable we've made the right decision.

So it's a long-winded answer to your question, Mike, but yes, we still have aspirations someday on a global basis, yes we are doing quite well with where we are, and yes we work with our customers to understand what their growth habits are, where they want to go, and how we can better serve them, but keeping in mind it's all based on value, not just being the largest player, or the fastest growing player.

Michael Rollins: Thanks very much.

Operator: And your next question comes from the line of Colby Syneseal. Please ask your question.

Colby Syneseal: Great, thank you. David, I appreciate the comments in your prepared remarks regarding the cloud demand and the trajectory of demand. And I guess to that point, it does seem like a lot of the demand that you've seen this year, and perhaps even last year, is come from some of these larger cloud compute nodes that have been installed in some of your facilities, which is I think evident in the pre-leasing that you're now starting to disclose, which is typically been for larger deals, and we've seen customer step up and be comfortable with a pre-lease.

But when I think of the glide path going into outer years, you know, assuming that that level of demand isn't sustainable, I'm curious what you're doing to help build out the ecosystem so so that next derivative, effectively the customers who are going to consume off of those clouds, are going to be there to kind of, you know, sustain the momentum if you will in the business.

And I guess to that point also, when you look over the last three years, how is the customer concentration inside of Interxion changed? I imagine with some of these larger deals that you guys have done, it's gotten a little bit more concentrated, and I was hoping you guys can give us some color on that, be it, you know, the top 5, the top 10, the top 20, however you feel comfortable, just so we have a better understanding of how might that have changed. Thanks.

David Ruberg: All right, for the first part, and Colby, I really apologize, but I have to react to this, we don't build ecosystems. We build communities of interest, OK. And one of the things that we – I try to address in our remarks, is some of these builds that we've done, yes, are 100 percent sold, but some are not.

And so the balance is, you have to get the connectivity, you have to get the cloud platform, but you also have to leave room for the community that develops around them. And so that's a very interesting exercise as we try to do this.

And if you look through the announcement we've made recently, there are some places where it's been, depending upon the stage of development, we may be with the platforms, and not just one, multiple platforms. And some are a little further than that, where the platforms are already there, and so we have not committed to as much build out.

So as an example, Frankfurt 11, we did not indicate what level of build out. So yes, we are look at the – at the glide path, and we are constantly focused on the mixture between the magnet and the drawn, and how do we balance that.

And we've got to get with critical mass with the magnet, and then focus on the drawns, and the drawns depend upon country, segment, city, and it makes for an interesting conversation amongst a number of us. All right, Josh, you wanted to …

Josh Joshi: Yes, Colby, on customer concentration, actually if you look at sort of top one or two customers, we've seen them grow substantially over the last several years, particularly as David mentioned earlier in terms of the way that the cloud has developed.

But if you – if you take that wider and look at – if you look at say the top 20 customers over the last four, five years in fact they have been relatively consistent. It's something like 30-35 percent of our business.

Now we've got a wide customer concentration, which I think actually serves us very well, and even those customers that are, you know, up in the top 10, they tend to be in multiple countries, running in multiple geographies, multiple data centers running multiple applications. And so as I think about it, we've got a widely diverse customer base across our footprint.

Colby Syneseal: OK, and then if I could just throw a – OK, go ahead. I'm sorry, was there another comment?

Giuliano Di Vitantonio: This is Giuliano, Colby. I'd also like to, if you allow me to challenge a little bit the premise you made that the demand for platforms – or from the platforms is not sustainable, because we certainly strive to achieve that balance in the long-term between platform and the (drawn).

But at the same time, let's remember the cloud is really in its early stages of adoption. In Europe, we have a percentage of work loads that have migrated to the cloud is still in single digit in terms of percentage. So we see this gliding path, as David referred to, as lasting for quite a long time. So I would say even the platform side is going to be sustainable for the foreseeable future. Besides …

Colby Syneseal: Yes, and I appreciate that, but when I think of your big markets like Amsterdam, Frankfurt, London, and Paris, and you've indicated I think even in response to one of the questions today that you're now seeing strong cloud service provider demand where I'm imagining that you're seeing the compute nodes being established.

It seems the magnitude of those deals have been very sizable in terms of contribution to bookings this year, and I get – that's where I'm trying to get a little bit more color. And if you just compare that, you know, Equinix as an example has indicated that they're expecting to see a slow-down in cloud demand for their own cloud services, as they've already seen some bigger deployments in their markets kind of happen, and now they're looking to build out around those ecosystems. So that was really the context behind the question.

David Ruberg: And again, it's worthy of a little more conversation. One of the things that we try to stress, and maybe I didn't do it well enough, is that we – the bookings that we've seen starting in Q4 of last year have not been dominated by any one large deal or multiple large deals.

It's been across the board. And again, in the press release that we spent a lot of time trying to explain this, we're not seeing these big troughs, we're seeing multiple ways, not harmonized or synchronized, OK, and it is a little different roll out, or maybe a big different roll out, than it is in the United States. It is – it is much more integrated. And so I think you may be drawing the wrong conclusion based on what you're seeing happen in the United States, OK?

Colby Syneseal: OK, thank you.

Operator: And your next question comes from the line of James Breen. Please go ahead and ask your question.

James Breen: Thanks for taking the question. Just two quickly, you know, one on the infrastructure side, are you seeing any causes for slow down in terms of growth, or maybe not growing as fast as you could because infrastructure around you in terms of fiber and some of the other markets, just as you start to think about outside of those three or four markets, into some of the other markets in Europe?

David Ruberg: No. Again, I don't want to emphasize on growth just for growth's sake. It's growth for value's sake. And we – again, this is Europe, and we do struggle with making sure that we have the right land banks and the right locations, and a number of times I think people realizing London in particular we have been constrained by our location.

So do we have this optimally sorted out? No. But I think in terms of what we're looking at, the land, the power, the fiber, I think the fiber is there, our biggest issue is finding the appropriate land at the appropriate value early enough to make sure that the power is there.

Josh Joshi: Yes, I'd agree with that, David. And Jim, you know, what I would add is that we build our data centers in phases, and we have other equipped capacity within our existing footprint to build out. And so you know, we've got 108,000 square meters of equipped capacity in the country, and another – and that's out of a total of 138,000 square meters of maximum equippable capacity.

So we've got about 14,000 square meters that's under construction right now, and we've got another 16,000 square meters of capacity that we could, you know, build into based on our requirements, and that's just based on what we've announced.

You know, there's – we've got the ability to expand in many of our key locations based on land banks, and access to auctions under lease. So that's part of what we do. We focus on it, our managing directors focus on it on a day in, day out basis to make sure that there is a trajectory and opportunity for us to expand going forward.

James Breen: Great. And then just a general question for Dave, you know, as you – as you're talking to customers, you know, obviously you're seeing good growth from, you know, the hybrid cloud SAAS customers. If you're talking to enterprises, you know, what do you think is keeping the migration over to the cloud and over to hybrid SAAS at the rate it's at? Are there any – is it something organizationally structured? Is it technology based? What – I just wondered what your opinion is on that. Thanks.

David Ruberg: I get paid a lot for this answer. It's all across the board. It depends upon your application, it depends upon the vendor, it depends upon the country. And I think we tried to answer this. The Europeans are a little more tentative about making these application orientations or moves than they are in the United States.

They want a more holistic approach. So some of the resistance which we have seen in the past because the tools weren't there to facilitate this, are going away. In particular on the Amazon side. And then in Europe, the deployments are not there to make sure that the networks work effectively.

But it just – this is a 20-year trend, and we sometimes get wrapped up, and in fact we're only in the first five years really, and these people that have enterprises, they have requirements to make sure that these things really do work, they don't have a lot of resources to adjust if it doesn't work.

And so there's – given the economic and political environment today, I think the caution that they've exhibited is natural. If the economies pick up, and the political environments get better, and we get less people doing cyber whatever it is, and cyber that, you may see an acceleration.

But I think it's going at a reasonable pace, and what we're trying to convey to – on this call, and we've tried to convey very focused, is that it is moving. It may not be moving as fast as people want, but the movement is there, both on the enterprise side and on the platform side. And as that happens, the enterprises move a little faster, and the enterprises move a little faster. It is moving.

James Breen: Great, thanks.

Operator: And your next question comes from the line of Michael Bowen. Please go ahead and ask your question.

Michael Bowen: OK, thanks for taking the question. Dave, I wanted to kind of get your thoughts with regard to CapEx looking forward. I realize you're not going to give any guidance for '17, but I am curious if you're seeing enough demand profiles out there across the different countries, you know, to kind of keep this type of a 2016 level going forward.

And then coupled with that, you know, when you are doing your planning, how are you thinking about returns on that CapEx as far as timing and level of returns? Thanks.

David Ruberg: I appreciate the question being addressed to me, but this is one time I'm going to turn this over to Josh.

Josh Joshi: Thank you, David. Thank you, Michael. Two things, one, you know, we'll provide the sort of guidance on CapEx on our – and indeed other parts of our guidance for 2017, on our 4Q call. But I think it's pretty clear that, you know, the kind of demand framework, and the kind of way that we're looking to deploy our capital suggests that there is a momentum here, and a trajectory, which is expected to continue. So in terms of – in terms of that I'd leave it on that footing.

In terms of the way we look at how we deploy that capital to look at returns, that's a really interesting question, because really it is about trying to deploy the capital as flexibly as possible, in as dynamic a way, whether it's in terms of space or power, so that we can optimize returns over time, don't have stranded capital, and we can try and deliver the value that our customers want.

We are still targeting in the round about 30 percent IRR returns on our investments. That hasn't changed. We still focus on trying to develop that based on the magnetic and attracted approach. But as I said in my prepared remarks, you know, our approach hasn't changed, and we're focused on securing long-term return.

Michael Bowen: And one quick follow up if I could, in – you know, when you look out at the different regions where you're not, you know, currently participating, if you look at the demand profiles, you know, for your type of business in either Asia-Pacific or in the Americas, which would you view as a more profitable long-term venture, you know, as far as the market, going forward?

David Ruberg: OK, I – we're not experts in either of those two markets, and so I would beg off on answering. It would just be pure speculation. Ask us about Europe, ask about northern Africa, and I've got an opinion. The other two, I do, but I should keep it to myself.

Michael Bowen: OK, thanks, Dave.

Operator: And your next question comes from the line of (Bora Lee). Please go ahead and ask your question.

(Bora Lee): Hi, this is (Bora Lee) in for Jon Atkin. Just wondering, could you give us a sense of what the MRR would have been if the space added in the quarter had come earlier in the quarter, or at the beginning? I'm wondering if that had an impact on the reported ARPU. Thank you.

Josh Joshi: Thanks, (Bora), for the question. The biggest impact on our ARPU was the 4 euro currency headwind, in fact slightly in excess of 4. And then the timing differences, you know, whether it's the revenue or there's a space coming on, you know, this is the natural course of our business, and I don't plan on being more specific than I've been so far. Thanks for the question though.

(Bora Lee): Great, thank you.

David Ruberg: And that concludes our conference call for today. Thank you all for joining us. We look forward to seeing you out on the road, and speaking with you again on our fourth quarter conference call that we anticipate likely in March. Thank you very much. You may now disconnect.

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

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